

2007

Jarvis Annual report and accounts



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## Financial Highlights

For the period ended 2 April 2007

	% change	2007 £m	2006 £m
Revenue*	(13.3)	<b>306.7</b>	353.8
Operating profit before non-recurring costs*	(62.9)	<b>3.9</b>	10.5
Loss before taxation	76.1	<b>(14.1)</b>	(59.1)
Net cash used in operating activities	37.8	<b>(35.2)</b>	(56.6)
Net debt	(6.3)	<b>(23.6)</b>	(22.2)
Basic and diluted loss per share*	79.9	<b>(7.5)p</b>	(37.3)p

\*From continuing operations.

# Chairman's Statement

We could not continue to deliver the successful turnaround of this company without the wholehearted and committed effort of our people.



Jarvis has been able to achieve some significant milestones in the business strategy laid out in our AGM statement last year, despite an industry wide downturn in rail and plant volumes in the period. We have divested ourselves of unprofitable and distracting peripheral activities in order to concentrate on our core strengths and market leadership in rail and plant. During the period we completed the sale of our road markings business to Ennis Paint Inc.. We have now agreed the termination of the most unprofitable of our Facilities Management contracts, so that the remainder of our FM business will thereafter be profitable at the contract level, and we have successfully completed the remaining Construction contracts, and defects on old contracts are largely finished.

On 2 April 2007 we successfully completed a £25m Placing and Open Offer. We have accordingly adopted this as our reporting date to account for this transaction in the period. These new funds enable us to do three things. Firstly, to deliver arguably the most important component of our forward strategy, namely further significant reductions to our cost base reflecting the new shape of the business; secondly, to fund the divestment of the unprofitable FM contracts; and thirdly to invest in the innovative technology and equipment which underpins our future.

Jarvis has always been committed to the use of technology and mechanisation of processes on the railway which have previously been done essentially by manual labour. This remains our key competitive advantage, and we continue to innovate for the benefit of Network Rail and our other clients such as Transport Scotland, Metronet, BAM Rail in Holland, and others. Finally, I am pleased to report that during the period we launched our rail freight business – Fastline Freight – which has shown encouraging growth since it commenced operations and continues to expand.

## Financial results

We told the market in the period under review that the effect of the slow build up in rail contract awards would affect our financial performance. Revenue for the period from continuing operations was reduced to £306.7m (2006: £353.8m), reflecting this downturn in rail contract awards as well as the exit from construction activities. The Group operating profit before non-recurring costs of £3.9m (2006: £10.5m) was also impacted by reduced Rail and Plant volumes. Non-recurring costs of £13.4m (2006: £1.8m) include the termination costs of exiting the loss making FM contracts and the cost of the overhead reduction programme to date. The loss before taxation was £14.1m, much reduced from the previous year (2006: £59.1m). The loss for the period after accounting for discontinued operations was £21.7m (2006: £51.3m), in line with the forecast made at the time of the Placing and Open Offer. Net debt at the period end, after accounting for the receipts of the Placing and Open Offer was £23.6m (2006: £22.2m).

## Dividend

In light of these results the Board does not recommend the payment of a dividend.

## Rail and Plant

As we have previously mentioned the slow pace of new contract awards by Network Rail industry-wide has impacted our business performance during the period. However, the volume of activity is now, as anticipated, increasing and work has commenced on

contracts worth £65m awarded in January, to provide Category C signalling services and Phase 2a works at Rugby station – one of the most significant redevelopments on the national network. We also won a West Coast line speed enhancement project between Summit and Abington, in Scotland. Over the Christmas period, one of the busiest times on the railway, our teams north and south of the border delivered the largest volume of project work completed by any contractor, and did so efficiently and safely. We delivered a wide range of multidisciplinary projects, including approximately 5,000 composite yards of track renewals. Integral to our success was close collaboration with Network Rail on access, possession times and equipment availability. Excellent co-ordination by all staff involved and a great team effort within Jarvis Rail and Fastline enabled this to happen. This increase in rail work also has a positive effect on the Group's trading performance in the current period.

#### **Track renewals**

In December last year, Network Rail announced that they did not intend to take renewals in house. This was welcome news for us and for the industry as a whole and allows us to plan our future with greater certainty. It also removes a cause of uncertainty among current and potential investors. Network Rail also stated that in order to accelerate the pace of productivity improvements they plan to reduce the number of track renewals contractors operating in Integrated Management Teams (IMTs) from the current six to four. Although I should note that neither the major enhancement projects on which we are engaged nor the electrical and signalling services we provide are within the scope of this review, we do nonetheless regard this as a significant opportunity to demonstrate our "best in class" credentials. Whilst we would have a perfectly viable future outside the successful quartet, we are ensuring that we rise to the challenge of proving our commitment to deliver the best possible service to our key client. At the time of writing we are performing well in respect of both safety and volume – two critical performance indicators. This is indicative of

a Rail and Plant operation which is genuinely keen to deliver what clients want, when they want it. The announcement of the successful four contractors is expected to be made in August this year and we are focusing our efforts on being one of them.

#### **Accommodation Services**

Thanks to the excellent work of Stuart Laird and his team the performance of our Facilities Management business continues to improve in terms of both efficiency and margin. This division encompasses our joint venture with Herefordshire County Council, our contract with Redcar and Cleveland Borough Council and a number of individual facilities management agreements in schools and other similar public buildings generally inherited from our previous PFI business. This now represents all that is left of the original Jarvis Accommodation Services business and we are continuing to explore ways in which we can optimise the value generated in this market.

#### **Our people**

As ever the Board of Jarvis plc is acutely aware that we could not continue to deliver the successful turnaround of this Company without the wholehearted and committed effort of our people at every level within the business. We are immensely grateful to them all. They have all demonstrated real commitment to the recovery of our fortunes. It is sadly inevitable that in the process of restructuring we lose hard working, loyal and competent friends and colleagues. In this context I would particularly like to thank Adrian O'Shea, our Group Director of Strategic Marketing and Planning, who has left us to join Deloitte, for his significant contribution to planning our recovery. Geoff Mason, our long-serving Group Company Secretary, has also left us for new challenges. Geoff has been quite outstanding in his loyalty, assiduity and sound advice throughout the whole process of restructuring and business reconfiguration. We thank them warmly and wish them both every success in the future. Mark Akinlade is moving from his current role as Head of Legal Services to assume the role of Group Company Secretary and General Counsel.

#### **Future prospects**

During the coming year we will continue to work on the reduction of costs. We will focus on our core businesses of Rail and Plant, ensuring that wherever possible we offer innovative mechanised solutions to hitherto labour intensive rail operations and thereby deliver for our clients both operational improvement and significant cost saving. We will be making further investment in our heavy duty specialist equipment, including upgrading our switch and crossing tampers and we are pursuing selective international expansion opportunities. The level of rail work has risen in recent weeks as the Rugby project among others comes fully on stream and this improved workflow looks set to continue. As I indicated in my letter accompanying the recent Placing and Open Offer, with the support of my Non-Executive colleagues, to whom I pay tribute for their continuing wise counsel, and under the firm leadership of Richard Entwistle and his first class team, I look forward to a year of significant progress.

#### **Steven Norris**

Executive Chairman  
11 June 2007

# Chief Executive's Statement

The path is clear and the business continues to become stronger and more stable.



## **Financial restructuring**

During the year to March 2006 the business carried out a complex financial restructuring which included a Debt for Equity Exchange and a very expensive working capital facility. This was the very important first step in the recovery of the business. During this financial period we have continued that recovery process with the establishment of a new asset backed working capital facility with Burdale Financial Limited, a subsidiary of the Bank of Ireland, and the raising of additional funding through a Placing and Open Offer, which we successfully completed on 2 April 2007.

The £25m arising from the Placing and Open Offer will be used to fund the future development of the business.

## **Health and Safety**

Health and Safety continues to be our number one priority and we have once again performed well in the period. Our Rail and Plant businesses achieved an Accident Frequency Rate (AFR) of 0.23 accidents per 100,000 hours worked. In more literal terms this would mean that one employee would only have one reportable accident every 217 years.

During the period the Integrated Management Teams (IMTs) at Glasgow and Peterborough have received awards for achieving 730 days without any reportable accidents. They have become two of only three track renewals IMTs countrywide to reach this milestone – a tremendous achievement.

## **Rail and Plant**

During the period much of our time has been focused on developing and implementing the business strategy, which now centres around Rail and Plant. The emphasis is on the provision of innovative mechanised services, which involves the development of techniques and bespoke equipment designed to improve output and reduce risk to our workforce. Innovation and an in depth understanding of customers' current and future needs is at the very heart of our business. There are many examples of this, the most recent being the completion of a major Switch and Crossing installation at Hunterston in Scotland in April 2007. We developed the modular techniques and designed the bespoke equipment integral to the process. The initiative has received much acclaim from our client, Network Rail.

Unfortunately, expenditure in the UK rail market in the period was at lower levels than anticipated in our areas of activity. This was due to the completion of the West Coast Route Modernisation Project and delays in the awards of new projects which did not start coming through until late in the period. This impacted Rail and Plant volumes which were significantly down on previous years and resulted in a difficult trading period.

However, there were a number of notable successes. We commenced our Freight operation branded Fastline Freight in June 2006. We now transport containers from Thamesport to Doncaster and Birmingham using our three locomotives and have some significant opportunities in the pipeline.

In the summer of 2006 our equipment was used in Europe for the first time. Our bespoke Rapid Ballast Excavator, nicknamed "Mole", excavated 26km of track in 26 days as part of a track renewals project for BAM Rail in Holland. The project has given the business much greater coverage in the European market and this together with our appointment of an experienced International Director is yielding a number of enquiries. Our approach is selective and controlled centring around the use of our mechanised services offerings.

Following our strategic decision to concentrate on our best performing Rail and Plant businesses we decided to sell the poorly performing Prismo Road Markings business and our share of the Accord Jarvis Limited joint venture. We completed these transactions in December 2006 and February 2007 respectively. The residual element of the Roads division Hereford Jarvis Services Limited (HJS), our joint venture with Herefordshire County Council, is now managed as part of the FM business. I am pleased to report that HJS has been transformed and is now trading profitably.

#### **Accommodation Services**

The business has made excellent progress during the period. The FM business has stabilised and the exit from Construction is well on the way to completion.

In Construction we received a completion certificate for the last remaining contract, Whittington Hospital, in October 2006. We are assisting with the project management of a second phase of Whittington Hospital but are only providing management support and this is expected to cease in the autumn of 2007. We also completed a large and planned defect rectification programme in the summer of 2006 which cleared the vast majority of outstanding defects on the old Construction contracts. There are still some defects to complete on the remaining contracts which we will attend to during the course of the coming year as the access opportunities arise.

The termination of the three major loss-making FM contracts, which we announced on 4 June, will transform the FM business. These contracts, together with a profitable fourth contract in the same area, necessitated a sizeable negative premium. Although two loss-making contracts remain, the overall FM business will now be profitable at contract level and will require significantly less management effort going forward. The management team in this business has been significantly strengthened and during the period we embarked on a major service improvement programme supported by a consultant specialising in operational effectiveness. This has had considerable benefit and the business has stabilised.

The FM business now consists of 28 contracts, including HJS, of which 24 are PFIs. We retain an equity interest in 7 of these PFIs. The major proportion of the portfolio is 16 schools projects. The other projects include hospitals, training facilities, local government offices and fire stations.

#### **The future**

We have a clear strategy and know precisely what we need to achieve and have made significant steps towards our goals during the period.

As we continue through the recovery process there is a great need to introduce more appropriate management information systems, to further reduce our costs to match the size and shape of our new business and indeed to further improve the skillset in certain areas to match our mechanised services approach. This is a difficult process but will result in the business being stronger and in much better shape to capitalise on the opportunities ahead.

The volumes of work in Rail have started to pick up. The awards that we received in January 2007 for Rugby remodelling, the Category C framework agreement and the LL25 line speed enhancement project in Scotland were evidence of this. Network Rail, our main client, has also stated that it plans to significantly increase expenditure

on enhancement projects over the next two years. This is to facilitate the growth expected from both passenger and freight services in the UK. Clearly, this is very positive news for the UK Rail industry in general.

The Plant business is invariably linked to Rail, in that as UK Rail volumes pick up so do Plant volumes. However, our strategy is also to sell our services overseas and we plan to push very hard to increase our overseas activity in the year. We also need to continue to develop innovative solutions to service the needs of the Rail market. To this end, we have a small dedicated team focussing on bringing our developments to market and where appropriate securing protection for our intellectual property. The Freight business has started well. The next steps are to further develop the intermodal container service.

There is still much to do, but as previously stated the path is clear and the business continues to become stronger and more stable.

#### **Richard Entwistle**

Chief Executive  
11 June 2007

Significant progress has been made during the period on the continuing operational reorganisation of the Group.



### Placing and Open Offer

A Placing and Open Offer of 38,485,241 ordinary shares was completed on 2 April 2007, generating £25m gross proceeds. The cash has been included in the Balance Sheet after deducting directly attributable share issue costs of £3.3m. The Group's reporting period has been extended to this date to include this transaction.

### Key performance indicators

The Group's management use a range of performance measures to monitor and manage the business. Certain of these measures are particularly important in measuring our progress in creating Shareholder value and are considered key performance indicators (KPIs). The KPIs measure past performance and also provide information to allow us to manage the business into the future. Revenue, operating profit before non-recurring costs, operating margin, EPS, operating cash flow and net debt indicate the volume of work delivered, the profitability and the efficiency with which the profits have been turned into cash.

KPIs for 2006-07 are shown in the table below, along with prior year comparatives.

	2007	2006
Revenue from continuing operations	<b>£306.7m</b>	£353.8m
Operating profit before non-recurring costs	<b>£3.9m</b>	£10.5m
Operating margin	<b>1.3%</b>	3.0%
Basic loss per share – continuing operations	<b>(7.5)p</b>	(37.3)p
Operating cash flow	<b>(£35.2m)</b>	(£56.6m)
Net debt	<b>£23.6m</b>	£22.2m

The financial metrics are as reported in the Consolidated Financial Statements.

Non-financial key performance indicators are as reported in the Corporate Social Responsibility report on pages 22 to 26.

Revenue from continuing operations for the period to 2 April 2007 reduced by £47.1m to £306.7m, reflecting the delay in the awarding of some rail projects, the reduction in West Coast Route Modernisation Project volumes in the Rail and Plant businesses (following the completion of that project) and the conclusion of the remaining Construction contract.

The Group achieved a profit at the operating level, before non-recurring costs, of £3.9m (2006: £10.5m). The reduction in operating profit versus 2006 was largely caused by volume reductions and reduced margins in both the Rail and Plant businesses.

The loss per share has improved versus 2006, mainly as a result of significantly reduced finance costs in the current period. 2006 net finance costs of £67.8m included the costs of the Debt for Equity Exchange at £61.9m.

The operating cash outflow for the period has fallen to £35.2m (2006: £56.6m), principally because of the receipt of £21.7m net proceeds from the Placing and Open Offer. Net debt remained close to previous year levels.

### Operational restructuring

Significant progress has been made during the period on the continuing operational reorganisation of the Group including:

- disposal of the Prismo Road Markings business, which has been treated as discontinued;
- continued focus on becoming an infrastructure services business with two core divisions, Rail and Plant;
- restructuring of the Accommodation Services Division to achieve profitability;
- completion of the office move from London to York;
- reduction of central overheads in line with the size of the repositioned business; and
- refinancing of working capital facilities with consequent interest savings.

### Disposals

On 1 December 2006 the Group sold Prismo Road Markings Limited to Ennis Paint Inc. for a cash consideration, net of disposal costs, of £4.2m. The contracting division of Prismo Road Markings Limited, Prismo Contracting Services, had been making significant losses for some time. The parts of the business which were not included in the sale were the Somerford Equipment business and Herefordshire Jarvis Services Limited. The Somerford Equipment business has been transferred to our Plant division and Herefordshire Jarvis Services is now managed as part of our Accommodation Services Facilities Management business.

On 27 February 2007 Jarvis completed the sale of its 50 per cent holding in the Accord Jarvis Limited joint venture for a cash consideration of £0.9m.

### Group cost savings plans

As a result of the plans to reduce central costs, central overheads have been successfully reduced from £29.2m in the year ended 31 March 2006 to £20.1m in the period ended 2 April 2007.

### Refinancing

Documentation for a £67m three year committed and secured credit facility

was signed in July 2006. The facilities were used to refinance the Group's outstanding facilities (with Deutsche Bank AG, London Branch and Commerzbank Aktiengesellschaft, London Branch) and to provide liquidity. The new facilities are arranged by Burdale Financial Limited, the secured asset-based lending subsidiary of the Bank of Ireland.

The new facilities are split into a senior tranche of up to £55m and a subordinated facility of up to £12m. The margin on the senior facility is up to 3.75 per cent over LIBOR while the margin on the subordinated facility is 8 per cent over LIBOR (rising to 10 per cent in certain circumstances).

### Non-recurring costs

The Group has incurred non-recurring costs of £13.4m in the period (2006: £1.8m) including £6.9m termination costs of exiting the loss-making Facilities Management contracts and, as part of the overhead reduction programme, £4.6m of redundancy costs. These costs have been funded from the proceeds from the Placing and Open Offer.

### Finance costs

Net finance costs for the period ended 2 April 2007 of £4.6m were significantly lower than the previous year (2006: £67.8m) and relate mainly to interest payable on the financing facilities in place at the beginning of the period and the replacement asset-based facility agreed in July 2006.

### Taxation

Deferred tax balances for the comparative year have been restated to reflect recognition under IAS12 of assets and liabilities arising from unused tax losses eligible to cover taxable temporary differences associated with pension schemes surpluses. At 2 April 2007 the Group recognised deferred tax assets of £10.0m and liabilities of £11.2m in this regard. At 2 April 2007 the Group had £271.1m (2006: £342.2m) in tax losses available to reduce tax payments in future years, subject to continued taxable profits

in certain Group companies. However, other than as detailed above, no deferred tax assets have been recognised as the realisation of the related tax benefit is uncertain. The Group paid no corporation tax in the financial period. The tax credit for the period was £2.0m (2006: £5.4m).

### Pensions

The Railways Pension Scheme (RPS) and the Streamline Pension Schemes are the only material defined benefit schemes operated by the Group. The IAS 19 surplus on the RPS increased significantly during the period to £36.4m (2006: £22.0m) as a result of strong performance of equity investments and movements in underlying actuarial assumptions. The IAS 19 deficit on the Streamline Pension Schemes, which hold a higher proportion of its assets in bonds, was slightly reduced at £17.0m (2006: £17.9m).

During the period the Group's contributions to these schemes was £4.2m (2006: £2.8m) and included special contributions to the Streamline Pension Schemes of £1.0m (2006: £1.0m).

### Financial risk management

The Group has a centralised Treasury function whose primary role is to manage funding, liquidity and financial risks.

The Group Treasury Department ensures financial risks are identified through:

- receiving regular, formalised reports from all operating divisions;
- review of operational results and executive information, in particular each division's cash generation and usage and working capital position; and
- involvement in, and review of the output from, the planning and forecasting process.

In order to establish the Group's funding requirements the Group Treasury Department monitors:

- regular cash flow forecasts prepared by the divisions;
- budgets and forecasts;
- actual trading results and resultant debt and balance sheet positions; and
- capital expenditure requests.

# Financial Review

If appropriate, the Group enters into derivative transactions, principally interest rate swaps and forward currency purchases, to manage material interest rate and foreign exchange risks arising from the Group's operations and its sources of finance. It is the Group's policy that no trading in financial instruments for speculative purposes shall be undertaken.

The Group's principal financial assets are bank balances, cash, amounts recoverable on contracts and trade debtors, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its amounts recoverable on contracts and trade debtors. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

**John O'Kane**

Group Finance Director

11 June 2007

# Operating Review

## Rail

### Overview of activities in the business

Jarvis Rail Limited (Jarvis Rail) is the railway engineering arm of the business which has maintained its role as a major provider of rail infrastructure works to the UK rail industry, not only through the provision of Plain Line track and Switch & Crossing (S&C) renewals, as part of Network Rail's Integrated Management Teams (IMT), but also in delivering some key enhancement projects nationwide.

Safety is critical for the business and the period saw the company continue to better the Accident Frequency Rate (AFR) target of 0.25 set by Network Rail. At the period end the combined Jarvis Rail and Fastline AFR stood at a highly creditable 0.23 for trackside accidents, continuing the mission for zero accidents.

Revenue reduced in the period due to the late award and commencement of the Rugby contract on the West Coast Main Line (WCML). The expected release of the Category C contract for signalling works also took longer than expected to conclude. Scotland continued to gain project work outside of its National S&C contract. This work covered all disciplines in infrastructure renewal.

The business has continued to strengthen its relationship with its major client Network Rail and teamwork has been central to the successes that were achieved during the period. Network Rail continues to focus on establishing "World Class" best practice and bring about efficiencies in the way it delivers Plain Line and S&C renewals across the country. Jarvis Rail actively supports Network Rail in these business objectives and is fully engaged with the Network Rail lead Business Improvement Team who are currently focused on improvements on the end to end process of track renewals.

Against a backdrop of ongoing recovery Jarvis Rail has remained diligent in delivering safe, high quality, products and services, efficiently and on time by utilising innovative methods and techniques.

In July 2006, the team won a top national award for the innovative deployment of its mechanised Accutrack® track renewals system at Polesworth on the WCML. The project was named the "Most Innovative Transport Project" at the National Transport Awards and Jarvis was recognised for setting a benchmark for fast, efficient and safe track renewals using the Mole and Slinger® to replace track safely and at a rate more than double the industry standard.

During a very busy Christmas period Jarvis Rail West Coast completed complex formation renewal and piling works in preparation for the installation of new points as part of the Rugby Station Remodelling scheme. The Electrical Projects Group (EPG) completed the main commissioning of the Brightside resignalling project. Jarvis Rail London North East were also very active and completed a number of projects including Chaloners Whin near York, where the Slinger® train was fully utilised on Christmas Eve to relay more than 800 yards of track on concrete sleepers.

### West Coast Main Line (WCML)

Following the completion of the West Coast Route Modernisation Major Project the second generation of contracts are now starting to come on stream.

The large and complex Rugby Station Remodelling is due to be completed in late 2008. Jarvis was awarded the second stage of the project following successful completion of stage one, which included the scheme development, planning and mobilisation of the project organisation. Jarvis is contracted to deliver the planning and construction of the new track, drainage and Overhead Line (OHL) system, coupled with the necessary decommissioning of existing obsolete infrastructure. The complexity and variety of the scheme design has demanded the development of further innovative construction processes, and have proved to deliver a high quality product efficiently and on time.

The Line Speed Enhancement project between Summit and Abington on the WCML commenced in early 2007 and is expected to be fully commissioned by December 2008. Scotland Track Renewals Company (strc) are undertaking the initial works including track renewals, associated through alignment tamping and OHL electrification alterations. These will be followed by the EPG team completing the signalling design and commissioning.

The West Coast team continues its excellent safety performance delivering all works without sustaining any RIDDOR reportable accidents during the period.

### London North Eastern (LNE)

The period has continued to see an extensive volume of work being undertaken by Jarvis in the LNE territory, an impressive total of 287,758 composite yards of Plain Line and 51 S&C units being renewed overall. One of the most significant achievements has been the ongoing improvement in the AFR. This was highlighted in March when Peterborough depot achieved an impressive 730 day period without a reportable accident. Plain Line track quality has also been the subject of continued improvement across the territory.

The fifth generation of Slinger® was deployed during a successful blockade at Spalding in Lincolnshire. In addition to the conventional renewal of 1,606 yards of track, the team worked through the night on three occasions to deliver approximately 3,800 sleepers in each 18 hour period. This quantity of sleepers is nearly double the amount that would have been laid using traditional methods in the same period of time. Throughout the two week blockade the team successfully renewed more than 30,000 composite yards of track and worked hard to ensure that the project was completed safely and handed back on time at line speed.

# Operating Review

## **Jarvis in Scotland**

Under the new banner of strc the team in Scotland has maintained a very positive business performance throughout the period. The track renewals team completed another period without the workforce sustaining any RIDDOR reportable injuries. They are the only IMT in the UK to have reached 1,100 days accident free and have been highly commended by Network Rail for their exemplary safety performance.

The ability to deliver projects in all rail infrastructure disciplines is demonstrated in the diverse range of contracts the team has completed during the period. On the Glasgow North and South Electrics OHL project 4,000 metres of return conductor wire together with over 43,000 metres of contact wire were renewed which included 1,869 metres renewed within one 8 hour possession. The Through Alignment Design project completed 174,000 yards, with both projects being delivered on time and within client budget.

A further notable achievement was the award and delivery of Transport Scotland's first contract, the Mossend to Elgin Gauge Enhancement project. The completion of the enhancement works, three months ahead of schedule, on over 270 miles of railway line allowed strc to demonstrate its skill and expertise for delivering high quality improvement works and showcase the deployment of innovative and efficient working methods.

Strc also delivered two landmark projects for Network Rail. The Innerwick project was the first S&C renewal works in the UK to be undertaken utilising a new modular system. To facilitate the installation, Jarvis developed an innovative new beam for lifting panels utilising two Track Relaying Machines (TRMs) working in tandem. A further major success was achieved at Hunterston where the new modular S&C system and lifting beam were again deployed to successfully renew five point ends and 300 metres of Plain Line track renewal in a 54 hour possession,

an industry first. The new system has the potential to revolutionise the way that S&C projects are undertaken providing significant benefits in terms of cost and time efficiencies while simultaneously improving safety levels.

## **Electrical Projects Group (EPG)**

EPG delivers signalling, OHL and electrical and power solutions for customers in the rail market. They are specialists able to combine a rigorous approach to complex projects whilst simultaneously providing innovative solutions.

In January EPG secured a five-year Network Rail Signalling Framework contract and work has already commenced under the agreement. The period has also seen the construction and commissioning of key projects countrywide for Network Rail. Most recently, three high profile and complex re-signalling projects utilising an extensive range of technical expertise; Doncaster to Wrawby Single Cut Compliance project, Sheffield Brightside Resignalling scheme and Brough East Signalling & Level Crossing Upgrade.

EPG are currently working on a signalling interlocking renewal project on the Durham Coast Route which includes renewal of signals, location cabinets and troughing, along with all necessary telecommunications, civil engineering, mechanical and electrical engineering works.

# Plant

## Overview of activities in the business

Fastline Limited (Fastline), the trading name for the Group's Plant business, provides leading edge on track machinery, small plant equipment and manages an extensive fleet of purpose-built vehicles for the rail and other industries. It now also operates Fastline Freight intermodal services to the North East and Midlands. Fastline has also utilised its small plant equipment resources to develop lighting solutions for major events to complement its track lighting capabilities.

## On Track Machines (OTMs)

The Network Rail National Framework contract, secured in 2006, is the main source of revenue supplying maintenance and renewal activity on the rail infrastructure. This three year contract guarantees minimum volumes on selected machines. Revenues reduced in the period due to the rail projects expected to commence in the period being delayed or deferred into the next financial year. A total of 6,271 OTM shifts have been provided throughout the period. The machines supplied performed to an impressive 98 per cent reliability.

Fastline also operates and maintains a total of 65 machines for Network Rail, the latest addition being a Piling Train. The Windhoff Piling Multi Purpose Vehicle (MPV) worked on the Rugby Station Remodelling project during the Christmas blockade installing 16 piles and went on to provide emergency support to the site of the Grayrigg derailment where it installed a further five piles.

During the 2006 autumn season of carrying out rail head treatment in Scotland, Fastline completed 380 mile circuits with Network Rails MPVs and achieved 100 per cent mechanical reliability. Fastline also operates a fleet of four Stoneblowers for Network Rail across the LNE and Scotland territories.

The two Medium Output Ballast Cleaners (MOBCs) operated by Fastline also completed 61,067 yards of ballast cleaning in 74 shifts with Network Rail's two MOBCs. The teams operating the MOBC and the Stoneblower fleet went through the period without a reportable accident.

## Specialist plant

The Fastline team provided extensive ballast excavation and recycling technology on the Zoetermeer project in Holland for BAM Rail.

Due to environmental constraints all work on the Zoetermeer line had to be completed during the day as the track ran close to residential homes. To complete the project as efficiently as possible, BAM Rail initiated a continuous end-to-end highly mechanised approach along a total of 26 kilometres of track. To complement this approach the Mole was chosen as a preferred method of ballast excavation working in tandem with BAM Rail's Powerscreener machine, cleaning and recycling the existing ballast. The project went to plan with Mole completing between 600 metres and 1,200 metres of ballast excavation per day.

Slinger® has continued to perform well throughout the period with the customer base now including all major track renewal contractors. In total the fleet delivered over 114,000 yards of sleepers, which equates to over 65 miles. One new customer is Transplant, the plant division of Tubelines, for which Slinger® delivered around 7,800 yards of sleepers on the Metronet Sub-Surface Lines.

This period the fleet numbers increased to 44 wagons (from five wagons in 2003) when a fifth Slinger® came in to service. The latest Slinger® delivers enhanced efficiencies and improved safety due to a number of further improvements including greater use of hydraulics. The support arms are now fully hydraulic and only one person is now needed to release the machine's safety mechanism and engage the arms.

## Small plant

The contract to provide small plant to Metronet through the new London base in Acton, has proved successful in its first year, with a growth in demand which is expected to continue following Fastline receiving approval to maintain London Underground equipment.

The provision of lineside lighting to the rail industry remains central to the business with the team lighting up over 1,000 miles of track throughout the period for both internal and external customers.

As part of Fastline's small plant diversification strategy, the events industry has been targeted with the supply of specialist floodlighting. Fastline has already supplied lighting to major events such as Glastonbury Music Festival, V-Festival and even movie

premieres at Leicester Square. Fastline's events team is now actively promoting the Crewmaster® range of vehicles targeting the large number of events companies, all of which have a need for messing and welfare facilities on location, quite often for extended periods.

## Logistics

This has been an exciting period for the start up rail freight and logistics business. Fastline took delivery of two Class 56 locomotives in May 2006 with a third arriving in June. The first commercial service transporting intermodal containers was launched in June running between Thamesport, the UK's third largest intermodal container port, and Doncaster Railport. During the period Fastline has established a portfolio of container customers from shipping lines to third party logistics suppliers. A second service was launched in August from Thamesport to the terminal at Birch Coppice near Birmingham, creating a gateway to the Midlands and North West region. The freight team has provided haulage services to Network Rail and Jarvis Rail for specialised engineering and ballast trains.

The Fastline Transport hire business continued to develop with the UK's largest hire fleet of welfare vehicles, providing productivity enhancement to mobile teams with full health and safety compliance. In addition to the rail industry these vehicles are being hired to a diverse range of customers from construction, highway maintenance, utilities, councils and government agencies. The award winning Crewmaster® has benefited from the introduction of the new Ford Transit, providing better driver and passenger comfort and safety with reduced operating costs and emissions. Standard vehicles have also been introduced to the hire fleet to offer greater customer choice and grow revenue.

Following the sale of the Prismo Road Markings business, Somerford Equipment Engineering became part of Fastline's Logistics business. Somerford provides high end engineering conversions for road maintenance vehicles and has supplied 50 per cent of the UK's requirement of white lining vehicles. The business has a strong reputation for providing high quality vehicles and delivered a substantial order to Hitachi Capital during the period.

## Accommodation Services

### Overview of activities in the business

Accommodation Services includes the wholly owned subsidiaries of Jarvis Accommodation Services Limited (JAS) and Jarvis Construction (UK) Limited which carry on Facilities Management (FM) and construction operations respectively.

Our exit from Construction is nearing completion. Construction defects on old contracts are now largely finished and our last contract, Whittington Hospital reached practical completion in October 2006. We are providing management support for the second phase of Whittington Hospital which is expected to be completed in autumn this year.

The ongoing stabilisation of JAS has continued during the period. The integration of new FM projects at Rhondda, Croydon and commencement of FM at Whittington Hospital has led to increased revenues in JAS. Greater commercial emphasis combined with effective cost control throughout the business has led to profit improvement.

### Facilities Management

The senior management team under the operational direction of Managing Director Stuart Laird, has continued to drive service improvement and profit enhancement initiatives through the business. Several significant management changes have been implemented within the FM business creating a national operations structure resulting in more cohesive and consistent service delivery. Robust financial and commercial processes have been introduced which have, in particular, enabled much improved cash collection and the catch up of historic commercial issues, such as variations and benchmarking. An extensive service improvement programme was carried out during the period and has now been completed. This has resulted in service delivery improvements and efficiencies at site level through the introduction of a new management operations system, which has been implemented across all contracts.

The FM business comprises 28 contracts, 24 of which are long term PFI and include 16 schools, 5 hospital contracts, the Army Foundation College at Harrogate, one district council office in Chippenham and Tyne and Wear Fire Stations. Outside these PFI contracts the business operates FM contracts for Redcar and Cleveland Borough Council, British Antarctic Surveys and GNER. Following the sale of the Prismo Road Markings business, the Herefordshire Jarvis Services local authority outsourcing contract has been added to the JAS portfolio.

Trading has remained challenging on a small number of contracts, but the disposal of the Liverpool, Wirral and Kirklees contracts, will create a business which is then profitable at the contract level.

Safety improvement plans, focussing on more stringent accident and incident reporting and investigation, have been instigated across the business. This has resulted in a reduction in accident frequency rates in the second half of the period and an enhanced safety awareness amongst employees. Whilst it has again been a testing time much progress has been made, particularly with regard to the resolution of old construction issues and getting the final exit from construction firmly within our sights. The business now has a long term profitable income stream with a healthy forward order book and excellent penetration within the PFI market.

# Investor Information

## Shareholder Services

### Registrars

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6DA

### Amalgamation of accounts

Shareholders who receive duplicate sets of Company mailings as a result of multiple accounts registered in their names should write to the Registrar to have their accounts amalgamated.

### Gifting your shares to charity

Shareholders who have a small number of shares can often find it uneconomical to sell them. An alternative is to consider donating them to the charity ShareGift (registered charity 1052686), which collects donations of unwanted shares until there are enough to sell and uses the proceeds to support other UK charities. Further information can be obtained from the Company's Registrars or from ShareGift on 020 7828 1151 or from [www.ShareGift.org](http://www.ShareGift.org). There is no implication for Capital Gains Tax (no gain or loss) when you donate shares to charity and UK taxpayers may be able to claim income tax relief on the value of their donation.

### Investor Centre website

The Company's Investor Centre website provides users with timely access to up-to-date and historical information on Jarvis, including results announcements, presentations, annual reports, regulatory announcements and other investor relations materials and tools including a real time share price feed and share price calculator. The Investor Centre can be accessed at: <http://www.jarvisplc.com/jarvisplc/investor/>.

### Unsolicited mail

The Company is obliged by law to make its Share Register available to other organisations who may then use it for a mailing list. If you wish to limit the receipt of unsolicited mail you may do so by registering with the Mailing Preference Service (MPS). Registration can be made in writing to: The Mailing Preference Service (MPS), Freepost 29 LON20771, London, W1E 0ZT or online at [www.mpsonline.org.uk](http://www.mpsonline.org.uk).

## Company Details

### Registered Office

Meridian House  
The Crescent  
York  
YO24 1AW

### Company Registration

Registered in England  
No. 2238084

### Our Advisers

#### Auditors

RSM Robson Rhodes LLP  
St George House  
40 Great George Street  
Leeds  
LS1 3DQ

#### Bankers

Lloyds TSB  
City Office  
Bailey Drive  
Gillingham Business Park  
Kent  
ME8 0LS

#### Corporate Finance

Close Brothers Group plc  
10 Crown Place  
London  
EC2A 4FT

#### Stockbrokers

KBC Peel Hunt Ltd  
111 Old Broad Street  
London  
EC2N 1PH

# Biographies

## Chairman



**Steven Norris (62)**  
Executive Chairman  
and Chairman of the  
Nomination Committee

Steven has a degree in Law and spent most of his early life in the motor and engineering business. He entered Parliament in 1983 and was Minister of Transport in London from 1992 to 1996. He retired from Parliament in 1997 and became Director General of the Road Haulage Association. He is now Senior Partner at Park Place Communications, a consultancy specialising in transport policy and planning. He joined the Jarvis Board in September 2000 and was appointed as Chairman in 2003. Steven is Chairman of the Nomination Committee.

## Executives



**Richard Entwistle (54)**  
Chief Executive

Richard has an Engineering degree from Leicester University and is a chartered Civil Engineer. Much of his early career was spent with Shephard Hill Civil Engineering Ltd, a company acquired by Jarvis in 1990. He left the Group in 1994 to join Balfour Beatty where he spent two years developing their fledgling Highway Maintenance business before joining Amey plc in 1996 to manage the rail business which had been acquired as part of Rail privatisation. He joined the main Board of Amey plc in 1997 with the responsibility for both Amey Rail and Amey Highways (and latterly Tube Lines). Richard joined Jarvis as Chief Operating Officer with responsibility for the Group's core operations and was appointed Chief Executive in June 2006.



**John O'Kane (48)**  
Group Finance  
Director

John is a fellow of the Institute of Chartered Accountants in Ireland. He joined Jarvis after a brief spell as Group Finance Director at Eco-Bat Technologies Limited. Previously he was Group Finance Director of both Peterhouse Group plc and Kelda Group plc. John has also previously held senior management roles with ICI and Samsung Electronics in the UK and KPMG in South Africa. John was appointed to the Board as Group Finance Director in April 2006.

## Non-Executives



**Elizabeth Filkin (66)**  
Senior Non-Executive  
Director

Educated at Birmingham University, Elizabeth spent her early career as a lecturer and community worker before becoming Chief Executive of the National Association of Citizens Advice Bureau. In 1988 she became Deputy Chief Executive of the London Docklands Development Corporation, a post she held until 1992. In 1993 she was appointed Adjudicator for the Inland Revenue, and consequently for Customs and Excise and the DSS Contributions Agency in the UK and Northern Ireland. In 1999, Elizabeth became Parliamentary Standards Commissioner, a role she held until 2002. Elizabeth was appointed to the Board in August 2003. She is the Senior Independent Director and a member of the Audit, Corporate Governance, Remuneration and Nomination Committees.



**Prof. Brian Mellitt (67)**  
Non-Executive  
Director

Brian is Non-Executive Chairman of Building Research Establishment Limited and Sira Ltd. He is Past President of the Institution of Electrical Engineers. Additionally, he has acted as Rail Adviser to N M Rothschild and Sons Limited for international railway restructuring projects. He has previously held positions as Professor of Electrical Engineering at the University of Birmingham and Director of Engineering for London Underground Limited; from 1995 to 1999 he was the Director of Engineering and Production and a main Board member for Railtrack plc. Brian was appointed to the Jarvis Board in October 2002. He is a member of the Audit, Corporate Governance and Nomination Committees and is Chairman of the Remuneration Committee.



**Christopher Rew (59)**  
Non-Executive  
Director

Chris is a Chartered Accountant and was formerly a partner at RSM Robson Rhodes until April 2004, where he was the partner in charge of Market Sectors, having led the design and implementation of the programme to refocus the firm onto a market sector basis. Previously he was the Managing Director of the Corporate Group with responsibility for the core operations (audit, accounting, tax, corporate finance and consultancy) of the firm. Chris has also been an audit and advisory partner at the firm with a wide range of clients. He was appointed to the Jarvis Board in May 2004. Chris chairs the Audit and Corporate Governance Committees and is a member of the Remuneration and Nomination Committees.

## Executive Team



**Mark Akinlade (39)**  
Group Company  
Secretary and  
General Counsel

Mark has an honours degree in Law and is a practising Solicitor. He started his legal career in London's West End in 1993 and joined the Group's legal team from private practice in June 2003. During his years in private practice he acted for a variety of corporate, commercial and insurance clients in connection with their business affairs, dispute management and commercial property interests. He has been Head of Legal Affairs since January 2005 and Group Company Secretary and General Counsel since the end of May 2007.

**Michael Houghton (45)**  
Group Managing  
Director  
Rail and Plant

Mike has an honours degree in Mechanical Engineering and spent the majority of his working career in the deep-mine coal industry. He is a Chartered Mechanical Engineer and also has both professional safety and management qualifications. His previous career included senior engineering posts at collieries in the Midlands and Yorkshire. Mike joined Jarvis in September 2003 as Trains Operations Director. He was appointed as Managing Director of the Plant Division in February 2005 bringing together under the Fastline brand, On Track Machines, Small Plant and Transport. In April 2006 Mike was appointed as Group Managing Director of Jarvis Rail and Fastline.

**Kjell Karlsen (49)**  
Group Commercial  
Director

Kjell has a business degree from Syracuse University in the US and has, besides positions in finance, held senior international management positions in the fields of procurement, marketing and contracts with companies such as Price Waterhouse, United Technologies, Champion Spark Plug Company, ABB and Bombardier. He joined Jarvis as Chief Financial Officer in March 2005 after having worked in several European countries and in Asia.

**Stuart Laird (54)**  
Managing Director  
Jarvis Accommodation  
Services

Stuart has extensive experience of working at senior level within both the facilities management and construction markets. Prior to joining Jarvis, Stuart was a main Board Director of The Building & Property Group and helped instigate its sale to Interserve in 2000. His specialism is the turnaround of under-performing projects and businesses. Using these skills he has performed various roles within Jarvis Accommodation Services since June 2003.

**Patrick McHale (44)**  
Group Managing  
Director  
Operations

Pat spent the majority of his career to date working within the mining industry. He held numerous senior management positions reaching Board level in 1996 and gaining chartered membership of the Institute of Mining Engineers. He made the transition into the rail industry in February 2000, starting in a senior role within the Plant Division where his skills and leadership ability led to promotion into the post of Managing Director, Track Renewals in 2002 and Managing Director, Jarvis Rail during 2004. He was appointed as Group Managing Director Operations in April 2006 and is responsible for operational improvement across the Group, the Group's research and development programme, key account management, Jarvis Control Centre and the engineering team.

**Richard Thornton (53)**  
Group Director  
Engineering and  
HSQE

Richard has an honours degree in Civil Engineering and before joining Jarvis in 1998 he spent over 25 years in the rail industry, holding a number of senior positions in track and structures maintenance and renewal, as well as contract management within British Rail and the newly-privatised railway industry. He is a Chartered Engineer and is a Fellow of the Institution of Civil Engineers. He was appointed as Chief Civil Engineer Jarvis Rail in 2000, Engineering Director in 2004 and became Group Director Engineering and HSQE in December 2006. He represents the Railway Infrastructure Contractors on a number of industry bodies.

**Bernard Westbrook (60)**  
Group Human  
Resources Director

Bernard is a qualified and seasoned personnel professional. Prior to joining the Jarvis Group in 1997 he spent over 30 years in the railway industry, holding a number of senior posts in the personnel function of various engineering, operational, corporate and subsidiary business divisions of the former British Railways Board. As Group Personnel Director of British Rail Infrastructure Services, he was heavily involved in the railway privatisation process. Bernard is currently a member of the CBI's Employment Policy Committee.

# Corporate Governance Statement

## Corporate Governance

This report explains the Board's application of the principles contained within the Combined Code and best practice in governance matters. The Board has adopted the "comply or explain" approach and this report explains where the Group does not fully comply with the provisions, giving our reasons. The Board believes that the Company has complied throughout the period, and to the date of signature, with the provisions of the current code save where explained here.

## Internal control

In last year's Corporate Governance report, under the heading "Internal Control", we described the actions then taking place to implement improvements in the Group's control environment. The Board is responsible for the Group's system of internal control and reviewing its effectiveness. This responsibility is delegated to the Corporate Governance Committee (which comprises inter alia the same members of the Board as are members of the Audit Committee, together with the Chief Executive, the Group Company Secretary and the Head of Internal Audit) to monitor the improvements in internal control and the effectiveness of changes made. The work of the Corporate Governance Committee has focused on the governance environment and its results have informed the whole of the following report. Particular attention has been devoted to business processes and controls as the Group has changed and developed its organisation during the period. The Board is committed to ensuring that the Group has sound and appropriate systems of internal control. There is a continuous appraisal of these controls and improvements to the procedures adopted by the Group have continued throughout the period. However, any system of internal control can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Board has responsibility for the management of the Group and specific

matters are reserved for the decision of the Board under the Articles of Association, Group policies and delegated authorities. The Board has also adopted a set of corporate responsibility principles, addressing both compliance and aspiration that deal with health, safety, environmental responsibility risk, Group business methodology and relationships with stakeholders. These responsibilities are kept under review.

The improvements in internal control previously initiated have been consolidated within two key projects during this period, to refocus the commercial procedures in line with the current business structure and to consider a new Enterprise Resource Planning (ERP) system in accordance with organisational changes. These projects continue to focus on the management and mitigation of identified risks, and link with the priority identified last year to improve independent review and challenge for complex commercial, legal and contractual issues, more robust systems and more timely information flow. Specifically, the following actions identified last year have been consolidated as follows:

- Of the project areas identified for focus, finance and commercial process improvements have continued and are included in a project to develop a new ERP system. Additionally, policy developments have resulted in a new Group Contracting Manual and redeveloped Group Finance Manual which ensure a clear strategy in the Group's continuing development;
- Part of the impetus behind the new Group policies above reflected the appointment of new senior management personnel in many areas of the Group's business, but in particular strengthening and improving the operational accountability of the finance and commercial teams;
- The organisational structure has continued to be developed during the period to ensure it was appropriate to achieving the redefined Group objectives. This has been aligned with the overhead reduction plan of the Group to ensure an appropriate management structure is retained to service the operational requirements.

Assessment of the internal controls has ensured they are developed appropriately, and in line with the revised organisation structure; and

- The Corporate Governance Committee has again been pivotal in mentoring these improvements, by continuing to review the speed of implementation and the subsequent quality and consistency of the control environment in all areas of the business resulting in greater clarity of process for all commercial activities.

The Board receives and reviews frequent reports on performance against budget, strategic planning and operational issues and the ongoing process improvements being developed within the business. The quality of each report is the subject of critical review. The review process at both the Board and Corporate Governance Committees ensures that the review of internal control throughout the period has exceeded the annual review minimum recommended by the Code. The Board continues to pursue improvements in internal controls in all areas of the business.

## Evaluation of business risks

The major changes to the Group organisation structure have required an ongoing review of the business risk identification and evaluation process. During the last two financial years we have reviewed the risk evaluation and reporting process by surveying the Board and senior management. This identified that progress continues to be made but there remained further work to be done to improve and develop this process further. The intention of the Board, is to ensure risk identification and evaluation is embedded within the operational process. The revised commercial process encompasses "Tender to delivery", and risk management review is included in the entire commercial process.

During the period, business risk continued to be a formal consideration in the Monthly Operating Review meetings for each division. Key issues identified divisionally and functionally are consolidated up through the organisation structure, consequently

significant issues are reported to the Board and are addressed by the Corporate Governance Committee. In line with the recommendations of the Smith Report, the Audit Committee through the Corporate Governance Committee continues to review the risk control processes, supplementing the Board's formal review of the outputs in this area. The Board confirms that the process for identifying, evaluating and managing significant risks (both financial and non financial) faced by the Group accords with the Turnbull Guidance on Internal Control and has been in place for the period under review and up to the date of approval of the Annual Report, and is regularly reviewed by the Board.

#### **Internal Audit**

The Group Internal Audit function provides an independent mechanism for monitoring and reviewing internal control effectiveness across the Group. The Head of Internal Audit reports directly to the Audit Committee and attends all Corporate Governance Committee Meetings. The terms of reference for the function continue to be supported by the Audit Committee, with the main focus being the assessment of the internal control environment. Group Internal Audit continues to develop risk assurance within the business risk review process. Audit Committee approval is required for any change in the appointment of the Head of Internal Audit.

The annual audit plan for the period ended 2 April 2007 was developed and agreed with the Audit Committee. During the period, there were some ad hoc projects requested and approved by the Audit Committee to help understand risks and internal control issues associated with the changes taking place in the business. Another key focus has been providing project assurance in the development areas mentioned in the Internal Control section above.

#### **Insurance**

The Group obtains comprehensive insurance cover for its operations, including third party liability, employers' liability and material damage. Network Rail has continued to provide an industry-wide third party legal

liability insurance scheme to the level of £155m required by the Office of Rail Regulation which covers all the work undertaken on Network Rail infrastructure by Network Rail and its sub-contractors. The Rail and Fastline operations of the Group continue to benefit from this cover. The Group maintains separate third party liability insurance for other work to a level of £60m. Directors and Officers of the Company and its subsidiaries have the benefit of a Directors and Officers Liability insurance policy which provides appropriate cover in respect of legal actions brought against the Directors.

#### **The Board**

Decisions are taken by the Board as a whole, based on detailed papers sent out in advance of each Board meeting. The quality of Board papers has improved during the period particularly in the field of clarity of financial reporting. Further improvements in financial reporting are underway as part of the Finance Process Projects work. The first regular item on every Board agenda is safety, with reports provided on both operational and occupational safety matters. Routine Board agenda items include reports from the Chief Executive and Group Finance Director and reports on Corporate Governance and Shareholder matters. On a rotational basis, the Board receives reports on specific topics including risk management and insurance, human resources and corporate development issues as well as Corporate Social Responsibility matters.

Management of day-to-day operations is delegated to the Chief Executive and to an Operational Executive Committee comprising the Executive Directors together with Senior Executives of the Company including the Group Company Secretary and the Group Director of Human Resources as well as the heads of each operation and the core functions. Senior managers of each of the businesses meet on a weekly basis in a core management meeting which is attended by the Chief Executive, Group Finance Director, Group Company Secretary and Group Director of Human Resources. Certain commercial matters are delegated to a Committee of any

three Directors. All matters considered in this way are submitted for ratification at the next regular Board meeting.

#### **The Chairman**

Steven Norris has been Executive Chairman since his appointment in September 2005. Steven had previously been Non-Executive Chairman and had been identified as independent on his appointment to the Board. His other commitments include a number of directorships, some of a charitable nature, and his senior partnership in Park Place Communications, which is a consultancy specialising in transport and environment matters. A written division of responsibilities between Chairman and Chief Executive was established in 2005. The Chairman has responsibility for the effective operation of the Board's proceedings and the management of the relationship between Executive and Non-Executive Directors. Richard Entwistle was appointed as Chief Executive on 30 June 2006 succeeding Alan Lovell. Richard Entwistle is responsible for the operations of the Group.

Approximately quarterly, the Chairman holds meetings with the Non-Executive Directors without the Executive Directors being present.

#### **Directors**

The Board currently includes three Non-Executive Directors, all of whom are deemed independent, by the Board, the Chairman, and two Executive Directors. However, the Company acknowledges that, due to his previous appointment with RSM Robson Rhodes LLP, Chris Rew had a material relationship with a body that now has a relationship with the Company. However, the Board recognises that he both declared his interest and took no part in the appointment of RSM Robson Rhodes in 2005 and that since that time he has demonstrably exercised both independence of character and judgment in his role as Non-Executive Chairman of both the Audit Committee and Corporate Governance Committee. During the period under review the ratio of Non-Executive Directors to Executive Directors has been 1:1.

# Corporate Governance Statement

The number of Board and Committee meetings attended by each Director during the period was as follows:  
Executive Directors periodically attended Committee meetings by invitation.

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
Number of Meetings held	20	6	5	1	6
R Entwistle	20	3	–	–	4
E Filkin	20	6	5	1	6
A C Lovell*	5	–	–	–	–
A Marnoch*	2	–	–	–	2
B Mellitt	19	6	5	1	6
S Norris	20	–	–	1	5
J O' Kane**	18	5	–	–	2
C J Rew	19	6	5	1	6

\* Resigned during the period.

\*\* Appointed during the period.

In addition to the above meetings the Board met as a Committee to approve elements of the restructuring and other transactions on two further occasions during the period.

The Group intends to maintain the ratio of more than one half of the Directors, excluding the Chairman, being independent Non-Executives and maintains under review the balance of skills currently available amongst the Non-Executive Board members. Elizabeth Filkin is the Senior Independent Director.

Executive Directors' service agreements have notice periods of one year from the Company and six months by the Executive. None of the Executive Directors hold Non-Executive directorships in FTSE - 100 companies. Where the Company releases an Executive Director to serve as a Non-Executive Director elsewhere, the matter is considered by the Remuneration Committee for the impact of this on the Director's remuneration.

All Directors are appointed for a specific term and are subject to re-appointment by the Company in general meeting at the first Annual General Meeting after their appointment by the Board and every three years thereafter. Biographical material and the reasons for proposing a Director's reappointment are given to Shareholders prior to the Annual General Meeting each year. The terms and conditions of appointment of

the Non-Executive Directors are available for inspection at the registered office of the Company and are made available for inspection at the Annual General Meeting of the Company.

Attendance statistics at Board and Board Committee meetings during the period are shown in the table above. The figures include attendance at Committee meetings by invited Executive Directors, who do not normally form part of the Committee membership.

Whilst it is not policy to make the Non-Executive Directors readily available, in response to the increasing demands of the investment community, their expertise and knowledge have been utilised where relevant. Additionally, as part of the regular reporting to the Board, information on the issues and concerns of the investment community are considered. At each regular meeting, the Board receives a report from the Company Secretary on the relative share price performance of the Company including movement in institutional shareholdings as well as reports on the beneficial holders of the share capital.

Any Director may, if necessary, seek independent external advice at the Company's expense and has access to the Company Secretary for his advice and services and to procure such independent advice if requested. Any concerns which a Director may have about the running of the Company, or a proposed action, are recorded in the Board minutes. If any such concerns arise and are not addressed, the Non-Executive Director would be able to provide a written statement to the Chairman on the basis of such concern.

On appointment, Directors are entitled to receive any training they consider necessary on issues of relevance to their role and are subsequently entitled and invited to attend relevant training seminars. Site visits and briefings are arranged to coincide with Board meetings, and meetings with Major Shareholders are arranged on an ad hoc basis. Changes to the composition of the Board during the period under review are set out in the Directors' Report on pages 32 to 34 and biographical details and Committee memberships of each of the Directors appear on page 14.

### Performance evaluation

Given the small number of changes to the membership of the Board from the previous year and the small size of the Board itself, an annual performance review is seen to be overly bureaucratic. The last completed review was undertaken in the 2005-06 financial year. A further review is now underway. Interviews with each Board member, structured in accordance with a template in questionnaire form, will be conducted by the Chairman, whilst the Chairman's own evaluation will be carried out by the Senior Independent Director, also in interview form. As required by the Code, the Non-Executives, led by the Senior Independent Director, are responsible for performance evaluation of the Chairman, taking into account the views of Executive Directors. The resultant report will be considered by the Board and adopted.

### Company Secretary

The Group Company Secretary is responsible for ensuring the timely flow of information and provision of sufficient resources to the Board and its Committees as well as ensuring that Directors not only receive a suitable induction to the Board, but also receive any ongoing training, which they require. The appointment and removal of the Group Company Secretary is a matter reserved for the Board as a whole.

### Board Committees

The Board has appointed an Audit Committee, a Remuneration Committee, a Corporate Governance Committee and a Nomination Committee. These meet regularly throughout the year to scheduled agendas and are discussed in detail below.

### Audit Committee

As required by the Code, the Audit Committee comprised at least three independent Non-Executive Directors throughout the period. The Committee has been chaired by Chris Rew since his appointment to the Board in May 2004. Chris is a former partner of RSM Robson Rhodes LLP and is deemed by the Board to have invaluable and relevant financial experience. Elizabeth Filkin, being a former member of the Audit Commission and currently Deputy Chairman of the FSA

Regulatory Decisions Committee, is also regarded as having valuable experience and the remaining Committee Member, Professor Brian Mellitt, has extensive business experience. All Committee members are regarded as independent. The Board considers that the attendance of all the Non-Executive Directors on each of the Board Committees provides important continuity at the current time. The Group Finance Director and Head of Group Internal Audit have been required to attend when requested.

The Company Secretary is the Secretary to the Committee. On more than one occasion during the last period, the Non-Executive Directors have met without the presence of the Executive Directors.

The Committee meets with the external auditors to review the Group's Annual Report and Interim Results and has responsibility for ensuring that appropriate accounting policies and compliance procedures are in place.

Part of this meeting is held without the presence of the Executive team. The Committee ensures that the principles of the Code relating to accountability and audit are followed for financial reporting, internal control and the relationship with the Group's auditors. The Committee also reviews the fee ratio of non-audit work undertaken by the external auditors and has adopted a policy that it must give prior approval for any non-audit services provided by the external auditors with a fee in excess of £100,000. The Committee reviews all other non-audit expenditure with the external auditors. The Audit Committee also regularly addresses the issue of auditor independence and it is considered that adequate provision is made to ensure its protection.

This is the third year of RSM Robson Rhodes LLP's appointment and consequently for the purpose of compliance the Company can confirm there was no need for a senior partner change during the period under review. As a former member of RSM Robson Rhodes LLP, Chris Rew declared his interest and took no part in the appointment of RSM Robson

Rhodes and will continue not to participate in the Board decision on any appointment of RSM Robson Rhodes for non-audit work.

The members of the Audit Committee are predominately the same as the Corporate Governance Committee. Consequently the findings and observations of the Corporate Governance Committee are considered when reviewing the effectiveness of the system of internal control, which includes monitoring and reviewing the effectiveness of the Group's Internal Audit function. The Audit Committee also receives reports of the activity of the Group's Internal Audit department. The Group Internal Audit function continues to report directly to the Committee with line management of the function being provided by the Group Company Secretary. Following the change in Group Company Secretary on 31 May 2007, line management has been assumed by the Group Finance Director. The Head of Internal Audit meets regularly with the Chairman of the Audit Committee on Internal Audit matters. Audit Committee minutes and reports are regularly provided to the Board.

In addition to the Audit Committee's duties described in the above paragraphs the Committee reviews the scope and nature of the audit, reviews the auditor's quality control procedures and discusses any problems or reservations arising from audits.

The Audit Committee considers that the above description of its work adequately meets the recommendations of the Combined Code as to disclosure. The Committee's terms of reference are available on the Company's website and have been made available throughout the period.

### Remuneration Committee

The Report of the Remuneration Committee and the Group's compliance with the Combined Code in relation to Directors' remuneration is given on pages 27 to 31. The report will be submitted to the Shareholders for their approval at the forthcoming Annual General Meeting. The Remuneration Committee is responsible for setting and

# Corporate Governance Statement

monitoring the level and structure of the remuneration of Executive Directors, including the Chairman, and the senior management reporting directly to the Chief Executive and consults the Chief Executive on their recommendations. The level of fees payable to Non-Executive Directors and the Chairman are set by the Board as a whole on the recommendations of the Chief Executive. In preparing these recommendations, the Chief Executive reviews the fees payable to Non-Executive Directors of comparable companies to provide a benchmark. The Committee comprises all the Non-Executive Directors and was chaired during the period by Professor Brian Mellitt. The Group Company Secretary is Secretary to the Committee. The Chief Executive and Group Director of Human Resources are invited to attend as appropriate. No Executive Director is present at a meeting where his own remuneration is discussed.

In February 2005 the Board reviewed the terms and conditions of appointment of the Non-Executive Directors and agreed that, given the importance of continuity of the Non-Executive body to the Company, that the notice periods for Non-Executives should be extended to be comparable with those of Executive Directors. Additionally provision was made in the agreements for additional fees to be paid to Non-Executive Directors where the workload of meetings exceeded that identified as normal in their letter of appointment. In the period under review additional fees were paid to the Non-Executive Directors under this provision and this is disclosed in the Report of the Remuneration Committee. The Board will review the fee levels payable to the Non-Executive Directors in the current financial year.

As required by the Code, Shareholders are invited specifically to approve all new long term incentive schemes and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules. The Committee's terms of reference are available on the Company's website and have been made available throughout the period.

## **Nomination Committee**

Nominations for appointments to the Board are dealt with by a Nomination Committee consisting of all the Non-Executive Directors and the Chairman, who is also the Chairman of the Committee.

At all meetings where discussion on the appointment of a Nomination Committee member has taken place, the candidates for the position have absented themselves during such discussions. The Committee meets on an ad hoc basis, but at least once every year. The terms of reference of the Nomination Committee include the responsibility for identifying and nominating for the approval of the Board suitable candidates to fill Board vacancies. In doing so, the Committee takes account of the skills, knowledge and experience required on the Board before commencing a search based on objective criteria. On behalf of the Committee, the Director of Human Resources and the Group Company Secretary review the experience and qualifications of candidates to enable the Committee to assess issues of independence, time commitment, succession and board balance. External advice is sought and external search consultants are used by the Committee to ensure that a wide range of candidates are considered. The Committee also has responsibility for succession planning for the Board and senior management and makes recommendations to the Board regarding the re-appointment of all Directors.

As required by the Code, apart from the Chairman the Committee comprised solely independent Non-Executive Directors throughout the period. The terms of reference of the Nomination Committee provide for attendance by the Chief Executive at the Committee's invitation.

## **Corporate Governance Committee**

The Corporate Governance Committee role includes the consideration of the structures, policies and processes of the Group to achieve good corporate governance and proper systems of internal control. This

Committee supplements the work of the Audit Committee and during the period has specifically focused on the process and organisational review projects. It has also provided challenge regarding the coordination of the various initiatives underway within the organisation. It has considered recommendations about improvements to the control mechanisms following the annual audit and interim reports.

Its membership includes all of the Directors (other than the Chairman), the Group Company Secretary and a number of nominated senior specialist staff. The Committee, chaired by Chris Rew, has met regularly since its establishment. The "Whistleblower" policy which provides the route for employees and others to raise concerns about financial and other matters in the event that normal channels prove insufficient or inappropriate continues to be compliant. The policy is communicated via the website and through a number of other channels and includes an independent email address and a direct phone hotline to provide secure contact for the use of employees. A formal agenda item is tabled in the Corporate Governance Committee for the Group Company Secretary to review any such issues with the Non-Executive Directors only.

## **Shareholder communications**

During the period institutional Shareholders and their representative bodies had contact with the Chairman, the Chief Executive and with the Group Finance Director. Such meetings were reported to the Board. The Chairman and Group Company Secretary are made available to meet with representatives of investor protection bodies during the period and the views of these bodies are also reported to the Board. The Company welcomes and encourages such Shareholder dialogue, within the constraints of statute and the UK Listing Authority's guidelines.

The holdings of large institutional Shareholders who held shares arising from the Debt for Equity Exchange reduced during the period. The proportion of the shares held by other institutions and private Shareholders

or their nominees increased. Shareholders have been kept informed of developments within the Company by the release of news to the regulatory information services and by a number of circulars during the period and after its close.

Private investors are encouraged to attend the AGM and EGMs or, if they cannot, to vote by proxy. In preparing the agenda for all General Meetings of the Company, care is taken to ensure that substantial issues are the subject of separate resolutions. At the forthcoming Annual General Meeting, as at all recent General Meetings, the numbers and voting intentions of Shareholders voting by proxy will be disclosed to the meeting. Shareholders will have an option to direct their proxy to vote either for or against the resolution or to withhold their vote. Whilst clearly stating in the notice to the meeting that a withheld vote is not a vote in law and will not be counted in the determination of the resolution. The Company will continue to give at least 20 working days notice of the Annual General Meeting and the Chairmen of the Remuneration, Nomination, Corporate Governance and Audit Committees will be available to answer Shareholders' questions relating to the responsibilities of the Committees which they chair.

By order of the Board

**Mark Akinlade**

Secretary

11 June 2007

# Corporate Social Responsibility

## Corporate Social Responsibility Framework

### Our mission

The way we do business across the Group reflects our commitment to profitable growth, sustainable development and integrity. Our Principles set the standards that we intend to pursue through our economic goals and business ventures. They define what is acceptable business behaviour, and guide us in what is not.

### Norms of best practice

The Principles are rooted in national and international law relating to Corporate Responsibility, much of which is guided by the Universal Declaration of Human Rights (UN, 1948), the Labour Standards embodied in the Fundamental Conventions of the International Labour Organisation (ILO, 1930-1999) and the environmental Conventions agreed following the Rio Declaration on Environment and Development (UN, 1992). They also build on associated 'norms' of responsible business practice, the most significant of which are the UN Global Compact (2000), the OECD Guidelines (2000), the UN Norms of Human Rights Responsibilities of Multinational Companies (2002) and the July 2002 Communiqué of the European Commission concerning corporate social responsibility.

### Continuous improvement

These Principles address both compliance and aspiration. Their true force lies in their continuous implementation as part of the way we do business. This is why we continue to develop policies and programmes to support the embedding and communication of these Principles throughout our operations and those of our partners. In the event that our Principles are compromised by those partners with whom we work, we will seek to address any problems – although we will not tolerate consistent failures to adhere to the Principles.

### Implementation

We will measure progress by developing relevant indicators to monitor our performance over time systematically. We will report publicly on our progress and open

ourselves to scrutiny through independent audit. In this way we seek to promote continuous improvement, demonstrate our accountability to all our stakeholders, and promote Jarvis as a responsible corporate citizen and attractive business partner.

### Principle 1: Corporate governance and accountability

We will be accountable, promote Shareholder value, and operate transparently and to a high standard of corporate responsibility, to deliver our long-term commitments.

We will work actively to achieve market leadership and to deliver sustained returns for all our Shareholders. In doing so, we are guided by UK law and best practice codes of corporate governance and responsibility. We require all our business activities to be undertaken in accordance with the principles of transparency and accountability. We are committed to ensuring that the way we do business demonstrates long term financial and societal returns, and that our Financial Statements reflect our performance accurately and fairly.

### Principle 2: Integrity and ethics

We will be ethical, lawful, transparent and honest, in our business operations.

Our success depends on our ability to do the right thing. We will work proactively to earn the respect and trust of the public as a whole. We believe in ethical business practice and seek to uphold statutory law and regulations. We reject all dealings that might bias decision-making, and that might discredit Jarvis or our customers. We do not allow the giving or accepting of bribes, and we are all obligated to report potential conflict of interest situations as they arise.

### Principle 3: Employees

We will promote a diverse, committed, and well-trained workforce that recognises the rights of all employees.

Our employees make us successful. We are committed to the development of a professional and motivated workforce throughout the business. We are committed to providing a stimulating and diverse working environment, and aim to enhance

skills and capacity through continued investment in employee training, effective working practices and career development. We will ensure that the due rights of our employees are protected. We encourage diversity and opportunity, and are dedicated to the provision of fair and equitable conditions of work. We will not discriminate against employees on the basis of gender, age, sexual orientation, marital status, ethnicity or religious belief. We seek to uphold the highest labour standards, rejecting child or involuntary labour, excessive overtime or unfair rates and terms of pay. We support the rights of our employees to enter into collective bargaining, and to join lawful trade unions or form workers associations.

### Principle 4: Business partnerships

We believe partnerships are a fundamentally important way to do good, successful and meaningful business.

We believe in collaborative working arrangements. We are dedicated to a partnership approach as a means of facilitating sustained improvement in business sector performance, and enhancing our contribution to society. We seek to engage with, and contribute to, communities and society through our work in public infrastructure, education, health, and other services. Our partnerships are a fundamental part of the way we do business.

### Principle 5: Supply chain responsibility

Our supply chains are important, so we will work to support suppliers and sub-contractors that want to work with us to improve the way we do business. We will stop working with those that do not.

We seek to build long-term relationships and 'value chains' with our customers, partners, suppliers, and sub-contractors. We are committed to ethical and responsible business practice and expect the same from our partners in our supply chains. We are committed to meeting the growing demands and expectations of our customers by delivering superior ethical, social, safety, and environmental standards. We will ensure that the same high standards we expect of ourselves are also requested of our

suppliers in our procurement practice, and all companies or persons doing business with Jarvis will receive a copy of our Corporate Responsibility Principles. We will seek to assist willing suppliers or sub-contractors when their performance is found to be of poor quality. We will stop working with any supplier or sub-contractor that consistently fails to improve their social and environmental performance.

#### **Principle 6: Community engagement**

We will work with and in our communities as part of the service we deliver to support their growth and development.

We are committed to improving the quality of life of the communities in which we operate. We recognise the social impacts of our business, and believe in consultation with local communities about our activities and about the safety and environmental implications of our operations. We are aware that some of our work is in deprived areas, and we are sensitive to the need to promote social inclusion through our local community projects. We are committed to social responsibility, and believe the success of our business is contingent on the quality of the relationships we build with our communities and legitimate public interest groups.

#### **Principle 7: Continuous improvement in Health and Safety**

Safety is our number one priority for employees, users and sub-contractors. We will do all we reasonably can to design, build and manage safe projects and services.

The health and safety of our employees, customers and communities, and sub-contractors, is our number one priority. We view legal requirements as the minimum standard for minimising the risk of injury, ill health, and damage and loss to property arising from our work activities or equipment. We are committed to making continued investments in safety training, monitoring, and awareness building across our businesses. We will report on our progress. We view operational safety and accident awareness as a responsibility of us all.

#### **Principle 8: Our ecological footprint**

We view continuous improvement in our environmental performance as an integral

part of the services and facilities that we deliver. We will do this in accordance with recognised environmental management systems.

We believe improvements to our environmental performance can make a difference to society and to the efficiency of our core business practices. We are committed to assessing the impacts of our operations on land, water, air, and biodiversity, and to managing our waste in all of its forms by reusing and recycling it, wherever appropriate. We seek to minimise the adverse environmental impacts caused by our work and the services we provide. We will work actively to prevent leaks and spillages, manage any accidents responsibly and to reduce our use of energy and materials. We will manage and improve our environmental performance in accordance with evolving legal requirements and international standards. We are also committed to the continuing certification and improvement of our environmental management systems in key areas of our business.

#### **Principle 9: Innovation and risks review**

We will use innovation and robust risk management tools to reduce risk, promote opportunities and improve the services and products that we deliver to our customers and users.

We are committed to continuous innovation in all aspects of our business and to maintaining an effective and robust risk management programme in relation to our operations, services and products. We are committed to understanding the needs of our customers. We will apply technological and management innovation to improve the efficiency and quality of our service provision, extend our market penetration and to manage risk and opportunity responsibly.

#### **Progress against the Principles**

##### **Principle 1**

The recent history of the Group has been documented over recent annual reports. Over recent years the Group has fought hard to provide Shareholder value in difficult circumstances and recognition for the survival of the Group over this period

has to be given to the improved levels of Corporate Governance and accountability within the business. In 2004 at the time many of the problems of the Group were emerging, the Board established a new sub committee of the Board to review Corporate Governance. The first task of this Committee was to review the levels of transparency within the business and the Committee continues to monitor the improvements in process that were required.

##### **Principle 2**

The improved transparency that arises from clearer and simpler process delivery enables the Board to maintain the integrity of the business. The Board has established clear policies in respect of employment, procurement, finance and many other areas and these are monitored within the business. As part of the independent monitoring the Group has established a whistleblowing process which enables any employee to identify a breach of any policy or to raise any concerns they might have with the Non-Executive members of the board via telephone and email hotlines.

##### **Principle 3**

As the Group has reduced in size over recent years a major focus has been on protecting the rights of our employees by means of minimising the requirement for compulsory redundancy, ensuring protection of their rights on transfer where businesses have been sold and retraining and redeploying staff wherever possible. We operate in a unionised environment and have worked closely with the appropriate trade unions for the benefit of our people. We continue to operate training and retraining programmes to ensure effective working practices and provide for career development. We have adopted policies to encourage diversity and opportunity and to prevent discrimination on the basis of disability, gender, age, sexual orientation marital status ethnicity or religious belief.

##### **Principle 4**

The Group continues to execute its contracts in partnerships with all stakeholders through, among other mechanisms, Integrated Management Teams with its customers. Company Executive management, on a monthly basis, reviews the performance

# Corporate Social Responsibility

of these partnerships. As part of the Group's strategy, business development is focused on long-term framework agreements enabling sustainable continuous improvements.

## Principle 5

Jarvis has an active supplier reduction programme, and a mission to move to fewer better suppliers in its supply chain. Critical to any new arrangements that are made are assessments of a supplier's safety, social and environmental standards. Measurement of supplier's performance is essential in our quest for continuous improvement.

New additions to the Jarvis Supply Chain undergo a rigorous accreditation selection process, which takes into account a broad range of criteria to ensure best practice safety, environmental and commercial performance in the execution of their duties.

Jarvis applies these same principals to its own business to meet and exceed its customers' expectations, now and in the future.

## Principle 6

Our employees across the business have participated in many fundraising projects and we have continued with our support for Rainer, a charity which helps under-supported young people and young adults to reach their full potential. In addition, our Accommodation Services business faces directly into the communities in many deprived areas offering leisure facilities in our buildings for use by community groups. Through Jarvis Training Management we provide opportunities for unemployed youth to undertake basic training in a variety of areas.

In our Rail and Plant businesses we try to ensure that all communities affected by our engineering works are fully briefed in advance. The team are involved in school safety talks alongside Network Rail and the British Transport Police as part of the 'Track Off' campaign to educate people, especially young people, about the dangers and consequences of the railway and railway crime.

## Principle 7

Safety continues to be the number one priority for our employees, sub-contractors and those affected by our operations.

In recognition of the change in legislation resulting from the introduction of the Railways and Other Guided Transport (ROGS) Regulations Fastline have been granted a certificate by the Office of Rail Regulation to confirm that their safety management system meets the regulatory requirements necessary for safe operation as a train operator on main line railways.

All businesses have developed and issued Safety and Environment improvement plans and are monitoring the achievement of challenging but realistic targets set for improvement.

All businesses have introduced a programme to actively promote the importance of 'near miss' events, allowing intervention action to be taken on the root causes of accidents before harm can occur.

The audit management systems have been upgraded to ensure that there is visibility of areas for improvement and accountability for their resolution.

Jarvis Rail and Fastline continue to develop and introduce to the market innovative applications of technology that reduces health and safety risk while maintaining or increasing levels of productivity. Examples include the introduction of Slinger® 5 and hydraulic lifting beams that reduce the need for people to work at height, reduce the number of people needed to operate the process and reduce the quantity of supporting vehicle movements.

A particular emphasis was given to improving safety within the Roads business with spectacular effects during Jarvis ownership. An Annual Frequency Rate (AFR) of 1.4 was reduced to less than 0.65. This was achieved by focusing on targeted actions and working on improving the culture within the organisation.

A similar focus is being applied to the safety performance of JAS FM and safety continues to improve in Jarvis Fastline, the trackside AFR has now reduced to 0.23 and the all accident AFR rate has steadily reduced to 0.47.

## Principle 8

Jarvis Rail and Fastline continue to operate an externally accredited Environment Management System to meet its legal and contractual obligations and to understand and provide effective management for environmental impacts and risks that arise through its activities.

## Environmental Management System

We are committed to the continual improvement of our environmental performance under the Jarvis Environmental Management System (EMS) and during the period under review have continued to build on our achievements to date as audited by Lloyds against the International Standard ISO 14001:2004.

## Fastline Freight

In June 2006 Fastline Freight began full commercial operations transporting containers between Thamesport and the North East – via Doncaster Railport terminal. Fastline Freight is now transporting containers using its fleet of three Class 56 locomotives and 60ft flat wagons. The service is operational five days a week and there are already plans to add additional routes in the near future. As part of the service the team are now able to arrange onward road transportation to the final destination.

Jarvis Rail and Fastline Group Managing Director Mike Houghton said, "I am delighted that Fastline Freight has begun operations as planned and with a steady stream of customers. The launch of the service is the culmination of many months of hard work by the Fastline team to bring a new, efficient and cost-effective service to the market targeting customers who currently use road haulage, I am confident that haulage customers will see the environmental and business benefits of using rail rather than road freight services."

The contribution that this business has made to reduce environmental pollution is assessed as removing the transport of some 3,500 containers from road haulage saving some 67,625 gallons of fuel and 181,235kg of Carbon Dioxide emissions.

### Strc reduces carbon footprint with 100 Trees for Life

Scotland's magnificent Caledonian forest now has 100 new trees thanks to the environmentally conscious actions of Scotland Track Renewals Company (strc) following its successful completion of the 18 month Glasgow North and South Electrics project. Strc is the first rail company to become involved in Trees for Life's 'Be Carbon Conscious' programme and it is hoped that other companies from within the rail industry will follow.

Mindful of the carbon footprint created by this latest project, strc decided to forge links with the registered charity Trees for Life, a Scottish organisation which aims to restore the Caledonian Forest as a fully functioning, healthy ecosystem. Strc decided to contribute 100 trees; a significant donation in relation to the CO2 the project emitted.

A spokesperson for Trees for Life said, "We are really grateful for strc's donation. We have pledged to plant 100,000 trees this year as part of the United Nations Environment Programme's 'Billion Tree' campaign, and continued support from strc will help us to make it a reality."

Alistair Porter, Senior Project Manager (Electrical Projects) for strc, commented, "This is a small but important step in demonstrating our awareness of the environmental challenges that face the rail industry."

Trees for Life runs the initiative 'Be Carbon Conscious' in which the charity seeks to raise awareness of the issues around carbon offsetting. In addition to restoring the native forest in the Highlands, which has been reduced to just one per cent of its former extent, they offer general guidelines on how companies can assess the carbon footprints they create and suggest ways they can lower their environmental impact.

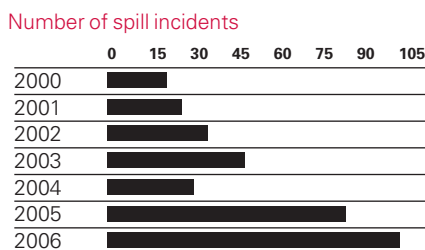
### Progress on 2006 environmental objectives

Satisfactory progress has been made on all objectives with particular success with two objectives

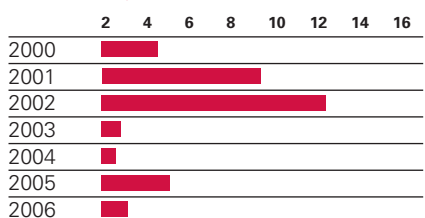
#### 10% reduction in OTM hydraulic oil spills (See Table 1).

There was a small increase in the number of spills in 2006 compared with 2005, but a reduction of over 60 per cent in the amount of oil spilled with nearly half the amount of oil lost per spill incident.

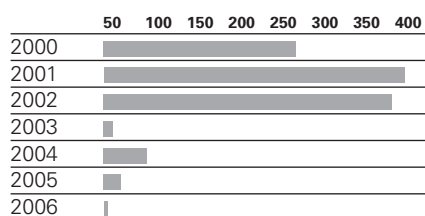
**Table 1 – 2006 OTM hydraulic oil spills**



**Amount of hydraulic oil lost in litres (000)**



**Average oil lost in litres/number of spills**



Fastline have converted all of its On Track Machine (OTM) fleet to biodegradable hydraulic oil and have introduced a new specification of hoses. This together with an increased preventative maintenance inspection programme has helped Fastline reduce the amounts of hydraulic oil lost per spill.

Although the actual number of spill incidents has increased, the average oil lost in litres per spill has reduced significantly to the lowest since records began.

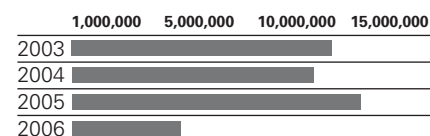
Future data will normalise the number of spills and amounts lost against engine hours of machine worked, which will give a clearer picture of number of spills taking into account the machine's productivity.

#### 10% reduction in fuel consumption (See Table 2).

Reduced consumption of 8,322,576 litres of fuel used in 2005-06 compared with 2004-05 (nearly 40 per cent).

Reduced Carbon Dioxide Emissions of 22,304,504 kg in 2005-06 compared with 2004-05.

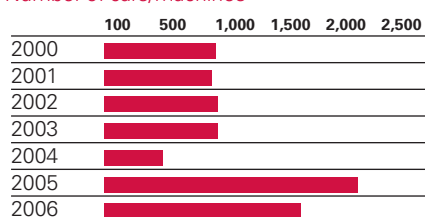
**Table 2 – Fuel Consumption**  
Fuel use (Litres)



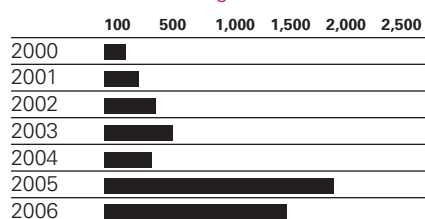
# Corporate Social Responsibility

## Road Vehicle Small Plant and OTM CO2 emissions 2000-06

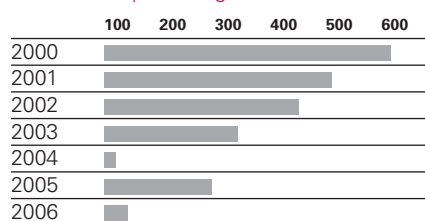
### Number of cars/machines



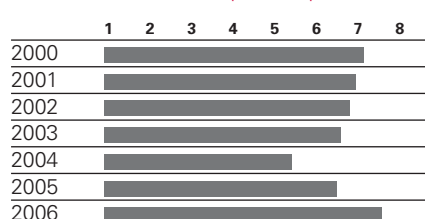
### Number with diesel engines



### Number with petrol engines



### CO2 emissions (Tonnes per M/c/pa)



Conversion factors used from DEFRA web site.

### Notes

- 1 All road vehicles and small plant data included from 2005.
- 2 On Track Machines data added from 2006.

## Environmental objectives for 2007

New environmental objectives have been set for 2007 including the delivery of further reductions in the consumption of fuel, carbon dioxide emissions and use of energy.

### Principle 9

As well as formal risk reviews undertaken as a normal part of the commercial process we analyse both industry and company data on performance and causation of failure or accident. This enables our teams to clearly identify areas for performance improvement and to focus our development efforts. We are currently working on several projects which we believe will significantly change the way in which our industry works.

Our major customer has expressed a wish to be able to operate a seven day railway, where weekend engineering possessions are minimised with major work being undertaken in overnight possessions. This will require significant changes to current methodologies. We already have a good track record in this area having designed and introduced the first Track Renewal Train into the UK in 1999-2000 and more recently delivered the Accutrack® process which uses our innovative and patented Slinger® and Mole plant. We have recently introduced a new methodology for the installation of switch and crossings which enabled our teams working with Network Rail to install five point ends in a single weekend possession. There are significant developments in the final stages of design which we believe will further revolutionise the way in which engineering is carried out on the UK rail network and which will help deliver the ambition of seven day rail operations as the norm.

# Directors' Remuneration Report

## Information not subject to audit

This report, which addresses the requirements of the Directors' Remuneration Report Regulations 2002 also forms part of the Group's report of its activities concerning the principles of good corporate governance outlined in the Combined Code. It has been reviewed and adopted by both the Remuneration Committee and the Board of Jarvis plc and will be the subject of a resolution at the forthcoming Annual General Meeting.

## The Remuneration Committee

The Committee determines, on behalf of the Board, the policy of the Group for balanced executive remuneration and specific remuneration packages for each Executive Director and other senior employees who report to the Chief Executive. This authority extends to pension rights, terms of service contracts, and incentive schemes, both equity and non-equity based. The remuneration of Non-Executive Directors is a matter reserved for the Board. Membership of the Remuneration Committee currently comprises Brian Mellitt, Elizabeth Filkin and Chris Rew. The Chairman of the Committee throughout the period was Brian Mellitt.

During the period the Committee met on five occasions to consider, inter alia, matters relating to Directors' remuneration. Geoff Mason, the Company Secretary during the period under review, and Bernard Westbrook, the Group Director of Human Resources, attended such parts of those meetings as did not directly affect their own remuneration; they also provided information and advice relating to the Directors' current entitlements and performance against targets consistent with agreed policies. At the meeting of the Committee to review Directors' remuneration, appropriate consideration was given to comparative remuneration within both a selected peer group of companies and the FTSE small cap group of companies measured in terms of activity, market capitalisation, turnover and employee numbers using information provided by

New Bridge Street Consultants. Other services provided by New Bridge Street Consultants, who were formally appointed by the Committee on 13 March 2003, included employee and executive incentive scheme advice.

## Remuneration policy

The key Terms of Reference of the Committee are:

- 1 To ensure that the Group's remuneration policies and practices for Executive Directors and other senior employees facilitate the employment and motivation of top quality personnel, and adequately reward individual contributions made to the Group, while at the same time remaining appropriate in terms of the Group's performance and in comparison to competitor companies.
- 2 To keep under review the long term incentive plans and employee share schemes operated by the Group in light of legislative and market developments and overall remuneration policy, and to determine the awards of options under such schemes together with performance conditions linked thereto.

In order to comply with the Terms of Reference, the remuneration policy is based on the following core principles:

- total rewards are designed to support the Group's strategy and are set at levels that are competitive within the relevant market.
- it remains the general policy of the Committee not to award share options in any year which amount to greater than an Executive Director's annual salary or to award performance shares which would have a value greater than 50 per cent of the Executive Director's salary in any one year;
- incentive based awards can only be earned through the achievement of demanding performance conditions which are designed to be aligned with the interests of the Shareholders in the short, medium and longer terms; and
- composition of remuneration packages are designed to maintain a balance between fixed and variable elements of remuneration which the Committee believes is appropriate.

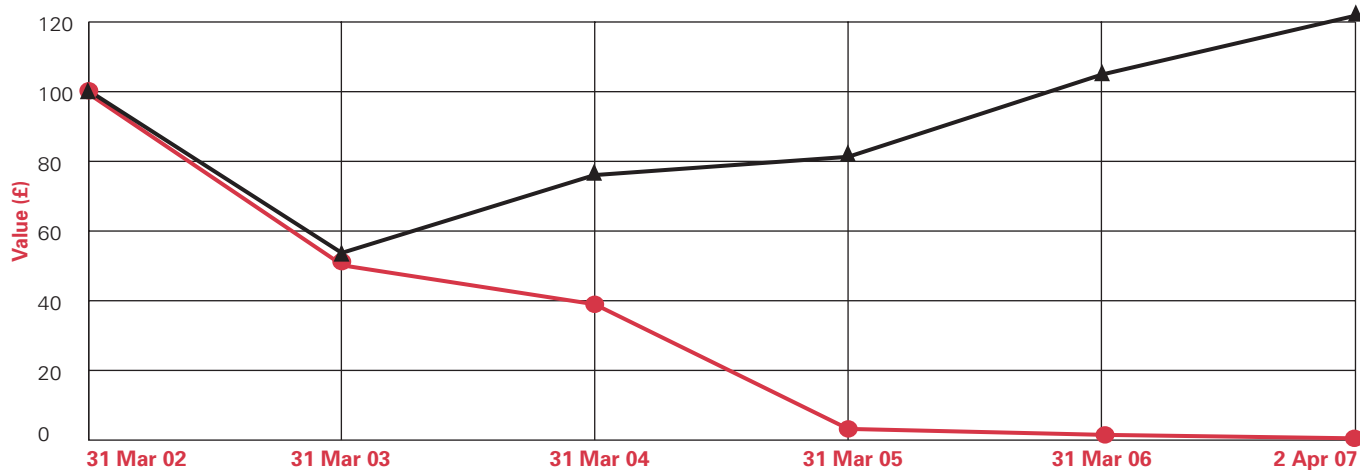
However, during the previous year the Board sought and obtained Shareholder approval for a Management Incentive Plan specifically designed to incentivise the senior team and to align them with the interests of the Shareholders. Under this scheme during the period under review, options were granted with a nominal value in excess of 100 per cent of his salary to John O'Kane following his appointment to the Board. The scheme was also used during the period under review to incentivise certain individuals who at the time were reporting to the Executive team. During the period under review options were granted under the Executive Share Option Plan to members of the Executive team. In reviewing the performance conditions for the exercise of these options the Remuneration Committee noted previous advice from major Shareholders about the appropriate performance criteria which were to be employed for a company recovering from financial restructuring and agreed that the options would only vest after the three year term, where during the vesting period, specific share price performance criteria had been achieved.

Subsequent to the period end, the Remuneration Committee noted the surrender of options under the Management Incentive Plan by both the Chief Executive and the Chairman and agreed to grant further options to the Executive Directors in respect of their potential allocation for the 2007-08 financial year. These were granted subject to both share price performance criteria and an earnings per share performance test.

## Total shareholder return

The graph on page 28 compares the performance of Jarvis plc Ordinary Shares with the companies comprising the FTSE Support Services Index for the last five years. The Company is a component of this index. Total Shareholder Return has been calculated by New Bridge Street Consultants using data provided by Datastream.

# Directors' Remuneration Report



Source: Datastream

The above graph illustrates the value at 2 April 2007 of £100 invested in Jarvis on 31 March 2001 compared with the value of £100 invested in the FTSE Support Services Index. The other points plotted are the values at the intervening financial year ends.

## Key

● Jarvis    ▲ FTSE All Share Support Services Index

## Elements of remuneration

### Basic Salary

The basic salary of the Executive Directors is reviewed each year by the Remuneration Committee. The review is undertaken to ensure that the remuneration package and benefits for Executive Directors represents a fair return for employment. Due consideration is given to performance and reward relative to that of comparable companies and to the Group's position and risks to the business.

### Bonus Scheme

For the period under review the normal bonus scheme was re-instigated with the expectation that the financial condition of the Group would improve during the period. Bonuses were agreed to be paid on the basis of exceptional individual performance or on the achievement of a mix of personal and corporate performance criteria. It is recognised that whilst some of the individual performance criteria have been met the corporate performance targets which were set at the time of the previous budget have largely not been met and whilst the performance of the Group has improved, the targets set at the beginning of the period have not been met. The target bonuses of up to 50 per cent of basic salary for the Executive team have

therefore not been triggered for the period and limited bonuses have only been paid on the basis of exceptional individual personal performances during the period.

For the year ahead the Executive Directors have been set objectives at the beginning of the year. These objectives are a blend of common primary objectives for the Group as a whole and additional objectives in line with their respective corporate role and the Group's strategic direction, which are personal to each Director. For individual Directors objectives include:

- the delivery of the overhead reduction targets identified in the budget;
- the continuous improvement in the management of occupational and operational safety;
- the achievement of relevant divisional/Group budget for turnover, profit and operating cash flow;
- the delivery of profitable forward order book growth;
- the development of environmental sustainability within operations;
- effective risk management; and
- the re-engineering of business processes to ensure the company derives maximum benefit from investment in new systems and that these deliver demonstrable improvements in Shareholder value.

These performance conditions have been selected in order to align the individual Director's targets with the Group's overall business performance objectives, which include social responsibility and environmental sustainability targets.

Performance against objectives is assessed through a formal process during and after the year end. Typically this involves interviews and the review of objective measurements where targets represent discrete aims. If the objectives are achieved, a pre-determined percentage of salary, currently 50 per cent of basic salary, is paid in the following financial period as a bonus to the Director. The Remuneration Committee reviews the performance of each Director after the end of each financial period and, where the targets have been achieved and in recognition of the contractual relationship thus created, will award the bonus. In the event that a target has been significantly exceeded, the Committee has the option to increase the normal percentage applied, to reflect that achievement, but within the overall parameter of a pool comprising the on-target earnings achievable by members of the Executive Committee.

### Employment benefits

Benefits provided to Directors typically include a fully financed company car or car allowance, private medical insurance and life assurance.

### Pensions

The Group contributes to defined contribution schemes for some of the Executive Directors. None of the Executive Directors are members of any of the defined benefit schemes operated by the Group.

### Share Incentive Schemes

In 2003, Shareholders approved the introduction of a new Share Option Plan and a Performance Share Plan to comply with ABI guidelines and current best practice. Although the performance criteria adopted for recent grants under the Plans have reflected the need for specific share price targets, going forward options granted under the new Share Option Plan will be exercisable on a pro rata basis against a range of earnings per share (EPS) based performance conditions. Performance will be measured over a single, three year period. Vesting of shares under the Performance Share Plan will be conditional on achievement of a range of EPS and total shareholder return performance conditions with each condition applying to 50 per cent of the award. Performance will again be measured over a single three year period.

### Management Incentive Plan

At the 2005 Annual General Meeting the Company sought and obtained approval from Shareholders for the introduction of an option based Management Incentive Plan. The plan was designed to be a one-off arrangement with grants only capable of being made in the first year from the date of adoption by the Board. The authority to grant further options under the plan has now lapsed. Under the scheme, participants were granted awards over shares with an aggregate value of up to 200 per cent of base salary with an exception being made for one individual where it was agreed on recruitment that a specific number of shares would be granted under option. The vesting of awards is dependent on the increase in the Company's share price with the option price being set at a volume weighted market average price over an extended period and

vesting being triggered at price increases of 25 per cent, 50 per cent and 75 per cent with each vesting being for one third of the original grant.

### Directors' service agreements

When appointing Executive Directors, the Committee considers it appropriate to offer Service Agreements with a rolling one year term which are determinable by the employing company upon not less than twelve months' notice, and by the individual Director upon not less than six months' notice. The Group intends to retain these terms for future appointments, believing them to be appropriate to the nature of the business. However, in the circumstances of Alan Lovell's engagement his initial appointment was for a period of eighteen months with notice provisions similar to the above. The contract subsequently reverted to a one year rolling term. However, Mr Lovell had indicated to the Board at an early stage that he intended to step down once a suitable replacement had been recruited and a suitable handover agreed.

The authority of the Committee extends to the compensation terms on any early termination of a Director's service agreement. The Committee considers it fair and reasonable to respect these existing contractual terms in the event of termination of an Executive Director's service contract.

Ordinarily the Director will be entitled to payment in respect of full salary for their notice period together with any accrued holiday entitlement, subject to a balanced view of reasonable mitigation. Options granted to the Director may become exercisable dependent upon the reasons for the termination. Each Director's contract date is shown in the table shown on page 30.

### Non-Executive Directors

Brief details of the letters of appointment between the Group and the Non-Executive Directors are set out in the table on page 30. There are no provisions for compensation on early termination of these contracts. In February 2005, in the light of the exceptional demands made on the Non-Executive Directors, it was agreed that the period of notice to be given to them by the Company

be increased from 3 months to 12 months and that any days service in excess of the 24 per annum for which they originally contracted, be remunerated in future at a rate per day of 1/24 of their basic fee. During the period under review the Non-Executive Directors have been called upon to give additional assistance to the Executive on fewer occasions than in the previous year. The exception to this is Professor Brian Mellitt who has provided significant assistance to the Board in his review of the technical evidence involved in the accident at Potters Bar ahead of the planned inquest. This has involved him undertaking additional days during the period.

The Non-Executive Directors also receive additional compensation in respect of the additional responsibility assumed for chairing Committees or assuming specific roles. The following additional fees are paid and are included in the amounts of Directors' remuneration disclosed:

Chair of Audit Committee - £10,000 p.a.  
Chair of Remuneration Committee - £7,500 p.a.  
Senior Independent Director - £5,000 p.a.

# Directors' Remuneration Report

## Executive Directors

Director	Effective date of contract	Unexpired term	Notice period by Company	Notice period by Director
R W Entwistle	08/09/2005	Rolling one year	12 months	6 months
A C Lovell	14/10/2004	Resigned 30 June 2006	N/A	N/A
A Marnoch	24/02/2005	Resigned 31 May 2006	N/A	N/A
S J Norris	08/09/2005	Rolling one year	12 months	6 months
J O'Kane	24/04/2006	Rolling one year	12 months	6 months

## Non-Executive Directors

Director	Effective date of appointment	Notice period by Company	Notice period by Director
E Filkin	07/08/2003	12 months	3 months
B Mellitt	05/10/2002	12 months	3 months
C J Rew	13/05/2004	12 months	3 months

## Information subject to audit

### Directors' remuneration

The table below reflects amounts paid or confirmed as payable in respect of the financial period ended 2 April 2007.

	Notes	Salary or Fees £000	Benefits £000	Bonus £000	Pension Supplement £000	Total £000	Prior year Total £000	Pensions current period Note 4 £000	Pension prior year Note 4 £000
<b>Executive Directors</b>									
R W Entwistle	3	292	26	40	–	358	215	59	27
A C Lovell	5	94	6	175	–	275	628	–	49
A Marnoch	3 and 5	33	2	40	–	75	292	5	25
S J Norris	2	161	–	–	–	161	225	–	–
J P O'Kane	1	192	14	40	–	246	–	28	–
<b>Non-Executive Directors</b>									
E Filkin		40	–	–	–	40	59	–	–
B Mellitt		112	–	–	–	112	70	–	–
C J Rew		47	–	–	–	47	70	–	–

The benefits shown in the table include the use of Company Vehicles, private medical insurance, car allowance or reimbursed fuel costs.

#### Notes

1 Remuneration for J P O'Kane is shown from the date of his appointment.

2 The comparative remuneration for S J Norris includes amounts paid as a Non-Executive Director until September 2005.

3 The comparative figures for R W Entwistle and A Marnoch reflect only the period from their appointment to the Board to 31 March 2006.

4 Directors' pension contributions comprise the amounts paid by the Group to defined contribution arrangements. Pension contributions are calculated and payable on basic salary only.

5 The bonus figures paid include a termination bonus paid to each of A C Lovell and A Marnoch of £175,000 and £40,000 respectively.

**Director's shares and share options**  
(Ordinary shares of 5p each)

	Shares held at 1 April 2006 or date of appointment	Shares allotted during the period including shares subscribed under the Placing and Open Offer	Shares sold during the period	Shares held at 2 April 2007
R W Entwistle	39,500	1,837	0	41,337
E Filkin	7	0	0	7
S J Norris	2,500	41,976	0	44,476

Subsequent to the end of the period, R W Entwistle acquired a further 28,500 shares on 3 April 2007 at a price of 69.5p per share. No other shares were bought or sold by Directors during the period 3 April 2007 to 11 June 2007.

**Share options**

Options held by Executive Directors over ordinary shares under the Share Option Schemes of the Company were as follows. Further details of the Jarvis share-based payment schemes are given in Note 26 to the Consolidated Financial Statements.

	Options held at 1 April 2006 or date of appointment	Exercise price Pence	Granted (lapsed/ surrendered) during the period	Exercised during the period	Options held at 2 April 2007 or date of resignation	Date exercisable	Date of expiry of option
<b>R W Entwistle (Notes 2 and 3)</b>							
Management Incentive Plan Nov 2005	1,000,000	86.73	(1,000,000)	–	–	Note 1	30/11/2010
Savings Related Share Option Scheme April 2006	–	70.00	13,357	–	13,357	01/06/2009	01/12/2009
2003 Share Option Plan October 2006	–	54.50	550,000	–	550,000	04/10/2009	04/10/2016
<b>S J Norris (Notes 2 and 3)</b>							
Management Incentive Plan Nov 2005	275,000	86.73	(275,000)	–	–	Note 1	30/11/2010
Savings Related Share Option Scheme April 2006	–	70.00	13,357	–	13,357	01/06/2009	01/12/2009
2003 Share Option Plan October 2006	–	54.50	303,000	–	303,000	04/10/2009	04/10/2016
<b>J P O'Kane (Notes 2 and 3)</b>							
Management Incentive Plan Aug 2006	–	56.26	450,000	–	450,000	Note 1	08/08/2011
2003 Share Option Plan October 2006	–	54.50	376,000	–	376,000	04/10/2009	04/10/2016

**Notes**

- The options are exercisable in the three tranches, each on the achievement of an increase in the share price of the Company for a sustained period of 10 days. The tranches are exercisable on the share price achieving respectively a 25 per cent, 50 per cent and 75 per cent increase over the grant price.
- The options issued under the 2003 Share Option Plan, as detailed in the table above, will vest after three years in three separate tranches. Each tranche, over one-third of the shares under option, will vest on the basis of an improvement in share price against the grant price by 20 per cent, 40 per cent and 60 per cent respectively for a period of 10 consecutive dealing days prior to the date of vesting.

- Subsequent to the period end Options were granted under the 2003 Share Option Plan at a price of 66p per share. Share options were granted to each of R W Entwistle, S J Norris and J P O'Kane in the numbers of 461,400, 250,000 and 315,000 respectively. These options are normally exercisable between three and ten years after the date of grant on achievement of performance criteria. One-third of the shares will vest on an improvement of share price by 25 per cent; two-thirds on an improvement of 50 per cent and the remainder on an improvement of 75 per cent over the grant price. A further performance criteria of earnings per share growth will be required for shares exercised after the third anniversary of the date of grant.

No options were held by other Directors during the period under review.

The closing middle market price of the Ordinary Shares as at 2 April 2007 was 69p and the range during the period was between 42.839p and 84.681p.

This report will be submitted for approval at the Annual General Meeting of the Company.

By order of the Board  
**Mark Akinlade**  
Secretary  
11 June 2007

# Directors' Report

## Principal activities and business review

The principal activities of the Group during the financial period under review were rail infrastructure renewal, plant hire and facilities management. During the period, the Group began full commercial operations of its rail freight transport service and disposed of its loss-making roads business. The construction activities of the Group are now discontinued with only one contract remaining to be completed. This contract is expected to expire in the autumn of 2007 and the Group's role is to assist with project management.

## Review of position and prospects

The Chairman's and Chief Executive's Statements together with the Operating and Financial Reviews which are contained in this report between pages 2 and 12 report on Jarvis' principal activities and business performance during the period and give a description of the principal risks and uncertainties within the business as well as considering prospects for the future. These statements and the reviews are included in this report by reference.

## Principal risks

This annual report contains certain forward looking statements. These statements are made by the Directors in good faith, based on the information available to them up to the time of approval of this report. Actual results

may differ to those expressed in such statements, depending on a variety of factors. These factors include customer acceptance of the Group's services, levels of demand in the market, restrictions to market access, competitive pressure on pricing or additional costs, failure to retain or recruit key personnel and overall economic conditions.

A risk inherent in the industry occurs in the nature, timing and contractual conditions which exist at the time of contract procurement and its dependency on one large customer with Network Rail. In 2005-06, Network Rail under-spent its enhancements budget by £217m, of which the majority was deferred expenditure. At the end of Q2 2006-07 Network Rail had an under-spend of £70m against a budget of £210million. The Office of the Rail Regulator in its recent review (Q2 2006-07) has urged Network Rail to produce a delivery schedule with specific projects identified. If Network Rail's anticipated level of spend is not implemented, the Group's business, financial position and cashflows could be adversely affected.

On 26 December 2006, Network Rail announced that the number of track renewal contractors operating in Integrated

Management Teams (IMTs) is to be reduced from six to four with effect from Autumn 2007 to deliver cost savings and accelerate the rate of efficiency movement. Jarvis believes that given its pricing structure, history of innovation and safety record it is well positioned to meet the main criteria laid down by Network Rail as part of its review.

## Results and dividends

The loss after taxation for the financial period attributable to Shareholders, dealt with in the Consolidated Financial Statements, amounted to £21.7m (2006: loss £51.3m). The Directors recommend that no final dividend be paid in respect of the period (2006: nil). The loss for the period transferred to reserves is £21.7m (2006: £51.3m).

## Share capital

During the financial period under review changes were made to the Company's share capital as a result of the exercise of warrants totalling 9,165,555, the placing of 4,602,460 shares on 1 August 2006 and the allotment of 38,485,241 shares under the Placing and Open Offer which were admitted to listing on 2 April 2007. The issued capital of the Company at 2 April 2007 stood at 204,379,497 Ordinary Shares of 5p.

## Analysis of Shareholders at 2 April 2007

	Shareholders Number	Shareholders %	Shares Number	Shares %
<b>Range of holdings of Ordinary 5p Shares</b>				
1-10,000	6,807	96.62	1,603,093	0.78
10,001 – 100,000	133	1.89	4,473,562	2.19
100,001 – 250,000	26	0.37	4,470,794	2.19
Over 250,000	79	1.12	193,832,048	94.84
	7,045	100	204,379,497	100

## Substantial shareholdings

At 11 June 2007 the Company had been notified of the following interests in three per cent or more of the voting rights over the Company's Ordinary Shares. The disclosed shareholdings recognise the interests of different parties in the share capital and therefore some shareholdings are disclosed by both the beneficial owner and their Nominee holder:

JPMorgan Chase & Co	11.32%
Artemis Investment Management Limited	10.27%
Third Point LLC / Daniel S Loeb	7.88%
The Goldman Sachs Group, Inc.	6.15%
Mellon HBV Alternative Strategies LLC	5.74%
The Nomad Investment Partnership L.P.	4.60%
JGD Management Corp. d/b/a York Capital Management	4.31%
Bank of America Securities Limited	4.14%
Gartmore Investment Limited	3.98%
P. Schoenfeld Asset Management LLP	3.11%
ECO Master Fund Limited	3.05%

## Financial instruments

Details of the Group's financial risk management policies and objectives are disclosed in the Financial Review on pages 7 and 8.

## Directors

The names of the Directors and Officers who held office on 2 April 2007 are as follows:

Mr R W Entwistle °

Ms E Filkin \* ° † ‡ (Non-Executive)

Professor B Mellitt \* ° † ‡ (Non-Executive)

Mr S J Norris ‡

Mr J P O'Kane °

Mr C J Rew \* ° † ‡ (Non-Executive)

Company Secretary: G K H Mason.

Members of the \* Remuneration, ° Corporate Governance, † Audit and ‡ Nomination Committees. Full biographical details of the Company's Directors at the date of the report are given on pages 14 and 15.

A number of changes to the composition of the Board took place during the period:

Mr J P O'Kane	appointed 27 April 2006
Mr A Marnoch	resigned 31 May 2006
Mr A C Lovell	resigned 30 June 2006

Subsequent to the period end Mr G K H Mason resigned as Company Secretary on 31 May 2007. Mr M A A Akinlade was appointed as Company Secretary with effect from the same date.

In accordance with the Company's Articles of Association having each served one three year term, Christopher Rew and Elizabeth Filkin will retire by rotation as Non-Executive Directors. Steven Norris, the Executive Chairman was first appointed to the Board in September 2000 and having been re-elected in 2004 will also retire by rotation. All of these Directors will offer themselves for re-election.

Details of the Directors' Remuneration, shareholdings and options over the shares in the Company are given in the Directors'

Remuneration Report on pages 27 to 31 which forms part of this report.

All of the Executive Directors who served during the period held service agreements with the Company, details of which are given in the Directors' Remuneration Report on pages 27 to 31.

## Directors' indemnities

The Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. Directors and Officers of the Company and its subsidiaries have the benefit of a Directors' and Officers liability insurance policy which provides appropriate cover in respect of legal actions brought against the Directors.

## Corporate governance

This is the subject of a separate statement on pages 16 to 21 which forms an integral part of this Directors' report and is intended to address the requirements of the Combined Code incorporated in the Listing Rules issued by the Financial Services Authority.

## Creditor payment policy

When entering into commitments for the purchase of services and goods, the Company gives due consideration to quality, delivery, price and the terms of payment. Suppliers are made aware of these terms. The Company abides by these terms whenever it is satisfied that suppliers have provided the services or goods in accordance with agreed terms and conditions. In the event of disputes, efforts are made to resolve them quickly. During the period ended 2 April 2007, the Company on average paid its creditors within 57 days (2006: 54 days) of receipt of invoice.

## Employment policies

The Directors recognise the need for communication with employees at every level. All employees have access to a copy of the Annual Report and Accounts, which together with staff briefings, internal notice-board statements and newsletters, keeps them informed of the Group's progress. The Directors are actively considering ways to increase further the involvement of employees in the Group's performance.

The Group continues to be committed to the health, safety and welfare of its employees

and to observe the terms of the Health & Safety at Work Act 1974, and all other relevant regulatory and legislative requirements. It is the policy of the Group that there shall be no discrimination or less favourable treatment of employees, workers or job applicants in respect of race, colour, ethnic or national origins, religious beliefs, sex, sexual orientation, disability, political beliefs, age or marital status.

Full consideration will be given to suitable applications for employment from disabled persons, where they have the necessary abilities and skills for that position, and wherever possible to re-train employees who become disabled, so that they can continue their employment in another position. Jarvis and its subsidiaries engage, promote, and train staff on the basis of their capabilities, qualifications and experience, without discrimination, giving all employees an equal opportunity to progress within the Group.

## Environmental policy

The Board is fully committed to minimising any adverse effects that the Group's operations may have on the environment and to finding alternative ways of operating where its activities may cause environmental damage.

Each of the operating businesses has developed environmental policies and procedures appropriate to its business and these have been co-ordinated at Group level in order to ensure that the Board's commitment is applied consistently throughout the Group. Further details and information on key performance indicators used are provided in the Corporate Social Responsibility Report on pages 22 to 26.

## Ethics and whistleblower policies

The Company has established ethics and whistleblowing policies in place and has continued to operate these and the associated whistleblowing structure during the financial period under review.

## Close company provisions

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

## Statement of Directors' responsibilities

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

# Directors' Report

The Directors are required to prepare the Group Financial Statements in accordance with IFRS as adopted by the EU and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards.

In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Parent Company Financial Statements state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Group and the Parent Company will continue in business.

The Directors confirm that the financial statements comply with these requirements.

The Directors are responsible for ensuring that the Company and the Group maintain proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Disclosure of information to Auditors

At the date of making this report each of the Company's Directors, as set out on page 33, confirm the following:

- so far as each Director is aware, there is no relevant information needed by the Company's Auditors in connection with preparing their report of which the Company's Auditors are unaware; and
- each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

## Authority to allot securities

At the forthcoming Annual General Meeting to be held on 26 July 2007, an ordinary resolution will be proposed in accordance with Section 80 of the Companies Act 1985 to renew the Directors' authority to allot the authorised but unissued share capital of the Company. The authority sought will be for a period normally expiring at the time of the Annual General Meeting in 2008.

Subject to the aforementioned resolution being sanctioned by Shareholders, authority will also be sought from Shareholders to disapply Section 89 of the Companies Act 1985. This authority, which has been sought from and granted by Shareholders in previous years, will permit Directors during the period until the Annual General Meeting in 2008 to issue for cash no more than five per cent of the current Issued Share Capital at the date hereof, without first offering them pro-rata to existing Shareholders. The Directors believe that the resolution, disapplying Section 89 in this way, is in the best interests of the Company.

## Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

## Political and charitable donations

The Group made no charitable donations during the period (2006: £36,000), and made no political donations.

## Post balance sheet events

Following the sanction by Shareholders at an Extraordinary General Meeting held on 30 March 2007 approval was given by the Court on 2 May for the reduction of the share premium account of the Company with the amount of the reduction being applied to the deficit on the profit and loss account of the Company.

On 4 June 2007 the Company announced the signing of Commercial Agreements for the termination of four Facilities Management contracts in its Accommodation Services business.

## Auditors

RSM Robson Rhodes LLP have announced their intention to merge their audit practice with Grant Thornton (UK) LLP with effect from 1 July 2007. Accordingly a resolution to appoint either Robson Rhodes LLP or (subject to such merger having completed) its successor firm, Grant Thornton (UK) LLP, as auditors of the Company and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board  
**Mark Akinlade**  
Secretary  
11 June 2007

# Independent Auditors' Report

We have audited the Group and Parent Company financial statements ("the financial statements") of Jarvis plc for the period ended 2 April 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's Shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's Shareholders those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

The Directors responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union, and for preparing the Parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities on pages 33 and 34.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in

our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Chief Executive's Statement, the Finance Review, the Operating Review and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give

reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of affairs of the Group as at 2 April 2007 and of its loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Parent Company as at 2 April 2007;
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

## RSM Robson Rhodes LLP

Chartered Accountants and Registered Auditors  
Leeds  
11 June 2007

# Consolidated Income Statement

For the period ended 2 April 2007

	Notes	Period ended 2 April 2007 £m	Year ended 31 March 2006 Restated* £m
<b>Continuing operations</b>			
<b>Revenue</b>	2, 3	<b>306.7</b>	353.8
Cost of sales		<b>(265.1)</b>	(294.9)
<b>Gross profit</b>		<b>41.6</b>	58.9
Administration expenses		<b>(37.7)</b>	(48.4)
<b>Operating profit before non-recurring costs</b>	4	<b>3.9</b>	10.5
Non-recurring costs	5	<b>(13.4)</b>	(1.8)
<b>Operating (loss) / profit</b>		<b>(9.5)</b>	8.7
Finance income		<b>3.4</b>	1.9
Finance expense		<b>(8.0)</b>	(69.7)
<b>Net finance costs</b>	6	<b>(4.6)</b>	(67.8)
<b>Loss before taxation</b>		<b>(14.1)</b>	(59.1)
Taxation	8	<b>2.0</b>	5.4
<b>Loss for the period from continuing operations</b>		<b>(12.1)</b>	(53.7)
Post-tax (loss) / profit from discontinued operations	9	<b>(9.6)</b>	2.4
<b>Loss for the period attributable to equity shareholders</b>		<b>(21.7)</b>	(51.3)
<b>Basic and diluted (loss) / earnings per share</b>			
– Continuing operations		<b>(7.5)p</b>	(37.3)p
– Discontinued operations		<b>(6.0)p</b>	1.7 p
<b>Total</b>	10	<b>(13.5)p</b>	(35.6)p

\*Details of the 2006 restatement are given in Notes 8 and 14 to the Consolidated Financial Statements.

# Consolidated Statement of Recognised Income and Expense

For the period ended 2 April 2007

	Notes	Period ended 2 April 2007 £m	Year ended 31 March 2006 Restated* £m
Net actuarial gains on defined benefit pension schemes	15	<b>11.4</b>	19.6
Tax in respect of items taken directly to equity	14	<b>(3.5)</b>	(5.3)
<b>Net income recognised directly in equity</b>		<b>7.9</b>	14.3
(Loss) / profit for the period			
– From continuing operations		<b>(12.1)</b>	(53.7)
– From discontinued operations		<b>(9.6)</b>	2.4
<b>Total recognised expense for the period</b>		<b>(13.8)</b>	(37.0)
Effect of first time adoption of IAS 32 and IAS 39		<b>–</b>	1.5
<b>Total recognised expense attributable to equity shareholders</b>		<b>(13.8)</b>	(35.5)

\*Details of the 2006 restatement are given in Notes 8 and 14 to the Consolidated Financial Statements.

# Consolidated Balance Sheet

At 2 April 2007

	Notes	2 April 2007 £m	31 March 2006 Restated* £m
<b>Non-current assets</b>			
Goodwill	11	–	0.7
Property, plant and equipment	12	22.8	28.0
Interests in associates	13	–	2.3
Interests in joint ventures	13	–	1.0
Deferred tax assets	14	10.0	7.3
Retirement benefit assets	15	36.4	22.0
		<b>69.2</b>	61.3
<b>Current assets</b>			
Inventories	16	3.4	7.0
Trade and other receivables	17	87.0	104.8
Cash and cash equivalents		27.6	9.5
		<b>118.0</b>	121.3
Assets held for sale	19	–	0.4
<b>Total assets</b>		<b>187.2</b>	183.0
<b>Current liabilities</b>			
Borrowings	20	18.3	28.3
Trade and other payables	22	113.8	139.3
Current tax liabilities		1.0	0.5
Provisions	23	6.4	6.4
		<b>139.5</b>	174.5
<b>Non-current liabilities</b>			
Borrowings	20	32.9	3.6
Retirement benefit obligations	15	17.0	17.9
Deferred tax liabilities	14	11.2	6.6
Provisions	23	0.9	8.3
		<b>62.0</b>	36.4
Liabilities associated with assets held for sale	19	–	0.3
<b>Total liabilities</b>		<b>201.5</b>	211.2
<b>Net liabilities</b>		<b>(14.3)</b>	(28.2)
<b>Equity</b>			
Share capital	24	10.2	7.6
Share premium	25	581.4	556.6
Capital redemption reserve	25	7.2	7.2
Other reserve	25	89.7	89.7
Accumulated losses	25	(702.8)	(689.3)
<b>Equity shareholders' deficit</b>		<b>(14.3)</b>	(28.2)

\*Details of the 2006 restatement are given in Notes 8 and 14 to the Consolidated Financial Statements.

The Financial Statements were approved by the Board on 11 June 2007 and were signed on its behalf by:

**R Entwistle** Chief Executive

**J O'Kane** Group Finance Director

# Consolidated Cash Flow Statement

For the period ended 2 April 2007

	Notes	Period ended 2 April 2007 £m	Year ended 31 March 2006 £m
<b>Operating activities</b>			
Cash flows from operating activities	31	(21.0)	(32.4)
Restructuring and redundancy costs paid		(7.7)	(16.8)
Income taxes received		1.0	–
Net interest costs paid		(7.5)	(7.4)
Net cash used in operating activities		(35.2)	(56.6)
<b>Investing activities</b>			
Dividends received from joint ventures and associates		3.2	0.6
Purchase of property, plant and equipment		(4.2)	(8.1)
Disposal of businesses, net of cash and cash equivalents disposed		5.1	19.1
Disposal of property, plant and equipment		–	0.4
Disposal of property assets classified as held for sale		–	0.8
Net cash from investing activities		4.1	12.8
<b>Financing activities</b>			
Net proceeds from issue of ordinary shares		27.4	43.9
Proceeds from new debt		51.2	24.0
Repayment of old debt		(29.1)	(21.9)
Finance lease principal repayments		(0.5)	(1.2)
Net cash from financing activities		49.0	44.8
Net increase in cash and cash equivalents		17.9	1.0
Opening cash and cash equivalents		9.7	8.7
Closing cash and cash equivalents		27.6	9.7
<b>Cash and cash equivalents comprise:</b>			
– Unrestricted cash		24.7	5.6
– Restricted use cash*		2.9	3.9
Net cash in disposal groups held for sale		27.6	9.5
		–	0.2
<b>Total cash and cash equivalents</b>		<b>27.6</b>	<b>9.7</b>

\*Use is restricted to certain contracts in accordance with defined contractual obligations.

# Notes to the Consolidated Financial Statements

## 1 Summary of significant accounting policies

### 1.1 Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the provisions of the Companies Act 1985. The Company has elected to prepare its Parent Company Financial Statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP). These are presented on pages 65 to 68.

The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee (IFRICs) relevant to its operations and effective at the time of preparing these statements.

The results presented are for the financial year 1 April 2006 to 2 April 2007, the Group having chosen to extend its reporting period by two days to incorporate the Placing and Open Offer transaction completed on 2 April 2007. The comparative results are for the financial year 1 April 2005 to 31 March 2006.

The Consolidated Financial Statements are prepared on the historical cost basis, except that share-based payments and retirement assets and liabilities are stated at fair value.

The preparation of financial statements in accordance with IFRS require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses, which may differ from actual results. The estimates and assumptions that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are with regard to the accounting for long-term contracts and defined benefit pension schemes, the policies for which are detailed in Notes 1.20 and 1.17 respectively. Defined benefit pension schemes are accounted for in accordance with IAS 19 – Employee Benefits which requires estimates to be made in relation to future salary increases, rates of increase of pension benefits, mortality rates and inflation. Long-term contracts are accounted for in accordance with IAS 11 – Construction Contracts which require estimates to be made for future contract costs and revenues.

### 1.2 Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of Jarvis plc and subsidiaries controlled by the Group at each period end together with the Group's share of the results of associates and joint ventures, as detailed below.

#### (i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, generally where there is a shareholding of more than one half of the voting rights, and deconsolidated from the date on which control ceases. The financial statements of subsidiaries are prepared using accounting policies consistent with those of the Group.

Inter-company balances and transactions including unrealised profits arising from intra-group transactions have been eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### (ii) Associates and joint ventures

An associate is an entity over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee, but which is not a subsidiary or a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties.

The results, assets and liabilities of an associate or joint venture are incorporated in these financial statements using the equity method of accounting. Under the equity method, the investment in an associate or joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate or joint venture, less distributions received and less any impairment in the value of the investment. The Consolidated Cash Flow Statement reflects the Group's share of the results after tax of the associate or joint venture. The Consolidated Statement of Recognised Income and Expense (SORIE) reflects the Group's share of any income and expense recognised by the associate or joint venture outside the Consolidated Income Statement.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

When the Group's share of losses in an associate or joint venture exceed its interests in the investment, the Group does not recognise further losses, unless it has incurred obligations or made payments on its behalf. The Group ceases to use the equity method of accounting on the date from which it no longer has significant influence in the associate or joint venture, or when the interest becomes held for sale.

# Notes to the Consolidated Financial Statements

## 1.3 Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group is organised into three main business segments: Rail, Plant and Accommodation Services. The secondary format for segmental information is geographical area, which is based on the location of the Group's operations.

## 1.4 Taxation

### (i) Current taxation

Tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

### (ii) Deferred taxation

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred taxation is provided in full on taxable temporary differences associated with pension scheme surpluses. Deferred tax assets arising from unused tax losses eligible to cover such taxable temporary differences are recognised accordingly.

Deferred tax assets are recognised to the extent that it is probable future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. This requires judgment to be made in respect of the forecast of future taxable income.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Accruals for tax contingencies require management to make judgements and estimates of ultimate exposures in relation to tax audit issues. Tax benefits are not recognised unless the tax positions can be ascertained with reasonable certainty. Once considered probable, management reviews each material, tax benefit to assess whether a provision should be taken against a full recognition of that benefit on the basis of potential settlement through negotiation or litigation.

## 1.5 Foreign currencies

### (i) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The Consolidated Financial Statements are presented in sterling, which is the Group's functional and presentational currency.

### (ii) Transactions and balances

In individual companies, transactions in foreign currencies are recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the balance sheet date. Any resulting exchange differences are recognised in the Consolidated Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

In the Consolidated Financial Statements, the assets and liabilities of non-sterling functional currency subsidiaries, associates or joint ventures, including goodwill, are translated into sterling at the rate ruling at the balance sheet date. The results and cash flows of non-sterling functional currency subsidiaries, associates or joint ventures are translated into sterling at average rates of exchange for the year.

Exchange adjustments, arising when the opening net assets and the profits for the year retained by non-sterling functional currency subsidiaries, associates or joint ventures are translated into sterling, are taken to a separate component of equity and reported in the SORIE.

On disposal of non-sterling functional currency subsidiaries, associates or joint ventures, the cumulative amount recognised in equity relating to that particular non-sterling operation is recognised in the Consolidated Income Statement.

# Notes to the Consolidated Financial Statements

## 1.6 Goodwill

Any excess of the cost of the acquisition over net fair value of the identifiable assets and liabilities of the acquired subsidiary, associate or joint venture at the acquisition date is recognised as goodwill. Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

At the acquisition date, any goodwill acquired is allocated to each of the cash generating units expected to benefit from the combination's synergies. For this purpose cash generating units are defined as business segments. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

Goodwill arising on business combinations prior to 1 April 2004 is stated at the previous UK GAAP carrying amount.

On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the profit or loss on disposal.

## 1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises the purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate for any decommissioning obligations, and, for qualifying assets, any borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised values of any finance leases are also included within property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate. Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period to the next inspection. Other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably, the expenditure is capitalised.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

Leasehold land and buildings	Over the period of the lease
Leasehold improvements	5 to 20 years or period of the lease if shorter
Plant and machinery	3 to 15 years
Fixtures and fittings	4 to 10 years
Office equipment	2 to 4 years

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in expected useful lives and residual values are accounted for prospectively.

## 1.8 Impairment

The carrying amounts of goodwill with indefinite useful lives are reviewed for impairment annually or more frequently where events or changes in circumstances indicate that the carrying amount may be impaired.

The carrying amount of property, plant and equipment with finite lives is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent of other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

## 1.9 Assets held for sale

Assets and disposal groups classified as held for sale are measured at the lower of the carrying amount and the fair value less costs to sell. Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets, once classified as held for sale, are not depreciated.

# Notes to the Consolidated Financial Statements

## 1.10 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined by the first in first out method and comprises direct purchase costs, and, where applicable, costs of production, transportation and any directly attributable overheads.

## 1.11 Trade and other receivables

Trade receivables are measured at amortised cost less appropriate allowances for estimated irrecoverable losses.

There are monies held in trust to complete construction contracts exited in 2005. The trusts are in the name of Jarvis Construction (UK) Limited but the funds standing to the credit of them are available only for the purposes specified by each trust and are directly related to funding construction liabilities. The funds are not available to Jarvis plc and Jarvis Construction (UK) Limited except for these purposes. The cash in each trust is only made available at the point when payments are made in accordance with the purposes of the trust. For this reason the cash in these trusts is recognised within trade and other receivables.

## 1.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at amortised cost and comprise cash at bank and in hand and deposits available upon demand. Cash at bank includes amounts where the use is restricted to certain contracts in accordance with defined contractual obligations. For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents also include bank overdrafts, as they are an integral part of the Group's cash management.

## 1.13 Borrowings

Borrowings are measured at amortised cost and are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least twelve months. The difference between the proceeds and the redemption value is recognised in the Consolidated Income Statement over the life of the borrowings using the effective interest rate method. Facility fees are expensed as incurred.

## 1.14 Trade payables

Trade payables are measured at amortised cost.

## 1.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation.

Long-term provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The present value of long-term provisions is determined by discounting the expected future cash flows at a UK risk free pre-tax rate that reflects the current market assessment of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the change in the provision due to the passage of time and changes in discount rates is included within other finance expense.

## 1.16 Leases

Leases of plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. They are capitalised at the lease's inception at the lower of the fair value of the plant and equipment and the present value of the minimum lease payments, and depreciated over the shorter of the asset's useful life and the lease term.

Lease payments are apportioned between the finance charge and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Consolidated Income Statement, the corresponding rental obligations, net of finance charges, are included in borrowings.

Leases where the Group does not retain substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

## 1.17 Retirement benefits

The Group operates both defined contribution and defined benefit pension schemes. The Group contributes to these schemes according to the arrangements agreed with employees. Contributions paid by the Group to defined contribution pension schemes are charged to the income statement as they become payable in accordance with the rules of the schemes.

The defined benefit schemes are valued every three years by a qualified actuary, the rates of contribution payable being determined by the actuary. In the intervening years the appropriateness of the last valuation is reviewed annually. Obligations to employees are measured at discounted present value whilst scheme assets are measured at fair value. The operating and finance costs of such schemes are recognised separately in the Consolidated Income Statement. Service costs are spread systematically over the lives of employees and financing costs are recognised in full in the periods in which they arise. Actuarial gains and losses are recognised immediately in the SORIE. The asset or liability recognised in the Consolidated Balance Sheet is the fair value of scheme assets less the present value of the defined benefit obligations.

# Notes to the Consolidated Financial Statements

## 1.18 Share-based payments

The Group operates equity-settled share-based payment schemes for certain employees. The cost of share-based payments is measured at fair value at the date of grant, excluding the effect of non market-based vesting conditions. The cost is recognised in the Consolidated Income Statement on a straight-line basis over the vesting period with the corresponding amount credited to equity, based on an estimate of the number of shares that will eventually vest. The fair value of employee share option plans is calculated using the Black-Scholes-Merton valuation model.

## 1.19 Revenue

Revenue represents the fair value of consideration receivable, excluding value added tax, for services supplied to external customers. Revenue from Facilities Management contracts is recognised according to the services provided to date. The recognition of revenue from construction and other long-term contracts is detailed in Note 1.20.

## 1.20 Long-term contracts

When the outcome of a long-term contract can be estimated reliably, contract revenue is recognised by reference to the degree of completion of each contract, based on the amounts certified and to be certified by the customer.

Incentive payments and insurance claims arising from long-term contracts are included where they have been agreed with the client. Variations and other claims are included where it is probable that the amount will be settled. When the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable.

Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately.

All costs incurred in advance of contracts being awarded are written off to the Consolidated Income Statement, until the date that, in the opinion of the Directors, it is probable that the contract will be secured. Costs incurred during the period between the contract being probably secured and the eventual award is carried as work in progress to the extent they are expected to be recovered.

Where revenue recognised exceeds progress billings, the balance is shown as due from customers on long-term contracts within trade and other receivables. Where progress billings exceed costs incurred, the balance is shown as due to customers on long-term contracts within trade and other payables.

Where the Group continues to have responsibility for construction project assets from legacy PFI contracts, recognition of profit is deferred according to the stage of completion of construction.

## 1.21 Financial instruments

The Group's principal financial instruments comprise bank loans, lease finance and cash. The purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

If appropriate, the Group enters into derivative transactions, principally interest rate swaps and forward currency purchases, to manage material interest rate and foreign exchange risks arising from the Group's operations and its sources of finance. The Group Treasury Department's policy is to use purchased options, swaps and other derivative instruments subject to Board approval and only to the extent that such instruments form part of the hedging policy to establish a known rate of exchange or known interest rate. It is the Group's policy that no trading in financial instruments for speculative purposes shall be undertaken.

Financial risk management disclosures are included in the Financial Review on pages 7 and 8.

# Notes to the Consolidated Financial Statements

## 2 Segmental analysis for continuing business

Segmental information is presented in respect of the Group's business segments, which are the primary format of segmental reporting and reflect the Group's management reporting structure. The Group is organised into three main business segments:

**Rail** – provides rail infrastructure works to the UK rail industry, including rail renewal, major track development, electrical and signalling services.

**Plant** – provides on-track machinery, small plant equipment and manages an extensive fleet of purpose-built vehicles for the rail and other industries.

**Accommodation Services** – undertakes Facilities Management and residual construction operations and, following the disposal of the Prismo Road Markings business, includes the results from the Herefordshire County Council support services contract.

Inter-segment pricing is determined on an arm's length basis.

Discontinued operations in the period ended 2 April 2007 relate to the previously reported Roads segment. The disclosure in respect of the segmental information for discontinued operations is shown in Note 9 to the Consolidated Financial Statements.

### 2.1 Performance by business segment for the period ended 2 April 2007

	Rail £m	Plant £m	Accom- modation Services £m	Centre, eliminations and unallocated £m	Total £m
External revenue	142.3	68.0	96.4	–	306.7
Inter-segment revenue	–	35.8	–	(35.8)	–
<b>Total revenue</b>	<b>142.3</b>	<b>103.8</b>	<b>96.4</b>	<b>(35.8)</b>	<b>306.7</b>
<b>Operating profit / (loss) before non-recurring costs</b>	<b>9.4</b>	<b>13.3</b>	<b>1.3</b>	<b>(20.1)</b>	<b>3.9</b>
Non-recurring costs	(1.8)	(1.9)	(8.9)	(0.8)	(13.4)
Operating profit / (loss)	7.6	11.4	(7.6)	(20.9)	(9.5)
Centre recharges	(5.0)	(7.4)	(3.4)	15.8	–
Operating profit / (loss) after centre recharges	2.6	4.0	(11.0)	(5.1)	(9.5)
Net finance costs					(4.6)
Taxation					2.0
<b>Loss for the period from continuing operations</b>					<b>(12.1)</b>
Segment assets	53.7	60.6	29.5	5.8	149.6
Unallocated assets	–	–	–	37.6	37.6
Total assets	53.7	60.6	29.5	43.4	187.2
Segment liabilities	(42.0)	(32.0)	(44.3)	(19.8)	(138.1)
Unallocated liabilities	–	–	–	(63.4)	(63.4)
Total liabilities	(42.0)	(32.0)	(44.3)	(83.2)	(201.5)
<b>Net assets / (liabilities)</b>	<b>11.7</b>	<b>28.6</b>	<b>(14.8)</b>	<b>(39.8)</b>	<b>(14.3)</b>
Capital expenditure	–	4.5	0.1	–	4.6
Depreciation	0.2	2.8	0.1	0.1	3.2

Unallocated assets represent cash and cash equivalents, and deferred tax assets. Unallocated liabilities represent current and non-current borrowings, current tax liabilities and deferred tax liabilities.

# Notes to the Consolidated Financial Statements

## 2.2 Performance by business segment for the year ended 31 March 2006 (restated)

	Rail £m	Plant £m	Accom- modation Services £m	Centre, eliminations and unallocated £m	Discontinued operations £m	Total £m
External revenue	188.5	58.2	107.1	–	–	353.8
Inter-segment revenue	–	59.3	0.2	(59.5)	–	–
<b>Total revenue</b>	188.5	117.5	107.3	(59.5)	–	353.8
<b>Operating profit / (loss) before non-recurring costs</b>	18.2	22.6	(1.1)	(29.2)	–	10.5
Non-recurring costs	(0.4)	(0.6)	(0.2)	(0.6)	–	(1.8)
Operating profit / (loss)	17.8	22.0	(1.3)	(29.8)	–	8.7
Centre recharges	(8.9)	(8.2)	(4.3)	21.4	–	–
Operating profit / (loss) after centre recharges	8.9	13.8	(5.6)	(8.4)	–	8.7
Net finance costs						(67.8)
Taxation						5.4
<b>Loss for the year from continuing operations</b>						(53.7)
Segment assets	51.4	49.5	42.7	(8.4)	30.6	165.8
Unallocated assets	–	–	–	16.8	–	16.8
Assets held for sale	–	–	–	–	0.4	0.4
Total assets	51.4	49.5	42.7	8.4	31.0	183.0
Segment liabilities	(57.7)	(34.4)	(65.9)	0.8	(15.2)	(172.4)
Unallocated liabilities	–	–	–	(38.5)	–	(38.5)
Liabilities associated with assets held for sale	–	–	–	–	(0.3)	(0.3)
Total liabilities	(57.7)	(34.4)	(65.9)	(37.7)	(15.5)	(211.2)
<b>Net (liabilities)/assets</b>	(6.3)	15.1	(23.2)	(29.3)	15.5	(28.2)
Capital expenditure	–	7.3	0.1	–	0.7	8.1
Depreciation	0.3	3.6	0.3	0.3	1.7	6.2

Segmentals for the year ended 31 March 2006 have been restated to reflect Rail and Plant results presented as separate segments, and the Accommodation Services segment that now includes the results of the Herefordshire County Council support services contract. The assets and liabilities presented for discontinued operations relate to the Prismo Road Markings business and the Accord Jarvis Limited joint venture that have been sold in the period ended 2 April 2007, in accordance with the presentation requirements of IFRS 5.

## 2.3 Performance by geographic origin

The Group's trading activities are all transacted in Europe.

## 3 Revenue

Revenue from continuing operations is analysed below.

	2007 £m	2006 £m
Service revenue	292.8	326.1
Construction contract revenue	13.9	27.7
	<b>306.7</b>	353.8

# Notes to the Consolidated Financial Statements

## 4 Operating profit before non-recurring costs

Operating profit before non-recurring costs is stated after charging / (crediting):

	2007 £m	2006 £m
Loss on disposal of property, plant and equipment	–	0.2
Repairs and maintenance expenditure on property, plant and equipment	9.2	16.0
Goodwill written off	0.7	–
Trade receivables impairment	0.1	1.4
Inventories (impairment reversal) / impairment	(0.2)	0.3
Cost of inventories recognised as an expense	2.2	2.3
Depreciation of property, plant and equipment	3.2	4.5
Operating lease rentals	18.3	24.9
Fees payable to Company's auditor for the audit of the Consolidated Financial Statements and Parent Company	0.2	0.2
Fees payable to the Company's auditor for other services		
– Audit of the Company's subsidiaries	0.4	0.5
– Other services supplied pursuant to legislation	0.1	0.1
– Services relating to corporate finance transactions	0.6	0.8

## 5 Non-recurring costs

	2007 £m	2006 £m
Termination costs of Facilities Management contracts	6.9	–
Provision for construction defects	1.6	–
Provision for onerous leases	–	(1.3)
Redundancy costs	4.6	1.5
Professional fees associated with restructuring	0.3	1.6
	<b>13.4</b>	<b>1.8</b>

The termination costs of Facilities Management contracts relate to the costs associated with the termination of the three major loss-making contracts. The provision for construction defects relates to the estimated costs of completing outstanding defects on old construction contracts.

## 6 Net finance costs

	2007 £m	2006 £m
<b>Finance income</b>		
Interest receivable from short term bank deposits	0.2	0.1
Net finance income from defined benefit pension schemes	3.1	1.7
Other interest	0.1	0.1
	<b>3.4</b>	<b>1.9</b>
<b>Finance expense</b>		
Interest payable on bank loans	(6.7)	(6.5)
Finance charges as a result of Debt for Equity Exchange	–	(61.9)
Finance charges payable under finance leases	(0.1)	(0.2)
Other interest	(1.2)	(1.1)
	<b>(8.0)</b>	<b>(69.7)</b>
<b>Net finance costs</b>	<b>(4.6)</b>	<b>(67.8)</b>

# Notes to the Consolidated Financial Statements

## 7 Employees

The average number of persons employed by the Group during the period, including Executive Directors, analysed by operating division is shown below. The 2006 numbers have been restated to reflect the operations sold during the period ended 2 April 2007.

	2007 Number	2006 Restated Number
Rail	1,236	1,172
Plant	818	771
Accommodation Services	2,578	2,796
Central	141	191
Continuing operations	4,773	4,930
Discontinued operations	260	681
	<b>5,033</b>	5,611

The employment costs of all employees included in continuing operations are shown below. Details of Directors' remuneration are included in the audited section of the Directors' Remuneration Report on pages 30 and 31.

	2007 £m	2006 £m
Wages and salaries	114.6	127.0
Social security costs	11.1	12.5
Share-based payments	0.3	0.1
Defined contribution pension scheme costs	3.7	3.5
Current service cost of defined benefit pension schemes	4.6	4.2
	<b>134.3</b>	147.3

## 8 Income tax recognised in the Consolidated Income Statement

Deferred tax for the year ended 31 March 2006 has been restated to reflect recognition under IAS 12 – Income Taxes of deferred tax assets arising from unused tax losses, sufficient to cover taxable temporary differences associated with pension scheme surpluses. The restatement reflects the deferred tax charge of £5.3m arising on the actuarial gains and losses, which should be recognised through the Consolidated Statement of Recognised Income and Expense and not the Consolidated Income Statement.

### 8.1 Taxation credit for continuing operations

	2007 £m	2006 Restated £m
<b>UK corporation tax at the standard rate:</b>		
– Current period	0.4	–
– Adjustment in respect of prior year	(0.8)	(0.1)
Total current tax credit	(0.4)	(0.1)
<b>UK deferred tax:</b>		
– Current period	(2.3)	(5.3)
– Adjustment in respect of prior year	0.7	–
Total deferred tax credit (Note 14)	(1.6)	(5.3)
<b>Total income tax credit</b>	<b>(2.0)</b>	<b>(5.4)</b>

There is no taxation charge in the period attributable to discontinued operations (2006: £0.7m).

# Notes to the Consolidated Financial Statements

## 8.2 Factors affecting the tax credit for the period

The tax credit for the period and effective tax rate can be reconciled to the loss for the period in the analysis below.

	2007	2006
	£m	Restated £m
Loss before taxation	<b>(14.1)</b>	(59.1)
Tax at the UK standard rate of 30%	<b>(4.2)</b>	(17.7)
Expenses not deductible for tax purposes	<b>0.2</b>	9.9
Utilisation of previously unrecognised tax losses	<b>(1.2)</b>	(1.3)
Tax provision for specific identified risk	<b>0.5</b>	–
Tax losses for which no deferred tax asset was recognised	<b>2.9</b>	3.8
Adjustments to tax charge in respect of prior years	<b>(0.2)</b>	(0.1)
<b>Total tax credit for period</b>	<b>(2.0)</b>	(5.4)

## 9 Loss for the period from discontinued operations

On 1 December 2006 the Prismo Road Markings business was sold to Ennis Paint Inc. and, on 27 February 2007, Jarvis completed the sale of its 50 per cent holding in the Accord Jarvis Limited joint venture. The results of both these businesses are treated as discontinued operations in the period ended 2 April 2007 and, in accordance with IFRS 5, the post-tax results of discontinued operations are disclosed separately in the Consolidated Income Statement. The results for the year ended 31 March 2006, which also include the European Roads business disposed of during that year, have been restated for the same presentation.

	2007	2006
	£m	£m
Revenue	<b>26.5</b>	60.9
Cost of sales	<b>(24.7)</b>	(48.7)
Gross profit	<b>1.8</b>	12.2
Administration expenses	<b>(5.4)</b>	(9.7)
Operating (loss) / profit before non-recurring costs	<b>(3.6)</b>	2.5
Non-recurring costs	<b>(0.2)</b>	–
Operating (loss) / profit	<b>(3.8)</b>	2.5
Net finance costs	<b>(0.1)</b>	–
Share of post-tax profits from joint ventures disposed of during the period	<b>0.6</b>	0.3
(Loss) / profit before tax	<b>(3.3)</b>	2.8
Taxation	<b>–</b>	(0.7)
(Loss) / profit after tax	<b>(3.3)</b>	2.1
Net (loss) / profit on disposals	<b>(6.3)</b>	0.3
<b>Post-tax (loss) / profit from discontinued operations</b>	<b>(9.6)</b>	2.4

The net loss on disposals in the period to 2 April 2007 relates principally to an £8.1m loss on sale of the Prismo Road Markings business, details of which are given in Note 31.3, offset by a £0.6m profit on disposal of the Accord Jarvis Limited joint venture and by escrow monies received from previously discontinued operations.

# Notes to the Consolidated Financial Statements

## 10 Loss per share

	2007 £m	2006 £m
<b>(Loss) / profit for the period</b>		
– Continuing operations	(12.1)	(53.7)
– Discontinued operations	(9.6)	2.4
<b>Total</b>	<b>(21.7)</b>	<b>(51.3)</b>
<b>Number of shares</b>	<b>Number (m)</b>	<b>Number (m)</b>
Weighted average number of shares in issue during the period	<b>160.6</b>	143.8
<b>Basic and diluted (loss) / earnings per share</b>		
– Continuing operations	(7.5)p	(37.3)p
– Discontinued operations	(6.0)p	1.7p
<b>Total</b>	<b>(13.5)p</b>	<b>(35.6)p</b>

## 11 Goodwill

	2007 £m	2006 £m
<b>Cost</b>		
At the start of the period	65.9	68.5
Disposals	–	(2.5)
Written off	(65.9)	(0.1)
<b>At end of period</b>	<b>–</b>	<b>65.9</b>
<b>Impairment</b>		
At start of period	65.2	67.7
Disposals	–	(2.5)
Written off	(65.2)	–
<b>At end of the period</b>	<b>–</b>	<b>65.2</b>
<b>Net book value at end of the period</b>	<b>–</b>	<b>0.7</b>

Goodwill related to the previously reported, and now discontinued, Roads business segment.

# Notes to the Consolidated Financial Statements

## 12 Property, plant and equipment

	Short leasehold properties £m	Leasehold improvements £m	Plant, vehicles and equipment £m	Total £m
<b>Cost or valuation</b>				
At 1 April 2005	0.2	2.1	51.5	53.8
Additions	–	–	8.1	8.1
Disposals	–	(0.2)	(1.2)	(1.4)
In respect of business disposals	–	–	(1.3)	(1.3)
<b>At 31 March 2006</b>	<b>0.2</b>	<b>1.9</b>	<b>57.1</b>	<b>59.2</b>
Additions	–	0.1	4.5	4.6
Disposals	(0.2)	(0.2)	(0.1)	(0.5)
In respect of business disposals	–	–	(13.6)	(13.6)
<b>At 2 April 2007</b>	<b>–</b>	<b>1.8</b>	<b>47.9</b>	<b>49.7</b>
<b>Accumulated depreciation</b>				
At 1 April 2005	0.1	1.9	25.0	27.0
Charge for the year	–	0.2	6.0	6.2
Disposals	–	–	(0.8)	(0.8)
In respect of business disposals	–	–	(1.2)	(1.2)
Reclassifications	0.1	(0.6)	0.5	–
<b>At 31 March 2006</b>	<b>0.2</b>	<b>1.5</b>	<b>29.5</b>	<b>31.2</b>
Charge for the period	–	0.2	3.8	4.0
Disposals	(0.2)	–	(0.3)	(0.5)
In respect of business disposals	–	–	(7.8)	(7.8)
<b>At 2 April 2007</b>	<b>–</b>	<b>1.7</b>	<b>25.2</b>	<b>26.9</b>
<b>Net book value</b>				
<b>At 2 April 2007</b>	<b>–</b>	<b>0.1</b>	<b>22.7</b>	<b>22.8</b>
At 31 March 2006	–	0.4	27.6	28.0

The net book value of plant, vehicles and equipment includes an amount of £nil (2006: £3.2m) in respect of assets held under finance leases.

The expected useful lives of specific items of plant have been revised during the year from 3 to 5 years. The impact of this change in estimate has been to increase the net book value of plant and reduce the loss for the period by £0.7m.

## 13 Interests in joint ventures and associates

On 27 February 2007 Jarvis completed the sale of its 50 per cent holding in the Accord Jarvis Limited joint venture, the results of which have been classified as discontinued. As a result, at 2 April 2007 the Group no longer held any interests in joint ventures. During the period the Group received a dividend of £2.0m from its associate undertaking Chapel Wharf Limited, who also repaid loans totalling £0.3m.

The Group's share of the net assets and liabilities of joint ventures and associates for the year ended 31 March 2006 is shown below.

	Joint Ventures £m	Associates £m	Total £m
Non-current assets	0.1	2.2	2.3
Current assets	2.4	0.4	2.8
<b>Total assets</b>	<b>2.5</b>	<b>2.6</b>	<b>5.1</b>
Current liabilities	1.5	0.3	1.8
<b>Net assets</b>	<b>1.0</b>	<b>2.3</b>	<b>3.3</b>

# Notes to the Consolidated Financial Statements

## 14 Deferred taxation

Deferred tax balances for the year ended 31 March 2006 have been restated to reflect recognition under IAS 12 – Income Taxes of deferred tax assets arising from unused tax losses, sufficient to cover taxable temporary differences associated with pension scheme surpluses.

Deferred tax assets / (liabilities) are attributable as shown below.

	Assets		Liabilities		Net	
	2007	2006 Restated	2007	2006 Restated	2007	2006 Restated
	£m	£m	£m	£m	£m	£m
Accelerated capital allowances	0.3	–	(0.2)	–	0.1	–
Retirement benefit asset	–	–	(10.9)	(6.6)	(10.9)	(6.6)
Taxation losses	9.7	6.6	–	–	9.7	6.6
Other short term temporary differences	–	0.7	(0.1)	–	(0.1)	0.7
	10.0	7.3	(11.2)	(6.6)	(1.2)	0.7

Movements in net deferred tax assets / (liabilities) are analysed below.

	Accelerated capital allowances £m	Retirement benefit asset £m	Taxation losses £m	Other £m	Total £m
At 1 April 2005	–	1.3	(1.3)	(0.7)	(0.7)
Credit to Consolidated Income Statement	–	–	5.3	–	(5.3)
Charge to equity	–	5.3	–	–	5.3
<b>At 31 March 2006</b>	–	6.6	(6.6)	(0.7)	(0.7)
(Credit) / charge to Consolidated Income Statement	(0.1)	0.8	(3.1)	0.8	(1.6)
Charge to equity	–	3.5	–	–	3.5
<b>At 2 April 2007</b>	<b>(0.1)</b>	<b>10.9</b>	<b>(9.7)</b>	<b>0.1</b>	<b>1.2</b>

Deferred tax assets relating to tax loss carry-forwards have been recognised for unused tax losses available to cover taxable temporary differences relating to retirement benefit assets. Deferred tax assets are not recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is uncertain.

The Group has not recognised deferred tax assets of £81.3m (2006: £102.7m) in respect of losses amounting to £271.1m (2006: £342.2m) that can be carried forward against future taxable income.

# Notes to the Consolidated Financial Statements

## 15 Retirement benefits

### 15.1 Overview

For the disclosure requirements of IAS19 – Employee Benefits, the Railways Pension Scheme (RPS) and the Streamline Pension Schemes are the only material defined benefit pension schemes operated by the Group. All other schemes are accounted for as defined contribution.

#### Railways Pension Scheme

The scheme is administered in accordance with its trust deed, and is commonly known as a shared cost scheme, under which the employer and employees are liable for the costs and any surplus or deficit arising under the scheme in the proportion of 60:40 respectively. Eligible employees participate in three shared cost sections of the RPS, being the Relayfast, Fastline and Jarvis Facilities sections. The latest triennial actuarial valuation of the RPS was as at 31 December 2004, and was undertaken by professionally qualified and independent actuaries. At that date the market value of the assets was £270.6m and the average funding level was 102%.

For the period ended 2 April 2007, employer contributions to the three Jarvis sections of the RPS were 9% of pensionable pay until 17 June 2006, after which the date they increased to 16.74%, 16.56% and 16.2% for the Relayfast, Fastline and Jarvis Facilities sections respectively. The employer contributions to the RPS were £2.9m in the period ended 2 April 2007 (2006: £1.4m).

#### Streamline Pension Schemes

The schemes comprise the Streamline Pension Fund (SPF) and the Streamline Local Government Pension Fund (SLG). The latest triennial actuarial valuation for the SLG was as at 5 April 2004 and at that date the market value of the assets was £4.7 million and the funding level was 72%. Following this triennial actuarial valuation the employer contribution rates for the SLG were determined as 20% of pensionable salaries. This increase took effect from 1 September 2005. In addition, special employer contributions of £85,000 per annum are payable for ten years; the first payment was made on 31 March 2006. The employer contributions (including the special employer contribution) to the SLG were £0.3m in the period ended 2 April 2007 (2006: £0.3m).

Whilst a triennial valuation of the SPF was not due until 5 April 2005, a special actuarial valuation was carried out as at 5 April 2004. At that date the market value of the assets were £22.1m and the funding level was 65%. Following this special triennial actuarial valuation the employer contribution rates for the SPF were determined as 23.9%, 16.5% and 12.9% of pensionable salaries for the 1968, 1984 and 1992 sections respectively. These increases took effect from 1 October 2005. In addition, special employer contributions of £900,000 per annum are payable for thirteen years; the first payment was made on 31 March 2006. The employer contributions (including the special employer contribution) to the SPF were £1.0m in the period ended 2 April 2007 (2006: £1.1m).

The total employer contribution to the defined benefit pension schemes for the period ending 31 March 2008 is estimated to be £4.8m.

All Group defined benefit pension schemes are closed to new entrants, other than for new employees who qualify for participation in the RPS and employees transferring from the public sector, where conditions are specified in the terms of their transfer, who are admitted into the SLG. Other eligible new employees are offered participation in the Group's defined contribution schemes.

Contributions made to defined contribution arrangements for other eligible Group employees are based on a pre-determined percentage of individual salaries. Contributions by the Group into defined contribution schemes and non-material defined benefit schemes are disclosed in Note 7.

### 15.2 IAS 19 disclosures

Assets and liabilities for IAS 19 accounting purposes have been estimated by independent qualified actuaries, updating the most recent triennial actuarial valuations. The weighted averages of the principal assumptions used are shown below.

	2007 %	2006 %
Discount rate for scheme liabilities	<b>5.20</b>	4.90
Retail price inflation	<b>3.10</b>	2.90
Rate of increase in salaries*	<b>3.55</b>	3.35
Rate of increase to pensions in payment	<b>3.10</b>	2.90
Rate of increase to deferred pensions	<b>3.10</b>	2.90
Expected return on scheme assets**	<b>6.93</b>	6.50

\*Plus promotional increases of 0.75 per cent per annum.

\*\*The expected return on scheme assets is based on the market expectations at the beginning of the period for returns over the life of the benefit obligation.

# Notes to the Consolidated Financial Statements

## 15.2 IAS 19 disclosures (continued)

For both the RPS and Streamline Schemes, the mortality assumptions used for IAS 19 calculation purposes are on the same basis as that used by the trustees and scheme actuary at the last triennial valuation. The mortality tables adopted by the scheme actuary for the RPS and Streamline Schemes are based on the 1992 series CMI tables, modified for scheme specific experiences.

The life expectancies implied by the mortality assumptions used for the period ended 2 April 2007 and year ended 31 March 2006 are shown below.

	Male Years	Female Years
<b>Railways Pension Scheme</b>		
Life expectancy – for an active deferred member reaching age 65	19.0	21.5
Life expectancy – for a 65 year old pensioner	17.8	20.2
<b>Streamline Pension Schemes</b>		
Life expectancy – for an active deferred member reaching age 65	20.2	23.2
Life expectancy – for a 65 year old pensioner	19.4	22.3

Expected rates of return and analysis of scheme assets as at 2 April 2007	Expected long term rate of return %	Railways Pension Scheme		Streamline Pension Schemes		Total	
		Market value £m	Share of total scheme assets %	Market value £m	Share of total scheme assets %	Market value £m	Share of total scheme assets %
Equity	7.70	130.0	60.9	16.1	49.9	146.1	59.4
Property	6.50	17.8	8.3	–	–	17.8	7.2
Bonds (including gilts)	5.05	28.3	13.2	15.9	49.3	44.2	17.9
Hedge funds	7.34	19.5	9.1	–	–	19.5	7.9
Cash	5.25	18.3	8.5	0.3	0.8	18.6	7.6
Fair value of scheme assets	6.93	213.9	100.0	32.3	100.0	246.2	100.0

As at 31 March 2006

Equity	7.25	128.6	64.6	16.1	50.2	144.7	62.6
Property	6.05	16.7	8.4	–	–	16.7	7.2
Bonds (including gilts)	4.60	27.8	14.0	15.4	48.0	43.2	18.7
Hedge funds	6.84	16.4	8.2	–	–	16.4	7.1
Cash	4.50	9.5	4.8	0.6	1.8	10.1	4.4
Fair value of scheme assets	6.50	199.0	100.0	32.1	100.0	231.1	100.0

The expected long term rate of return for equity, property and bonds is based on the yield to redemption on 20 year fixed interest gilts of 4.60% (2006: 4.15%) plus an adjustment to reflect market expectations of the equity, property and bond asset classes respectively. The expected long term rate of return for hedge funds is based on the London LIBOR plus an adjustment of 2% (2006: 2%) to reflect market expectations. Cash comprises mainly of cash holdings and the expected long term rate of return reflects the current short term returns on such deposits.

Amounts recognised in the Consolidated Income Statement	Railways Pension Scheme £m	Streamline Pension Schemes £m	2007 Total £m	Railways Pension Scheme £m	Streamline Pension Schemes £m	2006 Total £m
Current service cost	(4.2)	(0.4)	(4.6)	(3.7)	(0.5)	(4.2)
Curtailed gain	–	1.1	1.1	–	–	–
Total charged to operating profit	(4.2)	0.7	(3.5)	(3.7)	(0.5)	(4.2)
Interest cost	(8.6)	(2.4)	(11.0)	(8.7)	(2.6)	(11.3)
Expected return on pension assets	12.6	1.5	14.1	11.4	1.6	13.0
Total amount credited / (charged) to finance income	4.0	(0.9)	3.1	2.7	(1.0)	1.7
<b>Total charged to the Consolidated Income Statement</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.4)</b>	<b>(1.0)</b>	<b>(1.5)</b>	<b>(2.5)</b>

# Notes to the Consolidated Financial Statements

## 15.2 IAS 19 disclosures (continued)

Amounts recognised in the Consolidated Statement of Recognised Income and Expense	Railways Pension Scheme £m	Streamline Pension Schemes £m	2007 Total £m	Railways Pension Scheme £m	Streamline Pension Schemes £m	2006 Total £m
Actual return less expected return on pension scheme assets	8.4	(1.3)	7.1	28.6	1.9	30.5
Gain / (loss) arising from changes in the assumptions underlying the present value of scheme liabilities	3.3	1.0	4.3	(11.4)	0.5	(10.9)
<b>Net actuarial gain / (loss) in the Consolidated Statement of Recognised Income and Expense</b>	<b>11.7</b>	<b>(0.3)</b>	<b>11.4</b>	<b>17.2</b>	<b>2.4</b>	<b>19.6</b>

The actual return on scheme assets for the period ended 2 April 2007 was £21.2m (2006: £43.5m).

Balance sheet analysis	Railways Pension Scheme £m	Streamline Pension Schemes £m	2007 Total £m	Railways Pension Scheme £m	Streamline Pension Schemes £m	2006 Total £m
Present value of funded defined benefit obligations brought forward	(177.0)	(50.0)	(227.0)	(162.3)	(48.7)	(211.0)
Current service cost	(4.2)	(0.4)	(4.6)	(3.7)	(0.5)	(4.2)
Curtailement gain	-	1.1	1.1	-	-	-
Contributions paid	-	(0.1)	(0.1)	-	(0.1)	(0.1)
Interest cost	(8.6)	(2.4)	(11.0)	(8.7)	(2.6)	(11.3)
Benefits paid	9.0	1.5	10.5	9.1	1.4	10.5
Net actuarial gain / (loss) recognised in the Consolidated Statement of Recognised Income and Expense	3.3	1.0	4.3	(11.4)	0.5	(10.9)
Present value of funded defined benefit obligations carried forward	(177.5)	(49.3)	(226.8)	(177.0)	(50.0)	(227.0)
Pension assets brought forward	199.0	32.1	231.1	166.7	28.5	195.2
Expected return on scheme assets	12.6	1.5	14.1	11.4	1.6	13.0
Benefits paid	(9.0)	(1.4)	(10.4)	(9.1)	(1.4)	(10.5)
Actuarial gains	8.4	(1.3)	7.1	28.6	1.9	30.5
Contributions paid by employer	2.9	1.3	4.2	1.4	1.4	2.8
Contributions paid by employees	-	0.1	0.1	-	0.1	0.1
Pension assets carried forward	213.9	32.3	246.2	199.0	32.1	231.1
<b>Net defined benefit obligation</b>	<b>36.4</b>	<b>(17.0)</b>	<b>19.4</b>	<b>22.0</b>	<b>(17.9)</b>	<b>4.1</b>

Pension surplus / (deficit) recognised as a non-current asset / (liability)	Railways Pension Scheme £m	Streamline Pension Schemes £m	2007 Total £m	Railways Pension Scheme £m	Streamline Pension Schemes £m	2006 Total £m
Fastline	12.6	-	12.6	7.3	-	7.3
Relayfast	5.5	-	5.5	2.7	-	2.7
Jarvis Facilities	18.3	-	18.3	12.0	-	12.0
Streamline LG Fund	-	(3.3)	(3.3)	-	(3.1)	(3.1)
Streamline Pension Fund	-	(13.7)	(13.7)	-	(14.8)	(14.8)
<b>Net defined benefit pension obligation</b>	<b>36.4</b>	<b>(17.0)</b>	<b>19.4</b>	<b>22.0</b>	<b>17.9</b>	<b>4.1</b>

# Notes to the Consolidated Financial Statements

## 15.2 IAS 19 disclosures (continued)

<b>History of experience gains and losses – Railways Pension Scheme</b>	<b>2007</b>	2006	2005
Present value of defined benefit obligations (£m)	<b>(177.5)</b>	(177.0)	(162.3)
Fair value of scheme assets (£m)	<b>213.9</b>	199.0	166.7
Surplus in scheme (£m)	<b>36.4</b>	22.0	4.4
Experience gains on scheme assets (£m)	<b>8.4</b>	28.6	17.7
Percentage of scheme assets (%)	<b>3.9</b>	14.4	10.6
Total amount recognised in the Consolidated Statement of Recognised Income and Expense (£m)	<b>11.7</b>	17.2	11.1
Percentage of the present value of scheme liabilities (%)	<b>6.6</b>	9.7	6.8
<b>History of experience gains and losses – Streamline Pension Schemes</b>	<b>2007</b>	2006	2005
Present value of defined benefit obligations (£m)	<b>(49.3)</b>	(50.0)	(48.7)
Fair value of scheme assets (£m)	<b>32.3</b>	32.1	28.5
Deficit in scheme (£m)	<b>(17.0)</b>	(17.9)	(20.2)
Experience (losses) / gains on scheme assets (£m)	<b>(1.3)</b>	1.9	0.7
Percentage of scheme assets (%)	<b>(3.9)</b>	5.9	2.5
Experience gains on scheme liabilities (£m)	–	–	1.0
Percentage of the present value scheme liabilities (%)	–	–	2.1
Total amount recognised in the Consolidated Statement of Recognised Income and Expense (£m)	<b>(0.3)</b>	2.4	(3.2)
Percentage of the present value of scheme liabilities (%)	<b>(0.6)</b>	4.8	(6.6)

The cumulative amount of actuarial gains and losses since 1 April 2004 recognised in the Consolidated Statement of Recognised Income and Expense is £38.9m (2006: £27.5m). In accordance with IFRS, the Group has taken exemption from disclosing experience gains and losses for the years prior to 31 March 2005.

## 16 Inventories

	<b>2007</b>	2006
	<b>£m</b>	£m
Raw materials and consumables	<b>0.2</b>	2.1
Work in progress	<b>1.9</b>	0.9
Finished goods and goods for resale	<b>1.3</b>	4.0
	<b>3.4</b>	7.0

The above balances include an impairment provision of £0.3m (2006: £1.4m).

# Notes to the Consolidated Financial Statements

## 17 Trade and other receivables

	2007 £m	2006 £m
Trade receivables	23.5	30.8
Amounts due from customers on contracts	42.5	49.7
Amounts due from joint venture and associate undertakings	–	0.6
Other receivables	14.0	16.1
Prepayments and accrued income	7.0	7.6
	<b>87.0</b>	104.8

Trade receivables include a bad debt provision of £1.9m (2006: £8.9m).

Other receivables include £3.4m (2006: £9.0m) relating to cash balances held in separate trust accounts. On 29 January 2005 Jarvis plc and certain other subsidiaries entered into agreements with other relevant parties in respect of 14 construction contracts (being those contracts not then past practical completion or that had material future cash outflows associated with them), to release the Company from Parent Company guarantees given under the original contracts and to limit the Group's liability to additional costs required to complete the contracts. These agreements specified that the sums required to complete the contracts be placed into two trusts for each contract. The trusts are in the name of Jarvis Construction UK Limited but the funds standing to the credit of them are available only for the purposes specified by each trust and are directly related to funding construction liabilities. The funds are not available to Jarvis plc and Jarvis Construction UK Limited except for these purposes. The cash in each trust is only made available at the point when payments are made in accordance with the purposes of the trust. For these reasons the cash in the trusts is recognised within other receivables.

## 18 Construction contracts

Contracts in progress at the balance sheet date are analysed below.

	2007 £m	2006 £m
Due from customers for contract work, included in trade and other receivables	3.0	7.0
Due to customers for contract work, included in trade and other payables	(0.1)	(0.3)
	<b>2.9</b>	6.7

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £8.3m (2006: £33.8m).

## 19 Assets and liabilities held for sale

The Group had no assets or liabilities held for sale at 2 April 2007. The assets and liabilities of the Group classified as held for sale at 31 March 2006 relate to the FM Ireland business and are detailed below.

	£m
<b>Assets held for sale</b>	
Trade and other receivables	0.2
Cash and cash equivalents	0.2
	0.4
<b>Liabilities held for sale</b>	
Trade and other payables	(0.3)
	(0.3)
<b>Net assets held for sale</b>	0.1

# Notes to the Consolidated Financial Statements

## 20 Borrowings

### 20.1 Summary of borrowings

	Fixed £m	Floating £m	2007 Total £m	Fixed £m	Floating £m	2006 Total £m
<b>Current</b>						
Bank loans and loan notes	-	18.3	18.3	1.8	25.6	27.4
Obligations under finance leases	-	-	-	0.9	-	0.9
	-	18.3	18.3	2.7	25.6	28.3
<b>Non-current</b>						
Bank loans and loan notes	-	32.9	32.9	0.9	0.8	1.7
Obligations under finance leases	-	-	-	1.9	-	1.9
	-	32.9	32.9	2.8	0.8	3.6
<b>Total borrowings</b>	-	51.2	51.2	5.5	26.4	31.9

All borrowings are denominated in sterling.

### 20.2 Maturity profile of borrowings

	Bank loans and loan notes £m	2007 Total £m	Leases £m	Bank loans and loan notes £m	2006 Total £m
Not later than one year	18.3	18.3	0.9	27.4	28.3
Between one and two years	3.9	3.9	0.7	1.7	2.4
Between two and five years	29.0	29.0	1.2	-	1.2
	51.2	51.2	2.8	29.1	31.9

### 20.3 Finance leases

The Group had no outstanding finance lease commitments at 2 April 2007. Future minimum lease payments under finance leases together with the net present value for 31 March 2006 are shown in the table below. The non-current finance lease commitments held by the Group at 31 March 2006 principally relate to the Prismo Road Markings business, sold during the period ended 2 April 2007.

	Minimum payments £m	Present value of payments £m
Less than one year	1.0	0.9
Between one and five years	2.3	1.9
<b>Total obligations under finance leases</b>	3.3	2.8
Less future finance charges	(0.5)	-
<b>Present value of finance liabilities</b>	2.8	2.8

# Notes to the Consolidated Financial Statements

## 20.4 Borrowing facilities

The Group completed a refinancing of its banking facilities on 27 July 2006 with a new three-year committed facility of £67m arranged by Burdale Financial Limited, the secured asset-based lending subsidiary of the Bank of Ireland, secured by way of a fixed and floating charge on the Group's assets, in particular its plant, machinery and receivables under its rail renewal and plant hire contracts.

The new facilities are split into a senior tranche of up to £55m and a subordinated facility of up to £12m. The margin on the senior facility is up to 3.75 per cent over LIBOR while the margin on the subordinated facility is 8 per cent over LIBOR (rising to 10 per cent in certain circumstances). The senior facility may incur a further two per cent margin (and the subordinated facility may incur a further four per cent margin) if there is a continuing event of default (or a continuing event of subordinated default). The senior facility comprises both term and revolving facilities. £5.4m of the revolving portion is subject to monthly reductions from January 2007 onwards. The subordinated facility is subject to repayments of £2m in January 2008 and a further £2m in January 2009, subject to cash flow and headroom tests. Voluntary repayment of the subordinated facility is not permitted for one year from signing. Repayment of the subordinated facility is subject to cash flow and headroom tests and the facilities are subject to an EBITDA financial covenant.

At 2 April 2007 the Group had available £15.8m (2006: £8.0m) of undrawn borrowing facilities.

## 20.5 Effective interest rates

The effective interest rates on the Group's interest bearing borrowings at the balance sheet date are shown below.

	2007 %	2006 %
Loan notes and bank loans	10.7	14.4
Finance leases	–	5.9

## 21 Financial instruments

There were no derivative financial instruments outstanding at the balance sheet date.

Non-derivative financial instruments consist of cash at bank, short term deposits, trade and other receivables, bank overdrafts, borrowings and trade and other payables. The fair value of these approximate the carrying value in the balance sheet. The fair value of the non-current borrowings is their net present value computed at the market rate that would arise if the commitment had been entered into at the balance sheet date. The fair value of all other non-derivative financial instruments approximate their carrying values because of the short term maturity of these instruments.

## 22 Trade and other payables

	2007 £m	2006 £m
Trade payables	33.8	39.0
Other payables	4.9	6.7
Accruals and deferred income	56.2	74.1
Advance payments on contracts	1.3	4.0
Other taxation and social security	17.6	15.5
	113.8	139.3

# Notes to the Consolidated Financial Statements

## 23 Provisions

	Onerous leases £m	Restructuring £m	Other £m	Total £m
At 1 April 2006	1.0	5.6	8.1	14.7
Provisions utilised during the period	(0.4)	(3.6)	(5.4)	(9.4)
New provisions charged to the Consolidated Income Statement during the period	0.4	1.6	–	2.0
<b>At 2 April 2007</b>	<b>1.0</b>	<b>3.6</b>	<b>2.7</b>	<b>7.3</b>
Disclosed within:				
Current liabilities	<b>0.6</b>	<b>3.6</b>	<b>2.2</b>	<b>6.4</b>
Non-current liabilities	<b>0.4</b>	<b>–</b>	<b>0.5</b>	<b>0.9</b>
	<b>1.0</b>	<b>3.6</b>	<b>2.7</b>	<b>7.3</b>

Provisions represent the best estimate of obligations at the balance sheet date. The provision for onerous leases has been calculated at the net present value of rents payable less rents receivable (having taken account of potential void periods and lease incentives) up to the end of the lease. Allowance has been made for empty rates and agents' fees.

The restructuring provision relates to the costs associated with the ongoing operational restructuring. The other provisions relate to liabilities in respect of contracts and third party claims and represent the net present value of the expected cash outflow in relation to these obligations.

## 24 Share capital

### 24.1 Authorised

	2007 Number (m)	2007 Value £m	2006 Number (m)	2006 Value £m
Ordinary Shares of 5p each	<b>340.0</b>	<b>17.0</b>	191.5	9.6
Deferred Shares of 1p each	–	–	717.5	7.2
		<b>17.0</b>		16.8

During the period the Group consolidated its 717,500,000 Deferred Shares of 1p into 143,500,000 Ordinary Shares of 5p. The Group also increased its authorised share capital by £250,000 as a result of the issue of 5,000,000 Ordinary Shares of 5p each.

### 24.2 Allotted, called up and fully paid

	Ordinary Shares of 5p each Number (m)	Value £m
At 1 April 2006	152.1	7.6
Issue of Shares to existing warrant holders	4.6	0.2
Allotted in connection with warrants exercised	9.2	0.5
Placing and Open Offer	38.5	1.9
<b>At 2 April 2007</b>	<b>204.4</b>	<b>10.2</b>

During the period there was a placing of 4,602,460 Ordinary Shares, 9,165,555 warrants were exercised and 38,485,241 Ordinary Shares were allotted under the Placing and Open Offer completed on 2 April 2007.

# Notes to the Consolidated Financial Statements

## 25 Equity

	Attributable to equity shareholders of the Group							Total equity £m
	Share capital £m	Share premium £m	Revaluation reserve £m	Capital redemption reserve £m	Other reserve £m	Translation reserve £m	Accumulated losses £m	
<b>Balance at 1 April 2005</b>	7.2	142.3	3.0	–	89.7	0.4	(656.9)	(414.3)
Adoption of IAS 32 and IAS 39	–	–	–	–	–	–	1.5	1.5
Debt for Equity Exchange	0.4	377.6	–	–	–	–	–	378.0
Placing and Open Offer (net of expenses)	7.1	36.4	–	–	–	–	–	43.5
Additional shares issued in connection with exercise of warrants	0.1	0.3	–	–	–	–	–	0.4
Share cancellation	(7.2)	–	–	7.2	–	–	–	–
Disposal of revalued properties	–	–	(3.0)	–	–	–	3.0	–
Currency translation movements in the year	–	–	–	–	–	(0.1)	–	(0.1)
Currency translation adjustments recognised on disposal of European Roads	–	–	–	–	–	(0.3)	–	(0.3)
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	–	19.6	19.6
Share options expensed through the income statement	–	–	–	–	–	–	0.1	0.1
Loss for the year	–	–	–	–	–	–	(56.6)	(56.6)
<b>Balance at 31 March 2006</b>	7.6	556.6	–	7.2	89.7	–	(689.3)	(28.2)
Restatement for tax in respect of items taken directly to equity*	–	–	–	–	–	–	(5.3)	(5.3)
Restatement of loss for the year*	–	–	–	–	–	–	5.3	5.3
<b>Restated balance at 31 March 2006</b>	7.6	556.6	–	7.2	89.7	–	(689.3)	(28.2)
Placing and Open Offer (net of expenses)	1.9	19.8	–	–	–	–	–	21.7
Issue of shares to existing warrant holders	0.5	2.2	–	–	–	–	–	2.7
Additional shares issued in connection with exercise of warrants	0.2	2.8	–	–	–	–	–	3.0
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	–	11.4	11.4
Tax in respect of items taken directly to equity	–	–	–	–	–	–	(3.5)	(3.5)
Movements relating to share-based payments	–	–	–	–	–	–	0.3	0.3
Loss for the period	–	–	–	–	–	–	(21.7)	(21.7)
<b>Balance at 2 April 2007</b>	<b>10.2</b>	<b>581.4</b>	<b>–</b>	<b>7.2</b>	<b>89.7</b>	<b>–</b>	<b>(702.8)</b>	<b>(14.3)</b>

\*Restatement to reflect recognition under IAS 12 – Income Taxes of deferred tax assets arising from unused tax losses. Further details are given in Notes 8 and 14.

### Share capital and share premium

38,485,241 Ordinary Shares of 5p were allotted under the Placing and Open Offer at a price of 65p each, raising funds of £25.0m. Net proceeds, after deduction of directly attributable share issue costs of £ 3.3m, were £21.7m, represented by an increase to share capital of £1.9m and an increase to share premium of £19.8m.

### Capital redemption reserve

This reserve arose from the Placing and Open Offer completed on 29 September 2005, when £7.2m of Ordinary Shares were cancelled.

### Other reserve

This reserve arose on the acquisition of Streamline Holdings plc in the year ending 31 March 1998. The company took advantage of the relief under section 131, Companies Act 1985, from the requirements to establish a share premium account in respect of shares issued to the shareholders of Streamline Holdings plc pursuant to the acquisition of that Company. This reserve is not available for distribution to shareholders.

# Notes to the Consolidated Financial Statements

## 26 Share-based payments

In the period ended 2 April 2007 the amount charged to the Consolidated Income Statement in relation to share-based payments totalled £0.3m (2006: £0.1m). Details of the Jarvis share-based payment schemes are given below.

### The Executive Scheme

The rules of the Executive Share Option Scheme (the Executive Scheme) permit the Directors, during specified periods, to offer employees (including Executive Directors) options over shares in the Company, subject to limitations. These options will normally be exercisable in whole or in part during the period starting three years from the date of grant and ending ten years after such date.

All of the options granted under the terms of the Executive Scheme were granted before 7 November 2002, and the Group has therefore applied the transitional provisions of IFRS 1 and IFRS 2. The options outstanding and the movements during the period are shown below.

Grant date	Exercisable from	Subscription price per share Pence	2007 Number of shares	2006 Number of shares
1 October 1996	1 October 1999	473.00	–	4,510
6 October 1998	6 October 2001	487.00	10,000	10,000
18 January 1999	18 January 2002	587.00	20,000	20,000
2 August 1999	2 August 2002	271.00	33,000	33,000
28 July 2000	28 July 2003	199.50	34,500	34,500
24 December 2001	24 December 2004	530.00	28,300	28,300
11 July 2002	11 July 2005	290.00	8,000	8,000
			<b>133,800</b>	138,310

	2007		2006	
	Number	Weighted average price Pence	Number	Weighted average price Pence
Outstanding at start of the period	138,310	375.16	1,153,514	353.10
Surrendered and cancelled	(4,510)	473.00	(1,015,204)	350.10
<b>Outstanding at end of the period</b>	<b>133,800</b>	<b>371.86</b>	138,310	375.16

### The Management Incentive Plan

The rules of the Management Incentive Plan (MIP) permit Directors and invited senior employees to be granted options over shares in the Company, which can be exercised subject to certain performance conditions. Options are granted with a fixed exercise price equal to the average market price of the shares under option, over the 17 days preceding the grant date. The contractual life of the option is 3 years commencing on the date of grant and is subject to continued employment, but may be modified in accordance with the employee's employment contract.

The Company first made the grant on 30 November 2005 and the authority to grant further options under the plan has now lapsed. The options are exercisable in one third tranches dependent upon increases in the Company's share price of 25%, 50%, and 75% from the price at grant date. The options outstanding and movements during the period are shown below.

	2007		2006	
	Number	Weighted average price Pence	Number	Weighted average price Pence
Outstanding at start of the period	5,355,000	86.73	–	–
Granted during the period	1,888,000	48.59	5,355,500	86.73
Surrendered and cancelled	(2,672,000)	85.39	–	–
<b>Outstanding at end of the period</b>	<b>4,571,000</b>	<b>71.76</b>	5,355,000	86.73

# Notes to the Consolidated Financial Statements

## 26 Share-based payments (continued)

### The Savings Related Share Option Scheme

The rules of Savings Related Share Option Scheme (the SAYE scheme) permit the Directors, during specified periods, to invite eligible Directors and employees to apply for options over shares in the Company subject to limitations. Options may only be granted to employees who enter Inland Revenue approved saving contracts under which monthly savings are made over a period of three to five years. Employees normally have a period of six months after completion of the savings contributions to exercise the SAYE options. The options outstanding and movements during the period are shown below.

	2007		2006	
	Number	Weighted average price Pence	Number	Weighted average price Pence
Outstanding at start of the period	–	–	–	–
Granted during the period	3,200,213	70.00	–	–
Surrendered and cancelled	(312,369)	70.00	–	–
<b>Outstanding at end of the period</b>	<b>2,887,844</b>	<b>70.00</b>	–	–

### The 2003 Share Option Plan

The rules of the 2003 Share Option Plan permit Directors and invited senior employees to be granted options to acquire shares in the Company, which can be exercised subject to certain performance conditions. Options are granted with a fixed exercise price equal to the average market price of the shares under option, over the 20 days preceding the grant date. The contractual life of the option is 3 years commencing on the date of grant.

The options are exercisable in one third tranches dependent upon increases in the Company's share price of 20%, 40% and 60% from the price at grant date. The options outstanding and movements during the period are shown below.

	2007		2006	
	Number	Weighted average price Pence	Number	Weighted average price Pence
Outstanding at start of the period	–	–	–	–
Granted during the period	2,798,000	54.50	–	–
<b>Outstanding at end of the period</b>	<b>2,798,000</b>	<b>54.50</b>	–	–

Options for the schemes within the scope of IFRS 2 – Share-based Payment are valued using the Black-Scholes-Merton option pricing model. The principal assumptions and key data used in the calculations are shown below. The recognition and measurement principles in IFRS 2 have not been applied to the Executive Scheme.

Grant date	Share price at grant date Pence	Shares under option	Expected volatility %	Option life Years	Risk free interest rate %	Fair value per option Pence		
						Tranche 1	Tranche 2	Tranche 3
<b>The Management Incentive Plan</b>								
30 November 2005	86.73	5,355,000	21.3	3	4.0	17.00	14.00	9.00
8 August 2006	56.26	550,000	20.5	3	5.0	11.00	9.00	6.00
4 October 2006	45.44	1,338,000	20.5	3	5.0	9.00	7.00	4.00
<b>The Savings Related Share Option Scheme</b>								
4 April 2006	70.00	3,200,213	20.5	3	5.0	14.00		
<b>The 2003 Share Option Plan</b>								
4 October 2006	54.50	2,798,000	20.5	3	5.0	11.00	9.00	6.00

The expected volatility used in the valuation model is based on historical volatility over the last three years of a peer group.

# Notes to the Consolidated Financial Statements

## 27 Commitments

### 27.1 Capital commitments

The Group had no capital commitments at 2 April 2007 (2006: £ nil).

### 27.2 Operating leases

The Group has entered into commercial leases on certain properties, motor vehicles and items of plant and equipment. The total of future minimum lease payments payable under non-cancellable operating leases is shown in the table below.

	Vehicles, plant and equipment £m	Property £m	2007 Total £m	Vehicles, plant and equipment £m	Property £m	2006 Total £m
Within one year	9.8	3.5	13.3	13.5	2.9	16.4
More than one year but within five years	13.5	10.3	23.8	15.7	9.0	24.7
After five years	1.8	16.3	18.1	0.8	17.7	18.5
	<b>25.1</b>	<b>30.1</b>	<b>55.2</b>	30.0	29.6	59.6

Operating lease charges recognised in the Consolidated Income Statement are shown in Note 4.

## 28 Contingent liabilities

The Company has guaranteed performance bonds and given guarantees in respect of contracts entered into by subsidiary undertakings in the normal course of business.

The Group has provided guarantees to certain local authorities in connection with the potential rebate of unitary charges paid by those authorities to the relevant wholly-owned Jarvis special purpose company, should this become necessary as a result of underperformance in connection with agreed service standards.

The Group completed a refinancing of its banking facilities on 27 July 2006 with a new three-year committed facility of £67m arranged by Burdale Financial Limited, the secured asset-based lending subsidiary of the Bank of Ireland, secured by way of a fixed and floating charge on the Group's assets, in particular its plant, machinery and receivables under its rail renewal and plant hire contracts. The facilities are subject to certain financial covenants and events of default. Breaches of financial covenants or events of default can be waived or consented to by the lenders but such waivers or consents may require the payment of fees and costs to the lenders.

In respect of the accident at Potters Bar, the Directors consider that the amount recognised in the Consolidated Financial Statements adequately covers the Group's exposure to claims from the accident. The Directors believe that all those individuals affected have lodged claims although further claims are not yet time barred. The Directors are unable to quantify the eventual total amount of such claims against the Group in respect of this accident but have received confirmation that the insurance cover in place adequately covers the Group's exposure to such claims.

## 29 Post balance sheet event

By special resolution on 30 March 2007, confirmed by the court on 2 May 2007, the share premium account was reduced by £520.7m, eliminating the accumulated deficit on the Company's profit and loss account and creating a special reserve of £3.1m. The effect this has on the Group and Company's reserves is shown in Note 29.1 below. The special reserve may be transferred to the profit and loss account of the Company to write off accrued losses, but only after taking into account all available realised profits.

### 29.1 Proforma equity statement

	Group		Company	
	As at 2 April 2007 £m	Proforma £m	As at 2 April 2007 £m	Proforma £m
Share capital	10.2	10.2	10.2	10.2
Share premium	581.4	60.7	581.4	60.7
Capital redemption reserve	7.2	7.2	7.2	7.2
Other reserve	89.7	89.7	89.6	89.6
Special reserve	–	3.1	–	3.1
Accumulated losses	(702.8)	(185.2)	(517.6)	–
<b>Equity shareholders' deficit</b>	<b>(14.3)</b>	<b>(14.3)</b>	170.8	170.8

# Notes to the Consolidated Financial Statements

## 30 Related party transaction

### 30.1 Joint ventures and associates

During the period, the Group has provided services to, and received management fees from, the Accord Jarvis Limited joint venture and the Chapel Wharf Limited associate undertaking, totalling £0.3m (2006: £0.4m) and £0.1m (2006: £nil) respectively. The Group's interest in Accord Jarvis Limited was sold during the period and no amounts were due to, or from, associate or joint venture undertakings at 2 April 2007.

### 30.2 Key management personnel

Key management personnel comprise the Executive and Non-Executive Directors, as identified in the Directors' Remuneration Report on pages 27 to 31, along with the Executive Team. The remuneration of these key personnel is detailed below.

	2007 £m	2006 £m
Salaries and short-term benefits	2.9	3.4
Post employment benefits	0.3	0.2
Termination benefits	0.1	–
	<b>3.3</b>	3.6

## 31 Notes to the Consolidated Cash Flow Statement

### 31.1 Cash generated from operations

	2007 £m	2006 £m
<b>(Loss) / profit from operations</b>		
Operating (loss) / profit from continuing operations	(9.5)	8.7
Operating (loss) / profit from discontinued operations* (Note 9)	(10.1)	(2.8)
	<b>(19.6)</b>	11.5
<b>Adjustments for non-cash movements</b>		
Depreciation of property, plant and equipment		
– Continuing operations	3.2	4.5
– Discontinued operations	0.8	1.7
Non-cash pension (income) / costs	(0.7)	1.4
Restructuring and redundancy costs	4.9	3.1
Losses / (gains) on disposal of businesses	6.9	(0.3)
Loss on disposal of property, plant and equipment	–	0.2
	<b>15.1</b>	10.6
<b>Movement in working capital</b>		
Decrease in inventories	3.6	0.7
Decrease in receivables	12.3	23.6
Decrease in payables	(29.3)	(74.8)
Decrease in provisions	(3.1)	(4.0)
	<b>(16.5)</b>	(54.5)
<b>Cash flows from operations</b>	<b>(21.0)</b>	(32.4)

\*Includes a net loss on disposals of £6.3m (2006: net profit of £0.3m).

### 31.2 Analysis of movement in net debt

	2007 £m	2006 £m
Opening net debt	(22.2)	(303.8)
Net increase in cash and cash equivalents	17.9	1.0
Debt for Equity Exchange	–	280.1
New borrowings	(51.2)	(24.0)
Repayment of loans	29.1	21.9
Finance lease principal repayments	0.5	1.2
Businesses sold – finance leases at date of disposal	2.3	1.4
	<b>(23.6)</b>	(22.2)

# Notes to the Consolidated Financial Statements

## 31.3 Disposals

On 1 December 2006 the Group sold its Prismo Road Markings business for a cash consideration of £4.2m. The carrying values of the assets and liabilities sold, and the loss on disposal, are detailed below.

	£m
Net assets disposed of:	
Property, plant and equipment	5.8
Inventories	3.3
Trade and other receivables	12.2
Trade and other payables	(6.7)
Obligations under finance leases	(2.3)
	12.3
Cash consideration received, net of disposal costs paid	(4.2)
<b>Loss on disposal</b>	<b>8.1</b>

On 27 February 2007 the Group sold its 50 per cent holding in the Accord Jarvis Limited joint venture for a cash consideration of £0.9m and a profit on disposal of £0.6m.

The sale of the Prismo Road Markings business and the Accord Jarvis Limited joint venture did not involve the transfer of any cash balances. The net cash flows attributable to discontinued operations during the period are shown below.

	2007 £m	2006 £m
Net cash flow from operating activities	0.4	(1.5)
Net cash flow from investing activities	1.1	(0.3)
Net cash flow from financing activities	-	-

## 32 Principal subsidiary undertakings and associates at 2 April 2007

The subsidiaries and associates which, in the opinion of the Directors, principally affect Group trading results and net assets are listed below.

### 32.1 Principal subsidiary undertakings

Company	Nature of business
Fastline Limited*	Rail and other plant hire business
Jarvis Rail Limited	Rail infrastructure services
Jarvis Accommodation Services Limited	Facilities Management
Jarvis Construction (UK) Limited	Construction management
On Track Plant Limited	Rail plant hire
Jarvis Property Company Limited	Property investment, dealing and development
Jarvis Estates Limited	Property investment
Somerford Equipment Limited*	Specialist vehicle delivery
Herefordshire Jarvis Services Limited*	Facilities Management including highways and other support services
Jarvis Plant Hire Limited*	Plant hire

\*Indirectly owned by the Company.

All principal subsidiary undertakings are incorporated in England and Wales and are wholly owned, except for Herefordshire Jarvis Services Limited, in which Jarvis has an 80 per cent shareholding.

### 32.2 Associate undertakings

Company	Percentage owned	Nature of business
Chapel Wharf Limited	34.4%	Regeneration and development of Chapel Wharf, Salford, Greater Manchester

Chapel Wharf Limited is incorporated in England and Wales.

# Company Balance Sheet

At 2 April 2007

	Notes	2007 £m	2006 £m
<b>Fixed assets</b>			
Tangible assets	5	–	0.2
Investments in subsidiary undertakings	6	<b>74.3</b>	84.0
		<b>74.3</b>	84.2
<b>Current assets</b>			
Debtors	7	<b>93.0</b>	128.2
Cash at bank and in hand		<b>23.8</b>	0.5
		<b>116.8</b>	128.7
<b>Creditors: amounts falling due within one year</b>	8	<b>(17.3)</b>	(44.0)
Net current assets		<b>99.5</b>	84.7
<b>Total assets less current liabilities</b>		<b>173.8</b>	168.9
<b>Provisions for liabilities and charges</b>	9	<b>(3.0)</b>	(6.6)
<b>Net assets</b>		<b>170.8</b>	162.3
<b>Capital and reserves</b>			
Share capital	10	<b>10.2</b>	7.6
Share premium	10	<b>581.4</b>	556.6
Capital redemption reserve	10	<b>7.2</b>	7.2
Other reserve	10	<b>89.6</b>	89.6
Profit and loss account	10	<b>(517.6)</b>	(498.7)
<b>Equity shareholders' funds</b>		<b>170.8</b>	162.3

The Financial Statements were approved by the Board on 11 June 2007 and were signed on its behalf by:

**R Entwistle** Chief Executive

**J O'Kane** Group Finance Director

# Notes to the Company Balance Sheet

## 1 Principal accounting policies

### (a) Basis of accounting

The Company's Financial Statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and the Companies Act 1985. The Company has not presented its own profit and loss account, in accordance with the exceptions allowed by Section 230(4) of the Companies Act 1985.

### (b) Investments

Investments are stated at cost less provision for any impairment in value.

### (c) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and when it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value.

## 2 Auditors' remuneration

The auditors' remuneration for audit services to the Parent Company for the period ended 2 April 2007 was £0.1m (2006: £0.1m).

## 3 Payroll costs and employee numbers

	2007 £m	2006 £m
Wages and salaries	6.8	8.5
Social security costs	0.8	1.1
Pension costs	0.5	0.5
	<b>8.1</b>	<b>10.1</b>

The average number of employees in the period, including Executive Directors, was 141 (2006: 191).

Detailed disclosures of Directors' individual remuneration, share options and other benefits are given in the audited section of the Directors' Remuneration Report on pages 30 and 31.

## 4 Dividends

No dividends were paid during the period (2006: nil).

## 5 Tangible assets

	Leasehold improvements £m	Fixtures, fittings and equipment £m	Total £m
<b>Cost</b>			
At 1 April 2006	0.1	0.9	1.0
<b>At 2 April 2007</b>	<b>0.1</b>	<b>0.9</b>	<b>1.0</b>
<b>Depreciation</b>			
At 1 April 2006	–	0.8	0.8
Charge for the period	–	0.1	0.1
Impairment	0.1	–	0.1
<b>At 2 April 2007</b>	<b>0.1</b>	<b>0.9</b>	<b>1.0</b>
<b>Net book value</b>			
<b>At 2 April 2007</b>	<b>–</b>	<b>–</b>	<b>–</b>
At 31 March 2006	0.1	0.1	0.2

## 6 Fixed asset investments in subsidiary undertakings

	2007 £m
At 1 April 2006	84.0
Impairment provision	(9.7)
<b>At 2 April 2007</b>	<b>74.3</b>

Investments in subsidiary undertakings primarily relate to the subsidiary undertakings disclosed in Note 32.1 to the Consolidated Financial Statements.

# Notes to the Company Balance Sheet

## 7 Debtors

	2007 £m	2006 £m
Amounts owed by Group undertakings	86.7	120.5
Other debtors	6.1	6.8
Prepayments and accrued income	0.2	0.4
Corporation tax receivable	–	0.5
	<b>93.0</b>	<b>128.2</b>

## 8 Creditors: amounts falling due within one year

	2007 £m	2006 £m
Bank loans and loan notes	–	24.2
Trade creditors	3.2	2.0
Accruals and deferred income	13.1	9.7
Taxation and social security	1.0	8.0
Obligations under finance leases	–	0.1
	<b>17.3</b>	<b>44.0</b>

Details of borrowing and security arrangements are set out in Note 20 to the Consolidated Financial Statements.

## 9 Provisions for liabilities and charges

	Onerous leases £m	Restruct- uring £m	Total £m
At 1 April 2006	1.0	5.6	6.6
Utilised	(0.4)	(3.6)	(4.0)
New provision charged to the profit and loss account	0.4	–	0.4
<b>At 2 April 2007</b>	<b>1.0</b>	<b>2.0</b>	<b>3.0</b>

Provisions represent the best estimate of obligations at the balance sheet date. The provision for onerous lease commitments has been calculated at the net present value of rents payable less rents receivable (having taken account of potential void periods and lease incentives) up to the end of the lease. Allowance has been made for empty rates and agents' fees. The restructuring provision relates to the costs associated with the ongoing operational restructuring.

## 10 Capital and reserves

	Other reserve £m	Profit and loss account £m
At 1 April 2006	89.6	(498.7)
Loss for the period	–	(19.1)
Movements relating to share-based payments	–	0.2
<b>At 2 April 2007</b>	<b>89.6</b>	<b>(517.6)</b>

Details of the Company's authorised and issued share capital, share premium and capital redemption reserve are given in Note 25 to the Consolidated Financial Statements.

The cumulative amount of goodwill written off direct to reserves in respect of acquisitions prior to 31 March 1998 is £89.2m (2006: £89.2m) which arose in connection with the acquisition of rail businesses.

## 11 Capital commitments

The Company had no capital commitments at 2 April 2007 (2006: £nil).

## 12 Contingent liabilities

Details are given in Note 28 to the Consolidated Financial Statements.

## 13 Post balance sheet event

Details are given in Note 29 to the Consolidated Financial Statements.





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