Interserve Plc

Integrated support services

Interim report 2001

"Excellent progress has been achieved by Interserve in the first half of this year reinforcing further the strong growth trend which we have established as an Integrated Support Services business.

It is our intention to extend the range of our support services yet further as we believe that the best opportunities for growth will lie in our ability to provide added value for our customers through a comprehensive range of Integrated Support Services."

Mike Bottjer
Chairman

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Highlights

Unaudited interim results for the six months ended 30 June 2001

	Interim 2001	Interim 2000	
Turnover	**£636m**	£451m	up **41%**
Pre-tax profits	**£22.6m**	£17.2m	up **31%**
Earnings per share	**14.7p**	11.6p	up **27%**
Interim dividend	**3.8p**	3.6p	up **5.6%**

(Note: Profits and earnings per share are stated before exceptional items and goodwill amortisation)

- Total operating profits up 34% to £26.1million
- Interest covered 7.5 times by operating profits
- Work in hand of £3.3billion (H1 2000: £1billion)
- Further work in the pipeline of £400million
- Integration of Building & Property on schedule

Chairman's Statement

Excellent progress has been achieved by Interserve in the first half of this year reinforcing further the strong growth trend which we have established as an integrated Support Services business. The results also reflect the acquisition in December last of Building & Property, a leading facilities management business which, following integration, we expect to play an increasingly important role in the future long term development of the Group.

Results

I am pleased to report that pre-tax profits, before exceptional items and goodwill amortisation, increased by 31% to £22.6million (H1 2000: £17.2million). Turnover rose by 41% to £636.5million (H1 2000: £451million).

Operating profits, before exceptional items and goodwill amortisation, increased by 34% to £26.1million (H1 2000: £19.5million).

Underlying earnings per share rose by 27% to 14.7p (H1 2000: 11.6p) continuing our record of double digit growth and a compound annual growth rate in excess of 15% over the previous eight years.

Net debt at the half year was £84.2million (H1 2000: £57.8million) reflecting both the cash element, some £33.9million, of the consideration for the purchase of Building & Property and the assumption of its net debt of £6.5million. Net interest of £3.5million was covered 7.5 times by operating profits.

Exceptional costs arose in the period of £2.7million (H1 2000: £2.2million). This being largely due to the reorganisation costs incurred to date involved in the integration of Building & Property, further comment on which is made under operations, and additional costs and provisions following the demise of Independent Insurance.

Dividend

The interim dividend is increased by 5.6% to 3.8p (H1 2000: 3.6p) and will be payable on 2 November, 2001 to shareholders on the register at the close of business on 21 September, 2001.

Operations

Support Services

Operating profits in Support Services improved by 49% to £11.6million (H1 2000: £7.8million).

Following the acquisition of Building & Property, which operates mainly in the public sector, plans were implemented for its integration with our existing facilities management business Interserve*fm* which focuses primarily on the private sector. As envisaged at the time of acquisition this has enabled us to embark upon a carefully considered rationalisation programme which, although we are having to bear the cost this year as an exceptional item, is expected to bring both operational and financial benefits in the future. With effect from 1 May the combined businesses operate under the name of Interserve*fm*. Financial close was achieved of the PFI scheme for Dudley NHS Trust where, in addition to an equity stake, we are undertaking the Support Services over a 40 year period with an aggregate present day value of £530million. Since the half year we have secured the contract for Support Services to the MOD at Porton Down with a value of some £20million over 5 years, and also preferred bidder status for the maintenance of 70 public buildings and 8000 homes for Slough Borough Council with a value of some £14million per annum for up to 15 years.

In Industrial Services, Interserve IS has made excellent progress. As from 1 June the majority of the access equipment operations within Equipment Services have been transferred to Interserve IS in order that these resources can be more effectively utilised in supporting our expansion in the growing industrial services outsourcing market. Long term maintenance/outsourcing contracts form the core of the business providing services for an impressive list of clients in the petro-chemical, pharmaceutical, power, food processing and manufacturing industries. Recent awards include the provision of services relating to the long term decommissioning programme for Dounreay power station.

An increasing volume of signalling work has been secured within our engineering services activity including alliancing work with Railtrack and the equipment manufacturers on the Dorset Coast line and the Horsham line, which together have a value to us of £12million. Under a framework agreement with Lattice Group we have a £22million contract for the provision of mechanical and electrical services at five locations.

The integration and rationalisation of Support Services activities should be completed by the year end, the cost of which should be in line with expectations at approximately £3million.

Construction Services

Having taken the business through a total change in culture and transformed it into a customer driven and focused business, Construction Services has continued its commendable progress with operating profits increased by 30% to £5.6million (H1 2000: £4.3million). As from 1 September, Construction Services businesses have largely been re-branded as Interserve Project Services in accordance with the Group strategy of developing the Interserve brand and to reflect the aforementioned change in culture. The costs of re-branding are estimated at £1million and will be treated as exceptional.

Under a framework agreement with the Highways Agency Services we will carry out an £18million programme of maintenance to the flyovers at Gravelly Hill Interchange on the M6. Similarly under a framework agreement with the HM Prison Service a £14million contract has been secured for the design and build of accommodation at Hull prison with a further £15million in the pipeline at Birmingham prison. Long term relationships with clients, the securing of long term maintenance contracts and a focus on PFI opportunities are the keys to the progress being achieved.

Equipment Services

A good performance was produced by Equipment Services in the first half year with profits increased by 10% to £9.7million (H1 2000: £8.8million). This was achieved against the background of a reduced turnover largely due to the sale of Rapidhire, the tool hire business, last year and a weaker market in Australia following the Olympic Games in Sydney. However given the potential in the large international market in which we operate, considerable effort is being applied to generating the significant long term growth in revenues in the design, hire and sale of system formwork and falsework which are open to us.

PFI Schemes

We now have a portfolio of 13 secured PFI contracts, in 10 of which we have a significant equity stake. Our total investment commitment is now some £24million. We are preferred bidder on a further 3 schemes in which we will have an equity stake, namely Southampton Schools and

Hattersley Schools, where we will carry out design, construction, engineering services and long term support services, and the Health & Safety Executive at Buxton where we will undertake the long term support services. There is a considerable pipeline of PFI schemes where we are either shortlisted or in the earlier stages of the bidding process. These include schemes in the Health, Education, Home Office and MOD sectors.

People

Given the changes that have taken place following significant acquisitions and disposals over the past 3 years or so, I would like to thank our people for their splendid teamwork and success in achieving the excellent progress that I have been able to report during that time.

Prospects

The visibility of our future revenue stream has increased dramatically and at the half year we had some £3.3billion of work in hand (H1 2000: £1billion) with a further £400million in the pipeline.

We are well established in markets which offer significant prospects for growth, particularly in support services which is now the main driver of our business. As ever it will be necessary to continue to refine and reshape parts of our business as we anticipate changes in the market and prepare for future opportunities. It is our intention to extend the range of our support services yet further, as we believe that the best opportunities for growth will lie in our ability to provide added value for our customers through a comprehensive range of integrated support services.

We have attractive businesses, a first-class track record, a substantial workload ahead and a wealth of opportunities.

M C Bottjer
Chairman
12 September 2001

Abbreviated Unaudited Group Profit and Loss Account

For the six months ended 30 June 2001

	Six months ended 30 June 2001			Six months ended 30 June 2000			Year ended 31 December 2000		
	Before exceptional items and goodwill amortisation £million	Exceptional items and goodwill amortisation £million	Total £million	Before exceptional items and goodwill amortisation £million	Exceptional items and goodwill amortisation £million	Total £million	Before exceptional items and goodwill amortisation £million	Exceptional items and goodwill amortisation £million	Total £million
TURNOVER									
Continuing operations	636.5	–	636.5	449.1	–	449.1	927.4	–	927.4
Discontinued operations*	–	–	–	1.9	–	1.9	1.9	–	1.9
	636.5	–	636.5	451.0	–	451.0	929.3	–	929.3
OPERATING PROFIT									
Group									
Continuing operations									
Before exceptional items and goodwill amortisation	25.3	–	25.3	18.6	–	18.6	44.2	–	44.2
Exceptional items (note 2)	–	(2.7)	(2.7)	–	(2.2)	(2.2)	–	(2.7)	(2.7)
Goodwill amortisation	–	(4.9)	(4.9)	–	(2.2)	(2.2)	–	(4.5)	(4.5)
	25.3	(7.6)	17.7	18.6	(4.4)	14.2	44.2	(7.2)	37.0
Share of joint ventures and associated undertakings (continuing operations)	0.8	–	0.8	0.9	–	0.9	2.1	–	2.1
Total operating profit	26.1	(7.6)	18.5	19.5	(4.4)	15.1	46.3	(7.2)	39.1
Exceptional items (continuing operations)									
Profits on disposal of fixed assets	–	–	–	–	0.6	0.6	–	0.2	0.2
Net loss on termination of operations	–	–	–	–	(0.3)	(0.3)	–	(0.2)	(0.2)
Net interest payable (note 3)	(3.5)	–	(3.5)	(2.3)	–	(2.3)	(4.9)	–	(4.9)
PROFIT BEFORE TAXATION	22.6	(7.6)	15.0	17.2	(4.1)	13.1	41.4	(7.2)	34.2
Taxation	(6.2)	0.9	(5.3)	(5.4)	0.7	(4.7)	(10.5)	0.1	(10.4)
PROFIT AFTER TAXATION	16.4	(6.7)	9.7	11.8	(3.4)	8.4	30.9	(7.1)	23.8
Minority interest	–	–	–	(0.1)	–	(0.1)	(0.1)	–	(0.1)
ATTRIBUTABLE PROFIT	16.4	(6.7)	9.7	11.7	(3.4)	8.3	30.8	(7.1)	23.7
Dividends	(4.3)	–	(4.3)	(3.6)	–	(3.6)	(12.4)	–	(12.4)
PROFIT RETAINED	12.1	(6.7)	5.4	8.1	(3.4)	4.7	18.4	(7.1)	11.3
	p	p	p	p	p	p	p	p	p
EARNINGS PER SHARE (note 4)			8.7			8.2			23.3
Adjust for exclusion of:									
Effect of exceptional items and goodwill amortisation		6.0			3.4			7.0	
Adjusted earnings per share	14.7			11.6			30.3		
Diluted earnings per share			8.6			8.1			23.0
DIVIDENDS PER SHARE	3.8	–	3.8	3.6	–	3.6	11.5	–	11.5

* Discontinued operations represent the results of Scottish Housebuilding division which was sold with effect from 22 February 2000. The profit on disposal, after charging £1.5million in respect of goodwill previously written off to reserves was £nil.

Abbreviated Unaudited Group Balance Sheet

At 30 June 2001

	30.6.01 £million	30.6.00 £million	31.12.00 £million
Fixed assets			
Goodwill	**181.2**	79.5	185.3
Tangible assets	**100.7**	104.6	99.4
Investment in joint ventures and associated undertakings	**16.7**	10.2	16.2
	298.6	194.3	300.9
Current assets (excluding cash at bank)	**365.6**	310.1	316.6
Current liabilities (excluding borrowings)	**(362.0)**	(275.7)	(326.6)
Long term creditors and provisions for liabilities and charges (excluding borrowings)	**(18.7)**	(22.2)	(24.3)
	283.5	206.5	266.6
Net debt	**(84.2)**	(57.8)	(80.1)
Net assets	**199.3**	148.7	186.5
Movement in Shareholders' funds			
Profit retained	**5.4**	4.7	11.3
Transfer goodwill previously written off to profit & loss account	**–**	1.5	1.5
Currency translation differences on foreign currency net investments	**0.4**	1.3	(0.8)
Shares issued			
Acquisition of Building & Property (Holdings) Ltd	**2.8**	–	41.2
Exercise of share options	**4.2**	0.2	0.4
Movement in period	**12.8**	7.7	53.6
Brought forward	**186.4**	132.8	132.8
Shareholders' funds – equity interest	**199.2**	140.5	186.4
Minority interest – equity interest	**0.1**	8.2	0.1
	199.3	148.7	186.5

Abbreviated Unaudited Group Cash Flow Statement

For the six months ended 30 June 2001

	30.6.01 £million	Six months ended 30.6.00 £million	Year ended 31.12.00 £million
Net cash flow from operating activities			
Operating profit before exceptional items and goodwill amortisation	**25.3**	18.6	44.2
Exceptional items excluding profit on disposal of fixed assets and subsidiary undertakings	**(2.7)**	(2.5)	(2.9)
Pension scheme surplus	**(1.9)**	(1.0)	(4.0)
Depreciation	**7.3**	7.4	14.3
Increase in working capital and other adjustments	**(22.9)**	(26.0)	(13.5)
	5.1	(3.5)	38.1
Dividends received from associated undertakings	**0.8**	1.3	2.6
Return on investments and servicing of finance			
Net interest paid	**(2.5)**	(2.0)	(4.9)
Taxation			
UK and overseas tax paid	**(2.4)**	(3.3)	(8.7)
Capital expenditure			
Purchase of tangible fixed assets	**(10.6)**	(14.0)	(24.5)
Sale of tangible fixed assets	**3.4**	6.4	14.7
	(7.2)	(7.6)	(9.8)
Acquisitions and disposals			
Investment in joint ventures	**(0.3)**	–	(1.1)
Purchase of shares in associated undertakings	**–**	(1.1)	–
Sale of shares in subsidiary undertaking	**–**	18.3	18.3
Purchase of minority interest	**–**	–	(4.3)
Purchase of shares in subsidiary undertaking	**(0.4)**	–	(65.3)
	(0.7)	17.2	(52.4)
Equity dividends paid	**–**	–	(11.1)
Cash outflow before management of liquid resources and financing	**(6.9)**	2.1	(46.2)
Movement in net debt			
Cash outflow as above	**(6.9)**	2.1	(46.2)
Increase in ordinary share capital	**4.2**	0.2	34.9
Loan notes issued on acquisition of Building & Property (Holdings) Ltd	**(0.4)**	–	(8.8)
Other non-cash movements	**–**	–	–
Effect of foreign exchange rate changes	**(1.0)**	(0.2)	(0.1)
	(4.1)	2.1	(20.2)
Net debt – opening	**(80.1)**	(59.9)	(59.9)
Net debt – closing	**(84.2)**	(57.8)	(80.1)

Unaudited 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			
	30.6.01 £million	30.6.00 £million	31.12.00 £million	30.6.01 £million	30.6.00 £million	31.12.00 £million	30.6.01 £million	30.6.00 £million	31.12.00 £million
By business segment:									
Support services (note i)	318.0	151.0	349.8	11.6	7.8	18.8	36.1	43.0	10.8
Construction services (note ii)	263.9	237.4	453.1	5.6	4.3	11.2	(33.6)	(36.7)	(34.6)
Equipment services	53.4	59.6	116.0	9.7	8.8	20.2	64.8	84.4	78.3
	635.3	448.0	918.9	26.9	20.9	50.2	67.3	90.7	54.5
Discontinued operations	–	1.9	1.9	–	–	–	–	–	–
Group services (note iii)	1.2	1.1	8.5	(0.8)	(1.4)	(3.9)	34.9	28.1	26.7
	636.5	451.0	929.3	26.1	19.5	46.3	102.2	118.8	81.2
Goodwill							181.2	79.5	185.3
Net debt							(84.2)	(57.8)	(80.1)
							199.2	140.5	186.4
By geographic area:									
United Kingdom	607.6	419.2	861.1	21.7	15.1	38.7	9.8	36.7	(2.0)
Rest of Europe	9.1	9.0	16.2	2.0	1.9	3.4	10.6	8.6	10.2
Middle East & Africa	1.5	1.9	3.5	0.7	1.0	1.8	9.1	8.9	9.9
Australasia	6.3	8.4	15.2	1.6	2.7	4.2	6.9	7.7	7.1
Far East	10.3	9.0	22.0	0.8	0.5	2.4	26.5	24.1	24.5
South America	0.5	0.5	0.9	0.1	(0.3)	(0.3)	4.4	4.7	4.8
	635.3	448.0	918.9	26.9	20.9	50.2	67.3	90.7	54.5
Discontinued operations	–	1.9	1.9	–	–	–	–	–	–
Group services (note iii)	1.2	1.1	8.5	(0.8)	(1.4)	(3.9)	34.9	28.1	26.7
	636.5	451.0	929.3	26.1	19.5	46.3	102.2	118.8	81.2
Goodwill							181.2	79.5	185.3
Net debt							(84.2)	(57.8)	(80.1)
							199.2	140.5	186.4

(i) Support services turnover includes £63.5million in respect of works bills (30.6.00 and 31.12.00 – £nil). 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) Construction services profit disclosed above is before taking account of net interest received of £2.4million (30.6.00 £2.5million: 31.12.00 £5.1million).

(iii) Group services includes the results and net assets for Operations to be discontinued and Capital projects.

Notes to the Unaudited Interim Results

For the six months ended 30 June 2001

1 **Accounting policies**
The interim results have been prepared on the basis of the accounting policies set out in the Group's 2000 statutory accounts.

2 Exceptional items include reorganisation costs relating to the acquisition of Building & Property (Holdings) Ltd (£0.9million) and additional insurance costs arising from the failure of Independent Insurance Company Ltd., (£1.8million) (2000 – reorganisation costs relating to acquisition of Bandt plc).

3 Net interest payable includes share of Joint Venture and Associated Undertakings net interest payable of £0.2 million (30.6.00 £nil million; 31.12.00 £0.2million).

4 The calculation of adjusted earnings per share is based on 111,857,918 shares of 10p and a profit after tax and minority interest excluding exceptional items and goodwill amortisation of £16.4million. Basic earnings per share is calculated on attributable profit after exceptional items and goodwill amortisation of £9.7million.

Diluted earnings per share is based on weighted average number of shares, including dilutive potential shares relating to option schemes, which totalled 113,234,515, and a profit after tax and minority interest of £9.7million.

5 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.

6 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 2000 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

Principal Group Undertakings

Support Services
Interserve*fm* Ltd*
Interserve (Defence) Ltd*
Interserve (Facilities Management) Ltd*
Interserve (Facilities Services) Ltd*
Control Equipment Ltd*
Climate Equipment Ltd*
Climate Services Ltd*
Clough Smith Rail Ltd*
Euro Air Systems Ltd*
How Fire Ltd*
West's Engineering Design Ltd*

Industrial Services
Interserve Industrial Services Ltd*

Equipment Services
RMD Kwikform Ltd*
Rapid Metal Developments (Australia) Pty Ltd*
RMD Kwikform Ireland Ltd*
Rapid Metal Developments (Malaysia) Sdn Bhd (51%)*
Rapid Metal Developments (NZ) Ltd*
Rapid Metal Developments Singapore Pte Ltd*
Rapid Metal Developments (UAE) LLC (49%)*
RMD Kwikform Chile SA*
RMD Kwikform Hong Kong Ltd
RMD Kwikform (Iberica) SA (95%)*
RMD Kwikform Korea Co., Ltd*
RMD Philippines Inc*
RMD Sweden AB*
RMD Kwikform (Taiwan) Ltd*
B C Barton & Son Ltd (33%)*

Investments
Interserve Investments Plc

Project Services
Interserve Project Services Ltd
BBTA Construction Joint Venture (25%)*
Douglas OHI LLC (33%)*
Gulf Housing and Construction Company WLL (49%)
Khansaheb Civil Engineering LLC (45%)*
Khansaheb Hussain LLC (49%)*
KMC – Tilbury Douglas Construction Ltd Joint Venture (49%)*
Tilbury Douglas (Malaysia) Sdn Bhd (51%)*
Walbridge Tilbury Ltd (50%)*
Westpile Ltd*

Group Services
Actursa SA (49.999%)*
Bandt Ltd
Bandt Properties Ltd*
Building & Property (Holdings) Ltd*
How Group Ltd
How Investments Ltd*
Jotilsa SA (50%)*
Interserve Holdings Plc
Tilbury Iberica SA*
Tilbury Phoenix Ltd*
Baglan Moor Healthcare Plc (25%)*
Pyramid Schools (Sheffield) Ltd (50%)*
Pyramid Accommodation Services (Cornwall) Ltd (50%)*
Harmondsworth Detention Centres Ltd (49%)*
Health Management Carlisle Plc (50%)*
The Newcastle Estate Partnership Ltd (50%)*
Community Health Facilities (Oxford) Ltd (33.33%)*
Health Management (UCLH) Plc (33.33%)*
Belfast Education Services Ltd (33.33%)*
Victory Support Services (Portsmouth) Ltd (50%)*
Summit Holdings (Dudley) Limited (33.33%)*

*Denotes shareholdings in companies held by subsidiaries of Interserve Plc

Directors and Officers

Executive Directors

Michael Colin Bottjer (Chairman), MBA, CEng, FICE‡
Clive Jeremy Groom
Allan Richardson Hannah MRICS
Malcolm Stuart Lee FCA
Graham John Wentzell BSc, CEng, MICE

Non-Executive Directors

David Chaloner Keys (Deputy Chairman), BA (Hons), MA*†‡#
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William Scofield Rogers BA (Oxon)*†

* Member of the Audit Committee
† Member of the Remuneration Committee
‡ Member of the Nomination Committee
# Senior Independent Director

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Trevor Bradbury LLB (Hons), FRICS, MCIArb. Barrister

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