REGISTERED NO.
2310571

SSE Generation Limited

Accounts for the year ended 31 March 2006

CONTENTS

SSE Generation Limited

Report of the Directors

The Directors present their report together with the audited Accounts for the year ended 31 March 2006.

1. Principal Activities

The Company's principal activity is the provision and maintenance of generation capacity for use by SSE Energy Supply Limited (SSEESL), a related company. The Company also invests in electricity generation enterprises and other energy related businesses.

2. Business Review

Development and performance review of the business

Within the Group's integrated business model, the Company's power stations, along with those of its subsidiaries, are used to support performance in Electricity Supply, managed by SSEESL. Following the acquisition of an additional stake in Barking Power Limited, and the completion of the Hadyard Hill wind farm in early 2006, the Company owns over 3,200 megawatts (MW) of electricity generation capacity. This comprises over 1,600 MW of gas-fired capacity, including the Peterhead power station, over 1,500 MW of hydro and wind capacity and 150 MW of oil-fired capacity.

Operating profit increased from £63.2m to £76.3m, excluding the exceptional impairment of part of Peterhead power station in the previous year (£43.6m). The increase was influenced by the impact of certain one-off recharge re-alignments which had the impact of offsetting the impact of the reduction in the availability of the main generation sets of the Company in the year, principally at Peterhead. This arose from the impact of the repair and replacement of a damaged steam turbine rotor which considerably extended the planned maintenance outage period in June 2005. The Hydro Benefit subsidy previously paid and recharged by the Company was abolished on 1 April 2005 and was replaced by a separate scheme to assist customers with the high cost of distributing electricity in the North of Scotland. The abolition reduced both turnover and cost of sales by £37.0m in the year. Turnover and cost of sales were also both down in the year due to a redefinition of the costs which are incurred by the Company and passed onto SSEESL. These costs are now directly incurred by SSEESL.

Good performance in the new British electricity market, BETTA, which is managed on behalf of the Group by SSEESL, is dependent on power stations being available to generate electricity in response to customer demand and market conditions. However, as noted, the performance at the Company's stations was not as good as in the previous year. During the year, the power stations owned by the Company generated 8.8 TWh of electricity compared with 11.9 TWh in the previous year. Peterhead power station achieved 78.1% of its maximum availability to generate electricity, compared with 98.3% in the previous year. Water running off into reservoirs during 2005/06 was 7% below the long-term average and significantly lower than in the previous year, when it was 14% above the long-term average. Total hydro output was 3,045 GWh, also lower than the long term average and compared with 3,544 GWh in the previous year. Within this total was output from SSE's investment in its ROCs refurbished smaller hydro power stations and, in addition, the output from the Tangy, Spurness, Artfield Fell and Hadyard Hill wind farms also contributed to an increase in ROC-qualifying output during the year.

In January 2006, the Company acquired an additional 8.35% stake in Barking Power Limited from the administrators of TXU Europe Power Limited for £14.7m. This investment complements the Group's other investments in coal and biomass technology and renewable energy. In June 2005, the Group announced that it and its partner BP would be undertaking detailed front-end engineering design work on the world's first industrial-scale project to generate 'de-carbonised' electricity from hydrogen. This project is planned to take place at the Company's Peterhead power station and the current phase of design work is anticipated to be completed in 2006/07, which will then allow a final investment decision to be made.

SSE Generation Limited

Report of the Directors (continued)

2. Business Review (continued)

Development and performance review of the business (continued)

The Renewables Obligation Order 2005 came into force on 1 April 2005 and increased the UK's target for electricity generated from renewable sources, confirming the continuing importance of the role of hydro and wind generation. In July 2005, consent was received for the construction of what will be the UK's second largest conventional hydro electric power station at Glendoe, near Loch Ness. The development of Glendoe will require investment of around £140m and is expected to be completed by 2008/09.

Construction work at the wind farm at Hadyard Hill in Ayrshire was completed and, in March 2006, it became the first wind farm in the UK to generate over 100MW of electricity. This takes the Company's wind farm portfolio to a total installed capacity of 162MW. This will increase in 2007 and plans are in place to further develop this portfolio, with applications for planning consent being in place at a further seven secured sites, although the process for attaining consent continues to be arduous and prolonged.

Principal risks and uncertainties

The Directors acknowledge that they have responsibility for the Company's systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Company.

No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Company's business and to the relative costs and benefits of implementing specific controls.

The main financial risks that the Company could face have been considered by the Directors and the Group's Risk Committee. These include mechanical failure at the Company's power stations, competition, availability of fuel, wholesale market prices of electricity, gas and other commodities, economic regulation and government policies and other factors.

The Company transacts with other companies within the Scottish and Southern Energy plc group (the Group) and is a key part of the Group's business and strategies. The principal risks and uncertainties faced by the Group are set out in the Group's annual report.

Key performance indicators

Financial	**2006**	**2005**	
Operating profit - £m (before exceptional items)	76.3	63.2	+20.7%
Capital expenditure - £m	117.2	132.7	-11.7%
Non Financial / Management	**2006**	**2005**	
Availability – Peterhead power station	78.1%	98.3%	-20.5%
Availability – Main hydro stations (excluding pump storage facilities)	86.0%	82.2%	+4.6%

3. Results and Dividends

The profit for the financial year amounted to £109.8m (2005 – loss £4.0m, restated). The Company paid dividends of £53.0m and £43.0m in the year (2005 - £10.5m).

SSE Generation Limited

Report of the Directors (continued)

4. Directors

The Directors who served during the year were as follows:-

Gavin Brydon
Paul Smith (appointed 15 April 2005)

5. Directors' Interests in Ultimate Holding Company

The interests of Gavin Brydon and Paul Smith in the shares of the Company's ultimate holding company, Scottish and Southern Energy plc, are as follows:

	31 March 2006		1 April 2005	
	No. of shares beneficially held	**No. of shares under option**	No. of shares beneficially held	No. of shares under option
Gavin Brydon	**479**	**6,415**	410	5,644
Paul Smith	**4,934**	**16,109**	3,163*	12,914*

* At date of appointment

6. Political and Charitable Donations

During the year, no charitable or political donations were made.

7. Employment Policies

Staff are actively encouraged to be involved in Company affairs in a wide variety of ways. These include monthly team meetings, briefing documents and internal videos. Policies on such matters as Equal Opportunities and Health and Safety are regularly communicated to staff and involvement is supported through local committees. New staff joining the Company receive induction training.

It is Company policy, where possible, to provide employment opportunities for disabled people. Staff who become disabled are supported in continuing employment through identification of suitable jobs and the provision of necessary retraining.

8. Supplier Payment Policy

The Company complies with the CBI Prompt Payment Code. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills are paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. Copies of the Code are available on application to the Company Secretary. The number of suppliers' days represented by trade creditors was 30 days at 31 March 2006 (2005 - 30 days).

9. Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

SSE Generation Limited

Report of the Directors (continued)

10. Change in Registered Office

On 1 June 2006 the Company changed the location of its Registered Office to 55 Vastern Road, Reading RG1 8BU.

ON BEHALF OF THE BOARD

Gavin Brydon
Director
8 November 2006

SSE Generation Limited

Statement of directors' responsibilities in respect of the Directors' Report and the Accounts

The directors are responsible for preparing the Directors' Report and the Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare Accounts for each financial year. Under that law they have elected to prepare the Accounts in accordance with UK Accounting Standards.

The Accounts are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Accounts; and
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its Accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

SSE Generation Limited

Independent Auditors' Report to the Members of SSE Generation Limited

We have audited the Accounts of SSE Generation Limited for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These Accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As described in the Statement of Directors' Responsibilities on page 5, the company's directors are responsible for the preparation of the Accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Accounts. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read 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 Accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Accounts, 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 Accounts 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 Accounts.

Opinion
In our opinion:

- the Accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its profit for the year then ended;
- the Accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Accounts.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
8 November 2006

SSE Generation Limited

Profit and Loss Account
for the year ended 31 March 2006

	Note	2006 £m	2005 restated £m
Turnover		**133.5**	200.0
Cost of Sales (2005 – including exceptional item of £43.6m, note 7)		**(49.4)**	(174.4)
Gross profit		**84.1**	25.6
Administrative costs		**(7.8)**	(6.0)
Operating profit	3	**76.3**	19.6
Income from fixed asset investments		**84.0**	12.5
Gain on sale of fixed assets		**0.4**	4.8
Net interest payable	6	**(39.7)**	(38.5)
Profit/(loss) on ordinary activities before taxation		**121.0**	(1.6)
Tax on profit/(loss) on ordinary activities	8	**(11.2)**	(2.4)
Profit/(loss) for the financial year		**109.8**	(4.0)

The above results are derived from continuing activities.

The accompanying notes are an integral part of these accounts.

SSE Generation Limited

Balance Sheet
as at 31 March 2006

	Note	2006 £m	2005 restated £m
Fixed assets			
Tangible Assets	10	**850.9**	775.9
Investments	11	**223.3**	209.4
		1,074.2	985.3
Current assets			
Stock	12	**2.8**	3.2
Debtors:			
amounts falling due within one year	13	**535.5**	494.1
amounts falling due after more than one year	13	**15.6**	15.6
Investments	14	**8.2**	6.7
Cash at bank and in hand		**0.1**	2.0
		562.2	521.6
Creditors:			
Amounts falling due within one year	15	**(653.5)**	(540.1)
Net current liabilities		**(91.3)**	(18.5)
Total assets less current liabilities		**982.9**	966.8
Creditors:			
Amounts falling due after more than one year	16	**(690.3)**	(692.1)
Provisions for liabilities and charges			
Deferred taxation	18	**(138.3)**	(134.1)
Net assets		**154.3**	140.6
Capital and reserves			
Called up share capital	19	**104.4**	104.4
Profit and loss account	20	**49.9**	36.2
Equity shareholders' funds		**154.3**	140.6

These Accounts were approved by the Directors on 8 November 2006 and signed on their behalf by

Gavin Brydon, Director

SSE Generation Limited

Statement of Total Recognised Gains and Losses for the year ended 31 March 2006

	2006 £m	2005 restated £m
Profit/(loss) for the financial year	**109.8**	(4.0)
Total recognised gains and losses relating to the financial year	**109.8**	(4.0)
Prior year adjustments (note 2)	**(35.7)**	
Total gains and losses recognised since last annual report	**74.1**	

Reconciliation of Movement in Shareholders' Funds as at 31 March 2006

	2006 £m	2005 restated £m
Profit /(loss) for the financial year	**109.8**	(4.0)
Dividends paid to shareholders	**(96.0)**	(10.5)
Credit in respect of employee share awards	**0.3**	0.1
Purchase of shares to satisfy employee share awards	**(0.4)**	(0.3)
Net addition to / (reduction in) shareholders' funds	13.7	(14.7)
Opening shareholders' funds	**140.6**	155.3
Closing shareholders' funds	**154.3**	140.6

The opening shareholders' funds at 1 April 2005 were originally £171.3m before prior year reductions of £30.7m (note 2).

SSE Generation Limited

Notes on the Accounts
for the year ended 31 March 2006

1. Principal accounting policies

Basis of preparation
The Accounts have been prepared in accordance with all applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently.

Under Financial Reporting Standard 1 (FRS 1), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated Accounts.

As the Company is a wholly owned subsidiary of Scottish and Southern Energy plc (SSE plc), it has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Scottish and Southern Energy Group (the Group).

The company has adopted a number of new accounting policies or has amended previous policies as a result of new accounting standards becoming applicable. In particular, the impact and applicability of the following standards should be noted:

- FRS 25 *Financial Instruments: Disclosure and Presentation*;
- The application of FRS 20 *Share based payments* has been restricted to equity instruments issued by the ultimate parent that were granted to employees of the Company on or after 7 November 2002 and had not vested by 1 January 2005;
- FRS 21 *Events after the Balance Sheet*;
- FRS 28 *Corresponding amounts.*

The Company has changed its application of FRS 19 Deferred Taxation by ceasing to measure the provision for deferred tax on a discounted basis.

Turnover
Turnover comprises the value of goods, services and facilities provided during the year.

Research and development
Expenditure on research and development is charged to the profit and loss account as incurred.

Customer contributions and capital grants
Customer contributions and capital grants are recorded as deferred income and released to the profit and loss account over the estimated life used in calculating contributions.

Investment Income
Investment income comprises dividends received from the Company's investments in associated undertakings.

Interest
Interest on the funding attributable to major capital projects is capitalised during the period of construction and written off as part of the total cost over the operational life of the asset.

1. Principal accounting policies (continued)

Taxation
The charge for taxation is based on the profit for the year and takes into account deferred taxation.

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Deferred taxation arises in respect of items where there are timing differences between their treatment for accounting and taxation purposes. This is recognised where an obligation to pay more tax in the future has originated but not reversed at the balance sheet date. A deferred tax asset is recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Tangible fixed assets

(i) Depreciation
The Company is obliged under the Reservoirs Act 1975 to maintain its hydro infrastructure network, including its dams, tunnels and other hydro civil engineering structures. This network is maintained in good repair and is therefore considered to have an indefinite life. Expenditure to maintain the hydro generation infrastructure is dealt with using renewals accounting, and the annualised planned expenditure to maintain the operating capacity of this infrastructure is charged as depreciation to the profit and loss account. The actual maintenance expenditure incurred is capitalised. Cyclical maintenance on hydro civil assets of a longer life nature is capitalised and depreciated over the anticipated useful life of the refurbishment.

Depreciation is provided on tangible fixed assets to write off cost, less residual values, on a straight line basis over their estimated operational lives. The estimated operational lives are as follows:

	Years
Generation assets	20 to 75

(ii) Subsequent expenditure
Expenditure incurred to replace a component of a tangible fixed asset that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the tangible fixed asset to which it relates.

Investments
Fixed asset investments are stated at cost. Current asset investments are stated at the lower of cost and net realisable value.

Stocks
Stocks are valued at the lower of cost and net realisable value.

SSE Generation Limited

Notes on the Accounts
for the year ended 31 March 2006

1. Principal accounting policies (continued)

Employee benefit obligations

Pensions

Contributions to pension schemes on behalf of the employees of the Company are charged to the profit and loss account in accordance with the contributions incurred in the year.

Equity and equity-related compensation benefits

Scottish and Southern Energy plc group, the ultimate parent of the Company, operates a number of All Employee Share Schemes as described in the Remuneration Report of the Group. These schemes enable Group employees to acquire shares of Scottish and Southern Energy plc. The employees of the Company are entitled, where applicable, to participate in these schemes. The Company has been charged with the cash cost of acquiring shares on behalf of its employees, where appropriate. Where the fair value of the options granted has been measured, the Company has recognised the expense as if the share based payments related to the Company's own shares.

Applying the transitional provisions of FRS 20, its requirements have been applied to all grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of a Black-Scholes model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the profit and loss accounts.

The costs associated with the other main employee schemes, the share incentive plan and the deferred bonus scheme, are recognised over the period to which they relate.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to these accounts.

2. Prior year adjustments

The Company has changed the accounting policy on deferred tax to align it with the new group accounting policy. Previously, deferred tax was measured on a discounted basis. The change in accounting policy is to state deferred tax on an un-discounted basis. A prior year adjustment has been made in respect of this change in measurement basis, resulting in an increase in the tax charge and a reduction in the profit for 2005 of £4.7M. The deferred tax liability at 31 March 2005 has increased by £42.5M with a consequent reduction in net assets of £42.5M at that date.

As a result of the adoption of FRS 21 *Events after the Balance Sheet date*, a prior year adjustment has been made in respect of the recognition of proposed dividends. The adjustment has not affected the reported net assets at 31 March 2006, but has increased net assets at 31 March 2005 by £12.0M.

As a result of the introduction of FRS 20 *Share-based payments*, prior year adjustments have been made in respect of the share based payments with nil net impact on profit after tax in 2005.

SSE Generation Limited

Notes on the Accounts
for the year ended 31 March 2006

2. Prior year adjustments (continued)

Summary

Profit attributable to shareholders:

	2005 £m
Adoption of FRS 20	
Charge in respect of employee share schemes	(0.1)
Credit in respect of share costs previously recognised	0.1
Change in application of FRS 19	
Increased tax charge	(4.7)
Adoption of FRS 21	
Reduction in dividends received	(31.0)
	(35.7)
As previously reported	31.7
As restated	**(4.0)**

Net assets as at:

	2005 £m
Impact of FRS 20	
Increase in inter-company debtor	0.1
Increase in inter-company creditor	(0.3)
Impact of change in application of FRS 19	
(Increase) in provision for deferred tax	(42.5)
Impact of FRS 21 – dividends	
Reduction in inter-company creditor	43.0
(Reduction) in inter-company debtor	(31.0)
(Reduction) in net assets	(30.7)
As previously reported	171.3
As restated	**140.6**

3. Operating profit

The operating profit is arrived at after charging / (crediting):

	2006 £m	2005 £m
Depreciation of tangible fixed assets	**42.2**	47.4
Impairment charge (note 7)	-	43.6
Operating lease rentals	**0.5**	0.3
Release of deferred income in relation to customer contributions and capital grants	**(1.9)**	(19.9)
Research and development	-	0.1
Net management fee in respect of services provided by group companies	**7.8**	6.0

The Company incurred an audit fee of £0.05m (2005 - £0.05m) in the year.

SSE Generation Limited

Notes on the Accounts
for the year ended 31 March 2006

4. Staff costs and numbers

	2006 £m	2005 restated £m
Staff costs:		
Wages and salaries	**13.3**	12.4
Social security costs	**1.1**	1.1
Share based remuneration	**0.3**	0.1
Other pension costs	**2.0**	1.9
	16.7	15.5
Less: charged as capital expenditure	**(7.8)**	(7.2)
	8.9	8.3

	2006 Number	2005 Number
Number employed at 31 March	**406**	344

	2006 Number	2005 Number
The monthly average number of people employed by the Company during the year	**373**	330

5. Directors' and staff remuneration
No Director received remuneration in respect of their service to the Company (2005 - nil).

6. Net interest payable

	2006 £m	2005 £m
Interest receivable		
Bank interest	**0.5**	0.1
Interest receivable from group undertakings	**7.6**	7.9
	8.1	8.0
Interest payable		
Bank interest	**(9.7)**	(9.7)
Interest payable to group undertakings	**(43.4)**	(39.3)
	(53.1)	(49.0)
Interest capitalised	**5.3**	2.5
Net Interest Payable	**(39.7)**	(38.5)

7. Exceptional item
At 31 March 2005 the contract which provided Scottish Power with rights over a part of the original Peterhead Power Station until 2012 was ended. The end of Scottish Power's interest in Peterhead triggered a reappraisal of the power station and, in particular, the carrying value of the assets which were subject to the contract. An impairment review was carried out on the income generating unit affected using a discount rate of 5%, which concluded that the value in use of the original station was impaired. Consequently, an exceptional impairment of £43.6m was taken as a charge to the results last year. In view of the size and nature of this charge, this is disclosed separately as an exceptional item within cost of sales. The re-powered station continues to be held at its full net book value.

SSE Generation Limited

Notes on the Accounts
for the year ended 31 March 2006

8. Taxation

	2006 £m	2005 restated £m
Current tax:		
UK corporation tax	**7.0**	(2.5)
Deferred tax:		
Origination and reversal of timing differences	**3.8**	(1.5)
Adjustment in respect of prior years	**0.4**	6.4
Total Deferred Tax	**4.2**	4.9
Total tax on profit/(loss) on ordinary activities	**11.2**	2.4

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2006 £m	2005 restated £m
Profit/(loss) before tax	**121.0**	(1.6)
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2005 - 30%)	**36.3**	(0.5)
Effects of:		
Expenses not deductible for tax purposes	**0.1**	0.2
Capital allowances in excess of depreciation	**(3.9)**	1.8
Other timing differences	**0.1**	(0.3)
Non-taxable income	**(25.6)**	(3.7)
Current tax charge / (credit) for year	**7.0**	(2.5)

9. Dividends

	2006 £m	2005 restated £m
Amounts recognised as distributions from equity:		
Final dividend for the previous year of 41.20 pence (2005 – 8.14 pence) per share	**43.0**	-
Interim dividend for the current year of nil pence (2005 – 10.06 pence) per share	**-**	10.5
Interim dividend for the current year of 50.78 pence (2005 – nil pence) per share	**53.0**	-
	96.0	10.5
Proposed final dividend for the current year of nil (2005 – 41.20 pence) per share	**-**	43.0

SSE Generation Limited

Notes on the Accounts
for the year ended 31 March 2006

10. Tangible fixed assets

	Generation assets £m
Cost:	
At 31 March 2005	1,284.9
Additions	117.2
At 31 March 2006	1,402.1
Depreciation:	
At 31 March 2005	509.0
Charge for the year	42.2
At 31 March 2006	551.2
Net book value:	
At 31 March 2006	**850.9**
At 31 March 2005	775.9

	***2006* £m**	*2005* £m
Tangible fixed assets include:		
Capitalised finance costs	**26.7**	21.4
Assets in the course of construction	**151.1**	112.2

SSE Generation Limited

Notes on the Accounts
for the year ended 31 March 2006

11. Fixed asset investments

	Investment in associated undertakings £m	Loans to joint ventures £m	Investment in subsidiary undertakings £m	Other investments £m	Total £m
At 1 April 2005	1.9	1.0	205.3	1.2	209.4
Additions	14.7	0.2	0.2	0.7	15.8
Change in designation of investment (i)	-	(1.2)	1.2	-	-
Transfer to Group Company	-	-	-	(1.9)	(1.9)
At 31 March 2006	**16.6**	-	**206.7**	-	**223.3**

(i) The Company's interest in Renewable Technology Ventures Limited was increased from 50% to 100% on 27 January 2006.

Details of the principal subsidiary undertakings, joint ventures and associates are as follows:

Subsidiary undertakings	**Holding**	**Proportion Held**	**Nature of Business**
Medway Power Ltd	Ordinary shares	100%	Electricity generation
SSE Medway Operations Limited	Ordinary shares	100%	Electricity generation
SSEPG (Operations) Ltd	Ordinary shares	100%	Electricity generation
SSE Power Ltd	Ordinary shares	100%	Generation investment
SSE Investments Ltd	Ordinary shares	100%	Generation investment
SSE Seabank Investments Ltd	Ordinary shares	100%	Generation investment
Renewable Technology Ventures Limited	Ordinary shares	100%	Renewable generation development
Associated undertakings			
Barking Power Ltd (i)	Ordinary shares	30.4%	Electricity generation
Derwent Co-generation Ltd	Ordinary shares	49.5%	Electricity generation

All companies have accounting periods ending on 31 March. SSE Investments Ltd owns, via two holding companies, 100% of the share capital of Keadby Generation Limited.

(i) The investment in Barking Power Limited was increased from 22.05% to 30.4% on 13 January 2006.

12. Stocks

	2006 £m	2005 £m
Fuel, spares and consumables	**2.8**	3.2

13. Debtors

	2006 £m	2005 restated £m
Amounts falling due within one year:		
Trade Debtors	**0.1**	-
Other Debtors	**1.7**	8.3
Amounts owed by group undertakings	**533.7**	485.8
	535.5	494.1
Amounts falling due after more than one year:		
Amounts owed by group undertakings	**15.6**	15.6
	551.1	509.7

SSE Generation Limited

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14. Current asset investments

	2006 £m	2005 £m
Short term deposits	**8.2**	6.7

15. Creditors: amounts falling due within one year

	2006 £m	2005 restated £m
Trade Creditors	**12.3**	10.3
Other Creditors	**3.3**	4.8
Amounts owed to group undertakings	**608.0**	466.1
Corporation Tax	**3.0**	1.1
Accruals and deferred income	**26.9**	57.8
	653.5	540.1

16. *Creditors:* amounts falling due after more than one year

	2006 £m	2005 £m
Loans (note 17)	**200.0**	200.0
Loan from ultimate parent (note 17)	**400.0**	400.0
Accruals and other deferred income	**0.8**	2.6
Amounts owed to group undertakings	**89.5**	89.5
	690.3	692.1

17. Borrowings

	2006 £m	2005 £m
Between two and five years		
6.50% Loan Stock repayable to Scottish and Southern Energy plc 31 March 2011	**250.0**	-
Over five years:		
6.50% Loan Stock repayable to Scottish and Southern Energy plc 31 March 2011	-	250.0
Floating rate European Investment Bank repayable on 15 December 2011	**100.0**	100.0
Floating rate European Investment Bank repayable on 14 December 2012	**25.0**	25.0
4.63% European Investment Bank repayable 27 May 2013	**25.0**	25.0
5.36% European Investment Bank repayable 20 November 2013	**50.0**	50.0
6.50% Loan Stock repayable to Scottish and Southern Energy plc 31 March 2016	**150.0**	150.0
	350.0	600.0
	600.0	600.0

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18. Deferred taxation

Deferred taxation is provided as follows:

	2006 £m	2005 restated £m
Accelerated capital allowances	**139.3**	134.9
Other timing differences	**(1.0)**	(0.8)
Provision for deferred tax	**138.3**	134.1

	31 March 2006 £m
Provision at 31 March 2005 as previously stated	91.6
Prior year adjustment (note 2)	42.5
Provision at 31 March 2005 as restated	134.1
Transferred from profit and loss account	4.2
Provision at end of year	**138.3**

19. Share capital

	Number	**£M**
Equity: Ordinary shares of £1.00 each:		
Authorised:		
At 31 March 2006 and 1 April 2005	**397,900,000**	**397.9**
Allotted, called up and fully paid:		
At 31 March 2006 and 1 April 2005	**104,370,002**	**104.4**

20. Profit and loss account

	£m
At 31 March 2005	66.9
Prior year adjustments	(30.7)
At 31 March 2005, restated	36.2
Profit for the year	109.8
Dividends	(96.0)
Credit in respect of employee share awards	0.3
Group recharge for purchase of shares to satisfy employee share awards	(0.4)
At 31 March 2006	**49.9**

During the year, the parent company recharged £0.4m to the Company. This recharge is directly linked to the purchase of shares required to satisfy those share options that are granted to the Company's employees, and accordingly has been charged against reserves.

SSE Generation Limited

Notes on the Accounts
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21. Pensions

The majority of the Company's employees are members of the Electricity Supply Pension Scheme which provides defined benefits based on final pensionable pay. The Company's contributions to this scheme are set in relation to the current service period only (i.e. these are not affected by any surplus or deficit in the scheme relating to past service of its own employees and any other members of the scheme) and as such are treated as a contribution to a defined contribution scheme. New employees can opt to join a personal pension scheme which is a money purchase scheme with the Company matching the members' contributions up to a maximum of 6% of salary. The scheme is managed by Legal & General.

The Company's share of the total contributions payable to the pension schemes during the year was £2.0m (2005 - £1.9m).

22. Employee share-based payments

The majority of the Company's employees are participants in the following Group share schemes:

(i) Savings-related share option schemes ("Sharesave")

This scheme gives employees the option to purchase shares in the parent Company at a discounted market price, subject to them remaining in employment with the Group for the term of the agreement. Employees may opt to save between £5 and £250 per month for a period of 3 or 5 years and at the end of this period, employees have six months to exercise their options by using the cash saved (including a bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

(ii) Share Incentive Plan (SIP)

This scheme allows employees the opportunity to purchase shares in the parent Company on a monthly basis. Employees may nominate an amount between £10 and £125 to be deducted from their gross salary, and this is then used to purchase shares ('partnership shares') in the market on the final business day of each month. These shares are then held in trust for a period of 5 years, at which point they are transferred at no further cost to the employee. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would then be payable on any amounts withdrawn.

In addition to the shares purchased on behalf of the employee, the Group will match the purchase up to a maximum of 5 shares ('matching shares') per month. Again these shares are held in trust for the five years until they are transferred to the employee. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited.

In addition to the above, at 31 March 2005 the Group made a special award of 50 free shares to all employees in employment at both 31 March and 20 August 2005 in recognition of their contribution to the success of the Group. Under the arrangements for the award, the shares will be held in trust for five years, at which point they will be transferred to the employees at no cost to the employee. These shares may be withdrawn by the employee at any point during years four and five, but tax and national insurance would then be payable on any amounts withdrawn.

(iii) Deferred bonus scheme

This scheme applies to senior managers and executive directors. Those eligible are awarded an amount equal to their cash bonus for the period which is adjusted by a multiplier of between 0.7 and 1.35 depending on three factors, namely: relative performance in terms of Total Shareholder Return (TSR) over a three year period compared to the FTSE100; safety; and relative performance in terms of customer complaints (as recorded by energywatch). This amount is then used to purchase shares of the parent company in the market which are held in trust on behalf of the employee for a period of three years, at which point the employee is entitled to exercise the award. In addition to shares purchased using the adjusted bonus award, additional shares will also be purchased using any dividends received on the shares held by the trust. If the employee resigns, they will lose all outstanding awards.

As allowed by FRS 20, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been included.

22. Employee share-based payments (continued)

Details used in the calculation of these costs are as follows:

(i) Savings-related share option scheme

		25 July 2003		16 July 2004		14 July 2005	
		2006	2005	**2006**	2005	**2006**	2005
Outstanding at start of year	Shares	**126,605**	128,434	**68,522**	-	-	-
	Price	***562***	*562*	***622***	-	-	-
Granted	Shares	-	-	-	68,825	**64,700**	-
	Price	-	-	-	*622*	***886***	-
Forfeited	Shares	**(390)**	(1,829)	**(212)**	(303)	**(213)**	-
	Price	***562***	*562*	***622***	*622*	***886***	-
Exercised	Shares	-	-	-	-	-	-
	Price	-	-	-	-	-	-
Outstanding at end of year	Shares	**126,215**	126,605	**68,310**	68,522	**64,487**	-
	Price	***562***	*562*	***622***	*622*	***886***	-

Of the outstanding options at the end of the year, none were exercisable.

The fair value of these shares at vesting, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

	July 2003		July 2004		July 2005	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Price	659p	667p	730p	739p	1,012p	1,023p
Expected volatility	17%	17%	17%	17%	15%	15%
Risk free rate	4.7%	4.8%	4.7%	4.8%	4.1%	4.2%
Expected dividends	4.6%	4.6%	4.6%	4.6%	4.2%	4.2%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	630p	630p	699p	699p	967p	967p
Strike price	562p	562p	622p	622p	886p	886p

Expected price volatility was obtained by calculating the historical volatility of the Group's share price over the previous 12 months.

In addition to the sharesave schemes detailed above, at 31 March 2006 there were outstanding options under the 2001 sharesave issue. Since the shares under this scheme were granted prior to 7 November 2002, they have not been included as permitted by the transitional rules under FRS 20. However, at 31 March 2006, the outstanding options are as follows:

Date of grant	Number at 31 March 2006	Price (pence)	Date from which exercisable	Expiry date
October 2001	70,377	566	December 2006	May 2007

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22. Employee share-based payments (continued)

(ii) Share Incentive Plan

	2006 Shares	2006 Weighted average price (pence)	2005 Shares	2005 Weighted average price (pence)
Outstanding at start of year	**22,677**	**717**	11,651	632
Granted	**13,702**	**1,028**	11,375	803
Forfeited	**(646)**	**717**	(194)	632
Exercised	**-**	**-**	(155)	735
Outstanding at end of year	**35,733**	**836**	22,677	717

Of the outstanding options at the end of the year, none were exercisable.

Shares purchased under this scheme prior to 7 November 2002 have not been included as permitted by the transitional rules under FRS 20.

Free shares

	2006 Shares	2006 Weighted average price (pence)	2005 Shares	2005 Weighted average price (pence)
Outstanding at start of year	**-**	**-**	-	-
Granted	**18,600**	**965**	-	-
Forfeited	**(200)**	**965**	-	-
Exercised	**(100)**	**1098**	-	-
Outstanding at end of year	**18,300**	**965**	-	-

Of the outstanding options at the end of the year, none were exercisable.

(iii) Deferred bonus scheme

	2006 Shares	2006 Price (pence)	2005 Shares	2005 Price (pence)
Outstanding at start of year	**13,164**	**657**	7,391	626
Granted	**5,719**	**1,009**	7,028	685
Forfeited	**-**	**-**	(1,255)	626
Outstanding at end of year	**18,883**	**764**	13,164	657

Of the outstanding options at the end of the year, none were exercisable.

Shares purchased under this scheme prior to 7 November 2002 have not been included as permitted by the transitional rules under FRS 20.

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23. Capital commitments

(i) Capital expenditure

	2006 £m	2005 £m
Contracted for but not provided	**218.3**	105.6

(ii) Operating lease commitments

The payments under operating leases which are due to be made in the next year, analysed over the periods when the leases expire, are:

	Other assets	
	2006 £m	2005 restated £m
After five years	**0.1**	0.1
	0.1	0.1

The average lease is over 9.2 years.

(iii) Guarantees and indemnities
The company has provided guarantees on behalf of other group undertakings in respect of the performance of contracts amounting to £4.0m

24. Ultimate holding company
The Company's ultimate holding company is Scottish and Southern Energy plc, registered in Scotland. Copies of the Group Accounts, which include the Company, are available from Inveralmond House, 200 Dunkeld Road, Perth, PH1 3AQ.