

REGISTERED NUMBER: 01261946 (England and Wales)

Strategic Report, Report of the Directors and
Financial Statements for the Year Ended 31 December 2018
for
Interserve Engineering Limited



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for the Year Ended 31 December 2018

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Interserve Engineering Limited

Company Information

for the Year Ended 31 December 2018

DIRECTORS:

A K Smythe
A J McDonald

SECRETARY:

A J McDonald

REGISTERED OFFICE:

Interserve House
Ruscombe Park
Twyford, Reading
Berkshire
RG10 9JU

REGISTERED NUMBER:

01261946 (England and Wales)

AUDITORS:

Grant Thornton UK LLP
Chartered Accountants and Senior
Statutory Auditor
30 Finsbury Square
London
EC2P 2YU

Strategic Report
for the Year Ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of an investment holding company. The principal subsidiary undertakings affecting the profits or net assets of the Company in the year are listed in the notes to the financial statements.

There has been no significant change in the Company's principal activity in the year under review. The directors are aware, at the date of this report, it is likely there will be a significant change in the Company's activities in the next financial year as there is currently a proposal for the Company to sell its investment in Interserve Engineering & Construction (UAE) Limited which would mean the Company would change to a non trading company..

REVIEW OF BUSINESS

The directors consider that the Company's key performance indicator is profit before taxation.

The Company's profit from ordinary activities before taxation was £2,312,000 (2017: £8,806,000). The results of the Company are as set out in the financial statements.

Post Balance Sheet Event

For details of post balance sheet events in relation to the 2019 Deleveraging and the impact of this on the business together with information on new loan facilities put in place in 2019 and 2020 see note 15 to the financial statements on pages 19 to 20.

As reported above, as at the date of this report the Company is also in negotiation to sell its subsidiary Interserve Engineering & Construction (UAE) Limited, to an external party. If this sale is completed, the Company will become a non-trading company as it will have sold its only investment (it holds Adyard Abu Dhabi LLC through Interserve Engineering & Construction (UAE) Limited).

PRINCIPAL RISKS AND UNCERTAINTIES

The Company has exposure to a variety of risks which are managed with the purpose of minimising any potential adverse effect on the Company's performance and net assets. The directors have policies for managing each of these risks and they are summarised below.

The principal risk that the Company faces is that the carrying value of its investments decline. The directors carry out reviews of the Company's operating subsidiaries on an annual basis to determine if any impairments have occurred.

The directors are satisfied that, given the nature of this Company, there are no other principal risks and uncertainties to consider. Group risks are discussed in the Annual Report and Financial Statements of Interserve Plc for the year ended 31 December 2018, which does not form part of this Strategic Report.

Strategic Report
for the Year Ended 31 December 2018

GOING CONCERN

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its liabilities as they fall due in the 22 month period to 31 December 2021 ("the going concern review period"). Based on current forecasts and taking into account existing cash and debt facilities of Interserve Group Limited and its subsidiary undertakings (together "the Group"), the Directors expect the Company to have sufficient liquidity to meet its funding requirements during the going concern review period.

The Directors have carefully considered factors which may affect the Company's and the Group's future performance and financial position in the context of their available resources. Specifically:


- The markets in which the Group operates have been challenging over the last few years, although these markets are now showing signs of recovery.
- The satisfactory close out of legacy liabilities and contracts related to the businesses from which the Group has exited (primarily certain construction markets and Energy from Waste).
- Following the Group's deleveraging in March 2019, the Group's lenders became the Group's shareholders. The new shareholders are not natural long-term owners and consequently the Group has commenced a strategic review which may result in the disposal of certain parts of the business. While no decisions have been made, it is possible that within the going concern review period disposals are concluded. The impact and materiality on the remainder of the Group of any such disposals and the requirement to repay debt or retire debt facilities with the majority of any disposal proceeds, cannot be accurately assessed at this stage. However, the directors would, in accordance with their statutory duties, naturally engage with other companies within the Group (including Interserve Group Limited) in order to ensure that the remaining Group continued to have access to sufficient financial resources.
- The going concern review period of 22 months is longer than typically considered by private companies. The longer the period under review the more judgmental the forecast and the higher the uncertainties inherent within it.

The Directors have considered the above uncertainties and have concluded that, whilst individually they are not material, collectively they represent a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

The Directors have concluded that, after due consideration, there is a reasonable expectation that the Company has adequate resources to continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

These financial statements do not include the adjustments that would result if the Group or the Company were unable to continue as a going concern.

APPROVED BY THE BOARD OF DIRECTORS:


.....
A Smythe - Director

Date: 28 February 2020

Report of the Directors
for the Year Ended 31 December 2018

The directors present their report with the financial statements of the Company for the year ended 31 December 2018.

The principal risks and uncertainties of the Company are not included within the Report of the Directors as they are shown in the Strategic Report on pages 2-3.

DIVIDENDS

An interim dividend of £Nil (2017: £Nil) was paid during the year under review. The directors do not recommend payment of a final dividend (2017: £Nil).

FUTURE DEVELOPMENTS

The Company, at the date of this report, is currently looking at an opportunity to sell its investment in Interserve Engineering & Construction (UAE) Limited. (If this is completed, the Company would become a non-trading entity).

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS

The directors who have held office during the period from 1 January 2018 to the date of this report are as follows:

J T Fell - resigned 31 August 2018
D Bush - resigned 28 August 2018
A K Smythe - appointed 31 August 2018
A J McDonald - appointed 30 July 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report and the Report of the Directors 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 including FRS 101 'Reduced Disclosure Framework'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

Report of the Directors
for the Year Ended 31 December 2018

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. The directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

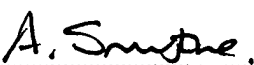
To the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure framework', give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

AUDITORS

The auditors, Grant Thornton UK LLP, have been re-appointed as the Company's auditors and will continue in office.

APPROVED BY THE BOARD OF DIRECTORS:


.....
A Smythe - Director

Date: 28 February 2020

Independent Auditors' Report to the Members of
Interserve Engineering Limited

Opinion

We have audited the financial statements of Interserve Engineering Limited (the 'Company') for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties arising from the UK exiting the European Union on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with a course of action such as Brexit.

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements which explains that the company's going concern assessment is dependent upon the assessment of the going concern of the Group as a whole. As stated in note 2, a number of uncertainties have been identified across the Group. The Directors have concluded that whilst individually these uncertainties are not material, collectively they represent a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information in the Strategic Report and the Report of the Directors, but does not include the financial statements and our Auditors' Report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditors' Report to the Members of
Interserve Engineering Limited

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page four, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.



Philip Westerman (Senior Statutory Auditor)
for and on behalf of Grant Thornton UK LLP
Chartered Accountants and Senior
Statutory Auditor
30 Finsbury Square
London
EC2P 2YU

Date: 28/02/20

Statement of Comprehensive Income
for the Year Ended 31 December 2018

	Notes	2018 £'000	2017 £'000
TURNOVER		<u>-</u>	<u>-</u>
OPERATING PROFIT		-	-
Income from shares in group undertakings	4	<u>2,312</u>	<u>8,806</u>
PROFIT BEFORE TAXATION	5	2,312	8,806
Tax on profit	6	<u>-</u>	<u>-</u>
PROFIT FOR THE FINANCIAL YEAR		2,312	8,806
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>2,312</u></u>	<u><u>8,806</u></u>

Interserve Engineering Limited (Registered number: 01261946)

Balance Sheet
31 December 2018

	Notes	2018 £'000	2017 £'000
FIXED ASSETS			
Investments	7	27,678	27,678
CURRENT ASSETS			
Debtors	8	6,821	6,701
Cash in hand		<u>12</u>	<u>-</u>
		6,833	6,701
CREDITORS			
Amounts falling due within one year	9	<u>(5,000)</u>	<u>(4,880)</u>
NET CURRENT ASSETS		<u>1,833</u>	<u>1,821</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		29,511	29,499
CREDITORS			
Amounts falling due after more than one year	10	<u>(16,317)</u>	<u>(18,617)</u>
NET ASSETS		<u>13,194</u>	<u>10,882</u>
CAPITAL AND RESERVES			
Called up share capital	11	-	-
Retained earnings	12	<u>13,194</u>	<u>10,882</u>
SHAREHOLDERS' FUNDS		<u>13,194</u>	<u>10,882</u>

The financial statements were approved by the Board of Directors on 28 February 2020 and were signed on its behalf by:

A. Smythe
A Smythe - Director

The notes form part of these financial statements

Statement of Changes in Equity
for the Year Ended 31 December 2018

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	-	2,076	2,076
Changes in equity			
Total comprehensive income	-	8,806	8,806
Balance at 31 December 2017	-	10,882	10,882
Changes in equity			
Total comprehensive income	-	2,312	2,312
Balance at 31 December 2018	-	13,194	13,194

Notes to the Financial Statements
for the Year Ended 31 December 2018

1. STATUTORY INFORMATION

Interserve Engineering Limited is a private company, limited by shares, registered in England and Wales and bound by the Companies Act 2006. The Company's registered number and registered office address can be found on the Company Information page. The Group Company accounts can be obtained from the same address.

2. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006.

The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except when indicated otherwise.

The Company's financial statements are included in the Interserve Plc consolidated financial statements for the year ended 31 December 2018. The Company is exempt, under Section 400 of the Companies Act 2006, from the preparation of consolidated financial statements because it is included in the Annual Report and Financial Statements of the Group. These financial statements are separate financial statements.

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its liabilities as they fall due in the 22 month period to 31 December 2021 ("the going concern review period"). Based on current forecasts and taking into account existing cash and debt facilities of Interserve Group Limited and its subsidiary undertakings (together "the Group"), the Directors expect the Company to have sufficient liquidity to meet its funding requirements during the going concern review period.

The Company became a subsidiary of Interserve Group Limited following the deleveraging completed in March 2019. Our assessment of the going concern status of the Company is reliant upon the going concern status of the Group as a whole.

Following the appointment of Administrators to Interserve Plc in March 2019, the Group's Construction business lost a number of contracts previously awarded on a preferred bidder basis. The loss of these volumes coupled with the identification of cost overruns on certain legacy contracts gave rise to a material cash out flow from the Group in 2019.

Since the deleveraging, the Group and Divisional management teams have been strengthened including a new Group Board, Chairman and CFO and a revised reporting structure put in place. Additional funding facilities of £39 million and £125 million were put in place in October 2019 and February 2020 respectively to re-establish a stable financial platform from which to grow the business and to ensure good liquidity over the medium term.

When considering the going concern assumption, the Directors have considered a number of factors, including written support obtained from Interserve Group Limited covering the going concern review period, information provided to them in relation to the Group's trading results, its available resources, the ability of the Group to continue to operate within its financial covenants and the Group's latest forecasts and projections, comprising:

- A Base Case forecast, which has been prepared on a bottom up basis with conservative assumptions regarding new contract wins and settlements on existing contracts; and
- A Weighted Downside Case reflecting reasonably possible adverse variations in performance (including low levels of new work assumed, minimal upside in respect of ongoing settlements and claims (unless the outcome is near certain) and no working capital improvements other than those resulting from a change in business mix).

Notes to the Financial Statements
for the Year Ended 31 December 2018

2. ACCOUNTING POLICIES – continued

Whilst the Weighted Downside Case shows lower headroom at certain points, in the forecast period, there are a number of upside opportunities that have not been recognised in either the Base Case or the Weighted Downside Case including better than anticipated settlement and claim outcomes and greater success in securing new work than forecast. In addition, the forecasts include contingencies that may not be required.

The Directors have carefully considered factors which may affect the Group's future performance and financial position in the context of its available resources. Specifically:

- The markets in which the Group operates have been challenging over the last few years, although these markets are now showing signs of recovery.
- The satisfactory close out of legacy liabilities and contracts related to the businesses that the Group has exited from (primarily certain construction markets and Energy from Waste). There could be potential additional costs relating to the exit from these markets, such as continued contract losses or further liabilities resulting from litigation.
- Following the Group's deleveraging in March 2019, the Group's lenders became the Group's shareholders. The new shareholders are not natural long-term owners and consequently the Group has commenced a strategic review which may result in the disposal of certain parts of the business. While no decisions have been made, it is possible that within the going concern review period disposals are concluded. The impact and materiality on the remainder of the Group of any such disposals and the requirement to repay debt or retire debt facilities with the majority of any disposal proceeds cannot be accurately assessed at this stage. However, the Directors would, in accordance with their statutory duties, naturally engage with other companies within the Group (including Interserve Group Limited) in order to ensure that the remaining Group continued to have access to sufficient financial resources.
- The going concern review period of 22 months is longer than typically considered by private companies. The longer the period under review the more judgmental the forecast and the higher the uncertainties inherent within it.

The Directors have considered the above uncertainties and have concluded that, whilst individually these are not material, collectively they represent a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

The Directors have confirmed that, after due consideration, there is a reasonable expectation that the Company has adequate resources to continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing financial statements.

These financial statements do not include the adjustments that would result if the Group or the Company were unable to continue as a going concern.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2018

2. ACCOUNTING POLICIES - continued

Adoption of new and revised standards

This is the first set of the Company's annual financial statements in which IFRS 15 Revenue derived from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described below.

IFRS 9 impairment requires the use of more forward looking information to evaluate expected credit losses. The new standards expected credit loss model (ECL) replaces IAS 39's incurred loss model. Instruments within the scope of IFRS 9 included loans measured at amortised cost, trade receivables and contract assets recognised and measured under IFRS 15.

Recognition of credit losses is no longer reliant on the group first identifying a credit loss event but instead the group considers a wider range of information when assessing credit risk and measuring expected credit losses. This information includes past events, current conditions and reasonable forecasts in respect of the collectability of future cash flows of the instruments. There has been no quantitative impact on the Company upon adoption of IFRS 9.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of IFRS 7 Financial Instruments Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Current tax

Current tax is recognised in the Statement of Comprehensive Income, except when they relate to items that are recognised in other comprehensive income, in which case, the current tax is also recognised in other comprehensive income.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2018

2. ACCOUNTING POLICIES - continued

Investments in subsidiaries

Investments are stated at cost less provision for any impairment at the balance sheet date.

Finance costs

Borrowing costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred. Differences between borrowing costs payable in the year and costs actually paid are shown in accruals in the balance sheet.

Dividend income

Dividend income from investments is recognised when received.

Financial instruments

Impairment of financial assets

IFRS 9 impairment requires the use of more forward looking information to evaluate expected credit losses. The new standards expected credit loss model (ECL) replaces IAS 39's incurred loss model. Instruments within the scope of IFRS 9 included loans measured at amortised cost, trade receivables and contract assets recognised and measured under IFRS 15.

Recognition of credit losses is no longer reliant on the Group first identifying a credit loss event but instead the Group considers a wider range of information when assessing credit risk and measuring expected credit losses. This information includes past events, current conditions and reasonable forecasts in respect of the collectability of future cash flows of the instruments.

Debtors

Debtors are initially measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in Statement of Comprehensive Income where there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits and other short-term highly-liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank and other borrowings

Interest-bearing bank loans, intercompany loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Statement of Comprehensive Income and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Creditors

Creditors are initially measured at fair value and subsequently measured at amortised cost.

Equity instruments

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2018

2. ACCOUNTING POLICIES - continued

Contingent liabilities

Contingent liabilities are disclosed in the notes to the financial statements in respect of guarantees given to the Interserve Group's subsidiaries and associated undertakings. Due to the nature of the guarantees, it would be difficult to reliably measure the Company's potential obligation. As the Company considers it unlikely that there will be a requirement to make a financial settlement of these guarantees, no liability has been recognised in the financial statements.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company accounting policies, which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical judgements, apart from those involving estimates (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of investments in subsidiaries

Determining whether the Company's investments in subsidiaries have been impaired requires judgement. In making these judgements, net assets of subsidiaries at the balance sheet date and Board-approved budgets for the next three years are taken into consideration. The carrying amount of the investments in subsidiaries and associates at the balance sheet date was £27.7 million (2017: £27.7 million) with £nil (2017: £nil) of impairment losses recognised in 2018.

3. EMPLOYEES AND DIRECTORS

The average number of employees (including executive directors) for the year ended 31 December 2018 was Nil (2017 : Nil).

There were no staff costs for the year ended 31 December 2018 nor for the year ended 31 December 2017.

During the year Messrs D Bush, J Fell, A Smythe and A McDonald were remunerated for their services to the Group by Interserve Plc and, subsequently as of 15 March 2019, Interserve Group Limited. Their remuneration is disclosed in the accounts of that company. It is not considered practicable to allocate their remuneration between the companies of which they are a director.

4. INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2018 £'000	2017 £'000
Dividends received from Group undertakings	<u>2,312</u>	<u>8,806</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2018

5. **PROFIT BEFORE TAXATION**

The audit fee of £1,000 (2017: £1,000) for the current and preceding year was borne by the ultimate parent company.

6. **TAXATION**

Analysis of tax expense

No liability to UK corporation tax arose for the year ended 31 December 2018 nor for the year ended 31 December 2017.

Factors affecting the tax expense

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2018	2017
	£'000	£'000
Profit before income tax	<u>2,312</u>	<u>8,806</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	439	1,695
Effects of:		
Tax not due on dividends	<u>(439)</u>	<u>(1,695)</u>
Tax expense	<u>-</u>	<u>-</u>

7. **INVESTMENTS**

	Shares in Group undertakings £'000
COST	
At 1 January 2018 and 31 December 2018	<u>27,678</u>
NET BOOK VALUE	
At 31 December 2018	<u>27,678</u>
At 31 December 2017	<u>27,678</u>

The Company's investments at the Balance Sheet date in the share capital of companies include the following:

Interserve Engineering & Construction (UAE) Limited

Registered office: PO Box HM 1022, Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda

Nature of business: Oilfield maintenance and fabrication

	%
Class of shares:	holding
Ordinary	100.00

Notes to the Financial Statements - continued
for the Year Ended 31 December 2018

7. INVESTMENTS - continued

Adyard Abu Dhabi LLC

Registered office: PO Box 7604, Plot M10, Musaffah Industrial, Oil Services Area, Sector 10, MW2, Musaffah, Abu Dhabi, United Arab Emirates

Nature of business: Engineering works for oil and gas industry

Class of shares:	%
Ordinary	holding 49.00

The Interserve Group exercises dominant influence and control over Adyard Abu Dhabi LLC by virtue of provisions contained in its Memorandum of Association. It is therefore deemed to be a wholly-owned subsidiary undertaking. The shareholding is indirectly held.

In accordance with section 409 of the Companies Act 2006, a full list of the related undertakings of the Company, as at 31 December 2018, is disclosed above. Unless otherwise stated:

- (a) the principal operations of each related undertaking are conducted in its country of incorporation or registration;
- (b) the shareholding of each related undertaking relates to ordinary, common or unclassified share capital and is equivalent to the percentage of voting rights held by the Company; and
- (c) the equity capital of each related undertaking is directly held by the Company.

Impairment of Investments

The company tests annually for impairment against investments held.

The recoverable amounts of the Cash Generating Units (CGU's) are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to direct costs during the period. Management estimates discounts rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in direct costs are based on past practices and expectations of future changes in the market.

The Company has conducted a sensitivity analysis on the impairment test of each CGU.

The Company prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flows for the following three years based on an estimated growth rate of 2% (2017: 2%). This rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows is 11.8% (2017: 10.3%). If the discount rate were decreased by one percentage point to 10.8% then the impairment would not change. If the discount rate were increased by one percentage point to 12.8% then the impairment would not change.

8. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018	2017
	£'000	£'000
Amounts owed from Group undertakings	<u>6,821</u>	<u>6,701</u>

Amounts owed from Group undertakings incur no interest and are repayable on demand.

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018	2017
	£'000	£'000
Amounts owed to Group undertakings	<u>5,000</u>	<u>4,880</u>

Amounts owed to Group undertakings incur no interest and are repayable on demand.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2018

10. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2018	2017
	£'000	£'000
Amounts owed to Group undertakings	<u>16,317</u>	<u>18,617</u>

The intercompany loan facility expires within five years of the balance sheet date. During 2018 and 2017 no interest was charged on this balance.

11. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2018	2017
			£	£
2	Ordinary	£1	<u>2</u>	<u>2</u>

The authorised ordinary share capital is unlimited. Each ordinary share entitles the holder to 1 vote per share and all shares have the same rights.

12. RESERVES

	Retained earnings £'000
At 1 January 2018	10,882
Profit for the year	<u>2,312</u>
At 31 December 2018	<u>13,194</u>

13. CONTINGENT LIABILITIES

In the ordinary course of business the Company has given guarantees covering bank overdrafts to its fellow subsidiary undertakings. At 31 December 2018 these amounted to £1,035,544k (2017: £12,591k).

Due to the nature of the guarantees, it would be difficult to reliably measure the Company's potential obligation. As the Company considers it unlikely that there will be a requirement to make a financial settlement of these guarantees, no liability has been recognised in the financial statements.

Further to the Post Balance Sheet Events as detailed in Note 15, the new facilities reduced the contingent liabilities as at the date of signing of these accounts to £320,017k.

14. RELATED PARTY DISCLOSURES

The Company has taken advantage of the exemption under FRS 101 paragraph 8(k) and not disclosed transactions with Group undertakings as it was a wholly owned subsidiary of Interserve Plc as at 31 December 2018 and as of 15 March 2019, Interserve Group Limited, (see note 16).

15. POST BALANCE SHEET EVENT

2019 Deleveraging

On 15 March 2019, an Extraordinary General Meeting of Interserve Plc, the Company's then ultimate parent company, rejected the terms of a plan proposed by Interserve Plc's Board of Directors aimed at providing the Group with sufficient liquidity to service its short-term cash obligations, strengthen the balance sheet and improve the overall financial position of the Group (the "Deleveraging Plan" or "Deleveraging"). As a result, the Board of Directors of Interserve Plc applied for Administrators to be appointed over Interserve Plc, following which the majority of that company's assets and liabilities, including all its subsidiaries, were sold to Interserve Group Limited ("IGL"), a new company wholly owned by the Group's existing lenders, and the mechanics of the Deleveraging Plan were implemented.

Under the terms of the Deleveraging Plan, approximately £485 million of financial liabilities owed to the Group's lenders were exchanged for new shares in IGL. At the same time, the RMD Kwikform Group (the "RMDK Group") was ring-fenced within the newly consolidated Group, and was allocated £350 million of the pre-existing debt (£169 million on a cash interest bearing basis and £181 million on a subordinated non-cash interest bearing basis). The debt allocated to the RMDK Group under the terms of the Deleveraging Plan is non-recourse to the rest of the restructured Group and matures in 2023.

Impact of 2019 Deleveraging

Support Services

The Group's Support Services businesses have refocused their portfolio towards strategic markets and capabilities and exited a number of low margin contracts in the High Street Retail FM and non-core sectors, improving overall working capital and margins. The division now has greater certainty of revenues and cash flows from predominantly government backed long term contracts.

Construction

Shortly after the Deleveraging, a detailed contract review was undertaken following which a number of material contracts were written down as projects were determined to be more costly to complete than previously estimated. The Group's exposure to these contracts (which were primarily within its discontinued operations in London and the Strategic Projects business) drove a significant cash outflow in 2019 although as the contracts complete any residual cash flow risk is minimised. The business has been re-sized as a result of exiting from these markets and is now focused on its core strengths of framework based public sector and infrastructure work.

Energy from Waste

The Group materially reduced its exposure to the Energy from Waste sector in 2019. As at the date of this report, future cash flows are predominantly linked to two contracts, Derby and Glasgow.

- Notice of termination was received on the Derby contract during August 2019 and Administrators were appointed to the project company (Resource Recovery Solutions (Derbyshire) Limited ('RRS')) shortly afterwards. The Group is co-operating with the Administrators of RRS to maximise the Compensation on Termination payable and eliminate any residual liability to the Group.
- During December 2019, the Group received a £15 million payment on account resulting from a successful claim under its PI insurance policy relating to the Derby contract. The Group anticipates further receipts in 2020, although these will be required to be applied in mandatory prepayment and / or cancellation of the Group's facilities under the terms of the relevant Finance Documents.
- Service Commencement of the Glasgow plant was announced by Viridor on 28 January 2019. A dispute of the final account has been initiated and following an adjudication in April 2019 the matter has now been referred to arbitration. We expect this arbitration to be heard in March 2021, with an award to follow later in the year, and not before June 2021. The Group's view, based on the results of the adjudication decision in April 2019 and legal advice received to date, is that the liability is between £nil and £33.5 million and that the risk of an outcome that results in a cash settlement significantly in excess of this is remote.

15. POST BALANCE SHEET EVENT - continued

New Loan Facilities

Since 31 December 2018, additional loan facilities of £285 million have been committed (which includes the £39 million and £125 million loan facilities that were put in place in October 2019 and February 2020 respectively) to re-establish a stable financial platform from which to grow the business and to ensure good liquidity over the medium term.

The Group's financial covenant package comprises a minimum liquidity covenant and a minimum EBITDA covenant. The Group is forecasting to comply with both sets of covenants in the period to 31 December 2021.

16. ULTIMATE CONTROLLING PARTY

The Company's immediate parent company is West's Group International Limited, a company registered in England and Wales.

As at 31 December 2018, Interserve Plc, a company registered in England and Wales was the company regarded by the directors as the ultimate parent company and controlling party and was the smallest and largest group for which group financial statements were prepared. A copy of the financial statements of Interserve Plc can be obtained from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

As a consequence of Interserve Plc falling into administration on 15 March 2019, prior to the signing of these accounts, Interserve Group Limited was formed and purchased the trading assets and all of the Interserve Plc subsidiary companies as at that date and is now the company regarded by the directors as the ultimate controlling party.