

Registered Number 174142

Slough Heat & Power Limited

Directors report and Accounts for the year ended 31 December 2006



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| Directors | D A Arthur I D Coull M R Draper A R Ellis P W Jeffreys R D Kingston (resigned 31 December 2006) J Pebworth |
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| Secretary | J R Probert FCIS |
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| Registered Office and Head Office | 234 Bath Road, Slough SL1 4EE |
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| Registered Number | 174142 |
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Directors' Report

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2006

Business review and principal activities

Slough Heat & Power Limited acts 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 results for the company show a pre-tax loss of £6,450,000 (2005 £10,843,000 profit) for the year and sales of £11,701,000 (2005 £9,595,000).

The company has net debt of £19,693,000 (2005 £15,839,000).

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the Slough Heat & Power group and are not managed separately. The key business risks and uncertainties affecting the Slough Heat & Power group, and therefore the company, are considered to relate to

- fuel supply and potential shortages,
- plant availability and the resulting impact on ROC revenue and exposure to import risk,
- carbon trading
- ROC prices
- the market price of electricity

Future outlook

The market in 2007 will be challenging due to a number of reasons. The carbon price has collapsed for 2007 but is expected to recover in 2008 once the next phase of allocation commences. Energy prices have fallen from their 2006 high but the medium term outlook is more positive. ROC prices are expected to remain buoyant due to continued shortfall in UK renewable production.

Key performance indicators

The key performance indicators of the SHP group, which are monitored against budget, are as follows:

- gross margin defined as SHP group contribution before fixed production costs 2006 £13,871,000 (2005 £11,210,000), and
- total fixed costs 2006 £13,244,000 (2005 £13,111,000)

Results and Dividends

The results for the year ended 31 December 2006 are set out on page 5. The directors do not recommend the payment of a dividend (2005 £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 2006 had an interest in the shares of the company during the year.

The interests of D A Arthur in the shares of SEGRO 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, SEGRO plc, are disclosed in the financial statements of that company.

The interests of J Pebworth, A R Ellis and P W Jeffreys in the shares of SEGRO plc are as follows

| | Ordinary Shares | | | | Executive Scheme Under Option | | | |
|--------------|-----------------|--------|--------------|--------|-------------------------------|---------|-----------|--------|
| | Other interests | | Own Holdings | | 31 12 06 | Granted | Exercised | Lapsed |
| | 31 12 06 | 1 1 06 | 31 12 06 | 1 1 06 | | | | |
| J Pebworth | - | - | 14,887 | 11,387 | 16,622 | - | 30,837 | 0 |
| A R Ellis | - | - | 3,967 | 2,525 | 31,743 | - | 24,766 | - |
| P W Jeffreys | - | - | 4,991 | 3,343 | 26,370 | - | 22,697 | - |

The shares under option are at option prices ranging from 290 0p to 409 17p expiring on various dates up to 13 April 2014

SEGRO 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 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 | 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 |
| | 13 04 06 | 1 05 11 | 483 2 | 399 |
| | 13 09 06 | 1 10 11 | 528 4 | 609 |
| P W Jeffreys | 22 09 05 | 1 10 10 | 432 4 | 1,528 |
| | 13 04 06 | 1 05 09 | 488 2 | 232 |

During the year the share price ranged between a high of 796 0 p and a low of 559 0 p The share price at 31 December 2006 was 785 5 p

Charitable, political and other donations

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

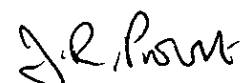
Auditors and Disclosure of Information to Auditors

So far as each of the directors as at the date of signing the financial statements is aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with their report) of which the company's auditors are unaware Additionally each director has taken all the steps that they ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

The board will elect to appoint Deloitte & Touche LLP as the Company's auditors for the year ending 31 December 2007 PricewaterhouseCoopers LLP, who have acted as the Company's auditors previously, will complete the audit of the Company for the year ended 31 December 2006

On behalf of the Board



J R Probert
Secretary

3 August 2007

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
Secretary

3 August 2007

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

We have audited the financial statements of Slough Heat and Power Limited for the year ended 31 December 2006 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 2006 and of its loss and cashflows for the year then ended,

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

the information given in the Directors report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

3 August 2007

Slough Heat & Power Limited
Income statement for the year ended 31 December 2006

| | Note | 2006 £000's | 2005 £000's |
|---|------|----------------|----------------|
| Revenue | 3 | 11,701 | 9,595 |
| Income from sale of utilities and gas | 3 | 11,701 | 9,595 |
| Cost of sales | | (111) | (297) |
| Net income from utilities and gas | | 11,590 | 9,298 |
| Administrative (expenses) / income | 4 | (18,040) | 1,545 |
| Operating (expense) / income | | (6,450) | 10,843 |
| Net finance costs | 5 | - | - |
| (Loss) / profit before tax | | (6,450) | 10,843 |
| Taxation | | | |
| - current | 6 | (659) | (962) |
| - deferred | 6 | 27 | 87 |
| | | (632) | (875) |
| (Loss) / profit for the period after tax | | (7,082) | 9,968 |
| Attributable to equity shareholders | | (7,082) | 9,968 |

Slough Heat & Power Limited

Statement of recognised income and expense for the year ended 31 December 2006

| | 2006 £000's | 2005 £000's |
|--|----------------|----------------|
| (Loss) / profit for the period | (7,082) | 9,968 |
| Total recognised (expense) / income for the period | (7,082) | 9,968 |
| Attributable to equity holders | (7,082) | 9,968 |

Slough Heat & Power Limited
Balance Sheet as at 31 December 2006

| | Note | 2006 £000's | 2005 £000's |
|--------------------------------------|------|-------------------|-------------------|
| Non-current assets | | | |
| Property, plant and equipment | 7 | 174 | 79 |
| Amounts due from group companies | 8 | 36,349 | 38,497 |
| Investment in subsidiaries | 9 | 416 | 416 |
| Deferred tax asset | 10 | 264 | 237 |
| Total non-current assets | | 37,203 | 39,229 |
| Current assets | | | |
| Inventories | 11 | 490 | 808 |
| Trade and other receivables | 12 | 2,684 | 3,773 |
| Cash and cash equivalents | | 72 | 46 |
| Total current assets | | 3,246 | 4,627 |
| Total assets | | 40,449 | 43,856 |
| Non-current liabilities | | | |
| Borrowings | 13 | 50,514 | 51,961 |
| Total non-current liabilities | | 50,514 | 51,961 |
| Current liabilities | | | |
| Trade and other payables | 14 | 9,792 | 5,016 |
| Total current liabilities | | 9,792 | 5,016 |
| Total liabilities | | 60,306 | 56,977 |
| Net deficit | | (19,857) | (13,121) |
| Equity | | | |
| Called up ordinary share capital | 15 | 90,507 | 90,507 |
| Equity reserve | 17 | 827 | 598 |
| Revenue reserve | 18 | (111,191) | (104,226) |
| Total equity | 16 | (19,857) | (13,121) |

The financial statements on pages 5 to 23 were approved by the Board of directors and authorised for issue on 3 August 2007 and signed on its behalf by



J Pebworth
 Director

Slough Heat & Power Limited
Cash Flow Statement for the year ended 31 December 2006

| | Note | 2006 £000's | 2005 £000's |
|--|-------------|------------------------|------------------------|
| Cash (outflow) / inflow generated from operations | 19 | (3,077) | 8,950 |
| Tax paid | | (659) | (962) |
| Net cash (outflow) / inflow from operating activities | | (3,736) | 7,988 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (118) | (27) |
| Net cash used in financing activities | | (118) | (27) |
| Cash flows from financing activities | | | |
| Net decrease in borrowings from fellow subsidiaries | | 3,880 | (7,932) |
| Net cash used in financing activities | | 3,880 | (7,932) |
| Net increase in cash and cash equivalents | | 26 | 29 |
| Cash and cash equivalents at the beginning of the year | | 46 | 17 |
| Cash and cash equivalents at the end of the year | | 72 | 46 |

Slough Heat & Power Limited
Notes to the financial statements

1 General

Slough Heat & Power Limited is a limited company incorporated in England. The Company's ultimate holding company is SEGRO 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 25.

2 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)

| 3 Revenue | 2006 | 2005 |
|---|---------------|---------------|
| | £000's | £000's |
| Sale of utilities and gas | 11,701 | 9,595 |
| Total revenue | 11,701 | 9,595 |
| 4 Administrative expenses / (income) | 2006 | 2005 |
| | £000's | £000's |
| Directors' remuneration | 384 | 381 |
| Depreciation | 23 | 8 |
| Auditors' remuneration for audit services | 37 | 31 |
| Provision against loans to subsidiaries | 9,993 | (8,024) |
| Other administration expenses | 7,603 | 6,059 |
| | 18,040 | (1,545) |

Employees

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

The average monthly number of employees of the company was 121 (2005 122) 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 SEGRO 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

| | 2006 | 2005 |
|--|---------------|---------------|
| | £000's | £000's |
| Aggregate emoluments | 384 | 381 |
| Company pension contributions to money purchase scheme | 15 | - |

3 directors (2005 two) exercised share options over the shares of the ultimate holding company in the year and 2 directors became entitled to receive shares under the long-term incentive scheme Retirement benefits are accruing to no directors (2005 nil) under a funded unapproved retirement and death benefit scheme and to 3 directors under a defined benefit scheme (2005 four)

In addition to the above emoluments, the company paid £28,204 (2005 £25,553) to the non-executive director

Employees' staff costs were as follows

| | 2006 | 2005 |
|----------------------------|---------------|---------------|
| | £000's | £000's |
| Wages and salaries | 5,377 | 5,123 |
| Social security costs | 490 | 474 |
| Share based payment charge | 387 | 334 |
| Pension contributions | | |
| - defined benefits | 1,095 | 1,476 |
| - defined contributions | 15 | 1 |
| | 7,364 | 7,408 |

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

| 5 Net finance costs | 2006 | 2005 |
|--|---------------|---------------|
| | £000's | £000's |
| Interest payable to a group company | (3,565) | (3,596) |
| Interest receivable from group companies | 3,565 | 3,596 |

| 6 Taxation | 2006 | 2005 |
|--|---------------|---------------|
| | £000's | £000's |
| Current tax | | |
| Provision for UK Corporation taxation based on losses for the year | | |
| Corporation tax at 30 per cent (2005 30 per cent) | 893 | 980 |
| Adjustments in respect of prior periods | (234) | (18) |
| Total current taxation charge | 659 | 962 |
| Deferred tax | | |
| Origination and reversal of timing differences | 64 | (87) |
| Adjustments in respect of prior periods | (91) | |
| Total tax on loss on ordinary activities | 632 | 875 |

Factors affecting the tax charge for the period

The tax is higher (2005 lower) than the standard rate of corporation tax in the UK. The differences are explained below

| | 2006 | 2005 |
|---|---------------|---------------|
| | £000's | £000's |
| (Loss) / profit on ordinary activities before tax | (6,450) | 10,843 |
| (Loss) / profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 per cent (2005 30 per cent) | (1,935) | 3,253 |
| Effects of | | |
| Origination and reversal of timing differences | - | (104) |
| Adjustment in respect of prior periods | (325) | (18) |
| Permanent timing differences | 2,892 | (2,256) |
| | 632 | 875 |

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

| 7 Property, plant and equipment | 2006 | 2005 |
|--|---------------|---------------|
| | £000's | £000's |
| Cost | | |
| At 1 January | 809 | 782 |
| Additions | 118 | 27 |
| At 31 December | 927 | 809 |
| Depreciation | | |
| At 1 January | 730 | 722 |
| Charge for the year | 23 | 8 |
| At 31 December | 753 | 730 |
| Net book value at 31 December | 174 | 79 |

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

| 8 Amounts due from group companies | 2006 £000's | 2005 £000's |
|---|------------------------|------------------------|
| Amount owed by group undertakings | 159,546 | 151,701 |
| Provision | (123,197) | (113,204) |
| | 36,349 | 38,497 |

| 9 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
 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.

| 10 Deferred tax asset | 2006 £000's | 2005 £000's |
|--------------------------------|------------------------|------------------------|
| Balance at 1 January | 237 | 150 |
| Credit to the income statement | 27 | 87 |
| Balance at 31 December | 264 | 237 |

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

| 11 Inventories | 2006 £000's | 2005 £000's |
|-----------------------|------------------------|------------------------|
| Spare parts | 490 | 541 |
| Work in progress | - | 267 |
| | 490 | 808 |

| 12 Trade and other receivables | 2006 £000's | 2005 £000's |
|---------------------------------------|------------------------|------------------------|
| Trade receivables | 491 | 57 |
| Amounts owed by group undertakings | 2,143 | 1,258 |
| Prepayments and accrued income | 50 | 2,458 |
| | 2,684 | 3,773 |

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)

| 13 Borrowings | 2006 | 2005 |
|------------------------------------|---------------|---------------|
| | £000's | £000's |
| Amounts owed to group undertakings | 50,514 | 51,961 |
| | 50,514 | 51,961 |

Included within amounts due to group companies after more than one year is an overdraft of £7,483,000 (2005 £9,888,000) 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. 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.

| 14 Trade and other payables | 2006 | 2005 |
|------------------------------------|---------------|---------------|
| | £000's | £000's |
| Amounts due to group undertakings | 7,743 | 3,679 |
| Trade and other payables | 1,349 | 810 |
| Other taxes and social security | 286 | 527 |
| Deferred income | 370 | - |
| Derivative liabilities | 44 | - |
| | 9,792 | 5,016 |

Derivative liabilities represent the value of forward contracts outstanding at the year end.

15 Share capital

| | Authorised | | Issued and fully paid | |
|---|-------------------|------------|------------------------------|------------|
| | Shares | £ | Shares | £ |
| Ordinary shares of £1 each | | | | |
| At 1 January 2006 and 31 December 2006 | 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 2006 and 31 December 2006 | 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.

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

16 Statement of changes in equity

| 2006 | Balance at 1 January 2006 £000's | Movement in the period £000's | Loss for the period £000's | Balance at 31 December 2006 £000's |
|---|---|--|---|---|
| Share capital | 90,507 | - | - | 90,507 |
| Equity reserve | 598 | 229 | - | 827 |
| Revenue reserve | (104,226) | 117 | (7,082) | (111,191) |
| Total equity attributable to equity shareholders | (13,121) | 346 | (7,082) | (19,857) |

| 2005 | Balance at 1 January 2005 £000's | Movement in the period £000's | Retained profit for the period £000's | Balance at 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) |

17 Equity reserve

| | 2006 £000's | 2005 £000's |
|--|------------------------|------------------------|
| Balance at 1 January | 598 | 318 |
| Movement in the fair value of share based payments | 229 | 280 |
| Balance 31 December | 827 | 598 |

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

18 Revenue reserve

| | 2006 £000's | 2005 £000's |
|-------------------------------|------------------------|------------------------|
| Balance at 1 January | (104,226) | (114,194) |
| Share options exercised | 117 | - |
| (Loss) / profit for the year | (7,082) | 9,968 |
| Balance at 31 December | (111,191) | (104,226) |

19 Reconciliation of cash generated from operations

| | 2006 £000's | 2005 £000's |
|--|------------------------|------------------------|
| Net operating (loss) / profit | (6,450) | 10,843 |
| Adjustments for | | |
| Share based payments charge | 346 | 280 |
| Depreciation of property, plant and equipment | 23 | 8 |
| | (6,081) | 11,131 |
| Changes in working capital | | |
| Decrease in inventories | 318 | 30 |
| Decrease / (increase) in debtors | 1,974 | (2,084) |
| Increase / (decrease) in creditors | 712 | (127) |
| Net cash (outflow) / inflow generated from operations | (3,077) | 8,950 |

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

20 Operating lease commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases which expire as follows

| | 2006 £000's | 2005 £000's |
|---------------------------|----------------|----------------|
| Within one year | 2 | 43 |
| Within two and five years | 116 | 118 |
| | 118 | 161 |

21 Going concern

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

22 Related party transactions

Transactions between the Company and SEGRO plc group companies are disclosed below

| Group Company | Nature of transaction | 2006 £'000 | Total 2005 £'000 |
|--------------------------------------|-------------------------|---------------|------------------------|
| Slough Electricity Contracts Limited | Administration recharge | 4,794 | 3,704 |
| Slough Domestic Electricity Limited | Administration recharge | 211 | 160 |
| Fibre Power (Slough) Limited | Administration recharge | 1,790 | 1,574 |
| Power from Waste Limited | Administration recharge | 20 | 20 |
| Slough Utility Services Limited | Administration recharge | 1,227 | 1,116 |
| Slough Electricity Contracts Limited | Finance recharge | 1,994 | 1,974 |
| Slough Domestic Electricity Limited | Finance recharge | (7) | (17) |
| Fibre Power (Slough) Limited | Finance recharge | 463 | 549 |
| Power from Waste Limited | Finance recharge | 85 | 85 |
| Slough Utility Services Limited | Finance recharge | 774 | 676 |
| Slough Energy Supplies Limited | Finance recharge | 255 | 330 |

Significant balances outstanding between the Company and SEGRO plc group companies are shown below

| Group Company | Amounts receivable | | Amounts payable | |
|--------------------------------------|--------------------|---------------|-----------------|---------------|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| SEGRO plc | 347 | - | (54,193) | (55,640) |
| Slough Electricity Contracts Limited | 82,553 | 79,617 | - | - |
| Slough Domestic Electricity Limited | - | 81 | (16) | - |
| Slough Energy Supplies Limited | 9,636 | 8,844 | - | - |
| Fibre Power (Slough) Limited | - | - | (4,048) | (1,641) |
| Power from Waste Limited | 27,352 | 27,252 | - | - |
| Slough Utility Services Limited | 30,081 | 27,744 | - | - |
| Fibre Fuel Limited | 11,720 | 9,804 | - | (179) |

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.

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

23 Share-based payment

During the period ended 31 December 2006, the Group had six share-based payment arrangements, which are described below. The detail below relates to the Company's employees only.

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

Executive share option plan

The options in the Executive 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.

| | 2006 | | 2005 | |
|------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted Average exercise price | Number of options | Weighted Average exercise price |
| At 1 January | 256,860 | 386 0p | 374,301 | 374 9p |
| Options granted | - | - | 95,442 | 476 8p |
| Options exercised | (81,090) | 218 2p | (16,497) | 353 3p |
| Options expired/lapsed | (23,292) | 472 2p | (196,386) | - |
| At 31 December | 152,478 | 472 2p | 256,860 | 374 9p |

The options outstanding at 31 December 2006 were exercisable between 290 0p and 528 4p 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.

| | 2006 | | 2005 | |
|------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| At 1 January | 417,158 | 274 4p | 456,813 | 257 8p |
| Options granted | 67,553 | 499 9p | 35,302 | 440 1p |
| Options exercised | (119,352) | 241 5p | (45,820) | 262 2p |
| Options expired/lapsed | (8,841) | 332 4p | (29,137) | - |
| At 31 December | 356,518 | 307 2p | 417,158 | 274 4p |

The options outstanding at 31 December 2006 were exercisable between 218 4p and 528 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 |

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

23 Share-based payment (continued)

| Grant date | 13-Apr-06 | 13-Sep-06 |
|------------------------------|-------------|-------------|
| Market price | 604 0 | 660 5p |
| Exercise price | 483 2 | 528 4p |
| Risk-free interest rate | 4 7% | 4 7% |
| Dividend yield | 2 9% | 2 9% |
| Volatility | 22 0% | 22 0% |
| Term of option | 3-5-7 years | 3-5-7 years |
| Fair value per share 3 years | 158p | 172p |
| Fair value per share 5 years | 174p | 191p |
| Fair value per share 7 years | 184p | 202p |

Details of share options exercisable at 31 December 2006

| Date of grant | Scheme | Price per share pence | Ordinary shares number | Exercisable between |
|-------------------|--|--------------------------|---------------------------|------------------------|
| 22 March 2000 | Save-as-you-earn option scheme 1981 | 249 6 | 16,339 | 2003 and 2007 |
| 31 August 2000 | Save-as-you-earn option scheme 1981 | 313 6 | 1,171 | 2003 and 2007 |
| 21 March 2001 | Save-as-you-earn option scheme 1981 | 296 4 | 2,479 | 2001 and 2008 |
| 30 August 2001 | Save-as-you-earn option scheme 1981 | 284 8 | 4,387 | 2004 and 2008 |
| 29 August 2002 | Save-as-you-earn option scheme 1981 | 276 4 | 12,657 | 2005 and 2009 |
| 19 March 2003 | Save-as-you-earn option scheme 1981 | 218 4 | 179,904 | 2006 and 2010 |
| 28 August 2003 | Save-as-you-earn option scheme 1981 | 304 6 | 15,111 | 2006 and 2010 |
| 17 March 2004 | Save-as-you-earn option scheme 1981 | 372 4 | 15,249 | 2007 and 2011 |
| 14 April 2004 | Senior Management share option plan 2002 | 467 8 | 68,571 | 2007 and 2014 |
| 26 August 2004 | Save-as-you-earn option scheme 1981 | 372 0 | 16,390 | 2007 and 2011 |
| 23 March 2005 | Save-as-you-earn option scheme 1981 | 394 8 | 16,599 | 2008 and 2012 |
| 29 April 2005 | Senior Management share option plan 2002 | 476 8 | 18,873 | 2008 and 2015 |
| 29 April 2005 | Senior Management share option plan 2002 | 476 8 | 65,034 | 2008 and 2015 |
| 22 September 2005 | Save-as-you-earn option scheme 1981 | 432 4 | 10,620 | 2008 and 2012 |
| 13 April 2006 | Save-as-you-earn option scheme 1981 | 483 2 | 41,716 | 2009 and 2013 |
| 13 September 2006 | Save-as-you-earn option scheme 1981 | 528 4 | 23,896 | 2009 and 2013 |
| Total | | | 508,996 | |

Details of the Group's share based payments plans

The weighted average remaining contractual life for share options outstanding at the year end is 1 93 years (2005 1 98 years)

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.

| | 2006 | | 2005 | |
|------------------|----------|------------------------------------|--------|------------------------------------|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| At 1 January | 44,494 | 398 2p | 37,438 | 355 0p |
| Shares granted | 34,220 | 589 2p | 7,056 | 491 2p |
| Shares forfeited | (23,993) | 360 0p | - | - |
| At 31 December | 54,721 | 552 5p | 44,494 | 398 2p |

At 31 December 2006, employees held the right to be granted 54,721 shares (2005 20,501) if performance criteria is met. The Black-Scholes model has been used to fair value the shares granted since 7 November 2002. The assumptions used are as follows:

Slough Heat & Power Limited

Notes to the financial statements (continued)

23 Share-based payment (continued)

| Grant date | 07-Jan-03 | 20-Mar-03 | 01-Apr-04 | 02-Sep-04 | 04-May-05 | 25-May-06 |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Exercise price/market price | 344p | 306p | 433 2p | 461p | 491 2p | 598 2p |
| Risk-free interest rate | 5 0% | 5 0% | 5 0% | 5 0% | 4 8% | 4 6% |
| Dividend yield | 4 6% | 4 6% | 3 5% | 3 3% | 3 9% | 2 9% |
| Volatility | 20 0% | 21 3% | 20 0% | 20 0% | 21 0% | 22 0% |
| Term of option | 3 years | 3 years | 3 years | 3 years | 3 years | 3 years |
| Fair Value per share | 299p | 267p | 390p | 417 8p | 437p | 540p |

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.

| | 2006 | | 2005 | |
|-----------------|---------|---------------------------------|---------|---------------------------------|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| At 1 January | 160,909 | 432 4p | 123,981 | 393 6p |
| Shares granted | 44,219 | 581 2p | 46,068 | 529 8p |
| Shares paid out | (2,612) | 430 1p | (7,770) | 413 3p |
| Shares adjusted | (7,170) | 421 1p | (1,370) | 353 9p |
| At 31 December | 195,346 | 466 2p | 160,909 | 432 4p |

Of the shares outstanding at 31st December 2006 - 195,346 (2005 - 156,457) 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.

Cash Settled share based payments plan

The plan for senior employees was settled for cash for £0.03 million on 6 June 2006, and then closed.

This plan has shadowed the LTIS. A notional number of shares were granted to the employee equal to 25% of their salary and divided by the share price on the date of the grant. 11,739 notional shares have been granted in June 2003 and the Black-Scholes model was used to fair value these shares at prevailing market rates. At the settlement date, there were 11,739 shares at the price of 635.0 pence. Under the performance criteria of the LTIS, 40 percent of the total value was paid to the employees in 2006.

| | 2006 | 2005 |
|---|--------|--------|
| Number of shares | 11,739 | 11,739 |
| Number of shares vested | 11,739 | - |
| Current share price (settlement date 6 June 2006 for 2006, 31 December 2005 for 2005) | 635 0p | 553 5p |
| Risk-free rate | - | 5 0% |
| Expected life of Option (years) | - | 0 4 |
| Volatility | - | 0 1% |
| Dividend yield | - | 2 6% |
| Fair value of option 31 December | - | 547p |

The total expenses for share based payments for the Company were £0.4 million (2005 £0.3 million).

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

24 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, SEGRO plc, whose accounts reflect the full outstanding liability. 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 SEGRO plc and the Company in regard to the scheme.

Defined contribution scheme

Contributions to such schemes are expensed as incurred.

Defined benefit scheme

The scheme's assets are measured at fair value, its obligations are calculated at discounted present value, and any net surplus or deficit is recognised in the balance sheet. Operating and financing costs are charged to the income statement, with service costs spread systematically over employees' working lives, and financing costs expensed in the period in which they arise. Actuarial gains and losses are recognised through equity in the Statement of recognised income and expense. Where the actuarial valuation of the scheme demonstrates that the scheme is in surplus, the recognisable asset is limited to that for which the Group can benefit in the future.

Valuation of the Slough scheme has been based on the most recent actuarial valuation at 31 March 2004 for Slough and updated by the independent actuaries in order to assess the liabilities of the schemes at 31 December 2006. Assets of the scheme are stated at their market value at 31 December 2006.

The major assumptions used were as follows

| | 2006 % | 2005 % |
|--|-----------|-----------|
| Discount rate for scheme liabilities | 5.2 | 4.7 |
| Rate of inflation | 3.0 | 2.9 |
| Rate of increase to pensions in payment in excess of GMP | | |
| - Pre April 2003 pensions | 4.1 | 4.1 |
| - April 2003 to October 2005 pensions | 3.0 | 2.8 |
| - After October 2005 | 2.3 | 2.1 |
| Rate of general long-term increase in salaries | 5.0 | 4.9 |

The long-term rates of return on plan assets in the year were expected to be

| | 2006 % | 2005 % |
|-----------------------|-----------|-----------|
| Equities | 7.6 | 7.5 |
| Bonds | 4.6 | 4.3 |
| Property | 6.6 | 6.5 |
| Other assets | 5.3 | 4.5 |
| Overall Slough Scheme | 6.4 | 6.5 |

The mortality rates used are as follows

| | Mortality table | Life expectancy at age 65 (years) | |
|--------------------|-----------------|-----------------------------------|--------|
| | | Male | Female |
| Current pensioners | PA92C2014SC | 20.8 | 23.6 |
| Future pensioners | PA92C2024SC | 21.5 | 24.3 |

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.

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

24 Retirement benefit schemes (continued)

The most recent full formal actuarial valuation for the scheme has been updated by qualified actuaries for the financial year ended 31 December 2006 to provide the IAS 19 disclosures below

Analysis of the Slough scheme's assets at 31 December is as follows

| | 2006 % | 2005 % | 2006 £m | 2005 £m |
|----------|-----------|-----------|------------|------------|
| Equities | 59.8 | 70.2 | 53.1 | 56.1 |
| Bonds | 39.8 | 28.4 | 35.3 | 22.7 |
| Other | 0.5 | 1.4 | 0.4 | 1.1 |
| | 100.0 | 100.0 | 88.8 | 79.9 |

The scheme has no investments in the Group's equity securities or in property currently used by the Group

Fair value of the assets and liabilities of the scheme

The amount included in the balance sheet of SEGRO plc arising from the obligation in respect of the scheme is as follows

| | 2006 £m | 2005 £m |
|--|---------------|---------------|
| Market value of assets | 88.8 | 79.9 |
| Present value of funded scheme's liabilities | (101.4) | (106.8) |
| Net deficit before related deferred tax at 31 December | (12.6) | (26.9) |
| Related deferred tax asset | 0.0 | 8.1 |
| Net liability held in the books of SEGRO plc | (12.6) | (18.8) |

Reconciliation of the assets and liabilities of the scheme

| | 2006 £m | 2005 £m |
|------------------------------------|------------|------------|
| Movement in assets | | |
| At 1 January | 79.9 | 49.7 |
| Expected return on scheme's assets | 5.3 | 4.0 |
| Actuarial gains | 0.7 | 8.2 |
| Employer cash contributions | 4.0 | 19.1 |
| Member cash contributions | 0.8 | 0.6 |
| Benefits paid | (1.9) | (1.7) |
| At 31 December | 88.8 | 79.9 |
| | 2006 £m | 2005 £m |
| Movement in liabilities | | |
| At 1 January | 106.8 | 89.3 |
| Service cost | 3.2 | 2.9 |
| Curtailments | (1.2) | - |
| Past service costs | - | (0.7) |
| Interest cost | 5.0 | 4.7 |
| Member contributions | 0.8 | 0.6 |
| Actuarial (gains) / losses | (11.3) | 11.7 |
| Benefits paid | (1.9) | (1.7) |
| At 31 December | 101.4 | 106.8 |

The expected regular employer's contributions to be paid in the year ended 31 December 2007 are £4.0 million

There are no health benefit related obligations There are no unfunded defined benefit obligations

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

25 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements of Slough Heat and Power Limited prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

Investments

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

Consolidated financial statements

These separate financial statements contain information about Slough Heat and Power Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has taken advantage of the exemption under IAS 27, 'Consolidated and separate financial statements', from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its parent, SEGRO plc.

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.

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

25 Summary of significant accounting policies continued

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.

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, in which 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.

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

25 Summary of significant accounting policies continued

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 realisable 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 equity 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 received, 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.

Standards, amendments and interpretations effective in 2006 but have no effect on the Company's operations

- IAS 21 (Amendment), Net investment in a foreign operation,
- IAS 39 (Amendment), Cash flow hedge accounting of forecast intra-group transactions,
- IAS 39 (Amendment), The fair value option,
- IFRS 1, (Amendment), First-time adoption of international financial reporting standards,
- IFRS 6, Exploration for and evaluation of mineral resources,
- IFRIC 4, Determining whether an arrangement contains a lease,
- IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds, and
- IFRIC 6, Liabilities arising from participating in a specific market - Waste electrical and electronic equipment

Published standards and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

It is not expected that they will have any significant future impact on the Company's accounts.

- IFRS7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements - Capital disclosures',
- IFRS8, Operating Segments,
- IFRIC8, Scope of IFRS 2,
- IFRIC 10, Interim Financial Reporting and Impairment, and
- IFRIC 11, Group and treasury share transactions

Published interpretations to existing standards that are not yet effective and not relevant to the Company's

- IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies,
- IFRIC 9, Reassessment of embedded derivatives, and
- IFRIC 12, Service Concession Arrangements

Revenue

Revenue comprises the recharge of maintenance and administration costs incurred in connection with the supply and generation of electricity, steam and water.

Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- | | |
|-------------------------------------|-----|
| - Machinery | 10% |
| - Vehicles | 30% |
| - Furniture, fittings and equipment | 10% |

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses/gains - net)' in the income statement.