

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