News Release

07 August 2018

INTERSERVE PLC

HALF-YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

RECOVERY PLAN ON TRACK

RESULTS IN-LINE WITH MANAGEMENT EXPECTATIONS, OUTLOOK MAINTAINED

	H1 2018	**H1 2017***
Revenue	£1,488.3m	£1,647.7m
Headline total operating profit**	£40.1m	£56.6m
Headline profit before tax**	£9.0m	£47.0m
Profit / (Loss) before tax	(£6.0)m	£24.9m
Basic earnings per share	(12.4)p	14.8p
Headline earnings per share**	4.6p	28.7p

Robust financial performance

- Significant operating profit improvement vs. second half of 2017, up £11.5 million to £40.1 million

- Fit for Growth programme on target to deliver £15 million savings in 2018 with £8 million secured in the first half; significant activity ongoing to achieve £40-50 million annualised savings by 2020

- Completed refinancing providing financial stability for the Group and new facilities through to 2021 to enable delivery of the Group's business plan

- Agreed sale of Haymarket development in Edinburgh for £49.1 million, completing exit of property development business and enabling greater focus on core activities

- June 2018 net debt before recognition of deferred financing costs relating to the warrant issuance of £645.8 million, in line with expectations. Reported net debt of £614.3 million, net of £31.5 million of deferred financing costs.

Good operational progress and strategic momentum

- Lost time injury frequency rate improvement from 1.3 at December 2017 to 1.1 at June 2018.

- Future workload of £7.4 billion (2017 year-end: £7.6bn) with significant recent contract wins, including AENA (£37 million), King George Hospital (£35 million), Ministry of Justice (£25 million), Foreign and Commonwealth Office (£67 million) and Durham University (£78 million)

- Continued to derisk UK construction with the completion and close out of older contracts while rebasing the business for the future

- Successful large-scale mobilisations launched for Department for Work and Pensions (3000 employees, 800 sites) and Department for Transport (1000 employees, 1147 sites)

- Equipment services revenue lower as major infrastructure projects in the UK not repeated in 2018 and impact of Qatar embargo. Order levels starting to improve as we enter the second half

- Exited Energy from Waste business: progress in line with our expectations on the resolution of our EfW projects. Although risks to the programme still remain we are focused on the completion and commissioning of all sites in the second half.

Chief Executive Officer, Debbie White commented:

“The first half of 2018 was an important period for Interserve as the new management team took actions to bring stability to the business and agree the direction of the Group’s future strategy. The ‘Fit for Growth’ initiatives we are implementing are delivering material cost savings and will result in a simpler, more focused and more effective Interserve. The refinancing that we completed in April provides a firmer financial footing from which to execute these plans.

Today we have a strategy that provides a clear direction, leveraging our areas of strength, where Interserve can provide compelling customer propositions, delivered with rigorous operational and financial discipline. Whilst there remains a significant amount of work to do, we have energy and momentum in the business as evidenced by the significant new contracts wins secured in the first half of the year.

First-half trading performance was in line with our expectations. We continue to make progress on the resolution of our EfW projects, although risks to the programme still remain. We believe that the benefit of the actions taken in the first half underpin our unchanged full-year expectations, as we make further progress with the implementation of the Group’s strategy and the Fit for Growth transformation programme.”

– Ends –

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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 gross revenues of £3.7 billion and a workforce of circa 75,000 people worldwide.
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**As set out in the statutory accounts for the year ended 31 December 2017, the 2017 results included various adjustments arising from a comprehensive Contract Review. In the main these adjustments related to contracts that were substantially complete at the end of 2016 but where additional information has come to lights since the 2016 financial statements were signed. The Contract Review also identified the need for additional provisions in respect of loss making or onerous contracts. The impact of the Contract Reviews and the results of businesses classified as "Exited" are presented as non-underlying items (see notes 4) and are excluded from the calculation of headline earnings per share (see note 7). The presentation of comparative information for the first half of 2017 has been restated to be consistent with this presentation. There is no impact on comparative net assets or statutory profit before taxation.*

***This news release includes a number of non-statutory measures to reflect the impact of non-trading and non-recurring items. Use of these non-statutory measures is considered to better reflect the underlying trading of the business. See note 11 to the condensed consolidated financial statements for a reconciliation of these measures to their statutory equivalents.*

MAJOR CONTRACT AWARDS IN 2018

Contract/Client	Business Unit
BAE Systems	Construction
CMC Hospital (Abu Dhabi)	Construction
Crowne Plaza Muscat	Construction
Dubai Mall	Construction
Earthworks (GRS/Acciona/Ghella)	Construction
Gatwick Airport	Construction
Highways England	Construction
Hyundai Sewage Treatment Plant	Construction
Jumeirah Beach Hotel	Construction
Leader Sports Mall	Construction
Liverpool Women’s NHS Foundation Trust	Construction
Northumbrian Water	Construction
Scientechnic Showrooms	Construction
AENA	Support Services
ALSA	Support Services
Barcelo Viajes	Support Services
BT	Support Services
Carrefour	Support Services
Castle Gate Shopping Centre	Support Services
Colleges of Excellence (Saudi Ministry of Health)	Support Services
Debenhams	Support Services
Eaton Aerospace	Support Services
Foreign and Commonwealth Office	Support Services
Groundforce	Support Services
Instant Offices	Support Services
King George Hospital (Redbridge)	Support Services
Metropolitan Police	Support Services
Ministry of Justice	Support Services
Northern Powergrid	Support Services
PepsiCo	Support Services
Phillips 66	Support Services
Presidencia CAM	Support Services
Qatar Shell GTL	Support Services
Renfe	Support Services
Sohar	Support Services
Southwark Council	Support Services
Stagecoach	Support Services
Syngenta	Support Services
Thomas Cook	Support Services
University of Greenwich	Support Services
Windsor Castle	Support Services

INTERIM MANAGEMENT REPORT

CHIEF EXECUTIVE REVIEW

The Group performance in the first half of the year reflects the positive results of actions taken over the last nine months across the Group, with good execution of our Fit for Growth plan and mobilisation of services, offset by tough conditions in some markets, notably Qatar, impacting our construction and equipment services businesses. We have continued to make further progress in reducing the risks facing the Group with progress on our Energy from Waste (EfW) projects, the renegotiation of certain onerous contracts and the completion of the refinancing of our existing facilities with the agreement for additional borrowing facilities at the end of April. Although revenue year-on-year decreased to £1,488.3 million (H1 2017: £1,647.7 million) and total operating profit was lower at £40.1 million (H1 2017: £56.6 million), the H1 2018 operating profit was ahead of the H2 2017 performance, reflecting a stabilisation of operational performance and the benefit of Fit for Growth. We expect to see further benefit from the actions taken in the first half of 2018.

Given the financial challenges faced by the Group, we have had a considerable focus on cash during the period. Net debt, net of the unamortised warrant costs of £31.5m, ended the period at £614.3 million. This was consistent with the guidance given at the time of our full year results. Overall, headline operating profit for the Group was £40.1 million, down £16.5 million versus last year (which has been restated to be consistent with the accounting treatment adopted in FY17 resulting from the contract review). Net finance costs in the period were significantly higher at £31.1 million (2017: £9.6 million) reflecting the additional debt facilities secured plus the revised pricing on old facilities. The individual business performances and financing costs are discussed further below.

In the period we have continued to address the operational and organisational complexities inherent in the group. The Fit for Growth transformation programme was developed to address these issues and this is the underpinning for our expectations going forward. We have also begun the implementation of our Support Services business strategy and increased the focus in our UK construction business in completing and closing out older contracts while rebasing the business for the future.

Progress against our four strategic priorities include:

- Fit for Growth – Organisational reshaping: The Group-wide performance improvement plan, Fit for Growth, has continued its momentum during the period. We focused on rationalising our immediate cost base during H2 2017 and continue to optimise our costs and overhead for 2018. The second phase of our organisational simplification was completed in July with a further 470 roles being removed. We are now focused on improving our governance and key processes and improving efficiency across the whole Group. We are on track to deliver our target of £15 million benefit to the Group operating profit as a result of the Fit for Growth initiatives during the 2018 financial year.

- Fit for Growth – Procurement: During the first half we have combined the UK procurement activities under a new procurement leader. The objective of their initial work is to build a single procurement function that drives consistency across our business, leverages the size and scale of Interserve, reduces our costs and improves our processes, while building and maintaining close and trusted supplier partnerships.

- Support Services strategy: The work to focus on clarifying what services, to which customers and in which segments was completed in the first quarter of this year. We have reorganised our business teams to align to the four focus segments of Government and Defence, Private Sector, Communities and Citizen Services. We have completed a review of all of our service offerings to ensure that they are appropriate for these customer segments and to ensure that we are best positioned to offer and deliver consistent integrated facilities management. We have started to wind down service offerings that are not core to our future offering and will continue to do this proactively and as contracts end.

- One Interserve: the culture and all working practices throughout the Group will increasingly follow the "One Interserve" approach, enabling us to bring the very best of the Group's capabilities and service expertise to customers in all sectors.

Government review of outsourcing: the news during this period of the collapse of Carillion had a significant impact on the outsourced services market, this has created a very different environment, particularly in the context of Strategic Suppliers to UK Government. We are working closely with the Cabinet Office in evolving the way the sector engages with the UK government.

In our UK construction business, we saw a return to operating profit as we have continued to strengthen our pricing and bidding controls and this increased discipline is reflected in the number of places secured on framework agreements in the half, with an opportunity pipeline in excess of £900 million pa.

Equipment Services saw lower revenue and profit due, notably to the trade blockade in Qatar and a reduction in infrastructure projects in the UK. However the business continues to develop new opportunities and having made good progress with its new ground shoring range in the UK, will launch this internationally later in the year.

Internationally our construction business was also impacted by the trade blockade in Qatar, but good contract wins in UAE in the first half and a strengthened oil price leading to increased confidence should have a positive impact in the second half, although trading remains competitive.

The business continues to look at all options to reduce debt and we were pleased to complete the disposal, in the first half, of the Haymarket development in Edinburgh for £49.1 million, ahead of book value and realising a non-recurring profit of £17 million. We have identified other non-core businesses for disposal and will look to complete these disposals over the next 12 months.

BOARD CHANGES

Keith Ludeman, non-executive director and Chairman of the Remuneration Committee stepped down from the Board in May and Nicholas Pollard joined the Board as a new non-executive director in June. Nicholas brings relevant experience in the construction sector to the Board. Nick Salmon has taken over from Keith Ludeman as Chairman of the Remuneration Committee.

OUTLOOK

First-half trading performance was in line with our expectations. We continue to make progress on the resolution of our EfW projects, although risks to the programme still remain. We believe that the benefit of the actions taken in the first half underpin our unchanged full-year expectations as we make further progress with the implementation of the Group's strategy and the Fit for Growth transformation programme.

Results summary	H1 2018	H1 2017*
Revenue	£1,488.3m	£1,647.7m
Headline total operating profit**	£40.1m	£56.6m
Profit/(loss) before tax	(£6.0m)	£24.9m
	H1 2018	**YE2017**
Future Workload	£7.4bn	£7.6bn
Net debt	£614.3m	£502.6m

**Restated as detailed in note 4 to the financial statements*

***This news release include a number of non-statutory measures to reflect the impact of non-trading and non-recurring items. Use of these non-statutory measures is considered to better reflect the underlying trading of the business. See note 11 to the condensed consolidated financial statements for a reconciliation of these measures to their statutory equivalents*

DIVISIONAL REVIEW

We segment our results into three main areas of business – Support Services, Construction and Equipment Services.

SUPPORT SERVICES

Support Services focuses on the management and delivery of outsourced operational activities, including integrated facilities management, a broad range of process and accommodation-related services and services direct to the citizen. Our customer base is comprised of both public and private-sector organisations in the UK and overseas. Operations in mainland Europe, which are managed from the UK, are disclosed under Support Services UK.

Results summary	**H1 2018**	**H1 2017**
Revenue		
- UK (consolidated revenue)	£813.5m	£834.8m
- International* (incl share of associates)	£101.5m	£102.3m
Contribution to total operating profit	£23.8m	£27.9m
- UK	£21.6m	£26.7m
- International	£2.2m	£1.2m
Operating margin (UK)	2.7%	3.2%
Operating margin (International)	2.2%	1.2%
Future workload	**H1 2018**	**YE 2017**
- UK	£5.9bn	£6.1bn
- International (including share of associates)	£0.2bn	£0.2bn

**Blended underlying margins of associates and subsidiaries*

Support Services UK

Revenue in the UK business was down slightly reflecting the business lost last year and not yet fully replaced by new revenue from contract mobilisations in the first half of the current year. Part of the decline also reflects our proactive withdrawal from selected service lines not considered core for the future. However, work-winning remains positive, reflecting in the year on year growth of our future workload in the UK.

In the first half of 2018 we successfully mobilised two very large and complex facilities management contracts for the Department for Work and Pensions (DWP) and Department for Transport (DfT). The DfT mobilisation involved 1,000 employees, covering 1,147 varying sites across the UK from Shetland to Penzance and is being delivered in 11 agencies (including Highways England, Environment Agency, Maritime & Coastguard and HS2) with a phased ramp-up which ended in June 2018. The DWP Total Facilities Management (TFM) contract was mobilised across 800 UK customer locations, over a period of six months from September 2017 to April 2018 and welcomed 3,000 new employees to Interserve. These mobilisations represent the largest undertaken by the Group and demonstrate some of the operational strengths of the business.

We have made good progress in discussions with the Ministry of Justice (MoJ), as part of the MoJ's process to terminate early all of the CRC contracts for all providers. Current year performance and our view on the likely conclusion of the final contract renegotiation mean that we have increased the size of the forward loss provision for this contract. We have also agreed revised terms and the early termination of the US Forces Prime contract, which means that we will reduce our forward loss provision on this contract. The combined impact of these two changes is reflected in the non-underlying results and means that we have taken a further forward loss provision of £6.8 million. This will impact our cashflow performance over the next three years.

Our order book grew in the period and reflects the strategic choices we have made regarding our preferred sectors. In the public sector, Interserve has won a number of significant contracts which include a five-year TFM contract worth £35 million for the Barking, Havering & Redbridge University Hospitals NHS Trust. The win reflects our strategy of providing broader service offerings, as opposed to single-service contracts. Services at London's King George Hospital include everything from retail and patient catering, cleaning, security, front of house, waste management, energy management, portering and repair and maintenance services. We were also awarded a two-year, £10 million contract with Southwark Council to provide total facilities management services at over 90 sites in the borough. In addition to this, we have also announced in August a £67 million FM contract with the Foreign and Commonwealth Office.

Reflecting our existing relationship with the MoJ, Interserve was also awarded a five-year £25 million contract to provide a number of facilities management services for over 200 buildings in the Midlands and North of England.

Other contracts in the public sector include a seven-year, special events services contract worth over £15 million with the Metropolitan Police Service, which builds on Interserve's nineteen-year relationship with the police service.

In the private sector, we secured a five-year, facilities management contract with Thomas Cook for both their corporate offices and national network of 680 stores. We also won a £22 million contract with agribusiness Syngenta and an £11 million four-year extension with energy company, Phillips 66.

In Spain, work-winning in the first half was good, with wins including a four-year, £37 million passenger support contract with Spanish airports operator, AENA. In addition, we won a three-year facilities services contract worth £10 million with Globalia´s handling division, Groundforce, to provide aircraft cleaning services across multiple airports in Spain; the contract expands on our existing relationship with the company. The transport sector remains a key area of focus for our Spanish business, building on our strong existing presence, supporting 15 rail and airline operators at over 100 different sites.

Interserve achieved a health and safety milestone in the period in being among the first companies worldwide to be independently assessed by BSI and achieve conformity to ISO 45001 Occupational Health & Safety. The new international standard sets out the requirements for those organisations who wish to create and maintain a safe and healthy working environment for all.

Interserve Healthcare has started the digital transformation of its operational processes, in a move which will improve the business's efficiency and internal processes with the overarching aim of improving quality for service users. The business has also been retained as preferred provider by private medical provider, Baxter, to provide services to NHS patients across the UK.

Support Services International

Our facilities management business in the Middle East remains small but is developing. In the period we secured a regional deal for a large retail group and services have begun in the UAE and Qatar worth c.£8 million over three years; we remain in discussions over the portfolio in Saudi Arabia for the same client which is estimated to be worth c.£10 million over three years.

We have also secured an integrated FM agreement for the prestigious Serenia Residences, built by Interserve, on the Palm Jumeirah.

Our oil and gas services businesses in Oman had a good first half and a strengthened oil price is starting to have a positive impact on our pipeline of opportunities.

CONSTRUCTION

We provide advice, design, construction and fit-out services for buildings and infrastructure. Our focus is on forming long-term relationships, developing sector expertise and delivering repeat business, predominantly through framework agreements.

Results summary	**H1 2018**	**H1 2017**
Revenue		
- UK (consolidated revenue)	£396.0m	£502.3m
- International (share of associates)	£107.3m	£145.3m
Contribution to total operating profit[1]	£8.9m	£17.9m
- UK ongoing business	£5.6m	£9.6m
- International	£3.3m	£8.3m
Operating margin		
UK[1]	1.4%	1.9%
International[2]	3.1%	5.7%
Future workload	**H1 2018**	**YE 2017**
- UK	£1.1bn	£1.0bn
- International (share of associates)	£0.3bn	£0.2bn

[1] *Excludes Exited Business*
[2] *Underlying margins of associates*

Construction UK

Our UK Construction division’s financial performance has recovered from the performance seen in the second half of last year, with a strong focus on profitability delivering £5.6 million total operating profit in the first half (H1 2017: £9.6 million). This result and the comparatives reflect the impact of the contract and balance sheet review completed in the second half of 2017, as well as the exit in the first half of 2018 of our London regional building business which are all reported as non-underlying. As highlighted at the full year, we have targeted framework agreements and have secured places on a number with an opportunity pipeline in excess of £900 million pa. Specifically in the period, we have been awarded places on the National DWP framework, NHS Building for Wales's framework, Procure North west framework, West Yorkshire Police Security framework and the University of Strathclyde Construction framework.

In health, we have been working on one of the largest P21+ Framework projects for the Christie (Manchester); the Proton Beam Therapy (PBT) Centre, which is the UK's first NHS PBT centre. Following on the back of this success in 2018 we have been awarded new P22 framework schemes with combined value of £150 million in Manchester, Leeds and Liverpool. We also completed our first private sector PBT facility in the North East.

At the end of 2017, Interserve secured a place on all eight lots in the mid-value band of the Education & Skills Funding Agency's (ESFA) new £8 billion construction framework. Using our standard school model, we have since been selected as preferred bidder for the first batch of three primary schools in Yorkshire totalling circa £15 million.

The Defence National Rehabilitation Centre is due to complete in the third quarter and a formal celebratory handover ceremony was held in June.

Focusing on a key growth segment, private rented accommodation, in which we have specific skills and expertise, we have made good progress at the Landsdowne Project; due for completion in April 2019, this 18-storey scheme will provide private rented accommodation in Birmingham city centre.

We have won a £12 million contract for the upgrade of Rotherham Interchange in Yorkshire, with other infrastructure projects including the M5 junction 6 improvements for Highways England (£9.3 million) and the Boeing Hangar for Gatwick Airport Ltd (£6.4 million). In addition, we won five framework projects for Northumbrian Water (circa £15 million).

Our specialist fit-out business, Paragon, continues to benefit from recent growth in the London fit-out market and was awarded schemes for flagship clients, including a £10 million scheme for BAE.

Construction International

As highlighted at the full year, the Middle East region continues to be impacted by macroeconomic challenges and notably the trade blockade in Qatar, which has delayed a number of contract awards and created supply pressures. In aggregate, our Qatar business (including our JV share of revenue) was down £31.2 million over last year.

During the period, new build contracts awarded include Leader Sports Mall, a dynamic new landmark in Dubai worth circa £64 million. It will encompass features such as LED façade screens and a clear span roof structure through the centre of the mall above the state-of-the-art multi-functional sports arena.

We are currently refurbishing the Jumeirah Beach Hotel in Dubai, which covers all areas of the hotel, including its 374 rooms; additional contract wins in the period include an increase in refurbishment and fit-out projects including for the Onyx Hotel in Dubai and the Crowne Plaza Hotel in Muscat.

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. Our engineers solve complex problems for our customers through the application of world-class design and logistics capabilities, backed up by technology and fulfilled through an extensive fleet of specialist equipment.

Results summary	**H1 2018**	**H1 2017**
Revenue	£97.4m	£111.0m
Contribution to Total operating profit	£18.4m	£24.9m
Margin	18.9%	22.4%

Both revenue and profit are down year-on-year, driven by macroeconomic factors and the continuing Qatar trade blockade which began in June 2017. Operations in the UK and Hong Kong, have also been impacted by the conclusion of major infrastructure projects, partially offset by a good performance in Australia, USA, and UAE.

The UK market remains the largest contributor to the division's profit and activity levels in this market have been lower year-on-year with the completion of two major infrastructure projects in 2017.

Having already secured work on Hinkley Nuclear power station, the revenue from this project is forecast to grow throughout the coming year. The business is also working closely with HS2 consortiums and the Thames Tideway construction consortiums and revenues will be realised as the on-site works commence over the coming months and beyond.

Offsetting the downturn in infrastructure demand in the UK market, the business has made good progress in growing its market share with its new ground shoring range. We will launch this new product range internationally in the second half of 2018.

Although Hong Kong and Saudi Arabia have had slow starts to 2018, there is a good pipeline of future opportunities and the business is well positioned when delayed projects come on stream. We continue to expand our Indian business, where the opportunity to further increase market penetration is significant.

Australia has had a good year to date with strong infrastructure development, particularly around transportation, helping to boost the pipeline. The US has also had a solid start to the year, with the continued expansion into the high-rise market and the commercial sector as a whole; notable projects in the period including the Las Vegas Raiders Stadium in Nevada.

The business continues to develop new opportunities and is actively widening its product offering to meet customer demand in key markets. RMDK is also driving the adoption of its visualisation technologies and LocusEye, increasing take-up of this 3-D engineering technology, across geographic operations.

Exchange rate movements have negatively impacted performance in the period with a circa £1 million profit impact. The business continues to manage costs tightly as it focuses on profitable growth.

GROUP SERVICES

All central costs and income, including those relating to our financing, central procurement and asset management activities are disclosed within the Group Services segment, Group Services' costs during the period were £11.0 million (H1 2017: £14.1 million), reflecting the positive impact of the Fit for Growth efficiency gains begun in 2017.

As part of our strategy going forward, it is envisaged that shared services will play a much greater role in relation to financial and operational control and support at a corporate level.

EXITED BUSINESS

Interserve's EfW projects continue to progress and we anticipate that all sites will be commissioned and handed over in the second half of 2018. After hand-over, the remaining potential liabilities for the Group relate primarily to operational performance to the specified levels.

At Derby, we received full ROCs accreditation from OFGEM in March and although we have experienced some delays in commissioning, we anticipate handover in the third quarter. Templeborough, Margam and Dunbar are all built and being commissioned, and are expected to reach completion during September and October. Risks to the programme remain on these projects while we are in the commissioning phase.

Whilst our overall view in respect of the EfW projects has not changed since we announced our full year 2017 results, following the adoption of IFRS 15 in the period, we have reassessed our accounting for anticipated insurance receipts in relation to claims for Glasgow (where we were terminated in November 2016) and Derby. More detail of this change and its impact is detailed in the financial review.

As anticipated, we have seen a substantial net cash outflow of £39.7 million in the first half of the year as construction and commissioning on these projects progresses. From a cash perspective, this outflow is expected to be offset somewhat by insurance and milestone payments in the second half of the year. We now anticipate a net inflow in the second half of approximately £32 million leading to a net outflow for the year of circa £8 million. This has increased slightly from the position at year end as the commissioning delays at Derby have increased outflows this year and anticipated insurance proceeds, which are expected to offset this cash impact, are not expected to be received until 2019.

FINANCIAL REVIEW

NON-UNDERLYING ITEMS

£million	H1 2018	H1 2017
Pension indexation - change from RPI to CPI	67.8	-
Exited business - Property development	17.0	-
Exited business - Energy from Waste	(11.2)	-
Exited business - London Construction	(6.5)	(4.3)
Contract review	(6.8)	(6.2)
Asset impairments	(15.0)	-
Restructuring costs	(10.8)	-
Professional adviser fees	(32.1)	-
Strategic review of Equipment Services	-	(0.1)
Non-underlying operating credit / (charge)	**2.4**	**(10.6)**
FX loss on US Private Placement debt	(7.8)	-
TOTAL NON-UNDERLYING CHARGES	**(5.4)**	**(10.6)**

During the period the Trustee of the Interserve Pension Scheme (IPS) agreed to our request to use its discretion where possible to change the basis of indexation for future pension increases in respect of deferred and pensioner members of the scheme. This change from RPI to CPI resulted in a non-underlying one-off gain of £67.8 million. Further details are provided below under Pensions.

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. Subsequent to the year end 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.

During 2016 we took the decision to exit business where we take contractual responsibility for process risk on the construction of EfW facilities. A further £11.2 million of losses have been recognised on EfW projects during the period following further delays and associated costs and damages. Although we anticipate future insurance proceeds will offset these costs, following the adoption of IFRS 15 these have not been recognised and will only be recognised in the income statement as they are received. Further significant insurance proceeds were received in respect of claims on the Glasgow project in the period. The receipt of further insurance proceeds remains a key focus for the Group.

We took the decision during the current six month period 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 saw losses of £6.5 million in the period.

In 2017 the business undertook a comprehensive contract and balance sheet review. This resulted in £86.1 million of non-underlying charges in respect of balance sheet write-downs and onerous contract provisions in 2017. Within this, 18 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 £43.7 million was provided in respect of loss-making or onerous contracts. Further information is contained in the 2017 Annual Report. Where further adjustments have been necessary in respect of these same contracts during the subsequent period their result has been recorded as non-underlying. During the period a net additional £6.8 million of provisioning was necessary against these contracts as a result of negotiations held in the first half. In the period, no new onerous contracts have been identified.

As part of an ongoing strategic review of our portfolio of businesses a number of smaller non-core activities are in the process of being marketed. In the course of this process it has become apparent that, in certain cases, the previous carrying value of assets exceeds their likely disposal value. Whilst no transactions had been completed at the period end, an asset impairment charge, principally against property, plant and equipment and receivables, of £15.0 million has been recognised in the period.

During the period we incurred Restructuring costs of £10.8 million, principally in respect of redundancy costs for former employees. As discussed in the 2017 Annual Report, the Group has embarked on a three-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.

Professional adviser fees incurred in connection with our refinancing totalled £32.1 million during the period. This is in addition to the £13.9 million recognised in the second half of last year.

The strategic review of Equipment Services concluded in the period with the sale of activities in two non-core geographies. The sale was completed within provisions established in the previous period.

Non-underlying financing costs represents the impact of the retranslation of US$ denominated borrowings to current exchange rates following the termination of exchange rate swaps in the previous period required as part of the refinancing.

PENSIONS

The IAS 19 accounting position on the Group's defined benefit pension scheme reduced from a deficit of £48.0 million at the year end to a surplus of £32.1 million by the half year. The improvement reflects a change of indexation on future pension increases from RPI to CPI.

Earlier this year, following discussions in recent years between the Company and the Trustee of the IPS, the Trustee agreed to the Company's request to use its discretion where possible to change the inflation reference index used to calculate increases to some members' benefits in the scheme.

The index previously used was RPI; with effect from 1 May 2018 this was changed to CPI for all affected members of the scheme who are not currently in service. A consultation is currently taking place with the affected active members in relation to these proposed changes for those members.

This has the effect of reducing the scheme's liabilities and corresponding deficit by £67.8 million, which is reflected in the half year balance sheet strengthening the Group's net assets.

NET DEBT AND OPERATING CASHFLOW

Net debt at 30 June was £614.3 million. This balance is reported net of the unamortised warrant costs of £31.5m. As disclosed in our 2017 Annual Report, the Group secured committed borrowing facilities of £834 million in April of this year (including $350 million denominated in US$). Prior to 30 June 2018, the Group made the first prepayment of debt against these borrowing facilities being £30 million from the proceeds on the disposal of the Haymarket investment. After allowing for movements in exchange rates and this reduction, committed borrowing facilities stood at c£800 million at the end of the half year. Covenant compliance is measured on 30 September and at every subsequent three months.

Year end 2018 net debt before the unamortised deferred financing costs relating to the warrant cost is expected to be in the range of £575-£600m. This is after taking into account the expected outflows on all the non-underlying items.

£million	**H1 2018**	**H1 2017**
Total operating profit before non-underlying items and amortisation of intangible assets	40.1	56.6
Depreciation and other amortisation	19.9	23.6
EBITDA	**60.0**	**80.2**
Net capex	(12.8)	(14.4)
Dividends in (deficit) / excess of JVA profits	(1.2)	(1.0)
Working capital movements	(87.3)	(34.8)
Other	(6.2)	(11.4)
Gross operating cash flow	**(47.5)**	**18.6**
Exited business – EfW	(39.7)	(67.1)
Other non-recurring	(73.3)	(10.5)
Pension contributions in excess of income statement charge	(9.0)	(8.1)
Issue of warrants	35.7	-
Tax and interest	(21.5)	(12.7)
Investments	46.8	(31.4)
Dividends	(3.1)	-
Other	(0.1)	(1.9)
Movement in net debt	**(111.7)**	**(113.1)**

Net capex was £12.8 million in the period. We invested a further net £3.1 million in the hire fleet against a net £6.7 million realisation in the previous period as we resume net investment. Capex on IT projects was more restrained as we evaluate future opportunities resulting in lower spend relative to the prior period which also included expenditure on our new headquarters building. The balance of expenditure represents equipment for contract renewals and new mobilisations.

Similar to last year, following an exceptionally strong year for cash repatriation in 2016, the 2018 dividends returned from JVAs more closely mirrored profit generated.

Working capital outflow of £87.3 million in 2018, excluding Exited Businesses, predominantly reflects a reduction in payables (in part reflecting a more normalised period end process).

As highlighted in 2017 Annual Report, the Group settled the Q4 2017 VAT payment of £22.5 million on 3 January 2018. It also settled Q1 and Q2 VAT payments for 2018 during the half year - therefore the Q4 2017 payment was an out-of-period payment. We have also previously disclosed that we settled £10.8 million of Time to Pay obligations to HMRC earlier in the year in respect of payments due in 2017. Normalising for these two payments accounts for £33.3 million of this period's working capital outflow.

The remaining working capital outflow mainly relates to the UK Construction business which traditionally operates on a negative working capital model but has seen a reduction in revenues over the period and an unwind of advance receipts. This has combined with final account settlements that, whilst have closed out risk for the Group, have been at the expense of short-term cash flow.

Within the exited EfW business we incurred cash outflows of £39.7 million in the first half. We continue to prepare and pursue a number of material insurance claims and the net cash profile of the Exited Business remains sensitive to the timing of any cash receipts on these. Our approach continues to be to prioritise the quality and strength of our case rather than seeking a quick cash settlement.

Other non-recurring cash outflows of £73.3 million include professional adviser fees incurred in the period (£32.1 million) and restructuring costs (£10.8 million) along with exchange rate losses on US$ denominated loans (£7.8 million), losses incurred on other exited businesses (£6.5 million) and net contract settlements on contracts previously classified as non-underlying (£1.1 million). As noted above under non-underlying items, £43.7 million of onerous contract provisions were created at the end of last year and £15.4 million of these provisions have been utilised in the six months against cash losses incurred in the period.

As discussed below, we issued warrants to the providers of debt and bonding facilities during the period with fair value proceeds of £35.7 million (including £0.4 million from the exercise of warrants).

Investment proceeds of £46.8 million comprise of net disposal proceeds from the sale of our Haymarket property investment in June less a small new investment.

NET FINANCE COSTS

Net finance costs for the period were £31.1 million and can be analysed as follows:

£million	**H1 2018**	**H1 2017**
Old facility cash interest	13.4	9.0
New facility cash interest	1.8	-
Short-term funding arrangement fees	2.7	-
Other lender charges and arrangement fees	0.9	-
Cash paid finance charges	**18.8**	**9.0**
Unwind of discount re warrants	3.8	-
Payment in kind charges	5.5	-
Other lender charges and arrangement fees	2.7	-
Total lender finance charges	**30.8**	**9.0**
Pension finance charges	0.3	0.6
Group net finance costs	**31.1**	**9.6**

The significant increase in net finance cost reflects increased levels of net debt, costs associated with the £50 million of short-term financing in place during the four months to April and increased rates applied across all of the Group's borrowings from the end of April. We anticipate full year interest costs, including payment in kind charges relating to bonding facilities and the further unwind of the discount re warrants, of c£80 million.

The agreed rates for the new facilities were disclosed in our 2017 Annual Report and are in addition to various arrangement and elevated fees payable both on the short-term facility in place earlier in the year and the new money.

As disclosed in our 2017 Annual Report, the Company issued warrants to the providers of the new term loan and bonding facilities to buy shares at 10 pence per share and the issue of these warrants will result in a charge to the income statement over the life of the new money equivalent to their fair value. The fair value of the warrants issued was £35.3 million in total of which £3.8 million has been recognised in the period. This charge is non-cash. The remainder of the discount on the debt issued will unwind over the life of the facilities proportional to the remaining facility.

Payment in kind charges accrue over the life of the facilities and are payable at the end of the arrangement on a subsequent refinancing. They are therefore non-cash in the current period.

ADOPTION OF IFRS 15

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 becomes an unrecognised contingent asset).

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties which could have a material impact upon the Group’s performance, together with the mitigation strategies adopted, have been reviewed and have not changed significantly from those set out on pages 28 to 31 of the Strategic Report included in the Group’s 2017 Annual Report.

On pages 40 - 44 of the Strategic Report, the Company also set out a comprehensive viability statement in which it described very clearly the principal risks, judgements, uncertainties and planning assumptions underpinning this statement as well as the key covenant compliance requirements of its financing agreements.

AUDITOR

Grant Thornton UK LLP has been the Group’s auditor since 2014. Reappointment will be subject to approval by the shareholders at the next general meeting.

RESPONSIBILITY STATEMENT

A list of current directors and their functions is maintained on the Group website at www.interserve.com.

The directors confirm to the best of their knowledge:

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

By order of the Board

Debbie White
Chief Executive Officer

Mark Whiteling
Chief Financial Officer

07 August 2018

Unaudited condensed consolidated income statement
For the six months ended 30 June 2018

	Six months ended 30 June 2018			Six months ended 30 June 2017			Year ended 31 December 2017		
	Before non-underlying items and amortisation of acquired intangible assets	Non-underlying items and amortisation of acquired intangible assets (note 4)	Total	Before non-underlying items and amortisation of acquired intangible assets	Non-underlying items and amortisation of acquired intangible assets (note 4)	Total	Before non-underlying items and amortisation of acquired intangible assets	Non-underlying items and amortisation of acquired intangible assets (note 4)	Total
				restated #	restated #		restated #	restated #	
	£million	£million	£million	£million	£million	£million	£million	£million	£million
Continuing operations									
Revenue including share of associates and joint ventures	1,527.2	143.2	1,670.4	1,747.7	133.2	1,880.9	3,478.9	188.0	3,666.9
Less: Share of associates and joint ventures	(133.1)	(49.0)	(182.1)	(233.2)	-	(233.2)	(416.1)	-	(416.1)
Consolidated revenue	1,394.1	94.2	1,488.3	1,514.5	133.2	1,647.7	3,062.8	188.0	3,250.8
Cost of sales	(1,235.0)	(114.6)	(1,349.6)	(1,337.2)	(133.4)	(1,470.6)	(2,706.9)	(302.7)	(3,009.6)
Gross profit/(loss)	159.1	(20.4)	138.7	177.3	(0.2)	177.1	355.9	(114.7)	241.2
Administration expenses	(123.8)	5.8	(118.0)	(132.0)	(10.1)	(142.1)	(296.2)	(83.1)	(379.3)
Amortisation of acquired intangible assets	-	(9.6)	(9.6)	-	(11.4)	(11.4)	-	(21.5)	(21.5)
Impairment of goodwill	-	-	-	-	-	-	-	(60.0)	(60.0)
Total administration expenses	(123.8)	(3.8)	(127.6)	(132.0)	(21.5)	(153.5)	(296.2)	(164.6)	(460.8)
Operating profit/(loss)	35.3	(24.2)	11.1	45.3	(21.7)	23.6	59.7	(279.3)	(219.6)
Share of result of associates and joint ventures	4.8	17.0	21.8	11.3	(0.3)	11.0	25.5	(30.6)	(5.1)
Amortisation of acquired intangible assets	-	-	-	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Total share of result of associates and joint ventures	4.8	17.0	21.8	11.3	(0.4)	10.9	25.5	(30.7)	(5.2)
Total operating profit/(loss)	40.1	(7.2)	32.9	56.6	(22.1)	34.5	85.2	(310.0)	(224.8)
Investment revenue	2.0	-	2.0	2.3	-	2.3	5.9	2.9	8.8
Finance costs	(33.1)	(7.8)	(40.9)	(11.9)	-	(11.9)	(28.4)	-	(28.4)
Profit/(loss) before tax	9.0	(15.0)	(6.0)	47.0	(22.1)	24.9	62.7	(307.1)	(244.4)
Tax (charge)/credit (note 5)	(0.7)	(9.9)	(10.6)	(4.2)	1.9	(2.3)	(8.1)	(1.9)	(10.0)
Profit/(loss) for the period	8.3	(24.9)	(16.6)	42.8	(20.2)	22.6	54.6	(309.0)	(254.4)
Attributable to:									
Equity holders of the parent	6.7	(24.9)	(18.2)	41.8	(20.2)	21.6	52.6	(309.0)	(256.4)
Non-controlling interests	1.6	-	1.6	1.0	-	1.0	2.0	-	2.0
	8.3	(24.9)	(16.6)	42.8	(20.2)	22.6	54.6	(309.0)	(254.4)

	Six months ended 30 June 2018 pence	Six months ended 30 June 2017 pence	Year ended 31 December 2017 pence
Earnings per share (note 7)			
Basic	(12.4)	14.8	(176.0)
Diluted	(12.4)	14.8	(176.0)

# See note 2

Unaudited condensed consolidated statement of comprehensive income

For the six months ended 30 June 2018

	Six months ended 30 June 2018 £million	Six months ended 30 June 2017 £million	Year ended 31 December 2017 £million
Profit/(loss) for the period	**(16.6)**	22.6	(254.4)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension schemes	**3.6**	-	(10.4)
Deferred tax on above items taken directly to equity (note 5)	**(0.6)**	-	1.8
	3.0	-	(8.6)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**4.1**	(17.9)	(34.8)
Gains/(losses) on cash flow hedging instruments (excluding joint ventures)	**-**	(12.2)	(23.0)
Recycling of cash flow hedge reserve to profit and loss account	**0.9**	15.1	22.7
Deferred tax on above items taken directly to equity (note 5)	**(0.1)**	(0.5)	0.2
Net impact of Items relating to joint-venture entities	**(0.7)**	0.2	3.0
	4.2	(15.3)	(31.9)
Other comprehensive income/(expense) net of tax	**7.2**	(15.3)	(40.5)
Total comprehensive income/(expense)	**(9.4)**	7.3	(294.9)
Attributable to:			
Equity holders of the parent	**(11.0)**	6.3	(297.3)
Non-controlling interests	**1.6**	1.0	2.4
	(9.4)	7.3	(294.9)

Unaudited condensed consolidated balance sheet

At 30 June 2018

	30 June 2018	30 June 2017	31 December 2017
	£million	£million	£million
Non-current assets			
Goodwill	374.0	434.6	372.9
Other intangible assets	43.6	69.1	54.5
Property, plant and equipment	219.3	240.7	228.6
Interests in joint-venture entities	31.0	73.6	46.5
Interests in associated undertakings	81.5	82.1	78.4
Retirement benefit surplus (note 10)	32.1	-	-
Deferred tax asset	12.7	18.6	23.4
	794.2	918.7	804.3
Current assets			
Inventories	32.8	35.0	34.0
Trade and other receivables	726.4	763.6	722.0
Derivative financial instruments	-	54.8	-
Cash and deposits	194.4	153.7	155.1
	953.6	1,007.1	911.1
Total assets	1,747.8	1,925.8	1,715.4
Current liabilities			
Bank overdrafts	-	(10.1)	(6.8)
Borrowings	(69.0)	-	-
Trade and other payables	(722.6)	(834.9)	(798.6)
Current tax liabilities	(5.6)	(1.7)	(7.2)
Short-term provisions	(36.2)	(26.6)	(50.2)
	(833.4)	(873.3)	(862.8)
Net current assets	120.2	133.8	48.3
Non-current liabilities			
Borrowings	(738.3)	(589.3)	(647.5)
Trade and other payables	(14.2)	(13.8)	(14.5)
Long-term provisions	(112.4)	(43.4)	(80.0)
Retirement benefit obligation (note 10)	-	(44.9)	(48.0)
	(864.9)	(691.4)	(790.0)
Total liabilities	(1,698.3)	(1,564.7)	(1,652.8)
Net assets	49.5	361.1	62.6
Equity			
Share capital	15.0	14.6	14.6
Share premium account	116.5	116.5	116.5
Warrants in issue	31.4	-	-
Capital redemption reserve	0.1	0.1	0.1
Merger reserve	121.4	121.4	121.4
Hedging and revaluation reserve	(5.8)	(6.2)	(5.9)
Translation reserve	78.6	91.8	74.5
Investment in own shares	-	(1.9)	(1.9)
Retained earnings/(loss)	(321.5)	10.9	(272.0)
Equity attributable to equity holders of the parent	35.7	347.2	47.3
Non-controlling interests	13.8	13.9	15.3
Total equity	49.5	361.1	62.6

Unaudited condensed consolidated statement of changes in equity
For the six months ended 30 June 2018

	Share capital £million	Share premium £million	Warrants in issue[1] £million	Capital redemption reserve £million	Merger reserve[2] £million	Hedging and revaluation reserve[3] £million	Translation reserve £million	Investment in own shares[4] £million	Retained Earnings/ (loss) £million	Attributable to equity holders of the parent £million	Non-controlling interests £million	Total £million
Balance at 31 December 2016	14.6	116.5	-	0.1	121.4	(8.8)	109.7	(1.9)	(9.4)	342.2	12.9	355.1
Profit for the period	-	-	-	-	-	-	-	-	21.6	21.6	1.0	22.6
Other comprehensive income	-	-	-	-	-	2.6	(17.9)	-	-	(15.3)	-	(15.3)
Total comprehensive income	-	-	-	-	-	2.6	(17.9)	-	21.6	6.3	1.0	7.3
Dividends paid (note 6)	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of Company shares	-	-	-	-	-	-	-	-	-	-	-	-
Company shares used to settle share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	(1.3)	(1.3)	-	(1.3)
Transactions with owners	-	-	-	-	-	-	-	-	(1.3)	(1.3)	-	(1.3)
Balance at 30 June 2017	14.6	116.5	-	0.1	121.4	(6.2)	91.8	(1.9)	10.9	347.2	13.9	361.1
Profit for the period	-	-	-	-	-	-	-	-	(278.0)	(278.0)	1.0	(277.0)
Other comprehensive income	-	-	-	-	-	0.3	(17.3)	-	(8.6)	(25.6)	0.4	(25.2)
Total comprehensive income	-	-	-	-	-	0.3	(17.3)	-	(286.6)	(303.6)	1.4	(302.2)
Dividends paid (note 6)	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of Company shares	-	-	-	-	-	-	-	-	-	-	-	-
Company shares used to settle share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	3.7	3.7	-	3.7
Transactions with owners	-	-	-	-	-	-	-	-	3.7	3.7	-	3.7
Balance at 31 December 2017 as previously stated	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 (see note 2)	-	-	-	-	-	-	-	-	(37.5)	(37.5)	-	(37.5)
Balance at 31 December 2017 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 for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18.2)**	**(18.2)**	**1.6**	**(16.6)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**0.1**	**4.1**	**-**	**3.0**	**7.2**	**-**	**7.2**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**0.1**	**4.1**	**-**	**(15.2)**	**(11.0)**	**1.6**	**(9.4)**
Dividends paid (note 6)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3.1)**	**(3.1)**
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 payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.9**	**(1.9)**	**-**	**-**	**-**
Share-based payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.2**	**1.2**	**-**	**1.2**
Transactions with owners	**0.4**	**-**	**31.4**	**-**	**-**	**-**	**-**	**1.9**	**3.2**	**36.9**	**(3.1)**	**33.8**
Balance at 30 June 2018	**15.0**	**116.5**	**31.4**	**0.1**	**121.4**	**(5.8)**	**78.6**	**-**	**(321.5)**	**35.7**	**13.8**	**49.5**

[1] See note 9.

[2] 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 on the acquisition of Initial Facilities in 2014.

[3] The hedging and revaluation reserve includes £13.2 million relating to the revaluation of financial assets held at fair value through other comprehensive income within the joint ventures (£16.0 million at December 2017 and £21.9 million at 30 June 2017).

[4] 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 market value of these shares at 30 June 2018 was £0.0 million (£0.4 million at 31 December 2017 and £1.1 million at 30 June 2017).

Unaudited condensed consolidated statement of cash flows

For the six months ended 30 June 2018

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Operating activities			
Total operating profit/(loss)	**32.9**	34.5	(224.8)
Adjustments for:			
Amortisation of acquired intangible assets	**9.6**	11.4	21.5
Impairment of goodwill	**-**	-	60.0
Amortisation of capitalised software development	**2.4**	1.8	1.6
Impairment of capitalised software development	**-**	-	6.3
Depreciation of property, plant and equipment	**17.5**	21.8	39.5
Impairment of capitalised IT development	**-**	-	9.4
(Profit)/loss on disposal of investments in joint ventures	**(17.0)**	-	(7.5)
Proceeds on disposal of investments	**47.0**	-	12.3
Non-cash gain on pension indexation	**(67.8)**	-	-
Other non-current asset non-cash impairment items	**15.0**	-	1.4
Pension payments in excess of income statement charge	**(9.0)**	(8.1)	(15.9)
Share of results of associates and joint-venture entities	**(21.8)**	(10.9)	5.2
(Credit)/Charge relating to share-based payments	**1.2**	(1.3)	2.1
Gain on disposal of plant and equipment – hire fleet	**(7.5)**	(10.0)	(22.2)
Gain on disposal of plant and equipment - other	**(0.5)**	-	(0.2)
Operating cash flows before movements in working capital	**2.0**	39.2	(111.3)
(Increase)/decrease in inventories	**1.2**	0.4	0.5
(Increase)/decrease in receivables	**(7.9)**	(46.5)	(11.1)
Increase/(decrease) in payables	**(100.9)**	(55.8)	(26.4)
Capital expenditure - hire fleet	**(11.8)**	(6.4)	(17.8)
Proceeds on disposal of plant and equipment - hire fleet	**8.7**	13.1	30.2
Cash generated by operations	**(108.7)**	(56.0)	(135.9)
Cash used by operations - Energy from Waste exited business	**(39.7)**	(67.1)	(95.9)
Cash used by operations - other non-underlying	**(73.3)**	(10.6)	(75.0)
Cash generated by operations - ongoing business	**4.3**	21.7	35.0
Taxes paid	**(2.6)**	(3.7)	(8.6)
Net cash from operating activities	**(111.3)**	(59.7)	(144.5)
Investing activities			
Interest received	**2.3**	2.9	5.9
Dividends received from associates and joint ventures	**3.6**	9.9	17.2
Proceeds on disposal of plant and equipment - non-hire fleet	**5.6**	0.7	1.6
Capital expenditure - non-hire fleet	**(15.4)**	(21.8)	(39.3)
Investment in joint-venture entities	**(0.2)**	(31.4)	(32.7)
Receipt of loan repayment - Investments	**-**	-	0.7
Net cash generated by/(used in) investing activities	**(4.1)**	(39.7)	(46.6)
Financing activities			
Interest paid	**(21.1)**	(11.9)	(27.3)
Dividends paid to minority shareholders	**(3.1)**	-	-
Proceeds from issue of warrants	**35.3**	-	-
Proceeds from issue of shares	**0.4**	-	-
Proceeds from disposal of derivatives	**-**	-	44.1
Increase in bank loans	**159.8**	155.0	223.6
Movement in obligations under finance leases	**(2.0)**	(0.5)	(1.0)
Net cash from/(used in) financing activities	**169.3**	142.6	239.4
Net increase/(decrease) in cash and cash equivalents	**53.9**	43.2	48.3
Cash and cash equivalents at beginning of period	**148.3**	102.2	102.2
Effect of foreign exchange rate changes	**(7.8)**	(1.8)	(2.2)
Cash and cash equivalents at end of period	**194.4**	143.6	148.3
Cash and cash equivalents comprise			
Cash and deposits	**194.4**	153.7	155.1
Bank overdrafts	**-**	(10.1)	(6.8)
	194.4	143.6	148.3
Reconciliation of net cash flow to movement in net debt			
Net increase/(decrease) in cash and cash equivalents	**53.9**	43.2	48.3
Increase in bank loans	**(159.8)**	(155.0)	(223.6)
Movement in obligations under finance leases	**2.0**	0.5	1.0
Change in net debt resulting from cash flows	**(103.9)**	(111.3)	(174.3)
Effect of foreign exchange rate changes	**(7.8)**	(1.8)	(53.9)
Change in net debt during the period	**(111.7)**	(113.1)	(228.2)
Net debt - opening	**(502.6)**	(274.4)	(274.4)
Net debt - closing	**(614.3)**	(387.5)	(502.6)

Notes to the unaudited interim financial statements

For the six months ended 30 June 2018

1. General information

Interserve Plc (the Company) is a company incorporated in the United Kingdom. The half-year results and condensed consolidated financial statements for the six months ended 30 June 2018 (the interim financial statements) comprise the results of the Company and its subsidiaries (together referred to as the Group) and the Group's interest in joint ventures and associates.

The directors have considered the Group's financial position with reference to its latest forecasts and the actual performance for the half-year period. A very detailed exercise was performed for the year end and the results of this exercise and remaining uncertainties were disclosed in the annual report which was published less than three months ago (these interim financial statements should be read in conjunction with the disclosure given in the 2017 annual report). Progress has been made since then in line with expectations and the Group is trading slightly ahead of its Business Plan. The year end exercise, which involved significant stress testing of the plan, has not been repeated but has been updated where more current forecasts exist. The risks within the plan remain consistent with that disclosed at the year end and therefore, based on current expectations, the directors are of the view that these near term risks are manageable and therefore they consider it appropriate to continue to adopt the going concern basis in preparing the interim financial statements.

A copy of the statutory accounts for the year ended 31 December 2017 has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain statements made under sections 498(2) or (3) of the Companies Act 2006.

The interim financial statements for the six months ended 30 June 2018 have been reviewed by Grant Thornton UK LLP but have not been audited.

2. Accounting policies and principal risks

The interim financial statements have been prepared in accordance with IAS 34 Interim financial reporting, the recognition and measurement criteria of International Financial Reporting Standards (IFRSs) as adopted by the European Union and the disclosure requirements of the Listing Rules. The financial information set out in this interim report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The interim financial statements do not include all information required for full annual financial statements and should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 December 2017.

The accounting policies and methods of computation followed in the interim financial statements are consistent with those published in the Group's Annual Report and Financial Statements for the year ended 31 December 2017 and which are available on the Group's website at www.interserve.com. Various presentational changes have been made, as described in note 2(c) below.

In addition, the accounting policies used are consistent with those that the directors intend to use in the Annual Report and Financial Statements for the year ending 31 December 2018. Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) Adoption of new and revised standards

IFRS 9 *Financial instruments*

We have adopted IFRS 9 Financial instruments from the beginning of this period. 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 becomes an unrecognised contingent asset).

At the date of authorisation of these interim financial statements the following standards and interpretations were in issue but not yet effective, and therefore have not been applied in these interim 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 is conducting a systematic review to quantify the exact impact of adoption of the standard.

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.

(b) Principal risks

In the directors' view, there have been no changes to the principal risks and uncertainties facing the Group from those described on pages 28 to 31 of the Group's Annual Report and Financial Statements for the year ended 31 December 2017. The directors expect that the Group's Headline profits will continue to be weighted to the second half.

(c) Restatement of comparatives

As disclosed in the statutory accounts for the year ended 31 December 2017, the 2017 results included various adjustments arising from a comprehensive Contract Review. In the main these adjustments related to contracts that were substantially complete at the end of 2016 but where additional information had come to light since the 2016 financial statements were signed. The Contract Review also identified the need for additional provisions in respect of loss making or onerous contracts. The impact of the Contract Review and the results of businesses classified as "Exited" are presented as non-underlying items (see note 4) and are excluded from the calculation of headline earnings per share (see note 7). The presentation of comparative information for the first half of 2017 has been restated to be consistent with this presentation. There is no impact on comparative net assets or statutory profit before taxation.

3. Business and geographical segments

(a) Business 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 the financial impact of our PFI investments, are shown in "Group Services".

	Revenue including share of associates and joint ventures			**Consolidated revenue**			**Result**		
	Six months ended 30 June 2018 £million	Six months ended 30 June 2017 £million restated #	Year ended 31 December 2017 £million restated #	**Six months ended 30 June 2018 £million**	Six months ended 30 June 2017 £million restated #	Year ended 31 December 2017 £million restated #	**Six months ended 30 June 2018 £million**	Six months ended 30 June 2017 £million restated #	Year ended 31 December 2017 £million restated #
Support Services – UK	**820.7**	842.1	1,687.5	**813.5**	834.8	1,670.7	**21.6**	26.7	38.9
Support Services – International	**101.5**	102.3	193.9	**82.9**	64.9	142.2	**2.2**	1.2	2.8
Support Services	**922.2**	944.4	1,881.4	**896.4**	899.7	1,812.9	**23.8**	27.9	41.7
Construction – UK	**396.0**	502.3	997.9	**396.0**	502.3	997.9	**5.6**	9.6	(9.1)
Construction – International	**107.3**	145.3	290.5	**-**	-	-	**3.3**	8.3	19.2
Construction	**503.3**	647.6	1,288.4	**396.0**	502.3	997.9	**8.9**	17.9	10.1
Equipment Services	**97.4**	111.0	229.0	**97.4**	111.0	229.0	**18.4**	24.9	54.4
Group Services	**9.0**	49.9	92.1	**9.0**	6.7	35.0	**(11.0)**	(14.1)	(21.0)
Inter-segment elimination	**(4.7)**	(5.2)	(12.0)	**(4.7)**	(5.2)	(12.0)	**-**	-	-
	1,527.2	1,747.7	3,478.9	**1,394.1**	1,514.5	3,062.8	**40.1**	56.6	85.2
Non-underlying items and amortisation of acquired intangible assets (note 4)	**143.2**	133.2	188.0	**94.2**	133.2	188.0	**(7.2)**	(22.1)	(310.0)
Revenue/Total operating profit/(loss)	**1,670.4**	1,880.9	3,666.9	**1,488.3**	1,647.7	3,250.8	**32.9**	34.5	(224.8)
Investment revenue							**2.0**	2.3	8.8
Finance costs							**(40.9)**	(11.9)	(28.4)
Profit/(loss) before tax							**(6.0)**	24.9	(244.4)
Tax charge							**(10.6)**	(2.3)	(10.0)
Profit/(loss) after tax							**(16.6)**	22.6	(254.4)

# See note 2

(b) 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.

The table below 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		
	Six months	Six months	Year	**Six months**	Six months	Year
	ended	ended	ended	**ended**	ended	ended
	30 June	30 June	31 December	**30 June**	30 June	31 December
	2018	2017	2017	**2018**	2017	2017
	£million	£million	£million	**£million**	£million	£million
		restated #	restated #		restated #	restated #
United Kingdom	**1,178.6**	1,319.8	2,622.4	**1,171.4**	1,312.5	2,605.6
Rest of Europe	**38.8**	30.9	63.4	**38.8**	30.9	63.4
Middle East & Africa	**268.1**	310.3	627.5	**142.2**	127.6	285.3
Australasia	**15.5**	14.2	31.1	**15.5**	14.2	31.1
Far East	**5.3**	8.9	16.8	**5.3**	8.9	16.8
Americas	**16.6**	18.9	37.6	**16.6**	18.9	37.6
Group Services	**9.0**	49.9	92.1	**9.0**	6.7	35.0
Inter-segment elimination	**(4.7)**	(5.2)	(12.0)	**(4.7)**	(5.2)	(12.0)
	1,527.2	1,747.7	3,478.9	**1,394.1**	1,514.5	3,062.8
Non-underlying items and amortisation of acquired intangible assets (note 4)	**143.2**	133.2	188.0	**94.2**	133.2	188.0
	1,670.4	1,880.9	3,666.9	**1,488.3**	1,647.7	3,250.8

	Total operating profit		
	Six months	Six months	Year
	ended	ended	ended
	30 June	30 June	31 December
	2018	2017	2017
	£million	£million	£million
		restated #	restated #
United Kingdom	**31.6**	42.8	37.7
Rest of Europe	**1.7**	0.8	2.7
Middle East & Africa	**14.0**	19.8	52.7
Australasia	**3.7**	3.0	6.3
Far East	**(0.4)**	3.1	4.6
Americas	**0.5**	1.2	2.2
Group Services	**(11.0)**	(14.1)	(21.0)
	40.1	56.6	85.2
Non-underlying items and amortisation of acquired intangible assets (note 4)	**(7.2)**	(22.1)	(310.0)
	32.9	34.5	(224.8)

# See note 2

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

	Six month ended 30 June 2018											
	Exited businesses[1]											
	Energy from waste	Strategic review of Equipment Services	Property development	London Construction	Restructuring costs	Professional adviser fees	Contract Review	Asset impairments	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
Consolidated revenue	22.6	-	-	15.9	-	-	55.7	-	-	-	-	94.2
Cost of sales	(33.8)	-	-	(21.3)	-	-	(59.5)	-	-	-	-	(114.6)
Gross profit/(loss)	(11.2)	-	-	(5.4)	-	-	(3.8)	-	-	-	-	(20.4)
Administration expenses	-	-	-	(1.1)	(10.8)	(32.1)	(3.0)	(15.0)	67.8	-	-	5.8
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	(9.6)	(9.6)
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Total administration expenses	-	-	-	(1.1)	(10.8)	(32.1)	(3.0)	(15.0)	67.8	-	(9.6)	(3.8)
Operating profit/(loss)	(11.2)	-	-	(6.5)	(10.8)	(32.1)	(6.8)	(15.0)	67.8	-	(9.6)	(24.2)
Share of results of associates and joint ventures	-	-	17.0	-	-	-	-	-	-	-	-	17.0
Amortisation of acquired intangible assets of associates	-	-	-	-	-	-	-	-	-	-	-	-
Total operating profit/(loss)	(11.2)	-	17.0	(6.5)	(10.8)	(32.1)	(6.8)	(15.0)	67.8	-	(9.6)	(7.2)
Net finance costs	-	-	-	-	-	-	-	-	-	(7.8)	-	(7.8)
Total profit/(loss)	(11.2)	-	17.0	(6.5)	(10.8)	(32.1)	(6.8)	(15.0)	67.8	(7.8)	(9.6)	(15.0)
Tax on non-underlying items												
Prior period adjustments	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	(11.5)	-	-	(11.5)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	1.6	1.6
Tax on non-underlying items	-	-	-	-	-	-	-	-	(11.5)	-	1.6	(9.9)
Profit/(loss) after taxation	(11.2)	-	17.0	(6.5)	(10.8)	(32.1)	(6.8)	(15.0)	56.3	(7.8)	(8.0)	(24.9)

[1] These businesses 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.

	Six months ended 30 June 2017 #											
	Exited businesses[1]											
	Energy from waste	Strategic review of Equipment Services	Property development	London Construction	Restructuring costs	Professional adviser fees	Contract Review	Asset impairments	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
Consolidated revenue	34.2	2.4	-	28.7	-	-	67.9	-	-	-	-	133.2
Cost of sales	(34.2)	(0.9)	-	(30.9)	-	-	(67.4)	-	-	-	-	(133.4)
Gross profit/(loss)	-	1.5	-	(2.2)	-	-	0.5	-	-	-	-	(0.2)
Administration expenses	-	(1.6)	-	(2.1)	-	-	(6.4)	-	-	-	-	(10.1)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	(11.4)	(11.4)
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Total administration expenses	-	(1.6)	-	(2.1)	-	-	(6.4)	-	-	-	(11.4)	(21.5)
Operating profit/(loss)	-	(0.1)	-	(4.3)	-	-	(5.9)	-	-	-	(11.4)	(21.7)
Share of results of associates and joint ventures	-	-	-	-	-	-	(0.3)	-	-	-	-	(0.3)
Amortisation of acquired intangible assets of associates	-	-	-	-	-	-	-	-	-	-	(0.1)	(0.1)
Total operating profit/(loss)	-	(0.1)	-	(4.3)	-	-	(6.2)	-	-	-	(11.5)	(22.1)
Net finance costs	-	-	-	-	-	-	-	-	-	-	-	-
Total profit/(loss)	-	(0.1)	-	(4.3)	-	-	(6.2)	-	-	-	(11.5)	(22.1)
Tax on non-underlying items												
Prior period adjustments	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-	-	-	1.9	1.9
Tax on non-underlying items	-	-	-	-	-	-	-	-	-	-	1.9	1.9
Profit/(loss) after taxation	-	(0.1)	-	(4.3)	-	-	(6.2)	-	-	-	(9.6)	(20.2)

[1] These businesses 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.

# See note 2

	Year ended 31 December 2017 #											
	Exited businesses[1]											
	Energy from waste	Strategic review of Equipment Services	Property development	London Construction	Restructuring costs	Professional adviser fees	Contract Review	Asset impairments	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
Consolidated revenue	48.6	4.5	-	50.3	-	-	84.6	-	-	-	-	188.0
Cost of sales	(81.6)	(7.2)	-	(56.6)	(0.4)	-	(156.9)	-	-	-	-	(302.7)
Gross profit/(loss)	(33.0)	(2.7)	-	(6.3)	(0.4)	-	(72.3)	-	-	-	-	(114.7)
Administration expenses	(2.1)	(4.4)	-	(4.0)	(32.8)	(13.9)	(9.2)	(16.7)	-	-	-	(83.1)
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)	(32.8)	(13.9)	(9.2)	(76.7)	-	-	(21.5)	(164.6)
Operating profit/(loss)	(35.1)	(7.1)	-	(10.3)	(33.2)	(13.9)	(81.5)	(76.7)	-	-	(21.5)	(279.3)
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)	(33.2)	(13.9)	(86.1)	(76.7)	-	-	(21.6)	(310.0)
Net finance costs	-	-	-	-	-	-	-	-	-	2.9	-	2.9
Total profit/(loss)	(35.1)	(7.1)	(26.0)	(10.3)	(33.2)	(13.9)	(86.1)	(76.7)	-	2.9	(21.6)	(307.1)
Tax on non-underlying items												
Prior period adjustments	-	-	-	-	-	-	-	(5.5)	-	-	-	(5.5)
Other	-	-	-	-	-	-	-	-	-	-	-	-
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)	(33.2)	(13.9)	(86.1)	(82.2)	-	2.9	(18.0)	(309.0)

[1] These businesses 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.

# See note 2

Exit from Energy from Waste

During 2016 we took the decision to exit business where we take contractual responsibility for process risk on the construction of Energy from Waste (EfW) facilities. A further £11.2 million of losses have been recognised on EfW projects during the period following further delays and associated costs and damages. Further significant insurance proceeds were received in respect of claims on the Glasgow project in the period. The receipt of further insurance income remains a key focus for the Group.

Strategic review of Equipment Services

The strategic review of Equipment Services concluded in the period with the sale of activities in two non-core geographies. The sale was completed within provisions established in the previous period.

Property development

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. Subsequent to the year end, 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 current six month period 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 saw losses of £6.5m in the period.

Restructuring costs

During the period we incurred Restructuring costs of £10.8 million in respect of termination costs for former employees and the exit from a number of arrangements. As discussed in the 2017 annual report, the Group has embarked on a three-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.

Professional adviser fees

Professional adviser fees incurred in connection with our strategic review and re-financing totalled £32.1 million during the period. This is in addition to the £13.9 million recognised in the second half of last year.

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. This resulted in £86.1 million of non-underlying charges in respect of balance sheet write-downs and onerous contract provisions in 2017. Within this 18 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 £43.7 million was provided in respect of loss-making or onerous contracts. See the 2017 annual report for further information. Where further adjustments have been necessary in respect of these same contracts during the subsequent period their result has been recorded as non-underlying. During the period a net additional £6.8 million of provisioning was necessary against these contracts.

Asset impairments

As part of an ongoing strategic review of our portfolio of businesses a number of smaller non-core activities are in the process of being marketed. In the course of this process it has become apparent that, in certain cases, the previous carrying value of assets exceeds their likely disposal value. Whilst no transactions had been completed at the period end an asset impairment charge, principally against property, plant and equipment and receivables, of £15.0m has been recognised in the period.

Pension indexation

During the period the Trustee of the Interserve Pension Scheme (IPS) agreed to our request to use its discretion where possible to change the basis of indexation for future pension increases in respect of deferred and pensioner members of the scheme. This change from RPI to CPI resulted in a non-underlying one-off gain of £67.8 million.

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

Non-underlying financing costs represents the impact of the retranslation of US$ denominated borrowings to current exchange rates following the termination of exchange rate swaps in the previous period.

5. Taxation

	Six months ended 30 June 2018			Six months ended 30 June 2017			Year ended 31 December 2017		
	Profit £million	**Tax £million**	**Effective rate %**	**Profit £million restated#**	**Tax £million restated#**	**Effective rate % restated#**	**Profit £million restated#**	**Tax £million restated#**	**Effective rate % restated#**
Subsidiary undertakings' profit before tax, excluding one-offs	**4.2**	**(0.7)**	**16.7%**	35.7	(4.2)	11.8%	37.2	(8.1)	21.8%
Group share of profit after tax of associates and joint ventures	**4.8**	**-**	**n/a**	11.3	-	n/a	25.5	-	n/a
Headline total	**9.0**	**(0.7)**	**7.8%**	47.0	(4.2)	8.9%	62.7	(8.1)	12.9%
Other non-underlying items	**(5.4)**	**(11.5)**	**(213.0%)**	(10.6)	-	n/a	(225.5)	(5.5)	(2.4%)
Goodwill impairment	**-**	**-**	**n/a**	-	-	n/a	(60.0)	-	-
Amortisation	**(9.6)**	**1.6**	**16.7%**	(11.5)	1.9	16.5%	(21.6)	3.6	16.7%
Total	**(6.0)**	**(10.6)**	**(176.7%)**	24.9	(2.3)	9.2%	(244.4)	(10.0)	(4.1%)

# See note 2

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

	Six months ended 30 June 2018 £million	Six months ended 30 June 2017 £million	Year ended 31 December 2017 £million
Tax on actuarial gains/(losses) on defined benefit pension schemes	**0.6**	-	(1.8)
Tax on movements in cash flow hedging instruments	**-**	(2.1)	(4.0)
Tax on exchange movements on hedged financial instruments	**0.1**	2.6	3.8
	0.7	0.5	(2.0)

6. Dividends

No amounts have been distributed to equity shareholders in the period. No interim dividend is proposed for the half year ended 30 June 2018.

7. Earnings/(loss) per share

The calculation of earnings per share is based on the following data:

Earnings/(loss)	**Six months**	Six months	Year
	ended	ended	ended
	30 June	30 June	31 December
	2018	2017	2017
	£million	£million	£million
		restated #	restated #
Net profit/(loss) attributable to equity holders of the parent (for basic and basic diluted earnings per share)			
Adjustments:	**(18.2)**	21.6	(256.4)
Non-underlying items and amortisation of acquired intangible assets (note 4)	**24.9**	20.2	309.0
Headline earnings (for headline and headline diluted earnings per share)	**6.7**	41.8	52.6

Weighted average number of shares	**Six months**	Six months	Year
	ended	ended	ended
	30 June	30 June	31 December
	2018	2017	2017
	Number	Number	Number
	thousand	thousand	Thousand
Weighted average number of ordinary shares for the purposes of basic and headline earnings per share	**146,710**	145,714	145,714
Effect of dilutive potential ordinary shares[1]:			
Warrants in issue	**32,423**	-	-
Share-based payments	**2,796**	30	6,781
Weighted average number of ordinary shares for the purposes of basic and headline diluted earnings per share	**181,929**	145,744	152,495

	Six months ended	Six months ended	Year ended
Earnings/(loss) per share	**30 June 2018**	30 June 2017	31 December 2017
	Pence	pence	pence
		restated #	restated #
Basic earnings/(loss) per share	**(12.4)**	14.8	(176.0)
Diluted basic earnings/(loss) per share	**(12.4)**	14.8	(176.0)
Headline earnings per share	**4.6**	28.7	36.1
Diluted headline earnings per share	**3.7**	28.7	34.5

# See note 2

[1] Due to basic earnings per share being a loss in the first half of 2018 and in the 2017 full year, these adjustments for those periods are anti-dilutive and are therefore ignored in calculating diluted basic earnings per share.

8. Financial assets/(liabilities) held at fair value

Trade and other receivables, trade and other payables and long term borrowings are held at amortised cost. The directors consider these values to approximate their fair values. The interest rate and foreign exchange hedges are held at fair value at each balance sheet date.

Classification of financial assets/(liabilities) held at fair value according to the definitions set out in IFRS 7:

	30 June 2018 £million	30 June 2017 £million	31 December 2017 £million
Level 2	**-**	54.8	-

The Group's hedging derivatives were terminated for consideration at fair value on 13 December 2017 and at 30 June 2018 had no such arrangements.

Derivatives used for hedging financial liabilities are considered to be within the grouping referred to as "Level 2". Their fair values are calculated based on the valuation models operated by the relevant counterparty bank, based on market interest rates in force on the date of valuation.

No financial instruments have been transferred between Levels during the period.

9. Share capital

	Six months ended 30 June 2018 Shares thousand	Six months ended 30 June 2017 Shares thousand	Year ended 31 December 2017 Shares thousand
At 1 January	**145,714**	145,714	145,714
Exercised warrants	**4,006**	-	-
Share awards issued	**-**	-	-
At the end of the period	**149,720**	145,714	145,714

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 on 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.

10. Defined benefit retirement schemes

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

	Six months ended 30 June 2018	Six months ended 30 June 2017	Year ended 31 December 2017
Significant actuarial assumptions			
Retail prices index RPI (pa)	**3.1%**	3.2%	3.2%
Consumer prices index CPI (pa)	**2.1%**	2.2%	2.2%
Discount rate (pa)	**2.8%**	2.8%	2.5%
Pension increases in payment:			
RPI (minimum 0% pa)	**3.1%**	3.2%	3.2%
RPI (minimum 0% pa, maximum 5% pa)	**3.0%**	3.1%	3.1%
RPI (minimum 3% pa, maximum 5% pa)	**3.6%**	3.7%	3.7%
CPI (minimum 0% pa)	**2.2%**	n/a	n/a
CPI (minimum 0% pa, maximum 5% pa)	**2.1%**	n/a	n/a
CPI (minimum 3% pa, maximum 5% pa)	**3.2%**	n/a	n/a
Fixed 5%	**5.0%**	5.0%	5.0%
General salary increases (pa)	**2.6%**	2.7%	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:

	30 June 2018 £million	30 June 2017 £million	31 December 2017 £million
Present value of defined benefit obligation	**932.1**	1,042.8	1,064.1
Fair value of schemes' assets	**(964.2)**	(997.9)	(1,016.1)
(Asset)/Liability recognised in the balance sheet	**(32.1)**	44.9	48.0

The amounts recognised in the income statement are as follows:

	Six months ended 30 June 2018 £million	Six months ended 30 June 2017 £million	Year ended 31 December 2017 £million
Employer's part of current service cost	**1.7**	3.0	5.2
Administration costs	**0.9**	0.5	1.6
Plan amendment (see note 4)	**(67.8)**	-	-
Net interest (income)/expense on the net pension liability/(asset)	**0.3**	0.6	1.1
Total expense recognised in the income statement	**(64.9)**	4.1	7.9

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

The Group has assessed that no further liability arises under IFRIC 14 IAS 19 - *The limit on a defined benefit asset, minimum funding requirements and their interaction* on the basis that the scheme rules allow the Company an unconditional right to refunds, as a result of the Trustees not having a unilateral power to wind up the scheme and assuming the gradual settlement of plan liabilities over time until all members have left the scheme.

Plan amendment

Earlier this year, following discussions in recent years between the Company and the Trustee of the Interserve Pension Scheme (IPS), the Trustee agreed to the Company's request to use its discretion where possible to change the inflation reference index used to calculate increases to some members' benefits in the scheme.

The index previously used was RPI; with effect from 1 May 2018 this was changed to CPI for all affected members of the scheme who are not currently in service. A consultation is currently taking place with the affected active members in relation to these proposed changes for those members.

This has the effect of reducing the scheme's liabilities and corresponding deficit by £67.8 million, which is reflected in the half year balance sheet strengthening the Group's net assets.

11. Reconciliation of non-statutory measures

The Group uses a number of key performance indicators to monitor the performance of its business. This note reconciles these key performance indicators to individual lines in the financial statements.

a) Headline total operating profit and headline profit before tax		**Six months ended 30 June 2018 £million**	Six months ended 30 June 2017 £million restated #	Year ended 31 December 2017 £million restated #
Profit/(loss) before tax		**(6.0)**	24.9	(244.4)
Adjusted for:				
Amortisation of acquired intangible assets		**9.6**	11.4	21.5
Share of associates' amortisation of acquired intangible assets		**-**	0.1	0.1
Non-underlying items - exited business - Energy from Waste		**11.2**	-	35.1
Non-underlying items - exited business - strategic review of Equipment Services		**-**	0.1	7.1
Non-underlying items - exited business - property development		**(17.0)**	-	26.0
Non-underlying items - exited business - London Construction		**6.5**	4.3	10.3
Non-underlying items - restructuring costs		**10.8**	-	33.2
Non-underlying items - professional adviser fees		**32.1**	-	13.9
Non-underlying items - contract review		**6.8**	6.2	86.1
Non-underlying items - asset impairments		**15.0**	-	76.7
Non-underlying items - pension indexation		**(67.8)**	-	-
Non-underlying items - exchange gain/loss on retranslation of loan notes		**7.8**	-	(2.9)
Investment revenue		**(2.0)**	(2.3)	(5.9)
Finance costs		**33.1**	11.9	28.4
Headline total operating profit		**40.1**	56.6	85.2
Investment revenue		**2.0**	2.3	5.9
Finance costs		**(33.1)**	(11.9)	(28.4)
Headline profit before tax		**9.0**	47.0	62.7
b) Gross revenue				
Consolidated revenue		**1,488.3**	1,647.7	3,250.8
Share of revenue of associates and joint ventures		**182.1**	233.2	416.1
Gross revenue		**1,670.4**	1,880.9	3,666.9
c) Net debt				
Cash and deposits	**A**	**194.4**	153.7	155.1
Bank overdrafts		**-**	(10.1)	(6.8)
Bank loans		**(541.8)**	(320.0)	(388.6)
US Private Placement Loans		**(265.5)**	(269.3)	(258.9)
		(807.3)	(599.4)	(654.3)
Finance leases		**(1.4)**	(3.9)	(3.4)
Total borrowings	**B**	**(808.7)**	(603.3)	(657.7)
Per balance sheet	**A+B**	**(614.3)**	(449.6)	(502.6)
less: Impact of hedges on US Private Placement loan notes		**-**	62.1	-
Net debt		**(614.3)**	(387.5)	(502.6)

# See note 2