

Company Registration No. 74643

Interserve Investments Plc

Report and Financial Statements

31 December 2005



A36 *AG6MHGHU* 535
COMPANIES HOUSE 22/06/2006

Interserve Investments Plc

Report and financial statements 2005

Contents	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	5
Independent auditors' report	6
Profit and loss account	7
Balance sheet	8
Notes to the accounts	9

Interserve Investments Plc

Report and financial statements 2005

Officers and professional advisers

Directors

Mr A M Ringrose
Mr R D Vince
Mr J H Vyse
Mr B A Melizan
Mr D J Paterson
Mr T C Jones
Mr S M Jones
Ms G Birley-Smith

Secretary

Mr T Bradbury

Registered Office

Interserve House
Ruscombe Park
Twyford
Reading
Berkshire
RG10 9JU

Bankers

The Royal Bank of Scotland plc
5-10 Great Tower Street
London
EC3P 3HX

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

Interserve Investments Plc

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Activities and future prospects

The principal activities of the company are that of a holding company of investments and bidding new work on PFI/PPP projects. This activity is expected to continue for the foreseeable future.

Results

The results of the company are as set out in the accounts on page 7. No interim dividend was paid during the year (2004: £nil) but the directors do recommend a final dividend of £4,200,000 (2004: £nil). A profit of £2,714,000 (2004: loss of £2,487,000) has been transferred to reserves.

Directors and their interests

The directors who served throughout the year, except as noted, and who remain directors as at the date of this report unless otherwise stated are set out below:

Mr A M Ringrose
 Mr R D Vince
 Mr J H Vyse
 Mr B A Melizan
 Mr S M Jones
 Ms G Birley-Smith (appointed 10 February 2005)
 Mr S S Maroli (resigned 5 January 2006)
 Mr D J Paterson
 Mr T C Jones

The directors who held office at the end of the financial year had the following beneficial interests in the shares of the ultimate parent company, Interserve Plc:

Director	Ordinary shares of 10p each			Options over ordinary shares of 10p each					
	01.01.05/ Date of appointment	31.12.05/ Date of resignation	01.01.05/ Date of appointment	Granted during year	Exercised during year	31.12.05	Exercise Price	Market price at exercise date	Exercise period
R D Vince	978	978	5,295	-	-	5,295	£5.665	N/a	19.03.05 - 18.03.12
			4,705	-	-	4,705	£5.665	N/a	19.03.05 - 18.03.09
			15,000	-	-	15,000	£2.5325	N/a	26.05.07 - 25.05.14
			-	12,941	-	12,941	£3.5933	N/a	14.03.08 - 13.03.15
			11,846	-	-	11,846	£2.5325	N/a	26.05.07 - 25.05.14
			63,154	-	-	63,154	£2.5325	N/a	26.05.07 - 25.05.14
B A Melizan	-	-	-	75,140	-	75,140	£3.5933	N/a	14.03.08 - 13.03.15

Interserve Investments Plc

Directors' report

Director	Ordinary shares of 10p each		Options over ordinary shares of 10p each						
	01.01.05/ Date of appointment	31.12.05	01.01.05/ Date of appointment	Granted/ (lapsed) during year	Exercised during year	31.12.05	Exercise Price	Market price at exercise date	Exercise period
S M Jones	492	492	11,846	-	-	11,846	£2.5325	N/a	26.05.07 - 25.05.14
			6,154	-	-	6,154	£2.5325	N/a	26.05.07 - 25.05.14
			-	23,655	-	23,655	£3.5933	N/a	14.03.08 - 13.03.15
			-	8,348	-	8,348	£3.5933	N/a	14.03.08 - 13.03.15
G Birley-Smith	-	-	-	697	-	697	£3.5933	N/a	14.03.08 - 13.03.15
			-	-	-	-	-	-	-
S S Maroli ¹	8,827*	8,827*	5,529	-	-	5,529	£5.425	N/a	26.03.04 - 25.03.11
			14,471	-	-	14,471	£5.425	N/a	26.03.04 - 25.03.08
			10,000	-	-	10,000	£5.665	N/a	19.03.05 - 30.11.09
			75,000	-	-	75,000	£2.325	N/a	26.05.07 - 25.05.14
			-	80,706	-	80,706	£3.5933	N/a	14.03.08 - 13.03.15
			-	-	-	-	-	-	-
			-	-	-	-	-	-	-
D J Paterson	1,500	1,500	15,000	-	-	15,000	£5.425	N/a	26.03.04 - 25.03.08
			4,705	-	-	4,705	£5.665	N/a	19.03.05 - 18.03.09
			5,295	-	-	5,295	£5.665	N/a	19.03.05 - 18.03.12
			15,000	-	-	15,000	£3.460	N/a	14.06.03 - 13.06.07
			10,850	-	(10,850)	-	£2.120	£3.601	07.10.01 - 06.10.05
			33,000	-	-	33,000	£2.5325	N/a	26.05.07 - 25.05.14
			-	32,561	-	32,561	£3.5933	N/a	14.03.08 - 13.03.15

* includes 3,640 shares held in the name of Mrs Sharendra Naidoo-Maroli

¹ At the year end Mr Maroli held £nil unsecured loan notes (2004: £68,144) issued by Interserve Plc

Messrs Ringrose, Vyse and Jones are also directors of the ultimate parent company and their interests are disclosed in the accounts of that company. The mid-market price of ordinary shares in Interserve Plc as at 31 December 2005 was 362.00p (2004: 280.49p). The highest and lowest market prices of the shares during the year were 371.00p and 325.00p (2004: 342.75p and 235.50p) respectively.

No directors had any interests, beneficial or non-beneficial, in the share capital of the company or had a material interest during the year in any significant contract with the company or any subsidiary.

Interserve Investments Plc

Directors' report


Creditor payment policy

It is the company's normal practice to agree payment terms with its suppliers and abide by those terms. Payment becomes due when it can be confirmed that the goods and/or services have been provided in accordance with the relevant contractual conditions. Trade creditors at 31 December 2005 calculated in accordance with the requirements of the Companies Act 1985 were nil days (2004: nil days). This represents the ratio, expressed in days, between the amounts invoiced to the company in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

Auditors

A resolution to re-appoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Secretary

17 May 2006

Interserve Investments Plc

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Interserve Investments Plc

We have audited the financial statements of Interserve Investments Plc for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 11. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

17 May 2006

Interserve Investments Plc

Profit and loss account Year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Administrative expenses		(3,571)	(2,721)
Operating loss	2	(3,571)	(2,721)
Income from subsidiary undertakings		10,177	-
Interest payable	3	(1,090)	(751)
Profit/(loss) on ordinary activities before taxation		5,516	(3,472)
Tax on profit/(loss) on ordinary activities	4	1,398	985
Profit/(loss) on ordinary activities after taxation		6,914	(2,487)
Dividends paid		(4,200)	-
Retained profit/(loss) for the year	9	2,714	(2,487)
Profit and loss account at 1 January		(2,535)	(48)
Profit and loss account at 31 December		179	(2,535)

All transactions are derived from continuing operations.

The company had no recognised gains or losses in the year other than as shown in the profit and loss account and accordingly no statement of total recognised gains and losses has been prepared.

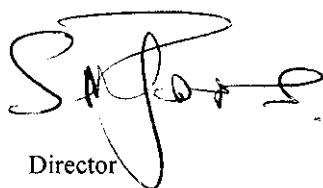
Interserve Investments Plc

Balance sheet 31 December 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Investments	5	<u>24,557</u>	<u>24,557</u>
Current assets			
Debtors	6	41,176	27,832
Creditors: amounts falling due within one year	7	<u>(43,371)</u>	<u>(32,741)</u>
Net current liabilities		<u>(2,195)</u>	<u>(4,909)</u>
Total assets less current liabilities and net assets		<u>23,362</u>	<u>19,648</u>
Capital and reserves			
Called up share capital	8	1,233	1,233
Share premium account	9	20,950	20,950
Profit and loss account	9	<u>179</u>	<u>(2,535)</u>
Total equity shareholders' funds		<u>22,362</u>	<u>19,648</u>

These financial statements were approved by the Board of Directors on 17 May 2006.

Signed on behalf of the Board of Directors


Director

Interserve Investments Plc

Notes to the accounts

Year ended 31 December 2005

1. Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards.

Other than the change in accounting policy noted below, the accounting policies have been applied consistently throughout the year and the previous year. The Company adopted FRS 21 "Events after the balance sheet date". This had no impact on the financial statements.

The particular policies adopted by the directors are described below.

Convention

These financial statements have been prepared in accordance with the historic cost convention.

Fixed asset investments

Investments in subsidiary and associated undertakings are stated at cost less provision for any permanent impairment in value.

Taxation

Current tax, including UK corporation and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items or income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pension scheme

The company participates in the Interserve Pension Scheme. This is a defined benefit multi-employer scheme, the assets and liabilities of which are held independently from the group. For the purposes of Financial Reporting Standard 17, the company has been unable to identify its share of the underlying assets and liabilities in the main group scheme on a consistent and reasonable basis. Therefore the company is accounting for contributions to the Scheme as if it were a defined contribution scheme. Note 29 to the Report and Accounts of the Interserve plc Group set out the details of the International Accounting Standard 19 'Employee Benefits' net pension liability of £132.6 million (2004: £128.9 million).

Pre-contract costs

In compliance with UITF 34, pre-contract costs on PFI contracts are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset when it is virtually certain that a contract will be obtained and the contract is expected to result in future net cash flows.

Consolidation

These financial statements present information about the company alone and not of a group. Consolidated financial statements have not been prepared as provided by section 228 (i) of the Companies Act 1985.

Cash flow statement

The company has taken advantage of the Financial Reporting Standard No. 1 (revised) exemption for 90% subsidiaries not to prepare a cash flow statement.

Interserve Investments Plc

Notes to the accounts (continued) Year ended 31 December 2005

2. Operating loss

Operating loss is stated after charging:

	2005 £'000	2004 £'000
Auditors' remuneration for audit services	4	4

Directors and employees

	2005 £'000	2004 £'000
Directors' emoluments		
Remuneration for services to company	519	227

The highest paid director received salary and benefits (excluding pension contributions) during the year totalling £297,000 (2004: £144,000). His accrued pension entitlement at 31 December 2005 was £nil (31 December 2004: £nil).

8 directors (2004: 8) are members of the defined benefit section of the Interserve Pension Scheme. 1 director (2004: 2) is a member of the defined contribution section of the Scheme. Contributions of £6,282 (2004: £7,065) were paid in respect of those members of the defined contribution section of the Scheme.

	2005 No.	2004 No.
--	-------------	-------------

Employees

The average number, excluding directors, employed by the company, within each category of persons was:

Administration	28	25
	28	25

Staff costs incurred during the year in respect of these employees, excluding directors, were:

	£'000	£'000
Wages and salaries	2,386	1,229
Social security costs	209	164
Pension costs	125	92
	2,720	1,485

3. Interest payable

	2005 £'000	2004 £'000
Interest payable:		
Bank interest	1,090	751

Interserve Investments Plc

Notes to the accounts (continued) Year ended 31 December 2005

4. Tax on loss on ordinary activities

	2005 £'000	2004 £'000
Current taxation		
United Kingdom corporation tax:		
Current tax credit on loss for the year at 30% (2004: 30%)	1,343	985
Prior year adjustment	55	-
Total current taxation	<u>1,398</u>	<u>985</u>
Factors affecting the tax credit in the year:		
Profit/(loss) on ordinary activities before tax	<u>5,516</u>	<u>(3,472)</u>
Tax (charge)/credit on profit/(loss) on ordinary activities before tax at 30%	(1,655)	1,042
Dividend income not taxable	3,053	-
Expenses not deductible for tax purposes	(55)	(57)
Current tax credit for the year	<u>1,343</u>	<u>985</u>

5. Investment in subsidiary and associated undertakings

	Shares at cost £'000	Total £'000
Cost and net book value At 1 January and 31 December 2005	<u>24,557</u>	<u>24,557</u>

The subsidiary and associated undertakings are set out below. None of the shares relate to a listed investment. Unless otherwise indicated the undertakings are wholly owned and incorporated in Great Britain.

Interserve PFI Holdings Ltd	100%	Holding company for PFI Investments.
Interserve PFI Holdings 2003 Ltd	100%	Holding company for PFI Investments.
Harmondsworth Detention Services Ltd	49%	Design, build, finance and operation of Harmondsworth Detention Centre.

In accordance with the provisions of Section 228 of the Companies Act 1985 the company is exempt from the obligation to prepare and deliver group accounts as the company is included in the audited consolidated accounts of its parent undertaking, Interserve Plc, which is registered in England and Wales. Accordingly these financial statements present information about the company as an individual undertaking and not as a group.

In the opinion of the directors the aggregate value of the shares in subsidiary undertakings is not less than the aggregate of the amounts at which they are stated in the balance sheet.

Interserve Investments Plc

Notes to the accounts (continued) Year ended 31 December 2005

6. Debtors

	2005 £'000	2004 £'000
Trade debtors	161	250
Amounts owed by group undertakings	38,879	26,277
Corporation tax receivable	2,136	1,305
	<u>41,176</u>	<u>27,832</u>

7. Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Bank overdraft	18,806	13,208
Amounts owed to ultimate parent company	17,890	14,963
Amounts owed to group undertakings	514	488
Other creditors	74	112
Accruals and deferred income	6,087	3,970
	<u>43,371</u>	<u>32,741</u>

The amount owed to the ultimate parent company is interest free and is repayable on demand

8. Called up share capital

	2005 £'000	2004 £'000
Authorised:		
50,000,000 (2004: 50,000,000) ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Called up, allotted and fully paid:		
1,232,854 (2004: 1,232,854) ordinary shares of £1 each	<u>1,233</u>	<u>1,233</u>

9. Reconciliation of movements in reserves and equity shareholders' funds

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity shareholders' funds £'000
Balance at 1 January 2005	1,233	20,950	(2,535)	19,648
Profit attributable to shareholders	-	-	2,714	2,714
Balance at 31 December 2005	<u>1,233</u>	<u>20,950</u>	<u>179</u>	<u>22,362</u>

Interserve Investments Plc

Notes to the accounts (continued) **Year ended 31 December 2005**

10. Contingent liabilities

The company has given guarantees covering banking facilities made available to the parent and fellow subsidiary undertakings. At 31 December 2005 these amounted to £43,377,000 (2004: £47,359,000).

11. Ultimate parent undertaking and related party transactions

The company's immediate and ultimate parent company and controlling party, and parent company of the largest and smallest group which includes the company and for which group financial statements are prepared, is Interserve Plc, a company incorporated in Great Britain. Copies of the group financial statements of Interserve Plc are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.

The company has taken advantage of the exemption contained in Financial Reporting Standard 8 "Related party disclosures" not to report transactions with other group companies.