REGISTERED NUMBER: 03044398 (England and Wales)

Strategic Report, Report of the Directors and

Financial Statements for the Year Ended 31 December 2019

for

Interserve Engineering Services Limited

Contents of the Financial Statements
for the Year Ended 31 December 2019

Company Information
for the Year Ended 31 December 2019

DIRECTORS:	P F Gandy R S Mather G H Restall C N Tatton
SECRETARY:	D A P Timmins
REGISTERED OFFICE:	Ingenuity House Elmdon Trading Estate Bickenhill Lane Birmingham England B37 7HQ
REGISTERED NUMBER:	03044398 (England and Wales)
AUDITORS:	Grant Thornton UK LLP Chartered Accountants and Statutory Auditors The Colmore Building 20 Colmore Circus Birmingham B4 6AT

Strategic Report
for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

REVIEW OF BUSINESS
2019 saw Interserve Engineering Services continue its profitability with turnover exceeding £47m (2018: £60m) for an operating profit of £1.0m (2018: £2.2m).

The Directors previously reviewed the company's client base, market sectors and bid selectivity, recognising the risks and exposure associated within the PFI sector, and continued its rigorous strict bid/no bid criteria. Margin enhancements resulted generally from targeting frameworks, end-users and blue-chip main contractor partnerships within its core sectors, in-particular Health, Education and Justice. The business continued its strategy to reduce reliance on main contractor competitively tendered schemes, with an increase focus on Frameworks such as Procure 22, Design for Life (DFL), Justice and Education & Skills funding agency (ESFA). Delivering end-user direct works is a well embedded strategy, leading to secured orders for the City of London (CoL) Old Bailey Phase 4, Selfridges, Rolls Royce and other Blue-Chip clients who recognise the value the company brings to their asset's whist delivering consistent out-turns for the company.

At 31 December 2019 the business had a future forward order book of 31 million, with further key potential orders of £78 million emanating from frameworks and alliances expected in the near term. This is reduced from the same period last year in 2018 reflecting the directors focus on projects and sectors with appropriate margin returns rather than turnover.

The Directors continue to remain optimistic in the Healthcare, Education, Justice, Mission Critical, Direct End-user Plant replacement and Frameworks which we are well placed to exploit both as a Principal Contractor and Specialist Supply Chain Partner.

The Director's strategy to focus on low risk, government assets and end user clients is a partial hedge against any economic downturn, post Brexit, although outlooks in relation to growing spend in Healthcare will further support their business strategy.

On 15 March 2019, Interserve Plc, the previous ultimate controlling party of Interserve Engineering Services Ltd was placed into administration and the new ultimate controlling party, Interserve Group Limited was formed.

BREXIT

The Director's have carried out a review to determine the impact of Brexit on the company and have concluded the impact is not material and chosen not to disclose their findings within these accounts.

COVID-19
Interserve Engineering Services Ltd, and the Construction Division, of which it is a part, has proven resilient in the face of the COVID-19 pandemic. Overall, the Division has continued to generate profit and cash during the period. The business has worked closely with its customers to keep construction sites open and has benefited from the use of the Coronavirus Job Retention Scheme to maintain its employment levels.

RESULTS
The results for the year ended 31 December 2019 are set out in the financial statements. The company's profit on ordinary activities before taxation was £271k (2018: £1,884k). Profit after taxation was £34k (2018: £1,460k).

POST BALANCE SHEET EVENTS
For details of post balance sheet events, including the impact of Covid-19 on the business, see note 24 on pages 30-31.

KEY PERFORMANCE INDICATORS
The ultimate parent company Interserve Group Limited (Interserve Plc until 15 March 2019), manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for the understanding of the development, performance or position of the business. The performance of the Interserve Construction Division of Interserve Group Limited (Interserve Plc until 15 March 2019), which includes the company, is discussed in ultimate parent company's (Interserve Group Limited) Annual report which does not form part of this report.

PRINCIPAL RISKS AND UNCERTAINTIES
The key risks and uncertainties affecting the company are considered to relate to market change, major contracts, key people, health and safety regime, financial risks and damage to reputation. Further discussion of these risks and uncertainties, in the context of the Interserve Group as a whole, is provided in the previous ultimate parent company's annual report (Interserve Group Limited) which does not form part of this report.

FINANCIAL RISK MANAGEMENT POLICY
The directors have reviewed the financial risk management objectives and policies of the company. Where there is a significant exposure to financial risks, the group policy laid down by the ultimate parent company, Interserve Group Limited (Interserve Plc until 15 March 2019), is followed. In relation to trade receivables the amounts presented in the balance sheet are stated net of allowances for doubtful receivables, based on prior management experience and their assessment of the current economic environment. To manage this risk appropriate credit references and guarantees are sought along with regular monthly reviews of the recoverability of trade receivables.

Appropriate trade terms are negotiated with suppliers and customers and management reviews these terms and the relationships with suppliers and customers and manages any exposure on normal trade terms. The company prepares regular forecasts of cash flow and liquidity and the requirements for additional funding are managed as part of the overall Interserve Group Limited financing arrangements.

ENVIRONMENTAL IMPACT
It is the Interserve Group's policy to conduct its operations in an environmentally sustainable manner in order to protect the environment for future generations. In implementing its policy the Group seek, through its operating companies to; comply with relevant environmental legislation and regulation, prevent pollution, the use of natural resources, minimisation of waste and emissions, promote environmental awareness to its employees, and to monitor and improve its environmental performance.

ANTI-BRIBERY AND CORRUPTION
As part of the Interserve Group's commitment to compliance in anti-bribery and competition laws, it has worked with the Institute of Business Ethics to develop and launch a smart choice toolkit. This is a decision-making guidance tool providing practical help and guidance on the legal position in a variety of situations in which employees may find themselves, such as when it is and is not appropriate to accept a gift or offer hospitality, practical tips to avoid involvement in facilitation payments and how best to act if faced with a conflict of interest.

GOING CONCERN

As a consequence of Group banking arrangements to which the Company is a party, the Directors assessment of the going concern status of the Company is reliant upon the going concern status of the Group as a whole. Based on information provided to the Directors by the Interserve Group Limited and its subsidiary undertakings (together ''the Group'') in relation to the Group's trading results, its available cash and debt facilities, its ability to continue to operate within its financial covenants and its latest financial forecasts and projections, the Directors expect the Company to have sufficient liquidity to meet its funding requirements during the going concern review period of 12 months to 28 February 2022.

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 risks arising from the current COVID-19 pandemic and its potential implications to the broader global economic climate which could impact our ability to win new work and cause delays in the delivery of our existing projects.

- The satisfactory close out of legacy liabilities in relation to Glasgow EfW within a level covered by existing facilities and the likelihood of a commercial settlement or an arbitration outcome occurring within the going concern period of the next twelve months.

GOING CONCERN – continued

- Following the disposal of the Group's Support Services business in November 2020, the Group continues to review options for further disposals. Although no decisions have been made, it is possible that further disposals could be made within the going concern review period. The impact 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 as part of any decision making process. The Directors consider it implausible that a disposal would be approved that resulted in the going concern basis of preparation no longer being appropriate. However, it is plausible that available liquidity headroom could be reduced as a result of such a disposal.

While the Group's Downside Case forecast which reflects reasonably possible adverse variations in performance arising from lower new order intake due to less work available and increased competition, further COVID-19 related delays to delivering and completing existing contracts, increases in working capitalisation and delays in achieving central cost savings, indicates sufficient liquidity and compliance with covenants, the Directors have identified, via their reverse stress testing, various plausible but severe combinations of adverse events which, in combination, could lead to a shortfall in liquidity within the assessment period. As such, the Directors have concluded that, although the uncertainties identified are not individually material, in combination under a severe and plausible set of scenarios 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.

SECTION 172(1) STATEMENT

Section 172 of the Companies Act requires directors to take the following matters into consideration in their decision making: the likely consequences of any decision in the long term; the interests of employees and shareholders; the need to build relationships with other key stakeholders, including customers and suppliers; the impact of the company's operations on the communities and environment they operate in; and the benefits of maintaining a reputation for high standards of business conduct.

When considering key or strategic matters the Directors have regard for their duties owed on a company basis and not just on a Divisional or Group basis. The Directors have access to expert legal advice through the Group's panel of internal and external legal advisors when considering such matters. The Directors also receive updates and refreshers on their duties and responsibilities as directors from the Group's legal advisors.

The directors of the company meet on a regular basis as part of the Construction Divisional Leadership team, and matters are regularly tabled, which the directors should have regard to under Section 172, at their meetings and they recognise that the success of the company is dependent on the way it works with its key stakeholders. When making decisions, particularly of a strategic nature, the directors have regard to the likely long-term impact of these decisions and also their responsibilities and duties to the company's shareholders and other stakeholders. The directors consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of the company, and the company's shareholders, creditors, employees and other stakeholders having regard to those matters. The following explains how the directors have done this for the period 1st January 2019 to the date of this Report.

The directors of the company are committed to operating in accordance with the Group's values and to considering the interests of all its stakeholders in the decisions they make.

Shareholders

As mentioned under the 'Review of Business' on page 2, on 15th March 2019, Interserve Plc, the previous ultimate controlling party of the company was placed into Administration and the new ultimate controlling party, Interserve Group Limited, was formed. The directors of the company maintain regular engagement with Group and the Group's shareholders/lenders regarding the company's business and associated risks and opportunities.

As part of the Group's Deleveraging in March 2019 the directors of the company have made key decisions relating to the provision of guarantees and security to the Group in respect of its re-financing, including its most recent financing facilities; restructuring of the company's inter-company loans with Group; re-alignment of the company's existing guarantees to the Group banking facilities from Interserve Plc to Interserve Group Limited; and the going concern of the company.

Employees

The Directors recognise that engagement with the company's employees is key to ensuring the success of the company and to maintain its competitive advantage and to meet the challenges of the uncertain and changing environment the company operates in. The directors recognise that the success of the company is dependent on the company's employees' commitment to the company and through them demonstrating the values of the Group. The directors also need to retain their key people and recruit, and train effective new people where necessary. The health, safety and wellbeing of the company's employees is fundamental to the way the company operates.

The directors undertake regular site visits to review operations, health and safety performance and to engage with employees across the business. The directors also actively promote the Your Voice Employee Engagement Survey and other employee engagement initiatives. As a result of the engagement initiatives, robust action planning is in place to support feedback from employees to the Your Voice survey.

Community

The directors recognise that it is vital that the company engages with the local communities in which the company operates and that strong community relationships are key.

The directors continue to support the Group's 'Give a day of your time' initiative allowing staff to proactively work with customers and suppliers to support local community causes and charities.

SECTION 172(1) STATEMENT - continued

Environment

The directors recognise that Sustainability is a key part of the company's core values as a business, so engagement in relation the environment in which the company operates is a key part of its operations.

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

The company engages with its stakeholders and understanding their needs is fundamental to how we do business and plan for the future. We are in regular and open dialogue with all stakeholder groups to ensure their views are taken into account so that we can continue to deliver best-in-class services. The feedback we receive from our engagement actively helps inform and shape the way in which we deliver our services. We employ a range of methods to ensure that we act upon the results of our engagement processes and these are explored below. We are always looking to build upon the strong relationships that exist with those we interact with to create better outcomes for all.

The company has several formal processes in place to ensure we maintain the highest standards of customer service and performance across the business. On a broad level, we conduct a customer survey at the start, middle and end of a contract of all key stakeholders which feeds in to developing our offering year-on-year. Our dedicated Customer Experience team follows up on any resulting actions and interventions, ensuring we adapt with our customers' changing needs.

The company has a strong and loyal supply chain with whom we work collaboratively to deliver best-in-class service for our customers. As such, payment terms and timing of payments to our valued supplier partners remains a key area of focus across the business and one which we continue to take very seriously.

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

Prior to 15th March 2019, the ultimate controlling party of Interserve Engineering Services Ltd was Interserve Plc, a publicly listed company, and the directors of Interserve Engineering Services Ltd were therefore bound by the UK Corporate Governance Code applicable to publicly listed companies and their subsidiaries. On 15th March 2019, Interserve Plc was placed into administration and the new ultimate controlling party, Interserve Group Limited was formed, which was not a publicly listed company.

Due to a number of priorities that the directors of Interserve Engineering Services Ltd have faced since the Administration of Interserve Plc and the formation of the new Interserve Group during the course of 2019 and into 2020, the directors have not yet formally applied a replacement existing Governance Code or Framework, albeit, a number of the previous controls and processes remain in place and/ or have been updated as appropriate e.g. in relation to: Anti-Bribery, Competition Compliance, GDPR, Delegated Authorities, Remuneration Committee, Risk Committee, Customer Engagement, Employee Engagement.

ON BEHALF OF THE BOARD:

Paul F Gandy

P F Gandy - Director

25 February 2021

Report of the Directors
for the Year Ended 31 December 2019

The directors present their report with the financial statements of the company for the year ended 31 December 2019.

The principal risks and uncertainties of the company are not included in the Report of the Directors as they are shown in the Strategic Report on pages 2 to 6.

DIVIDENDS
Dividends paid during the year were £nil (2018: £nil). No final dividend was proposed (2018: £nil).

DIRECTORS
R S Mather has held office during the whole of the period from 1 January 2019 to the date of this report.

Other changes in directors holding office are as follows:

P F Gandy - appointed 30 October 2019
C N Tatton - appointed 26 November 2019
C Tyerman - resigned 30 November 2019
M S Goldsworthy - resigned 01 April 2020
G H Restall - appointed 01 April 2020

EMPLOYEE INVOLVEMENT
Subject to commercial confidentiality, the Company (and Interserve Group Limited) remains focused on developing the interests and engagement of all its employees in all aspects of the Company's business and where possible its stakeholders.

Regular briefings are provided by the Company Directors which is cascaded down to all employees.

The Company Employment Engagement Policy sets out its aim to be the "Employer of Choice". The Company actively supports its employees in raising funds or giving a day of their time to local charities. At the start of 2018 the Employee Assistance Programme was launched and builds on earlier employee focused matters including equality and diversity, health and wellbeing.

DISABLED PERSONS
The Company does not discriminate or differentiate in its approach to disabled persons. The Company supports and promotes the principles of The Equality Act 2010 with regard to all of the protected characteristics. The Company promotes inclusivity and training and career development programmes for disabled persons in common with other employees. The Company's Equal Opportunities and Diversity Policy Statement is explained to all new employees. All personnel receive mandatory training in Equality, Diversity and Inclusion.

RESEARCH AND DEVELOPMENT
The Company undertakes research and development activities when providing services to clients. The direct expenditure incurred is not readily identifiable, as the investment is typically included in the relevant project.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
The directors are responsible for preparing the Strategic Report, 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 and 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;

STATEMENT OF DIRECTORS' RESPONSIBILITIES – continued

- 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. 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.

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 he ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors is aware of that information.

AUDITORS

A resolution to reappoint Grant Thornton UK LLP as the auditors of the company will be proposed at the next Annual General meeting of the company.

ON BEHALF OF THE BOARD:

Paul F Gandy

P F Gandy - Director

25 February 2021

Independent Auditors' Report to the Members of Interserve Engineering Services Limited

Opinion

We have audited the financial statements of Interserve Engineering Services Limited (the 'Company') for the year ended 31 December 2019, which comprise income statement, statement of comprehensive income, balance sheet, statements 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 2019 and of the company's 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 'Auditor's 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 macro-economic uncertainties 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 macro-economic uncertainties such as Covid-19 and 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.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their 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 these particular events.

Material uncertainty related to going concern

We draw attention to note 2 in 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, in combination under a severe and plausible set of scenarios they represent a material uncertainty that 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 included in the strategic report and the directors report but does not include the financial statements and our auditor's 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.

Other information (continued)

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.

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

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 directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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 for the financial statements

As explained more fully in the directors' responsibilities statement set out on page xx, 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 is 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.

Auditor's 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 auditor's 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.

Auditor's responsibilities for the audit of the financial statements (continued)

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 auditor's 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 auditor's 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.

Grant Thornton UK LLP.

Rebecca Eagle
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
Date: 25 February 2021

Interserve Engineering Services Limited (Registered number: 03044398)

Statement of Comprehensive Income
for the Year Ended 31 December 2019

	Notes	2019 £'000	2018 £'000
TURNOVER	3	47,180	59,564
Cost of sales		(42,475)	(52,843)
GROSS PROFIT		4,705	6,721
Administrative expenses		(5,264)	(5,144)
		(559)	1,577
Other operating income	5	1,525	681
OPERATING PROFIT		966	2,258
Exceptional costs	6	(375)	(343)
		591	1,915
Interest receivable and similar income	7	66	301
Interest payable and similar expenses	8	(386)	(332)
PROFIT BEFORE TAXATION	9	271	1,884
Tax on profit	10	(237)	(424)
PROFIT FOR THE FINANCIAL YEAR		34	1,460
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		34	1,460

All the activities of the company are classified as continuing.

Interserve Engineering Services Limited (Registered number: 03044398)

Balance Sheet
As at 31 December 2019

	Notes	2019 £'000	2018 £'000
FIXED ASSETS			
Intangible assets	11	-	-
Tangible assets			
Owned assets	12	3	15
Right of use assets	13	674	-
Deferred tax asset	14	191	190
		868	205
CURRENT ASSETS			
Debtors falling due after one year	15	500	770
Debtors falling due within one year	15	11,605	18,648
Cash in hand		10,174	10,264
		22,279	29,682
CREDITORS			
Amounts falling due within one year	16	(14,648)	(21,684)
NET CURRENT ASSETS		7,631	7,998
TOTAL ASSETS LESS CURRENT LIABILITIES		8,499	8,203
CREDITORS			
Amounts falling due after more than one year	17	(8,688)	(8,641)
PROVISIONS FOR LIABILITIES	18	(835)	(620)
NET LIABILITIES		(1,024)	(1,058)
CAPITAL AND RESERVES			
Called up share capital	19	5,000	5,000
Retained earnings	20	(6,024)	(6,058)
SHAREHOLDERS' DEFICIT		(1,024)	(1,058)

The financial statements were approved and authorised for issue by the Board of Directors on 25 February 2021 and were signed on its behalf by:

Paul F Gandy

P F Gandy - Director

G. Restall

G H Restall - Director

The notes form part of these financial statements

Interserve Engineering Services Limited (Registered number: 03044398)

Statement of Changes in Equity
for the Year Ended 31 December 2019

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018	5,000	(7,518)	(2,518)
Changes in equity			
Total comprehensive income	-	1,460	1,460
Balance at 31 December 2018	5,000	(6,058)	(1,058)
Changes in equity			
Total comprehensive income	-	34	35
Balance at 31 December 2019	5,000	(6,024)	(1023)

The notes form part of these financial statements

1. **STATUTORY INFORMATION**

Interserve Engineering Services Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

Principal activity
The company was part of the Interserve Plc group until the 15 March 2019 and is now part of the Interserve Group Limited group. The company undertakes design, installation and commissioning of mechanical and electrical services to building within the UK. National coverage and consistent service delivery to our clients, both in the public and private sector, is achieved through our regional offices that are located strategically throughout England.

2. **ACCOUNTING POLICIES**

Basis of preparation
Interserve Engineering Services Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the company's operation and its principal activities are set out in note 1.

These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis and are presented in sterling which is the functional currency of the company.

The company is exempt from the preparation of consolidated financial statements, because it is included in the 2018 consolidated financial statements of Interserve Plc. Details of the parent whose consolidated financial statements the company is included are shown in note 20 to the financial statements.

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 paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of paragraph 33(c) of IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- 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;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
  - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
  - paragraph 50 of IAS 41 Agriculture;
- 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 in IAS 24 to disclose compensation for key management personnel and awards incurred by an entity for the provision of key management personnel services that are provided by a separate management entity;

2. **ACCOUNTING POLICIES – continued**

Basis of preparation (continued)

- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets;
- the requirement of paragraphs 113(a), 114,115,118,119(a) to 119(c),120 to 127 of IFRS 15 revenue from contracts with customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- the requirements of paragraph 58 of IFRS 16;
- the requirement in IAS8 to list new or revised standards that have not been adopted (and information about their likely impact);

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 12 month period to 28 February 2022 ("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.

As a consequence of group banking arrangements to which this company is a party, 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. The Group has since sold its FM services business to Mitie during November 2020 for £105 million and a 17.5% equity share in Mitie's business. The majority of these proceeds were used to repay existing borrowing facilities with an appropriate balance retained for working capital purposes. Following the disposal of the FM services business the Group's financial covenants have been reset with appropriate headroom to reflect the size of the remaining businesses.

When considering the appropriateness of the going concern basis of preparation, the Directors have reviewed a number of factors, including 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;

- A Downside Case reflecting reasonably possible adverse variations in performance including:

  - lower new orders reflecting less work available and increased competition;
  - the impact of further COVID 19 related delays in delivering and completing existing contracts, and;
  - increases in working capital utilisation and delays in achieving central cost savings.

- A Reverse Stress Test that looks to identify scenarios that would give rise to a liquidity shortfall such that the Group could no longer be considered a going concern and then assess the likelihood of each of these severe but plausible downsides arising. These stress tests included increased market competition in UK Construction, additional costs of settling the Glasgow Energy for Waste dispute and delays in the delivery of central cost savings.

2. **ACCOUNTING POLICIES – continued**

Going concern -continued

Although the Group's Downside Case shows lower headroom at certain points in the forecast period, it demonstrates sufficient liquidity to absorb these risks while complying with the Group's financial covenants. In addition, there are a number of upside opportunities that have not been recognised in either the Base Case or the Downside Case including better than anticipated settlement and claim outcomes and greater success in securing new work than forecast. Further, the forecasts include contingencies that may not be required. The Directors therefore consider that the Downside Case, in isolation, represents a severe and plausible scenario where nonetheless no covenant breach or exhaustion of available liquidity occurs.

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 risks arising from the current COVID-19 pandemic and its potential implications to the broader global economic climate which could impact our ability to win new work and cause delays in the delivery of our existing projects.

- The satisfactory close out of legacy liabilities in relation to Glasgow EfW within a level covered by existing facilities and the likelihood of a commercial settlement or an arbitration outcome occurring within the going concern period of the next twelve months.

- Following the disposal of the Group's Support Services business in November 2020, the Group continues to review options for further disposals. Although no decisions have been made, it is possible that further disposals could be made within the going concern review period. The impact 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 as part of any decision making process. The Directors consider it implausible that a disposal would be approved that resulted in the going concern basis of preparation no longer being appropriate. However, it is plausible that available liquidity headroom could be reduced as a result of such a disposal.

While the Downside Case indicates sufficient liquidity and compliance with covenants, the Directors have identified, via their reverse stress testing, various plausible but severe combinations of adverse events which, in combination, could lead to a shortfall in liquidity within the assessment period. As such, the Directors have concluded that, although the uncertainties identified are not individually material, in combination under a severe and plausible set of scenarios 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.

Changes in significant accounting policies

IFRS 16 Leases replaces IAS 17 Leases along with three Interpretations (IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease).

The adoption of this new Standard has resulted in the company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

2. **ACCOUNTING POLICIES – continued**

Changes in significant accounting policies - continued

For contracts in place at the date of initial application, the company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as a lease under IAS 17 and IFRIC 4.

At this date, the company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

	£'000
Operating lease commitments as at 31 December 2018	1,051
Less: short-term and low value leases recognised on a straight line basis as expense	-
Discounted using the lessee's incremental borrowing rate at the date of initial application	(72)
Finance lease liabilities recognised as at 31 December 2018	-
Lease liabilities as at 1 January 2019	979

The lease liabilities were discounted at the borrowing rate as at 1 January 2019. The weighted average discount rate was 5.48%.

Intangible assets

Amortisation is provided on all intangible assets other than goodwill, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows;

Asset category	**% per annum**
Computer software	33.3%

Residual value is calculated on prices prevailing at the date of acquisition or revaluation. Useful lives and residual values are reviewed at the end of every reporting period.

If software is purchased through a contract, then amortisation will be on a straight-line basis over the term of the contract.

Tangible fixed assets

Depreciation is provided on all tangible fixed assets other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows;

2. **ACCOUNTING POLICIES – continued**

Tangible fixed assets – continued

Asset category	% per annum
Computer equipment	33.3%
Fixtures and fittings	20%
Leasehold	Lease Period
Motor Vehicles	Lease Period
Plant and machinery	20%

Residual value is calculated on prices prevailing at the date of acquisition or revaluation. Useful lives and residual values are reviewed at the end of every reporting period.

Taxation

Current tax, including UK corporation 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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) or other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

2. **ACCOUNTING POLICIES – continued**

Research and development
Expenditure on research and development is written off in the year in which it is incurred.

Leases
For any new contracts entered into on or after 1 January 2019, the company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the right-of-use asset) for a period of time in exchange for consideration'. To apply this definition the company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the company;

- the company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract the company has the right to direct the use of the identified asset throughout the period of use; and

- the company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use;

The company calculates the outstanding liability for existing operating leases using its incremental borrowing rate at date of transition.

Measurement and recognition of leases as a lessee
At lease commencement date, the company recognises a right-of-use asset and a lease liability on the balance sheet. The lease liability is measured at an amount equal to the present value of future lease payments over the lease term, and subsequently adjusted for interest and lease payments. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, an estimate of any costs to dismantle and remove the asset at the end of the lease, payments made at or before lease commencement date, less any incentives received. The right-of-use asset is measured at cost less accumulated depreciation.

The company is required to reassess the lease liability for changes in cash flows that are the result of contractual clauses that have been a part of the contract since inception. The liability will, therefore, be reassessed for changes in lease term due to extension or termination options being exercised, variable lease payments that are dependent on an index or a rate, the exercise of a purchase option and changes in amounts expected to be paid under a residual value guarantee. The company also assesses the right-of-use asset for impairment when such indicators exist.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The company has applied the recognition exemption available for short-term leases (lease term of 12 months or less) and leases of low-value assets; £5,000 or less. Where this exemption has been applied, lease payments are recognised as a straight-line operating expense over the lease term.

The company has taken certain practical expedients available under the IFRS 16 Standard:

Separation of lease components from non-lease components:
The company has elected not to separate lease components from associated non-lease components on vehicle leases, and instead account for these as a single lease component. The service costs on leased vehicles are regarded as a non-lease component, and incorporated into the fixed rental payments.

Initial direct costs:
Costs incurred in negotiating or securing a lease arrangement form part of the initial measurement of the right of use asset. The company has taken a practical expedient to exclude such costs from the right of use assets recognised under IFRS 1.

2. **ACCOUNTING POLICIES – continued**

Leases - continued
Onerous lease provisions:
The company has applied IAS 37 Provisions, Contingent Liabilities and Contingent Assets to assess whether leases are onerous as an alternative to performing an impairment review. The right-of-use asset is adjusted at date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application. Thereafter the right-of-use asset is tested for impairment if events indicate that the carrying value may not be recoverable.

Pensions
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 Interserve Plc 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.

For the defined contribution scheme, the amount charged to the statement of comprehensive income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

For the purposes of International Accounting Standard 19 "Employee Pension" and FRS101, 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 previous ultimate parent company's (Interserve Plc) annual report and financial statements sets out the details of the International Accounting Standard 19 "Employee Benefits" net pension asset of £102.3 million (2018: asset of £85.7 million).

The aggregate pension cost incurred by the company for the year for these arrangements was £1.4m (2018: £1.4m). There were no amounts due to or from the scheme at either year end.

Share based payments
As of 15 March 2019, when Interserve Plc was placed into administration, the new parent company, Interserve Group Limited, which is no longer a Public Limited Company (Plc) had no shares in which to issue and therefore, would no longer issue equity share based payments in the future.

Turnover
Turnover is earned from the provision of advice, design, supply and installation of services to buildings across a range of sectors in both public and markets.

The Company enters into construction contracts on a fixed and variable fee basis and recognises the related revenue over time. Due to the high degree of interdependence between the various elements of these projects, they are accounted for as a single performance obligation.

To depict the progress by which the Company transfers control of the constructed assets to the customer and to establish when and to what extent turnover can be recognised, the Company measures its progress towards complete satisfaction of the performance obligation using surveys of work performed by quantity surveyors in conjunction with clients. The quantity surveyor assessments provided the most faithful depiction of the transfer of goods and services to each customer due to the Company's ability to make reliable estimates of the costs required to compete each project, arising from its significant historical experience in construction similar assets. In addition to the fixed fee, some contracts include bonus payments which the Company can earn by completing a project in advance of a targeted delivery date.

Turnover for contract variations and claims are included in the Company's estimate of the transaction price only if it is highly probable that a significant reversal of revenue will not occur. In making this assessment the Company considers its historical record of performance on similar contracts, whether the company has access to the labour and materials resources needed to meet the contract programme, and the potential impact of other reasonably foreseen constraints.
and measured under IFRS 15.

2. **ACCOUNTING POLICIES – continued**

Turnover - continued
When payments received from customers exceed turnover recognised to date on a particular contract, any excess (a contract liability) is reported in the balance sheet under Advance payments.

Construction projects do not typically include significant financing components. Where specific material contractual advanced payments are made, which are not for the purposes of proportionately providing security of payment to the company, then the contract consideration is reduced to reflect the value of the financing component which is then included within finance income in the statement of comprehensive income.

Critical accounting judgements and key sources of estimation uncertainty
In the preparation of the financial statement's management makes certain judgements and estimates that impact the financial statements. While these judgements are continually reviewed the facts and circumstances underlying these judgements may change resulting in a change to the estimates that could impact the results of the Company. In particular:

Revenue and margin recognition
Determining the amount of any revenue to be recognised, costs to complete and assessment of any other costs arising, the impact of any changes in scope of work, together with the level of recoverable work-in-progress and receivables requires significant management judgements and estimates.

The policy for revenue recognition on long term construction and service contracts is set out below. As acknowledged there, no margin is recognised on construction contracts until the outcome of the contract can be assessed with reasonable certainty - this assessment in itself is highly judgemental and is generally not achieved until the project has achieved substantial progress. This assessment is aided by the use of benchmark, but rebuttable, assumptions that are used to aid consistency but remain subject to regular management challenge and review for appropriateness.

Further judgements are made on an on-going basis with regards to the recoverability of amounts due from customers and other related parties, liabilities arising and the requirement for forward loss provisions. Regular forecasts are compiled on the outcomes of these types of contracts, which require assessments and judgements relating to the value of work performed, changes in work scopes, contract programmes and maintenance obligations.

IFRS16 Adoption
The present value of lease payments is calculated using the Interserve Group's incremental borrowing rate (IBR) at date of initial application. In determining the IBR to be used, the Group considers the economic environment by applying a risk-free rate for the term corresponding to the lease term. This rate is adjusted for liquidity risk and credit risk. The Group's credit risk was determined using an S&P credit rating methodology and a synthetic credit rating was derived of B+ at 1 January 2019 and BB at 15 March 2019. These ratings were then used to derive the associated yields on the issued debt and enabled the calculation of a credit spread being the difference between the yield on a B+ or BB rated bond and a Government bond with zero risk. The occurrence in the future of a significant economic or financial event will trigger the Group to reassess its incremental borrowing rate for new leases entered into at that time. The appropriate IBR was considered by reference to the Company's main lease categories of property, vehicles and plant and machinery, the weighted average of which amounted to 5.68% at the date of transition to IFRS 16.

Financial instruments

Trade receivables - Trade receivables are initially measured at fair value, and subsequently at their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Impairment of financial assets – IFRS 9 impairment requires the use of more forward-looking information to evaluate expected credit losses. The new standard's 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.

2. ACCOUNTING POLICIES – continued

Financial instruments – continued

Recognition of credit losses is no longer reliant on the company first identifying a credit loss event but instead the company 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 instrument.

Cash and deposits - Cash and deposits comprise cash on hand and 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 change in value. Cash and deposits are financial assets and are classified as loans and receivables. These are financial assets and are classified as loans and receivables.

Trade payables - Trade payables are other financial liabilities measured initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Exceptional items

Exceptional items are those that the company consider to be non-recurring and significant in size or in nature. Exceptional items include: the costs associated with redundancy programmes and the financial impact of commercial negotiations.

3. **TURNOVER**

The company's turnover arises in the UK from its activities for the provision of design, supply and installation of services to buildings.

4. **EMPLOYEES AND DIRECTORS**

The average monthly number of employees during the year was as follows:

	2019	2018
Production	120	141
Administration	121	124
Total	241	264

The costs incurred in respect of these employees (including directors) were:

	2019 £'000	2018 £'000
Wages and salaries	11,611	11,897
Social security costs	1,103	1,187
Pension costs	1,504	1,436
Share based payments	-	37
	14,218	14,557

Directors	2019 £'000	2018 £'000
Emolument	162	302
Company pension contributions	12	7
	174	309

Highest paid director	2019 £'000	2018 £'000
Aggregate emoluments	174	208

During the year R Mather was remunerated for their services to the group by Interserve Engineering Services Limited.

During the year P F Gandy, C N Tatton, C Tyerman and M S Goldsworthy were remunerated for their services to the group by Interserve Construction Ltd. 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 directors.

5. **OTHER OPERATING INCOME**

	2019 £'000	2018 £'000
Research & Development tax credits	1,525	681

6. EXCEPTIONAL ITEMS

	2019 £'000	2018 £'000
Exceptional costs	375	343

The non-underlying costs relate to a redundancy programme and Interserve's group wide performance improvement plan, Fit for Growth, aimed at improving margin performance to industry norms which started in November 2017 and is due to conclude in 2020.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
Other interest income	66	-
Group interest income	-	301
	66	301

8. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019 £'000	2018 £'000
Other interest payable	54	-
Group interest payable	332	332
	386	332

9. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting):

	2019 £'000	2018 £'000
Depreciation and amortisation on owned assets	12	31
Depreciation charge for right to use assets	464	-
Short-term lease rentals:		
- Hire of plant and machinery	-	1
- Land & buildings	-	82
- Motor vehicles	58	345
Share based payments	-	37
Research and development expenditure	14,370	8,529
Research and development reclamation	(1,524)	(681)
Remuneration payable to auditor:		
- Fees payable to the company's auditor for the annual audit of the company's accounts	25	25

10. TAXATION

Analysis of tax expense

	2019 £'000	2018 £'000
Current tax:		
Corporation tax	69	373
Adjustment in respect of previous periods	168	150
Total current tax	237	523
Deferred tax:		
Deferred tax - current year	(2)	(7)
Deferred tax - adjustment in respect of previous periods	1	(92)
Total current tax	(1)	(99)
Total tax expense in statement of total comprehensive income	236	424

Factors affecting the tax expense
The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2019 £'000	2018 £'000
Profit before taxation	271	1,884
Profit multiplied by the standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%)	51	358
Effects of:		
Expenses not deductible/income not taxable for tax purposes	16	8
Adjustment in respect of previous periods	169	58
Tax expense	236	424

11. INTANGIBLE FIXED ASSETS

	Computer software £'000
COST	
At 1 January 2019 and 31 December 2019	23
AMORTISATION	
At 1 January 2019 and 31 December 2019	23
NET BOOK VALUE	
At 31 December 2019	-
At 31 December 2018	-

12. TANGIBLE FIXED ASSETS

	Plant and machinery £'000	Fixture and fittings £'000	Computer equipment £'000	Total £'000
At 1 January 2019	25	6	276	307
Additions	-	-	2	2
Disposals	-	-	-	-
At 31 December 2019	25	6	278	309
DEPRECIATION				
At 1 January 2019	25	6	261	292
Charge for year	-	-	14	14
Disposals	-	-	-	-
At 31 December 2019	25	6	275	306
NET BOOK VALUE				
At 31 December 2019	-	-	3	3
At 31 December 2018	-	-	15	15

Capital expenditure provided or committed at the end of the year was £nil (2018: £nil).

13. RIGHT OF USE ASSETS

	leasehold	Motor vehicles	Total
	£'000	£'000	£'000
At 1 January 2019	-	-	-
Additions	739	399	1,138
Disposals	-	-	-
At 31 December 2019	739	399	1.138
DEPRECIATION			
At 1 January 2019	-	-	-
Charge for year	323	141	464
Eliminated on disposal	-	-	-
At 31 December 2019	323	141	464
NET BOOK VALUE			
At 31 December 2019	416	258	674
At 31 December 2018	-	-	-

Minimum lease payments fall due as follows:

	2019
	£'000
Within one year	397
Between one and five years	254
After five years	-
Total minimum lease payments	652
Future finance charges	33
Present value of lease liabilities	619

14. DEFERRED TAX

	Deferred Tax
	£'000
At 1 January 2019	190
Statement of comprehensive income credit - current year	2
Statement of comprehensive income credit - previous periods	(1)
At 31 December 2019	191

14. **DEFERRED TAX - continued**

The deferred tax asset represents unclaimed capital allowances. The directors expect that these capital allowances will be utilised in future periods.

15. **DEBTORS**

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Amounts due from construction contract customers	522	2,328
Retentions	629	714
Amounts owed by group undertakings	5,592	10,506
Contract assets	2,585	4,088
Other debtors	1,820	327
Corporation tax	385	573
Prepayments and accrued income	72	112
	11,605	18,648

	2019 £'000	2018 £'000
Amounts falling due after more than one year:		
Retentions	500	770
Aggregate amounts	12,105	19,418

Amounts due from group undertakings are unsecured, interest free and repayable on demand.

For contracts in progress at year end:

	2019 £'000	2018 £'000
Contracts costs incurred plus recognised in statement of comprehensive income	27,096	40,413
Progress billings	(24,511)	(36,325)
	2,585	4,088

The allowance for doubtful debts against trade debtors is not material.

Contract assets related to the portion of performance obligations already fulfilled by the Company and for which the definitive right to receive cash was subject to completing further work under the relevant contracts. Contract assets are converted into trade receivables at the point that work delivered to the client is invoiced resulting in the Group's unconditional right to receive cash. Contract assets therefore represent a portion of future payments receivable by the Group under existing contracts.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Advance payments	79	60
Trade creditors	7,896	11,782
Social security and other taxes	588	474
Other creditors	89	102
Lease liabilities	387	-
Intra group trade balances	1,185	1,566
Accruals and deferred income	4,424	7,700
	14,648	21,684

Intra group trade balances are amounts arising from the company trading with other entities within the group, they are interest free and repayable on demand.

Contract liabilities from contracts with customers were £7,804,737 (2018: £11,576,000).

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

	2019 £'000	2018 £'000
Amounts owed to group undertaking - interest bearing loan	8,310	8,310
Lease liabilities	232	-
Retentions	146	331
	8,688	8,641

The intercompany loan exists with Interserve Finance Limited. Interest of 4% is charged and the loan is not repayable until September 2021.

Contract liabilities due after one year from contracts with customers were £146,313 (2018: £331,481).

18. PROVISIONS FOR LIABILITIES

	Contract Provision £'000
As at 1 January 2019	620
Charge to the statement of comprehensive income for the year	215
As at 31 December 2019	835

The contract provision relates to onerous contracts. Due to the nature of the contracts the directors are uncertain as to the exact timing of when the contract provisions will be utilised.

19. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2019 £'000	2018 £'000
5,000,000	Ordinary	1	5,000	5,000

20. RESERVES

	Retained earnings £'000
At 1 January 2019	(6,058)
Total comprehensive income	34
At 31 December 2019	(6,024)

21. ULTIMATE PARENT COMPANY

Interserve Group Holdings Limited, a company registered in England and Wales is the company regarded by the directors as the immediate parent company.

Interserve Group Limited, a company registered in England and Wales, is the company regarded by the directors as the ultimate parent company and controlling party and is the smallest and largest group for which group financial statements are prepared. Copies of the financial statements of Interserve Group Limited can be obtained from the Company Secretary, Interserve House, Ruscombe Park, Twyford, Reading, Berkshire, RG10 9JU.

22. CONTINGENT LIABILITIES

At 31 December 2019 there were contingent liabilities in respect of guarantees given in the ordinary course of business. The company has given guarantees covering banking facilities made available to its ultimate parent and fellow subsidiary undertakings. At 31 December 2019 these amounted to £329,360,000 (2018: £330,279,000).

23. 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 is a wholly owned subsidiary of Interserve Group Limited (Interserve Plc until 15 March 2019).

24. POST BALANCE SHEET EVENTS

COVID - 19

On 30 January 2020 the World Health Organisation declared the outbreak of coronavirus (COVID-19) a pandemic resulting in the governments of many countries, states and cities taking preventative and protective actions such as imposing restrictions on travel and business operations and advising or requiring individuals to stay at home or quarantine in cases where people have been exposed to the virus.

24. **POST BALANCE SHEET EVENTS- continued**

In an effort to mitigate the impacts of COVID-19, the company has implemented business continuity plans with only key front line staff working in its offices and at client contract locations and as far as possible the remainder of its staff working from home which has meant that there has been limited impact on operations.

The company has undertaken a detailed review of the potential impacts of COVID-19 and continues to monitor future developments closely. At the date of this report the impact of COVID-19 has predominantly been short-term reductions in revenue as a result of customer site closures, mainly in the private sector, partially offset by additional services requested in sectors such as health, Justice and some central government customers.

The company has concluded that the coronavirus pandemic is a non-adjusting post balance sheet event in accordance with the guidance set out in IAS 10 - Events After the Reporting date, as the significant changes in business activities and economic conditions occurred as a result of events arising after the 31 December 2019 reporting date.

CYBER ATTACK

The Interserve Group experienced a cyber incident on 2 May 2020 which had a significant impact on a number of the company's operating IT systems. On becoming aware of the cyber-attack, the company's crisis response was immediately launched, and its business continuity plans were implemented. There has been no material impact on the provision of services to the company's customers. As of 24 August, the remediation work carried out across the Group has been completed such that the company believes that there is no residual threat to the group remaining as a result of this incident.

The Group conducted a comprehensive investigation into the attack and has implemented a range of remediation measures in response to the attack and has put in place a programme of additional measures to further enhance its infrastructure, systems and processes. The investigation has identified no evidence of data exfiltration having taken place.

The Interserve Group complied with all its notification obligations under applicable data privacy law, including to the Information Commissioners Office (ICO) and is co-operating fully with the ICO's investigation. The Interserve Group understands that the ICO has indicated that it may take regulatory proceedings, which may ultimately lead to a monetary penalty and/or enforcement action, the results of which cannot currently be foreseen or estimated reliably.

FINANCING

On 30 November 2020 the sale of the majority of the Interserve Support Services business was completed for a combined consideration of £205 million, comprising £120 million in cash and a 17.5% shareholding in the Mitie Group. As part of this transaction new Group funding arrangements were put in place with our lenders to provide additional liquidity to the remaining Interserve businesses.