Interim Report
for the six months
ended 31 December 2005

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Introduction

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

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

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

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

Financial Highlights

- Consolidated pre-tax profit £1.7 million (period ending 31 December 2004 – £1.4 million).
- Earnings 4.9p per share (period ending 31 December 2004 – 3.6p).
- Interim dividend 2.8p per share (period ending 31 December 2004 – 2.3p).
- Aggregate portfolio valuation £36.3 million (period ending 30 June 2005 – £23.7 million).
- Placing announced to raise £30 million before expenses, subject to shareholder approval.

Chairman's Statement

I am pleased to report a satisfactory half year, with an increased rate of new investments and a good forward pipeline of primary investments. An interim dividend of 2.8p per share will be paid on 28 April 2006 to shareholders on the register on 31 March 2006 – representing an increase of 20% on last year's interim dividend in line with our 2004 prospectus. The balance sheet in the interim accounts has been prepared in accordance with the new requirements of FRS21 under which proposed but unpaid dividends are no longer included as creditors.

Consolidated earnings per share were 4.9p for the period, of which 1.0p is attributable to the sale of three investments as described below.

The portfolio has been revalued by the Directors as at 31 December 2005 to give a net asset value of 149p per share, an increase of 4.3% over the restated 30 June 2005 position. The revaluation is based on a discounted cash flow calculation, applying an appropriate discount rate to forecast cash flows from each project. The overall discount rate across the portfolio is 9.1%.

The Portfolio

The portfolio currently comprises equity stakes, including subordinated debt, in a total of 15 PFI/PPP project companies, with shareholdings ranging between 17% and 100%. All but one are accommodation projects, mainly in health, education and defence housing, and across the portfolio revenues from the public sector clients are substantially independent of demand for the services provided.

The Argyll and Bute schools and Stobhill hospital projects are still at an early stage in construction while the Salisbury hospital extension, Lochgilphead community hospital and York schools are nearing completion. The Salisbury and Lochgilphead companies have each had to advise its NHS client of a delay to construction completion and services commencement of the order of two months. However, as is normal in PFI, the construction contracts provide indemnification for the project companies for the resulting loss of revenue.

Each of the 10 projects in the operational phase is running smoothly, with minimal performance payment deductions.

Investment Activity

It has been an active six months, with a total of £5.7 million invested in three primary projects plus £6.1 million in three secondary projects, two of which already featured in the portfolio.

As announced in my statement in September, we invested £0.6 million in July to take a 50% stake in the Stobhill Local Forensic Psychiatric Unit project. At that time I also announced our investment of £3.7 million in respect of 50% of the Argyll & Bute Schools project, our largest primary investment to date and structured on the basis of a non-profit distributing organisation (NPDO). Our final primary investment was £1.4 million for 30% of the Fife Schools project led by Miller Group, which involves the construction and operation of ten primary schools.

As regards secondary investments, in December we purchased 100% of the Penweddig School project in Aberystwyth for £3.5 million. This project, is now well into the operational phase having opened in early 2001. As previously announced, we committed a further £1.1 million for a further 40% of the Tiverton Community Hospital project; and we exercised our pre-emption rights to increase our shareholding in the Edinburgh Schools project from 10% to 17.1% at a cost of £1.6 million.

During the period we also sold our 28.6% stakes in the Aberdeenshire Schools, Chester le Street Community Hospital and Stockton Schools projects for a total of £3.2 million, representing a profit of £1.1 million over the acquisition price in July 2004 and £0.3 million over the June 2005 valuation. Although it is our objective to build up the portfolio, on this occasion it made sense to be a seller in the context of the sale of 100% of the project companies, in view of the very satisfactory price on offer.

Portfolio Development

Cash balances net of commitments to project companies currently total approximately £14 million. Our current pipeline of projects at preferred bidder stage, if they come through to financial close as expected, will require a cash investment of approximately £11.3 million over the next four months or so. Even without any secondary investments we expect therefore to be substantially fully invested during 2006, the timing dependent upon the speed of closing our pipeline of primary investments and the opportunities we may have for secondary investment, whether as follow on investments in the existing portfolio or in other established projects.

Placing

In order to enable the Company to benefit from the investment opportunities open to it, the Board is today announcing a Placing of ordinary shares to raise £30 million before expenses. The Placing is underwritten by Collins Stewart. Details are included in a separate circular which is being sent to shareholders.

The Market

The most notable feature of the past year has been the continued downward pressure on yield in the secondary market, driven by exceptionally low long bond yields and the substantial resources committed to this market by other specialist institutional players. Against that background we have sought to maintain our investment discipline in terms of required returns, and have been out-bid in auctions for a number of secondary assets. Although prospective primary returns remain generally satisfactory, some pressure may be expected through a closing of the gap between primary and secondary yields.

We remain confident in the performance of the portfolio and its prospects for development.

RICHARD JEWSON
Chairman
10 March 2006

Disaggregation of results

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

The first column, headed PFI Co/Finco, represents a consolidation of PFI Co and Finco, but excluding from this consolidation those six SPCs which are subsidiaries. This reconciles to the fully consolidated Group accounts with the addition of the six 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: Group Profit & Loss Account	PFI Co/ Finco £'000	Subsidiary SPCs £'000	Consolidation Adjustments £'000	Group Total £'000
Group turnover	–	4,087	–	4,087
Cost of sales	–	(655)	–	(655)
Gross profit	–	3,432	–	3,432
Operating and administrative expenses	(544)	(548)	–	(1,092)
Amortisation of goodwill arising on acquisition of subsidiaries	–	–	(282)	(282)
Other income and dividends	378	–	(135)	243
Group operating profit	(166)	2,884	(417)	2,301
Profit on disposal of investments	333	–	–	333
Profit on ordinary activities before interest	167	2,884	(417)	2,634
Income from investments	1,210	–	(752)	458
Interest receivable	433	124	–	557
Interest payable and similar charges	–	(2,566)	645	(1,921)
Profit on ordinary activities before taxation	1,810	442	(524)	1,728
Taxation	(102)	(160)	–	(262)
Profit on ordinary activities after taxation	1,708	282	(524)	1,466
Minority interests	–	–	196	196
Profit attributable to shareholders	1,708	282	(328)	1,662
Earnings per share	5.1p			4.9p

Financial Review

Proforma: Balance Sheet	PFI Co/ Finco £'000	SPVs £'000	Consolidation Adjustments £'000	Group Total £'000
Fixed assets				
Intangible assets	–	4,814	6,459	11,273
Tangible assets	–	34,407	–	34,407
Investments	35,230	–	(19,361)	15,869
	35,230	39,221	(12,902)	61,549
Current assets				
Debtors – due within one year	1,092	2,228	(414)	2,906
Debtors – outwith one year	–	36,417	–	36,417
Cash at bank and on deposit	14,318	6,974	–	21,292
	15,410	45,619	(414)	60,615
Creditors: amounts falling due within one year				
Bank and other loans	–	(1,474)	–	(1,474)
Other creditors	(455)	(3,496)	458	(3,493)
	(455)	(4,970)	458	(4,967)
Net current assets	14,955	40,649	44	55,648
Total assets less current liabilities	50,185	79,870	(12,858)	117,197
Creditors: amounts falling due after more than one year				
Bank and other loans	35	(73,988)	10,629	(63,324)
Provisions for liabilities and charges	–	(1,350)	(160)	(1,510)
Accruals and deferred income				
Deferred government grants	–	(1,378)	–	(1,378)
Other deferred income	–	(1,313)	–	(1,313)
	–	(2,691)	–	(2,691)
Minority interests	–	–	406	406
Net assets	50,220	1,841	(1,983)	50,078
Financed by capital and reserves				
Called up share capital	3,357	5	(5)	3,357
Share premium account	41,179	275	(275)	41,179
Revaluation reserve	3,097	1,054	(1,428)	2,723
Profit and loss account	2,587	507	(275)	2,819
Shareholders funds – equity	50,220	1,841	(1,983)	50,078
Net asset value per share	149.6p			149.2p

Group Profit and Loss Account

Six months ended 31 December 2005

	Notes	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 re-stated £'000	14 months ended 30 June 2005 re-stated £'000
Turnover from continuing operations:				
Ongoing		**3,555**	3,564	7,262
Acquisitions		**532**	–	–
Group Turnover		**4,087**	3,564	7,262
Cost of sales		**(655)**	(477)	(1,274)
Gross Profit		**3,432**	3,087	5,988
Operating and administrative expenses		**(1,092)**	(1,068)	(1,984)
Amortisation of goodwill arising on acquisition of subsidiaries		**(282)**	(251)	(537)
Other operating income		**243**	–	92
Operating Profit from continuing operations:				
Ongoing		**2,034**	1,768	3,559
Acquisitions		**267**	–	–
Group Operating Profit		**2,301**	1,768	3,559
Profit on disposal of investments		**333**	242	242
Profit on Ordinary Activities before Interest		**2,634**	2,010	3,801
Income from investments		**458**	429	672
Bank interest receivable		**557**	604	1,258
Interest payable and similar charges		**(1,921)**	(1,641)	(3,243)
Profit on Ordinary Activities before Taxation		**1,728**	1,402	2,488
Taxation	2	**(262)**	(172)	344
Profit on Ordinary Activities after Taxation		**1,466**	1,230	2,832
Minority interests		**196**	(27)	116
Profit attributable to shareholders		**1,662**	1,203	2,948
Earnings per share – basic and diluted	4	**4.9p**	3.6p	8.8p

Group Statement of Total Recognised Gains and Losses

For the six months ended 31 December 2005

	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 £'000	14 months ended 30 June 2005 £'000
Profit attributable to shareholders	**1,662**	1,203	2,948
Unrealised revaluation gains during the period	**1,982**	652	1,300
Total Recognised Gains relating to the period	**3,644**	1,855	4,248

Reconciliation of Movements in Group Shareholders' Funds

For the six months ended 31 December 2005

	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 re-stated £'000	14 months ended 30 June 2005 re-stated £'000
Total recognised gains relating to the period	**3,644**	1,855	4,248
Dividends	**(1,565)**	–	(785)
Total movements during the period	**2,079**	1,855	3,463
Shareholders' funds at 1 July 2005	**47,999**	44,537	44,536
Closing Shareholders' Funds	**50,078**	46,392	47,999

Group Balance Sheet

As at 31 December 2005

	Notes	At 31 December 2005 £'000	At 31 December 2004 re-stated £'000	At 30 June 2005 re-stated £'000
Fixed Assets				
Intangible assets		**11,273**	9,032	9,474
Tangible assets		**34,407**	23,553	23,558
Investments		**15,869**	8,527	9,851
		61,549	41,112	42,883
Current Assets				
Debtors – due within one year		**2,906**	1,721	2,708
Debtors – outwith one year		**36,417**	27,545	26,179
Cash at bank and on deposit		**21,292**	27,993	27,480
		60,615	57,259	56,367
Creditors: amounts falling due within one year				
Bank and other loans		**(1,474)**	(768)	(1,163)
Other creditors		**(3,493)**	(2,935)	(2,328)
		(4,967)	(3,703)	(3,491)
Net Current Assets		**55,648**	53,556	52,876
Total Assets Less Current Liabilities		**117,197**	94,668	95,759
Creditors: amounts falling due after more than one year				
Bank and other loans		**(63,324)**	(45,177)	(44,494)
Provisions for Liabilities and Charges		**(1,510)**	(568)	(703)
Accruals and Deferred Income				
Deferred government grants		**(1,378)**	(1,443)	(1,407)
Other deferred income		**(1,313)**	(1,007)	(1,351)
		(2,691)	(2,450)	(2,758)
Minority interests		**406**	(81)	195
Net Assets		**50,078**	46,392	47,999
Financed by				
Capital and Reserves				
Called up share capital		**3,357**	3,357	3,357
Share premium account		**41,179**	41,179	41,179
Revaluation reserve	8	**2,723**	653	1,300
Profit and loss account	9	**2,819**	1,203	2,163
Shareholders' Funds – Equity		**50,078**	46,392	47,999

Group Cash Flow

For the six months ending 31 December 2005

	Notes	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 £'000	14 months ended 30 June 2005 £'000
Net Cash Inflow from Operating Activities	6	**2,930**	2,443	1,848
Returns on Investments and Servicing of Finance		**(906)**	(875)	(602)
Taxation		**(213)**	(188)	241
Capital Expenditure and Financial Investment		**(3,467)**	(8,224)	(8,248)
Acquisitions and disposals		**(2,459)**	(9,348)	(9,348)
Equity Dividends Paid		**(1,565)**	(26)	(785)
Cash (outflow)/inflow to short term deposits		**6,044**	(26,921)	(24,451)
Net Cash Outflow before Financing		**364**	(43,139)	(41,345)
Financing		**(508)**	44,211	44,374
(Decrease)/Increase in Cash in the Period		**(144)**	1,072	3,029

1. Basis of Preparation of the Accounts

The financial information has been prepared on the basis of accounting policies which are consistent with those expected to be adopted in the Group's statutory accounts for the year ended 30 June 2006. These policies are consistent with those used in the Group's final accounts for the period ended 30 June 2005 (available at www.pfiplc.com) with the exception that new secondary investments are now valued at cost and any existing shareholdings in the same company are revalued at the same share price in accordance with British Venture Capital Association 'BVCA' guidelines and that during the current period, Financial Reporting Standard FRS 21: Post Balance Sheet Events has been adopted.

Under FRS 21: Post Balance Sheet Events, dividends declared after the balance sheet date are not recognised as a liability at that period end on the basis that they do not become a non discretionary legal obligation until they are paid in the case of an interim dividend or they are paid or approved by the Members in General Meeting for a final dividend. As a result, at the relevant period end dates no provision has been made for interim dividends declared in respect of the interim periods to 31 December 2004 and 31 December 2005, or the final dividend in respect of the year to 30 June 2005. This had the effect of increasing shareholders' funds at 31 December 2005 by £940,000, at 30 June 2005 by £1,565,000 and at 31 December 2004 by £785,000.

The financial information contained in the interim statements does not constitute statutory accounts. The information for the period to 30 June 2005 is derived from the published statutory accounts. A copy of the full accounts for that period, on which the auditors have issued an unqualified report, has been delivered to the Registrar of Companies.

2. Taxation

The tax charge of £0.3 million for the six months to 31 December 2005 (30 June – credit £0.3 million) represents tax charges on PFI Infrastructure Finance Limited and those PFI/PPP project companies which are subsidiaries.

3. Dividends

No provision has been made for the interim dividend at 31 December 2005. The final dividend of £1.7 million relating to the period 30 June 2005 was paid on 4 November 2005. The interim dividend of 2.8 pence per share will be paid on 28 April 2006 to members on the register at the close of business on 31 March 2006.

4. Earnings per share and Diluted Earnings per Share

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

5. Net Assets per Share

The net assets per share of 149p as at 31 December 2005 are based on 33,571,429 ordinary shares in issue as at that date (30 June 2005 – 33,571,429).

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

	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 £'000	14 months ended 30 June 2005 £'000
Group operating profit	2,301	1,768	3,559
Grants released	(30)	(31)	(70)
Depreciation on tangible fixed assets	161	–	–
Amortisation on goodwill	282	251	537
Decrease/(increase) in operating debtors and prepayments	339	1,418	(726)
Decrease in operating creditors and accruals	(123)	(963)	(1,452)
Net cash inflow from operating activities	2,930	2,443	1,848

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

	6 months ended 31 December 2005 £'000	6 months ended 31 December 2004 £'000	14 months ended 30 June 2005 £'000
(Decrease)/Increase in cash in the period	(144)	1,072	3,029
Cash outflow from decrease in loans	509	273	562
Cash inflow from new short term cash facility	–	(400)	(400)
Issue costs of new long term loans	–	36	36
Cash (outflow)/inflow to short term deposits	(6,044)	26,921	24,451
	(5,679)	27,902	27,678
Loans acquired with subsidiaries	(19,555)	(45,356)	(45,356)
Subordinated debt acquired with subsidiaries	–	(498)	(498)
Movement in net debt in the period	(25,329)	(17,952)	(18,176)
Net debt at 1 July 2005	(18,176)	–	–
Net debt at 31 December 2005	(43,506)	(17,952)	(18,176)

8. Reconciliation of Movements in Revaluation Reserve

	6 months ended 31 December 2005 £'000
Balance at 1 July 2005	1,300
Revaluation realised on disposal of investments	(559)
	741
Surplus on the revaluation of investments	1,982
Balance at 31 December 2005	2,723

9. Restatement of Group Profit and Loss Account

	6 months ended 31 December 2005 £'000
Balance at 1 July 2005 (as previously reported)	598
Prior years' FRS 21 adjustment	1,565
Balance at 1 July 2005 (re-stated)	2,163
Profit attributable to members of the parent company for the period	1,662
Final dividend for the year ended 30 June 2005 paid in the period	(1,565)
Revaluation realised on disposal of investments	559
Balance at 31 December 2005	2,819

Independent Review Report

Introduction

We have been instructed by the Company to review the financial information set out on pages 6 to 11 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The AIM Rules issued by the London Stock Exchange require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2005.

Ernst & Young LLC
Douglas
Isle of Man

10 March 2006

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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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The PFI Infrastructure Company plc