PARTNERSHIPS UK PLC

Company Number 03993425

Chairman's Statement

In November last year PUK published a 5 Year Review to celebrate the fifth anniversary of our incorporation This was a fitting tribute to the many achievements of PUK over this period It highlighted the breadth and quality of our work, as well as the impact of the projects and programmes PUK has helped to deliver It was particularly pleasing that so many of the senior public sector individuals we have worked with wanted to go on record to acknowledge the contribution that PUK had made to their endeavours

In last year's annual report we set out our long term strategic objectives One of the main priorities was to continue to expand the scope of the business, diversifying more into supporting operational projects and wider procurement projects, whilst maintaining our core strength in the PPP market Much progress has been made in these areas over the last twelve months The Operational Taskforce has had a very successful first year, and has had its mandate renewed for a further year Involvement in major initiatives such as the Olympics and the Enabling Savings Retirement Programme has shown that PUK has much to offer across a wide spectrum of Government activity Looking forward, one of the opportunities will be to share with teams delivering wider procurements some of the best practices that have been developed for PFI and PPP

The sale of our 50% share in Partnerships for Health (PfH) to the Department of Health was a significant event during the year PfH had achieved all of its original objectives, helping to deliver over £1bn of investment in primary healthcare centres all over England in a timely way and establishing a new strategic approach to delivering a programme of investment We believe that the Department, like us, is proud of the achievements of PfH and that it has an asset of considerable value to take forward

The Advisory Council continues to be a significant help to us in guiding our strategic direction as well as acting as a sounding board for new initiatives and ventures This year has seen changes in the membership of the Council and we thank those that have moved on for their support The Council continues to comprise a wide range of senior people from across the public sector who make a highly valued contribution to PUK

There have been changes too to the Board From HM Treasury, Claudia Arney replaced James Sassoon and from the Shareholder Executive, Peter Schofield replaced Christina McComb Andy Friend and Gordon Horsfield joined the Board after the year end

As I have decided to stand down as Chairman, this will be my last report I am delighted to welcome Gordon Horsfield as my successor Gordon has great experience of professional service businesses from his career at PricewaterhouseCoopers and has made a notable success of his Chairmanship of Drax plc I am confident he will bring strong and effective leadership to the Board

It has been my privilege to have been Chairman of PUK since its incorporation, and to have worked with the outstanding team ably led by James Stewart and a very supportive Board PUK has achieved much since 2000 and I am convinced has the potential to make an even greater impact on delivery of projects and services in the public sector I wish it well for the future

Derek Higgs

Sir Derek Higgs
Chairman

12 June 2007

Chief Executive's Review

Business Highlights

PUK is having to adapt to a changing external environment This was signalled in last year's Annual Report, with the long term objectives pointing to a diversification and widening of activities PFI and PPP procurement will remain at the core of the business but continuing the development of an operational support business and developing PUK into a centre of excellence for wider procurement are becoming increasingly important

The recent HM Treasury publication, *Transforming Government Procurement*, recognised the value of the support mechanisms (such as PUK) that had been put in place for the PFI and PPP market and set out a clear intention to use the same or similar tools for the wider procurement market One of the first examples of this is the establishment of the Major Projects Review Group ("MPRG") which is modelled on the existing Projects Review Group, which approves Local Authority PFI projects PUK will be represented on the MPRG panel

Over the last twelve months PUK has made a significant contribution to the PFI and PPP procurement market and made good progress in terms of diversifying into other areas Highlights of the year include

- Supporting the close of the Ministry of Defence London estate project, "Project MoDEL",
- Supporting the close of the Ashford Housing PFI project,
- Supporting the close of the Forest Holidays PPP,
- Completing a first successful year of the Operational Taskforce,
- Publishing "SOPC4" – a revised version of the standard guidance on PFI contracts,
- A significant expansion in the capability of PUK to support Information, Technology and Change ("ITC") projects,
- Committing £5m to new portfolio investments in the Ventures business,
- The successful closing by Partnerships for Schools (PfS) of seven projects in the Building Schools for the Future ("BSF") programme, and
- Completing the sale of PUK's 50% shareholding in Partnerships for Health ("PfH") to the Department of Health

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, free at the point of use,
- Contributing to the development and publication of SOPC 4, a major revision to Standardisation of PFI Contracts guidance, and
- Supporting the development of guidance on the procurement of ITC projects

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, was the same as last year at £17 4m (2006 £17 5m) After payment of interest on the 6% Convertible Unsecured Loan Stock ("CULS"), the business has reported a profit before tax of £11 4m (2006 £1 0m) The sale of PfH had a material impact on this year's profit and is identified separately in the accounts If the sale of PfH is excluded, the loss before tax is £1 0m, after bearing £2 7m of net contribution to PfS

Chief Executive's Review

The main features of the financial performance were as follows

- Development Partnership Agreement ("DPA") revenues were £2 5m, lower than the previous year as a result of fewer projects closing,
- The support business turnover was £8 4m, 17% up on last year,
- Turnover included £2 6m of revenue from PfS, the first revenues arising from the BSF programme,
- Interest earned was higher than budgeted as a result of the sale of PfH in December 2006

PUK's own operating profit, excluding its joint arrangement and joint ventures, decreased from a profit of £4 8m to a profit of £1 4m, as shown in the following table The main reasons for this were the reduction in DPA revenues and the absence of disposal profits from the PUK Ventures business, which had increased the 2005/6 operating profit to an unusually high level The core support activity has increased 17% between 2005/6 and 2006/7 More detailed analysis is shown at Notes 2 and 26

	2007 £m	**2007 £m**	2006 £m
PUK Business operating profit	**2.4**		4 9
Net interest payable	**(0.7)**		(1 4)
PUK business operating profit after interest	**1.7**		3 5
PUK Ventures	**(0.3)**		1 3
PUK business and portfolio business		**1.4**	4 8
Joint ventures and joint arrangement			
(share of profit before tax)			
Partnerships for Health		**0.1**	0 5
Partnerships for Schools		**(2.7)**	(4 3)
Building Schools for the Future Investments		**-**	-
Total joint ventures and arrangements		**(2.6)**	(3 8)
Profit on disposal of PfH		**12.6**	-
Group profit before tax		**11.4**	1 0

Until now PUK has not paid a dividend to its shareholders Shareholders' sole return has been from the yield payable on the CULS The sale of PfH represents the first major profit on disposal of a joint venture undertaking for PUK As a direct result of this sale and in consideration of the profits made, the PUK Board will be considering a proposal to make a dividend payment Any payment of a dividend will be specifically linked to the sale of PfH which is considered to be an exceptional event

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,
- **PUK Ventures –** Investing risk capital in new ventures

Chief Executive's Review

Projects and Policy Support

Development Partnership Agreements

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 fell compared to last year, £2 5m compared to £3 9m

Three major projects reached financial close this year under DPAs PUK has supported the Ministry of Defence on the MoDEL project MoDEL is an innovative PPP involving the rationalisation of MoD sites around London We hope that the structure can be used on other estate rationalisation projects PUK also worked with the Forestry Commission on the establishment of a joint venture with the Camping and Caravan Club to invest in and manage their holiday sites The third DPA involved supporting Ashford Borough Council on its housing PFI project, which will see the redevelopment of the Stanhope housing estate

The 2005/6 accounts showed significant levels of work in progress and debtors in relation to funding of third party costs in DPAs As the DPAs in operation at the end of 2006/7 did not include such funding, the balance sheet shows corresponding higher levels of cash balances

HM Treasury Framework

The revenues under the HM Treasury Framework Agreement remained stable at £2 4m The highlight of the year was the publication by the Treasury in March 2007 of SOPC4, a comprehensive revision to the guidance on PFI contracts PUK has been the driving force behind the development of standard guidance, including this new version SOPC3 has already helped significantly improve the quality of PFI contracts and SOPC4 will provide a further enhancement

PUK's other support to HM Treasury focused on the delivery of existing core activities (such as running the Helpdesk, implementing SOPC on individual contracts, operating the Refinancing Taskforce and undertaking reviews for the Projects Review Group) as well as supporting on the development of policy and communication with the market

Other Support Income

Other Support activity grew from £7 1m to £8 4m, up 17% As part of our public sector mission, we have always sought to ensure that our activities cover a wide geographical and sectoral spread Project activity took place all over the UK and we provide evidence of this to the Advisory Council each year

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

- Supporting the Ministry of Defence on the Military Flying Training System, the Future Strategic Tanker Aircraft project, and the Defence Training Review,
- Supporting the Department for Transport in relation to Birmingham City Council's procurement of a major highways maintenance contract,
- Supporting the Highways Agency on the M25 project,
- Supporting Cross London Rail Links on property and development related issues on the Crossrail project,
- Providing intensive support to the Immigration and Nationality Department on the e-Borders project,
- Helping the Department of Work and Pensions on the development of the Enabling Savings Retirement Programme,
- Supporting the Department of Transport on issues related to road pricing,

- Meeting, in support of HM Treasury and UK Trade and Investment, with delegations from more than 65 overseas Governments

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) in implementing the Government's Wider Markets Initiative (WMI) and their agenda for the exploitation of Government funded research

PUK also provides direct support to public sector entities, clients supported during the year included VOSA, Carbon Trust and DEFRA Central Science Laboratories

Operational Support

In April 2006, following the publication of PUK's review of Operational Projects, HM Treasury asked PUK to establish an Operational Taskforce on its behalf The objective of the Operational Taskforce was to provide better guidance and support to the public sector in managing projects in the operational phase During the year the Operational Taskforce has operated a help desk, responding to over 200 calls, published guidance on 'Benchmarking and Market Testing' and 'Managing the Transition Period', run eight interactive workshops around the UK with public sector stakeholders, and provided support on specific project issues

PUK has also provided direct support to public authorities on operational projects beyond the scope of the Operational Taskforce Such projects have included the Edinburgh Royal Infirmary, Barts and Royal London hospitals, and a group of Local Authorities negotiating a restructuring with a common contractor

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, and offers positive career development opportunities for PUK staff During the year PUK has had secondees in HM Treasury, Ministry of Defence, the Scottish Executive, Crossrail, DCMS, and PfS Secondment income is shown separately as part of turnover

Managed Procurement Initiatives

At the beginning of the year PUK had two joint ventures with Government departments to support the delivery of major investment programmes PfS and PfH During the year we sold our 50% shareholding in PfH to the Department of Health, and established a new investment business, Building Schools for the Future Investments LLP ("BSFI"), to invest in BSF projects Further details of the activities of PfS and the sale of PfH are provided below

PUK has also entered into a major partnership with DEFRA and 4Ps in relation to the Waste Infrastructure Delivery Programme ("WIDP") The EU Landfill Diversion Targets are forcing the pace of new investment in waste management facilities and WIDP has been established to support and coordinate the investment programme centrally WIDP will also provide direct support to Local Authorities on individual projects

Good progress has also been made on the development of a primary and community care programme in Scotland

Chief Executive's Review

Partnerships for Schools

2006/7 was a key year for delivery of the Building Schools for the Future programme, as the first projects reached financial close and construction of new schools was underway in many parts of the country Contracts were signed on seven BSF projects during the year and, with a flow of further projects working their way through procurement, a healthy pipeline of future investment is in place The announcement of the next wave of BSF projects, the 4th wave, was a welcome reaffirmation of the rolling programme of investment that BSF will deliver across the country

The role of PfS was further extended during the year, with the Government's announcement that it would be taking over responsibility for delivering the Academies programme This represents a significant vote of confidence in PfS's delivery capacity and an additional challenge as the two programmes become more closely aligned

We were sorry to see the departure of Richard Bowker as Chief Executive but delighted to be able to welcome Tim Byles as his successor Tim brings invaluable experience from his years as Chief Executive of Norfolk County Council, and is already making a considerable impact in improving the delivery of the programme

In financial terms, PfS has a significant impact on the PUK results Expenditure in the year under the PfS joint venture arrangement was £5 3m (2006 £4 3m), with revenues, for the first time as a result of first projects closing, of £2 6m

The establishment, with the Department for Education and Skills ("DfES"), of BSFI is a reflection of the progress in delivery of the BSF programme PUK and DfES have committed to invest up to £7 75m each to the local partnerships that will deliver BSF investment across the country and a full time team has been recruited to manage the BSFI investment business

Partnerships for Health

PfH was set up to deliver a material improvement in primary healthcare facilities and services, particularly in deprived areas, through delivering the NHS LIFT programme By the time of the sale, all of PfH's original objectives had been achieved

- 42 LIFT companies established around the country,
- £1bn of investment in new health centres and facilities,
- 90 buildings open, and
- A new approach to delivering investment in primary and community care established, and a supplier market created to take forward future investment requirements

The purchase by the Department of Health ("DH") of PUK's 50% share of PfH reflected the fact that PfH had been a success It also reflected DH's desire to take PfH forward within the Department and to help deliver some of the wider policy objectives set out in the Health White Paper, "*Our health, our care, our say - A New Direction for Community Services*" From a PUK perspective, the sale was consistent with our public sector mission to focus our resources on the development of new markets and initiatives, and then redeploy such resources and capital to emerging and alternative opportunities

The sale of PfH was completed in December 2006 for a sale price of £25 8m, based on an independent valuation of the future value of the business As a result, at the March year end, PUK's balance sheet shows significant cash balances and the Board has been giving consideration to the future investment needs of the business and the appropriate structure of the balance sheet

Chief Executive's Review

Portfolio Investments

The PUK Ventures business had another successful year and is on track to achieve its objective of investing £25m by 2009 The portfolio of investments at the year end consisted of 8 investments and was valued at £5 7m During the year we made 5 new investments and 3 follow on investments New investments included Ocean Power Delivery, which is developing wave conversion technology, and Cascade Technologies Limited, which has developed laser sensors for the emissions market

During the year we also made two disposals Acolyte Biomedica and 50% of our holding in Imperial Innovations

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 for the Group If the joint ventures are excluded the business was on budget,
- Broadening the scope of the procurement business – roles were secured on non-PFI projects such as the Olympics, Crossrail and the Enabling Savings Retirement Programme,
- Establishing an operational support business – the Operational Taskforce was successfully launched and other operational support mandates obtained,
- Developing a new business in the health sector – a platform has been established to form a new business supporting the development of new forms of provision for Community Health Services,
- Increasing the level of equity investments – the business targets in the PUK Ventures business were achieved

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 business plan and objectives provide a positive outlook for next year

We will continue to focus on supporting the delivery of the PFI/PPP transaction pipelines during the procurement and operational phases of projects Alongside the PFI/PPP activity we will look to position PUK across the broader spectrum of projects in the same type of role We will also seek to use our risk capital effectively in support of our public sector mission and business plan objectives

In the forthcoming year we are faced with political changes in England, Scotland, Wales and Northern Ireland PUK must respond to such changes and maximise any emerging opportunities PUK must provide leadership in creating new markets and models in response to any Government policy initiatives

Employees

PUK is very fortunate to have an energetic, enthusiastic and committed workforce both in the professional and support staff We work hard to create an identifiable culture and an environment where staff feel valued and respected Central to the culture is PUK's public sector mission and the fact that our ultimate objective is to help Government improve public services

Chief Executive's Review

I would like to thank all the staff for their help and support during the year PUK wouldn't be where it is without them

Finally, I would like to thank Sir Derek Higgs for all his support over the last seven years He has provided great leadership and will be missed by everyone at PUK

J. Stewart

James Stewart
Chief Executive
31 May 2007

PARTNERSHIPS UK PLC
DIRECTORS' REPORT
for the year ended 31 March 2007

The Directors present their report together with the consolidated financial statements of Partnerships UK plc (the "Company"), its subsidiary undertakings and interests in joint ventures and joint arrangements (together, the "Group") for the year ended 31 March 2007

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 8

Results and Dividend

The Group's profit for the year before taxation amounted to £11,372,000 (2006 £957,000) and the profit after tax amounted to £11,595,000 (2006 £758,000), as shown on page 24 The Directors do not propose the payment of a dividend for the year (2006 £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]

James Stewart, Chief Executive [1]

Michael Gerrard, Deputy Chief Executive

David Goldstone, Finance Director

Andrew Rose [1]

David Clements *[2,3]

Gren Folwell *[2,3]

Nicolas Lethbridge *[1,3]

Sir Steve Robson CB *[1,3]

James Sassoon *[o,2,3] Resigned 27 June 2006

Peter Schofield *[o,2,3] Appointed 20 June 2006

Claudia Arney *[o,3] Appointed 27 June 2006

* Non-Executive   [o] HM Treasury nominees

[1] Investment Committee   [2] Audit Committee   [3] Remuneration Committee

None of the Dırectors held an ınterest ın the shares of the Company or ıts subsıdıarıes durıng the year

The Chaırman, Sır Derek Hıggs, ıs also Chaırman of Allıance & Leıcester Plc and Bramdean Asset Management LLP and ıs a Non-Executıve Dırector of Jones Lang LaSalle Inc

Shareholders

At 31 March 2007, the shares of the Company were held as follows

	Shares	Percentage holdıng
A Ordınary shares		
The Prudentıal Assurance Company Lımıted	888,888	8 89
Bank of Scotland Corporate (Uberıor Infrastructure Investments Lımıted)	888,888	8 89
Abbey Natıonal Treasury Servıces plc	666,666	6 67
Sun Lıfe Assurance Socıety plc (HSBC Global Custody Nomınees (UK) Lımıted)	666,666	6 67
Barclays Industrıal Investments Lımıted	605,558	6 06
Royal Bank Project Investments Lımıted	605,558	6 06
Serco Lımıted	333,332	3 32
The Brıtısh Land Company plc (Boldswıtch Lımıted)	222,222	2 22
Global Solutıons Lımıted	222,222	2 22
	5,100,000	51 00
B Ordınary shares		
H M Treasury	4,455,556	44 56
The Scottısh Mınısters	444,444	4 44
	4,900,000	49 00
Total	10,000,000	100 00

Corporate governance

The Company's Statement of Corporate Governance ıs set out on Pages 13 to 21

Principal Risks and Uncertainties

The Company's busıness ıs focused on supportıng the publıc sector, partıcularly ın relatıon to commercıal relatıonshıps wıth the prıvate sector, to meet Government polıcy and servıce delıvery prıorıtıes There ıs an ınherent rısk ın the Company's busıness, as ıt could be sıgnıfıcantly affected by future changes ın the dırectıon of Government prıorıtıes, both ın terms of specıfıc publıc servıce areas and ın the form of commercıal engagement wıth the prıvate sector Beyond the potentıal ımpact of changes ın Government polıcy, the prıncıpal rısks and uncertaıntıes ın the Company's busıness are ın relatıon to maıntaınıng ıts reputatıon as a centre of expertıse ın PPPs, and thıs ın turn ıs hıghly dependant on the Company's abılıty to recruıt and retaın staff of the necessary qualıty The Company ıs also exposed to the changes ın the market value of ıts portfolıo of ınvestments and to the rısks affectıng the performance of ıts joınt ventures All of these rısks are revıewed as part of the corporate approach to rısk management descrıbed ın the Statement of Corporate Governance

Financial risk management

Wıth the exceptıon of the Convertıble Unsecured Loan Stock (CULS) (detaıled ın Note 17 to the accounts), the company had no ındebtedness as at 31 March 2007 The CULS carrıes a fıxed rate of ınterest The Company receıves ınterest ıncome on certaın ınvestments 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 Group 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 15 to the accounts, the Company's policy is that cash balances and other funds held on short term deposits are only invested in AAA rated money market funds or with clearing banks

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 and with clearing banks

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 their 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 auditors are unaware For this purpose, "relevant audit information" comprises the information needed by the 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 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 21 days' purchases (2006 25 days)

Auditors

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

By order of the Board

JGM Ballingall

James Ballingall
Secretary
10 Great George Street
London SW1P 3AE

12 June 2007

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 2006/7 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 Schools, Partnerships for Health (until December 2006), and Building Schools for the Future Investments LLP (from July 2006) The Company's Directors play a full part in the corporate governance arrangements of the joint ventures, including, as appropriate, 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 meetings, including the Annual General Meeting ("AGM"), are held with shareholders each year, and half yearly management accounts are distributed to all shareholders An additional formal meeting was held with shareholders this year All Directors are invited to attend all meetings with shareholders

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, who was replaced by Claudia Arney in June 2006, and Peter Schofield who was also appointed in June 2006

Directors seeking re-election at the 2007 AGM are David Clements, Nicolas Lethbridge and Sir Steve Robson Since the year end, Gordon Horsfield and Andy Friend were appointed to the Board on 1st April and will stand for election at the AGM Biographies of all these directors will be included with the Notice of AGM Since the year end, Sir Derek Higgs has announced his intention to resign from the Board and Gordon Horsfield will succeed him as Chairman

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 2007 are set out on page 48 The Advisory Council is 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 2006/7, the Chairman of the Board was Sir Derek Higgs

During 2006/7 the Company's Board comprised 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, Claudia Arney and Peter Schofield, were appointed during the year and were nominated by HM Treasury Claudia Arney replaced James Sassoon who resigned during the year The other Non-Executive Directors are considered by the Board to be independent No other new Directors have been appointed during the year Since the year end, Sir Derek Higgs has announced his intention to resign as Chairman and will be replaced by Gordon Horsfield, and Andy Friend has joined the Board A sub-committee of the Board led the process for the appointment of a new Chairman, including engagement of external search consultants The appointments of Gordon Horsfield and Andy Friend were as a result of that search, and were agreed by the whole Board

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

Further details of the composition of the Board can be found in the Directors' Report on page 9

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 appointment 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 2006/7, it met formally twelve 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 investments, disposals and other financings within a defined maximum level of £1million 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

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

In the year ended 31 March 2007, the Audit Committee held three meetings, and the Investment Committee nine meetings The Remuneration Committee did not meet during the year, but met immediately before the start of the year, and has met since the year end, due to a change in timing of remuneration decisions

The following table details the number of Board and Committee meetings held during the year ended 31 March 2007 (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	12/12	9/9	n/a	0/0
Claudia Arney	8/10	n/a	n/a	0/0
David Clements	10/12	n/a	3/3	0/0
Gren Folwell	9/12	n/a	3/3	0/0
Michael Gerrard	9/12	n/a	n/a	n/a
David Goldstone	12/12	n/a	n/a	n/a
Nicolas Lethbridge	11/12	7/9	n/a	0/0
Sir Steve Robson	8/12	8/9	n/a	0/0
Andrew Rose	12/12	5/9	n/a	n/a
James Sassoon	2/2	n/a	1/1	0/0
Peter Schofield	11/11	n/a	2/2	0/0
James Stewart	12/12	8/9	n/a	n/a

When a Director has not been able to attend a Company Board or Committee meeting, their 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 end of the 2006/7 financial year and was reported to the Board at its March meeting

The Audit Committee

The Audit Committee is comprised of three Non-Executive Directors, two of whom are independent Peter Schofield was appointed to the Audit Committee during the year, to replace James Sassoon As a nominee of HM Treasury, Peter Schofield 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

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 The Partner responsible for the Company's audit has been replaced for the audit of the accounts for 2006/7, having been responsible for the Company's audit for the previous five years

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, for setting policy on internal control and for reviewing the effectiveness of internal control

During the year ended 31 March 2007, 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 2007 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 An improved form of risk matrix has been 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 This year, having considered the scale, diversity and complexity of the Company's activities, the Committee concluded that an internal audit function was required, and RSM Robson Rhodes LLP were appointed and have commenced their work during the year

The Company's relationship with its joint ventures, 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 Boards

The Board has approved a "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 2007/8 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

PARTNERSHIPS UK PLC
STATEMENT OF CORPORATE GOVERNANCE
for the year ended 31 March 2007

Remuneration Committee

The Remuneration Committee during the year was comprised solely of the Non-Executive Directors Sir Derek Higgs, Gren Folwell, Sir Steve Robson, Claudia Arney, David Clements, Nicolas Lethbridge and Peter Schofield As nominees of HM Treasury, Claudia Arney and

Peter Schofield are not considered by the Board to be independent The Committee was chaired by Sir Derek Higgs

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 also has 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 2006/7, the awards were determined by the Group's performance against the following criteria

- Achievement of financial targets
- 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

The Company has also established a deferred incentive scheme for its equity portfolio investments business The scheme rewards the generation of long term value through the portfolio of investments, but, as any awards are dependant on the realisation of profits from future disposals, the occurrence, amount and timing of awards is uncertain and will not be included in remuneration until an award becomes payable

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

The emoluments received by the Executive Directors in 2006/7 were as follows

Table A: Executive Directors' emoluments

	Service Contract date	Salary £000	Bonus £000	Deferred Incentive Scheme £000s	Benefits in kind £000	**Total 2006/7 £000**	Total 2005/6 £000	**Pension Contributions 2006/7 £000**	Pension Contributions 2005/6 £000
JAGH Stewart	5 Mar 2001	226	175	73	1	**475**	443	**23**	21
M B Gerrard	24 Aug 2002	183	120	55	6	**364**	349	**20**	20
D L A Goldstone	2 Jan 2002	162	125	60	1	**348**	324	**16**	16
A M Rose	15 Feb 2005	155	115	55	1	**326**	306	**16**	15
Total		726	535	243	9	**1,513**	1,422	**75**	72

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 2006/7 £000s	Fees 2005/6 £000s
C Arney	**-**	-
D R Clements	**20**	20
G J Folwell	**25**	25
J Hanratty	**-**	6
Sir Derek Higgs	**50**	50
N Lethbridge	**27**	27
Sir Steve Robson	**27**	27
J M Sassoon	**7**	-
PHG Schofield	**-**	-
Total	**156**	155

Table C: Deferred Incentive Scheme

	Date of award	Payable in year ending 31 March	At 1 April 2006 £000s	Awards	Amounts paid £000s	**At 31 March 2007 £000**
J A G H Stewart	31 3 04	2007	42	-	-	**42**
	31 3 05	2008	55	-	-	**55**
	31 3 06	2009	60	-	-	**60**
	31 3 07	2010	-	73	-	**73**
			157	73	-	**230**
M B Gerrard	31 3 04	2007	25	-	-	**25**
	31 3 05	2008	40	-	-	**40**
	31 3 06	2009	45	-	-	**45**
	31 7 07	2010	-	55	-	**55**
			110	55	-	**165**
D L A Goldstone	31 3 04	2007	30	-	-	**30**
	31 3 05	2008	40	-	-	**40**
	31 3 06	2009	45	-	-	**45**
	31 3 07	2010	-	60	-	**60**
					-	
			115	60	-	**175**
A M Rose	31 3 06	2009	45	-	-	**45**
	31 3 07	2010	-	55	-	**55**
			45	55	-	**100**

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

JGM Ballingall

James Ballingall
Secretary
10 Great George Street
London SW1P 3AE
12 June 2007

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 2007 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 also 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

In addition we 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 Statement 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 Combined Code (2003) 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 2007 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
12 June 2007

Notes

Where the financial statements are presented on the Partnerships UK plc website

(a) The maintenance and integrity of the Partnerships UK website is the responsibility of the directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Group Profit and Loss Account

for the year ended 31 March 2007

	Note	Year ended 31 March 2007 £000	Year ended 31 March 2006 £000
Turnover Group and share of joint ventures	2	**17,447**	17,452
Less share of joint ventures' turnover	11	**(354)**	(1,176)
Group turnover	2	**17,093**	16,276
Administration expenses		**(17,815)**	(16,284)
Other operating income		**354**	552
Operating (loss) / profit		**(368)**	544
Share of net operating (loss) in joint ventures	11	**(435)**	(43)
Total operating (loss) / profit Group and share of joint ventures		**(803)**	501
Profit on sale of joint venture	4	**12,631**	-
(Loss) / profit on sales of portfolio investments	12	**(30)**	1,267
Profit on ordinary activities before interest and impairment of investments		**11,798**	1,768
Interest receivable and similar income	7	**2,076**	1,494
Impairment of portfolio investments	12	**(272)**	(16)
Interest payable and similar charges	7	**(2,230)**	(2,289)
Profit on ordinary activities before taxation	3	**11,372**	957
Profit before interest on the 6% Convertible Unsecured Loan Stock and taxation		**13,472**	3,057
Interest payable on 6% Convertible Unsecured Loan Stock	7	**(2,100)**	(2,100)
Profit on ordinary activities before taxation	3	**11,372**	957
Tax credit/(charge) on profit on ordinary activities	8	**223**	(199)
Profit for the financial year	19	**11,595**	758

The Group's profit before taxation and profit for the financial year, on a historical cost basis, are set out on page 28 The Group's results are wholly attributable to [redacted] activities

The notes on pages 30 to 46 form an integral part of these financial statements.

Group Balance Sheet

as at 31 March 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
FIXED ASSETS					
Tangible assets	10		**671**		760
Investments					
Investments in joint ventures	11				
Share of gross assets		**3,297**		11,079	
Share of gross liabilities		**(3,298)**		(3,841)	
		(1)		7,238	
Unsecured Loan Stock issued by joint ventures		**3,120**		3,063	
		3,119		10,301	
Portfolio investments	12	**5,737**		6,266	
			8,856		16,567
			9,527		17,327
CURRENT ASSETS					
Work-in-progress					
Due within one year		**633**		12,924	
		633		12,924	
Debtors	14	**7,382**		17,903	
Investments	15	**-**		246	
Cash in hand and at bank		**46,883**		1,335	
		54,898		32,408	
Creditors amounts falling due within one year	16	**(5,125)**		(2,913)	
NET CURRENT ASSETS			**49,773**		29,495
TOTAL ASSETS LESS CURRENT LIABILITIES			**59,300**		46,822
Creditors amounts falling due after more than one year	17		**(36,075)**		(35,656)
NET ASSETS			**23,225**		11,166
CAPITAL AND RESERVES					
Called up share capital	18		**10,000**		10,000
Surplus/(deficit) on profit and loss account	19		**12,761**		(47)
Revaluation reserve	20		**464**		1,213
EQUITY SHAREHOLDERS' FUNDS	21		**23,225**		11,166

Approved by the Board on 12 June 2007 and signed on its behalf

David Goldstone
Director

The notes on pages 30 to 46 form an integral part of these financial statements

Company Balance Sheet

as at 31 March 2007

		2007		2006	
	Note	£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	10		**671**		760
Investments					
Investments in joint ventures	11	**3,120**		9,313	
			3,120		9,313
			3,791		10,073
CURRENT ASSETS					
Work-in-progress					
Due within one year		**633**		12,924	
		633		12,924	
Debtors	14	**14,099**		23,943	
Investments	15	**-**		246	
Cash in hand and at bank		**45,302**		666	
		60,034		37,779	
Creditors amounts falling due within one year	16	**(5,144)**		(2,668)	
NET CURRENT ASSETS			**54,890**		35,111
TOTAL ASSETS LESS CURRENT LIABILITIES			**58,681**		45,184
Creditors amounts falling due after more than one year	17		**(36,075)**		(35,656)
NET ASSETS			**22,606**		9,528
CAPITAL AND RESERVES					
Called up share capital	18		**10,000**		10,000
Surplus/(deficit) on profit and loss account	19		**12,606**		(472)
Revaluation reserve	20		**-**		-
EQUITY SHAREHOLDERS' FUNDS	21		**22,606**		9,528

Approved by the Board on 12 June 2007 and signed on its behalf

David Goldstone
Director

The notes on 30 to 46 form an integral part of these financial statements

Group Cash Flow Statement

for the year ended 31 March 2007

	Note	Year ended 31 March 2007 £000	Year ended 31 March 2007 £000	Year ended 31 March 2006 £000	Year ended 31 March 2006 £000
Cash inflow/(outflow) from operating activities	23		**24,907**		(12,085)
Returns on investments and servicing of finance					
Interest received		**1,400**		537	
Interest paid		**(2,230)**		(2,107)	
			(830)		(1,570)
Taxation (paid) / recovered			**(257)**		110
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(161)**		(93)	
Purchase of portfolio investments	12	**(3,375)**		(3,374)	
Investment in BSFI		**(2,119)**		-	
Sale of portfolio investments		**4,073**		2,919	
Purchase of PfH joint venture Share capital	11	**(2,750)**		(5,750)	
			(4,332)		(6,298)
Acquisitions and disposals					
Disposal of joint venture			**25,813**		-
Cash inflow / (outflow) before use of liquid resources			**45,301**		(19,843)
Management of liquid resources					
Short term money market deposits withdrawn	24		**246**		10,145
Increase / (decrease) in cash in the year	24		**45,547**		(9,698)
Reconciliation of net cash flow to movements in net debt					
Increase / (decrease) in cash in the year			**45,547**		(9,698)
Decrease in liquid resources			**(246)**		(10,145)
Change in net debt resulting from cash flows			**45,301**		(19,843)
Net debt at 1 April 2006			**(33,419)**		(13,576)
Net debt at 31 March 2007	24		**11,882**		(33,419)

The notes on pages 30 to 46 form an integral part of these financial statements

Group Statement of Total Recognised Gains and Losses

for the year ended 31 March 2007

	Note	Year ended 31 March 2007 £000	Year ended 31 March 2006 £000
Profit for the financial year		**11,595**	758
Movement in revaluation reserve		**464**	-
Total gains and losses recognised since last annual report		**12,059**	758

Statement of historical cost profit

for the year ended 31 March 2007

	Note	Year ended 31 March 2007 £000	Year ended 31 March 2006 £000
Reported profit on ordinary activities before taxation		**11,372**	957
Realisation of revaluation gains of previous years	19	**1,213**	164
Historical cost profit on ordinary activities before taxation		**12,585**	1,121
Historical cost profit for the year retained after taxation		**12,808**	922

The notes on pages 30 to 46 form an integral part of these financial statements

Reconciliation of Movements in Group Shareholders' Funds

for the year ended 31 March 2007

	Year ended 31 March 2007	Year ended 31 March 2006
	£000	£000
Opening shareholders' funds	**11,166**	10,408
Profit for the financial year	**11,595**	758
Revaluation gain on portfolio investments	**464**	-
Closing shareholders' funds	**23,225**	11,166

The notes on pages 30 to 46 form an integral part of these financial statements

Notes to the Financial Statements

for the year ended 31 March 2007

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 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 ventures and 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 ventures and arrangements, measured in accordance with the terms of the relevant agreement Profit on disposals of joint ventures and arrangements is calculated by comparing the sale proceeds against share of net assets disposed

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

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 DPAs, PfH's procurement support agreements and 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 DPA's procurement support agreement or Local Education Partnership (LEP) 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

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"

Notes to the Financial Statements

for the year ended 31 March 2007

1. Accounting Policies (continued)

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

Interest in Joint Ventures

Building Schools for the Future Investments LLP (BSFI) makes investments through loans and subordinated debt in LEPs established with PfS support Interest accrues on the achievement of project milestones, and is at risk to project performance The interest is recognised in the accounts only when it is received by BSFI

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

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

for the year ended 31 March 2007

2. Turnover

	2007 £000s	2007 £000s	2006 £000	2006 £000
DPA revenue		**2,496**		3,863
Interest on external costs		**117**		1,124
HM Treasury Framework revenues	**2,437**		2,530	
Advisory contracts	**8,191**		6,958	
International activities	**161**		183	
Total support income		**10,789**		9,671
Secondment income		**1,065**		1,618
Share of Partnerships for Schools revenue		**2,626**		-
		17,093		16,276
Share of procurement support revenue in joint ventures		**354**		1,176
		17,447		17,452

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

3. Profit on ordinary activities before taxation

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

	2007 £000	2006 £000
Expenditure under joint arrangement Partnerships for Schools Limited	**5,314**	4,300
Auditors' remuneration	**54**	70
Tax services provided by PricewaterhouseCoopers	**43**	-
Operating leases – land and buildings	**795**	806
Rental income from sub-tenants	**(342)**	(281)
Depreciation	**250**	263

4. Profit on sale of joint venture

During the year the Company sold its 50% shareholding in Partnership for Health Limited (PfH) The share of net assets disposed of, and related sale proceeds, were as follows

	2007 £000
Share of net assets on disposal	**10,076**
Loan stock sold	**3,063**
	13,139
Disposal proceeds	**25,770**
Profit on disposal	**12,631**

Notes to the Financial Statements

for the year ended 31 March 2007

5. Employees

	2007 £000	2006 £000
Wages and salaries	**7,684**	6,996
Social security costs	**940**	873
Pension costs	**498**	480
	9,122	8,349

Average number of employees

	2007	2006
Transactors	**53**	50
Administration and support	**19**	18
Total	**72**	68

In addition, the Group's share of the expenditure of PfS includes £2,708,282 (2006 £1,729,000) 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 2007, the Group had liabilities in respect of money owed to scheme managers totalling £2,620 (2006 £8,281)

6. Directors' emoluments

Details of directors' emoluments for the year are set out in the Report on Remuneration and Related Matters on pages 17 to 20 and are summarised below

	2007 £000	2006 £000
Aggregate emoluments	**1,669**	1,577
Pension contributions – defined contributions	**75**	72
Total emoluments	**1,744**	1,649
Emoluments of Chairman	**50**	50
Emoluments of highest paid director	**475**	443
Pension contributions for the highest paid director – defined contributions	**23**	21

Retirement benefits are accruing to four Directors under defined contribution pension schemes (2006 four)

7. Interest

	2007 £000	2006 £000
Interest receivable and similar income		
Bank interest	**1,309**	537
Interest on portfolio investments	**-**	35
Interest on loan stock issued by joint ventures	**77**	184
Share of joint venture interest receivable	**690**	738
	2,076	1,494

Notes to the Financial Statements

for the year ended 31 March 2007

7 Interest (continued)

Included within the Group's share of joint venture interest receivable is £690,000 (2006 £649,000) relating to investment income on a joint venture undertaking's portfolio investments

	2007	2006
	£000	£000
Interest payable and similar charges		
Interest payable on 6% Convertible Unsecured Loan Stock 2021	2,100	2,100
Other interest payable	-	7
Share of joint venture interest payable	130	182
	2,230	2,289

8. Tax on profit on ordinary activities

	2007	2006
	£000	£000
Current tax		
Corporation tax charge for the year at 30% (2006 30%)	-	257
Over provision in prior year	(257)	-
Prior year tax loss claim	(3)	(206)
Share of joint venture tax charge	37	148
Net current tax (credit)/charge	(223)	199
Deferred tax charge	-	-
	(223)	199

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

	2007	2006
	£000	£000
Profit on ordinary activities before taxation	11,372	957
Profit on ordinary activities before taxation at 30% (2006 30%)	3,411	287
Effects of		
Substantial shareholding tax exemption	(3,631)	-
Share of joint venture marginal relief	-	(6)
Impairment provisions	82	5
Prior year portfolio revaluations and impairments now realised	-	4
Indexation allowance	(14)	(9)
Prior year tax loss claim	(3)	(206)
Disallowed items	30	25
Unrecognised deferred tax	83	-
Capital allowances for the period below depreciation	11	34
Other timing differences	65	65
Over provision in prior year	(257)	-
	(223)	199

9. Deferred tax asset

The Company and the Group have recognised the following amount of deferred tax at 31 March 2007

	2007	2006
	£000	£000
Accelerated capital allowances	**(49)**	(64)
Other timing differences	**49**	64
	-	-

Deferred tax asset at 1 April 2006	-
Deferred tax charge in profit and loss account for the year	-
Deferred tax asset at 31 March 2007	-

At the year end, based on a corporation tax rate of 30%, the Group also had an unrecognised deferred tax asset of £835,000 (2006 £643,000) This unrecognised deferred tax asset comprised tax losses of £466,000 (2006 £316,000), and timing differences of £369,000 (2006 £202,000)

10. Tangible fixed assets

	Group and Company		
	Leasehold Improvements and furniture	Office and computer equipment	Total
	£000	£000	**£000**
Cost			
As at 1 April 2006	1,331	833	**2,164**
Additions	-	161	**161**
Disposals	-	(280)	**(280)**
At 31 March 2007	1,331	714	**2,045**
Depreciation			
As at 1 April 2006	753	651	**1,404**
Disposals	-	(280)	**(280)**
Charge	133	117	**250**
At 31 March 2007	886	488	**1,374**
Net book value at 31 March 2007	**445**	**226**	**671**
Net book value at 1 April 2006	578	182	760

11. Investments in joint ventures and joint arrangements

Particulars of all joint venture undertakings

	Country of incorporation	Percentage of ordinary capital held
Partnerships for Health Limited ("PfH")	England	50%
Building Schools for the future investments LLP ("BSFI")	England	50%

PfH was set up as a joint venture between the Company and the Secretary of State for Health, 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 invested a further £2,750,000 in PfH during the year by subscribing for new share capital (2006 £5,750,000) invested in 6% Unsecured Loan Stock 2021 ("ULS") In December 2006 PUK sold its entire investment in share capital and ULS in PfH to the Secretary of State for Health (see Note 4)

PfS was established in March 2004, to support the delivery of the Building Schools for the Future (BSF) 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 PfS is accounted for as a joint arrangement, and so there is no recognition of its assets and liabilities in the Group's accounts 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 Revenue of £2,626,000 was recognised in the year to 31 March 2007 (2006 £nil)

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

BSFI was established in July 2006 to invest in Local Education Partnerships (LEPs), set up to deliver BSF projects in areas prioritised by the Secretary of State for Education and Skills and supported by PfS It is a joint venture between the Secretary of State and the Company

Notes to the Financial Statements

for the year ended 31 March 2007

11. Investments in joint ventures and joint arrangements continued)

Company

	Shares £000	Loan Stock £000	Total £000
Cost			
As at 1 April 2006	6,250	3,063	**9,313**
Additions – PfH	2,750	-	**2,750**
Additions - BSFI	-	3,120	**3,120**
Disposals	(9,000)	(3,063)	**(12,063)**
As at 31 March 2007	-	3,120	**3,120**
Provision			
As at 1 April 2006 and 31 March 2007	-	-	-
Net book value as at 31 March 2007	-	3,120	**3,120**
Net book value as at 1 April 2006	6,250	3,063	**9,313**

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

	2007 PfH £000	**2007 BSFI £000**	**2007 Group Total £000**	2006 PfH £000	2006 Group Total £000
Turnover	**354**	-	**354**	1,176	1,176
Operating costs	**(788)**	**(1)**	**(789)**	(1,219)	(1,219)
Operating (loss)	**(434)**	**(1)**	**(435)**	(43)	(43)
Interest receivable	**690**	-	**690**	738	738
Interest payable	**(130)**	-	**(130)**	(182)	(182)
Profit/(loss) before taxation	**126**	**(1)**	**125**	513	513
Taxation	**(37)**	-	**(37)**	(148)	(148)
Profit/(loss) after taxation	**89**	**(1)**	**88**	365	365
Fixed Assets	-	**13**	**13**	-	-
Portfolio investments	-	-	-	8,721	8,721
Current assets	-	**3,284**	**3,284**	2,358	2,358
	-	**3,297**	**3,297**	11,079	11,079
Liabilities due within one year	-	**(3,298)**	**(3,298)**	(778)	(778)
Liabilities due after more than one year	-	-	-	(3,063)	(3,063)
	-	**(3,298)**	**(3,298)**	(3,841)	(3,841)
Share of net (liabilities)/assets	-	**(1)**	**(1)**	7,238	7,238
Investment in BSFI's 6% Unsecured Loan Stock 2026	-	**3,120**	**3,120**	-	-
Investment in PfH's 6% Unsecured Loan Stock 2021	-	-	-	3,063	3,063
	-	**3,119**	**3,119**	10,301	10,301

11. Investments in joint ventures and joint arrangements (continued)

Movements in the Group's investments in joint ventures are summarised below	**Share of net assets £000**	**Loan Stock £000**	**Total £000**
As at 1 April 2006	7,238	3,063	10,301
Additions	2,750	3,120	5,870
Share of profit after taxation	88	-	88
Disposals	(10,077)	(3,063)	(13,140)
Net book value as at 31 March 2007	(1)	3,120	3,119

12. Portfolio investments

	Group £000	**Company £000**
Cost at 1 April 2006	5,631	-
Additions at cost	3,410	-
Disposals	(2,918)	-
Cost at 31 March 2007	6,123	-
Net revaluation at 1 April 2006	635	-
Revaluation during the year	464	-
Impairment in the year	(272)	-
Disposals	(1,213)	
Net revaluation at 31 March 2007	(386)	-
Valuation at 31 March 2007	5,737	-
Valuation at 1 April 2006	6,266	-

These investments comprise

	Group	
	2007 £000	2006 £000
Equity	5,050	5,126
Debt	687	1,140
Valuation at 31st March	5,737	6,266

	2007 £000	2006 £000
Non listed companies	4,273	5,126
Listed companies	1,464	1,140
Valuation at 31st March	5,737	6,266

Notes to the Financial Statements

for the year ended 31 March 2007

12. Portfolio investments (continued)

The net revaluation gain at 31 March 2007 comprises revaluation gains of £464,000 and impairment provisions of £272,000 (2006 £1,213,000 and £578,000 respectively)

Total additions during the year of £3,409,000 represent investments in Acolyte Biomedica Limited, CellTran, Zoobiotic Limited, Ocean Power Delivery Limited, Cascade Limited, Silistix and ESynergy 21st Century Sustainable Technology Fund

During the year the Group sold its holding in Acolyte Biomedica Limited and 50% of its holding in Imperial Innovations Group plc

At 31 March 2007, the Group held the following portfolio investments

Investment	Financial Year of Initial Investment	Shareholding	Business description
CellTran Limited	2006	9 9%	A company spun out of Sheffield University which has developed new wound care products based on tissue regeneration
Cascade Technologies Limited	2006	12 4%	A company spun out of Strathclyde University which is developing products based on laser-based emission sensing
e-Tourism Limited	2003	22 0%	A company set up as a public private partnership with visit Scotland to develop the commercial potential of the existing public sector tourism internet site, *www visitscotland com*
E Synergy 21st Century Sustainable Technology Fund	2007	Not Applicable	A £30m enterprise capital fund set up to focus investment in UK companies which are developing new, clean and efficient industrial processes
Imperial Innovations Group plc	2006	<1 0%	A company established to commercialise opportunities arising from research undertaken by Imperial College, London
Ocean Power Delivery Limited	2006	3 30%	A company established to develop wave conversion technology based on the pelamis device
Silistix	2007	17 9%	A company spun out from Manchester University which has developed a suite of tools for the design and synthesis of customised on - chip interconnects using self timed circuits
Zoobiotic Limited	2006	12 8%	A company spun out of Bro Morgannwg NHS Trust which has developed and markets wound care products based on the application of sterile maggots

Notes to the Financial Statements

for the year ended 31 March 2007

13. Investment 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 (PUKI) was established on 9 March 2005 PUKI is the holding company for the Group's portfolio investments The Company holds 100% of the share capital of its subsidiary at cost of £1 (2006 £1)

14. Debtors

	Group 2007 £000	Group 2006 £000	**Company 2007 £000**	Company 2006 £000
Trade debtors	**2,406**	12,966	**2,406**	12,966
Amounts recoverable on contracts	-	1,700	-	1,700
Amounts owed by subsidiary undertakings	-	-	**7,001**	6,075
Amounts due from joint ventures/arrangement	**1,312**	450	**1,312**	450
Other debtors	**62**	58	**62**	58
Corporation tax recoverable	**364**	206	**107**	206
Prepayments	**690**	462	**663**	462
Accrued income	**2,548**	2,061	**2,548**	2,026
	7,382	17,903	**14,099**	23,943

Trade debtors includes £nil (2006 £196,000), accrued income includes £nil (2006 £36,000) and amounts due from joint ventures includes £517,000 (2006 £nil) which are recoverable after more than one year Amounts owed to the Company by subsidiary undertakings include £7,001,000 (2006 £6,075,000) which is repayable on demand and carries an interest rate of 6%

15. Current Asset Investments

	Group and Company 2007 £000	Group and Company 2006 £000
Short term money market deposits	-	246

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

16. Creditors – amounts falling due within one year

	Group 2007 £000	Group 2006 £000	**Company 2007 £000**	Company 2006 £000
Trade creditors	**392**	311	**392**	311
Amounts due to subsidiary undertakings	-	-	**19**	19
Amounts payable under joint arrangement and joint venture	**1,953**	705	**1,953**	705
Corporation tax	-	256	-	-
Other taxation and social security	**284**	442	**284**	442
Other creditors	**121**	142	**121**	142
Accruals	**2,375**	1,057	**2,375**	1,049
	5,125	2,913	**5,144**	2,668

17. Creditors – amounts falling due after more than one year

	Group and Company 2007 £000	Group and Company 2006 £000
Accruals	**1,075**	656
Debts maturing in more than five years		
6% Convertible Unsecured Loan Stock 2021	**35,000**	35,000
	36,075	35,656

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

Notes to the Financial Statements

for the year ended 31 March 2007

18. Called up share capital

Authorised	2007 Number of shares 000s	2006 Number of shares 000s
A Ordinary shares of £1 each	**45,100**	45,100
B Ordinary shares of £1 each	**4,900**	4,900
	50,000	50,000

Allotted, issued and fully paid	2007 £000s	2006 £000s
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

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

19. Profit and loss account

	Group 2007 £000	Company 2007 £000
(Deficit) brought forward at 1 April 2006	**(47)**	(472)
Transferred from revaluation reserve	**1,213**	-
Profit for the year	**11,595**	13,078
Profit carried forward at 31 March 2007	**12,761**	12,606

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 profit for the year amounted to £13,078,000 (2006 loss £238,000)

Notes to the Financial Statements

for the year ended 31 March 2007

20. Revaluation reserve

	Group 2007 £000	Company 2007 £000
Reserve brought forward at 1 April 2006	**1,213**	-
Transferred to profit and loss account reserve	**(1,213)**	-
Revaluation surplus in the year	**464**	-
Reserve carried forward at 31 March 2007	**464**	-

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 £120,000 (2006 £364,000)

21. Movements in shareholders' funds

	Group 2007 £000	Company 2007 £000
Shareholders' funds as at 1 April 2006	**11,166**	9,528
Profit for the year	**11,595**	13,078
Revaluation surplus on portfolio investments	**464**	-
Shareholders' funds as at 31 March 2007	**23,225**	22,606

Shareholders' funds are all attributable to equity interests

22. Contingencies and commitments

The Company has committed to meet 50% of the funding requirements of PfS The commitment is expected to result in the gross payment of up to £6,624,000, offset by receipts of £4,152,550 resulting in a net payment of £2,472,000 in the next financial year for the Company's share of PfS's net expenditure

The company has agreed a business plan with BSFI which commits the company to invest up to a total of £7,750,000, of which £3,120,000 has been utilised at 31st March 2007

In relation to the sale of the Company's 50% share in PfH, the Company has taken specialist tax advice from PricewaterhouseCoopers as part of its assessment of whether, for corporation tax purposes, the disposal qualifies for the Substantial Shareholdings Exemption (SSE) The assessment concludes that SSE should apply to the disposal, and therefore no provision for tax on the profit of sale has been made If however it is found that SSE does not apply, a significant tax liability will arise

As at 31 March 2007, the Group had entered into commitments to provide additional funding to the companies in which it holds portfolio investments of up to £950,000 (2006 £494,000)

The company has committed to invest £1,000,000 in Bridges Community Development Ventures Fund 11 LP

22. Contingencies and commitments (continued)

At 31 March 2007, 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 2007 £000	Group / Company 2006 £000
Leases due to expire		
In less than five years	**790**	786
In more than five years	**-**	-
Share of joint venture		
Leases due to expire		
Within one year	**-**	39

23. Reconciliation of operating profit to operating cash flow

	2007 £000	2006 £000
Operating (loss) / profit	**(368)**	544
Depreciation	**250**	263
Decrease in work in progress	**12,291**	4,378
Decrease /(Increase) in debtors	**10,549**	(9,731)
Increase /(Decrease) in creditors	**2,185**	(7,539)
Cash inflow/ (outflow) from operating activities	**24,907**	(12,085)

24. Analysis of net debt

	At 31 March 2006 £000	Cash flow £000	**At 31 March 2007 £000**
Cash in hand and at bank	1,335	45,547	**46,882**
Short term money market deposits	246	(246)	**-**
Debt due after one year	(35,000)	-	**(35,000)**
	(33,419)	45,301	**11,882**

25. 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 2007, the Group owed £nil (2006 £32,000) to Her Majesty's Treasury At 31 March 2007, Her Majesty's Treasury and Scottish Ministers were holders of 6% Convertible Unsecured Loan Stock 2021 Their holdings were £15,594,446 (2006 £15,594,446) and £1,555,554 (2006 £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 £980,884 (2006 £984,000) in the year

The Group provided services to Government Departments and recovered occupancy costs from Government Departments of £11,718,000 (2006 £9,476,000) and £342,000 (2006 £144,000) respectively for the year At 31 March 2007, the Group was owed £2,416,376 (2006 £10,786,000) and £nil (2006 £nil) respectively in respect of these services The Group owed £nil (2006 £nil) at 31 March 2007 in respect of occupancy costs

The Company supplied services to PfH amounting to £95,263 (2006 £211,000) At 31 March 2007, the Group was owed £nil (2006 £101,000) in respect of these services

The Company supplied services to PfS amounting to £132,884 (2006 £884,000) during the year At 31 March 2007, the amounts payable to PfS by the Group were £952,000 (2006 £705,000) and the Group was owed £1,297,100 (2006 £nil)

26. 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	PUKI	PfH	PfS	BSFI	2007 Group Total £000
Operating profit/(loss)	**2,315**	**6**	**-**	**-**	**(1)**	**2,320**
Joint venture operating profit/(loss)	**-**	**-**	**(435)**	**(2,688)**	**-**	**(3,123)**
Profit on sale of Joint Ventures	**-**	**-**	**12,631**	**-**	**-**	**12,631**
(Loss) on sale of portfolio investments	**-**	**(30)**	**-**	**-**	**-**	**(30)**
Impairment of portfolio investments	**-**	**(272)**	**-**	**-**	**-**	**(272)**
Interest receivable	**1,384**	**2**	**690**	**-**	**-**	**2,076**
Interest payable	**(2,100)**	**-**	**(130)**	**-**	**-**	**(2,230)**
Profit/(loss) on ordinary activities before taxation	**1,599**	**(294)**	**12,756**	**(2,688)**	**(1)**	**11,372**

	PUK	PUKI	PfH	PfS	2006 Group Total £000
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

Government Departments

Nicholas Macpherson [1]	HM Treasury
Ken Beeton	Department for Transport
Andrew Burchell	Department for Environment, Food and Rural Affairs
Richard Calvert	Department for International Development
Richard Douglas	Department of Health
Peter Housden	Department for Communities and Local Government
Amyas Morse	Ministry of Defence
John Oughton	Office of Government Commerce
Ian Watmore	Prime Minister's Delivery Unit

Devolved Administrations

Martin Sykes	Value Wales
Sandy Rosie	Scottish Executive
David Gavaghan	Northern Ireland Strategic Investment Board

Public Sector Stakeholders

Paul Coen	Local Government Association
Ken Gillespie	Kirklees Metropolitan Council
Kieran Preston	Leeds Supertram Project
Barry Quirk	London Borough of Lewisham
Anna Simons	National Audit Office
Tony Sims	UK Trade and Investment
Jay Walder	Transport for London
Paul White	Barts and the London NHS Trust
Dr Doug Yarrow	Biotechnology and Biological Sciences Research Council

[1] Chairman of the Advisory Council