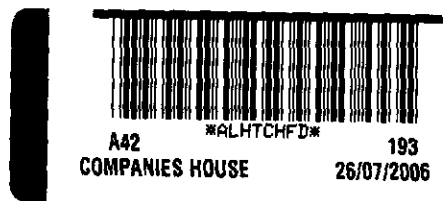


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 **PartnershipsUK**

Annual Report **2006**

Partnerships UK is a joint venture between the Government and the private sector. We work exclusively with the public sector, committing human and financial resources to pursue high quality, cost-effective and sustainable public services and investments. Partnerships UK is a joint venture between the public and private sectors and so is itself a PPP.

Our commitment is to:

- **Put the interests of our public sector clients first;**
- **Act with integrity, fairness and transparency;**
- **Help set best practice in developing, procuring and implementing PPPs;**
- **Develop new models and applications for PPPs;**
- **Deploy our human and financial resources where they provide additionality to the public sector;**
- **Serve all parts of the public sector in delivering Government priorities;**
- **Earn an appropriate and sustainable return on our shareholders' investments;**
- **Invest in and develop the skills of our people to maintain Partnerships UK as a centre of expertise in PPPs.**

*The business has performed strongly
over the last twelve months*

In March this year PUK celebrated the fifth anniversary of becoming a public private partnership (PPP). This is an appropriate time to reflect on the significant contribution that PUK has made to the delivery of public services in the UK through the PFI and PPPs.

Over the last five years, over 300 projects have been closed with total investment exceeding £35bn. PUK has remained true to its mission, supporting the development of PPP projects across all public service sectors and covering all parts of the United Kingdom. Notable project successes this year included supporting the Barts/London Hospital project and the Allenby/Connaught MOD accommodation project to financial close. These two projects had a combined capital value of over £2.5bn. This year also saw the forty-second NHS LIFT deal close, representing the completion of the original business plan for an ambitious programme of investment in primary and community based healthcare facilities.

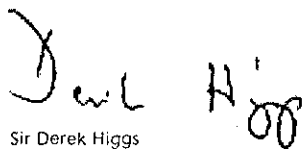
During the year we carried out a review of operational projects in conjunction with HM Treasury. The results of this survey were generally very positive, with the overall message being that projects were working well in practice and the public sector bodies and end users were satisfied with the service that they were receiving. However, we have recognised that more can be done to support the development of these operational projects and this is an important priority for PUK. On 1st April this year we established, on behalf of HM Treasury, an Operational Taskforce which will provide immediate support to the market.

Our international activities remain a small but important part of our business. With limited resources PUK has established a significant reputation in the global PPP market. For example, this year we hosted a two day seminar for the heads of all the European PPP taskforces.

The Advisory Council met twice this year and I thank all its members for their time and support. I would particularly like to thank Lord Turnbull who stepped down as Chairman this year. Andrew had been Chairman since the inception of PUK and had provided much appreciated help and guidance. I welcome Nick Macpherson, the Permanent Secretary to HM Treasury, who has very kindly agreed to become the new Chairman of the Council.

During the year, Judith Hanratty resigned as a Director, and Christina McComb resigned as a Director and joined the Executive management team. The Board is grateful to them both for their valuable input throughout their time as Directors.

Finally I would like to thank all the staff at PUK for their hard work and commitment this year. The success of the business is very much down to them.



Sir Derek Higgs
Chairman

19 June 2006

Chief Executive's Review

*The financial results for the year have
very profile with the business performing
significantly ahead of expectations*

Business Highlights

The business has performed strongly over the last twelve months. Highlights of the year include:

- Supporting the close of the £1bn Barts/London Hospital project ;
- Supporting the close of the £1.5bn Allenby/Connaught MOD accommodation project;
- Supporting the development of the Forest Holidays PPP;
- Supporting the close of the Argyll and Bute Schools PPP, the first such project to be structured on a non-profit distributing basis;
- Establishing, on behalf of HM Treasury, the Operational Taskforce;
- Achieving a marked reduction in derogation requests in the projects closing in the year, demonstrating the successful implementation of standardised contracts; and
- Completion by Partnerships for Health of the final NHS LIFT project, marking the closing of all 42 LIFT projects in the initial three waves.

A very important activity in the last year has been the putting in place of new framework agreements, which facilitate public sector bodies in the procurement of services from PUK. Originally eighteen framework agreements were signed in March 2000 and most were for five years. To date seventeen new frameworks are in place and we are at an advanced stage of discussions on four more. We have taken this as a strong demonstration of the public sector's belief in the value and unique offering of PUK.

When PUK was originally set up we committed, as part of our public sector mission, to reinvest part of our returns back into the market. Examples of this type of activity this year include:

- Funding of the Projects Database, as the definitive source of PFI market information and which is free at the point of use;
- Co-funding, with HM Treasury, a comprehensive review of Operational Projects; and
- Supporting the development of guidance on the procurement of IT projects.

The fifth anniversary of PUK itself becoming a Public Private Partnership is an appropriate time to consider the long term strategy of the business. The Board of PUK recently approved the following long term strategic goals:

In order to build on our strengths and continue to differentiate ourselves:

- **Preserve the unique role of PUK. Maintain PUK's public sector mission and maintain its commitment to working only for the public sector;**
- **Focus on the top end of the value chain;**
- **Maintain our focus on quality and excellence.**

In looking to diversify our activities:

- **Maintain PUK as centre of excellence for PFI and PPP;**
- **Develop PUK into a centre of excellence for wider procurement;**
- **Develop an operational support business to match the procurement businesses.**

In looking to build a business with greater flexibility and robustness:

- **Build businesses with critical mass;**
- **Build an equity investment portfolio of £25m in three years time;**
- **Achieve liquidity in our balance sheet investments.**

Business Performance

The financial results for the year were very positive with the business performing ahead of expectations. The Group's turnover, including share of joint ventures, remained broadly in line with the prior year at £17.5m (2005: £17.8m). After payment of interest on the 6% Convertible Unsecured Loan Stock, the business has reported a profit before tax of £1.0m (2005: £0.5m).

The highlights of the financial performance were as follows:

- Overall the business made a profit before tax of £1.0m compared to a budgeted loss of (£3.9m);
- The projects business pursued under Development Partnerships was significantly ahead of budget, reflecting the close of forecast projects and the premature termination of others;
- The support business turnover was £9.7m, 15% up on last year;
- The sale of our investment in Smart Holograms yielded a significant profit. This sale was not in the budget; and
- The results for the joint ventures (PFS and PfH) continue to have a significant impact on the business. Both performed marginally ahead of budget.

PUK's own operating profit, excluding its joint arrangement and joint ventures, increased from a profit of £3.4m to a profit of £4.9m, as shown in the following table. More detailed analysis is shown at Note 25.

Chief Executive's Review

	2006 £m	2006 £m	2005 £m
PUK Business operating profit	4.9		3.4
Net interest payable	(1.4)		(1.2)
PUK Business operating profit after interest	3.5		2.2
PUK Portfolio Business	1.3		(0.7)
Business and Portfolio Business		4.8	1.5
Joint ventures and joint arrangement (share of profit before tax, including LIFT portfolio investment income)			
Partnerships for Health		0.5	2.4
Partnerships for Schools		(4.3)	(3.7)
Partnerships for Church of England Schools		-	0.3
Total joint ventures and arrangements		(3.8)	(1.0)
Group profit before tax		1.0	0.5

Overview of Business

PUK has three main business streams:

- **Project and Policy Support** - Providing support to central and local government and other public bodies on the implementation of projects and the development of PPP policy. This includes providing support to overseas Governments on the development of PPP programmes;
- **Managed Procurement Initiatives** - Developing and investing in centrally managed procurement initiatives;
- **Equity Investment** - Investing risk capital in new ventures.

Project and Policy Support

Development Partnership Agreements

An important part of PUK's project activity is carried out under Development Partnership Agreements (DPAs). Under a DPA, PUK enters into a joint venture agreement with the public sector body and becomes the co-sponsor of the procurement. DPA revenues for the year were significantly up on last year; £3.9m compared to £2.1m.

One of the main successes of the year was the closure of the Barts/London Hospital PFI project. PUK has supported this project under a DPA since its inception. It was the largest hospital project to reach financial close to date and PUK was acknowledged to have added significant value to the procurement process. PUK also helped the Argyll and Bute Council close an innovative schools project which was the first PFI transaction to be closed using a non-profit distributing model.

Part of the increased DPA revenues was attributable to three projects being terminated early during the procurement process. On these projects, as the reasons for early termination were related to changes in policy, PUK was entitled to recover its accrued costs. The most significant of these projects was Paddington Health Campus.

HM Treasury Framework

The revenues under the HM Treasury Framework Agreement remained stable at £2.5m. PUK's support to HM Treasury focused not only on the delivery of existing core activities (such as running the Helpdesk, work on Standardisation of PFI contracts, operating the Refinancing Taskforce and undertaking of reviews for the Projects Review Group), but also in providing significant PUK senior support to HM Treasury on its recently published policy document, "PFI: strengthening long-term partnerships" (SLTP).

Other Support Income

Other Support activity grew from £5.9m to £7.1m, up 20%. As part of our public sector mission it is important that our activities cover a wide geographical and sectoral spread. We presented evidence on this to the last PUK Advisory Council and they confirmed their satisfaction that our activities are sufficiently diverse and that we are compliant with our public sector mission.

Examples of work carried out during the year, which contributed to the increase in revenue, were:

- Supporting the Ministry of Defence on the Allenby/Connaught accommodation project which successfully closed during the year;
- Supporting the Ministry of Defence on the Military Flying Training System and the Future Strategic Tanker Aircraft projects;
- Supporting the procurement and financial close of schools PFI projects that pre-date the start of the Building Schools for the Future programme;
- Supporting the Department for Transport in relation to Birmingham City Council's procurement of a major roads maintenance contract;
- Continuing to support the Department for Health on the National Programme for IT;
- Providing intensive support to the Immigration and Nationality Department on the e-Borders project;
- Supporting the development of the delivery and procurement approaches to major new investment activity such as the Crossrail project and the investment needed for the 2012 Olympic Games;
- Meeting in support of HM Treasury and UK Trade and Investment with delegations from more than 60 overseas Governments. Officials from 16 of these Governments also attended PUK's International PPP foundation courses.

Commercialisation Unit

The core of PUK's commercialisation work continued to be supporting the HM Treasury Science and Industry Team and the DTI Office of Science and Innovation (OSI, formerly OST) in implementing the Government's Wider Markets Initiative (WMI) and their agenda for the exploitation of Government funded research. Significant developments during the year, supported by PUK, included: the OSI award of knowledge transfer funding to 42 Public Sector Research Establishments; the establishment by the Strategic Investment Board of a WMI programme in Northern Ireland; and the NAO report on the WMI, published in January 2006. PUK supported the Institute of Animal Health in developing Protecta Technologies Limited and the

Chief Executive's Review

Forestry Commission's Forest Holidays PPP initiative, both under DPAs. This was the second year in which PUK sponsored the category of entrepreneurship within the Public Servant of the Year award scheme – the winner was the commercialisation vehicle of the Central Laboratory of the Research Councils.

Operational Support

The main focus of PUK's activities over the last five years has been the procurement phase of projects. With around 700 projects operational, we have recognised the need to allocate more of our resources to supporting the operational phase of projects. This is reflected in the long term goals set out above.

In March 2006 PUK published a review of Operational Projects. This review was carried out on behalf of HM Treasury. The review provided clear evidence that projects were working well in the operational phase, that users were generally satisfied and that public authorities were achieving the objectives they had envisaged when procuring the project. The report also identified some areas where further support will be required by operational projects, and one of HM Treasury's major new initiatives, announced in SLTP (and informed by PUK's survey) is to provide an Operational Taskforce aimed at giving greater guidance and support to the public sector in managing projects in the operational phase. This Taskforce is provided by PUK and went live at the start of April 2006. One of the main aims of the Operational Taskforce is to create a culture in both the public and private sectors of better contract management with a focus on value creation rather than just reacting to what is in the contract.

PUK will also provide direct support to public authorities on specific operational projects beyond the scope of the Operational Taskforce, where this is required.

Secondment Revenue

We have continued our policy of external secondments. This provides an invaluable offering to public sector authorities who are looking for skilled and experienced people to fill key delivery posts. PUK currently has secondees in HM Treasury, Ministry of Defence, the Scottish Executive, Crossrail, DCMS, PFS and PpH. In recognition of the growing importance of this business, we have amended our accounting policies, so that turnover from secondments is recognised as a discrete item of turnover, as opposed to our previous policy of netting secondment recoveries against employment costs.

Managed Procurement Initiatives

PUK has two joint ventures with Government departments to support the delivery of major investment programmes: Partnerships for Schools and Partnerships for Health. In addition, PUK is looking to establish other similar joint ventures. The most advanced in terms of discussions is HUB, a primary and community care programme in Scotland.

Partnerships for Schools

Partnerships for Schools is now firmly established and making good progress in the delivery of the Building Schools for the Future programme (BSF). Three projects had reached the Preferred Bidder stage at the year end: Bristol, Bradford and Lancashire, with the first financial close expected in June 2006. Ten other projects are in procurement in waves 1-3 and waves 4-6 are due to be announced shortly.

The success of PFS in getting the BSF programme into the real delivery phase and the confidence that DfES now clearly has in PFS has resulted in the transfer of delivery responsibility for the Academies programme to PFS in March 2006. It is believed that the benefits resulting from the removal of such a key interface, especially for those Local Authorities that were trying to manage BSF and Academy delivery concurrently, will be considerable. PFS and the DfES are currently managing a transitional process to ensure both programmes proceed smoothly.

In financial terms PFS has a significant impact on the PUK results. Expenditure in the year under the PFS joint venture arrangement was £4.3m (2005: £3.7m).

Partnerships for Health

Partnerships for Health reached a very significant milestone in December 2005 with the closing of the 42nd and last LIFT project in the initial three waves. The LIFT programme has been a notable success. The original prime objective was to enable an initial £1bn of investment in primary and community based healthcare services, particularly in deprived areas. Parallel objectives were to enable a structure to be established to deliver a long term programme of investment, and to generate capacity in the private sector supply market. All of these objectives are well on the way to being achieved. There is now a competitive private sector market, a choice of suppliers, and investment levels are fast approaching the £1bn mark as established LIFT businesses bring forward further projects.

Investment levels have increased significantly in the last six months. PUK has now invested around £9m in PFH, principally to support its investments in LIFTcos. The 42 LIFTcos have made over 60 investments which represent more than 150 new or improved buildings. Around 50% of LIFTcos have made second tranche investments and some are on their third.

In terms of future procurement activity, PFH is currently working on Wave 4 of LIFT which consists of eight projects. The recent Department of Health White Paper gave indications of future investment plans and demonstrated that there may be other opportunities for PFH. PFH is also in discussions with PUK on supporting the primary healthcare programmes in Scotland and Northern Ireland.

Chief Executive's Review

Portfolio Investments

The portfolio of investments at the year end consisted of six investments and was valued at £6.3m. During the year we made our first disposals, on Watergrid, Enigma and Smart Holograms, and made a significant aggregate net profit.

Further investments have been made in Acolyte and Smart Holograms (before disposal) and new investments in Zoobiotics, Imperial Innovation Fund, and Celltran.

The valuation of the portfolio at the year end was made in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which replace the Valuation Guidelines issued by the British Venture Capital Association (BVCA) which were used last year. The change has not affected the amounts reported.

Performance against Key Business Objectives

The Board monitors the progress of the business against a number of key objectives agreed as part of each year's business planning process. The key objectives this year, with comments on the extent to which they have been achieved, included the following:

- Achieving the annual budget – the budget level of performance was exceeded, both by the Group and by PUK excluding the joint ventures;
- Renewal of framework agreements – as set out above, 17 new framework agreements have been signed;
- Developing a business around support for operational projects – the Operational Taskforce came into being in April 2006;
- Supporting the development of Partnerships for Schools – progress in PfS is set out above;
- Developing new initiatives – good progress has been made in relation to a new programme of primary care investment in Scotland.

There are over 20 other objectives that were set out in the Business Plan, and the Board has monitored progress against them on a regular basis.

Outlook for the Future

The outlook for next year is very positive. One of the main priorities is to diversify away from the focus on the procurement phase of projects and to develop a market for the support of operational projects. The setting up of the Operational Taskforce is a key initiative in this area. We are also looking to expand our activities in the waste, health and property sectors. In the waste sector we are working closely with DEFRA and other key stakeholders and have committed four full time equivalents to the Waste Infrastructure Development Programme which is a co-ordinated effort to drive the investment programme forward.

We will be taking forward our strategy to build an expanded portfolio of investments, and supporting Partnerships for Health in their investment in the increasing flow of projects coming out of the LIFT programme. Next year is an important year for Partnerships for Schools, as the first transactions reach financial close and future waves are announced. The team will also be managing the integration of the Academies programme.

Overall, we look forward to further success, and a wider range of activities, for PUK as it enters its sixth year of operations.

Employees

Central to PUK's success is the ability to attract and retain quality people. We focus on providing staff with good training and an attractive career path and maintaining a balance of skills and experiences.

Finally I would like to thank all the staff for their hard work and support. This has been a very successful year and an appropriate way to mark our fifth anniversary.



James Stewart
Chief Executive
19 June 2006

Directors' Report

for the year ended 31 March 2006

The Directors present their report together with the consolidated financial statements of the Group for the year ended 31 March 2006.

Principal activities and Business review

The Company was established with the purpose of accelerating the development, procurement and implementation of any type of public private partnership (PPP), involving an interface between the public and private sectors, committing human and financial resources in pursuit of high quality, cost effective and sustainable public services and investments. The Company works exclusively with and for the public sector. The Company is a joint venture between the public and private sectors and so is itself a PPP.

A review of the Group's operations, including the outlook for the future, is given in the Chairman's Statement and Chief Executive's Review on pages 1 to 9.

Results and Dividend

The Group's profit for the year before taxation amounted to £928,000 (2005: £452,000) and the profit after tax amounted to £739,000 (2005: (£220,000)), as shown on page 23. The Directors do not propose the payment of a dividend for the year (2005: £nil).

Directors and Directors' interests

The Directors of the Company, who served throughout the year except as noted below, are as follows:

Sir Derek Higgs, Chairman * 1 3	Gren Folwell * 2 3
James Stewart, Chief Executive 1	Judith Harratty OBE * 2 3 Resigned 20/7/2005
Michael Gerrard, Deputy Chief Executive 1	Nicolas Lethbridge * 1 3
David Goldstone, Finance Director	Christina McComb * 0 1 3 Resigned 28/3/2006
Andrew Rose 1	Sir Steve Robson CB * 1 3
David Clements * 2 3	James Sassoon * 0 2 3

* Non-Executive 0 HM Treasury nominees 1 Investment Committee 2 Audit Committee 3 Remuneration Committee

None of the Directors held an interest in the shares of the Company or its subsidiaries during the year.

The Chairman, Sir Derek Higgs, is also Chairman of Alliance & Leicester Plc and Bramdean Asset Management LLP, Deputy Chairman of The British Land Company PLC and Business in the Community, and is a Non-Executive Director of Jones Lang LaSalle Inc.

Shareholders

At 31 March 2006, the shares of the Company were held as follows:

	Shares	Percentage holding
A Ordinary shares		
The Prudential Assurance Company Limited	888,888	8.89
Urbior Infrastructure Investments Limited	888,888	8.89
Abbey National Treasury Services plc	666,666	6.67
Sun Life Assurance Society plc		
(HSBC Global Custody Nominees (UK) Limited)	666,666	6.67
Barclays Industrial Investments Limited	605,558	6.06

Directors' Report

for the year ended 31 March 2006

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Shareholders (continued)

	Shares	Percentage holding
Royal Bank Project Investments Limited	605,558	6.06
Serco Limited	333,332	3.32
The British Land Company plc (Boldswitch Limited)	222,222	2.22
Global Solutions Limited	222,222	2.22
	5,100,000	51.00
B Ordinary shares		
H M Treasury	4,455,556	44.56
The Scottish Ministers	444,444	4.44
	4,900,000	49.00
Total	10,000,000	100.00

Corporate Governance

The Company's Statement of Corporate Governance is set out on pages 13 to 21.

Principal Risks and Uncertainties

PUK's business is focussed on supporting the public sector, particularly in relation to commercial relationships with the private sector, to meet Government policy and service delivery priorities. There is an inherent risk in PUK's business, as it could be significantly affected by future changes in the direction of Government priorities, both in terms of specific public service areas and in the form of commercial engagement with the private sector. Beyond the potential impact of changes in Government policy, the principal risks and uncertainties in PUK's business are in relation to maintaining its reputation as a centre of expertise in PPPs, and this in turn is highly dependant on PUK's ability to recruit and retain staff of the necessary quality. PUK is also exposed to changes in the market value of its investments and to the risks affecting the performance of its joint ventures. All of these risks are reviewed as part of the corporate approach to risk management described in the Statement of Corporate Governance.

Financial risk management

With the exception of the Convertible Unsecured Loan Stock (CULS) (detailed in Note 16 to the accounts), the Company had no indebtedness as at 31 March 2006. The CULS carries a fixed rate of interest. The Company receives interest income on certain of its investments and on its cash balances. The interest rates on the investments are fixed, but the Company effectively receives a floating rate on its cash balances. The Company does not hold any derivative financial instruments to manage interest rate risks; no hedge accounting is applied.

The Company is exposed to fluctuations in the market value of its portfolio investments, which are accounted for at fair value in accordance with the policy set out in Note 1 to the accounts.

The Company works exclusively for public sector entities and consequently the Company has low counterparty credit risk in its support and advisory operations. Financial risk in DPA, investment and other transactions is managed in accordance with the Internal Control and Risk Management procedures detailed in the Statement of Corporate Governance.

As detailed in Note 14 to the accounts, the Company's policy is that funds held on short term deposits are only invested in AAA rated money market funds or with clearing banks.

Directors' Report

for the year ended 31 March 2006

The Company monitors on a regular basis all anticipated commitments or undertakings to fund additional investments or the costs under Development Partnership Agreements, to ensure that these are matched by available funds including borrowing facilities. The Company's surplus cash is held in money market funds which can be accessed without giving notice.

The Company does not have a significant exposure to foreign currencies, as the majority of its transactions are denominated in Sterling.

Third Party Indemnities

The Company's articles of association indemnify every Director or officer out of the assets of the Company against liability, loss or expenditure incurred by him in defending court proceedings in instances where judgement is given in his favour.

The Directors have exercised the right to maintain insurance at the expense of the Company against any liability in respect of errors and omissions as Directors or officers of the Company.

Statement of Disclosure of Information to Auditors

The Directors confirm that, for all Directors in office at the date of this report:

- So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. For this purpose, "relevant audit information" comprises the information needed by the Company's auditors in connection with preparing their report.
- Each Director has taken all the steps (such as making enquiries of other Directors and the auditors and any other steps required by the Director's duty to exercise due care, skill and diligence) that he/she ought to have taken in his/her duty as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of Policy on the payment of suppliers

It is the Company's policy to meet the terms of all individual supply contracts. It does not follow a published code or standard. The effect of the Company's policy is that trade creditors at the year end represented 6 days' purchases (2005: 4 days).

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

By order of the Board



J Ballingall
Secretary
10 Great George Street
London SW1P 3AE

19 June 2006

Statement of Corporate Governance

for the year ended 31 March 2006

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Combined Code Compliance

The Board values good corporate governance both in the areas of accountability and risk management and also as a positive contribution to the development of the business.

The policy of the Board in 2005/6 has been to manage the Company's affairs in accordance with the Financial Reporting Council's Combined Code on Corporate Governance, annexed to the Listing Rules of the Financial Services Authority ("the 2003 Code"), so far as the Board considers appropriate and relevant to the nature and scale of the Company's operations.

This report, therefore, addresses how the Company has applied the main and supporting principles of the 2003 Code where compliance is considered appropriate. The Board considers that it has complied with the provisions set out in Section 1 of the 2003 Code except as identified and explained in the appropriate sections below.

The corporate governance covered by this statement relates to the Company itself and its subsidiaries. Separate corporate governance arrangements are in place for its joint ventures: Partnerships for Health and Partnerships for Schools. The Company's Directors play a full part in the corporate governance arrangements of the joint ventures, including being members of their Audit Committees and Investment Committees.

Relations with Shareholders

The Board is accountable to shareholders for the direction and supervision of the Company's affairs.

The Company recognises the importance of a constructive relationship between the Board (both Executive and Non-Executive Directors) and its shareholders. It values a regular dialogue with the shareholders, whose views are communicated to the Board as a whole. Two formal meetings, including the Annual General Meeting ("AGM"), are held with shareholders each year, and half yearly management accounts are distributed to all shareholders. In addition, this year for the first time, shareholders met informally with the Non Executive Directors, without the Executive Directors being present, and also met informally with the Executive Directors.

The Board is formally accountable to shareholders, which is reinforced through the requirement for Directors to stand for re-election every three years with the exception of the two nominees of HM Treasury. During the year the HM Treasury nominees (the holder of 44.6% of the total shares in the Company) were James Sassoon and Christina McComb.

Directors seeking re-election at the 2006 AGM are James Stewart, Michael Gerrard and Gren Folwell. Biographies of each director seeking re-election will be included with the Notice of AGM. Judith Hanratty resigned as a Director in July 2005. Christina McComb resigned as a Director in March 2006, and has joined the executive management team since the end of the year.

Statement of Corporate Governance

for the year ended 31 March 2006

Public Sector Mission and Advisory Council

PUK has been established with a defined public sector mission. The following is the relevant object contained in PUK's Memorandum of Association:

"To assist governments (whether, local, municipal, regional, national, devolved, supreme, state, federal or otherwise, and whether of the United Kingdom or elsewhere) and other public bodies in the United Kingdom and elsewhere in the development, procurement, financing, implementation and management of private finance and public private partnership projects (being projects and undertakings the resources for which are provided partly by public bodies and partly by private persons) by entering into joint ventures, by participating in public private partnership projects with private persons or by acting as an investor, financier, consultant or otherwise; and to promote the development and use of public private partnerships generally".

In support of PUK's public sector mission, an Advisory Council has been established, whose members as at 31 March 2006 are set out on page 44. The Advisory Council was chaired by Lord Turnbull until May 2005, and is now chaired by Nicholas Macpherson, Permanent Secretary to HM Treasury. The Advisory Council consists of representatives from Government departments, the Devolved Administrations, local authorities and other public bodies. The purpose of the Advisory Council is to review the effectiveness of PUK in fulfilling its public sector mission. The Advisory Council meets twice a year and sends a report on PUK's activities to HM Treasury and The Scottish Ministers. It is the Council's current practice for these reports to be published by HM Treasury.

Composition of the Board

The Company's corporate governance policies require a majority of the Board to be composed of Non-Executive Directors, with a non-executive Chairman. Throughout 2005/6, the Chairman of the Board was Sir Derek Higgs.

The Company's Board comprises seven Non-Executive Directors (including the Chairman) and four Executive Directors. They have the collective responsibility for ensuring that the affairs of the Company are managed competently and with integrity. Two of the Non-Executive Directors during the year, James Sassoon and Christina McComb, were nominated by HM Treasury. The other Non-Executive Directors are considered by the Board to be independent.

No new Directors have been appointed during the year. Judith Hanratty and Christina McComb resigned during the year.

The Company does not have a Senior Independent Director. Such a position has not been deemed necessary due to the nature of the Company's shareholding. The shareholders have met with the Non-Executive Directors without the Executive Directors being present.

The Non-Executive Directors met formally without the Chairman being present once during the year.

Statement of Corporate Governance

for the year ended 31 March 2006

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Further details of the composition of the Board can be found in the Directors' Report on page 10.

Details of Directors' remuneration and the process for its determination are contained below in the Report on Remuneration and Related Matters.

The terms and conditions of Non-Executive Directors are available for inspection during business hours by request to the Company Secretary.

Operation of the Board

The Board focuses on the broad business strategy and key policy decisions affecting the Company. The Board also monitors the performance of the business against its strategy and targets, delegating more detailed consideration and actions arising from its monitoring to the executive management team. The Board receives regular management performance reports and operates a system of Board review of business performance against key business targets and objectives to enable it to discharge its duties.

The Board meets at least nine times each year. In 2005/6, it met formally nine times and had one extended informal meeting to discuss the Company's long-term business strategy and vision. To achieve the most effective discharge of its functions, the Board has delegated certain powers and duties to the following Board Committees:

- the Audit Committee assists the Board in monitoring the Group's accounting policies, internal controls and corporate governance arrangements;
- the Investment Committee approves all of the Company's investments, disposals and other financings within a defined maximum level of £1m commitment or sale value, and entry into Development Partnerships or other similar agreements within delegated limits, beyond which Board approval is required; and
- the Remuneration Committee determines the Company's remuneration policy and also the employment conditions and remuneration packages of the Executive Directors and senior staff.

The Board as a whole fulfils the role of a Nominations Committee. No new Directors have been appointed during the year.

In addition to the above Board Committees, the Company's Management Board assists the Chief Executive in the fulfilment of his duties. Membership of the Management Board is comprised of the Executive Directors and other senior staff (not Directors) of the Company. The Management Board's terms of reference were approved by the Board.

Meetings of the Audit Committee and Remuneration Committee are held on the same day as meetings of the Board whenever possible, whilst meetings of the Investment Committee precede meetings of the Board so that their conclusions and decisions can be recorded and reported to the Board.

Statement of Corporate Governance

for the year ended 31 March 2006

In the year ended 31 March 2006, the Audit Committee held three meetings, the Remuneration Committee two meetings and the Investment Committee nine meetings.

The following table details the number of Board and Committee meetings held during the year ended 31 March 2006 (as relevant for those appointed during the year) and the attendance record of each Director.

	Board	Investment Committee	Audit Committee	Remuneration Committee
Sir Derek Higgs	9/9	9/9	n/a	2/2
David Clements	9/9	n/a	2/2	2/2
Gren Folwell	9/9	n/a	3/3	2/2
Michael Gerrard	8/9	8/9	n/a	n/a
David Goldstone	9/9	n/a	n/a	n/a
Judith Hanratty	0/3	n/a	0/1	0/1
Nicolas Lethbridge	8/9	7/9	n/a	2/2
Christina McComb	7/8	9/9	n/a	2/2
Sir Steve Robson	8/9	8/9	n/a	2/2
Andrew Rose	9/9	9/9	n/a	n/a
James Sassoon	8/9	n/a	2/3	1/2
James Stewart	9/9	8/9	n/a	n/a

When a Director has not been able to attend a Company Board or Committee meeting, his/her comments on the papers to be considered at that meeting are generally relayed in advance to the relevant Chairman.

The Board undertakes a formal evaluation of its own performance and that of its individual Directors (including the Chairman) every two years. The latest evaluation was carried out at the beginning of the 2005/6 financial year and was reported to the Board at its July 2005 meeting.

The Audit Committee

The Audit Committee is comprised of three Non-Executive Directors, two of whom are independent. As a nominee of HM Treasury, James Sassoon is not considered by the Board to be independent.

The Chairman of the Committee is Gren Folwell, who has recent and relevant financial experience. It meets three times a year and assists the Board in reviewing the effectiveness of the Company's internal control systems. The Audit Committee also reviews the Annual Report and Financial Statements before their submission to the Board to ensure that they present a fair assessment of the Group's financial position and results. The Audit Committee focuses on reviewing any changes in accounting policy, major areas of judgement and estimates, and compliance with accounting principles and regulatory requirements.

The Audit Committee has formal terms of reference approved by the Board. These are available for inspection from the Company Secretary.

The Company's independent external auditors are invited to all meetings of the Audit Committee, as are the Finance Director and the Risk Manager.

Statement of Corporate Governance

for the year ended 31 March 2006

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The Committee also keeps under review the independence and objectivity of the external auditors and their effectiveness, taking into account relevant UK professional and regulatory requirements. As part of this, the Committee oversees and reports to the Board the nature and amount of non-audit work undertaken (both absolutely and relative to audit work) by PricewaterhouseCoopers LLP each year to ensure that external auditor independence is safeguarded.

The Committee makes recommendations to the Board for it to put to shareholders in general meeting in relation to the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.

Further roles of the Audit Committee are referred to below.

Internal Control and Risk Management

The Directors acknowledge that they are responsible for the system of internal control within the Company and its subsidiaries (the "Group"), for setting policy on internal control and for reviewing the effectiveness of internal control.

During the year ended 31 March 2006, the Board has maintained the procedures necessary to comply with the requirements of the 2003 Code relating to internal control, as described in the September 1999 Guidance "Internal Control: Guidance for Directors on the Combined Code" (Turnbull Guidance). The Board reports below on the procedures that have been applied in reviewing the effectiveness of the system of internal control.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year ended 31 March 2006 and up to the date of approval of the Annual Report and Accounts. It is reviewed each year by the Board and the Audit Committee and accords with the Turnbull Guidance.

A detailed financial procedures manual has been maintained throughout the year and was updated during the year.

A risk assessment matrix is also maintained to identify the significant risks to the business. The risk assessment process covers financial, operational and compliance controls. The matrix is reviewed annually by the Audit Committee and its findings are reported to the Board. As a result of the review of the risk matrix by the Audit Committee during 2005/6, an improved form of risk matrix is being introduced during 2006/7.

A quality control procedure is in operation whereby projects undertaken by the Company are reviewed. The Audit Committee selects a sample of projects for review. This involves obtaining feedback from clients, by way of questionnaire, on the quality and effectiveness of PUK's service.

The Audit Committee has assessed annually the need for an internal audit function. Having considered the scale, diversity and complexity of the Company's activities, the number of employees and the role of the Company's risk management function, the Committee has concluded that an internal audit function was not required this year.

Statement of Corporate Governance

for the year ended 31 March 2006

The Company's relationship with its joint venture, joint arrangement and portfolio investments is as a shareholder, with no direct management responsibility. As such, the internal controls adopted by the Company's joint venture, joint arrangement and portfolio investments are the responsibility of the boards of those companies. They are not covered by the Company's process for reviewing the effectiveness of internal control. Where the Company has a significant shareholding, it monitors the effectiveness of internal control and risk management arrangements through its membership and participation on their Board.

In May 2005, the Board approved a new "whistle blowing" policy to cover the reporting of misconduct.

Business Control

The key features of the Company's system of internal control are:

- a well defined management structure with clear accountabilities and delegations;
- a business planning and budget process that delivers detailed annual financial forecasts and targets for Board approval;
- a management information system which enables the Board to receive comprehensive quarterly analysis of the Company's financial and business performance, including variance against budget;
- a risk management function with responsibility for monitoring and reporting on risks and for helping the Board to identify and monitor all major risks to which the Company is exposed; and
- documented procedures and authority levels to ensure that all significant risks are properly assessed and controlled.

The role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Going Concern

After reviewing the Group's budget for 2006/7 and its longer term business plan, the Directors are confident that the Company and Group have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the accounts.

Report on Remuneration and Related Matters

The Board presents the following report on remuneration policy and practice.

Remuneration Committee

The Remuneration Committee during the year was comprised solely of the Non-Executive Directors: Sir Derek Higgs, Gren Folwell, Sir Steve Robson, James Sassoon, David Clements, Nicolas Lethbridge and Christina McComb. As nominees of HM Treasury, Christina McComb and James Sassoon are not considered by the Board to be independent. The Committee is chaired by Sir Derek Higgs.

Statement of Corporate Governance

for the year ended 31 March 2006

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The Committee is responsible for determining the Company's remuneration policy and also the employment conditions and remuneration packages of the Executive Directors and senior staff. The terms of reference of the Remuneration Committee are available for inspection from the Company Secretary.

The remuneration policy for the Chairman and the other Non-Executive Directors is determined by the Board as a whole. The Chairman and the other Non-Executive Directors do not participate in the Company bonus scheme or pension scheme.

Policy on Remuneration

The Company's policy is to recruit, motivate and retain high calibre personnel with appropriate transacting and commercial skills, and with an understanding of the unique business of the Company in supporting the Government's public private partnership programme.

Elements of Remuneration

Employees receive a basic salary, a discretionary annual bonus and benefits of private medical insurance, death-in service or critical illness benefits and permanent health insurance. Discretionary bonuses are linked to the achievement of performance objectives, set as part of an annual objective setting and performance appraisal process.

The Company has also established a deferred incentive scheme for senior staff. The main objective of this scheme is to reward the generation of growth and long-term value in the Company. Payment of an award to an individual is deferred for three years after the period to which the award relates. Eligibility for an award is determined by the Remuneration Committee. The overall level of award is assessed in relation to the Group's performance against defined performance objectives, with the level of individual awards determined by each individual's contribution to the achievement of those objectives. In 2005/6, the awards were determined by the Group's performance against the following criteria:

- Budgeted revenue and profits
- Securing and expanding PUK's business activities
- Improving the reputation and standing of PUK
- Growing the value of the joint ventures
- Growing the value of the investment portfolio

Pensions

The Company makes contributions of between 10% and 11% of pensionable salary to a defined contribution scheme or to individual employees' Personal Pension schemes. This arrangement is available to all staff.

Executive Directors' Contracts and Emoluments

All Executive Directors are on service contracts that contain a notice period of 3 months. Each service contract expires at the normal retirement age of the Director, but is subject to earlier termination if notice is given under the terms of the contract. Each contract also contains restrictions to protect the confidentiality of information obtained whilst working for the Company.

Statement of Corporate Governance

for the year ended 31 March 2006

The emoluments received by the Executive Directors in 2005/6 were as follows:

Table A: Executive Directors' emoluments

	Service Contract date	Salary £000's	Bonus £000's	Deferred Incentive Scheme £000's	Benefits in kind £000's	Total 2005/6 £000's	Total 2004/5 £000's	Pension Contributions 2005/6 £000's	Pension Contributions 2004/5 £000's
JAGH Stewart	5 Mar 2001	222	160	60	1	443	423	21	19
M B Gerrard	24 Aug 2002	179	120	45	5	349	329	20	19
D L A Goldstone	2 Jan 2002	158	120	45	1	324	322	16	13
A M Rose	15 Feb 2005	150	110	45	1	306	74	15	-
Total		709	510	195	8	1,422	1,148	72	51

The amounts disclosed under the Deferred Incentive Scheme are the amounts awarded in the year. JAGH Stewart and MB Gerrard were appointed as directors on 9 June 2000, DLA Goldstone on 1 November 2001 and AM Rose on 16 February 2005.

Table B: Non-Executive Directors' emoluments

	Fees 2005/6 £000's	Fees 2004/5 £000's
D R Clements	20	9
G J Folwell	25	25
J C Hanretty	6	20
Sir Derek Higgs	50	50
N Lethbridge	27	14
C McComb	-	-
Sir Steve Robson	27	27
J M Sassoon	-	-
T E P Stevenson	-	9
Total	155	154

Table C: Deferred Incentive Scheme

	Date of award £000's	Payable in year ending 31 March £000's	At 1 April 2005 £000's	Awards £000's	Amounts paid £000's	At 31 March 2006 £000's
J A G H Stewart	31.3.03	2006	50	-	(50)	-
	31.3.04	2007	42	-	-	42
	31.3.05	2008	55	-	-	55
	31.3.06	2009	-	60	-	60
			147	60	(50)	157
M B Gerrard	31.3.03	2006	30	-	(30)	-
	31.3.04	2007	25	-	-	25
	31.3.05	2008	40	-	-	40
	31.3.06	2009	-	45	-	45
			95	45	(30)	110

Statement of Corporate Governance

for the year ended 31 March 2006

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Table C: Deferred Incentive Scheme (continued)

D L A Goldstone	31.3.03	2006	40	-	(40)	-
	31.3.04	2007	30	-	-	30
	31.3.05	2008	40	-	-	40
	31.3.06	2009	-	45	-	45
			110	45	(40)	115
A M Rose	31.3.06	2009	-	45	-	45
			-	45	-	45

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing 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 the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



James Ballingall
Secretary
10 Great George Street
London SW1P 3AE

19 June 2006

Independent Auditors' Report to the members of Partnerships UK plc

We have audited the group and parent company financial statements (the "financial statements") of Partnerships UK plc for the year ended 31 March 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Chief Executive's Review that is cross referred from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

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

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2006 and of the group's profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

19 June 2006

Group Profit and Loss Account

for the year ended 31 March 2006

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	Note	Year ended 31 March 2006 £000's	Restated Year ended 31 March 2005 £000's
Turnover: Group and share of joint ventures	2	17,452	17,787
Less: share of joint ventures' turnover	10	(1,176)	(4,098)
Group turnover	2	16,276	13,689
Administration expenses		(16,284)	(14,446)
Other operating income		552	397
Operating profit/(loss)		544	(360)
Share of net operating (loss)/profit in joint ventures	10	(43)	1,980
Total operating profit Group and share of joint ventures		501	1,620
Profit on sale of joint venture		-	661
Profit on sales of portfolio investments	11	1,267	-
Profit on ordinary activities before interest and impairment of investments		1,768	2,281
Interest receivable and similar income	6	1,494	1,189
Impairment of portfolio investments	11	(16)	(714)
Interest payable and similar charges	6	(2,289)	(2,304)
Profit on ordinary activities before taxation	3	957	452
Profit before interest on the 6% Convertible Unsecured Loan Stock and taxation		3,057	2,552
Interest payable on 6% Convertible Unsecured Loan Stock	6	(2,100)	(2,100)
Profit on ordinary activities before taxation	3	957	452
Tax on profit on ordinary activities	7	(199)	(232)
Profit for the financial year	18	758	220

The Group's profit before taxation and profit for the financial year, on a historical cost basis, are set out on page 27. The Group's results are wholly attributable to continuing activities.

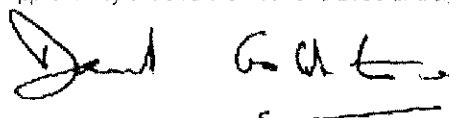
The notes on pages 28 to 43 form an integral part of these financial statements.

Group Balance Sheet

as at 31 March 2006

	Note	2006 £000's	2006 £000's	2005 £000's	2005 £000's
Fixed assets					
Tangible assets	9		760		930
Investments					
Investments in joint ventures:	10				
Share of gross assets		11,079		5,191	
Share of gross liabilities		(3,841)		(4,068)	
		7,238		1,123	
Unsecured Loan Stock issued by joint ventures		3,063		3,063	
		10,301		4,186	
Portfolio investments	11	6,266		4,560	
			16,567		8,746
			17,327		9,676
Current assets					
Work-in-progress:					
Due within one year		12,924		12,737	
Due after one year		-		4,565	
		12,924		17,302	
Debtors	13	17,903		7,857	
Investments	14	246		10,391	
Cash in hand and at bank		1,335		11,033	
		32,408		46,583	
Creditors: amounts falling due within one year	15	(2,913)		(10,384)	
Net current assets			29,495		36,199
Total assets less current liabilities			46,822		45,875
Creditors: amounts falling due after more than one year:	16		(35,656)		(35,467)
Net assets			11,166		10,408
Capital and reserves					
Called up share capital	17		10,000		10,000
Deficit on profit and loss account	18		(47)		(969)
Revaluation reserve	19		1,213		1,377
Equity shareholders' funds	20		11,166		10,408

Approved by the Board on 19 June 2006 and signed on its behalf:



David Goldstone
Director

The notes on pages 28 to 43 form an integral part of these financial statements.

Company Balance Sheet

as at 31 March 2006

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	Note	2006 £000's	2006 £000's	2005 £000's	2005 £000's
Fixed assets					
Tangible assets	9		760		930
Investments					
Investments in joint ventures	10	9,313		3,563	
Portfolio investments	11	-		4,560	
			9,313		8,123
			10,073		9,053
Current assets					
Work-in-progress:					
Due within one year		12,924		12,737	
Due after one year		-		4,565	
		12,924		17,302	
Debtors	13	23,943		7,857	
Investments	14	246		10,391	
Cash in hand and at bank		666		11,033	
		37,779		46,583	
Creditors: amounts falling due within one year	15	(2,668)		(10,403)	
Net current assets			35,111		36,180
Total assets less current liabilities			45,184		45,233
Creditors: amounts falling due after more than one year	16		(35,656)		(35,467)
Net assets			9,528		9,766
Capital and reserves					
Called up share capital	17		10,000		10,000
Deficit on profit and loss account	18		(472)		(1,611)
Revaluation reserve	19		-		1,377
Equity shareholders' funds	20		9,528		9,766

Approved by the Board on 19 June 2006 and signed on its behalf:



David Goldstone
Director

The notes on pages 28 to 43 form an integral part of these financial statements

Group Cash Flow Statement

for the year ended 31 March 2006

		Year ended 31 March 2006		Year ended 31 March 2005	
	Note	£000's	£000's	£000's	£000's
Cash (outflow)/inflow from operating activities	22		(12,085)		5,281
Returns on investments and servicing of finance:					
Interest received		537		865	
Interest paid		(2,107)		(2,104)	
			(1,570)		(1,239)
Taxation recovered/(paid)			110		(318)
Capital expenditure and financial investment:					
Purchase of tangible fixed assets		(93)		(102)	
Purchase of portfolio investments	11	(3,374)		(1,486)	
Sale of portfolio investments		2,919		-	
Purchase of PfH joint venture 6.0% Unsecured Loan Stock	10	-		(1,000)	
Purchase of PfH joint venture Share Capital	10	(5,750)		-	
			(6,298)		(2,588)
Acquisitions and disposals:					
Disposal of joint venture			-		445
Cash (outflow)/inflow before use of liquid resources			(19,843)		1,581
Management of liquid resources:					
Short term money market deposits withdrawn	23		10,145		6,962
(Decrease)/increase in cash in the year	23		(9,698)		8,543
Reconciliation of net cash flow to movements in net debt					
(Decrease)/increase in cash in the year			(9,698)		8,543
Decrease in liquid resources			(10,145)		(6,962)
Change in net debt resulting from cash flows			(19,843)		1,581
Net debt at 1 April 2005			(13,576)		(15,157)
Net debt at 31 March 2006	23		(33,419)		(13,576)

The notes on pages 28 to 43 form an integral part of these financial statements.

Group Statement of Total Recognised Gains and Losses

for the year ended 31 March 2006

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	Note	Year ended 31 March 2006 £000's	Year ended 31 March 2005 £000's
Profit for the financial year		758	220
Revaluation surplus on portfolio investments		-	1,377
Total gains and losses recognised since last annual report		758	1,597

Analysed as follows:

Impairment of portfolio investments taken to profit and loss account	11	(16)	(714)
Revaluation of portfolio investments taken to reserves		-	1,377
Profit on sales of portfolio investments		1,267	-
Net surplus on portfolio investments		1,251	663
(Loss)/profit for the financial year excluding impairment of portfolio investments and profit on sales of portfolio investments		(493)	934
Total gains and losses recognised since last annual report		758	1,597

Statement of historical cost profit

for the year ended 31 March 2006

	Note	Year ended 31 March 2006 £000's	Year ended 31 March 2005 £000's
Profit before tax as reported		957	452
Portfolio revaluation gain now realised	18	164	-
Profit before tax on historical cost basis		1,121	452
Profit for the year as reported		758	220
Portfolio revaluation gain now realised		164	-
Profit for the year on historical cost basis		922	220

Reconciliation of Movements in Group Shareholders' Funds

for the year ended 31 March 2006

	31 March 2006 £000's	31 March 2005 £000's
Opening shareholders' funds	10,408	8,811
Profit for the financial year	758	220
Revaluation surplus on portfolio investments	-	1,377
Closing shareholders' funds	11,166	10,408

The notes on pages 28 to 43 form an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 March 2006

1. Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of portfolio investments, and in accordance with applicable accounting standards in the United Kingdom. Except for the change in accounting policy in relation to turnover from recovery of employment costs of staff on secondment, as described below under the heading "Turnover", the accounting policies are consistent with those applied in the prior year. The Directors have reviewed the Group's accounting policies and are satisfied that they comply with the requirements of Financial Reporting Standard (FRS) 18 *Accounting Policies*.

Basis of consolidation

The Group financial statements comprise the financial statements of Partnerships UK plc and its subsidiary undertakings. The results of joint venture undertakings are accounted for on a gross equity basis, which involves recognising the Group's share of the joint venture's gross assets and liabilities, turnover, operating profit, interest and taxation.

Joint arrangements

Contractual agreements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own are accounted for as joint arrangements. The Group recognises its share of the assets, liabilities and cash flows in such joint arrangements, measured in accordance with the terms of the agreement.

Turnover

Turnover comprises revenue from the Group's support activities, Development Partnership Agreements ("DPAs"), procurement support agreements, Local Education Partnership procurements, interest on third party costs (work-in-progress) and secondment income. All turnover arises from continuing activities.

In prior years, the recovery of employment costs of staff on secondment, net of any mark up, has been offset against the related employment costs. This policy has been changed in the current year to show such recoveries as turnover, and the 2005 comparatives have been re-stated accordingly. The Directors believe that the revised treatment is more appropriate because secondment income has become a recurring source of revenue. This change of accounting policy has increased revenue and administration expenses by £1,478,000 (2005 £1,295,000).

Revenue from support activities and secondments is recognised as it is earned, and interest on third party costs is accounted for on an accruals basis. The recognition of Development Partnership and procurement support revenue is described below.

Development Partnerships and procurement support

The Company's Development Partnership Agreements, Partnerships for Health's (PfH's) procurement support agreements and Partnerships for Schools' (PfS's) Local Education Partnership procurements are accounted for as long term contracts as their activity falls into different accounting periods. Revenue from these contracts comprises the value of the work carried out and is recognised on a percentage of completion basis when there is reasonable certainty that financial close (the date on which the finance required in respect of the obligations of a contractor becomes unconditionally available) will take place. A Development Partnership Agreement, procurement support agreement or Local Education Partnership procurement has to be substantially complete before the outcome can be predicted with reasonable certainty and it becomes appropriate to accrue the right to consideration. As a result, no revenue is recognised until the later stages of each Development Partnership or procurement project.

Work-in-progress represents external third party costs incurred on behalf of Development Partners that is repayable either at financial close or on cancellation of the project under the terms of the agreement. Work-in-progress is valued at the lower of cost and net realisable value.

Notes to the Financial Statements

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for the year ended 31 March 2006

The revenue recognised from Development Partnership Agreements, procurement support agreements and Local Education Partnership procurements, less payments received and receivable, is included in debtors as "amounts recoverable from contracts".

The costs expended on Development Partnerships, procurement support and Local Education Partnership procurements are written off to the profit and loss account as incurred.

Fixed assets and depreciation

Tangible fixed assets are stated at original cost less depreciation that writes off the cost of the assets, less anticipated sale proceeds, evenly over their estimated useful lives as follows

Leasehold improvements and furniture	10 years
Office and computer equipment	3-4 years

Operating leases

Operating lease rentals are charged to the profit and loss account in equal annual instalments over the lease term.

Deferred taxation

Provision is made for deferred taxation in full. A net deferred tax asset is only recognised if it is more likely than not that future economic benefits will accrue to the relevant company. Deferred taxation is provided in respect of portfolio revaluations if there is a binding agreement to dispose of any of the investments to which the revaluation relates.

Pension costs

Pension costs payable to the Group's defined contribution scheme and to individual employees' personal pension schemes are charged to the profit and loss account as they become due.

Portfolio investments

Portfolio investments, being those held within an investment fund as part of a basket of investments, are revalued at the balance sheet date. The investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("the Valuation Guidelines") issued and endorsed by the British Venture Capital Association (BVCA), the European Private Equity and Venture Capital Association and the Association Française des Investisseurs en Capital. These guidelines replace the BVCA valuation guidelines that were adopted in preparing the prior year's financial statements. Adoption of the Valuation Guidelines has not affected the amounts reported in the Group's financial statements.

In accordance with the Valuation Guidelines, investments have been recorded at fair value except where this cannot be reliably measured, in which case they have been recorded at their previous carrying value (as adjusted to reflect the estimated extent of any impairment). For this purpose, fair value represents the amount for which an investment could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Diminutions in value below original cost are charged to the profit and loss account, whilst any increases in value above original cost are taken directly to a revaluation reserve.

Other fixed asset investments

The Company's investments in subsidiary undertakings and joint venture undertakings are valued in its own balance sheet at cost less any impairment provisions.

Notes to the Financial Statements (continued)

for the year ended 31 March 2006

2. Turnover

	2006 £000's	2006 £000's	Restated 2005 £000's	Restated 2005 £000's
DPA revenue		3,863		2,134
Interest on external costs		1,124		1,660
HM Treasury Framework revenues	2,530		2,439	
Advisory contracts	6,958		5,720	
International activities	183		215	
Total support income		9,671		8,374
Secondment income		1,618		1,521
		16,276		13,689
Share of procurement support revenue in joint ventures		1,176		4,098
		17,452		17,787

All turnover is derived from the United Kingdom, except for the amounts attributed to International activities in the above table.

As explained in Note 1, in prior years the recovery of employment costs of staff on secondment, net of any mark up, has been offset against the related employment costs. This policy has been changed in the current year to show such recoveries as turnover, and the 2005 comparatives have been re-stated accordingly.

3. Profit on ordinary activities before taxation

The Group's profit on ordinary activities before taxation is stated after charging/ (crediting) the following amounts:

	2006 £000's	2005 £000's
Expenditure under joint arrangement:		
Partnerships for Schools Limited	4,300	3,705
Auditors' remuneration (Company £66,000; 2005: £41,000)	70	41
Operating leases - land and buildings	806	811
Rental income from sub-tenants	(281)	(397)
Depreciation	263	248

Notes to the Financial Statements

for the year ended 31 March 2006

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4. Employees

	2006 £000's	2005 £000's
Wages and salaries	6,996	6,207
Social security costs	873	789
Pension costs	480	430
	8,349	7,426
Average number of employees:	2006	2005
Transactors	50	50
Administration and support	18	18
Total	68	68

In addition, the Group's share of the expenditure of Partnerships for Schools includes £1,729,000 (2005: £429,000) in respect of employee costs.

The Company contributes to a Group defined contribution scheme and to individual employees' personal pension schemes. As at 31 March 2006, the Group had liabilities in respect of money owed to scheme managers totalling £8,281 (2005: £1,064).

5. Directors' emoluments

Details of directors' emoluments for the year are set out in the Report on Remuneration and Related Matters on pages 18 to 21 and are summarised below:

	2006 £000's	2005 £000's
Aggregate emoluments	1,577	1,302
Pension contributions – defined contributions	72	51
Total emoluments	1,649	1,353
Emoluments of Chairman	50	50
Emoluments of highest paid director	443	423
Pension contributions for the highest paid director – defined contributions	21	19

Retirement benefits are accruing to four Directors under defined contribution pension schemes (2005: four).

6. Interest

	2006 £000's	2005 £000's
Interest receivable and similar income:		
Bank interest	537	713
Interest on portfolio investments	35	-
Interest on loan stock issued by joint ventures	184	196
Share of joint venture interest receivable	738	280
	1,494	1,189

Notes to the Financial Statements (continued)

for the year ended 31 March 2006

6. Interest (continued)

Included with the Group's share of joint venture interest receivable is £649,000 (2005: £225,000) relating to investment income on a joint venture undertaking's portfolio investments.

	2006 £000's	2005 £000's
Interest payable and similar charges:		
Interest payable on 6% Convertible Unsecured Loan Stock 2021	2,100	2,100
Other interest payable	7	4
Share of joint venture interest payable	182	200
	2,289	2,304

7. Tax on profit on ordinary activities

	2006 £000's	2005 £000's
Current tax:		
Corporation tax charge/(credit) for the year at 30% (2005: 30%)	257	(110)
(Over) provision in prior year	-	(3)
Prior year tax loss claim	(206)	-
Share of joint venture tax charge	148	283
Net current tax charge	199	170
Deferred tax charge	-	62
	199	232

The tax charge for the year is higher than the standard rate of Corporation Tax in the UK. The differences are explained below:

	2006 £000's	2005 £000's
Profit on ordinary activities before taxation	957	452
Profit on ordinary activities before taxation at 30% (2005: 30%)	287	136
Effects of:		
Share of joint venture losses carried forward	-	98
Share of joint venture losses now recognised	-	(435)
Share of joint venture marginal relief	(6)	-
Impact of disposal of joint venture	-	(434)
Impairment provisions	5	214
Prior year portfolio revaluations and impairments now realised	4	-
Indexation allowance	(9)	-
Prior year tax loss claim	(206)	-
Disallowed items	25	22
Tax losses carried forward	-	542
Capital allowances for the period below depreciation	34	20
Other timing differences	65	19
Effect of marginal tax relief	-	(9)
(Over) provision in prior year	-	(3)
	199	170

Notes to the Financial Statements

for the year ended 31 March 2006

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8. Deferred tax asset

The Company and the Group have recognised the following amount of deferred tax at 31 March 2006	2006 £000's	2005 £000's
Accelerated capital allowances	(64)	(98)
Other timing differences	64	98
	-	-
Deferred tax asset at 1 April 2005	-	-
Deferred tax charge in profit and loss account for the year	-	-
Deferred tax asset at 31 March 2006	-	-

At the year end, based on a corporation tax rate of 30%, the Group also had an unrecognised deferred tax asset of £518,000 (2005: £643,000). This unrecognised deferred tax asset comprised tax losses of £316,000 (2005: £542,000) and timing differences of £202,000 (2005: £101,000).

9. Tangible fixed assets

	Group and Company		
	Short leasehold improvements £000's	Equipment £000's	Total £000's
Cost			
As at 1 April 2005	1,331	740	2,071
Additions	-	93	93
At 31 March 2006	1,331	833	2,164
Depreciation			
As at 1 April 2005	620	521	1,141
Charge	133	130	263
At 31 March 2006	753	651	1,404
Net book value at 31 March 2006	578	182	760
Net book value at 1 April 2005	711	219	930

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2006

10. Investments in joint ventures

Particulars of all joint venture undertakings:

	Country of incorporation	Percentage of ordinary capital held
Partnerships for Health Limited ("PfH")	England	50%

PfH's objective is to develop standard approaches for, and to provide procurement support to, a programme of projects to deliver investment in local primary and community based healthcare facilities, and to invest in the local companies established with PfH's procurement support.

The Company has invested a further £5,750,000 in PfH during the year by subscribing for new share capital (2005: £1,000,000 invested in 6% Unsecured Loan Stock 2021 ("ULS")).

Partnerships for Schools Limited ("PFS") was established in March 2004, to support the delivery of the Building Schools for the Future programme. PFS is owned by the Secretary of State for Education and Skills but is managed and controlled under a joint venture agreement between the Secretary of State and the Company.

Under the terms of this joint venture agreement, the Company is responsible for funding 50% of PFS's expenditure and is entitled to receive 50% of the revenue arising from PFS's procurement support activities. This joint venture is accounted for as a joint arrangement. In line with the Group's accounting policy, no revenue is recognised from PFS's activities until there is reasonable certainty that individual projects will reach financial close. No revenue was recognised in the year to 31 March 2006 (2005: £nil).

PFS's principal place of business is 10 Great George St, London SW1P 3AE.

	Shares £000's	Company Loan stock £000's	Total £000's
Cost			
As at 1 April 2005	500	3,063	3,563
Additions - PfH	5,750	-	5,750
As at 31 March 2006	6,250	3,063	9,313
Provision			
As at 1 April 2005	-	-	-
As at 31 March 2006	-	-	-
Net book value as at 31 March 2006	6,250	3,063	9,313
Net book value as at 1 April 2005	500	3,063	3,563

Notes to the Financial Statements

for the year ended 31 March 2006

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The amounts included in the consolidated accounts in respect of the Group's share of these joint ventures are analysed in more detail below:

	2006 PfH £000's	2006 PfCS £000's	2006 Group total £000's	2005 PfH £000's	2005 PfCS £000's	2005 Group total £000's
Turnover	1,176	-	1,176	4,098	-	4,098
Operating costs	(1,219)	-	(1,219)	(1,842)	(276)	(2,118)
Operating (loss)/profit	(43)	-	(43)	2,256	(276)	1,980
Interest receivable	738	-	738	280	-	280
Interest payable	(182)	-	(182)	(151)	(49)	(200)
Profit/(loss) before taxation	513	-	513	2,385	(325)	2,060
Taxation	(148)	-	(148)	(283)	-	(283)
Profit/(loss) after taxation	365	-	365	2,102	(325)	1,777
Portfolio investments	8,721	-	8,721	3,615	-	3,615
Current assets	2,358	-	2,358	1,576	-	1,576
	11,079	-	11,079	5,191	-	5,191
Liabilities due within one year	(778)	-	(778)	(1,005)	-	(1,005)
Liabilities due after more than one year	(3,063)	-	(3,063)	(3,063)	-	(3,063)
	(3,841)	-	(3,841)	(4,068)	-	(4,068)
Share of net assets	7,238	-	7,238	1,123	-	1,123
Investment in PfH's 6%						
Unsecured Loan Stock 2021	3,063	-	3,063	3,063	-	3,063
	10,301	-	10,301	4,186	-	4,186

As at 31 March 2006, PfH's portfolio investments consisted of 20% equity shareholdings in, and holdings in the debt issued by, 42 individual companies undertaking National Health Service Local Improvement Finance Trust (NHS LIFT) projects to provide new and improved community based healthcare facilities.

For those companies which had either not commenced operations, or were at an early stage in their development, the related investments are valued at cost. No impairment provisions have been recognised.

For those companies which have progressed beyond the early stage, and in the absence of any evidence showing any impairment in value, the best estimate of fair value is the carrying value at the previous recording date, which is cost. In the opinion of the Directors of both the Company and PfH, the fair value of PfH's investments cannot be reliably measured as the LIFT market is a new asset class with no appropriate comparators and there is no information available in respect of actual transactions in the equity of LIFT companies.

As at 31 March 2006, PfH had entered into commitments to provide additional funding to the companies in which it holds portfolio investments of which the Group's share was £1,637,000 (2005: £2,020,000).

Notes to the Financial Statements (continued)

for the year ended 31 March 2006

10. Investments in joint ventures (continued)

Movements in the Group's investments in joint ventures are summarised below:

	Share of net assets £000's	Loan stock £000's	Total £000's
As at 1 April 2005	1,123	3,063	4,186
Additions	5,750	-	5,750
Share of profit after taxation	365	-	365
Net book value as at 31 March 2006	7,238	3,063	10,301

11. Portfolio investments

	Group £000's	Company £000's
Cost at 1 April 2005	3,897	3,897
Additions at cost	3,374	866
Sales	(1,640)	(4,763)
Cost at 31 March 2006	5,631	-
Net revaluations at 1 April 2005	663	663
Impairment in the year	(16)	-
Sales	(12)	(663)
Net revaluation at 31 March 2006	635	-
Valuation at 31 March 2006	6,266	-
Valuation at 1 April 2005	4,560	4,560

These investments comprise

	Group 2006 £000's	2005 £000's
Equity	5,126	3,960
Debt	1,140	600
	6,266	4,560

The net revaluation gain at 31 March 2006 comprises revaluation gains of £1,213,000 and impairment provisions of £578,000 (2005: £1,377,000 and £714,000 respectively).

Total additions in the year of £3,374,000 represented further investment in Acolyte Biomedica Limited and Smart Holograms Limited, and new investments in CellTran Limited, Zoobiotic Limited and Imperial College Innovations Limited.

As at 31 March 2006, the Group had entered into commitments to provide additional funding to the companies in which it holds portfolio investments of up to £494,000 (2005: £1,882,000).

Notes to the Financial Statements

for the year ended 31 March 2006

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For those investments recorded at fair value as at 31 March 2006, the valuations have been determined using the price of a recent investment (90% of the aggregate portfolio by value has been determined on this basis, including recent transactions) or a Discounted Cash Flow (DCF) approach. In the absence of recent share transactions, the DCF approach has been employed in those cases where none of the other primary methodologies (the Earnings Multiple, Net Assets and industry valuation benchmark methodologies) detailed in the Valuation Guidelines is considered by the Board to be appropriate for the companies concerned.

During the year the Group sold its holding in Enigma Diagnostics Limited, Smart Holograms Limited and completed the disposal of Watergrid Limited. The Group received proceeds of £2,919,000.

At 31 March 2006, the Group held the following portfolio investments:

Investment	Financial year of initial investment	Shareholding	Business description
Acolyte Biomedica Limited	2003	18.5%	A company which has developed a new process for clinical diagnosis offering speedier identification of bacteria and the antibiotics to treat them.
CellTran Limited	2006	11.9%	A company which has developed new wound care products based on tissue regeneration.
e-Tourism Limited	2003	15.0%	A company set up to develop the commercial potential of the existing public sector tourism internet site. www.visitscotland.com
Imperial College Innovations Limited	2006	2.0%	A company established to commercialise opportunities arising from research undertaken by Imperial College.
The Recycling Fund LLP	2004	4.5%	A specialist fund which aims to develop substantial and efficient markets for recycled materials and products.
Zoobiotic Limited	2006	7.1%	A company spun out of Bro Morgannwg NHS Trust which has developed and markets wound care products based on the application of sterile maggots.

12. Investments in subsidiary undertakings

Particulars of all subsidiary undertakings:	Country of incorporation	Percentage of ordinary capital held
Treasury Taskforce	England	100%
Partnerships UK Finance Limited	England	100%
PUK Investments Limited	England	100%

Treasury Taskforce is a Company limited by guarantee of the members, such guarantee not to exceed £1. This Company no longer trades.

Partnerships UK Finance Limited was established on 4 December 2000 and is dormant.

PUK Investments Limited (PUK) was established on 9 March 2005 and was dormant at the end of last year. During the current year PUK has become the holding company for PUK's portfolio investments. The Company holds 100% of the share capital of its subsidiary at cost of £1 (2005: £1).

Notes to the Financial Statements (continued)

for the year ended 31 March 2006

13. Debtors

	Group 2006 £000's	Group 2005 £000's	Company 2006 £000's	Company 2005 £000's
Trade debtors	12,966	5,834	12,966	5,834
Amounts recoverable on contracts	1,700	-	1,700	-
Amounts owed by subsidiary undertakings	-	-	6,075	-
Amounts due from joint ventures	450	267	450	267
Other debtors	58	74	58	74
Corporation tax recoverable	206	110	206	110
Prepayments	462	301	462	301
Accrued income	2,061	1,271	2,026	1,271
	17,903	7,857	23,943	7,857

Trade debtors includes £196,000 (2005: £nil) and accrued income includes £36,000 (2005: £347,000) which is recoverable after more than one year. Amounts owed to the Company by subsidiary undertakings include £5,997,000 (2005: £nil) which is repayable on demand and carries an interest rate of 6%.

14. Current asset investments

	Group and Company 2006 £000's	Group and Company 2005 £000's
Short term money market deposits	246	10,391

The Company's policy is that cash is only invested in AAA rated money market funds or with clearing banks.

15. Creditors - amounts falling due within one year

	Group 2006 £000's	Group 2005 £000's	Company 2006 £000's	Company 2005 £000's
Trade creditors	311	5,945	311	5,945
Amounts due to subsidiary undertakings	-	-	19	19
Amounts payable under joint arrangement	705	343	705	343
Corporation tax	256	-	-	-
Other taxation and social security	442	2,621	442	2,621
Other creditors	142	296	142	296
Accruals	1,056	1,179	1,049	1,179
	2,912	10,384	2,668	10,403

Notes to the Financial Statements

for the year ended 31 March 2006

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16. Creditors - amounts falling due after more than one year

	Group and Company 2006 £000's	Group and Company 2005 £000's
Accruals	656	467
Debts maturing in more than five years:		
6% Convertible Unsecured Loan Stock 2021	35,000	35,000
	35,656	35,467

35,000,000 £1 units of 6% Convertible Unsecured Loan Stock 2021 (CULS) were allotted and issued as fully paid on 29 March 2001. The first payment of interest was due on 30 September 2001 and on 31 March and 30 September each year thereafter.

The holders of CULS rank behind all other creditors of Partnerships UK plc in the event of the Company being liquidated.

CULS are capable of conversion at any time into A Ordinary shares on notice being given by the stockholder. Conversion is at the rate of one A Ordinary share for each £1 of principal amount of CULS. No public sector investor is entitled to convert CULS into A Ordinary shares to the extent that such conversion would result in the number of Ordinary shares held by public sector investors exceeding 49% of the Ordinary shares then in issue.

On or after 29 March 2011, the Company is entitled by giving 20 days notice to redeem any or all of the outstanding CULS at par. Prior to the notice period expiring, any stockholder may convert CULS into Ordinary shares.

17. Called up share capital

	2006 Number of shares 000's	2005 Number of shares 000's
Authorised		
A Ordinary shares of £1 each	45,100	45,100
B Ordinary shares of £1 each	4,900	4,900
	50,000	50,000
	2006 £000's	2005 £000's
Allotted, issued and fully paid		
5,100,000 A Ordinary shares of £1 each	5,100	5,100
4,900,000 B Ordinary shares of £1 each	4,900	4,900
	10,000	10,000

Save as described below, the A and B Ordinary shares rank pari passu in all respects:

(a) B Ordinary shares may only be held by a shareholder authorised to act on behalf of the Crown and carry the right to appoint two directors and an Advisory Council.

(b) In any resolution proposed at general meeting to change the main business from the Company's public sector mission as set out in the Memorandum of Association, to vary the rights of any shares, to purchase or cancel the B Ordinary shares or to pass management control to parties other than the Board, then the B Ordinary shares will exercise 95% of the votes.

for the year ended 31 March 2006

17. Called up share capital (continued)

The directors are authorised to issue Ordinary shares and CULS, in the ratio of £1 Ordinary share with £2.50 CULS, provided the number allotted does not exceed the lesser of: 5% of the aggregate of Ordinary shares and CULS in issue twelve calendar months prior; or 7.5% of the aggregate of Ordinary shares and CULS in issue thirty six calendar months prior.

Pre-emption rights in relation to any future new issue of securities will be calculated by reference to the combined value of Ordinary shares and CULS held.

18. Profit and loss account

	Group 2006 £000's	Company 2006 £000's
Deficit brought forward at 1 April 2005	(969)	(1,611)
Transferred from revaluation reserve	164	1,377
Profit/(loss) for the year	758	(238)
Deficit carried forward at 31 March 2006	(47)	(472)

The Company has taken advantage of the exemption conferred by section 230(1) of the Companies Act 1985 and has not presented its own profit and loss account. The Company's loss for the year amounted to £238,000 (2005: loss £403,000).

19. Revaluation reserve

	Group 2006 £000's	Company 2006 £000's
Reserve brought forward at 1 April 2005	1,377	1,377
Transferred to profit and loss account reserve	(164)	(1,377)
Reserve carried forward at 31 March 2006	1,213	-

No taxation has been provided in respect of revaluations as the Group has no binding agreement to dispose of any of the investments to which the revaluation relates. The expected tax which could be payable if portfolio investments were sold at their revalued amounts is £364,000 (2005: £413,000).

During the year the Company transferred its portfolio investments to its subsidiary PUKI. As a result of the transfer the Company's revaluation reserve has been transferred to its profit and loss account reserve. The reduction in the Group revaluation reserve is a result of sales to third parties.

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for the year ended 31 March 2005

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20. Movements in shareholders' funds

	Group 2006 £000's	Company 2006 £000's
Shareholders' funds as at 1 April 2005	10,408	9,766
Profit/(loss) for the year	758	(238)
Shareholders' funds as at 31 March 2006	11,166	9,528

Shareholders' funds are all attributable to equity interests.

21. Contingencies and commitments

The Company has committed to provide Partnerships for Health ("PfH"), in which the Company holds a 50% share, up to £10,000,000 to support the development of the business of PfH, and for PfH to invest in local primary and community care companies established with PfH's procurement support. At 31 March 2006, each shareholder had provided funding of £9,313,110. The remaining balance of £686,890 from the Company is available to support PfH's business.

The Company has committed to meet 50% of the funding requirements of Partnerships for Schools Limited ("PFS"), which was incorporated on 29 March 2004. The commitment is expected to result in the gross payment of up to £6,492,000 offset by receipts of £3,080,000 resulting in a net payment of £3,412,000 in the next financial year for the Company's share of PFS's expenditure.

The Company has committed to provide additional funding to some of the companies included in its investment portfolio. Details of these commitments are set out in Note 11.

At 31 March 2006, the lease payments and associated occupancy costs due during the ensuing year under operating leases for office accommodation to which the Group and Company were committed were as follows:

	Group/Company 2006 £000's	Group/Company 2005 £000's
Leases due to expire: in less than five years	786	-
Leases due to expire: in more than five years	-	809
Share of joint venture leases due to expire: within one year	39	33

At 31 March 2006, the Company has undertaken, in connection with Development Partnership Agreements, to pay future third party costs estimated to be £400,000 (2005: £5,119,000).

Notes to the Financial Statements (continued)

for the year ended 31 March 2005

22. Reconciliation of operating profit to operating cash flow

	2006 £000's	2005 £000's
Operating profit/(loss)	544	(360)
Depreciation	263	248
Decrease/(increase) in work in progress	4,378	(2,036)
(Increase) in debtors	(9,731)	(1,212)
(Decrease)/increase in creditors	(7,539)	8,641
Cash (outflow)/inflow from operating activities	(12,085)	5,281

23. Analysis of net debt

	At 1 April 2005 £000's	Cash flow £000's	At 31 March 2006 £000's
Cash in hand and at bank	11,033	(9,698)	1,335
Short term money market deposits	10,391	(10,145)	246
Debt due after one year	(35,000)	-	(35,000)
	(13,576)	(19,843)	(33,419)

24. Ultimate controlling entity and related party transactions

At the year end, the Company was not controlled by any single party and had no ultimate controlling entity. Details of the shareholders are set out in the Directors' Report.

At 31 March 2006, the Group owed £32,000 (2005: £4,000) to Her Majesty's Treasury. At 31 March 2006, Her Majesty's Treasury and Scottish Ministers were holders of 6% Convertible Unsecured Loan Stock 2021. Their holdings were £15,594,446 (2005: £15,594,446) and £1,555,554 (2005: £1,555,554) respectively.

The Company occupies property under a lease held in the name of the First Secretary of State from Enterprise Oil Limited and paid rent and other costs associated with this lease amounting to £984,000 (2005: £1,001,000) in the year.

The Group provided services to Government Departments and recovered occupancy costs from Government Departments of £9,476,000 (2005: £8,085,000) and £144,000 (2005: £401,000) respectively for the year. At 31 March 2006, the Group was owed £10,786,000 (2005: £5,312,000) and £nil (2005: £48,000) respectively in respect of these services. The Group owed £nil (2005: £166,000) at 31 March 2006 in respect of occupancy costs.

The Company supplied services to Partnerships for Health Limited amounting to £211,000 (£2005: £647,000). At 31 March 2006, the Group was owed £101,000 (2005: £165,000) in respect of these services. The Group also holds £3,063,110 (2005: £3,063,110) 6% Unsecured Loan Stock issued by Partnerships for Health Limited, on which accumulated interest of £450,000 was outstanding at 31 March 2006 (2005: £267,000).

The Company supplied services to Partnerships for Schools Limited amounting to £884,000 (2005: £1,257,041) during the year. At 31 March 2006, the Group owed £705,000 (2005: £343,000) to Partnerships for Schools Limited.

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for the year ended 31 March 2005

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25. Analysis of Profit on ordinary activities

The amounts included in the consolidated accounts in respect of the Company and the Group's share of joint ventures are analysed in more detail below:

	PUK	Portfolio	PfH	PfS	PfCS	2006 Group total £000's
Operating profit/(loss)	4,851	(7)	-	(4,300)	-	544
Joint venture operating profit/(loss)	-	-	(43)	-	-	(43)
Profit on sale of portfolio investments	-	1,267	-	-	-	1,267
Impairment of portfolio investments	-	(16)	-	-	-	(16)
Interest receivable	721	35	738	-	-	1,494
Interest payable	(2,107)	-	(182)	-	-	(2,289)
Profit/(loss) on ordinary activities before taxation	3,465	1,279	513	(4,300)		957

	PUK	Portfolio	PfH	PfS	PfCS	2005 Group total £000's
Operating profit/(loss)	3,345	-	-	(3,705)	-	(360)
Joint venture operating profit/(loss)	-	-	2,256	-	(276)	1,980
Profit on sale of PfCS	-	-	-	-	661	661
Impairment of portfolio investments	-	(714)	-	-	-	(714)
Interest receivable	909	-	280	-	-	1,189
Interest payable	(2,104)	-	(151)	-	(49)	(2,304)
Profit/(loss) on ordinary activities before taxation	2,150	(714)	2,385	(3,705)	336	452

Members of the Advisory Council

As at 31 March 2006

Government Departments

Nicholas Macpherson ¹	HM Treasury
Richard Abadie	HM Treasury
Ken Beeton	Department for Transport
Andrew Burchell	Department for Environment, Food and Rural Affairs
Richard Calvert	Department for International Development
Stephen Crowne	Department for Education and Skills
Richard Douglas	Department of Health
John Oughton	Office of Government Commerce
Trevor Woolley	Ministry of Defence

Devolved Administrations

David Richards	National Assembly for Wales
Sandy Rosie	Scottish Executive

Public Sector Stakeholders

Sir Brian Briscoe	Local Government Association
David Gavaghan	Northern Ireland Strategic Investment Board
Ken Gillespie	Kirklees Metropolitan Council
Kieran Preston	Leeds Supertram Project
Martin Raven	UK Trade and Investment
Anna Simons	National Audit Office
Paul White	Barts and the London NHS Trust
Dr Doug Yarrow	Biotechnology and Biological Sciences Research Council

¹ Chairman of the Advisory Council

