Interserve

ANNUAL REPORT 2019

Who we are

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

WE OFFER FACILITIES MANAGEMENT AND FRONTLINE SERVICES; ADVICE, DESIGN AND CONSTRUCTION SERVICES; AND EQUIPMENT PROVISION TO PUBLIC AND PRIVATE SECTOR CLIENTS IN MORE THAN 40 COUNTRIES.

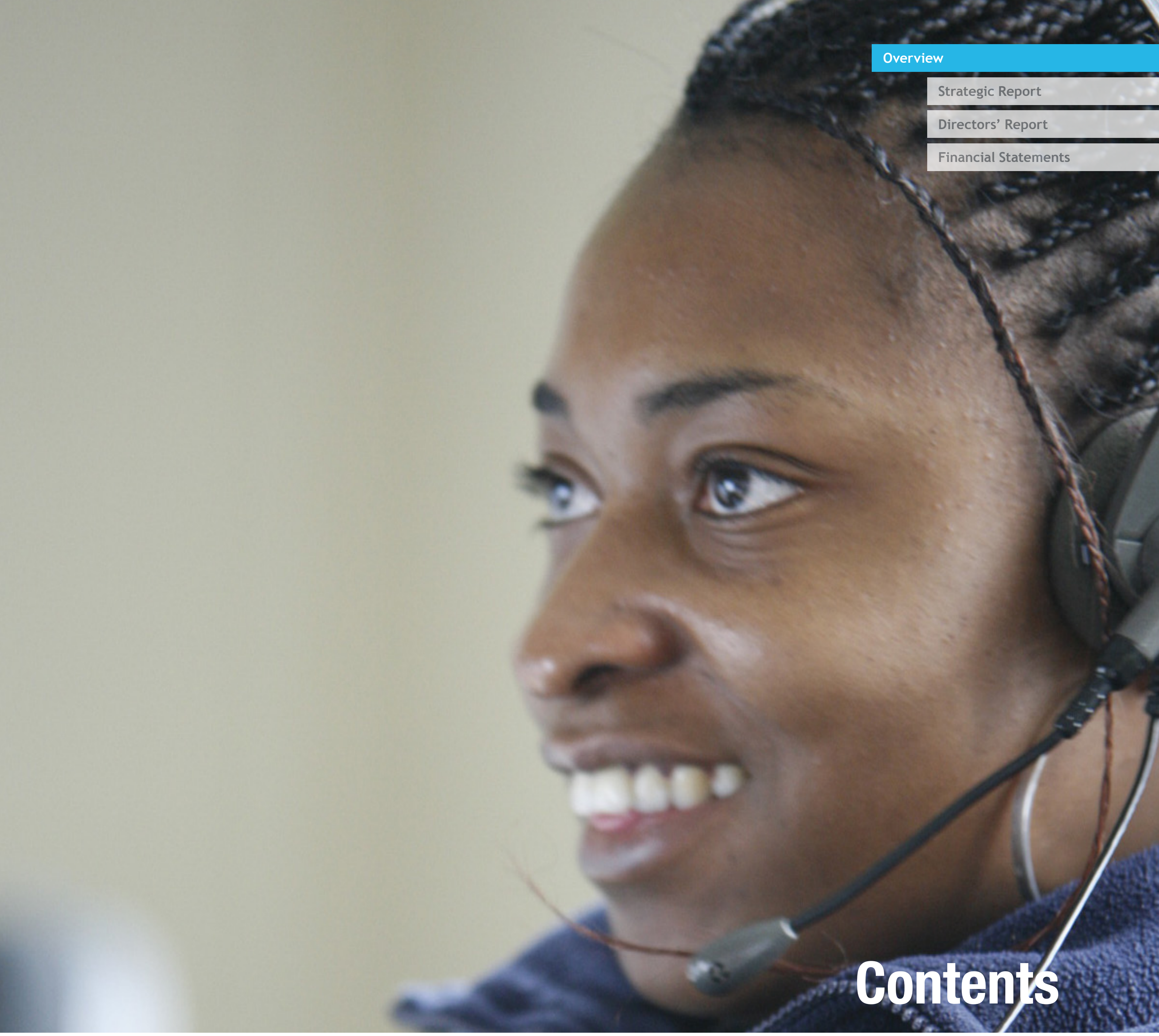
WE ARE A LEADER IN DEVELOPING AND DELIVERING DESIRABLE OUTCOMES FOR OUR CLIENTS AND A GREAT PLACE TO WORK FOR OUR PEOPLE.

HEADQUARTERED IN THE UK, WE HAVE CONSOLIDATED REVENUES OF £2.2 BILLION AND A WORKFORCE OF MORE THAN 38,000 PEOPLE WORLDWIDE.

Interserve's origins date back to 1884 when two brothers, Edmund and Augustus Hughes, formed London and Tilbury Lighterage Company Limited, which specialised in transferring cargo between vessels. Interserve now provides innovative and compelling solutions to complex challenges, delivered with rigorous operational discipline. This helps to create improved customer and public services for the end-user and adds value to local economies.

Following the appointment of Alan Lovell as Chairman of the Company in July 2019, the Board reviewed the Group's strategic direction and implemented a new operating structure for its three operating divisions, thus positioning the Group for medium-term, sustainable growth across each area. Details of this restructure are outlined in the Chairman's Statement on page 3 and in the Group restructuring section on page 16.

This Annual Report, and accompanying Financial Statements, describes how Interserve Group creates value and explains how our business strategies will take advantage of the opportunities available in the markets we serve. It also provides information on how we manage risk and gives a comprehensive report on the Group's activities during the financial year.



Contents

FOR FURTHER INFORMATION:
www.interserve.com

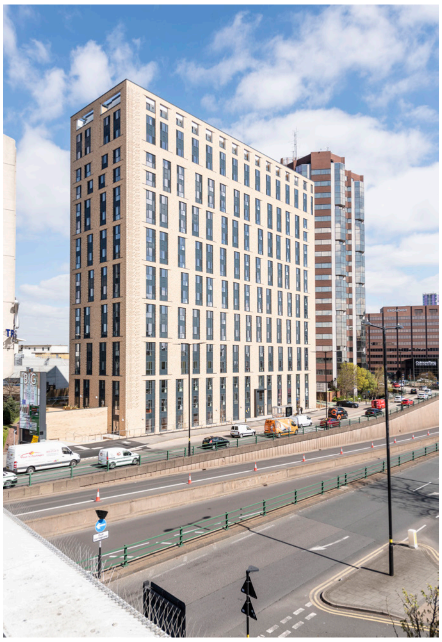
Our divisions

The sale of Interserve Support Services to Mitie Group plc completed on 30 November 2020. Please see note on page 7 (significant post-balance sheet events) explaining the presentation of these accounts. Prior to completion of the sale to Mitie Group plc, the Group was organised into three operating divisions, as set out below:

Support Services

Manages and delivers outsourced operational activities, including facilities management, citizen services and training and employment services, across a range of markets in both the public and private sectors, predominantly in the UK and the Middle East.

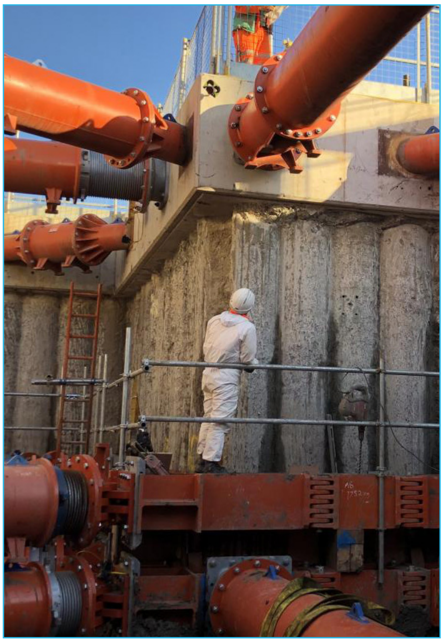
The division will continue to focus on positioning Interserve as a tier-one partner to the public and private sector in the delivery of integrated support services. Support Services is also laying the foundations for operational standardisation across the division in order to drive efficiencies.



Construction

Designs and constructs buildings and infrastructure, including mechanical and electrical services to customers across a range of target markets in both the public and private sectors in the UK and the Middle East.

The division will continue to leverage its strong geographical coverage, sector expertise and proven capabilities to create value for clients. Activities are focused in key sectors, including: healthcare; defence and security; justice; education; highways; water; and local government.



Equipment Services

RMD Kwikform (RMDK) provides engineering solutions in the specialist field of temporary structures needed to deliver major infrastructure and building projects. RMDK designs, hires and sells formwork, falsework and shoring solutions to the construction industry.

It is one of the global market leaders and its engineers solve complex problems for customers through the application of world-class design and logistics capabilities, backed by technology and an extensive fleet of specialist equipment.

RMDK's markets are driven by the structural growth in global infrastructure spend and wider construction market spend. Alongside the UK, RMDK will continue to focus on its major international markets of Australia, India and the UAE.

Chairman's statement

Alan Lovell

Chairman

My comments will cover the principal events of 2019 as well as certain significant events in 2020: the COVID-19 pandemic, attacks by cyber-criminals which impacted the Company and parts of the Group and the recently completed transaction with Mitie Group plc for the sale of our Support Services business which completed on 30 November 2020.

I joined Interserve as Chairman in July 2019 shortly after Interserve had gone through its transition from a UK listed company to a privately held one. My initial thoughts on joining Interserve remain that, despite its challenges, the Group has a highly capable and committed workforce who deliver vital services daily to both the public and private sectors we serve. From the Executive Team to the thousands of colleagues on the frontline, their commitment and fortitude has been exemplary. This is more true than ever in the face of the unprecedented challenges we have faced in 2020.

DELEVERAGING

Following the EGM on 15th March 2019, when shareholders voted against the deleveraging plans, the Interserve Plc Board and Executive Team executed a well-prepared pre-pack administration over the course of that weekend, which ensured continuity of services for all our public and private sector clients. The actions taken by the Company's leadership at this time not only ensured the delivery of critical services but also ensured the continuity of the Group and its employees.

Our ten primary lenders became shareholders of Interserve Group Limited, the new holding company, following the administration.

I would like to thank my predecessor Glyn Barker and Debbie White, Chief Executive Officer, for their significant contribution during this time, leading Interserve Plc through one of the most challenging periods in its history.

BOARD AND GOVERNANCE

As you would expect, the composition of the Board of Interserve Group Limited has changed significantly since the administration of Interserve Plc Glyn Barker decided to step down as Chairman in June 2019, and we announced in November 2019 that Debbie White had also decided to retire as Chief Executive Officer, leaving the Company at the end of December 2019.

Chairman's statement continued

Before I joined, Russell King retired as the Senior Independent Director and Gareth Edwards, Anne Fahy and Nick Salmon stood down from their roles as Non-Executive Directors.

We welcomed Mark Morris as Chief Financial Officer in September 2019, replacing Mark Whiteling. Mark also joined the Board of Interserve Group Limited.

To support the new operating model for Interserve Group Limited which was announced in November 2019, Ken Hanna was appointed as Chairman of RMD Kwikform and Nicholas Pollard became Chairman of the Construction division. Both joined the Interserve Group Limited Board.

In addition, Martyn Everett and Elizabeth Holden were appointed as Non-Executive Directors to the Board of Interserve Group Limited.

SENIOR MANAGEMENT CHANGES

There were three senior management changes in the year. Jonathan Refoy joined in January 2019 as Group Corporate Affairs Director. Paul Gandy joined our Construction division as its Managing Director in October 2019 and John Lambert succeeded Sally Cabrini as Group Human Resource Director in December 2019. In addition, Lynn Mawdsley was appointed as Managing Director of the Support Services division with effect from 1 January 2020.

PERFORMANCE

We announced in November 2019 a new operating structure for the three business divisions to reflect the reality of the new Group ownership structure and to improve governance and leadership, and advance market opportunities across the business divisions. I am pleased to report that it has provided us with increased focus in the right areas. By recognising the diversity of the three business divisions and giving each one the right governance and operating framework this has enabled them to succeed in their distinct markets and to look for suitable exit opportunities in due course.

On 30th January 2020, the World Health Organisation declared the outbreak of the COVID-19 pandemic and the UK Government announced on 16th March that a national lockdown would come into force impacting businesses and households. We have taken significant steps to protect our colleagues particularly those working in front line roles across the NHS and other areas of the public sector.

The impact of COVID-19 has largely been on short term reductions in revenue primarily across our Support Services division, RMD Kwikform and in our construction business when site closures occurred during the early stages of lock down. But we have also had some benefits from the UK Government's response to COVID-19. This included providing facilities management to the North West Nightingale Hospital in Manchester, UK and leading the construction project for the conversion of the NEC in Birmingham to a Nightingale Hospital.

The Construction division under the leadership of Paul Gandy has made strong progress with its new strategy and we are already seeing the benefits of this translate into project wins in the education and healthcare sectors; nearly all the challenging legacy projects which adversely impacted us in 2019 have been closed out.

We were subject to a significant and sustained cyber-attack in May 2020 which caused considerable distress to the Company's operations, already impacted by COVID-19. The swift implementation of the Group's Crisis Response plan alongside the outstanding support from the UK's National Cyber Security Centre and the National Crime Agency ensured that we navigated this without major impacts to our customers despite the operational challenges it caused. At the end of November 2020, the RMD Kwikform business, which had not been affected by the May cyber-attack, was subject to a separate and much more limited cyber-attack which caused some disruption to RMD Kwikform's normal operations. Again, the Group's Crisis Response was swiftly implemented and the impact was contained. Further information on the cyber-attacks is included on page 7.

Overall, the Group's orderbook remains strong and I am pleased with our robust trading performance, particularly that we have continued to win new work and contract renewals despite COVID-19 and the cyber-attack.

At a time when there is serious concern about the long term social and economic impacts of COVID-19, especially on young people, I am pleased that we have maintained our commitment to provide over 680 apprenticeships across the Group.

OUTLOOK

Following the recent completion of Mitie Group plc's acquisition of the Support Services division, Interserve Group is now a smaller company focused around the remaining businesses, RMD Kwikform and the Construction division. I am confident that with the new leadership teams and business plans in place they are well placed to continue to grow in the markets they serve. In line with the strategy we have pursued throughout the last 18 months, where opportunities exist to realise shareholder value by further divestment, and where this also makes sense for our business, we shall continue to explore these opportunities.

Over the past year our colleagues have continued to show outstanding leadership and resolve, ensuring that we deliver the very best public and private sector services to our customers despite the challenges of the administration of Interserve Plc COVID-19 and the cyber-attack. I would like to sincerely thank all our colleagues for their remarkable efforts, particularly in support of the UK Government's COVID-19 response.

Alan Lovell
Chairman, Interserve Group Limited

22 February 2021

Results in summary

CONSOLIDATED REVENUE

2019 **£2,241.7m**

2018[1] **£2,785.0m**

LOSS BEFORE TAX

2019 **£(46.9)m**

2018[1] **£(128.0)m**

CASH GENERATED BY OPERATIONS - ONGOING BUSINESS

2019 **£3.0m**

2018[1] **£(14.0)m**

UNDERLYING OPERATING (LOSS)/PROFIT

2019 **£(56.0)m**

2018[1,2] **£86.7m**

FUTURE ORDER BOOK

2019 **£6.1bn**

2018[1] **£7.2bn**

1 2018 comparatives relate to Interserve Plc - see note 1 to the consolidated financial statements.

2 2018 comparatives are not strictly comparable with 2019 due to the impact of the introduction of IFRS 16 Leases in the current year.

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.

FUTURE WORKLOAD[1]

REVENUE RECOGNISED IN 2020 FROM FUTURE WORKLOAD
£1,596m

2018
£1,984m

CLIENT RETENTION (UK Support Services)

2019
94%

2018
97%

EMPLOYEES

ACCIDENT INCIDENT RATE[2]

2019
109

2018
82

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

EMPLOYEE ENGAGEMENT INDEX SCORE

2019
73%

2018
72%

APPRENTICES AND GRADUATES[3]

2019
680

2018
629

TRAINING DAYS

2019
60,200

2018
77,303

ENVIRONMENT

		2019 Performance vs. 2013		Year-on-Year Change 2019 vs. 2018	
Natural Capital		**Absolute**	**Relative**	**Absolute**	**Relative**
Water consumption (m^3)	UK	-41.7%	-30.1%	-46.5%	-33.8%
(relative metric: m^3/£m)[4]	ROW	-22.7%	18.2%	-20.8%	-7.2%
	Total	-23.4%	-3.4%	-21.7%	-4.2%
Construction waste (tonnes)	UK	-47.0%	-36.5%	-12.2%	-8.5%
(relative metric: tonnes/£m)[4]	ROW	-70.7%	-55.1%	-32.7%	-21.2%
	Total	-66.5%	-57.8%	-28.1%	-11.9%
Total carbon emissions	UK	-40.4%	-28.6%	-22.0%	-3.6%
(tonnes CO_2e)	ROW	-32.0%	4.0%	-13.9%	0.8%
(relative metric: tonnes CO_2e/£m)[4]	Total	-33.8%	-16.2%	-15.6%	3.3%

We recognise the natural environment plays a significant role in the economy and society. Our approach to managing natural capital includes minimising 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 sustainability 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 2019 we have made 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 our carbon emissions by 34 per cent (on an absolute basis over the past six years). This has been driven primarily by a focus on fuel use in our fleet and a focus on energy use across our estate and estate transformation. These performance metrics will be revisited as our strategy evolves.

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

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

3 Number of apprentices, trainees and graduates on programme.

4 £m revenue.

Significant post-balance sheet events

Presentation of this report

The 2019 Report and Accounts relate to the financial year ended 31 December 2019. Finalisation and filing of the Accounts was unexpectedly delayed due to the impact of COVID-19 on the business and has also been impacted by other post-balance sheet events. Accordingly, although we have reflected any material post-balance sheet events in this report, we are still presenting information where possible on the position which existed at the end of the 2019 financial year. As a result the report reflects the fact that until the recent completion of the transaction with Mitie Group plc on 30 November 2020, the Support Services division was an integral and important part of the Group's business.

COVID-19

On 30 January 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) a pandemic resulting in the governments of many countries, states and cities taking preventative and protective actions such as imposing restrictions on travel and business operations and advising or requiring individuals to stay at home or quarantine in cases where people have been exposed to the virus.

In an effort to mitigate the impacts of COVID-19, the Group has implemented business continuity plans with only key front line staff working in its offices and at client contract locations and as far as possible the remainder of its staff working from home which has meant that there has been limited impact on service delivery and operations.

Interserve benefitted from a number of support packages offered by the UK Government to protect businesses during the pandemic. These included VAT and PAYE deferrals and the furlough scheme aimed at protecting employees whose employment was at risk as a result of COVID-19.

The Group has undertaken a detailed review of the potential impacts of COVID-19 and continues to monitor future developments closely. On a divisional basis:

- The impact of COVID-19 on Support Services has predominantly been short-term reductions in revenue as a result of customer site closures, reductions in services and delays to the commissioning of project work, both in the public and private sector. Fortunately, the division has a diverse customer base and well over half of its business is with the public sector where contracts have largely continued to operate in full. In addition, reductions in revenue have been partially offset by additional services requested in sectors such as health and some central government customers, for example the division won a facilities management contract for the North West Nightingale NHS Trust.

  Accordingly, the division has proven resilient in the face of the COVID-19 pandemic and has continued to generate profit and cash during the period of lockdown restrictions albeit at a reduced level with COVID-19 estimated to have been responsible for a c9% revenue decrease during the first lock-down period. The business has worked closely with its customers to maintain critical services and has benefited from the use of the Coronavirus Job Retention Scheme to maintain its employment levels.
- Construction experienced significant challenges following full lockdown in March 2020, however, due to the very considerable efforts of the whole team, operational impacts were successfully managed with all but a relatively small number of sites continuing to operate throughout lockdown. At the date of this report, the main impact is unrecoverable costs of delay and slippage of the new workload programme. However, the forward workload, as measured by secured contracts and preferred contractor positions, remains strong and in line with previous forecasts, reflecting the business's focus on public sector projects and long-term frameworks. In addition, the division has won new business as a result of the pandemic, for example winning the contract to act as principal constructor for the Birmingham NEC Nightingale NHS Trust hospital;
- Equipment Services also experienced a material impact to its business, both from current work on site being impacted by site closures and from delays to planned/secured orders as customers have delayed planned investments. Due to the global nature of the business, significant challenges remain as the pandemic continues to migrate between countries and they experience ongoing lock downs, whilst in countries emerging from lockdowns experience had generally seen slow progress in recovery. A range of measures have been taken to mitigate the impacts of COVID-19 including tight controls on discretionary expenditure such as travel, temporary salary reductions and reduced working hours across much of the business and unfortunately, some reduction of roles. Government support in relevant jurisdictions has also been used to help support the business and employment.

The Group has concluded that the coronavirus pandemic is a non-adjusting post-balance sheet event in accordance with the guidance set out in IAS 10 – Events After the Reporting date, as the significant changes in business activities and economic conditions occurred as a result of events arising after 31 December 2019.

Disposals

On 20 April 2020, the Group's oil and gas based engineering, procurement and constriction (EPC) business Adyard Abi Dhabi LLC was sold to Altrad for a consideration of £23.6 million.

On 29 September 2020, the Group's 49% owned civil engineering, building and maintenance services business Khansaheb Civil Engineering LLC was sold for a consideration of £21.2 million.

On 5 October 2020, the Interserve Learning and Employment business was sold to Enact Fund for a consideration of £1 reflecting the fact that the purchaser took on liabilities.

On 30 November 2020, Mitie Group plc announced the completion of the acquisition of Interserve Support Services for a combined consideration of £205 million comprising £105 million in cash and a 17.5% shareholding in the Mitie Group. Accordingly, the Support Services division, other than Citizen Services which has been retained within the Interserve Group, was transferred to Mitie.

The acquisition by Mitie has created the UK's leading facilities management company, with strong prospects in both the public and private sectors providing significant opportunities to employees, customers and shareholders alike. Following completion of the transaction, Interserve Group now has a clear focus on Construction, Citizen Services and RMDK and will also continue to explore possibilities for further divestment where this also makes sense for our business.

On 1 December 2020, the sale of Interserve Healthcare to City & County Healthcare Group was completed for a consideration of £4.8 million.

Cyber-Attacks

The Group experienced a cyber incident on 2 May 2020, which had a significant impact on a number of operating IT systems across the Group. On becoming aware of the cyber-attack, the Group's crisis response was immediately launched, and its business continuity plans were implemented. Although the attack caused disruption to some of our internal IT processes, with the biggest impact being experienced by Group HR systems, the Construction division and some impact on the Support Services division, continuity workarounds were quickly established. Interserve's international business and its Equipment Services / RMDK division were not impacted by the attack. There has been no material impact on the provision of services to the Company's customers. As of 24 August 2020, the remediation work carried out across the Group had been completed such that the Company believes that there is no residual threat to the Group remaining as a result of this incident.

The Group conducted a comprehensive investigation into the attack and has implemented a range of remediation measures in response to the attack and has put in place a programme of further measures to further enhance its infrastructure, systems and processes. These measures include the appointment of a new and highly experienced Chief Information Officer (CIO) from outside the organisation in order to conduct a full review of IT systems and services. Following this review, the CIO is implementing an uplift programme to ensure that the Group's IT systems and the technical and organisational measures needed to safeguard the Group's data and systems are fit for purpose for the Group going forwards. The investigation has identified no evidence of data exfiltration having taken place.

The Group complied with its notification obligations under applicable data privacy law, including to the Information Commissioners Office (ICO) and is co-operating fully with the ICO's investigation. The Interserve Group understands that the ICO has indicated that it may take regulatory proceedings, which may ultimately lead to a monetary penalty and/or enforcement action, the results of which cannot currently be foreseen or estimated reliably.

Having not been impacted by the earlier attack in May 2020, on 29 November 2020, the Equipment Services / RMDK division experienced its own cyber-attack. This incident was unrelated to the earlier May 2020 attack which had impacted certain other businesses in the Group, was limited in impact just to the RMDK division and was of a much more limited scale than the earlier May attack, in part due to successful security measures implemented within the business. Once again, on becoming aware of the cyber-attack, the Group's crisis response was immediately launched, its business continuity plans were implemented and continuity workarounds were quickly established. RMDK's investigation into the attack is ongoing.

RMDK has complied with its notification obligations under applicable data privacy law, including to the ICO. It is too early to say what, if any, action may be taken by the ICO.

Operational review

SUPPORT SERVICES

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

Following the appointment of Lynn Mawdsley as Managing Director alongside Chairman, Alan Lovell, Support Services now has a strong leadership team in place to further advance market opportunities across its four business units: Business and Regulated Industry; Communities and International; Defence and Central Government and Citizen Services.

Results summary	2019	2018[1]	Change
Revenue			
- UK	£1,338.1m	£1,488.7m	-10%
- International	£175.2m	£172.1m	+2%
Contribution to total operating profit	£42.3m	£53.1m	-20%
- UK	£37.4m	£45.9m	-19%
- International	£4.9m	£7.2m	-32%
Operating margin			
- UK	2.8%	3.1%	
- International	2.8%	4.2%	
Future workload			
- UK	£4.9bn	£5.8bn	
- International	£269.8m	£126.7m	

1 As restated

UK

UK Support Services delivered a robust performance and successfully delivered against its market strategy, which included the divestment of non-core operations by exiting less attractive market sectors such as single-service low-margin contracts and contracts in the high-street retail sector. Examples of contracts we have exited as they expired include William Hill, Sainsbury's and Boots.

We have also worked towards operational standardisation across the business with the insourcing of fire maintenance and water testing across our portfolio and the delivery of a standardised and improved insourced catering service on our Home Office contract.

The Support Services business is well-positioned for growth, with compelling market propositions in our chosen sectors. Revenue for 2019 was £1,338.1 million (2018: £1,488.7 million) and operating profit was £37.4 million (2018: £45.9 million), primarily driven by organic contract growth and retention of business at a rate of more than 90 per cent across all business units and operating divisions.

Our work-winning strategy is focused upon large, complex, integrated service opportunities within our chosen market sectors such as: complex total facilities management contracts; security; front-of-house services and catering via our Autograph Food brand. 2019 was a challenging year for the wider UK support services sector, with limited new opportunities coming to market in both the private and public sectors – partly due to political uncertainty created by Brexit. During 2020, we are looking to grow our new business pipelines in the regulated, healthcare and business and industry sectors.

The UK Government has been our largest customer for many years, and we continue to be one of its largest support services suppliers. For example, in 2019 we secured a further two-year extension to our largest contract for the Ministry of Defence Training Estate via our best-in-class joint venture with American firm, PAE (Landmarc Support Services).

In the private sector, we have secured further extensions with key clients across all of our business units with major contract renewals and extensions with Sussex University and B&Q.

Our Citizen Services business delivers vocational training, healthcare at home, probation services and support into employment in the UK. Quality standards have remained high during 2019 with both Interserve Learning & Employment and Interserve Healthcare retaining their 'good' ratings from their respective regulatory bodies. Our apprenticeships business has successfully mobilised and delivered its largest contract with a major UK transport business. Within Justice, we have negotiated an extension to all of our probation service contracts and achieved the unique rating of 'good' for our Hampshire & The Isle of Wight Community Rehabilitation contract – the only one of 21 community rehabilitation companies nationally to achieve this award in 2019. Interserve has taken the decision not to bid for new contracts in the Justice sector in order to focus on our core delivery areas.

International

Revenue for 2019 was £175.2 million (2018: £172.1 million), primarily driven by organic growth and retention of business. In parallel with our UK Support Services business, we exited a number of low-margin contracts in the Middle East as these expired as part of our focus on strengthening the business. Operating profit for 2019 was £4.9 million (2018: £7.2 million).

We have successfully extended our relationship with the Ministry of Defence on our overseas contracts in Cyprus, Gibraltar, Ascension Island and the Falkland Islands. These retained accounts demonstrate our strong capabilities in these areas, as well as the Government's ongoing confidence in our ability to deliver large-scale, complex facilities management contracts.

CONSTRUCTION

We provide design and construction services for building, mechanical and electrical and infrastructure projects. Our focus is on forming long-term relationships in sustainable sectors where we can deliver repeat business through commercial structures such as framework agreements.

Results summary	2019	2018[1]	Change
Revenue			
- UK	£485.3m	£747.0m	-35%
- International	£191.1m	£246.6m	-23%
Contribution to total operating profit	(£99.1m)	£15.6m	-735%
- UK	(£107.7m)	£2.3m	-4,783%
- International	£8.6m	£13.3m	-35%
Operating margin			
- UK	-20.4%	0.3%	
- International	4.5%	5.4%	
Future workload			
- UK	£0.7bn	£1.0bn	
- International	£188.8m	£232.7m	

1 As restated

UK revenue in 2019 was £485.3 million (2018: £747.0 million) due primarily to a major rationalisation of the business. UK operating losses of £107.7 million were incurred in 2019 (2018: £2.3 million profit) due largely to losses incurred in London on a number of projects, which we have exited or are in the process of exiting and where we are closing down business units.

Following Nicholas Pollard's appointment as Chair of the Construction division, Paul Gandy joined as Managing Director of Interserve Construction in October 2019. The division has embarked on a clear and achievable strategy for stabilising the business and growing it further into 2021.

Interserve's UK construction business has been restructured and resized around delivering public sector projects, predominantly procured through frameworks or other proven customer relationships which are predictable and therefore present lower risk. With national coverage, and a proven capability of delivering reliably and profitably in the building, engineering services and infrastructure sectors, Interserve is well-placed to take advantage of the anticipated growth in public sector investment. Private sector exposure will be limited and focus on those contracts where we have a proven relationship with the customer and where the contract risks are equitable and manageable.

Our focus on projects that have a manageable scale and which limit exposure to risk across all regions is underpinned by enhanced governance and project controls. The fact that more than 90 per cent of the new work secured in the second half of 2019 was derived from frameworks illustrates that we are adhering to our stated strategy.

We successfully exited non-core business areas during 2019, with the closure of our consulting arm and the joinery business. This has allowed us to focus on delivery of the core business. The South East business unit has been refocused on its historically successful public sector work.

The Infrastructure and wider UK Building teams are now well-placed to benefit from considerable local and national government investment committed over the next few years. Our work-winning centres on the scale and type of work where we can successfully manage risks and reliably deliver profit.

Our Engineering Services business has excellent potential to enhance our bottom line because of its ability to deliver vertically integrated mechanical and electrical services to clients. To maximise this opportunity, with effect from January 2020, we have implemented a combined construction and engineering services model that fully aligns objectives and decision making.

In the UK, good progress has been made in closing out challenging projects and legacy accounts. The regional building operation (now UK Building) and engineering services businesses both made solid profits despite a challenging environment.

We have had notable success in securing places on important public sector frameworks during 2019, including the £30 billion pan-government Crown Commercial Services (CCS), Procure, YORCivi and Yorkshire Water. These, combined with our existing framework portfolio, continue to feed appropriate work and revenue opportunities into 2020, 2021 and beyond.

At a project level, Construction has delivered a range of significant schemes for our public-sector customers through 2019, including the Department for Education, the Ministry of Defence, Highways England and the NHS; examples of which are a new Neonatal Intensive Care Unit for the Liverpool Women's Hospital NHS Trust and the Ysbyty Gwynedd emergency department for Betsi Cadwaladr University Health Board. Significant private sector projects include the completion of the Selly Oak Shopping Park and adjacent student accommodation; and the 18-storey Landsdowne tower block in the centre of Birmingham.

Health, safety and the environment remain essential areas of attention and action. Good progress was made in the year with a 23 per cent decrease in the reportable accident rate compared with 2018 and our focus on these critical areas will continue.

Interserve Construction in the UK entered 2020 with a strong order book in our key sectors with risk profiles aligned with the stated strategy. The focus will remain on driving operational efficiency and management of risk to the benefit of profit and cash performance.

Our international business in the Middle East (UAE, Qatar and Oman) is structured through long-standing, joint-venture partnerships, enabling us to form enduring relationships with clients. Combining our international experience with our partners' local knowledge allows us to deliver outstanding service in this region. In November 2019 the Group's subsidiary, the Oman Construction Company LLC was sold for a consideration of £12.4 million.

2019 revenue for the international business was £191.1 million (2018: £246.6 million) and operating profit was £8.6 million (2018: £13.3 million) due largely to refocusing the business and the sector being generally depressed.

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. RMDK designs, hires and sells formwork, falsework and shoring solutions to the construction industry. It is one of the global market leaders and its engineers solve complex problems for customers through the application of world-class design and logistics capabilities, backed by technology and an extensive fleet of specialist equipment. Our activities have a broad geographic spread; 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. RMDK's markets are driven by the structural growth in global infrastructure spend and the wider construction market.

To ensure the division is in the best possible shape to meet its strategic objectives, Ken Hanna was appointed as Chairman in September 2019. Mr Hanna brings valuable international experience, with financial and leadership expertise through his current Chairman roles at Aggreko plc and Arena Events plc, as well as his executive career.

Results summary	2019	2018[1]	Change
Revenue	£164.8m	£185.7m	-11%
Contribution to total operating profit	£15.9m	£39.0m	-59%
Operating margin	9.6%	21.0%	

1 As restated

2019 revenue was £164.8 million (2018: £185.7 million) and total operating profit was £15.9 million (2018: £39.0 million). Operating margin was 9.6 per cent excluding exited businesses (2018: 21.0 per cent).

There are several factors which caused the operating profit to fall. The combined impact of Interserve Plc entering into administration lead to delays in many revenue generation activities alongside what was already a difficult time for the equipment services sector because of political and economic uncertainty which existed across several of RMDK's core markets. Uncertainty caused by the political impasse created by Brexit slowed infrastructure investment, in turn impacting the UK construction sector. Asia Pacific was impacted by continued delay in the mobilisation of infrastructure projects together with

Operational review continued

political unrest in Hong Kong, while Australia has also seen a delay to major infrastructure projects.

The ongoing delays to the Saudi construction market and the trade blockade of Qatar by other GCC countries continues to hamper performance in the Middle East. The knock-on effect of this is that competition across the entire region has increased.

However, the roll-out of ground-shoring products has continued, with revenue now coming from across the Middle East region and Hong Kong, in addition to the UK. 2019 has also seen a number of new products launched into the commercial building sector, as part of our chosen strategy to widen our sector offering.

An example of the best-in-class services delivered by RMDK is given by the groundwork support provided for the Tideway London project at Chelsea Embankment. Working as part of a joint venture – with Ferrovial Agroman UK and Laing O'Rourke Construction – we have provided our Geobrace system to support the construction of London's 'super sewer'. The groundshoring team has supported the project with extensive 3D modelling of the temporary works solution, along with providing our LocusEye visualisation software. This enabled the teams on site to interrogate the engineering models to eliminate clashes between the permanent design of structures and the temporary works required to build them.

10

Social responsibility and sustainability

OUR PEOPLE

Employee engagement and consultation

Connecting with colleagues and giving everyone a voice is one of our key values. We believe in involving colleagues in matters affecting them 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 cascades, briefings and via our internal communication channels, including our intranet.

Two-way conversation is a key factor in our approach to employee communication. Regular townhalls are hosted by our chairman and other directors to provide business updates for employees and to provide an open forum for frontline colleagues to ask questions of the senior leadership team. We also ensure that monthly divisional calls are hosted across the business, instigated at executive level and cascaded down to reach frontline colleagues. This provides an opportunity for colleagues to raise questions they may have or to share their thoughts on particular topics, and in turn our leaders can respond to or act on them accordingly.

Site visits are carried out on a regular basis and committed to by all levels of management. This allows leaders, including our directors, to connect with and learn from our customer-facing employees, understand the challenges they face and what's important to them.

We continue to grow our web-based employee portal, www.myinterserve.com, which is designed to reach our thousands of frontline employees. The portal, which has around 22,000 registered users, is accessible on mobile devices, and gives colleagues access to e-pay slips and company news as well as providing a platform to volunteer time to support good causes. It also provides access to employee discounts at a range of retailers and leisure outlets.

We measure employee engagement through our annual Your Voice Engagement Survey. In 2019, survey participation grew across all divisions and our overall engagement score increased to 73 per cent for the business, an improvement of one per cent on 2018. We are always keen to take feedback from our colleagues into account and will work with our teams to assess the results and take any necessary actions accordingly.

In addition to our annual employee engagement survey, we have introduced a mid-year 'check-in' survey. The data collected from this provides further insight into our employees' experience of working for Interserve and helps guide future decisions.

Our people strategy continues to be a priority and is fully endorsed and supported by the Board and senior management. Our collective focus is on improving employee engagement and creating an inclusive culture.

Please read our Section 172 Statement on pages 19 to 23 for more details on how our senior leadership team engages with our frontline colleagues.

Apprentices

Interserve continued to invest in its workforce via its apprenticeship scheme during 2019 and has invested over £3.9 million in apprenticeship programme delivery since the levy was launched, with a further £2.7 million in committed funds to apprenticeship delivery in 2020. At any given time during the year, the Company had over 680 apprentices undertaking a diverse range of programmes, with facilities management and property maintenance programmes featuring in the top-three highest numbers of learners. Apprenticeships are a key pillar of Interserve's early career strategy, providing a range of entry-point roles to individuals taking their first step into careers such as engineering, construction management, IT and finance. The Company's Corporate Affairs team promotes the progress of our apprentices by featuring their efforts in case studies. This is aimed at showcasing the apprentices' ability and highlighting the work the Company undertakes to support new entrants and people developing their career with Interserve.

During 2020, Interserve is focusing on creating more apprenticeship entry points to attract those starting or returning to the world of work to join the business and develop their career.

Equal opportunities

We are committed to eliminating discrimination among our workforce and offering 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 and gender reassignment), race (including ethnic origin, colour, nationality and national origin), disability, sexual orientation, religion or belief, age, and pregnancy or maternity.

We ensure that 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.

We have a clear policy which reinforces our commitment to maintain a working environment that is free of bullying and harassment. The policy is underpinned by training undertaken by those in line-management roles to ensure the policy is rigorously applied across the business. To further reinforce the policy, and as outlined on page 13, Interserve has developed a new whistleblowing process.

Diversity and inclusion

At Interserve we are committed to creating a diverse and inclusive workplace where all our people feel at ease and can progress. We take this commitment extremely seriously.

We welcome the UK Government's requirement for large companies to be more transparent on gender pay. This is the third year Interserve has published its UK gender pay gap. We published data for 19 employing entities, five of which were reported on voluntarily.

Our results display a median gender pay gap of 12.9 per cent, down from 26.3 per cent in the previous year. A significant factor in the improvement is the material increase (7.4 per cent) in the proportion of women in higher paid roles compared to men. Our median bonus pay gap is 17.0 per cent, down from 61.9 per cent in the previous year.

From a divisional perspective, the median gender pay gap for our Support Services division, which includes our Citizen Services business and accounts for 92 per cent of reported employees, is 11.1 per cent. Interserve Construction reports a median gender pay gap of 32.2 per cent and RMDK reports a median gender pay gap of 15.9 per cent.

Social responsibility and sustainability continued

To improve the gender split of our talent pipeline in 2019, we continued to audit recruitment and training practices across Support Services to make sure they are free of bias and to seek equal gender balance in general recruitment, apprentice and graduate applications. We are 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.

HUMAN RIGHTS

We have a Group-wide Human Rights Policy, which is available to download from our website. The policy states that the upholding of human rights is wholly aligned with our values, and forms part of our decision-making process 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. 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, 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 Human Rights 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 specifically references modern slavery and our Modern Slavery Statement can be found on our website. This is supplemented by our Business Practices Policy which explains how we expect to do business with other people. These policies and statements are also available to download from our website.

HEALTH AND SAFETY

At Interserve we believe that the safe delivery of our projects and operations is critical for our long-term success and a relentless daily focus on safety underpins everything that we do to deliver our operations safely, and without harm to the environment or communities in which we work.

We continuously seek to improve our safety and environmental performance and evaluate our performance and set improvement goals on an annual basis. We are pleased to report that our major and high potential incidents reduced by seven per cent year-on-year – this is significant as these 'fatal risks' have higher consequence outcomes for loss and injury. Furthermore, several business units achieved incident-free working for the full 12-month period.

Our all-incident rate (AIR) and lost-time incident rates (LTIR) are areas we identified to focus on improving in 2020 and we have put targeted action plans in place in order to achieve this objective. The plans include undertaking an in-depth review of our highest physical risks with a particular focus upon spatial awareness and avoiding slips, trips and falls on the same level. We now carry out a formal, detailed analysis of each 'high potential' event at quarterly incident review boards in each business unit. Our I-Care programme (detailed below) is focused on improving leadership practices and decision making as we seek to achieve the best health and safety practices in the sector.

As a responsible and sustainable business, the success of our operations and the safety of our workforce go hand-in-hand. One of the key elements of this is in visible leadership for safety and, in 2019, 4,011 management safety tours were conducted and highlighted 96,867 instances of safe operational activity while also identifying areas for improvement which we have focused upon so that we can implement positive changes across our business.

I-Care

To help drive improvements across the business, Interserve rolled out a major behavioural change programme, 'I-Care', in June 2019. This Group-wide initiative focuses on the 'habits' that support and cultivate a safe working environment. Developed by our own workplace psychologist, and with the sponsorship of the Company's senior leadership team, Interserve believes this significant investment will ensure that our workplace safety culture is positively enhanced and will support our ambition to have incident-free operations each and every day.

To date almost 10,000 employees have completed the online or workshop-based programmes and 2020 will see the programme delivery accelerate across the Group.

Our occupational health programme, which includes a key focus on wellbeing and mental health, continued to build on the success achieved in 2018 and the Group now has over 200 trained mental health first aiders.

Royal Society for the Prevention of Accidents (RoSPA) awards have been received in all divisions – with Interserve Business & Industry and Defence sectors achieving the President's award for the 13th consecutive year. Additionally, RMDK received six RoSPA President's Awards including one for Head Office.

All of our operating businesses are required to implement safety management systems that meet OHSAS 18001/ISO 45001. Across Interserve's global operations, 97 per cent of our employees work under safety management systems certified to this standard and, in 2019, these certifications were retained.

ANTI-BRIBERY, CORRUPTION AND WHISTLEBLOWING

We have in place an Anti-Bribery and Corruption Policy, and associated procedures and training. The policy sets out that every individual with whom we work will comply with any anti-bribery and corruption laws that apply to our business.

In the last twelve months, we have instituted a review of the policy and procedures because we recognise they embody and drive the ethical standards we expect in our business. Following completion of that review and engagement with stakeholders in our business, we have updated our Anti-Bribery Policy and associated procedures to provide additional advice and guidance to our staff. A revised communications and training plan is being established to ensure compliance with the policy is ingrained in our business.

We have also reviewed and updated our Whistleblowing Policy and procedures and we have procured and established an external organisation ('Speak Up') to receive allegations of whistleblowing on our behalf, on an anonymised basis using a multitude of different languages. This allows individuals to make protected disclosures without fear of retribution if they become aware of behaviour that does not meet the legal and ethical standards we uphold. Details about Speak Up are regularly promoted by our internal communications team and can also be found on both of our staff communication platforms - IRIS and MyInterserve.

SUSTAINABILITY

How we interact with the environment and the communities that we supply services to and live in is of the utmost importance to Interserve. We consider sustainability to be about taking a broad and joined-up view of the challenges we and our stakeholders face. We are committed to adopting a more intelligent approach to the use of natural, social, knowledge and financial capital to ensure we help deliver a better future for everyone.

We are moving beyond compliance towards making a positive and restorative contribution to the environment through the services we deliver. We are committed to lifting our ambitions and to use natural resources more efficiently, both in terms of our own operations and our work with customers. For example, we employ more than 12,000 cleaners across our Support Services business who are based at clients ranging from the UK Armed Forces through to hospitals, schools and Government offices. Our cleaners use roughly £17 million worth of products per year ensuring that clients' premises are in the best possible condition. Contracts, such as the NHS, require the highest professional standards. We have adopted a new system in our cleaning business which involves our cleaners using chemicals dispensed by a chemical dilution machine which means we no longer use bottled detergents and cleaning agents – thus saving several tens of thousands of bottles from landfill every year.

We have also become a member of the Institute of Environmental Management and Assessment (IEMA). IEMA is the professional body for everyone working in environment and sustainability. IEMA is committed to supporting, encouraging and improving the confidence and performance, profile and recognition of all IEMA members. Membership enables us to share best practice, learn from other organisations committed to delivering sound environmental practices and achieve internationally recognised standards.

A final example of how we are furthering the sustainability agenda is demonstrated by the fact that we are a member of the Government's 2020 Strategic Supplier Roundtable, a forum which is committed to helping the Government achieve net zero carbon.

Stakeholder engagement

At Interserve, engaging with our stakeholders and understanding their needs is fundamental to how we do business and plan for the future. We are in regular and open dialogue with all stakeholder groups to ensure their views are taken into account so that we can continue to deliver best-in-class services. The feedback we receive from our engagement activity helps inform and shape the way in which we deliver our services. We employ a range of methods to ensure that we act upon the results of our engagement processes and these are explored below. We are always looking to build upon the strong relationships that exist with those we interact with to create better outcomes for all.

Our engagement approach uses methods specific to each division.

Support Services

Our Support Services division has several formal processes in place to ensure we maintain the highest standards of customer service and performance across the business.

On a broad level, we conduct an annual customer survey of all key stakeholders which feeds in to developing our offering year-on-year. Our dedicated Customer and Workplace Experience team follows up on any resulting actions and interventions, ensuring we adapt with our customers' changing needs. Our directors undertake 12 client visits per year to gather further feedback on how we're doing.

Our customer engagement strategy includes:

- monthly contract performance reviews led by the local general manager;
- quarterly performance reviews with the director or senior manager;
- an annual expectation review undertaken by our business unit's Managing Director;
- an annual customer survey of all key stakeholders; and
- follow-up actions and interventions through our Customer and Workplace Experience team.

We launched an in-house Customer Experience Team five years ago which has now developed into a Customer and Workplace Experience Team. A key element of the team's remit is to ensure the division delivers the best possible stakeholder engagement practices. The team's aim is to support our account and client groups to get closer to our customers and establish strategic relationships. The team also helps colleagues to better understand our clients' organisations so we are in the best position possible to add value to them, their people, and their own customers. During the past year, our Customer and Workplace Experience team has:

- delivered tailored surveys for customers to 1,694 building users, generating feedback to drive improvements across our contracts;
- interviewed customers working in more than 1,000 buildings across diverse environments such as retail, healthcare, central government and corporate settings to help us understand the 'Voice of the Customer';
- developed 150 Customer Experience Practitioners to help deliver bespoke training across the Company's contracts;
- put 1,000 frontline operatives through training tailored to deliver best-in-class services to building users (e.g. patients, students, customers and passengers); and
- developed and delivered a Collaborative Working Programme with our clients to help address issues and improve contract delivery.

These feedback loops, both externally with our clients and internally with our colleagues, ensure we continue to provide best-in-class services and are responsive to our customers' and stakeholders' changing needs.

The Government is one of our key customers. Stakeholder engagement with the Government includes our involvement in the development with the Cabinet Office of the Outsourcing Playbook. The Playbook outlines a series of key new policies for making outsourcing decisions and contracting outside suppliers for the delivery of public services. We are proud to have been one of the 12 Strategic Suppliers to the Government engaged in working with them to develop the Playbook. In addition, we have continued to work with the Government on the Playbook and as a result of this input they have revised the document and are due to publish the Outsourcing Playbook II imminently.

Construction

Wide and sustained stakeholder engagement is at the heart of Interserve Construction and is key to our future success. Our approach to stakeholder engagement includes:

- early engagement with the client and stakeholders to build trust and understand our customers' objectives and critical success factors; and
- a collaborative approach to service quality.

Our approach is endorsed by the fact that Interserve was the first company to achieve certification to BS 11000, the collaborative business relationships standard, in 2016.

Our 'Right First Time Road Map' is our commitment to deliver a project we are proud of supported by our model for customer excellence. Key stages of the model include:

- understanding clients' critical success factors and capture in customer charter;
- developing SMART objectives and allocating responsibilities to site team members; and
- interim and final reviews with the Customer Experience Manager, measuring performance against critical success factors and measuring against industry KPIs.

The aim is to achieve 'Right First Time' sign-off, evaluating and certifying everyone who contributed to the successful delivery of the project.

Interserve hosts initial workshops to introduce the design team, client and end-users. The purpose of these Listening Workshops is to:

- introduce the parties and start to build collaborative working relationships;
- agree a communication strategy; and
- develop a detailed understanding of the project.

Weekly review meetings are held. These are informal meetings with client representatives reviewing completed works in the previous week and planned works for the week ahead.

Monthly progress meetings are also held to report to the client on progress, financial position, quality, health and safety, sustainability and agreed client changes.

Furthermore, Interserve has an established 'Deliver the Promise' initiative to ensure the commitments we make to customers at the project launch are carried through. This is supported by regular check-ins between regional directors and the project board.

With regard to employees, through regular face-to-face team and town-hall briefing sessions supported by intranet, newsletters and email, our Senior Leadership Team (SLT) keep our employees regularly informed of business progress and financial performance towards our agreed strategy.

Employees also benefit from the two-way dialogue of consultative meetings where feedback is encouraged and acted upon. We share the results of our annual employee surveys and implement local and business-level action plans to improve what we do.

Working with our dedicated Sustainabilities and Social Value team, our project teams liaise with local residents and communities before, during and after our projects. We recognise our responsibilities and understand how we can ensure the construction investment has a significant positive impact on local communities by planning to deliver Social Value from the start. We engage local firms and consult with the local community during the project's development to plan and map this out. Our main focus is on local employment, skills, environmental enhancement and training.

We are committed to working with and supporting our supply chain to deliver an ever-improving service to our customers. We hold ISO 44001 certification for Collaborative Working demonstrating our understanding and knowledge in this complex area. Our lean and efficient supply chain work with us to improve product quality, consistency and sustainability without damaging overall resilience and to support our use of SMEs in their own community settings. By setting high standards, we assess and reward our key component suppliers and sub-contractors. Our most senior partner suppliers sit with us to jointly improve our sector skills and service.

Our leadership team update our key shareholders on a regular basis to keep them informed of business performance and strategy while ensuring project risk assessment, work winning, and overall performance is carried out with the highest levels of transparency and appropriate governance.

By focusing on a limited number of core - typically Government - sectors, our teams have developed considerable expertise and operate with confidence whilst limiting risk in often highly-regulated environments. In doing so, our Sector Leads offer insight and knowledge to policy makers on issues such as modernising customer estates to meet the demands of carbon neutrality.

We develop long-term relationships with our clients and partners by gaining an in-depth understanding of their sector priorities and objectives. This delivers a consistent stream of work which we deliver through framework arrangements and repeat business. Our clients are therefore supported, engaged and encouraged to provide feedback on their experience during construction and after our projects are delivered. Our business units and Sector Leads analyse this information to drive improvement and innovation in our service model and understand business metrics that lead to better productivity and customer satisfaction.

Equipment Services

Stakeholder engagement is an intrinsic part of RMDK's daily business and comprises two key strands: customer engagement and community engagement.

Engaging with our customers is an essential part of our business offering. Our preferred route involves early engagement with our customers, usually at a pre-tender stage, enabling our engineering teams to work closely with the customers to provide schemes that are innovative, efficient and, most crucially, safe. Using our proprietary digital engineering tools, we help our customers to visualise their schemes and our solutions, and importantly assist our customers to communicate these solutions to their clients. Our sales teams will continue with our engineering teams to support our customers through the tendering cycle to the point at which the contract is awarded.

Once projects commence, we continue to provide support to our customers, either through our sales engineers or dedicated on-site support, providing assistance in the use of our equipment and site liaison through the life of the project right up to site close. This close support enables our customers to safely and efficiently erect our equipment, monitor the build-up on site and the safe dismantling once the project concludes. Close engagement like this helps us maintain good relationships with our clients and minimises disputes as projects come to an end.

RMDK engages with the wider communities in which we operate. This involves supporting work-experience placements from local schools and visiting schools, often advising on future careers within the construction industry.

We also encourage our employees to be part of local communities and support charity initiatives, often through participation and giving of time. Our employees can claim back time for supporting charity and youth initiatives, and these take many forms, from leading scouting groups, to volunteering in youth clubs and coaching sporting teams. In the last year we also actively encouraged employees to help in the Remembrance Day appeal, and staff assisted in the sale of poppies at local shopping venues.

Supply chain

Interserve has a strong and loyal supply chain with whom we work collaboratively to deliver best-in-class service for our customers. As such, payment terms and timing of payments to our valued supplier partners remains a key area of focus across the business and one which we continue to take very seriously.

Interserve Construction has made significant improvements in respect of fair payment of the supply chain, with the latest statistics demonstrating an average time to pay of 32 days, and 94 per cent of suppliers paid within 60 days. The business is focused on achieving the Government's 95 per cent target in the near future.

Please read our Section 172 Statement on pages 19 to 23 for more details on our stakeholder engagement strategy and outcomes.

Group restructuring

Interserve Group Limited and its Shareholders

Interserve Group Limited was incorporated in February 2019 and became the ultimate holding company of the Interserve Group on 18 March 2019, by way of a pre-pack arrangement resulting from the entry into administration of Interserve Plc, the former ultimate holding company of the Group. Under the pre-pack arrangement, the Company acquired all of the business and assets of Interserve Plc. At the same time, the arrangements strengthened the Group's balance sheet and provided for, amongst other things, a reduction of the Group's existing debt by approximately £485 million through the conversion of debt into shares in the Company and the provision of additional liquidity to the Group through a new debt facility.

Since March, additional debt facilities have been secured, most notably in October 2019 and (following the end of the 2019 accounting year) in February 2020, when an additional £39 million and £125 million respectively, were secured. Accordingly, since 31 December 2018, additional loan facilities of £285 million have been committed to the Group to establish a stable financial platform from which to operate and to ensure sufficient liquidity over the medium term.

As a result of the pre-pack, the Group's lenders became its shareholders. The shareholders relationship is governed by a Shareholders Agreement which also establishes the composition of the Board of Directors of the Company and of certain other Group companies and provides for the structure of Board governance. The Shareholders Agreement also reserves certain material matters as requiring shareholder approval. Alongside the Shareholders Agreement, the Company has adopted Articles of Association which set out its constitution and other governance matters.

LEADERSHIP

The Board

Pursuant to the Shareholders Agreement, an initial Board of Directors was appointed to run the Company for an interim period (details of the initial Board appointments in March can be found in the Directors' Report on page 37). On 15 July 2019, Alan Lovell joined the Board as its new Chairman and on 1 September 2019, Mark Morris also joined the Board as the Company's new CFO and was subsequently appointed as the Company's Executive Director when Debbie White left the Group as CEO on 31 December 2019. During the course of the year, Martyn Everett, Edward Wildblood and Kenneth Hanna were all appointed as new non-executive directors, in addition to Nicholas Pollard (who had previously been a non-executive director of Interserve Plc), bringing an extensive range of skills and experience to the Board.

Following the appointment of Alan Lovell as Chairman of the Company in July 2019, the Board reviewed the Group's strategic direction and, as announced in November 2019, implemented a new management and operating structure within its three core divisions: Support Services; Construction; and Equipment Services/RMDK. The review built on the progress made through the Group-wide transformation and the "Fit for Growth" efficiency programmes, which together have delivered material cost savings and made significant steps in simplifying the business since the start of 2018 from five to three business divisions, increasing accountability and efficiency across the Group.

The new operating structure for the three business divisions has resulted in governance and leadership reporting line changes to further advance market opportunities across the business. To ensure an experienced and strong leadership structure which is closely aligned with the Board of the Company, each business division is now led by a Chairman who is a member of the Company's Board and a Managing Director. Accordingly: Alan Lovell became Chairman of the Support Services division working alongside Lynn Mawdsley (appointed as Managing Director in January 2020); Nicholas Pollard became Chairman of the Construction division working alongside Paul Gandy (appointed as Managing Director in October 2019) and George Franks, who continued to lead the International Construction business; and Ken Hanna became Chairman of the Equipment Services division working alongside Ian Hayes who continues in the role of Managing Director, a position he has held since May 2016.

The Board has a formal schedule of matters reserved for its decision, whilst day-to-day operational decisions are managed by the Executive Leadership Team, as referred to on page 17.

As at the close of business on 31 December 2019, the directors of the Company (excluding Debbie White who, having outlined her intention to leave the Company in March 2019, stepped down as a director with effect from 31 December 2019) were:

Alan Lovell DL (Chairman)

Joined the Board as Chairman in July 2019. Alan has extensive experience of the construction sector and of restructuring. In his executive career, he was Chief Executive of four companies, including Costain and Jarvis, in need of rescue and turnaround; and then of two waste-to-energy businesses. He was Chairman of the Consumer Council for Water from 2015 to 2019 and was then briefly on the Board of Amey UK plc.

External Appointments

- Chairman of Safestyle UK plc
- Senior Independent Director of SIG plc
- Chairman of Association of Lloyd's Members and member of a Lloyd's Committee
- Chairman of Progressive Energy
- Non-Executive Director Mitie Group plc (appointed January 2021)

In the voluntary sector, Alan is Chairman of the University of Winchester, the Mary Rose and the Hampshire Cultural Trust; he is a Trustee of Winchester Cathedral. He was High Sheriff of Hampshire for 2010/11.

Mark Morris (Executive Director and CFO)

Joined the Board in September 2019. Mark has considerable financial, leadership and restructuring experience. Prior to joining Interserve as CFO, Mark was CFO of Seadrill Limited, a NYSE listed company where he led the successful restructuring of the the company. Before that he was Group CFO of Rolls Royce plc where he worked in a variety of roles during a 28 year career.

Martyn Everett (Non-Executive Director)

Joined the Board in March 2019. Martyn is a Chief Restructuring Officer and Finance Director who specialises in complex financial restructuring and turnaround, corporate and structured finance.

He has worked in the publicly quoted, private equity and public sectors and his recent assignments include Stewart Milne Group and Taylor Wimpey plc.

Ken Hanna (Non-Executive Director)

Joined the Board in September 2019. Ken is an experienced senior executive and leader who brings considerable international financial expertise to the Board together with knowledge of a wide range of business sectors. Ken is currently Chairman of Aggreko plc and also of Arena Global Events plc. Until 2009, Ken spent five years as CFO of Cadbury Plc and has held positions as Chair of Inchcape Plc, Chair of Shooting Star Children’s Charity, a non-executive director for Tesco plc, Operating Partner for Compass Partners, Group Chief Executive at Dalgety Plc, Group Finance Director of United Distillers Plc and Group Finance Director of Avis Europe Plc. He is also a fellow of the Institute of Chartered Accountants.

External Appointments

- Chairman of Aggreko plc
- Chairman of Arena Events Group Plc

Nicholas Pollard (Non-Executive Director)

Joined the Board in March 2019 (having previously been a non-executive director of Interserve Plc since June 2018). Nicholas has extensive experience as an advisor to boards in a range of public and private companies on their strategy and wider business issues, particularly in the construction industry. He also has considerable international experience, principally in the Middle East and Asia Pacific.

Nicholas was formerly Group CEO at Cory Riverside Energy, which generates renewable electricity, was a Board member of the Environmental Services Association and has held senior roles at Railtrack plc, Network Rail, Skanska and Balfour Beatty plc. Nicholas is a member of the Customer Engagement Group for UK Power Networks.

External Appointments

- Member of the Customer Engagement Group for UK Power Networks

Edward Wildblood (Non-Executive Director)*

Joined the Board in March 2019*. Edward is a partner at THM Partners LLP. Edward has over 25 years experience working for both public and private companies in financial restructuring situations including acting as Chief Restructuring Officer and working in numerous industry sectors across the UK, US and Continental Europe and previously worked in M&A. Edward is a Chartered Accountant and prior to joining THM worked for Deloitte and Andersen.

*Edward Wildblood resigned from the Board following the end of the accounting period to which this report relates, such resignation taking effect on 9 April 2020. Mr Wildblood has been replaced on the Board by Elizabeth Holden whose biography is available on Interserve’s website.

Andy McDonald (General Counsel and Company Secretary)

Was appointed General Counsel and Company Secretary in March 2019 (having previously held the same role at Interserve Plc since June 2018). Andy is an experienced business lawyer, having worked for a number of large organisations in a range of industry sectors. Andy joined Interserve from Premier Foods plc, where he supported the company in the execution of significant portfolio realignment, joint ventures and partnerships. Prior to this he was General Counsel and Company Secretary at Uniq plc, before it was acquired by the Greencore Group plc. Andy worked as a corporate lawyer for the international law firm Freshfields Bruckhaus Deringer before moving into industry.

The Executive Leadership Team

The Executive Leadership Team, which during the year comprised Alan Lovell (following his appointment in July 2019), the executive directors and the senior operational and functional leaders of the Group, acts as a forum for communicating and co-ordinating Group wide business activities between the Group functions and divisions. The Executive Leadership Team is responsible for:

- the operational management and delivery against budget and forecast of the Group;
- implementing resolutions of the Board, formulation of strategy, annual budgets and other proposals for consideration by the Board;
- the identification and evaluation for consideration by the Board of risks faced by the Group and ensuring that the planned response to any risk issue is robust and appropriate;
- 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;
- 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;
- ensuring a consistent and coordinated Group wide response to legislation changes or external events; and
- conducting monthly Senior Leadership Business Updates reflecting the Group’s open and collaborative culture and demonstrating the importance that the Executive Leadership Team places on employee engagement.

Governance Structure

From a Group perspective, the Company inherited the well-developed governance structures which were in place within Interserve Plc including its policies and procedures although a number of these have been reset to fit the new ownership structure of the Company, including the appointment of a new Board of Directors for the Company and the establishment of a new Executive Leadership Team as described above.

The Board has overall responsibility for the Interserve Group and has agreed a formal schedule of matters reserved for its decision, whilst day to day operational decisions are devolved to and managed by the Executive Leadership Team. In view of the very material changes which occurred to the ownership structure of the Interserve Group in March 2019, and the creation of an entirely new holding company, the Board provided direct oversight of all governance and control issues including the management of key risks during 2019. Since the end of 2019, in order to facilitate the efficient use of its time, the Board has delegated certain of its powers to Board Committees as outlined below.

Overall, the Board is responsible for setting the Group’s strategic direction, governance, ethics, values and approach to risk management, for delegating authority to the Executive Team and monitoring implementation of policies, strategies and business plans and for promoting and supporting engagement with relevant stakeholders.

Representative observers of the larger shareholders attend Board meetings in order to provide additional scrutiny and oversight of those matters that are reserved under the Shareholders Agreement to the shareholders they represent.

The Board has retained the Contract and Investment Committee (CIC) which had been set up by Interserve Plc and has reinforced its role in overseeing all material new tenders and contracts.

Group restructuring continued

Contract and Investment Committee:

The Contract and Investment Committee (CIC) is composed of the CFO, the Company Secretary and the Group Head of Treasury and Tax. 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.

Since the end of 2019 and the period to which these accounts relate, in a desire to better manage and scrutinise some of the matters which the Board as a whole had taken greater direct control over following the pre-pack arrangement in March 2019, and to replace some of the key governance committees which operated under Interserve Plc, the Board has established an Audit and Risk Committee, a Remuneration Committee and a separate executive team Risk Committee to oversee risk on behalf of the Board and to ensure that key risks are identified, reported to the Board and properly managed.

Section 172 statement

Section 172 of the Companies Act 2006 requires directors to take the following matters into consideration in their decision making: the likely consequences of any decisions taken in the long term (in addition to the table below, see Operational Review on pages 8 to 10); the interests of employees and shareholders (see also "Our People" on pages 11 and 12); the need to build relationships with other key stakeholders, including customers and suppliers (see also "Stakeholder Engagement" on pages 14 and 15); the impact of the Company's operations on the communities and environment they operate in (see also "Sustainability" on page 13); and the benefits of maintaining a reputation for high standards of business conduct (see also pages 11 to 15).

The Board regularly tables the matters which directors should have regard to under section 172 at its meetings and recognises that the success of the business is dependent on the way it works with its key stakeholders. When making decisions, particularly of a strategic nature, the directors have regard to the likely long-term impact of those decisions and also their responsibilities and duties to the Company's shareholders and other stakeholders. The directors consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole having regard to those matters. This section explains how we have done this since the Company's incorporation in February 2019 and should be read in conjunction with the section on Employee Engagement and Stakeholder Engagement on pages 11 and 14 to 15, respectively.

We are committed to operating in accordance with the Group's values and to considering the interests of all our stakeholders in the decisions we make.

WHY IS ENGAGEMENT IMPORTANT?	KEY STAKEHOLDER ENGAGEMENT	OUTCOME OF ENGAGEMENT AND KEY DECISIONS
SHAREHOLDERS/LENDERS		
• Our group of 14 Lenders are also our Shareholders • Their support through the Company's acquisition of the assets and business of Interserve Plc in March 2019 was critical to the Group • Their support over the period to which this Annual Report relates and ongoing support, including provision of additional financing facilities in the first quarter of 2020, remains critical to the operations and strategy of the Group	• The Shareholders were closely involved in appointing the new Board of the Company and management team of the Group and receive regular information updates from the Board • The Shareholders also have the right to send up to four observers to all Board meetings – two appointed by the two largest Shareholders and up to two by the remaining Shareholders • The Company holds a minimum of 8 Board meetings a year, although in 2019 it held a total of 13 meetings as a result of which there was extensive engagement with Shareholders and Lenders • The Board provides weekly, monthly and quarterly written reports to Shareholders and formal quarterly presentations to the Lenders' institutions • The Board has engaged closely with the Shareholders in determining the priorities for the Group and in setting Group strategy in the short and long term • Shareholders have access to the Board, the Company Secretary and senior management to discuss questions or raise issues • In addition to Board engagement, the Chairman meets separately from the Board with the Shareholders on a regular basis	• The decision by the Company and its Board to acquire Interserve Plc's assets and business was only taken following detailed engagement with the Lenders who then also became the only Shareholders of the Company • The new Board and senior management team reflects the discussions with Shareholders • The refinancing processes since incorporation of the Company, including the most recent financing facilities, were all achieved as a result of regular and detailed engagement between the Board, Lenders and Shareholders • Group strategy has been set as a result of close consultation with Shareholders • As a result of our very close engagement with Shareholders, they better understand our market and operating environment and we are better able to ensure Shareholders' expectations are aligned with the business • As a result of our regular engagement, the Shareholders and Lenders have a full understanding of the business' three-year plan along with the associated risks and opportunities, whilst the monthly trading updates they receive provide guidance on performance against plan, ensuring they are aware of current financial performance and any emerging issues
BONDERS		
• The Bonders have a material debt interest in the Group	• The Board held detailed discussions with Bondholders in respect of the arrangements which led to the Company acquiring the assets and business of Interserve Plc • The Board provides quarterly presentations to the Bonders • There has been extensive engagement by the Board with Bonders throughout the period to which this Annual Report relates and in respect of the most recent refinancing process	• The acquisition by the Company of Interserve Plc's assets and business was undertaken following detailed engagement with the Bondholders

Section 172 statement continued

WHY IS ENGAGEMENT IMPORTANT?	KEY STAKEHOLDER ENGAGEMENT	OUTCOME OF ENGAGEMENT AND KEY DECISIONS
EMPLOYEES		
• Our workforce (i.e. our employees and contractors) are clearly critical to the operation and success of the business • Our success depends on their commitment to the business and to demonstrating its values • To maintain our competitive advantage and to meet the challenges of the uncertain and changing environment we are operating in, we need a workforce that can adapt and evolve • We also need to retain our key people and to recruit and train effective new people where necessary • The health, safety and well-being of our workforce is fundamental to the way we do business • It is vital that we engage effectively with our workforce to ensure we provide a supportive working environment	• The Board believes in involving colleagues in matters affecting them and keeping colleagues informed • The Chairman and directors hosted regular town-halls around the business in the 12 months following the pre-pack arrangement in March 2019 to inform employees and answer questions – this has been particularly important given the uncertainties over this period • Monthly divisional calls are held which are instigated by directors and then cascaded down through the organisation • Social media, video and electronic messaging was used by the CEO during 2019 to deliver updates as widely as possible around the business • The Board includes at least two scheduled site visits into its meeting schedule each year alongside which directors make their own ad hoc site visits to review operations and health and safety performance and to engage with colleagues across the business • The Board has actively continued to promote the Your Voice Engagement Survey including a new mid-year Pulse Survey. HR matters are a standing item on Board agendas, the Group's HR Director attends Board meetings in connection with any material HR agenda items and the Board gives very close consideration to the results of the Your Voice Survey and Pulse Survey to establish issues, trends and actions that may be needed • Health and Safety is the leading standing item at every Board meeting and every meeting starts with a 'safety moment' • An update on whistleblowing notifications under the Whistleblowing Policy is also provided at every Board meeting and the issue of modern slavery is also reviewed on a regular basis • Perhaps unsurprisingly during 2019, the Board considered the potential impacts of Brexit on both the Company's business and its workforce • Further details of the way in which the Board engages and promotes engagement with the Group's workforce can be found in the section headed 'Our People' on pages 11 and 12	• The workforce was one of the key stakeholders which the Board considered when acquiring the assets and business of Interserve Plc and taking subsequent steps to protect the business • As a result of the engagement initiatives, robust action planning is in place to support feedback from our employees to the Your Voice survey • An increased internal communication policy to all staff has provided support to the workforce across all operating entities • The Board instigated the roll-out across the Group's business of the I-Care health and safety programme, designed to promote the right approach to safety. This is a compulsory part of all new employees' induction programme • The Board continues to encourage management to find ways of improving our diversity and inclusion and actively monitors the position during the course of the year

WHY IS ENGAGEMENT IMPORTANT?	KEY STAKEHOLDER ENGAGEMENT	OUTCOME OF ENGAGEMENT AND KEY DECISIONS
CUSTOMERS		
• It goes without saying that, without our customers, we do not have a business • Engagement with customers is critical to maintaining and growing business, particularly with the uncertainties for both the Group and market places in general over the period since March 2019	• The directors, including the CEO and CFO, have maintained regular meetings and calls with customers throughout the period to which this Annual Report relates to ensure that they have been kept informed of the Group's position and that the Group has an understanding of customer feedback and concerns • The Board considers the need to foster positive ongoing relationships with the Group's customers at all of its meetings • The Company has clear customer engagement plans by division, country and sector to drive our interaction with our customers including regular face-to-face meetings and customer surveys supported by, and reported back to, the Board (for example the Support Services division has a 'customer experience team' which conducts an annual customer survey which, in 2019, surveyed over 100 key customer accounts)	• The Board gave careful consideration to the impact on its customers of both the acquisition of Interserve Plc's assets and business and the granting of replacement parent company guarantees in relation to relevant contracts • All customer survey results are reviewed by the Board and feed into their decisions on how the Group approaches its markets and business plan. Key outputs are then fed back to the business in order to improve the way we do business. For example, in RMDK, new product opportunities have been identified and acted upon on the back of customer engagement. In Construction we have worked collaboratively with our NHS customers to design standardised spaces and components to save time and cost in pre-construction, delivery and operation to great effect. In Support Services, customer surveys indicated that innovation was a possible area for improvement as a result of which the division's Managing Director has ensured this is a regular topic on leadership calls with dedicated resource • As a result of customer feedback, RMDK has further enhanced its digital engineering skills to align to increasing customer demands
SUPPLIERS AND SUB-CONTRACTORS		
• Our suppliers are vital to the quality and delivery of our projects and services • They are also fundamental to meeting the standards of conduct we have enshrined in our values • We hold supplier forums in a number of areas including health and safety, compliance with Interserve processes and standards and to promote collaboration and product/service development	• The Board considers the importance of key suppliers and sub-contractors when making commercial decisions, including their approach to issues such as modern slavery, data management and general compliance • We hold quarterly discussions with our key suppliers. In 2019, this included a Digital Day hosted by the Construction division's Managing Director for a number of suppliers to showcase digital construction tools in use in the business which is central to our ability to design and build structures effectively and sustainably. RMDK holds regular discussions with its suppliers and sub-contractors to manage capacity expectations and order terms on an order by order basis • We have maintained regular dialogue with all our key suppliers regarding the changes to the business since March 2019 and ensuring they were informed with regards to key financing activity • Supplier onboarding processes ensure shared values and quality and alignment of strategic objectives • Interserve Construction is a signatory to the Prompt Payment Code in the UK	• In conjunction with its consideration of customers interests, the Board also gave careful consideration to the impact on its suppliers and sub-contractors of the acquisition of Interserve Plc's assets and business • The Digital Day held for suppliers served to improve awareness of how digital tools and ways of working are increasingly core to the Construction division's service delivery and to improving the structures and buildings which it delivers • Onboarding of new procurement capability to further support key supplier engagement has been introduced to all divisions as a result of supplier engagement • In addition, RMDK has started the consolidation of spend into strategic frameworks and contract arrangements

Section 172 statement continued

WHY IS ENGAGEMENT IMPORTANT?	KEY STAKEHOLDER ENGAGEMENT	OUTCOME OF ENGAGEMENT AND KEY DECISIONS
LOCAL COMMUNITIES AND ENVIRONMENT		
• It is vital that we engage with the local communities in which we build and/or operate new infrastructure as our activities have the potential to impact on those communities in the short and long term • Strong community relationships are essential to maintaining our 'licence to operate' • Sustainability is a key part of our core values as a business, so engaging in relation to the environment in which we operate is a key part of what we do	• Our investment decisions and business commitments take account of the impact of our operations on the communities and the environment in which we operate and our wider social responsibility • The Construction division has worked with Northumbrian Water to support various community causes in the Teesdale area of Durham alongside its work to improve wastewater treatment in the area • Outside the UK, local community engagement plans are developed and implemented at a country level where we look to support the improvement of that community through various social and professional local programmes including the 'Give a day of your time initiative' • A new 'Interserve Community' Facebook group was set up allowing people from around the business to share their stories and successes with community engagement and charity fundraising • Interserve is a partner member of the Considerate Constructors Scheme and is committed to community engagement. This includes contributing to pre-planning consultation for proposed developments and also, community engagement, including newsletters and open days, during the construction phase • The Board actively supports a range of charitable giving and partnerships including the annual poppy appeal at Waterloo station, Armed Services week and Marie Curie. In addition, a team from E.ON and Interserve completed a joint charity bike ride in aid of the Alzheimer's Society	• The Board took the decision to become a member of the Institute of Environmental Management and Assessment (IEMA) enabling us to share best practice, learn from other organisations and achieve internationally recognised standards • We also became a member of the Government's 2020 Strategic Supplier Round Table
GOVERNMENT/REGULATORS		
• The Government and various public authorities are key customers for the business as well as being a key stakeholder more generally with regards to the broader economic and political environment • They are also important joint-venture partners in a number of projects • Our operations are subject to oversight by a number of regulators. We seek to engage in a professional and transparent manner with all such regulators	• The CEO and CFO, as well as divisional MDs and the Group Corporate Affairs Director, where appropriate, have maintained regular contact with the UK Cabinet Office, relevant Government departments and MPs and reports are provided to every regular Board meeting. The Group Head of Corporate Affairs is also involved in many of these stakeholder meetings and attends Board meetings on a regular basis • The CEO and CFO have also had regular meetings with key regulators and again this is reported back to the Board • The directors have engaged extensively in connection with the refinancing process and have provided regular information updates • In the UK, Support Services are one of 12 strategic suppliers engaged closely with UK Government to develop outsourcing policy • Engagement with government and regulatory bodies differs across our various geographic markets • Key engagement, where overseas governments are key clients, comes indirectly through our customer engagement • Regulatory engagement around operations occurs in all countries	• Engagement reinforces our 'licence to operate' • As a result of our regular meetings with Government, Government and ministers gain a better understanding of the challenges facing our business and market sectors which may then be reflected in Government response as issues arise and in Government policy • At the same time, the Board gains a better understanding of Government policy and regulation ensuring that decisions are well informed in this respect • Engagement with governments and regulators where we operate ensures that our minimum standards in our operating businesses reflect local regulatory requirements

WHY IS ENGAGEMENT IMPORTANT?	KEY STAKEHOLDER ENGAGEMENT	OUTCOME OF ENGAGEMENT AND KEY DECISIONS
PENSION TRUSTEE		
• The Pension Trustee represents the interests of Interserve pension scheme members who have a key long-term interest in the performance of the Group	• The Board held detailed discussions with the Pension Trustee in respect of the arrangements which led to the Company acquiring the assets and business of Interserve Plc • The CFO makes quarterly presentations to the Trustee • The CFO has undertaken regular discussions with the Trustee and has engaged extensively in connection with the recent refinancing process	• The acquisition by the Company of Interserve Plc's assets and business was undertaken following detailed engagement with the Pension Trustee • The sale of the Support Services division FM business to Mitie after the financial year end has also involved extensive detailed engagement with the Pension Trustees

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 Group has established risk-management and internal control procedures, which are regularly reviewed by the Board, and which 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.

Some of the markets in which the Group operates, in particular the construction sector, have continued to be challenging for most participants, although there were some signs of recovery towards the end of 2019 and prior to the impact of the COVID-19 pandemic. At the same time, 2019 and 2020 represent a period of very material uncertainty and change for the Company and the Group.

As detailed in the "Group restructuring" section on pages 16 to 18, the Company was incorporated during 2019 to acquire the business and assets of Interserve Plc following Interserve Plc's entry into administration in March 2019.

Since March 2019, the Board has provided direct oversight of all governance and control issues including management of key risks and has been reviewing the way in which it will oversee and manage risk going forward. The new divisional structure with separate Chairs on the Board is intended to provide an additional level of detailed scrutiny from a Board perspective. The Board has retained the Contract and Investment Committee (CIC) which had been set up by Interserve Plc and has reinforced its role in overseeing all material new tenders and contracts. Since the end of the year, the Board has established an Audit and Risk Committee, a Remuneration Committee and a separate executive team Risk Committee to oversee risk on behalf of the Board and to ensure that both principal and emerging risks are identified, reported to the Board and properly managed.

The Group continues to be dependent on effective maintenance of its systems and controls. The table below details the principal risks and uncertainties which the Group addresses through its risk-management measures.

RISK	POTENTIAL IMPACT	MITIGATION AND MONITORING
BUSINESS, ECONOMIC AND POLITICAL ENVIRONMENT	The biggest economic impact on the business, as with almost all other UK business, which only impacted after the financial year end to which this Report relates, has been COVID-19 (see following risk item). The other post-year end change which will clearly impact on our business is the sale of the Support Services division to Mitie Group plc which was completed on 30 November 2020, as reported in the Significant post-balance sheet events section on page 7. This means that our business going forwards will be focused to a large degree on the Construction and RMDK businesses and will therefore be less diversified than in the past. Among the market changes which could affect our business are: • changes in the UK Government's policy regarding employment costs, expenditure on improving public infrastructure, buildings, services and modes of service delivery and delays in, or cancellation of, the procurement of Government-related projects; • challenging markets in which the Group operates and resulting attitudes towards the sector. In particular, the UK construction industry has been a difficult market in recent years and the Group's construction business has had to operate in this market whilst also addressing the market perception issues which resulted in the loss of a number of construction contracts previously awarded on a preferred bidder status. The loss of these contracts, coupled with the identification of cost overruns on certain legacy contracts, resulted in a material cash outflow from the Group in 2019; • Brexit may impact the number of EU nationals within our workforce as well as its potential impact on the economy and public spending and the new proposed UK immigration system may also impact on workers coming from outside the UK; • the imposition of onerous contract conditions in the markets in which we operate by major counterparties; • changes in the behaviour of our suppliers, sub-contractors and our competitors' behaviour; 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 impact on the performance of existing contracts or result in a failure to win new, profitable contracts in our chosen markets.	We seek to mitigate the more general business and economic environment risks in a number of ways. These include: • fostering long-term relationships with our clients and partners; • development of additional capabilities to meet anticipated demand in new growth areas; • maintaining a flexible cost base; • effective supply-chain management; • creation of a new management and leadership team with in-depth experience of managing businesses to achieve effective turn-around and focused on the strategic objectives of the Company's shareholders and interests of other key stakeholders; and • strategic refocusing of the Support Services and Construction businesses (as described on pages 8 and 9). The reduction in scale of the Construction business, with reducing exposure to both the London region and large-scale strategic construction projects and the increased focus on its core strengths, has reduced its risk profile, although continued focus is needed to ensure that benefits are realised and embedded. We have continued to maintain strong dialogue with our key clients, partners and stakeholders in relation to our delivery of services and the status of our transition arrangements following the purchase of Interserve Plc's assets and operations by the Company to help maintain confidence with our business. We assess our success rate in competitive situations in order to analyse the reasons for success or shortcomings in our markets and feed the information back at both tactical and strategic levels. We monitor and assess levels of political risk and have contingency plans to mitigate these risks where appropriate.

RISK	POTENTIAL IMPACT	MITIGATION AND MONITORING
COVID-19 (Coronavirus)	COVID-19 did not become an issue for the UK or the Company until March 2020 and so did not impact on the period to which these Accounts relate. However, as noted on page 7 above, COVID-19 has had a material impact on both the UK and the Company since the year end resulting in suspension, reduction of some activity and some loss of business and delay to some new contracting. At the same time, some of our Support Services contracts and Construction activity experienced growth in demand, especially in the healthcare sector. The impact of the COVID-19 virus continues to present a clear risk to our business, although the level of impact of potential further waves of the virus is currently uncertain and the emergence of viable vaccines suggest a more positive environment in 2021. It may impact on: • our ability to provide services in line with our contractual obligations due to temporary staff shortages, client inability to accept services, government restrictions on movement of people or uncertain supplier chains; • payments being made to the Group in accordance with contractual obligations; • our ability to win new contracts if resources are constrained or indeed, more generally, a probable reduction in the tender and award of such new contracts whilst any country in which we operate is materially disrupted by the COVID-19 virus; and • our reputation if we are unable to fulfil key strategic contracts for high-profile clients.	As a result of the Group's diversified customer and contract base, and careful management of, and cooperating with, our material suppliers, we have been able to manage our way through the impacts of COVID-19. Although we have experienced a downturn in business levels, the greatest impact to our business has been experienced in our private sector contracts. Significantly over half of our business is with the public sector which has experienced a far smaller impact in business levels and indeed in some sectors, such as healthcare management services and construction of vital new healthcare facilities, we have won new business. We established a Group-wide working group comprising managing directors of our divisions and key specialists to operate alongside the Executive Board and since March 2020, have implemented a range of measures including: • reviewing and implementing Group contingency and business continuity plans; • providing timely advice to our workforce about the virus and how to try to work safely and mitigate the risks; • remaining in close and regular contact with UK Government and relevant public authorities in the locations we operate in; • remaining in close and regular contact with our customers and suppliers and reviewing relevant contractual arrangements; and • utilising government support both in the UK (such as use of the furlough scheme where appropriate) and in jurisdictions in which we operate outside the UK.
STRATEGY	In 2019, and prior to the sale of our Support Services business to Mitie, the Interserve Group consisted of three operating divisions: Support Services; Construction and Equipment Services. A strategic review of the future options for all three divisions in order to determine how best to drive future growth and maximise returns and value for shareholders commenced in 2019 and has continued since, resulting in the decision announced in June 2020, to sell the Support Services business to Mitie. The Group's shareholders are not natural long-term owners of the business and consequently the Group's strategy may well result in the disposal of further parts of the business over the short to medium term. There are obviously risks in any strategy that may include strategic divestment of assets, that such divestment may not be achieved or may not be achievable at the right value. The disposal of the Support Service division will clearly have a material impact on the nature and resources of the Group as a whole. Whilst we believe that the disposal was in the clear interests of the shareholders and the future of the Support Services business and employees, it does leave a smaller Group going forwards. In the event that disposal of further parts of the business are made, there is likely to be an impact on the remainder of the Group. The materiality of this impact and any requirement to repay debt or retire debt facilities with the majority of any future disposal proceeds, cannot be accurately assessed at this time.	The Board has worked, and continues to work, closely with the Company's shareholders and key stakeholders to establish the best strategic outcome for ensuring the long-term security, growth and prosperity of the operating divisions whilst at the same time realising value for shareholders. The Board considers the transaction with Mitie represented a good strategic and value enhancing transaction both for shareholders and for the long-term security and prosperity of the Support Services business and its employees. The Board will, of course, in accordance with their statutory duties, engage with its shareholders and other companies in the Group in order to ensure that the remaining Group continues to have access to sufficient financial resources.

Principal risks and uncertainties continued

RISK	POTENTIAL IMPACT	MITIGATION AND MONITORING
FINANCIAL RISKS	Failure to maintain access to suitable sources of funding and to manage financial risks and the financial resources of the Group which enable it to meet ongoing liquidity and financing obligations so that it remains a going concern. The pre-pack administration process which led to the Company acquiring the assets and business of Interserve Plc resulted in a material deleveraging of the Group when compared with its position prior to the pre-pack. However, the administration of Interserve Plc and the market perception of some of the key sectors in which the Interserve Group operates, has made trading relationships with some existing customers and the winning of new business more challenging than in the past. We are subject to certain financial risks, including inflation risk and interest rate risk which are discussed in the Financial Review on page 35. Inflation risk is referred to further in the Major Contracts section below. The Group is exposed to interest rate risk as its borrowings are at a variable rate of interest, linked to LIBOR and at present no hedging arrangements are in place to offset this risk.	The Group operates with a central treasury function responsible for managing key financial risks and liquidity. We maintain a very close relationship with the Group's lenders who are also its shareholders and have consistently demonstrated support for the Group. Since 31 December 2018, additional loan facilities of £285 million have been committed, which include, most recently, a new £125 million loan facility put in place in February 2020. This re-established a stable financial platform from which to progress the Group's strategic restructuring and to help the Group meet the challenges presented by the industry and wider market impacts of COVID-19. Details of the new financing arrangements are summarised in the Financial Review. Discussions continue with the Group's shareholders about the adequacy of the current financing arrangements. Where possible, contracts are written to allow any inflationary movement to be passed on to the client. Where this is not possible, and inflation risk is borne by the Group, a suitable premium will be included in the contract price and the Group will look to maintain margin through efficiency savings and contract renegotiation on renewal. Interest rate risk is considered to be manageable within the new funding facilities obtained by the Group.
IT SYSTEMS/SECURITY	Our IT systems are critical to business success and our ability to meet customer expectations. As a result, there has been a continuing and increased focus on: • Cyber Security • Operational Resilience • Legacy Applications Failure in any of these areas could adversely impact our reputation, affect our ability to provide customer services and undermine contractual compliance. It may also limit the ability of our workforce to carry out their jobs effectively. Issues experienced during 2020, including the cyber-attacks in May 2020 and November 2020, have reaffirmed the importance of these 3 critical risk themes which now form key components of the 2020/2021 IT roadmap.	The IT Investment Committee set up in January 2019 continues to provide oversight of our IT expenditure, ensuring that potential investments are duly considered and align with the strategic objectives of the business and wider IT strategy. This Committee along with other governance forums now form part of the newly strengthened IT governance framework. Where necessary, we seek to ensure that both ISO 27001 and CES certifications are maintained for key contracts. In response to issues experienced during 2020 we have enhanced monitoring and preventative maintenance regimes (aligned with good industry practice) to minimise the potential impact of IT failures and/or security incidents.

RISK	POTENTIAL IMPACT	MITIGATION AND MONITORING
DATA MANAGEMENT	There is a clear need to ensure that our customer, supplier and employee data is: • classified appropriately; • processed in a manner which ensures its security, integrity and availability; and • compiled, stored and used in accordance with legal and contractual requirements. Any significant failure to comply with data management requirements whether under the General Data Protection Regulations or under relevant contract terms could result in damage to reputation, claims by third parties and action by regulators including fines.	The Group has an Information Security Policy Framework and staff training policies which provide clear guidelines within which the business operates. We have a well-established Group-wide information security induction and ongoing training programme to ensure staff awareness of the need for safe and secure data management. In response to issues experienced during 2020, including ongoing engagement with the Information Commissioner's Office (ICO), we have appointed a Group Data Protection Officer to enhance and support our existing divisional data protection representatives and established an enhanced 2-tier Information Security governance structure.
CONTROL OVER JOINT VENTURES & ASSOCIATES	A proportion of our profits and cash flow are generated from joint ventures and associated companies in which we do not have overall control. The alignment of the Group's interests and the interests of our partners is key to the success of these operations, and weakening of relationships with these business partners could have an effect on our profits and cash flow and result in reputational damage.	We have a proven track record of developing and re-enforcing such relationships in a mutually beneficial way over a long period of time. The measures taken to limit risk in this area include: board representation, shareholders' agreements, management secondments, local borrowings and rights of audit.
MAJOR CONTRACTS	The Company is involved in a material number of contracts under which counterparties reserved their rights for legacy events of default arising from the administration of Interserve Plc. In the event those counterparties exercised their rights, it could have a significant impact on future revenue and profit. In general, the management of contracts entails a range of potential risks. These include: mispricing; 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; and under-delivery of performance, any of which could have adverse financial implications. The Company is involved in a number of PFI/PPP contracts, which can last for periods of up to 30 years. Increases in costs, including wage inflation, which exceed increases in revenue over the longer term, may result in reduced profitability. Risk of recoveries of payments from material debtors of major contracts.	The Company is negotiating arrangements with relevant counterparties to extinguish legacy events of default and, where relevant, to provide appropriate security to replace that previously provided by Interserve Plc. Among our mitigation strategies are targeting work within, or complementary to, our existing competencies whilst also engaging the necessary expertise to deliver the obligations assumed. The Company continues to enjoy long-term relationships with many clients, operates management reporting with key performance indicators for existing contracts and senior management review prior to any new commitment being entered into. In particular, all material new tenders or requests for any form of security instrument are referred to the Group's Contract and Investment Committee (CIC) for approval based on assessment of commercial terms, profitability and risk. We monitor the risk on contractual counterparties to avoid over-dependency on any one customer or sub-contractor. The Company ensures that periodic benchmarking and/or market testing are included in long-term contracts together with indexation provisions and other relevant change provisions in client contracts where cost inflation is a particular risk. The Group continues to monitor the collection of material debtor balances.

Principal risks and uncertainties continued

RISK	POTENTIAL IMPACT	MITIGATION AND MONITORING
ENERGY FROM WASTE BUSINESS	Other than minor snagging works, the Group has no further obligations relating to the construction of any Energy from Waste projects. However, a number of risks remain under the projects, in particular the Derby and Glasgow projects, including: • notice of termination was received on the Derby contract during August 2019 and Administrators were appointed to the project company (Resource Recovery Solutions (Derbyshire) Limited ("RRS")) shortly afterwards; • the contract for the Glasgow plant was terminated in December 2016 and the client finally achieved completion in January 2019. A dispute in respect of the final account has been initiated. Following an adjudication in April 2019, which led to a decision favourable to the Group, the matter has now been referred by the client to arbitration which is expected to be heard in November 2021 with a decision likely the following year; • potential residual liabilities under four joint-venture contracts for biomass plants, all of which have completed construction.	The Group has materially reduced its exposure to the Energy from Waste sector during 2019. Future cash flows are predominantly linked to two contracts, Derby and Glasgow: • In relation to the Derby project, the Group is co-operating with the Administrators of RRS who are pursuing compensation from the public-authority clients following termination of the project. By this means it is intended to eliminate any residual liability to the Group. • During December 2019, the Group received a payment on account from its insurers in respect of a claim under its Professional Indemnity insurance policy relating to the Derby contract of £15.0 million. The Group collected further receipts in 2020 of £18.5 million, although these will be required to be applied in mandatory prepayment and/or cancellation of the Group's facilities under the terms of its finance documents. • The Group's view of the Glasgow arbitration, based on the results of the adjudication decision and legal advice received to date, is that the liability is between £nil and £26 million and that the risk of an outcome that results in a cash settlement significantly in excess of this is remote. The Company's involvement in the four joint-venture contracts is limited to the building and excludes the process plant and equipment or the performance of the facility. Whilst the contract arrangements with the ultimate clients provide for joint and several liability of the Company and its partner, under the agreement with the joint-venture partner, the Company is only responsible for its own works and will be entitled to recover any losses incurred arising from failures by the joint-venture partner.
DAMAGE TO REPUTATION	Damage to the Group's reputation has the potential to impact on its ability to bid on or re-tender for contracts and to win or retain business streams. This was seen in the loss of potential contract awards to the Construction business immediately following the administration of Interserve Plc. Reputational strength is important across all business areas but particularly in the Group's relationship with Government and public authorities who are key clients and partners in a number of projects.	Since March 2019, the Group and divisional management teams have been strengthened including a new Group Board, Chairman and CFO. We have maintained dialogue with our key clients and partners in relation to our delivery of services, our financial position and trading status to help maintain confidence with our business. We continually engage closely with Government and public sector stakeholders on matters of mutual interest. We have a clear set of core values which we have worked hard 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	MITIGATION AND MONITORING
KEY PEOPLE	The success of our business is dependent on attracting, retaining and developing talent. It also needs to ensure it has enough numbers of appropriately skilled and competent people at all levels of the organisation. This is particularly relevant during periods of uncertainty and change during which an ability to react quickly to changes in circumstances and to have key people to stabilise and grow stakeholder relationships and to maintain competitiveness is required. There is a risk that key individuals may be approached to work for other businesses or may look to find alternative employment. In addition to staff retention risk there is also a risk that it becomes more difficult to attract and hire new people to the business. Our potential people risks have been brought into focus since the end of the financial year by the transaction involving the sale of our FM business to Mitie and the impact of the COVID-19 pandemic.	We are focused on working with all of our colleagues to ensure that they are engaged, wish to stay with the business and are advocates for what we deliver for our customers. We are working hard to ensure we are a great place to work and our colleagues can enjoy a successful career. The Board has delivered regular communication throughout the business to ensure colleagues are kept informed and the Company has maintained strong employee engagement initiatives to ensure all colleagues have a voice in the business through our employee survey, Your Voice. We run a business-wide award scheme linked to our values, incentives and an annual bonus scheme. We also deliver 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. In respect of the potential people related risks which may be associated with the transaction with Mitie and COVID-19 the following actions have been taken. We have set up a leadership structure with enterprise wide representation to ensure our response to COVID-19 has been developed with our teams, spanning policy changes to the support people require. This has been successfully executed with timely and effective communications. Additionally, we have communicated to our teams at every step of the transaction and worked hard to ensure all colleagues remain engaged and fully briefed.

Principal risks and uncertainties continued

RISK	POTENTIAL IMPACT	MITIGATION AND MONITORING
PENSIONS	The Group contributes to various defined benefit pension schemes in the UK and overseas in respect of which it is exposed to funding risks. Some of these schemes relate only to employers within the Group. Others are industry-wide or public sector pension schemes. The Group's most significant arrangement is its UK defined benefit pension fund, the Interserve Pension Scheme, which has a material deficit. There is a risk to the Group that adverse experience (or a change in the Pension Trustee's assessment of the financial position of the Group or its business leading the Pension Trustee to adopt more prudent valuation assumptions) could lead to a requirement for the Group to make increased contributions to recover any deficits which emerge from these valuations. The same risk exists in relation to the Group's other UK-based non-public sector pension schemes. The Group is also exposed to funding risks in respect of the public sector and overseas schemes in which Group entities participate. The next triennial valuation of the Interserve Pension Scheme is due as at 31 December 2020. The sale to Mitie is expected to improve the short-term funding for the Scheme, as a prescribed mechanism will lead to an additional payment from Interserve's proceeds. Interserve Construction Limited (ICL) is now the principal company providing financial support to the Interserve Section, which will be aligned with the remaining Interserve Group. It is not yet clear what residual deficit will remain as the amount arising from the sale is not yet known. The covenant position for ICL will remain a key area for monitoring of the Trustees post transaction. The current Recovery Plan is intended to provide full funding, assuming that the Scheme is ongoing. In the coming years, the Trustee will be raising their long-term funding target to achieve Scheme self-sufficiency (where there will no longer be a requirement for ongoing financial support from the Principal Employer) which will mean the deficit will be materially higher on that basis. There is no guarantee that the current recovery plan will be sufficient to eliminate the deficit by 31 December 2025 or at all. Similarly, there can be no guarantee that further contributions will not be required in the future to the Interserve Pension Scheme or, indeed, to any of the Group's other defined benefit pension schemes in which the Group participates.	The Interserve Pension Scheme, together with all other non-public sector defined benefit schemes, are closed to new members except in certain exceptional circumstances. New hires join a defined contribution plan instead where the risks of deficit for the Group do not exist. The Group actively monitors the funding position of these schemes, taking professional advice where necessary. The Trustee has put in place a liability hedging portfolio which provides protection against inflation rate risk and interest rate risk. The last full triennial valuation of the Interserve Pension Scheme was 31 December 2017. Following that valuation, a recovery plan was put in place and agreed with the Trustee to eliminate the deficit. Under the Interserve Section of the Interserve Pension Scheme, the Company made additional monthly contributions of £1,213,384 during 2019 and this has risen to £1,250,000 per month from 1 January 2020 to 31 December 2025. These contributions are projected to eliminate the deficit in the Interserve Section of the Interserve Pension Scheme by 31 December 2025. The Trustee was consulted regularly in respect of all matters relevant to its members.

RISK	POTENTIAL IMPACT	MITIGATION AND MONITORING
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. Failure to manage these risks may result in harm to employees, contractors, clients, suppliers and members of the public which, in turn, could lead to intervention by regulators, prosecution, fines and reputational damage.	These risks 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 move in 2018 to leading based and common reporting metrics saw a material reduction in both our employee lost-time injury frequency rate and our employee accident incident rate. Although we were able to maintain these rates in 2019, we were disappointed not to reduce them further, although the number of major and hi-potential incidents was reduced by 7 per cent in 2019.

Financial review

2019 has been a challenging year with Interserve Plc entering into pre-pack administration on 15 March 2019. The successor Group, Interserve Group Limited, has been recapitalised and deleveraged and we have exited various poor performing business segments to focus back on our core competencies with revised strategies for those businesses. It has been a year of significant challenges and upheaval and includes significant costs related to the restructuring, losses related to the businesses being exited and write-downs and impairments in relation to the carrying value of certain assets and goodwill. This has been a 'reset' year and the financial performance reflects the costs of that reset and the decisions that have gone with it. These tough, but necessary decisions, have been taken to help to ensure the Group is better positioned financially to recover and return to growth in its core markets.

2019 has seen a significant deterioration in the underlying operating performance of the Group with operating losses incurred of £56.0 million on consolidated revenues of £2,241.7 million compared with an operating profit of £86.7 million on consolidated revenues of £2,785.0 million for 2018.

The main reasons for the significant decrease in 2019 Group operating profit of £142.7 million are a £110.0 million reduction in profitability due largely to losses incurred on a number of projects in UK Construction's Strategic Projects and London Private-Sector businesses (which are markets that we have now exited) and a lower operating profit contribution from Equipment Services of £23.1 million, driven principally by capital investment constraints arising from the wider financial challenges the Group was experiencing and weaker market conditions in the Middle East and Asia Pacific regions.

Group net debt at 31 December 2019 of £413.6 million has reduced during the year by £246.8 million from £660.4 million at 31 December 2018. This is largely due to the 15 March 2019 restructuring in which £484.8 million of existing external debt provided by our lenders was swapped in exchange for 100 per cent of the Group's share capital, which has been partly offset by £179.7 million of new facilities as part of the recapitalisation, and the first time recognition on the balance sheet at 31 December 2019 of £94.4 million of lease liabilities arising from the adoption of IFRS 16 from 1 January 2019.

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	2019	2018[1]
Consolidated revenue	2,241.7	2,785.0
Total operating (loss)/profit pre-amortisation and non-underlying items	(56.0)	86.7
Amortisation of acquired intangible assets	(6.9)	(18.7)
Goodwill, other asset impairments and disposals	(161.8)	(66.8)
Contract and balance sheet review charges	(3.4)	(5.2)
Energy from Waste	(72.7)	(12.6)
Property development	1.3	17.0
London construction exit	(19.0)	(24.8)
Restructuring costs	(10.8)	(20.0)
Professional adviser fees	(46.4)	(43.0)
Exit from businesses/contracts	(37.5)	(5.5)
Pension indexation gain	-	70.6
Total operating (loss)	(413.2)	(22.3)

1 as restated

2019 consolidated revenue of £2,241.7 million was 19.5 per cent lower than in 2018 (£2,785.0 million) mainly due to a major rationalisation and restructuring of the UK Construction business reducing revenues by £261.7 million and, in Support Services UK, where there have been a number of divestments of non-core operations by exiting from less attractive low-margin market sectors such as high street retail.

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 £413.2 million (2018: loss £22.3 million).

GOODWILL, OTHER ASSET IMPAIRMENTS AND DISPOSALS

During 2019 the carrying value of the Support Services Private-Sector purchased goodwill was impaired by £12.2 million and, as part of the Group's 31 December 2019 annual goodwill impairment review, further write-downs were made on the carrying values of Support Services Private-Sector cash generating unit (£24.3 million), principally related to the acquisition of Initial Facilities and Maclellan, a further £38.4 million on its Learning and Education business (in particular, its Saudi Arabian Colleges of Excellence) and £5.6 million on its Healthcare business.

At 31 December 2019 a review was also undertaken to assess the appropriateness of the carrying value of the Group's investments in associates and, due principally to the ongoing trade embargo in Qatar, an impairment of £53.9 million was recognised.

In November 2019, the Group's subsidiary, The Oman Construction Company LLC, was disposed of for a consideration of £12.4 million, realising a book loss of £12.5 million and £14.9 million of existing goodwill on acquisition of this subsidiary was written off on sale.

CONTRACT AND BALANCE SHEET REVIEW CHARGES

During 2019 £3.4 million of net contract review provisions were made. These were mainly a reversal on the US Forces Prime Contract (£2.6 million), with the balance largely being £4.4 million of losses on various UK Construction contracts, £0.8 million of Construction International contract write-downs in Qatar and £0.8 million of losses on the CRC Transforming Rehabilitation contracts.

ENERGY FROM WASTE

A further net £72.7 million of provision for losses from our Energy from Waste facilities have been made during 2019. These relate mainly to the Derby and Glasgow plants and, in particular, the Group's write-off of its PFI joint-venture investment in the Derby plant of £17.6 million and the calling of a £29.1 million performance bond on this project by the customer.

PROPERTY DEVELOPMENT

During 2018 the remaining development asset (the Haymarket site in Edinburgh) was sold for net proceeds of £47.0 million and realised a gain of £17.0 million on disposal. During 2019 £1.3 million of surplus accruals held for costs of this disposal were released to profit.

LONDON CONSTRUCTION EXIT

The decision was made during 2018 to exit from activities in the London construction market and further 2019 costs associated with this exit and anticipated losses on the close-out of contracts within this business amounted to £19.0 million.

RESTRUCTURING COSTS

During 2019 the Group, as part of its ongoing Fit For Growth overhead cost savings initiative, incurred termination costs in respect of former employees and directors, property rationalisation expenses and other business closure costs amounting to £10.8 million.

PROFESSIONAL ADVISER FEES

Professional fees incurred during 2019 of £46.4 million principally relate to the 15 March 2019 pre-pack administration of Interserve Plc and the recapitalisation of the Group (£35.4 million), the costs of further Group financing post-administration (£1.7 million) and costs in relation to future potential business disposals of £5.2 million.

EXITS FROM BUSINESSES/CONTRACTS

During the year the Group took the decision to exit from four of its Saudi Arabian based College of Excellence contracts within the Support Services business at a cost of £17.1 million and closed a number of unprofitable overseas branches within the Equipment Services division at a cost of £12.6 million. In the UK Construction division there was a disposal of its Joinery business realising a loss of £3.7 million and closure costs of £0.6 million for its Consulting Services business. During 2019 there were also further exit costs incurred in respect of the 2018 decision to close the Support Services division's Power and Site Services businesses amounting to £2.8 million and £0.7 million, respectively. For further details of disposals made post 31 December 2019 see note 32 to the consolidated financial statements.

NET FINANCE COSTS

The net finance income for the year of £366.3 million consists of the following:

£million	2019	2018
Net interest on Group debt	(35.8)	(79.5)
Foreign exchange gain/(loss) on US private placement loan	5.8	(26.4)
Release of accrued PIK interest on deleveraging	32.3	-
Write-off of discount on debt on refinancing	(17.2)	-
Amortisation of discount on debt post-refinancing	(14.2)	-
Make whole PIK interest charged on deleveraging	(16.0)	-
Lease interest	(7.1)	-
Pension finance income	3.2	0.2
Gain on debt refinancing	415.3	-
Group net interest income (charge)	366.3	(105.7)

Lower net interest on Group debt of £35.8 million (2018: £79.5 million) largely reflects the reduction in the Group's interest-bearing debt by £485 million as a result of the debt-for-equity swap arrangements under the 15 March 2019 deleveraging process.

The foreign exchange gain of £5.8 million, the release of the accrued PIK interest of £32.3 million, the debt discount write-off of £17.2 million and the make whole PIK interest charge of £16.0 million all arose as part of the arrangements with the Lenders to restructure the Group's debt on 15 March 2019.

Lease interest costs of £7.1 million are attributable to the first-time recognition of lease liabilities on the balance sheet under IFRS 16 from 1 January 2019.

The IAS 19 pension surplus position results in a non-cash pension finance income of £3.2 million (2018: £0.2 million). See note 29 to the consolidated financial statements for further details.

The £415.3 million gain on the 15 March 2019 debt refinancing arose due to the debt-for-equity swap arrangements by which existing outstanding borrowings with a face value of £484.8 million and a fair value of £565.8 million were exchanged for equity with a fair value of £164.0 million realising a gain of £401.8 million. A further gain of £13.5 million was realised on the fair valuation of £107.1 million of new debt raised with a face value of £120.6 million.

TAXATION

The underlying tax charge for the year of £8.0 million on the loss before tax is summarised below.

	2019			2018		
£million	Loss	Tax	Rate	Loss	Tax	Rate
Subsidiary companies	(125.3)	9.2	(7.3%)	(13.2)	7.3	(55.3%)
Joint ventures and associates[1]	15.4	-	0.0%	20.6	-	0.0%
Underlying (loss)/profit before tax	(109.9)	9.2	(8.4%)	7.4	7.3	98.6%
Amortisation of intangible assets	(6.9)	(1.2)	17.4%	(18.7)	(3.1)	16.6%
Goodwill impairment	(95.4)	-	-	(44.7)	-	-
Other non-underlying items	165.3		-	(72.0)	12.0	(16.7%)
Effective tax charge and rate	(46.9)	8.0	(17.1%)	(128.0)	16.2	(12.7%)

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

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.

Financial review continued

CASH FLOW

Year-end net debt stands at £413.6 million (2018: £660.4 million), a decrease of £246.8 million. The key factors driving this change are as follows:

£million	2019	2018
Operating cash flows before movements in working capital	(206.5)	10.7
Movements in working capital	53.5	(95.9)
Net capital expenditure - hire fleet	(12.9)	(0.3)
Cash (used) by operations	(165.9)	(85.5)
Taxes paid	(7.8)	(10.0)
Net (debt) from operating activities	(173.7)	(95.5)
Net interest paid	(11.2)	(39.6)
Dividends received from associates and joint ventures	14.3	15.7
Proceeds from issue of warrants and shares	1.2	35.7
Proceeds on disposal of non-hire fleet plant and equipment	2.1	8.9
Capital expenditure - non-hire fleet	(5.9)	(17.7)
Net investments in joint-venture entities	(1.0)	(0.8)
Net cash (outflow)/proceeds from disposal of subsidiary	(0.6)	2.5
(Increase) in net debt resulting from cash flows	(174.8)	(90.8)

Opening net debt	(660.4)
Movement in net debt above	(174.8)
Discount on debt movements	58.9
Debt converted to equity	484.8
Capitalised PIK interest	13.1
Lease liabilities	(124.6)
Foreign exchange	5.4
Make whole PIK interest charge on refinancing	(16.0)
Closing net debt	(413.6)

In 2019 there has been a much weaker cash outflow from operations performance than in 2018 (£165.9 million versus £85.5 million) driven largely by higher non-underlying costs of £84.8 million, particularly professional adviser fees and restructuring costs, together with additional Energy from Waste project outflows of £12.6 million.

Net interest paid in 2019 of £11.2 million has decreased significantly compared to 2018 (£39.6 million) due largely to the conversion of £485 million of existing Group debt at 15 March 2019 into equity as part of the deleveraging arrangements with the Lenders.

Capital expenditure on non-hire fleet of £5.9 million principally relating to spend on property, IT and vehicles, was significantly lower in 2019 compared to £17.7 million in 2018 as the Group exercised investment restraint in a cash-constrained climate.

PENSIONS

At 31 December 2019 the Group had an IAS 19 pension surplus of £102.3 million (2018: £85.7 million).

£million	2019	2018
Gross liabilities	(835.0)	(785.2)
Gross assets	937.3	870.9
Total surplus	102.3	85.7

The IAS 19 accounting position on the Group's defined benefit pension scheme increased from a surplus of £85.7 million to a surplus of £102.3 million largely due to further employer contributions into the schemes of £19.8 million less, an actuarial loss of £2.9 million.

NEW ACCOUNTING STANDARDS

IFRS 16 *Leases*

IFRS 16 *Leases* replaces IAS 17 *Leases* along with three Interpretations (IFRIC 4 *Determining whether an arrangement contains a lease*, SIC 15 *Operating leases-incentives* and SIC 27 *Evaluating the substance of transactions involving the legal form of a lease*).

The adoption of this new standard has resulted in the Group recognising right-of-use assets and related lease liabilities in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. The Group has recognised on 1 January 2019 right-of-use assets of £133.0 million and lease liabilities of £123.9 million.

The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as a lease under IAS 17 and IFRIC 4.

The directors do not currently anticipate that the adoption of any other standards or interpretations that have been issued but are 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.

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 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.

As at 31 December 2019 the Group had access to committed debt facilities of £538.7 million comprising £509.6 million of committed bank facilities and a bonding loan of £29.1 million.

On 15 March 2019 the Group completed a comprehensive financial restructuring (the Deleveraging Plan) by which £834.8 million of existing borrowings were refinanced by existing lenders via a debt for 100 per cent equity swap in Interserve Group Limited amounting to £484.8 million, leaving a ring-fenced debt of £350.0 million within the Equipment Services sub-group (RMDK). This £350.0 million of debt comprises of a term loan facility of £168.3 million with a cash pay margin of 3.0 per cent above LIBOR and a £181.7 million loan facility with a payment-in-kind (PIK) interest margin attached of 10.0 per cent, with both loans scheduled to mature on 15 March 2023.

Under the Deleveraging Plan, the Group also secured £120.6 million of new term loan facilities which are due to mature on 15 March 2022 and comprise of four tranches: Facility A (£45.0 million), Facility B (£30.0 million), Facility C (£35.0 million) and Facility D (£10.6 million) with a cash interest rate of 3.0 per cent above LIBOR.

In August 2019 a £29.1 million senior bonding loan provided by Euler Hermes was drawn down to cover potential liabilities under the Derby Energy from Waste contract and this loan is due to mature on 15 March 2022.

In October 2019 the Group established Incremental Facility A1 (£30.0 million) and Incremental Facility A2 (£9.0 million), which are subject to cash interest of LIBOR plus 7.0 per cent margin and PIK interest which capitalises annually, starting at 4.0 per cent increasing to a maximum of 20.0 per cent over the term of the loan to 15 March 2022. As at 31 December 2019 only Facility A1 amounting to £30.0 million was drawn down.

On 28 February 2020 a further £125.0 million of new Group loan facilities were arranged comprising £80.0 million (Incremental Facility A3 i) and £45.0 million (Incremental Facility A3 ii) which are subject to the same interest and repayment terms as for Facilities A1 and A2 outlined above.

Following completion of the sale of Support Services on 30 November 2020 to Mitie Group plc new financing arrangements were agreed with our Lender to provide sufficient future funding to the remaining Interserve businesses.

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.

The impact of changes in the 31 December 2019 year-end exchange rates, compared to the rates used in preparing the 2018 consolidated financial statements, has been a decrease in net assets attributable to equity holders of £12.3 million (2018: £14.0 million increase).

Financial review continued

GOING CONCERN STATEMENT

The directors have carried out a detailed going concern review of the Group for the twelve months to 28 February 2022. When considering the appropriateness of the going concern basis of preparation, the directors have reviewed a number of factors, including information provided to them in relation to the Group's trading results, its available resources, the ability of the Group to continue to operate within its financial covenants and the Group's latest forecasts and projections, comprising:

- A Base Case forecast which has been prepared on a bottom up basis with conservative assumptions regarding new contract wins and settlements on existing contracts.
- A Downside Case reflecting reasonably possible adverse variations in performance including:
  - lower new orders reflecting less work available and increased competition;
  - the impact of further COVID-19 related delays in delivering and completing existing contracts, and;
  - increases in working capital utilisation and delays in achieving central cost savings.
- A Reverse Stress Test that looks to identify scenarios that would give rise to a liquidity shortfall such that the Group could no longer be considered a going concern and then assess the likelihood of each of these severe but plausible downsides arising. These stress tests included increased market competition in UK Construction, additional costs of settling the Glasgow Energy for Waste dispute and delays in the delivery of central cost savings.

Although the Group's Downside Case shows lower headroom at certain points in the forecast period, it demonstrates sufficient liquidity to absorb these risks while complying with the Group's financial covenants. In addition, there are a number of upside opportunities that have not been recognised in either the Base Case or the Downside Case, including better than anticipated settlement and claim outcomes and greater success in securing new work than forecast. Further, the forecasts include contingencies that may not be required. The directors therefore consider that the Downside Case, in isolation, represents a severe and plausible scenario where nonetheless no covenant breach or exhaustion of available liquidity occurs.

The directors have carefully considered factors which may affect the Company's and the Group's future performance and financial position in the context of their available resources. Specifically:

- The risks arising from the current COVID-19 pandemic and its potential implications to the broader global economic climate which could impact our ability to win new work and cause delays in the delivery of our existing projects.
- The satisfactory close out of our legacy liabilities in relation to Glasgow EfW within a level covered by existing facilities and the likelihood of a commercial settlement or an arbitration outcome occurring within the going concern period of the next twelve months.
- Following the disposal of the Group's Support Services business in November 2020, the Group continues to review options for further disposals. Although no decisions have been made, it is possible that further disposals could be made within the going concern review period. The impact of any such disposals and the requirement to repay debt or retire debt facilities with the majority of any disposal proceeds, cannot be accurately assessed at this stage. However, the directors would, in accordance with their statutory duties, naturally engage with other companies within the Group (including Interserve Group Limited) in order to ensure that the remaining Group continued to have access to sufficient financial resources as part of any decision making process. The directors consider it implausible that a disposal would be approved that resulted in the going concern basis of preparation no longer being appropriate. However, it is plausible that available liquidity headroom could be reduced as a result of such a disposal.

While the Downside Case indicates sufficient liquidity and compliance with covenants, the directors have identified, via their Reverse Stress Testing, various plausible but severe combination of adverse events which, in combination, could lead to shortfall in liquidity within the assessment period. As such, the directors have concluded that, although the uncertainties identified are not individually material, in combination under a severe and plausible set of scenarios they represent a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

The directors have concluded that, after due consideration, there is a reasonable expectation that the Group has adequate resources to continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

These financial statements do not include the adjustments that would result if the Group or the Company were unable to continue as a going concern.

Mark Morris
Chief Financial Officer

Directors' Report

The directors of Interserve Group Limited (the Company) present their report and the audited consolidated financial statements for the period ended 31 December 2019.

REGISTRATION

The Company is registered in England and Wales with registered number 11830440 and was incorporated on 15 February 2019 as Montana 1 Limited.

The resolutions required to effect Interserve Plc's Deleveraging Plan were not passed by Interserve Plc shareholders at the General Meeting held on 15 March 2019. As a result, the directors of Interserve Plc concluded that the best remaining option was for Interserve Plc to be placed into administration. Administrators of Interserve Plc were appointed on 15 March 2019 and substantially all of the business and assets and certain liabilities of Interserve Plc were sold to the Company.

The Company's name was changed to Interserve Group Limited on 18 March 2019.

SCOPE OF REPORTING

The statement by the auditors about their reporting responsibilities is set out on pages 40 to 41 of this Annual Report. A review of the development of the Group and its future prospects is included in the Chairman's Statement and the Strategic Report. The Strategic Report also contains a description of the principal risks and uncertainties facing the Group.

All the information cross-referenced above is hereby incorporated into this Directors' Report by reference and is deemed to form part of this report.

PRINCIPAL ACTIVITIES

The Company is the holding company of the Interserve Group. The Group's activities, both in the UK and internationally, are focused on the provision of outsourced support services; the design, construction and maintenance of buildings and infrastructure; and the design, hire and sale of formwork, falsework and associated access equipment.

BRANCHES

The Company, through various subsidiaries and joint ventures, has established branches in Ascension Island, Austria, Belgium, Cyprus, Czech Republic, Falkland Islands, France, Germany, Gibraltar, Hungary, Ireland, Luxembourg, Oman, Poland, Qatar, Saudi Arabia, Slovakia, Spain, Switzerland, The Netherlands and the United Arab Emirates. Details of all the Company's related undertakings are listed on pages 113 to 120.

RESULTS AND DIVIDENDS

The Group's Consolidated Income Statement set out on page 42 shows a Group loss before taxation of £46.9 million (2018: loss £128.0 million). No dividends have been proposed or paid during the period.

POST BALANCE SHEET EVENTS

Post-balance sheet events that require disclosure or adjustment in the financial statements can be found in note 32 to the consolidated financial statements on page 100 and the Strategic Report on page 7.

DIRECTORS AND DIRECTORS' INTERESTS

The following have served as directors during the period:

Alan Lovell* (Chairman)	Appointed 15 July 2019
Martyn Everett*	Appointed 10 March 2019
Kenneth Hanna*	Appointed 2 September 2019
Mark Morris (Chief Financial Officer)	Appointed 2 September 2019
Nicholas Pollard*	Appointed 15 March 2019
Edward Wildblood*	Appointed 15 March 2019
Glyn Barker* (Chairman)	Appointed 15 March 2019, resigned 15 July 2019
John Ensall*	Appointed 15 February 2019, resigned 15 March 2019
Debbie White (Chief Executive Officer)	Appointed 15 March 2019, resigned 31 December 2019
Mark Whiteling (Chief Financial Officer)	Appointed 15 March 2019, resigned 22 September 2019

*Non-executive director

Since the period end, Elizabeth Holden was appointed as a non-executive director on 1 April 2020, and Edward Wildblood resigned as a non-executive director on 9 April 2020.

The biographical details of the directors are set out on pages 16 and 17 and are available on the Group's website at www.interserve.com.

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

DIRECTORS' INDEMNITIES AND INSURANCE

The Company maintains an appropriate level of directors' and officers' insurance in respect of legal actions against the directors. The insurance was in place throughout the financial period and remains in force at the date of this report. No cover is provided where the director has acted fraudulently or dishonestly.

The trust deed and rules of the Interserve Pension Scheme provide the directors of Interserve Trustees Limited (the corporate trustee of the 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. This qualifying pension scheme indemnity has been in force throughout the financial period and remains in force at the date of this report.

EMPLOYEES

The Group's statement with regard to its employees, including its arrangements for engaging with employees and its policies relating to equal opportunities and diversity, is set out within the Strategic Report on pages 11 to 12. Such information is incorporated into this report by reference and is deemed to form part of this report.

ENGAGEMENT WITH SUPPLIERS AND CUSTOMERS

The Company's directors pay due regard to the need to foster the Group's business relationship with suppliers, customers and others. The Company's statement summarising its engagement process, together with the effect of that regard on the principal decisions taken by the Company during the period, is set out within the Strategic Report on pages 14 to 15. Such information is incorporated into this report by reference and is deemed to form part of this report.

Directors' Report continued

POLITICAL DONATIONS

The Group made no political donations and incurred no political expenditure during the period. 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 Strategic Report on pages 32 to 35. Such information is incorporated into this report by reference and is deemed to form part of this report.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The directors in office at the date of approval of this report confirm that, to the best of their knowledge:

(a) the parent company and the 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 or loss of the parent company and of the Group taken as a whole;

(b) the Strategic 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, performance, business model and strategy.

AUDITOR

Grant Thornton UK LLP has indicated its willingness to continue in office as auditor of the Group.

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.

APPROVAL

This report was approved by the Board of Directors on 22 February 2021 and signed on its behalf by:

Chris Edwards
Company Secretary
22 February 2021

Registered office of Interserve Group Limited:
Capital Tower
91 Waterloo Road
London SE1 8RT

CAUTIONARY STATEMENT

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

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 and Directors' 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.

Independent auditor's report

to the members of Interserve Group Limited

OPINION

We have audited the financial statements of Interserve Group Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statements 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 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with 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.

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, 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group associated with these particular events.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which sets out the basis for the directors' assessment of the going concern basis of preparation. In preparing their assessment and the forecasts that underpin it, the directors have considered the events and conditions in the forecast period to February 2022, including the potential negative impact to future trade, covenant headroom and liquidity of the COVID-19 pandemic and the macroeconomic circumstances it has created, the uncertain outcome of the ongoing restructuring and cost reduction exercise currently underway, and the final outcome of the Glasgow EFW contract negotiations. These events and conditions, in combination under a severe and plausible set of scenarios and along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

Opinions on other matters prescribed by 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.

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

In the light of the knowledge and understanding of the group and the 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 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' responsibilities statement set out on page 38, 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.

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.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Maile BSc (Hons) FCA (Senior Statutory Auditor)
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Crawley

22 February 2021

Consolidated income statement

for the year ended 31 December 2019

	Notes	Year ended 31 December 2019 Before non-underlying items and amortisation of acquired intangible assets £million	Year ended 31 December 2019 Non-underlying items and amortisation of acquired intangible assets (note 5) £million	Year ended 31 December 2019 Total £million	Year ended 31 December 2018 Before non-underlying items and amortisation of acquired intangible assets # £million	Year ended 31 December 2018 Non-underlying items and amortisation of acquired intangible assets # (note 5) £million	Year ended 31 December 2018 Total[1] £million
Continuing operations							
Revenue including share of associates and joint ventures	2	2,351.9	200.3	2,552.2	2,890.8	269.0	3,159.8
Less: Share of associates and joint ventures		(310.5)	-	(310.5)	(374.8)	-	(374.8)
Consolidated revenue	2	2,041.4	200.3	2,241.7	2,516.0	269.0	2,785.0
Cost of sales		(1,893.7)	(294.2)	(2,187.9)	(2,218.7)	(285.1)	(2,503.8)
Gross profit		147.7	(93.9)	53.8	297.3	(16.1)	281.2
Administration expenses		(219.1)	(160.2)	(379.3)	(231.2)	(46.5)	(277.7)
Amortisation of acquired intangible assets		-	(6.9)	(6.9)	-	(18.7)	(18.7)
Impairment of goodwill		-	(95.4)	(95.4)	-	(44.7)	(44.7)
Total administration expenses		(219.1)	(262.5)	(481.6)	(231.2)	(109.9)	(341.1)
Operating (loss)/profit		(71.4)	(356.4)	(427.8)	66.1	(126.0)	(59.9)
Total share of result of associates and joint ventures	15	15.4	(0.8)	14.6	20.6	17.0	37.6
Total operating (loss)/profit		(56.0)	(357.2)	(413.2)	86.7	(109.0)	(22.3)
Finance revenue	7	4.7	453.4	458.1	3.4	-	3.4
Finance costs	8	(58.6)	(33.2)	(91.8)	(82.7)	(26.4)	(109.1)
(Loss)/profit before tax		(109.9)	63.0	(46.9)	7.4	(135.4)	(128.0)
Tax charge	9	(9.2)	1.2	(8.0)	(7.3)	(8.9)	(16.2)
(Loss)/profit for the year		(119.1)	64.2	(54.9)	0.1	(144.3)	(144.2)
Attributable to:							
Equity holders of the parent		(118.5)	64.2	(54.3)	(0.2)	(144.3)	(144.5)
Non-controlling interests		(0.6)	-	(0.6)	0.3	-	0.3
		(119.1)	64.2	(54.9)	0.1	(144.3)	(144.2)

restated (note 1)
1 The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1a for further details.

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £million	Year ended 31 December 2018 # £million
Loss for the year		(54.9)	(144.2)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains and losses in joint venture entities	15b ii)	(4.5)	0.4
Movements on defined benefit pension schemes	29	(2.9)	53.3
Deferred tax on above items taken directly to equity	9	0.4	(9.1)
		(7.0)	44.6
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(12.3)	14.0
Recycling of cash flow hedge reserve to profit and loss account		-	10.4
Deferred tax on above items taken directly to equity	9	-	(1.8)
Fair value adjustment to financial instruments and derivatives in joint venture entities	15b ii)	(1.0)	0.8
		(13.3)	23.4
Other comprehensive (loss)/income net of tax		(20.3)	68.0
Total comprehensive (loss)		(75.2)	(76.2)
Attributable to:			
Equity holders of the parent		(74.6)	(76.5)
Non-controlling interests		(0.6)	0.3
		(75.2)	(76.2)

restated (note 1)

Consolidated balance sheet

at 31 December 2019

	Notes	31 December 2019 £million	31 December 2018[1] # £million	1 January 2018 # £million
Non-current assets				
Goodwill	11	277.6	374.2	416.4
Other intangible assets	12	18.1	30.9	54.5
Property, plant and equipment	13	192.8	207.4	227.5
Right-of-use assets	14	101.5	-	-
Interests in joint-venture entities	15	20.3	41.9	55.4
Interests in associated undertakings	15	31.1	88.3	78.4
Retirement benefit surplus	29	102.3	85.7	-
Deferred tax asset	16	-	2.9	24.4
		743.7	831.3	856.6
Current assets				
Inventories	17	32.1	35.8	34.0
Trade and other receivables	19	489.7	633.2	707.9
Cash and deposits	20	141.7	172.4	145.2
		663.5	841.4	887.1
Total assets		1,407.2	1,672.7	1,743.7
Current liabilities				
Bank overdrafts		-	-	(6.8)
Trade and other payables	22	(625.9)	(693.7)	(785.9)
Current tax liabilities		(2.3)	(3.6)	(6.3)
Lease liabilities	24	(28.2)	-	-
Short-term provisions	25	(32.0)	(29.3)	(87.7)
		(688.4)	(726.6)	(886.7)
Net current (liabilities)/assets		(24.9)	114.8	0.4
Non-current liabilities				
Borrowings	20	(460.9)	(827.5)	(647.5)
Trade and other payables	23	(20.0)	(35.8)	(14.5)
Lease liabilities	24	(66.2)	-	-
Long-term provisions	25	(61.5)	(61.1)	(81.7)
Retirement benefit obligation	29	-	-	(53.6)
Deferred tax liabilities	16	(1.8)	-	-
		(610.4)	(924.4)	(797.3)
Total liabilities		(1,298.8)	(1,651.0)	(1,684.0)
Net assets		108.4	21.7	59.7
Equity				
Share capital	26	0.1	15.0	14.6
Share premium account		-	116.5	116.5
Warrants in issue		-	31.4	-
Capital redemption reserve		-	0.1	0.1
Restructuring reserve		435.0	-	-
Merger reserve		-	121.4	121.4
Hedging and revaluation reserve		2.5	3.5	(5.9)
Translation reserve		76.2	88.5	74.5
Investment in own shares		-	-	(1.9)
Retained earnings		(405.6)	(355.5)	(260.1)
Equity attributable to equity holders of the parent		108.2	20.9	59.2
Non-controlling interests		0.2	0.8	0.5
Total equity		108.4	21.7	59.7

See note 1c) for details regarding the restatments as a result of errors.
1 The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See (note 1a) for further details.

These financial statements were approved by the Board of Directors on 22 February 2021.

Signed on behalf of the Board of Directors

M N Morris
Director

M J Everett
Director

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Share capital £million	Share premium £million	Warrants in issue[5] £million	Capital redemption reserve £million	Restructuring reserve[1] £million	Merger reserve[2] £million	Hedging and revaluation reserve[3] £million	Translation reserve £million	Investment in own shares[4] £million	Retained earnings[#] £million	Attributable to equity holders of the parent# £million	Non-controlling interests[#] £million	Total# £million
Balance at 1 January 2018	14.6	116.5	-	0.1	-	121.4	(5.9)	74.5	(1.9)	(309.5)	9.8	15.3	25.1
Prior year adjustments (note 1c)	-	-	-	-	-	-	-	-	-	49.4	49.4	(14.8)	34.6
Balance at 1 January 2018 as restated	14.6	116.5	-	0.1	-	121.4	(5.9)	74.5	(1.9)	(260.1)	59.2	0.5	59.7
(Loss)/profit for the year	-	-	-	-	-	-	-	-	-	(144.5)	(144.5)	0.3	(144.2)
Other comprehensive income	-	-	-	-	-	-	9.4	14.0	-	44.6	68.0	-	68.0
Total comprehensive (expense)/income	-	-	-	-	-	-	9.4	14.0	-	(99.9)	(76.5)	0.3	(76.2)
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares issued	0.4	-	-	-	-	-	-	-	-	-	0.4	-	0.4
Warrants issued	-	-	35.3	-	-	-	-	-	-	-	35.3	-	35.3
Warrants exercised	-	-	(3.9)	-	-	-	-	-	-	3.9	-	-	-
Company shares used to settle share-based payment obligations	-	-	-	-	-	-	-	-	1.9	(1.9)	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	2.5	2.5	-	2.5
Transactions with owners	0.4	-	31.4	-	-	-	-	-	1.9	4.5	38.2	-	38.2
Balance at 31 December 2018	15.0	116.5	31.4	0.1	-	121.4	3.5	88.5	-	(355.5)	20.9	0.8	21.7
Balance at 31 December 2018 as originally presented	15.0	116.5	31.4	0.1	-	121.4	3.5	88.5	-	(392.4)	(16.0)	14.9	(1.1)
Prior year adjustments (note 1c)	-	-	-	-	-	-	-	-	-	36.9	36.9	(14.1)	22.8
Restated total equity as at 31 December 2018	15.0	116.5	31.4	0.1	-	121.4	3.5	88.5	-	(355.5)	20.9	0.8	21.7
(Loss) for the year	-	-	-	-	-	-	-	-	-	(54.3)	(54.3)	(0.6)	(54.9)
Other comprehensive (expenses)	-	-	-	-	-	-	(1.0)	(12.3)	-	(7.0)	(20.3)	-	(20.3)
Total comprehensive (expenses)	-	-	-	-	-	-	(1.0)	(12.3)	-	(61.3)	(74.6)	(0.6)	(75.2)
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to restructuring reserve	-	-	-	-	121.4	(121.4)	-	-	-	-	-	-	-
Shares issued	1.1	-	-	-	-	-	-	-	-	-	1.1	-	1.1
Warrants exercised	-	-	(11.2)	-	-	-	-	-	-	11.2	-	-	-
Restructuring	(16.0)	(116.5)	(20.2)	(0.1)	313.6	-	-	-	-	-	160.8	-	160.8
Transactions with owners	(14.9)	(116.5)	(31.4)	(0.1)	435.0	-	-	-	-	11.2	161.9	-	161.9
Balance at 31 December 2019	0.1	-	-	-	435.0	-	2.5	76.2	-	(405.6)	108.2	0.2	108.4

Restated (note 1c).

1 The movements in the restructuring reserve represent adjustments for changes in the Group's equity structure arising from the implementation of the 15 March 2019 capital restructuring plan following the pre-pack administration of Interserve Plc. These movements largely comprise of the following:
- cancellation of Interserve Plc's (in administration) original ordinary share capital of £16.0 million;
- extinguishing the balance on the share premium account of £116.5 million;
- cancellation of all outstanding share warrants amounting to £20.2 million;
- reversal of capital redemption reserve balance £0.1 million;
- transfer from merger reserve on restructuring of £121.4 million;
- as a result of the debt-for-equity swap, a fair value adjustment to the Group's equity of £164.0 million was recognised (see note 5); and
- the balance of (£3.2) million being the net assets/liabilities of Interserve Plc that were not transferred out of administration into the new parent company, Interserve Group Limited.

2 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.

3 The hedging and revaluation reserve includes £5.5 million relating to the revaluation of financial assets within the joint ventures held at fair value through other comprehensive income (2018: £14.8 million).

4 The investment in own shares reserve represented 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 2018 was 32,144 with the market value of these shares at 31 December 2018 being £nil. This reserve has been extinguished as part of the 15 March 2019 capital restructuring arrangements.

Consolidated cash flow statement

for the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £million	Year ended 31 December 2018 # £million
Operating activities			
Total operating (loss)		(413.2)	(22.3)
Adjustments for:			
Amortisation of acquired intangible assets	12	6.9	18.7
Impairment of goodwill	11	80.5	44.7
Amortisation of capitalised software development	12	5.6	6.1
Depreciation of property, plant and equipment	13	31.5	35.2
Depreciation of right-of-use assets	14	29.3	-
Profit on disposal of investments in joint ventures	15	-	(17.0)
Proceeds on disposal of PFI investments		-	47.0
Non-cash gain on pension indexation	5	-	(70.6)
Other non-current asset non-cash impairment items	5	71.5	15.0
Loss on disposal of subsidiary	5	27.4	7.1
Pension contributions in excess of the income statement charge		(16.3)	(15.2)
Share of results of associates and joint ventures	15	(14.6)	(20.6)
Charge relating to share-based payments	28	-	2.5
Gain on disposal of plant and equipment - hire fleet		(15.4)	(17.0)
Loss/(gain) on disposal of plant and equipment - other		0.3	(2.9)
Operating cash flows before movements in working capital		(206.5)	10.7
Increase in inventories		(2.2)	(1.7)
Decrease in receivables		130.4	53.3
Decrease in payables		(74.7)	(147.5)
Capital expenditure - hire fleet	13	(30.9)	(20.3)
Proceeds on disposal of plant and equipment - hire fleet		18.0	20.0
Cash used by operations		(165.9)	(85.5)
Cash used by operations - Energy from Waste exited business		(42.3)	(29.7)
Cash used by operations - other non-underlying		(126.6)	(41.8)
Cash generated by operations - ongoing business		3.0	(14.0)
Taxes paid		(7.8)	(10.0)
Net cash used by operating activities		(173.7)	(95.5)
Investing activities			
Interest received		1.5	3.2
Dividends received from associates and joint ventures	15a	14.3	15.7
Proceeds on disposal of plant and equipment - non-hire fleet		2.1	8.9
Capital expenditure - non-hire fleet	12/13	(5.9)	(17.7)
Investment in associates and joint ventures	15b	(1.0)	(0.8)
Proceeds on disposal of subsidiary		-	2.5
Net outflow on disposal of subsidiary		(0.6)	-
Net cash from investing activities		10.4	11.8

restated (note 1)

	Notes	Year ended 31 December 2019 £million	Year ended 31 December 2018 # £million
Financing activities			
Interest paid		(12.7)	(42.8)
Proceeds from issue of warrants		-	35.3
Proceeds from issue of shares and exercise of warrants		1.2	0.4
Increase in bank loans		179.7	163.4
Repayment of bank loans		-	(36.5)
Interest expense for leasing arrangements		(7.1)	-
Capital payments made against leasing arrangements		(28.0)	-
Repayment of obligations under finance leases		(0.4)	(3.0)
Net cash from financing activities		132.7	116.8
Net (decrease)/increase in cash and cash equivalents		(30.6)	33.1
Cash and cash equivalents at beginning of period		172.4	138.4
Effect of foreign exchange rate changes		(0.1)	0.9
Cash and cash equivalents at end of period		141.7	172.4
Cash and cash equivalents comprise			
Cash and deposits		141.7	172.4
		141.7	172.4

	Notes	Year ended 31 December 2019 £million	Year ended 31 December 2018 # £million
Reconciliation of net cash flow to movement in net debt			
Net (decrease)/increase in cash and cash equivalents		(30.6)	33.1
Net increase in bank loans		(179.7)	(126.9)
Movement in obligations under leases		35.5	3.0
Change in net debt resulting from cash flows		(174.8)	(90.8)
Movement in PIK interest (non-cash)		13.1	(24.7)
Movement in discount on debt (non-cash)		58.9	(13.8)
Debt converted into equity (non-cash)		484.8	-
Leasing liabilities (non-cash)		(124.6)	(4.5)
Non-cash interest charge (non-cash)		(16.0)	-
Effect of foreign exchange rate changes (non-cash)		5.4	(13.7)
Movement in net debt during the period		246.8	(147.5)
Net debt - opening		(660.4)	(512.9)
Net debt - closing	20	(413.6)	(660.4)

restated (note 1)

Notes to the consolidated financial statements

for the year ended 31 December 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its liabilities as they fall due in the 12 month period to 28 February 2022 ("the going concern review period"). Based on current forecasts and taking into account existing cash and debt facilities of Interserve Group Limited and its subsidiary undertakings (together "the Group"), the directors expect the Company to have sufficient liquidity to meet its funding requirements during the going concern review period.

The Company became the parent company of the Interserve Group following the deleveraging completed in March 2019. Our assessment of the going concern status of the Company is reliant upon the going concern status of the Group as a whole.

Following the appointment of Administrators to Interserve Plc in March 2019, the Group's Construction business lost a number of contracts previously awarded on a preferred bidder basis. The loss of these volumes coupled with the identification of cost overruns on certain legacy contracts gave rise to a material cash out flow from the Group in 2019.

Since the deleveraging, the Group and divisional management teams have been strengthened including a new Group Board, Chairman and CFO and a revised reporting structure put in place. Additional funding facilities of £39 million and £125 million were put in place in October 2019 and February 2020 respectively to re-establish a stable financial platform from which to grow the business and to ensure good liquidity over the medium term. The Group has since sold its FM services business to Mitie during November 2020 for £105 million and a 17.5% equity share in Mitie's business. The majority of these proceeds were used to repay existing borrowing facilities with an appropriate balance retained for working capital purposes. Following the disposal of the FM services business the Group's financial covenants have been reset with appropriate headroom to reflect the size of the remaining businesses.

When considering the appropriateness of the going concern basis of preparation, the directors have reviewed a number of factors, including information provided to them in relation to the Group's trading results, its available resources, the ability of the Group to continue to operate within its financial covenants and the Group's latest forecasts and projections, comprising:

- A Base Case forecast which has been prepared on a bottom up basis with conservative assumptions regarding new contract wins and settlements on existing contracts.
- A Downside Case reflecting reasonably possible adverse variations in performance including:
  - lower new orders reflecting less work available and increased competition;
  - the impact of further COVID 19 related delays in delivering and completing existing contracts, and;
  - increases in working capital utilisation and delays in achieving central cost savings.
- A Reverse Stress Test that looks to identify scenarios that would give rise to a liquidity shortfall such that the Group could no longer be considered a going concern and then assess the likelihood of each of these severe but plausible downsides arising. These stress tests included increased market competition in UK Construction, additional costs of settling the Glasgow Energy for Waste dispute and delays in the delivery of central cost savings.

Although the Group's Downside Case shows lower headroom at certain points in the forecast period, it demonstrates sufficient liquidity to absorb these risks while complying with the Group's financial covenants. In addition, there are a number of upside opportunities that have not been recognised in either the Base Case or the Downside Case, including better than anticipated settlement and claim outcomes and greater success in securing new work than forecast. Further, the forecasts include contingencies that may not be required. The directors therefore consider that the Downside Case, in isolation, represents a severe and plausible scenario where nonetheless no covenant breach or exhaustion of available liquidity occurs.

The directors have carefully considered factors which may affect the Company's and the Group's future performance and financial position in the context of their available resources. Specifically:

- The risks arising from the current COVID-19 pandemic and its potential implications to the broader global economic climate which could impact our ability to win new work and cause delays in the delivery of our existing projects.
- The satisfactory close out of legacy liabilities in relation to Glasgow EfW within a level covered by existing facilities and the likelihood of a commercial settlement or an arbitration outcome occurring within the going concern period of the next twelve months.
- Following the disposal of the Group's Support Services business in November 2020, the Group continues to review options for further disposals. Although no decisions have been made, it is possible that further disposals could be made within the going concern review period. The impact of any such disposals and the requirement to repay debt or retire debt facilities with the majority of any disposal proceeds, cannot be accurately assessed at this stage. However, the directors would, in accordance with their statutory duties, naturally engage with other companies within the Group (including Interserve Group Limited) in order to ensure that the remaining Group continued to have access to sufficient financial resources as part of any decision making process. The directors consider it implausible that a disposal would be approved that resulted in the going concern basis of preparation no longer being appropriate. However, it is plausible that available liquidity headroom could be reduced as a result of such a disposal.

While the Downside Case indicates sufficient liquidity and compliance with covenants, the directors have identified, via their reverse stress testing, various plausible but severe combinations of adverse events which, in combination, could lead to a shortfall in liquidity within the assessment period. As such, the directors have concluded that, although the uncertainties identified are not individually material, in combination under a severe and plausible set of scenarios they represent a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

The directors have concluded that, after due consideration, there is a reasonable expectation that the Group has adequate resources to continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

These financial statements do not include the adjustments that would result if the Group or the Company were unable to continue as a going concern.

(a) Adoption of new standards

IFRS 16 *Leases*

IFRS 16 Leases replaces IAS 17 *Leases* along with three Interpretations (IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC 15 *Operating Leases-Incentives and* SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*).

The adoption of this new Standard has resulted in the Group recognising right-of-use assets and related lease liabilities in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as a lease under IAS 17 and IFRIC 4.

At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liabilities adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

Measurement and recognition of leases as a lessee

In the context of the transition to IFRS 16, right-of-use assets of £133.0 million and lease liabilities of £123.9 million were recognised as at 1 January 2019. The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based upon the operating lease obligations as at 31 December 2018.

	£million
Operating lease commitments as at 31 December 2018	185.2
Less: short-term and low-value leases recognised on a straight-line basis as expense	(4.5)
Discounted using the lessee's incremental borrowing rate at the date of initial application	(62.1)
Finance lease liabilities recognised as at 31 December 2018	5.3
Lease liabilities as at 1 January 2019	123.9

The lease liabilities were discounted at the borrowing rate as at 1 January 2019. The weighted average discount rate was 7.53%.

Sub-leases: leases in which the Group is a lessor

IFRS 16 requires a lessor to continue to classify leases as either finance leases or operating leases and account for those two types of leases differently. To classify each lease, the Group makes an assessment of whether the lease transfers to the lessee substantially all the risks and rewards of ownership incidental to the ownership of the right-of-use-asset. As part of this assessment the Group considers whether the lease term covers a major portion of the assets economic life.

The Group has reassessed the classification of any sub-leases in which the Group is a lessor. When the Group is an intermediary lessor it will account for its interests in the head lease and sub-lease separately. It will assess the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. Cash flows received from the principal and interest on finance lease receivables will be classified as cash flows from investing activities.

(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. Each judgement identified below also includes, where relevant, an assessment of the key sources of estimation uncertainty. In particular:

Judgements

Glasgow Energy from Waste (EfW) plant

In July 2012 Interserve Construction Limited (ICL) was appointed by Viridor as the Engineer Procure Construct (EPC) contractor for the construction of the Glasgow EfW plant. In December 2016 this contract was terminated by the client. During 2018 the Group successfully concluded its professional indemnity insurance claims, with all cash being received in the period to 31 December 2018. The key remaining judgement remains the final account settlement with Viridor and whether this will crystallise within current expected parameters.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

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

Judgements continued

Differences of interpretation of certain contract provisions between the parties exist, which are capable of having a material impact on the liability of the Group for compensation on termination. These issues include, but are not limited to:

(i) the order in which limitations on liability are taken into account in the compensation calculation with the directors' position being that the overall limit of liability must be applied to any claim before the application of pain-share arrangements, whereas Viridor has previously contended for the reverse;

(ii) the scope of contractual pain-share provisions. Both parties accept that pain-share provisions apply but there is a difference as to whether those provisions apply to all or only the majority of any compensation which may be due to Viridor;

(iii) the recovery of Viridor's indirect losses with the directors being of the opinion that, under a specific clause of the contract, there is a complete bar to recovery of such losses, whereas Viridor contends that the bar exists only until contract termination and thereafter losses of any type may be recovered; and

(iv) Viridor's duty to mitigate its costs incurred in completing the works with the directors maintaining that Viridor failed to meet its express obligations under the contract requiring that it mitigate its losses and minimise the amounts claimed.

The matters referred to in (i) and (ii) above were referred to an adjudication in March 2019 and declarations in favour of the Group were issued by the adjudicator. Viridor has now referred the disputes and final account to arbitration and in their claim they have argued that the cost of remedying defects should be abated from the amounts previously paid to the Group such that it falls outside the liability cap. Based on legal advice provided to the directors this Viridor argument is without merit and will not succeed such that the maximum liability under the cap remains at £70.8 million. Further, the Arbitrator has recently decided that an abatement claim is beyond the jurisdiction of the arbitration and will not be heard.

Significant uncertainty exists around the final outcome as a result of numerous differences in the interpretation of the terms of the contract and a lack of information provided by Viridor, however some discussions are continuing between the parties on all aspects of the matter. The directors have taken the view that depending on the outcome of the matters referred to above, the outcome could range from £nil to a maximum liability of £26.0 million, however, the directors understand that Viridor has included a sum of £43.7 million in its most recent financial results. An appropriate accrual is included in the balance sheet at 31 December 2019 to settle the final account, however, as these matters are currently ongoing, the directors consider that it would be seriously prejudicial to the interests of the Group to disclose this provisioned amount.

Derby EfW plant

In August 2014 a special purpose vehicle (SPV) (formed as a 50:50 joint venture between Interserve and Renewi) , Resource Recovery Solutions (RRS) , was awarded the contract (the Project Agreement) by Derby City and Derbyshire County Councils (the Councils) for the construction and operation of the Derby EfW plant. The SPV awarded an EPC contract to Interserve Construction (ICL) for the construction of the plant.

The Group completed the physical construction of the plant in 2017 and started receiving municipal waste in January 2018; however, the project was delayed past the long-stop date of September 2018. On 1 August 2019 the EPC contract with RRS was terminated on their behalf by the project lenders relying primarily on the administration of Interserve Plc as the grounds for default together with failure to complete the project by the long-stop date. On 2 August 2019 the Project Agreement was terminated and on 5 September 2019, RRS was put in to administration following which the project lenders have accelerated repayment of the loans made to RRS. However, ICL's liability is capped at approximately £93 million (being 85% of the construction contract sum less amounts previously paid as delay damages). Following a demand call on the construction bonds from lenders, Euler Hermes made payment of £29.1 million. This leaves the maximum amount beneath the adjusted liability cap of £53 million.

Following termination of the Project Agreement, compensation is payable under a formula which takes into account the value of revenues which would have been earned under the project agreement less the capital and revenue costs of completing the plant to the contract standard and providing waste services for the remaining 23-year concession period. The project lenders accepted the need for the Group to provide assistance in claiming compensation from the Councils following which ICL entered into agreements with the lenders and RRS to provide such assistance by which it expects to extinguish any further liabilities. The Council and the project lenders are currently seeking a negotiated settlement but, in the absence of any agreement, the matter will be referred for dispute resolution by the Courts.

During 2019 the £29.1 million bond referred to above has been expensed in the Group's income statement as a non-underlying item and a new loan payable to Euler Hermes of £29.1 million recognised in the balance sheet (note 20). In addition, the carrying value of the Group's investment in the Derby EfW project of £17.6 million has been written off as a non-underlying item in the Group income statement. During December 2019 the Group received £15.0 million on account of a successful claim made under its Professional Indemnity insurance policy (note 5) and the Group has received further amounts during 2020 of £18.5 million.

It is the directors' current view that by continuing to cooperate with the Administrators of RRS to maximise the compensation on termination payable, any residual liability to ICL will be eliminated. As at 31 December 2019 a provision of £3.0 million has been made for any further costs in relation to closing out this project.

Accounting for the Group deleveraging on 15 March 2019

As part of the financial terms of the Group's Deleveraging Plan effected on 15 March 2019, certain assets and liabilities of Interserve Plc were purchased by Interserve Group Ltd (a new company owned by the Group's existing lenders) as part of a pre-pack administration process; and on the same day a debt equity swap took place under a tripartite agreement between Interserve Group Limited (IGL), Interserve Group Holdings Limited (IGHL) and the Lender Group whereby in exchange for 100% of the equity in IGL (the new parent company of the Interserve Group), the Lenders released £485.8 million of the existing IGHL outstanding borrowings of £835 million leaving £350.0 million of ring fenced RMDK debt outstanding.

The key judgements made in respect of these two transactions are:

(i) The purchase of the Interserve Plc company assets/liabilities out of administration has not been accounted for as a business combination under IFRS 3 as the substance rather than the legal form of this transaction is deemed to represent a continuation of the existing business of the Interserve Group with a capital reorganisation event rather than a sale and purchase. This is because the substance of the transaction is that the Lender Group are enforcing their rights as lenders and taking control of the Group through a pre-pack administration mechanism designed to continue the existing business. This view is also supported by the fact that the IGL is not controlled by any one lender and that each of the lenders is participating in the equity of IGL in proportion to their existing share of the outstanding debt. In addition, although there is a 'combination' occurring between the existing Interserve Group and the newly created IGL entity, this is not deemed to be a 'business' combination under IFRS 3 as the newly formed shell company is not considered a business.

(ii) The debt equity swap involves the forgiveness by the Lenders of £485 million of debt, the transfer of the remaining £350 million of the pre-existing debt into new facility arrangements, and the creation of a new facility of £120.6 million, in exchange for the issue to them of 100% of the share capital of IGL. This transaction falls within the scope of IFRIC 19 - Extinguishing financial liabilities with equity instruments. Under IFRIC 19, a credit is recorded in equity (restructuring reserve) for the fair value of the equity issued in exchange for the debt forgiven (£164 million), and the transferred debt of £350 million is recognised in liabilities at fair value of £269 million, with the balance of £402 million representing an exceptional gain on refinancing. As part of the restructuring, the Group's new financing facilities of £120.6 million were fair valued by an external valuer at £107.0 million resulting in a further gain on refinancing of £13.6 million.

The calculations of this exceptional gain on refinancing are largely based on an external valuation carried out by our advisers PWC to establish the Enterprise Value (EV) of the Interserve Group and the fair value of the remaining debt post the 15 March 2019 capital restructuring.

In order to arrive at these valuations a number of key judgements and estimates were made, the most significant being as follows:

(i) Base case cash flow forecasts prepared by management for the year ended 31 December 2019 and 2020 as part of the Group's annual strategic planning exercise have been sensitised and probability weightings given to these cash flow scenarios and these represent a key input into the discounted cash flow (DCF) valuations which drive the EV of the Group.

(ii) As part of this DCF calculation to arrive at the EV of the Group, judgements were made in arriving at an appropriate weighted average cost of capital (WACC) to be applied to these cash flows and a range of 12.5% to 14.4% was estimated.

(iii) In addition, an EBITDA market multiples valuation methodology based on a set of selected global comparable companies was also used to provide another estimated range of Group EVs.

(iv) The outputs from these various valuation methods produced a range of EV's for the Group of between £386 million and £479 million.

(v) In respect of the debt valuations, a mixture of establishing synthetic credit ratings and analysing leveraged returns on the Group's various types of remaining debt were used to arrive at appropriate debt yields which were then applied to future principal and interest cash flows of each debt instrument. An appropriate credit rating range of between BB and B was ascertained implying a debt yield range of 3.7% to 6.0% and management has adopted a mid-point in the range of 4.9% to underpin a proportion of the overall debt valuation. An applicable yield of 17.4% to 18.5% was calculated on the remaining portion of subordinated Group debt to take account of the level of incremental risk arising from this additional type of leverage.

(vi) A combination of these two valuation approaches resulted in a fair value of the Group's remaining outstanding debt at 15 March 2019 of £269 million.

The directors have, given the inherent difficulty of evaluating at what end of the valuation range the Group sits, assumed a Group wide EV of £433 million being the mid point of the range of possible valuations of £386 million to £479 million and based on a sum of the two debt instruments values amounting to £269 million, a balancing figure for the fair value of the Group's equity of £164 million has been arrived at.

The exceptional gain on refinancing of £401.8 million is therefore very dependent on the above key judgments and estimates, with the range of sensitivity to this gain being plus or minus £47 million.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

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

Judgements continued

Retirement benefit obligations

Judgement is exercised in establishing the fair value of retirement benefit assets, most notably the valuation of the buying 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 buying an appropriate valuation technique in accordance with IFRS 13.

IFRS 16 *Leases*

IFRS 16 *Leases* requires the Group to make certain critical judgments to determine whether or not a contract contains a lease, whether or not it is reasonably certain that a lease extension or termination option will be exercised and to identify the appropriate discount rate for use in the calculation of the present value of future lease payments. The Group's key judgements include the following:

Lease liabilities and right-of-use assets - extension and termination options

In determining whether to exercise an extension or termination option the Group applies judgement based on the business requirement for the leased asset and the cost-efficiency in extending or terminating the lease. In addition the Group considers all factors that create an economic incentive to exercise an extension option or not to exercise a termination option. The most cost effective or economically beneficial option is then taken. For example if the Group exits commercial contracts or disposes of a highly specialist business, often the associated leased vehicles will be become 'surplus to demand'. The Group would then assess whether it is most cost effective to exercise an early termination of the lease, paying a termination fee; or to retain the vehicle at the end of the lease. The assessment is reviewed if a significant change or event occurs thereafter which warrants a reassessment.

Discount rates applied to leases

The present value of lease payments are calculated using the Group's incremental borrowing rate at date of initial application. In determining the incremental borrowing rate (IBR) to be used, the Group considers the economic environment of the country in which the lease is held by applying a risk-free rate for the term corresponding to the lease term. This rate is adjusted for liquidity risk and the Group's credit risk. The Group's credit risk was determined using an S&P credit rating methodology and a synthetic credit rating was derived of B+ at 31 December 2018 and BB at 15 March 2019. These ratings were then used to derive the associated yields on the issued debt and enabled the calculation of a credit spread being the difference between the yield on a B+ or BB rated bond and a Government bond with zero risk. The occurrence in the future of a significant economic or financial event will trigger the Group to reassess its IBR for new leases entered into at that time. The appropriate IBR was considered by reference to the Group's main lease categories of property, vehicles and plant and machinery the weighted average of which amounted to 7.53% at the date of transition to IFRS 16.

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 underlying profit. We consider items which relate to non-recurring events and are significant in size or in nature to be suitable for separate presentation (see note 5).

Estimates and uncertainty

Measurement of impairment of goodwill and intangible assets

As set out in notes 1b) and 1g), 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 to calculate a £80.5 million impairment against goodwill in Support Services during 2019 (note 11).

An impairment review of the Group's investments in associates was also carried out at 31 December 2019 where we specifically assessed the impact of the current economic blockade in Qatar as a potential indicator of impairment and, as a result of this review, an impairment of £53.9 million has been recognised at 31 December 2019.

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) Prior year adjustments

There have been restatements made to the prior years' results, as follows:

Income statement (extract)	2018 as originally presented £million	Landmarc adjustment *1 increase/ (decrease) £million	Goodwill adjustment*2 increase/ (decrease) £million	Other adjustments*3 increase/ (decrease) £million	2018 as restated £million
Consolidated revenue	2,904.0	(104.2)	-	(14.8)	2,785.0
Cost of sales	(2,614.7)	96.1	-	14.8	(2,503.8)
Impairment of goodwill	(33.1)	-	(11.6)	-	(44.7)
Share of result of associates and joint ventures	34.3	3.3	-	-	37.6
Finance revenue	3.5	(0.1)	-	-	3.4
Finance costs	(108.9)	(0.2)	-	-	(109.1)
(Loss) before tax	(111.3)	(5.1)	(11.6)	-	(128.0)
Tax charge	(17.6)	1.8	-	(0.4)	(16.2)
(Loss) for the year	(128.9)	(3.3)	(11.6)	(0.4)	(144.2)

Balance sheet (extract)	31 December 2018 £million	Landmarc adjustment*1 increase/ (decrease) £million	Goodwill adjustment*2 increase/ (decrease) £million	Other adjustments*3 increase/ (decrease) £million	31 December 2018 (restated) £million	1 January 2018 £million	Landmarc adjustment*1 increase/ (decrease) £million	Goodwill adjustment*2 increase/ (decrease) £million	Other adjustments*3 increase/ (decrease) £million	1 January 2018 (restated) £million
Goodwill	342.3	-	31.9	-	374.2	372.9	-	43.5	-	416.4
Property, plant and equipment	209.9	(2.5)	-	-	207.4	228.6	(1.1)	-	-	227.5
Interests in joint-venture entities	33.2	8.7	-	-	41.9	46.5	8.9	-	-	55.4
Retirement benefit surplus	93.9	(8.2)	-	-	85.7	-	-	-	-	-
Deferred tax asset	1.3	0.6	-	1.0	2.9	23.4	-	-	1.0	24.4
Trade and other receivables	641.3	(8.1)	-	-	633.2	721.9	(14.0)	-	-	707.9
Cash and deposits	196.7	(24.3)	-	-	172.4	155.1	(9.9)	-	-	145.2
Trade and other payables - current	(741.3)	25.0	-	22.6	(693.7)	(798.4)	12.6	-	19.6	(766.2)
Current tax liabilities	(4.5)	0.5	-	0.4	(3.6)	(7.3)	0.6	-	0.4	(6.3)
Trade and other payables - non current	(12.7)	-	-	(23.1)	(35.8)	(14.5)	-	-	(19.7)	(34.2)
Long-term provisions	(59.4)	-	-	(1.7)	(61.1)	(80.0)	-	-	(1.7)	(81.7)
Retirement benefit obligation	-	-	-	-	-	(48.0)	(5.6)	-	-	(53.6)
Net assets	(1.1)	(8.3)	31.9	(0.8)	21.7	25.1	(8.5)	43.5	(0.4)	59.7
Retained earnings	(392.4)	5.8	31.9	(0.8)	(355.5)	(309.5)	6.3	43.5	(0.4)	(260.1)
Non-controlling interests	14.9	(14.1)	-	-	0.8	15.3	(14.8)	-	-	0.5
Total equity	(1.1)	(8.3)	31.9	(0.8)	21.7	25.1	(8.5)	43.5	(0.4)	59.7

*1 The Group owns 51% of the ordinary share capital of Landmarc Support Services Limited (Landmarc UK) with a third party, PAE Incorporated (PAE) owning the remaining 49% interest. The terms of the Shareholders Agreement between Interserve and PAE requires that there is equal representation between the two parties on Landmarc UK's board of directors and states that decisions over certain reserved matters, which have the most significant impact on the returns of Landmarc, require the mutual agreement of both shareholders either through their board representatives or via agreement by the shareholders themselves. As at 31 December 2019 the Group has reassessed this structure and the specific terms of the Shareholders Agreement with PAE to determine whether it has control or joint control over Landmarc UK in accordance with IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. As the relevant activities of Landmarc which have the most significant impact on its returns require mutual agreement and decision making of both shareholders, the Group has concluded that it does not have the power to control Landmarc UK, but has joint control. The Group previously accounted for Landmarc UK as a subsidiary and has therefore adjusted for this error in prior years and treated it as a joint venture rather than a subsidiary.

*2 During the carrying out of the Group's 31 December 2019 goodwill impairment testing, it came to light that items that did not form part of the assets and liabilities of the CGU had been incorrectly included in the carrying net asset values of the Support Services CGU's in the 2017 and 2018 impairment asessments. As a result, the carrying value of goodwill was understated at both period ends.

*3 Other adjustments in the income statement table above arise from the fact that on transition to IFRS 15 at 31 December 2018, it was discovered that some Support Services division contracts included goods and services provided on an agency rather than principal basis. Therefore an adjustment was required to reduce both revenue and cost of sales with no impact on gross profit reported. Other adjustments in the balance sheet table above mainly relate to life-cycle funds received in advance from PFI contract customers that were previously treated as current trade and other payables at 31 December 2018 and 1 January 2018 and have now been reclassified as non-current trade payables and the provision for certain taxation matters which had been omitted in error in previous years.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

(d) Restatement of comparatives

Certain items treated as non-underlying in the year ended 31 December 2019 financial statements have been restated for 2018 comparison purposes, and they relate to businesses exited in the year. This has reduced underlying revenues by £62.5 million and underlying operating profit by £1.2 million, with an equal and opposite impact on non-underlying revenue and operating profits.

Accounting policies

Interserve Group Limited (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.

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.

As further disclosed in note 5, the Group undertook a debt-for-equity swap during the period, whereby the Lenders of the group were issued equity share capital in exchange for a partial release and renegotiation of the Group's existing debts. The debt-for-equity swap was effected through a pre-pack administration to allow the Group to continue trading under the ownership of existing Lenders.

The debt-for-equity swap was effected through a tripartite arrangement whereby:

- the Lenders agreed to release part of the Group's debts (Interserve Group Holdings Limited (IGHL) being the borrower);
- IGHL issued shares to a newly incorporated company, Interserve Group Limited (the Company); and
- Interserve Group Limited (the Company) issued shares to the Lenders to acquire the shares of IGHL and certain other assets from Interserve Plc.

Immediately following completion of the debt-for-equity swap, the existing Lenders to the Group owned the equity shares of the Company, in proportion to their previous debt stakes. No single lender owns a controlling stake in the Group.

These Group financial statements have therefore been prepared as a continuation of the existing Group but to reflect the capital reorganisation arising on insertion of the Company as parent of the Group (in place of Interserve Plc) and to reflect the debt-for-equity swap undertaken during the year. As a result, the comparatives presented in these financial statements are the consolidated results of Interserve Plc. The prior year balance sheet reflects the share structure of Interserve Plc. The current period balance sheet presents the legal change in ownership of the Group, including the share capital of the Company and the capital restructuring reserve arising as a result of the share-for-share exchange transaction. The consolidated statement of changes in equity on page 45 and the additional disclosures in note 26 explain the impact of the share-for-share exchange in more detail.

(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 currencies 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 depicts the transfer of promised goods or services to our customers in an amount that reflects the consideration which we expect to be entitled in exchange for those goods or services. Across the Group revenue is recognised at the contract level, unless there are separately identifiable parts which can be measured individually (e.g. separate buildings in a construction contract). Where separately identifiable parts can be measured individually, revenue is recognised as and when performance obligations are completed.

The Group earns and recognises revenue across its divisions as follows:

Construction

Revenue is earned from the provision of advice, design, construction and fit-out services for buildings and infrastructure across a range of sectors in both public and private markets.

The Group enters into construction contracts on a fixed and variable fee basis and recognises the related revenue over time. Due to the high degree of interdependence between the various elements of these projects, they are accounted for as a single performance obligation.

To depict the progress by which the Group transfers control of the constructed assets to the customer and to establish when and to what extent revenue can be recognised, the Group measures its progress towards complete satisfaction of the performance obligation using surveys of work performed by quantity surveyors in conjunction with clients. The quantity surveyor assessments provide the most faithful depiction of the transfer of goods and services to each customer due to the Group's ability to make reliable estimates of the costs required to complete each project, arising from its significant historical experience of constructing similar assets. In addition to the fixed fee, some contracts include bonus payments which the Group can earn by completing a project in advance of a targeted delivery date.

Revenue for contract variations and claims are included as variable consideration in the Group's estimate of the transaction price only if it is highly probable that a significant reversal of revenue will not occur. In making this assessment the Group considers its historical record of performance on similar contracts, whether the Group has access to the labour and materials resources needed to meet the contract programme, and the potential impact of other reasonably foreseen constraints.

When payments received from customers exceed revenue recognised to date on a particular contract, any excess (a contract liability) is reported in the balance sheet under advances received.

Construction projects do not typically include significant financing components. Where specific material contractual advance payments are made, which are not for the purposes of proportionately providing security of payment to the Group, then the contract consideration is reduced to reflect the value of the financing component which is then included within finance income in the income statement.

Support Services

The Group earns revenue from the provision of facilities management and other support services. Revenue for such services are accounted for over time in the accounting period when services are rendered.

Fee arrangements from services include fixed fee arrangements (where the customer pays a regular invoice to reflect the service provided), one-off additional fees for the performance of a specific service and certain variable fee arrangements which are dependent on achieving required KPIs.

For fixed fee arrangements, revenue is recognised based on the actual services provided to date as the provision and consumption of service occur simultaneously. Revenue for one-off additional fees is recognised when the associated performance obligations have been met (i.e. completion of service). Variable consideration is only recognised in the accounts to the extent that it is highly probable that the amount will not be subject to a significant reversal when the uncertainty is resolved.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

(d) Revenue continued

The Group has determined that no significant financing component exists in respect of the service revenue streams. This has been determined because the period from when the service is rendered to the date the invoice is paid will be less than one year.

A receivable is recognised in relation to these services when a bill has been invoiced, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Equipment Services

Revenue is derived from the provision of engineering solutions for the construction industry in the specialist field of temporary structures, i.e. formwork, falsework and shoring.

Hire services do not meet the definition of a lease under IFRS 16 as the hire contracts do not specifically identify the asset subject.

The Group recognises revenue in Equipment Services in the following manner:

- Hire services - recognised over time, as the supply and consumption of economic benefit is concurrent. The price per unit for each equipment part supplied to a customer is agreed in advance and therefore the transaction price is certain.
- Sale of equipment recognised at a single point in time, when the performance obligation has been completed.
- Other services mainly recognised at a point in time when the performance obligation has been completed. This, however, is dependent upon the nature of the individual contract/service being provided.

Payment terms are between 30-60 days for all types of sale and therefore the impact of the time value of money is minimal.

(e) 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.

(f) Property, plant and equipment

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%

(g) Impairment of tangible and other intangible assets

The Group reviews on a regular basis, for any indicators of impairment in 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.

(h) 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.

(i) 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.

(j) PFI bid costs and other incremental costs

Incremental costs of obtaining a contract are recognised as an asset where the Group expects to recover these costs.

(k) Leases

IFRS 16 - Leased assets

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the right-of-use asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluation criteria which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract and where the Group has the right to direct the use of the identified asset throughout the period of use; and
- the Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The Group calculates the outstanding liability for existing operating leases using its incremental borrowing rate at date of transition.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The lease liability is measured at an amount equal to the present value of future lease payments over the lease term, and subsequently adjusted for interest and lease payments. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, an estimate of any costs to dismantle and remove the asset at the end of the lease, payments made at or before lease commencement date, less any incentives received. The right-of-use asset is measured at cost less accumulated depreciation.

The Group is required to reassess the lease liability for changes in cash flows that are the result of contractual clauses that have been a part of the contract since inception. The liability will, therefore, be reassessed for changes in lease term due to extension or termination options being exercised, variable lease payments that are dependent on an index or a rate, the exercise of a purchase option and changes in amounts expected to be paid under a residual value guarantee. The Group also assesses the right-of-use asset for impairment when such indicators exist.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has applied the recognition exemption available for short-term leases (lease term of 12 months or less) and leases of low-value assets; £5,000 or less. Where this exemption has been applied, lease payments are recognised as a straight-line operating expense over the lease term.

The Group has taken certain practical expedients available under the IFRS 16 Standard:

Separation of lease components from non-lease components

The Group has elected not to separate lease components from associated non-lease components on vehicle leases, and instead account for these as a single lease component. The service costs on leased vehicles are regarded as a non-lease component and incorporated into the fixed rental payments.

Onerous lease provisions

The Group has applied IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to assess whether leases are onerous as an alternative to performing an impairment review. The right-of-use asset is adjusted at date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application. Thereafter the right-of-use asset is tested for impairment if events indicate that the carrying value may not be recoverable.

(l) 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 virtually certain 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.

Provisions for onerous contracts are calculated at the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES CONTINUED

(m) Financial instruments

Trade receivables

Trade receivables are initially measured at transaction price, and subsequently at their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Impairment of financial assets

Recognition of credit losses is no longer reliant on the Group first identifying a credit loss event but instead the Group considers a wider range of information when assessing credit risk and measuring expected credit losses. This information includes past events, current conditions and reasonable forecasts in respect of the collectability of future cash flows of the instrument.

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 recognised at amortised cost.

Borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of proceeds received, net of direct issue costs. Any difference between the proceeds and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. 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.

Payment in kind interest (PIK) is accrued quarterly and capitalised within the principal loan balance. Subsequent to initial recognition borrowings are measured at amortised cost using the effective interest method.

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.

(n) 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.

(o) 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. The Group conducts a trade in the realisation of these type of investments and as a result any proceeds on disposal of these investments are treated as part of operating cash flows in the consolidated cash flow statement.

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.

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.

The Group accounts for PFI financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to "hold to collect" the associated cash flows and sell;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- any gains or losses recognised in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

(p) 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.

(q) 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.

(r) Non-underlying items

IAS 1 requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as 'exceptional' or 'non-underlying items', but this is not a concept defined by IFRS and therefore there is a level of judgment involved in determining what to include in 'underlying' profit. We consider items which relate to non-recurring events and are significant in size or in nature to be suitable for separate presentation (see note 5). Where an item has been identified as 'non-underlying' due to a past event, any future impact will also be disclosed as non-underlying, to ensure consistency of presentation.

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	
	2019 £million	2018 # £million	2019 £million	2018 # £million
Continuing operations				
Provision of services	1,694.5	1,841.5	1,572.5	1,739.9
Revenue from construction contracts	687.5	1,103.8	499.0	830.6
Equipment sales and rental income	170.2	214.5	170.2	214.5
	2,552.2	3,159.8	2,241.7	2,785.0

restated (note 1)

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 sector 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, both in the UK and internationally.

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 2019

3. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

(a) Business segments continued

	Revenue including share of associates and joint ventures		Consolidated revenue		Result	
	2019 £million	2018 # £million	2019 £million	2018 # £million	2019 £million	2018 # £million
Support Services - UK	1,338.1	1,488.7	1,259.1	1,422.2	37.4	45.9
Support Services - International	175.2	172.1	133.8	138.0	4.9	7.2
Support Services	1,513.3	1,660.8	1,392.9	1,560.2	42.3	53.1
Construction - UK	485.3	747.0	485.3	747.0	(107.7)	2.3
Construction - International	191.1	246.6	2.6	13.5	8.6	13.3
Construction	676.4	993.6	487.9	760.5	(99.1)	15.6
Equipment Services	164.8	185.7	164.8	185.7	15.9	39.0
Group Services	1.6	57.9	-	16.8	(15.1)	(21.0)
Inter-segment elimination	(4.2)	(7.2)	(4.2)	(7.2)	-	-
	2,351.9	2,890.8	2,041.4	2,516.0	(56.0)	86.7
Non-underlying items and amortisation of acquired intangible assets (note 5)	200.3	269.0	200.3	269.0	(357.2)	(109.0)
Revenue/total operating (loss)	2,552.2	3,159.8	2,241.7	2,785.0	(413.2)	(22.3)
Investment revenue					458.1	3.4
Finance costs					(91.8)	(109.1)
Profit/(loss) before tax					(46.9)	(128.0)
Tax					(8.0)	(16.2)
(Loss) for the year					(54.9)	(144.2)

	Segment assets		Segment liabilities		Net assets/(liabilities)	
	2019 £million	2018 # £million	2019 £million	2018 # £million	2019 £million	2018 # £million
Support Services - UK	415.7	413.7	(294.9)	(319.9)	120.8	93.8
Support Services - International	58.4	107.7	(40.1)	(46.0)	18.3	61.7
Support Services	474.1	521.4	(335.0)	(365.9)	139.1	155.5
Construction - UK	163.5	209.1	(244.0)	(248.7)	(80.5)	(39.6)
Construction - International	22.5	62.9	-	-	22.5	62.9
Construction	186.0	272.0	(244.0)	(248.7)	(58.0)	23.3
Equipment Services	280.0	264.0	(48.0)	(41.1)	232.0	222.9
	940.1	1,057.4	(627.0)	(655.7)	313.1	401.7
Group Services, goodwill and acquired intangible assets	325.4	442.9	(116.7)	(163.3)	208.7	279.6
	1,265.5	1,500.3	(743.7)	(819.0)	521.8	681.3
Net debt per balance sheet					(413.6)	(660.4)
Net assets (excluding non-controlling interests)					108.2	20.9

restated (note 1)

	Depreciation and amortisation of property, plant and equipment and intangible assets		Additions to property, plant and equipment and intangible assets	
	2019 £million	2018# £million	2019 £million	2018# £million
Support Services - UK	14.5	17.5	2.2	12.0
Support Services - International	2.5	2.9	0.5	1.1
Support Services	17.0	20.4	2.7	13.1
Construction - UK	0.9	2.5	-	0.4
Construction - International	-	-	-	-
Construction	0.9	2.5	-	0.4
Equipment Services	18.8	17.7	32.4	21.3
	36.7	40.6	35.1	34.8
Group Services	7.3	19.4	1.7	3.2
	44.0	60.0	36.8	38.0

restated (note 1)

	Depreciation of right-of-use assets	Additions to right-of-use assets
	2019 £million	2019 £million
Support Services - UK	17.4	2.6
Support Services - International	0.8	-
Support Services	18.2	2.6
Construction - UK	3.8	0.5
Construction - International	-	-
Construction	3.8	0.5
Equipment Services	6.8	4.5
	28.8	7.6
Group Services	0.5	0.6
	29.3	8.2

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

3. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

(b) Geographical segments

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

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 (loss)	
	2019 £million	2018 # £million	2019 £million	2018 # £million	2019 £million	2018 # £million
United Kingdom	1,816.4	2,195.3	1,735.8	2,128.8	(64.7)	54.8
Rest of Europe	79.3	77.0	79.3	77.0	2.5	3.1
Middle East & Africa	388.9	491.0	159.0	223.8	15.2	40.5
Australasia	27.3	31.3	27.3	31.3	5.7	7.5
Far East	10.0	12.2	10.0	12.2	(1.7)	(0.3)
Americas	34.2	33.3	34.2	33.3	2.1	2.1
Group Services	-	57.9	-	16.8	(15.1)	(21.0)
Inter-segment elimination	(4.2)	(7.2)	(4.2)	(7.2)	-	-
	2,351.9	2,890.8	2,041.4	2,516.0	(56.0)	86.7
Non-underlying items and amortisation of acquired intangible assets (note 5)	200.3	269.0	200.3	269.0	(357.2)	(109.0)
	2,552.2	3,159.8	2,241.7	2,785.0	(413.2)	(22.3)

	Non-current assets	
	2019 £million	2018 # £million
United Kingdom	162.3	101.9
Rest of Europe	9.1	9.6
Middle East & Africa	128.8	190.9
Australasia	15.9	15.4
Far East	13.6	10.3
Americas	40.4	33.6
Group Services, goodwill and acquired intangible assets	271.3	381.0
	641.4	742.7
Retirement benefit surplus	102.3	85.7
Deferred tax asset	-	2.9
	743.7	831.3

restated (note 1)

Included in consolidated revenue above are revenues of approximately £136 million (2018: £104 million) which arose from sales to the Group's largest contract customer.

(c) Disaggregated revenue

The Group's consolidated revenue has been disaggregated by major services lines, primary geographical market and pattern of revenue recognition and the tables below disclose this information by reference to the Group's reportable segments. The Group's consolidated revenue disaggregated by major service lines is as follows:

	Support Services UK	Support Services International	Construction UK	Construction International	Equipment Services	Group Services/ Other	Total
	2019 £million	2019 £million	2019 £million	2019 £million	2019 £million	2019 £million	2019 £million
Facilities management	1,437.9	133.8	2.4	-	-	(1.6)	1,572.5
Construction	0.2	-	498.5	2.6	-	(2.3)	499.0
Equipment sales	-	-	-	-	55.1	(0.3)	54.8
Equipment rental income	-	-	-	-	115.4	-	115.4
	1,438.1	133.8	500.9	2.6	170.5	(4.2)	2,241.7

	Support Services UK #	Support Services International	Construction UK	Construction International	Equipment Services	Group Services/ Other	Total #
	2018 £million	2018 £million	2018 £million	2018 £million	2018 £million	2018 £million	2018 £million
Facilities management	1,573.9	138.0	13.1	-	-	14.9	1,739.9
Construction	2.6	-	819.7	13.5	-	(5.2)	830.6
Equipment sales	-	-	-	-	56.3	-	56.3
Equipment rental income	19.1	-	-	-	139.2	(0.1)	158.2
	1,595.6	138.0	832.8	13.5	195.5	9.6	2,785.0

The Group's consolidated revenue disaggregated by primary geographical markets is as follows:

	Support Services UK	Support Services International	Construction UK	Construction International	Equipment Services	Group Services/ Other	Total #
	2019 £million	2019 £million	2019 £million	2019 £million	2019 £million	2019 £million	2019 £million
United Kingdom	1,340.1	-	500.9	-	34.7	(4.2)	1,871.5
Rest of Europe	74.1	-	-	-	5.2	-	79.3
Middle East & Africa	23.9	133.8	-	2.6	58.0	-	218.3
Australasia	-	-	-	-	27.3	-	27.3
Far East	-	-	-	-	10.1	-	10.1
Americas	-	-	-	-	35.2	-	35.2
	1,438.1	133.8	500.9	2.6	170.5	(4.2)	2,241.7

	Support Services UK #	Support Services International	Construction UK	Construction International	Equipment Services	Group Services/ Other	Total #
	2018 £million	2018 £million	2018 £million	2018 £million	2018 £million	2018 £million	2018 £million
United Kingdom	1,480.8	-	832.8	-	31.3	9.6	2,354.5
Rest of Europe	71.7	-	-	-	5.3	-	77.0
Middle East & Africa	43.1	138.0	-	13.5	79.1	-	273.7
Australasia	-	-	-	-	31.3	-	31.3
Far East	-	-	-	-	12.2	-	12.2
Americas	-	-	-	-	36.3	-	36.3
	1,595.6	138.0	832.8	13.5	195.5	9.6	2,785.0

restated (note 1)

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

3. BUSINESS AND GEOGRAPHICAL SEGMENTS CONTINUED

(C) Disaggregated revenue continued

The Group's consolidated revenue disaggregated by pattern of revenue recognition is as follows:

	Support Services UK	Support Services International	Construction UK	Construction International	Equipment Services	Group Services/ Other	Total
	2019 £million	2019 £million	2019 £million	2019 £million	2019 £million	2019 £million	2019 £million
Single service with fixed monthly fee subject to non-performance deductions	386.1	-	-	-	-	-	386.1
Bundled services with fixed monthly fee subject to non-performance deductions	985.6	1.5	-	-	-	(1.6)	985.5
Construction services over time	-	132.3	500.9	2.6	-	(2.3)	633.5
Equipment rental for a period of time	-	-	-	-	115.4	(0.3)	115.1
Goods and services transferred over time	1,371.7	133.8	500.9	2.6	115.4	(4.2)	2,120.2
Service at schedule of rates (hours or tasks)	66.4		-	-	-	-	66.4
Equipment sales at a point in time	-	-	-	-	55.1	-	55.1
Goods and services transferred at a point in time	66.4	-	-	-	55.1	-	121.5
	1,438.1	133.8	500.9	2.6	170.5	(4.2)	2,241.7

	Support Services UK #	Support Services International	Construction UK	Construction International	Equipment Services	Group Services/ Other	Total #
	2018 £million	2018 £million	2018 £million	2018 £million	2018 £million	2018 £million	2018 £million
Single service with fixed monthly fee subject to non-performance deductions	374.8	-	-	-	-	-	374.8
Bundled services with fixed monthly fee subject to non-performance deductions	1,077.6	3.5	-	-	-	(1.9)	1,079.2
Construction services over time	-	134.5	832.8	13.5	-	(5.2)	975.6
Equipment rental for a period of time	-	-	-	-	139.2	(0.1)	139.1
Goods and services transferred over time	1,452.4	138.0	832.8	13.5	139.2	(7.2)	2,568.7
Service at schedule of rates (hours or tasks)	143.2	-	-	-	-	16.8	160.0
Equipment sales at a point in time	-	-	-	-	56.3	-	56.3
Goods and services transferred at a point in time	143.2	-	-	-	56.3	16.8	216.3
	1,595.6	138.0	832.8	13.5	195.5	9.6	2,785.0

restated (note 1)

4. PROFIT FOR THE YEAR

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

	Notes	2019 £million	2018 # £million
Depreciation of property, plant and equipment:			
On owned assets	13	31.5	33.4
On finance leases	13	-	1.8
Amortisation of capitalised software development	12	5.6	6.1
Gain on disposal of plant and equipment - hire fleet		(15.4)	(17.0)
(Loss)/gain on disposal of plant and equipment - other		0.3	(2.9)
Amortisation of acquired intangible assets (subsidiary undertakings)	12	6.9	18.7
Leases in the income statement:			
Short-term leases expenses	24	7.9	n/a
Low-value lease expenses	24	0.6	n/a
Depreciation of right-of-use assets	14	29.3	n/a
Interest expense on lease liabilities	8	7.1	n/a
Rentals under operating leases:			
Hire of plant and machinery		n/a	30.3
Other lease rentals		n/a	51.4
Cost of inventories recognised in cost of sales	17	17.4	18.5
Staff costs	6	911.8	1,057.2
Auditors' remuneration for audit services (see below)		3.8	3.0

restated (note 1)

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

	2019 £million	2018 £million
Fees payable to the Company's auditors for the audit of the Company's annual accounts	0.3	0.2
The audit of the Company's subsidiaries pursuant to legislation:		
Current year fees	2.4	1.5
Prior year additional fee	1.1	1.3
Total audit fees	3.8	3.0
Audit-related assurance services	0.1	0.1
Other services	1.8	-
Total non-audit fees	1.9	0.1
Total fees paid to the Company's auditors	5.7	3.1

In 2019 Grant Thornton were engaged as reporting accountants to provide services in relation to the deleveraging. Fees in relation to this service were £1.8 million. Provision of these services are not prohibited by the ethical standard and were approved by the Audit Committee.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

5. NON-UNDERLYING ITEMS AND AMORTISATION OF ACQUIRED INTANGIBLE ASSETS

	2019											
	Exited businesses[1]											
	Energy from Waste £million	Property development £million	London Construction £million	Other business/ contract exits £million	Restructuring costs £million	Professional adviser fees £million	Contract review £million	Asset impairments/ disposal of businesses[2] £million	Pension indexation £million	Refinancing £million	Amortisation of acquired intangible assets £million	Total £million
Consolidated revenue	(1.6)	-	8.7	67.3	-	-	125.9	-	-	-	-	200.3
Cost of sales	(53.4)	-	(27.2)	(80.2)	(3.3)	-	(130.1)	-	-	-	-	(294.2)
Gross (loss)	(55.0)	-	(18.5)	(12.9)	(3.3)	-	(4.2)	-	-	-	-	(93.9)
Administration expenses	(17.7)	1.3	(0.5)	(24.6)	(7.5)	(46.4)	1.6	(66.4)	-	-	-	(160.2)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	(6.9)	(6.9)
Impairment of goodwill	-	-	-	-	-	-	-	(95.4)	-	-	-	(95.4)
Total administration expenses	(17.7)	1.3	(0.5)	(24.6)	(7.5)	(46.4)	1.6	(161.8)	-	-	(6.9)	(262.5)
Operating (loss)/ profit	(72.7)	1.3	(19.0)	(37.5)	(10.8)	(46.4)	(2.6)	(161.8)	-	-	(6.9)	(356.4)
Share of results of associates and joint ventures	-	-	-	-	-	-	(0.8)	-	-	-	-	(0.8)
Total operating (loss)/profit	(72.7)	1.3	(19.0)	(37.5)	(10.8)	(46.4)	(3.4)	(161.8)	-	-	(6.9)	(357.2)
Net finance costs	-	-	-	-	-	-	-	-	-	420.2	-	420.2
Total (loss)/profit	(72.7)	1.3	(19.0)	(37.5)	(10.8)	(46.4)	(3.4)	(161.8)	-	420.2	(6.9)	63.0
Tax on non-underlying items												
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	1.2	1.2
Tax on non-underlying items	-	-	-	-	-	-	-	-	-	-	1.2	1.2
Profit/(loss) after taxation	(72.7)	1.3	(19.0)	(37.5)	(10.8)	(46.4)	(3.4)	(161.8)	-	420.2	(5.7)	64.2

1 The close-out of legacy Energy from Waste facility projects, the decisions to exit Property Development, the Power and Site Services businesses, the termination of four Saudi College of Excellence contracts, the closure of some Equipment Services division overseas branches and Joinery and Consulting businesses, along with directly associated costs, are considered to be Exited Businesses. Exited Businesses are presented as non-underlying items. 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.

2 The disposals of the Omani Construction Company LLC and Industrial Services businesses have not been treated as discontinued operations on the grounds that they do not represent the sale of material segments of the Group.

	2018											
	Exited businesses[1]											
	Energy from Waste £million	Property development £million	London Construction £million	Other business/ contract exits £million	Restructuring costs £million	Professional adviser fees £million	Contract review £million	Asset impairments/ disposal of businesses #[2] £million	Pension indexation £million	Foreign exchange gain/(loss) on retranslation of loan notes £million	Amortisation of acquired intangible assets £million	Total £million
Consolidated revenue	32.5	-	27.2	82.0	-	-	127.3	-	-	-	-	269.0
Cost of sales	(45.1)	-	(50.0)	(66.3)	(4.9)	-	(118.8)	-	-	-	-	(285.1)
Gross profit/(loss)	(12.6)	-	(22.8)	15.7	(4.9)	-	8.5	-	-	-	-	(16.1)
Administration expenses	-	-	(2.0)	(21.2)	(15.1)	(43.0)	(13.7)	(22.1)	70.6	-	-	(46.5)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	(18.7)	(18.7)
Impairment of goodwill	-	-	-	-	-	-	-	(44.7)	-	-	-	(44.7)
Total administration expenses	-	-	(2.0)	(21.2)	(15.1)	(43.0)	(13.7)	(66.8)	70.6	-	(18.7)	(109.9)
Operating profit/(loss)	(12.6)	-	(24.8)	(5.5)	(20.0)	(43.0)	(5.2)	(66.8)	70.6	-	(18.7)	(126.0)
Share of results of associates and joint ventures	-	17.0	-	-	-	-	-	-	-	-	-	17.0
Total operating profit/(loss)	(12.6)	17.0	(24.8)	(5.5)	(20.0)	(43.0)	(5.2)	(66.8)	70.6	-	(18.7)	(109.0)
Net finance costs	-	-	-	-	-	-	-	-	-	(26.4)	-	(26.4)
Total (loss)/profit	(12.6)	17.0	(24.8)	(5.5)	(20.0)	(43.0)	(5.2)	(66.8)	70.6	(26.4)	(18.7)	(135.4)
Tax on non-underlying items												
Prior period adjustments	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	(12.0)	-	-	(12.0)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	3.1	3.1
Tax on non-underlying items	-	-	-	-	-	-	-	-	(12.0)	-	3.1	(8.9)
Loss/profit after taxation	(12.6)	17.0	(24.8)	(5.5)	(20.0)	(43.0)	(5.2)	(66.8)	58.6	(26.4)	(15.6)	(144.3)

restated (note 1)

1 The close-out of legacy Energy from Waste facility projects, the decisions to exit Property Development, the Power and Site Services businesses, the termination of four Saudi College of Excellence contracts, the closure of some Equipment Services division overseas branches and Joinery and Consulting businesses, along with directly associated costs, are considered to be Exited Businesses. Exited Businesses are presented as non-underlying items. 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.

2 The disposals of the Omani Construction Company LLC and Industrial Services businesses have not been treated as discontinued operations on the grounds that they do not represent the sale of material segments of the Group.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

5. NON-UNDERLYING ITEMS AND AMORTISATION OF ACQUIRED INTANGIBLE ASSETS CONTINUED

Exit from Energy from Waste

During 2019 a further £72.7 million (2018: £12.6 million) of losses have been recognised on these contracts, mainly in respect of Derby and Glasgow EfW plants which includes the Group's write-off of its investment in Derby Waste PFI joint venture (£17.6 million) together with the calling of a performance bond on this project of £29.1 million, taking the cumulative EfW 2015 to 2019 losses to £302.4 million. During 2019 £15 million of professional indemnity insurance proceeds were received in respect of Energy from Waste projects.

Property development

During 2018 the Group sold its one remaining development asset at Haymarket site in Edinburgh for net proceeds of £47.0 million, realising a net profit on disposal of £17.0 million.

£1.3 million of profit in 2019 represents the release of surplus accruals held for costs of disposal of the Haymarket development asset in Edinburgh.

London Construction

We took the decision during 2018 to exit from activities in the London construction market. Costs associated with this exit and anticipated losses on the close-out of contracts within this business resulted in further losses of £19.0 million in 2019 (2018: £24.8 million).

Other business/contract exits

During 2019 the Group took the decision to exit from four of its Saudi Arabian based Colleges of Excellence contracts within the Support Services business at a cost of £17.1 million and closed a number of unprofitable overseas branches (including the South African business) within its Equipment Services division, at a cost of £12.6 million. In UK Construction there was a disposal of the Joinery business realising a loss of £3.7 million and a closure of Consulting Services activity, incurring costs of £0.6 million.

Following the decision taken in 2018 to exit from the Power business in Support Services and the Site Services business in Construction, further exit costs have been incurred during 2019 of £2.8 million in respect of the Power business (2018: £4.2 million) and £0.7 million for Site Services (2018: £2.5 million).

Restructuring costs

In 2017 the Group embarked on a three-year plan, "Fit For Growth", to increase the Group's organisational efficiency, improve Group-wide procurement and ensure greater standardisation and simplification across the business. During 2019 the Group incurred termination costs in respect of former directors and employees, property rationalisation expenses and other business closure costs of £10.8 million (2018: £20.0 million).

Professional adviser fees

Professional fees incurred during 2019 of £46.4 million principally relate to the pre-pack administration of Interserve Plc and the recapitalisation of the Group on 15 March 2019 (£35.4 million), the costs of refinancing the Group post-administration (£1.7 million) and costs in relation to actual and future potential business disposals (£5.2 million).

Contract review

During 2019 a further loss provision of £0.8 million was made against the Support Services CRC Transforming Rehabilitation contracts for the Ministry of Justice, further losses of £4.4 million were incurred on various UK Construction projects and historic bad debts of £0.8 million were written off contracts in Qatar within the International Construction segment and a £2.6 million onerous contract provision relating to the US Forces Primes contract was released.

As previously disclosed, the new management team commissioned a comprehensive contract and balance sheet review with the independent support of PwC in the latter part of 2017. The contract review identified provisions and write-downs relating to 18 individual contract issues. During 2018 a further amount of £5.2 million of provision was made against these contracts being largely the net release of £8.0 million on the US Forces Prime contract following receipts from the UK Ministry of Defence in December 2018 and a further provision made of £13.7 million on the CRC Transforming Rehabilitation contracts reflecting the terms of a settlement agreement with the Ministry of Justice in December 2018.

Asset impairments/disposal of businesses

In November 2019 the Group's subsidiary, The Oman Construction Company LLC (part of the Support Services business), was disposed of at a book loss of £12.5 million being net proceeds including deferred consideration of £11.0 million less the book value of its net assets of £23.5 million. As a result of this sale, historic goodwill of £14.9 million was also written off.

During 2019 goodwill in the Support Services segment was impaired by £12.2 million (2018: £44.7 million) (see note 11) and, as part of the annual 2019 year-end goodwill impairment review, a further £38.4 million, £24.3 million and £5.6 million was provided in Support Services on its Education, Private Sector and Healthcare businesses respectively.

During the year a review was undertaken to assess the appropriateness of the carrying value of the Group's investments in associates and, due principally to the ongoing trade embargo in Qatar, an impairment of £53.9 million has been provided.

During 2018 the carrying value of the Industrial Services business was impaired by £15.0 million and a further loss of £7.1 million was incurred on final disposal.

Pension indexation

During 2018 the Trustee of the Interserve Pension Scheme (IPS) agreed to our request to change the scheme's terms relating to basis of indexation for future pension increases in respect of deferred and pensioner members of the scheme. This plan amendment from RPI to CPI resulted in the recognition of a one-off gain of £70.6 million.

Refinancing costs/foreign exchange loss on retranslation of loan notes

As part of the 15 March 2019 Deleveraging Plan the following transactions occurred:

A debt-for-equity swap took place under a tripartite agreement between Interserve Group Limited (IGL), Interserve Group Holdings Limited (IGHL) and the Lender Group whereby in exchange for 100% of the share capital of IGL (the new parent company of the Interserve Group), the Lenders released a face value of £484.8 million of the existing IGHL outstanding borrowings of £834.8 million leaving £350.0 million of ring-fenced RMDK debt still outstanding. As a result of this debt-for-equity swap, under IFRIC 19 Extinguishing financial liabilities with equity instruments the fair value of the debt forgiven by the Lenders of £565.8 million (face value £485.8 million) was derecognised with the equity fair value of the Interserve Group of £164.0 million being recorded in equity (restructuring reserve), leaving a net gain on refinancing of £401.8 million.

£17.2 million of discount on existing debt was written off which was partly offset by a £5.8 million foreign exchange gain realised on extinguishing $348.3 million of existing US Loan Note debt.

£32.3 million of accrued payment-in-kind interest (PIK) was forgiven by the existing Lenders.

£16.0 million of make-whole payment in kind (PIK) interest was charged by the Lenders.

On 15 March 2019, the Lender Group also made available to the Interserve Group new financing facilities of £120.6 million (Facilities A to D), and these fully drawn-down amounts were fair valued by the retained PWC external valuations team at £107.0 million resulting on a further gain on refinancing of £13.5 million.

In 2018 non-underlying finance costs of £26.4 million represented the impact of the retranslation of $350 million US Private Placement Notes to current exchange rates following the termination of exchange rate swaps in 2017, as well as the loss previously recognised in equity on the swaps being recycled to the income statement over the remaining life of the originally hedged instruments. Following the refinancing of the US loan notes on 27 April 2018, which represents a substantial debt modification under IFRS 9, the outstanding amount at that date of £9.8 million was recycled to the income statement (see note 8).

Restatement of prior year non-underlying items

The 2018 restatement of non-underlying items relates to £1.2 million of total profit from business closures referred to above for termination of four Saudi College of Excellence contracts, closure of Equipment Services division branches and closure of the Joinery and Consulting businesses in UK Construction.

6. STAFF COSTS

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

	2019 number	2018 # number
Support Services	31,436	36,546
Construction	1,552	2,006
Equipment Services	1,413	1,414
Group Services	320	282
	34,721	40,248

restated (note 1)

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

6. STAFF COSTS CONTINUED

Their aggregate remuneration comprised:

	2019 £million	2018 # £million
Wages and salaries	814.9	946.7
Social security costs	74.8	85.1
Share-based payments	-	2.3
Other pension costs (see below)	22.1	23.1
	911.8	1,057.2
Defined benefit scheme current service costs (note 29)	1.9	2.5
Other UK - defined contribution	18.1	19.3
Other overseas - defined contribution	2.1	1.3
Pension costs	22.1	23.1

restated (note 1)

Directors emoluments are analysed as follows:

	2019 £million	2018 £million
Short-term employee benefits	3.2	3.0
Post-employment benefits	-	-
Other long-term benefits	-	-
	3.2	3.0

Emoluments comprise amounts paid to the directors of the Company who served during the year, by the Company and its subsidiary undertakings.

All directors of the Company are eligible to join the defined contribution section of the Interserve Pension Scheme. At 31 December 2019, no (2018: nil) directors were members of the defined contribution scheme and 4 (2018: 3) directors received an allowance for contributions towards pension schemes unconnected with the Group.

Highest paid director emoluments are analysed as follows:

	2019 £million	2018 £million
Short-term employee benefits	1.5	1.3
Post-employment benefits	-	-
Other long-term benefits	-	-
	1.5	1.3

7. FINANCE REVENUE

	2019 £million	2018 # £million
Bank interest	-	1.6
Interest income from joint-venture investments	1.3	1.1
Net return on defined benefit pension assets (note 29)	3.2	0.2
Foreign exchange gain on US private placement loan (note 5)	5.8	-
Release of accrued PIK interest on deleveraging (note 5)	32.3	-
Gains arising from debt equity swap (note 5)	401.8	-
Fair value adjustment to debt (note 5)	13.5	-
Other interest	0.2	0.5
	458.1	3.4

restated (note 1)

8. FINANCE COSTS

	2019 £million	2018 # £million
Borrowings and overdrafts	(37.3)	(82.7)
Make-whole PIK interest charged on deleveraging (note 5)	(16.0)	-
Write-off of discount on existing debt on refinancing (note 5)	(17.2)	-
Amortisation of discount on debt since refinancing	(14.2)	-
Interest expense for leasing arrangements	(7.1)	-
Foreign exchange loss on US private placement loan and recycling of hedging reserve (note 20)	-	(26.4)
	(91.8)	(109.1)

restated (note 1)

The borrowings and overdrafts cost includes £16.2 million (2018: £3.4 million) relating to loan facility expenses.

For further details of significant components of investment revenue and finance costs see note 5.

The 2018 foreign exchange gain/loss on US private placement loan, represented the impact of the retranslation of $350 million US Private Placement Notes to current exchange rates following the termination of exchange rate swaps in 2017 and also included the loss previously recognised in equity on the swaps being recycled to the income statement over the remaining life of the originally hedged instruments.

9. TAX

	2019 £million	2018 # £million
Current tax - UK	(0.2)	1.1
Current tax - overseas	6.7	5.8
Deferred tax (note 16)	1.5	9.3
Tax charge for the year	8.0	16.2
Tax charge before prior period adjustments	6.0	15.0
Prior period adjustments - charges	2.0	1.2
	8.0	16.2

	2019			2018 #		
	Loss £million	Tax £million	Effective rate %	Loss £million	Tax £million	Effective rate %
Subsidiary undertakings' profit before tax, excluding one-offs	(125.3)	9.2	(7.3%)	(13.2)	7.3	(55.3%)
Group share of profit after tax of associates and joint ventures	15.4	-	-	20.6	-	-
	(109.9)	9.2	(8.4%)	7.4	7.3	98.6%
Other non-underlying items	165.3	-	0.0%	(72.0)	12.0	(16.7%)
Goodwill impairment	(95.4)	-	-	(44.7)	-	-
Amortisation	(6.9)	(1.2)	17.4%	(18.7)	(3.1)	16.6%
(Loss) before tax	(46.9)	8.0	(17.1%)	(128.0)	16.2	(12.7%)

restated (note 1)

UK corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

In April 2019, the European Commission published its final decision on its state aid investigation into the UK's "Financing Company Partial Exemption" legislation and concluded that part of the legislation is in breach of EU state aid rules. The UK Government and a number of UK-based international groups have sought annulment of the European Commission's decision through the European Courts. No provision has been made in respect of this matter since we believe it is more likely than not that the decision will be annulled and no additional tax will be due. However, there is a contingent liability of £2.2 million at the balance sheet date (2018: £2.1 million).

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

9. TAX CONTINUED

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

	2019		2018	
	£million	%	£million	%
Loss before tax	(46.9)		(128.0)	
Tax at the UK income tax rate of 19% (2018: 19%)	(8.9)	19.0%	(24.3)	19.0%
Tax effect of expenses not deductible in determining taxable profit	(43.2)	92.1%	9.8	(7.7%)
Current-year losses for which no deferred tax asset is recognised	53.1	(113.2%)	39.9	(31.2%)
Tax effect of share of results of associates	(1.7)	3.6%	(3.0)	2.3%
Effect of tax rates in foreign jurisdictions	6.7	(14.3%)	(6.1)	4.8%
Effect of change in rate of deferred tax	-	0.0%	(1.3)	1.0%
Prior period adjustments	2.0	(4.3%)	1.2	(0.9%)
Tax charge and effective tax rate for the year	8.0	(17.1%)	16.2	(12.7%)

restated (note 1)

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:

	2019 £million	2018 £million
Tax on actuarial gains/(losses) on pension liability	(0.4)	9.1
Tax on exchange movements on hedged financial instruments	-	1.8
	(0.4)	10.9

10. DIVIDENDS

There were no dividends paid in the current year or the prior year. There is no proposed dividend in respect of the year ended 31 December 2019.

11. GOODWILL

	2019 £million	2018# £million
Cost		
At 1 January	495.4	492.9
Exchange movements	(1.7)	2.5
Written off on disposal of subsidiary	(14.9)	-
At 31 December	478.8	495.4
Accumulated impairment		
At 1 January	121.5	76.5
Impairment losses for the year	80.5	44.7
Exchange movements	(0.5)	-
At 31 December	201.2	121.2
Carrying amount		
At 31 December	277.6	374.2

During the carrying out of the Group's 31 December 2019 goodwill testing, it came to light that certain assets of a non-operating nature had been incorrectly included in the carrying net asset values of the Support Services CGU's and as a result the goodwill balances at 31 December 2017 and 31 December 2018 have been restated (note 1c).

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 2018	11.9	403.6	0.9	416.4
Impairment losses for the year	-	(44.7)	-	(44.7)
Exchange movements	-	2.5	-	2.5
At 31 December 2018	11.9	361.4	0.9	374.2
Impairment losses for the year	-	(80.5)	-	(80.5)
Exchange movements	-	(1.2)	-	(1.2)
Written off on disposal of subsidiary (note 5)	-	(14.9)	-	(14.9)
At 31 December 2019	11.9	264.8	0.9	277.6

restated (note 1c)

Goodwill impairment testing

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. During the course of 2019 £10.5 million of historic goodwill was written off in Support Services in respect of the MacLellan acquisition and £1.7 million on the Initial Services acquisition.

Key assumptions

The recoverable amounts of the CGUs are determined from value in use calculations as it is not considered possible to calculate fair value less costs to sell. 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 11.0% for Support Services (2018: 11.8%) to 12.0% for Construction and Equipment Services (2018: 12.8%) and are based on the Group's pre-tax weighted average cost of capital (WACC) of 11.5% at 31 December 2019 (2018: 12.3%).

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. No impairment in the carrying value of the goodwill in Construction, Oil and Gas or Support Services Public Sector CGU's would occur as a result of adopting either of these sensitivities, but there would be an impairment of £19.5 million in the Equipment Services CGU if the discount rate was increased by 2.0% and £nil if the terminal growth rate was reduced by 1.0%.

In the case of other Support Services CGU's, however, if the discount rate is increased by 2% there would be impairments of £67.1 million in Support Services Private Sector CGU and further impairment of £2.8 million on the Healthcare CGU. On the basis of a 1% reduction in the terminal growth rate, Support Services Private Sector would be impaired by £48.2 million and the Healthcare CGU by a further £1.1 million.

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

Past acquisitions, principally MacLellan Group in 2006 and 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. 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 £24.3 million impairment being recognised against goodwill in Support Services (2018: £38.5 million). The carrying value of this goodwill at 31 December 2019 post impairment was £141.5 million.

The Group reviewed the carrying value of its Learning and Education CGU that is part of the Support Services segment and, due largely to the exit from four of its Saudi Arabian Colleges of Excellence contracts, a goodwill impairment of £38.4 million has been recognised (2018: £6.2 million). The carrying value of this goodwill at 31 December 2019 post impairment was £nil.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

11. GOODWILL CONTINUED

The Group also reviewed the carrying value of its Healthcare Services CGU which is part of the Support Services segment and, due to the performance of this business being lower than previously forecast, an impairment of £5.6 million has been recognised (2018: £nil).

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 £473.2 million in 2019 and compound annual nominal growth rate of 2.0% over the plan period in line with the approved detailed plan;
- an average operating margin of 3.3% after management charges;
- a terminal nominal growth rate of 2.0%; and
- a pre-tax discount rate for the CGU of 11.0% which has been adjusted for the risks specific to the market in which the CGU operates.

The key assumptions underpinning the calculations of the net present value of future cash flows in respect of Learning and Education include:

- the calculations are based on a three-year plan approved by the Board;
- revenue of £40.0 million in 2019 and compound annual nominal decline rate of -21.7% over the plan period in line with the approved detailed plan (during 2019 the Group took the decision to exit from four of its Saudi Arabian based Colleges of Excellence contracts, see note 5);
- an average operating loss % of 0.8% after management charges;
- a terminal nominal growth rate of 2.0%; and
- a pre-tax discount rate for the CGU of 11.0% which has been adjusted for the risks specific to the market in which the CGU operates.

The key assumptions underpinning the calculations of the net present value of future cash flows in respect of Healthcare include:

- the calculations are based on a three-year plan approved by the Board;
- revenue of £39.8 million in 2019 and compound annual nominal decline rate of -1.7% over the plan period in line with the approved detailed plan;
- an average operating margin of 3.2% after management charges;
- a terminal nominal growth rate of 2.0%; and
- a pre-tax discount rate for the CGU of 11.0% 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;
- Management resource to deliver the Budget.

The value in use calculations are reliant on the accuracy of management's forecast and the assumptions that underly 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 as referred to above.

A combination of these sensitivities concluded that a total goodwill impairment of £80.5 million for the year ended 31 December 2019 represented the director's best estimate.

As part of the disposal of the Support Services business to Mitie on 30 November 2020 £242.8 million of acquired goodwill was written off.

The consideration received from the 30 November 2020 Mitie disposal of £205 million indicates that a net loss on disposal will be realised in 2020. However the Support Services goodwill impairment test as at 31 December 2019 was based on pre COVID-19 cash flow forecasts that have subsequently been significantly impacted by the pandemic. In addition as at 31 December 2019 no reliable estimate of fair values less costs to sell was available and as a result no further impairment provisions were considered necessary.

12. OTHER INTANGIBLE ASSETS

	Computer software £million	Acquired: Customer relationships £million	Acquired: Other £million	Acquired: Total £million
Cost				
At 1 January 2018	39.1	176.9	3.2	219.2
Additions	1.9	-	-	1.9
Disposals	(1.7)	-	-	(1.7)
Exchange movements	-	0.7	-	0.7
At 31 December 2018	39.3	177.6	3.2	220.1
Disposals	(0.3)	-	-	(0.3)
Eliminated on disposals	-	(6.3)	-	(6.3)
Exchange movements	-	(0.2)	-	(0.2)
At 31 December 2019	39.0	171.1	3.2	213.3
Accumulated amortisation				
At 1 January 2018	14.9	146.9	2.9	164.7
Charge for the year	6.1	18.4	0.3	24.8
Eliminated on disposals	(1.0)	-	-	(1.0)
Exchange movements	-	0.7	-	0.7
At 31 December 2018	20.0	166.0	3.2	189.2
Charge for the year	5.6	6.9	-	12.5
Eliminated on disposals	-	(6.3)	-	(6.3)
Exchange movements	-	(0.2)	-	(0.2)
At 31 December 2019	25.6	166.4	3.2	195.2
Carrying amount				
At 31 December 2019	13.4	4.7	-	18.1
At 31 December 2018	19.3	11.6	-	30.9
Useful lives	5 years	5-10 years	3-5 years	

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

13. PROPERTY, PLANT AND EQUIPMENT

(a) Movements

	Land and buildings £million	Hire fleet £million	Other plant and equipment # £million	Total # £million
Cost				
At 1 January 2018	40.4	290.3	130.0	460.7
Additions	3.9	20.3	11.9	36.1
Disposals	(2.5)	(23.8)	(29.9)	(56.2)
Eliminated on disposal of subsidiary	(1.8)	(54.4)	(3.1)	(59.3)
Exchange differences	0.5	3.4	5.2	9.1
At 31 December 2018 as previously stated	40.5	235.8	114.1	390.4
Reclassified to right of use assets	-	-	(6.0)	(6.0)
At 31 December 2018	40.5	235.8	108.1	384.4
Additions	1.6	30.9	4.3	36.8
Disposals	(2.4)	(22.2)	(19.2)	(43.8)
Eliminated on disposal of subsidiary	-	-	(45.9)	(45.9)
Exchange differences	(0.8)	(7.3)	(2.1)	(10.2)
At 31 December 2019	38.9	237.2	45.2	321.3
Accumulated depreciation				
At 1 January 2018	18.8	123.0	91.4	233.2
Charge for the year	2.7	18.0	14.5	35.2
Eliminated on disposals	(1.4)	(20.9)	(25.6)	(47.9)
Eliminated on disposal of subsidiary	(1.2)	(39.6)	(2.0)	(42.8)
Exchange differences	0.4	0.6	4.3	5.3
At 31 December 2018 as previously stated	19.3	81.1	82.6	183.0
Reclassified to right of use assets	-	-	(0.5)	(0.5)
At 31 December 2018	19.3	81.1	82.1	182.5
Charge for the year	3.0	17.6	10.9	31.5
Eliminated on disposals	(1.4)	(19.8)	(17.9)	(39.1)
Eliminated on disposal of subsidiary	-	-	(41.9)	(41.9)
Exchange differences	(0.6)	(2.0)	(1.9)	(4.5)
At 31 December 2019	20.3	76.9	31.3	128.5
Carrying amount				
At 31 December 2019	18.6	160.3	13.9	192.8
At 31 December 2018	21.2	154.7	31.5	207.4

restated (note 1)

In November 2019 the Group disposed of a subsidiary, The Oman Construction Company LLC (part of the Support Services International business). Details of the disposal are shown in note 5.

(b) Carrying amount of land and buildings

	31 December 2019 £million	31 December 2018 £million
Freehold:		
Land at cost	1.8	2.0
Buildings at cost less depreciation	0.9	1.1
	2.7	3.1
Leasehold improvements at cost less depreciation	15.9	18.1
	18.6	21.2

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

	31 December 2019 £million	31 December 2018 £million
Committed	5.9	2.3

14. RIGHT-OF-USE ASSETS

	Land and buildings £million	Motor vehicles £million	Other plant and equipment £million	Total £million
Gross carrying amount				
Transfer from property, plant and equipment (note 13)	-	6.0	-	6.0
Adjustment on transition to IFRS 16	87.8	37.3	1.9	127.0
Balance at 1 January 2019	87.8	43.3	1.9	133.0
Additions	6.2	1.0	1.0	8.2
Disposals	(8.4)	(1.0)	(0.4)	(9.8)
Impairment	(0.5)	-	-	(0.5)
Exchange differences	(0.5)	(0.5)	(0.1)	(1.1)
At 31 December 2019	84.6	42.8	2.4	129.8
Depreciation and impairment				
Transferred in from property, plant and equipment (note 13)	-	0.5	-	0.5
Balance at 1 January 2019	-	0.5	-	0.5
Depreciation charge for the year	13.9	14.7	0.7	29.3
Disposals	(0.7)	(0.5)	-	(1.2)
Exchange differences	(0.2)	(0.1)	-	(0.3)
At 31 December 2019	13.0	14.6	0.7	28.3
Carrying amount				
At 31 December 2019	71.6	28.2	1.7	101.5

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

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 2019			Year ended 31 December 2018 #		
	Joint ventures £million	Associates £million	Total £million	Joint ventures £million	Associates £million	Total £million
Revenues	138.7	549.0	687.7	193.2	600.1	793.3
Operating profit	6.9	25.4	32.3	10.7	38.1	48.8
Net interest receivable	1.4	0.1	1.5	(0.6)	0.4	(0.2)
Taxation	(1.8)	1.7	(0.1)	(2.2)	(3.6)	(5.8)
Profit after tax	6.5	27.2	33.7	7.9	34.9	42.8
Less: (Loss)/profit after tax attributable to non-Group interests	(2.4)	(16.8)	(19.2)	12.8	(18.0)	(5.2)
Contribution to Group total operating profit	4.1	10.4	14.5	20.7	16.9	37.6
Dividends paid to the Group	(2.6)	(11.7)	(14.3)	(4.1)	(11.6)	(15.7)
Retained result for the period attributable to the Group	1.5	(1.3)	0.2	16.6	5.3	21.9

restated (note 1)

(b) Joint-venture entities

(i) Results and net assets

The aggregate results of joint ventures were as follows:

	Year ended 31 December 2019			Year ended 31 December 2018 #		
	Support Services £million	Group Services £million	Total £million	Support Services £million	Group Services £million	Total £million
Revenues	133.3	5.4	138.7	109.0	84.2	193.2
Operating profit/(loss)	10.6	(3.7)	6.9	8.1	2.6	10.7
Net interest receivable	0.5	0.9	1.4	0.2	(0.8)	(0.6)
Taxation	(2.2)	0.4	(1.8)	(1.8)	(0.4)	(2.2)
Profit/(loss) after tax	8.9	(2.4)	6.5	6.5	1.4	7.9
Less: Profit after tax attributable to non-Group interests	(4.4)	2.0	(2.4)	(3.2)	16.0	12.8
Profit/(loss) after tax attributable to the Group	4.5	(0.4)	4.1	3.3	17.4	20.7
Group amortisation of acquired intangible assets	-	-	-	-	-	-
Contribution to Group total operating (loss)/profit	4.5	(0.4)	4.1	3.3	17.4	20.7
Dividends paid to the Group	(2.6)	-	(2.6)	(4.0)	(0.1)	(4.1)
Retained result for the period attributable to the Group	1.9	(0.4)	1.5	(0.7)	17.3	16.6

restated (note 1)

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 2019			Year ended 31 December 2018 #		
	Support Services £million	Group Services £million	Total £million	Support Services £million	Group Services £million	Total £million
Non-current assets	3.7	-	3.7	10.7	167.5	178.2
Current assets	27.1	354.2	381.3	32.9	401.9	434.8
Current liabilities	(18.9)	(17.1)	(36.0)	(26.3)	(38.5)	(64.8)
Non-current liabilities	-	(296.3)	(296.3)	(0.6)	(504.2)	(504.8)
Net assets	11.9	40.8	52.7	16.7	26.7	43.4
Less: Net assets/(liabilities) attributable to non-Group interests	(5.8)	(26.6)	(32.4)	(8.1)	6.6	(1.5)
Carrying value of net assets and goodwill	6.1	14.2	20.3	8.6	33.3	41.9

restated (note 1)

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.

(ii) Movements in the year

	Shares £million	Loans £million	Share of reserves # £million	Total # £million
At 1 January 2018	0.1	69.5	(14.2)	55.4
Acquisitions and advances	-	0.6	-	0.6
Disposals	-	(41.0)	9.1	(31.9)
Fair value adjustment to financial instruments and derivatives	-	-	0.8	0.8
Actuarial gains and losses	-	-	0.4	0.4
Share of retained profits	-	-	16.6	16.6
At 31 December 2018	0.1	29.1	12.7	41.9
Write down of investment (note 5)	-	(17.6)	-	(17.6)
Fair value adjustment to financial instruments and derivatives	-	-	(1.0)	(1.0)
Actuarial gains and losses	-	-	(4.5)	(4.5)
Share of retained profits	-	-	1.5	1.5
At 31 December 2019	0.1	11.5	8.7	20.3

restated (note 1)

Further details of the Group's investment in PPP/PFI schemes are included in note 31.

The loans to joint ventures have been reviewed for recoverability under the Expected Credit Loss (ECL) model of IFRS 9 and no provisions against these outstanding balances were considered necessary at 31 December 2019 (2018 - £ nil).

£17.6 million of the Support Services investment in its Derby Waste PFI was written off on termination of the EPC contract (see note 5).

At 31 December 2019 the Group had no commitments for additional investment in joint-venture entities (2018: £nil).

During 2018 the Group disposed of its investment in the Haymarket site in Edinburgh for £47.0 million realising a gain on sale of £17.0 million (note 5).

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

15. INTERESTS IN ASSOCIATES AND JOINT-VENTURE ENTITIES CONTINUED

(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 2019			Year ended 31 December 2018		
	Construction £million	Support Services £million	Total £million	Construction £million	Support Services £million	Total £million
Revenues	435.0	114.0	549.0	499.6	100.5	600.1
Operating profit	21.6	3.8	25.4	33.1	5.0	38.1
Net interest receivable	0.3	(0.2)	0.1	0.6	(0.2)	0.4
Taxation	1.8	(0.1)	1.7	(3.4)	(0.2)	(3.6)
Profit after tax	23.7	3.5	27.2	30.3	4.6	34.9
Less: Profit after tax attributable to non-Group interests	(14.5)	(2.3)	(16.8)	(16.0)	(2.0)	(18.0)
Contribution to Group total operating profit	9.2	1.2	10.4	14.3	2.6	16.9
Dividends paid to the Group	(10.7)	(1.0)	(11.7)	(10.8)	(0.8)	(11.6)
Retained result for the period attributable to the Group	(1.5)	0.2	(1.3)	3.5	1.8	5.3

There are no significant restrictions on the ability of associates to pay dividends or repay loans if agreed by the shareholders.

(i) Results and net assets continued

Total net assets of the associated undertakings were as follows:

	Year ended 31 December 2019			Year ended 31 December 2018		
	Construction £million	Support Services £million	Total £million	Construction £million	Support Services £million	Total £million
Non-current assets	50.8	1.7	52.5	48.2	1.9	50.1
Current assets	390.7	69.4	460.1	445.3	67.7	513.0
Current liabilities	(245.6)	(29.8)	(275.4)	(298.0)	(28.1)	(326.1)
Non-current liabilities	(53.6)	(4.3)	(57.9)	(43.9)	(3.5)	(47.4)
Net assets	142.3	37.0	179.3	151.6	38.0	189.6
Less: Net assets attributable to non-Group interests	(80.3)	(18.7)	(99.0)	(71.0)	(35.0)	(106.0)
Net assets attributable to the Group	62.0	18.3	80.3	80.6	3.0	83.6
Goodwill	1.2	3.5	4.7	1.2	3.5	4.7
Write-down of investment (note 5)	(40.6)	(13.3)	(53.9)	-	-	-
Carrying value of net assets and goodwill	22.6	8.5	31.1	81.8	6.5	88.3

(ii) Movements in the year

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2018	5.9	8.9	63.6	78.4
Additions	-	0.1	-	0.1
Share of retained profits net of amortisation	-	-	5.3	5.3
Exchange differences	-	-	4.5	4.5
At 31 December 2018	5.9	9.0	73.4	88.3
Additions	-	1.0	-	1.0
Impairment of investments (note 5)	-	(3.5)	(50.4)	(53.9)
Share of retained (losses) net of amortisation	-	-	(1.3)	(1.3)
Exchange differences	-	-	(3.0)	(3.0)
At 31 December 2019	5.9	6.5	18.7	31.1

Shares held in associates and loans to associates have been reviewed for recoverability under the Expected Credit Loss (ECL) model of IFRS 9 and due to, in particular, the continuing trade embargo in Qatar, which has impacted the profitability of and dividend flows from the Group's associates, an impairment provision of £53.9 million has been recognised during 2019 (note 5).

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

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	Deferred tax assets # £million	Deferred tax liabilities # £million
At 1 January 2018	8.4	(5.5)	12.5	2.3	6.7	24.4	28.9	(4.5)
(Charge)/credit to income	(14.5)	3.1	(1.2)	1.4	1.9	(9.3)	6.4	(15.7)
Disposal of subsidiary	-	-	-	-	(1.3)	(1.3)	-	(1.3)
(Charge) to equity	(9.1)	-	-	-	(1.9)	(11.0)	-	(11.0)
Exchange differences	-	-	0.7	(0.8)	0.2	0.1	0.1	-
Total assets/(liabilities) before set-off	(15.2)	(2.4)	12.0	2.9	5.6	2.9	35.4	(32.5)
Set-off tax	-	-	-	-	-	-	(29.2)	29.2
At 31 December 2018	(15.2)	(2.4)	12.0	2.9	5.6	2.9	6.2	(3.3)
(Charge)/credit to income	(3.3)	1.2	2.0	(0.8)	(0.6)	(1.5)	3.2	(4.7)
Disposal of subsidiary	(0.7)	-	(3.7)	-	(0.5)	(4.9)	-	(4.9)
(Charge)/credit to equity	0.4	-	-	-	1.3	1.7	1.7	-
Exchange differences	-	-	0.1	-	(0.1)	-	-	-
Total assets/(liabilities) before set-off	(18.8)	(1.2)	10.4	2.1	5.7	(1.8)	11.1	(12.9)
Set-off tax	-	-	-	-	-	-	(8.0)	8.0
At 31 December 2019	(18.8)	(1.2)	10.4	2.1	5.7	(1.8)	3.1	(4.9)

restated (note 1)

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

	31 December 2019 £million	31 December 2018 £million
Deferred tax liabilities	(4.9)	(3.3)
Deferred tax assets	3.1	6.2
	(1.8)	2.9

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 £142.8 million (2018: £99.3 million) on gross losses of £824.6 million (2018: £577.4 million).

Legislation was enacted in September 2016 to reduce the UK corporation tax rate to 17% from 1 April 2020. UK deferred tax balances have therefore been measured at 17%. During the March 2020 Budget, the UK government announced that the reduction would be cancelled and the 19% rate retained from 1 April 2020. The effect of this had not been substantively enacted by the balance sheet date and therefore has not been reflected in these accounts. The impact would be an increase in deferred tax liability of £0.2 million

17. INVENTORIES

	31 December 2019 £million	31 December 2018 £million
Goods held for resale	26.0	25.0
Materials	6.1	10.8
	32.1	35.8

The cost of inventories recognised in cost of sales in the year was £17.4 million (2018: £18.5 million).

18. CONTRACT ASSETS AND LIABILITIES

(a) Contract assets

	31 December 2019 £million	Business related changes £million	Exchange differences £million	Disposal of subsidiary[1] £million	31 December 2018 # £million
Amounts due from construction contract customers included in trade and other receivables (note 19)	27.9	(52.9)	-	-	80.8
Retentions included in trade and other receivables (note 19)	40.9	(2.2)	(0.1)	-	43.2
Accrued income included in trade and other receivables (note 19)	118.7	(14.3)	(0.9)	(8.8)	142.7
	187.5	(69.4)	(1.0)	(8.8)	266.7

restated (note 1)
1 In November 2019 the Group disposed of its subsidiary, The Oman Construction Company LLC (part of the Support Services International business). Details of the disposal are shown in note 5.

Contract assets relating to the portion of performance obligations already fulfilled by the Group and for which the definitive right to receive cash is subject to completing further work under the relevant contracts. Contract assets are converted into trade receivables at the point that work delivered to the client is invoiced resulting in the Group's unconditional right to receive cash. Contract assets therefore represent a portion of future payments receivable by the Group under existing contracts.

Contract assets are reviewed annually for evidence of impairment in accordance with IFRS 9 and as at 31 December 2019 no provisions were required (2018 - £nil).

At 31 December 2019, contract assets amounted to £187.5 million, a decrease of 30% compared with 2018 (£266.7 million). This is largely due to the Group providing fewer services ahead of the agreed payment schedules for fixed-price contracts.

(b) Contract liabilities

	31 December 2019 £million	Business related changes £million	Exchange differences £million	Disposal of subsidiary[1] £million	31 December 2018 # £million
Amounts due to contract customers included in trade and other payables (note 22)	28.2	(2.0)	-	0.3	29.9
Deferred income included in trade and other payables (note 22)	40.8	(11.1)	(0.2)	-	52.1
	69.0	(13.1)	(0.2)	0.3	82.0

restated (note 1)
1 In November 2019 the Group disposed of its subsidiary, The Oman Construction Company LLC (part of the Support Services International business). Details of the disposal are shown in note 5.

These liabilities consist mainly of cash advances received from customers on account of orders received and the remaining liabilities relate to the amount of performance obligations still to be fulfilled and for which payment has already been received from the client.

At 31 December 2019, contract liabilities amounted to £69.0 million, a decrease of 16% compared with 2018 (£82.0 million). This is largely due to the Group receiving lower payments in advance from customers for equipment and services.

(c) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in 2019 relates to brought-forward contract liabilities.

	31 December 2019 £million	31 December 2018 £million
Revenue recognised in the year that was included in the contract liability balance at the beginning of the year	58.6	47.9

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

19. TRADE AND OTHER RECEIVABLES

	31 December 2019 £million	31 December 2018 # £million
Amounts recoverable from the sale of goods and services	272.6	353.5
Allowances for doubtful debts	(36.6)	(38.5)
	236.0	315.0
Amounts due from construction contract customers	27.9	80.8
Retentions	40.9	43.2
Other receivables	41.3	26.0
Prepayments	24.9	25.5
Accrued income	118.7	142.7
	489.7	633.2

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

	31 December 2019 £million	31 December 2018 £million
Retentions	4.1	8.1

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 financial assets.

Average credit period taken on the sale of goods and services is 34 days (2018: 35 days).

Ageing of trade receivables, not impaired but net of allowances for doubtful debts, is as follows:

	31 December 2019 £million	31 December 2018 # £million
Not more than one month past due	17.1	51.4
Between one and three months past due	17.1	34.9
Between three and six months past due	13.1	22.0
Greater than six months	29.4	49.2
Total past due but not impaired	76.7	157.5
Not past due	159.3	157.5
Total net receivables	236.0	315.0

The average age of the receivables past due but not impaired is 143 days (2018: 121 days).

Movement in allowances for doubtful debts is as follows:

	2019 £million	2018 £million
Balance at 1 January	38.5	47.5
Disposal of subsidiary	(0.1)	(1.4)
Amounts written off as uncollectable	(7.3)	(7.8)
Impairment losses recognised in the year	12.6	10.7
Amounts recovered during the year	(6.1)	(11.6)
Exchange differences	(1.0)	1.1
Balance at 31 December	36.6	38.5

restated (note 1)

20. CASH, DEPOSITS AND BORROWINGS

(a) Cash, deposits and borrowings

		31 December 2019 Face value £million	31 December 2019 Carrying value £million	31 December 2018 # £million
Cash and deposits	A	141.7	141.7	172.4
Bonding loan		(29.1)	(29.1)	-
Bank loans		(500.6)	(420.2)	(508.5)
Capitalised PIK interest		(11.6)	(11.6)	(24.7)
USD loans		-	-	(22.0)
US Private Placement loan notes		-	-	(272.3)
Bank borrowings		(541.3)	(460.9)	(827.5)
Non-current lease liabilities (note 24)		(66.2)	(66.2)	-
Current lease liabilities (note 24)		(28.2)	(28.2)	(5.3)
Total borrowings	B	(635.7)	(555.3)	(832.8)
Per balance sheet	A+B		(413.6)	(660.4)

restated (note 1)

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 £42.0 million (2018: £30.4 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 claims reserves.

On 15 March 2019 the Group completed a comprehensive restructuring (the Deleveraging Plan) by which £834.8 million of existing borrowings were refinanced by existing lenders via a debt for 100% equity in Interserve Group Limited swap amounting to £484.8 million leaving a ring-fenced debt of £350.0 million within the Equipment sub-group (RMDK) which forms part of the year-end 31 December 2019 debt of £555.3 million shown above. The £350.0 million of debt comprises of a term loan facility of £168.3 million with a cash pay margin of 3.0% above LIBOR and a £181.7 million loan facility with a payment in kind (PIK) interest margin attached of 10.0%, both of which are scheduled to mature on 15 March 2023.

Under the Deleveraging Plan, the Group also secured £120.6 million of new term loan facilities which are due to mature on 15 March 2022. These Super Senior Term Loans comprised of four tranches being Initial Facility A (£45.0 million), Facility B (£30.0 million), Facility C (£35.0 million) and Facility D (£10.6 million) attracting a cash interest rate of 3.0% above LIBOR. The full amounts of these facilities were drawn down during the year.

In August 2019 a £29.1 million Senior Bonding Loan provided by Euler Hermes was drawn down to cover potential liabilities under the Derby EfW contract and this loan is due to mature on 15 March 2022 (see note 5).

In October 2019 the Group obtained and fully drew down a new Incremental Facility A1 for £30.0 million which is subject to cash interest of LIBOR plus 7.0% and PIK interest which capitalises annually starting at 4.0% increasing to a maximum of 20.0% over the term of the loan to 15 March 2022.

At 15 March 2019 an independent valuation of the Group's refinanced debt was carried out by our advisers, PwC, which resulted in a discount being made to the carrying value of the £350.0 million of ring-fenced RMDK debt of £81.0 million and a discount of £13.6 million being recognised on the new Group financing of £120.6 million. The discount on these debts has subsequently been measured at amortised cost and is being released to the income statement at an effective interest rate over the term of the underlying loan. At 31 December 2019, the remaining unamortised discount on outstanding borrowings remaining was £80.4 million, with £21.0 million of the remaining discount expected to unwind within one year, £25.2 million between one and two years and £34.2million between two and five years.

On 27 April 2018 the Group issued 36.4 million warrants for consideration of £35.3 million taken in the form of a discount arrangement to recognise the fair value of the debt issued. The discount was subsequently measured at amortised and was released to the income statement using the effective interest method over the term of the underlying loan. At 31 December 2018, the remaining discount on borrowing remaining was £21.5 million and £4.3 million was released during the first two and a half months of 2019 leaving a balance of £17.2 million at 15 March 2019 that was written off in full as part of the Deleveraging Plan referred to above (see note 5).

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

20. CASH, DEPOSITS AND BORROWINGS CONTINUED

(a) Cash, deposits and borrowings continued

Total borrowings are repayable as follows:

	31 December 2019 £million	31 December 2018 £million
On demand or within one year	28.2	92.1
In the second year	17.2	60.0
In the third to fifth years inclusive	566.2	702.0
After more than five years	24.1	0.2
	635.7	854.3
Adjustment for discount on debt (see below)	(80.4)	(21.5)
	555.3	832.8
Less: Amount due for settlement within 12 months	(28.2)	(92.1)
Amount due for settlement after 12 months	527.1	740.7

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 £3.6 million and is all due for payment within one year (2018: £4.9 million within one year).

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

	31 December 2019 £million	31 December 2018 £million
Drawn facilities:		
US Private Placement loan notes	-	272.3
Bank loans	500.6	552.0
Bonding Loan	29.1	-
Total committed borrowing facilities	529.7	824.3

(b) Committed borrowing facilities

	31 December 2019 £million	31 December 2018 £million
US Private Placement loan notes	-	272.3
Bank facilities	538.7	552.0
Total committed borrowing facilities	538.7	824.3

Following the successful conclusion of our Deleveraging Plan in March 2019, the subsequent establishment of further incremental bank facilities in October 2019 and agreeing a Bonding Loan with Euler Hermes in August 2019, the Group has access to committed borrowing facilities at the year end of £538.7 million.

These committed borrowing facilities, following the restructuring of the 2018 year-end facilities as part of the Group's Deleveraging Plan, currently consist of Interserve Group sub-group bank term loan facilities of £159.6 million, ring-fenced RMDK sub-group loan facilities of £350.0 million and a £29.1 million bonding loan with Euler Hermes. The Interserve Group term loans mature on 15 March 2022, the RMDK ring-fenced loans on 15 March 2023 and the Euler Hermes Bonding Loan on 15 March 2022.

These facilities are subject to interest at the following rates:

	Face value £million	Cash payment	Payment-in-kind	Total
Term loans facilities A to D	120.6	LIBOR + 3.0%	n/a	LIBOR + 3.0%
Bonding Loan – Euler Hermes	29.1	LIBOR + 3.0%	n/a	LIBOR + 3.0%
Term loan incremental facility A1 and A2	39.0	LIBOR + 7.0%	n/a	LIBOR + 7.0%
		n/a	Starts at 4.0% pa increasing by 2.5% pa every quarter to a maximum of 20.0%	4.0% to 20.0% depending on how long drawn
RMDK FinCo facility	168.3	LIBOR + 3.0%	n/a	LIBOR + 3.0%
RMDK HoldCo facility	181.7	n/a	10.0% pa fixed	10.0% fixed

The Group also secured additional bonding facilities of up to £102.0 million as part of the 15 March 2019 deleveraging arrangements.

It is anticipated that the total interest expense in 2020 will be approximately £51.9 million of which circa £16.1 million will be cash interest.

The borrowings are subject to financial covenants including minimum adjusted EBITDA, exceptionals cap test and a net leverage test. The covenants for the facilities made available to the Support Services and Construction divisions are first due to be tested in 2021 and are measured quarterly on a rolling twelve-month basis. The net leverage for the RMD facilities are first due to be tested in December 2021 and the test level ranges from 5.2 times in 2020 and decreasing to 4.5 times in 2022.

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 prepayments and accrued income), long-term debtors and cash and cash equivalents. Financial liabilities comprise trade and other payables (excluding deferred income and other tax and social security), bank borrowings, overdrafts, loan notes and finance leases.

The Group has the following categories of financial assets and liabilities:

	31 December 2019	31 December 2018 #
	Other financial assets £million	Other financial assets £million
Financial assets at amortised cost:		
Cash and cash equivalents	141.7	172.4
Trade and other receivables	346.1	465.0
Total financial assets	487.8	637.4

	31 December 2019	31 December 2018 #
	Other financial liabilities £million	Other financial liabilities £million
Financial liabilities at fair value/amortised cost:		
Borrowings, overdrafts and finance leases	555.3	560.5
Loan notes	-	272.3
Trade and other payables	544.7	616.9
Total financial liabilities	1,100.0	1,449.7

restated (note 1)

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

21. FINANCIAL RISK MANAGEMENT CONTINUED

Trade and other receivables are recognised initially at the amount of consideration that is unconditional. The Group holds these receivables with the objective of collecting contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Trade and other payables are unsecured and are usually paid within 30 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values due to their short-term nature.

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.

Borrowings

At 15 March 2019 an independent valuation of the Group's refinanced debt was carried out by our advisers, PwC, which resulted in discounts being applied to the carrying value of the new ring-fenced RMDK debt of £350.0 million of £81.0 million based on the recognition of a fair valuation of £269.0 million and a discount on the carrying value of the new Group financing of £120.6 million of £13.6 million based on a fair valuation recognised of £107.0 million.

During the period 15 March 2019 to 31 December 2019, £10.8 million of the discount on the RMDK debt of £81.0 million has been unwound and £3.4 million of the £13.6 million of the Group debt discount has also been unwound during this period.

(a) Currency exposures

Where trade is transacted in non-local currency, the Company trades at spot rates of currency exchange.

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

	31 December 2019				31 December 2018 #			
	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	107.7	-	241.3	349.0	138.2	-	305.3	443.5
US dollar	9.1	-	33.2	42.3	10.4	-	49.5	59.9
Euro	10.2	-	15.3	25.5	5.1	-	15.6	20.7
Australian dollar	1.0	-	3.4	4.4	1.5	-	3.9	5.4
Dirham	3.1	-	11.5	14.6	2.0	-	17.8	19.8
Other	10.6	-	41.4	52.0	15.2	-	72.9	88.1
	141.7	-	346.1	487.8	172.4	-	465.0	637.4

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

	31 December 2019				31 December 2018 #			
	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	334.1	204.4	484.2	1,022.7	538.1	0.4	535.1	1,073.6
US dollar	-	4.6	35.8	40.4	22.0	272.3	45.6	339.9
Euro	-	3.8	3.2	7.0	-	-	3.0	3.0
Australian dollar	-	2.6	1.1	3.7	-	-	2.1	2.1
Dirham	-	1.4	5.8	7.2	-	-	9.9	9.9
Other	-	4.4	14.6	19.0	-	-	21.2	21.2
	334.1	221.2	544.7	1,100.0	560.1	272.7	616.9	1,449.7
Weighted average interest rates excluding amortisation of arrangement fees and bank margin	0.8%	10.0%			0.8%	5.6%		

restated (note 1)

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.

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 held a $348.3 million US Private Placement loan at the beginning of the year, which was unhedged, and has been refinanced as part of the 15 March 2019 deleveraging process. All of the Group's loans at the end of the year are denominated in sterling.

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 2019 £million	31 December 2018 £million
A 1% change in exchange rates results in:		
Change in profit	0.1	3.3
Change in reserves/net assets	2.8	5.7

A 1% change in the Qatari rial exchange rate would result in no change in profit and a £0.7 million change in reserves/net assets.

(b) Market price risk

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 2019 £million	31 December 2018 £million
A 1% change in exchange rates results in:		
Change in profit	3.6	5.5

(c) Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

Credit risk in respect of cash balances and deposits held with banks is mitigated by the use of a number of highly-rated financial institutions.

The Group's credit risk is primarily attributable to its trade receivables. Credit risk is managed at a divisional level within a set of overall Group risk management policy and procedures. More specifically, the divisions monitor, where available, the external credit ratings of their major customers and obtain, where necessary, credit references on their financial standing to ensure that they only deal with credit worthy counterparties. Also, where considered appropriate, parent company guarantees and letters of credit are obtained.

A review of all bad debt history was carried out to evaluate whether this was indicative of any expected future credit exposures. These historical rates of credit loss were then looked at in the context of current and future factors affecting customers' credit worthiness. Trade receivables are written off when there is considered to be very little likelihood of recovery of the debt.

The Group's expected credit loss percentage is an immaterial amount despite the fact that a significant allowance for doubtful debts of £36.6 million (2018: £38.5 million) has been provided at 31 December 2019 (see note 19). This is because a significant proportion of these allowances relates to business carried out in the Middle East region, in particular, Qatar and the UAE, where provisions have been made for overdue payments.

Our current assessment is that no future credit losses will arise but the Group continues to monitor its exposure to expected credit losses and further disclosure will be provided in future periods if the assessed expected credit losses are considered significant.

Apart from receivables due from customers related to HM Government and some existing credit exposures to customers in the Middle East, the Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(d) Liquidity risk

The Group needs to ensure that it has sufficient liquidity available to meet its future funding requirements and the divisions submit weekly, quarterly, annual and longer term cash flow forecasts to enable the Board to closely monitor these requirements.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

21. FINANCIAL RISK MANAGEMENT CONTINUED

(d) Liquidity risk continued

The Group holds cash and cash equivalents in short-term deposits which allow daily withdrawals of cash and the Group has adequate borrowing facilities at 31 December 2019 to meet its short to medium term funding requirements.

The Group has access to committed borrowing facilities of £538.7 million at 31 December 2019, which consist of bank term loan facilities of £159.6 million, ring fenced RMDK loan facilities of £350.0 million and a £29.1 million bonding loan with Euler Hermes. These term loans mature on 15 March 2022, the RMDK ring fenced loans on 15 March 2023 and the Euler Hermes bonding loan on 15 March 2022.

On 28 February 2020, a further £125.0 million of new Group loan facilities were arranged comprising of £80.0 million (Incremental Facility A3 i) and £45.0 million (Incremental Facility A3 ii) and following the completion of the sale of Support Services to Mitie Group plc, new financing arrangements were agreed with our Lenders to provide sufficient additional future funding to the remaining Interserve businesses.

Subsequent to the year end 31 December 2019, certain financial covenant arrangements have been re-negotiated with the Group's Lenders including waivers of future test periods and the reset of financial measurement targets which reduces the potential risk of any borrowing defaults with our Lenders.

The following table indicates the contractual cash flow maturities in respect of the Group's financial liabilities.

	31 December 2019				
	Carrying amount £million	Contractual cash flows £million	Less than one year £million	2 to 5 years £million	More than 5 years £million
Trade and other payables (note 24)	544.7	544.7	524.7	20.0	-
Bank borrowings (note 20)	431.8	626.1	13.4	612.7	-
Bonding loan (note 20)	29.1	31.9	1.0	30.9	-
Lease liabilities (note 24)	94.4	158.1	29.0	50.6	78.5
	1,100.0	1,360.8	568.1	714.2	78.5

	31 December 2018				
	Carrying amount £million	Contractual cash flows £million	Less than one year £million	2 to 5 years £million	More than 5 years £million
Trade and other payables (note 24)	616.9	616.9	584.8	32.1	-
Bank borrowings (note 20)	555.2	725.0	107.9	617.1	-
US Private Placement loan notes (note 20)	272.3	317.6	15.1	302.5	-
Lease liabilities (note 24)	5.3	5.4	5.4	-	-
	1,449.7	1,664.9	713.2	951.7	-

See note 20 for details of maturity dates and interest rates charged on bank borrowings and loan notes.

(e) Capital risk

The Group manages its capital to ensure that entities in the Group will be able to operate on a going concern basis, 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 its capital structure by issuing new shares or selling 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 2019 £million	31 December 2018 # £million
Obligations under finance leases	-	1.7
Trade payables	106.0	179.6
Advances received	28.2	29.9
Other taxation and social security	60.4	55.1
Other payables	33.9	38.3
Accruals	356.6	337.0
Deferred income	40.8	52.1
	625.9	693.7

Accruals largely relate to contract costs, staff costs, building utilities and other overheads.

23. TRADE AND OTHER PAYABLES – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2019 £million	31 December 2018 # £million
Obligations under finance leases	-	3.7
Trade payables	0.1	0.3
Other payables	19.9	31.8
	20.0	35.8

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

The average credit period taken for trade purchases is 29 days (2018: 36 days).

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

	31 December 2019 £million	31 December 2018 # £million
Less than one year	192.8	273.0
Between one and two years	20.0	32.1
	212.8	305.1

restated (note 1)

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

24. LEASE LIABILITIES

The Group's lease portfolio consists primarily of property and vehicle assets across its business locations in the UK, Ireland, Australia, USA, Oman and Spain.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including any in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- the exercise price of any purchase option if the lessee is reasonably certain to exercise that option; and
- payment of penalties for terminating a lease early, if the lease term reflects the Group exercises that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are discounted using the Group's incremental borrowing rate at transition. In determining the incremental borrowing rate:

- the Group used a matrix approach that begins with a country risk-free rate at differing maturities to reflect the lease term;
- rates are adjusted for liquidity risk and country risk (based on the countries in which we operate);
- a credit risk spread is applied based on yields of comparable entities; and
- where applicable, adjustments have been made to factor in security type and currency.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sub-let the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases of office buildings the Group is required to keep those properties in a good state of repair and return the properties to their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 14).

Lease liabilities are presented in the statement of financial position as follows:

	31 December 2019 £million
Current	28.2
Non-current	66.2
	94.4

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2019 is as follows:

	31 December 2019 £million
Minimum lease payments:	
Within one year	29.0
Between one to five years	50.6
After five years	78.5
Total minimum lease payments	158.1
Future finance charges	(63.7)
Present value of lease liabilities	94.4

The Group has elected not to recognise a lease liability for short-term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	31 December 2019 £million
Short-term leases	7.9
Leases of low-value assets	0.6
	8.5

Variable lease payments not recognised in the related lease liability are expensed as incurred and include rentals based on revenue from the use of the underlying asset, usage payments such as excess mileage allowance on vehicles and excess use charges on plant and machinery.

Additional information on variable lease payments is as follows:

The excess mileage arrangements in place with the lessor cover vehicle mileages tracking at either 10% or more of contracted under and over mileages. Vehicles tracking mileage either side of these tolerance levels are deemed to be under or over mileage and these trigger either additional charges or credits as applicable.

25. PROVISIONS

	Contract rectification provisions £million	Onerous contracts £million	Insurance claims £million	Restructuring costs £million	Property costs £million	Staff benefits # £million	Total # £million
At 1 January 2018	21.9	38.4	31.4	13.3	18.9	8.0	131.9
Additional provision in the year	8.0	13.7	6.5	4.6	4.2	0.2	37.2
Disposals	-	-	-	-	(0.2)	-	(0.2)
Reclassification against receivables	-	(11.4)	-	-	-	-	(11.4)
Release of provision	(8.6)	(9.8)	(1.8)	(3.6)	(4.9)	-	(28.7)
Utilisation of provision	(3.9)	(25.8)	(3.3)	(3.4)	(2.4)	0.1	(38.7)
Exchange differences	-	-	-	-	-	0.3	0.3
At 31 December 2018	17.4	5.1	32.8	10.9	15.6	8.6	90.4
Additional provision in the year	8.4	16.7	1.5	2.5	10.7	-	39.8
Disposals	-	-	-	0.1	(10.2)	(2.5)	(12.6)
Release of provision	(0.7)	-	(4.3)	(0.9)	(2.8)	-	(8.7)
Utilisation of provision	(6.8)	(4.7)	(0.2)	(1.0)	(2.4)	0.2	(14.9)
Exchange differences	-	(0.1)	-	(0.2)	-	(0.2)	(0.5)
At 31 December 2019	18.3	17.0	29.8	11.4	10.9	6.1	93.5

	31 December 2019 £million	31 December 2018 £million
Included in current liabilities	32.0	29.3
Included in non-current liabilities	61.5	61.1
	93.5	90.4

restated (note 1)

The impact of discounting is not material.

Contract rectification provisions include costs of construction site clearance, remedial costs required to meet clients contractual terms and potential claims under contract warranties. The main contracts to which these provisions relate are EfW plants (see critical accounting judgments note 1 (b) and the DNRC Defence Establishment Maintenance contract. Warranty claim provisions are expected to be utilised over their respective contractual warranty periods that may range between one and twelve years, but there is no certainty as to if and when a claim for rectification will be made.

Onerous contract provisions are made where the forecast costs of completing a contract exceed the forecast income generated over the life of the project. The main contracts to which these provisions relate are in relation to closure of unprofitable overseas branches (including the South African business) within the Equipment Services segment, the Saudi Arabian Colleges of Excellence

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

25. PROVISIONS CONTINUED

training contracts and for historic contracts with remaining liabilities that relate to the Power business. These amounts are based on best estimates of the amounts payable pending crystallisation of the actual liabilities. These provisions are expected to be utilised during 2020.

Insurance claim provisions mainly represent self insurance via the Group's captive insurance company of part of the Group's potential exposures to employers' liability risks and professional indemnity claims which amount to £10 million at 31 December 2019 (2018: £13 million). These insurance provisions also include public liability excess self insurance which is not covered by the captive insurance company amounting to £20 million at 31 December 2019 (2018: £20 million). These provisions are utilised as insurance claims are settled, which may take a number of years to close out.

Restructuring cost provisions largely relate to best estimates of employee termination and property closure costs payable that form part of the Group's Fit for Growth cost optimisation programme (see note 5) and these provisions are expected to be utilised in 2020 and beyond.

Property cost provisions include amounts in relation to restoration of leased premises, of which the most significant is £2.9 million for Ingenuity House where the lease expires in 2047. In addition, there are provisions for dilapidation costs in respect of exited properties. These provisions will be released as the properties are exited and negotiations with landlords over early termination of leases and the amount of dilapidations payable are completed.

Staff benefit provisions include end-of-service benefits relating to amounts provided in the Middle East region under the requirements of local labour laws to settle staff gratuity payments at the end of their contract of employment. These provisions are released as employees leave the companies, the exact timing of which is uncertain. In addition, included is a provision for a recently agreed Section 75 UK Plumbers pension scheme claim of £1.7 million.

26. SHARE CAPITAL

	31 December 2019 £million	31 December 2018 £million
Issued and fully paid:		
Interserve Plc nil ordinary shares (2018: Interserve Plc had 149,719,938 ordinary shares of 0.1p each and 149,719,938 deferred shares of 9.9p each)	-	15.0
Interserve Group Limited has 100,000 ordinary shares of £1.00 each (2018: nil)	0.1	-

On 15 March 2019 Interserve Plc entered into a pre-pack administration and the Administrator entered into an agreement for the sale of the business and certain assets of Interserve Plc to a newly incorporated company Montana 1 Limited with an issued share capital of two £1 shares owned by the existing Lenders to the Interserve Group. Montana 1 Limited was subsequently renamed as Interserve Group Limited (IGL) on 18 March 2019. On 15 March 2019 Interserve Plc, Interserve Group Holdings Limited (IGHL) and the Lenders entered into a Restructuring Implementation Deed which included the forgiveness of previous indebtedness, the recapitalisation of IGL and its subsidiaries and the issuance of shares in IGL to the Lenders in exchange for the debt forgiven. IGHL, IGL and the Lenders entered into a tripartite arrangement in which IGHL issued 99,998 ordinary £1 shares to IGL (the IGHL shares) in consideration for the release by the Lenders of IGHL's debt liabilities. IGL issued new equity of 99,998 ordinary £1 shares to the Lenders in consideration for the issuance by IGHL of 99,998 IGHL £1 ordinary shares, with the Lenders releasing IGHL from its existing debt liabilities of £484,765,792 in consideration for the issuance of 99,998 £1 ordinary shares in IGL.

Interserve Plc	Shares thousands	Share capital £million
At 1 January 2018	145,714.1	14.6
Exercised warrants	4,005.8	0.4
At 31 December 2018	149,719.9	15.0
Exercised warrants	11,554.2	1.1
Lapsed post-administration	(161,274.1)	(16.1)
At 31 December 2019	-	-

Interserve Group Limited	Shares thousands	Share capital £million
At 31 December 2018	-	-
Shares issued	100.0	0.1
At 31 December 2019	100.0	0.1

Warrants

As disclosed in our 2017 and 2018 annual reports, Interserve Plc had issued 36,428,530 warrants in 2017, for consideration of £35.3 million taken in the form of a discount adjustment to recognise the fair value of the debt issued to the providers of the new term loan and bonding facilities to buy ordinary shares at 10p per share. The warrants were exercisable from the date of issue through the duration of the funding arrangements for which they were consideration (potentially up to September 2021). 11,554,190 of these warrants were exercised during the period for cash consideration of £1.1 million (2018: 4,005,818 warrants exercised for cash consideration of £0.4 million) and the equivalent number of new shares issued to the holders. All 20,868,522 remaining warrants lapsed on Interserve Plc going into administration on 15 March 2019.

There were no share awards granted during the year, either by Interserve Plc or by Interserve Group Limited. All outstanding options and awards over shares in Interserve Plc lapsed on the company entering administration. There are no outstanding share awards in Interserve Group Limited at 31 December 2019.

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 directors have also considered possible events that could potentially lead to a liability crystalising including both likely and less probable scenarios and they are not aware of any other possible contingent liabilities of a material nature.

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	
	2019 £million	2018 £million	2019 £million	2018 £million
Joint ventures and associates				
Borrowings	4.5	20.9	0.8	0.8
Bonds and guarantees	84.6	246.0	32.3	131.1
	89.1	266.9	33.1	131.9

28. SHARE-BASED PAYMENTS

All of Interserve Plc's share-based incentive schemes lapsed on the company being placed into administration on 15 March 2019. Interserve Group Limited has no share-based incentive schemes, and has therefore not recognised any income statement charge relating to share-based incentive schemes during 2019 (2018: £2.5 million).

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 available 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 assets and liabilities of the schemes as at 31 December 2019.

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 Section of the Interserve Pension Scheme in the UK, where benefits are generally related to service and final salary. The Group operates a defined contribution plan for new hires, with membership of the defined benefit arrangements only permitted when specific contract terms require defined benefit provision. Contributions to the defined contribution arrangements are in addition to those set out below and are charged directly to profit and loss.

The current funding target for the Group's defined benefit schemes is to maintain assets equal to the value of the accrued benefits based on projected salaries (where relevant). The regulatory framework in the UK requires the Trustees and Group to agree upon the assumptions underlying the funding target, and then to agree upon the necessary contributions required to recover any deficit at the valuation date. There is a risk to the Group that adverse experience could lead to a requirement for the Group to make considerable contributions to recover any deficit.

The following table sets out the key IAS 19 assumptions used to assess the present value of the defined benefit obligation. The discount rate and RPI inflation assumptions shown below are the single equivalent rates for the full-yield curves assumed for the Interserve section of the Interserve Pension Scheme. The life expectancy assumptions shown relate to the vast majority of the membership of

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

29. DEFINED BENEFIT RETIREMENT SCHEMES CONTINUED

that scheme. The assumptions have been updated at 31 December 2019 to reflect the recent downward trend observed in projected future life expectancies issued by the Continuous Mortality Investigation. 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 16 years.

	2019	2018
Significant actuarial assumptions	2.9%	3.2%
Retail price index price inflation (pa)	2.2%	3.0%
Discount rate - defined benefit obligation (pa)		
Post-retirement mortality (expectancy of life in years)		
Male currently aged 65	86.1	86.3
Female currently aged 65	88.2	88.3
Male aged 65 in 20 years' time	87.2	87.3
Female aged 65 in 20 years' time	89.4	89.5
Other related actuarial assumptions		
Consumer price index price inflation (pa)	2.0%	2.1%
Pension increase assumptions (pa)		
RPI (minimum 0%)	2.9%	3.2%
RPI (minimum 0%, maximum 5%)	2.8%	3.1%
RPI (minimum 3%, maximum 5%)	3.6%	3.7%
CPI (minimum 0%)	2.1%	2.1%
CPI (minimum 0%, maximum 5%)	2.1%	2.1%
CPI (minimum 3%, maximum 5%)	3.2%	3.2%
Fixed 5%	5.0%	5.0%
General salary increases (pa)	2.5%	2.6%

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

	2019 £million	2018 # £million
Present value of defined benefit obligation	835.0	785.2
Fair value of schemes' assets	(937.3)	(870.9)
Net (asset) in balance sheet	(102.3)	(85.7)

The change in the net assets recognised in the balance sheet is comprised as follows:

	2019 £million	2018 # £million
Opening net (asset)/liability	(85.7)	53.6
Income/(expense) charged to profit and loss account	0.3	(66.0)
Amount recognised in other comprehensive income	2.9	(53.3)
Employer contributions	(19.8)	(20.0)
Closing net (asset)	(102.3)	(85.7)

restated (note 1)

The Group has assessed that under IFRIC 14 IAS 19 *The limit on a defined benefit asset, minimum funding requirements and their interaction,* the Trustees do not have unilateral power to wind up this scheme and the scheme rules allow the Company an unconditional right to refund assuming the gradual settlement of Plan liabilities over time until all members have left the scheme and therefore no asset limit adjustment has been applied to the closing net asset.

		Indicative change in defined benefit obligation	
	Sensitivity	2019 £million	2018 £million
Sensitivity to significant actuarial assumptions			
Price inflation	+0.5% pa	+49	+48
Discount rate	+0.5% pa	-64	-60
Post-retirement mortality (expectancy of life in years)	1 year increase	+38	+30

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 similar (although not necessarily equal) change in asset values, and the corresponding overall impact on the net (asset) will be different from the amounts above.

The amounts recognised in the income statement are as follows:

	2019 £million	2018 # £million
Employer's part of current service cost	1.9	2.5
Net interest on the net pension liability/(asset)	(3.2)	(0.2)
Administration expenses	1.6	2.3
Past service cost/(credit)	-	(70.6)
Total expense/(income) recognised in the income statement	0.3	(66.0)

The current service cost and administration expenses are included within operating profit. The net interest item is included within financing costs.

At the balance sheet date, the current allocation of the schemes' assets is as follows:

	31 December 2019		31 December 2018 #	
	Current allocation	Fair value £million	Current allocation	Fair value £million
Equities (quoted)	1%	8.7	1%	7.5
Alternative investments (primarily unquoted)	20%	183.5	15%	129.5
Property (unquoted)	0%	2.0	0%	1.9
Liability Driven Investment ("LDI") (unquoted)	31%	292.5	42%	367.2
Insurance policies (unquoted)	33%	314.6	36%	310.8
Corporate bonds (quoted)	8%	79.1	0%	2.7
Infrastructure (unquoted)	6%	52.0	5%	45.3
Cash and other (primarily unquoted)	1%	4.9	1%	6.0
	100%	937.3	100%	870.9

restated (note 1)

Alternative investments include diversified growth funds, emerging market multi-asset funds and asset-backed securities (primarily unquoted).

The Trustee of the Interserve Pension Scheme holds an insurance policy in the Interserve section of the scheme to protect the Group from certain risks associated with approximately 35% of that section's defined benefit obligation. The policy aims to 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. Due to the inexact nature of the match, the value of the asset (£291 million) can vary from the value of the corresponding defined benefit obligation (£246 million), which is primarily due to different inflation measures being applicable to the benefits valued for the asset and the liability (RPI and CPI respectively). Included within these values is circa £4 million of the defined benefit obligation which precisely matches the benefits in respect of certain dependants in receipt of pension.

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

29. DEFINED BENEFIT RETIREMENT SCHEMES CONTINUED

Except for the element of the policy which precisely matches the benefits (around 1% 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 106% 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:

	2019 £million	2018 # £million
Opening defined benefit obligation	785.2	988.4
Employer's part of current service cost	1.9	2.6
Interest on defined benefit obligation	22.4	23.3
Contributions by schemes' participants	0.2	0.2
Actuarial loss/(gain) due to:		
Changes in financial assumptions	88.5	(64.2)
Changes in demographic assumptions	(8.1)	(46.5)
Experience on defined benefit obligations	(4.0)	1.3
Benefits paid	(51.1)	(59.2)
Past service (credit)	-	(70.7)
Closing defined benefit obligation	835.0	785.2

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

	2019 £million	2018 # £million
Opening fair value of the schemes' assets	870.9	944.8
Interest on schemes' assets	25.6	23.5
Actual return on schemes' assets less interest on schemes' assets	73.5	(56.1)
Contributions by the employers	19.8	20.0
Contributions by schemes' participants	0.2	0.2
Administrative expenses	(1.6)	(2.3)
Benefits paid	(51.1)	(59.2)
Closing fair value of the schemes' assets	937.3	870.9

restated (note 1)

After 31 December 2017 a triennial actuarial valuation of the Interserve Pension Scheme was completed in 2019, with an effective date of 31 December 2017 and the future contribution rates were agreed as part of this exercise. Based on the resulting Schedule of Contributions currently in place, Group contributions are expected to be £20.3 million to the various defined benefit arrangements during 2020 (including deficit contributions to the Interserve section of the Interserve Pension Scheme of £15.0 million).

30. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Sales of goods and services		Purchases of goods and services		Amounts due from related parties		Amounts owed to related parties	
	2019 £million	2018 £million	2019 £million	2018 £million	2019 £million	2018 £million	2019 £million	2018 £million
Joint-venture entities	2.5	7.1	-	-	5.4	5.3	-	-
Associates	3.4	3.1	6.0	51.0	1.8	4.1	10.0	6.1

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. Provisions of £0.4 million have been made for doubtful debts in respect of the amounts owed by related parties (amounts due to the Equipment Services division, payable by associates in the Middle East).

Key management personnel are considered to be the directors of Interserve Group Limited. No dividends were paid in the year (2018: £nil) in respect of ordinary shares held by the Company's directors. Amounts paid to key management personnel are given in note 6.

31. INVESTMENTS IN JOINT VENTURES – ARRANGEMENTS

PFI/PPP arrangements that have reached financial close at 31 December 2019 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
Health										
Alder Hey Hospital	no	yes	100	operational	Q2 2013	mid-2015	2045	20	3.7	200.0
Scottish National Blood Transfusion	yes	yes	43	operational	Q4 2014	Q1 2017	2042	50	1.8	43.0
Education										
Hertford, Luton and Reading Schools	yes	yes	160	operational	Q1 2015	Q1 2017	2042	45	6.1	147.0
									11.6	
Invested to date										
Shares									-	
Loans									11.6	
Remaining commitment									-	
									11.6	

Interserve's share of the capital commitments of the joint ventures above amounts to £nil (2018: £nil).

Notes to the consolidated financial statements continued

for the year ended 31 December 2019

32. EVENTS AFTER THE BALANCE SHEET DATE

On 30 January 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) a pandemic resulting in the governments of many countries, states and cities taking preventative and protective actions such as imposing restrictions on travel and business operations and advising or requiring individuals to stay at home or quarantine in cases where people have been exposed to the virus.

In an effort to mitigate the impacts of COVID-19, the Interserve Group has implemented business continuity plans with only key front line staff working in its offices and at client contract locations and as far as possible the remainder of its staff working from home which has meant that there has been limited impact on service delivery and operations.

The Group has undertaken a detailed review of the potential impacts of COVID-19 and continues to monitor future developments closely. At the date of this report the impact of COVID-19 has predominantly been short-term reductions in revenues as a result of customer site closures, reductions in services and delays to commissioning of project work, partially offset by additional services requested in the health sector and some central government customers.

The Group has concluded that the coronavirus pandemic is a non-adjusting post balance sheet event in accordance with IAS 10 Events After the Reporting Period, as the significant changes in business activities and economic conditions occurred as a result of events arising after the 31 December 2019 reporting date.

On 28 February 2020, £125 million of new Group loan facilities were put in place to re-establish a stable financial platform from which to grow the business and to ensure sufficient liquidity over the medium term.

On 20 April 2020, the Group’s oil and gas EPC business Adyard Abu Dhabi LLC was sold to Altrad for a consideration of £23.6 million.

The Group experienced a cyber incident on 2 May 2020, which had a significant impact on a number of its operating IT systems with the exception of its International and Equipment Services businesses. On becoming aware of the cyber-attack, the Group’s crisis response was immediately launched, and its business continuity plans were implemented. There has been no material impact on the provision of services to customers and as of 24 August 2020 the remediation work carried out had been completed such that the Group believes there is no residual remaining threat as a result of this incident.

The Group conducted a comprehensive investigation into the attack and has implemented a range of remediation measures in response to the attack and put in place a programme of additional measures to further enhance its infrastructure, systems and processes. The investigation has identified no evidence of data exfiltration having taken place.

The Group complied with its notification obligations under applicable data privacy law including the Information Commissioners Office (ICO) and is cooperating fully with the ICO’s investigation. The Group understands that the ICO has indicated that it may take regulatory proceedings which may ultimately lead to a monetary penalty and or enforcement action, the results of which cannot currently be foreseen or reliably estimated.

On 29 September 2020, the Group’s 49% owned civil engineering, building and maintenance services business Khansaheb Civil Engineering LLC was sold for a consideration of £21.2 million.

On 5 October 2020, the Interserve Learning & Employment business was sold to Enact Fund for a consideration of £1 reflecting the fact that the purchaser took on liabilities.

On 30 November 2020, the sale of the majority of the Interserve Support Services business was completed for a combined consideration of £205 million comprising £105 million in cash and a 17.5% shareholding in the Mitie Group. This sale is expected to result in a net loss on disposal but the precise amount is at this stage difficult to quantify accurately until ongoing discussions around final completion value adjustments are agreed with Mitie. As part of this transaction, new Group funding arrangements were put in place with our lender to provide additional liquidity to the remaining Interserve businesses.

At the end of November 2020, the RMD Kwikform business which had not been affected by the May cyber attack, was subject to a separate but much more limited attack which caused some disruption to their normal operations. Again the Group’s crisis response was swiftly implemented and the impact was contained. RMDK’s investigation of the cyber attack is ongoing and it has complied with its notification obligations under applicable data privacy law including to the ICO. It is too early at this stage to say what if any action may be taken by the ICO.

On 1 December 2020, the sale of Interserve Healthcare to City & County Healthcare Group was completed for a consideration of £4.8 million.

Company balance sheet

at 31 December 2019

	Notes	2019 £million
Non-current assets		
Tangible assets	E	3.1
Right-of-use assets	F	0.5
Investments in subsidiaries	G	1.8
Investment in associates	H	2.7
		8.1
Current assets		
Debtors due within one year	I	25.5
Debtors due after one year	I	0.4
Cash at bank and in hand		26.4
		52.3
Current liabilities		
Creditors: amounts falling due within one year	J	(56.1)
Lease liabilities	L	(0.2)
Short-term provisions	M	(2.5)
Net current (liabilities)		(6.5)
Total assets less current liabilities		1.6
Non-current liabilities		
Creditors: amounts falling due after more than one year	K	(226.2)
Lease liabilities	L	(0.2)
Long-term provisions	M	(15.0)
Net (liabilities)		(239.8)
Capital and reserves		
Called-up share capital	O	0.1
Restructuring reserve		170.9
Profit and loss account		(410.8)
Total shareholders' (deficit)		(239.8)

Interserve Group Limited reported a loss after taxation for the period 15 February 2019 to 31 December 2019 of £410.8 million.

The financial statements of Interserve Group Limited (registered number 11830440) were approved by the Board of Directors on 22 February 2021.

Signed on behalf of the Board of Directors

M N Morris
Director

M J Everett
Director

Company statement of changes in equity

for the period 15 February 2019 to 31 December 2019

	Called-up share capital £million	Profit and loss account £million	Restructuring reserve[1] £million	Total £million
Balance as at 15 February 2019[1]	-	-	-	-
Loss for the period	-	(410.8)	-	(410.8)
Total comprehensive loss for the period	-	(410.8)	-	(410.8)
New shares issued	0.1	-	-	0.1
Restructuring adjustments	-	-	170.9	170.9
Transactions with owners	0.1	-	170.9	171.0
Balance as at 31 December 2019	0.1	(410.8)	170.9	(239.8)

1 The restructuring reserve balance of £170.9 million arises from the acquisition on 15 March 2019 of certain assets and liabilities from the administration of Interserve Plc by Interserve Group Limited, for a deemed consideration of £182.0 million less capitalised transaction costs of £10.6 million and £0.5 million of completion adjustments to net assets/liabilities acquired.

Notes to the Company financial statements

for the period ended 31 December 2019

(A) ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the period.

(a) Basis of accounting

On 15 March 2019, Interserve Plc entered into a pre-pack administration and on the same day the Administrators agreed to a sale of its business and certain assets and liabilities to a newly incorporated company, Montana 1 Limited (subsequently renamed as Interserve Group Limited), a company owned by the existing lenders to the Interserve Group. These financial statements have therefore been prepared for the accounting period from the date of incorporation of 15 February 2019 to 31 December 2019.

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 Group Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 38 of the directors' report.

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 Group consolidated financial statements for the year ended 31 December 2019. As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 Reduced disclosure framework:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based payment;
- the requirements of IFRS 7 *Financial Instruments*: disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 *Fair value measurement*;
- the requirement in paragraph 38 of IAS 1 *Presentation of financial statements* to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 *Property, plant and equipment*; and
  - paragraph 118(e) of IAS 38 *Intangible assets*;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 *Presentation of financial statements*;
- the requirements of paragraphs 134 to 136 of IAS 1 *Presentation of financial statements*;
- the requirements of IAS 7 *Statement of cash flows*;
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting policies, changes in accounting estimates and errors*;
- the requirements of paragraphs 17 and 18A of IAS 24 *Related party disclosures*;
- the requirements in IAS 24 *Related party disclosures* to disclose related party transactions entered into between two or more members of a group; and
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 *Impairments of assets*.

These financial statements are separate financial statements.

Where required, equivalent disclosures are given in the Annual Report and Financial Statements of the Group as shown in notes 1 to 32.

(b) Going concern

The directors have carried out a detailed going concern review of the Company for the period to 28 February 2022. This review has involved consideration of various downside case scenarios and stress testing of the current strategic plan of the Company.

Based on this analysis, the directors have a reasonable expectation that the Company has adequate resources to continue as a going concern for the foreseeable future, representing a period of at least a year from the date of this statement. The Board of directors has considered the length of the going concern period for this assessment and have concluded that a going concern period of 12 months remains appropriate.

In making this assessment the directors recognise that there are a material uncertainties that may cast significant doubt over the Company's ability to continue as a going concern. (See page 48 for further details.)

Based on current expectations, however, the directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

Notes to the Company financial statements continued

for the period ended 31 December 2019

(A) ACCOUNTING POLICIES CONTINUED

(c) Take-on balances

Under the 15 March 2019 Sale and Purchase Agreement, the following assets and liabilities of Interserve Plc were acquired out of a pre-pack administration by Interserve Group Limited at cost.

	15 March 2019 £million
Tangible assets	1.7
Investments in subsidiaries	1.9
Investment in associates	2.7
Trade debtors	5.5
Other receivables	0.8
Prepayments and accrued income	3.0
Amounts owed by Group undertakings	17.4
Other tax and social security	17.0
Other payables	(6.6)
Accruals	(5.8)
Amounts owed to Group undertakings	(26.3)
Provisions	(18.7)
Net balances	(7.4)

(d) Leases

In accordance with IFRS 16 Leased assets for any new contracts entered into on or after 1 January 2019, the Company considers whether a contract contains a lease which is defined as a contract, or part of a contract that conveys a right to use an asset for a period of time in exchange for consideration. At lease commencement date the Company recognises a right-of-use asset and lease liability on the balance sheet. The lease liability is measured at an amount equal to the present value of future lease payments over the lease term and subsequently adjusted for interest and lease payments. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, an estimate of any costs to dismantle and remove the asset at the end of the lease, payments made at or before the lease commencement date, less any incentives received. The right-of-use asset is measured at cost less accumulated depreciation.

(e) 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.

(f) 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
Leasehold 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.

(g) 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.

(h) Investments

Investments are stated at cost less any impairment at the balance sheet date.

(i) Impairment of investments

Investments are assessed for indicators of impairment 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 estimate future cash flows of the investment have been affected.

(j) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax is charged/credited to the income statement except to the extent that the underlying asset or liability is credited/charged to equity in which case the deferred tax follows that treatment to equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(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.

Trade receivables

Trade receivables are measured at transaction price and are impaired when the asset meets one of the following criteria:

(a) the financial asset is credit-impaired; or

(b) credit losses are expected on the asset. Any loss allowance relating to trade receivables has been calculated with reference to historical experience in the recoverability of such receivables, taking into consideration current conditions and forecasts of future economic conditions.

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 recognised at amortised cost.

Notes to the Company financial statements continued

for the period ended 31 December 2019

(A) ACCOUNTING POLICIES CONTINUED

(l) Financial instruments continued

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.

(m) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical judgements, apart from those involving estimates (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of investments in subsidiaries

Determining whether the Company's investments in subsidiaries have been impaired requires judgement. In making these judgements, net assets of subsidiaries at the balance sheet date and Board-approved budgets for the next three years are taken into consideration. The carrying amount of the investments in subsidiaries at the balance sheet date was £1.8 million with £182.1 million of impairment losses recognised in 2019.

Equity valuation of Company's investment in Interserve Group Holdings Limited

For the purposes of the restructuring of the Company on 15 March 2019, due to the administration of Interserve Plc, an equity value of £182.0 million was arrived at by our independent valuers, PwC, for the Company's investment in Interserve Group Holdings Limited (the intermediate holding company for the Interserve Group), which included a number of key valuation assumptions including, future cash flow forecasts, the use of market multiples, credit rating assessments and leveraged returns analysis to arrive at a valuation range. Management have applied a mid-valuation range to the outputs from this external valuation to arrive at the amount recognised in the financial statements.

(B) LOSS ON ORDINARY ACTIVITIES AFTER TAXATION

Interserve Group Limited reported a loss after taxation for the period 15 March 2019 to 31 December 2019 of £410.8 million.

The auditors' remuneration for audit services to the Company was £0.3 million.

(C) EMPLOYEES

The costs incurred in respect of employees were:

	2019 £million
Wages and salaries	12.9
Social security costs	1.7
Defined benefit pension costs	1.1
Defined contribution pension costs	0.9
	16.6

The average number of persons employed, being full-time equivalents, by the Company during the period, including directors, was 320.

Directors' remuneration

Directors' aggregated emoluments included in the above analysis:

	2019 £million
Short-term employee benefits	2.5
Post-employment benefits	-
Other long-term benefits	-
	2.5

All directors of the Company are eligible to join the defined contribution section of the Interserve Pension Scheme. At 31 December 2019, no directors were members of the defined contribution scheme and four directors received an allowance for contributions towards pension schemes unconnected with the Company.

Highest paid director emoluments are analysed as follows:

	2019 £million
Short-term employee benefits	1.4
Post-employment benefits	-
Other long-term benefits	-
	1.4

(D) DIVIDENDS

There were no dividends paid in the current period.

The directors do not recommend the payment of a final dividend for the period ended 31 December 2019.

Notes to the Company financial statements continued

for the period ended 31 December 2019

(E) TANGIBLE FIXED ASSETS

(a) Movement during the year

	Land and buildings £million	Computers £million	Other £million	Total £million
Cost				
At 15 March 2019	1.3	0.3	0.1	1.7
Additions	-	0.3	1.6	1.9
Disposals	-	(0.1)	(0.1)	(0.2)
At 31 December 2019	1.3	0.5	1.6	3.4
Depreciation				
Charge in the period	-	(0.4)	-	(0.4)
Disposals	-	0.1	-	0.1
At 31 December 2019	-	(0.3)	-	(0.3)
Net book value				
At 31 December 2019	1.3	0.2	1.6	3.1

(b) Land and buildings

	2019 £million
Net book value of land and buildings	
Freehold:	
Land at cost	1.1
Buildings at cost less depreciation	0.2
At 31 December 2019	1.3

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

	2019 £million
Committed	0.4

(F) RIGHT-OF-USE ASSETS

	Land and buildings £million	Motor vehicles £million	Other plant and equipment £million	Total £million
Cost				
At 15 March 2029	-	0.2	0.3	0.5
Additions	0.2	-	-	0.2
Disposals	-	-	-	-
At 31 December 2019	0.2	0.2	0.3	0.7
Depreciation				
Charge in the period	(0.1)	(0.1)	-	(0.2)
Disposals	-	-	-	-
At 31 December 2019	(0.1)	(0.1)	-	(0.2)
Net book value at 31 December 2019	0.1	0.1	0.3	0.5

(G) INVESTMENTS IN SUBSIDIARIES

	£million
Cost	
At 15 March 2019	183.9
Impairment losses for the period	(182.1)
At 31 December 2019	1.8

The Company reviews regularly for indicators of impairment against investments held.

In the continuing absence of upstream dividend flows from subsidiaries to the Company, the assessment of the carrying value of these investments was performance based on the net assets/liabilities positions of the investee companies. This impairment test indicated that an impairment of £182.1 million was required.

Details of the Company's subsidiaries at 31 December 2019 are given on pages 113 to 118, which form part of these financial statements. Direct subsidiaries are annotated with a superscript note 2.

(H) INVESTMENTS IN ASSOCIATES

	£million
Cost	
At 15 March 2019	2.7
Additions	-
Disposals	-
At 31 December 2019	2.7

The Company's direct associate at 31 December 2019 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%. The investment shown above of £2,661,000 relates to a loan.

Notes to the Company financial statements continued

for the period ended 31 December 2019

(I) DEBTORS

	2019 £million
Amounts falling due within one year:	
Trade debtors	0.1
Amounts owed by Group undertakings	14.8
Corporation tax	8.8
Prepayments and accrued income	1.8
	25.5
Amounts falling due after more than one year:	
Deferred taxation (note N)	0.4
	0.4

(J) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £million
Trade creditors	5.4
Amounts owed to Group undertakings	19.6
Other taxation and social security	17.0
Other creditors	7.5
Accruals and deferred income	6.6
	56.1

(K) CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2019 £million
Amounts owed to Group undertakings	226.2
	226.2

(L) LEASING

The Company's lease portfolio consists primarily of property and vehicle assets in the UK.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including any in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- the exercise price of any purchase option if the lessee is reasonably certain to exercise that option; and
- payment of penalties for terminating a lease early, if the lease term reflects the Company exercise that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are discounted using the Company's incremental borrowing rate at transition. In determining the incremental borrowing rate:

- the Company used a matrix approach that begins with a country risk-free rate at differing maturities to reflect the lease term;
- rates are adjusted for liquidity risk and country risk (based on the countries in which we operate);
- a credit risk spread is applied based on yields of comparable entities; and
- where applicable, adjustments have been made to factor in security type and currency.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security.

For leases of office buildings, the Company is required to keep those properties in a good state of repair and return the properties to their original condition at the end of the lease. Further, the Company must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The Company classifies its right-of-use assets in a consistent manner to its property, plant and equipment.

Lease liabilities are presented in the statement of financial position as follows:

	2019 £million
Current	0.2
Non-current	0.2
	0.4

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2019 is as follows:

	2019 £million
Minimum lease payments:	
Within one year	0.2
Between one to five years	0.3
After five years	-
Total minimum lease payments	0.5
Future finance charges	(0.1)
Present value of lease liabilities	0.4

The Company has elected not to recognise a lease liability for short-term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability is less than £0.1 million and has therefore not been disclosed.

Variable lease payments not recognised in the related lease liability are expensed as incurred and include rentals based on revenue from the use of the underlying asset, usage payments such as excess mileage allowance on vehicles and excess use charges on plant and machinery.

Additional information on variable lease payments is as follows:

The excess mileage arrangements in place with the lessor cover vehicle mileages tracking at either 10% or more of contracted under and over mileages. Vehicles tracking mileage either side of these tolerance levels are deemed to be under or over mileage and these trigger either additional charges or credits as applicable.

(M) PROVISIONS FOR LIABILITIES

	Insurance £million	Other £million	Total £million
At 15 March 2019	18.7	-	18.7
Charged to the profit and loss account	0.6	3.7	4.3
Utilisation of provision	(4.3)	(1.2)	(5.5)
At 31 December 2019	15.0	2.5	17.5

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.

Notes to the Company financial statements continued

for the period ended 31 December 2019

(M) PROVISIONS FOR LIABILITIES continued

Other includes dilapidation and onerous lease costs for exiting Intersection House.

	2019 £million
Included in current liabilities	2.5
Included in non-current liabilities	15.0
	17.5

(N) DEFERRED TAXATION ASSETS

		Other £million	Total £million
At 15 March 2019		-	-
Charge to the profit and loss		0.4	0.4
At 31 December 2019	-	0.4	0.4

A deferred tax rate of 17% has been used as the Company expects the value to predominantly reverse after April 2020 at which point the rate will be 17%.

(O) SHARE CAPITAL

On 15 March 2019 Interserve Plc entered into a pre-pack administration and the Administrator concluded an agreement for the sale of the business and certain assets of Interserve Plc to a newly incorporated company, Montana 1 Limited with an issued share capital of two £1 shares owned by the existing Lenders to the Interserve Group. Montana 1 Limited was subsequently renamed as Interserve Group Limited (IGL) on 18 March 2019. On 15 March 2019 Interserve Plc, Interserve Group Holdings Limited (IGHL) and the Lenders entered into a Restructuring Implementation Deed which included the forgiveness of previous indebtedness, the recapitalisation of IGL and its subsidiaries and the issuance of shares in IGL to the Lenders in exchange for the debt forgiven. IGHL, IGL and the Lenders entered into a tripartite arrangement in which IGHL issued 99,998 ordinary £1 shares to IGL (the IGHL shares) in consideration for the release by the Lenders of IGHL's debt liabilities, IGL issued new equity of 99,998 ordinary £1 shares to the Lenders in consideration for the issuance by IGHL of 99,998 IGHL £1 ordinary shares, with the Lenders releasing IGHL from its existing debt liabilities of £484,765,792 in consideration for the issuance of 99,998 £1 ordinary shares in IGL.

	2019 £million
Authorised	
Ordinary shares of £1 each	Unlimited
Allotted, called-up and fully paid	
100,000 ordinary shares of £1 each	
Movements in the period	0.1
At 31 December 2019	0.1

(P) CONTINGENT LIABILITIES

At 31 December 2019, 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.

The Company has given guarantees in respect of borrowing and guarantee facilities made available to joint-venture and associated undertakings for sums not exceeding £2.5 million in respect of borrowings and £46.3 million in respect of guarantees. At 31 December 2019, £0.8 million had been utilised in borrowings and £14.4 million in guarantees.

Related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of the related undertakings of Interserve Group Limited, as at 31 December 2019, is disclosed below which excludes any disposals made during 2020.

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 Group Limited;

(d) the results of each related undertaking are consolidated within these financial statements;

(e) the consolidated financial statements include the results for the twelve months to 31 December even if the accounting reference date is different; and

(f) registered office details are as at 31 December 2019.

Subsidiary undertakings	Principal activity	Group holding
United Kingdom		
Registered office: 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%
Bandt Holdings Ltd	Holding company	100.0%
Bandt P J H Ltd	Dormant company	100.0%
Bandt Properties Ltd	Property management	100.0%
Broomco (4110) Ltd [1]	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	Dormant company	100.0%
How Investments Ltd	Dormant company	100.0%
ILE Corporate Services Ltd	Central support to fellow subsidiary companies	100.0%
Interserve Building Ltd	Dormant company	100.0%
Interserve Construction Holdings 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	Property development management	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 [2]	Holding company	100.0%
Interserve Group Holdings (Qatar) Ltd	Dormant company	100.0%
Interserve Healthcare Holdings Ltd [3]	Holding company	100.0%
Interserve Healthcare Ltd	Healthcare services	100.0%
Interserve Holdings Ltd [20]	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%

Related undertakings continued

Subsidiary undertakings	Principal activity	Group holding
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 4]	Pension trustee company	100.0%
Interserve Working Futures Ltd	Welfare-to-work services	100.0%
Kwikform Holdings Ltd [5]	Holding company	100.0%
Kwikform UK Ltd [2]	Dormant company	100.0%
Modus FM Ltd [1]	Dormant company	100.0%
Montana BidCo Ltd (renamed RMDK BidCo since 31 December 2019). [20 21]	Holding company	100.0%
Montana FinCo Ltd (renamed RMDK FinCo since 31 December 2019). [20 22]	Holding company	100.0%
Montana HoldCo Ltd (renamed RMDK HoldCo since 31 December 2019). [20 23]	Holding company	100.0%
Montpellier Health Care Ltd	Dormant company	100.0%
Orient Gold Ltd	Dormant company	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 [20]	Holding company	100.0%
R M Douglas Construction Ltd	Dormant company	100.0%
Ruscombe Ltd [2]	Dormant company	100.0%
Sencia Ltd [5]	Training and employment services	100.0%
Strand Nurses Bureau Ltd	Dormant company	100.0%
T D Construction Ltd [5]	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 [2 7]	Dormant company	33.3%
The Hampshire and Isle of Wight Rehabilitation Company Ltd	Probation and rehabilitation services	80.0%
The Humberside, Lincolnshire and North Yorkshire Community Rehabilitation Company Ltd	Probation and rehabilitation services	80.0%
The Merseyside Community Rehabilitation Company Ltd	Probation and rehabilitation services	80.0%
The West Yorkshire Community Rehabilitation Company Ltd	Probation and rehabilitation services	80.0%
Tilbury Developments Ltd [2 5]	Dormant company	100.0%
Tilbury Douglas Construction Ltd	Dormant company	100.0%
Tilbury Douglas Projects Ltd	Property rental	100.0%
Tilbury Estates Ltd [2]	Dormant company	100.0%
Transcoast Ltd [2]	Dormant company	100.0%
Triangle Training Holdings Ltd	Dormant company	100.0%
Triangle Training Ltd	Holding company	100.0%
West's Group International Ltd [5]	Holding company	100.0%
Registered office: Capital Tower, 91 Waterloo Road, London SE1 8RT		
Bateman's Cleaning Services Ltd	Dormant company	100.0%
Broadreach Group Ltd [5]	Holding 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 [1]	Dormant company	100.0%

Subsidiary undertakings	Principal activity	Group holding
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%
How Engineering Services Ltd	Dormant company	100.0%
Industrial Services International 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 [1]	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]	Non-trading company	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 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%
Knightsbridge Guarding Holdings Ltd [9]	Holding company	100.0%
Knightsbridge Guarding Ltd	Dormant company	100.0%
Lancaster Office Cleaning Company Ltd	Dormant company	100.0%
MacLellan Group Ltd	Holding company	100.0%
MacLellan Integrated Services Ltd	Dormant company	100.0%
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%
Phoenix Fire Services Ltd	Non-trading company	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 [1]	Dormant company	100.0%
SSD UK Ltd	Specialist window cleaning	100.0%
TASS (Europe) Ltd	Dormant company	100.0%
T.H.K. Insulation Ltd	Dormant company	100.0%
Tilbury (City) Ltd [2]	Dormant company	100.0%
Unique Cleaning Services Ltd	Dormant company	100.0%

Related undertakings continued

Subsidiary undertakings	Principal activity	Group holding
Registered office: 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	Dormant company	100.0%
Interserve Rail Ltd [2 5]	Dormant company	100.0%
Paragon Management UK Ltd	Non-trading company	100.0%
Tilbury Water Treatment Ltd	Dormant company	100.0%
Whittle Contracts Ltd [2]	Dormant company	100.0%
Registered office: 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%
Registered office: 15 Canada Square, London E14 5GL		
Benchmark Carpet Care Ltd [25]	In liquidation	100.0%
Hi-Tech Cleaning Solutions Ltd	In liquidation	100.0%
KGL Business Services Ltd [25]	In liquidation	100.0%
Lancaster Employment Business Ltd [25]	In liquidation	100.0%
Lancaster Payroll Company Ltd [25]	In liquidation	100.0%
MSS Facilities Management Ltd [25]	In liquidation	100.0%
Perception UK LLP [6 25]	In liquidation	100.0%
St James Cleaning and Support Services Ltd [25]	In liquidation	100.0%
Registered office: Interserve House, Almondview Business Park, Livingston, West Lothian EH54 6SF		
Bandt Ltd	Holding company	100.0%
Tilbury Homes (Glasgow) Ltd [2]	Dormant company	100.0%
Tilbury Homes (Scotland) Ltd [2]	Dormant company	100.0%
Australia		
Registered office: PO Box 169, Melrose Park, South Australia 5039		
Rapid Metal Developments (Australia) Proprietary Ltd	Equipment hire and sales	100.0%
Bahrain		
Registered office: Flat 34, Building 5, Road 3001, Block 330, Manama		
RMD Kwikform Almoayed Bahrain WLL [12]	Equipment hire and sales	49.0%
Bermuda		
Registered office: PO Box HM 1022, Clarendon House, 2 Church Street, Hamilton, HM11		
Interserve Engineering & Construction (UAE) Ltd [24 26]	Non-trading company	100.0%
Channel Islands		
Registered office: Mill Court, La Charroterie, St Peter Port, Guernsey GY1 4ET		
Interserve Insurance Company Ltd	Insurance	100.0%
Chile		
Registered office: La Estera 811, Valle Grande, Lampa, Santiago 9390433		
RMD Kwikform Chile SA	Equipment hire and sales	100.0%
Colombia		
Registered office: Calle 98, No 18-71 of 805, Bogota		
RMD Kwikform Colombia SAS	Non-trading company	100.0%
Guam		
Registered office: Suite 101, Orlean Pacific Plaza, 865 South Marine Corps Drive, Tamuning 96913		
RMD Kwikform Guam, LLC	Equipment hire and sales	100.0%

Subsidiary undertakings	Principal activity	Group holding
Hong Kong		
Registered office: Suite 3806, Central Plaza, 18 Harbour Road, Wanchai		
RMD Kwikform Hong Kong Ltd	Equipment hire and sales	100.0%
India		
Registered office: 407-A6, Ansal Chamber - II, Bhikaji Cama Place, New Delhi 110066		
RMD Kwikform India Private Ltd	Equipment hire and sales	100.0%
Indonesia		
Registered office: 2nd Floor, Suite 202B, Wisma Pondok Indah, Jl Sultan Iskandar Muda V-TA, Pondok Indah, Jakarta		
PT Rapid Metal Development Indonesia	Non-trading company	100.0%
Ireland		
Registered office: Ballyboggan Road, Finglas, Dublin 11, D11 AKW1		
Interserve Industrial Services (Ireland) Ltd	Dormant company	100.0%
RMD Kwikform Ireland Ltd	Equipment hire and sales	100.0%
New Zealand		
Registered office: PO Box 22.316, 101 Station Road, Otahuhu, Auckland 6, 1640		
Rapid Metal Developments (NZ) Ltd	Equipment hire and sales	100.0%
Oman		
Registered office: PO Box 1639, Hay Al-Mina, Muscat, Postal Code 114		
Interserve Oman LLC [13]	Facilities management	70.0%
Registered office: Post Box 152, Muscat, Postal Code 103		
RMD Kwikform Oman LLC	Equipment hire and sales	70.0%
Peru		
Registered office: Calle Los Zorzales No.160, Piso 3, Distrito de San Isidro, Lima		
RMD Kwikform Peru SAC	Equipment hire and sales	100.0%
Philippines		
Registered office: Unit 2406-09 Raffles Corporate Center, F.Ortigas Jr. Ave., Ortigas Center, Pasig City, Metro Manila		
RMD Kwikform Philippines, Inc [14]	Equipment hire and sales	100.0%
Poland		
Registered office: Plac Konstytucji 6/55, 01-553 Warszawa		
Tilbury Douglas Polska Sp zoo	In liquidation	100.0%
Qatar		
Registered office: 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 [15]	Equipment hire and sales	49.0%
Saudi Arabia		
Registered office: 7536, Unit No 39, AR Riyadh 12472-4304		
ESG (Saudi Arabia) LLC	Education, training and employment services	100.0%
Registered office: PO Box 26982, Riyadh 11595		
Interserve Saudi Arabia LLC	Building maintenance and cleaning	100.0%
Registered office: Office No.4A, Gulf Star Building, near Hotel Meridien, Prince Turkey Road, Al Khobar 31952		
RMD Kwikform Saudi Arabia LLC	Equipment hire and sales	74.9%
Singapore		
Registered office: 77 Robinson Road, #13-00 Robinson 77, Singapore 068896		
RMD Kwikform Singapore Pte Ltd	Non-trading company	100.0%
South Africa		
Registered office: 52 Jakaranda Street, Plot 22, Hennopspark, Centurion		
RMD Kwikform (South Africa) (Proprietary) Ltd	Equipment hire and sales	100.0%

Related undertakings continued

Subsidiary undertakings	Principal activity	Group holding
Spain		
Registered office: 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%
Registered office: 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%
Registered office: Carretera Santa Creu de Calafell 81, 08850 Gava, Barcelona		
Interserve Integra, S.L.	Non-trading company	100.0%
United Arab Emirates		
Registered office: PO Box 7604, Plot M10, Musaffah Industrial, Oil Services Area, Sector 10, MW2, Musaffah, Abu Dhabi		
Adyard Abu Dhabi LLC [16 24]	Engineering, procurement and construction works and maintenance services for oil and gas industry	49.0%
Registered office: No.104, Arjan Emirates Real Estate – Branch 1, PO Box 129354, Al Hilal Building, Al Falah Road, Abu Dhabi		
Landmarc Gulf Consultancy Management LLC [17]	Administrative consultancy	25.0%
Registered office: 13th Floor, City Gate Tower, Abtec, Al Etihad Street, Al Mamzar, Sharjah		
RMD Kwikform Middle East LLC [18]	Equipment hire and sales	49.0%
Registered office: Office No.W705, Level 7, West Tower, Trade Centre Towers, Abu Dhabi		
RMD Kwikform Oil & Gas Services LLC [19]	Equipment hire and sales	49.0%
United States of America		
Registered office: 251 Little Falls Drive, Wilmington, 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 A and ordinary B shares.
2 Shareholding directly held by Interserve Group Limited.
3 Ownership held in ordinary A, ordinary B, preference A, preference B and deferred shares.
4 Ownership held in ordinary A, ordinary B and ordinary C shares.
5 Ownership held in ordinary and preference shares.
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 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.
13 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.
14 Shareholding directly held by Interserve Plc (in administration) (transfer pending).
15 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.
16 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.
17 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.
18 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.
19 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.
20 Registered office address changed to Brickyard Road, Aldridge, Walsall, West Midlands WS9 8BW post-year-end.
21 Name changed to RMDK BidCo Limited post-year-end.
22 Name changed to RMDK FinCo Limited post-year-end.
23 Name changed to RMDK HoldCo Limited post-year-end.
24 Disposed post-year-end.
25 Dissolved post-year-end.
26 Changed name to Falcon Holdco Limited post-year-end.

Associated undertakings[1]	Principal activity	Group holding
Accounted for as Associates within the financial statements		
Oman		
Registered office: PO Box 1639, Hay Al-Mina, Muscat, Postal Code 114		
Douglas OHI LLC	Civil engineering and building	49.0%
Registered office: PO Box 375, Muscat, Postal Code 114, Jibroo		
Occupational Training Institute LLC	Health & safety, environment and educational services	49.0%
Qatar		
Registered office: 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%
Registered office: Zone 40, New Salata, Building No.309, C Ring Road, Doha		
Darwish-Interserve Facility Management WLL	Facilities management services	49.0%
Registered office: 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%
Registered office: 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%
Registered office: 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%
Registered office: PO Box 23651, Doha		
Qatar International Safety Centre WLL	Safety training for oil, gas and petrochemical industries	49.0%
Registered office: PO Box 22715, Doha		
United Industrial Services WLL	Holding company	49.0%
Saudi Arabia		
Registered office: Alsroor Building, Kilo 1, Mecca Road, Jeddah		
Al-Esayi Saif Noman Douglas Ltd	In liquidation	49.0%
Registered office: Unit 6 and 7, Al Amani Center, Anas Bin Malik Road, Building No.2727, Additional No.8114, Riyadh, Postal Code 133		
Interserve Rezayat Company LLC	Building operation and maintenance, mechanical and industrial works	50.0%
United Arab Emirates		
Registered office: 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%
Registered office: PO Box 259, Abu Dhabi		
Khansaheb Hussain LLC	Civil engineering, building and maintenance services	49.0%

Related undertakings continued

Associated undertakings[1]	Principal activity	Group holding
Accounted for as Joint Ventures within the financial statements		
United Kingdom		
Registered office: 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%
Registered office: Capital Tower, 91 Waterloo Road, London SE1 8RT		
PriDE (SERP) Ltd [4]	Non-trading company	50.0%
Sussex Estates and Facilities LLP [3]	Facilities management services	35.0%
Registered office: 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%
Landmarc Support Services Ltd [5]	Management/maintenance services for MoD Army Training Estate	51.0%
Registered office: 55 Baker Street, London W1U 8EW		
HLR Schools Holding Ltd	Holding company	45.0%
HLR Schools Ltd	School/college construction/operation	45.0%
Registered office: Queens Insurance Building Suite 3a, 24 Queen Avenue, Liverpool L2 4TZ		
Public Services Lab LLP [3]	Public services lab to support charities, community groups and social enterprises	35.0%
Registered office: c/o Deloitte LLP, Four Brindleyplace, Birmingham B1 2HZ		
Resource Recovery Solutions (Derbyshire) Holdings Ltd [4]	In administration	50.0%
Resource Recovery Solutions (Derbyshire) Ltd	In administration	50.0%
Registered office: Interserve House, Almondview Business Park, Almondview, Livingston EH54 6SF		
Edinburgh Haymarket Developments Ltd [4]	Non-trading company	50.0%
Seacole National Centre (Holding) Ltd [4]	Holding company	50.0%
Seacole National Centre Ltd	Construction/maintenance of new National Centre for Scottish National Blood Transfusion Service	49.5%

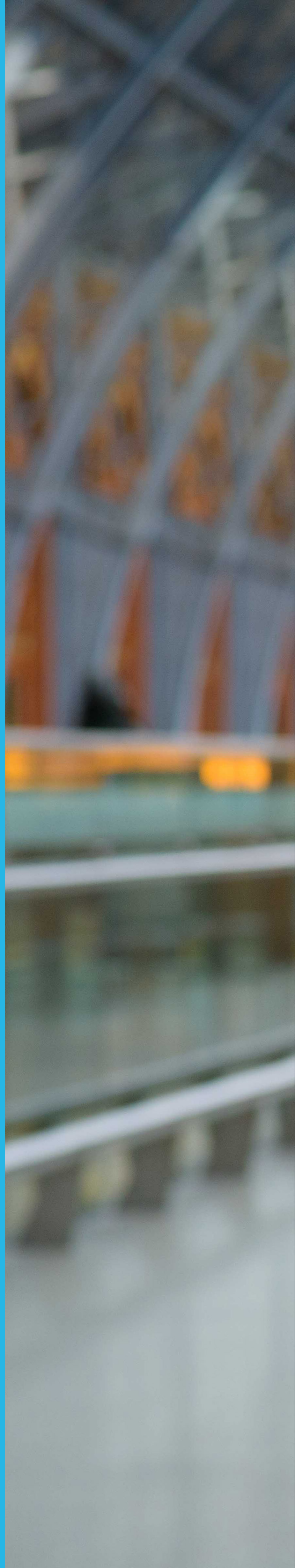
Notes - associated undertakings

1 Accounted for using the equity method of consolidation.
2 Shareholding directly held by Interserve Plc (in administration).
3 No share capital.
4 Ownership held in ordinary B shares.
5 Ownership held in ordinary A and ordinary C shares.

Joint ventures[1]	Principal activity	Group holding
United Kingdom		
Registered office: 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%

Notes - joint ventures

1 Accounted for as joint operations within the financial statements.



Interserve

info@interserve.com