

## Highlights

Unaudited half-year results for the six months ended 30 June 2009

	H1 2009	H1 2008	Change
• Revenue	£951.2m	£913.6m	+4.1%
• Headline profit <sup>1</sup>	£39.3m	£36.5m	+7.7%
• Profit before tax	£40.0m	£33.7m	+18.7%
• Headline earnings per share <sup>2</sup>	23.1p	19.3p	+19.7%
• Basic earnings per share	24.2p	17.7p	+36.7%
• Net debt	£85.1m	£115.4m	(26.3)%
• Interim dividend	5.5p	5.3p	+3.8%
• Future workload <sup>3</sup>	£6.7bn	£6.4bn	+4.7%

“The half-year was another period of growth and development for Interserve. Benefiting from our long-term strategy we increased profits, reduced net debt and secured further contract wins with a whole-life value in excess of £1 billion that provide improved forward revenue visibility. As a result, we remain confident in our prospects and expect to deliver robust near-term performance and sustain our long-term growth.”

**Adrian Ringrose**  
Chief Executive

<sup>1</sup> Headline profit comprises profit before taxation of £40.0m (H1 2008: £33.7m) adjusted for the impact of (£2.5m) amortisation of intangible assets (H1 2008: (£2.5m)); (£0.2m) amortisation of intangible assets (associates) (H1 2008: £0.3m); and £3.4m exceptional items (H1 2008: £nil).

<sup>2</sup> Headline earnings per share are based on Headline profit as defined in note 1 above (see also note 6 to the interim financial statements)

<sup>3</sup> Future workload comprises contracted work plus work that has been settled and on which final terms are being agreed (principally PFI projects at preferred bidder stage). It includes our share of work won by our Middle East associates.

## Interim Management Report Chairman's statement



Interserve performed well in the first half of the year. We benefited from our strategy of focusing on long-term, value-added client relationships and developing a balanced business model. As a result, whilst those businesses exposed to the UK private sector suffered as their customers responded to the recession, our overall performance remained solid, boosted by strong trading in the Middle East and a robust UK public sector result.

Although the macroeconomic environment has been challenging we are demonstrating our ability to manage the business through the cycle, delivering strong cash conversion of over 100 per cent in the period, implementing cost reduction programmes where necessary and winning new work with a whole-life value in excess of £1 billion across all of our target sectors. In the longer term economic pressures are likely to add further momentum to the market for bundled outsourcing solutions in both the public and private sectors. We continued to grow our international footprint and develop further opportunities in complementary markets and services during the period. Our positioning in the Middle East, where we are engaged in construction, equipment hire and sale and, most recently, outsourced services, enables us to take advantage of the ongoing opportunities in the region by growing existing markets such as Qatar and by entering new ones such as Saudi Arabia, a market with significant potential for Interserve.

The Board recognises the economic impact on the Group of its accumulated pension obligations. During the year significant steps are being taken to address this, as outlined in the Business Review.

### Dividend

The Board has approved an increased interim dividend of 5.5p (H1 2008: 5.3p), which will be paid on 26 October 2009 to shareholders on the register at close of business on 25 September 2009. This reflects the Board's confidence in the ability of the Group to deliver long-term growth.

### Board

As noted in the 2008 annual report John Vyse retired on 3 April 2009 and Nick Keegan retired at the Annual General Meeting on 12 May 2009, whilst David Thorpe joined as a new non-executive director on 1 January 2009.

### Prospects

Our principal markets offer good prospects for sustained long-term growth, and we believe that our business model of concentrating on long-term client relationships is a key strength, given the resilience and visibility of future workload it brings.

In the UK our outsourcing operations are based on increasing the efficiency and quality of a broad range of services for our clients. Trading remains encouraging in the public sector, where customers see outsourcing as a means of reducing cost and improving service delivery in an uncertain economic environment. Many of our private sector clients, particularly those in manufacturing, retail and financial services, are being affected by the recession and this is currently impacting both margins and activity levels in these segments.

Our construction activities in the UK are focused primarily on the health, education, custodial, defence and infrastructure sectors. Notwithstanding the possibility of pressure on public sector finances, the UK has an ageing social infrastructure on which demands are increasing that will require significant investment to replace, upgrade and maintain the existing assets. Consequently, we are confident that our long-term framework agreements will underpin a healthy pipeline of work for our operations.

In the Middle East our history, diversity, management strength and local partnerships have enabled us to weather the current economic and fiscal challenges and we continue to take advantage of markets which we expect will remain attractive. The region's profits have grown significantly in recent years, and we are extending our presence in many other international markets.

With our record future workload, balanced and complementary operations in long-term growth markets, and the ability to explore and develop new markets the Board remains confident that the Group will maintain robust near-term performance and sustain long-term growth.

A handwritten signature in dark ink, appearing to read 'Lord Blackwell'. The signature is fluid and cursive, written over a light background.

Lord Blackwell  
Chairman  
11 August 2009

## Business review

### Key Performance Indicators

	H1 2009	H1 2008	Change
Revenue	£951.2m	£913.6m	+4.1%
Headline earnings per share	23.1p	19.3p	+19.7%
Cash conversion <sup>4</sup>	128.5%	70.1%	+58.4% pts
Future workload	£6.7bn	£6.4bn	+4.7%
Annualised staff turnover <sup>5</sup>	7.4%	9.0%	(1.6)% pts
Annualised all-employee accident incidence rate per 100,000 workforce	366	455	(19.6)%

### Strategy

Interserve's vision is to be The Trusted Partner, bringing together all of our outsourcing capabilities to create innovative solutions that support long-term customer relationships, offering rewarding careers for our staff and underpinning sustained value creation for shareholders.

Our strategic objectives for fulfilling this vision consist of the following elements:

#### Develop and maintain long-term client relationships:

Our well-established client relationships have been cultivated over a long period of time and have withstood previous business and economic cycles. As a result, around three-quarters of our revenues are derived from services to the public and privatised sectors whose long-term contracts and high level of repeat business confer strong visibility during uncertain economic periods.

#### Strategic progress:

- We established new long-term relationships during the period with Sandwell Council, NHS Scotland, Ealing Council and Derbyshire Council and extended existing relationships with the Highways Agency, United Utilities, the Ministry of Justice and Majid Al Futtaim. This has helped us maintain strong revenue visibility, such that we currently have coverage of 67 per cent of anticipated 2010 revenues.

#### Build a well-balanced Group, active across the asset life cycle:

The balanced nature of the Group's businesses across the asset life cycle enables us to select the best opportunities whichever market or sector they are in. Our culture and organisational flexibility allow us to transfer expertise across our activities. They also give us the potential to

grow into new markets and services where we can provide additional value to our existing clients.

#### Strategic progress:

- After several years of strong profit growth from our international operations we are well-balanced geographically, with the UK contributing approximately 38 per cent of profits and international businesses around 62 per cent (based on the proportion of total operating profit before Group Services).
- We successfully leveraged our project management skills and knowledge to secure integrated value-added outsourcing contracts with major public sector and private sector clients such as Defra and HSBC. These are new long-term relationships that will provide good revenue visibility and future growth opportunities.

#### Develop new markets and models:

We have extensive sectoral and geographic reach in our existing businesses; however, our markets are constantly evolving and we seek to develop into related skills, sectors and geographies as part of our growth strategy.

#### Strategic progress:

- Our successful and long-standing partnerships in the Middle East are providing opportunities for our Facilities Management business to win new work in the region, whilst our Equipment Services operation is expanding its footprint to Saudi Arabia, a market with significant growth potential.
- Our contract with the Foreign and Commonwealth Office has taken our facilities management (FM) capabilities into Europe.

<sup>4</sup> Cash conversion is calculated as the percentage of cash generated by operations of £37.9m (H1 2008: £19.5m) divided by the sum of: operating profit of £30.4m (H1 2008: £25.3m); plus amortisation of intangible assets of £2.5m (H1 2008: £2.5m); less profit on disposal of property and investments of £3.4m (H1 2008: nil).

<sup>5</sup> Staff turnover measures the proportion of managerial, technical and office-based staff leaving voluntarily over the course of the period. The figures for January-June have been doubled to give an annual equivalent.

Given that our core skills and capabilities are transferable across sectors and geographies, we expect more examples of such strategic developments to arise, underpinning our confidence in the Group's future.

The half year was another period of growth and development for Interserve, with headline earnings per share rising 19.7 per cent to 23.1p (H1 2008: 19.3p) on revenue of £951.2 million (H1 2008: £913.6 million).

Strong cash conversion of 128.5 per cent (H1 2008: 70.1 per cent) resulted in a reduction in net debt at 30 June to £85.1 million (31 December 2008: £109.2 million). Cash flow in the period was positively impacted by the actions we have taken to reduce capital expenditure, control working capital and realise value from the PFI portfolio.

Significant new contract wins across sectors such as health, education, local government, infrastructure and custodial enabled our future workload to rise beyond the record level achieved at the end of 2008 to reach £6.7 billion (including our share of Middle East associates).

#### Principal risks and uncertainties

The principal risks and uncertainties which could have a material impact upon the Group's performance over the remaining six months of the 2009 financial year, together with the mitigation strategies adopted, and which could cause the actual results to differ materially from those expected, have not changed significantly from those set out on pages 26 and 27 of the Business Review included in the Group's 2008 annual report and financial statements.

These risks and uncertainties may be summarised as:

- Market change
- Major contracts
- Key people
- Health & safety regime
- Financial risks; and
- Damage to reputation.

#### Segmental review

Interserve's divisions create and deliver integrated and single-service solutions that offer real benefits in meeting our clients' outsourced service requirements. Increasingly we operate across our divisional structure in multi-disciplined teams to bring customers in various target sectors the benefits of a fully integrated approach.

Our divisions are supported by a Group Services function which provides a range of central services and encompasses our PFI bidding activity. Group Services costs in the half year were £8.0 million (H1 2008: £8.4 million).

**Facilities Management** provides a broad range of integrated services to the public and private sectors, predominantly in the UK, the vast majority of which we deliver ourselves.

Results summary:

	H1 2009	H1 2008	Change
Revenue	£435.0m	£393.8m	+10.5%
Contribution to Total Operating Profit	£12.3m	£14.0m	(12.1)%
Margin	2.8%	3.6%	(0.8)% pts

Results were impacted by deteriorating conditions in the private sector, where reduced volumes, especially in higher margin activities, combined with margin pressure across the board. Notwithstanding near-term trading pressures arising from the recession, outsourcing remains an attractive long-term growth market. Accordingly, we have continued to develop our business infrastructure, and results in the period have been further impacted by the investment made in our back-office systems to support recent contract wins in the public sector and through the mobilisation of three major government contracts, incurring start-up costs.

This division generated around 75 per cent of its revenues in the period from the public and privatised sectors (H1 2008: 70 per cent). Trading in these sectors remains encouraging, benefiting from long-term contracts in the defence, health and government sectors, and we invested in our back-office systems and in a new national customer service centre during the period to support recent and future contract wins. Four key clients are now being serviced from this customer service centre, which currently manages over 9,000 calls a week, and we expect others will join them progressively over time.

The remaining 25 per cent of the division serves our industrial and commercial clients, mainly in the automotive, retail, petrochemical, access and aviation sectors. Many of our clients have been adversely impacted by the current economic climate and have responded by reducing demand, particularly for higher margin activities. We have taken appropriate cost reduction measures and shall continue to monitor the cost base closely given continuing uncertainty in the outlook for these sectors.

Among the new contracts won during the period were:

- Ealing Council: a 10-year contract worth over £5 million a year, providing a range of services in buildings across the borough.
- Leeds Partnerships NHS Foundation Trust: a 19-year contract worth over £2.5 million a year to deliver facilities management at seven sites in Leeds providing a range of mental health services. These are owned and operated by Equitix in a PFI project on behalf of the Leeds Partnerships NHS Foundation Trust.
- Alstom: a three-year contract to deliver integrated support services across four sites for the heavy engineering division of Alstom.
- Argos: a two-year contract to be the supplier of cleaning and associated services across Argos's 745 UK stores.
- British Medical Association (BMA): a three-year extension to our contract to provide cleaning and portage services at the Grade II listed BMA House, building on our 10-year relationship with the BMA.
- Northern Ireland Schools PPP projects: three 25-year contracts to provide facilities management services to schools across Northern Ireland. These contracts are expected to begin during 2011.

We made good progress with the mobilisation of three major contracts in the government sector. These contracts offer attractive, long-term revenue streams; however, start-up costs associated both with setting up a European infrastructure and with back-office investment impacted profitability in the period. During the period we welcomed staff transferring from four European embassies (Amsterdam, Budapest, Geneva and The Hague) to our Foreign and Commonwealth (FCO) contract that first went live last December. On 1 July the remaining five locations joined the contract, taking the number of embassies using our services to the full complement of 14. Elsewhere the £500 million Defra Sustainable Workplace Management contract went live on 1 April, followed by the Ealing Council contract later in the month.

Our sustainability credentials were enhanced further with the award of the "Sustainability in Real Estate Award" at the CoreNet Global UK Awards dinner in February 2009. Since we launched our RENEWABLES guide to sustainable work practice in June 2008 it has been highly commended by the Environment Agency and has contributed to our top 20 ranking in the Observer's Good Company Guide. Interserve also won the Sustainability Award at the British

Institute of Facilities Management Awards 2008, as part of its joint venture, PriDE, with Southern Electric Contracting (SEC). We believe that sustainability know-how is becoming an important differentiator. Our progress, summarised above, positions us well to capitalise on this emerging growth driver.

**Specialist Services** offers facilities services such as security, mechanical and electrical (M&E) design, installation and maintenance and technical services (such as heating, ventilation and air conditioning, lift maintenance and asbestos surveying and remediation). These are usually delivered in discrete packages, with around two-thirds of revenues generated from the private sector, but are also often included as part of a bundled offering to clients of the Facilities Management or Project Services divisions.

Results summary:

	H1 2009	H1 2008	Change
Revenue	£76.8m	£88.5m	(13.2)%
Contribution to Total Operating Profit	£(1.6)m	£2.0m	n/a
Margin	(2.1)%	2.3%	(4.4)% pts

The division's performance was affected by a continuation of the tough trading conditions experienced since last autumn, notably a slowdown in client spending in the M&E installation sector and a tightening of margins in manned guarding, where our client base is dominated by the financial sector in the City of London. This disappointing result has also been impacted by investment in further cost reduction measures implemented during the period. Combined with previously announced plans, we expect these measures to deliver annualised cost savings of approximately £3 million from 2010.

Specialist Services continues to support our clients throughout the Group. Notable examples include security systems for Mapeley, and M&E services for Hadley Learning Community, Plymouth Schools and the Adult Mental Health Unit in Wrexham. The division's engineering capabilities are also being utilised on the Holme House prison contract, Malvern Hospital project and on the recently won Sandwell *Building Schools for the Future* (BSF) project. On the Defra contract Specialist Services is already assisting by providing security guarding and passenger lift maintenance, whilst our consulting operation is involved in looking at energy management solutions such as utility bill validation and management, adaptation-to-climate-change surveys, energy audits and reviews.

In the private sector we have won a contract to provide a merchandising security system to Tesco Express stores across the UK and Ireland and have secured major capital plant replacement work at the Bank of England.

During the period our security operation entered into a strategic partnership with Global Aware International (GAI) for the use of Global Integrated Incident Response Planning (GIIRP), a software application designed to prepare an organisation for any terrorist or emergency threat. Interserve has three years' exclusivity for its distribution in the UK. We are confident that this addition to our capabilities will further develop our security offering and help us offer a more rounded solution for our clients.

**Project Services** is a leading construction business providing professional services to enable the creation of a broad range of buildings and infrastructure. First-half trading was solid in the UK and strong in the Middle East, producing a contribution to Total Operating Profit of £18.1 million (H1 2008: £15.2 million).

Results summary:

	H1 2009	H1 2008	Change
Revenue (UK only)	£406.4m	£406.6m	-
Contribution to			
Total Operating Profit	£18.1m	£15.2m	+19.1%
- UK	£7.1m	£7.2m	(1.4)%
- International associates	£11.0m	£8.0m	+37.5%
Margin (UK only)	1.7%	1.8%	(0.1)% pts

In the UK we secured work across a number of our target sectors, developing new client relationships and building on existing ones. Notable contract wins included:

- **Education:** Preferred bidder on the Sandwell BSF project, worth £280 million in construction and facilities management revenues.
- **Health:** Appointed as one of five Principal Supply Chain Partners on the £600 million NHS Scotland *Frameworks Scotland* healthcare programme, complementing our existing healthcare framework agreements in England and Wales.
- **Custodial:** A £110 million contract to design and build a prison at Belmarsh East for the Ministry of Justice.
- **Commerce:** A £14 million contract at Turnberry Hotel and Golf Resort to refurbish the resort in time for The Open.

- **Infrastructure:** A place on the Highways Agency's £400 million framework agreement for the maintenance and repair of highways in the east and south-east of England. It lasts for two years with a possible two-year extension.

Shortly after the period end our KMI Plus joint venture was awarded a £250 million, five-year extension to an existing framework for the delivery of United Utilities' treatment plant capital programme.

- **Waste:** Preferred bidder, in conjunction with United Utilities, for the £500 million Derbyshire waste-treatment contract. Interserve will undertake the design and build of the waste processing plant and other facilities.
- **Local government:** We were awarded a place on Construction Framework South West soon after the period end. This £500 million, four-year arrangement has been developed by Devon County Council to deliver construction projects in excess of £1 million, including local authority buildings, emergency services, further education colleges and universities.

We continued to receive accolades from industry bodies during the period, including further recognition for our Leeds BSF team as they were awarded "Integrated Supply Chain of the Year" at the annual Building Awards hosted by Building Magazine. The Thames Gateway desalination plant, being built in joint venture with Acciona, was voted the "Most Sustainable Project" at the Annual Awards Ceremony of Global Water Intelligence, the international water industry's most prestigious publication. It is also pleasing to note that UK Project Services was named the "Best Building Contractor with over 500 employees" in the Best Places to Work in Construction 2009 awards organised by Contract Journal, and has recently been awarded the maximum five-star rating in the Recognised for Excellence scheme by the British Quality Foundation.

In the Middle East our diversity across the region, both sectoral and geographic, together with the strength of our local partnerships has enabled our associate companies to deliver an excellent first-half performance despite tougher trading conditions in Dubai. The presentation of results from our Middle East associates incorporates a change in the basis of taxation of our associate companies in Qatar. Whilst there is no impact to the Group earnings per share it has resulted in a reduction in reported operating profits from associate companies, matched by an equal reduction in the Group tax charge. The impact on Project Services associate companies' reported operating

profits in the period was £3.2 million. Favourable currency movements benefited results by £2.7 million.

Our associate companies continued to secure new contracts during the period, including:

- Qatar:
  - A contract for the construction and fit-out of major petrochemical tanker maintenance facilities.
  - Two separate contracts at Ras Laffan Industrial City, with Baker Hughes and ORYX, which will make use of the new fabrication facility we built in 2008.
  - A contract to construct pipeline stations across ten separate locations for Punj Lloyd, worth approximately £20 million.
- UAE:
  - A £50 million contract to build an extension and metro link at the Mall of the Emirates, a mall originally built by our associate company in 2005.
  - Construction of the New Exhibition Halls at the Dubai World Trade Centre, providing a further one million square feet of exhibition space and building on the previous work we have done for this customer.
- Oman:
  - Construction of a £10 million court building for the Ministry of Justice.
  - A contract to build a three-storey building for the Oman Dental College.

**Equipment Services** is a global leader in the supply of specialised equipment (formwork and falsework) used in creating major concrete structures, often requiring complex specification and design work.

Results summary:

	H1 2009	H1 2008	Change
Revenue	£80.4m	£79.2m	+1.5%
Contribution to Total Operating Profit	£20.4m	£13.7m	+48.9%
Margin	25.4%	17.3%	+8.1% pts

The division performed very strongly, posting a record first-half contribution to Total Operating Profit of £20.4 million. This result benefited from the impact of a weak sterling, though constant currency growth nevertheless measured an excellent 15.3 per cent.

Cash conversion within the division exceeded 100 per cent in the period resulting from continued focus on reducing working capital, limiting net capex and transferring under-utilised assets from geographies of low utilisation to areas with higher demand.

The Middle East was the primary driver of the strong divisional performance, with profit in the region almost doubling on a constant-currency basis. In particular we produced excellent growth in Abu Dhabi. Major projects here included the Yas Island development, where our equipment is being used on the bridge structures and the hotel complex at the new Formula One race track, and our work on the Saadiyat Island Expressway bridge, the largest bridge built to date in the UAE. In Dubai, our Megashor towers and other equipment have been used in building the elevated structures supporting the new Metro, which will transport up to 27,000 passengers per hour to Jebel Ali airport on project completion, whilst in Oman our equipment was used in the construction of a new 70-metre-high dam to supply water to a million people in Muscat. We are progressing with the registration of our company in Saudi Arabia and expect to commence trading during the second half of 2009.

Australasia produced a solid performance, due largely to robust trading in the infrastructure sector which helped offset a weaker commercial market. Major projects worked on included the new A\$268 million Rectangular Stadium in Melbourne which is being built for Victoria State Government and where our Megashor towers and Alshor Plus propping solutions are being used to support the construction of the structure and roof.

Trading conditions in Europe were, as expected, challenging during the period. Our UK operation showed resilience given the environment, benefiting from Olympics-related work and cost reduction programmes which helped offset a weak commercial sector, but there has been a significant slowdown across key European markets such as Spain and Ireland. We have taken action to lower the cost base in these territories and move under-utilised equipment to more attractive markets, but the near-term prospects in these countries remain challenging.

## PFI Investments

	H1 2009	H1 2008	Change
Contribution to Total Operating Profit	£1.8m	£1.5m	+20.0%
Interest received on subordinated debt investments	£2.4m	£2.1m	+14.3%
	<b>£4.2m</b>	<b>£3.6m</b>	<b>+16.7%</b>

The period under review has been another active one with respect to our PFI portfolio. Despite the more challenging environment for securing funding we reached financial close on four preferred bidder projects during the period, all in Northern Ireland: the acute hospital in Enniskillen and three schools projects in Down, Connor and Downpatrick. Once built the projects will provide our FM business with steady revenue streams for over 25 years.

Since the beginning of the year we have been awarded preferred bidder status on two new projects. In January our joint venture with United Utilities was selected as the preferred bidder for a £500 million waste-treatment contract in Derbyshire. This is a significant step as it takes our sustainability expertise and construction skills into an important new sector which will offer further opportunities going forward. It also represents an evolution in our relationship with United Utilities, a client for whom we have worked for several years in the construction of water- and waste-water-treatment facilities.

We were selected as preferred bidder by Sandwell Council for its BSF project, worth more than £280 million in construction and FM revenues to Interserve. We have recently reached financial close on this project and have begun work at two pilot sites, with the buildings scheduled to be fully operational in 2011. In total over 20 schools in the borough are expected to benefit from the scheme.

Separately, cash amounting to £15 million has been released from the portfolio via the sale of our interests in the Sheffield Schools project and the repayment of the majority of our subordinated debt in the landmark University College London Hospital project. Going forward we expect further cash generation from the mature projects in the portfolio, which will assist in the funding of new projects.

As at 30 June 2009 we had 33 signed PFI contracts (30 June 2008: 28), of which 22 are operational projects and 11 are under construction, with two more at preferred bidder stage (30 June 2008: three). Our total investment commitment on the signed contracts was £75.6 million (30 June 2008: £64.5 million), of which £39.1 million (30 June 2008: £43.9 million) had already been made. The two preferred bidder projects awarded during the period will involve investment of around £15 million.

Looking ahead we are short-listed on a number of projects in the education and waste sectors and we expect to make further progress in developing our PFI portfolio and generating value from it during the remainder of 2009 and beyond.

## Pension scheme

Progress towards agreement of the funding position and deficit recovery of the Interserve Pension Scheme continues. Whilst the entire process is unlikely to be completed before the end of the year, we continue to anticipate that the funding shortfall as at the end of 2008 will be in the region of £250 million. A number of actions have been completed during the period, designed to reduce both the funding shortfall and the risk in accrued liabilities:

- The Board has decided to close the defined benefit scheme to future accrual for all non-passport members from the end of this year.
- A full investment strategy review has been completed, and initial conclusions implemented, in conjunction with the Trustee of the Scheme. This will reduce investment risk through greater asset diversification and matching of inflation and interest volatility with Scheme liabilities.

These actions will be reflected as an exceptional credit of approximately £20 million to the Group 2009 income statement.

During the second half of the year negotiations towards agreement of the funding shortfall will be progressed. It is anticipated that this will include both a revised schedule of increased Company contributions into the Scheme and the use of alternative assets in order to mitigate the current and future cash requirement on the Group.

### Market prospects

#### United Kingdom

Demand in the majority of our UK markets remains robust. Our customers, in particular central and local governments, are increasingly under pressure to reduce budgets, to improve efficiencies and to maximise the effectiveness of their available resources given the current challenging economic environment. At the same time they continue to face rising demand from a growing and ageing population to improve the delivery of existing services. We are well-positioned to help them given our strong capabilities across a broad range of markets, our proven track record in delivering change and our ability to create innovative solutions. With our focus on sectors that are operationally, legally and politically essential we continue to expect good opportunities.

In the private sector we expect the recent challenging demand outlook to continue and competition to remain intense, putting pressure on margins and impacting current-year performance in our facilities services businesses. Against this backdrop we have taken action to reduce our cost base in the affected market segments and will continue to be vigilant with respect to costs going forward. Recent wins with HSBC, Argos and Alstom, however, demonstrate our ability to continue to win work in this environment.

The BSF programme is set to continue to offer opportunities in the education sector and we are actively bidding for future work to augment our existing Leeds BSF and Sandwell BSF projects. The current government is committed to refurbishing or rebuilding 50 per cent of all primary schools over the next 15 years. Irrespective of the political party in power, an ageing infrastructure will have to be tackled and hence we expect the education sector to remain an attractive long-term market. With a position on the health framework agreements in England, Wales and, more recently, Scotland, we continue to see good opportunities in this sector and note that all main political parties have to date committed to maintaining robust spending on healthcare in response to an ageing UK population.

In the custodial sector, where we have a strong track record and unique construction expertise, there are ongoing opportunities under both PFI and public-sector procurement initiatives. The National Offender Management Service's capacity programme aims to create approximately 12,000 additional prison places by 2014, representing a doubling of the pace of expansion of the last 10 years. The government announced in April that it would abandon plans for the large 'titan' prisons and

instead will look to meet the additional capacity requirements via five 1,500-place PFI prisons. Competitions for these are expected in the next two years, providing a good pipeline of prospects. In defence we shall continue to work closely with Defence Estates to deliver value-for-money outsourcing solutions and maximise efficiency in a challenging environment.

Elsewhere there are a number of new local authority framework agreements, where county and district councils and other public bodies are joining forces to extend the benefits of collaborative working. With our strong regional network and familiarity with these methods of procurement we are achieving success in this market, with recent wins in Ealing and Devon being testament to this, and are pursuing several other opportunities.

#### Middle East & International

Our international operations continue to be dominated by our strong position in the Gulf. We believe this region will remain a rewarding place in which to trade over the coming years, aided by our diverse geographical and sectoral exposure and well-established local partnerships. The rest of our international operations, which are active across Australasia, the Far East, Europe, South Africa and South America, are likely to continue to face more challenging market conditions as the equipment services they provide are dependent on the strength of the local construction market. We have been taking action to mitigate the anticipated lower demand levels by reducing costs and capital expenditure where necessary, and shall continue to review the specific situation in each territory going forward.

Our largest market, Qatar, is expected to record the highest economic growth rate in the Gulf Cooperation Council (GCC) over the coming years. The government has outlined a continuation of its expansionary fiscal policy, which, together with its support of the more subdued banking and real estate sectors, is expected to ensure relatively attractive growth rates are maintained. We believe that our offering, which now encompasses construction, equipment services and outsourcing services, will be well-positioned to win further work in this environment.

After several years of frenetic activity trading conditions in Dubai have, latterly, become more challenging. Nevertheless our businesses have maintained strong client relationships, won new work and developed an encouraging pipeline of opportunities. Whilst the market is unlikely to regain its previous confidence in the near term the Emirate's Grand Vision remains intact, albeit it will likely develop at a more sustainable pace than previously

## Directors and advisers

planned. We are also continuing to take advantage of the burgeoning market in nearby Abu Dhabi, increasing our presence there across the full range of our capabilities.

Prospects for Oman remain promising though the strong economic growth of recent years has been softened by a falling oil price. However, the government is accelerating its long-term strategy aimed at diversifying the economy away from a reliance on oil production by boosting its industrial and services sectors. Much of the investment in the industrial sector will centre on the Sohar Port complex where we have been active for a number of years.

The establishment of trading operations for our Equipment Services business in Saudi Arabia is progressing according to plan and we expect the business to begin making a contribution from late 2009.

### Outlook

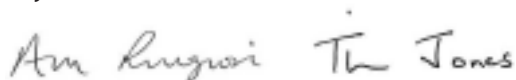
With our record future workload, balanced and complementary operations in long-term growth markets, and the ability to explore and develop new markets we remain confident that the Group will maintain robust near-term performance and sustain long-term growth.

## Responsibility statement

The directors confirm to the best of their knowledge:

- a the condensed set of financial statements has been prepared in accordance with IAS 34;
- b the interim management report includes a fair review of the important events during the first six months and description of the principal risks and uncertainties for the remaining six months of the year, as required by DTR 4.2.7R; and
- c the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the Financial Services Authority.

By order of the Board



Adrian Ringrose  
Chief Executive

Tim Jones  
Group Finance Director

11 August 2009

### Chairman

Norman Blackwell (Lord Blackwell)

### Executive directors

Adrian Ringrose Chief Executive  
Tim Jones Group Finance Director  
Steven Dance  
Bruce Melizan

### Non-executive directors

G Patrick Balfour  
Les Cullen  
David Thorpe  
David Trapnell

### Group Company Secretary

Trevor Bradbury

### Registered office

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### Registered number

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### Registrar and Share Transfer Office

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### Auditors

Deloitte LLP

### Bankers

Royal Bank of Scotland plc  
HSBC Bank plc

### Stockbrokers

JPMorgan Cazenove Limited  
Oriental Securities Limited

### Lawyers

Wragge & Co LLP