Registered Number 174142

Slough Heat & Power Limited

Directors report and Accounts for the year ended 31 December 2005

Directors	D. A. Arthur M.A.M. Candlish (resigned 30 March 2006) I. D. Coull M.R. Draper A. R. Ellis P. W. Jeffreys R. D. Kingston J. Pebworth
Secretary	J. R. Probert FCIS
Registered Office and Head Office	234 Bath Road, Slough SL1 4EE
Registered Number	174142

Directors' Report

The directors submit their annual report together with the audited financial statements for the year ended 31st December 2005 which were approved by the board on 13 December 2006.

Business of the Company

The principal activities of the company are to act as a holding company for the Utilities interests of the Slough Estates group.The company carries out the maintenance and administration functions for the Utilities group and recharges these costs. The company has performed in line with expectations. The directors are satisfied with the year end position.

Results and Dividends

The results for the year ended 31 December 2005 are set out on page 5. The directors do not recommend the payment of a dividend (2004: £NIL).

Directors

The present directors of the Company all of whom served throughout the year, unless otherwise stated, are as shown above.

Directors' Interests

None of the directors who were in office at 31 December 2005 had an interest in the shares of the company during the year.

The interests of D.A. Arthur in the shares of Slough Estates plc are disclosed in the financial statements of Slough Trading Estate Limited. The interests of R.D. Kingston and I.D. Coull in the shares of the ultimate holding company, Slough Estates plc, are disclosed in the financial statements of that company.

The interests of J. Pebworth, A.R. Ellis, M.A.M. Candlish and P.W. Jeffreys in the shares of Slough Estates plc are as follows:

	Ordinary Shares				**Executive Scheme Under Option**				
	Other interests		Own Holdings						
	31.12.05	1.1.05	**31.12.05**	1.1.05	**31.12.05**	Granted	Exercised	Lapsed	1.1.05
J. Pebworth	-	-	**11,387**	10,805	**47,459**	-	-	17,926	65,385
A.R. Ellis	-	-	**2,525**	2,543	**56,509**	16,778	-	15,152	54,883
M.A.M Candlish	-	-	**2,095**	1,529	**23,292**	-	-	-	23,292
P.W. Jeffreys	-	-	**3,343**	2,367	**49,067**	12,793	-	12,525	48,799

The shares under option are at option prices ranging from 290.0p to 409.17p expiring on various dates up to 13 April 2014.

Directors report and accounts for the year ended 31 December 2005 continued

Slough Estates plc has operated an approved SAYE share option scheme since 1981. Savings contracts can be for a three, five or seven year period. The following are details of the options held by J. Pebworth, A.R. Ellis, M.A.M. Candlish and P.W. Jeffreys:

Own Interests

	Date of Grant	Maturity Date	Option Price (p)	Number of Shares
J. Pebworth	19.3.03	1.4.08	218.4	7,520
A.R.Ellis	21.3.01	1.5.06	296.4	455
	30.8.01	1.10.06	284.8	474
	29.8.02	1.10.07	276.4	475
	19.3.03	1.4.08	218.4	1,504
	28.8.03	1.9.08	304.6	416
	26.8.04	1.10.09	372.0	351
	23.3.05	1.5.10	394.8	334
	22.9.05	1.10.10	432.4	458
P.W.Jeffreys	30.08.01	1.10.06	284.8	1,896
	28.08.03	1.10.06	304.6	484
	22.09.05	1.10.10	432.4	1,528
M.A.M Candlish	29.08.02	1.10.07	276.4	3,565
	17.03.04	1.5.09	372.4	1,229
	22.09.05	1.10.08	432.4	262

During the year the share price ranged between a high of 598.5p and a low of 469.0p. The share price at 31 December 2005 was 598.5p.

Charitable, political and other donations
The Company made no charitable, political or other donations during the year.

Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at a General Meeting.

On behalf of the Board

J.R. Probert

J R Probert
Secretary

Slough Heat & Power Limited
Statement of Directors' responsibilities

UK company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year. In preparing the 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 that the financial statements comply with IFRS ;

* prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 to 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

J. R. Probert

J.R.Probert
Secretary

13 December 2006

Slough Heat & Power Limited
Independent Auditor's Report to the members of Slough Heat & Power Limited

We have audited the financial statements Slough Heat and Power Limited for the year ended 31 December 2005 which comprise the Income statement, Balance Sheet, Cash Flow Statement, Statement of Recognised Income and Expenses 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 International Financial Reporting Standards (IFRS) as adopted by the European Union 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 whether the financial statements to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 the Directors Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 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 IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2005 and of its profit and cashflows for the year then ended;

the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
13 December 2006

Slough Heat & Power Limited
Income statement for the year ended 31 December 2005

	Note	2005 £000's	2004 £000's
Revenue	5	**9,595**	11,108
Income from sale of utilities and gas	6	**9,595**	11,108
Cost of sales		**(297)**	(330)
Net income from utilities and gas		**9,298**	10,778
Administrative expenses	6	**1,545**	(20,139)
Operating income / (expense)		**10,843**	(9,361)
Net finance costs	7	**-**	-
Profit / (loss) before tax		**10,843**	(9,361)
Taxation			
- current	8	**(962)**	(1,308)
- deferred	8	**87**	58
		(875)	(1,250)
Profit / (loss) for the period after tax		**9,968**	(10,611)
Attributable to equity shareholders		**9,968**	(10,611)

Slough Heat & Power Limited
Statement of recognised income and expense for the year ended 31 December 2005

	2005 £000's	2004 £000's
Profit / (loss) for the period	**9,968**	(10,611)
Total recognised income / (expense) for the period	**9,968**	(10,611)
Attributable to equity holders	**9,968**	(10,611)

Slough Heat & Power Limited
Balance Sheet as at 31 December 2005

	Note	2005 £000's	2004 £000's
Non-current assets			
Property, plant and equipment	9	**79**	60
Amounts due from group companies	10	**38,497**	28,570
Investment in subsidiaries	11	**416**	416
Deferred tax asset	12	**237**	150
Total non-current assets		**39,229**	29,196
Current assets			
Inventories	13	**808**	838
Trade and other receivables	14	**3,773**	1,137
Cash and cash equivalents		**46**	17
Total current assets		**4,627**	1,992
Total assets		**43,856**	31,188
Non-current liabilities			
Borrowings	15	**51,961**	49,414
Total non-current liabilities		**51,961**	49,414
Current liabilities			
Trade and other payables	16	**5,016**	5,143
Total current liabilities		**5,016**	5,143
Total liabilities		**56,977**	54,557
Net assets		**(13,121)**	(23,369)
Equity			
Called up ordinary share capital	17	**90,507**	90,507
Equity reserve	19	**598**	318
Revenue reserve	18	**(104,226)**	(114,194)
Total equity	18	**(13,121)**	(23,369)

The financial statements on pages 5 to 26 were approved by the Board of directors and authorised for issue on 13 December 2006 and signed on its behalf by:

J Pebworth
Director

Slough Heat & Power Limited
Cash Flow Statement for the year ended 31 December 2005

	Note	2005 £000's	2004 £000's
Cash outflow generated from operations	21	**8,950**	(9,380)
Tax paid		**(962)**	(1,308)
Net cash inflow/(outflow) from operating activities		**7,988**	(10,688)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(27)**	-
Net cash used in financing activities		**(27)**	-
Cash flows from financing activities			
Proceeds from the issue of ordinary shares		**-**	45,000
Net decrease in borrowings from fellow subsidiaries		**(7,932)**	(34,318)
Net cash used in financing activities		**(7,932)**	10,682
Net increase/(decrease) in cash and cash equivalents		**29**	(6)
Cash and cash equivalents at the beginning of the year		**17**	23
Cash and cash equivalents at the end of the year		**46**	17

1 General

Slough Heat & Power Limited is a limited company incorporated in England. The Company's ultimate holding company is Slough Estates plc (the Group) which is also incorporated in England.
These financial statements are presented in thousands and in sterling since that is the currency in which the majority of the Company's transactions are denominated. The financial statements have been prepared under the historical cost convention. A summary of significant accounting policies is shown in note 27.

2 Transition to International Financial Reporting Standards (IFRS)

On 1 January 2005 the Company, like its ultimate parent company Slough Estates plc, fully adopted International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union (EU). The standards are also collectively referred to as "IFRS". Previously, the financial statements were prepared under UK Generally Accepted Accounting Principles (UK GAAP) The comparative figures have been restated accordingly.
Reconciliations have been provided of certain key figures to UK GAAP and these are set out in notes 30 and 31.

The Company's transition date for the adoption of IFRS is 1 January 2004 and its transition date for the implementation of IAS 32 and IAS 39 dealing with financial instruments is 1 January 2005. These transition dates have been selected in accordance with IFRS 1, "First-time adoption of International Financial Reporting Standards".

The Company is required to apply its IFRS accounting policies retrospectively to determine its opening IFRS balance sheet at the transition date of 1 January 2004 and the comparative information for the year ending 31 December

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

3 Accounting policy changes

A summary of the significant changes in accounting policies as a result of adopting IFRS is set out in note 28.

4 Segmental analysis

For management purposes the Company is treated as a single entity all of whose activity is carried out in the United Kingdom. There is therefore no segmental information to be disclosed.

Slough Heat & Power Limited
Notes to the financial statements (continued)

5 Revenue

	2005 £000's	2004 £000's
Sale of utilities and gas	**9,595**	11,108
Total revenue	**9,595**	*11,108*

6 Administrative expenses

	2005 £000's	2004 £000's
Directors' remuneration	**381**	388
Depreciation	**8**	7
Auditors' remuneration for audit services	**31**	31
Provision against loans to subsidiaries	**(8,024)**	13,380
Other administration expenses	**6,059**	6,333
	(1,545)	20,139

Employees

The company bears the cost of all employees of the Slough Heat & Power Group with the excpetion of Fibre Fuel Limited which bears its own staff costs.

The average monthly number of employees of the company was 122 (2004: 126). All employees are engaged on utility operations.

Directors' Remuneration

The remuneration of R.D. Kingston and I.D. Coull are disclosed in the financial statements of Slough Estates plc, the ultimate holding company. D.A. Arthur is a director of Slough Trading Estates Limited, a fellow subsidiary, and his remuneration is disclosed in the financial statements of that company.

	2005 £000's	2004 £000's
Aggregate emoluments	**381**	388
Company pension contributions to money purchase scheme	**-**	77

Two directors (2004: three) exercised share options over the shares of the ultimate holding company in the year and three directors became entitled to receive shares under the long-term incentive scheme. Retirement benefits are accruing to no directors (2004: one) under a funded unapproved retirement and death benefit scheme and to four directors under a defined benefit scheme (2004: three).

In addition to the above emoluments, the company paid £25,553 (2004: £18,000) to the non-executive director.

Employees' staff costs were as follows:

	2005 £000's	2004 £000's
Wages and salaries	**5,807**	5,040
Social security costs	**541**	462
Share based payment charge	**334**	246
Pension contributions		
- defined benefits	**1,476**	1,060
- defined contributions	**1**	50
	8,159	6,858

Slough Heat & Power Limited
Notes to the financial statements (continued)

7 Net finance costs

	2005 £000's	2004 £000's
Interest payable to a group company	(3,596)	(3,756)
Interest receivable from group companies	3,596	3,756
	-	-

8 Taxation

	2005 £000's	2004 £000's
Current tax		
Provision for UK Corporation taxation based on profits for the year		
Corporation tax at 30 per cent (2004: 30 per cent)	980	1,176
Adjustments in respect of prior periods	(18)	132
Total current taxation (credit) / charge	962	1,308
Deferred tax		
Origination and reversal of timing differences	(87)	(58)
Total tax on profit on ordinary activities	875	1,250

Factors affecting the tax charge for the period

The tax is lower (2004: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2005 £000's	2004 £000's
Proft / (loss) on ordinary activities before tax	10,843	(9,361)
Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 per cent (2004 30 per cent)	3,253	(2,808)
Effects of :		
Origination and reversal of timing differences	(104)	(77)
Adjustment in respect of prior periods	(18)	132
Permanent timing differences	(2,256)	4,003
	875	1,250

Factors that may affect future tax charges

Based upon current investment plans the company expects to continue to be able to claim allowances on expenditure relating to plant and equipment.

9 Property, plant and equipment

	2005 £000's	2004 £000's
Cost		
At 1 January	782	782
Additions	27	-
At 31 December	809	782
Depreciation		
At 1 January	722	715
Charge for the year	8	7
At 31 December	730	722
Net book value at 31 December	**79**	**60**

Slough Heat & Power Limited
Notes to the financial statements (continued)

10 Amounts due from group companies

	2005 £000's	2004 £000's
Amount owed by group undertakings	**151,701**	149,799
Provision	**(113,204)**	(121,229)
	38,497	28,570

11 Investment in subsidiaries

	Subsidiary Companies £000's
At 1 January	416
Additions	-
At 31 December	**416**

The company has investments in the following subsidiary undertakings, all of which are wholly owned, incorporated in Great Britain, and have share capital consisting solely of £1 ordinary shares:

Slough Domestic Electricity Limited
Slough Utility Services Limited
Slough Energy Supplies Limited
Slough Electricity Contracts Limited
Slough Electricity Contracts Limited
Fibre Power Slough Limited
Power from Waste Limited

Power from Waste Limited invests in waste to energy projects and fuel manufacturing ventures. The other five are engaged in the generation, supply and/or distribution of electricity.

12 Deferred tax asset

	2005 £000's	2004 £000's
Balance at 1 January	**150**	92
Credit to the income statement	**87**	58
Balance at 31 December	**237**	150

Deferred tax asset consists of accelerated capital allowances and share based payments.

13 Inventories

	2005 £000's	2004 £000's
Spare parts	**541**	699
Work in progress	**267**	139
	808	838

Inventories are valued on a first in, first out basis at the lower of cost and net realisable value. Work in progress is valued at cost and includes attributable overheads.

14 Trade and other receivables

	2005 £000's	2004 £000's
Trade receivables	**57**	6
Amounts owed by group undertakings	**1,258**	706
Prepayments and accrued income	**2,458**	61
Other	**-**	364
	3,773	1,137

There is no concentration of credit with respect to trade receivables as this risk is spread over a large number of customers. The directors consider that the carrying amount of the trade receivables and other receivables approximate their fair value.

Slough Heat & Power Limited
Notes to the financial statements (continued)

15 Borrowings

	2005 £000's	2004 £000's
Amounts owed to group undertakings	**51,961**	49,414
	51,961	49,414

Included within amounts due to group companies after more than one year is an overdraft of £9,888,000 (2004: £11,053,000) which has no fixed repayment term. All of the loans are interest bearing at the Group weighted average cost of funds.

Intercompany loans have no fixed repayment terms and are interest bearing at the Group UK weighted average cost of funds, 8.5% for the first six months and 7.0% for the remainder of the year (2004: 8.5%). The parent company has agreed that it will not demand repayment of these loans within the next twelve months.

The directors are of the opinion that the fair value of amounts due to Group companies and amounts due from Group companies are equal to their carrying amount.

16 Trade and other payables

	2005 £000's	2004 £000's
Amounts due to group undertakings	**3,679**	3,679
Trade and other payables	**810**	770
Other taxes and social security	**527**	608
Derivative liabilities	**-**	86
	5,016	5,143

17 Share capital

	Authorised Shares	**£**	**Issued and fully paid Shares**	**£**
Ordinary shares of £1 each				
At 1 January 2005 and 31 December 2005	90,540,000	90,540,000	90,507,000	90,507,000
		90,540,000		90,507,000
7% non-cumulative preference shares of £1 each				
At 1 January 2005 and 31 December 2005	10,000	10,000	107	107
		10,000		107

The rights of the preference shares are not defined in the Articles of Association of the Company.

18 Statement of changes in equity

2005	**Balance 1 January 2005 £000's**	**Movement in period £000's**	**Retained profit for the period £000's**	**Balance 31 December 2005 £000's**
Share capital	90,507	-	-	**90,507**
Equity reserve	318	280	-	**598**
Revenue reserve	(114,194)	-	9,968	**(104,226)**
Total equity attributable to equity shareholders	(23,369)	280	9,968	**(13,121)**

2004	Balance *1 January* 2004 £000's	*Movement* in period £000's	Retained Loss *for* the period £000's	Balance *31 December* 2004 £000's
Share capital	45,507	45,000	-	90,507
Equity reserve	102	216	-	318
Revenue reserve	(103,583)	-	(10,611)	(114,194)
Total equity attributable to equity shareholders	(57,974)	45,216	(10,611)	(23,369)

Slough Heat & Power Limited
Notes to the financial statements (continued)

19 Equity reserve

	2005 £000's	2004 £000's
Balance at 1 January	**318**	102
Movement in the fair value of share based payments	**280**	216
Balance 31 December	**598**	318

This reserves represents the fair value of the share options granted for share based payments.

20 Revenue reserve

	2005 £000's	2004 £000's
Balance at 1 January	**(114,194)**	(103,583)
Profit / (loss) for the year	**9,968**	(10,611)
Balance at 31 December	**(104,226)**	(114,194)

21 Reconciliation of cash generated from operations

	2005 £000's	2004 £000's
Net operating profit / (loss)	**10,843**	(9,361)
Adjustments for:		
Share based payments charge	**280**	216
Depreciation of property, plant and equipment	**8**	7
	11,131	(9,138)
Changes in working capital:		
Decrease in inventories	**30**	60
(Increase) in debtors	**(2,084)**	(659)
(Decrease) / Increase in creditors	**(127)**	357
Net cash inflow generated from operations	**8,950**	(9,380)

22 Operating lease commitments

At 31 December 2005 the company had annual commitments under non-cancellable operating leases which expire as follows:

	2005 £000's	2004 £000's
Within one year	**43**	5
Within two and five years	**118**	134
	161	139

23 Going concern

The ultimate holding company has indicated its willingness to continue to support the company for the foreseeable future.

Slough Heat & Power Limited
Notes to the financial statements (continued)

24 Related party transactions

Transactions between the Company and Slough Estates plc group companies are disclosed below.

Group Company	Nature of transaction	2005 £'000	Total 2004 £'000
Slough Electricity Contracts Limited	Administration recharge	**3,704**	7,119
Slough Domestic Electricity Limited	Administration recharge	**160**	359
Fibre Power (Slough) Limited	Administration recharge	**1,574**	1,063
Power from Waste Limited	Administration recharge	**20**	20
Slough Utility Services Limited	Administration recharge	**1,116**	2,127

Significant balances outstanding between the Company and Slough Estates plc group companies are shown below:

Group Company	Amounts receivable		Amounts payable	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000
Slough Electricity Contracts Limited	**79,617**	78,526	**-**	-
Slough Domestic Electricity Limited	**81**	137	**-**	-
Slough Energy Supplies Limited	**8,844**	8,790	**-**	-
Fibre Power (Slough) Limited	**-**	-	**(1,641)**	-
Power from Waste Limited	**27,252**	27,160	**-**	-
Slough Utility Services Limited	**27,744**	24,433	**-**	-
Fibre Fuel Limited	**9,804**	10,753	**-**	-

None of the above balances are secured. All of the above transactions are made on terms equivalent to those that prevail in arms length transactions. The loan balance and finance charge whilst strictly coming from the immediate parent company, ultimately flow from the ultimate parent company.

25 Share-based payment

During the period ended 31 December 2005, the Group had five share-based payment arrangements, which are described below.

In each case the expected volatility was determined by calculating the historical volatility of the Group's share price over multiple time periods.

Senior Management share option plan
The options in the Senior management share option plan are exercisable after three years but before ten years subject to performance criteria. The employee would normally have to remain with the Group for the three year period. If the performance conditions have not been met by the third anniversary of the date of the grant the options lapse. The performance criteria are based on an increase in adjusted diluted earnings per share by the Retail price index (RPI) plus 3 per cent per annum over the three year period.

	2005		2004	
	Number of options	**Weighted Average exercise price**	Number of options	Weighted Average exercise price
At 1 January	**374,301**	**374.9p**	263,258	342.3p
Options granted	**95,442**		111,755	
Options exercised	**(16,497)**	**353.3p**	(712)	359.2p
Options expired/lapsed	**(196,386)**		-	
At 31 December	**256,860**	**386.0p**	374,301	374.9p

The options outstanding at 31 December 2005 were exercisable between 290.0p and 476.8p per share. The grants made since 7 November 2002 have been fair valued using the Black-Scholes model. The main assumptions are as follows:

Grant date	**06-Jan-03**	**20-Mar-03**	**14-May-04**	**02-Sep-04**	**29-Apr-05**
Exercise price/market price	344.0p	290.0p	467.7p	459.8p	476.8p
Risk-free interest rate	5.1%	5.1%	5.1%	5.1%	4.8%
Dividend yield	3.9%	4.8%	3.2%	3.3%	4.0%
Volatility	20.3%	21.3%	22.6%	22.7%	21.0%
Term of option	4 years	4 years	4 years	4 years	4 years
Fair Value per share	53p	42p	87p	85p	73p

Save-as-you-earn option scheme
The save-as-you-earn options are exercisable after three, five and seven years and are not subject to any performance criteria except the employees must remain with the Group for the term of the option.

	2005		2004	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
At 1 January	**456,813**	**257.8p**	477,649	247.4p
Options granted	**35,302**		39,487	
Options exercised	**(45,820)**	**262.2p**	(49,652)	272.3p
Options expired/lapsed	**(29,137)**		(10,671)	
At 31 December	**417,158**	**274.4p**	456,813	257.8p

The options outstanding at 31 December 2005 were exercisable between 218.4p and 432.4p per share. The grants made since 7 November 2002 have been fair valued using the Black Scholes model. The assumptions are as follows:

Grant date	**19-Mar-03**	**28-Aug-03**	**17-Mar-04**	**26-Aug-04**	**23-Mar-05**	**22-Sep-05**
Market price	290.0p	380.8p	465.5p	465.0p	493.5p	540.5p
Exercise price	218.4p	304.6p	372.4p	372p	394.8p	432.4p
Risk-free interest rate	5.1%	5.1%	5.1%	5.1%	4.8%	4.8%
Dividend yield	4.8%	3.8%	4.8%	4.1%	3.8%	3.5%
Volatility	21.2%	22.4%	22.6%	22.7%	21.0%	21.2%
Term of option	3-5-7 years	3-5-7 years	3-5-7 years	3-5-7 years	3-5-7 years	3-5-7 years
Fair value per share 3 years	74p	96p	123p	122p	118p	134p
Fair value per share 5 years	74p	103p	135p	134p	126p	144p
Fair value per share 7 years	73p	106p	142p	140p	129p	150p

Slough Heat & Power Limited
Notes to the financial statements (continued)

25 Share-based payment (continued)

Details of share options exercisable at 31 December 2005

Date of grant	Scheme	Price per share pence	Ordinary shares number	Exercisable between
3 September 1998	Save-as-you-earn option scheme 1981	246.0	729	2001 and 2005
20 September 1999	Senior Management share option plan 1994	381.5	0	2002 and 2009
22 March 2000	Save-as-you-earn option scheme 1981	249.6	16,339	2003 and 2007
27 March 2000	Senior Management share option plan 1994	352.0	0	2003 and 2010
27 March 2000	Senior Management share option plan 1994	352.0	2,822	2003 and 2010
31 March 2000	Save-as-you-earn option scheme 1981	313.6	1,171	2004 and 2007
21 March 2001	Save-as-you-earn option scheme 1981	296.4	11,312	2001 and 2008
28 March 2001	Senior Management share option plan 1994	356.5	0	2004 and 2011
28 March 2001	Senior Management share option plan 1994	356.5	7,230	2004 and 2011
30 August 2001	Save-as-you-earn option scheme 1981	284.8	11,971	2004 and 2008
29 August 2002	Save-as-you-earn option scheme 1981	276.4	17,999	2004 and 2008
6 January 2003	Senior Management share option plan 2002	344.0	0	2007 and 2013
6 January 2003	Senior Management share option plan 2002	344	0	2007 and 2013
19 March 2003	Save-as-you-earn option scheme 1981	218.4	266,724	2006 and 2010
20 March 2003	Senior Management share option plan 2002	290.0	10,344	2006 and 2013
20 March 2003	Senior Management share option plan 2002	290.0	95,952	2006 and 2013
28 August 2003	Save-as-you-earn option scheme 1981	304.6	29,520	2006 and 2010
17 March 2004	Save-as-you-earn option scheme 1981	372.4	16,478	2007 and 2011
14 April 2004	Senior Management share option plan 2002	467.7	6,413	2007 and 2014
14 April 2004	Senior Management share option plan 2002	467.7	61,516	2007 and 2014
26 August 2004	Save-as-you-earn option scheme 1981	372.0	16,390	2007 and 2011
2 September 2004	Senior Management share option plan 2002	459.8	0	2007 and 2014
2 September 2004	Senior Management share option plan 2002	459.8	0	2007 and 2014
23 March 2005	Save-as-you-earn option scheme 1981	394.8	16,982	2008 and 2012
29 April 2005	Senior Management share option plan 2002	476.8	12,582	2008 and 2015
29 April 2005	Senior Management share option plan 2002	476.8	60,001	2008 and 2015
22 September 2005	Save-as-you-earn option scheme 1981	432.4	11,543	2008 and 2012
Total			674,018	

Details of the Group's share based payments plans

Executive share incentive plan

Awards under the Executive share incentive plan are granted at the discretion of the trustees of the scheme on the recommendation of the remuneration committee. Employees are granted the right to shares which will vest at the end of the three year period subject to meeting certain performance criteria. The Company does not issue shares. The shares are purchased on the open market and placed with the trustees for the three year period. Dividends are waived.

	2005	**Weighted average exercise price**	2004	Weighted average exercise price
	number	**pence**	number	pence
At 1 January	**37,438**	**355.0p**	38,674	354.3p
Shares granted	**7,056**		0	-
Shares vested	**-**		(1,236)	371.5p
At 31 December	**44,494**	**398.2p**	37,438	355.0p

Of the shares outstanding at 31 December 2005, 20,501 (2004 - 33,980) were exercisable. The Black-Scholes model has been used to fair value the shares granted since 7 November 2002. The assumptions used are as follows:

Grant date	07-Jan-03	20-Mar-03	01-Apr-04	02-Sep-04	04-May-05
Exercise price/market price	344p	306p	433.2p	461p	491.2p
Risk-free interest rate	5.0%	5.0%	5.0%	5.0%	4.8%
Dividend yield	4.6%	4.6%	3.5%	3.3%	3.9%
Volatility	20.0%	21.3%	20.0%	20.0%	21.0%
Term of option	3 years	3 years	3 years	3 years	3 years
Fair Value per share	299p	267p	390p	417.8p	437p

Slough Heat & Power Limited
Notes to the financial statements (continued)

25 Share-based payment (continued)

General share incentive plan

The General share incentive plan started in May 2003. An employee is entitled to a percentage of their salary in shares which is capped. The shares are held in trust for five years and then released to the employee. There are no performance conditions except that the employee must remain with the Group for at least three years.

	2005	2005 Weighted average exercise price	2004	2004 Weighted average exercise price
	number	pence	number	pence
At 1 January	**123,981**	**393.6p**	67,373	393.6p
Shares granted	**46,068**		57,866	
Shares paid out	**(7,770)**		(1,258)	
Shares adjusted	**(1,370)**		-	
At 31 December	**160,909**	**432.4p**	123,981	432.4p

Of the shares outstanding at 31st December 2005 - 156,457 (2004 - 121,624) were exercisable. The fair values of the General share incentive plan were determined by the price of the shares at the date of the grant.

Profit share scheme

The profit sharing scheme ceased in 2002 with a final allocation in May 2002 and this was based on a percentage of employees salaries. The shares are held in trust for 3 years and then released to the employees. The balance of the shares outstanding at the end of 2004 (58,439) were released to the employees in June 2005.

Cash Settled share based payments plan

The plan for senior employees shadows the Executive share incentive plan. A notional number of shares are granted to the employee equal to 25% of their salary which is divided by the share price on the date of the grant. 108,359 notional shares where granted in June 2003 and the Black-Scholes model has been used to fair value these shares at the current market rate. The assumptions used are as follows:

	2003	2004	2005
Number of shares	11,739	11,739	11,739
Current stock price	439p	550p	553.5p
Risk-free rate	5.0%	5.0%	5.0%
Expected life of Option (years)	2.4	1.4	0.4
Volatility	0.1%	0.1%	0.1%
Dividend yield	3.3%	2.6%	2.6%
Fair value of option 31 December	405p	530p	547p

The total expenses for share based payments for the Company were £0.3 million (2004 £0.3 million).

26 Retirement benefit schemes

General

The Company's employees are either members of the defined benefit section of Slough Estates (1957) Pension Scheme ("the scheme") or are members of the defined contribution section of the same scheme. The latter section is a separate element of the entire scheme and the following notes exclude any detail relating to the defined contribution section. The Company has no legal liability in respect of the scheme as the entire scheme is in the name of the ultimate parent company, Slough Estates plc, whose accounts reflect the full outstanding liability and related deferred tax asset. The Company makes specific contributions to the scheme for both defined benefit and defined contribution sections based on the amounts requested by the actuaries, Hewitts. There is no formal, contractual relationship between Slough Estates plc and the Company in regard to the scheme.

Defined benefit scheme

The defined benefit scheme's assets are held by trustees separately from the assets of the employer. Contributions to the scheme, which are assessed in accordance with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit method of calculation, are charged to the income statment so as to spread the cost of pensions over employees' working lives with the Company.

The valuation of the scheme has been based on the most recent actuarial valuation at 31 March 2004 and updated by Hewitt's in order to assess the liabilities of the scheme at 31 December 2005. The assets of the scheme is stated at its market value at 31 December 2005.

Actuarial assumptions

The projected unit method of valuation was used for the scheme and the financial assumptions, except where indicated to the contrary, used to calculate the scheme's liabilities are as follows:

	2005	2004
	%	%
Discount rate	**4.7**	5.3
Inflation rate	**2.9**	2.9
Expected weighted return on schemes assets	**6.3**	6.5
Rate of increase to pensions in payment		
- Pre April 2003 pensions	**4.1**	4.2
- April 2003 to October 2005 pensions	**2.8**	2.7
- Post October 2005 pensions	**2.1**	-
Rate of increase in salaries	**4.9**	4.9

The analysis of the assets in the Slough scheme and the expected rates of return at the balance sheet date were as follows:

	Expected rate of return		**Fair value of assets**	
	2005	*2004*	***2005***	*2004*
	%	%	**£m**	£m
Equities	**7.50**	7.55	**56.1**	34.7
Bonds	**4.30**	4.75	**22.7**	14.8
Other - including property	**4.50**	4.55	**1.1**	0.2
Total market value of assets	**6.28**	6.52	**79.9**	49.7

The expected return on plan assets is a blended average of projected long term returns for the various asset classes. Asset class returns are based on a forward looking building block approach. Equity returns are developed based on the selection of an equity risk premium above the risk free rate which is measured in accordance with the yields on government bonds. Returns on property are assumed to be 1% p.a. lower than those on equities. Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the scheme's holdings of these instruments.

26 Retirement benefit schemes (continued)

The amount included in the balance sheet of Slough Estates plc arising from the obligations in respect of the scheme is as follows:

	2005 £m	2004 £m
Market value of assets	**79.9**	49.7
Present value of scheme's liabilities	**(106.8)**	(89.3)
Deficit in the scheme	**(26.9)**	(39.6)
Related deferred tax asset	**8.1**	11.9
Net liability held in the books of Slough Estates plc	**(18.8)**	(27.7)

Reconciliation of the assets and present value obligations of the scheme.

	2005 £m	2004 £m
Movements in the present value of the scheme's assets in the current period were as follows:		
At 1 January	**49.7**	43.7
Expected return on scheme's assets	**4.0**	3.1
Acturial return less return on scheme assets	**8.2**	0.3
Contributions from group companies	**19.1**	3.3
Contributions from scheme members	**0.6**	0.6
Benefits paid	**(1.7)**	(1.3)
At 31 December	**79.9**	49.7

	2005 £m	2004 £m
Movements in the present value of defined benefit obligation in the current period were as follows:		
At 1 January	**89.3**	72.5
Current service cost	**2.9**	3.1
Contributions	**0.6**	0.6
Past service costs	**(0.7)**	-
Other finance income	**4.7**	4.0
Benefits paid	**(1.7)**	(1.3)
Actuarial (gains) and losses from experience	**11.7**	16.8
Actuarial loss/(gain) from change in assumptions	**-**	(6.4)
At 31 December	**106.8**	89.3
Net deficit before related deferred tax at 31 December	**26.9**	39.6

The projected payment in 2006, by the Company, to the scheme is £3,100,000.

There are no health benefit related obligations.

There are no unfunded defined benefit obligations

The defined benefit contribution section has been closed to new members since October 2005.

27 Summary of significant accouting policies

Basis of accounting

Prior to the introduction of IFRS, the Company had prepared its financial statements under United Kingdom accounting standards. As a result of adopting IFRS it has been necessary to change many of the Company's accounting policies and these are shown below.

The Company's investments in subsidiaries are held at cost or provided against where the net worth of the investment falls below this balance.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables concerned.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and which form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment

The Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised in income whenever the carrying amount of an asset exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash flows.

The recoverable amount of an asset is the greater of its net selling price and its value-in-use. The value-in-use is determined as the net present value of the future cash flows expected to be derived from the asset, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment of financial assets is based on the original effective interest rate attributable to the financial asset on acquisition.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount after the reversal does not exceed the amount that would have been determined, net of applicable depreciation, if no impairment loss had been recognised.

Borrowings

Borrowings other than bank overdrafts are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method.

Provisions

A provision is recognised in the balance sheet when the Company has a constructive or legal obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Provision is made for dilapidations that will crystallise in the future where, on the basis of the present condition of the property, an obligation exists at the reporting date and can be reliably measured. The estimate is revised over the remaining period of the lease to reflect changes in the condition of the building or other changes in circumstances. The estimate of the obligation takes account of relevant external advice.

Trade and other payables

Trade and other payables are stated at cost.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets are not recognised if the temporary differences arise from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

No provision is made for temporary differences arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

27 Summary of significant accouting policies continued

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company is entitled to settle its current tax assets and liabilities on a net basis.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those other business segments

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved

Exceptional items

These are significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Company's financial performance.

Share-based payments

The cost of granting share options and other share-based remuneration to employees and directors is recognised through the income statement. The Company has used the Black-Scholes option valuation model and the resulting value is amortised through the income statement over the vesting period of the options. The charge is reversed if it appears likely that the performance criteria will not be met.

Leases

Group company as lessee

Operating leases - leases in which the Group does not have substantially all risks and rewards of ownership are classified as operating leases. Payments, including prepayments, made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Pensions

The Group's obligations for defined benefit pension schemes are measured at discounted present value while scheme assets are measured at their fair value. The operating and financing costs of such plans are recognised in the periods in which they arise. Actuarial gains and losses arising from either experience differing from previous actuarial assumptions or changes to those assumptions are recognised immediately in the statement of recognised income and expense.

For the Company, as there is no policy for charging the net defined benefit cost to individual entities, the cost equal to the contribution payable for the period is recognised in the income statement.
Contributions to defined contribution schemes are expensed as incurred.

Derivative financial instruments (derivatives)

The Company uses derivatives to help manage its risk. The Company does not hold or issue derivatives for trading purposes. Derivatives are recognised initially at cost. Subsequent to initial recognition, derivatives are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement, unless the derivatives qualify for hedge accounting, inwhich case recognition depends on the nature of the item being hedged. Currently none of the Company's derivatives qualify for hedge accounting.

Foreign currencies

Transactions in currencies other than sterling are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on retranslation are included in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated on a first in, first out basis. Net realisble value represents the estimated selling price less estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Share capital

Ordinary shares are classed as equity. External costs directly attributable to the issue of new shares are shown in equty as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration recived, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the company's equity holders.

New standards

IFRS 6 and 7 and IFRIC 4,5,6,7,8 and 9 have been issued but are not effective for the year ended 31 December 2005. It is believed that they will not have a material impact on the financial statements on initial application.

28 Transition to International Financial Reporting Standards

Significant differences between UK GAAP and IFRS as at 31 December 2004 are summarised as follows:-

IAS 19 – Employee benefits
This standard continues the measurement requirements of FRS 17 for defined benefit pension schemes. In the Company's 2004 financial statements these measurement bases were disclosures whilst the accounts were drawn up under SSAP 24. The prepayment recognised under UK GAAP is not recognised under IAS 19. The full IAS 19 balances have been recognised in the accounts of Slough Estates plc, the sponsoring entity. As there is no policy for charging the net defined benefit cost to individual entities, the cost equal to the contribution payable for the period has been recognised in these financial statements.

IFRS 2 – Share based payments
IFRS 2 requires the cost of granting share options and other share-based remuneration to employees and directors to be recognised through the income statement. The Company has used Black-Scholes option valuation model and the resulting fair value is being charged through the income statement over the vesting period of the options. Fair value takes account of the likelihood of the options becoming 'in the money' in the future. This results in a debit to the income statement in the year of £280,000 which is net of provisions made by the Company in respect of the cost of certain of the share-based compensation arrangements. Only share-based transactions after 7 November 2002 that have not been vested by 1 January 2005 have been restated, as permitted by the Standard.

IAS 32 and 39 - Financial instruments
Under IFRS and as from 1 January 2005 the Company is required to recognise the fair value of its derivatives including interest rate hedges and currency swaps on the balance sheet and movements in those values within the income statement. Previously these were disclosed but not recognised in the Company's accounts.

29 Restatement for International Financial Reporting Standards

Reconciliation of opening shareholders' equity as previously reported under UK GAAP to International Financial Reporting Standards.

	Note	Year to 31 December 2004 £000s	Year to 31 December 2003 £000s
Shareholders' equity previously reported under UK GAAP		(23,850)	(58,132)
Effects of adopting IFRS			
Derivatives	1	(86)	(86)
Share based benefits	2	607	280
Employee benefits	3	(40)	(36)
Shareholders' equity restated under IFRS		(23,369)	(57,974)

Notes

1. IAS 32 and 39 Financial instruments
2. IAS 2 Share based payments
3. IAS 19 - Employee benefits - pension costs, holiday pay

30 Restatement for International Financial Reporting Standards

Income statement - reconciliation between UK GAAP and IFRS for the year ended 31 December 2004

	UK GAAP £000's	Holiday pay £000's	Share based payments £000's	IFRS £000's
Income from sale of utilities and gas	11,108			11,108
Cost of sales	(330)			(330)
Administrative expenses	(6,792)	(4)	37	(6,759)
Exceptional administration expense	(13,380)			(13,380)
Operating income	(9,394)	(4)	37	(9,361)
Finance cost				-
Profit before tax	(9,394)	(4)	37	(9,361)
Taxation - Current	(1,308)			(1,308)
- Deferred	(16)		74	58
Profit after taxation	(10,718)	(4)	111	(10,611)
Attributable to ordinary shareholders	(10,718)	(4)	111	(10,611)

31 Restatement for International Financial Reporting Standards
Balance sheet reconciliation between UK GAAP and IFRS as at 31 December 2004

		IFRS Adjustments			
	UK GAAP	Employee Benefits IAS 19	Derivatives	Share based payments	IFRS
Non-current assets	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Property, plant and equipment	60				60
Group loans	28,570				28,570
Investment in subsidiaries	416				416
Deferred tax asset	43			107	150
Total Non-current assets	29,089	-	-	107	29,196
Current assets					
Inventories	838				838
Trade and others receivables	1,137				1,137
Cash and cash equivalents	17				17
Total Current assets	1,992	-	-		1,992
Total assets	31,081	-	-	107	31,188
Capital and reserves					
Share capital - ordinary	90,507				90,507
Equity reserve	-			318	318
Retained earnings	(114,357)	(40)	(86)	289	(114,194)
Shareholders' funds	(23,850)	(40)	(86)	607	(23,369)
Total equity	(23,850)	(40)	(86)	607	(23,369)
Non-current liabilities					
Borrowings	49,938			(524)	49,414
Total Non-current liabilities	49,938	-	-	(524)	49,414
Current liabilities					
Group loans	3,679				3,679
Income tax	608				608
Trade and other payables	706	40		24	770
Derivative liabilities	-		86		86
Total current liabilities	4,993	40	86	24	5,143
					-
Total liabilities	54,931	40	86	(500)	54,557
Total equity and liabilities	31,081	-	-	107	31,188