Interserve PLC Full Year Results Announcement 2018

27 February 2019

Interserve, the international support services, construction and equipment services group, today announces its unaudited financial and operational results for the year ended 31 December 2018.

	2018	2017	%
Revenue	£2,904.0m	£3,250.8m	(10.7%)
Total Operating profit *1, 2	£92.7m	£84.5m	9.7%
Margin % *1	3.2%	2.6%	0.6%
Loss before tax	(£111.3m)	(£244.4m)	54.5%
EPS *1	1.1p	35.6p	(96.9)%
Statutory EPS	(89.2p)	(176.0p)	49.3%
Net Debt	£631.2m	£502.6m	(25.6%)

*1 before non-underlying items and amortisation of acquired intangible assets.

*2 2017 Restated for exited businesses from £74.9m to £84.5m

Deleveraging Plan to secure long-term future of Interserve

- Prospectus to be issued on the date of this announcement, setting out the Deleveraging Plan in detail
- The Directors believe the proposed Deleveraging Plan will provide the Group with sufficient liquidity to service its short-term cash obligations, create a strong and competitive balance sheet and a fundamentally solid foundation from which the Group can improve its business and deliver on its long-term strategy
- The Deleveraging Plan is a consensual restructuring of Interserve, which is required to provide sufficient liquidity, cash and bonding facilities to allow the Group to service short term obligations to avoid a default in the Existing Financing Arrangements. Such a default, were it to occur, would be expected to have material adverse consequences for stakeholders and, in particular, for existing shareholders
- The Deleveraging Plan fully preserves the pre-emption rights of existing shareholders. If they take up their entitlements in the equity raise their ownership will not be diluted and they will participate on the same terms as lenders
- The Deleveraging Plan will be subject to approval by Interserve's shareholders on 15 March 2019

Financial performance

- Significant operating profit *1 improvement up 9.7 % to £92.7m (2017: £84.5m)
- Loss before tax reduced from £244.4m to £111.3m
- Revenues declined 10.7% to £2,904.0m (2017: £3,250.8m) due to a fall in UK Construction and a more disciplined and commercially focused Group-wide bidding process
- Operating profit margin *1 increased by 23% from 2.6% to 3.2%
- The '*Fit for Growth'* programme is delivering material cost savings and improving efficiency and effectiveness across the Group. The programme delivered £20m of savings in 2018 and is on track to deliver at least £40-50m in annual savings by 2021
- Net debt increased to £631.2m within the expected range of £625-650m, primarily driven by:
    - incremental cash costs from Energy from Waste contracts;
    - incremental exceptional costs on a number of Construction projects;
    - delays in collecting receipts from certain Middle Eastern customers;
    - an unwind in the UK Construction business working capital as the division's revenue continued to decline, partly due to the Group's disciplined approach to pursuing work but more so as the Group's financial position started to impact its ability to successfully win contracts, this has accelerated in the first half of 2019.

Transformation programme delivering strong operational progress and strategic momentum

- The Group's Health and Safety performance improved in the year with our Lost Time Incident Rate falling by 25% to 0.98 in 2018
- Future workload of £7.1bn (December 2017: £7.6bn), with steady momentum particularly in Support Services Defence, Healthcare and Regulated Sectors
- Operating profit in Support Services increased by 38.9% from £42.2m to £58.6m as a result of a multi-year operational improvement plan
- In 2018, UK Construction secured access to Government framework pipeline sales opportunity of £1.0bn
- International Construction business secured a number of contract wins in the period particularly in the UAE
- Equipment Services revenue lower as major UK infrastructure projects not repeated in 2018 and impact of Qatar embargo; strengthened competitive position through roll-out of new product ranges
- Continued progress on closing out remaining Energy from Waste projects

Debbie White, Chief Executive Officer, Interserve plc said:

"Despite extremely challenging circumstances, Interserve has made significant progress in 2018. Following the successful completion of the refinancing in April 2018, the business has traded robustly in some difficult markets and continued to win significant new contracts. The *'Fit for Growth'* programme is delivering material cost savings and a simpler and more effective business structure. The implementation of the Group's strategy remains on track and we have delivered a significantly improved operating profit this year in line with our plan.

Interserve remains focused on positioning the Group for long-term, sustainable success. This means continuing the operational progress we are making to put legacy issues behind us. However, the Group remains over-leveraged and the successful implementation of the Deleveraging Plan is critical to our future, as it will ensure that Interserve has a competitive financial structure for its future growth. I would urge our shareholders to vote in favour of the Deleveraging Plan.

Interserve has significant opportunities as a best-in-class partner to the public and private sector, and we are making good progress putting in place the right services, governance and financing to deliver a stronger future for our customers and our 68,000 people."

Interserve will be holding a webcast presentation for analysts and investors with Debbie White, CEO, and Mark Whiteling, CFO, at 09.15 GMT, which can be accessed at:
https://3xscreen.videosync.fi/2019-02-25-interserve-fy-results-2018

Participant dial in numbers:
Dial in: 0800 358 9473
Participant Access Code: 42379575#
International participants can check the correct international dial in codes here.
The replay of the webcast will be available after the event at: www.interserve.com

ENDS

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION RELATING TO INTERSERVE PLC.

LEI: 549300MVYY4EZCRFHZ09

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About Interserve
Interserve is one of the world's foremost support services and construction companies. Everything we do is shaped by our core values. We are a leader in innovative and sustainable outcomes for our clients and a great place to work for our people. We offer advice, design, construction, equipment,

facilities management and frontline public services. We are headquartered in the UK and FTSE-listed. We have consolidated revenues of £2.9bn and a workforce of circa 68,000 people worldwide.

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CHAIRMAN'S STATEMENT

My comments will cover the previous fiscal year and the first few months of 2019 in view of the significant events which have taken place in that period. The period has been the most difficult in Interserve's history since the Group was established in 1884.

The resulting stress and uncertainty have led to anxiety amongst our staff, suppliers and customers and significant loss of value for our shareholders from the fall in our share price. I would like to thank them for their support during this challenging period.

Interserve remains one of the world's foremost support services, construction and equipment companies delivering a range of services for our clients helping them to improve their efficiency and productivity. It is a business with a strong purpose, providing important and valued services that enhance people's lives on a daily basis.

However, over the years, the business lost its operating and financial discipline, became too federated and inefficient, lacked a coherent approach and entered some businesses it shouldn't have done.

Debbie White and her management team have made excellent progress over the last eighteen months addressing the problems. The proposed Deleveraging Plan and the continuing progress of the *'Fit for Growth'* programme are significant steps towards restoring stability, future financial success and underlying resilience in Interserve and to rebuilding trust with all our stakeholders. I comment on each of these points in more detail below.

DELEVERAGING PLAN

The Board believes the Deleveraging Plan will provide Interserve with a strong balance sheet and the platform to deliver on its strategy. Agreeing the key commercial terms of the Deleveraging Plan with our lenders, bonding providers and Pension Trustee was a significant step forward in our plans to strengthen the balance sheet. The Board believes that this agreement will secure a strong future for Interserve. This proposal has been achieved following a long period of intensive negotiation and has the support of our financial stakeholders and UK Government. The Deleveraging Plan is subject to approval by Interserve's shareholders.

Its successful implementation is critical to the Interserve Group's future and all of its stakeholders and without its successful implementation there will be significant disruption to the business.

The Deleveraging Plan will, alongside our '*Fit for Growth'* programme, place us in a strong position to deliver our strategy, be competitive in the marketplace and provide a secure future for the Interserve Group's employees, customers and suppliers and the Board recommends that shareholders vote in favour of it.

FINANCIAL PERFORMANCE

The business has traded robustly in some challenging markets and continued to win significant new contracts. This has been achieved in an environment which is challenging for the sector and particularly so for Interserve. The *'Fit for Growth'* programme is delivering material cost savings and a simpler and more effective business structure.

The Board remains focused on positioning the Group for long-term, sustainable success. This means continuing the operational progress we are making to put legacy issues behind us, particularly in closing out and exiting the Energy from Waste business. It also means reducing debt and putting a strong long-term capital structure in place through the proposed Deleveraging Plan.

MANAGEMENT CHANGES

There were three senior management changes in the year, with the departure of Robin O'Kelly, Director of Communications, Yvonne Thomas, Managing Director Citizen Services and Gordon Kew, UK Construction Director.

BOARD AND GOVERNANCE

The Company now runs through clear business structures and accountabilities in its three operating divisions: Support Services, Construction and Equipment Services.

Following the departure of Keith Ludeman from the Board in May, Nick Salmon has taken on the chairmanship of the Remuneration Committee. We also welcomed Nicholas Pollard as a Non-Executive Director to the Board in June. Dougie Sutherland has also left the Board in February 2019.

OUR PEOPLE

I have highlighted the challenges that the leadership team have faced in recent months, but inevitably the impact of those changes has been felt by people throughout the business. These are difficult times for the Company and the sectors it operates in. Dealing with these challenges will necessitate changes for all staff. Across Interserve, our people have shown great resilience and loyalty. They have embraced the need for change and I thank them for this and their continued support.

LOOKING AHEAD

Following the challenges of 2017, this year has been about creating a stable platform for the future growth of the Group. Major progress has been made, but we recognise there is still much to do, and the leadership remain focussed on the job in hand.

The successful handover of all its remaining Energy from Waste projects remains a core priority for the Group.

The proposed Deleveraging plan will, if implemented, restore financial resilience to our balance sheet, but the process of rebuilding trust with, and value for, our shareholders is just beginning.

Once again, I would like to thank our staff, customers and suppliers for their support during this difficult period. I would also like to express my appreciation to those shareholders and lenders who have continued to support us.

Glyn Barker, Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

Throughout 2018 and the early months of 2019 it has been an extremely difficult time for Interserve and the Group has faced an unprecedented level of challenges. However, it has also been a period of considerable progress. The Group has benefited enormously from its hard-working employees who are our greatest source of competitive advantage, the depth of our client relationships, the underlying business strategy, and the strong support of our stakeholders.

Our most important priority remains the health and safety of our employees. I am pleased to say the Group's performance improved in the year. While there will always be more that can be achieved through ongoing actions, our Lost Time Incident Rate improved by 25% falling to 0.98 in 2018.

Whilst the majority of my first eighteen months as Chief Executive Officer has been spent establishing the long-term financial stability of the Group, I have had the opportunity to spend time visiting our UK and international operations. There is a lot to be excited about: It is very clear we have extremely strong delivery capability and client relationships. Interserve has significant opportunities as a best-in-class partner to the public and private sector, and we are working with all stakeholders to put in place the right standards, services, governance and financing to deliver a stronger future for Interserve's customers and our 68,000 people.

PROGRESS ON DELEVERAGING PLAN

On 6 February 2019, Interserve announced that the key commercial terms of the proposed Deleveraging Plan, which the Directors believe will provide the Group with sufficient liquidity to service its short-term cash obligations, create a strong balance sheet and a competitive financial structure from which the Group can improve its business and deliver on its long-term strategy.

The Deleveraging Plan is a consensual restructuring of Interserve, which is urgently required to avoid a default in the existing financing arrangements and to provide sufficient liquidity, cash and bonding facilities to allow the Group to service short-term obligations and secure a stable platform. Such a default, were it to occur, would be expected to have material adverse consequences for all stakeholders and, in particular, for existing shareholders.

The Board considers the Deleveraging Plan to be in the best interests of the Group and its shareholders as a whole. The Deleveraging Plan preserves fully the pre-emption rights of existing shareholders. If shareholders take up their entitlements in the equity raise their ownership will not be diluted and they will participate on the same terms as lenders.

The Board believes that the Deleveraging Plan will secure a strong future for Interserve. This proposal has been achieved following a long period of intensive negotiation and has the support of our financial stakeholders and Government. Its successful implementation is critical to Interserve's future and all the Company's stakeholders. The Deleveraging Plan will, alongside our '*Fit for Growth*' programme, place us in a strong position to deliver our strategy, be competitive in the marketplace and provide a secure future for the Interserve Group's employees, customers and suppliers.

The Deleveraging Plan will be subject to approval by Interserve's shareholders.

BUILDING A BETTER INTERSERVE – STRATEGIC PRIORITIES

Strategic Review and Transformation Programme

In April 2018, Interserve announced that it had completed a Group-wide strategic review and launched a strategic plan, based on four priorities:

1. *Fit for Growth* – improving cost efficiency and effectiveness;
2. Strengthening Interserve's competitive value proposition;
3. Standardising operational delivery; and
4. Developing its people and a consistent, 'One Interserve' culture.

PROGRESS AGAINST OUR FOUR STRATEGIC PRIORITIES

Fit for Growth

The three phase '*Fit for Growth'* programme was designed to ensure that the Group has the right strength, depth and level of resources to consistently win and consistently deliver services for our customers. The programme is delivering material cost savings and a simpler and more effective business and operating structure. The programme over delivered its target of £15m savings by 33% to £20m in 2018 and is on track to deliver at least £40-50m annual benefit to Group performance by 2021.

Phases one and two of the programme have now been successfully completed. An initial cost-out programme was undertaken in late 2017 and a Group-wide organisational design project was implemented in 2018 and completed in early 2019. In addition, Interserve has focused on improving governance, key processes and efficiency across the Group.

Phase three of the programme is about continuing to deliver on our promises to achieve our savings targets for both cash and the P&L. Key objectives include simplifying our technology, standards and processes to improve efficiency as well as driving one way of doing things across Interserve. Improving the performance of our business and our culture remains a key priority across the Group.

Competitive Value Proposition

The Group's second strategic priority is to have competitive customer value propositions in each of the markets the Group chooses to operate in. A key component of a competitive value proposition is the strength of our balance sheet, our proposed Deleveraging Plan will deliver us this.

Interserve is focused on bringing the depth of our expertise and knowledge to its customers, enabling them to deliver strategic goals. We have made progress toward achieving this objective, such as in Support Services developing our customer experience proposition to ensure we add value for our customers and in the interchange model we have developed to improve how our rehabilitative companies support our service users, but we also realise that more needs to be done. There will be a greater focus on where these propositions best meet the needs of Interserve's customers; a major aspect of this approach is the deepening of relationships with our clients. We are moving away from our traditional reliance on single-service operations to the provision of a broader, deeper span of services which have an emphasis on the formation of long-term relationships.

Operational Delivery

In order to achieve this within Support Services, Interserve has successfully reorganised its business teams to align to the four focus segments of Government and Defence, Private Sector, Communities and Citizen Services. The Group has also completed a review of its service offerings to ensure that they are appropriate for these customer segments and that it is best positioned to offer and deliver consistent integrated facilities management services. Interserve has started to wind down service offerings that are not core to its future offering and will continue to do this proactively and as contracts end. In UK Construction we have developed a focused approach to the market which will be rolled out during 2019.

ONE INTERSERVE

Our '*Fit for Growth*' programme involves creating a One Interserve culture. The aim of One Interserve is to enable our colleagues to work and collaborate together to deliver better services for our customers.

One Interserve addresses the fact that historically Interserve was fragmented and federalised, which frustrated the business's ability to develop and realise opportunities for growth. Unlocking these aspects and building a common company culture is our fourth strategic priority and will enable Interserve to bring the very best of the Group's capabilities and service expertise to customers in its three sectors. A key component of the culture will be strong governance and accountability.

The plan includes a focus on the self-delivery of services - which is an important part of margin development and control.

A final aspect of One Interserve involves following a standard approach to leadership, to performance management, to training and development and to reward and recognition in order to streamline the business and ensure we are in the best possible shape to serve our customers.

The key to the delivery of the strategy and the business plan is Interserve's people. Our most recent staff survey elicited a strong and positive engagement score of 72 per cent. More than 78 per cent of our colleagues said that their manager cared about them, while almost 80 per cent said that what they do matters. Action planning around feedback is helping us drive continuous improvement.

2018 FINANCIAL RESULTS

Despite challenging market conditions, the Directors believe that Interserve has made significant operational progress in 2018. Following the successful completion of the refinancing in April, the business has traded robustly in some challenging markets and continued to win significant new contracts. The '*Fit for Growth'* programme is delivering material cost savings and a simpler and more effective business structure.

The implementation of the Group's strategy remains on track and we have delivered a significantly improved operating profit up 9.7% to £92.7m, driven by cost savings and increased margins. Net debt increased to £631.2m and was within the expected range of £625-650m as revised in November. This was driven by UK Construction, Energy from Waste outflows, non-underlying charges and delayed payments on certain Middle East projects.

Since 31 December 2018 the Group's net debt position has increased, partly in line with expected seasonality, but also as a consequence of the recognition of costs associated with the deleveraging transaction, a further deterioration in the Middle East relating to receivables for Support Services and RMDK and further working capital unwind in the construction business, which in aggregate represent a deterioration of approximately £107m above the expected increase in net debt due to seasonality. These items as well as an updated expectation with respect to the Energy from Waste projects have driven the requirement for new liquidity within the Group and the lenders agreeing to provide a further facility of £110m as part of the Deleveraging Plan. If the Deleveraging Plan is not passed on 15 March 2019, the Group will have an immediate working capital shortfall, regardless of whether the Lenders have demanded the repayment of the Group's borrowings under the Existing Cash Financing Arrangements.

Our transformation programme is delivering strong operational momentum. The Group has a future workload of £7.1bn as of 31 December 2018, with steady growth particularly in Support Services.

The Board remains focused on positioning the Group for long-term, sustainable success. This means continuing the operational progress we are making to put legacy issues behind us, particularly in closing out and exiting the Energy from Waste business.

The Group remains over-leveraged and the successful implementation of the Deleveraging Plan is critical to our future.

The Board considers the Deleveraging Plan to be in the best interests of Interserve and will preserve maximum value for employees, pensioners, lenders, suppliers, customers and shareholders. Alongside the company-wide *'Fit for Growth'* programme, it will provide a strong platform for Interserve's future growth.

CONTRACT WINS

Despite challenging market conditions and concerns arising out of our financial condition, we still continued to make progress winning new work in the year. In our Support Services division we secured the following contracts: AENA (£37m), King George Hospital (£35m), Ministry of Justice (£25m) and the Foreign and Commonwealth Office (£67m), among others. In our Construction division major contracts included: Durham University (£78m), Liverpool Women's NHS Foundation Trust (£15m) and Prince Charles Hospital, Merthyr (£25m). In our Equipment Services division, contract wins included: Royal Atlantis Residences in Dubai (£5m) and the Las Vegas Raiders Stadium (£1.2m).

DIVISIONAL PERFORMANCE

Considerable work has been put into focusing Interserve's core capabilities to create value for its customers. Following the strategic review in 2018, the Company completed the streamlining of its divisional structure from more than 40 to three divisions in December 2018, replacing the federated entity that existed up until the end of 2017. This reorganisation is helping us to be leaner and better aligned to our customers, increasing leadership accountability and importantly making Interserve even more competitive.

SUPPORT SERVICES

Support Services UK delivered a robust performance over the year as it continued to implement the '*Fit for Growth'* programme and had excellent client retention in the UK. A decrease in revenue was counterbalanced by increased margins and profits. This included leveraging the Group wide back office systems and processes, implementing a clearly defined market strategy leading to the divestment of non-core operations, exiting poorly performing market sectors, increasing self-delivery, and laying the foundations for greater operational standardisation across the business. As we outlined in our 2017 Annual report we have focused on cost reduction and stronger discipline on contract management governance helping us realise the benefits in 2018 and ensuring we enter 2019 with a solid platform for growth. Revenue increased in target sectors following key contract retentions, organic contract growth, and successful delivery of key contract mobilisations. Interserve's international support services business was negatively impacted by a debtor balance of £36m by one of its clients.

CONSTRUCTION

2018 was a challenging year for our UK construction business with a decrease in revenues being counterbalanced by higher margins. Progress has been made in closing out some complex projects and legacy accounts. We have successfully exited the London Construction market as part of our strategy to focus on our core sectors. Our regional building business, infrastructure business and engineering services business all made solid returns, which resulted in a return to profit for the division.

We continue to focus on core sectors and activities and ensure that the risk profile of work that we take on is commensurate with levels of return. Revenue is expected to fall in 2019 as some of the larger legacy contracts complete and due to some of the wider financial challenges the Group faced in 2018. Whilst we expect the division to be a smaller business by revenue in 2019, we believe it will be one which is more agile and capable of consistent profit margins in line with industry norms going forward.

Whilst the order book for the International construction business, particularly in Qatar, continues to be lower than expected, the business secured a number of contract wins in the period, particularly in the UAE where a strengthened oil price provides a more favourable backdrop for this competitive market.

EQUIPMENT SERVICES

Challenging market conditions in several of our core markets through 2018 as well as supply chain challenges have slowed our overall rate of growth. Through 2018 we have seen the UK construction sector hit by the uncertainty of the Brexit talks with the consequence of investment and work on major infrastructure projects being delayed. RMDK remains a highly profitable business and has strengthened its competitive position during the period with the roll-out of new product ranges in the UK.

ENERGY FROM WASTE

Interserve is continuing to pursue its strategy to exit from unprofitable businesses as rapidly as possible. The construction of all of our Energy from Waste projects was substantially completed during 2018, but while the Company expects to fully exit its Energy from Waste business during the first half of 2019, significant uncertainty remains on the timing of those remaining projects.

Interserve continues to expect to benefit from significant further insurance proceeds arising from these projects in 2019. The receipt of further insurance income remains a key focus for the Group.

OUTLOOK

Interserve's ability to deliver its strategy and business plan, will be significantly influenced by our ability to successfully implement the Deleveraging Plan, thereby providing it with sufficient liquidity and giving it a foundation for financial stability.

Interserve will continue to implement its multi-year *'Fit for Growth'* programme and 2019 will be the second year of the overall transformation programme. This will be a transitional year for the three operational divisions as Interserve continues to focus on exiting non-core areas and implementing the Group's cost and efficiency programme.

This year, through the outstanding expertise of our people, we will continue to deliver projects safely and ensure that we are best placed to serve our customers. The significant improvements we have made as part of our '*Fit for Growth*' programme will ensure we continue to make progress in 2019 with the transformation of Interserve.

Debbie White, Chief Executive Officer

STRATEGIC REPORT

OPERATIONAL REVIEW

The Operational Review refers to a number of alternative performance metrics; it is considered that these better reflect the underlying performance of the business. See note 16 for the basis of calculation. Additional disclosure is made in the Financial Review of non-underlying items and why the Directors believe it is appropriate to exclude these in considering operating performance. Certain comparatives are restated within these statements (see note 4).

SUPPORT SERVICES

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

Results summary	**2018**	**2017**	**Change**
Revenue			
– UK	£1,597.7m	£1,642.3m	-3%
– International[1]	£172.1m	£193.9m	-11%
Contribution to total operating profit	£58.6m	£42.2m	39%
– UK	£51.4m	£39.4m	30%
– International[1]	£7.2m	£2.8m	157%
Operating margin			
– UK	3.2%	2.4%	
– International[2]	4.2%	1.4%	
Future workload[3]			
– UK	£5.8bn	£6.1bn	
– International[1]	£168.0m	£225.0m	

These figures exclude non-underlying items

1 Including share of associates.

2 Operating margin is calculated based on the underlying operating margin of associates and the reported operating margin of subsidiaries.

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

UK

Support Services UK delivered a robust performance successfully delivering its plans for Fit for Growth, leveraging the Group wide back office systems and processes, formulating and beginning the implementation of a clearly defined market strategy leading to the divestment of non-core operations, exiting poorly performing market sectors, increasing self-delivery and laying the foundations for operational standardisation across the business. As we outlined in our 2017 Annual report we have focused on cost reduction and stronger discipline on contract management governance helping us realise the benefits in 2018 and ensuring we enter 2019 on a sound platform for growth.

Revenue was £1,597.7m, following key contract retentions, organic contract growth, solid work winning and successful delivery of key contract mobilisations. We divested ourselves of our Industrial Access and Hard Services business and continued to successfully deliver our planned withdrawal from the High Street Retail market. We have concentrated our work winning strategy around large complex integrated service opportunities in our chosen market sectors and are seeing steady growth in our bid pipeline particularly in Defence, Healthcare and Regulated Sectors.

Savings of £20m were achieved through Fit for Growth – the three-year programme launched by the new management team in October 2017 focused on increasing the Group's organisational efficiency and increased ownership and accountability, improving Group-wide procurement processes and ensuring greater standardisation and simplification across the business. These actions contributed to a margin increase of 30 %.

The UK Government has been our largest customer for many years, and we continue to be one of its largest suppliers, retaining our pan European contract with the Foreign & Commonwealth Office which we have held for over ten years and successfully mobilising key new accounts such as the UK wide contracts for the Department for Works & Pensions, the Department for Transport and the Ministry of Justice. These new and retained accounts demonstrate the Government's ongoing faith in our ability to continue to mobilise and deliver large-scale contracts.

We had major wins in our other key market sectors including a large long term multi service contract with Barking, Havering & Redbridge University Hospitals Trust, a full facilities management contract with Westgate Shopping Alliance, a national facilities management contract for Thomas Cook and major extensions to our ongoing relationships with British Airways, Philipps 66/Pepsico and the Metropolitan Police amongst others.

Interserve's Citizen Services delivers vocational training, healthcare at home, probation services and support into employment in the UK and Saudi Arabia. Quality standards have remained high during 2018 with Interserve Learning and Employment, Healthcare and ILE International achieving "good" ratings from their respective inspectorates. Our Apprenticeship Levy business has achieved a forward order book of £35m, and in healthcare we retained a major client contract renewal against keen competition. In our Justice division, we renegotiated our probation contracts with the MOJ, and mobilised a new contract for prison industries in HMP Berwyn.

International

The oil price recovery earlier in the year has renewed enquiry levels particularly in the UAE (Abu Dhabi), however the political situation in Qatar has prevented this from improving activity levels in this market. We recorded reduced turnover because of the actions taken previously to right size the business and diversify into other industrial markets. As a result, the division delivered revenues of £172.1m and a profit of £7.2m.

With oil price levels above $60pb many of the oil companies have made firm commitments to field development and/or enhancements so the outlook is more promising.

Our Middle East facilities management businesses are now aligned with our UK Support Services teams and have begun working closely together to further develop our market strategies and capabilities, leveraging our UK expertise and ensuring consistently high standards of service delivery.

During 2018, we were pleased to secure a number of new awards including an integrated facilities management services contract for the prestigious five star Serenia Residences on the Palm, Jumeirah, technical maintenance services for the Qatar National Convention Centre and their National Theatre, together with a mobile maintenance service account for Alshaya, a leading retailer, for all of their retail stores in the UAE and Qatar.

We continue to enjoy strong sales pipeline opportunities in the UAE and KSA and remain optimistic that our focus on the region, increasing capabilities and customer satisfaction will lead to an ever increasing presence in the Middle East FM market.

EQUIPMENT SERVICES

Equipment Services, which trades globally as RMD Kwikform (RMDK), provides engineering solutions in the specialist field of temporary structures needed to deliver major infrastructure and building projects. It is a global market leader and our engineers solve complex problems for our customers, through the application of world-class design and logistics capabilities, backed up by technology and an extensive fleet of specialist equipment. Our activities have a broad geographic spread, the mix of which can change quickly, hence we manage our equipment fleet globally, combining our scale and expertise with agility and responsiveness to meet customers' needs and safeguard our operational efficiency.

Results summary[1]	**2018**	**2017**	**Change**
Revenue	£195.5m	£229.0m	-15%
Contribution to total operating profit	£39.6m	£54.4m	-27%
Margin	20.3%	23.8%	

1 Excludes Exited Businesses

Challenging market conditions in several of our core markets through 2018 have slowed our overall rate of growth.

Through 2018 we have seen the UK construction sector hit by the uncertainty of the Brexit talks with the consequence of investment and work on major infrastructure projects being delayed.

Across Asia-Pacific we have seen a strong recovery in our Australian business, where we have won work across a significant spread of sectors, including infrastructure and commercial building. Hong Kong, which saw the completion of two huge infrastructure projects in 2017, now awaits the mobilisation of the next wave of infrastructure spending. The performance in the Middle East has been hampered by the trade blockade placed on Qatar by other GCC countries and delays to project announcements in KSA. The UAE continues to be a strong market although due to weakening or other Middle Eastern markets has become significantly more competitive.

Our investment in ground shoring products continues, with a launch into Hong Kong and the Middle East regions. Products landed in country in the final quarter of 2018 and this continues to be a focus of our expansion plans. The year also saw the RMDK exit Spain and Panama, as a consequence of our recent strategic review.

The Directors believe that the next 12 months will continue to see the expansion of the ground shoring products into new markets, and the further development of our product offering into the commercial building sector which will help us reduce the impact of project delays in the infrastructure sector.

CONSTRUCTION

We offer design and construction services to create whole-life, sustainable solutions for building and infrastructure projects. Our focus is on forming long-term relationships and delivering repeat business through commercial structures such as framework agreements and project-financed schemes.

Our presence in the Middle East (in UAE, Qatar and Oman) is structured through longstanding joint-venture partnerships, enabling us to form enduring relationships with clients and to combine our international experience with our partners' local knowledge to deliver outstanding service.

Results summary	**2018**	**2017**	**Change**
Revenue			
– UK[1]	£756.6m	£972.8m	-22%
– International[2]	£246.6m	£290.5m	-15%
Contribution to total operating profit	£15.5m	£8.9m	
– UK[1]	£2.2m	-£10.3m	
– International[2]	£13.3m	£19.2m	
Operating margin			
– UK[1]	0.3%	-1.1%	
– International[3]	5.4%	6.6%	
Future workload			
– UK[1]	£0.9bn	£1.0bn	
– International[2]	£233.0m	£236.0m	

1 Excluding Exited Business.

2 Includes share of associates.

3 Operating margin is calculated based on the underlying operating margin of associates.

UK

Interserve's construction business offers design and construction services to create whole-life solutions including client needs analysis, business case support, design, construction and FM (provided though Support Services), maintenance, remodel, refurb and eventual demolition and estates planning sustainable solutions for building and infrastructure projects.

The UK construction market, while benefiting from major infrastructure improvements and housing investment, remains volatile at a macro level from Brexit, resources and associated headwinds but also construction confidence generally, post-Carillion.

The construction business strategy to focus on low risk, principally government assets and infrastructure is a partial hedge against economic downturn, post Brexit. Growth in government infrastructure is driven by policy and demographic changes in the UK with expected long-term investments from the UK Government in order to support economic growth as described in the Government Construction Sector Deal. In addition, digital technology and long-term trends in travel and freight are creating demand for the construction of transport infrastructure such as logistics centres and airports. Similarly, demographic changes are expected to create demand for schools and universities as well as medical services facilities. Across the sectors, there has been a movement in recent years towards the increased use of modern methods of construction, which offer faster, more reliable and more efficient production.

The construction business's focus is on forming long-term relationships and delivering repeat business through commercial structures such as framework agreements.

2018 was a better year for our UK Construction business despite the ongoing period of challenging market conditions. Good progress has been made in closing out some challenging projects and legacy accounts. Our regional building business, infrastructure business and engineering services business all made solid returns, which resulted in a return to profit for the division.

We continue to focus on core sectors and activities and ensure that the risk profile of work that we take on is commensurate with levels of return. Revenue is expected to fall in 2019 as some of the larger legacy contracts complete and also due partly to some of the wider challenges the Group faced in 2018. Whilst we expect the division to be a smaller business by revenue in 2019 it will be capable of consistent profit margins in line with industry norms and capable of steady growth going forward.

During the year we continued to focus on cost, pricing and bidding controls, a narrow strategic focus, restricting work-winning activity to select sectors, regions and activities.

Our operating model continues to combine a strong regional presence and exposure to framework agreements with infrastructure and public-sector customers, in core sectors such as the defence, education, healthcare and fit-out markets.

In the last 12 months, UK Construction has also secured further new construction frameworks including Dept of Work and Pensions, Dept for Education, Crown Commercial (Government Property Unit Framework) and Welsh Government Healthcare framework, adding to the existing portfolio of customers. This gives a combined forward opportunity pipeline in excess of £1.2bn per annum from which tender opportunities are carefully selected through a PLC governed selection process. Revenue is 70% with public or arm's length public bodies aligned to the lower risk defensive strategy.

Plans are in place to improve organisational structure and capability to support future profitability and performance and will be rolled out early 2019. Our focus remains on quality contracts, targeting profits and not revenue.

Energy from Waste	2018	2017
Revenue – UK Exited Business (consolidated revenue)	£32.5m	£48.6m
Total pre-tax non-underlying loss	£12.6m	£35.1m

FINANCIAL CONDUCT AUTHORITY INVESTIGATION UPDATE

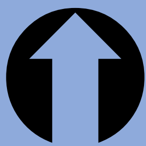
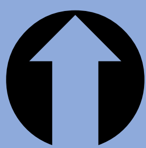
As notified to the market on 11 May 2018, Interserve is the subject of an investigation by the Enforcement Division of the Financial Conduct Authority (FCA) in connection with the Company's handling of inside information and its market disclosures in relation to its exited Energy from Waste business during the period from 15 July 2016 to 20 February 2017.

The Company is co-operating fully with the investigation. As with any regulatory investigation of this nature it is difficult to predict when the investigation will be completed or its outcome. If the FCA takes further action, members of the Group and/or their current or former directors or employees could face regulatory or compensatory sanctions, which could result in adverse publicity and/or reputational damage and which could have a material adverse effect on the Group’s business, results of operations and financial condition.

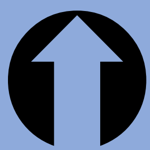
PRINCIPAL RISKS AND UNCERTAINTIES

We operate in a business environment in which a number of risks and uncertainties exist. While it is not possible to eliminate these completely, the established risk-management and internal control procedures, which are regularly reviewed by the Group Risk Committee on behalf of the Board, are designed to manage their effects and thus contribute to the preservation and creation of value for the Group's shareholders as we pursue our business objectives.

The Group continues to be dependent on effective maintenance of its systems and controls. The table below details the principal risks and uncertainties which the Group addresses through its risk-management measures. The changes to these risks relative to the last bi-annual review undertaken by the Board in August 2018 are depicted in the column entitled "Risk Environment".

RISK	POTENTIAL IMPACT	RISK ENVIRONMENT	MITIGATION AND MONITORING
DELEVERAGING PLAN	On 6 February 2019, Interserve announced that the key commercial terms of the proposed Deleveraging Plan. The Deleveraging Plan is a consensual restructuring of Interserve, which is urgently required to avoid a default in the existing financing arrangements and to provide sufficient liquidity, cash and bonding facilities to allow the Group to service short-term obligations and secure a stable platform. Such a default, were it to occur, would be expected to have material adverse consequences for all stakeholders and, in particular, for existing shareholders.		The Board considers the Deleveraging Plan to be in the best interests of the Group and its shareholders as a whole. The Deleveraging Plan preserves fully the pre-emption rights of existing shareholders. If shareholders take up their entitlements in the equity raise their ownership will not be diluted and they will participate on the same terms as lenders. The Board believes that the Deleveraging Plan will secure a strong future for Interserve. This proposal has been achieved following a long period of intensive negotiation and has the support of our financial stakeholders and Government. Its successful implementation is critical to Interserve's future. The Deleveraging Plan will be subject to approval by Interserve's shareholders. Failure to secure shareholder approval represents a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern.
BUSINESS, ECONOMIC AND POLITICAL ENVIRONMENT	Among the changes which could affect our business are: • risk of the company not achieving its strategic objectives to focus on core profitable services, completing its Fit for Growth transitional programme and disposal of non-core assets, which may not result in the expected anticipated benefits. • shifts in the economic climate both in the UK and internationally; • changes in the UK Government's policy with regard to employment costs, expenditure on improving public infrastructure, buildings, services and modes of service delivery (including appetite to outsource services) and delays in or cancellation of the procurement of Government-related		We seek to mitigate these risks in a number of ways. These include: • by fostering long-term relationships with our clients and partners; • the development of additional capabilities to meet anticipated demand in new growth areas; • maintaining a flexible cost base; • effective supply-chain management; and • Strong management and leadership with our Fit for Growth and other transitional programmes. We have continued to maintain strong dialogue with our key clients and partners in relation to our delivery of services and the status of our transformation programmes to help maintain confidence with our business.

	projects; • Changing market practices following the Carillion Liquidation and resulting attitudes towards the Sector. • Brexit, in particular our reliance on the large number of EU nationals within our workforce as well as its impact on the economy and public spending; • the imposition of unusually onerous contract conditions by major clients; • changes in the behavior of our suppliers, sub-contractors and our competitors' behaviour; • a deterioration in the profile of our counterparty risk; and • civil unrest and/or shifts in the political climate in some of the regions in which we operate any one or more of which might result in a failure to win new or sufficiently profitable contracts in our chosen markets or to deliver contracts with sufficient profitability.		As part of our competitive assessment, we assess our success rate in competitive situations. Whether we win, lose or retain a contract we analyse the reasons for our success or shortcomings and feed the information back at both tactical and strategic levels. Our major transformation programme, 'Fit for Growth', remains on track to deliver the savings required to ensure that our cost base is appropriate for the services we offer and to enable us to be cost competitive. We monitor and assess levels of political risk and have contingency plans to mitigate some of these risks.

IT SYSTEMS/ SECURITY	As our IT systems become ever more critical to business success and to meet customer expectations, there is an increasing need to: • prevent service failures; • ensure confidentiality, availability and integrity of data; • protect our staff and systems from cyber-attack; and • recover critical systems in a timely and effective manner		We are committed to ensuring that our IT applications and infrastructure and the IT organisation that manages them are provided with the necessary skills and tools to maintain the health of our IT services. We are currently undertaking a review of our IT Infrastructure and processes to ensure we can operate best practice, cost effective solutions across our group. We have launched an IT Investment Committee to provide greater governance over our IT Infrastructure expenditure, with committee approval required for expenditure. We operate robust monitoring and preventative maintenance regimes to minimise the potential impact of IT failures or security incidents in accordance with good industry practice. Where necessary, we also ensure that both ISO 27001 and CES certifications are obtained for key contracts.

DATA MANAGEMENT	As we continue to onboard new customers, increasingly collaborate across our organisation and its supply chain and enable mobility for our diverse workforce, there is an increasing need to ensure that our customer, supplier and employee data is: • classified appropriately; • processed securely; and • stored in accordance with legal and contractual requirements. The increasing reliance on our data to provide commercial opportunity and enhanced risk management is driving more diverse use of our data across the Group.		Our Group-wide information security programme continues to improve our staff's awareness of the need for effective data management activity. Initiatives include management and end- user training, contingency planning and detailed risk-management activities that address many difference types of data loss. We implemented a broad programme to address the General Data Protection Regulations which came into force in May 2018. This has been supported by an extensive internal training programme. In addition, a working group has been established, to meet regularly to drive policy, procedure, training and the sharing of best practice.

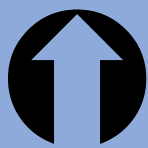
OPERATING SYSTEM	We enjoy demonstrable success in working with third parties both through joint ventures and associated companies in the UK and abroad. This success results in a material proportion of our profits and cash flow being generated from businesses in which we do not have overall control. The alignment of the Group's interests and the interests of our partners is critical to that success. Any weakening of our strong relationships with these business partners could have an effect on our profits and cash flow.		We have a proven track record of developing and re-enforcing such relationships in a mutually beneficial way over a long period of time and our experience of this places us well to preserve existing relationships and create new ones as part of our business model. The measures taken to limit risk in this area include: board representation, shareholders' agreements, management secondments, local borrowings and rights of audit in addition to investing time in personal relationships.

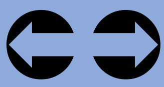
FINANCIAL RISKS	The Group, due to a number of factors, has found itself with very high levels of debt relative to its earnings and cash flow. This has necessitated the refinancing of the existing debt structure and the injection of further additional debt funding. This is discussed in the Financial Review. The Group has agreed to meet a number of covenants as part of its Re-financing arrangements, including commitments on repayment of debts, disposals of assets, savings associated with transformation programmes and the provision of information to its Lenders.		The Group has put into place additional policies and resources to monitor the effective management of working capital, including the production of daily balances, weekly cash reports and forecasts together with monthly management reporting. The Contract and Investment Committee (as discussed under 'Major Contracts' overleaf) considers the implications of new business opportunities relative to the financial constraints as part of its assessment and review process.

MAJOR CONTRACTS	In Support Services our strategy is to focus on offering a broad range of services to large-scale customers whilst our construction business focuses on lower risk infrastructure and assets. Termination of large contracts which account for a significant portion of our revenue would be likely to reduce our revenue and profit. In addition, the management of contracts entails a range of potential risks. These include: mis-pricing; inaccurate specification; poor mobilisation of new contracts leading to non-delivery of promised cost or efficiency improvements; poor control of costs or of service delivery; sub-contractor performance and/or insolvency, under delivery of performance, any of which could have adverse financial implications. In relation to Energy from Waste, the construction of all projects has now reached physical completion, although risks remain on further delays with the completion of the contractual programme and associated costs. In PFI/PPP contracts, which can last for periods of around 30 years, there may be increases in costs, including wage inflation, beyond those anticipated or clients under financial pressure seeking to implement alternative interpretations of the contract in order to reduce payments. Risk of recoveries of payments from material debtors of major contracts.		Among our mitigation strategies are targeting work within, or complementary to, our existing competencies, engagement of experts to effectively deploy both business and cultural change requirements, the fostering of long-term relationships with clients, operating an authority matrix for the approval of large bids, monthly management reporting with key performance indicators at contract and business level, the use of monthly cost-value reconciliation, supply-chain management and ensuring that periodic benchmarking and/or market testing are included in long-term contracts. We monitor the risk on contractual counterparties to avoid over-dependency on any one customer or sub-contractor. The Group is focused on the completion of the Energy from Waste programme with dedicated resources to manage the delivery of the contracts, recoveries from Insurers and ongoing dialogue to resolve outstanding issues. As part of our Fit for Growth programme all new tenders requiring bonding or other security instruments are referred to the Contract and Investment Committee (CIC), comprising the CEO, CFO and General Counsel, who deliberate and consider approval based on assessment of commercial terms, profitability and risk. Our Fit for Growth Programme will ensure we are fit to compete in increasingly challenging environments and markets by focusing on how we can improve our governance and processes, simplify our structures and improve efficiency across the whole Group. The Group continues to monitor the repayment of material debtors. In relation to the Middle East the Company is focused on repayment of material debts outstanding in the region.

DAMAGE TO REPUTATION	Challenges with the markets perception of our Group and Sector because of the Carillion Liquidation as well as negative publicity about the Group's financial condition, impacting the Groups ability to trade normally. Issues arising within contracts, from the management of our businesses or from the behaviour of our employees at all levels, can have broader repercussions on the Group's reputation than simply their direct impact and may have an adverse impact upon the Group's "licence to operate". This risk increases as we expand the range of		We have maintained dialogue with our key clients and partners in relation to our delivery of services and the status of our transformation programmes to help maintain confidence with our business. Control procedures and checks governing the operation of our contracts and of our businesses, supported by business continuity plans, are in place. With the expansion of our frontline services there is even more emphasis placed upon assessing reputational risk before entering into such contracts, having proper

	frontline services being delivered, some of which are high profile and/or politically sensitive. Risks that our clients and suppliers will modify their behavior as a result of negative publicity surrounding the financial condition of the group, for example, tightening of credit terms, cancellation or deferral of projects and failing to qualify or not being invited to bid for contracts. See Financial Conduct Authority Investigation Update above: There is a risk of adverse publicity and reputational damage to the Group should the FCA impose regulatory or compensatory sanctions on members of the Group and/or their current or former directors or employees which could have a material adverse effect on the Group's business, results of operations and financial condition		procedures in place to monitor performance, escalate issues and monitor our response, promoting a good understanding of our brand amongst stakeholders through timely, clear and consistent communications. We have a clear set of core values which we strive to embed within our organisation and set ourselves the goals of creating a culture of innovation in sustainability and offering transparency to clients on public-sector projects. The Company is cooperating fully with the FCA and continually monitors its disclosure obligations under MAR.

KEY PEOPLE	The success of our business is dependent on recruiting, retaining, developing, motivating and communicating with sufficient numbers of appropriately skilled, competent people of integrity at all levels of the organisation. This is particularly relevant during periods of financial instability and change when improvement to profitability and competitiveness is required. Risks with the high number of shareholdings by lenders following a successful implementation of the de-leveraging plan and their potential influence on management.		We are focused on engaging with all of our people at all levels and wherever they work in the organisation to ensure that they continue to deliver great customer service for our clients. As part of our Fit for Growth programme we will design and build a more effective and efficient organisation in which skilled and engaged employees can thrive. We have various incentive schemes and run a broad range of training courses for people at all stages in their careers. With active people management and Investors in People accreditation in many parts of the Group, we manage our people professionally and encourage them to develop and fulfil their maximum potential with the Group. As part of our commitment to a diverse and inclusive workforce we are keen to offer 'Opportunities for All' and our approach focuses on how we can deliver, and work with others, to provide disadvantaged groups with the skills and employment opportunities that will help to turn their lives around. Strong governance will be maintained by the Board on its responsibilities as Directors to Shareholders.

HEALTH AND SAFETY REGIME	The nature of the businesses conducted by the Group means that employees and third parties are exposed to potential health and safety risks. Management of these risks is critical to the success of the business and they are addressed through the adoption and maintenance of occupational health and safety procedures and operating standards setting out 'ways of working'.		A commitment to Health, Safety & Environment (HS&E) is embedded in all our core values and the subject leads every Board meeting both at Group and divisional level. Group and Divisional HS&E Governance committees meet quarterly to evaluate current risks for relevance and conduct independent reviews of high potential HS&E events and investigations. Each member of the Executive Board undertakes dedicated visits to review health and safety measures in place at our operational sites and we have ongoing training and communication campaigns across the Group emphasizing its importance. The move in 2018 to leading based and common reporting metrics has resulted in our employee lost time injury frequency rate reducing by 25% during 2018. The employee accident incident rate has also reduced by 5% during the same period.

The Group is exposed to operational currency risk in its International and Equipment Services businesses. These are not material on a net basis. In addition, the Group has foreign currency exposure in relation to its historical US Private Placement borrowings and the interest cost of servicing those borrowings. Whilst it does not trade in commodities, the Group does operate in countries where their economies depend upon commodity extraction and are therefore subject to volatility in commodity prices. The Group's principal businesses operate in countries which we regard as politically stable.

Financial Review

2018 has seen an improved operating performance for the Group as we have focused on executing our fit for growth programme and delivered savings from the simplification of our businesses. This is despite the decline in revenue and reflects the focus on quality of business within our UK Construction business.

Net debt increased in the year as we have continued to address the EfW contracts as well as the exiting of London and South East regional building business. This has also been impacted by the £43.0 million of adviser fees related to the April 2018 refinancing as well as the £42.8 million cash interest cost in the year resulting from the higher finance costs and increased debt levels.

The Financial Review does not deal with the underlying operating profit and revenue of each individual trading division. For commentary on these underlying operational results please refer to the Operational Review section of the Strategic Report.

REPORTED FINANCIAL PERFORMANCE

£million	2018	2017
Consolidated revenue	2,904.0	3,250.8
Total operating profit pre-amortisation and non-underlying items	92.7	84.5
Amortisation of acquired intangible assets	(18.7)	(21.6)
Goodwill and other asset impairments	(55.2)	(76.7)
Contract and balance sheet review charges	(5.2)	(86.1)
Energy from Waste	(12.6)	(35.1)
Property development	17.0	(26.0)
London Construction	(24.8)	(10.3)
Restructuring costs	(20.0)	(33.2)
Professional adviser fees	(43.0)	(13.9)
Strategic review of Equipment Services	-	(7.1)
Exit from Site Services and Power businesses	(6.7)	0.7
Pension indexation gain	70.6	-
Total operating (loss)	(5.9)	(224.8)

2018 consolidated revenue of £2,904.0 million was 10.7% lower than in 2017 (£3,250.8 million) with a substantial reduction (£216.2 million) in UK Construction driven by lower activity levels as we have struggled to win new work and EfW projects completing. After amortisation of acquired intangible assets, goodwill impairment and other non-underlying items, analysed in further detail in note 4 to the consolidated financial statements and discussed further below, the operating loss was £5.9 million (2017: loss £224.8 million).

AMORTISATION OF ACQUIRED INTANGIBLE ASSETS

Intangible assets acquired as part of historic acquisitions of businesses are amortised over their useful economic life and during 2018 £18.7 million of amortisation was charged to the income statement (2017: £21.6 million).

GOODWILL AND OTHER ASSET IMPAIRMENTS

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

As part of the Group's 31 December 2018 annual goodwill and intangible assets impairment review, further write-downs of the carrying values of its Support Services Private Sector cash generating unit (£26.9 million) principally related to the acquisition of Initial Facilities in 2014 and a further £6.2 million on its Learning and Education business.

CONTRACT REVIEW AND BALANCE SHEET REVIEW

During 2018 a further net £5.2 million of contract review provisions were made being largely £11.4 million on the CRC Transforming Rehabilitation contracts, partly offset by an £8.0 million release of provisions against the US Prime Forces onerous contract.

ENERGY FROM WASTE

A further net £12.6 million of provision for losses from our Energy from Waste facilities have been made during 2018 which relates principally to further costs to complete our Derby City and County Councils facilities. Insurance proceeds totalling £35 million were received during 2018 on Energy from Waste contracts.

PROPERTY DEVELOPMENT

As announced in the 2017 year-end results, we took the decision at the end of last year to exit from the business of Property Development. During 2018 we have sold our one remaining development asset (the Haymarket site in Edinburgh) for net proceeds of £47.0 million and realised a gain of £17.0 million on disposal.

LONDON CONSTRUCTION

We took the decision during 2018 to exit from activities in the London construction market but will continue to offer fit-out but not building projects in the London region. Costs associated with this exit and anticipated losses on the close out of contracts within this business amounted to £24.8 million. We anticipate that this exit and the associated cash outflows will conclude in 2019.

RESTRUCTURING COSTS

The Group has embarked on a 3-year plan, "Fit for Growth", to increase the Group's organisational efficiency, improve Group-wide procurement processes and ensure greater standardisation and simplification across the business. During the year it incurred termination costs in respect of former employees and directors, property rationalisation expenses and other business closure costs amounting to £20.0 million.

PROFESSIONAL ADVISER FEES

Professional fees incurred in connection with our refinancing totalled £43.0 million during the year. We anticipate that we will incur a further circa £33 million of fees in connection with the Deleveraging plan.

EXIT FROM SITE SERVICES AND POWER BUSINESSES

During the year we took the decision to exit from the Power business in Support Services and the Site Services business in Construction at a cost of £4.2 million and £2.5 million respectively.

PENSION INDEXATION GAIN

During 2018, following discussions in recent years between the Company and the Trustee of the Interserve Pension Scheme, the Trustee agreed to change scheme terms relating to the inflation reference index used to calculate increases to some members benefits in the scheme from RPI to CPI. The gain arising from this change in inflation index during 2018 amounted to £70.6 million.

NET FINANCE COSTS

The net finance cost for the year of £105.4 million can be analysed as follows:

£million	**2018**	**2017**
Net interest on Group debt	**(79.4)**	(21.4)
Foreign exchange (loss)/ gain on US private placement loan	**(26.4)**	2.9
Pension finance credit (charge)	**0.4**	(1.1)
Group net interest charge	**(105.4)**	(19.6)

Higher net interest on Group debt of £79.4 million (2017: £21.4 million) reflects the much higher average prevailing net debt levels during 2018 and the substantially higher interest rates on group debt following the April 2018 refinancing.

Within net debt the Group carries $348.3 million of US private placement notes. On 13 December 2017 the Group disposed of all hedging instruments resulting in the free float of the borrowings with all subsequent retranslation gains or losses on the value of this debt being recognised through the income statement as a non-underlying item. During 2018 this resulted in a loss of £26.4 million (2017; gain of £2.9 million). The $348.3 million private placement has a GBP value of £272.3 million as at the balance sheet date, reflecting the closing rate of 1.28 USD 1 GBP.

The IAS 19 pension credit position results in a non-cash pension finance income of £0.4 million (2017: £1.1 million cost). See note 5/6 for further details.

TAXATION

The underlying tax charge for the year of £8.7 million on the headline profit before tax represents an effective rate of 63.5 per cent.

£million	**2018**			**2017**		
	Profit	**Tax**	**Rate**	**Profit**	**Tax**	**Rate**
Subsidiary companies	**(3.6)**	**(8.7)**	**0.0%**	36.5	(8.1)	22.2%
Joint ventures and associates[1]	**17.3**	**-**	**0.0%**	25.5	-	0.0%
Headline profit before tax	**13.7**	**(8.7)**	**63.5%**	62.0	(8.1)	13.1%
Amortisation of intangible assets	**(18.7)**	**3.1**	**16.6%**	(21.6)	3.6	16.7%
Goodwill impairment	**(33.1)**	**-**	**-**	(60.0)	-	-
Exited business and non-underlying items	**(73.2)**	**(12.0)**	**n/a**	(224.8)	(5.5)	n/a
Effective tax charge and rate	**(111.3)**	**(17.6)**	**n/a**	(244.4)	(10.0)	n/a

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

The subsidiary companies' tax is considerably higher than the UK rate of 19%, principally driven by the impact of unrelieved UK losses. For further disclosure on the non-underlying items and amortisation see note 5 to the consolidated financial statements. See note 9 for further tax disclosures.

DIVIDEND

The dividend remains suspended with no interim or final dividend due to be paid. Under the terms of our existing financing facilities, no dividend is payable until historical net debt to EBITDA is below 2.5 times. This will change under the Deleveraging Plan which will require more than two-thirds of the new money lenders and more than two-thirds of the new money bonders to approve any dividend.

CASH FLOW

Year-end net debt stands at £631.2 million (2017: £502.6 million), an increase of £128.6 million.

£ million	2018	2017
Operating cash flows before movements in working capital	17.6	(111.3)
Movements in working capital	(77.5)	(37.0)
Net capital expenditure - hire fleet	(0.3)	12.4
Cash generated by operations	(60.2)	(135.9)
Taxes paid	(11.4)	(8.6)
Net cash from operating activities	(71.6)	(144.5)
Net interest paid	(39.6)	(21.4)
Dividends received from associates and joint ventures	11.8	17.2
Dividends paid to non-controlling interests	(3.7)	-
Proceeds from issue of warrants and shares	35.7	-
Proceeds on disposal of non-hire fleet plant & equipment	8.9	1.6
Capital expenditure - non-hire fleet	(19.6)	(39.3)
Net investments in joint venture entities	(0.8)	(32.0)
Proceeds from disposal of subsidiary	2.5	-
Proceeds from disposal of derivatives	-	44.1
Foreign exchange	(13.7)	(53.9)
(Increase) in net debt	(90.1)	(228.2)
Opening net debt		(502.6)
Movement in net debt above		(90.1)
Unwinding of discount on debt		(13.8)
Capitalised PIK interest		(24.7)
Closing net debt		**(631.2)**

In 2018 there has been a much stronger operating cash flow performance (before movements in working capital) than in 2017 (+£17.6 million vs -£111.3 million) driven to a large extent by a reduction in the EFW cash outflows in the current year vs 2017 of £66.2 million.

Net interest paid in 2018 of £39.6 million has increased significantly compared to 2017 (£21.4 million) in line with much higher average Group borrowings during the year and significant increases in the interest rates charged post the debt re-financing in April 2018.

As part of the re-financing of the Group's borrowings in April 2018 we issued warrants to the providers of debt and bonding facilities with fair value proceeds of £35.7 million including £0.4 million from the exercise of warrants.

Capital expenditure on non-hire fleet of £19.6 million principally relating to spend on Ingenuity House and vehicles, was significantly lower in 2018 compared to £39.3 million in 2017 as the Group exercised investment restraint in a cash constrained climate.

Net working capital outflows of £77.5 million (2017: £37.0 million outflow) are largely made up of the following: a favourable movement in receivables of £59.2 million being mainly improved cash management in Support Services and the unwinding of debtors in Construction as a result of a reduction in the size of their business ; and a £135.0 million decrease in trade payables which reflects a more normalised year end payment process compared to the prior year and the close out of a number of large projects in Construction during 2018.

PENSIONS

At 31 December 2018 the Group had an IAS 19 pension surplus of £93.9 million (2017: £48.0 million net deficit).

£million	**2018**	**2017**
Gross liabilities	**(844.8)**	(1,064.1)
Gross assets	**938.7**	1,016.1
Total surplus/(deficit)	**93.9**	**(48.0)**

The IAS 19 accounting position on the Group's defined benefit pension scheme increased from a deficit of £48.0 million to a surplus of £93.9 million largely due to a change in the basis of indexation on future pension increases from RPI to CPI (£70.6 million) together with an actuarial valuation gain of £54.0 million.

NEW ACCOUNTING STANDARDS

IFRS 9 *Financial instruments*

We have adopted IFRS 9 Financial instruments from the beginning of this period. During the period we concluded our review of the implications of the adoption of IFRS 9 *Financial Instruments* which we adopted from the beginning of the period. The review included a review of the classification of assets previously held as available for sale under IAS 39, and the application of an expected credit loss model under IFRS 9. The review comprising the assessment of amounts receivable from the sale of goods and services and amounts due from construction contract customers concluded that the adoption of IFRS 9 did not result in any material change. As disclosed in the 2017 Annual Report, there was no quantitative impact on the Group upon adoption.

IFRS 15 *Revenue from contracts with customers*

During the period we concluded our review of the implications of the adoption of IFRS 15 *Revenue from contracts with customers* which we adopted from the beginning of this period. As disclosed in the 2017 Annual Report, we identified no material change in the way that we recognise revenue on contracts with customers.

However, we did identify an issue with the transition from IAS 11 *Construction contracts* whereby costs that we had previously capitalised under that standard on contracts that were ultimately onerous, where future recovery was anticipated from a third party other than the customer, are not covered by similar provisions in IFRS 15. As such the recognition of an asset in these circumstances falls to the more restrictive requirements of IAS 37 Provisions, contingent liabilities and contingent assets. In order to recognise the asset IAS 37 requires recovery to be virtually certain rather than expected, otherwise it falls to be treated as a contingent asset and disclosed rather than recognised. Whilst we remain confident of recovery and our ultimate expectation is unchanged, we are not able to meet the requirement of virtually certain which we have interpreted as being as close to 100% as to make any remaining uncertainty insignificant.

We have adopted IFRS 15 through the “modified retrospective adoption” approach and as such have booked a cumulative catch up adjustment to the opening balance sheet (charge to equity and increase in provisions) of £37.5 million without altering comparatives. These recoveries will now flow through the income statement as received (in effect the £37.5 million became an unrecognised contingent asset). Had IFRS 15 not been adopted, 2018 revenue would have increased by approximately £32.5 million.

We have made a number of other immaterial adjustments as a result of the application of IFRS 15, including minor amendments to revenue recognition where we believe that it is not highly probable that amounts will not be reversed.

At the date of authorisation of these financial statements the following standards and interpretations were in issue but not yet effective, and therefore have not been applied in these year-end financial statements.

IFRS 16 *Leases*

The new standard will replace IAS 17 Leases. It will become effective for accounting periods on or after 1 January 2019, at the earliest. It will require nearly all leases to be recognised on the balance sheet as liabilities, including those currently recognised as operating leases, with corresponding assets being created.

The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard may change because:

– the Group has not finalised the testing and assessment of controls over its new IT systems; and
– the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of between £125 million and £150 million as at 1 January 2019 and that IFRS 16 will increase the Group's EBITDA by approximately £30 million and reduce profits before tax by around £2 million.

Except for IFRS 16 noted above, the directors do not currently anticipate that the adoption of any other standard and interpretation that has been issued but is not yet effective will have a material impact on the financial statements of the Group in future periods.

TAX STRATEGY AND RISK MANAGEMENT

Governance

The Group seeks constantly to evolve its systems, processes and procedures as they relate to taxation to ensure that confidence is maintained in the Group's ability to process and deal with its taxation affairs. All tax decisions and considerations are routed through the specialist Group Tax Department prior to being considered further and, when appropriate, put forward for approval at Board level. All tax disclosures and errors are reported to the Group Tax Department which also forms the principal point of contact between the Group and HMRC.

The Group has a robust system of documented controls which are regularly reviewed to ensure they remain fit for their intended purpose and which ensure that we are able to meet our taxation obligations and the requirements of the Senior Accounting Officer (SAO) reporting obligations. A comprehensive review is undertaken each year of adherence to SAO requirements before considering whether it is necessary to draw attention to errors which may have affected the Group's ability to account for the correct amount of tax.

Responsibility for the execution of the Group's tax strategy rests with the Chief Financial Officer and the Head of Tax and Treasury.

Planning

Efficient management of the tax base of the Group involves structuring the Group's affairs efficiently for tax and conducting the Group's affairs in accordance with tax legislation but does not involve or permit the use of risky or aggressive tax structures or schemes.

The Group's tax strategy is determined by the Board and is summarised in the following statement:

"The Group will seek to manage the tax it pays (i) by abiding by legal and regulatory principles, (ii) by considering acceptability to stakeholders, and (iii) by avoiding any acts inconsistent with the Group's reputation."

The Group seeks to create value for its shareholders and efficient management of the tax base of the Group is an integral part of that value creation, subject to the principles outlined above.

Relationship with UK tax authorities

Interserve seeks to maintain an open dialogue in the UK with HMRC regarding its plans and tax affairs, discussing potential tax issues which may arise in the business as well as initiating discussion around the suitability of the systems and controls in place to control and manage its tax position.

TREASURY RISK MANAGEMENT

We operate a centralised Treasury function whose primary role is to manage interest rate, liquidity and foreign exchange risks. The Treasury function is not a profit centre and it does not enter into speculative transactions. Where possible it aims to reduce financial risk by the use of hedging instruments, operating within a framework of policies and guidelines approved by the Board.

Liquidity risk

We seek to maintain sufficient facilities to ensure access to funding for our current and anticipated future requirements, determined from budgets and medium-term plans.

During 2018 the Group had access to committed debt facilities comprising a $350 million US private placement and £583 million of committed bank facilities. The US private placement was translated into GBP at the prevailing exchange rate at the 31 December 2018. During the year £33.2 million of committed facilities were prepaid and cancelled. The aggregate facilities of £824.3 million at the year-end date had a weighted average expiry date of September 2021.

On 27 April 2018 the Group secured new financing from its lenders. The additional facilities, totalling £196.5 million, comprised a term loan of £175 million and £21.5 million of money market lines and committed bonding facilities of £95 million. These facilities are scheduled to expire in September 2021.

Additionally, as part of the proposed deal terms, the company issued warrants to the providers of the new cash and bonding facilities to buy shares at 10 pence per share (the nominal price of each share). If exercised, this would provide the warrant holders with an interest of up to 20% of the post-issue share capital.

The agreement by the lenders to provide new facilities contains provisions to charge interest on the facilities which does not become payable until the maturity of the facilities. The interest is capitalised on each quarter end date and forms part of the debt balance at the balance sheet date. The value of interest capitalised on loan facilities in 2018 was £24.7 million. The value of interest accrued in respect of issued instruments drawn on the committed facilities was £4.3 million.

Market price risk

The objectives of our interest rate policy are to match funding costs with operational revenue performance and to ensure that adequate interest cover is maintained, in line with Board-approved targets and banking covenants.

Foreign currency risk

Transactional currency translation

The revenues and costs of our trading entities are typically denominated in their functional currency. The impact of retranslating any entity's non-functional currency balances into its functional currency was not material.

Consolidation currency translation

We do not hedge the impact of translating overseas entities' trading results or net assets into the consolidation currency.

As at the balance sheet date the $348.3 million of debt relating to the US private placement was unhedged.

The impact of changes in the 31 December 2018 year-end exchange rates, compared to the rates used in preparing the 2017 consolidated financial statements, has been an increase in net assets attributable to equity holders of £14.0 million (2017: £35.2 million decrease).

VIABILITY STATEMENT

This statement is made against a background of challenging market conditions in the UK support services and construction sectors and the collapse into liquidation of a major competitor, Carillion in early 2018. In the face of adverse media speculation, Interserve, Capita, Kier and others in similar markets have taken steps to improve balance sheet strength and resilience.

The directors have reviewed the viability of the Group over a three-year period to December 2021. The choice of a three-year period reflects the secured nature of the Group's revenues with £7.1 billion (of which £5.5 billion is secured) of work in the order book. There is a negligible amount of secured work outside of this timeframe in the Construction division and only 35 per cent in the Support Services division. The viability period chosen aligns with the annual planning process.

Strategy and key judgements

In April 2018 the Group announced a multi-year strategy with four key priorities:

1. Fit for Growth – a simplified organization that will deliver reduced overhead costs
2. A competitive customer value proposition
3. Standardised operational delivery
4. One Interserve – a consistent approach to leadership, performance management, reward and recognition

In creating its plan, the Board has considered the principal risks and uncertainties in the implementation of the Group strategy as well as those inherent in the business. The key planning assumptions are outlined below:

1. The new financing structure is concluded with necessary consent obtained from lenders and shareholders
2. No significant political changes in the UK or overseas that will impact public sector outsourcing.
3. Continued progress in improving margins and operating profit driven by targeted cost savings and selective contract bidding.
4. Success in recovering professional indemnity insurance claims relating to the construction of the Derby EFW plant. This follows a successful outcome in relation to similar claims in 2018 in respect of the Glasgow EFW plant.
5. Termination account payments on the Glasgow EFW plant will be within the allowance made, a sum that is materially lower than amounts claimed by the client. This is considered in further detail in this statement.
6. Trade debt with Saudi colleges will be fully recoverable in line with previous debt recovery experience in the region.
7. The plans for dealing with loss making contracts within the profitable PFI portfolio in the Support Services division will be successful in reducing any future losses.
8. Both customer and supplier payment terms will improve following the refinancing.

As part of the planned re-financing, the Group and / or its subsidiaries will be making undertakings to its lenders which are summarised below. Plans have been made to meet all the requirements but it is noted that non-compliance would be an event of default under the terms of these financing arrangements and would potentially impact on the ability of the Group and / or its subsidiaries to continue trading as going concerns.

A condition of the additional lending are financial covenants, starting in December 2019 for the Interserve Group excluding RMDK, and in June 2019 for RMDK.

For the Interserve Group, excluding RMDK, there is a proposed minimum EBITDA covenant: Dec-19: £50 million, Jun-20: £60 million, Dec-20: £60 million, Jun-21: £70 million, Dec-21: £70 million. Also, a minimum cashflow available for debt service Dec-19: £ (145) million, Jun-20: £20 million, Dec-20: £45milion, Jun-21: £50 million, Dec-21: £50 million. The loan maturity is 2022.

For the RMDK facility (non-recourse to the rest of the Interserve Group) there is a maximum leverage covenant being multiples of EBITDA: Dec-19: 3.1, Mar-20: 2.6, Jun 20: 2.6, Sep-20: 2.3 and Dec-20: 2.0. Also a minimum liquidity requirement of £3 million from September 19. The loan maturity is 2023.

In addition, the Group has committed to provide a funding proposal in respect of any Energy from Waste settlements greater than those currently forecast in the business plan.

It is also required to engage with lenders within three weeks of submitting two consecutive short-term cash flow forecasts that predict a cash requirement not covered by the debt facility.

As discussed in note 1 to the financial statements, significant judgements have also been taken with respect to the outcome of other contracts and there is an assumption that costs will fall within anticipated and provided levels. This relies upon, as yet, unsecured negotiations to settle or de-scope contracts. Conclusion of these negotiations, is at least, partially outside the control of the directors and could have a sizeable adverse impact on the Group.

It is management's view that the Deleveraging Plan, if approved by shareholders on 15th March 2019, will place the Group in a strong position to deliver the strategy, be competitive in the marketplace and provide a secure future for the Group's employees, customers and suppliers.

Prior to successful conclusion of the Deleveraging Plan, the level of uncertainty around the Group's financial position has been adversely impacting customer and supplier confidence as well as influencing employee morale and credit ratings. If confidence is slow to return it will be detrimental to the Group's recovery plans in 2019.

Looking beyond the twelve-month timeframe, to the remainder of 2020 and 2021, there are additional assumptions about market stability in the UK and overseas which are outside the control of the directors. A significant deterioration in these markets would impact the Group's long-term viability.

The Group has carried out a comprehensive business planning exercise on all other aspects of its business. The approach that has been adopted and the sensitivities considered are discussed further below.

Assessment process

The future prospects of the Group are assessed primarily through the annual planning process. This entails a series of detailed operational reviews culminating with divisional reviews involving the Group CEO, Group CFO and divisional management team. The results of these reviews are then submitted to the Board in the form of a plan summary document for debate and approval.

The output is a full set of income statement, cashflow and balance sheet projections for each of the reporting entities of the Group. These exist at monthly frequency for the first two years of the strategic plan (2019 & 2020) and annually for the final year (2021).

This year, the outputs were reviewed and reported on by advisers acting on behalf of the Group's Lenders.

Progress against this plan is monitored, on a monthly basis, via monthly divisional business reviews with the Chief Executive and Chief Financial Officer and management accounts which are submitted to the Board.

Subsequent to December 2018 the plan was amended to reflect the de-leveraging proposal presented to the Group's debt holders and the approximately £33 million of adviser fees associated with this.

Following these amendments, the plan reflects a reduction in Interserve Group's pro forma net debt from the issuance of £480 million of new equity. £350 million of existing debt is allocated to RMDK, of which £169 million is cash-pay and £181 million has been converted into a subordinated non-cash pay debt instrument. The debt allocated to RMDK is non-recourse to the rest of Interserve Group and has maturities extended to 2023. Following the refinancing, Interserve Group excluding RMDK will have a £110 committed debt facility which matures in 2022.

Net cash-pay leverage of the Interserve Group (excluding the RMDK non-cash pay debt instrument) is expected to reduce to less than 1 x EBITDA and total net leverage (including the RMDK non-cash pay debt instrument) reduces to less than 2x EBITDA.

Assessment of viability

Although they consider that the output of the annual strategic planning process represents the best estimate of future prospects of the Group, the directors have also stress tested the future viability of the Group by considering a number of sensitivities to the plan.

These scenarios have been informed with reference to both the Principal Risks and Uncertainties of the Group and the key strategic planning assumptions. All scenarios assume the successful completion of the proposed Deleveraging Plan. The scenarios are:

Scenario	**Linkage to the key judgements and the principal risks or uncertainty**	**Sensitivity modelled**
1 - Significantly reduced work winning from a combination of a downturn in market conditions, changes in the political appetite for outsourcing, political pressures in the Middle East or from reduced overall customer confidence in Interserve.	**Key strategic planning assumption**: 2 **Principal risks and uncertainties**; business, economic and political environment, damage to the company's reputation	A shortfall in 2019 forecast revenue from future contract wins leading to reduced revenue and profits in the Support Services division over a 3-year period. A 25% reduction in the revenue in the Construction division resulting in reduced profits and increased working capital outflows impacting 2019 to 2021.
2 – Cost reductions that form part of the Fit for Growth programme are not fully realised or are offset by other cost increases.	**Key strategic planning assumption**:3 **Principal risks and uncertainties**; operating system, key people, financial risks	Costs of change incurred as planned but with reduced benefits. Impact of mandatory increases in UK and Spanish pay rates.
3 – Increase in working capital requirement	**Key strategic planning assumption:** 4, 8 **Principal risks and uncertainties**; financial risks	Planned disposals of non-core businesses are assumed to be delayed by 3-6 months. The expected improvement in day sales outstanding in the Support Services and RMDK divisions does not occur.
4 - Energy from Waste – insurance proceeds delayed Derby and final account	**Key strategic planning assumption:** 5, 6	Derby professional indemnity proceeds are delayed by 6 months during which time

settlement higher than assumed at Glasgow	**Principal risks and uncertainties:** major contracts	additional costs of £1.4M per month are incurred. Glasgow final account settlement is higher than assumed
5 – Poor recovery of debts in the Middle East	**Key strategic planning assumption:** 2 and 6 **Principal risks and uncertainties**; financial risks	There are no further receipts from education contracts in Saudi Arabia

With the anticipated Deleveraging Plan in place, the Company would be able to sustain all of these scenarios in combination and still remain within the proposed committed facility limits and comply with the covenant tests. However, additional unmodeled scenarios exist that could cause breaches of either the absolute committed facilities or covenants. These principally involve a failure to secure the proposed financing, a significant worsening in the cost to complete or final account settlements within the EFW business or significant adverse macroeconomic events. The directors have applied the assumption unmodeled scenarios will not occur.

Viability statement

The Group faces a number of uncertainties in relation to the final outcomes on its Energy from Waste contracts and political uncertainties in the Middle East which are detailed in this statement and in the prospectus. It has plans in place that have been stress tested with a number of reasonable worst case scenarios however there can be no certainty that it will remain viable. The directors have a plan which they are implementing but they acknowledge the inherent risks of delivery, some of which are outside their control.

While the directors have every expectation of successful completion of the financial restructuring, this is contingent on approval of the detailed transaction by 50% of shareholders. The Group has been in discussion with lenders and there is every indication that the detail will be agreed and confirmed by the 15th March but there is no certainty. The transactions will put to shareholder vote on this date. Failure to conclude the Deleveraging Plan may cast significant doubt over the Group's ability to continue as a going concern, and consequently may cast significant doubt over its viability.

GOING CONCERN STATEMENT

The directors have carried out a detailed review of the viability of the Group over the period to December 2021. This review has involved stress testing of the current strategic plan of the Group under a number of scenarios and has considered risks and uncertainties to both the near and medium term.

Based on this analysis, with no unforeseen deterioration in the remaining EFW projects and approval of the Deleveraging Plan by shareholders, the directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for the foreseeable future, representing a period of at least a year from the date of this statement. The Board of Directors has considered the length of going concern period for this assessment and taking into account the terms of the replacement financing facilities and proposed Deleveraging Plan, have concluded that a going concern period of 12 months remains appropriate.

In making this assessment the directors recognise that there is a material uncertainty in relation to the approval of the Deleveraging Plan by shareholders and failure to secure shareholder approval represents a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern.

Based on current expectations, and on the basis that the directors have every expectation of successful completion of the financial restructuring, the directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

INCOME STATEMENT

Consolidated income statement

For the year ended 31 December 2018

	Notes	Unaudited Year ended 31 December 2018 Before non-underlying items and amortisation of acquired intangible assets £million	Non-underlying items and amortisation of acquired intangible assets £million	Total £million	Audited Year ended 31 December 2017 Before non-underlying items and amortisation of acquired intangible assets # £million	Non-underlying items and amortisation of acquired intangible assets # £million	Total £million
Continuing operations							
Revenue including share of associates and joint ventures	3	3,019.2	206.5	**3,225.7**	3,408.6	258.3	**3,666.9**
Less: Share of associates and joint ventures		(321.7)	-	**(321.7)**	(416.1)	-	**(416.1)**
Consolidated revenue	3	2,697.5	206.5	**2,904.0**	2,992.5	258.3	**3,250.8**
Cost of sales		(2,372.2)	(242.5)	**(2,614.7)**	(2,640.9)	(368.7)	**(3,009.6)**
Gross profit		325.3	(36.0)	**289.3**	351.6	(110.4)	**241.2**
Administration expenses		(249.9)	(27.8)	**(277.7)**	(292.6)	(86.7)	**(379.3)**
Amortisation of acquired intangible assets	4	-	(18.7)	**(18.7)**	-	(21.5)	**(21.5)**
Impairment of goodwill	4	-	(33.1)	**(33.1)**	-	(60.0)	**(60.0)**
Total administration expenses		(249.9)	(79.6)	**(329.5)**	(292.6)	(168.2)	**(460.8)**
Operating profit/(loss)		75.4	(115.6)	**(40.2)**	59.0	(278.6)	**(219.6)**
Share of result of associates and joint ventures		17.3	17.0	**34.3**	25.5	(30.6)	**(5.1)**
Amortisation of acquired intangible assets	4	-	-	**-**	-	(0.1)	**(0.1)**
Total share of result of associates and joint ventures		17.3	17.0	**34.3**	25.5	(30.7)	**(5.2)**
Total operating profit/(loss)		92.7	(98.6)	**(5.9)**	84.5	(309.3)	**(224.8)**
Investment revenue	5	3.5	-	**3.5**	5.9	2.9	**8.8**
Finance costs	6	(82.5)	(26.4)	**(108.9)**	(28.4)	-	**(28.4)**
Profit/(loss) before tax		13.7	(125.0)	**(111.3)**	62.0	(306.4)	**(244.4)**
Tax charge	7	(8.7)	(8.9)	**(17.6)**	(8.1)	(1.9)	**(10.0)**
Profit/(loss) for the year		5.0	(133.9)	**(128.9)**	53.9	(308.3)	**(254.4)**
Attributable to:							
Equity holders of the parent		1.7	(133.9)	**(132.2)**	51.9	(308.3)	**(256.4)**
Non-controlling interests		3.3	-	**3.3**	2.0	-	**2.0**
		5.0	(133.9)	**(128.9)**	53.9	(308.3)	**(254.4)**
Earnings per share	9						
Basic				**(89.2p)**			**(176.0p)**
Diluted				**(89.2p)**			**(176.0p)**
Headline				**1.1p**			**35.6p**
Diluted Headline				**0.9p**			**34.0p**

- restated (note 15)

Consolidated statement of comprehensive income
For the year ended 31 December 2018

	Notes	Unaudited Year ended 31 December 2018 £million	Audited Year ended 31 December 2017 £million
Loss for the year		**(128.9)**	**(254.4)**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension schemes		**54.0**	**(10.4)**
Deferred tax on above items taken directly to equity	7	**(9.2)**	**1.8**
		44.8	**(8.6)**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**14.0**	**(34.8)**
(Losses)/gains on cash flow hedging instruments (excluding joint ventures)		**-**	**(23.0)**
Recycling of cash flow hedge reserve to profit and loss account		**10.4**	**22.7**
Deferred tax on above items taken directly to equity	7	**(1.8)**	**0.2**
Net impact of items relating to joint-venture entities		**0.8**	**3.0**
		23.4	**(31.9)**
Other comprehensive income/(loss) net of tax		**68.2**	**(40.5)**
Total comprehensive income/(loss)		**(60.7)**	**(294.9)**
Attributable to:			
Equity holders of the parent		**(64.0)**	**(297.3)**
Non-controlling interests		**3.3**	**2.4**
		(60.7)	**(294.9)**

Consolidated balance sheet
At 31 December 2018

	Notes	Unaudited 31 December 2018 £million	Audited 31 December 2017 £million
Non-current assets			
Goodwill		**342.3**	372.9
Other intangible assets		**30.9**	54.5
Property, plant and equipment		**209.9**	228.6
Interests in joint-venture entities		**33.2**	46.5
Interests in associated undertakings		**88.3**	78.4
Retirement benefit surplus	11	**93.9**	-
Deferred tax asset		**1.3**	23.4
		799.8	804.3
Current assets			
Inventories		**35.8**	34.0
Trade and other receivables		**641.3**	722.0
Cash and deposits		**196.7**	155.1
		873.8	911.1
Total assets		**1,673.6**	1,715.4
Current liabilities			
Bank overdrafts		**-**	(6.8)
Trade and other payables		**(741.3)**	(798.6)
Current tax liabilities		**(4.5)**	(7.2)
Short-term provisions	10	**(29.3)**	(50.2)
		(775.1)	(862.8)
Net current assets		**98.7**	48.3
Non-current liabilities			
Borrowings		**(827.5)**	(647.5)
Trade and other payables		**(12.7)**	(14.5)
Long-term provisions	10	**(59.4)**	(80.0)
Retirement benefit obligation	11	**-**	(48.0)
		(899.6)	(790.0)
Total liabilities		**(1,674.7)**	(1,652.8)
Net assets/(liabilities)		**(1.1)**	62.6
Equity			
Share capital	12	**15.0**	14.6
Share premium account		**116.5**	116.5
Warrants in Issue		**31.4**	-
Capital redemption reserve		**0.1**	0.1
Merger reserve		**121.4**	121.4
Hedging and revaluation reserve		**3.5**	(5.9)
Translation reserve		**88.5**	74.5
Investment in own shares		**-**	(1.9)
Retained earnings		**(392.4)**	(272.0)
Equity attributable to equity holders of the parent		**(16.0)**	47.3
Non-controlling interests		**14.9**	15.3
Total equity		**(1.1)**	62.6

Consolidated statement of changes in equity

	Share capital	Share premium	Warrants in issue	Capital redemption reserve	Merger reserve (1)	Hedging and revaluation reserve (2)	Translation reserve	Investment in own shares (3)	Retained earnings	Attributable to equity holders of the parent	Non-controlling interests	Total
	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million	**£million**
Audited Balance at 1 January 2017	14.6	116.5	-	0.1	121.4	(8.8)	109.7	(1.9)	(9.4)	342.2	12.9	**355.1**
Profit/(loss) for the year	-	-	-	-	-	-	-	-	(256.4)	(256.4)	2.0	**(254.4)**
Other comprehensive income	-	-	-	-	-	2.9	(35.2)	-	(8.6)	(40.9)	0.4	**(40.5)**
Total comprehensive income	-	-	-	-	-	2.9	(35.2)	-	(265.0)	(297.3)	2.4	**(294.9)**
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	**-**
Shares issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Purchase of Company shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Company shares used to settle share-based payment obligations	-	-	-	-	-	-	-	-	-	-	-	**-**
Share-based payments	-	-	-	-	-	-	-	-	2.4	2.4	-	**2.4**
Transactions with owners	-	-	-	-	-	-	-	-	2.4	2.4	-	**2.4**
Audited Balance at 31 December 2017	**14.6**	**116.5**	**-**	**0.1**	**121.4**	**(5.9)**	**74.5**	**(1.9)**	**(272.0)**	**47.3**	**15.3**	**62.6**
Impact of adoption of IFRS15	-	-	-	-	-	-	-	-	(37.5)	(37.5)	-	**(37.5)**
Balance at 1 January 2018 as restated	**14.6**	**116.5**	**-**	**0.1**	**121.4**	**(5.9)**	**74.5**	**(1.9)**	**(309.5)**	**9.8**	**15.3**	**25.1**
Profit/(loss) for the year	-	-	-	-	-	-	-	-	(132.2)	(132.2)	3.3	**(128.9)**
Other comprehensive income	-	-	-	-	-	9.4	14.0	-	44.8	68.2	-	**68.2**
Total comprehensive income	-	-	-	-	-	9.4	14.0	-	(87.4)	(64.0)	3.3	**(60.7)**
Dividends paid	-	-	-	-	-	-	-	-	-	-	(3.7)	**(3.7)**
Shares issued	0.4	-	-	-	-	-	-	-	-	0.4	-	**0.4**
Warrants issued	-	-	35.3	-	-	-	-	-	-	35.3	-	**35.3**
Warrants exercised	-	-	(3.9)	-	-	-	-	-	3.9	-	-	**-**
Purchase of Company shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Company shares used to settle share-based payment obligations	-	-	-	-	-	-	-	1.9	(1.9)	-	-	**-**
Share-based payments	-	-	-	-	-	-	-	-	2.5	2.5	-	**2.5**
Transactions with owners	0.4	-	31.4	-	-	-	-	1.9	4.5	38.2	(3.7)	**34.5**
Unaudited Balance at 31 December 2018	**15.0**	**116.5**	**31.4**	**0.1**	**121.4**	**3.5**	**88.5**	**-**	**(392.4)**	**(16.0)**	**14.9**	**(1.1)**

(1)The £121.4 million merger reserve represents £16.4 million premium on the shares issued on the acquisition of Robert M. Douglas Holdings Plc in 1991, £32.6 million premium on the shares issued on the acquisition of MacLellan Group Plc in 2006 and £72.4 million premium on the shares placed to partially fund the acquisition of Initial Facilities in 2014.

(2) The hedging and revaluation reserve includes £14.8 million relating to the revaluation of financial assets within the joint ventures held at fair value through other comprehensive income (2017: £16.0 million).

(3) The investment in own shares reserve represents the cost of shares in Interserve Plc held by the trustees of the Interserve Employee Benefit Trust. The number of shares held at 31 December 2018 was 32,144 (2017: 466,909), with the market value of these shares at 31 December 2018 being £0.0 million (2017: £0.4 million).

Consolidated cash flow statement

For the year ended 31 December 2018

	Unaudited Year ended 31 December 2018 £million	Audited Year ended 31 December 2017 £million
Operating activities		
Total operating loss	**(5.9)**	(224.8)
Adjustments for:		
Amortisation of acquired intangible assets	**18.7**	21.5
Impairment of goodwill	**33.1**	60.0
Amortisation of capitalised software development	**6.1**	1.6
Impairment of capitalised software development	**-**	6.3
Depreciation of property, plant and equipment	**35.7**	39.5
Impairment of capitalised IT development	**-**	9.4
Loss on disposal of investments in joint ventures	**(17.0)**	(7.5)
Proceeds on disposal of PFI investments	**47.0**	12.3
Non-cash gain on pension indexation	**(70.6)**	-
Other non-current asset non-cash impairment items	**15.0**	1.4
Loss on disposal of subsidiary	**7.1**	-
Pension payments in excess of the income statement charge	**(16.9)**	(15.9)
Share of results of associates and joint ventures	**(17.3)**	5.2
Charge relating to share-based payments	**2.5**	2.1
Gain on disposal of plant and equipment - hire fleet	**(17.0)**	(22.2)
Gain on disposal of plant and equipment - other	**(2.9)**	(0.2)
Operating cash flows before movements in working capital	**17.6**	(111.3)
(Increase)/decrease in inventories	**(1.7)**	0.5
(Increase)/decrease in receivables	**59.2**	(11.1)
Increase/(decrease) in payables	**(135.0)**	(26.4)
Capital expenditure - hire fleet	**(20.3)**	(17.8)
Proceeds on disposal of plant and equipment - hire fleet	**20.0**	30.2
Cash generated by operations	**(60.2)**	(135.9)
Cash used by operations - Energy from Waste exited business	**(29.7)**	(95.9)
Cash used by operations - other non-underlying	**(41.8)**	(72.9)
Cash generated by operations - ongoing business	**11.3**	32.9
Taxes paid	**(11.4)**	(8.6)
Net cash from operating activities	**(71.6)**	(144.5)
Investing activities		
Interest received	**3.2**	5.9
Dividends received from associates and joint ventures	**11.8**	17.2
Proceeds on disposal of plant and equipment - non-hire fleet	**8.9**	1.6
Capital expenditure - non-hire fleet	**(19.6)**	(39.3)
Investment in joint-venture entities	**(0.8)**	(32.7)
Proceeds on disposal of subsidiary	**2.5**	-
Receipt of loan repayment - investments	**-**	0.7
Net cash from/(used in) investing activities	**6.0**	(46.6)
Financing activities		
Interest paid	**(42.8)**	(27.3)
Dividends paid to non-controlling interests	**(3.7)**	-
Proceeds from issue of warrants	**35.3**	-
Proceeds from issue of shares and exercise of warrants	**0.4**	-
Proceeds from disposal of derivatives	**-**	44.1
Increase in bank loans	**163.4**	223.6
Repayment of bank loans	**(36.5)**	-
Repayment of obligations under finance leases	**(3.0)**	(1.0)
Net cash from financing activities	**113.1**	239.4
Net increase in cash and cash equivalents	**47.5**	48.3
Cash and cash equivalents at beginning of period	**148.3**	102.2
Effect of foreign exchange rate changes	**0.9**	(2.2)
Cash and cash equivalents at end of period	**196.7**	148.3
Cash and cash equivalents comprise		
Cash and deposits	**196.7**	155.1
Bank overdrafts	**-**	(6.8)
	196.7	148.3

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

	Unaudited Year ended 31 December 2018	Audited Year ended 31 December 2017
Reconciliation of net cash flow to movement in net debt		
Net increase in cash and cash equivalents	**47.5**	48.3
Increase in bank loans	**(126.9)**	(223.6)
Movement in obligations under finance leases	**3.0**	1.0
Change in net debt resulting from cash flows	**(76.4)**	(174.3)
Change in PIK interest (non-cash)	**(24.7)**	-
Change in discount on debt (non-cash)	**(13.8)**	-
Effect of foreign exchange rate changes	**(13.7)**	(53.9)
Movement in net debt during the period	**(128.6)**	(228.2)
Net debt - opening	**(502.6)**	(274.4)
Net debt - closing	**(631.2)**	(502.6)

1 General information and critical accounting judgements
General information

Interserve Plc (the Company) is a company incorporated in the United Kingdom. The financial information in this announcement, which was approved by the Board of Directors on 26 February 2019, does not constitute the Company's statutory financial statements for the years ended 31 December 2018 or 2017 but is derived from these accounts.

The financial information for 2017 is derived from the statutory accounts for 2017, which have been delivered to the Registrar of Companies. The auditor has reported on the 2017 accounts; their report was (a) unqualified, (b) did not include a reference to any matter to which the auditor drew attention by way of emphasis of matter, and (c) and did not contain statements under section 498(2), (3) or (4) of the Companies Act 2006.

The statutory accounts for 2018 will be finalised on the basis of the unaudited financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's annual general meeting. The audit report is expected to include reference to a material uncertainty relating to going concern to which the auditor will draw attention by way of emphasis. The Company expects to publish its statutory accounts before the end of March 2019.

Critical accounting judgements

In the preparation of the consolidated financial statements management makes certain judgements and estimates that impact the financial statements. While these judgements and estimates are continually reviewed the facts and circumstances underlying them may change and that could impact the results of the Group. Each judgement identified below also includes, where relevant, an assessment of the key sources of estimation uncertainty. In particular:

Glasgow Energy from Waste (EfW) plant

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

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

i. Application of the liability cap to Viridor's claims;
ii. The order in which limitations on liability are taken into account in the compensation calculation;
iii. The scope of contractual pain-share provisions;
iv. The recovery of Viridor's indirect losses; and
v. Viridor's duty to mitigate its costs incurred in completing the works.

The judgements in this regard have been based upon appropriate legal and technical advice and the directors regard them as appropriate. Viridor's parent company's half year results to 30 September 2018 included a net receivable due from Interserve relating to this project of £64 million. Since the year end Viridor has submitted a draft termination account to Interserve significantly in excess of this receivable. The Directors believe this has no technical merit. The Glasgow contract contains an overall limit on Interserve's liability to Viridor under the contract which Interserve calculates after deducting payments to date as £71.0 million.

The directors have taken the view that the differences between the parties will be substantially narrowed if the interpretation disputes (i), (ii) & (iii) above are resolved. Assuming the director's views on these points are correct, the liability would be between £nil and £33.5 million. If not, the liability could be higher. The directors consider that their best estimate of the outcome is £14.7 million which is the accrued cost in the balance sheet to settle the final account.

Interserve believes that there are strong claims that there are provisions in the contract that limit the scope of the Group's liability. Accordingly, Interserve commenced an adjudication seeking a statement of law in respect of (i), (ii) & (iii) above on 8 February 2019 and expects a decision to be delivered by April 2019. Any decision by the adjudicator could be subsequently challenged through formal arbitration. There can however be no assurances as to the ultimate amount of any liability.

Derby EfW plant

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

The Group completed the physical construction of the plant in 2017 and started receiving municipal waste in January 2018, however the project has been delayed past the long stop date of September 2018. During the fourth quarter of 2018 Acceptance testing commenced and discussions are currently ongoing as to how to demonstrate satisfactory completion of the tests. Transfer testing is due to commence shortly once the plant is believed to be capable of performing at the optimum levels.

The key remaining judgements are:

- The Acceptance and Transfer Tests are passed and independently certified within the current projected timescales
  - The Derby EfW plant has been operational since September 2018, excluding periods where defect rectification works have been completed. The directors are confident that the Derby EfW plant will ultimately meet or exceed the required outputs.
  - Delays would likely result in increased contractual costs to complete and damages. Depending on the cause, these costs could be recovered from insurers. It is not possible to quantify unknown circumstances which could cause delays, however current rates of costs and damages are c£1.5 million per month and the adjustment would increase cost of sales and either provisions or accruals in the balance sheet.
- Performance and availability damages are not levied as the plant operates at the required contractual levels

- Interserve is not terminated on the project
  - In the event that Interserve and the Councils cannot come to an agreement, the councils may exercise their contractual right to terminate the Project Agreement which in turn would lead to the termination of the Construction Contract.
  - Given the stage of completion of the project the Directors do not believe this would be a desirable outcome for all parties.
  - The financial impact of such an event would depend on the calculation of the market value of the project, which the directors expect would reduce Interserve's debt and equity return in the SPV but not create a claim against Interserve. Interserve's equity and debt interests in the SPV were valued at £12.4 million at 31 December 2018, which is shown as an investment in joint ventures in the balance sheet. In addition, the project finance lenders would seek to recover their losses from Interserve as a result of Interserve's alleged default in terms of failing to achieve completion by the long stop date.
  - The directors believe Renewi require Interserve's consent as shareholder of the SPV to terminate Interserve's construction contract.

The Company has, as yet, not recognised any value for professional indemnity (PI) insurance claims relating to the construction of the Derby EfW plant

  - This contract has been significantly loss making and, as required under IFRS, a forward loss provision has been taken. This forward loss provision does not assume any PI insurance recoveries. The directors expect that, as on the Glasgow EfW project in 2018, significant PI recoveries on Derby EfW plant will be achieved.
  - A notification has been made to the PI insurer of claims. The claims predominantly relate to alleged design deficiencies and negligence of key subcontractors, particularly design deficiencies relating to the Advanced Conversion Facility (ACF) power plant. The claims are conceptually similar to the successful claims made on the Glasgow EfW plant.
  - Interserve are yet to fully establish its entitlements as the project has not concluded, and recoveries will be recognised in the income statement when cash is received. It is only at this point the directors deem the likelihood of recovery to meet the virtually certain recognition criteria of IAS 37. The range in outcome from these claims is between £nil and £50 million, which is the maximum receivable through a single claim under the policy. As at the balance sheet date, the directors expect to receive in excess of £30 million, however fully detailed and substantiated submissions have not been submitted. The timing of the resolution of the insurance claims are not fully within the control of the Group, however the directors expect substantial insurance proceeds during the second half of 2019.

Future losses on the Ministry of Justice CRC contracts will fall within acceptable levels

Interserve is involved in providing probation and rehabilitation services to the Ministry of Justice (MoJ). These services are provided via five community rehabilitation companies (CRCs) each of which holds a contract to provide services in a given geographic area. During 2018, a fundamental variation to the contracts was agreed which improved their viability but still left a substantial loss over their remaining life across all five of the contracts. The forward loss provision of £12.1 million booked in the prior year has been updated for these developments and continues to be reviewed on a regular basis.

The year-end 31 December 2018 forward loss and impairment provisions of £11.4 million included within the other debtors represents a fair assessment of a number of potential outcomes. The sensitivities principally pertain to the Performance by Results income which is impacted by reoffending data published by the Ministry of Justice on a quarterly basis and there are a number of factors which have a material impact on reoffending.

ILE International Saudi debt

Interserve Learning and Employment International (ILE) had £36.0 million of outstanding debt at 31 December 2018 including trade debtors and accrued income. Of this, approximately £17 million is recorded in deferred income as relating to activities to be undertaken in 2019. £15.7 million of the debt was greater than 90 days old at the year and only £1.8 million is over a year old.

Since the start of Q4 2018, it has been evident that our immediate customer, Colleges of Excellence ('COE'), has had a funding shortfall from its funding partner, Human Resources Development Fund ('HRDF'). Initially COE commented to us that only 44% of outstanding payments would be made. We received 44% of the amount due on the main COE contract but between the second half of October and 31 December 2018, we have had no further receipts. The Health programme, where we have been paid, is funded by the Ministry of Health.

We believe that we will be paid in full for all of the outstanding sums and that no bad debt provision is necessary at this stage based on the following reasons:

i. The client has verbally assured us on innumerable occasions that we will be paid and that the issue is purely one of timing.
ii. Moreover, the client has asserted in writing on a number of occasions that we have performed all of our obligations, that the sums are due and that subject to the finalisation of its own funding arrangements, these sums will be paid. We are establishing a fact pattern for each contract to affirm the weight of evidence supporting these assertions.
iii. We have now raised breach notices on all contracts and we have had no responses from the customer which would contest our right to raise the breach notices, or entitlement to payment. If they had, such an action would prejudice our right to 100% of the debt.
iv. Our contracts are reasonably straightforward, we have carried out those contracts and have exercised our rights according to these contracts.
v. It is not uncommon for payments to be made relatively slowly in Saudi Arabia and our experience of COE is that whilst payments have been slow, we have historically been paid.
vi. The COE have continually stated throughout this process that Interserve is a strong strategic partner for the programme and that they will shortly be entering into discussion to extend the current contracts, prior to commencing the process of the recommissioning and expansion of the current programme.
vii. We have robustly documented our position and we believe we are in a strong place if ever we were to have to take our case to a higher authority – the Saudi Crown Prince or the Courts.

In the circumstances, we are firmly of the view therefore that we will be paid in full in due course for all of the sums due and this position is supported by the fact that we have recently received approximately £13 million of cash in part settlement of the outstanding debt.

Accounting for debt restructuring under IFRS 9

On 27 April 2018 the Group re-negotiated its existing credit facilities which consisted of the renewal of existing Revolving Credit Facilities of £388.6 million and $350 million of US Loan Notes and obtaining £175 million of new Term Loans (LIBOR + 8.75%) together with £21.5 million of Money Market lines. These renewals of the RCF and US $ Loan Notes (together, 'the Override Agreement') were at significantly higher rates of interest than previously (LIBOR + 6.43% for RCF vs average of 2.8% in 2017 and LIBOR + 7.61% for the US$ Loan Notes vs average of 5.6% in 2017).

We concluded that the changes in the terms of the Override Agreement constituted a substantial debt modification under IFRS 9 and therefore existing loans were derecognised and new loan balances were recognised. The Override Agreement was concluded at the same time as the Group securing new lending, under the terms of a new 'Super Senior Agreement'. The substantially modified debt was initially recognised at fair value, calculated based on the expected present value of future cash flows, discounted at an effective interest rate reflecting the Group's cost of borrowing. Our view is that the effective rate of interest on the loan was consistent with the market rates existing in April 2018. A total of twenty three different banks participated as a syndicate on the Revolving Credit Facility and five institutions on the US$ bond. A significant proportion of these banks also participated in the Super Senior Agreement, alongside two lenders who had not previously participated in the syndicate. On the basis of these facts, we concluded that this indicates that the interest rates offered were arms-length in nature based on market-based pricing. The impact of these judgements was that there was no significant gain or loss on refinancing under the terms of the Override

Agreement, and that the increased cost of borrowing in the Override Agreement is consistent with the prevailing market rate.

Measurement of impairment of goodwill and intangible assets

The carrying value of goodwill and intangible assets is reviewed for impairment at least annually. In determining whether goodwill is impaired an estimation of the value in use of the cash generating unit (CGU) to which the goodwill has been allocated is required. This calculation of value in use requires estimates to be made relating to the timing and amount of future cash flows expected from the CGU and suitable discount rates based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant CGU. These estimates have been used to calculate a £33.1 million impairment against goodwill in Support Services.

An impairment review of the Group's investments in associates was also carried out at 31 December 2018. We specifically assessed the impact of the current economic blockade in Qatar as a potential indicator of impairment. We have concluded however that the Qatar blockade is of a temporary nature and that therefore no impairment provision is required at 31 December 2018.

Retirement benefit obligations

The Group has assessed that under IFRIC 14 *IAS 19* it is appropriate to recognise a pension asset in the balance sheet at 31 December 2018.

Judgement is exercised in establishing the fair value of retirement benefit assets, most notably the valuation of the buy-in contract to insure some of the benefits of a subset of the pension membership of the scheme provided by the insurer. This requires judgement of the proportion of the buy-in contract that exactly matches the amount and timing of benefits payable and the choice of an appropriate valuation technique in accordance with IFRS 13.

Non-underlying item presentation

IAS 1 requires material items to be disclosed separately in a way that enables users to assess the quality of a company's profitability. In practice, these are commonly referred to as 'exceptional' or 'non-underlying items', but this is not a concept defined by IFRS and therefore there is a level of judgement involved in determining what to include in headline profit. We consider items which relate to non-recurring events and are significant in size or in nature to be suitable for separate presentation (see note 4).

2. Accounting policies

General

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS.

The financial statements are presented in sterling, rounded to the nearest thousand (£'000) unless otherwise stated. They have been prepared under the historical cost convention, except for the revaluation of certain financial instruments that have been measured at fair value.

Basis of preparation

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future. In assessing the going concern assumptions, the Board has reviewed the base case plans, identified downsides and anticipated receipt of proceeds from the proposed Deleveraging Plan. Following this assessment, the Board has a reasonable expectation that the Group will be able to operate as a going concern for the foreseeable future.

In undertaking the assessment, the Board has considered the fact that the Deleveraging Plan is subject to a shareholder vote, an event which is outside of the control of the Group. These events and conditions indicate a material uncertainty on the completion of the Deleveraging Plan, which may cast significant doubt about the Group's ability to continue as a going concern.

The going concern basis has been adopted for 2018 because the directors believe that the Group has realistic plans for the future growth of the business and every expectation of successfully completing the Deleveraging Plan by the end of March 2019. The Board believes that, with the Deleveraging Plan in place, even in a reasonable worst-case scenario, the Group will continue to have adequate financial resources to realise their assets and discharge their liabilities as they fall due. Accordingly, the Directors have formed the judgement that it is appropriate to prepare the financial statements on the going concern basis. Therefore, the financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate.

3. Business and geographical segments

The Group is organised into three operating divisions, as set out below. Information reported to the Executive Board for the purposes of resource allocation and assessment of segment performance is based on the products and services provided.

- **Support Services**: provision of outsourced support services to public- and private-sector clients, both in the UK and internationally.
- **Construction**: design, construction and maintenance of buildings and infrastructure, both in the UK and internationally.
- **Equipment Services**: design, hire and sale of formwork, falsework and associated access equipment.

Costs of central services, including those relating to managing our PFI investments and central bidding activities, are shown in "Group Services".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

Business segments

	Revenue including share of associates and joint ventures		Consolidated revenue		Result	
	Unaudited 2018 £million	Audited 2017 # £million	Unaudited 2018 £million	Audited 2017 # £million	Unaudited 2018 £million	Audited 2017 # £million
Support Services - UK	**1,597.7**	1,642.3	**1,584.3**	1,625.5	**51.4**	39.4
Support Services - International	**172.1**	193.9	**138.0**	142.2	**7.2**	2.8
Support Services	**1,769.8**	1,836.2	**1,722.3**	1,767.7	**58.6**	42.2
Construction - UK	**756.6**	972.8	**756.6**	972.8	**2.2**	(10.3)
Construction - International	**246.6**	290.5	**13.5**	-	**13.3**	19.2
Construction	**1,003.2**	1,263.3	**770.1**	972.8	**15.5**	8.9
Equipment Services	**195.5**	229.0	**195.5**	229.0	**39.6**	54.4
Group Services	**57.9**	92.1	**16.8**	35.0	**(21.0)**	(21.0)
Inter-segment elimination	**(7.2)**	(12.0)	**(7.2)**	(12.0)	**-**	-
	3,019.2	3,408.6	**2,697.5**	2,992.5	**92.7**	84.5
Non-underlying items and amortisation of acquired intangible assets (note 4)	**206.5**	258.3	**206.5**	258.3	**(98.6)**	(309.3)
Revenue/Total operating profit/(loss)	**3,225.7**	3,666.9	**2,904.0**	3,250.8	**(5.9)**	(224.8)
Investment revenue					**3.5**	8.8
Finance costs					**(108.9)**	(28.4)
Profit/(loss) before tax					**(111.3)**	(244.4)
Tax					**(17.6)**	(10.0)
Profit/(loss) for the year					**(128.9)**	(254.4)

- restated (note 15)

	Segment assets		Segment liabilities		Net assets/ (liabilities)	
	Unaudited 2018 £million	Audited 2017 £million	Unaudited 2018 £million	Audited 2017 £million	Unaudited 2018 £million	Audited 2017 £million
Support Services - UK	**422.2**	423.1	**(362.6)**	(382.8)	**59.6**	40.3
Support Services - International	**107.7**	109.4	**(46.0)**	(51.4)	**61.7**	58.0
Support Services	**529.9**	532.5	**(408.6)**	(434.2)	**121.3**	98.3
Construction - UK	**209.1**	231.5	**(248.7)**	(350.4)	**(39.6)**	(118.9)
Construction - International	**62.9**	55.9	**-**	-	**62.9**	55.9
Construction	**272.0**	287.4	**(248.7)**	(350.4)	**23.3**	(63.0)
Equipment Services	**264.0**	255.1	**(41.1)**	(56.2)	**222.9**	198.9
	1,065.9	1,075.0	**(698.4)**	(840.8)	**367.5**	234.2
Group Services, goodwill and acquired intangible assets	**411.0**	484.0	**(163.3)**	(168.3)	**247.7**	315.7
	1,476.9	1,559.0	**(861.7)**	(1,009.1)	**615.2**	549.9
Net debt					**(631.2)**	(502.6)
Net assets (excluding non-controlling interests)					**(16.0)**	47.3

Notes to the Consolidated Financial Statements – continued
For year ended 31 December 2018

	Depreciation and amortisation		Additions to property, plant and equipment and intangible assets	
	Unaudited 2018 £million	Audited 2017 £million	Unaudited 2018 £million	Audited 2017 £million
Support Services - UK	18.0	13.5	13.9	23.3
Support Services – International	2.9	3.9	1.1	1.1
Support Services	20.9	17.4	15.0	24.4
Construction – UK	2.5	3.0	0.4	0.7
Construction – International	-	-	-	-
Construction	2.5	3.0	0.4	0.7
Equipment Services	17.7	17.6	21.3	16.3
	41.1	38.0	36.7	41.4
Group Services	19.4	24.7	3.2	15.7
	60.5	62.7	39.9	57.1

Geographical segments

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

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Revenue including share of associates and joint ventures		Consolidated Revenue		Total operating profit	
	Unaudited 2018 £million	Audited 2017 # £million	Unaudited 2018 £million	Audited 2017 # £million	Unaudited 2018 £million	Audited 2017 # £million
United Kingdom	2,270.8	2,552.1	2,257.4	2,535.3	59.5	37.0
Rest of Europe	77.0	63.4	77.0	63.4	3.1	2.7
Middle East and Africa	540.9	627.5	273.7	285.3	41.5	52.7
Australasia	31.3	31.1	31.3	31.1	7.5	6.3
Far East	12.2	16.8	12.2	16.8	(0.3)	4.6
Americas	36.3	37.6	36.3	37.6	2.4	2.2
Group Services	57.9	92.1	16.8	35.0	(21.0)	(21.0)
Inter-segment elimination	(7.2)	(12.0)	(7.2)	(12.0)	-	-
	3,019.2	3,408.6	2,697.5	2,992.5	92.7	84.5
Non-underlying items and amortisation of acquired intangible assets (note 4)	206.5	258.3	206.5	258.3	(98.6)	(309.3)
	3,225.7	3,666.9	2,904.0	3,250.8	(5.9)	(224.8)

	Non-current assets	
	Unaudited 2018 £million	Audited 2017 £million
United Kingdom	95.7	137.9
Rest of Europe	9.6	6.1
Middle East and Africa	190.9	177.7
Australasia	15.4	16.4
Far East	10.3	13.3
Americas	33.6	30.8
Group Services, goodwill and acquired intangible assets	349.1	398.7
	704.6	780.9
Retirement benefit surplus	93.9	-
Deferred tax asset	1.3	23.4
	799.8	804.3

- restated (note 15)

Disaggregated revenue

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

The Group's consolidated revenue disaggregated by major service lines is as follows:

	Support Services UK	Support Services International	Construction UK	Construction International	Equipment Services	Group services/ Other	Total
	Unaudited 2018 £million	Unaudited 2018 £million	Unaudited 2018 £million	Unaudited 2018 £million	Unaudited 2018 £million	Unaudited 2018 £million	Unaudited 2018 £million
Facilities management	1,692.9	138.0	13.1	-	-	14.9	1,858.9
Construction	2.6	-	819.7	13.5	-	(5.2)	830.6
Equipment sales	-	-	-	-	56.3	-	56.3
Equipment rentals	19.1	-	-	-	139.2	(0.1)	158.2
	1,714.6	138.0	832.8	13.5	195.5	9.6	2,904.0

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

	Support Services UK	Support Services International	Construction UK	Construction International	Equipment Services	Group services/ Other	Total
	Unaudited 2018 £million	Unaudited 2018 £million	Unaudited 2018 £million	Unaudited 2018 £million	Unaudited 2018 £million	Unaudited 2018 £million	Unaudited 2018 £million
United Kingdom	1,599.8	-	832.8	-	31.3	9.6	2,473.5
Rest of Europe	71.7	-	-	-	5.3	-	77.0
Middle East and Africa	43.1	138.0	-	13.5	79.1	-	273.7
Australasia	-	-	-	-	31.3	-	31.3
Far East	-	-	-	-	12.2	-	12.2
Americas	-	-	-	-	36.3	-	36.3
	1,714.6	138.0	832.8	13.5	195.5	9.6	2,904.0

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

	Support Services UK	Support Services International	Construction UK	Construction International	Equipment Services	Group services/ Other	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	2018	2018	2018	2018	2018	2018	2018
	£million	£million	£million	£million	£million	£million	£million
Single service with fixed monthly fee subject to non-performance deductions	374.8	-	-	-	-	-	374.8
Bundled services with fixed monthly fee subject to non-performance deductions	1,196.6	3.5	-	-	-	(1.9)	1,198.2
Construction services over time	-	134.5	832.8	13.5	-	(5.2)	975.6
Equipment rental for a period of time	-	-	-	-	139.2	(0.1)	139.1
Goods and services transferred over time	1,571.4	138.0	832.8	13.5	139.2	(7.2)	2,687.7
Service at schedule of rates (hours or tasks)	143.2	-	-	-	-	16.8	160.0
Equipment sales at a point in time	-	-	-	-	56.3	-	56.3
Goods and services transferred at a point in time	143.2	-	-	-	56.3	16.8	216.3
Total	1,714.6	138.0	832.8	13.5	195.5	9.6	2,904.0

4. Non-underlying items and amortisation of acquired intangible assets

	Unaudited 2018												
	Exited businesses[1]												
	Energy from waste	Strategic review of Equipment Services	Property development	London Construction	Other (Site Services/Power)	Restructuring costs	Professional adviser fees	Contract Review	Asset impairments/ disposal of Industrial	Pension indexation	Foreign exchange gain/(loss) on retranslation of loan notes	Amortisation of acquired intangible assets	Total
	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million
Consolidated revenue	32.5	-	-	27.2	19.5	-	-	127.3	-	-	-	-	206.5
Cost of sales	(45.1)	-	-	(50.0)	(23.7)	(4.9)	-	(118.8)	-	-	-	-	(242.5)
Gross profit/(loss)	(12.6)	-	-	(22.8)	(4.2)	(4.9)	-	8.5	-	-	-	-	(36.0)
Administration expenses	-	-	-	(2.0)	(2.5)	(15.1)	(43.0)	(13.7)	(22.1)	70.6	-	-	(27.8)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	-	(18.7)	(18.7)
Impairment of goodwill	-	-	-	-	-	-	-	-	(33.1)	-	-	-	(33.1)
Total administration expenses	-	-	-	(2.0)	(2.5)	(15.1)	(43.0)	(13.7)	(55.2)	70.6	-	(18.7)	(79.6)
Operating profit/(loss)	(12.6)	-	-	(24.8)	(6.7)	(20.0)	(43.0)	(5.2)	(55.2)	70.6	-	(18.7)	(115.6)
Share of results of associates and joint ventures	-	-	17.0	-	-	-	-	-	-	-	-	-	17.0
Amortisation of acquired intangible assets of associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating profit/(loss)	(12.6)	-	17.0	(24.8)	(6.7)	(20.0)	(43.0)	(5.2)	(55.2)	70.6	-	(18.7)	(98.6)
Net finance costs	-	-	-	-	-	-	-	-	-	-	(26.4)	-	(26.4)
Total profit/(loss)	(12.6)	-	17.0	(24.8)	(6.7)	(20.0)	(43.0)	(5.2)	(55.2)	70.6	(26.4)	(18.7)	(125.0)
Tax on non-underlying items													
Prior period adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	(12.0)	-	-	(12.0)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	-	3.1	3.1
Tax on non-underlying items	-	-	-	-	-	-	-	-	-	(12.0)	-	3.1	(8.9)
Profit/(loss) after taxation	(12.6)	-	17.0	(24.8)	(6.7)	(20.0)	(43.0)	(5.2)	(55.2)	58.6	(26.4)	(15.6)	(133.9)

[1] The construction of Energy from Waste facilities, where there was contractual responsibility taken for process risk, and business streams exited as a result of the strategic review of Equipment Services and the decision to exit Property Development, and the Power and Site Services businesses, along with directly associated costs, are considered to be Exited Businesses. Exited Businesses are presented as non-underlying items and are excluded from the calculation of headline earnings per share (reflecting their material and non-recurring nature). The Exited Businesses do not meet the definition of discontinued operations as stipulated by IFRS 5 Non-current assets held for sale and discontinued operations because the business has not been disposed of and there are no assets classified as held for sale. Accordingly the disclosures within non-underlying items differ from those applicable for discontinued operations.

Non-underlying items and amortisation of acquired intangible assets (continued)

	Audited 2017 #												
	Exited businesses[1]												
	Energy from waste	Strategic review of Equipment Services	Property development	London Construction	Other (Site Services/Power)	Restructuring costs	Professional adviser fees	Contract Review	Asset impairments/ disposal of Industrial	Pension Indexation	Foreign exchange gain/(loss) on retranslation of loan notes	Amortisation of acquired intangible assets	Total
	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million	£million
Consolidated revenue	48.6	4.5	-	50.3	40.6	-	-	114.3	-	-	-	-	258.3
Cost of sales	(81.6)	(7.2)	-	(56.6)	(36.3)	(0.4)	-	(186.6)	-	-	-	-	(368.7)
Gross profit/(loss)	(33.0)	(2.7)	-	(6.3)	4.3	(0.4)	-	(72.3)	-	-	-	-	(110.4)
Administration expenses	(2.1)	(4.4)	-	(4.0)	(3.6)	(32.8)	(13.9)	(9.2)	(16.7)	-	-	-	(86.7)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	-	(21.5)	(21.5)
Impairment of goodwill	-	-	-	-	-	-	-	-	(60.0)	-	-	-	(60.0)
Total administration expenses	(2.1)	(4.4)	-	(4.0)	(3.6)	(32.8)	(13.9)	(9.2)	(76.7)	-	-	(21.5)	(168.2)
Operating profit/(loss)	(35.1)	(7.1)	-	(10.3)	0.7	(33.2)	(13.9)	(81.5)	(76.7)	-	-	(21.5)	(278.6)
Share of results of associates and joint ventures	-	-	(26.0)	-	-	-	-	(4.6)	-	-	-	-	(30.6)
Amortisation of acquired intangible assets of associates	-	-	-	-	-	-	-	-	-	-	-	(0.1)	(0.1)
Total operating profit/(loss)	(35.1)	(7.1)	(26.0)	(10.3)	0.7	(33.2)	(13.9)	(86.1)	(76.7)	-	-	(21.6)	(309.3)
Net finance costs	-	-	-		-	-	-	-	-	-	2.9	-	2.9
Total profit/(loss)	(35.1)	(7.1)	(26.0)	(10.3)	0.7	(33.2)	(13.9)	(86.1)	(76.7)	-	2.9	(21.6)	(306.4)
Tax on non-underlying items													
Prior period adjustments	-	-	-	-	-	-	-	-	(5.5)	-	-	-	(5.5)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	-	3.6	3.6
Tax on non-underlying items	-	-	-	-	-	-	-	-	(5.5)	-	-	3.6	(1.9)
Profit/(loss) after taxation	(35.1)	(7.1)	(26.0)	(10.3)	0.7	(33.2)	(13.9)	(86.1)	(82.2)	-	2.9	(18.0)	(308.3)

[1]) The construction of Energy from Waste facilities, where there was contractual responsibility taken for process risk, and business streams exited as a result of the strategic review of Equipment Services and the decision to exit Property Development, and the Power and Site Services businesses, along with directly associated costs, are considered to be Exited Businesses. Exited Businesses are presented as non-underlying items and are excluded from the calculation of headline earnings per share (reflecting their material and non-recurring nature). The Exited Businesses do not meet the definition of discontinued operations as stipulated by IFRS 5 Non-current assets held for sale and discontinued operations because the business has not been disposed of and there are no assets classified as held for sale. Accordingly the disclosures within non-underlying items differ from those applicable for discontinued operations.

- restated (note 15)

Non-underlying items and amortisation of acquired intangible assets (continued)

Exit from Energy from Waste

During 2018 a further £12.6 million of further losses have been recognised on these contracts taking the cumulative 2015 to 2018 losses to £229.2 million. During 2018 £35 million of insurance proceeds were received in respect of Energy from Waste projects.

During 2017 a further £35.1 million of losses were recognised on these contracts which reflected costs incurred to date, estimated costs to complete and damages which took the cumulative losses on these projects to £216.6 million.

Strategic review of Equipment Services

Further closure costs of £7.1 million resulting from the strategic review of Equipment Services and the decision to exit a number of smaller less attractive businesses were incurred in 2017 bringing total costs to just over £17.0 million that was announced at the time of the review.

Property development

During 2017, as part of review of assets held, we took the decision to exit the business of Property Development. As a result of that decision and a review of the carrying value of property assets held, it became necessary to impair those carrying values by £26.0 million to bring them in line with their estimated net recoverable amounts.

As announced with the 2017 year end results, we took the decision at the end of last year to exit from the business of Property Development and during 2018 we have sold our one remaining development asset (the Haymarket site in Edinburgh) for net proceeds of £47 million and realised a non-underlying profit of £17.0 million.

London Construction

We took the decision during the year to exit from activities in the London construction market. We will continue to offer fit out but not building projects in the London region. Costs associated with this exit and anticipated losses on the close out of contracts within this business resulted in losses of £24.8 million (2017: £10.3 million).

Exit from Site Services and Power businesses

We took the decision during the year to exit from the Power business in Support Services and the Site Services business in Construction at a cost of £4.2 million and £2.5 million respectively.

Restructuring costs

The Group has embarked on a 3 year plan, "Fit For Growth", to increase the Group's organisational efficiency, improve Group-wide procurement and ensure greater standardisation and simplification across the business. During the year the Group incurred termination costs in respect of former directors and employees, property rationalisation expenses and other business closure costs of £20.0 million (2017: £33.2 million).

Professional adviser fees

Professional fees incurred during 2018 in connection with our strategic review and short term re-financing totalled £43.0 million (2017: £13.9 million).

Contract Review

As previously disclosed, the new management team commissioned a comprehensive contract and balance sheet review with the independent support of PWC in the latter part of 2017. The Contract review identified provisions and write-downs relating to 18 individual contract issues. Of these, two contracts were regarded as neither operationally or financially complete. Revenues and costs in respect of these two contracts have been separately identified and disclosed above in 2018, to ensure consistency of presentation. This resulted in 2017 £86.1 million of non-underlying charges in respect of balance sheet write-downs and onerous contracts. Within this amount eighteen individual contracts were subject to £42.4 million of balance sheet write-downs principally in relation to work-in-progress and receivables beyond existing provisions and impairment charges, and £43.7 million was provided in respect of loss-making onerous contracts. During 2018 a further net amount of £5.2 million of provision was made against these contracts.

Asset impairments/disposal of Industrial

At 31 December 2018 goodwill and intangible assets in the Support Services segment were impaired by £33.1 million (2017: £60.0 million).

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

During 2017, capitalised IT development costs of £16.7 million were written off, as well as £5.5 million of deferred tax assets.

Pension indexation

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

Foreign exchange (loss)/gain on retranslation of loan notes

Non-underlying finance costs of £26.4 million (2017: £2.9 million gain) represent the impact of the retranslation of $350 million US Private Placement Notes to current exchange rates following the termination of exchange rate swaps in 2017, as well as the loss previously recognised in equity on the swaps being recycled to the income statement over the remaining life of the originally hedged instruments. Following the refinancing of the US loan notes on 27 April 2018, which represents a substantial debt modification under IFRS9, the outstanding amount at that date of £9.8 million was recycled to the income statement.

Restatement of prior year non-underlying items

The 2017 restatement of non-underlying items relates to £10.3m of costs of a decision made to exit from the London construction market during the first half of 2018 and in the second half of 2018 £0.5m of Power business closure costs in Support Services and a £1.2 million credit in respect of the Site Services business closure in the Construction division.

5. Investment revenue

	Unaudited 2018 £million	Audited 2017 £million
Bank interest	**1.5**	3.0
Interest income from joint-venture investments	**1.1**	2.2
Net return on defined benefit pension assets (note 11)	**0.4**	-
Foreign exchange gain on US private placement loan	**-**	2.9
Other interest	**0.5**	0.7
	3.5	8.8

6. Finance costs

	Unaudited 2018 £million	Audited 2017 £million
Borrowings and overdrafts	**(82.5)**	(27.3)
Net interest cost on pension obligation (note 11)	**-**	(1.1)
Foreign exchange loss on US private placement loan and recycling of hedging reserve (note 4)	**(26.4)**	-
	(108.9)	(28.4)

The borrowings and overdrafts costs includes £3.4 million (2017: £1.6 million) relating to loan facility expenses.

The foreign exchange gain/loss on US private placement loan, representing the impact of the retranslation of $350 million US Private Placement Notes to current exchange rates following the termination of exchange rate swaps in 2017, also includes the loss previously recognised in equity on the swaps being recycled to the income statement over the remaining life of the originally hedged instruments. Following the refinancing of the US loan notes on 27 April 2018, which represents a debt modification under IFRS9, the outstanding amount at that date of £9.8 million was fully written off.

7. Tax

	Unaudited 2018 £million	Audited 2017 £million
Current tax - UK	**2.2**	**5.8**
Current tax - overseas	**5.5**	**6.9**
Deferred tax	**9.9**	**(2.7)**
Tax charge for the year	**17.6**	**10.0**

	Unaudited 2018 £million	Audited 2017 £million
Tax charge before prior period adjustments	**16.4**	**2.9**
Prior period adjustments – charges/(credits)	**1.2**	**7.1**
	17.6	**10.0**

	Unaudited 2018			Audited 2017		
	Profit £million	Tax £million	Effective rate %	Profit £million	Tax £million	Effective rate %
Subsidiary undertakings' profit before tax, excluding one-offs	**(3.6)**	**8.7**	0.0%	**36.5**	**8.1**	22.2%
Group share of profit after tax of associates and joint ventures	**17.3**	**-**	-	**25.5**	**-**	-
	13.7	**8.7**	63.5%	**62.0**	**8.1**	13.1%
Other non-underlying items	**(73.2)**	**12.0**	(16.4%)	**(224.8)**	**5.5**	(2.4%)
Goodwill impairment	**(33.1)**	**-**	-	**(60.0)**	**-**	-
Amortisation	**(18.7)**	**(3.1)**	16.6%	**(21.6)**	**(3.6)**	16.7%
Profit/(loss) before tax	**(111.3)**	**17.6**	(15.8%)	**(244.4)**	**10.0**	(4.1%)

UK corporation tax is calculated at 19% (2017: 19.25%) of the estimated taxable profit for the year. 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:

	Unaudited 2018		Audited 2017	
	£million	%	£million	%
Loss before tax	**(111.3)**		**(244.4)**	
Tax at the UK income tax rate of 19% (2017: 19.25%)	**(21.1)**	19.0%	**(47.0)**	19.2%
Tax effect of expenses not deductible in determining taxable profit	**9.8**	(8.8%)	**18.2**	(7.4%)
Current-year losses for which no deferred tax asset is recognised	**38.1**	(34.2%)	**33.4**	(13.7%)
Tax effect of share of results of associates	**(3.0)**	2.7%	**1.0**	(0.4%)
Effect of tax rates in foreign jurisdictions	**(6.1)**	5.5%	**(3.4)**	1.4%
Effect of change in rate of deferred tax	**(1.3)**	1.2%	**0.7**	(0.3%)
Prior period adjustments	**1.2**	(1.1%)	**7.1**	(2.9%)
Tax charge and effective tax rate for the year	**17.6**	(15.8%)	**10.0**	(4.1%)

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

	Unaudited 2018 £million	Audited 2017 £million
Tax on actuarial gains/(losses) on pension liability	**9.2**	**(1.8)**
Tax on movements in cash flow hedging instruments	**-**	**(4.0)**
Tax on exchange movements on hedged financial instruments	**1.8**	**3.8**
Tax on the intrinsic value of share-based payments	**-**	**-**
	11.0	**(2.0)**

Notes to the Consolidated Financial Statements – continued

For the year ended 31 December 2018

8. Dividends

There were no dividends paid in the current year or the prior year. There is no proposed dividend in respect of 2018.

9. Earnings per share

Calculation of earnings per share is based on the following data:

	Unaudited 2018 £million	Audited 2017 # £million
Earnings		
Net profit attributable to equity holders of the parent (for basic and diluted basic earnings per share)	(132.2)	(256.4)
Adjustments:		
Non-underlying items and amortisation of acquired intangible assets (note 4)	133.9	308.3
Headline earnings (for headline and diluted headline earnings per share)	1.7	51.9

Number of shares

	Unaudited 2018 Number	Audited 2017 Number
Weighted average number of ordinary shares for the purposes of basic and headline earnings per share	148,227,359	145,714,120
Effect of dilutive potential ordinary shares:		
Share options and awards[1]	33,839,453	6,781,433
Weighted average number of ordinary shares for the purposes of diluted basic[1] and diluted headline earnings per share	182,066,812	152,495,553

Earnings per share	Unaudited 2018 Pence	Audited 2017 # Pence
Basic earnings per share	(89.2)	(176.0)
Diluted basic earnings per share	(89.2)	(176.0)
Headline earnings per share	1.1	35.6
Diluted headline earnings per share	0.9	34.0

[1] Due to basic earnings per share being a loss in 2017 and 2018 these adjustments are anti-dilutive and are therefore ignored in calculating diluted basic earnings per share for 2017 and 2018.

- restated (note 15)

10. Provisions

	Contract rectification provisions £million	Onerous contracts £million	Insurance claims £million	Restructuring costs £million	Property costs £million	End of service benefits £million	Total £million
At 1 January 2017 (Audited)	24.9	3.9	21.9	5.7	2.8	5.5	64.7
Additional provision in the year	9.3	37.9	13.4	8.6	16.4	1.4	87.0
Release of provision	(8.0)	-	-	-	-	-	(8.0)
Utilisation of provision	(4.3)	(3.4)	(3.9)	(0.7)	(0.3)	-	(12.6)
Exchange differences	-	-	-	(0.3)	-	(0.6)	(0.9)
At 31 December 2017 (Audited)	21.9	38.4	31.4	13.3	18.9	6.3	130.2
Additional provision in the year	8.0	13.7	6.5	4.6	4.2	0.2	37.2
Disposals	-	-	-	-	(0.2)	-	(0.2)
Reclassification against receivables	-	(11.4)	-	-	-	-	(11.4)
Release of provision	(8.6)	(9.8)	(1.8)	(3.6)	(4.9)	-	(28.7)
Utilisation of provision	(3.9)	(25.8)	(3.3)	(3.4)	(2.4)	0.1	(38.7)
Exchange differences	-	-	-	-	-	0.3	0.3
At 31 December 2018 (Unaudited)	17.4	5.1	32.8	10.9	15.6	6.9	88.7

	Unaudited 31 December 2018 £million	Audited 31 December 2017 £million
Included in current liabilities	29.3	50.2
Included in non-current liabilities	59.4	80.0
	88.7	130.2

The impact of discounting is not material.

Contract rectification provisions include costs of construction site clearance, remedial costs required to meet clients contractual terms and potential claims under contract warranties. The main contracts to which these provisions relate are Derby and Glasgow EfW plants (see critical accounting judgments note 1) and DNRC Defence Establishment Maintenance.

Onerous contract provisions are made where the forecast costs of completing a contract exceed the forecast income generated over the life of the project. The main contract to which these provisions relate are US Forces Prime.

Insurance claim provisions mainly represent self insurance via the Group's captive insurance company of part of the Group's potential exposures to employers liability risks and professional indemnity claims which amount to £13 million at 31 December 2018 (2017: £13 million). These insurance provisions also include public liability excess self insurance which is not covered by the captive insurance company amounting to £20 million at 31 December 2018 (2017: £17 million).

Restructuring cost provisions largely relate to employee termination and property closure costs that form part of the Group's Fit for Growth cost optimisation programme (see note 4 non-underlying items).

Property cost provisions include costs in relation to remaining onerous office lease terms and dilapidation costs in respect of exited properties in particular the Intersection House, George Road and Redditch offices.

End of service benefits provisions relate to amounts provided in the Middle East region under the requirements of local labour laws to settle staff gratuity payments at the end of their contract of employment.

11. Retirement benefit schemes

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

	Unaudited 2018	Audited 2017
Significant actuarial assumptions		
Retail price inflation (pa)	**3.2%**	3.2%
Discount rate (pa)	**3.0%**	2.5%
Post-retirement mortality (life expectancy in years)		
Male currently aged 65	**86.3**	87.7
Female currently aged 65	**88.3**	89.6
Male aged 65 in 20 years' time	**87.3**	89.5
Female aged 65 in 20 years' time	**89.5**	91.0
Other related actuarial assumptions		
Consumer price index (pa)	**2.1%**	2.2%
Pension increases in payment (pa):		
RPI	**3.2%**	3.2%
RPI (minimum 0%, maximum 5%)	**3.1%**	3.1%
RPI (minimum 3%, maximum 5%)	**3.7%**	3.7%
CPI	**2.1%**	2.2%
CPI (minimum 0%, maximum 5%)	**2.1%**	2.2%
CPI (minimum 3%, maximum 5%)	**3.2%**	n/a
Fixed 5%	**5.0%**	5.0%
General salary increases (pa)	**2.6%**	2.7%

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

	Unaudited 2018 £million	Audited 2017 £million
Present value of defined benefit obligation	**844.8**	1,064.1
Fair value of schemes' assets	**(938.7)**	(1,016.1)
(Asset)/liability recognised in the balance sheet	**(93.9)**	48.0

The amounts recognised in the income statement are as follows:

	Unaudited 2018 £million	Audited 2017 £million
Employer's part of current service cost	**3.4**	5.2
Net interest (income)/expense on the net pension liability/(asset)	**(0.4)**	1.1
Administration expenses	**2.3**	1.6
Past service cost/(credit)	**(70.6)**	-
Total (income)/expense recognised in the income statement	**(65.3)**	7.9

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

12. Share capital

	Shares thousands	Share capital £million
Audited as at 1 January 2017	**145,714.1**	**14.6**
Share awards issued in 2017	-	-
Audited at 31 December 2017	**145,714.1**	**14.6**
Exercised warrants	4,005.8	0.4
Share awards issued in 2018	-	-
Unaudited at 31 December 2018	**149,719.9**	**15.0**

Following approval by shareholders at the AGM on 12 June 2018, our issued share capital of 149,719,938 ordinary 10p shares has been sub-divided into 149,719,938 ordinary shares of 0.1p and 149,719,938 deferred shares of 9.9p.

This sub-division was required to enable the exercise price of the share warrants to be reduced to less than 10p if necessary as a result of certain dilutive events. The economic and voting rights of the ordinary shares remain the same. The deferred shares have no value (economic or otherwise) and have been created to enable the Company to reduce the nominal value of the ordinary shares without going through a process that would require the approval of the Court. The deferred shares were issued to all persons on the Company's register of members as at 12 June 2018 on the basis of one deferred share of 9.9p for each ordinary share held. The deferred shares are not transferable, do not carry any voting or dividend rights and are not expected to have any economic value.

Warrants

As disclosed in our 2017 annual report, the Company issued 36,428,530 warrants during the period, for consideration of £35.3 million taken in the form of a discount adjustment to recognise the fair value of the debt issued, to the providers of the new term loan and bonding facilities to buy ordinary shares at 10 pence per share. The warrants are exercisable from the date of issue through the duration of the funding arrangements for which they were consideration (potentially up to September 2021). 4,005,818 of these warrants were exercised during the period for cash consideration of £0.4 million and the equivalent number of new shares issued to the holders.

13. Related parties

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 in to the following transactions with related parties who are not members of the Group:

	Sales of goods and services		Purchases of goods and services		Amounts due from related parties		Amounts owed to related parties	
	Unaudited 2018 £million	Audited 2017 £million	**Unaudited 2018 £million**	Audited 2017 £million	**Unaudited 2018 £million**	Audited 2017 £million	**Unaudited 2018 £million**	Audited 2017 £million
Joint-venture entities	**3.7**	**43.7**	**-**	-	**5.3**	**14.5**	**-**	-
Associates	**3.1**	**7.6**	**13.2**	**2.2**	**4.1**	**4.8**	**5.1**	**0.7**

Sales and purchases of goods and services to related parties were made on normal trading terms.

The amounts outstanding shown in the above table are unsecured and will be settled in cash. No guarantees have been given or received in respect of the outstanding balances. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

14. 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 to the Group's share of the contractual obligations of certain joint ventures and associated undertakings. The Group acts as guarantor for the following:

	Maximum guarantee		Amounts utilised	
	Unaudited 2018 £million	Audited 2017 £million	Unaudited 2018 £million	Audited 2017 £million
Joint ventures and associates				
Borrowings	20.9	18.9	0.8	1.7
Bonds and guarantees	246.0	226.0	131.1	138.3
	266.9	244.9	131.9	140.0

15. Restatement of comparatives

Certain items treated as non-underlying in the year ended 31 December 2018 financial statements have been restated for 2017 comparison purposes, and they relate to businesses exited in the current year, including London Construction, Site Services and Power. This has reduced underlying revenues in 2017 by £90.9 million and increased underlying operating profit by £9.6 million, with an equal and opposite impact on non-underlying revenue and operating profits.

16. Events after the balance sheet date

On 6 February 2019, Interserve announced a proposed Deleveraging Plan, which the Directors believe will provide the Group with sufficient liquidity to service its short-term cash obligations, create a strong balance sheet and a fundamentally solid foundation from which the Group can improve its business and deliver on its long-term strategy.

The Deleveraging Plan is a consensual restructuring of Interserve, which is urgently required to avoid a default in the Existing Financing Arrangements and to provide sufficient liquidity, cash and bonding facilities to allow the Group to service short term obligations and secure a stable platform. Such a default, were it to occur, would be expected to have material adverse consequences for stakeholders and, in particular, for existing shareholders.

The Deleveraging Plan preserves fully the pre-emption rights of existing shareholders. If they take up their entitlements in the equity raise their ownership will not be diluted and they will participate on the same terms as lenders

The Deleveraging Plan will be subject to approval by Interserve's shareholders.

17. Reconciliation of non-statutory measures

The Group uses a number of non-statutory measures to monitor the performance of its business. This note reconciles these measures to individual lines in the financial statements.

(a) Headline pre-tax profit	Unaudited 2018 £million	Audited 2017 £million
Loss before tax	(111.3)	(244.4)
Adjusted for:		
Amortisation of acquired intangible assets	18.7	21.5
Share of associates amortisation of acquired intangible assets	-	0.1
Non-underlying items - exited business - Energy from Waste	12.6	35.1
Non-underlying items - exited business - strategic review of Equipment Services	-	7.1
Non-underlying items - exited business - property development	(17.0)	26.0
Non-underlying items - exited business - London construction	24.8	10.3
Non-underlying items - exited business - other	6.7	(0.7)
Non-underlying items - restructuring costs	20.0	33.2
Non-underlying items - professional adviser fees	43.0	13.9
Non-underlying items - contract review	5.2	86.1
Non-underlying items – goodwill impairment	33.1	60.0
Non-underlying items – other asset impairments and disposal of Industrial	22.1	16.7
Non-underlying items - pension indexation	(70.6)	-
Non-underlying items - exchange gain/loss on retranslation of loan notes	26.4	(2.9)
Headline profit before tax	13.7	62.0

(b) Gross revenue	Unaudited 2018 £million	Audited 2017 £million
Consolidated revenue	2,904.0	3,250.8
Share of revenues of associates and joint ventures	321.7	416.1
Gross revenue	3,225.7	3,666.9

(c) Net debt		Unaudited 2018 £million	Audited 2017 £million
Cash and deposits	A	196.7	155.1
Bank overdrafts		-	(6.8)
Bank loans		(508.5)	(388.6)
Capitalised PIK interest		(24.7)	-
USD loans		(22.0)	-
US Private Placement Loans		(272.3)	(258.9)
		(827.5)	(654.3)
Finance leases		(0.4)	(3.4)
Total borrowings	B	(827.9)	(657.7)
Per balance sheet	A+B	(631.2)	(502.6)