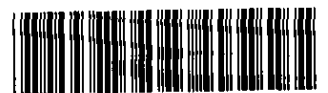


Scotland On-Line Limited

Directors' Report and Accounts for the year ended 31 March 1999

Registered No. SC161678

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SCOTLAND ON-LINE LIMITED

Directors' Report and Accounts For the year ended 31 March 1999

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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 1999.

Results and dividend

The loss for the year amounted to £439,000 (1998 loss: £769,000). The directors recommend that no dividend be paid for the year ended 31 March 1999 (1998: £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.

The company has net liabilities of £363,000 at 31 March 1999. The directors consider that sufficient funding will be made available to the company by its parent company to continue operations and to meet liabilities as they fall due for the foreseeable future.

Directors and their interests

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

| | | | |
|------------------|---------------------------|---------------------|----------------------------|
| William Allan | (appointed 31 March 1999) | Roderick Matthews | (resigned 1 March 1999) |
| William Anderson | | Gerry McAloon | (appointed 27 August 1998) |
| David Bull | (resigned 31 March 1999) | Christopher Thomson | |
| David Furniss | (appointed 31 March 1999) | Lewis Thomson | |
| Neil Haddow | (resigned 27 August 1998) | | |

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 (other than those who are also directors of Scottish Power plc) 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 | | | | | |
|--------------------------------------|-----------------|--------|------------------|--------|------------------|--------|----------------------------|--------|
| | 31.3.99 | 1.4.98 | Executive Scheme | | Sharesave Scheme | | * Long Term Incentive Plan | |
| | 31.3.99 | 1.4.98 | 31.3.99 | 1.4.98 | 31.3.99 | 1.4.98 | 31.3.99 | 1.4.98 |
| William Allan (appointed 31.3.99) | - | - | - | - | - | - | - | - |
| William Anderson | - | - | - | - | - | - | - | - |
| David Bull | 1,169 | - | - | 19,572 | - | - | 16,845 | 12,587 |
| David Furniss (appointed 31.3.99) | - | - | - | - | - | - | - | - |
| Gerry McAloon (appointed 27.8.98) | - | - | 6,994 | 6,994 | 6,581 | 6,581 | 10,817 | 10,817 |
| Christopher Thomson | - | - | - | - | - | - | - | - |
| Lewis Thomson | - | - | - | - | - | - | - | - |

Executive Scheme

| | 01.04.98 | Granted | Exercised | 31.03.99 |
|------------|----------|---------|-----------|----------|
| David Bull | 19,572 | - | 19,572 | - |

SCOTLAND ON-LINE LIMITED

Long Term Incentive Plan

| | 01.04.98 | Granted | Exercised | 31.03.99 |
|------------|----------|---------|-----------|----------|
| David Bull | 12,587 | 4,258 | - | 16,845 |

* 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.

Directors' responsibilities

The directors are required by UK company law to prepare Accounts 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 Accounts for the year ended 31 March 1999. The directors also confirm that applicable accounting standards have been followed and that the Accounts 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 within the 1998-99 Annual Report and Accounts of Scottish Power plc.

Auditors

The auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998. Following this, Coopers & Lybrand resigned and, on 2 October 1998, the directors appointed the new firm PricewaterhouseCoopers as auditors. Special notice has been received by the company of the intention to propose a resolution to re-appoint PricewaterhouseCoopers as auditors to the company at the Annual General Meeting. PricewaterhouseCoopers have expressed their willingness to continue in office.

By order of the Board



D Macleod

Secretary
5 May 1999

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 Accounts 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 Accounts as it and its subsidiary undertaking are included by full consolidation in the consolidated Accounts 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. The main depreciation periods used by the company are as set out below:

| | Years |
|-------------------|-------|
| Plant & Machinery | 10 |
| Equipment | 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 group pension arrangements, consisting of defined benefits and defined contributions, operated by Scottish Power plc. Contributions and pension costs for the defined benefit arrangements 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. Payments to the defined contribution schemes are charged against profit as incurred.

In a minority of cases the company pays varying levels of contributions to personal pension schemes. The costs are charged against profit as incurred.

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 1999

| | Notes | 1999 £'000 | 1998 £'000 |
|---|-------|---------------|---------------|
| Turnover from continuing operations | 1 | 2,692 | 1,021 |
| Cost of sales | | (1,591) | (577) |
| Gross profit from continuing operations | | 1,101 | 444 |
| Administrative expenses | | (1,467) | (1,217) |
| Operating loss | 2 | (366) | (773) |
| Net interest (charge) / receivable | 4 | (73) | 4 |
| Loss on ordinary activities before taxation | | (439) | (769) |
| Taxation | | - | - |
| Loss for the financial year | 15 | (439) | (769) |

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 1998 and 1999 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 1999

| | Notes | 1999 £'000 | 1998 £'000 |
|---|-------|---------------|---------------|
| Cash outflow from continuing operating activities | 5b | (324) | (456) |
| Returns on investments and servicing of finance | | | |
| Interest received | | 12 | 4 |
| Free cash flow | | (312) | (452) |
| Capital expenditure and financial investment (outflow) / inflow | 5a | (242) | 43 |
| Cash outflow before financing | | (554) | (409) |
| Financing | | | |
| Loan notes issued | | 500 | 500 |
| (Decrease)/increase in cash in year | 6 | (54) | 91 |

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

Reconciliation of net cash flow to movement in net debt

for the year ended 31 March 1999

| | 1999 £'000 | 1998 £'000 |
|--------------------------------------|---------------|---------------|
| (Decrease)/increase in cash in year | (54) | 91 |
| Cash inflow from increase in debt | (500) | (500) |
| Movement in net debt in year | (554) | (409) |
| Net debt at the end of previous year | (201) | 208 |
| Net debt at end of year | 6 | (201) |

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

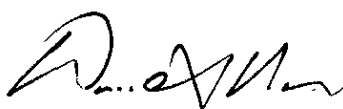
Balance Sheet

as at 31 March 1999

| | Notes | 1999 £'000 | 1998 £'000 |
|---|-------|----------------|----------------|
| Fixed assets | | | |
| Intangible assets | 7 | 48 | 72 |
| Tangible assets | 8 | 684 | 481 |
| | | 732 | 553 |
| Current assets | | | |
| Stocks | 10 | 256 | 130 |
| Debtors | 11 | 1,786 | 1,103 |
| Cash at bank and in hand | | 245 | 299 |
| | | 2,287 | 1,532 |
| Creditors: amounts falling due within one year | | | |
| Loans and other borrowings | 12 | (1,000) | (500) |
| Other creditors | 13 | (2,382) | (1,509) |
| | | (3,382) | (2,009) |
| Net current liabilities | | (1,095) | (477) |
| Net (liabilities) / assets | | (363) | 76 |
| Called up share capital | 14,15 | 1,500 | 1,500 |
| Profit and loss account | 15 | (1,863) | (1,424) |
| Equity shareholders' (deficit) / funds | 15 | (363) | 76 |

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 5 May 1999 and signed on its behalf by



William Allan
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: | 1999 £'000 | 1998 £'000 |
| Depreciation-tangible owned assets | 140 | 115 |
| Amortisation of intangible assets | 24 | 18 |
| Auditors' remuneration for audit | 8 | 8 |

3 Employee information

(a) Employee costs

| | | |
|-----------------------|---------------|---------------|
| | 1999 £'000 | 1998 £'000 |
| Wages and salaries | 668 | 415 |
| Social security costs | 66 | 41 |
| Pension costs | 9 | 7 |
| Total | 743 | 463 |

(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 | |
|------------------------|-------------|------|----------------|------|
| | 1999 | 1998 | 1999 | 1998 |
| By activity | | | | |
| Production | 9 | 9 | 9 | 7 |
| Administration | 14 | 14 | 14 | 10 |
| Selling & distribution | 7 | 3 | 7 | 2 |
| | 30 | 26 | 30 | 19 |

4 Net interest (charge) / receivable

| | | |
|------------------------------------|---------------|---------------|
| | 1999 £'000 | 1998 £'000 |
| Interest on other loans | (85) | - |
| Total interest payable | (85) | - |
| Interest receivable | 12 | 4 |
| Net interest (charge) / receivable | (73) | 4 |

5 Analysis of cash flows

(a) Capital expenditure and financial investment

| | | |
|--|---------------|---------------|
| | 1999 £'000 | 1998 £'000 |
| Purchase of tangible fixed assets | (242) | (326) |
| Sale of tangible fixed assets | - | 369 |
| Net cash (outflow) / inflow for capital expenditure and financial investment | (242) | 43 |

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

| | | |
|---|---------------|---------------|
| | 1999 £'000 | 1998 £'000 |
| Operating loss | (366) | (773) |
| Depreciation | 140 | 115 |
| Deferred income (released) / received | - | (16) |
| Amortisation of intangible assets | 24 | 18 |
| Increase in debtors | (683) | (935) |
| Increase in stocks | (126) | (130) |
| Increase in creditors | 687 | 1,265 |
| Net cash outflow from continuing operating activities | (324) | (456) |

6 Analysis of net debt

| | At 1 April 1998 £'000 | Cash flow £'000 | At 31 March 1999 £'000 |
|--------------------------|-----------------------------|--------------------|------------------------------|
| Cash at bank and in hand | 299 | (54) | 245 |
| Debt due within one year | (500) | (500) | (1,000) |
| Total | (201) | (554) | (755) |

SCOTLAND ON-LINE LIMITED

Notes to the accounts

7 Intangible fixed assets

| | Goodwill £'000 | Total £'000 |
|-------------------------|-------------------|----------------|
| Cost : | | |
| At 1 April 1998 | 90 | 90 |
| At 31 March 1999 | 90 | 90 |
| Amortisation: | | |
| At 1 April 1998 | 18 | 18 |
| Charge for the year | 24 | 24 |
| At 31 March 1999 | 42 | 42 |
| Net book value : | | |
| At 31 March 1999 | 48 | 48 |
| At 31 March 1998 | 72 | 72 |

8 Tangible fixed assets

| | Plant and machinery £'000 | Equipment £'000 | Total £'000 |
|-------------------------|---------------------------------|--------------------|----------------|
| Cost: | | | |
| At 1 April 1998 | - | 596 | 596 |
| Reclassification | 100 | (100) | - |
| Additions | 1 | 342 | 343 |
| At 31 March 1999 | 101 | 838 | 939 |
| Depreciation: | | | |
| At 1 April 1998 | - | 115 | 115 |
| Charge for the year | 10 | 130 | 140 |
| At 31 March 1999 | 10 | 245 | 255 |
| Net book value : | | | |
| At 31 March 1999 | 91 | 593 | 684 |
| At 31 March 1998 | - | 481 | 481 |

SCOTLAND ON-LINE LIMITED

Notes to the Accounts

| 9 Investments | 1999 £ | 1998 £ |
|---------------|-----------|-----------|
|---------------|-----------|-----------|

| | | |
|------------------------------------|---|---|
| Cost: | | |
| At 31 March 1998 and 31 March 1999 | 2 | 2 |

| Principal subsidiary undertaking | Country of registration | Holding |
|----------------------------------|-------------------------|---------|
| Golfing Scotland Limited | Scotland | 100% |

10 Stocks

| | 1999 £'000 | 1998 £'000 |
|------------------|---------------|---------------|
| Work in progress | 256 | 130 |

11 Debtors

| | 1999 £'000 | 1998 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year : | | |
| Trade debtors | 863 | 983 |
| Amounts owed by fellow subsidiary undertakings | 744 | 41 |
| Prepayments and accrued income | 179 | 79 |
| | 1,786 | 1,103 |

12 Loans and other borrowings

| | 1999 £'000 | 1998 £'000 |
|--------------------------------------|---------------|---------------|
| Loans payable to parent undertakings | 1,000 | 500 |

Scotland On-Line Limited issued loan notes to ScottishPower 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 5 November 1997. The loan notes rank parri passu.

On 28 July 1998 a further £500,000 of loan notes were issued to ScottishPower Investments Limited and D.C.Thomson and Company Limited to the value of £250,000 each. The loan notes rank pari 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 Limited 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.

| | 1999 £'000 | 1998 £'000 |
|----------------------------------|---------------|---------------|
| Repayments fall due as follows : | | |
| Within one year, or on demand | 1,000 | 500 |

13 Other creditors

| | 1999 £'000 | 1998 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year: | | |
| Trade creditors | 135 | 101 |
| Amounts owed to parent undertaking | 45 | 4 |
| Amounts owed to fellow subsidiary undertakings | 1,165 | 582 |
| Other taxes and social security | 49 | 79 |
| Capital creditors and accruals | 148 | 47 |
| Other creditors | 538 | 626 |
| Accrued expenses | 302 | 70 |
| | 2,382 | 1,509 |

SCOTLAND ON-LINE LIMITED

Notes to the Accounts

14 Share capital

| | 1999 £'000 | 1998 £'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 1999 £'000 |
|---------------------------------|------------------------|-------------------------------------|------------------------|
| Balance at 1 April 1998 | 1,500 | (1,424) | 76 |
| Retained loss for the year | - | (439) | (439) |
| Balance at 31 March 1999 | 1,500 | (1,863) | (363) |
| | 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 |

16 Pensions

The company participates in group pension arrangements operated by Scottish Power plc. The main 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 market value of the Scottish Power plc pension scheme assets as at 31 December 1997, the date of the latest actuarial valuation of the scheme, was £1,292.0 million.

On 31 December 1998 the ScottishPower group closed its existing defined benefit pension schemes to new employees. The group introduced two new pension plans effective from 1 January 1999. The new plans are a defined benefit plan and a defined contribution plan. The defined benefit plan has an employer's contribution of 10% of pensionable salary and the employer's contribution to the defined contribution plan vary dependent on age, between 3%-5%.

The total pension cost of the company was £9,000 (1998: £7,000).

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 | |
|--|--|---------------|------------------------------------|---------------|
| | 1999 £'000 | 1998 £'000 | 1999 £'000 | 1998 £'000 |
| Sales to other ScottishPower group companies | 979 | 171 | 744 | 41 |
| Purchases from other ScottishPower group companies | 946 | 306 | 1,210 | 297 |

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 £15,970 (1998 :£20,000). No amounts were owed by the company to Clare Enders Limited at the year end.(1998:£nil)

William Anderson performed consultancy work for Scotland On-Line Limited during the year which amounted to £9,200 (1998 : £nil). No amounts were owed by the company to William Anderson at the year end (1998 : £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-Limited

We have audited the Accounts on pages 4 to 12.

Respective responsibilities of directors and auditors

As described on page 3, the directors are responsible for preparing the Accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. We also report to you if, in our opinion, the Report of the Directors is not consistent with the Accounts, 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 transactions is not disclosed.

We read the information contained in the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Accounts.

Basis of audit 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 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 of the state of the company's affairs at 31 March 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Glasgow

5 May 1999