

Consolidated income statement for the year ended 31 December 2008

	Notes	Year ended 31 December 2008			Year ended 31 December 2007		
		Before exceptional items and amortisation of acquired intangible assets £million	Exceptional items and amortisation of acquired intangible assets £million	Total £million	Before exceptional items and amortisation of acquired intangible assets £million	Exceptional items and amortisation of acquired intangible assets £million	Total £million
Continuing operations							
Revenue	2	1,800.0	-	1,800.0	1,738.0	-	1,738.0
Cost of sales		(1,576.8)	-	(1,576.8)	(1,544.4)	-	(1,544.4)
Gross profit		223.2	-	223.2	193.6	-	193.6
Administration expenses		(163.8)	-	(163.8)	(138.8)	-	(138.8)
Amortisation of acquired intangible assets	4	-	(5.0)	(5.0)	-	(4.8)	(4.8)
Total administration expenses		(163.8)	(5.0)	(168.8)	(138.8)	(4.8)	(143.6)
Profit on disposal of property and investments	5	-	-	-	-	1.0	1.0
Operating profit		59.4	(5.0)	54.4	54.8	(3.8)	51.0
Share of result		28.6	-	28.6	18.5	-	18.5
Amortisation of acquired intangible assets	4	-	(0.3)	(0.3)	-	(0.3)	(0.3)
Share of result of associates and joint ventures		28.6	(0.3)	28.3	18.5	(0.3)	18.2
Total operating profit		88.0	(5.3)	82.7	73.3	(4.1)	69.2
Investment revenue	7	39.9	-	39.9	38.1	-	38.1
Finance costs	8	(42.7)	-	(42.7)	(38.0)	-	(38.0)
Profit before tax		85.2	(5.3)	79.9	73.4	(4.1)	69.3
Tax (charge)/credit	9	(23.6)	1.4	(22.2)	(21.0)	1.1	(19.9)
Profit for the year		61.6	(3.9)	57.7	52.4	(3.0)	49.4
Attributable to:							
Equity holders of the parent		58.3	(3.9)	54.4	49.6	(3.0)	46.6
Minority interest		3.3	-	3.3	2.8	-	2.8
		61.6	(3.9)	57.7	52.4	(3.0)	49.4
Earnings per share							
Basic	11			43.5p			37.5p
Diluted				42.7p			36.9p

Consolidated statement of recognised income and expense

For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £million	Year ended 31 December 2007 £million
Exchange differences on translation of foreign operations		48.8	3.4
Loss on available-for-sale financial assets		(1.3)	-
Losses on cash flow hedges (joint ventures)		(79.1)	(2.0)
Gains on available-for-sale financial assets (joint ventures)		109.2	25.8
Actuarial (losses)/gains on defined benefit pension schemes	33	(80.7)	15.7
Deferred tax on items taken directly to equity	9	14.2	(13.8)
Net income recognised directly in equity		11.1	29.1
Profit for the year		57.7	49.4
Total recognised income and expense		68.8	78.5
Attributable to:			
Equity holders of the parent		65.5	75.7
Minority interest		3.3	2.8
		68.8	78.5

Consolidated balance sheet at 31 December 2008

	Notes	2008 £million	2007 £million
Non-current assets			
Goodwill	12	228.9	228.4
Other intangible assets	14	33.4	34.8
Property, plant and equipment	15	156.8	117.6
Interests in joint ventures	16	114.0	82.1
Interests in associated undertakings	16	72.5	39.3
Investments	17	-	0.1
Deferred tax asset	18	19.2	5.1
		624.8	507.4
Current assets			
Inventories	19	27.8	15.6
Trade and other receivables	21	372.1	370.7
Cash and deposits	22	61.3	69.4
		461.2	455.7
Total assets		1,086.0	963.1
Current liabilities			
Bank overdrafts	22	(3.1)	(4.9)
Unsecured loan notes	23	-	(1.0)
Trade and other payables	25	(466.0)	(468.3)
Current tax liabilities		(13.8)	(10.0)
Short-term provisions	28	(14.0)	(5.8)
		(496.9)	(490.0)
Net current liabilities		(35.7)	(34.3)
Non-current liabilities			
Bank loans	22	(165.5)	(163.0)
Trade and other payables	26	(5.1)	(9.4)
Non-current tax liabilities		(9.1)	(8.4)
Long-term provisions	28	(24.0)	(26.0)
Retirement benefit obligation	33	(153.1)	(83.1)
		(356.8)	(289.9)
Total liabilities		(853.7)	(779.9)
Net assets		232.3	183.2
Equity			
Share capital	29	12.5	12.5
Share premium account	30	112.7	111.9
Capital redemption reserve	30	0.1	0.1
Merger reserve	30	49.0	49.0
Hedging and translation reserves	30	108.3	38.7
Investment in own shares	30	(0.5)	(0.5)
Retained earnings	30	(51.8)	(30.1)
Equity attributable to equity holders of the parent		230.3	181.6
Minority interest	30	2.0	1.6
Total equity		232.3	183.2

These financial statements were approved by the Board of Directors on 11 March 2009.
Signed on behalf of the Board of Directors

A M Ringrose

A M Ringrose

T C Jones

T C Jones

Consolidated cash flow statement for the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £million	Year ended 31 December 2007 £million
Operating activities			
Total operating profit		82.7	69.2
Adjustments for:			
Amortisation of acquired intangible assets	14	5.0	4.8
Depreciation of property, plant and equipment	15	22.6	21.5
Gain on disposal of property and investments		-	(1.0)
Pension payments in excess of the income statement charge		(10.7)	(9.9)
Share of results of associates and joint ventures		(28.3)	(18.2)
Non-cash charge relating to share-based payments	32	3.5	2.0
Gain on disposal of property, plant and equipment		(9.0)	(8.0)
Operating cash flows before movements in working capital		65.8	60.4
(Increase)/decrease in inventories		(7.5)	0.1
Decrease/(increase) in receivables		11.2	(65.7)
(Decrease)/increase in payables		(10.9)	70.2
Cash generated by operations		58.6	65.0
Taxes paid		(14.0)	(4.5)
Net cash from operating activities		44.6	60.5
Investing activities			
Interest received		7.3	6.5
Increase in investment in associate	16c	-	(9.1)
Dividends received from associates and joint ventures	16a	13.5	8.4
Proceeds on disposal of property, plant and equipment		20.2	21.5
Capital expenditure	14/15	(54.8)	(43.8)
Purchase of subsidiary undertaking	13	(0.3)	-
Investment in joint ventures - PFI investments	16b	(8.2)	(3.2)
Disposal of investment	17	0.1	-
Receipt of loan repayment - PFI investments	16b	0.4	0.4
Receipt of loan repayment - associated undertakings	16c	0.3	-
Net cash used in investing activities		(21.5)	(19.3)
Financing activities			
Interest paid		(10.2)	(9.1)
Dividends paid to equity shareholders	10	(20.6)	(19.3)
Dividends paid to minority shareholders		(2.9)	(2.6)
Issue of shares		0.8	2.7
Increase in bank loans	22	2.5	22.8
Movement in obligations under finance leases		(0.2)	0.5
Redemption of loan notes	23	(1.0)	(0.4)
Net cash used in financing activities		(31.6)	(5.4)
Net (decrease)/increase in cash and cash equivalents		(8.5)	35.8
Cash and cash equivalents at beginning of period		64.5	28.4
Effect of foreign exchange rate changes		2.2	0.3
Cash and cash equivalents at end of period		58.2	64.5
Cash and cash equivalents comprise			
Cash and deposits		61.3	69.4
Bank overdrafts		(3.1)	(4.9)
		58.2	64.5
Reconciliation of net cash flow to movement in net debt			
Net (decrease)/increase in cash and cash equivalents		(8.5)	35.8
Increase in bank loans		(2.5)	(22.8)
Movement in obligations under finance leases		0.2	(0.5)
Redemption of loan notes		1.0	0.4
Change in net debt resulting from cash flows		(9.8)	12.9
Effect of foreign exchange rate changes		2.2	0.3
Movement in net debt during the period		(7.6)	13.2
Net debt - opening		(101.6)	(114.8)
Net debt - closing		(109.2)	(101.6)

Notes to the consolidated financial statements for the year ended 31 December 2008

Basis of preparation note

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

Adoption of new and revised standards

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

Standard	Effective date
IFRS 8 - Operating segments	01 Jan 09
IFRIC 12 - Service concession arrangements*	01 Jan 08
IFRIC 14 - IAS 19, The limit on a defined benefit asset, minimum funding requirement and their interaction*	01 Jan 08
IFRIC 15 - Agreements for the construction of real estate	01 Jan 09
IFRIC 16 - Hedges of a net investment in a foreign operation*	01 Oct 08

* Awaiting adoption by the European Union

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Critical accounting judgements and key sources of estimation and uncertainty

In the preparation of the consolidated financial statements management makes certain judgements and estimates that impact the financial statements. While these judgements are continually reviewed the facts and circumstances underlying these judgements may change resulting in a change to the estimates that could impact the results of the Group. In particular:

Revenue and margin recognition

The policy for revenue recognition on long-term and service contracts is set out in notes 1(d) and (e). Judgements are made on an ongoing basis with regard to the recoverability of amounts due and liabilities arising. Regular forecasts are compiled on the outcomes of these types of contracts, which require assessments and judgements relating to the recovery of pre-contract costs, changes in work scopes, contract programmes and maintenance liabilities.

PFI derivative financial instruments

The Group's PFI/PPP joint venture and associate companies use derivative financial instruments to manage the interest rate and inflation rate risks to which the concessions are exposed by their long-term contractual agreements. These derivatives are initially recognised as assets and liabilities at their fair value and subsequently re-measured at each balance sheet date at their fair value. The fair value of derivatives, assessed by discounting future cash flows, constantly changes in response to prevailing market conditions.

Measurement of impairment of goodwill

As set out in note 1(b) the carrying value of goodwill is reviewed for impairment at least annually. In determining whether goodwill is impaired an estimation of the value in use of the cash generating unit (CGU) to which the goodwill has been allocated is required. This calculation of value in use requires estimates to be made relating to the timing and amount of future cash flows expected from the CGU, and suitable discount rates based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant CGU.

Retirement benefit obligations

In accordance with IAS 19 Employee Benefits, the Group has disclosed in note 33 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 the likely future return on scheme assets have been made.

Share-based payments

In calculating the charge for the year, under IFRS 2 Share-based Payment, certain assumptions have been made surrounding the future performance of Interserve Plc's earnings per share and the number of employees likely to remain employed for the duration of the plan. In addition, in order to arrive at a fair value of each of the grants, certain parameters have been assumed and these are disclosed for the 2008 and 2007 grants in note 32.

Notes to the consolidated financial statements continued

1 Accounting policies

Interserve Plc (the Company) is a company incorporated in the United Kingdom under the Companies Act 1985. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in joint ventures and associates. These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out below.

These financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments.

The financial statements are prepared on a going concern basis. As disclosed on page 41 the directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future.

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

(a) Basis of consolidation

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

Minority interests in the net assets of the consolidated subsidiaries are identified separately from the Group's equity interest therein. Minority interests consist of those interests at the date of the original business combination and the minority's share of the changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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.

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

(b) Business combinations

Business combinations are accounted for using the acquisition accounting method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair value as at the acquisition date.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP value at that date, subject to being subsequently tested for impairment. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal. Goodwill arising on the acquisition of shares in associated undertakings is included within investments in associated undertakings.

The interest of minority shareholders in the acquiree is initially measured at the minorities' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(c) Foreign currency

Transactions denominated in foreign currency are translated at the rates ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit for the year.

The financial results and cash flows of foreign subsidiaries, associated undertakings and joint ventures are translated into sterling at the average rate of exchange for the year, the balance sheets are translated into sterling at the closing rate of exchange, and the difference arising from the translation of the opening net assets and financial results for the year at closing rate is taken directly to reserves.

1 Accounting policies (continued)

(d) Revenue

Revenue comprises the fair value of goods and services supplied to external customers, the value of work executed in respect of provision of services and construction contracts and the rental and sale of equipment, excluding VAT. Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

Investment revenue is recognised on an accruals basis.

(e) Construction contracts

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. When the outcome of a contract cannot be estimated reliably, revenue is only recognised to the extent that it is probable that it will be recoverable. Expected losses are recognised immediately. Stage of completion is estimated by surveys of work performed by quantity surveyors in conjunction with clients.

(f) Other intangible assets

Intangible assets acquired as part of an acquisition of a business are stated at fair value less accumulated amortisation and any impairment losses, provided that the fair value can be measured reliably on initial recognition.

Operating software acquired as part of a related item of hardware is capitalised within property, plant and equipment along with the hardware acquired. Other software licences acquired are capitalised, along with the cost to bring the software into use, within intangible assets.

Other intangible assets are amortised over their useful economic lives on a straight line basis, typically between three and ten years.

(g) Property, plant and equipment

(i) Tangible fixed assets are carried at cost less any accumulated depreciation and any impairment losses. Properties in the course of construction are carried at cost less any recognised impairment loss. Depreciation is charged so as to write off the cost of assets over their expected useful lives.

Depreciation is provided on a straight line or reducing balance basis at rates ranging between:

	Straight line	Reducing balance
Freehold land	Nil	-
Freehold buildings	2% to 5%	-
Leasehold property	over the period of the lease	-
Plant and equipment	10% to 50%	11.5% to 38%

(ii) Property, plant and equipment held under finance leases are capitalised and depreciated over their expected useful lives. The finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding.

(iii) The costs of operating leases are charged to the income statement as they accrue.

(h) Impairment of tangible and other intangible assets

At least annually or when changes in market conditions suggest that an asset may be impaired, the Group reviews the carrying amounts of its tangible and intangible assets compared to their recoverable amounts to determine whether there is any indication that those assets have suffered an impairment loss (see note 12). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

(i) Investments

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

(j) Inventories

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

(k) Borrowing costs

Project-specific finance costs are capitalised until the asset becomes operational. All other borrowing costs are recognised in the income statement on an accruals basis or the effective interest method as appropriate.

(l) Pre-contract costs

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset when it is virtually certain that a contract will be obtained and the contract is expected to result in future net cash inflows.

Notes to the consolidated financial statements continued

1 Accounting policies (continued)

In the case of PFI bid costs, on financial close of the project the Group recovers bid costs by charging a fee to the relevant project company. If the fee exceeds the amount held by the Group as an asset, the excess is credited to the balance sheet as deferred income and is released to the income statement over a period appropriate to the risks concerned.

(m) Leases

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

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

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

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using an appropriate rate that takes into account the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(o) Financial instruments

Trade receivables

Trade receivables are initially measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement where there is objective evidence that the asset is impaired. Trade receivables are financial assets and classified as loans and receivables.

Cash and deposits

Cash and deposits comprise cash on hand and demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and deposits are financial assets and are classified as loans and receivables.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Bank borrowings are other financial liabilities.

Trade payables

Trade payables are other financial liabilities initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Transactions in derivative financial instruments are for risk management purposes only. The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign currency risk. To the extent that such instruments are matched to underlying assets or liabilities, they are accounted for using hedge accounting.

Derivatives are initially recognised at fair value at the date a derivative contract is taken out and subsequently remeasured at fair value at each balance sheet date. Changes in fair value of derivative instruments that are designated as, and effective as, hedges of future cash flows and net investments are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had been previously recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in fair value of derivative instruments that do not qualify for hedge accounting, or have not been designated as hedges, are recognised in the income statement as they arise.

1 Accounting policies (continued)

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

(p) Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2004.

The Group issues share-based payments to certain employees. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate valuation model. The Black-Scholes option pricing model has been used to value the Share Option and the Share Matching plans. A stochastic model has been used to value the Performance Share Plan.

(q) PFI projects

The Group has 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 Group, and therefore the asset provided is accounted for as a financial asset and is classified as available-for-sale.

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

During construction the financial assets are carried at fair value which is assumed to be equivalent to cost, plus attributable profit to the extent that this is reasonably certain after making provision for contingencies, less any losses incurred or foreseen in bringing contracts to completion, and less amounts received as progress payments. Costs for this purpose include valuation of all work done by subcontractors, whether certified or not, and all overheads other than those relating to the general administration of the relevant companies.

Once the project reaches its operational phase, 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 movement in the fair value of the financial asset since the previous balance sheet date is taken to equity.

(r) Pensions

The Group has both defined benefit and defined contribution pension schemes for the benefit of permanent members of staff. For the defined benefit schemes the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised directly in equity and presented in the statement of recognised income and expense.

For defined contribution schemes, the amount recognised in the income statement is equal to the contributions payable to the schemes during the year.

(s) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are calculated at the rates in 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 on the difference between the carrying value of an asset or liability and the tax base of the same item. Deferred tax assets are recognised to the extent that it is regarded as probable that there will be sufficient profits in the future to enable the assets to be utilised and reviewed at least annually. Deferred tax liabilities are normally recognised for all taxable temporary differences. Deferred tax assets and liabilities are not discounted.

Deferred tax is charged/credited to the income statement except to the extent that the underlying asset or liability is credited/charged to equity in which case the deferred tax follows that treatment to equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(t) Exceptional items

Exceptional items are those items that the Group consider to be non-recurring and significant in size or in nature that should be brought to the reader's attention.

Notes to the consolidated financial statements continued

2 Revenue

An analysis of the Group's revenue for the year is as follows:

	2008 £million	2007 £million
Continuing operations		
Provision of services	878.3	820.4
Revenue from construction contracts	750.3	785.8
Equipment sales and leasing income	171.4	131.8
	1,800.0	1,738.0

3 Business and geographical segments

(a) Business segments

The Group is currently organised into five operating divisions, as set out below. These divisions are the basis on which the Group reports its primary segment information.

- Facilities Management: provision of outsourced support services to public- and private-sector clients.
- Specialist Services: mechanical and electrical design, installation and maintenance; asbestos surveying and remedial work; security services; and specialist cleaning operations.
- Project Services: design, construction and maintenance of buildings and infrastructure.
- Equipment Services: design, hire and sale of formwork, falsework and associated access equipment.
- PFI Investments: transaction structuring, and management of, the Group's PFI activities. The Joint ventures - PFI Investments segmental figures represent the Group's share of its PFI special purpose companies.

Segment information about these businesses is presented below.

	Revenue		Result	
	2008 £million	2007 £million	2008 £million	2007 £million
Facilities Management	793.3	733.1	32.8	27.9
Specialist Services	168.2	190.2	1.0	6.7
Project Services	770.8	759.5	39.7	29.4
Equipment Services	171.7	132.0	29.6	23.9
Joint ventures - PFI Investments	-	-	2.8	2.1
Group Services	-	-	(17.9)	(16.7)
Inter-segment elimination	(104.0)	(76.8)	-	-
	1,800.0	1,738.0	88.0	73.3
Profit on disposal of property and investments			-	1.0
Amortisation of acquired intangible assets			(5.3)	(5.1)
Total operating profit			82.7	69.2
Investment revenue			39.9	38.1
Finance costs			(42.7)	(38.0)
Profit before tax			79.9	69.3
Tax			(22.2)	(19.9)
Profit after tax			57.7	49.4

3 Business and geographical segments (continued)

	Segment assets		Segment liabilities		Net assets/(liabilities)	
	2008 £million	2007 £million	2008 £million	2007 £million	2008 £million	2007 £million
Facilities Management	206.9	181.8	(232.5)	(203.1)	(25.6)	(21.3)
Specialist Services	36.6	37.5	(43.2)	(45.4)	(6.6)	(7.9)
Project Services	217.3	200.2	(290.7)	(287.7)	(73.4)	(87.5)
Equipment Services	209.9	143.3	(53.9)	(31.2)	156.0	112.1
Joint ventures - PFI Investments	136.9	96.2	(22.9)	(14.1)	114.0	82.1
	807.6	659.0	(643.2)	(581.5)	164.4	77.5
Group Services, goodwill and acquired intangible assets	215.5	231.9	(40.4)	(26.2)	175.1	205.7
	1,023.1	890.9	(683.6)	(607.7)	339.5	283.2
Net debt					(109.2)	(101.6)
Net assets (excluding minority interest)					230.3	181.6

	Depreciation and amortisation		Additions to property, plant and equipment and intangible assets	
	2008 £million	2007 £million	2008 £million	2007 £million
Facilities Management	4.9	6.2	8.1	5.6
Specialist Services	0.5	0.4	0.3	2.0
Project Services	2.0	1.2	3.8	4.6
Equipment Services	14.6	13.3	41.2	31.0
Joint ventures - PFI Investments	-	-	-	-
	22.0	21.1	53.4	43.2
Group Services	5.9	5.5	2.5	4.0
	27.9	26.6	55.9	47.2

(b) Geographical segments

Facilities Management and Specialist Services are predominantly based in the United Kingdom. The Project Services division is 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 by geographical market		Total operating profit	
	2008 £million	2007 £million	2008 £million	2007 £million
United Kingdom	1,748.0	1,704.2	49.1	51.6
Rest of Europe	32.2	28.0	4.3	4.9
Middle East and Africa	75.1	39.7	42.1	25.3
Australasia	33.6	26.4	8.6	6.1
Far East	7.7	8.5	(1.8)	(2.3)
Americas	7.4	8.0	0.8	2.3
Group Services	-	-	(17.9)	(16.7)
Joint ventures - PFI Investments	-	-	2.8	2.1
Inter-segment elimination	(104.0)	(76.8)	-	-
	1,800.0	1,738.0	88.0	73.3
Profit on disposal of property and investments			-	1.0
Amortisation of acquired intangible assets			(5.3)	(5.1)
			82.7	69.2

Notes to the consolidated financial statements continued

3 Business and geographical segments (continued)

	Additions to property, plant and equipment and intangible assets		Carrying amount of segment assets/ (liabilities)	
	2008 £million	2007 £million	2008 £million	2007 £million
United Kingdom	17.6	19.5	(156.6)	(128.0)
Rest of Europe	5.9	7.1	35.5	25.1
Middle East and Africa	25.3	9.8	133.9	54.2
Australasia	2.8	2.4	19.3	19.8
Far East	1.1	3.1	11.4	18.0
Americas	0.7	1.3	6.9	6.3
	53.4	43.2	50.4	(4.6)
Joint ventures - PFI Investments	-	-	114.0	82.1
Group Services, goodwill and acquired intangible assets	2.5	4.0	175.1	205.7
	55.9	47.2	339.5	283.2
Net debt			(109.2)	(101.6)
Net assets (excluding minority interest)			230.3	181.6

4 Profit for the year

	Notes	2008 £million	2007 £million
Profit for the year has been arrived at after charging:			
Depreciation of property, plant and equipment:			
On owned assets	15	21.6	20.5
On assets held under finance leases	15	1.0	1.0
Gain on disposal of property, plant and equipment		9.0	8.0
Amortisation of acquired intangible assets (subsidiary undertakings)	14	5.0	4.8
Amortisation of acquired intangible assets (associated undertakings)	16	0.3	0.3
Rentals under operating leases:			
Hire of plant and machinery		18.1	15.1
Other lease rentals		17.8	15.6
Cost of inventories recognised in cost of sales		38.7	28.9
Staff costs	6	574.8	543.3
Auditors' remuneration for audit services (see below)		0.7	0.7
Profit on disposal of property and investments	5	-	1.0

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

	2008 £million	2007 £million
Fees payable to the Company's auditors for the audit of the Company's annual accounts	0.2	0.2
The audit of the Company's subsidiaries pursuant to legislation	0.5	0.5
Total audit fees	0.7	0.7
Other fees pursuant to legislation	-	-
Tax services	0.2	0.3
Corporate finance services	-	-
Other services	-	-
Total non-audit fees	0.2	0.3
Total fees paid to the Company's auditors	0.9	1.0

A description of the work of the Audit Committee is set out in the Corporate governance statement on pages 42 to 44 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

5 Exceptional items

	2008 £million	2007 £million
Profit on disposal of property and investments	-	1.0

6 Staff costs

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

	2008 Number	2007 Number
Facilities Management	20,102	20,114
Specialist Services	2,979	2,995
Project Services	2,576	2,499
Equipment Services	1,149	1,096
Group Services	123	105
	26,929	26,809

	2008 £million	2007 £million
Their aggregate remuneration comprised:		
Wages and salaries	508.4	485.5
Social security costs	43.6	42.0
Share-based payments	3.5	2.0
Other pension costs (see below)	19.3	13.8
	574.8	543.3

Defined benefit scheme costs (note 33)	14.5	11.1
Other UK - defined contribution	4.1	2.0
Other overseas - defined contribution	0.7	0.7
Pension costs	19.3	13.8

Detailed disclosures of directors' aggregate and individual remuneration and share options are given in the audited section of the Directors' remuneration report on pages 57 to 60 and should be regarded as an integral part of this note.

7 Investment revenue

	2008 £million	2007 £million
Bank interest	1.4	1.3
Other interest	5.9	5.2
Return on defined benefit pension assets (note 33)	32.6	31.6
	39.9	38.1

8 Finance costs

	2008 £million	2007 £million
Bank loans and overdrafts and other loans repayable	(10.2)	(9.1)
Interest cost on pension obligations (note 33)	(32.5)	(28.9)
	(42.7)	(38.0)

Notes to the consolidated financial statements continued

9 Tax

	2008 £million	2007 £million
Current tax - UK	13.4	14.2
Current tax - overseas	4.6	3.7
Deferred tax (note 18)	4.2	2.0
Tax charge for the year	22.2	19.9

Following the 1 April 2008 change in the UK standard rate of corporation tax from 30% to 28% the average rate of corporation tax for the year was 28.5% (2007: 30%). Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

	2008		2007	
	£million	%	£million	%
Profit before tax	79.9		69.3	
Tax at the UK income tax rate of 28.5% (2007: 30%)	22.8	28.5%	20.8	30.0%
Tax effect of expenses not deductible in determining taxable profit	1.3	1.6%	1.6	2.3%
Tax effect of share of results of associates	(1.7)	(2.1%)	(0.8)	(1.2%)
Effect of overseas losses unrelieved	0.9	1.1%	1.0	1.4%
Impact due to change of tax rate	-	0.0%	(1.2)	(1.7%)
Prior period adjustments	(1.1)	(1.4%)	(1.5)	(2.2%)
Tax charge and effective tax rate for the year	22.2	27.8%	19.9	28.7%

In addition to the income tax charged to the income statement, the following deferred tax charges/(credits) have been recorded directly to equity in the year:

	2008 £million	2007 £million
Tax on actuarial (loss)/gain on pension liability	(22.6)	5.4
Impact of the change in tax rate relating to the deferred tax on pension liabilities	-	1.2
Tax on loss on available-for-sale financial assets	(0.4)	-
Tax on fair value adjustment on cash flow hedges (joint ventures)	(22.1)	(0.6)
Tax on the fair value adjustment on available-for-sale financial assets within the PFI Special Purpose Companies	30.5	7.8
Tax on the intrinsic value of share-based payments	0.4	-
Total	(14.2)	13.8

10 Dividends

	Dividend per share pence	2008 £million	2007 £million
Final dividend for the year ended 31 December 2006	10.6	-	13.1
Interim dividend for the year ended 31 December 2007	5.0	-	6.2
Final dividend for the year ended 31 December 2007	11.2	14.0	-
Interim dividend for the year ended 31 December 2008	5.3	6.6	-
Amount recognised as distribution to equity holders in the period		20.6	19.3
Proposed final dividend for the year ended 31 December 2008	11.7	14.6	

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

11 Earnings per share

The calculation of the basic, diluted and headline earnings per share is based on the following data:

Earnings	2008 £million	2007 £million
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	54.4	46.6
Profit on sale of property and investments	-	(1.0)
Amortisation of acquired intangible assets	5.3	5.1
Tax effect of above adjustments	(1.4)	(1.1)
Headline earnings	58.3	49.6
Earnings for the purposes of diluted earnings per share	54.4	46.6
Number of shares	2008 Number	2007 Number
Weighted average number of ordinary shares for the purposes of basic and headline earnings per share	124,935,731	124,221,097
Effect of dilutive potential ordinary shares:		
Share options and awards	2,396,690	2,225,387
Weighted average number of ordinary shares for the purposes of diluted earnings per share	127,332,421	126,446,484
Earnings per share	2008 Pence	2007 Pence
Headline earnings per share	46.7	39.9
Basic earnings per share	43.5	37.5
Diluted earnings per share	42.7	36.9

Notes to the consolidated financial statements continued

12 Goodwill

	2008 £million	2007 £million
Cost		
At 1 January	258.4	258.4
Additions	0.5	-
At 31 December	<u>258.9</u>	<u>258.4</u>
Accumulated impairment		
At 1 January and 31 December	30.0	30.0
Carrying amount at 31 December	<u>228.9</u>	<u>228.4</u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination as follows:

	At 1 January 2008 £million	Acquired £million	At 31 December 2008 £million
Facilities Management	159.7	-	159.7
Specialist Services	68.7	0.5	69.2
	<u>228.4</u>	<u>0.5</u>	<u>228.9</u>

The goodwill acquired in the year relates to the acquisition of R & D Holdings Ltd (see note 13).

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

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, cash flows, growth rates and margins during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on current Board approved budgets and forecasts and are extrapolated based on expectations of future changes in the market (these growth rates vary between 8% and 15% per annum). The Group produces three-year plans and then projects a further year based on growth rates of 2.5%, followed by a terminal value based on a perpetuity at a nominal 2.5% growth which does not exceed current market growth rates.

The rate used to discount the future cash flows is 10.2% (2007: 11.8%) and is based on the pre-tax weighted average cost of capital.

13 Acquisitions

On 11 January 2008, the Group acquired 100% of the share capital of R & D Holdings Ltd and its wholly-owned subsidiary R & D Security Manufacturing Ltd (together "R & D Security"). The carrying value of the net assets acquired have been valued according to the acquisition accounting requirements of IFRS 3 and the separate fair values of intangible assets have been identified and recognised with the residual excess over the net assets acquired being recognised as goodwill.

	Acquisition balance sheet £million	Fair value adjustments £million	Fair value of assets acquired £million
Intangible assets	-	1.1	1.1
Trade and other receivables	0.2	-	0.2
Trade and other payables	(0.5)	-	(0.5)
Other liabilities	-	(0.3)	(0.3)
Net assets	(0.3)	0.8	0.5
Goodwill			0.5
Consideration			1.0

The fair value adjustments relate to certain intangible assets and their associated deferred tax charge. These have been separately identified and recognised using appropriate valuation techniques based on the fair value of forecast future cash flows.

The resultant goodwill from the acquisition represents the future economic benefits arising from assets that are not capable of being individually identified and separately recognised.

The consideration for 100% of the share capital of R & D Security is made up as follows:

	£million
Cash paid	0.3
Deferred contingent consideration	0.7
Cash consideration	1.0

R & D Security contributed £1.5 million to revenue in the period ended 31 December 2008. This is not materially different to the revenue that would have been reported if R & D Security had been held by the Group for the full year.

14 Other intangible assets

	Computer software £million	Acquired		Total £million
		Customer relationships £million	Other £million	
Cost				
At 1 January 2007	-	41.0	0.7	41.7
At 31 December 2007	-	41.0	0.7	41.7
Acquisition of subsidiary (note 13)	-	0.4	0.7	1.1
Additions	2.5	-	-	2.5
At 31 December 2008	2.5	41.4	1.4	45.3
Accumulated amortisation				
At 1 January 2007	-	2.1	-	2.1
Charge for the year	-	4.6	0.2	4.8
At 31 December 2007	-	6.7	0.2	6.9
Charge for the year	-	4.7	0.3	5.0
At 31 December 2008	-	11.4	0.5	11.9
Carrying amount				
At 31 December 2008	2.5	30.0	0.9	33.4
At 31 December 2007	-	34.3	0.5	34.8
Useful lives	5 years	7-10 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

15 Property, plant and equipment (a) Movements

	Land and buildings £million	Plant and equipment £million	Total £million
Cost			
At 1 January 2007	14.7	177.8	192.5
Additions	0.9	42.9	43.8
Disposals	(1.6)	(39.1)	(40.7)
Exchange differences	0.8	5.9	6.7
At 31 December 2007	14.8	187.5	202.3
Additions	2.4	49.9	52.3
Disposals	(0.1)	(23.4)	(23.5)
Exchange differences	1.1	28.6	29.7
At 31 December 2008	18.2	242.6	260.8
Accumulated depreciation			
At 1 January 2007	4.1	82.9	87.0
Charge for the year	0.9	20.6	21.5
Eliminated on disposals	(1.0)	(27.2)	(28.2)
Exchange differences	0.3	4.1	4.4
At 31 December 2007	4.3	80.4	84.7
Charge for the year	1.1	21.5	22.6
Eliminated on disposals	(0.1)	(12.2)	(12.3)
Exchange differences	0.2	8.8	9.0
At 31 December 2008	5.5	98.5	104.0
Carrying amount			
At 31 December 2008	12.7	144.1	156.8
At 31 December 2007	10.5	107.1	117.6

The carrying amount of the Group's plant and equipment includes an amount of £1.9 million (2007: £2.1 million) in respect of assets held under finance leases.

15 Property, plant and equipment (continued)

(b) Land and buildings

Carrying amount of land and buildings

	2008 £million	2007 £million
Freehold:		
Land at cost	2.2	2.0
Buildings at cost less depreciation	4.7	4.8
	6.9	6.8
Leaseholds over 50 years at cost less depreciation	0.1	0.1
Leaseholds under 50 years at cost less depreciation	5.7	3.6
Total	12.7	10.5

Tangible fixed assets are stated at depreciated historical cost.

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

	2008 £million	2007 £million
Committed	2.8	0.9

(d) Operating leases

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008			2007		
	Land and buildings £million	Other £million	Total £million	Land and buildings £million	Other £million	Total £million
Within one year	9.4	8.0	17.4	8.2	8.9	17.1
In the second to fifth years inclusive	25.6	12.8	38.4	21.0	11.7	32.7
After five years	24.6	0.1	24.7	24.3	0.1	24.4
	59.6	20.9	80.5	53.5	20.7	74.2

The majority of leases of land and buildings are subject to rent reviews at periodic intervals of between three and five years.

Notes to the consolidated financial statements continued

16 Interests in associates and joint ventures

(a) Share of results and net assets of joint venture and associated undertakings

Share of results from joint venture and associated undertakings were as follows:

	2008				2007			
	Project Services £million	Facilities Management £million	Joint ventures - PFI Investments £million	Total £million	Project Services £million	Facilities Management £million	Joint ventures - PFI Investments £million	Total £million
Revenues	284.2	83.1	134.5	501.8	193.2	56.0	69.0	318.2
Operating profit	25.2	1.8	3.8	30.8	15.9	0.7	3.6	20.2
Net interest receivable/(payable)	0.2	-	1.4	1.6	-	-	(0.6)	(0.6)
Taxation	(0.9)	(0.5)	(2.4)	(3.8)	-	(0.2)	(0.9)	(1.1)
Operating profit	24.5	1.3	2.8	28.6	15.9	0.5	2.1	18.5
Amortisation of acquired intangible assets	(0.3)	-	-	(0.3)	(0.3)	-	-	(0.3)
Total operating profit	24.2	1.3	2.8	28.3	15.6	0.5	2.1	18.2
Dividends	(12.4)	(0.7)	(0.4)	(13.5)	(7.9)	(0.5)	-	(8.4)
Retained profits	11.8	0.6	2.4	14.8	7.7	-	2.1	9.8

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

	2008				2007			
	Project Services £million	Facilities Management £million	Joint ventures - PFI Investments £million	Total £million	Project Services £million	Facilities Management £million	Joint ventures - PFI Investments £million	Total £million
Non-current assets	37.4	-	813.7	851.1	21.5	-	644.1	665.6
Current assets	180.6	0.6	87.5	268.7	83.2	-	84.4	167.6
Current liabilities	(153.5)	-	(68.5)	(222.0)	(73.2)	-	(60.8)	(134.0)
Non-current liabilities	-	-	(718.7)	(718.7)	-	-	(585.6)	(585.6)
	64.5	0.6	114.0	179.1	31.5	-	82.1	113.6
Goodwill	4.7	-	-	4.7	4.7	-	-	4.7
Acquired intangible assets	2.7	-	-	2.7	3.1	-	-	3.1
Carrying value of net assets and goodwill	71.9	0.6	114.0	186.5	39.3	-	82.1	121.4

The liabilities of the joint ventures principally relate to the non-recourse debt within those businesses as part of funding the construction of the underlying asset.

The most substantial joint venture is in Health Management (UCLH) Holdings Ltd. The Group's share of gross assets is £115.5 million (2007: £110.6 million), current liabilities £20.3 million (2007: £15.7 million) and liabilities falling due after more than one year £93.1 million (2007: £93.9 million).

Further details of the Group's investment in PPP/PFI schemes are included in note 35.

At 31 December 2008, the Group had a commitment for additional investment in Joint ventures - PFI Investments of £27.5 million (2007: £19.3 million).

(b) Joint ventures - PFI Investments

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2007	7.0	29.3	24.4	60.7
Acquisitions and advances	-	3.2	-	3.2
Repayments to the Group	-	(0.4)	-	(0.4)
Fair value adjustment to financial instruments and derivatives	-	-	16.5	16.5
Share of retained profits	-	-	2.1	2.1
At 31 December 2007	7.0	32.1	43.0	82.1
Acquisitions and advances	-	8.2	-	8.2
Repayments to the Group	-	(0.4)	-	(0.4)
Fair value adjustment to financial instruments and derivatives	-	-	21.7	21.7
Share of retained profits	-	-	2.4	2.4
At 31 December 2008	7.0	39.9	67.1	114.0

16 Interests in associates and joint ventures (continued)

(c) Associated undertakings

	Shares £million	Loans £million	Share of reserves £million	Total £million
At 1 January 2007	5.7	0.3	17.3	23.3
Additions	-	9.1	-	9.1
Currency	-	-	(0.8)	(0.8)
Share of retained profits net of amortisation	-	-	7.7	7.7
At 31 December 2007	5.7	9.4	24.2	39.3
Repayments to the Group	-	(0.3)	-	(0.3)
Currency	-	-	21.1	21.1
Share of retained profits net of amortisation	-	-	12.4	12.4
At 31 December 2008	5.7	9.1	57.7	72.5

The investment in associated undertakings includes £4.7 million (2007: £4.7 million) in respect of goodwill.

17 Investments

	2008 £million	2007 £million
Available for sale investments carried at fair value	-	0.1

The 15% holding in JSMS Group Ltd, an unquoted company, was disposed of at book value in August 2008.

18 Deferred taxation

The following are the major deferred tax assets and (liabilities) recognised by the Group and movements thereon during the current and prior reporting period.

	Retirement benefit obligations £million	Acquired intangible assets £million	Unremitted earnings £million	Accelerated capital allowances £million	Other timing differences £million	Total £million
At 1 January 2007	33.4	(11.9)	(5.8)	(6.0)	4.0	13.7
(Charge)/credit to income	(3.5)	2.1	(1.9)	0.7	0.6	(2.0)
Charge to equity	(6.6)	-	-	-	-	(6.6)
Exchange differences	-	-	0.1	(0.2)	0.1	-
At 31 December 2007	23.3	(9.8)	(7.6)	(5.5)	4.7	5.1
(Charge)/credit to income	(3.0)	1.4	(2.4)	0.4	(0.6)	(4.2)
Acquisition of subsidiary	-	(0.3)	-	-	-	(0.3)
Credit/(charge) to equity	22.6	-	-	-	(0.4)	22.2
Exchange differences	-	-	(3.4)	(0.2)	-	(3.6)
At 31 December 2008	42.9	(8.7)	(13.4)	(5.3)	3.7	19.2

Included in the movements in the year ended 31 December 2007 are amounts reflecting the change in corporation tax that was enacted during the year and effective from 1 April 2008, amounting to £1.2 million charged to equity and £1.2 million credited to the income statement.

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

	2008 £million	2007 £million
Deferred tax liabilities	(27.4)	(19.7)
Deferred tax assets	46.6	24.8
	19.2	5.1

At the balance sheet date, the aggregate tax value of temporary differences associated with undistributed earnings of overseas subsidiaries for which deferred tax liabilities have not been recognised was £2.6 million (2007: £2.0 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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 value of these losses is £2.7 million (2007: £2.2 million).

Notes to the consolidated financial statements continued

19 Inventories

	2008 £million	2007 £million
Goods held for resale	27.6	15.2
Materials	0.2	0.4
	27.8	15.6

20 Construction contracts

	2008 £million	2007 £million
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in trade and other receivables	31.7	55.3
Amounts due to contract customers included in trade and other payables	(31.0)	(47.5)
	0.7	7.8
Contract costs incurred plus recognised profits less recognised losses to date	3,513.4	3,273.2
Less: progress billings	(3,512.7)	(3,265.4)
	0.7	7.8

At 31 December 2008, retentions held by customers for contract work amounted to £17.4 million (2007: £17.4 million) of which £5.2 million (2007: £7.7 million) is receivable after one year. Advances received were £31.0 million (2007: £47.5 million) of which £nil is repayable after one year (2007: £1.2 million).

21 Trade and other receivables

	2008 £million	2007 £million
Amounts recoverable from the sale of goods and services	243.3	220.9
Allowances for doubtful debts	(28.8)	(14.7)
	214.5	206.2
Amounts due from construction contract customers	31.7	55.3
Retentions	17.4	17.4
Amounts owed by joint venture and associated undertakings	3.0	2.5
Other receivables	9.8	7.6
Prepayments and accrued income	95.7	81.7
	372.1	370.7

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

	2008 £million	2007 £million
Retentions	5.2	7.7

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Trade and other receivables are included as part of the financial assets.

Average credit period taken on the sale of goods and services is 39 days (2007: 42 days). Allowances for doubtful debt are provided for on a specific basis, based on estimates of irrecoverability determined by market knowledge and past experience.

Included in the above receivables is £66.7 million (2007: £68.7 million) that is past due for which no amounts have been provided as the Group considers the amounts to be fully recoverable. The Group does not hold any collateral over these balances. The average age of these overdue receivable amounts is 70 days (2007: 67 days).

21 Trade and other receivables (continued)

Ageing of trade receivables, net of allowances for doubtful debt, is as follows:

	2008 £million	2007 £million
Not past due	147.8	137.5
Not more than one month past due	26.4	30.4
Between one and three months past due	19.6	19.4
Between three and six months past due	18.3	15.6
Greater than six months	2.4	3.3
	214.5	206.2

Movement in allowance for doubtful debt is as follows:

	2008 £million	2007 £million
Balance at 1 January	14.7	14.1
Amounts written off as uncollectable	(4.3)	(2.0)
Impairment losses recognised in the year	16.4	4.1
Amounts recovered during the year	(1.7)	(1.9)
Exchange differences	3.7	0.4
Balance at 31 December	28.8	14.7

22 Cash, deposits and borrowings

Cash and deposits comprise cash held by the Group and short-term bank deposits that have an original maturity of six months or less.

Deposits receive interest at floating rates related to UK base rates.

	2008 £million	2007 £million
Cash and deposits	61.3	69.4
Bank overdrafts	3.1	4.9
Bank loans	165.5	163.0
	168.6	167.9
Unsecured loan notes (note 23)	-	1.0
Finance leases (note 27)	1.9	2.1
Total borrowings	170.5	171.0
Net debt	109.2	101.6

Total borrowings are repayable as follows:

	2008 £million	2007 £million
On demand or within one year	3.7	6.9
In the second year	0.5	0.3
In the third to fifth years inclusive	166.3	163.8
	170.5	171.0
Less: Amount due for settlement within 12 months	(3.7)	(6.9)
Amount due for settlement after 12 months	166.8	164.1

The analysis of utilisation of bank facilities is as follows:

	2008 £million	2007 £million
Drawn facilities	165.5	163.0
Undrawn facilities with more than two years but not more than five years remaining	84.5	87.0
Total facilities	250.0	250.0

The majority of the Group's borrowings bear interest at floating rates which are set according to published LIBOR rates. The remainder bear interest at rates that are determined by bank base rates. The Group has access to committed borrowing facilities that expire in two to five years. Amounts are drawn down against these facilities on a short-term basis but the ageing of the total amount borrowed is classified according to the maturity of the facilities. Contractual interest on bank loans, that will accrue between the year end and the date of rollover of the amounts drawn down, is £1.2 million and is all due for payment within one year (2007: £1.4 million within one year).

Notes to the consolidated financial statements continued

23 Unsecured loan notes

	2008 £million	2007 £million
Floating rate loan notes	-	1.0

The floating rate unsecured loan notes were redeemed on 30 June 2008. Interest was payable half-yearly on the loan notes at rates ranging between 0.5% and 1.3% below six-month LIBOR.

24 Financial risk management

Financial assets comprise short-term receivables, long-term debtors, PFI joint ventures, investments and cash and deposits. Financial assets and liabilities have fair values not materially different to the carrying values. Financial liabilities comprise short-term creditors, bank borrowings, finance leases, loan notes, long-term creditors and interest rate caps. PFI joint ventures and investments are disclosed separately in notes 16 and 17 respectively, and have therefore been excluded from the analysis below.

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 assigned by international credit rating agencies. The transactional banking requirements are met by local banks in each location with significant cash balances being remitted to Group treasury where short-term cash surpluses or cash not available for use by the Group is deposited with investment grade rated banks.

(a) Currency exposures

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

Analysis of financial assets by currency:

	31 December 2008					31 December 2007				
	Floating rates £million	Fixed rates £million	Capped £million	Non-interest bearing £million	Total £million	Floating rates £million	Fixed rates £million	Capped £million	Non-interest bearing £million	Total £million
Sterling	44.7	-	-	305.2	349.9	58.9	-	-	328.8	387.7
US dollar	-	-	-	0.3	0.3	0.1	-	-	-	0.1
Euro	5.2	-	-	19.6	24.8	3.9	-	-	13.4	17.3
Australian dollar	3.1	-	-	5.6	8.7	2.7	-	-	5.0	7.7
Dirham	3.0	-	-	34.6	37.6	2.0	-	-	16.0	18.0
Other	5.3	-	-	6.8	12.1	1.8	-	-	7.5	9.3
	61.3	-	-	372.1	433.4	69.4	-	-	370.7	440.1

Analysis of financial liabilities by currency:

	31 December 2008					31 December 2007				
	Floating rates £million	Fixed rates £million	Capped £million	Non-interest bearing £million	Total £million	Floating rates £million	Fixed rates £million	Capped £million	Non-interest bearing £million	Total £million
Sterling	67.0	91.9	10.0	441.1	610.0	126.4	32.0	10.0	461.0	629.4
Euro	1.6	-	-	8.0	9.6	2.6	-	-	7.8	10.4
Australian dollar	-	-	-	3.3	3.3	-	-	-	2.2	2.2
Dirham	-	-	-	23.0	23.0	-	-	-	7.3	7.3
Other	-	-	-	1.7	1.7	-	-	-	2.0	2.0
	68.6	91.9	10.0	477.1	647.6	129.0	32.0	10.0	480.3	651.3
Weighted average interest rates	5.4%	4.9%	5.4%			5.7%	5.2%	5.7%		

Where the Group has overseas operations, the revenues and costs of the business will typically be denominated in local currency. Gains and losses arising on retranslation of monetary assets and liabilities that are not denominated in the functional currency of individual Group companies are recognised in the income statement. The Group enters into forward foreign exchange contracts to manage material currency exposures that arise on cashflows from sales or purchases not denominated in functional currencies immediately those sales or purchases are contracted. Taking into account the effect of forward contracts, Group companies did not have a material exposure to foreign exchange gains or losses on monetary assets and monetary liabilities denominated in foreign currencies at 31 December 2008.

The Group does not hedge anticipated future sales and purchases.

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

24 Financial risk management (continued)

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

	2008 £million	2007 £million
A 1% change in rate results:		
Change in profit	0.5	0.3
Change in reserves / net assets	2.1	1.3

(b) Market price risk - interest rate hedges

The Group seeks to control its exposure to changes in interest rates by using interest rate swaps to limit the impact on the interest charge in the income statement to interest rate movements. Contracts in place at the year end were as follows:

	31 December 2008			31 December 2007				
	Current	Nominal value £million	Maturity	Strike price	Current	Nominal value £million	Maturity	Strike price
Interest rate caps	Current	10.0	2010	7.00%	Current	10.0	2010	7.00%
Interest rate swaps	Current	20.0	2009	5.25%	Current	20.0	2009	5.25%
	Current	10.0	2010	5.15%	Current	10.0	2010	5.15%
	Current	30.0	2013	3.56%				
	Current	10.0	2010	2.92%				
	Non-current*	20.0	2012	3.62%				

* The £20 million interest rate swap that matures in 2012 has a deferred start date of 11 December 2009.

The fair value of interest rate hedges at 31 December 2008 is estimated at £(1.3) million (2007: £0.2 million). The contracts are designated as cash flow hedges and to the extent that the hedges are effective hedges, changes in their fair value are recognised directly in equity. The fair values of the hedge instruments are provided by the relevant counterparty bank valuation models. No charges have gone through the income statement in the year (2007: £0.1 million was charged to the income statement) in respect of changes in the fair value of the hedges.

The use of interest rate caps and swaps, where appropriate, diminishes the impact of an interest rate change. The impact of a 1% change in interest rate to the Group's results is shown in the table below:

	2008 £million	2007 £million
Interest rate		
For every 1% change in rate results:		
Change in profit	0.7	0.6

The Group's Joint ventures - PFI Investments also use interest rate derivatives to manage their exposure to interest rate movements. Changes in the fair value of instruments which are effective as hedges are recognised directly in equity. Gains on hedges held within joint venture entities that were recognised in equity during the year amounted to £30.1 million along with the associated deferred tax of £8.4 million (2007: £23.8 million and deferred tax of £7.2 million). There were no unrecognised gains or losses on hedges at 31 December 2008 (2007: £nil).

(c) Credit risk

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

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. To manage this risk, credit references are taken and where appropriate parent company guarantees are sought along with monthly monitoring of age and recoverability of trade receivables.

Apart from receivables due from HM Government, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(d) Liquidity risk

The Group seeks to maintain sufficient facilities to ensure that it has access to funding to meet current and anticipated future funding requirements determined from budgets and medium-term plans.

The maturity of financial assets and liabilities, with the exception of interest rate hedges above, are discussed in the specific asset and liability footnotes.

Notes to the consolidated financial statements continued

24 Financial risk management (continued)

(e) Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns, whilst seeking to optimise the debt and equity balance, in order to maximise the return to stakeholders. The capital structure of the Group consists of net debt, which includes cash, deposits and borrowings (note 22), and equity attributable to equity holders of the parent (note 30).

The Group is not subject to externally imposed capital requirements but is subject to covenants in its loan agreements including ones relating to debt cover and interest cover which ultimately limit the amount of debt that the Group can take on.

25 Trade and other payables - amounts falling due within one year

	2008 £million	2007 £million
Obligations under finance leases (note 27)	0.6	1.0
Trade payables	200.7	204.6
Advances received	31.0	46.3
Other taxation and social security	24.1	24.0
Other payables	47.7	39.0
Accruals and deferred income	161.9	153.4
	466.0	468.3

26 Trade and other payables - amounts falling due after more than one year

	2008 £million	2007 £million
Obligations under finance leases (note 27)	1.3	1.1
Trade payables	0.3	0.6
Advances received	-	1.2
Other payables	3.5	6.5
	5.1	9.4

The carrying amount of trade and other payables approximates to their fair value. On average our suppliers are paid within 66 days of receipt of invoice (2007: 70 days).

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

	2008 £million	2007 £million
Less than one year	272.5	267.6
Between two and three years	3.8	7.1
	276.3	274.7

27 Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2008 £million	2007 £million	2008 £million	2007 £million
Amounts payable under finance leases:				
Within one year	0.6	1.0	0.6	1.0
In the second to fifth years inclusive	1.6	1.3	1.3	1.1
	2.2	2.3	1.9	2.1
Less: future finance charges	(0.3)	(0.2)	N/A	N/A
Present value of lease obligations	1.9	2.1	1.9	2.1

Certain of the Group's plant and equipment is held under finance leases. The average lease term is four to six years. For the year ended 31 December 2008, the average effective borrowing rate was 4.2% (2007: 5.9%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All finance lease obligations are denominated in sterling.

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

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

28 Provisions

	Deferred consideration and employee dispute £million	Contract provisions £million	Other £million	Total £million
At 1 January 2007	3.0	22.3	4.0	29.3
Additional provision in the year	-	5.8	2.5	8.3
Utilisation of provision	(1.2)	(3.7)	(0.9)	(5.8)
At 31 December 2007	1.8	24.4	5.6	31.8
Additional provision in the year	0.7	7.5	1.1	9.3
Release	(1.5)	(0.3)	(0.5)	(2.3)
Utilisation of provision	(0.3)	-	(1.0)	(1.3)
Exchange differences	-	0.3	0.2	0.5
At 31 December 2008	0.7	31.9	5.4	38.0

	2008 £million	2007 £million
Included in current liabilities	14.0	5.8
Included in non-current liabilities	24.0	26.0
	38.0	31.8

At 31 December 2008 the remaining deferred consideration of £0.7 million related to the acquisition of R & D Holdings Ltd (see note 13).

Contract provisions include costs of site clearance, remedial costs and other contractual provisions. These are expected to be utilised on final settlement of the relevant contracts.

Other provisions include £1.3 million (2007: £1.9 million) representing potential amounts payable for insurance claims acquired with MacLellan. These are expected to be utilised on financial settlement of the claims.

29 Share capital

	2008 £million	2007 £million
Authorised:		
150,000,000 ordinary shares of 10p each (2007: 150,000,000 ordinary shares of 10p each)	15.0	15.0
Issued and fully paid:		
125,016,372 ordinary shares of 10p each (2007: 124,751,437 ordinary shares of 10p each)	12.5	12.5

	Shares thousands	Share capital £million
As at 1 January 2008	124,751	12.5
Share options exercised	265	-
At 31 December 2008	125,016	12.5

Notes to the consolidated financial statements continued

29 Share capital (continued)

Awards were granted during the year as indicated below. Exercise and vesting details are stated in the Directors' remuneration report on pages 58 and 59. Outstanding options and awards over shares in the Company at 31 December 2008 were as follows:

	Date of grant	Subscription price per 10p share	2008		2007	
			Number of beneficiaries including directors	Number of shares	Number of beneficiaries including directors	Number of shares
(a) Executive share option schemes	7 October 1998	212.00p	-	-	2	28,300
	26 March 2001	542.50p	4	22,116	12	255,000
	25 April 2001	587.00p	1	5,110	1	22,000
	19 March 2002	566.50p	13	202,000	15	222,000
	23 April 2003	205.83p	1	133,333	1	200,000
	26 May 2004	253.25p	10	269,300	13	336,000
	9 December 2004	324.00p	1	50,000	1	50,000
	14 March 2005	359.33p	26	967,619	34	1,137,554
				1,649,478		2,250,854
(b) Performance Share Plan	21 June 2006	Nil	44	702,837	44	702,837
	13 April 2007	Nil	59	876,612	59	876,612
	16 October 2007	Nil	1	9,226	1	9,226
	15 April 2008	Nil	69	1,148,639	-	-
				2,737,314		1,588,675

30 Reconciliation of movements in equity

	Share capital £million	Share premium £million	Capital redemption reserve £million	Merger reserve £million	Hedging and translation reserves £million	Investment in own shares £million	Retained earnings £million	Attributable to equity holders of the parent £million	Minority interest £million	Total £million
Balance at 1 January 2007	12.4	109.3	0.1	49.0	18.7	(0.5)	(68.5)	120.5	1.4	121.9
Exchange differences on translation of foreign operations	-	-	-	-	3.4	-	-	3.4	-	3.4
Losses on cash flow hedges (joint ventures)	-	-	-	-	(2.0)	-	-	(2.0)	-	(2.0)
Gains on available-for-sale financial assets (joint ventures)	-	-	-	-	25.8	-	-	25.8	-	25.8
Actuarial gains on defined benefit pension schemes	-	-	-	-	-	-	15.7	15.7	-	15.7
Deferred tax on items taken directly to equity	-	-	-	-	(7.2)	-	(6.6)	(13.8)	-	(13.8)
Net income/(expense) recognised directly in equity in the year	-	-	-	-	20.0	-	9.1	29.1	-	29.1
Profit for the year	-	-	-	-	-	-	46.6	46.6	2.8	49.4
Dividends paid	-	-	-	-	-	-	(19.3)	(19.3)	(2.6)	(21.9)
Shares issued	0.1	2.6	-	-	-	-	-	2.7	-	2.7
Share-based payments	-	-	-	-	-	-	2.0	2.0	-	2.0
Balance at 31 December 2007	12.5	111.9	0.1	49.0	38.7	(0.5)	(30.1)	181.6	1.6	183.2
Exchange differences on translation of foreign operations	-	-	-	-	48.8	-	-	48.8	-	48.8
Loss on available-for-sale financial assets	-	-	-	-	(1.3)	-	-	(1.3)	-	(1.3)
Losses on cash flow hedges (joint ventures)	-	-	-	-	(79.1)	-	-	(79.1)	-	(79.1)
Gains on available-for-sale financial assets (joint ventures)	-	-	-	-	109.2	-	-	109.2	-	109.2
Actuarial loss on defined benefit pension schemes	-	-	-	-	-	-	(80.7)	(80.7)	-	(80.7)
Deferred tax on items taken directly to equity	-	-	-	-	(8.0)	-	22.2	14.2	-	14.2
Net income/(expense) recognised directly in equity in the year	-	-	-	-	69.6	-	(58.5)	11.1	-	11.1
Profit for the year	-	-	-	-	-	-	54.4	54.4	3.3	57.7
Dividends paid	-	-	-	-	-	-	(20.6)	(20.6)	(2.9)	(23.5)
Shares issued	-	0.8	-	-	-	-	-	0.8	-	0.8
Purchase of Company shares	-	-	-	-	-	(0.2)	-	(0.2)	-	(0.2)
Company shares used to settle share-based payment obligations	-	-	-	-	-	0.2	(0.2)	-	-	-
Share-based payments	-	-	-	-	-	-	3.2	3.2	-	3.2
Balance at 31 December 2008	12.5	112.7	0.1	49.0	108.3	(0.5)	(51.8)	230.3	2.0	232.3

The £49.0 million merger reserve represents £16.4 million premium on the shares issued on the acquisition of Robert M. Douglas Holdings PLC in 1991 and £32.6 million premium on shares issued in the acquisition of MacLellan Group plc in 2006.

The own shares reserve represents the cost of shares in Interserve Plc held by the trustees of the How Group, Bandt and Interserve Employee Benefit Trust. The market value of these shares at 31 December 2008 was £524,000 (2007: £1,205,000).

Notes to the consolidated financial statements continued

31 Contingent liabilities

The Company and its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. Appropriate provision has been made in these accounts for all material uninsured liabilities resulting from proceedings that are, in the opinion of the directors, likely to materialise.

The Company and certain subsidiary undertakings have, in the normal course of business, given performance guarantees and provided indemnities to third parties in relation to performance bonds and other contract related guarantees. These relate to the Group's own contracts and of the Group's share of the contractual obligations of certain joint ventures and associated undertakings. The Group acts as guarantor for sums not exceeding £11.8 million (2007: £5.5 million) in respect of associated undertakings' borrowings and £169.0 million (2007: £97.0 million) in respect of joint venture and associated undertakings' bond and guarantees. At 31 December 2008 £0.8 million (2007: £0.2 million) had been utilised in borrowings and £138.5 million (2007 £65.3 million) in guarantees.

As part of the Office of Fair Trading's ongoing review of tender activity in the construction sector, it wrote to the Group with regard to potential breaches of competition law in respect of 16 tenders submitted between 2000 and 2005. These tenders represent a very small proportion of the bidding activity during this period. In April 2008, the OFT published its Statement of Objections against 112 companies in the construction sector in England, including the Group. The Statement of Objections alleges suspected 'cover pricing' by the Group on three construction industry tenders between October 2000 and September 2001. The Group has taken the opportunity to make representations before any final decision is made. Given the stage of the OFT's review it is not possible to predict whether this will have a materially adverse effect on the Group's financial position or results of operations.

32 Share-based payments

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

	2008 £million	2007 £million
1997 Share Option Plan / 2002 Executive Share Option Scheme	0.3	0.7
Performance Share Plan	3.2	1.3
Total charge	3.5	2.0
Cash settled	0.3	-
Equity settled	3.2	2.0
Total charge	3.5	2.0

(a) 1997 Share Option Plan / 2002 Executive Share Option Scheme

The executive share option schemes provide for a grant price equal to the average quoted market price of the Group's shares on the date of grant. The vesting period is generally three to four years. If the options remain unexercised after a period of 10 years from the date of grant, the options lapse. Furthermore, options are normally forfeited if the employee leaves the Group before the options vest.

	2008		2007	
	Options number	Weighted average exercise price £	Options number	Weighted average exercise price £
Options granted before 7 November 2002 and hence not included in charge calculations:				
Outstanding at beginning of period	527,300	5.35	716,475	5.00
Exercised during the period	(28,300)	2.12	(134,175)	3.40
Lapsed during the period	(269,774)	5.47	(55,000)	5.51
Outstanding at the end of the period	229,226	5.65	527,300	5.35
Exercisable at the end of the period	229,226	5.65	527,300	5.35
Options granted since 7 November 2002:				
Outstanding at beginning of period	1,723,554	3.20	2,652,570	2.99
Exercised during the period	(236,635)	3.29	(878,000)	2.53
Lapsed during the period	(66,667)	2.06	(51,016)	3.59
Outstanding at the end of the period	1,420,252	3.24	1,723,554	3.20
Exercisable at the end of the period	1,420,252	3.24	586,000	2.43

The average share price during the year was £3.84. The outstanding options at the end of the period had exercise prices ranging from £2.06 to £5.87 and had a remaining weighted average contractual life of 5.2 years.

32 Share-based payments (continued)

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

	2005 grants	2004 grants	2003 grants
Weighted average share price	299.2p	250.1p	205.8p
Weighted average exercise price	299.2p	250.1p	205.8p
Expected volatility	38.0%	38.0%	36.0%
Expected life	3 years	3 years	5 years
Risk-free rate	4.9%	5.0%	4.1%
Expected dividend yield	5.0%	5.8%	6.6%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(b) Performance Share Plan

The Performance Share Plan is a "free" share award with an effective grant price of £nil, half of which is subject to a Total Shareholder Return (TSR) performance condition with performance compared to a comparator group of 16 companies, the other half is subject to an Earnings Per Share (EPS) performance condition. The vesting period is three years. Awards are normally forfeited if the employee leaves the Group before the awards vest.

	2008 Awards number	2007 Awards number
Outstanding at beginning of period	1,588,675	771,971
Granted during the period	1,148,639	951,653
Lapsed during the period	-	(134,949)
Outstanding at the end of the period	2,737,314	1,588,675
Exercisable at the end of the period	-	-

This is a free share award and as such the weighted average exercise price is £nil. The remaining weighted average contractual life is 1.5 years.

The Group engaged external consultants to calculate the fair value of these awards. The valuation model used to calculate the fair value of the awards granted under this Plan was a stochastic valuation model, the inputs of which are detailed below:

	2008 grants	2007 grants	2006 grants
Weighted average share price	505.0p	507.5p	368.5p
Weighted average exercise price	0p	0p	0p
Expected volatility	30.3%	27.5%	24.0%
Expected life	3 years	3 years	3 years
Risk-free rate	4.2%	4.5%	4.8%
Expected dividend yield	0.0%	0.0%	0.0%

Notes to the consolidated financial statements continued

32 Share-based payments (continued)

(c) Share Matching Plan

The Share Matching Plan provides for an effective grant price of £nil on the granting of "free" shares to match Investment Shares deemed acquired with a proportion of the gross annual bonuses of the participants, subject to performance criteria. The vesting period is three years. If the awards remain unexercised after a period of 42 months from the date of grant, the awards expire. Furthermore, awards are normally forfeited if the employee leaves the Group before the awards vest.

	2008 Awards number	2007 Awards number
Granted since 7 November 2002:		
Outstanding at beginning of period	50,726	50,726
Granted during the period	-	-
Exercised during the period	(50,726)	-
Lapsed during the period	-	-
Outstanding at the end of the period	-	50,726
Exercisable at the end of the period	-	50,726

This is a free share award and as such the weighted average exercise price is £nil.

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

Weighted average share price	276.3p
Weighted average exercise price	0p
Expected volatility	38.0%
Expected life	3 years
Risk-free rate	4.3%
Expected dividend yield	5.5%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

33 Defined benefit retirement schemes

The principal pension schemes within the Group have been valued for the purposes of IAS 19 Employee Benefits. For each of these pension schemes valuation information has been updated by Lane Clark & Peacock LLP, qualified independent actuaries, to take account of the requirements of IAS 19 in order to assess the liabilities of the various schemes as at 31 December 2008.

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 the income statement and presented in the statement of recognised income and expense. The liability recognised in the balance sheet represents the present value of the various defined benefit obligations, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Credit Method.

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

Assumptions	2008	2007
Retail price inflation	2.90% pa	3.30% pa
Discount rate	6.30% pa	5.80% pa
Pension increases in payment:		
LPI/RPI	2.70%/2.90%	3.20%/3.30%
Fixed 5%	5.00%	5.00%
3% or RPI if higher (capped at 5%)	3.50%	3.60%
General salary increases	3.65 - 4.40% pa	4.05 - 4.80% pa

The expected rate of return is derived by taking the weighted average of the long-term expected rate of return on each of the asset classes that the pension schemes were invested in at 31 December 2007 and making a deduction of 0.3% (2007: 0.4% pa) for the expenses incurred in running the schemes (where these are not met separately). For the Interserve Pension Scheme, which represents the majority of plan assets, the expected rate of return on assets for 2008 was 6.7% pa (2007: 7.0% pa).

33 Defined benefit retirement schemes (continued)

The post-retirement mortality assumption used to value the benefit obligation allows for future improvements in mortality and implies for the majority of the obligation (that associated with the Interserve Pension Scheme) that a 65-year-old current pensioner is expected to live until age: male 85.7 (2007: age 84.8) and female 87.7 (2007: age 86.9). A future pensioner who is currently aged 45 and retires at age 65 is expected to live until age: male 87.6 (2007: age 87.2) and female 88.9 (2007: age 88.4).

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

	2008 £million	2007 £million	2006 £million	2005 £million
Present value of defined benefit obligation	534.2	563.4	557.2	514.6
Fair value of schemes' assets	(381.1)	(480.3)	(445.8)	(382.0)
Liability recognised in the balance sheet	153.1	83.1	111.4	132.6

The amounts recognised in the income statement are as follows:

	2008 £million	2007 £million
Employer's part of current service cost	14.6	13.8
Interest cost	32.5	28.9
Expected return on schemes' assets	(32.6)	(31.6)
Total expense recognised in the income statement	14.5	11.1

The current service cost is included within operating profit. The interest cost and expected return on assets are included within financing costs.

The actual return on the schemes' assets over the year was a loss of £108.5 million (2007: gain of £24.8 million).

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

	2008			2007		
	Current allocation	Fair value £million	Weighted average return	Current allocation	Fair value £million	Weighted average return
Equity instruments	61%	233.3	8.0%	70%	337.5	8.0%
Debt instruments	36%	137.0	4.7%	28%	132.8	4.5%
Other	3%	10.8	4.5%	2%	10.0	5.0%
	100%	381.1	6.7%	100%	480.3	7.0%

A reconciliation of the present value of the defined benefit obligation is as follows:

	2008 £million	2007 £million
Opening defined benefit obligation	563.4	557.2
Employer's part of current service cost	14.6	13.8
Interest cost	32.5	28.9
Contributions by plan participants	2.6	4.5
Actuarial gain	(60.4)	(22.5)
Benefits paid	(19.7)	(18.5)
Bulk transfers	1.2	-
Closing defined benefit obligation	534.2	563.4

Notes to the consolidated financial statements continued

33 Defined benefit retirement schemes (continued)

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

	2008 £million	2007 £million
Opening fair value of the schemes' assets	480.3	445.8
Expected return on plan assets	32.6	31.6
Actuarial loss	(141.1)	(6.8)
Contributions by the employer	25.2	23.7
Contributions by plan participants	2.6	4.5
Benefits paid	(19.7)	(18.5)
Bulk transfers	1.2	-
Closing fair value of the schemes' assets	381.1	480.3

	2008 £million	2007 £million	2006 £million	2005 £million
Experience adjustments on the schemes' assets				
Amount of (loss)/gain	(141.1)	(6.8)	22.2	42.7
Percentage of the schemes' assets	(37%)	(1%)	5%	11%
Experience adjustments on the schemes' liabilities				
Amount of (loss)/gain	(3.8)	2.0	(13.4)	0.7
Percentage of the present value of the schemes' liabilities	(1%)	0%	(2%)	0%
Gain/(loss) due to changes in assumptions				
Amount of gain/(loss)	64.2	20.5	(1.1)	(47.8)
Percentage of the present value of the schemes' liabilities	12%	4%	(0%)	(9%)
Total actuarial (losses) and gains recognised directly in equity in the year	(80.7)	15.7	7.7	(4.4)
Cumulative amount of (losses) and gains recognised in equity	(63.8)	16.9	1.2	(6.5)

Based on current contribution rates and payroll, the Group expects to contribute £25 million to the various defined benefit arrangements during 2009.

34 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 owed by related parties		Amounts owed to related parties	
	2008 £million	2007 £million	2008 £million	2007 £million	2008 £million	2007 £million	2008 £million	2007 £million
Joint ventures - PFI Investments	213.2	198.2	-	-	0.9	0.8	-	-
Associates	125.9	76.6	2.3	1.2	2.1	2.5	0.3	0.3

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. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Amounts paid to key management personnel are given in the audited section of the Directors' remuneration report on pages 57 to 60.

35 PFI/PPP arrangements

Included below is a list of PFI/PPP arrangements that have reached financial close as at 31 December 2008.

Contract	Interserve services			Status	Dates			Share of equity/sub-debt		Total capital required £million	
	Design/build	Operate	Whole-life value £million		Awarded	Fully operational	Contract end	%	£million		
Health											
Cumberland Infirmary		yes	135	operational	late 1997	early 2000	2030	50	2.9	84	
UCL Hospital		yes	400	operational	mid 2000	mid 2005	2040	33	9.4	292	
Dudley NHS Trust		yes	600	operational	mid 2001	early 2005	2041	33	3.1	164	
Newcastle NHS Trust		yes	130	interim serv.	early 2005	mid 2013	2043	20	4.9	337	
Tunbridge Wells		yes	67	construction	early 2008	early 2011	2038	25	5.5	260	
Education											
Sheffield Schools	yes	yes	90	operational	mid 2000	late 2001	2026	50	3.1	56	
St Genevieve's School		yes	5	operational	mid 2000	early 2002	2027	33	0.3	15	
Southampton Schools	yes	yes	60	operational	late 2001	late 2003	2031	50	2.0	46	
Hattersley (Tameside) Schools	yes	yes	35	operational	mid 2002	early 2003	2033	50	1.1	20	
Tyrone - Omagh		yes	15	operational	late 2003	late 2005	2035	50	1.0	20	
Tyrone - Dungannon		yes	15	operational	late 2003	mid 2006	2036	50	1.0	20	
Cornwall Schools	yes	yes	90	operational	mid 2004	mid 2007	2032	50	3.1	53	
Telford & Wrekin Schools	yes	yes	105	operational	early 2005	late 2006	2034	50	3.6	75	
Holy Cross		yes	15	operational	late 2006	late 2008	2033	50	1.6	32	
Plymouth Schools	yes	yes	59	operational	early 2007	late 2008	2033	50	1.7	45	
Leeds BSF	yes	yes	280	operational	early 2007	mid 2009	2034	40	3.3	123	
Leeds Phase 2	yes	yes	50	construction	early 2008	mid 2009	2034	40	1.0	35	
Leeds Phase 3	yes	yes	44	construction	mid 2008	mid 2010	2035	45	1.0	31.2	
Derry Schools		yes	23	construction	late 2008	late 2010	2036	50	1.7	45.3	
Custodial											
Harmondsworth I.D.C.	yes		55	operational	mid 2000	late 2001	2009	49	-	-	
Ashford Prison	yes		45	operational	late 2002	mid 2004	2029	33	1.9	65	
Peterborough Prison	yes		60	operational	early 2003	early 2005	2030	33	2.3	90	
Addiewell Prison	yes		70	construction	mid 2006	early 2009	2033	33	3.0	100	
Defence											
Defence Training Estate		yes	600	operational	early 2003	mid 2003	2013	51	-	-	
Defence 6th Form College	yes	yes	115	operational	mid 2003	mid 2005	2033	45	2.1	51	
Armada - Devonport FAC	yes	yes	245	operational	mid 2004	early 2008	2029	50	5.0	86	
Corsham	yes		200	construction	mid 2008	late 2011	2033	50	7.0	90	
Central/local government											
Inland Revenue, Newcastle		yes	135	operational	early 1998	late 2002	2031	20	0.2	256	
Cornwall Fire Stations	yes		8	operational	mid 2001	early 2003	2028	50	0.6	9	
Portsmouth Social Services	yes	yes	20	operational	mid 2001	mid 2002	2032	50	0.2	5	
H&SE Laboratories, Buxton		yes	55	operational	early 2002	late 2004	2034	20	0.8	78	
								74.4			
Invested to date											
									7.0		
									39.9		
Remaining commitment									27.5		
								74.4			

Independent auditors' report to the members of Interserve Plc

We have audited the parent company financial statements of Interserve Plc for the year ended 31 December 2008 which comprise the Company balance sheet and the related notes A to P. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Interserve Plc for the year ended 31 December 2008 and on the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Directors' responsibility statement.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.



Deloitte LLP

Chartered Accountants and Registered Auditors
London, United Kingdom
11 March 2009

Company balance sheet at 31 December 2008

	Notes	2008 £million	2007 £million
Fixed assets			
Tangible fixed assets	E	4.1	3.2
Investments in subsidiary undertakings	F	401.5	401.0
		405.6	404.2
Current assets			
Debtors			
Due within one year	G	273.3	281.8
Due after one year	G	99.9	99.2
Cash at bank and in hand		8.5	4.9
		381.7	385.9
Creditors: amounts falling due within one year			
Bank overdrafts and loans		(78.3)	(105.6)
Unsecured loan notes	H	-	(1.0)
Trade creditors		(0.4)	(0.2)
Other creditors	I	(188.3)	(173.0)
		(267.0)	(279.8)
Net current assets		114.7	106.1
Total assets less current liabilities		520.3	510.3
Creditors: amounts falling due after more than one year			
Bank loans	J	(165.5)	(163.0)
Other creditors	K	(6.4)	(5.8)
Net assets		348.4	341.5
Capital and reserves			
Called up share capital	M	12.5	12.5
Share premium account	N	112.7	111.9
Capital redemption reserve	N	0.1	0.1
Acquisition reserve	N	108.5	108.5
Profit and loss account	N	114.6	108.5
Shareholders' funds	O	348.4	341.5

These financial statements were approved by the Board of Directors on 11 March 2009.

Signed on behalf of the Board of Directors

A M Ringrose

A M Ringrose
Director

T C Jones

T C Jones
Director

Notes to the Company financial statements for the year ended 31 December 2008

A) Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The accounting policies have been applied consistently throughout the year and the previous year.

The particular policies adopted by the directors are described below.

Basis of accounting

These financial statements have been prepared in accordance with the historical cost convention.

Foreign currency

Transactions denominated in foreign currency are translated at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit for the year.

Property, plant and equipment

Tangible fixed assets are carried at cost less any accumulated depreciation and any impairment losses. Depreciation is provided on a straight-line basis at rates ranging between:

Freehold land	Nil
Freehold buildings	2%
Leasehold property	Over period of lease
Computer hardware	33.3%
Computer software	33.3%
Furniture and office equipment	33.3%
Motor vehicles	25%
Plant and equipment	10% to 20%

The costs of operating leases are charged to the profit and loss account as they accrue.

Investments

Investments are stated at cost less provision for any impairment in value.

Pensions

The Company operates two principal pension schemes for the benefit of permanent members of staff: the Interserve Pension Scheme which is of the defined benefit type and the Interserve Retirement Plan which is of the defined contribution type. The Company also set up a new defined contribution section of the Interserve Pension Scheme with effect from 1 November 2002. Actuarial valuations of the Interserve Pension Scheme are carried out every three years.

For the purposes of FRS 17 Retirement Benefits, the Company is unable to identify its share of the underlying assets and liabilities in the main Group Scheme, the Interserve Pension Scheme, on a consistent and reasonable basis. Therefore, the Company will account for contributions to the scheme as if it were a defined contribution scheme. Note 33 to the Annual report and financial statements of the Group sets out details of the IAS 19 net pension liability of £153.1 million (2007: £83.1 million).

For defined contribution schemes, the amount recognised in the profit and loss account is equal to the contributions payable to the schemes during the year.

Taxation

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

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries or associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

A) Accounting policies (continued)

Financial instruments

Trade receivables

Trade receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement where there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are measured at fair value.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

Financial instruments are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Transactions in derivative financial instruments are for risk management purposes only. The Company uses derivative financial instruments to hedge its exposure to interest rate and foreign currency risk. To the extent that such instruments are matched to underlying assets or liabilities, they are accounted for using hedge accounting.

Changes in fair value of derivative instruments that are designated and effective as hedges of future cash flows and net investments are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had been previously recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in fair value of derivative instruments that do not qualify for hedge accounting, or have not been designated as hedges, are recognised in the income statement as they arise.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value.

Convertible capital bonds

Convertible capital bonds are regarded as compound instruments, consisting of a liability component and an equity component. The Company has a convertible capital bond receivable that is being carried at historic cost. It has not been considered possible to value the separate components of the instrument on the basis that this is an equity instrument that does not have a quoted market price in an active market and the derivative which is linked to and must be settled by delivery of such an instrument is not reliably measurable.

Share-based payments

The Company has applied the requirements of FRS 20 Share-based Payment. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after November 2002 that were unvested as of January 2004. The Company issues share-based payments to certain employees of the Group headed by the Company. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Fair value for grants pre 2006 was measured by the use of the Black-Scholes model and subsequently a stochastic model was used. Note 32 to the Annual report and financial statements of the Group sets out details of the share-based payments. The total value of equity-settled share-based payments is credited to the profit and loss reserve of the Company. Share-based payments to employees of subsidiaries of the Company are recharged to the relevant employer.

Notes to the Company financial statements continued

B) Profit for the year

As permitted by section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. Interserve PLC reported a profit after taxation for the financial year ended 31 December 2008 of £23.7 million (2007: loss of £6.5 million).

The auditors' remuneration for audit services to the Company was £0.2 million (2007: £0.2 million).

C) Employees

The average number of persons employed, being full-time equivalents, by the Company during the year, including directors, was 75 (2007: 68).

The costs incurred in respect of these employees were:

	2008 £million	2007 £million
Wages and salaries	5.1	4.5
Social security costs	0.3	0.3
Share-based payments	1.9	0.7
Pension costs	0.8	0.7
	8.1	6.2
	2008 £million	2007 £million
Share-based payments to employees of the Company	1.7	0.7
Share-based payments to employees of subsidiaries	1.8	1.3
Total equity and cash settled awards (note 32)	3.5	2.0

Directors' remuneration

Detailed disclosures of directors' individual remuneration and share options are given in the audited section of the Directors' remuneration report on pages 57 to 60 and should be regarded as an integral part of this note.

D) Dividends

	2008 £million	2007 £million
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2007 of 11.2p (2006: 10.6p) per share	14.0	13.1
Interim dividend for the year ended 31 December 2008 of 5.3p (2007: 5.0p) per share	6.6	6.2
	20.6	19.3
Proposed final dividend for the year ended 31 December 2008 of 11.7p per share	14.6	

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

E) Tangible fixed assets
(a) Movement during the year

	Land and buildings £million	Other £million	Total £million
Cost			
At 1 January 2008	3.6	2.0	5.6
Additions	1.1	0.3	1.4
At 31 December 2008	4.7	2.3	7.0
Depreciation			
At 1 January 2008	1.1	1.3	2.4
Provided in year	0.3	0.2	0.5
At 31 December 2008	1.4	1.5	2.9
Net book value			
At 31 December 2008	3.3	0.8	4.1
At 31 December 2007	2.5	0.7	3.2

(b) Land and buildings

	2008 £million	2007 £million
Net book value of land and buildings		
Freehold:		
Land at cost	1.0	0.9
Buildings at cost less depreciation	0.1	-
	1.1	0.9
Leaseholds over 50 years at cost less depreciation	2.2	1.6
Total	3.3	2.5

(c) Operating leases

At 31 December 2008, the Company had annual commitments under non-cancellable operating leases that expire as follows:

	Land and buildings		Other	
	2008 £million	2007 £million	2008 £million	2007 £million
Within one year	-	-	-	0.1
Within two to five years	-	-	0.1	0.1
After five years	1.5	0.4	-	-
	1.5	0.4	0.1	0.2

The majority of leases of land and buildings are subject to rent reviews at periodic intervals of between three and five years.

Notes to the Company financial statements continued

F) Investments in subsidiary undertakings

	Shares at cost £million	Loans £million	Total £million
Cost			
At 1 January 2008	389.6	35.4	425.0
Acquisitions and increases in investments	-	0.5	0.5
Reclassification	(0.8)	0.8	-
At 31 December 2008	388.8	36.7	425.5
Provisions			
At 1 January and 31 December 2008	22.0	2.0	24.0
Net book value			
At 31 December 2008	366.8	34.7	401.5
At 31 December 2007	367.6	33.4	401.0

Details of principal subsidiary and associated undertakings are given on pages 107 to 113, which form part of these financial statements.

G) Debtors

	2008 £million	2007# £million
Amounts falling due within one year:		
Trade debtors	0.3	0.1
Amounts owed by subsidiary undertakings	268.1	279.4
Corporation tax	3.3	0.9
Taxation and social security	0.5	0.3
Prepayments and accrued income	1.1	1.1
	273.3	281.8

restated 2007 comparative

Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	98.3	98.3
Deferred taxation (see note L below)	1.6	0.9
	99.9	99.2

The amounts owed by subsidiary undertakings represent an unsecured, discounted convertible bond, issued in March 2001, at £85.0 million and redeemable in February 2031 at £98.3 million. There is a 6% coupon rate attaching to the bond from 31 August 2004. The conversion rights are at the option of the bond holder and are set out in the bond agreement.

H) Unsecured loan notes

	2008 £million	2007 £million
Floating rate loan notes	-	1.0

The floating rate unsecured loan notes were redeemed on 30 June 2008. Interest was payable half-yearly on the loan notes at rates ranging between 0.5% and 1.3% below six-month LIBOR.

I) Other creditors

	2008 £million	2007 £million
Amounts owed to subsidiary undertakings	163.2	152.8
Other creditors	17.1	13.0
Accruals and deferred income	8.0	7.2
	188.3	173.0

J) Bank loans repayable after more than one year

	2008 £million	2007 £million
In two to five years	165.5	163.0

The Company has revolving committed syndicated bank facilities for £225 million maturing in 2011 and £25 million maturing in 2012. At 31 December 2008, £165.5 million (2007: £163.0 million) had been drawn under the Company's facilities.

The Company had an interest rate cap hedging interest rate exposure on £10 million at 31 December 2008 (2007: £10 million). A further £90 million (2007: £30 million) was hedged using interest rate swaps. Of the £90 million interest rate swaps £20 million has a deferred start date of 11 December 2009. The fair value of interest rate hedges at 31 December 2008 is estimated at £(1.3) million (2007: £0.2 million). The contracts are designated as cash flow hedges and to the extent that the hedges are effective hedges, changes in their fair value are deferred in equity. No charges have gone through the income statement in the year (2007: £0.1 million was charged to the income statement) in respect of changes in the fair value of the hedges.

K) Other creditors - amounts falling due after more than one year

	2008 £million	2007 £million
Corporation tax	6.4	5.8
Amounts payable: After five years	6.4	5.8

L) Deferred taxation asset

	2008 £million	2007 £million
Movement in year		
At 1 January	0.9	0.3
Provided in the year	0.7	0.6
At 31 December	1.6	0.9

The source of the balance on deferred tax account is as follows:

Accelerated capital allowances	0.1	0.1
Other timing differences	1.5	0.8
At 31 December	1.6	0.9

M) Share capital

	2008 £million	2007 £million
Authorised		
150,000,000 ordinary shares of 10p each (2007: 150,000,000 ordinary shares of 10p each)	15.0	15.0
Allotted and fully paid		
125,016,372 ordinary shares of 10p each (2007: 124,751,437 ordinary shares of 10p each)	12.5	12.5

There were 264,935 ordinary shares of 10p each issued for a cash consideration of £0.8 million to participants in the executive share option schemes (2007: 1,012,175 shares for £2.7 million).

The ten-year grant period of the Sharesave Scheme expired on 3 June 2007.

N) Reserves

	Share premium £million	Investment in own shares £million	Capital redemption reserve £million	Acquisition reserve £million	Profit and loss reserve £million	Total £million
At 1 January 2008	111.9	-	0.1	108.5	108.5	329.0
Share issues (Note M)	0.8	-	-	-	-	0.8
Profit for the financial year (Note B)	-	-	-	-	23.7	23.7
Dividends paid (Note D)	-	-	-	-	(20.6)	(20.6)
Purchase of own shares	-	(0.2)	-	-	-	(0.2)
Own shares used to settle share-based payment obligations	-	0.2	-	-	(0.2)	-
Share-based payments	-	-	-	-	3.2	3.2
At 31 December 2008	112.7	-	0.1	108.5	114.6	335.9

Of the balance of £114.6 million in the profit and loss account at 31 December 2008, £56.6 million (2007: £56.6 million) is considered to be unrealised and is therefore not distributable.

Notes to the Company financial statements continued

O) Reconciliation of movement in shareholders' funds

	£million
Profit for the financial year attributable to the members of Interserve Plc	23.7
Dividends	(20.6)
	3.1
Share-based payments	3.2
Purchase of own shares	(0.2)
New share capital subscribed	0.8
Net addition to shareholders' funds	6.9
Shareholders' funds at 31 December 2007	341.5
Shareholders' funds at 31 December 2008	348.4

P) Contingent liabilities

At 31 December 2008, there were guarantees given in the ordinary course of business of the Company. The Company has given guarantees covering bank overdrafts in its subsidiary and associated undertakings. At 31 December 2008, these amounted to £0.8 million (2007: £0.2 million). The Company has provided a guarantee to the Interserve Pension Scheme for future contributions due from subsidiary undertakings amounting to £55.1 million (2007: £68.0 million) in respect of the past funding deficit. In addition contributions will also be payable in respect of future service benefits.

The Company has given guarantees in respect of borrowing and guarantee facilities made available to the Group's subsidiary, joint venture and associated undertakings for sums not exceeding £9.7 million (2007: £4.8 million) in respect of borrowings and £163.3 million (2007: £97.8 million) in respect of guarantees. At 31 December 2008, £0.8 million (2007: £0.2 million) had been utilised in borrowings and £130.6 million (2007: £65.4 million) in guarantees.

As part of the Office of Fair Trading's ongoing review of tender activity in the construction sector, it wrote to the Group with regard to potential breaches of competition law in respect of 16 tenders submitted between 2000 and 2005. These tenders represent a very small proportion of the bidding activity during this period. In April 2008, the OFT published its Statement of Objections against 112 companies in the construction sector in England, including the Group. The Statement of Objections alleges suspected 'cover pricing' by the Group on three construction industry tenders between October 2000 and September 2001. The Group has taken the opportunity to make representations before any final decision is made. Given the stage of the OFT's review it is not possible to predict whether these enquiries will have a materially adverse effect on the Company's financial position or results of operations.