Interserve Plc - In Administration ("the Company")

Administrators' Report pursuant to Statement of Insolvency Practice (SIP) 16: pre-packaged sales in administrations

21 March 2019

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1. Introduction

Summary description of the Transaction

On 15 March 2019 the Company entered administration and Alan Michael Hudson and I were appointed as Joint Administrators of the Company (the “Administrators”). The appointment was made by the High Court of Justice in England and Wales under the provisions of paragraph 12 of Schedule B1 to the Insolvency Act 1986 (the “Act”). I attach formal notice of our appointment for your information at Appendix C. An explanation of the work undertaken by the Administrators prior to their appointment is given in section 3 of this report.

On the date of our appointment as Administrators, we completed a pre-packaged sale of substantially all of the Company’s business and assets and certain liabilities (the “Transaction”) to Montana 1 Limited (the “Buyer”).

The financial benefits for the Company from entering into the Transaction in respect of the release of secured, unsecured and contingent liabilities exceed £1.2bn and include:

- the release of the Company from its liability in respect of a principal amount of approximately £814.51m of secured debt owed to the Lenders (as defined below) and approximately £201.73m of contingent secured liabilities owed to the Bonding Providers (as defined below). This results in a remaining liability equal to an amount of approximately £65.15m (as at the date of administration) in respect of accrued and capitalised cash and PIK interest under the cash and bonding facilities of the Company and its subsidiaries (together, the “Group”), certain “make-whole” amounts in respect of the US private placement notes issued by the Group and fees;

- the assumption by the Buyer of the Company’s liability in respect of intercompany payables to other companies within the Group, totalling approximately £3.42m;

- the release of the Company from its liability to the trustee (the “Pension Trustee”) of the Interserve section of the Interserve Pension Scheme (the “Pension Scheme”) under, among other documents, the override agreement and intercreditor agreement entered into as part of the April 2018 refinancing;

- the release, by way of novation, of the Company from its liabilities as guarantor in respect of the Interserve section of the Pension Scheme (such liabilities being capped at the lesser of £250m and 105% of funding on a section 179 Pensions Act 2004 basis);

- the payment of certain funding amounts to the Administrators in respect of, amongst other things, costs and expenses incurred during the course of the administration of the Company (the “Administration”) and to enable the prescribed part under the Act to be funded to the maximum amount of £600,000; and

- the elimination of the Company’s preferential creditor claims in respect of unpaid wages, accrued holiday pay and potential unsecured creditor claims for redundancy pay and lieu of notice claims as a result of the transfer of the Company’s 59 employees to the Buyer pursuant to the Transfer of Undertakings (Protection of Employment) Regulations 2006 (“TUPE”) (and the Buyer’s assumption of the liabilities owed to those employees).

The Transaction was entered into following a period of sustained negotiation with, amongst others, the Company’s secured creditors (comprising its Lenders (as defined below), Bonding Providers (as defined below) and the Pension Trustee) with a view to achieving a solvent restructuring of the financial obligations of the Group. The failure of the Company’s shareholders to approve that financial restructuring was (as described in section 2 of this report) a key factor leading to our appointment as Administrators and the completion of the Transaction.

Prior to effecting the Transaction, the Company had commissioned valuations of the Group (as described in section 5 of this report) which demonstrated that the market value range of the Group was at a level that was significantly less than the amount of debt secured against the Company's assets. Therefore, other than by way of the prescribed part payable pursuant to the Act, the Company's unsecured creditors (and shareholders) would not have received any recovery in the Administration from the proceeds of any asset sale by the Company.

Pre-packaged administration sales

In many cases there is a high level of interest from creditors, shareholders, the public and the business community in a pre-packaged sale. The term pre-packaged sale refers to an arrangement under which the sale of all or part of a company's business or assets is negotiated with a purchaser prior to the appointment of an administrator and where the administrator effects the sale immediately on, or shortly after, their appointment.

For that reason, the professional bodies that regulate the insolvency profession have stipulated that transparency in such circumstances is of primary importance. As licensed insolvency practitioners, we are bound by the Insolvency Code of Ethics when carrying out all professional work relating to the Administration.

In accordance with Statement of Insolvency Practice 16, a detailed explanation of the Transaction is set out in this report. This Transaction only transferred substantially all of the business and assets and certain liabilities of the Company, with the Company's subsidiaries being unaffected other than by the transfer of their ultimate beneficial owner. The Company's subsidiaries, now held directly or indirectly by the Buyer, are continuing to trade normally and on a solvent basis.

Purpose of the Administration

The purpose of an administration is to achieve one of three statutory objectives (in the following order of priority):

a) to rescue the company as a going concern;

b) to achieve a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in administration); or

c) to realise property in order to make a distribution to one or more secured or preferential creditors.

In this case, the objective pursued by the Administrators for the Company was objective (b). The Transaction achieved a better result for the Company's creditors as a whole than would have been likely if the Company had been wound up (without first being in administration).

If the Transaction had not proceeded, not only would the Company have fallen into an unplanned insolvency, but also its subsidiaries (held both directly and indirectly) would have needed to file for insolvency protection, as described further in this report. This would have resulted in the realisation of significantly reduced value in respect of the Company's assets and crystallised further significant liabilities of the Company.

In addition, the insolvency of the Company and its subsidiaries would have threatened the employment of the Group's approximately 68,000 employees and the ongoing financial viability of the Group's sub-contractors, who rely on their contracts with the Group, and would have risked significant disruption to critical outsourced public services and resulted in widespread loss to customers, suppliers and other creditors.

Further information regarding the Administration generally and the outcome for creditors is provided in the Administrators' Statement of proposals. The Statement of proposals is available to be downloaded from the Ernst & Young LLP ("EY") website, www.ey.com/uk/interserveplcadministration.

If you require a hard copy of this report or have any queries in relation to its contents or the Administration generally, please contact EY's Interserve team on +44 (0)20 7197 5327 or via email at interserveplcadministration@uk.ey.com.

2. Background

Group structure

The Company was incorporated on 19 April 1906 under the name The Tilbury Contracting and Dredging Company (1906) Limited. It then became known as Tilbury Douglas Plc following a merger with RM Douglas (a construction and civil engineering business) in 1991 before rebranding in 2001 as Interserve Plc.

The Company, which was listed on the London Stock Exchange, was the ultimate parent company of a group of companies which operated as an integrated support services, construction and equipment services business. The Group operated predominantly in the UK and the Middle East through three divisions:

- **Construction:** the Group's construction business provides advice, design, construction and fit-out services for buildings and infrastructure. In addition to the UK, this business has a presence in the Middle East (UAE, Qatar and Oman), which is structured through longstanding joint venture partnerships.

- **Support Services:** the Group's support services business involves the management and delivery of outsourced, operational activities, including integrated facilities management, frontline services, justice and specialist healthcare, training, estate management and industrial services. The customer base is comprised of both public and private sector organisations in the UK and overseas.

- **Equipment services:** the Group's equipment services business, which trades globally as RMD Kwikform ("RMDK"), designs, hires and sells formwork and falsework, shoring and safety solutions to the Construction industry. It operates globally through a wholly owned network of over 70 branches, utilising agents in countries in which it does not have a permanent presence. The key sectors that RMDK targets for business are infrastructure, energy and utilities, industrial, commercial/institutional and multi-storey residential.

The Group had a combined annual revenue of approximately £2.9 billion and has a workforce of approximately 68,000 staff globally, the majority of whom are within the UK. The Company itself had no separate trading activities but provided limited shared central services, such as human resources and IT, to its operating divisions.

The Company's principal asset was its shares in Interserve Group Holdings Limited ("IGHL") of which it owned 100%.

Financing

The Group entered into a range of financing arrangements in respect of which there was, as at the date of administration, approximately £1.081 billion in aggregate (comprising approximately £814.51m (in principal amount) of secured debt owed to the Lenders (as defined below), approximately £201.73m of contingent secured liabilities owed to the Bonding Providers (as defined below) and £65.15m in respect of accrued and capitalised cash and PIK (payment in kind) interest under the Group's cash and bonding facilities, certain "make-whole" amounts in respect of the US private placement notes issued by the Group and fees). This included two super senior term loan facilities, five senior revolving credit facilities, three series of US private placement notes and a combination of both super senior committed and senior uncommitted bonding facilities provided by a range of financial institutions (the providers of the bonding facilities being, the "Bonding Providers"). The Group's term loan facilities and revolving credit facilities were funded primarily by a syndicate of secured lenders (together with the holders of the US private placement notes, the "Lenders").

Each of these arrangements benefited from guarantees from a number of entities within the Group, including the Company, as well as a comprehensive security package which included, subject to certain limited exceptions (i) security over the shares in such companies (except the Company), (ii) fixed and floating charges over the assets of each of such English-incorporated entities and (iii) equivalent security over any such non-English-incorporated entities to the extent possible.

The Company was, amongst other things, a guarantor of these arrangements and acted as borrower under certain of such arrangements, including the super senior term loan facilities and the super senior committed bonding facilities.

In January 2019, we instructed our legal advisers to carry out a review of the security granted in favour of GLAS Trust Corporation Limited ("GLAS") as security agent for the Lenders, the Bonding Providers and the Pension Trustee, focussing in particular on the validity of the security. The security review confirmed the overall validity of the security including that the Company's primary asset – being its shares in IGHL – was subject to fixed charge security.

Recent financial results

The key recent financial results for the Company are detailed below (the financial year end being 31 December):

Currency: £m	FY 2015	FY 2016	FY 2017	FY 2018
Consolidated revenue	-	-	-	-
Gross profit	-	-	-	-
Total operating profit / (loss)	(19.1)	(23.3)	(27.2)	(20.7)
Profit / (loss) before tax	(20.4)	(30.2)	(68.2)	(62.3)
Profit / (loss) for the year	(16.5)	(22.9)	(70.8)	(46.5)

As described above, the Company itself had no separate trading activities (generating £nil revenue) but instead provided shared central services, such as human resources and IT, to its key operating divisions. For these reasons, the Company consistently generated a loss for each year.

The key recent financial results for the Group are detailed below (the financial year end being 31 December):

Currency: £m	FY 2015	FY 2016	FY 2017	FY 2018
Consolidated revenue	3,205	3,245	3,251	2,904
Gross profit	423	278	241	289
Total operating profit / (loss)	**96**	**(76)**	**(225)**	**(6)**
Profit / (loss) before tax	79	(94)	(244)	(111)
Profit / (loss) for the year	**70**	**(102)**	**(254)**	**(129)**

Following several years of economic growth and profitability, the Group suffered a significant deterioration in its financial and trading performance in recent years. The Group's UK support services and construction services sectors faced extremely challenging conditions which significantly impacted profitability and exposed it to financial and trading difficulties. The market turbulence in these sectors resulted in service providers, such as the Company, being increasingly unable to absorb losses on individual contracts and led to a damaging loss of confidence in their future financial performance. This position, as well as other factors, left the Group in a position of financial weakness which had a severely detrimental impact on the Company's ability to withstand its recent financial difficulties.

As a result of these difficulties, the Company's share price declined significantly from approximately 386 pence per share in January 2015 to a low of approximately 7 pence per share in February 2019. This significant share price decline resulted in a decline in market capitalisation from approximately £800m in January 2015 to a low of approximately £15m in February 2019. The share price fluctuated following the issue of the prospectus for the Deleveraging Plan and was at 6 pence when the shares were suspended.

Since 2015, the Group (particularly its construction services business) faced a number of challenges, including industry-wide pricing pressures and specific supply chain failures, resulting in the Group reporting difficulties in its construction division. The Group's International business (located in the Middle East) was also impacted by the weakness in oil prices and trading sanctions in place against Qatar.

The weak performance from the Group's construction division continued in 2016 as a result of, amongst other things, serious challenges with legacy contracts. This resulted in a series of exceptional contract provisions, increased cash outflow and a significant adverse impact on the Group's net indebtedness.

This trend continued in 2017 with challenging market conditions and underperformance in the Group's construction business (in particular in respect of its Energy from Waste ("EfW") contracts) and restricted margins in its UK support services division. As a result of these and other factors, Group losses rose to £254m, putting further pressure on Group liquidity.

Although the Group sought to counteract this deterioration through a series of cost reduction and turnaround measures, including changes in senior management and a transformation programme incorporating a review of the Group's commercial contracts, these measures did not deliver sufficient cost reductions to counteract the Group's wider financial underperformance.

This resulted in the Group requiring additional financing and, following discussions with the Lenders, the Bonding Providers and the Pension Trustee, a refinancing was agreed in April 2018; the terms of this refinancing included the provision of £196.6m in new super senior term loan cash facilities and up to £94.5m in new committed super senior bonding facilities.

Although the April 2018 refinancing had been intended to provide the Company with a stable platform from which to improve profitability and growth, the Group continued to struggle to improve its financial performance. Whilst the Group made progress to stabilise and turnaround aspects of its business, certain challenges impacted the planned profitability and cash flow of the Group, including:

- market speculation in respect of the Group's business (particularly in the wake of the collapse of Carillion Plc), the impact of which was to increase nervousness amongst the Group's credit insurers, suppliers and customers and, in turn, adversely affect credit terms and new contract awards;
- an unwind of working capital in the Group's construction division as a result of lower than anticipated new contract awards, in part due to more robust tendering processes and in part due to the market speculation described above;
- an increase in the cost of bonding which impacted on the Group's margins and bidding competitiveness;
- continued issues relating to onerous legacy contracts in the Group's construction division (including in respect of the EfW contracts) and the associated costs and adverse working capital implications;
- slower than planned progress on disposals of certain assets;
- delays in collecting receipts from certain customers in the Middle East;
- a reduction in the receipt of dividends from certain joint venture partners as a result of the market speculation described above; and

- higher than budgeted costs in respect of completing the April 2018 refinancing.

As a result of the Group's continued financial difficulties, the Group developed an additional liquidity requirement (ultimately amounting to £110m) which needed to be satisfied by mid-March 2019. Without this additional liquidity, it was impossible for the Group to avoid insolvency. In light of this, and in an effort to find a long-term solution to the Group's financial difficulties, the Company explored various options with the Lenders and the Group's other key stakeholders. Following these discussions, a consensual solution to the Group's financial difficulties was agreed with these stakeholders, subject to shareholder approval, through a deleveraging plan which would have, amongst other things, considerably reduced the Group's leverage through the conversion of a significant proportion of the Group's existing debt into new equity in the Company (the "Deleveraging Plan").

The Group's management believed that the Deleveraging Plan provided the Group with a much stronger balance sheet and the platform to deliver on its strategy and address the issues that had arisen since the April 2018 refinancing. The key terms of the final Deleveraging Plan were announced on 27 February 2019 as follows:

- existing lenders would have provided £110m of new liquidity through the provision of a new debt facility with a maturity of 2022;

- there would have been a placing and open offer of new equity with the aim of raising approximately £435.2m;

- participations under the super senior revolving facilities and the US private placement notes would have been reduced in an amount equal to approximately £485m in exchange for new equity and/or prepayment from the proceeds of the placing and open offer;

- RMDK would have been ring-fenced within the consolidated Group with £350m of existing debt allocated to it, of which £168.3m would have been cash-pay and £181.7m would have been converted into a subordinated non-cash pay debt instrument (the "IHL Facility"), both on a non-recourse basis to the rest of the Group;

- the Bonding Providers would have provided additional bonding facilities to enable the Group to secure additional business as anticipated by its business plan; and

- the net cash-pay leverage of the Group (excluding the IHL Facility) would have been reduced to less than one times the Group's EBITDA and the Group's total net leverage (including the RMDK non-cash pay debt instrument) would have been reduced to approximately two times the Group's EBITDA.

Given that the Deleveraging Plan involved a significant placing and open offer, its implementation was dependent on approval by the Company's shareholders.

Contingency Planning

In light of the fact that the Company's shareholders might refuse to pass the resolution required to implement the Deleveraging Plan consensually (the "Resolution"), the Group also commenced contingency planning to consider the possibilities and outcomes in the event that there were no other viable solvent refinancing or restructuring options that were capable of implementation.

In connection with such contingency planning, the Lenders, the Bonding Providers and the Pension Trustee indicated that they supported, as a fall-back option in the event that the Deleveraging Plan was not able to be implemented consensually, a transaction whereby a newly incorporated company (which would ultimately be owned by the Lenders) acquired the substantially all of the business and assets and certain liabilities of the Company via a pre-packaged administration sale.

As such, the Group liaised with the Lenders', Bonding Providers' and Pension Trustee's respective advisers to develop a contingency plan that would allow substantially all of the business and assets and certain liabilities of the Company to be transferred to a newly incorporated company in a timely and coordinated manner in the event that an insolvency of the Group could not be avoided.

Failure of Shareholder Resolution

The Resolution was put to the Company's shareholders at the extraordinary general meeting (the "EGM") of the Company held on 15 March 2019. The Resolution was rejected by the Company's shareholders by 59.38% of votes to 40.62% of votes, which meant that the Company was unable to implement the Deleveraging Plan.

As a result, the various waivers and consents obtained from the Lenders and the Bonding Providers in respect of the Group's financing arrangements ceased to be effective and were deemed to have been void from the point at which they were entered into and the Group was in continuing default under those financing arrangements.

Consequently, and in light of (i) the absence of any available option that would have satisfactorily addressed the Company's immediate financial condition, including its critical liquidity needs and (ii) the imminent prospect of the Company's liabilities becoming due and payable, implementation of a non-consensual restructuring became necessary to restructure the Group and provide the necessary liquidity to avoid insolvencies across the entire Group and the consequential and significantly adverse impact on the Company, the Group's customers, suppliers and employees and the critical services provided by the Group.

Following consideration of the options available to the Group, the directors of the Company resolved to apply to the High Court of Justice in England and Wales for an administration order in respect of the Company, taking into account legal advice received, the directors' fiduciary duties and wrongful trading considerations. The directors concluded that the filings needed to be made on an urgent basis in view of these considerations and should occur as early as possible following the EGM on 15 March 2019.

Following approval from the High Court of Justice in England and Wales, the Administrators were appointed in respect of the Company on 15 March 2019. The sale of the business and substantially all of the assets of the Company to the Buyer was completed on the same day, the Administrators having concluded that the Transaction represented the best available outcome for the creditors of the Company as a whole in the circumstances and, in particular, delivered a better result for the Company's creditors as a whole than would have been likely if the Company had been wound up (without first being in administration).

3. Initial introduction and pre-appointment work carried out

A team at EY (the “Lender Team”) was initially engaged by the Lenders in October 2017. A separate team at EY, led by Mr Hudson and me (the “Company Team”) was introduced to the Company by the Lenders (as detailed in appendix D) on 12 December 2018.

The Lender Team was first instructed by the Lenders in relation to the Group in October 2017 to conduct a review of the Group’s short-term cash flow, liquidity position, forecast analysis and business plan in order to consider the Group’s additional funding requirements and potential restructuring options, in addition to providing ongoing advice in relation to stakeholder management. This engagement was extended and supplemented in December 2017, April 2018 and July 2018, as described in Appendix B.

The Lender Team was further instructed by the Lenders in December 2018 to review the Group’s business plan, short-term cash flow and liquidity position in order to assist the Lenders in considering the potential deleveraging options for the Group, including what ultimately became the Deleveraging Plan, and to provide financial advisory support and assistance with stakeholder management in relation to the potential deleveraging options.

Shortly after the Lender Team was retained in relation to the work by the Lenders and given increasing concerns that it might not be possible to achieve a consensual solvent restructuring, the Company instructed the Company Team in January 2019 to carry out the contingency planning work described in this report. This work included, amongst other things:

- assessment of (i) whether the statutory purposes of an administration would be capable of being achieved and (ii) the feasibility of a pre-packaged administration sale being implemented and EY insolvency practitioners being able to accept an appointment as administrators of the Company;

- advice in relation to a potential pre-packaged administration sale (including preparation of an SPA (as defined below) acceptable to the Administrators and identification of which assets and liabilities of the Company were to be transferred pursuant to such SPA) and assistance with stakeholder engagement;

- preparation of this report; and

- limited, non-reliance based, information in respect of some of the generic operational matters that would need to be considered by a purchaser in order to accept the business and assets of the Company, such as tax registration and the opening of bank accounts.

Given that the Lender Team had already been engaged by the Lenders to review the Group’s financial condition, a partner of EY was considered to be well placed to take on a role as prospective administrator and to gain a sufficient level of understanding of the financial and operational condition of the Group quickly. Therefore, as is commonly the case, the Company engaged the Company Team, led by Mr Hudson and me, to carry out this contingency planning work.

Since the engagement of the Lender Team in December 2018, and in anticipation that a separate team was potentially required for the contingency planning work, EY ensured that sufficient mechanisms were in place between the Lender Team and the Company Team in order to avoid any potential conflicts of interest or leaks of confidential information. The steps taken included the implementation of an information barrier, internal restrictions on information sharing (other than in accordance with, and as permitted by, the respective terms of their engagement as advisers to the Company and the Lenders, as relevant) and a requirement that all members of the Lender Team and the Company Team should sign ring-fencing agreements. In addition, the provision of any Group information from the Company Team to the Lender Team only occurred with the prior consent of the Group.

Notwithstanding that the Buyer is the acquisition vehicle of the Lenders, EY is not engaged by, nor has it provided advice to, the Buyer. For completeness and as is usual in pre-packaged administration sale transactions, the Company Team has provided limited and generic information, on a non-reliance basis, in respect of certain operational matters to be considered in order for the Buyer to operate the Group's business after completion of the Transaction.

We understand that to the extent required, the Lender Team may perform a limited role for the Lenders during the Administration, in respect of monitoring the satisfaction of conditions subsequent to the wider restructuring transaction of which the Transaction is a part.

Having considered the relevant principles contained in the Insolvency Code of Ethics, neither Mr Hudson nor I considered that any of the prior relationships referred to above precluded us from being appointed as Administrators.

4. Marketing of the business

Marketing

In connection with the contingency planning work, the Company – in conjunction with Mr Hudson and me – considered whether to pursue a marketing process in respect of the Company's business and assets. The Company was listed on the London Stock Exchange and was the subject of significant public scrutiny and press speculation, particularly given the collapse of Carillion Plc and the Group's involvement in providing vital public services contracts. As a result, based on the advice of financial and legal advisers, it was ultimately decided that it would not have been possible to conduct a formal, public and what would have been – given the Group's complexity – lengthy marketing process on a pre or post administration basis without it having a detrimental effect on the value of the Company's business and assets and further increasing the Group's liquidity requirements. The reasons for this view are summarised below.

Given the nature of the Group's business, its success is intrinsically linked to its ability to complete its existing contracts and to secure future contracts in the private and public sectors. In order to win future contracts, prospective customers must be confident that the Group will be able to complete the work required over the agreed timescales and, in relation to completing its existing contracts, the Group is heavily reliant upon its relationships with the suppliers and the sub-contractors which it engages to perform the work under the contracts (and who, in addition, extend credit to the Group through their payment terms). It is therefore critical to the success of the Group's business that its counterparties are confident in its ability to continue to trade and honour the contracts.

If the Company's counterparties, including its customers and suppliers, had become aware of a sale process, which might (as explained below) have resulted in the sale of only part of the Group's business, it would have cast doubt on the prospect of a solvent financial restructuring for the remainder being achievable and, as a result, would have undermined their confidence in the Group's ability to continue to trade and perform the services under its contracts. This may have led to a refusal by the Group's customers and suppliers to continue to support the business in the fear that the Group, or any part of the Group, was at risk of falling into insolvency. It would also likely have encouraged the Group's counterparties to take precautions due to the Group's precarious position by hardening the terms of their contracts (including customers withholding payments and suppliers accelerating payment terms, or refusing to contract entirely), which would, in turn, have jeopardised the Group's ability to complete its existing contracts. Any such action by the Group's customers and suppliers would have been to the detriment of the Group's cash flow and achievable realisations for its business and assets and thus have been at the expense of the Company's creditors as a whole.

Certain customers had already expressed concerns that a sale of RMDK would have weakened the strength of the remaining parts of the Group.

In addition, given the diverse sectors in which the Group operates, it was also deemed unlikely that a single purchaser would have acquired the entire Group (including the assumption of the EfW liabilities or a bid that attributed value to the Group's equity); rather, it was expected that various interested parties would have needed to have been sought to acquire certain of the Group's divisions and subsidiaries. If this had occurred and parties had only sought to buy selected contracts and assets – potentially on a distressed basis – this would likely have increased negative perception of the viability of certain businesses or parts of the Group to continue to trade as going concerns. This uncertainty would likely have further increased the Group's liquidity requirement. This, in turn, would have further damaged the Group's financial position and attractiveness as a counterparty.

In light of the Group's deteriorating financial position, it was also possible that interested parties would have adopted a strategy of waiting for a collapse to enable them to acquire selected contracts and assets at discounted values. The expected value destructive impact of a formal marketing process (as described above) would likely have exacerbated this risk. This strategy would have been especially likely in respect of the Group's construction division with its onerous contracts (and EfW in particular) thereby making a solvent sale unlikely and further heightening the concerns and risks referred to in this report.

In light of these factors, it would have been destabilising and value destructive for all stakeholders to have undertaken a formal marketing process in respect of the Company's trading subsidiaries and related assets. The adverse impact of a formal marketing process on customer and supplier dealings would – for the reasons described above – likely have created a severe liquidity crisis for the Company resulting in uncontrolled insolvency proceedings across the Group and significant damage to the value of the Group and consequential losses for the Company's creditors.

The possibility of marketing the Group's business during an administration process was also considered. However, the complexity of the Group's structure (which covers a range of geographies and industry sectors) and its financial arrangements also meant that marketing the business with a view to a sale during an administration process was expected to take two to three months to complete on an accelerated basis (and at least seven to nine months on a more comprehensive basis), as interested parties would have required a significant level of information and due diligence. The instability which would have arisen during this period would have risked material damage to the Company's businesses and a deterioration in the ultimate value of the Group. In any event, carrying out such a sales process in an administration would have given rise to a very significant funding requirement, which the Lenders were not prepared to provide and, despite its approach to the Administrators (described below), Coltrane Master Fund L.P. ("Coltrane") was also unable to provide on a readily implementable basis as the other stakeholder consents required were not available.

As described further in section 5 of this report, the valuation evidence – namely two independent valuations – showed that, after accounting for the indebtedness of the Group, the Group's equity value was assessed to be significantly negative. This therefore demonstrated no value in the equity of the Group and rendered it highly unlikely that marketing would have led to a third party offer in excess of the Group's indebtedness. As such, this valuation evidence provides further support for the Administrators' view that to conduct a marketing process would have worsened the position of the Company's creditors. As described in section 7 of this report, the two proposals from Coltrane also demonstrated that there was no existing equity value.

For completeness, it should also be noted that, as the Company's ordinary shares are listed on the UKLA Official List and traded on the London Stock Exchange, the Company had remained open to interested market participants to bid (pursuant to the rules of the City Code on Takeovers and Mergers) for the entire issued share capital of the Company, to acquire shares of the Company through ordinary course stock trading, or to otherwise make an approach to the Company to propose an alternative restructuring proposal. It is indicative of the lack of market interest in the whole business of the Group that, despite the considerable publicity about the Group's financial position, we understand that, other than as detailed in this report, no reliable or deliverable approaches were made.

It is therefore the Administrators' firm belief that a formal marketing process would have been detrimental to the value of the Group and would not have achieved the best possible outcome for the Company's creditors as a whole.

5. Valuation of business and assets

Despite the fact that a formal marketing process would have been detrimental to the value of the Group, and (notwithstanding this) that there was no funding or time available to conduct such an exercise, it was important to have the benefit of independent views as to the value of the Group in order for Mr Hudson and me to evaluate whether the Transaction was appropriate.

Appointment of valuers

As such, it was determined to be appropriate and proportionate for the Company to instruct KPMG LLP (“KPMG”), being a leading accountancy firm with an expertise in valuations, and Houlihan Lokey EMEA LLP (“HL”), being a leading investment bank with an expertise in valuations, to provide market values of the Group as at 31 December 2018. The valuers were selected following a competitive process run by the Company and its financial advisers, Rothschild & Co (“Rothschild”), and on the basis of a number of objective criteria (including delivery time, liability caps and estimated costs). As part of the selection process, Mr Hudson and I joined meetings with the Company and its financial advisers to discuss the objective criteria used in selecting the valuers.

Both valuers confirmed their independence and that they carried appropriate professional indemnity insurance.

Valuation methodology and key considerations

The valuations were prepared in order to determine a potential disposal price range for the Group at fair market value on a debt-free/cash-free, sum-of-the-parts, going-concern basis, and – given the liquidity issues – taking into account the impact of an accelerated sales process under restricted marketing conditions.

Market value is defined as the amount for which an asset would change hands between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

In arriving at their assessment of the market value, the valuers considered a number of customary valuation methodologies including:

- discounted cash flow analysis with reference to the Group’s current business plan;
- capitalised earnings analysis based on near-term earnings and the multiples observed in the market for comparable companies and transactions; and
- listed entity analysis with reference to the current trading range of the Company’s shares.

In arriving at their valuations, the valuers each considered and highlighted a number of key issues, including management’s trading projections and management’s ability to secure new contracts and acceptance onto contract frameworks to achieve the forecast growth.

As described in section 4 above, there would have been a number of challenges in being able to achieve sales of certain of the Group’s divisions. In particular:

- **Construction:** it was unlikely that any potential purchaser would have been willing to take on the whole of the Group’s construction services business without undertaking a substantive due diligence process and, potentially, ring-fencing onerous legacy contracts.

- **International:** it was considered likely to be challenging to find a single purchaser which represented an appropriate partner for all of the Group's joint venture interests in the Group's International operations. Pre-emption rights and long-term relationships with local partners would also likely have rendered it difficult to maximise value in the Group's International operations (Middle East) through a sale.

- **Separation issues:** there would have been challenges in being able to separate certain divisions of the Group for sale. In particular, the Group's Construction and Support Services divisions both participate in the Pension Scheme and there would likely have been cash leakage as a result of a disposal of either of these divisions.

The valuation results

The results of the valuations are summarised in the table below. The valuations were carried out on a sum-of-the-parts basis for each of the divisions of the Group, being RMDK, Support Services, Construction and International. The table below includes the aggregation of those valuations.

Currency: £m	KPMG low	KPMG high	HL low	HL high
EV				
RMDK	310	375	264	324
Support Services	360	410	129	196
Construction	20	25	42	54
International	100	133	72	90
Total	**790**	**943**	**507**	**664**
Adjustments				
Pension deficit	(122)	(122)	(107)	(66)
EFW provision	(69)	(14)	(41)	(14)
Working capital (Construction)*	(55)	(55)	-	-
Minority interest	(35)	(35)	(15)	(15)
Provisions	(95)	-	(89)	(89)
Total EV Adjustments	**(376)**	**(226)**	**(252)**	**(184)**
Adjusted EV	**414**	**717**	**255**	**480**

* *Working capital (Construction) provision of £(50)m per HL valuation included in Construction EV (enterprise value) pre-adjustments.*

Enterprise Value adjustments

As set out in the table above, potential purchasers would likely have sought a number of adjustments to the Enterprise Values in respect of certain “debt-like” items including:

Pension deficit	Provision for the technical deficit valuation of the Group’s pension scheme
EfW provision	Additional potential losses forecast in respect of EfW settlements beyond those already provided for at the year end
Negative working capital in construction	Construction transactions usually involve businesses being sold free of negative net working capital
Minority interests	Provision for the removal of minority interests in the relevant business’ value
Group provisions	Potential future cash outflows for which a purchaser is likely to adjust

The valuations also made comment on whether the forecast growth for certain of the Group’s divisions would withstand due diligence scrutiny.

It is also possible that, following due diligence, purchasers would have sought other deductions.

Net equity on a full marketing basis

As at the date of administration, the Group’s gross debt (excluding contingent secured liabilities owed to the Bonding Providers and pension liabilities), including accrued and capitalised cash and PIK interest under the cash and bonding facilities of the Group, certain “make-whole” amounts in respect of the US private placement notes issued by the Group and fees, amounted to £879.66m.

Currency: £m	KPMG low	KPMG high	HL low	HL high
Adjusted EV	**414**	**717**	**255**	**480**
Gross debt (inc PIK)	(880)	(880)	(880)	(880)
Net equity value / (deficit)	**(466)**	**(163)**	**(625)**	**(400)**

Accordingly, based on the adjusted Enterprise Values set out above, there is no equity value in any scenario.

Accelerated disposal / restricted marketing period

The valuations are based on an optimum marketing period of between at least seven and nine months. However, given the liquidity position of the Group and the lack of short-term funding, an accelerated M&A process (of around two to three months or an even shorter period) would have been required. This would have resulted in a material discount to the Group’s Enterprise Values set out above. This discount (“AMA discount”) was estimated by KPMG to be between 25% and 50% and by HL to be between 26.4% and 30.7%. There are a number of reasons for these levels of discount including:

- the reduced extent of marketing and approaches to interested parties, of which the approaches would have needed to focus solely on parties that could transact at an appropriate pace;

- the reduced diligence capable of being carried out to understand the drivers of value for the business (an 80:20 approach is often taken). This is due to the limited time available to interrogate the information and thus certain value drivers may have been discounted, thereby impacting the level of consideration a purchaser would have been willing to pay;

- the limited access to management and reduced information which could have been collated and provided to interested parties within the reduced time available; and

- the limited time available to a potential purchaser to conduct legal, financial, commercial, tax, customer and operational due diligence.

Although the accelerated disposal discounts reflect an adjustment based on the independent views of the valuers, in reality – for the reasons set out earlier in this report – the Group was not in a position to run a formal marketing process without precipitating a likely insolvency of all or a substantial part of the Group.

Furthermore, these valuations are based on a disposal of the Group in circumstances where there is funding to run a period of marketing in order to effect disposals. In practice, no funding for any period of marketing on any basis was available, and so the net value achieved in these circumstances would likely have been less than that stated in the valuations.

The effect of the accelerated disposals are set out in the table below.

Currency: £m	KPMG low	KPMG high	HL low	HL high
EV	**790**	**943**	**507**	**664**
AMA discount	(395)	(236)	(156)	(175)
EV after AMA Discount	**395**	**707**	**351**	**489**
EV Adjustments	(376)	(226)	(252)	(184)
Adjusted EV after AMA Discount	**19**	**481**	**99**	**305**
Gross debt (inc PIK)	(880)	(880)	(880)	(880)
Net equity value / (deficit)	**(861)**	**(399)**	**(781)**	**(575)**

AMA (accelerated merger and acquisition)

Equity value

The valuations illustrate that the value of the business breaks materially within the Group's secured debt with a deficit to equity value of between £(163)m and £(625)m on a full marketing basis and of between £(399)m and £(861)m on a restricted marketing basis. The valuations therefore clearly demonstrate that there was (i) no equity value in the Group and (ii) in the case of the insolvency of the Group, other than the prescribed part payable pursuant to the Act, only the secured creditors, due to their structurally senior position, would have received any distribution in respect of their debt.

Based on the valuations and the significant difference between the upper values of the valuations and the level of the Group's secured indebtedness, we consider that this confirmed that it was appropriate and proportionate not to conduct a full marketing process, particularly given that the Company's key financial stakeholders with an economic interest in the Group had already proposed a viable restructuring deal for the Group and would not support, nor would fund, a marketing process.

6. Consultation with major creditors and other stakeholders

Since the involvement of Mr Hudson and me in this matter, we have followed the steps that have been taken by the Company to engage with its key stakeholders in order to explore all other possible options available to the Group for achieving the deleveraging required.

The Lenders, Bonding Providers and Pension Trustee were all actively engaged in the negotiation and agreement of the Deleveraging Plan, and the contingency planning process that ultimately resulted in the Transaction. All of these parties positively consented to the Transaction, including through their execution of the restructuring implementation deed dated 15 March 2019 (the “Restructuring Implementation Deed”).

Given their interest in many of the Group’s contracts, as a key customer, HM Government (“HMG”) and its advisers have been kept informed regarding the progress of the Company’s restructuring negotiations. They also requested clarity on what would happen if the Company’s shareholders rejected the Deleveraging Plan, given that their primary concern was to ensure that there was no risk to the continual long-term delivery of public services, which required an immediate, seamless transition to a long-term solution, with no risk of disruption to public services.

In addition, over the months leading up to the Transaction, the Company, directly or through its listing sponsor and financial advisers, engaged with certain of its major shareholders, comprising Coltrane, Farringdon Capital Management and Standard Life Aberdeen Plc to determine whether there was any other option for rescuing the Company that such shareholders were prepared to put forward and which would have been capable of implementation.

We understand that approaches were made to Coltrane on behalf of the Company by its financial adviser, Rothschild, throughout January 2019 inviting Coltrane to participate in discussions in respect of the Deleveraging Plan or to put forward alternative proposals or recapitalisation. Notwithstanding an initial response by Coltrane to correspondence from Rothschild, attempts by the Company to arrange a subsequent meeting with Coltrane (including in the Company’s response to Coltrane’s notice under section 303 of the Companies Act 2006 on 5 February 2019, requisitioning a general meeting of the Company’s shareholders to seek the removal of all of the Company’s directors except Debbie White, the chief executive officer) did not come to fruition until a meeting between the Company’s and Coltrane’s advisers on 25 February 2019.

As discussed in section 7 of this report, Coltrane put forward two alternative proposals to the Company – one on 21 February 2019 and one on 4 March 2019. Coltrane’s advisers also contacted Mr Hudson and me directly on 11 March 2019, expressing Coltrane’s interest in acquiring certain of the business and assets of the Company should it enter into administration and stating that Coltrane would consider funding the administration in order to enable an orderly marketing campaign. We describe these engagements in further detail in section 8 of this report.

The prospectus published in respect of the Deleveraging Plan made it clear that in the event that the Company’s shareholders rejected the Resolution, the immediate need for insolvency protection of the Company would be inevitable. With that knowledge, the shareholders voted against the Resolution.

Impact of the transaction for creditors

The significant outcome for the Company's creditors resulting from the Transaction and related arrangements is that the Company has been released from the majority of its liabilities to the Lenders and the Bonding Providers including the release of the Company from its liability in respect of a principal amount of approximately £814.51m of secured debt owed to the Lenders and approximately £201.73m of contingent secured liabilities owed to the Bonding Providers. This results in a remaining liability equal to an amount of approximately £65.15m (as at the date of administration) in respect of accrued and capitalised cash and PIK interest under the Group's cash and bonding facilities, certain "make-whole" amounts in respect of the US private placement notes issued by the Group and fees.

The Company has also been released from its liability in respect of intercompany payables to other companies within the Group, totalling approximately £3.42m. In addition, the Company has been released from its secured liability to the Pension Scheme by way of (i) a release of its liability to the Pension Trustee of the Interserve section of the Pension Scheme under, among other documents, the override agreement and intercreditor agreement entered into as part of the April 2018 refinancing and (ii) the release, by way of novation, of the Company from its liabilities as guarantor in respect of the Pension Scheme. This contingent liability for pensions was capped at the lesser of £250m and 105% of funding on a section 179 pensions Act 2004 basis. As all of the Company's 59 employees have been transferred to the Buyer pursuant to TUPE, the Transaction has also eliminated the Company's preferential creditor claims in respect of unpaid wages, accrued holiday pay and potential unsecured creditor claims for redundancy pay and lieu of notice claims.

Pursuant to the Transaction, the Buyer has entered into licences to occupy for the Company's leasehold properties with a view (should the Buyer request assignments) to assigning the leases, and thus further reduce the potential amount of unsecured creditor claims against the Company. In addition, as substantially all of the Company's business and assets and certain liabilities have been transferred as a going concern, it is expected that most (if not all) of the suppliers to the Group will continue their relationship with the Buyer.

Any potential distributions for the Company's unsecured creditors would have arisen solely from the maximum of the prescribed part of £600,000 pursuant to the Act. As part of the consideration for the Transaction, the Buyer provided funding for the Administration which included an amount equivalent to the maximum prescribed part for distribution by the Administrators to the Company's unsecured creditors. Had the Company's business and assets been sold to a different party at the valuation levels referred to above, and discussed in more detail at section 5 above, the Company's unsecured creditors would not have received any more than this amount.

7. Alternative options considered by the directors

Before the EGM, the Company's directors had considered a broad range of alternative options, including raising additional financing and new equity, and a sale of certain business divisions of the Group. For the reasons below, it was considered that the alternative options were unable to be implemented.

- **Public offering:** the Company considered, in connection with the development of the Deleveraging Plan, whether a portion of the equity to be issued to the Company's secured creditors could instead have been offered to the Company's existing shareholders and new investors though a public offering. We understand that it was determined that such equity issuance would not have been viable given the Group's rapidly deteriorating financial condition, the volatile and uncertain conditions affecting the Group's business and the UK economy as a whole and the previous recent negative experiences of one of the Group's sector competitors attempting to raise equity.

- **Sale of RMDK:** we understand that the Company also considered the sale of all, or substantially all, of the RMDK business. We further understand that as the RMDK business was a significant source of value for the Group, a proposed sale would have had the potential to destabilise the Group and affect its future ability to win contracts. As a result, and whilst preliminary indications of interest were received, it was decided by the Company that pursuing such a sale would not have been appropriate or viable as a result of the impact it would have had on the remainder of the Group's businesses.

- **Coltrane First Proposal:** Coltrane proposed an alternative transaction which was announced by the Company on 22 February 2019. This involved the issuance of £75m of new equity in the Company to the Company's shareholders in an offer fully underwritten by Coltrane, together with the conversion of £436m of secured debt for 65% of the equity of the Group and the reinstatement of £169m of super senior debt and £225m of senior debt at the Company. This proposal was outline in nature, non-binding and was subject to due diligence and potential revision. Accordingly, there was no certainty that a binding proposal from Coltrane would be received.

  In addition, the £75m figure reflected the new cash requirement referred to by the Company publicly on 6 February 2019. However, the Company's actual new cash requirement had (as mentioned above) risen to £110m by the time of the receipt of the Coltrane First Proposal. The £75m new liquidity was therefore insufficient for the Company's and the Group's liquidity needs.

  Further, the Coltrane First Proposal would have been dependent on the support of the Lenders, the Bonding Providers and the Pension Trustee.

  As a result of the combination of the terms, limited time available and uncertainty of the Coltrane First Proposal, the Company's directors were unable to obtain the support of the Lenders, the Bonding Providers and the Pension Trustee for the Coltrane First Proposal and as a result it was considered unachievable.

  It should be noted that the terms of the Coltrane First Proposal gave the Company an implied Enterprise Value of approximately £545m. Given that, as at 31 December 2018, the Company had a significantly greater amount of secured liabilities under its financing arrangements, the Coltrane First Proposal appeared to support the view that the Company's value broke within its secured debt.

- **Coltrane Second Proposal:** Coltrane proposed an updated version of the Coltrane First Proposal to the Company on 4 March 2019. This proposal – which was primarily an updated summary presentation – involved, among other things, the issuance of £110m (rather than £75m under the Coltrane First Proposal) of new equity to the Company's shareholders in an offer fully underwritten by Coltrane, together with the conversion of £435m of secured debt for 55% (rather than 65%) of the equity of the Company. The Coltrane Second Proposal also provided that Coltrane would have provided an immediate bridging loan of approximately £75m, the availability of which was conditional on, amongst other things, withdrawal of the notice of the EGM, the Company ceasing to work towards the Deleveraging Plan and sufficient Lender consent to enable such facility to rank equally with existing senior debt.

  As with the Coltrane First Proposal, the implementation of the Coltrane Second Proposal required the consent of all of the Lenders, the Bonding Providers and the Pension Trustee. However, under the terms of the Coltrane Second Proposal, the Company was initially prohibited from sharing the proposal with those parties. Given the precarious financial condition of the Group, the Company concluded that (i) it would not have been feasible to have ceased work on the Deleveraging Plan (as Coltrane had requested) and (ii) the Coltrane Second Proposal would not have achieved the best possible outcome for the Company's creditors as a whole.

  Following further engagement between the Company and Coltrane and each of their advisers, on 11 March 2019, Coltrane gave the Company permission to share the Coltrane Second Proposal with the Lenders and the Company's other stakeholders.

  Although the Company continued to engage with Coltrane and its advisers, on 14 March 2019, the Lenders' advisers made clear to the Company that the Lenders did not consider the Coltrane Second Proposal to be capable of implementation in the time available. The Lenders noted that, similarly to the First Coltrane Proposal, the Second Coltrane Proposal was uncommitted, conditional on due diligence and failed to address many of the complexities of the Group's situation in respect of which the Lenders had worked with the Company for several months to resolve.

  In addition, given the high-level and insufficiently developed nature of the Second Coltrane Proposal (the implementation of which would have required the consent of three stakeholder groups and, depending on the structure, possibly also the Company's shareholders), the Lenders concluded that the Group's liquidity would have been exhausted long before any such proposal could have been developed and implemented. As such, against the backdrop of the Group's urgent near-term funding requirements and in light of the fact that Coltrane only permitted the Coltrane Second Proposal to be shared with the Lenders three days prior to the EGM, the Lenders considered that it was not capable of implementation before the Company's financing and liquidity resources would have been exhausted.

  In light of this feedback, it was determined that the Coltrane Second Proposal was not capable of implementation in the time available given the Company's short-term liquidity needs.

  It should be noted that the terms of the Coltrane Second Proposal gave the Company an implied Enterprise Value of approximately £505m, being a lower Enterprise Value than the Coltrane First Proposal.

8. Other options and implementation of a pre-pack administration sale to Montana 1 Limited

Following the rejection by the Company's shareholders of the Resolution and their resulting appointment, the Administrators had to consider whether it was appropriate, and would achieve the best outcome for the Company's creditors as a whole, to enter into the Transaction and transfer substantially all of the Company's business and assets and certain liabilities to the Buyer.

We considered that an immediate pre-packaged administration sale would result in a better outcome than the alternatives, including allowing a period of trading in administration whilst purchaser(s) were sought for the Company's business and assets. We came to this view due to a combination of the following factors.

Liquidity considerations

- The Company and the Group were in default of their banking facilities and access to the available funds under the banking facilities had been withdrawn.

- On a normal trading basis, the Company's management had concluded that they needed £110m of additional liquidity. This was not available to the Administrators from any viable source. As such, not only was there no time to achieve a going concern sale of the Group's businesses, but there would have been no funding available to prevent the wider Group entering into insolvency proceedings.

- An insolvency of the Company would have increased the Group's funding requirement significantly as the Group's customers would likely have withheld payments and suppliers would have demanded payment of monies due and upfront payments, as a result of the uncertainty surrounding the Company's financial situation.

Time and complexity of a sale process

- The Group is complex and diverse, covering a range of geographies and sectors. The advice we received was that a sale process (even if funding for such a process had been available) was likely to take two to three months to conclude on an accelerated basis given the likely information and due diligence requirements of interested parties. This period compared with the estimated timescale to realise best value which would have been between seven and nine months.

- In the meantime, even if it had been possible for the rest of the Group to avoid entering insolvency (which it would not have been), the Company and the Group would have been subject to continued significant press and market speculation which would have called into question the viability of the Group and its businesses, as outlined above.

- It was indicative of the lack of interest in purchasing the Group that the widely reported press speculation in respect of the Company in previous months did not result in any viable offers or significant interest being made for the Group or its substantial businesses.

Ability to sell the construction business and related impact on the other businesses within the Group

- With the liabilities in the construction division arising from various onerous contracts (in particular the EfW business), it was unlikely that a solvent sale of the Group's Construction division would have been achieved.

- An insolvency of the main construction subsidiary would, given its status as a participating employer in the Pension Scheme, have triggered a debt under section 75 of the Pensions Act 1995 in respect of that subsidiary's proportion of the total section 75 debt of the Pension Scheme (approximately £129m for that subsidiary). As that insolvent employer would have been unable to pay the debt, the Pension Trustee would have been likely to call on the guarantee granted by the Company to the Pension Trustee. The debt becoming payable on the call of this guarantee would have been likely to result in the Company joining that subsidiary in falling into insolvency and which – in turn – would likely have resulted in cross-contagion across the Group.

- By virtue of the interconnected nature of the Group's operations and financing, the failure of one part of the Group would have been likely to have led to other parts of the Group also entering into insolvency proceedings. This risk is particularly relevant in respect of the insolvency of the Construction division which would likely result in the Support Services division also falling into insolvency due to the combination, among other things, of shared customers and cross-guarantees of bonding arrangements that would likely be called on an insolvency.

Valuation considerations

- Two independent valuations were commissioned which indicated that the value of the Group was significantly less than the Group's secured indebtedness.

- The alternative proposals put forward by Coltrane, whilst not deliverable, had also indicated that Coltrane did not consider there to be any existing equity value for the Company from its assets and investments.

Creditor considerations

- The terms of the Transaction improved the position of the Company's creditors by reducing the level of the liabilities which would have otherwise crystallised in respect of the Company.

- Any alternative transaction would have required the consent of the Lenders to release their security and that this was unlikely to occur unless such a transaction repaid their debt in full.

- The terms of the Transaction also offered benefits to the Group's key stakeholders, including through preserving the employment of all 59 of the Company's employees and facilitating continued access for thousands of beneficiaries of the Group's pension schemes to their benefits thereunder.

- The Transaction gave the Company's counterparties the opportunity for a continued relationship with the Buyer.

Against the background of these factors, other restructuring options were considered not to be viable.

- **Company Voluntary Arrangement (“CVA”):** given the Company’s liquidity constraints there was not enough time to arrange a CVA and without a creditors’ moratorium there would have been no protection against secured creditors taking action against the Company in respect of the defaults that would have arisen as a result of proposing a CVA (notwithstanding those arising due to shareholders’ rejection of the Resolution). In any event, it was the Group’s level of secured indebtedness, gearing and liquidity needs – rather than the extent of the Company’s unsecured creditors – which required resolution through a financial restructuring. A CVA alone (which cannot impair a secured creditor’s rights without their consent) would not have rectified these issues. As a consequence, the CVA option was discounted.

- **Formal liquidation:** liquidation of the Company would have resulted in a rapid loss of confidence in the Group’s underlying businesses once such liquidation became public knowledge and would likely have precipitated the collapse of the entire Group, thereby resulting in significantly greater losses to the Company’s creditors and to creditors across the Group. As a consequence, the liquidation option was discounted.

- **Trading administration funded by Coltrane:** as noted in section 6, on 11 March 2019, Coltrane’s advisers wrote to Mr Hudson and me noting, among other things, that Coltrane was interested in acquiring certain of the Company’s business and assets should it enter into administration and that Coltrane would consider funding the administration in order to allow an orderly marketing campaign to be conducted.

  We responded to this letter on 12 March 2019 and requested that a call or meeting was arranged with Coltrane as soon as possible to discuss their interest.

  A call took place on 13 March 2019 between representatives of Coltrane and its advisers and Mr Hudson, me and our legal advisers. We made clear to Coltrane that any offers would be reviewed to consider if they were likely to (i) provide a better return for the Company’s creditors as a whole compared to any alternatives available and (ii) be capable of implementation within the time available, including, in particular, taking into account the Company’s critical liquidity position and any consent rights that the Company’s secured creditors might have. We also informed Coltrane and its advisers that if they believed that there was equity value within the Group, they may wish to consider making a direct approach to acquire the Lenders’ secured debt.

  Although Coltrane indicated a greater interest in certain divisions of the Group during this call, they confirmed that they were, at that time, unable to put forward any offer in respect of acquiring any of the business and assets of the Company on the basis that they required further information than had been made available to them by the Company directly or through its public reporting. Similarly, although Coltrane expressed a further interest in providing additional bridge funding to support the Group whilst the Company explored alternative restructuring options, Coltrane was unable to quantify either the amount of such funding or the terms on which it was proposed to be provided. It was made clear by Coltrane, however, that the provision of any such bridge funding would need to be subject to some level of certainty of recovery of the monies advanced.

  Following discussions in relation to Coltrane providing new funding to the Company, it was our understanding that it was agreed between Coltrane and us that, instead of funding an administration of the Company to enable a marketing process to be conducted, the most relevant option would have been to provide funding to enable the Company to stay out of an insolvency process for a period of time.

In light of the lack of detail and confidence regarding the terms of any proposal from Coltrane in this regard, it was our preliminary view that such proposals were unlikely to be capable of implementation in light of the need for the consent of the Group's secured creditors and the Company's serious short-term liquidity needs.

Notwithstanding the lack of a formal proposal (whether binding or non-binding) from Coltrane in respect of either the provision of such bridge funding or the purchase of the business and assets of the Group, we agreed to discuss with the Company and its Lenders whether they would be willing to accept the risk to value posed by a period of further trading to enable a formal marketing process and, if so, the amount of additional funding which would have been required and the terms on which they would have been willing to accept its provision by Coltrane.

We further agreed to forward any information requests which Coltrane had to the Company in order for the Company to assess whether it could fulfil them in light of the fact that Coltrane had not agreed at this point to enter into a non-disclosure agreement with the Company in respect of the receipt of confidential information.

At the request of Coltrane, the Company evaluated the additional cash requirement to continue to trade for a period of two to three months and determined that this would be in the order of approximately £170m. This included estimated additional working capital amounts arising from the uncertainty following a rejection of the Resolution.

Following correspondence with the Company and the Lenders' advisers, the Company received feedback from the Lenders' advisers on 14 March 2019 in respect of Coltrane's interest in providing additional bridge funding to support the Group whilst the Company explored alternative restructuring options.

For similar reasons to those set out in section 7 as to why the Coltrane Second Proposal was not capable of implementation, the Lenders made clear that it was not feasible in the time available to consent to further interim funding being provided to the Group to allow the development of alternative restructuring proposals. The Lenders considered that any alternative proposal would take weeks, or perhaps months, to develop and that during such period, the uncertainty as to whether an alternative restructuring proposal would ultimately be agreed and implemented would have had a value destructive impact on the Company's stakeholders. The Lenders further noted that there would have been no practical basis on which they would have considered allowing further secured debt to be advanced to the Group as had been suggested by Coltrane.

In light of this feedback, it was determined that Coltrane's proposal to provide bridge funding to the Group in order to avoid an insolvency process was not capable of implementation in the time available given the Company's short-term liquidity needs and the lack of consent from the Lenders, which would have been required for its implementation.

Notwithstanding the above and even if the offer by Coltrane to make funding available to permit the Company to be traded to facilitate a marketing process in administration had been capable of implementation, it is our view that such a marketing process would have risked worsening the position of creditors, particularly in light of the position expressed by key customers and suppliers to the Company's directors regarding the need for long term stability.

It is important that when a contracting-based business such as the Company announces that it has applied for an administration order, it is also able to announce that a sale transaction has been agreed which will be completed shortly following entry into administration. This is to give the Group's counterparties (who might otherwise seek to assert their rights to terminate pursuant to insolvency triggers in their contracts or refuse to deal with the Group other than on a cash up-front or prepayment basis) confidence that a resolution of the Group's financial difficulties is in hand and avoid, to the greatest extent possible, destabilising the Group's business when an insolvency filing is made in respect of the Company. This reassurance would not have been provided in the case of a trading administration and would likely have had value destructive effects as stakeholders sought to protect their own positions. In addition, the prospects for a solvent sale for the Group's construction business were considered limited and an insolvency in respect of that business division had the potential to trigger wider insolvency within the Group as a result of, amongst other things, the cross guaranteed pension deficit.

For these reasons, and despite Coltrane's interest, it would not have been appropriate to trade the business in administration as such an approach would have been likely to have resulted in a worse outcome for the Company's creditors as a whole than entry into the Transaction.

Conclusion

Following the rejection of the Deleveraging Plan by the Company's shareholders, the Group was in default of its existing funding arrangements and had an immediate funding requirement of £110m which it was unable to meet.

The Company was therefore insolvent as it could not pay its debts as they fell due and the Company's directors decided that they had no alternative but to place the Company into administration, which would enable the Administrators, if considered appropriate, to enter into the Transaction to transfer substantially all of the Company's business and assets to the Buyer. The Transaction was an alternative means of implementing the Deleveraging Plan and allowed the Company's subsidiaries and trading operations to avoid insolvency and continue to trade.

In the absence of any other acceptable and reliable options, an immediate sale to the Buyer was considered to be the best way to stabilise the Group for the long term, preserve its value and avoid greater losses to the Company's creditors. In addition, it avoided significant loss to creditors across the Group and loss of employment for the Group's employees and material disruption to the provision of essential services to customers, including HMG. As a result, we entered into the Transaction.

9. Sale of business and assets

The sale and purchase agreement (“SPA”) was completed and took effect on 15 March 2019. The sale was completed by the Company, acting by the Administrators.

The Buyer and related parties

The Buyer was Montana 1 Limited, a company registered in England with company number 11830440, whose registered office is at Easterbrook Eaton, Old Fore Street, Sidmouth EX10 8LS. We understand that the Buyer intends to change its name to Interserve Group Limited.

The SPA provided for the sale of the business as a going concern and substantially all of the assets of the Company, excluding the following assets:

- all records produced by or at the direction of the Administrators, their staff, agents or representatives in connection with or which relate (in whole or in part) to the Administration, or were generated or made for or during the Administration;

- all assets in the possession of the Company which were on loan, subject to lease, hire purchase, conditional sale, rental, contract hire or other agreements which do not pass title to the Company, or of which it is for any reason bailee;

- the rights and benefit of the directors and officers, or former directors and officers, of the Company under any policy of insurance in respect of directors’ and officers’ liability;

- any claim, action or right in damages which the Company may have against (i) any director or officer, or former director or officer, of the Company (including any person who is, or was, a shadow director or de facto director, but excluding the Lenders or their representatives acting in that capacity within the requisite authority) or (ii) any adviser, or former adviser, to the Company; and

- the Company’s shares in Al Binaa Contracting Company W.L.L. (the “Al Binaa Shares”) to the extent that certain pre-emption rights are exercised.

The releases of the various liabilities from which the Company benefited were documented in (i) the SPA, (ii) a partial deed of release in respect of security over the assets transferred pursuant to the Transaction and (iii) a separate Restructuring Implementation Deed (to which the Company became a party on 15 March 2019) and which, among other things, also provided for the financial restructuring of the Group’s debt and bonding arrangements immediately following the acquisition of almost all of the business and assets of the Group by the Buyer.

As at the date of the Transaction, none of the directors of the Company were involved in the management of the Buyer. It is anticipated that, shortly after the Transaction and in accordance with the Restructuring Implementation Deed, the Lenders will convert part of their reinstated debt for equity in the Buyer and, as such, become the ultimate beneficial owners of the Buyer and its group.

No directors had given guarantees for amounts due from the Company to a prior financier.

Sale consideration

The financial benefits to the Company from entering into the Transaction in respect of the release of secured, unsecured and contingent liabilities exceed £1.2bn and include:

- the release of the Company from its liability in respect of a principal amount of approximately £814.51m of secured debt owed to the Lenders and approximately £201.73m of contingent secured liabilities owed to the Bonding Providers. This results in a remaining liability equal to an amount of approximately £65.15m (as at the date of administration) in respect of accrued and capitalised cash and PIK interest under the Group's cash and bonding facilities, certain "make-whole" amounts in respect of the US private placement notes issued by the Group and fees;

- the assumption by the Buyer of the Company's liability in respect of intercompany payables to other companies within the Group, totalling approximately £3.42m;

- the release of the Company from its liability to the Pension Trustee of the Interserve section of the Pension Scheme under, among other documents, the override agreement and intercreditor agreement entered into as part of the April 2018 refinancing;

- the release, by way of novation, of the Company from its liabilities as guarantor in respect of the Interserve section of the Pension Scheme (such liabilities being capped at the lesser of £250m and 105% of funding on a section 179 Pensions Act 2004 basis);

- the payment of certain funding amounts to the Administrators in respect of, amongst other things, costs and expenses incurred during the course of the Administration and to enable the prescribed part under the Act to be funded to the maximum amount of £600,000 (the "Funding Amounts"); and

- the elimination of the Company's preferential creditor claims in respect of unpaid wages, accrued holiday pay and potential unsecured creditor claims for redundancy pay and lieu of notice claims as a result of the transfer of the Company's 59 employees to the Buyer pursuant to TUPE (and the Buyer's assumption of the liabilities owed to those employees).

The Funding Amounts were paid shortly after completion in accordance with a pre-agreed "funds flow statement" pursuant to the Restructuring Implementation Deed. Given that the time between completion and payment of the Funding Amounts was not significant, the Administrators considered that security was not required in respect of receipt of such Funding Amounts.

Assets sold

The assets sold in return for the benefits described above include all of the property, rights and assets of the Company (whether actual, contingent or prospective, present or future) including the following but excluding the assets referred to above:

Description of asset	Value / purchase consideration	Basis of valuation
Cash	£52,000	Net book value
Benefit of prepayments	£1,412,250	Net book value
Loan receivable due to the Company from Al Binaa Contracting Company W.L.L. ("Al Binaa") and/or its subsidiaries	£2,679,000	Net book value
Fixed assets (other than freehold properties and shares in Al Binaa)	£500,000	c.50% of net book value
Freehold properties	£3,070,000	Independent valuation
Shares in Al Binaa or (as applicable) the proceeds of sale of those shares in accordance with the SPA	The fair market value of those shares	To be determined under the pre-emption process and comprised within the valuation methodology set out at section 5
Goodwill, business intellectual property and other intangible assets	£300,000	Comprised within the valuation methodology set out at section 5
Shares in IGHL	£1	Comprised within the valuation methodology set out at section 5
Shares in other subsidiaries	Net book value, being £1,816,314 in aggregate	Comprised within the valuation methodology set out at section 5
Intercompany receivables (other than in respect of Al Binaa)	The balance due to the Company in respect of the intercompany receivables at completion, being £23,898,933 in aggregate	Net book value
Any other Assets	£1	Comprised within the valuation methodology set out at section 5

Whilst we have identified values for each asset being sold, the consideration should be viewed in its totality since the only relevant transaction is the sale of all of the Company's assets for the totality of the consideration. The total consideration is appropriate for the total value of the assets being sold and given that the offer is conditional on acquiring all of the assets, none of the assets is capable of being realised at its valuation on an individual basis.

The Transaction transferred substantially all of the business and assets and certain liabilities of the Company only. The Group (other than the Company) continues to trade on a "business as usual" basis, using new funding obtained by the Buyer.

Under the terms of the Transaction, the Buyer was granted licences to occupy the Company's leasehold premises whilst it explores an assignment of the leases with the respective landlords.

Apportionment of sale proceeds

The consideration paid for the Transaction was predominantly structured by way of a release of certain guarantee claims against the Company (as described above), the release of certain other liabilities and the provision of the Funding Amounts which are held on trust and do not form part of the Company's estate. As such, no cash proceeds have been received by the estate of the Company and so it is not relevant to set out in this report an apportionment of sale proceeds to fixed charge realisations and floating charge realisations.

This structure represents the fact that the Company's assets were burdened with secured indebtedness for an amount significantly greater than their value.

Despite this, and in order to protect the position of the Company's unsecured creditors, the Administrators have negotiated and retained an amount to be applied in respect of unsecured creditor claims up to the maximum prescribed part under the Act, such that the allocation of assets to the fixed and floating charges has no impact on recoveries to unsecured creditors.

Provision of Funding Amounts

As described above, the assets transferred to the Buyer pursuant to the SPA included all cash (both Sterling and non-Sterling) held by the Company. As a result of this, there is no cash left within the Company's estate.

Given this fact, the Company and the Administrators arranged (as part of the sale consideration) for the Buyer to transfer £10.575m to be held on trust for use by the Administrators to fund the Administration. This funding amount is available to meet the costs and expenses incurred in respect of, amongst other things, costs and expenses deemed valid administration expenses under the Act, the remuneration of the Administrators, any amounts payable to preferential creditors and an amount equivalent to the maximum prescribed part under the Act.

It is anticipated that this funding will enable the Administrators to wind down the Company in an orderly fashion and in accordance with the purpose of the Administration.

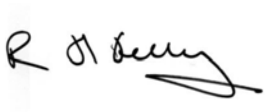
Connected party transaction

The Buyer does not consider itself to be connected and has not approached the pre-pack pool for an opinion.

Conclusion

As set out in this report, given the Company’s lack of liquidity, the absence of any alternative offer of financial support having been given by the Company’s financial stakeholders and the outstanding events of default under the Group’s financing arrangements, the Transaction represented the best available outcome for the Company’s creditors. We consider that the terms of the Transaction represented the best price reasonably obtainable for the assets of the Company and achieved a better result for the Company’s creditors as a whole than would have been likely if the Company had been wound up (without first being in administration).

For and on behalf of the Company



R H Kelly
Joint Administrator

The affairs, business and property of Interserve Plc (“the Company”) are being managed by the Joint Administrators, Robert Hunter Kelly and Alan Michael Hudson, who act as agents of the Company only and without personal liability. As licensed insolvency practitioners, Robert Hunter Kelly and Alan Michael Hudson are bound by the Insolvency Code of Ethics when carrying out all professional work relating to the Administration.

Robert Hunter Kelly is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants of Scotland and Alan Michael Hudson is licensed in the United Kingdom to act as an insolvency practitioner by The Association of Chartered Certified Accountants.

The Joint Administrators may act as data controllers of personal data as defined by the General Data Protection Regulation 2016/679, depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrators’ appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.

Appendix A Registered charges

The company has the following registered charge(s):

Charge code	Date of creation of charge	Date of registration of charge	Details of charge	Name of charge holder
0008 8456 0030	01/05/2018	04/05/2018	Fixed or floating charges over substantially all of the assets of the Group (including a fixed charge over the shares in IGHL) and a negative pledge	GLAS (as security agent for the secured parties)
0008 8456 0031	01/05/2018	04/05/2018	Fixed charge and negative pledge over the shares in RMD Kwikform Hong Kong Limited [1]	GLAS (as security agent for the secured parties)
0008 8456 0033	11/05/2018	23/05/2018	Fixed charge and negative pledge over the shares in Tilbury Ibérica S.A.	GLAS (as security agent for the secured parties)
0008 8456 0032	16/05/2018	21/05/2018	Fixed charge and negative pledge over the shares in RMD Kwikform Philippines Inc.	GLAS (as security agent for the secured parties)

[1] The shares subject to this charge were transferred to Interserve Holdings Limited on 20 July 2018, as evidenced by a Form MR02 delivered to Companies House by Interserve Holdings Limited on 23 July 2018.

Appendix B EY prior involvement with the Company

The Lender Team was engaged by the Lenders in October 2017. The Company Team was instructed by the Company in January 2019.

EY was instructed to carry out the following work in connection with the Group, of which the Company was the ultimate parent company, prior to our appointment as Administrators. For ease of reference, instructions to the Company Team are shown in grey and instructions to the Lender Team are shown in white.

Date	Description of work
Oct-17	Instruction by the Lenders to the Lender Team to conduct a review of the Group's short-term cash flow, liquidity position, forecast analysis and business plan in order to consider the Group's additional funding requirements and potential restructuring options, in addition to providing ongoing advice in relation to stakeholder management.
Dec-17	Further instruction by the Lenders to the Lender Team to conduct a review of the Group's short-term cash flow, liquidity position, forecast analysis and business plan, in addition to providing ongoing advice in relation to stakeholder management. The Lender Team was also instructed to conduct a review of the weekly short-term cash flow, financial year 2017 outturn and EfW contracts and to analyse and comment on an entity priority model prepared by the Group.
Apr-18	Extension of the above scope of the Lender Team's work to include contingency planning work on behalf of the Lenders based on a report prepared for the Group and preparation of a financial model to support the analysis of financial returns to stakeholders. For completeness, please note that Mr Hudson assisted the Lender Team in respect of the contingency planning workstream.
Jul-18	Instruction by the Lenders to the Lender Team to conduct quarterly reporting on the Group's financial position on behalf of Lenders.
Dec-18	Instruction of a team completely independent to and separate from, both the Lender Team and the Company Team by the Company to provide tax advice to Interserve Saudi Arabia LLC and Interserve Rezayat Company LLC in relation to Saudi Arabian Capital Gains Tax and implications on the transfer of shares to Interserve International Limited, UK.
Dec-18	Instruction by the Lenders to the Lender Team to (i) review the Group's business plan, short- term cash flow and liquidity position in order to assist the Lenders in their consideration of the potential deleveraging options for the Group and (ii) provide financial advisory support and assistance with stakeholder management in relation to the potential deleveraging options.
Dec-18	First introduction of the Company Team to the Company at an initial meeting held on 12 December 2018 that resulted in a formal instruction in January 2019.
Jan-19	Instruction by the Company to the Company Team to conduct contingency planning work and the assessment of potential options available for the Company, including an analysis of the potential options in the event that the refinancing and Deleveraging Plan were to fail.
Feb-19	Extension of instruction of January 2019 by the Company to the Company Team to conduct additional contingency planning work in respect of tax advice, entity priority model preparation, alternative insolvency appointment process, and the provision of limited non-reliance generic information on particular matters to the Buyer.

Appendix C Formal notice of Administrators' appointment

Notice of administrator's appointment

Paragraph 46 of Schedule B1 to the Insolvency Act 1986 and Rule 3.27 of the Insolvency (England and Wales) Rules 2016

Name of Company Interserve Plc (in Administration)	Company number 00088456
In the High Court of Justice Business and Property Courts of England and Wales Insolvency and Companies List (ChD)	Court case number BR-2019-000339

(a) Insert full name(s) and address(es))

We (a) Robert Hunter Kelly of Ernst & Young LLP, 1 Bridgewater Place, Water Lane, Leeds, LS11 5QR and Alan Michael Hudson of Ernst & Young LLP, 1 More London Place, London, SE1 2AF

give notice that we were appointed as Administrators of the above company on:

(b) Insert date

(b) 15 March 2019

Signed	Robert Hunter Kelly	Signed	Alan Michael Hudson
Dated	15 March 2019	Dated	15 March 2019
Joint / Administrator(s) IP No(s)	8582		9200

Appendix D Lenders (as at 12 December 2018)

HSBC Bank Plc

BNP Paribas London branch

The Royal Bank of Scotland Plc

Barclays Bank Plc

Burlington Loan Management DAC

Promontoria Holding VI B.V.

Pun Holdings (Guernsey) Limited

CVC European Credit Opportunities (No. 8) S.A.R.L

European Credit Opportunities Platform B.V.

Bybrook Capital Badminton Fund LP

Voya Retirement Insurance and Annuity Company

ReliaStar Life Insurance Company

Security Life of Denver Insurance Company

LEO 2013-1 LLC