

Company Registration No. 74643

**Interserve Investments Limited
(formerly Interserve Investments Plc)
Report and Financial Statements**

31 December 2006

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Interserve Investments Limited

Report and financial statements 2006

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Interserve Investments Limited

Report and financial statements 2006

Officers and professional advisers

Directors

Mr A M Ringrose
Mr B A Melizan
Mr D J Paterson
Mr D I Sutherland
Mr J H Vyse
Mr R D Vince
Mr S M Jones
Mr T C Jones
Mr T Bradbury

Secretary

Miss L Smerdon

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 Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

This Report of the Directors has been prepared in accordance with s246(4) of the Companies Act 1985 relating to small companies

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 (2005: £nil) and the directors do not recommend a final dividend (2005: £4,200,000). A loss of £3,967,000 (2005: profit of £2,714,000) has been transferred to reserves

Directors and their interests

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

Mr A M Ringrose
 Mr B A Melizan
 Mr C Field (appointed 22 March 2007)
 Mr D J Paterson
 Mr D I Sutherland (appointed 16 October 2006)
 Mr J H Vyse
 Mr R D Vince
 Mr S M Jones
 Mr T C Jones
 Mr S S Maroli (resigned 4 January 2006)
 Mr T Bradbury (appointed 4 December 2006)
 Ms G Birley-Smith (resigned 15 December 2006)

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					
	01.01.06/ Date of appointment	31.12.06/ Date of resignation	01.01.06/ Date of appointment	Granted during year	Exercised during year	31.12.06/ Date of resignation	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
B A Melizan	-	-	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
			75,140	-	-	75,140	£3.5933	N/a	14.03.08– 13.03.15

Interserve Investments Limited

Directors' report

Director	Ordinary shares of 10p each			Options over ordinary shares of 10p each					
	01 01 06/ Date of appointment	31 12 06/ Date of resignation	01 01 06/ Date of appointment	Granted during year	Exercised during year	31 12 06 /Date of resignation	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
T Bradbury	5,311	5,311	14,150	-	-	14,150	£2 12	N/a	7 10 01- 6 10 08
			25,000	-	-	25,000	£3 46	N/a	14 06 03- 13 06 07
			20,000	-	-	20,000	£5 425	N/a	26 03 04- 25 03 08
			15,000	-	-	15,000	£5 665	N/a	19 03 05- 18 03 09
			75,000	-	-	75,000	£2 5325	N/a	26 05 07- 25 05 14
G Birley-Smith	-	-	61,225	-	-	61,225	£3 5933	N/a	14 03 08- 13 03 15
			8,348	-	-	8,348	£3 5933	N/a	14 03 08 - 13 03 15
			697	-	-	697	£3 5933	N/a	14 03 08 - 13 03 15
S S Maroli	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
			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

Interserve Investments Limited

Directors' report

Performance Share Plan

Director	Date of award	Mid market price on award date	1 January 2006/Date of appointment	Granted during period	31 December 2006/Date of resignation	Market price on vesting date	Performance period
Mr R D Vince	21 06 06	368 5	-	7,211	7,211	n/a	01 01 06-31 12 09
Mr B A Melizan	21 06 06	368 5	-	44,236	44,236	n/a	01 01 06-31 12 09
Mr S M Jones	21 06 06	368 5	-	7,863	7,863	n/a	01 01 06-31 12 09
Mr T Bradbury	21 06 06	368 5		33,177	33,177	n/a	01 01 06-31 12 09
Mrs G Birley-Smith	21 06 06	368 5	-	7,149	7,149	n/a	01 01 06-31 12 09

Messrs Ringrose, Vyse and Jones are directors of the ultimate parent undertaking, Interserve Plc 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 2006 was 401 00p (2005 362 00p). The highest and lowest market prices of the shares during the period were 429 00p and 368 63p (2005 371 00p and 325 00p) respectively.

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

Directors indemnities

The Company has made third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this 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 2006 calculated in accordance with the requirements of the Companies Act 1985 were nil days (2005 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

Each of the persons who is a director at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Interserve Investments Limited

Directors' report

Auditors (continued)

Deloitte & Touche LLP have been appointed as auditors to the company and have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

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

A handwritten signature in black ink, appearing to read 'S M Jones', written over a horizontal line.

S M Jones
Director

23 October 2007

Interserve Investments Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible 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 Limited

We have audited the financial statements of Interserve Investments Limited for the year ended 31 December 2006 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgments 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 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

25 October 2007

Interserve Investments Limited

Profit and loss account Year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Administrative expenses		(3,806)	(3,571)
Operating loss	2	(3,806)	(3,571)
Income from subsidiary undertakings		-	10,177
Interest payable	3	(1,826)	(1,090)
Profit/(loss) on ordinary activities before taxation		(5,632)	5,516
Tax on profit/(loss) on ordinary activities	4	1,665	1,398
Profit/(loss) on ordinary activities after taxation		(3,967)	6,914
Dividends paid		-	(4,200)
Retained (loss) /profit for the year	9	(3,967)	2,714

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

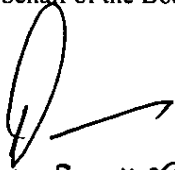
Interserve Investments Limited

Balance sheet 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Investments	5	24,557	24,557
Current assets			
Debtors	6	39,450	41,176
Creditors: amounts falling due within one year	7	(45,612)	(43,371)
Net current liabilities		(6,162)	(2,195)
Total assets less current liabilities and net assets		18,395	23,362
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	(3,788)	179
Shareholders' funds		18,395	22,362

These financial statements were approved by the Board of Directors on 23 October 2007

Signed on behalf of the Board of Directors

Director  D SUTHERLAND

Interserve Investments Limited

Notes to the accounts

Year ended 31 December 2006

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. The company is unable to identify its share of the underlying assets and liabilities of the scheme and accordingly accounts for the scheme as if it were a defined contribution scheme

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 (1) 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 Limited

Notes to the accounts (continued) Year ended 31 December 2006

2. Operating loss

Operating loss is stated after charging

	2006 £'000	2005 £'000
Auditors' remuneration for audit services	<u>2</u>	<u>2</u>

Directors and employees

	2006 £'000	2005 £'000
Directors' emoluments		
Remuneration for services to company	<u>291</u>	<u>519</u>

The highest paid director received salary and benefits (excluding pension contributions) during the year totalling £123,000 (2005 £297,000). His accrued pension entitlement at 31 December 2006 was £7,411 (31 December 2005 £nil).

7 directors (2005 8) are members of the defined benefit section of the Interserve Pension Scheme. 2 directors (2005 1) are members of the defined contribution section of the Scheme. Contributions of £7,271 (2005 £6,282) were paid in respect of those members of the defined contribution section of the Scheme.

	2006 No.	2005 No.
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Employees

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

Administration	<u>30</u>	<u>28</u>
	<u>30</u>	<u>28</u>

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

	£'000	£'000
Wages and salaries	2,103	2,386
Social security costs	250	209
Pension costs	<u>111</u>	<u>125</u>
	<u>2,464</u>	<u>2,720</u>

3. Interest payable

	2006 £'000	2005 £'000
Interest payable		
Bank interest	<u>1,826</u>	<u>1,090</u>

Interserve Investments Limited

Notes to the accounts (continued) Year ended 31 December 2006

4. Tax on loss on ordinary activities

	2006 £'000	2005 £'000
Current taxation		
United Kingdom corporation tax		
Current tax credit on loss for the year at 30% (2005 30%)	1,343	1,343
Prior year adjustment	55	55
Total current taxation	1,398	1,398
Factors affecting the tax credit in the year:		
Profit/(loss) on ordinary activities before tax	(5,632)	5,516
Tax (charge)/credit on profit/(loss) on ordinary activities before tax at 30%	1,690	(1,655)
Dividend income not taxable	-	3,053
Expenses not deductible for tax purposes	(25)	(55)
Current tax credit for the year	(1,665)	1,343

5. Investment in subsidiary and associated undertakings

	Shares at cost £'000	Total £'000
Cost and net book value At 1 January and 31 December 2006	24,557	24,557

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 Limited

Notes to the accounts (continued) Year ended 31 December 2006

6. Debtors

	2006 £'000	2005 £'000
Trade debtors	137	161
Amounts owed by group undertakings	35,963	38,879
Corporation tax receivable	3,348	2,136
	<u>39,450</u>	<u>41,176</u>

7. Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Bank overdraft	18,760	18,806
Amounts owed to ultimate parent company	17,854	17,890
Amounts owed to group undertakings	480	514
Other creditors	28	74
Accruals and deferred income	8,490	6,087
	<u>45,612</u>	<u>43,371</u>

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

8. Called up share capital

	2006 £'000	2005 £'000
Authorised:		
50,000,000 (2005 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 (2005 1,232,854) ordinary shares of £1 each	<u>1,233</u>	<u>1,233</u>

9. Reconciliation of movements in reserves and shareholders' funds

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity shareholders' funds £'000
Balance at 1 January 2006	1,233	20,950	179	22,362
Loss attributable to shareholders	-	-	(3,967)	(3,967)
Balance at 31 December 2006	<u>1,233</u>	<u>20,950</u>	<u>(3,788)</u>	<u>18,395</u>

Interserve Investments Limited

Notes to the accounts (continued) **Year ended 31 December 2006**

10 Contingent liabilities

The company has given guarantees covering banking facilities made available to the parent and fellow subsidiary undertakings. At 31 December 2006 these amounted to £nil (2005 £43,377,000)

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.