



Scotland On-Line Limited

Directors' Report and Accounts for the year ended 31 March 1998

Registered No. SC161678

SCOTLAND ON-LINE LIMITED

Directors' Report and Accounts For the year ended 31 March 1998

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SCOTLAND ON-LINE LIMITED

Report of the Directors

The directors present their report and audited Accounts for the year ended 31 March 1998.

Results and dividend

The loss for the year amounted to £769,000 (1997 loss: £655,000). The directors recommend that no dividend be paid for the year ended 31 March 1998 (1997: £nil) and that the loss for the year be transferred from reserves.

Activities and review

The principal activity of the company is to provide internet services. The directors expect that the present level of activity will increase as new business is developed.

Directors and their interests

The directors who held office during the year were as follows:

William Anderson
David Bull
Neil Haddow (appointed 3 October 1997)
Roderick Matthews
Gregory McLean (resigned 3 October 1997)
Christopher Thomson
Lewis Thomson

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company. The interests of the directors in the shares of Scottish Power plc at the beginning of the year, or date of appointment if later, and end of the year were as follows:

	Ordinary Shares				Share options			
			<u>Executive Scheme</u>		<u>Sharesave Scheme</u>		<u>* Long Term Incentive Plan</u>	
	31.3.98	1.4.97	31.3.98	1.4.97	31.3.98	1.4.97	31.3.98	1.4.97
William Anderson	-	-	-	-	-	-	-	-
David Bull	-	-	19,572	19,572	-	-	12,587	6,699
Neil Haddow (appointed 3.10.1997)	2,595	2,595	-	-	3,412	3,412	9,062	9,062
Roderick Matthews	381	922	-	53,640	6,300	6,300	28,753	14,907
Christopher Thomson	-	-	-	-	-	-	-	-
Lewis Thomson	-	-	-	-	-	-	-	-

* These shares represent, in each case, the maximum number of shares which the directors may receive, dependent on the satisfaction of certain performance criteria as approved by the shareholders of Scottish Power plc in connection with the Long Term Incentive Plan.

SCOTLAND ON-LINE LIMITED

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for maintaining proper accounting records, and sufficient internal controls to safeguard the assets of the company and to prevent and detect fraud or any other irregularities.

Year 2000 policy statement

A year 2000 strategy has been established for the ScottishPower group of which Scotland On-Line Limited is a member. Details are contained in the Operating and Financial Review within the 1997/98 Annual Report and Accounts of Scottish Power plc.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

By order of the Board



D Macleod

Secretary
22 July 1998

SCOTLAND ON-LINE LIMITED

Accounting Policies

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards in the UK and with the requirements of the Companies Act 1985.

Basis of preparation

The financial statements contain information about Scotland On-Line Limited as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of the ultimate holding company Scottish Power plc, a company registered in Scotland.

Turnover

Turnover which excludes Value Added Tax represents the value of goods and services supplied to customers during the period.

Costs of acquiring customers

Costs associated with acquiring customers are written off over the contract period.

Tangible fixed assets

Tangible fixed assets are stated at cost and are depreciated on the straight line method over their estimated useful lives. Depreciation is first charged in the year following that in which the expenditure was incurred. The main depreciation periods used by the company are as set out below:

	Years
Furniture and fittings	10
Computers	3-5

Intangible fixed assets

Goodwill is capitalised at cost and amortised over 5 years, commencing in the year following purchase.

Taxation

The charge for ordinary taxation is based on the losses for the year and takes into account deferred taxation, using the liability method, in respect of timing differences to the extent that it is probable that a liability will crystallise in the foreseeable future. Such timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and depreciation of fixed assets.

SCOTLAND ON-LINE LIMITED

Pensions

The company participates in a group pension scheme operated by Scottish Power plc. Contributions and pension costs are based on pension costs across the group as a whole. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular costs are spread over the expected remaining working lifetime of members of the scheme after making suitable allowances for future withdrawals.

Stocks

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

SCOTLAND ON-LINE LIMITED

Profit and Loss Account

for the year ended 31 March 1998

	Notes	1998 £'000	1997 £'000
Turnover from continuing operations	1	1,021	357
Cost of sales		(577)	(260)
Gross profit from continuing operations		444	97
Administrative expenses		(1,217)	(764)
Operating loss	2	(773)	(667)
Interest receivable		4	12
Loss on ordinary activities before taxation		(769)	(655)
Taxation		-	-
Loss for the financial year		(769)	(655)

A statement of total recognised gains and losses and a reconciliation to historical cost profits and losses are not shown as all gains and losses for 1997 and 1998 are recognised in the profit and loss account under the historical cost convention.

The accounting policies on pages 4 to 5, together with the notes on pages 9 to 12, form part of these accounts.

SCOTLAND ON-LINE LIMITED

Cash Flow Statement

for the year ended 31 March 1998

	Notes	1998 £'000	1997 £'000
Cash outflow from continuing operating activities	4b	(456)	(606)
Returns on investments and servicing of finance			
Interest received		4	12
Free cash flow		(452)	(594)
Capital expenditure and financial investment	4a	43	(698)
Cash outflow before financing		(409)	(1,292)
Financing			
Issue of ordinary share capital		-	1,500
Loan notes issued		500	-
Increase in cash in the year	5	91	208

Free cash flow represents cash flow from operations after adjusting for returns on investment and servicing of finance.

Reconciliation of net cash flow to movement in net debt

	1998 £'000	1997 £'000
Increase in cash in year	91	208
Cash inflow from increase in debt	(500)	-
Movement in net debt in year	(409)	208
Net debt at the end of prior year	208	-
Net debt at end of year	5	208

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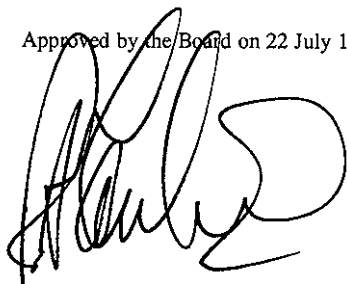
Balance Sheet

as at 31 March 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Intangible assets	6	72	106
Tangible assets	7	481	592
		553	698
Current assets			
Stocks	9	130	-
Debtors	10	1,103	152
Cash at bank and in hand		299	323
		1,532	475
Creditors: amounts falling due within one year			
Loans and other borrowings	11	-	(115)
Other creditors	12	(1,509)	(197)
		(1,509)	(312)
Net current assets		23	163
Total assets less current liabilities		576	861
Creditors: amounts falling due after more than one year			
Loans and other borrowings	11	(500)	-
Deferred income	13	-	(16)
Net assets		76	845
Called up share capital	14,15	1,500	1,500
Profit and loss account	15	(1,424)	(655)
Equity shareholders' funds	15	76	845

The accounting policies on pages 4 to 5, together with the notes on pages 9 to 12, form part of these accounts.

Approved by the Board on 22 July 1998 and signed on its behalf by



Roderick Matthews
Director

Christopher Thomson
Director

SCOTLAND ON-LINE LIMITED

Notes to the Accounts

1 Turnover

Turnover consists entirely of sales made in the United Kingdom from one class of business.

2 Operating loss

Operating loss is stated after charging:	1998 £'000	1997 £'000
Depreciation-tangible owned assets	115	-
Amortisation of intangible assets	18	-
Auditors' remuneration for audit	8	3

3 Employee information

(a) Employee costs

	1998 £'000	1997 £'000
Wages and salaries	415	260
Social security costs	41	26
Pension costs	7	5
Total	463	291

(b) Employee numbers

The year end and average numbers of employees (full time and part time) employed by the company, including executive directors, were :

	At 31 March		Annual average	
	1998	1997	1998	1997
By activity				
Production	9	10	7	7
Administration	14	8	10	5
Selling & distribution	3	-	2	-
	26	18	19	12

4 Analysis of cash flows

	1998 £'000	1997 £'000
(a) Capital expenditure and financial investment		
Purchase of tangible fixed assets	(326)	(592)
Sale of tangible fixed assets	369	-
Purchase of intangible assets	-	(106)
Net cash outflow for capital expenditure and financial investment	43	(698)

(b) Reconciliation of operating loss to cash outflow from continuing operating activities

	1998 £'000	1997 £'000
Operating loss	(773)	(667)
Depreciation	115	-
Deferred income (released) / received	(16)	16
Amortisation of intangible assets	18	-
Increase in debtors	(935)	(151)
Increase in stocks	(130)	-
Increase in creditors	1,265	196
Net cash outflow from continuing operating activities	(456)	(606)

5 Analysis of net debt

	At 1 April 1997 £'000	Cash flow £'000	At 31 March 1998 £'000
Cash at bank and in hand	323	(24)	299
Overdrafts	(115)	115	-
	208	91	299
Debt due within one year	-	(500)	(500)
Total	208	(409)	(201)

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Notes to the accounts

6 Intangible assets

	Goodwill £'000	Total £'000
Cost :		
At 1 April 1997	106	106
Reclassification	(16)	(16)
At 31 March 1998	90	90
Amortisation:		
At 1 April 1997	-	-
Charge for the year	18	18
At 31 March 1998	18	18
Net book value :		
At 31 March 1998	72	72
At 31 March 1997	106	106

7 Tangible fixed assets

	Plant and machinery £'000	Equipment £'000	Total £'000
Cost:			
At 1 April 1997	3	589	592
Reclassification	(3)	3	-
Additions	100	273	373
Disposals	(100)	(269)	(369)
At 31 March 1998	-	596	596
Depreciation:			
At 1 April 1997	-	-	-
Charge for the year	-	115	115
At 31 March 1998	-	115	115
Net book value :			
At 31 March 1998	-	481	481
At 31 March 1997	3	589	592

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Notes to the Accounts

8 Investments	1998 £	1997 £
Cost: At 31 March 1997 and 31 March 1998	2	2

Subsidiary undertaking	Country of registration	Holding
Golfing Scotland Limited	Scotland	100%

9 Stocks	1998 £'000	1997 £'000
Work in progress	130	-

10 Debtors	1998 £'000	1997 £'000
Amounts falling due within one year :		
Trade debtors	983	74
Amounts owed by parent undertaking	-	6
Amounts owed by fellow subsidiary undertakings	41	32
Prepayments and accrued income	79	20
Other tax and social security	-	20
	1,103	152

11 Loans and other borrowings	1998 £'000	1997 £'000
Bank overdraft	-	115
Loans payable to parent undertaking	500	-

Scotland On-Line Limited issued loan notes to Scottish Power Investments Limited and D.C. Thomson and Company Limited in respect of loans to Scotland On-Line Limited to the value of £250,000 each on the 5th November 1997. The loan notes rank parri passu.

At any time the noteholder may require the company to repay at par all or any part of the notes then held by them.

Scotland On-Line is entitled to redeem all or part of the notes after two years from the date of issue.

Interest accrues on the loan notes at 2% above The Royal Bank of Scotland plc base rate.

	1998 £'000	1997 £'000
Repayments fall due as follows :		
Within one year, or on demand	-	115
After more than one year	500	-

Repayments due after more than one year are split as follows:-

Between one and two years	500	-
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12 Other creditors	1998 £'000	1997 £'000
Amounts falling due within one year:		
Trade creditors	101	85
Amounts owed to parent undertaking	4	-
Amounts owed to fellow subsidiary undertakings	582	93
Other taxes and social security	79	-
Capital creditors and accruals	47	-
Other creditors	626	-
Accrued expenses	70	19
	1,509	197

13 Deferred income	Balance at 1 April 1997 £'000	Released in year £'000	Balance at 31 March 1998 £'000
Deferred income	16	(16)	-

Deferred income related to internet subscriptions paid in advance of provision of service.
In the current year these amounts have been reclassified within other creditors due within one year.

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Notes to the Accounts

14 Share capital

	1998 £'000	1997 £'000
Authorised :		
2,000,000 ordinary shares of £1 each	2,000	2,000
Allotted, called up and fully paid :		
1,500,000 ordinary shares of £1 each	1,500	1,500

15 Reconciliation of movements in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total 1998 £'000
Balance at 1 April 1997	1,500	(655)	845
Retained loss for the year	-	(769)	(769)
Balance at 31 March 1998	1,500	(1,424)	76
	Share capital £'000	Profit and loss account £'000	Total 1997 £'000
Balance at 1 April 1996	1,500	-	1,500
Retained loss for the year	-	(655)	(655)
Balance at 31 March 1997	1,500	(655)	845

16 Pensions

The company participates in a group pension scheme operated by Scottish Power plc. The pension scheme is of the defined benefit type and its assets are held in a separate trustee administered fund. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. The latest actuarial assessment of the scheme was £1,025.7million at 1994.

As at 31 December 1997 a full valuation was carried out during the year, however final approval of this valuation, by the Trustees of the scheme, has not yet been given.

Particulars of the valuation are contained in the accounts of Scottish Power plc.
The total pension cost of the company was £7,000 (1997: £5,000).

17 Directors' emoluments

No directors were paid emoluments for their services as directors of Scotland On-Line Limited during the year.

18 Related party disclosures

In accordance with Financial Reporting Standard No. 8, the following information relates to material related party transactions.

The company had the following transactions and balances with other ScottishPower group companies and D.C.Thomson.

	Value of transactions during the year		Balance outstanding at year end	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Sales to other ScottishPower group companies	171	61	41	38
Purchases from other ScottishPower group companies	306	105	297	93

Clare Enders, the wife of Christopher Thomson, who trades as Clare Enders Limited performed consultancy work for Scotland On-Line Limited during the year which amounted to £20,000 (1997 :£nil).

No amounts were owed by the company to Clare Enders at the year end (1997:£nil).

19 Ultimate parent company

The directors regard Scottish Power plc as the ultimate parent company. Both the immediate and the ultimate parent company are registered in Scotland.

Copies of the ultimate parent company's consolidated accounts may be obtained from The Secretary, Scottish Power plc, 1 Atlantic Quay, Glasgow G2 8SP

SCOTLAND ON-LINE LIMITED

Report of the Auditors

to the members of Scotland On-Line Limited

We have audited the financial statements on pages 4 to 12.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the affairs of the company at 31 March 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Glasgow

22 July 1998