

TO ALL KNOWN CREDITORS

8 April 2020

Ref: RHK/CL/KH/NH/JB
Direct line: +44 (0) 20 7197 5327
Email:
InterservePlcAdministration@uk.ey.com

Dear Sirs

Interserve Plc (in Administration) (“the Company”)

High Court of Justice Business and Property Courts of England and Wales Insolvency and Companies List (ChD), Number BR-2019-000339

We write, in accordance with Rule 18.3 of the Insolvency (England and Wales) Rules 2016 (“the Rules”), to provide creditors with a report on the progress of the administration of the Company (“the Administration”).

On 15 March 2019 (“the Date of Appointment”), the Company entered into administration and Alan Michael Hudson and Robert Hunter Kelly were appointed as joint administrators (“the Joint Administrators”). Immediately following appointment, the Joint Administrators completed a sale of substantially all of the Company’s business and assets and certain liabilities to a specially formed company, Interserve Group Limited (“IGL” or “the Purchaser”) (“the Sale”).

This report covers the period from 15 September 2019 to 14 March 2020 (“the Reporting Period”) and should be read in conjunction with our Joint Administrators’ Statement of Proposals dated 21 March 2019 (“the Proposals”) and our Progress Report dated 14 October 2019.

Statutory information about the Company, the Administration and the office holders is given at Appendix 1.

Summary of progress

Extension of the Administration

Due to the complexity of the matters outstanding in the Administration, many of which are outside of our control and the length of time which may be required to finalise such matters, we requested an extension to the Administration of 24 months. The reasons for the extension of the Administration are set out below:

- Transfer of the Company’s shares (“the Al Binaa Shares”) in Al Binaa Contracting Company W.L.L. (“Al Binaa”), which is a joint venture between the Company and Al-Darwish United Co W.L.L. (“Al Darwish”). The Al Binaa Shares were excluded from the Sale due to pre-emption rights, which Al Darwish did not exercise. As part of the Sale, if Al Darwish did not exercise its pre-emption rights, then the Al Binaa Shares were, subject to conditions, to be transferred to IGL for a pre-agreed price. The transfer of the Al Binaa Shares to IGL requires approval from Al

Darwish and tax clearance from the Qatari tax authorities, which has been and will continue to be a complex and time-consuming process.

- Calculation of the unsecured creditor claims, in particular, the Company's outstanding tax liability to HMRC, which cannot be ascertained or agreed until other processes in the Administration are finalised (including the transfer of the Al Binaa Shares).

We notified the secured creditors of our intention to extend the Administration by 24 months on 28 January 2020 and received no objections.

On 4 March 2020, pursuant to paragraph 76(2)(a) of Schedule B1 to the Insolvency Act 1986 ("the Act"), the Administration was extended by a period of 24 months to 14 March 2022, by order of the Court. The Court also ordered that the costs of the extension application be paid as an expense of the Administration.

Rectification of Companies House security

Shortly after the Date of Appointment, a notice of full satisfaction of charge number 0008 8456 0030 ("the First Charge") and the creation of charge number 0008 8456 0034 ("the Second Charge") were erroneously registered on the Register of Companies ("the Register").

Alongside the Administration extension application, the Court heard and approved the rectification of the accidental misstatements recorded on the Register and ordered that:

- i) The notice of satisfaction in respect to the First Charge be amended by deleting the words "in full" and replacing them with "in part"; and
- ii) The documents registering the Second Charge be removed from the Register in their entirety.

Licences to occupy

As previously reported, on the Date of Appointment, we granted IGL licences to occupy three of the Company's leasehold properties for an initial period of six months. The licences were intended to allow IGL a period of occupation whilst negotiations were undertaken with the landlord of each property by IGL regarding its continued occupation of the premises.

The licence to occupy granted to IGL in respect of Interserve House, was terminated prior to the Reporting Period. The licences to occupy in respect of the other two leasehold properties were extended for a further six months to 14 March 2020.

On 13 March 2020, IGL vacated the remaining two leasehold properties and we are in discussions with the landlords to return the keys to the premises. The landlords of the leasehold properties have been informed of the expiry of the licence to occupy arrangements and advised that no expenses in respect to the properties, post 14 March 2020, will be paid as an expense of the Administration.

During the Reporting Period, we have been invoicing IGL for licence fees in respect of its occupation of the two leasehold properties and appropriate payments have been made to the landlords. The position was regularly reconciled to ensure the Administration did not extend credit to IGL.

Al Binaa Shares

During the Reporting Period we have continued to be involved with IGL and Al Darwish to progress the transfer of the Company's Al Binaa Shares.

Capital gains tax returns and other required documentation have been submitted to the Qatari tax authorities, where Al Binaa is registered, and subsequent discussions held in an effort to gain tax clearance for the transaction and avoid potential costs to the Company's creditors for no benefit.

The process of gaining tax clearance from the Qatari tax authorities is complex and time consuming and has been further complicated by recent process changes in Qatar and a lock down initiated due to COVID-19. Tax specialists based in the Middle East have been engaged by the Company and are advising on the process, which is ongoing.

Other matters

The Joint Administrators' investigations

We have continued to comply with our duties under Statement of Insolvency Practice 2 (Investigations by Office Holders) ("SIP 2") and the Company Directors' Disqualification Act 1986. During the period we have reviewed certain of the Company's books and records in accordance with SIP 2.

We have a duty to consider what potential claims against third parties may exist as assets of the Company and the likely recoveries that could be made in respect of such claims. In connection with this, we also have to consider the likely costs involved in determining whether any claims exist and if there are any potential sources of funding available. Our work on this matter is ongoing.

Other Investigations

As has been reported in the media, the Company is subject to investigations by certain regulatory bodies, which commenced prior to the Date of Appointment. We have continued to cooperate with information requests received to date from these regulatory bodies and will continue to do so.

The investigations are:

- iii) by the Financial Conduct Authority ("FCA") into announcements made to the market by the Company between 15 July 2016 and 20 February 2017; and
- iv) by the Financial Reporting Council ("FRC") into the statutory audit of the Company by Grant Thornton UK LLP for the years ended 31 December 2015, 2016 and 2017.

In our previous progress report, we erroneously advised that the FRC had completed its review of the Company's statutory accounts for the year ended 31 December 2017. Please note that the review completed was in respect to the Corporate Reporting Review investigation and not a reference to the investigation into the statutory audit of the Company by Grant Thornton UK LLP, which remains ongoing.

VAT

Following our appointment, HMRC removed the Company from the Interserve Group's VAT group and we re-registered the Company with a new standalone VAT number, effective from the Date of Appointment.

We have submitted the required VAT returns since the Date of Appointment and made payments or claimed refunds, where applicable.

Corporation tax

We have instructed EY Tax specialists to assist the Company in the preparation of its corporation tax returns, as required by statute.

Tax work is ongoing and all corporation tax and other tax related time costs are included within our total time costs, set out in detail at Appendix 3.

Receipts and payments account

A summary of our receipts and payments for the period from 15 September 2019 to 14 March 2020 is attached at Appendix 2 in respect of the Company. Notes to the account in Appendix 2 provide detail on the receipts and payments in the period.

This account does not reflect future estimated realisations or costs, which will include our remuneration and disbursements.

Joint Administrators' remuneration

The statutory provisions relating to remuneration are set out in Part 18 of the Rules. Further information is given in the Association of Business Recovery Professionals' publication 'A Creditors' Guide to Administrators' Fees', a copy of which may be accessed from the website of the Institute of Chartered Accountants in England and Wales at <https://www.icaew.com/en/technical/insolvency/creditors-guides> or is available in hard copy upon written request to us.

In certain circumstances, creditors are entitled to request further information about our remuneration or expenses or to apply to court if they consider the costs to be excessive (Rules 18.9 and 18.34 of the Rules, respectively). Further information is provided in 'A Creditors' Guide to Administrators' Fees' referred to above.

The Rules require the basis of an administrator's remuneration to be fixed (Rule 18.16) and in the event that there are insufficient funds for distribution to unsecured creditors, other than the Prescribed Part and there is no creditors' committee, the basis of an administrator's remuneration must be fixed by consent of the secured creditors (Rule 18.18(4a)) and the preferential creditors (if there are any).

A statement was made in the Proposals under the provision of paragraph 52(1) of Schedule B1 to the Act that there will be no funds available for the unsecured creditors of the Company, other than by virtue of the Prescribed Part. No creditors' committee has been formed and we have not been made aware of any preferential creditors to date.

Given the above, we sought agreement from the secured creditors for our remuneration being charged on a time cost basis at an estimate of £1,379,151 (exclusive of VAT). During the Reporting Period, the secured creditors approved our remuneration on this basis.

During the Reporting Period, we have incurred time costs of £347,304. Time costs incurred from the Date of Appointment to 14 March 2020 total £972,106. Of this sum £816,997 had been paid at 14 March 2020. Further time costs of £184,370 incurred to 27 March 2020 have been billed and paid after the Reporting Period.

Appendix 3 of this report provides an analysis of the time spent in comparison with the fee estimate dated 21 March 2019 of £1,379,151 and details of the work completed to date and expected to be undertaken during the Administration. Our remuneration is not currently expected to exceed the total amount provided for in the fee estimate.

Due to an administration accounting system error our fees reported in the previous progress report, for the period 15 March 2019 to 14 September 2020, were overstated by £18,182. We have corrected this in Appendix 3. No time costs relating to rectifying the error have been charged as an expense of the Administration.

Joint Administrators' statement of expenses incurred

During the period covered by this report, we have incurred expenses and disbursements of £105,126 plus VAT. A detailed breakdown of expenses and disbursements incurred in the period is included at Appendix 4 of this report.

To date, expenses and disbursements in total have not exceeded the original estimate of £578,280 and is currently not expected to do so.

Pre-Administration costs

As communicated in the Proposals, we sought approval for the payment of unpaid pre-Administration costs totalling £164,660.40 plus VAT, as an expense of the Administration of the Company. During the Reporting Period, the secured creditors approved these costs and £164,660.40 plus VAT was billed and paid.

There are no remaining pre-Administration costs to be billed or paid.

Distributions to creditors

Secured creditors

As part of the Sale to the Purchaser, the Company was released from its liability in respect of a secured principal debt amount of £814m and approximately £202m of other secured liabilities owed to the Company's secured creditors. This reduced the Company's secured liabilities to approximately £65.15m (as at the Date of Appointment) and comprise accrued and capitalised cash and payment in kind ("PIK") interest under the Company's and the former Interserve group's cash and bonding facilities, certain "make-whole" amounts in respect of US private placement notes issued by the Interserve group and fees.

It is not currently anticipated that any distributions will be made to the Company's secured creditors in respect of their outstanding liability of approximately £65.15m.

Preferential creditors

All employees of the Company were transferred to the Purchaser, via TUPE, as a result of the Sale. In accordance with the SPA, all arrears of wages, holiday pay and employee pension deductions were required to be met by the Purchaser. As such, we are not expecting and have not received to date, any preferential claims in the Administration of the Company.

Unsecured creditors

We continue to receive claims from non-preferential, unsecured creditors of the Company. It is not possible to provide an accurate estimate of non-preferential, unsecured creditor claims at this stage.

Distributions to the Company's non-preferential, unsecured creditors will arise solely from the Prescribed Part. The Prescribed Part is a proportion of floating charge assets set aside for non-preferential, unsecured creditors (subject to a maximum amount of £600,000) pursuant to section 176A of the Act. The Prescribed Part applies to floating charges created on or after 15 September 2003.

As part of the consideration for the Sale, the Purchaser provided funding for the Administration, which included an amount equivalent to the maximum available under the Prescribed Part of £600,000 for distribution to the Company's non-preferential, unsecured creditors. The dividend amount of the Prescribed Part distribution is subject to associated costs and the quantum of admissible claims.

If there are creditors who wish to submit a claim form but have yet to do so, we would request that they return a proof of debt form, enclosed at Appendix 5, together with all back up documentation in support of their claim. Thereafter we will proceed to adjudicate on creditor claims in order to support a distribution from the Prescribed Part.

Remaining work

We will continue to deal with the Administration in line with the stated objectives outlined in the Proposals. Future tasks will include, but may not be limited to, the following:

- progressing and concluding the transfer of the Al Binaa Shares;
- preparing and filing corporation tax and VAT returns;
- fulfilling statutory and reporting requirements of the Administration;
- receiving and reviewing claims from non-preferential unsecured creditors of the Company;
- distributing amounts due to non-preferential unsecured creditors under the Prescribed Part;
- dealing with enquiries from creditors, members and other stakeholders, as required;
- commencing preparations to dissolve the Company, on completion of all matters required in the Administration, including distribution of the Prescribed Part to non-preferential unsecured creditors, at the appropriate time; and
- any such actions required to be undertaken by the Joint Administrators to fulfil the purpose of the Administration.

Next report

We will report to you again, with an update on the progress of the Administration, in six months' time.

Should you have any queries regarding any of the matters outlined in this report, please contact my colleague Natalie Hamill on +44 (0)20 7197 5327.

Yours faithfully
for the Company



R H Kelly
Joint Administrator

The affairs, business and property of 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 Insolvency Practitioners Association.

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 1

Interserve Plc (in Administration) (“the Company”)

Information about the proceedings, the Company and the office holders, as required by Rule 18.3(1) of the Insolvency (England and Wales) Rules 2016

Name of Court:	High Court of Justice Business and Property Courts of England and Wales Insolvency and Companies List (ChD)
Court reference:	BR-2019-000339
Registered name of the Company:	Interserve Plc
Registered office address of the Company:	c/o Ernst & Young LLP, 1 More London Place, London, SE1 2AF
Registered number:	00088456
Country of incorporation (for a company incorporated outside the United Kingdom):	n/a
Date of appointment of the Joint Administrators:	15 March 2019
Details of any changes of Administrator:	None
Full names of the Administrators:	Robert Hunter Kelly Alan Michael Hudson
Office holder numbers:	8582 and 9200
Administrators' addresses:	Ernst & Young LLP, 1 Bridgewater Place, Water Lane, Leeds LS11 5QR Ernst & Young LLP, 1 More London Place, London SE1 2AF
Contact details:	+44 (0) 207 197 5327 InterservePlcAdministration@uk.ey.com
Name of alternative person to contact with enquiries about the case:	Natalie Hamill

Category of work Description of work completed / to be completed

Accounting and Administration	<ul style="list-style-type: none"> • Overall management of the case, treasury and accounting functions, statutory compliance diaries and time cost monitoring and reporting. • Monitoring internal systems and records in line with statutory requirements.
Bank and Statutory Reporting	<ul style="list-style-type: none"> • Preparing the Joint Administrators' Statement of Proposals, six monthly progress reports and final report. • Preparing reports to IGL, in accordance with the terms of the SPA, on the use of funding made available to the Joint Administrators to cover costs of the Administration.
Creditors	<ul style="list-style-type: none"> • Receipt and recording of creditor claims. • Correspondence with creditors.
Debtors	<ul style="list-style-type: none"> • Responding to queries in respect to debts due to the Company. • Receiving debts due to the Company and arranging payment of these monies to IGL, in accordance with the SPA.
Employee matters	<ul style="list-style-type: none"> • Writing to employees regarding TUPE related matters. • Dealing with any employee enquiries.
Immediate Tasks	<ul style="list-style-type: none"> • Completion of workstreams requiring immediate attention following appointment, in order to execute the strategy outlined in the Proposals.
Investigations	<ul style="list-style-type: none"> • Investigations into the Company's affairs in accordance with Statement of Insolvency Practice 2: "Investigations by Office Holders". • Making an online submission to the Director Conduct Reporting Service in accordance with the Company Directors Disqualification Act 1986.
Job Acceptance and Strategy	<ul style="list-style-type: none"> • Matters relating to the appointment and initial planning.
Legal Issues	<ul style="list-style-type: none"> • Dealing with any ad hoc legal issues which may arise in the Administration.
Members	<ul style="list-style-type: none"> • Corresponding and dealing with shareholder queries.
Other Assets	<ul style="list-style-type: none"> • Obtaining required consents, clearances and transferring ownership / managing the sale of the AI Binaa Shares. • Dealing with enquiries from lease providers / assignment of lease agreements, if required. • Liaising with the Company's banks to secure the release of cash held in pre-appointment bank accounts and cash in transit. • Realising value from any residual assets.
Other Matters	<ul style="list-style-type: none"> • Managing general queries and correspondence on behalf of the Company. • Dealing with general compliance obligations of the Administration. • Dealing with insurance enquiries, notifications and claims. • Review and execution of agreements to facilitate the transfer of IT, utilities, services and other supplier agreements, if novation is required. • Other ad hoc matters that arise in the course of the Administration.
Property	<ul style="list-style-type: none"> • Managing licences to occupy and assignment of leases, as appropriate. • Dealing with landlords, leasehold properties and the payment of rent and service charges, in connection with the licences to occupy.
Public Relations	<ul style="list-style-type: none"> • Agreeing and issuing statements to the press, as required, and dealing with enquiries from the media.
Statutory Duties	<ul style="list-style-type: none"> • Completion of statutory requirements of the Administration, including notifications to the creditors and members, advertising the appointment, letter to creditors pursuant to Statement of Insolvency Practice 16, and filing documents at Companies House. • Reviewing and finalising documents and other activities required to extend the Administration.
VAT and Taxation	<ul style="list-style-type: none"> • Bringing tax affairs up to date. • Preparing corporation tax and VAT returns, with input from EY VAT and tax specialists. • Completing application documentation regarding pre-appointment tax losses. • Assessment of the VAT and tax treatment of transactions and agreements entered into during the Administration. Preparing claims for VAT bad debt relief (if applicable).
Prescribed Part Distribution	<ul style="list-style-type: none"> • Adjudicating on claims from unsecured creditors and processing distributions (as applicable).
Data Preservation	<ul style="list-style-type: none"> • Imaging of books and records held on laptops and iPads held by the senior management of the Company.

Appendix 4

Interserve Plc (in Administration) ("the Company")

Summary of Joint Administrators' expenses incurred

Type of Expense	Per estimate sent to all known creditors dated 21 March 2019 (£)	Incurred from 15 March 2019 to 14 September 2019 (£)	Incurred from 15 September 2019 to 14 March 2020 ⁴ (£)	Total incurred from 15 March 2019 to 14 March 2020 (£)	Remaining balance of estimate (£)
Payments made from the estate which are not disbursements^{1,2}					
Insurance	50,000.00	1,176.00	784.00	1,960.00	48,040.00
Statutory advertising	1,000.00	174.96	-	174.96	825.04
Legal fees and disbursements	500,000.00	240,128.72	104,223.99	344,352.71	155,647.29
Travel, accommodation and subsistence	25,000.00	1,919.73	117.79	2,037.52	22,962.48
Category 1 disbursements²					
Specific penalty bond	1,280.00	1,280.00	-	1,280.00	-
Postage and printing ³	-	249.09	-	249.09	(249.09)
Category 2 disbursements²					
Copying, printing and postage	1,000.00	362.51	-	362.51	637.49
Mileage ³	-	99.00	-	99.00	(99.00)
Total	578,280.00	245,390.01	105,125.78	350,515.79	227,764.21

Notes:

- 1 Statement of Insolvency Practice 9 ("SIP 9") defines expenses as amounts properly payable from the insolvency estate which are not otherwise categorised as office holders' remuneration or distributions to creditors.
- 2 SIP 9 defines disbursements as a type of expense which is met by and reimbursed to, an office holder in connection with an insolvency appointment. Disbursements fall into two categories: Category 1 and Category 2.
 - a. Category 1 disbursements are payments to independent third parties where there is specific expenditure directly referable to the appointment.
 - b. Category 2 disbursements are expenses which are directly referable to the appointment but not a payment to an independent third party. They may include shared and allocated costs.
- 3 £249.09 of Category 1 postage and printing costs have been incurred but were not forecast, however, this cost is within the estimate of Category 2 copying, printing and postage costs. £99.00 of Category 2 mileage costs were not in the Joint Administrators' initial forecast but are within the expenses estimate for travel, accommodation and subsistence.
- 4 As at 14 March 2020, £63,700.41 of legal fees and disbursements and £100.18 of travel, accommodation and subsistence costs had been incurred and not yet paid.
- 5 Payment of pre-Administration costs were subject to specific approval and are not included in the above analysis.

Appendix 5

Interserve Plc (in Administration) (“the Company”)

Proof of debt form

Administration Proof of Debt
Rule 14.4, Insolvency (England and Wales) Rules 2016

Convocatoria para la presentación de créditos. Plazos aplicables
Výzva k přihlášení pohledávky. Závazné lhůty
Opfordring til anmeldelse af fordringer. Vær opmærksom på fristerne
Aufforderung zur Anmeldung einer Forderung. Etwaige Fristen beachten!
Nõude esitamise kutse. Järgitavad tähtajad
Πρόσκληση για αναγγελία απαιτήσεως. Προσοχή στις προθεσμίες
Invitation to lodge a claim. Time limits to be observed
Invitation à produire une créance. Délais à respecter
Invito all'insinuazione di un credito. Termine da osservare
Uzaicinājums iesniegt prasījumu. Termiņi, kas jāievēro
Kvietimas pateikti reikalavimą. Privalomieji terminai
Felhívás követelés bejelentésére. Betartandó határidők
Stedina għal preżentazzjoni ta' talba. Limiti taż-żmien li għandhom jiġu osservati
Oproep tot indiening van schuldvorderingen. In acht te nemen termijnen
Wezwanie do zgłoszenia wierzytelności. Przestrzegać terminów
Aviso de reclamação de créditos. Prazos legais a observar
Výzva na prihlásenie pohľadávky. Je potrebné dodržat' stanovené termíny
Poziv k prijavi terjatve. Roki, ki jih je treba upoštevati!
Kehotus saatavan ilmoittamiseen. Noudatettavat määräajat
Anmodan att anmäla fordran. Tidsfrister att iaktta

Interserve Plc (in Administration) ("the Company")

Date of Administration: 15 March 2019

Please refer to the notes at the end of this form.

Name of Creditor

Address

Total amount of claim, including VAT, as at 15 March 2019

Less: any payments made to you after 15 March 2019 in respect of the claim

Less: any trade or other discounts (except early payment discounts) under Rule 14.20

Less: any adjustments for set off in accordance with Rule 14.24

Net claim after deductions

Amount of any outstanding uncapitalised interest included in claim

Amount of any VAT included in claim

Is the whole or any part of your claim preferential, within the meaning of section 386, schedule 6, of the Insolvency Act 1986? If so, into which category of debt does it fall?

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Notes to Administration Proof of Debt Form:

1. Please attach a detailed statement of your account as at the date on which the Company entered Administration.
2. VAT bad debt relief may usually be claimed six months after the date of supply.
3. The Administrator may call for any document or other evidence to be produced if it is considered necessary for the purpose of substantiating the whole or any part of the claim made.
4. 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 Administrator's appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.