

News Release



INTERSERVE PLC INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2002

- Pre-tax profit up 33% to £19.9 million
- Basic earnings per share up 31% to 10.6p
- Underlying pre-tax profit up 25% to £24.4 million *
- Underlying earnings per share up 19% to 14.4p *
- Underlying operating margin up to 4.7% from 3.7% *
- Interim dividend up 5.3% to 4.0p

Commenting on the results, Mike Bottjer, Chairman of Interserve, said:

“Interserve has benefitted from another solid half-year in which we have increased both profits and margins. This has been against a background of a more cautious view emerging in some parts of the private sector and our decision to concentrate resources on winning longer-term contracts.

“Our strategy remains one of offering a broad and integrated range of support services to both the public and private sectors. We have the benefit of a healthy forward order book, further orders in the pipeline and a strong presence in the public sector where there is substantial planned expenditure. Our selective approach to bidding will be carefully maintained.”

* Underlying results are stated before goodwill amortisation, exceptional items, discontinued operations and SSAP 24 credit (2001)

- Ends -

(Chairman’s statement and results follow)

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About Interserve

Interserve (www.interserveplc.co.uk) delivers a comprehensive and integrated range of services to the public and private sectors in support of their core operations. The company operates through six divisions; Facilities Services, Industrial Services, Project Services, Equipment Services, Private Finance Initiative projects and Group Services. Interserve is based in the UK and is listed on the London Stock Exchange (LSE: IRV). It trades in the FTSE 250 index and had a 2001 turnover of more than £1.25 billion.

CHAIRMAN'S STATEMENT

2002 INTERIM REPORT

Results

I am pleased to report that profit before tax increased by 33% to £19.9 million (H1 2001: £15.0 million) on turnover of £557.2 million (H1 2001: £636.5 million). Basic earnings per share rose 31% to 10.6p (H1 2001: 8.1p). These results have been achieved in markets made more challenging by the prevailing uncertain economic environment.

The figures include an exceptional profit of £0.2 million (H1 2001: £2.7 million loss) realised following the sale of West's Engineering Design in January for £2.4 million.

Underlying pre-tax profits from continuing operations have increased by 25% to £24.4 million (H1 2001: £19.5 million). This and other appropriate comparatives are stated before the SSAP 24 pension credit referred to below, goodwill amortisation and exceptional items. Underlying earnings per share increased by 19% to 14.4p (H1 2001: 12.1p).

Cash

Net debt at the half-year was £65.9 million, compared with £84.2 million one year earlier and £62.8 million at 31 December 2001. Traditionally the end of the year shows a better debt position than at the half-year due to seasonal factors. Of greater significance than debt at a particular point in time is the average bank debt over the period. The average for the past six months was £76.4 million compared with £97.2 million for the comparable period last year and £92.1 million for the whole of last year. This reduction is reflected in the lower Group interest charge which fell to £1.5 million in the period compared with £3.3 million in the first half of last year and £5.0 million for the whole of last year.

Net interest of £2.1 million, which includes £0.6 million being our share of joint venture and associated undertakings net interest payable, was covered 12.7 times by underlying operating profits.

Accounting for pension costs

The Group currently prepares its accounts in compliance with SSAP 24. Accounting standard FRS 17 is currently in transitional phase and will not require to be implemented in full for some years. Based on the last actuarial valuation on 31 March 2000 and under the provisions of SSAP 24, the Group would be able to take a credit to the profit and loss account for the first half of this year of £1.5 million (H1 2001: £1.9 million). However, given investment market volatility since the date of the last valuation, we consider it prudent not to take a credit at this time.

Taxation

The Group has adopted FRS 19 "Deferred Tax" and in accordance with that accounting standard, the charge to profits for the equivalent period last year and for the whole of 2001 has been restated. The overall tax rate for the year, on profits

before exceptional items and goodwill amortisation, is 32% compared with 30% in the interim and full year results for 2001, this increase being due to unrelieved losses in foreign subsidiaries.

Dividend

The interim dividend is increased by 5.3% to 4.0p (H1 2001: 3.8p) and will be payable on 1 November 2002 to shareholders on the register at the close of business on 20 September 2002.

Business Performance

Underlying operating profits from continuing operations increased by 15% to £26.5 million (H1 2001: £23 million). Turnover reduced to £568.7 million (H1 2001: £628.9 million) mainly due to our concentration on longer-term contracts at the expense of the larger short term projects and delays in the award of contracts by some private sector clients as a result of the current period of economic uncertainty. Against this background, the underlying operating margin from continuing operations increased to 4.7% (H1 2001: 3.7%).

The Group reports operations under six main headings namely: Facilities Services, Industrial Services, Project Services, Equipment Services, Joint Ventures-PFI Investments and Group Services.

Facilities Services increased operating profits by 27% to £7.1 million (H1 2001: £5.6 million). The margin also increased to 3.3% (H1 2001: 2.6%) and excluding turnover relating to the works bills element of MOD contracts, on which there is no margin, the figure was 4.9% (H1 2001: 3.6%). Much of the work in this division is in providing integrated support services such as mechanical and electrical maintenance, building fabric maintenance, catering, security, cleaning and help desk facilities. Also, much of it is in the form of long-term contracts of up to 40 years in the public sector, particularly in health, education, defence and housing. The forward order book for this division as at the half-year amounted to some £2.2 billion.

Industrial Services' operating profits decreased by 5% to £5.4 million (H1 2001: £5.7 million) with the margin increasing to 8.0% (H1 2001: 6.3%). At £67.8 million (H1 2001: £90.9 million) turnover was substantially lower partly due to the planned reduction in project work and the increasing emphasis on better quality longer-term integrated support services contracts. It was also impacted through decisions by certain clients to temporarily curtail expenditure in the current market conditions; a position which is expected to ease in due course as essential maintenance and other work becomes necessary. This division provides a wide range of integrated services to industrial clients mainly in the petrochemical, pharmaceutical, power, food-processing and manufacturing sectors. Services include facilities management, access, industrial cleaning and painting, insulation, mechanical / electrical / instrumentation installation and maintenance and process pipework. The division has continued to concentrate its development as a service provider on long-term contracts which are usually in the order of two to seven years duration. Notable clients include such names as BP, PowerGen, Accordis, BAE Systems and Avecia. Following the transfer of access scaffolding to this division from the Equipment Services division last year, these assets will be progressively deployed on higher

quality industrial services contracts over the long-term in accordance with the division's strategic plan. The forward order book for this division as at the half-year amounted to around £570 million.

Project Services increased operating profits by 100% to £7.8 million (H1 2001: £3.9 million) with the margin increasing to 3.2% (H1 2001: 1.4%). This improvement resulted largely from the division's strategy to focus on lifting margins to an acceptable and sustainable level before seeking further significant turnover growth. Framework agreements for building and infrastructure work, long-term building maintenance contracts and design and construction work under Group PFI projects remain the prime focus of this division and the source of most of its work. Skills in these areas, coupled with the activities of the other divisions, enable the Group to offer a wide range of integrated services to its many clients. The forward order book for the division at the half-year amounted to around £675 million.

Equipment Services' operating profits decreased by 22% to £6.8 million (H1 2001: £8.7 million) with the margin also falling back to 19.4% (H1 2001: 22.8%), a level closer to more normal expectations for this business. Delays in the award of contracts and the delayed programme requirements of certain clients was a major contributory factor towards the profit shortfall, which in part is expected to be made up in the second half. The UK and Middle East operations performed particularly well in the period but the Far East operations experienced difficult markets, although these are now showing some tentative signs of improvement. This division, operating on an international basis, provides a comprehensive design, hire and sale service for formwork and falsework equipment which is used on construction projects, particularly complex infrastructure works.

Operating profits from investment in PFI projects (Joint Ventures-PFI Investments) has increased from £0.3 million in the first half of last year to £1.6 million, a similar profit level to that achieved in the second half of last year. This increase reflects projects moving into operational phase. The interest charge in the profit and loss account includes £0.6 million for the period (H1 2001: £0.2 million). We are very much committed to and believe in our strategy of offering a broad range of services to our clients and thus continue to create growth as a provider of integrated support services. As part of this, PFI contracts are an appropriate source of work for the range of skills and abilities that we possess and feature as part of our future growth prospects. However, with the numerous opportunities that exist, it has been and remains key to our approach to be selective and to pursue only those projects that we can sensibly manage within our available human and financial resources.

Group Services costs were £2.2 million (H1 2001: £1.2 million). This increase principally relates to increased investment in PFI bidding teams and third party pre-preferred-bidder costs, designed to enhance future growth. The Group adopted the principles set out in UITF 34 in the 2001 accounts. Third party bidding costs of £2.3 million, incurred whilst projects are at the preferred bidder stage, are being treated as an asset at 30 June 2002. All amounts similarly treated in accordance with UITF 34 at 31 December 2001 have been recouped.

Order Book

Amongst the many contracts secured during the period are: a three-year framework agreement with United Utilities for water infrastructure projects worth some £245

million to us and our partners; a four-year framework agreement with the National Health Service for projects in the North West and West Midlands worth some £160 million; a four-year framework agreement with Reading University for new buildings worth in excess of £50 million; and a three-year agreement with a major bank for property refurbishment nationwide worth some £65 million.

Financial close was reached on two PFI contracts in which we have equity stakes, namely the new Health and Safety Laboratories at Buxton where we will provide support services for 30 years with a value to us over the period of £75 million and three schools for Tameside MBC where we will carry out the design and construction and provide facilities services for a 30-year period with a value to us of £41 million. We now have a portfolio of 16 PFI contracts, in 12 of which we have a significant equity stake. Our total investment commitment is some £27 million and approximately 45% has already been invested. In addition we are preferred bidder, with partners, on a further three PFI contracts, namely Ashford and Peterborough Prisons and Tyrone Colleges in N. Ireland.

In aggregate our forward order book as at the end of June, excluding the PFI projects where we are preferred bidder, amounted to some £3.4 billion.

Prospects

There are considerable opportunities in our chosen markets, particularly in health, education, defence, prisons, public sector housing and infrastructure. However, the market outlook for the second half of the year appears to be relatively subdued with some private sector clients taking a cautious view, resulting in delay or temporary curtailment of expenditure. Whilst we are by no means immune from the effects, we do have the benefit of a healthy forward order book, further orders in the pipeline and a strong presence in the public sector where there is substantial planned expenditure. Second half results should reflect the changing mix in our work which is expected to produce a closer balance between the two halves of the year. In respect of the longer term, we remain confident in our potential and prospects for significant growth as a provider of integrated support services to both the public and private sectors.

Mike Bottjer
Chairman
10 September 2002

INTERSERVE PLC

UNAUDITED GROUP PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Six months ended 30 June 2002			Six months ended 30 June 2001			Year ended 31 December 2001		
	Before exceptional items and goodwill amortisation	Exceptional items and goodwill amortisation	Total	Before exceptional items and goodwill amortisation Restated #	Exceptional items and goodwill amortisation	Total Restated #	Before exceptional items and goodwill amortisation Restated #	Exceptional items and goodwill amortisation	Total Restated #
	£million	£million	£million	£million	£million	£million	£million	£million	£million
TURNOVER									
Continuing operations	568.7	-	568.7	628.9	-	628.9	1,241.7	-	1,241.7
Discontinued operations*	0.2	-	0.2	16.8	-	16.8	31.6	-	31.6
	568.9	-	568.9	645.7	-	645.7	1,273.3	-	1,273.3
Less: Share of joint ventures-PFI investments	(11.7)	-	(11.7)	(9.2)	-	(9.2)	(23.0)	-	(23.0)
	557.2	-	557.2	636.5	-	636.5	1,250.3	-	1,250.3
OPERATING PROFIT									
Group									
Continuing operations									
Before exceptional items and goodwill amortisation	23.3	-	23.3	24.1	-	24.1	52.9	-	52.9
Exceptional items	-	-	-	-	(2.7)	(2.7)	-	(5.8)	(5.8)
Goodwill amortisation	-	(4.8)	(4.8)	-	(4.9)	(4.9)	-	(9.7)	(9.7)
	23.3	(4.8)	18.5	24.1	(7.6)	16.5	52.9	(15.5)	37.4
Discontinued operations	0.1	-	0.1	1.2	-	1.2	2.7	-	2.7
	23.4	(4.8)	18.6	25.3	(7.6)	17.7	55.6	(15.5)	40.1
Share of joint ventures and associated undertakings (continuing operations)	3.2	-	3.2	0.8	-	0.8	4.7	-	4.7
TOTAL OPERATING PROFIT	26.6	(4.8)	21.8	26.1	(7.6)	18.5	60.3	(15.5)	44.8
Exceptional items (continuing operations)									
Net profit/(loss) on sale or termination of operations- discontinued (note 2)	-	0.2	0.2	-	-	-	-	1.2	1.2
Net interest payable (note 3)	(2.1)	-	(2.1)	(3.5)	-	(3.5)	(6.7)	-	(6.7)
PROFIT BEFORE TAXATION	24.5	(4.6)	19.9	22.6	(7.6)	15.0	53.6	(14.3)	39.3
Taxation (note 4) #	(7.9)	-	(7.9)	(6.8)	0.9	(5.9)	(16.1)	1.3	(14.8)
PROFIT AFTER TAXATION	16.6	(4.6)	12.0	15.8	(6.7)	9.1	37.5	(13.0)	24.5
Dividends	(4.5)	-	(4.5)	(4.3)	-	(4.3)	(13.9)	-	(13.9)
PROFIT RETAINED	12.1	(4.6)	7.5	11.5	(6.7)	4.8	23.6	(13.0)	10.6
	P	P	P	P	P	P	P	P	P
BASIC EARNINGS PER SHARE (note 5)			10.6			8.1			21.9
Adjust for exclusion of:									
Effect of exceptional items and goodwill amortisation		4.0			6.0			11.4	
UNDERLYING EARNINGS PER SHARE	14.6			14.1			33.3		
Analysis of underlying earnings per share:									
Continuing operations	14.4			12.1			29.1		
Discontinued operations	0.2			0.8			1.8		
SSAP 24 credit	-			1.2			2.4		
DILUTED EARNINGS PER SHARE			10.4			8.0			21.6
DIVIDENDS PER SHARE	4.0	-	4.0	3.8	-	3.8	12.3	-	12.3

Certain comparative figures have been restated due to the adoption of FRS 19.

* Discontinued operations represent the results of How Fire, West's Engineering Design and Tilbury Phoenix which were sold with effect from 24 October 2001, 11 January 2002 and 25 March 2002 respectively.

INTERSERVE PLC
UNAUDITED GROUP BALANCE SHEET
AT 30 JUNE 2002

	30.6.02 £million	30.6.01 £million Restated #	31.12.01 £million Restated #
Fixed assets			
Intangible fixed assets-goodwill	168.8	181.2	173.6
Tangible assets	103.0	100.7	101.4
Investment in joint ventures and associated undertakings	22.4	16.7	21.2
	294.2	298.6	296.2
Current assets			
Stocks and work in progress	19.9	28.9	29.0
Debtors	270.6	293.1	262.1
Pension scheme prepayment	32.0	29.9	32.0
Investments	0.6	0.6	0.6
Short term deposits	6.7	1.5	1.3
Cash at bank and in hand	5.7	1.8	8.7
	335.5	355.8	333.7
Creditors falling due within one year			
Bank loans	0.6	0.6	1.6
Bank overdraft	0.4	2.5	1.3
Unsecured loan notes	21.1	22.5	21.8
Trade creditors	174.2	209.8	190.2
Sundry creditors	143.3	139.5	139.1
	339.6	374.9	354.0
Net current liabilities	(4.1)	(19.1)	(20.3)
Total assets less current liabilities	290.1	279.5	275.9
Creditors falling due after more than one year			
Bank and other loans	(56.0)	(61.5)	(47.8)
Other creditors	(2.0)	(2.2)	(2.0)
Provisions for liabilities and charges	(30.0)	(26.3)	(31.3)
Net assets	202.1	189.5	194.8
Capital and reserves			
Called up share capital	11.4	11.3	11.4
Share premium account	106.4	104.0	106.1
Acquisition reserve	16.4	16.4	16.4
Profit and loss account	67.8	57.7	60.8
Shareholders' funds-equity interest	202.0	189.4	194.7
Minority interest-equity interest	0.1	0.1	0.1
	202.1	189.5	194.8

UNAUDITED RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	30.6.02 £million	30.6.01 £million Restated #	31.12.01 £million Restated #
Profit retained	7.5	4.8	10.6
Currency translation differences on foreign currency net investments	(0.5)	0.4	(0.8)
Shares issued			
Acquisition of Building & Property Holdings Ltd	-	2.8	2.8
Other	0.3	4.2	4.9
Movement in period/year	7.3	12.2	17.5
Brought forward (as previously stated)	194.7	186.4	186.4
Prior year adjustment (note 6)	-	(9.2)	(9.2)
Brought forward (as restated)	194.7	177.2	177.2
Shareholders' funds - equity interest	202.0	189.4	194.7
Minority interest - equity interest	0.1	0.1	0.1
	202.1	189.5	194.8

UNAUDITED CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	30.6.02 £million	30.6.01 £million Restated #	31.12.01 £million Restated #
Profit for the financial period/year attributable to the members of Interserve Plc	12.0	9.1	24.5
Currency translation differences on foreign currency net investments	(0.5)	0.4	(0.8)
Total recognised gains and losses in the period/year	11.5	9.5	23.7
Prior period adjustment (note 6)	(11.9)	-	-
Total recognised gains and losses since last annual report	(0.4)	9.5	23.7

INTERSERVE PLC
UNAUDITED GROUP CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2002

	Six months ended 30.6.02	Six months ended 30.6.01	Year ended 31.12.01
	£million	£million	£million
Net cash flow from operating activities			
Operating profit before exceptional items and goodwill amortisation	23.4	25.3	55.6
Exceptional items excluding profit on disposal of fixed assets and subsidiary undertakings	-	(2.7)	(4.0)
Pension scheme surplus	-	(1.9)	(4.0)
Depreciation	7.1	7.3	14.3
Increase in working capital	<u>(30.0)</u>	<u>(22.9)</u>	<u>(16.8)</u>
	<u>0.5</u>	<u>5.1</u>	<u>45.1</u>
Dividends received from associated undertakings	<u>1.3</u>	<u>0.8</u>	<u>2.5</u>
Return on investments and servicing of finance			
Net interest paid	<u>(1.5)</u>	<u>(2.5)</u>	<u>(5.0)</u>
Taxation			
UK and overseas tax paid	<u>(6.7)</u>	<u>(2.4)</u>	<u>(6.5)</u>
Capital expenditure			
Purchase of tangible fixed assets	(11.8)	(10.6)	(23.2)
Sale of tangible fixed assets	<u>4.6</u>	<u>3.4</u>	<u>5.5</u>
	<u>(7.2)</u>	<u>(7.2)</u>	<u>(17.7)</u>
Acquisitions and disposals			
Investment in joint ventures	(0.3)	(0.3)	(4.1)
Sale of subsidiary undertaking net of costs	9.7	-	11.6
Purchase of shares in subsidiary undertaking	<u>-</u>	<u>(0.4)</u>	<u>(0.4)</u>
	<u>9.4</u>	<u>(0.7)</u>	<u>7.1</u>
Equity dividends paid	<u>-</u>	<u>-</u>	<u>(13.1)</u>
Cash (outflow)/inflow before management of liquid resources and financing	<u>(4.2)</u>	<u>(6.9)</u>	<u>12.4</u>
Management of liquid resources	<u>(5.4)</u>	<u>6.3</u>	<u>6.4</u>
Financing	<u>6.5</u>	<u>(9.2)</u>	<u>(21.5)</u>
(Decrease)/increase in cash in the period/ year	<u>(3.1)</u>	<u>(9.8)</u>	<u>(2.7)</u>
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period/year	(3.1)	(9.8)	(2.7)
Cash flow from increase/(decrease) in liquid resources	5.4	(6.3)	(6.4)
Cash flow from (increase)/decrease in debt	(7.0)	12.8	25.4
Net repayment of unsecured loan notes	0.7	0.1	0.8
Cash flow from finance lease rentals	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>
Change in net debt resulting from cash flows	<u>(3.9)</u>	<u>(3.1)</u>	<u>17.3</u>
Effect of foreign exchange rate changes	<u>0.8</u>	<u>(1.0)</u>	<u>-</u>
	<u>(3.1)</u>	<u>(4.1)</u>	<u>17.3</u>
Net debt - opening	<u>(62.8)</u>	<u>(80.1)</u>	<u>(80.1)</u>
Net debt - closing	<u>(65.9)</u>	<u>(84.2)</u>	<u>(62.8)</u>

INTERSERVE PLC

SEGMENTAL ANALYSIS

The turnover, total operating profit (excluding exceptional items and goodwill amortisation) and net assets attributable to the different classes of the Group's business are:

	Turnover (external)			Total operating profit (excluding exceptional items and goodwill amortisation)			Net Assets (less minority interest)		
	Six months ended	Year ended		Six months ended	Year ended		30.06.01	31.12.01	
	30.6.02	30.6.01	31.12.01	30.6.02	30.6.01	31.12.01	#Restated	#Restated	
	£million	£million	£million	£million	£million	£million	£million	£million	
By business segment:									
Facilities services (note i)	212.0	217.0	423.7	7.1	5.6	14.4	(11.2)	(18.2)	(21.4)
Industrial services (note ii)	67.8	90.9	178.7	5.4	5.7	14.4	53.1	52.1	55.1
Project services (note iii)	241.8	273.3	537.8	7.8	3.9	13.3	(27.6)	(33.6)	(39.0)
Equipment services (note ii)	35.0	38.2	74.2	6.8	8.7	15.9	64.7	63.8	68.0
	556.6	619.4	1,214.4	27.1	23.9	58.0	79.0	64.1	62.7
Joint ventures-PFI investments	11.7	9.2	23.0	1.6	0.3	1.9	12.3	7.4	11.6
Group services	0.4	0.3	4.3	(2.2)	(1.2)	(6.3)	7.8	7.9	(1.4)
	568.7	628.9	1,241.7	26.5	23.0	53.6	99.1	79.4	72.9
SSAP 24 credit (note iv)				-	1.9	4.0			
	568.7	628.9	1,241.7	26.5	24.9	57.6	99.1	79.4	72.9
Discontinued operations (note v)	0.2	16.8	31.6	0.1	1.2	2.7	-	13.0	11.0
	568.9	645.7	1,273.3	26.6	26.1	60.3	99.1	92.4	83.9
Goodwill							168.8	181.2	173.6
Net debt							(65.9)	(84.2)	(62.8)
							202.0	189.4	194.7
By geographic area:									
United Kingdom	532.4	592.4	1,160.5	21.1	18.7	46.0	24.4	6.5	4.1
Rest of Europe	7.4	8.6	14.7	1.8	2.1	3.7	11.3	10.6	11.9
Middle East & Africa	2.3	1.4	3.0	2.1	0.7	2.9	9.6	9.1	9.1
Australasia	7.0	6.3	13.4	1.7	1.5	2.7	10.4	7.0	9.5
Far East	6.8	10.2	21.7	0.1	0.8	2.7	19.6	26.5	24.3
South America	0.7	0.5	1.1	0.3	0.1	-	3.7	4.4	3.8
	556.6	619.4	1,214.4	27.1	23.9	58.0	79.0	64.1	62.7
Joint ventures-PFI investments	11.7	9.2	23.0	1.6	0.3	1.9	12.3	7.4	11.6
Group services	0.4	0.3	4.3	(2.2)	(1.2)	(6.3)	7.8	7.9	(1.4)
	568.7	628.9	1,241.7	26.5	23.0	53.6	99.1	79.4	72.9
SSAP 24 credit (note iv)				-	1.9	4.0			
	568.7	628.9	1,241.7	26.5	24.9	57.6	99.1	79.4	72.9
Discontinued operations (note v)	0.2	16.8	31.6	0.1	1.2	2.7	-	13.0	11.0
	568.9	645.7	1,273.3	26.6	26.1	60.3	99.1	92.4	83.9
Goodwill							168.8	181.2	173.6
Net debt							(65.9)	(84.2)	(62.8)
							202.0	189.4	194.7

Certain comparative figures have been restated due to the adoption of FRS 19.

(i) Facilities services turnover includes £67.9 million in respect of works bills (30.6.01:£63.5 million; 31.12.01:£121.7 million). Works bills are costs relating to services and materials procured on behalf of the Ministry of Defence on which no margin is allowed but for which a management fee is received.

(ii) With effect from July 2001 the Access business was transferred from Equipment services to Industrial services. For ease of comparison the segmental analysis above has been restated as if the transfer had taken place on 1 January 2001. The effect of this has been to transfer £19.0 million of turnover and £1.1 million of operating profit from Equipment services to Industrial services for the period to the date of transfer.

(iii) Construction services profit disclosed above is before taking account of net interest received of £2.0 million (30.6.01: £2.4 million; 31.12.01: £4.7million).

(iv) SSAP 24 credit refers to the Net Pension Scheme Credit on the UK Defined Benefit Scheme.

(v) Discontinued operations represent the results of How Fire, West's Engineering Design and Tilbury Phoenix which were sold with effect from 24 October 2001, 11 January 2002 and 25 March 2002 respectively.

(vi) Inter-segment turnover is not material and has been excluded from the above figures. The segmental analyses of turnover are stated by source and there is no material difference from analyses by destination.

INTERSERVE PLC

NOTES TO THE UNAUDITED INTERIM RESULTS

1 Accounting policies

The interim results have been prepared on the basis of the accounting policies set out in the Group's 2001 statutory accounts, with the exception of the application of FRS 19.

The Group has adopted FRS 19 'Deferred tax'. Certain comparatives have been restated and details have been set out in note 6.

In compliance with UITF 34 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. This accounting policy was applied in the Group's 2001 statutory accounts.

2 Net profit/(loss) on sale/termination of operations

	30.6.02	30.6.01	31.12.01
	£million	£million	£million
Profit on sale of West's Engineering Design/Tilbury Phoenix/How Fire - discontinued			
Profit before goodwill write off	0.2	-	7.0
Goodwill write off	<u>-</u>	<u>-</u>	<u>(3.2)</u>
	0.2	-	3.8
Net loss on sale or termination of non-core operations-discontinued	<u>-</u>	<u>-</u>	<u>(2.6)</u>
	0.2	-	1.2

3 Net interest payable includes share of Joint Venture and Associated Undertakings net interest payable of £0.6 million (30.6.01 £0.2 million; 31.12.01 £ 1.7 million).

4 Taxation

	30.6.02	30.6.01	31.12.01
	£million	£million	£million
UK and overseas taxation	7.9	5.3	10.7
Deferred taxation - as previously reported	-	-	1.4
Prior year adjustment - FRS 19 (note 6)	<u>-</u>	<u>0.6</u>	<u>2.7</u>
	7.9	5.9	14.8

The standard rate of tax for the period based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and previous period/ year exceeds the standard rate for the reasons set out in the following reconciliation:

	30.6.02	30.6.01	31.12.01
	£million	£million	£million
Profit on ordinary activities before tax	19.9	15.0	39.3
Tax on profit on ordinary activities at standard rate	6.0	4.5	11.8
Expenses not deductible for tax purposes (primarily goodwill amortisation)	1.4	1.5	3.0
Unrelieved losses in foreign subsidiaries	0.4	-	-
Deferred tax timing differences	-	(0.6)	(4.1)
Other	0.1	(0.1)	-
	7.9	5.3	10.7

5 The calculation of adjusted earnings per share is based on 113,601,429 shares of 10p and a profit after tax and minority interest excluding exceptional items and goodwill amortisation of £16.6 million. Basic earnings per share is calculated on attributable profit after exceptional items and goodwill amortisation of £12.0 million.

Diluted earnings per share is based on weighted average number of shares, including dilutive potential shares relating to option schemes, which totalled 115,005,256, and a profit after tax and minority interest of £12.0 million.

6 Effect of FRS 19 'Deferred taxation'

	Net assets
	£ million
As previously reported at 1 January 2001	186.4
Adoption of FRS 19 at 1 January 2001	<u>(9.2)</u>
Restated at 1 January 2001	177.2
Net addition to shareholders' funds as previously reported	20.2
Effect on the year ended 31 December 2001 of the adoption of FRS 19	<u>(2.7)</u>
Net addition to shareholders' funds restated	17.5
Restated at 31 December 2001	194.7

FRS 19 had no impact on the first half of 2002. The impact on the first half of 2001 was £0.6 million.

7 The interim statement is being sent to all shareholders and copies will be available for members of the public at the Company's registered office.

8 The interim results are neither audited nor reviewed and the financial information set out above does not constitute full accounts as defined by section 254 of the Companies Act 1985. Full accounts for the year ended 31 December 2001 have been delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.