The PFI Infrastructure Company plc

Interim Report
for the six months
ended 31 December 2006

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Introduction

The PFI Infrastructure Company plc (''PFI Co'') was the first listed investment vehicle dedicated solely to investment policy in equity in public private partnerships, particularly projects launched under the Private Finance Initiative. The Company raised £47 million (before expenses) through a share placing on AIM in July 2004 and a further £30 million (before expenses) through a placing in March 2006.

PFI Co invests both in primary and secondary PFI equity. Primarily investments are committed alongside our consortium partners at the outset of a project; while secondary investments are purchases from existing investors, usually after construction is complete.

In each case, the investment objective is to generate high and stable long-term yields with opportunities for capital growth.

PFI Co is managed by the investment bankers Quayle Munro Limited, one of the UK's foremost PFI/PPP specialists with a long and successful track record in the equity of these projects.

Financial Highlights

- Consolidated pre-tax profit £2.5 million (six months ending 31 December 2005 – £1.7 million).
- Earnings 4.4p per share (six months ending 31 December 2005 – 4.9p).
- Interim dividend 3.07p per share (six months ending 31 December 2005 – 2.80p).
- Net asset value per share 206p (30 June 2006 – 164p) – an increase of 25.6%.

I have pleasure in reporting a satisfactory half year, during which we have maintained our investment momentum. An interim dividend of 3.07p per share will be paid on 27 April 2007 to shareholders on the register on 30 March 2007, representing an increase of 10.7%, which is in line with indications given at the time of our share placing last year.

Consolidated earnings per share for the six month period were 4.4p (2005 – 4.9p). In accordance with FRS20, the performance fee due to Quayle Munro Limited under the investment management agreement has been subject to fair value assessment resulting in a provision of £205,000 (0.4p per share) (2005 – £Nil) which is reflected in the consolidated earnings for the period. Earnings available for the payment of dividends were 5.1p (2005 – 5.1p), being the result consolidated down to the level of our UK intermediate holding company, and excluding the performance fee provision.

The Directors' valuation of the portfolio at 31 December 2006 brings out a net asset value of 206p per share, an increase of 26% over the 30 June 2006 position after adjustment for acquisitions during the period.

The revaluation has been based on our established discounted cash flow methodology, applied to the basic cash flows anticipated from each of our investments. The discount rate is based on the Directors' assessment of the current market for secondary equity in PFI projects, represented as a base discount rate of 6.5% (30 June 2006 – 7.5%). The weighted average discount rate applied to the portfolio as a whole is 7.6% – still a relatively high rate which reflects the fact that 36% of the portfolio by value is still under construction. The revaluation gain of £22 million at 31 December includes a revaluation gain of £13 million recognised on the fixed assets of the Bannockburn Homes project company.

The Portfolio

Our portfolio now includes equity stakes, including subordinated debt, in a total of 22 PFI/PPP project companies, predominantly in the education, health, local authority and defence housing sectors. Almost all are accommodation projects, and across the portfolio there is minimal exposure to demand for the services provided. Our shareholdings range between 17% and 100%.

Over the last 12 months we have invested in a number of new primary projects and as a result a substantial proportion of the portfolio is still in the construction phase. Argyll & Bute Schools, Fife Primary Schools, North Ayrshire Schools, Stirling Schools, Midlothian Schools and East Ayrshire Schools are all at various stages of construction, as are the Stobhill Psychiatric Hospital and the New Victoria & Stobhill Hospitals. Not all the construction works are on programme, but we currently anticipate that the financial effect of any delays will be covered by the prospective building contractors under the terms of the construction contracts, as is normal in PFI.

The remaining 14 projects are in the operational phase and running satisfactorily, without any loss of net revenue from performance deductions.

Investment Activity

The highlight of the half year has been our agreement with Hochtief to acquire a minority stake in the holding company for Hochtief's holdings in six education projects, five in the UK plus Cork School of Music in the Republic of Ireland. The UK projects are Manchester Schools, Salford Schools and Bangor & Comber Schools together with North Ayrshire Schools and East Ayrshire Schools where PFI Co is already a direct shareholder, a position unaffected by this transaction. The mechanism is that PFI Co has entered into a call option agreement to acquire 49% of the equity and associated loan stock in the portfolio holding company Hochtief PPP Schools Capital Limited. The price of £9.3 million, is payable in a single payment on exercise of the option in December 2007, and is subject to Hochtief PPP Solutions delivering the shares and loan stock at that point. A letter of credit for £5.3 million secures part of the price in favour of Hochtief. PFI Co is also committed to its share of deferred equity subscriptions due over the next four years to three of the SPVs in a total of £3.6 million, making an aggregate commitment as a result of this transaction of £12.9 million. All the projects are under construction but by the time of exercise of the call option three of the projects should have achieved full services commencement, one should have achieved partial services commencement and the remaining services commencements are due to follow during 2008.

In the future, we expect this joint venture vehicle to have the opportunity of acquiring stakes in further education projects won by Hochtief.

As I reported at the full year stage in September, since June we have taken primary equity stakes in the New Victoria & Stobhill Hospitals, Midlothian Schools and East Ayrshire Schools projects; made an additional investment into Argyll & Bute Schools; and completed the secondary purchases of 100% of the Workington Community Hospital and West Cumbria Police Headquarters projects. During the rest of the period we acquired further equity and associated loan stock from shareholders in three of our existing projects. This comprised the purchase of a further 15% of the Mid-Argyll Community Hospital project in Lochgilphead, bringing PFI Co to 55%; a further 60% of the Salisbury Hospital project company, bringing PFI Co to 100%; and a further 60% of the project company for the Forfar Community Hospital, again bringing PFI Co to 100%. All three projects are fully operational, and the existing management arrangements will continue.

In summary, during the half year we have committed £7.8 million on three new primary projects and the further Argyll & Bute investment, £6 million on two new secondary projects, and £7.4 million on three follow on secondary investments, representing a total cash investment of £21.2 million, in addition to the Hochtief commitment totalling £12.9 million.

As a result of the secondary purchases, PFI Co now holds 90 – 100% of the equity in nine of its investments; and 51 – 89% in the equity of a further two of its projects. We see considerable potential for enhancement of value through refinancing and through realisation of portfolio economies of scale, as the quality of our portfolio is improved through this enhanced degree of control.

Portfolio Development

Following the investment activity summarised above, the cash resources of the company are now substantially spoken for by forward commitments. Meanwhile, the Managers continue to evaluate opportunities for further primary and secondary investments, and facilities will be put in place to allow the Company to benefit from the investment opportunities open to it.

The Market

The downward pressure on yields in the secondary market continues, driven by the substantial weight of money in this sector and the low yields on comparable investments such as property. For PFI Co this strong market improves the valuations of our existing investments but tends to raise the cost of new investments.

PFI remains one of the planks in UK government procurement policy. However there is increasing competition evident at the stage of pre-qualifying to bid for primary projects, reflecting a slowdown in the rate at which new projects are currently being launched by public authorities. Meanwhile, by contrast, the secondary market remains buoyant as the strong market encourages sellers to bring existing holdings to the market. As the overall market for PFI equity matures, the distinction between primary and secondary investments is tending to disappear, as equity can be traded at all stages from preferred bidder, prior to financial close and through the construction period as well as post services commencement. Thus the original owners of projects can take the opportunity to realise gains through sales at any stage to financial institutions such as PFI Co. We continue to be alert to the opportunities which this offers, seeking value as we turn to good account our longstanding relationships in the industry.

RICHARD JEWSON
Chairman
7 March 2007

Disaggregation of results

At the period end PFI Co had 11 investments where it held over 50% of the equity. Under normal accounting conventions the results of these Special Purpose Companies (SPCs) require to be fully consolidated, with the incorporation of the full profit and loss accounts and balance sheets into the group statements, less allowance for minority interests. The financial statements have been prepared on such a basis. However the statements in this form give a misleading impression of the Group, as the substantial debt within the SPCs is non-recourse to PFI Co; and profits earned by the SPCs are not automatically available to PFI Co shareholders due to the constraints imposed by the respective SPC loan agreements. The results of PFI Co and the intermediate UK holding company, PFI Infrastructure Finance Limited (Finco) have therefore been restated below to include SPC subsidiaries as investments, on the same basis as minority holdings, in order to give a more meaningful representation of the dividend paying capacity of PFI Co/Finco and its balance sheet capacity for further investment.

The first column, headed PFI Co/Finco, represents a consolidation of PFI Co and Finco, but excluding from this consolidation those 11 SPCs which are subsidiaries. This reconciles to the fully consolidated Group accounts with the addition of the 11 subsidiary SPCs' results and adjustment on consolidation for such items as investment income received by PFI Co/Finco (included in the first column), and the treatment of goodwill and minority interests.

Proforma and not subject to review: Group Profit & Loss Account	PFI Co/ Finco £'000	Subsidiary SPCs £'000	Consolidation Adjustments £'000	Group Total £'000
Turnover	–	6,379	–	6,379
Cost of sales	–	(1,427)	–	(1,427)
Gross profit	–	4,952	–	4,952
Operating and administrative expenses	(1,014)	(851)	(90)	(1,955)
Amortisation of goodwill arising on acquisition of subsidiaries	–	–	(326)	(326)
Other operating income	611	14	(180)	445
Group operating (loss)/profit	(403)	4,115	(596)	3,116
Profit on disposal of investments	–	–	–	–
(Loss)/profit on ordinary activities before interest	(403)	4,115	(596)	3,116
Income from investments	2,179	–	(818)	1,361
Bank interest receivable	591	167	–	758
Interest payable and similar charges	–	(3,572)	817	(2,755)
Profit on ordinary activities before taxation	2,367	710	(597)	2,480
Taxation	25	(207)	(43)	(225)
Profit on ordinary activities after taxation	2,392	503	(640)	2,255
Minority interests	–	–	(2)	(2)
Profit attributable to shareholders	2,392	503	(642)	2,253
Earnings per share	4.7p			4.4p

Financial Review

Proforma and not subject to review: Balance Sheet	PFI Co/ Finco £'000	SPVs £'000	Consolidation Adjustments £'000	Group Total £'000
Fixed assets				
Intangible assets	–	4,814	15,486	20,300
Tangible assets	–	68,869	–	68,869
Investments	90,155	–	(52,435)	37,720
	90,155	73,683	(36,949)	126,889
Current assets				
Debtors – due within one year	2,798	3,519	(571)	5,746
Debtors – outwith one year	–	82,362	–	82,362
Cash at bank and on deposit	14,960	13,048	–	28,008
	17,758	98,929	(571)	116,116
Creditors: amounts falling due within one year:				
Bank and other loans	–	(2,555)	–	(2,555)
Other creditors	(579)	(7,085)	508	(7,156)
	(579)	(9,640)	508	(9,711)
Net current assets	17,179	89,289	(63)	106,405
Total assets less current liabilities	107,334	162,972	(37,012)	233,294
Creditors: amounts falling due after more than one year:				
Bank and other loans	–	(142,191)	17,284	(124,907)
Provisions for liabilities and charges	–	(1,646)	(195)	(1,841)
Accruals and deferred income				
Deferred government grants	–	(1,316)	–	(1,316)
Other deferred income	–	(887)	–	(887)
	–	(2,203)	–	(2,203)
Minority interests	–	–	211	211
Net assets	107,334	16,932	(19,712)	104,554
Capital and reserves				
Called up share capital	5,071	372	(372)	5,071
Share premium account	68,250	1,165	(1,165)	68,250
Revaluation reserve	31,350	14,386	(17,309)	28,427
Profit and loss account	2,663	1,009	(866)	2,806
Shareholders funds – equity	107,334	16,932	(19,712)	104,554
Net asset value per share	211.5p			206.2p

Group Profit and Loss Account

Six months ended 31 December 2006

	Notes	6 months ended 31 December 2006 unaudited £'000	6 months ended 31 December 2005 unaudited £'000	Year ended 30 June 2006 audited £'000
Turnover from continuing operations:				
Ongoing		**5,347**	3,555	7,863
Acquisitions		**1,032**	532	1,570
Group Turnover		**6,379**	4,087	9,433
Cost of sales		**(1,427)**	(655)	(1,671)
Gross Profit		**4,952**	3,432	7,762
Operating and administrative expenses		**(1,955)**	(1,092)	(2,689)
Amortisation of goodwill arising on acquisition of subsidiaries		**(326)**	(282)	(606)
Other operating income		**445**	243	439
Operating Profit from continuing operations:				
Ongoing		**2,416**	2,034	4,196
Acquisitions		**700**	267	710
Group Operating Profit		**3,116**	2,301	4,906
Profit on disposal of investments		**–**	333	319
Profit on Ordinary Activities before Interest		**3,116**	2,634	5,225
Income from investments		**1,361**	458	1,121
Bank interest receivable		**758**	557	1,301
Interest payable and similar charges		**(2,755)**	(1,921)	(4,149)
Profit on Ordinary Activities before Taxation		**2,480**	1,728	3,498
Taxation	2	**(225)**	(262)	(432)
Profit on Ordinary Activities after Taxation		**2,255**	1,466	3,066
Minority interests		**(2)**	196	110
Profit Attributable to Shareholders		**2,253**	1,662	3,176
Earnings per share – basic and diluted	4	**4.4p**	4.9p	8.4p

Group Statement of Total Recognised Gains and Losses

For the six months ended 31 December 2006

	6 months ended 31 December 2006 unaudited £'000	6 months ended 31 December 2005 unaudited £'000	Year ended 30 June 2006 audited £'000
Profit attributable to shareholders	**2,253**	1,662	3,176
Unrealised revaluation gains during the period	**22,010**	1,982	5,676
Total Recognised Gains relating to the period	**24,263**	3,644	8,852

Reconciliation of Movements in Group Shareholders' Funds

For the six months ended 31 December 2006

	6 months ended 31 December 2006 unaudited £'000	6 months ended 31 December 2005 unaudited £'000	Year ended 30 June 2006 audited £'000
Total recognised gains relating to the period	**24,263**	3,644	8,852
Dividends	**(2,840)**	(1,565)	(2,505)
Net proceeds from the issue of share capital (after issue costs)	**–**	–	28,785
Total movements during the period	**21,423**	2,079	35,132
Opening Shareholders' funds	**83,131**	47,999	47,999
Closing Shareholders' Funds	**104,554**	50,078	83,131

Group Balance Sheet

As at 31 December 2006

	Notes	At 31 December 2006 unaudited £'000	At 31 December 2005 unaudited £'000	At 30 June 2006 audited £'000
Fixed Assets				
Intangible assets		**20,300**	11,273	11,194
Tangible assets		**68,869**	34,407	34,223
Investments		**37,720**	15,869	24,167
		126,889	61,549	69,584
Current Assets				
Debtors – due within one year		**5,746**	2,906	3,841
Debtors – outwith one year		**82,362**	36,417	36,259
Cash at bank and on deposit		**28,008**	21,292	44,792
		116,116	60,615	84,892
Creditors: amounts falling due within one year:				
Bank and other loans		**(2,555)**	(1,474)	(1,366)
Other creditors		**(7,156)**	(3,493)	(4,458)
		(9,711)	(4,967)	(5,824)
Net Current Assets		**106,405**	55,648	79,068
Total Assets Less Current Liabilities		**233,294**	117,197	148,652
Creditors: amounts falling due after more than one year:				
Bank and other loans		**(124,907)**	(63,324)	(62,196)
Provisions for Liabilities and Charges		**(1,841)**	(1,510)	(1,130)
Accruals and Deferred Income				
Deferred government grants		**(1,316)**	(1,378)	(1,348)
Other deferred income		**(887)**	(1,313)	(916)
		(2,203)	(2,691)	(2,264)
Minority interests		**211**	406	69
Net Assets		**104,554**	50,078	83,131
Capital and Reserves				
Called up share capital		**5,071**	3,357	5,071
Share premium account		**68,250**	41,179	68,250
Revaluation reserve	7	**28,427**	2,723	6,417
Profit and loss account	8	**2,806**	2,819	3,393
Shareholders' Funds – Equity		**104,554**	50,078	83,131

Group Cash Flow

For the six months ending 31 December 2006

	Notes	6 months ended 31 December 2006 unaudited £'000	6 months ended 31 December 2005 unaudited £'000	Year ended 30 June 2006 audited £'000
Net Cash Inflow from Operating Activities	5	**2,378**	2,930	5,576
Returns on Investments and Servicing of Finance		**(635)**	(906)	(1,860)
Taxation		**–**	(213)	(94)
Capital Expenditure and Financial Investment		**(7,651)**	(3,467)	(8,707)
Acquisitions and disposals		**(7,517)**	(2,459)	(2,129)
Equity Dividends Paid		**(2,840)**	(1,565)	(2,505)
Cash (outflow)/inflow to short term deposits		**(4,732)**	6,044	9,968
Net Cash (Outflow)/Inflow before Financing		**(20,977)**	364	249
Financing		**(519)**	(508)	27,031
(Decrease)/Increase in Cash in the Period		**(21,516)**	(144)	27,280

Notes to the Financial Statements

1. Basis of Preparation of the Accounts

The financial information has been prepared on the basis of accounting policies which are consistent with those expected to be adopted in the Group's statutory accounts for the year ended 30 June 2007. These policies are consistent with those used in the Group's final accounts for the year ended 30 June 2006 except for the implementation of FRS 20 (Share Based Payment).

The impact on the current period of the adoption of FRS 20 is to reduce profit before tax and net assets by £205,000. There was no significant impact on the results or net assets in any of the prior reporting periods.

The financial information contained in the interim statements does not constitute statutory accounts. The information for the year to 30 June 2006 is derived from the published statutory accounts. A copy of the full accounts for that period, on which the auditors have issued an unqualified report, has been delivered to the Registrar of Companies.

2. Taxation

The tax charge of £0.2 million for the six months to 31 December 2006 (30 June 2006 – £0.4 million) represents tax charges on PFI Infrastructure Finance Limited and those PFI/PPP project companies which are subsidiaries.

3. Dividends

No provision has been made for the interim dividend at 31 December 2006. The final dividend of £2.84 million relating to the period 30 June 2006 was paid on 6 November 2006. The interim dividend of 3.07 pence (2005 – 2.80 pence) per share will be paid on 27 April 2007 to members on the register at the close of business on 30 March 2007.

4. Earnings per share and Diluted Earnings per Share

The calculation of basic earnings per share for the six months to 31 December 2006 is based on earnings of £2.3 million (2005 – £1.7 million) and 50,714,286 (2005 – 33,571,429 ordinary shares, being the weighted average number of shares in issue throughout the period (30 June 2006 – 37,657,535). There is no difference between earnings per share and diluted earnings per share.

5. Reconciliation of Operating Profit to Net Cash Flow from Operating Activities

	6 months ended 31 December 2006 unaudited £'000	6 months ended 31 December 2005 unaudited £'000	Year ended 30 June 2006 audited £'000
Group operating profit	3,116	2,301	4,906
Grants released	(32)	(30)	(59)
Depreciation on tangible fixed assets	247	161	355
Amortisation on goodwill	326	282	606
Decrease/(increase) in operating debtors and prepayments	(700)	339	(490)
Increase/(decrease) in operating creditors and accruals	(579)	(123)	258
Net cash inflow from operating activities	2,378	2,930	5,576

6. Reconciliation of Net Cash Flow to Movement in Net Debt

	6 months ended 31 December 2006 unaudited £'000	6 months ended 31 December 2005 unaudited £'000	Year ended 30 June 2006 audited £'000
(Decrease)/Increase in cash in the period	(21,516)	(144)	27,280
Cash outflow from decrease in loans	519	509	1,754
Cash inflow/(outflow) to short term deposits	4,732	(6,044)	(9,968)
	(16,265)	(5,679)	19,066
Loans acquired with subsidiaries	(63,723)	(19,555)	19,632
Subordinated debt acquired with subsidiaries	(696)	–	(28)
Movement in net debt in the period	(80,684)	(25,329)	(594)
Net debt at 1 July 2006	(18,770)	(18,176)	(18,176)
Net debt at 31 December 2006	(99,454)	(43,506)	(18,770)

7. Reconciliation of Movements in Revaluation Reserve

	6 months ended 31 December 2006 unaudited £'000
Balance at 1 July 2006	6,417
Surplus on the revaluation of investments	22,010
Balance at 31 December 2006	28,427

8. Group Profit and Loss Account

	6 months ended 31 December 2006 unaudited £'000
Balance at 1 July 2006	3,393
Profit attributable to members of the parent company for the period	2,253
Final dividend for the year ended 30 June 2006 paid in the period	(2,840)
Balance at 31 December 2006	2,806

Independent Review Report to The PFI Infrastructure Company plc

Introduction

We have been instructed by the company to review the financial information for the six months ended 31 December 2006 which comprises the Group Profit and Loss Account, the Group Balance sheet, the Group Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Group Shareholder's Funds, the Group Cash Flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules which require that the interim report must be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4: *Review of interim financial information* issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of group and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2006.

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7 March 2007

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