The PFI Infrastructure Company plc

Annual Report
for the year ended
30 June 2006

Contents

Introduction

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

PFI Co invests both in primary and secondary PFI equity. Primary 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 of 2006

- Consolidated pre-tax profit £3.5 million (2005: £2.5 million);
- Earnings 8.4p per share (2005: 8.8p);
- Final dividend 5.6p per share (2005: 4.7p), making a total of 8.4p per share for the year (2005: 7.0p), an increase of 20%;
- Net asset value per share 163.9p (2005: 143.0p – restated) an increase of 14.6%.

Chairman's Statement

I am glad to be able to report an active and successful year for the Company, our second year since flotation in July 2004. The Board is recommending a final dividend of 5.6p per share, to be paid to shareholders on the register on 13 October 2006. Taken together with the interim dividend of 2.8p per share paid in April, this makes a total of 8.4p per share, which is in line with our target in the 2004 prospectus and represents an increase of 20% on last year's dividend of 7.0p.

The portfolio has been revalued as at 30 June 2006 producing a net asset value of 163.9p per share (2005: 143.0p per share – restated for a change in accounting treatment of dividends). This is based on an average discount rate for project cash flows of 8.5% (2005: 9.3%).

Consolidated earnings per share were 8.4p (2005: 8.8p), reduced as a result of prior year tax losses being fully utilised. However, 8.5p (2005: 7.6p) is available for paying dividends, the difference reflecting tax charges at subsidiary level and restrictions on distributions from subsidiaries.

The Portfolio

Our portfolio continues to be focused on accommodation projects, mainly in the health and education sectors, where payment is linked to the availability of the facility rather than demand or level of usage. There are now 22 PFI/PPP project companies in the portfolio, in which we hold between 17% and 100% of the share capital and subordinated debt.

All our projects in the mature operational phase are running smoothly. It can take some time for contractual and snagging issues to be resolved after services commencement, which is the case on some of our more recent projects. However any financial impact is unlikely to be material in the affairs of the respective SPCs, after the recoveries due from contractors or public authorities.

All eight of the new primary projects are still in the construction phase, involving nine main building contractors on a total of 37 sites. Most are running substantially on programme but there are delays on two out of the five sites comprising the Argyll & Bute schools. We are monitoring the position carefully alongside our partners in the Council and are confident that the buildings can be brought through to completion without adverse financial impact on the project company. During the year Salisbury and Lochgilphead hospitals have reached services commencement, in each case after delays but again without financial detriment to the project company. York Schools reached services commencement, substantially on schedule.

The portfolio now includes four new primary projects which have reached financial close since the year end. Including those four projects, we have made a total of 15 investments since June 2005, comprising eight primary investments, three new secondary investments and four follow on secondary investments.

In the health sector the new primary investments have been in the Stobhill Psychiatric Hospital and, since the year end, in the New Victoria & Stobhill Hospitals, all in Glasgow. In the education sector we took stakes in six new schools projects: Argyll & Bute Schools, Fife Primary Schools, North Ayrshire Schools, Stirling Schools and, after the year end, in Midlothian Schools and East Ayrshire Schools. There was a significant additional investment into Argyll & Bute after the year end, to bring a further school into the project. This PPP project is distinctive as being the first which has been structured as a non-profit distributing organisation (NPDO), where PFI Co's economic interest derives entirely from the subordinated debt while dividends are paid to community interests.

Our first new secondary purchase was the acquisition of 100% of the Penweddig Secondary School project in Aberystwyth and we have also acquired since the year end 100% of two further projects, the Workington Community Hospital and the West Cumbria Police Headquarters. All have reached the operational phase.

Early in the year we acquired a further shareholding in the Tiverton Community Hospital and exercised our rights to increase our shareholding in the Edinburgh Schools project. We also completed the expected refinancing of the Bolton, Castle Hill project, involving additional investment in the SPC and at the same time increasing our equity from 80% to 90%. We are currently in negotiations for pre-emptive purchases of equity from co-shareholders in 3 further projects, in one case to bring us to 100%, two of which have reached the stage of conditional purchase agreements. By increasing our shareholdings in projects where we are already represented, these pre-emptive purchases help to focus the management effort in a more concentrated portfolio and by reducing the number of shareholders in each SPC they should facilitate financial restructuring in due course.

In summary, during the year we invested a total of £10.7 million in the five new primary projects and £3.5 million in the new secondary investment plus a further £3.6 million in three follow on secondary investments and £0.9 million in settling deferred obligations, a total of £18.7 million.

Since the year end we have committed £7.8 million on three new primary projects and the further Argyll & Bute investment and £6.0 million on two new secondary projects, a total of £13.8 million.

During the first half of the year, as previously reported, we realised a total of £3.2 million through the sale of minority stakes in a group of three projects. This was in the context of the sale of 100% of the three project companies. However, our general policy remains one of building up the portfolio and holding investments for the long term.

Portfolio Development

We expected at the outset that PFI Co's new investment would be split approximately equally between primary and secondary investments. So far the bias has been towards primary investments but our forward pipeline is likely to reverse this trend. Primary investments tend to give better returns, even allowing for the additional risks of bringing projects through the construction and commissioning phase, these returns being manifest both in higher running yields and in capital appreciation. However the gestation period is long and, as a project co-sponsor, PFI Co is exposed to the costs and risks of bidding. Secondary investments offer lower returns but these projects have generally passed the construction and commissioning stage and should therefore be subject to a lesser degree of risk. Secondary investments are also substantially quicker to make.

We continue to focus mainly on accommodation projects such as schools and hospitals, while not neglecting possible opportunities in water and sewerage or waste management projects provided that demand and operational risks are adequately covered off.

The main driver of growth in net asset value (NAV) has been the portfolio originally acquired in 2004 and the new primary investments, but the secondary investments should also contribute to growth in NAV and earnings.

The placing of July 2004 raised £47 million (£44.5 million after expenses) while the March 2006 placing raised a further £30 million (£28.8 million after expenses), a total of £77 million. Besides resourcing additional new investment activity, the increased size of the fund increases the size of the investments which PFI Co can make without unbalancing the portfolio. Our investment activity since the placing and after the year end has brought cash balances to approximately £24 million. Our strategy remains to fund the portfolio with an appropriate mix of debt and equity, in response to the investment opportunities generated.

Outlook

PFI remains a key component of UK government procurement and, although not all sectors are buoyant, the rate of release of new projects to the market remains reasonably satisfactory. Meanwhile there is a substantial pipeline of projects coming through construction into the services phase, when they become candidates for the secondary market.

The market for secondary investments continues strong and yields remain under pressure, reflecting low long term interest rates and the weight of money seeking the long term stable yields which they offer. This market improves the valuations of our existing investments, but raises prices for new investments. None the less, we continue to seek value in this market through our relationships in the industry, aiming to generate value through the potential to restructure equity returns and exploit operational synergies.

We are also working to rebuild our pipeline of primary investments. There are signs that this strong market for secondary investments is reducing the yields available to financial investors in primary investments, as consortium leaders are tending either to minimise the use of outside equity or to introduce it at a later stage in the bidding process. We are currently in discussion with various consortia (which may or may not result in investments) where we have come to the table at shortlisting or preferred bidder stage, on the basis that PFI Co will not bear bid cost risks but will accept a lower, but nonetheless satisfactory return. Despite the tightening of the market we expect to be able to continue the expansion of the portfolio, using our connections and market position to target both primary and secondary investments – addressing opportunities in England and Northern Ireland as well as in Scotland which currently represents the majority of the portfolio. We continue to monitor opportunities in continental Europe, where the market is developing steadily.

Our prime objective is to generate dividends for our shareholders. In the longer term dividend growth will depend particularly on our success in securing new primary investments. The general compression of yields referred to above reduces the earnings enhancement from new investments but underpins the valuation of our existing portfolio. In the short term the buoyancy of returns from our originally acquired portfolio, and from our subsequent primary investments, make us confident of fulfilling market expectations for dividends in the current year.

RICHARD JEWSON
Chairman
27 September 2006

£12 million education PFI project

Penweddig Secondary School, Aberystwyth

acquired 100% of the equity in December 2005

£92 million education NPDO PPP project
The first structured as a Non-Profit Distributing Organisation

Argyll & Bute Schools

Consortium of

Financial close September 2005/July 2006

£84 million education PFI project

North Ayrshire Schools

Consortium of

Financial close March 2006

£104 million education PFI project

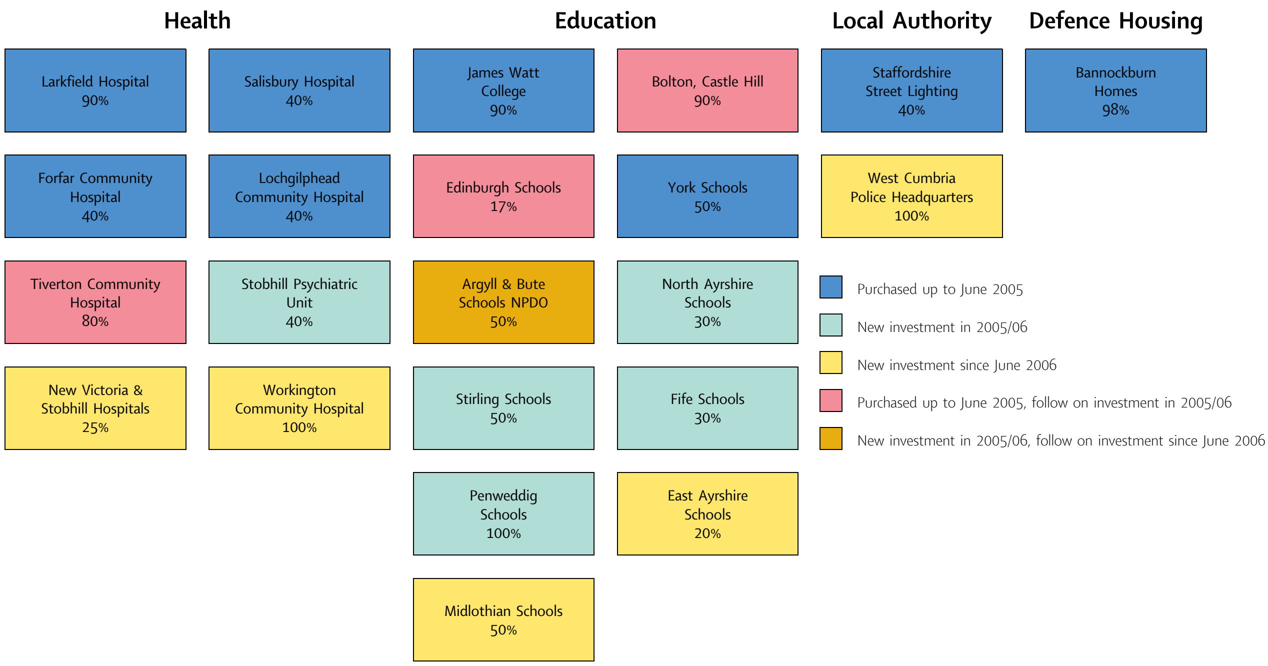
Stirling Schools

Consortium of

Gateway PFI Ltd

Financial close April 2006

Investment Portfolio
(at September 2006)



This section lists the projects currently represented in PFI Co's portfolio. PFI Co holds share capital and subordinated debt in the company named, which in most cases is a holding company for the special purpose company (SPC).

Artists' impression of Dunoon Grammar – Argyll and Bute Schools NPDO

Argyll and Bute Schools NPDO – *ABC Schools (Holdings) Limited*

The SPC reached financial close with Argyll and Bute Council in September 2005, for the design, build, finance and operation of 10 schools across four sites in the West of Scotland, due for delivery by the autumn of 2007. A further school, Hermitage Academy, was added to the project as planned in July 2006. The NPDO (Non Profit Distributing Organisation) structure is a key innovation in PFI, whereunder the private sector economic interest is in the subordinated debt while dividends on ordinary share capital pass to a charity for the benefit of the community.

Bannockburn Homes – *Bannockburn Group Limited*

The MOD appointed the SPC in August 1999 to construct and maintain 165 houses on two estates in Edinburgh and one near Glasgow. Unusually in a PFI project, the housing stock will remain in the SPC's ownership at the end of the concession and therefore the SPC is taking the residual value risk. In addition, the SPC will gradually take on demand risk in that, from 1 January 2007, the MOD is entitled to release a number of units each year for the SPC to offer for rent on the open market.

Grants Place – Bannockburn Homes

Bolton, Castle Hill – *CH Bolton (Holdings) Limited*

The Bolton Metropolitan Borough Council appointed the SPC in March 2002 to design, build, operate, finance and maintain a community learning and resources centre incorporating a primary school. The main building phase of the project was completed in September 2003 when services commenced. A refinancing was completed in May 2006.

Castle Hill Centre

Model of St Joseph's Campus – East Ayrshire Schools

East Ayrshire Schools – *FCC (East Ayrshire) Holdings Limited*

East Ayrshire Council has appointed the SPC to finance and build two primary and two secondary schools, operating them over a concession period of 30 years. Financial close was achieved in July 2006 and services commencement is due in stages up to August 2008.

Edinburgh Schools – *ESP (Holdings) Limited*

The City of Edinburgh Council appointed the SPC in November 2001 to carry out the construction or refurbishment of primary, secondary and special schools in the City and their operation and maintenance of these schools. The project covers 15 new schools, 3 refurbished schools and one new community facility and services commenced in phases up to mid 2005.

Fife Schools – *Emblem Schools (Holdings) Limited*

Fife Council appointed the SPC in December 2005 to design, build, finance and operate nine new primary schools and associated community facilities across eight sites in the region, with services commencement in phases up to mid 2007.

Dover Heights Primary in construction – Fife Schools

Forfar Community Hospital

Forfar Community Hospital – *Robertson Health (Forfar) Holdings Limited*

Tayside Primary Care NHS Trust appointed the SPC in September 2003 to build and operate the Forfar and Kirriemuir community resource centre. The construction phase completed in early 2005 when services commenced.

Investment Portfolio
(at September 2006)

James Watt College – *KE Project Limited*

The Board and management of the James Watt College appointed the SPC in March 1999 to design, construct and operate a new Further Education (FE) college (the North Ayrshire College Campus of James Watt College of Further and Higher Education) at Kilwinning. The construction phase was completed in mid 2000 when services commenced.

Larkfield Hospital – *LH Project Limited*

The Argyll and Clyde Acute Hospitals NHS Trust appointed the SPC in May 1999 to design, construct, operate and maintain a new hospital providing services for the elderly and young physically disabled in Inverclyde. Services commenced in late 2000.

Larkfield Hospital

Lochgilphead Community Hospital – *Lochgilphead Healthcare Services (Holdings) Limited*

Argyll and Clyde Health Board appointed the SPC in February 2004 to finance, design and construct a new Mid Argyll hospital and to provide services for the hospital. This project has now completed its construction phase and services commencement was in June 2006.

Artists' impression of Midlothian Schools

Midlothian Schools – *Midlothian Schools (Holdings) Limited*

Midlothian Council appointed the SPC in June 2005 to design, finance, build and operate 8 new build primary schools on 7 sites across the Midlothian area. Financial close was reached in July 2006 and the first five schools are scheduled for completion during July 2007.

New Victoria & Stobhill Hospitals – *Glasgow Healthcare Facilities (Holdings) Limited*

These two hospitals represent a key component of the strategy of Greater Glasgow and Clyde Health Board for the improvement of services in the City. The SPC has responsibility for the design and construction of both facilities, together with their maintenance over the 30 year contract term. The new hospitals are due for delivery in the spring of 2008.

Artists' impression of New Victoria Hospital

North Ayrshire Schools – *PPP Services (North Ayrshire) Holdings Limited*

North Ayrshire Council has appointed the SPC to design, finance, build and operate four educational facilities – secondary schools for Saltcoats and Arran, and new primary schools in Ardrossan and at Greenwood, near Irvine. Financial close was reached in March 2006.

Greenwood primary school under construction – North Ayrshire Schools

Penweddig School, Aberystwyth – *Newschools (Penweddig) Holdings Limited*

PFI Co acquired 100% of the share capital and loan stock of this secondary PFI project from the original developers. The project company operates a 700 place secondary school in Aberystwyth for Ceredigion Council and commenced services in early 2001.

Raploch – Stirling Schools new community campus under construction

Stirling Schools – *Stirling Gateway HC Limited*

Stirling Council has appointed the SPC to design, build and operate a new community campus in the Raploch area consisting of two primary schools, a special needs school, and nursery accommodation. In addition, the consortium will undertake the replacement or refurbishment of five secondary schools. Financial close was in April 2006 and construction is underway.

Salisbury Hospital – *Salisbury Healthcare Facilities (Holdings) Limited*

The Salisbury Healthcare NHS Trust appointed the SPC in March 2004 for the financing, design, construction and provision of services for an extension to the Salisbury District Hospital. Completion of the works has been subjected to a phased programme with handover of the final phase having taken place in August 2006 with an official opening by HRH The Princess Royal in September 2006.

Staffordshire Street Lighting – *Lighting for Staffordshire Holdings Limited*

Staffordshire County Council appointed the SPC in March 2003 to design, provide, install and maintain street lighting and illuminated traffic signage. Services commenced in May 2003 and the initial asset renewal programme is proceeding, due for completion in 2008.

Staffordshire Street Lighting

Stobhill Local Forensic Psychiatric Unit – *Stobhill Healthcare Facilities (Holdings) Limited*

Greater Glasgow Primary Care NHS Trust appointed the SPC in July 2005 to design, construct and operate this local forensic psychiatric unit and thereafter provide maintenance services. Services commencement is due in February 2007.

Tiverton Community Hospital – *Tiverton Healthcare Facilities (Holdings) Limited*

The Mid Devon Primary Care NHS Trust appointed the SPC in July 2002 to design and construct a hospital and to provide equipment and hard services. The construction phase for this project completed in March 2004 when services commenced.

West Cumbria Police Headquarters – *PIF West Cumbria Limited*

PFI Co acquired 100% of the share capital and loan stock of this secondary PFI project from vendors Thomas Armstrong Limited in September 2006. The project company, which commenced services in September 2001, operates a police headquarters building on behalf of Cumbria Police Authority.

Workington Community Hospital – *PIF Vulcan's Lane Limited*

PFI Co acquired 100% of the share capital and loan stock of this secondary PFI project from vendors Thomas Armstrong Limited in September 2006. The project company, which commenced services in early 2005, operates a community hospital in Workington for the West Cumbria Primary Care NHS Trust.

York Primary School

York Schools – *Sewell Education York (Holdings) Limited*

City of York Council appointed the SPC in January 2005 for the design, construction and operation of 4 new primary schools. The schools were delivered into service between the autumn of 2005 and early 2006.

Financial Review

Corporate Structure

The parent company is The PFI Infrastructure Company plc (PFI Co) which is registered in the Isle of Man and listed in London on the Alternative Investment Market (AIM). PFI Co has a single wholly owned subsidiary PFI Infrastructure Finance Limited (Finco) which is registered in England. Finco is partially financed by the issue of £38.1 million 11% Eurobonds due between 2032 and 2034 which are held 100% by PFI Co and are listed in the Channel Islands.

All the Group's current investments are held through Finco. Some are held directly by Finco and some are held via the Quayle Munro PFI Fund Limited Partnership in which Finco holds 100% of the economic interest.

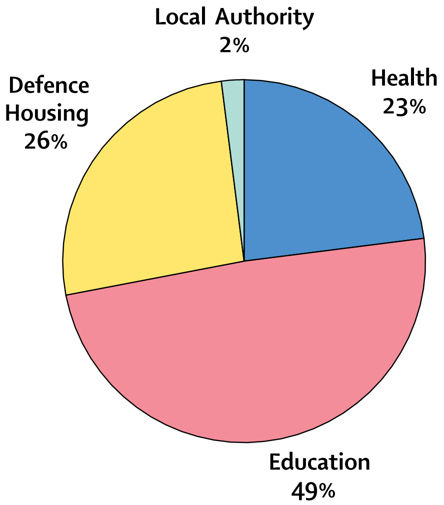
Valuation methodology

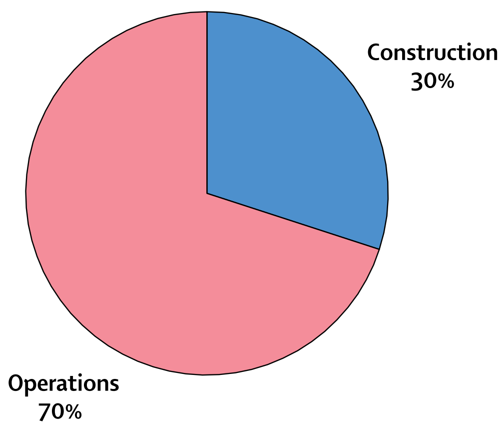
The Group balance sheet includes the attributable share of the assets and liabilities of its subsidiaries, plus investments at valuation. The method used to value PFI Co's investment portfolio is to calculate the net present value of the cash flows expected to accrue to PFI Co's equity interest in each SPC. The cash flows include subordinated debt interest and principal plus dividends. 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 7.5% (2005: 8.0%). That figure is increased by a premium dependent upon the stage reached by each SPC, being 3.5% during construction, 1.5% during ramp-up, and nil thereafter. A risk premium is also added to reflect project specific risks, generally in the range 0.5 – 4%. However, secondary investments are initially recorded at cost, being actual current market value, and then revalued later when appropriate in line with the above policy. Where these represent follow-on investments any existing holdings in the same SPC are revalued on the same basis.

The weighted average discount rate is 8.5%. Applying this methodology to all the Group's holdings in SPCs, including the subsidiaries, the portfolio valuation would be as follows.

June 05 Valuation	Acquisitions at cost	Disposals at valuation	Rebased June 05 valuation	**June 06 valuation**
£23.7 million	£18.7 million	(£2.9 million)	£39.5 million	**£51.9 million** (+31.4%)

Portfolio Breakdowns by valuation as at June 2006





Disaggregation of results

At the year end PFI Co had six investments where it held over 50% of the equity. Under normal accounting conventions the results of these SPCs require to be fully consolidated, with the incorporation of the full profit and loss accounts and balance sheets into the Group statements, less an allowance for minority interests. The financial statements have been prepared on such a basis. However as an Investor we regard all our entities as part of our portfolio, particularly 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 Finco have therefore been restated below to include SPC subsidiaries as investments, on the same basis as the minority holdings, in order to give a more meaningful representation of the dividend paying capacity of PFI Co and its balance sheet capacity for further investment.

The first column, headed PFI Co/Finco, represents a consolidation of PFI Co and Finco including the Quayle Munro PFI Fund Limited Partnership but excluding from this consolidation those six SPCs which were subsidiaries at the year end. This reconciles to the fully consolidated Group accounts with the addition of the 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 unaudited: Profit & Loss Account	**PFI Co/ Finco £'000**	**Subsidiary SPCs £'000**	**Consolidation Adjustments £'000**	**Group Total £'000**
Turnover	–	9,433	–	9,433
Cost of sales	–	(1,671)	–	(1,671)
Gross profit	–	7,762	–	7,762
Operating and administrative expenses	(1,272)	(1,567)	150	(2,689)
Amortisation of goodwill arising on acquisition of subsidiaries	–	–	(606)	(606)
Other operating income	799	–	(360)	439
Group operating profit	(473)	6,195	(816)	4,906
Profit on disposal of investments	319	–	–	319
Profit on ordinary activities before interest	(154)	6,195	(816)	5,225
Income from investments	2,479	–	(1,358)	1,121
Bank interest receivable	1,008	280	13	1,301
Interest payable and similar charges	–	(5,507)	1,358	(4,149)
Profit on ordinary activities before taxation	3,333	968	(803)	3,498
Taxation	(118)	(773)	459	(432)
Profit on ordinary activities after taxation	3,215	195	(344)	3,066
Minority interests	–	–	110	110
Profit attributable to shareholders	3,215	195	(234)	3,176
Earnings per share (basic and diluted)	8.5p			8.4p

The calculations of basic earnings per share for the year to 30 June 2006 of 8.5p for PFI Co/Finco and 8.4p for the Group (2005: 7.6p and 8.8p respectively) are based on earnings of £3.215 million for PFI Co/Finco and £3.176 million for the Group and 37,657,535 ordinary shares, being the weighted average number of shares in issue during the year.

Proforma and unaudited: Balance Sheet	PFI Co/ Finco £'000	Subsidiary SPCs £'000	Consolidation Adjustments £'000	Group Total £'000
Fixed assets				
Intangible assets	–	4,814	6,380	11,194
Tangible assets	–	34,223	–	34,223
Investments	50,700	–	(26,533)	24,167
	50,700	39,037	(20,153)	69,584
Current assets				
Debtors – due within one year	2,154	2,318	(631)	3,841
Debtors – outwith one year	–	36,259	–	36,259
Cash at bank and on deposit	37,102	7,690	–	44,792
	39,256	46,267	(631)	84,892
Creditors: amounts falling due within one year				
Bank and other loans	–	(1,366)	–	(1,366)
Other creditors	(269)	(4,756)	567	(4,458)
	(269)	(6,122)	567	(5,824)
Net current assets	38,987	40,145	(64)	79,068
Total assets less current liabilities	89,687	79,182	(20,217)	148,652
Creditors: amounts falling due after more than one year				
Bank and other loans	–	(72,918)	10,722	(62,196)
Provisions for liabilities and charges	–	(980)	(150)	(1,130)
Accruals & deferred income				
Deferred government grants	–	(1,348)	–	(1,348)
Other deferred income	–	(916)	–	(916)
Minority interests	–	–	69	69
Net assets	89,687	3,020	(9,576)	83,131
Financed by Capital and Reserves				
Called up share capital	5,071	10	(10)	5,071
Share premium account	68,250	1,165	(1,165)	68,250
Revaluation reserve	13,196	1,054	(7,833)	6,417
Profit & loss account	3,170	791	(568)	3,393
Shareholders' funds – equity	89,687	3,020	(9,576)	83,131
Net asset value per share	176.8p			163.9p

The aggregate valuation of investments of £51.9 million is represented partly under Fixed Assets and partly under Debtors, being accrued income from subordinated debt instruments.

The net asset value per share is based on net assets of £89.7 million for PFI Co/Finco and £83.1 million for the Group, and 50,714,286 ordinary shares in issue as at 30 June 2006.

Borrowings and cash balances

PFI Co and Finco held cash balances during the year with HBOS and The Royal Bank of Scotland. As illustrated above, all the debt of the Group was owed at SPC level, and was non-recourse to PFI Co and Finco.

Bidding costs

Bidding costs of £70,000 were incurred during the year and have been expensed. Bid cost sharing arrangements with our consortium partners are on the basis of recovery of a premium on success and recognised only when received.

Interest rate risk management

PFI Co and Finco have not entered into any arrangements to hedge the interest rate risk on their cash balances.

All the SPCs in which PFI Co holds majority or minority stakes have entered into interest rate swaps which have the effect of fixing interest rates, thereby eliminating substantially all of their interest rate exposures on borrowings.

Board of Directors

Richard Jewson (62)

Non-executive Chairman, appointed July 2004

Director of Grafton Group plc, Temple Bar Investment Trust plc and other unquoted businesses.

Formerly chairman of Savills plc, Meyer International plc and deputy chairman of AWG plc.

David Steeds (57)

Non-executive Director & Chair of Audit Committee, appointed July 2004

Independent PFI consultant and previously chief executive of the Private Finance Panel. Former corporate development director of QinetiQ plc and Serco Group plc and a former director of Cinven and Granville Baird Capital Partners.

Rupert Cottrell (61)

Non-executive Director

Non-executive Chairman of Dawnay, Day Carpathian plc. Former director of Capital International Limited, Isle of Man and of Henry Cooke Lumsden plc. Previously a fund manager at Cazenove and Co and a FIMBRA Council member.

Tim Walker (50)

Non-executive Director

Non-executive Director of a number of private companies in the leisure and property industries. Previously finance director of Swallow Group plc and Strix Group.

Jonathan Clague (58)

Non-executive Director

Non-executive Chairman of Close High Income Properties PLC and Heron and Brearley, the leading Manx brewer and pub operator. Previously non-executive director of Isle of Man Bank, Nat West Offshore and Sun Alliance (IOM) Limited. President of Isle of Man Red Cross Branch.

Directors' Report

The Directors submit their second Report and audited Group Financial Statements for the year 30 June 2006 which they approved on 27 September 2006.

Results and Dividends

The Group profit before taxation for the period was £3.5 million (2005: £2.5 million). After taxation and minority interests the profit attributable to shareholders was £3.2 million (2005: £2.9 million).

The Directors recommend a final dividend of 5.6p (2005: 4.7p) per Ordinary Share to be paid on 6 November 2006 to shareholders whose names appear on the register at the close of business on 13 October 2006. Together with the interim dividend of 2.8p (2005: 2.3p) pence per share paid on 28 April 2006 the total dividend for the period is 8.4p (2005: 7.0p) per share.

Review of Business and Future Developments

A commentary on events during the period and on the development of the business is given in the Chairman's Statement.

Group Activities

The PFI Infrastructure Company plc is an investor in privately financed infrastructure projects, with the core objective of providing reliable and steady dividends.

A list of principal subsidiaries, and of investments can be found on page 33.

Directors

The Board of the Company comprises, Richard Jewson (Chairman), David Steeds, Tim Walker, Rupert Cottrell and Jonathan Clague all of whom are Non-Executive Directors and are independent of the Investment Manager.

At the second Annual General Meeting of the Company in accordance with the Articles of Association, all the Directors offer themselves for re-election.

Biographical details of Directors are shown on page 13.

Directors' Interests

SHARES

The number of shares of the Company in which each Director of the Company is deemed to hold an interest is shown and includes family interests and holdings in which Directors are interested solely as Trustees.

	At 30 June 2006 Ordinary Shares 10p each	**At 30 June 2005 Ordinary Shares 10p each**
Beneficial		
Richard Jewson	10,000	10,000
Rupert Cottrell	10,000	–
David Steeds	10,000	10,000
Jonathan Clague	10,000	-

There were no changes in the holdings of Directors between 30 June 2006 and 27 September 2006.

Substantial Shareholdings

As at 27 September 2006, the Directors had received the following notifications of substantial interests in the shares of the Company.

	Ordinary Shares 10p each	%
Invesco Asset Management	14,959,035	29.5
Artemis Investment Management	6,900,000	13.6
MPC Investors	4,400,000	8.7
Framlington Investment Management	3,800,000	7.5
Jupiter Asset Management	3,236,571	6.4
Henderson Global Investors	3,078,571	6.1
Martin Currie	2,827,571	5.6
Adam & Company	2,096,750	4.1
CBrooke Investment Partners Limited	1,357,434	2.7

RISK MANAGEMENT

Treasury

The Group's financial instruments, other than derivatives, comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to raise or hold finance for the Group's operations.

The Group (through the SPCs) enters into interest rate swaps, which are derivatives transactions and whose purpose is to fix the Group's interest rate exposure when its SPCs take on variable rate debt to finance PFI projects.

It is the Group's policy that no speculative trading in financial instruments is undertaken. The Group currently has no foreign currency assets or liabilities.

The major risks associated with the Group are the valuation of its investments, interest rate risk and operating risk. The Group has established a framework of managing these risks which evolves continually as the Group's investment activities change in response to market developments.

Valuation of Investments

The valuation of the Group's investments depends first of all on successful management of the construction and operation of the related project. If the project is operating according to plan, the valuation of the investment depends on the market for similar assets. This in turn is heavily influenced by the level of long-term interest rates. If long-term interest rates were to rise, the value of the Group's investment would fall.

The unlisted investment portfolio is managed through investment guidelines agreed by the Board and is discussed at each Board meeting. All new investments are measured against pre-determined criteria including minimum equity returns and cash yield. The performance of existing investments is reviewed twice monthly by the Investment Manager and quarterly the performance is reviewed in detail through Investment Manager attendance at the relevant SPC Board. The Group Board reviews reports on the financial performance of investments at least quarterly.

Interest rate risk

Interest rate risk arises with movements in base rates. If interest rates rise, the Group benefits on cash holdings, but loses on return on investments. This position is reversed on interest rate falls. The Group's un-invested cash balances earn interest at a floating rate. The benchmark rate that determines the interest received on cash balances held is UK bank base rate. The benchmark rate that determines the valuation of investments is the nominal yield on long-dated gilts.

Directors' Report

Operating risk

Operating risk arises as the Company invests in companies whose income depends on the delivery of a satisfactory service to their public sector clients. Wherever possible these operating risks are passed down to the relevant sub-contractors, but the Company retains a residual exposure to them, if the subcontractors should not deliver.

Payment Policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of the terms of payment and abide by those terms of payment. Trade creditors at 30 June 2006 were equivalent to 40 days (2005: 41 days), based on the average daily amount invoiced by suppliers during the period.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all necessary steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

A resolution to re-appoint Ernst & Young LLC as Auditors to the Group will be put to the forthcoming Annual General Meeting.

On behalf of the Board

P P SCALES
Company Secretary

27 September 2006

Corporate Governance

The Group is committed to, and the Board is accountable for, high standards of corporate governance. As an AIM listed company, the Group is not governed by the Combined Code. Nevertheless, the Board has determined, where applicable, to adopt and apply the general guidance of the Principles of Good Governance and the Code of Best Practice contained in the Combined Code. The following statement describes how the principles of corporate governance are applied to the Group.

Audit Committee

This Committee is appointed by the Board and comprises all the Directors. It normally meets twice a year and provides a forum for reporting by the Group's external Auditors. Membership of the Committee was as follows:

David Steeds	–	Chairman of the Audit Committee
Richard Jewson	–	Non-executive Director
Tim Walker	–	Non-executive Director
Rupert Cottrell	–	Non-executive Director
Jonathan Clague	–	Non-executive Director

The Committee assists the Board in fulfilling its responsibility for ensuring that the Group's financial and accounting systems provide accurate and up-to-date information on its current financial position and that the Group's published Financial Statements represent a true and fair reflection of this position. It also ensures that appropriate accounting policies, controls and compliance procedures are in place, advises the Board on the appointment of external Auditors and on their remuneration and discusses the nature, scope and results of the audit with external Auditors. It also keeps under review the cost effectiveness and the independence and objectivity of the external Auditors.

Appointments to the Board

This Board is responsible for the approval of candidates for appointment to the Board, having regard to the balance and structure of the Board. Nomination and Remuneration Committees have not been established on account of the size of the Company.

Directors' Remuneration

The remuneration of the directors is as follows:

	Basic Salary and Fees £'000
Non-executive directors:	
Richard Jewson	35
David Steeds	30
Tim Walker	25
Rupert Cottrell	25
Jonathan Clague	25
	140

Relations with Shareholders

Communications with shareholders are given high priority. The Reports on pages 1 to 12 include a detailed review of the business and future developments. Throughout the period, the Investment Manager has met with the Group's major institutional shareholders to whom presentations were made after the announcement of the Group's interim results and at other times when requested. Feedback from meetings with major institutional shareholders has been reported to the Board. Care is taken to ensure that any price sensitive information released is available to all shareholders, institutional or private, at the same time in accordance with the Listing Authority requirements.

The Annual General Meeting is used to communicate with private investors and the Board welcomes their participation. Details of resolutions to be proposed at the Annual General Meeting on 3 November 2006 can be found in the Notice of Meeting on page 41.

Board

At the period end the Board comprised the Chairman and four Non-executive directors. The Non-executive appointments are considered independent. In the view of the Board the number of Non-executive directors currently appointed is both sufficient and appropriate for the size of the company.

Biographies appear on page 13 which demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standard of conduct which are vital to the success of the Group. The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the accounts and a statement on going concern is given below.

The Board meets regularly to decide on investment matters, review trading performance, ensure adequate funding and set and monitor strategy. The Non-executive directors have a particular responsibility to ensure that the strategies proposed by the Investment Manager are fully considered. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all Directors in advance of Board Meetings. Independent professional advice is available to all Directors at the Company's expense.

Internal Control

The Directors are responsible for establishing and maintaining the Group's systems of internal control and for reviewing its effectiveness. These systems are intended to manage rather than eliminate the risk of failure to achieve business objectives, and it should be recognised that as such they can provide only reasonable and not absolute assurance against material financial mis-statement or loss.

The Board obtains its assurance on the effectiveness of the control system from periodic reviews of performance against budgets, reports from the regular meetings held by the Investment Managers to monitor and guide the Group's performance and the Investment Managers' compliance with clearly defined capital investment guidelines.

After due consideration the Directors have decided that the establishment of an internal audit function is unnecessary.

Going Concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in preparing the financial statements.

Statement of Directors' Responsibilities in Respect of the Financial Statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing those 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The PFI Infrastructure Company plc

Independent Auditors' Report

To the Members of The PFI Infrastructure Company plc

We have audited the Group's financial statements for the year ended 30 June 2006, which comprise the Group profit and loss account, Group balance sheet, Company balance sheet, Group statement of recognised gains and losses, Group cash flow statement and the related notes 1 to 29. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, pursuant to Section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company's members 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 members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable Isle of Man law and appropriate accounting standards.

Our responsibility is to audit the financial statements 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 are properly prepared in accordance with the Companies Acts 1931 to 2004. We also report if, in our opinion, the Group 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 transactions with the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises, Introduction, Financial Highlights, Chairman's Statement, Investment Portfolio, Financial Review, Board of Directors, Directors Report, Corporate Governance, Notice of Annual General Meeting and Contact Information. 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.

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. 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 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 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.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Accounting Standards, of the state of affairs of the Company and of the Group as at 30 June 2006 and of the profit of the Group for the year then ended, and have been properly prepared in accordance with the Companies Acts 1931 to 2004.

ERNST & YOUNG LLC
Chartered Accountants
Isle of Man
27 September 2006

Group Profit and Loss Account
Year ended 30 June 2006

	Notes	Year ended 30 June 2006 £'000	Period ended 30 June 2005 re-stated £'000
Turnover from continuing operations:			
Ongoing		**7,863**	7,262
Acquisitions		**1,570**	–
Group Turnover	2	**9,433**	7,262
Cost of sales		**(1,671)**	(1,274)
Gross Profit		**7,762**	5,988
Operating and administrative expenses		**(2,689)**	(1,984)
Amortisation of goodwill arising on acquisition of subsidiaries		**(606)**	(537)
Other operating income	7	**439**	92
Operating profit from continuing operations:			
Ongoing		**4,196**	3,559
Acquisitions		**710**	–
Group Operating Profit	3	**4,906**	3,559
Profit on disposal of investments	4	**319**	242
Profit on Ordinary Activities before Interest		**5,225**	3,801
Income from investments		**1,121**	672
Bank interest receivable		**1,301**	1,258
Interest payable and similar charges	6	**(4,149)**	(3,243)
Profit on Ordinary Activities before Taxation		**3,498**	2,488
Taxation	8	**(432)**	344
Profit on Ordinary Activities after Taxation		**3,066**	2,832
Minority interests		**110**	116
Profit attributable to shareholders		**3,176**	2,948
Earnings per share – basic and diluted	10	**8.4p**	8.8p
Dividends			
Interim dividend paid April 2006/April 2005		**940**	785
Final dividend paid November 2005		**1,565**	–
		2,505	785
Proposed for approval by shareholders at the AGM:			
Final dividend for 2006 of 5.60p (2005: 4.66p)		**2,840**	1,565

Group Statement of Total Recognised Gains and Losses

For the year ended 30 June 2006

	Year ended 30 June 2006 £'000	Period ended 30 June re-stated 2005 £'000
Profit attributable to shareholders	**3,176**	2,948
Unrealised revaluation gains during the year	**5,676**	1,300
Total Recognised Gains relating to the year	**8,852**	4,248

Under FRS 21 Post Balance Sheet Events dividends declared after the balance sheet date are not recognised as a liability at that year end. This had the effect of increasing shareholders' funds at 30 June 2006 by £2.8 million (2005: £1.6 million).

Reconciliation of Movements in Group Shareholders' Funds

For the year ended 30 June 2006

	Notes	Year ended 30 June 2006 £'000	Period ended 30 June re-stated 2005 £'000
Total recognised gains relating to the year		**8,852**	4,248
Dividends	9	**(2,505)**	(785)
Net proceeds from the issue of share capital (after issue costs)		**28,785**	44,536
Total movements during the year		**35,132**	47,999
Shareholders funds at 1 July 2005		**47,999**	–
Closing Shareholders' Funds		**83,131**	47,999

Group Balance Sheet
As at 30 June 2006

	Notes	At 30 June 2006 £'000	At 30 June 2005 re-stated £'000
Fixed Assets			
Intangible assets	12	**11,194**	9,474
Tangible assets	13	**34,223**	23,558
Investments	14	**24,167**	9,851
		69,584	42,883
Current Assets			
Debtors – due within one year	16	**3,841**	2,708
Debtors – outwith one year	16	**36,259**	26,179
Cash at bank and on deposit	17	**44,792**	27,480
		84,892	56,367
Creditors: amounts falling due within one year			
Bank and other loans	20	**(1,366)**	(1,163)
Other creditors	18	**(4,458)**	(2,328)
		(5,824)	(3,491)
Net Current Assets		**79,068**	52,876
Total Assets Less Current Liabilities		**148,652**	95,759
Creditors: amounts falling due after more than one year			
Bank and other loans	20	**(62,196)**	(44,494)
Provisions for Liabilities	19	**(1,130)**	(703)
Accruals and Deferred Income			
Deferred government grants		**(1,348)**	(1,407)
Other deferred income		**(916)**	(1,351)
		(2,264)	(2,758)
Minority interests		**69**	195
Net Assets		**83,131**	47,999
Financed by			
Capital and Reserves			
Called up share capital	22, 23	**5,071**	3,357
Share premium account	23	**68,250**	41,179
Revaluation reserve	23	**6,417**	1,300
Profit and loss account	23	**3,393**	2,163
Shareholders' Funds – Equity		**83,131**	47,999

The accounts on pages 22 to 40 were approved by the Board of Directors on 27 September 2006 and were signed on its behalf by

RICHARD JEWSON
Chairman

DAVID STEEDS
Director

Company Balance Sheet

	Notes	At 30 June 2006 £'000	At 30 June 2005 restated £'000
Fixed Assets			
Investments	14	**61,820**	43,240
Current Assets			
Debtors – due within one year	16	**17**	2,939
Cash at bank and on deposit		**18,973**	31
		18,990	2,970
Creditors: amounts falling due within one year			
Other creditors	18	**(5,066)**	(70)
Net Current Assets		**13,924**	2,900
Net Assets		**75,744**	46,140
Financed by			
Capital and Reserves			
Called up share capital	22, 24	**5,071**	3,357
Share premium account	24	**68,250**	41,179
Profit and loss account	24	**2,423**	1,604
SHAREHOLDERS' FUNDS – Equity		**75,744**	46,140

The accounts on pages 22 to 40 were approved by the Board of Directors on 27 September 2006 and were signed on its behalf by

RICHARD JEWSON
Chairman

DAVID STEEDS
Director

Group Cash Flow

Year ended 30 June 2006

	Notes	Year ended 30 June 2006 £'000	Period ended 30 June 2005 £'000
Net Cash Inflow from Operating Activities	25	**5,576**	1,848
Returns on Investments and Servicing of Finance			
Interest received		**1304**	1,258
Interest paid		**(4,149)**	(2,496)
Loan stock interest received		**1,121**	672
Eurobond issue costs		**(136)**	(36)
Net Cash Outflow from Returns on Investments and Servicing of Finance		**(1,860)**	(602)
Taxation			
UK corporation tax		**(94)**	241
Capital Expenditure and Financial Investment			
Capital element of finance debtor received		**495**	69
Purchases of fixed asset investments	14	**(13,011)**	(9,106)
Sales of fixed asset investments		**3,820**	795
Purchases of tangible fixed assets	13	**(11)**	(6)
Net Cash Outflow from Capital Expenditure and Financial Investment		**(8,707)**	(8,248)
Acquisitions and Disposals			
Purchase of subsidiary undertakings	15	**(4,285)**	(13,754)
Net cash acquired with subsidiary undertakings		**2,156**	4,406
Net Cash Outflow from Acquisitions and Disposals		**(2,129)**	(9,348)
Equity Dividends Paid	9	**(2,505)**	(785)
Net Cash Outflow before the use of Liquid Resources and Financing		**(9,719)**	(16,894)
Management of Liquid Resources			
Decrease/(increase) in short term deposits		**9,968**	(24,451)
Financing			
Issue of ordinary share capital		**30,000**	47,000
Share issue costs		**(1,215)**	(2,464)
New short term facility		**–**	400
Repayment of loans	26	**(1,754)**	(562)
Net Cash Inflow from Financing		**27,031**	44,374
Increase in Cash in the Period	26	**27,280**	3,029

Notes to the Financial Statements

1. Accounting Policies

(A) **Basis of Preparation**

The Accounts are prepared under the historical cost convention modified to include the revaluation of property and fixed asset investments, in accordance with applicable UK accounting standards.

(B) **Basis of Consolidation**

The Group Accounts consolidate the accounts of The PFI Infrastructure Company plc (PFI Co) and all its subsidiary undertakings for the year ended 30 June 2006. In accordance with Section 3(5)(b)(ii) of the Companies Act 1982 the Company is exempt from the requirement to present its own profit and loss account. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights, currently exercisable or convertible potential voting rights, or by way of contractual agreement. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately in the consolidated balance sheet.

LH Project Limited, KE Project Limited, CH Bolton (Holdings) Limited, Bannockburn Group Limited, NewSchools Penweddig (Holdings) Limited and Tiverton Healthcare Facilities (Holdings) Limited have been included in the financial statements using the acquisition method of accounting. Accordingly, the Group profit and loss account and Group statement of cash flows include the results and cash flows of LH Project Limited, KE Project Limited, CH Bolton (Holdings) Limited, Bannockburn Group Limited, NewSchools Penweddig (Holdings) Limited and Tiverton Healthcare Facilities (Holdings) Limited. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

The following accounting policies apply to the Group in general. For policies applied specifically to the Groups PFI/PPP project companies, refer to accounting policy (L).

(C) **Turnover**

Group Turnover in continuing operations comprises 100% of the turnover for those PFI/PPP project companies which are subsidiaries. Depending on the method of accounting of the subsidiaries this comprises:

- Unitary charges on projects comprise a financing element and a service element. The financing element is allocated between a reimbursement of the finance debtor and interest income so as to generate a consistent rate of return in respect of the finance debtor over the life of the contract. The service element is included in turnover over the period in which the services are provided, with any charges received in advance being treated as deferred income and released to the profit and loss in the period to which they relate.
- Availability fees and usage fees on PFI projects where the principal asset is to be accounted for as a fixed asset.
- Third party usage fees on PFI projects.

Turnover excludes intra-group transactions and VAT and arises wholly in the UK.

(D) **Taxation**

Corporation tax payable is provided on the taxable profits at the current rate. Taxation on capital gains arising on the realisation of fixed asset investments is charged or credited to the profit and loss account and to the statement of recognised gains and losses in the same proportion as the accounting gains.

(E) **Deferred Taxation**

Deferred Taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that resulted in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date except that no deferred tax is provided on gains and losses arising on the revaluation of tangible fixed assets and investments. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

(F) **Depreciation**

Provision for depreciation is made so as to write off the cost, or valuation less the estimated residual value, of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

- Property 4%.

Land is not depreciated. The carrying values of tangible fixed assets are reviewed for impairment in periods when events or changes in circumstances indicate the carrying value may not be recoverable.

Given the nature of certain properties in one of the SPC's, the residual values are so high that any depreciation charge would be immaterial.

(G) **Intangible Assets**
Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill is capitalised and classified as an asset on the balance sheet. Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

(H) **Tangible Fixed Assets**
Tangible fixed assets are initially recorded at cost and are depreciated in accordance with accounting policy (F). Subsequent expenditure on tangible fixed assets is capitalised to the extent that it provides an enhancement to the economic benefits of the asset above its previously assessed standard of performance. All other subsequent expenditure that does not provide an enhancement to the economic benefits of the asset, is charged to the profit and loss account as incurred.

(I) **Investments**
Fixed asset investments, excluding investment in subsidiaries, are stated at Directors' valuation. The valuation methodology is set out in the financial review on page 10. The stake taken by the Group and the rights attributable to that stake vary according to circumstances, but the Group's relationship to its investments is that of a portfolio investor. In these circumstances, for consistency, the stake is properly accounted for as an investment according to the method of accounting applied to other investments in the investment portfolio rather than as an associate or joint venture. Income from investments is included in the Group profit and loss account as declared or accrued. Where the shareholding exceeds 50% it is accounted for as a subsidiary undertaking.

Interests in subsidiary undertakings are included in the Company balance sheet at cost.

(J) **Derivative Instruments**
The Group uses interest rate swaps to hedge interest rate risk in its subsidiaries. Amounts payable or receivable in respect of interest rate swaps are recognised on an accruals basis and are shown as interest expense.

The Group does not enter into speculative derivative contracts.

(K) **Cash and Liquid Resources**
Cash for the purpose of the cash flow statement comprises cash in hand and deposits repayable on demand. Liquid resources includes amounts held by subsidiaries where availability to the remainder of the Group is restricted as funds are held in deposit accounts and are not accessible on demand and by the non-recourse borrowing arrangements of the SPC subsidiaries.

(L) **PFI/PPP Project Companies**
The Group has adopted the provisions of FRS 5 'Reporting the substance of transactions' (Application Note F) in determining the appropriate treatment of the principal assets of, and income streams from, PFI and similar contracts. Where it can be demonstrated that the balance of risk and rewards derived from the underlying asset are not borne by the Group, the asset created and/or provided under the contract is accounted for as a finance lease receivable under SSAP 21 or as a financial asset under FRS 5 (i.e. it is disclosed within debtors); otherwise, it is classified as a fixed asset.

The results of all PFI/PPP project companies which are subsidiaries therefore conform to the following policies:

- **Finance debtors and amounts recoverable on contracts**
  Where risks and rewards derived from the underlying asset do not reside with the Group, these assets are disclosed in the balance sheet as amounts recoverable on contracts while in construction and reclassified to finance debtors when operational. In this case income is allocated to interest receivable and turnover using a constant margin on costs with the remainder allocated to the finance debtor.
- **PFI Fixed Assets**
  Where the benefits and risk associated with the asset reside with the PFI project company these assets are disclosed in the balance sheet as fixed assets at cost less depreciation. Straight-line depreciation is charged over the life of the concession, or specific asset life if shorter.
- **Major Maintenance**
  For finance debtor accounted projects, the capital element of major maintenance is reflected in the estimated cash flows relating to the project and imputed into the effective interest rate applied to the financing. For fixed asset accounted projects, the capital element of major maintenance is capitalised and treated as a separate component of the cost of the asset and depreciated (not over the life of the asset, but) over the period until the next major maintenance is planned to be carried out.
- **Finance Costs**
  Project-specific finance costs are capitalised until the asset to which the finance relates becomes operational. Finance costs incurred on borrowings to fund the construction of PFI assets are included as part of the cost of those assets commencing at the start of construction and ceasing when the asset is complete and ready for use.

(L) **PFI/PPP Project Companies** (continued)

- **Debt**

  Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

(M) **PFI Bid Costs**

PFI bid costs on investments are accounted for under UITF 34. PFI bid costs are charged to the profit and loss account until such time as the Group achieves financial close for the relevant PFI project. On financial close of PFI project and financing agreements, the Group recovers bid costs from the relevant Project Company (the SPC will capitalise these costs). If the recovery of bid costs exceeds the costs incurred by the Group to financial close, the over-recovery is credited to the profit and loss account. If the project company is a subsidiary company any recovery is eliminated on consolidation.

(N) **Government grants**

Capital based government grants relating to KE Project Limited are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the life of the project.

2. Turnover and Segmental Analysis

Turnover represents the amounts derived from the those PFI/PPP project companies which are subsidiaries, stated net of value added tax and arises wholly in the UK.

The Group operates in two principal areas of activity, firstly that of investor in the equity of primary and secondary investments; and secondly by virtue of accounting convention the Company is required to consolidate four SPC investments where it held over 50% of the equity.

Turnover, profit on ordinary activities before tax and net assets are analysed as follows:

	Investment activities £'000	**SPCs £'000**	**Intersegment adjustments £'000**	**Year ended 30 June 2006 £'000**
Turnover	–	9,433	–	9,433
Profit on ordinary activities before tax	3,333	968	(803)	3,498
Net assets	89,687	3,020	(9,576)	83,131

	Investment activities £'000	**SPCs £'000**	**Intersegment adjustments £'000**	**Period ended 30 June 2005 £'000**
Turnover	–	7,262	–	7,262
Profit on ordinary activities before tax	2,568	(260)	180	2,488
Net assets	47,139	1,030	(170)	47,999

3. Operating Profit

	Year ended 30 June 2006 £'000	**Period ended 30 June 2005 £'000**
Operating profit is stated after charging/(crediting):		
Group Auditors' remuneration in respect of statutory audit services	35	20
Non audit fees paid to Group Auditor in respect of further assurance services	8	3
Goodwill amortisation	606	537
Grants released	(59)	(70)
Depreciation	355	–

Included in the auditors' remuneration is an amount in respect of the Company of £25,000 (2005: £15,000).

4. Profit on Disposal of Investments

	Year ended 30 June 2006 £'000	Period ended 30 June 2005 £'000
Profit on disposal of investments	319	242

5. Directors

	Year ended 30 June 2006 £'000	Period ended 30 June 2005 £'000
Directors' emoluments, comprise:		
Salaries	140	162
Social security costs	7	7
	147	169

6. Interest Payable and Similar Charges

	Year ended 30 June 2006 £'000	Period ended 30 June 2005 £'000
Group interest payable includes the following:		
– Non recourse debt (including amounts receivable/(payable) under swaps)	(4,149)	(3,243)

7. Other Operating Income

	Year ended 30 June 2006 £'000	Period ended 30 June 2005 £'000
Dividends from unlisted investments	–	67
Other income	439	25
	439	92

8. Taxation

	Year ended 30 June 2006 £'000	Period ended 30 June 2005 £'000
The taxation charge/(credit) comprises:		
Group UK Corporation Tax at 30%		
– Current	93	(128)
– Adjustments in respect of prior years	12	–
	105	(128)
Group deferred tax		
– Origination and reversal of timing differences	290	(216)
– Adjustments in respect of prior years	37	–
Tax charge/(credit)	432	(344)

Factors affecting tax charge/(credit) for the year:

The current tax assessed for the year is lower than that resulting from applying the 30% standard rate of Corporation Tax in the UK. The differences are explained as follows:

	Year ended 30 June 2006 £'000	Period ended 30 June 2005 £'000
Profit on ordinary activities before taxation	3,498	2,488
Tax at 30% thereon	1,049	746
Effects of:		
Permanent differences	(812)	(762)
Capital allowances in excess of depreciation	(626)	(311)
Other timing differences	(9)	59
Tax losses brought forward and utilised	(53)	(151)
Tax losses arising in period and carried forward	346	539
Tax losses not recognised	–	47
Prior year movements	12	–
Chargeable gains	198	–
Other differences	–	(295)
Current tax charge/(credit) for the year	105	(128)
Deferred tax asset not being recognised	–	47

9. Dividends

	Year ended 30 June 2006 £'000	Period ended 30 June 2005 £'000
Interim dividend paid April 2006/April 2005	940	785
Final dividend paid November 2005	1,565	–
	2,505	785
Proposed for approval by shareholders at the AGM:		
Final dividend for 2006 of 5.60p (2005: 4.66p)	2,840	1,565

10. Earnings per share & Diluted Earnings per share

The calculation of basic earnings per share for the period to 30 June 2006 is based on earnings of £3.2 million (2005: £2.9 million) and 37,657,535 ordinary shares (2005: 33,571,429 ordinary shares), being the weighted average number of shares in issue during the year. There is no difference between earnings per share and diluted earnings per share.

11. Net Assets per share

The net assets per share of 163.9p as at 30 June 2006 (2005: 143.0p) is based on net assets of £83.1 million (2005: £48.0 million) and 50,714,286 ordinary shares (2005: 33,571,429 ordinary shares) in issue as at that date.

12. Intangible Fixed Assets

GOODWILL	£'000
Original cost	
At beginning of year	10,011
Additions	2,496
Adjustment relating to deferred consideration (see note 15)	(170)
At end of year	12,337
Amortisation	
At beginning of year	(537)
Provided during the year	(606)
At end of year	(1,143)
Net book value	
At 30 June 2006	11,194
At 30 June 2005	9,474

Goodwill is written off in equal annual instalments over its estimated economic life of between 18–20 years.

13. Tangible Assets

	Freehold Land and buildings £'000
Cost	
At beginning of year	23,558
Additions	11,020
Disposals	–
At end of year	34,578
Depreciation	
At beginning of year	–
Charge for year	(355)
On disposals	–
At end of year	(355)
Net book value	
At 30 June 2006	34,223
At 30 June 2005	23,558

Included in fixed assets is £1.8 million (2005: £1.8 million) in respect of capitalised interest and £190,310 (2005: £190,310) in respect of capitalised finance costs and £1.5 million (2005: £1.5 million) in relation to other capitalised expenditure.

14. Investments

	Unlisted £'000
Group	
At beginning of year	9,851
Additions	13,011
Disposals	(3,501)
Relating to investment becoming subsidiary undertaking (see note 15)	(870)
Revaluation	5,676
Net book value	
At 30 June 2006	24,167
At 30 June 2005	9,851

The Group investments are held directly by PFI Infrastructure Finance Limited (Finco), a wholly owned subsidiary undertaking of The PFI Infrastructure Company plc and indirectly through the Quayle Munro PFI Fund Limited Partnership, a partnership formed to seek out opportunities offering capital appreciation and income return.

Details of investments in which the Group and the Company held an interest at 30 June 2006 of 10% or more of the nominal value of the allotted shares of any class were as follows:

Subsidiary undertakings	Nature of Business	Percentage share holding	Financial year end
PFI Infrastructure Finance Limited	Holding company for the investments business	Ordinary shares of £0.10 (100%)	30 June
Quayle Munro PFI Fund Limited Partnership	Holding company for the investments business	100% of partnership capital	30 June
LH Project Limited	PFI health operator	Ordinary shares of £1 (90%)	31 March
KE Project Limited	PFI education operator	Ordinary shares of £1 (90%)	30 June
CH Bolton (Holdings) Limited	Holding company for PFI accommodation investments	Ordinary shares of £1 (90%)	31 March
Bannockburn Group Limited	Holding company for PFI accommodation investments	Ordinary shares of £1 (98%)	31 March
Tiverton Healthcare Facilities (Holdings) Limited	PFI health operator	Ordinary shares of £1 (80%)	30 June
Newschools (Penweddig) Holdings Limited	Holding company for PFI education operator	Ordinary shares of £1 (100%)	31 March

Investments	Description of shares held	Percentage of each class held by the Group %	Country of incorporation	Aggregate capital and reserves £'000	Profit/(loss) after tax for the year £'000
ABC Schools (Holdings) Limited*	Ordinary	50	UK	–	–
ESP (Holdings) Limited	Ordinary	17	UK	(19,912)	(6,725)
Emblem Schools (Holdings) Limited*	Ordinary	30	UK	–	–
Robertson Health (Forfar) Holdings Limited	Ordinary	40	UK	130	–
Lochgilphead Healthcare Services (Holdings) Limited*	Ordinary	40	UK	–	–
Salisbury Healthcare Facilities (Holdings) Limited	Ordinary	40	UK	1	–
Lighting for Staffordshire Holdings Limited	Ordinary	40	UK	10	–
PPP Services (North Ayrshire) Holdings Limited*	Ordinary	30	UK	–	–
Sewell Education York (Holdings) Limited	Ordinary	50	UK	1	–
Stirling Schools HC Limited*	Ordinary	50	UK	–	–
Stobhill Healthcare Facilities (Holdings) Limited*	Ordinary	40	UK	–	–

The investments are not accounted for as associates on the basis that the group does not exercise significant influence over the PFI Project companies concerned, all of which are governed by separate Boards of Directors and non recourse arrangements with the debt providers.

The holdings in these investments are in the parent company of each project.

* The financial statements have still to be finalised for this company.

	Subsidiary undertakings £'000	Other investments £'000	Total £'000
Company			
At beginning of year	15,240	28,000	43,240
Additions	8,480	10,100	18,580
At 30 June 2006			
Unlisted shares and loans at net book value	23,720	38,100	61,820

During the year PFI Co subscribed £8.5 million for ordinary shares in PFI Infrastructure Finance Limited. On 3 May 2006 PFI Co subscribed £10.1 million in respect of a further Eurobond instalment.

Other investments represent a £38.1 million subscription for Eurobond instruments, which bear interest at 11%. A final instalment of £10.1 million is due on 31 December 2006 and the principal is repayable between 2032 and 2034.

Notes to the Financial Statements

15. Acquisitions

On 21 July 2005 the group acquired a majority shareholding in Tiverton Healthcare Facilities (Holdings) Limited which owns 100% of Tiverton Healthcare Facilities Limited for an aggregate cash consideration of £2 million. On 23 December 2005 the group acquired a majority shareholding in Newschools Penweddig (Holdings) Limited which owns 100% of Newschools Penweddig Limited for an aggregate cash consideration of £3.4 million. These investments have been included in the balance sheet at their fair value at the date of acquisition.

On 17 May 2006 the Group acquired a further 10% shareholding in CH Bolton Holdings Limited which owns 100% of CH Bolton Limited for an aggregate cash consideration of £105,000. Deferred consideration arose on the initial acquisition portfolio of £250,000, which was paid to the Bank of Scotland and Quayle Munro Limited during the year. Negative goodwill of £170,000 arose on this payment.

The aggregate net assets of Tiverton Healthcare Facilities Limited and NewSchools Penweddig Limited are shown below as individually they are not considered material.

Net assets at date of acquisition:

	Book value of assets acquired £'000	Adjustment revaluations £'000	Assets acquired at fair value £'000
Lease debtor	10,734	–	10,734
Fixed assets	11,010	–	11,010
Net working capital, excluding cash	(1,151)	193[(a)]	(958)
Cash and overdrafts	2,156	–	2,156
Loan capital	(19,632)	–	(19,632)
Subordinated debt	(28)	–	(28)
Taxation	–	(100)[(b)]	(100)
Minority interests	(1)		(1)
Net assets acquired	3,088		3,181
Goodwill arising on acquisition			2,285
			5,466
Discharged by:			
Cash			4,498
Costs associated with the transaction			98
Cost of original 40% holding in Tiverton Healthcare Facilities (Holdings) Limited (note 14)			870
			5,466

Adjustment:

(a) Write down of pre-acquisition subordinated debt interest, accrued in the subsidiaries at the date of acquisition.

(b) Being accrual of additional tax liability.

Goodwill of £211,000 arose on the additional 10% shareholding in CH Bolton (Holdings) Limited, being excess over the assets acquired at fair value of £(65,000).

16. Debtors

	30 June 2006		30 June 2005	
	Group £'000	Company £'000	Group £'000	Company £'000
Amounts falling due within one year:				
Finance debtors	623	–	462	–
Trade debtors	1,177	–	1,590	–
Amounts owed by subsidiary undertakings	–	–	–	2,921
Prepayments and accrued income	1,932	17	465	18
Corporation tax receivable	–	–	189	–
Other debtors	109	–	2	–
	3,841	17	2,708	2,939
Amounts falling due after more than one year:				
Finance debtors	36,259	–	26,179	–

17. Cash at Bank and in hand

	30 June 2006 Recourse funds £'000	30 June 2006 Non Recourse funds £'000	30 June 2005 Recourse funds £'000	30 June 2005 Non Recourse funds £'000
Cash and deposits	37,102	7,690	23,601	3,879

18. Other Creditors

	30 June 2006 Group £'000	30 June 2006 Company £'000	30 June 2005 Group £'000	30 June 2005 Company £'000
Amounts falling due within one year:				
Trade creditors	735	–	250	10
Amounts owed to subsidiary undertaking	–	4,939	–	–
Other taxation	185	–	95	–
Other creditors	796	–	565	–
Accruals and deferred income	2,742	127	1,418	60
	4,458	5,066	2,328	70

19. Provisions for liabilities

	30 June 2006 £'000	30 June 2005 £'000
Group		
Deferred tax		
At beginning of year	703	–
Acquired in the year	100	919
Arising during the year		
– Current year	290	(216)
– Prior period adjustment	37	–
At end of year	1,130	703

Deferred taxation provided in the financial statements is as follows:

	30 June 2006 £'000	30 June 2005 £'000
Group		
Capital allowances in advance of depreciation	1,649	1,425
Other timing differences	1,454	1,479
Tax losses brought forward and utilised	–	(224)
Tax losses arising in year and carried forward	(1,973)	(1,977)
At 30 June 2006	1,130	703
Deferred tax asset not being recognised	–	47

Deferred tax provisions are reviewed with regard to changing legislation.

Notes to the Financial Statements

20. Financial Instruments

The Group's policies on interest rate risk management are set out in the Financial Review. The numerical disclosure below excludes short term debtors and creditors.

(a) Interest Rate Profile of Financial Liabilities

The Group's financial liabilities at 30 June 2006 are £63.4 million (2005: £47.3 million) net of finance costs of £1.9 million (2005: £1.6 million), of which all are non-recourse liabilities. These principally comprise borrowings of Project Companies which are required to be consolidated as they are either wholly owned or majority owned. In these Project Companies the lenders have recourse solely to that Project Company itself and hence there is no recourse to the Group.

The financial liabilities shown comprise borrowings of under one year of £1.4 million (2005: £1.2 million) and borrowings of over one year of £62.0 million (2005: £44.5 million). All items are sterling denominated.

	Financial liabilities – 30 June 2006	
	Fixed rate £'000	Total £'000
Project Companies – borrowings < 1 year	1,366	1,366
Project Companies – borrowings > 1 year	62,196	62,196
	63,562	63,562

	Financial liabilities – 30 June 2005	
	Fixed rate £'000	Total £'000
Project Companies – borrowings < 1 year	1,163	1,163
Project Companies – borrowings > 1 year	44,494	44,494
	45,657	45,657

The non-recourse sterling fixed rate liabilities relate to six Project Companies, all of which are between 80–100% owned. In each case the interest rates for the project are fixed using interest rate swaps with maturities ranging from 2020 to 2025 and all-inclusive interest rates varying from 6.6% to 7.5%. The weighted average all-inclusive interest rate for these non-recourse fixed rate financial liabilities is 7.5% (2005: 6.8%) and the weighted average period for which interest rates are fixed is 19.25 years (2005: 17.7 years).

(b) Interest Rate Profile of Financial Assets

	Financial assets – 30 June 2006			
	Non interest bearing £'000	Floating rate £'000	Fixed rate £'000	Total £'000
Currency				
Investments	5,974	–	18,193	24,167
Sterling	–	37,102	–	37,102
Non-recourse (sterling)	–	7,690	36,882	44,572
	5,974	44,792	55,075	105,841

	Financial assets – 30 June 2005			
	Non interest bearing £'000	Floating rate £'000	Fixed rate £'000	Total £'000
Currency				
Investments	4,263	–	5,588	9,851
Sterling	–	23,601	–	23,601
Non-recourse (sterling)	–	3,879	26,179	30,058
	4,263	27,480	31,767	63,510

The floating rate financial assets are cash and deposits placed with banks at rates related to base rate.

Non interest bearing investments reflect interests in ordinary shares.

20. Financial Instruments (continued)

The fixed rate financial assets represent investments and finance debtors. The weighted average interest rate of the investments is 13.5% (2005: 13.5%) and of the finance debtors is 6.9% (2005: 7.5%). The weighted average period for which the interest rates are fixed is 19.25 years (2005: 26.1 years) for investments and 21.1 years (2005: 21.3 years) for finance debtors.

The non-interest bearing assets comprise amounts recoverable on PFI contracts, prepayments and accrued income, and trade debtors.

(c) Maturity of Financial Liabilities

The maturity profile of the Group's financial liabilities, was as follows:

	30 June 2006	
	Non-recourse £'000	Group £'000
In one year, or on demand	1,366	1,366
In more than one year but less than two years	1,694	1,694
In more than two years but less than five years	4,948	4,948
In more than five years	55,554	55,554
	63,562	63,562

	30 June 2005	
	Non-recourse £'000	Group £'000
In one year, or on demand	1,163	1,163
In more than one year but less than two years	1,000	1,000
In more than two years but less than five years	2,937	2,937
In more than five years	40,557	40,557
	45,657	45,657

The non recourse borrowings of £63.5 million (2005: £45.7 million) relate to the Project Companies that are required to be consolidated and are drawn under facilities specific to each project to which the funding relates. These items are shown in financial liabilities net of arrangement fees of £1.9 million (2005: £1.6 million).

(d) Fair Values of Financial Assets and Liabilities

	30 June 2006	
	Book Value £'000	Fair Value £'000
Finance debtors	36,882	36,882
Fixed asset investments	24,167	24,167
Cash	44,792	44,792
Long and short term borrowings	(63,562)	(58,677)
Interest rate swaps	–	(4,885)

	30 June 2005	
	Book Value £'000	Fair Value £'000
Finance debtors	26,641	26,641
Fixed asset investments	9,851	9,851
Cash	27,480	27,480
Long term borrowings	(44,494)	(38,318)
Interest rate swaps	–	(6,178)

At June 2006 there were no contingent liabilities in relation to guarantees given by the Group.

The methods and assumptions used by the Directors to estimate fair values of financial instrument are as follows:

(i) Fixed asset investments are valued at the net present value of estimated future cash flows discounted at appropriate rates;

(ii) Long and short term borrowings are valued at book value, taking into account any related interest rate swaps. The swaps are valued at 30 June 2006 at mid-market values; and

(iii) Short term debtors are excluded from the above analyses.

21. Guarantees, Contingent Liabilities and Other Commitments

At 30 June 2006 the Directors had not authorised any capital expenditure other than that provided in the accounts.

Bank loans of £63.5 million (2005: £45.7 million) are secured over the assets of the six subsidiary special purpose companies.

22. Share Capital

	2006 Number of shares '000	2006 Nominal value £'000	2005 Number of shares '000	2005 Nominal value £'000
Authorised				
Ordinary shares of 10 pence each	68,000	6,800	44,980	4,498

Allotted, called up and fully paid

	2006 Number of shares '000	2006 Nominal value £'000	2005 Number of shares '000	2005 Nominal value £'000
Ordinary shares of 10 pence each	33,571	3,357	–	–
Shares issued during the year	17,143	1,714	33,571	3,357
	50,714	5,071	33,571	3,357

During the year the authorised share capital was increased by £2.3 million by the creation of 23 million ordinary shares of 10 pence each. 17,142,857 ordinary shares of 10p each were issued at 175 pence per share.

23. Reconciliations of the Movements in Shareholders' Funds

Under FRS21: Post Balance Sheet Events, dividends declared after the balance sheet date are not recognised as a liability at that year end. As a result, no provision needed to be made for the final dividend in respect of the year to 30 June 2005. This had the effect of increasing shareholders' funds at 30 June 2005 by £1.6 million.

	Group £'000	Company £'000
Balance at 1 July 2005 (as previously reported)	598	39
Prior years' FRS21 adjustment	1,565	1,565
Balance at 1 July 2005 (restated)	2,163	1,604

2006	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Revaluation reserve £'000	Total £'000
Group					
Profit attributable to shareholders	–	–	3,176	–	3,176
Dividends	–	–	(2,505)	–	(2,505)
Retained profit for financial period	–	–	671	–	671
Surplus on the revaluation of investments	–	–	–	5,676	5,676
Revaluation realised on disposal of investments	–	–	559	(559)	–
Issue of share capital	1,714	28,286	–	–	30,000
Share issue costs	–	(1,215)	–	–	(1,215)
Net increase/(decrease) to Shareholders' funds	1,714	27,071	1,230	5,117	35,132
Opening shareholders' funds	3,357	41,179	2,163	1,300	47,999
Closing Shareholders' funds	5,071	68,250	3,393	6,417	83,131

24. Reconciliations of the Movements in Shareholders' Funds

	2006				
	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Other reserves £'000	Total £'000
Company					
Profit after tax for the financial period	–	–	3,324	–	3,324
Dividends	–	–	(2,505)	–	(2,505)
Retained profit for financial period	–	–	819	–	819
Issue of share capital	1,714	–	–	–	1,714
Arising on share issues	–	28,286	–	–	28,286
Share issue costs	–	(1,215)	–	–	(1,215)
Net increase/(decrease) to Shareholders' funds	1,714	27,071	819	–	29,604
Opening shareholders' funds	3,357	41,179	1,604	–	46,140
Closing Shareholders' funds	5,071	68,250	2,423	–	75,744

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

	Year ended 30 June 2006 £'000	Period ended 30 June 2005 £'000
Group operating profit	4,906	3,559
Grants released	(59)	(70)
Depreciation of tangible fixed assets	355	–
Amortisation of goodwill	606	537
Increase in operating debtors and prepayments	(490)	(726)
Increase/(decrease) in operating creditors and accruals	258	(1,452)
Net cash inflow from operating activities	5,576	1,848

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

	Year ended 30 June 2006 £'000	Period ended 30 June 2005 £'000
Increase in cash in the period	27,280	3,029
Cash outflow from decrease in loans	1,754	562
Cash inflow from new short term facility	–	(400)
Issue costs of new long term loans	–	36
Cash outflow to short term deposits	(9,968)	24,451
Change in net debt arising from cash flows	19,066	27,678
Loans acquired with subsidiaries	(19,632)	(45,356)
Subordinated debt acquired with subsidiaries	(28)	(498)
Other	–	–
Movement in net debt in the period	(594)	(18,176)
Net debt at 1 July 2005	(18,176)	–
Net debt at 30 June 2006	(18,770)	(18,176)

27. Analysis of Net Debt

	At 30 June 2005 £'000	Cash flow £'000	Acquisitions £'000	Reclassification £'000	At 30 June 2006 £'000
Cash	3,029	27,280	–	–	30,309
Overdraft	–	–	–	–	–
	3,029	27,280	–	–	30,309
Movement in:					
Liquid resources in the year	24,451	(9,968)	–	–	14,483
Short term loans	(1,163)	1,163	–	(1,366)	(1,366)
Long term loans	(43,995)	591	(19,632)	1,366	(61,670)
Subordinated debt	(498)	–	(28)	–	(526)
Total	(18,176)	19,066	(19,660)	–	(18,770)

28. Contingent liability

The Investment Management Agreement with Quayle Munro Limited as Investment Manager entitles Quayle Munro to a performance fee in respect of the period from Admission (6 July 2004) to 31 December 2009 (the "First Performance Period") of 18% of the amount by which the market value per share after the end of the First Performance Period exceeds the Hurdle market value per share. This Hurdle is calculated as the July 2004 placing price of 140p compounded at a rate of 12% per annum, less dividends paid during the First Performance Period.

29. Post Balance Sheet Events

Since the year end the Group committed £3.2 million to the Glasgow New Victoria and Stobhill hospitals in respect of 25% of the equity, £1.7 million for 20% of the equity in FCC (East Ayrshire) Holdings Limited (a schools PFI project), £1.4 million in respect of 50% of the equity in Midlothian Schools (Holdings) Limited and £1.5 million in respect of the further Argyll & Bute investment. In addition, the Group committed £2.1 million for the purchase of 100% of the equity in West Cumbria Police Headquarters and £3.9 million for the purchase of 100% of the equity in Workington Community Hospital. In 2006/07 financial year West Cumbria and Workington will be accounted for as subsidiaries.

Notice of Annual General Meeting

Notice is hereby given that the Second Annual General Meeting of the Company will be held at IOMA House, Hope Street, Douglas, Isle of Man on 3 November 2006, at 9.00 am for the purposes of transacting the following business:

Ordinary Business

1 To receive the Reports of the Directors and Auditors and to adopt the Financial Statements for the period ended 30 June 2006.

2 To declare a final dividend.

3 To re-elect Richard Jewson as a Director.

4 To re-elect David Steeds as a Director.

5 To re-elect Rupert Cottrell as a Director.

6 To re-elect Jonathan Clague as a Director.

7 To re-elect Tim Walker as a Director.

8 To re-appoint Ernst & Young LLC as Auditors of the Company and to authorise the Directors to fix their remuneration.

Proxies

Only shareholders are entitled to attend or vote at the Meeting. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of him/her. A proxy need not be a member of the Company. A duly completed proxy card appointing a proxy must be delivered at the office of the Company's Registrars not later than 48 hours before the time appointed for holding the Meeting. Return of a completed Form of Proxy will not preclude a member from attending and voting personally at the meeting.

Register of Directors' Interests in Shares

The Register of Directors' Interests in shares of the Company will be available for inspection at the Annual General Meeting.

Registered Office
IOMA House
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IM1 1AP
27 September 2006

By order of the Board
P P Scales, Secretary

Contact Information

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Further copies of this statement are available from the Administrator and Registrar, or by visiting the Company's website.

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Registered No. 110877C

The PFI Infrastructure Company plc