

ScottishPower Generation Limited

Directors' Report and Accounts for the year ended 31 March 2006

Registered No SC189124



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ScottishPower Generation Limited

Directors' Report and Accounts for the year ended 31 March 2006

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ScottishPower Generation Limited

Report of the Directors

The directors present their report and audited Accounts for year ended 31 March 2006

Activities and review

The principal activities of ScottishPower Generation Limited, "the company", are the generation of electricity from the company's own power stations and the purchase of external supplies of energy for sale to other businesses. The company will continue with this activity for the foreseeable future.

The company has net current liabilities of £556.9 million at 31 March 2006 (2005 £452.2 million), which includes a loan owed to a parent undertaking of £777.5 million (2005 £719.3 million). The directors consider that sufficient funding will be made available to the company by its ultimate parent company to continue operations and to meet liabilities as they fall due.

Key factors affecting the business

The company is an integral component of ScottishPower's Energy Wholesale business. The company owns and operates the majority of ScottishPower's generation assets in the British Isles and holds the group's generation licence. The company operates more than 4,800 MW of generating capacity comprising coal, gas and hydroelectric generation assets, giving the business a particularly flexible portfolio.

In February 2006, the company announced that it had opted to be regulated under the Large Combustion Plant Directive ("LCPD") in respect of its coal fired power station at Longannet, Fife. This will result in a major investment in Flue Gas Desulphurisation ("FGD") equipment thus freeing the facility from certain operating restrictions that would otherwise apply, maintaining the balance of the company's generation portfolio and potentially extending Longannet's life beyond 2020, in addition to the environmental benefits that this investment will bring.

The key driver impacting the company's financial performance is wholesale energy prices. Other factors affecting financial performance include generation resource availability, increases and reductions in customer demand for electricity, economic growth and downturns and abnormal weather.

Operational financial performance

Turnover and cost of sales decreased due to the transfer of a large contract to another company in the ScottishPower group. This decrease was partly offset in turnover by the impact of higher power prices, and in cost of sales by higher fuel costs.

Gross profit increased by £31.0 million (£19.0 million excluding the impact of the exceptional item in 2005) to £52.2 million mainly due to the strong performance of plant in the new BETTA environment and the continuing recovery of wholesale electricity prices from the historical lows of 2002/03.

The operating profit for the financial year was £3.3 million (2005 loss of £36.5 million), an increase of £39.8 million. This reflects the strong performance at gross profit level as well as a reduction in administrative expenses of £3.2 million, including restructuring costs of £1.6 million. This also reflects an increase in other operating income of £5.6 million as a result of higher ancillary services income achieved in the new BETTA environment.

Results and dividend

The loss for the year amounted to £6.7 million (2005 £31.7 million). The aggregate dividends paid during the year amounted to £nil (2005 £nil).

Post balance sheet event

The company announced the sale of Knapton power station on 7 August 2006 to RGS Energy Limited, a subsidiary of US Energy Systems, for £15.5 million in cash.

ScottishPower Generation Limited

Report of the Directors – continued

Financing review

Capital and Debt Structure

The company is funded by a combination of debt and equity. All equity is held by Scottish Power UK plc ("SPUK"), the immediate parent undertaking, which has also granted the majority loan facilities to the company.

Treasury and Interest Policy

Treasury services are provided by SPUK. The risk policy within treasury and financing is designed to ensure that the company's exposure to variability of cash flows and asset values, due to fluctuations in market interest rates and inflation, are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for ScottishPower group and how the group manages them are included in the Annual Report & Accounts of Scottish Power plc, the ultimate parent company of ScottishPower Generation Limited, for the year ended 31 March 2006.

Funding

The loan from SPUK represents drawings under working capital facilities (Refer to Note 12). The principal outstanding, accrued interest and associated costs are repayable in full on written demand, or on the occurrence of any of the default events specified in the loan agreement. Interest is calculated at a rate of 1% above base rate and is payable quarterly in arrears.

The loans from other group undertakings represent drawings under working capital facilities (Refer to Note 12) with the same terms and conditions as the loan from SPUK above.

At the end of the year the company had net debt amounting to £497.6 million (2005: £570.0 million).

Liquidity

The directors confirm that the company remains a going concern on the basis of its future cash flow forecasts and has sufficient working capital for present requirements. The directors consider that sufficient funding will be made available to the company by its ultimate parent company to continue operations and to meet liabilities as they fall due.

Management of risks

The business identifies and assesses the key business risks associated with the achievement of its strategic objectives. Any key actions needed to enhance the control environments are identified, along with the person responsible for the management of the specific risk.

Further details of the risks facing the ScottishPower group and how it manages them is included in the Annual Report & Accounts of Scottish Power plc for the year ended 31 March 2006.

Employees

The company has well defined policies in place throughout its businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary action, grievance, harassment, discrimination, stress and 'whistle blowing'.

A more extensive description of how ScottishPower as a group discharges its wider responsibilities to protect the welfare, health and safety of the public and their employees, can be found in the Annual Report & Accounts of Scottish Power plc for the year ended 31 March 2006. A brief overview of the more extensively regulated aspects of employment follows.

ScottishPower Generation Limited

Report of the Directors – continued

Employees continued

Equal Opportunities

ScottishPower is committed to promoting equal opportunities for all, irrespective of age, colour, disability, ethnic or national origin, marital status, nationality, race, religion or similar belief, creed, sex, sexual orientation or any other considerations that do not affect a person's ability to perform their job. The company aims to promote equality of opportunity through the implementation of non discriminatory policies, practices and initiatives in all aspects of employment in ScottishPower, including recruitment and selection, terms and conditions of employment, career development and retention.

The company aims to take particular action in respect of disability in order to encourage job applications from disabled candidates and to establish working conditions which encourage the full participation of people with disabilities. The company is committed to making all reasonable adjustments and accommodations necessary to attract, develop and retain people with disabilities. This includes the rehabilitation, training and reassignment of employees who develop a disability.

ScottishPower works proactively with a range of organisations that promote equality of opportunity including in the UK, the Equal Opportunity Commission, Employers' Forum on Age, Employers' Forum on Disability, Job Centre Plus and The Council of British Pakistanis (Scotland).

Employee Communication

The company has a robust industrial relations framework that supports a good track record of informing and consulting with its employees through its recognised trade unions. In addition to this, and in response to the Information and Consultation of Employees Regulations, a review is underway to build upon the existing consultation channels, ensuring they are fit for purpose and maximising engagement with employees.

In addition to the above framework the company uses a variety of methods to ensure that employees are kept informed of all matters of concern, such as e mail, intranet sites, magazines and circulars, as well as more direct methods such as employee conference calls and open invites to employees to join executive lunches where they have a chance to ask questions in an informal setting.

Employee share schemes

The company participates in the employee share schemes operated by the Scottish Power plc group. Full details of these schemes are disclosed in the Annual Report & Accounts of Scottish Power plc for the year ended 31 March 2006.

Environment

Throughout its operations the company strives to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice.

A more extensive description of the ScottishPower group environmental requirements can be found in the Annual Report & Accounts of Scottish Power plc for the year ended 31 March 2006.

Health and Safety

The company has a clear strategy to continue to improve health and safety performance using ScottishPower group health and safety standards.

A more extensive description of how ScottishPower as a group addresses health and safety requirements can be found in the Annual Report & Accounts of Scottish Power plc for the year ended 31 March 2006.

ScottishPower Generation Limited

Report of the Directors – continued

Directors and their interests

The directors who held office during the year were

Charles Berry (resigned 6 September 2005)
 Alan Bryce
 John Campbell (appointed 6 September 2005)
 David Morrison

Alan Bryce resigned his directorship on 16 October 2006

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 a parent company of the company) 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

	At 1 April 2005	Granted/ appropriated/ other net movement	Exercised	Lapsed	Vested	At 31 March 2006
Alan Bryce						
Shares						
Ordinary Shares (*)	15,592	7,700				23,292
ESOP Free & Matching Shares (#)	1,630	290				1 920
Deferred Share Plan (†)	2,214		(2,214)			
LTIP – Potential (**)	47,794	16,702		(4,334)	(4 286)	55,876
LTIP – Vested					4,286	4,286
Options						
Executive Scheme	98,266		(21,551)			76,715
Sharesave Scheme	2,941	2,533	(2,941)			2,533
John Campbell						
Shares						
Ordinary Shares (*)	13,184	154				13,338
ESOP Free & Matching Shares (#)	1,766	154				1 920
LTIP – Potential (**)	59 608					59,608
LTIP – Vested	8,451					8,451
Options						
Executive Scheme	134 238		(64,226)			70,012
Sharesave Scheme	3,610					3,610

ScottishPower Generation Limited

Report of the Directors – continued

Directors and their interests – continued

	At 1 April 2005	Granted/ appropriated/ other net movement	Exercised	Lapsed	Vested	At 31 March 2006
David Morrison						
Shares						
Ordinary Shares (*)	5,183	1,666				6,849
ESOP Free & Matching Shares (#)	1,630	290				1,920
Options						
Executive Scheme	52,328		(20,172)			32,156
Sharesave Scheme	5 260					5 260

(*) These shares include Partnership Shares purchased pursuant to the Inland Revenue approved ScottishPower Employee Share Ownership Plan (ESOP)

(#) All Free Shares and Matching Shares appropriated pursuant to the ScottishPower ESOP are held in Trust and are subject to forfeiture provisions during the three year period from the date of appropriation

(†) Deferred shares represent a portion of performance bonus and are held in Trust for three years from the award date

(**) 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

Creditor payment policy and practice

The current policy and practice of Scottish Power plc, the company's ultimate parent, concerning the payment of its trade creditors is to follow the Better Payment Practice Code to which it is a signatory. Copies of the code may be obtained from the Department of Trade and Industry or from the website www.payontime.co.uk

The company's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts, and to pay in accordance with its contractual and legal obligations. The company's creditor days at 31 March 2006 were 15 days

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 the year

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 2006. 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

ScottishPower Generation Limited

Report of the Directors – continued

Directors' responsibilities continued

Each of the directors in office as at the date of this Directors' Report and Accounts confirms that

- so far as he is aware, there is no relevant audit information of which the company's auditors are unaware, and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

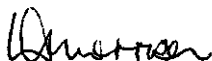
Auditors

Under Section 379A of the Companies Act 1985, the company has elected to dispense with the following obligations

- to lay accounts and reports before general meetings,
- to hold annual general meetings, and
- to appoint auditors annually

During the year, Scottish Power plc, the company's ultimate parent company, carried out a competitive tender in relation to the provision of audit services. Following the outcome of this exercise, the Board of Scottish Power plc, on recommendation of the Audit Committee of Scottish Power plc, sought shareholder approval at the Annual General Meeting of Scottish Power plc to appoint Deloitte & Touche LLP in place of the retiring auditors, PricewaterhouseCoopers LLP. This approval was obtained and the directors of ScottishPower Generation Limited will propose the appointment of Deloitte & Touche LLP as auditors of the company for the year ending 31 March 2007.

On Behalf of the Board



David Morrison
Director
17 October 2006

ScottishPower Generation Limited

Accounting Policies and Definitions

Definitions

Revenue cost definitions

Cost of sales

Cost of sales represents the direct costs of the generation and purchase of electricity

Administrative expenses

The indirect costs of the business, rates and the costs of centralised services provided by Scottish Power UK plc

Other definitions

Company

ScottishPower Generation Limited

ScottishPower

Scottish Power plc

Ultimate parent company

Scottish Power plc

Associated undertakings

Entities in which the company holds a long term participating interest and exercises significant influence

Joint ventures

Entities in which the company holds a long term interest and shares control with another company

Subsidiary undertakings

Entities in which the company holds a long term controlling interest

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 comply with the requirements of the Companies Act 1985

Basis of preparation

The accounts contain information about ScottishPower Generation 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 requirements to prepare consolidated Accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated Accounts of its ultimate parent, Scottish Power plc, a company registered in Scotland

Cash flow statement

The company is exempt from including a statement of cash flows in its Accounts as it is a wholly owned subsidiary of Scottish Power plc, which has included a consolidated statement of cash flows in its consolidated Accounts

ScottishPower Generation Limited

Accounting Policies and Definitions – continued

Use of estimates

The preparation of Accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Accounts and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

Turnover

Turnover comprises the sales value of energy and other services supplied to ScottishPower group companies and external customers during the year and excludes Value Added Tax. Turnover from the sale of energy is the value of units supplied during the year. Units are based on energy volumes recorded on power station meters and industry wide trading and settlement systems.

Interest

Interest payable and receivable is recognised in the profit and loss account as it is incurred.

Taxation

Where required, and in accordance with Financial Reporting Standard 19 ("FRS") 'Deferred tax', full provision for deferred tax is made on a non discounted basis.

Goodwill

Purchased goodwill represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired. Goodwill has been capitalised and amortised through the profit and loss account over its estimated useful economic life of 20 years.

Other intangible fixed assets

Emissions allowances

The company participates in the EU Emissions Trading Scheme. Purchased emissions allowances are initially recognised at cost (purchase price) within intangible assets. Allocated allowances awarded to the group by the government or a similar body are recorded at a nominal value (nil value). The company recognises liabilities in respect of its obligations to deliver emission allowances to the extent that the allowances to be delivered exceed allocated allowances. Any liabilities recognised are measured based on the cost of allowances purchased up to the level of purchased allowances held and thereafter at the market price of allowances at the balance sheet date. The allowances held within intangible assets may be surrendered at the end of each compliance period reflecting the consumption of economic benefit. As a result no amortisation is recorded during the period.

Tangible fixed assets

Tangible fixed assets are stated at cost and are generally depreciated on the straight line method over their estimated operational lives. Tangible fixed assets include capitalised employee and other costs which are directly attributable to the construction of fixed assets. Land is not depreciated. The main depreciation periods used by the company are as set out below.

	Years
Buildings	40
Plant and machinery	22-45
Vehicles and miscellaneous equipment	3-15

ScottishPower Generation Limited

Accounting Policies and Definitions – continued

Tangible fixed assets – continued

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Impairment losses are recognised in the year in which they are identified.

Overhaul costs relating to planned major overhauls are capitalised as part of generating assets and depreciated on a straight line basis over their estimated useful life, typically the four year period until the next major overhaul.

During the year the company increased the expected useful lives of two generation assets by three years and five years respectively. The effect of these changes is a decrease of £4.8 million in the annual depreciation charge. The depreciation charge for the year ended 31 March 2006 reduced by £1.5 million as a result of the timing of the change in the asset lives.

Decommissioning costs

Provision is made on a discounted basis for the estimated decommissioning costs at the end of the producing lives of the company's power stations. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. The unwinding of the discount is included within net interest and similar charges.

Investments

Investments in subsidiary and associated undertakings and joint ventures are stated in the balance sheet at cost, or nominal value of shares issued as consideration where applicable, less provision for any impairment in value.

Stocks

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

Grants and contributions

Capital grants and customer contributions in respect of additions to tangible fixed assets are treated as deferred income and released to the profit and loss account over the estimated operational lives of the related assets.

Pensions

The company participates in both defined benefit and defined contribution schemes, operated by the ScottishPower group. The contributions for the defined benefit schemes are based on pension costs across all the participating companies.

ScottishPower Generation Limited

Profit and Loss Account for the year ended 31 March 2006

	Notes	2006 £m	Restated (Note 1) 2005 £m
Turnover		665.6	771.8
Cost of sales before exceptional item	1	(613.4)	(738.6)
Exceptional item - impairment of fixed asset	2		(12.0)
Cost of sales		(613.4)	(750.6)
Gross profit		52.2	21.2
Administrative expenses	1	(58.3)	(61.5)
Other operating income		9.4	3.8
Operating profit/(loss)	3	3.3	(36.5)
Net interest and similar charges	5	(21.4)	(24.6)
Loss on ordinary activities before taxation		(18.1)	(61.1)
Taxation	6	11.4	29.4
Loss for the year	18	(6.7)	(31.7)

The above results relate to continuing operations

A statement of total recognised gains and losses and a note of historical cost profits and losses are not shown as all gains and losses for the year are recognised in the profit and loss account under the historical cost convention

The Accounting Policies and Definitions on pages 7 to 9, together with the Notes on pages 13 to 21, form part of these Accounts

ScottishPower Generation Limited

Reconciliation of Movements in Shareholders' Funds for the year ended 31 March 2006

	2006 £m	2005 £m
Loss for the year	(6.7)	(31.7)
Net movement in shareholders' funds	(6.7)	(31.7)
Opening shareholders' funds	64.6	96.3
Closing shareholders' funds	57.9	64.6

The Accounting Policies and Definitions on pages 7 to 9, together with the Notes on pages 13 to 21, form part of these Accounts

ScottishPower Generation Limited

Balance Sheet as at 31 March 2006

		2006	Restated (Note 12) 2005
	Notes	£m	£m
Fixed assets			
Intangible assets	7	86 1	77 2
Tangible assets	8	624 1	618 6
Investments	9	11 5	12 0
		721.7	707 8
Current assets			
Stocks	10	12 0	8 9
Debtors	11	508 0	437 0
Short term bank and other deposits			0 2
		520 0	446 1
Creditors' amounts falling due within one year			
Loans and other borrowings	12	(829 5)	(722 3)
Other creditors	13	(247 4)	(176 0)
		(1,076 9)	(898 3)
Net current liabilities		(556 9)	(452 2)
Total assets less current liabilities		164 8	255 6
Provisions for liabilities and charges			
Deferred tax	14	(83.1)	(123 4)
Other provisions	15	(20 4)	(63 6)
		(103.5)	(187 0)
Deferred income	16	(3 4)	(4 0)
Net assets		57 9	64 6
Equity shareholders' funds			
Called up share capital	17,18	130 7	130 7
Profit and loss account	18	(72 8)	(66 1)
Equity shareholders' funds	18	57 9	64 6

The Accounting Policies and Definitions on pages 7 to 9, together with the Notes on pages 13 to 21, form part of these Accounts

Approved by the Board on 17 October 2006 and signed on its behalf by



David Morrison
Director

ScottishPower Generation Limited

Notes to the Accounts for the year ended 31 March 2006

1 Change of accounting policy

Depreciation charges are classified as cost of sales and administrative expenses. The classification between cost of sales and administrative expenses was reviewed during the year ended 31 March 2006 and the classification has been changed because the directors consider the new classification gives a fairer presentation of the company's results.

As a result, comparative figures for the year ended 31 March 2005 have been restated: cost of sales has increased by £8.1 million and administrative expenses have decreased by £8.1 million. There is no change to profit or net assets as a result of this restatement.

2 Exceptional item

In the year ended 31 March 2005 there was a gross exceptional charge of £12.0 million and related tax credit of £3.6 million relating to the impairment of Knapton power station.

3 Operating profit/(loss)

	Note	2006 £m	2005 £m
Operating profit/(loss) is stated after charging/(crediting)			
Depreciation of tangible fixed assets		51.0	48.9
Exceptional item: Impairment of Knapton power station	2		12.0
Amortisation of goodwill		4.8	4.9
Profit on sale of fixed assets			(0.6)
Release of deferred income		(0.6)	(0.7)
Auditors' remuneration for audit of the company		0.2	0.2

Auditors' remuneration represents an apportionment of the overall group audit fee in respect of Scottish Power plc. Auditors' remuneration for non-audit services was £63,000 (2005: £657,000).

4 Employee information

	Note	2006 £m	2005 £m
(a) Employee costs			
Wages and salaries		29.9	25.1
Social security costs		2.6	2.4
Other pension costs	20	5.6	3.4
Total employee costs		38.1	30.9
Less: charged as capital expenditure		(2.6)	(1.3)
Charged to the profit and loss account		35.5	29.6

As a result of the restructuring programme announced on 6 September 2005, the employment contracts of 86 members of staff were changed to ScottishPower Energy Management Limited with effect from 1 January 2006. However, there was no change to the roles of these employees and their costs continue to be borne by ScottishPower Generation Limited, the company for which they work. Accordingly, these employees are included in tables 4(a) and 4(b).

(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	
	2006	2005	2006	2005
Operations	519	504	513	498
Management and administration	199	195	211	187
Total	718	699	724	685

ScottishPower Generation Limited

Notes to the Accounts for the year ended 31 March 2006 - continued

4 Employee information continued

(b) Employee numbers continued

The year end and average number of full time equivalent staff employed by the company, including executive directors, were

	At 31 March		Annual Average	
	2006	2005	2006	2005
Total	704	693	713	671

(c) Directors' emoluments

Details of the directors' emoluments are set out in Note 23

5 Net interest and similar charges

	Note	2006 £m	2005 £m
Analysis of net interest and similar charges			
Interest payable on group loans		44.8	29.1
Interest on other borrowings		1.6	
Total interest payable		46.4	29.1
Interest receivable from group companies		(26.4)	(10.4)
Interest receivable - other		(0.2)	(1.1)
Net interest charge		19.8	17.6
Unwinding of discount on provisions	15	1.6	7.0
Net interest and similar charges		21.4	24.6

6 Tax on loss on ordinary activities

	Note	2006 £m	2005 £m
Current tax			
UK Corporation tax credit		(2.5)	(23.6)
Adjustments in respect of prior years		31.4	
Total current tax		28.9	(23.6)
Deferred tax			
Origination and reversal of timing differences		(1.4)	7.2
Adjustment in respect of prior years		(38.9)	(13.0)
Total deferred tax for year	14	(40.3)	(5.8)
Total tax on loss on ordinary activities		(11.4)	(29.4)

ScottishPower Generation Limited

Notes to the Accounts for the year ended 31 March 2006 - continued

6 Tax on loss on ordinary activities continued

The current tax credit on loss on ordinary activities for the year varied from the standard rate of corporation tax in the UK as follows

	Note	2006 £m	2005 £m
UK corporation tax at 30%		(5.4)	(18.3)
Goodwill amortisation		1.4	1.5
Adjustment in respect of prior years		(7.5)	(13.0)
Permanent differences		0.1	0.4
Tax credit (current and deferred)		(11.4)	(29.4)
Effect of deferred tax	14	40.3	5.8
Current tax charge/(credit) for the year		28.9	(23.6)

7 Intangible fixed assets

	Goodwill £m	Emissions allowances £m	Total £m
Cost.			
At 1 April 2005	97.1		97.1
Additions		13.7	13.7
At 31 March 2006	97.1	13.7	110.8
Amortisation			
At 1 April 2005	19.9		19.9
Amortisation for the year	4.8		4.8
At 31 March 2006	24.7		24.7
Net book value.			
At 31 March 2006	72.4	13.7	86.1
At 1 April 2005	77.2		77.2

Goodwill capitalised, relates to Rye House power station, and is being amortised over its useful economic life of 20 years

ScottishPower Generation Limited

Notes to the Accounts for the year ended 31 March 2006 - continued

8 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:				
At 1 April 2005	164.8	1,047.1	15.2	1,227.1
Additions	3.5	62.5		66.0
Disposals	(1.1)	(18.3)	(1.6)	(21.0)
At 31 March 2006	167.2	1,091.3	13.6	1,272.1
Depreciation:				
At 1 April 2005	87.6	510.2	10.7	608.5
Charge for the year	3.1	46.9	1.0	51.0
Disposals		(9.9)	(1.6)	(11.5)
At 31 March 2006	90.7	547.2	10.1	648.0
Net book value				
At 31 March 2006	76.5	544.1	3.5	624.1
At 1 April 2005	77.2	536.9	4.5	618.6

	2006 £m	2005 £m
Included in the cost of tangible fixed assets above are:		
Assets in the course of construction	41.2	23.6
Other assets not subject to depreciation (i)	36.0	36.0

(i) Other assets not subject to depreciation are land. Land and buildings held by the group are predominantly freehold.

9 Fixed asset investments

	Subsidiary undertakings Shares £m	Joint ventures Loans £m	Shares £m	Total £m
(a) Cost or valuation				
At 1 April 2005	9.1	2.9		12.0
Loan repayment		(0.5)		(0.5)
At 31 March 2006	9.1	2.4		11.5

ScottishPower Generation Limited

Notes to the Accounts for the year ended 31 March 2006 - continued

9 Fixed asset investments continued

(b) Shares in subsidiary undertakings

The principal holdings of the company are as set out below

Subsidiary undertakings	Place of incorporation or registration	Class of share capital	Proportion of shares held %	Activity
CRE Energy Limited	Northern Ireland	Ordinary shares £1	100%	Wind powered electricity generation
Beaufort Energy Limited	Scotland	Ordinary shares £1	100%	Holding company
Emerald Power Generation Limited	England	Ordinary shares £1	100%	Agency services
Manweb Generation Holdings Limited	England	Ordinary shares £1	100%	Holding company
SMW Limited	Scotland	Ordinary shares £1	100%	Water and wastewater treatment and related activities
ScottishPower (SOCL) Limited	England	'A' and 'B' Ordinary shares £1	100%	Management services
ScottishPower (SCPL) Limited	England	'A' and 'B' Ordinary shares £1	100%	Electricity generation
Joint ventures				
CeltPower Limited	England	'B' Ordinary shares £1	100%	Wind powered electricity generation
ScotAsh Limited	England	'B' Ordinary shares £1	100%	Sale of ash and ash related cementitious products
Associated undertaking				
Wind Resources Limited	England	'B' Ordinary shares £1	100%	Wind powered electricity generation

10 Stocks

	2006 £m	2005 £m
Raw materials and consumables	12.0	8.9

11 Debtors

	2006 £m	Restated 2005 £m
Amounts falling due within one year:		
Trade debtors	6.4	5.6
Group relief receivable		5.4
Prepayments and accrued income	6.4	27.1
Amounts owed by group undertakings	161.7	244.7
Loans owed by group undertakings	331.9	152.1
Other debtors	1.6	2.1
	508.0	437.0

Loans were included in 'Amounts owed by group undertakings', in the year ended 31 March 2005. The Accounts have been restated in order to show £152.1 million as 'Loans owed by group undertakings' above.

ScottishPower Generation Limited

Notes to the Accounts for the year ended 31 March 2006 - continued

12 Loans and other borrowings

	Note	2006 £m	Restated 2005 £m
Amounts falling due within one year			
Bank overdraft		0.1	
Loan owed to parent undertaking	(i)	777.5	719.3
Loans owed to group undertakings	(ii)	51.9	3.0
		829.5	722.3

(i) This loan represents a working capital facility provided by Scottish Power UK plc ("SPUK"). The principal outstanding, accrued interest and associated costs are repayable in full on written demand, or on the occurrence of any of the default events specified in the loan agreement. Interest is calculated at a rate of 1% above the base rate and is repayable quarterly in arrears.

(ii) Loans owed to group undertakings were included in 'Other creditors, amounts owed to group undertakings', in the year ended 31 March 2005. The Accounts have been restated in order to show £3.0 million as 'Loans and other borrowings' rather than 'Other creditors'.

13 Other creditors

		2006 £m	Restated 2005 £m
Amounts falling due within one year			
Amounts owed to group undertakings	(i)	109.9	114.9
Corporation tax		54.8	
Trade creditors		8.3	9.2
Capital creditors and accruals		22.3	23.5
Other creditors			0.4
Accrued expenses		52.1	28.0
		247.4	176.0

(i) Loans were included in amounts owed to group undertakings in the table above in the year ended 31 March 2005. The Accounts have been restated in order to show £3.0 million in Note 12 'Loans and other borrowings'.

14 Provisions for liabilities and charges Deferred tax

	2006 £m	2005 £m
Accelerated capital allowances	89.1	91.1
Other timing differences	(6.0)	32.3
	83.1	123.4
	Note	2006 £m
At 1 April 2005		123.4
Credited in profit and loss account	6	(40.3)
At 31 March 2006		83.1

ScottishPower Generation Limited

Notes to the Accounts for the year ended 31 March 2006 - continued

15 Provisions for liabilities and charges Other provisions

	Notes	At 1 April 2005 £m	New provisions £m	Unwinding of discount (Note 5) £m	Utilised during year £m	At 31 March 2006 £m
Reorganisation and restructuring	(i)	0.1	1.6		(0.3)	1.4
Decommissioning costs	(ii)	14.9		0.5		15.4
Onerous contracts	(iii)	45.9		1.1	(45.6)	1.4
Health and safety	(iv)	2.7			(0.5)	2.2
		63.6	1.6	1.6	(46.4)	20.4

(i) The provision for reorganisation and restructuring was increased during the year by a charge to the profit and loss account of £1.6 million relating to the costs of the corporate restructuring. The provision was expected to cover the costs of a reduction in employee numbers through redundancies. As at 31 March 2006 the company had made redundancy payments under the restructuring of £0.3 million. The balance of the provision at 31 March 2006 is expected to be utilised in 2006/07.

(ii) The provision for decommissioning costs is the discounted future estimated costs of decommissioning the company's power plants. The decommissioning of these plants is expected to occur over the period between 2013 and 2020.

(iii) The provision for onerous contracts comprises an onerous grid connection agreement. The balance of the provision at 31 March 2006 is expected to be utilised in the period to 31 March 2015.

(iv) Health and safety obligations principally relate to asbestos removal, which is expected to be completed in the period up to March 2010.

16 Deferred income

	At 1 April 2005 £m	Receivable during year £m	Released to profit and loss account £m	At 31 March 2006 £m
Grants and customer contributions	4.0		(0.6)	3.4

17 Share capital

	2006 £m	2005 £m
Authorised:		
200,000,000 (2005: 200,000,000) ordinary shares of £1 each	200.0	200.0
Allotted, called up and fully paid:		
130,700,000 (2005: 130,700,000) ordinary shares of £1 each	130.7	130.7

18 Analysis of movements in shareholders' funds

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2005	130.7	(66.1)	64.6
Loss for the year		(6.7)	(6.7)
At 31 March 2006	130.7	(72.8)	57.9

ScottishPower Generation Limited

Notes to the Accounts for the year ended 31 March 2006 - continued

19 Forward foreign exchange contracts

The company enters into forward foreign exchange contracts to hedge the cash flow risk relating to the value of forecast purchases which are denominated in foreign currencies. The risk being hedged relates to changes in the foreign exchange rate of the forecast purchase price. The fair value of these forward contracts at 31 March 2006 is a net asset of £33,960 (2005: £nil).

20 Pensions

Scottish Power plc operates a number of defined benefit and defined contribution schemes in the UK. ScottishPower Generation Limited is a participating company in these arrangements, and the contributions for the defined benefit schemes are based on pension costs across all the participating companies.

ScottishPower Generation Limited is unable to identify its share of the underlying assets and liabilities in the defined benefit schemes, as the scheme administrators do not calculate these separately for each of the various companies participating in the schemes.

ScottishPower Generation Limited's contributions payable during the year were £5.6 million (2005: £3.4 million) and there were no amounts outstanding at the year end.

Full details of the ScottishPower group pension arrangements are given in the Annual Report & Accounts for the year ended 31 March 2006 of Scottish Power plc. The Annual Report & Accounts for the year ended 31 March 2006 of Scottish Power plc have been prepared in accordance with International Financial Reporting Standards (IFRS), however, the pension assets and liabilities disclosed in those accounts in accordance with IFRS would not be materially different had they been calculated under UK GAAP in accordance with FRS 17 'Retirement Benefits'.

21 Contingent liabilities

As part of the exercise to achieve legal separation of Scottish Power UK plc's businesses pursuant to the provisions of the Utilities Act 2000, ScottishPower Generation Limited and other subsidiary companies of Scottish Power UK plc were each required to jointly provide guarantees to external lenders of Scottish Power UK plc for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 March 2006, was £1,960 million (2005: £2,089 million).

22 Financial commitments

	2006	2005
(a) Capital commitments	£m	£m
Contracted but not provided	8.5	6.5

(b) Energy purchase commitments

The company is committed under long term purchase contracts to purchases of £317.2 million, £295.6 million, £124.7 million, £18.3 million and £18.8 million for the years 2007 to 2011 respectively and £69.5 million thereafter.

ScottishPower Generation Limited

Notes to the Accounts for the year ended 31 March 2006 - continued

23 Directors' emoluments

The total emoluments of the directors that provided qualifying services to the company are shown below. As these directors are remunerated for their work for the ScottishPower group as a whole, it has not been possible to apportion the emoluments specifically in respect of services to this company.

	2006	2005
	£'000	£'000
Executive directors		
Basic salary	504	610
Bonuses	249	516
Benefits in kind	29	51
Compensation/payment in lieu of notice	1,224	
Total	2,006	1,177

Included within the above amounts are emoluments in respect of Charles Berry and John Campbell which were paid by another company within the Scottish Power plc group. Consequently, these amounts are not included within 'Employee costs' in Note 4(a).

Four directors (2005: three) have retirement benefits accruing under the company's defined benefit pension scheme.

Four directors (2005: nil) exercised share options over Scottish Power plc shares in the year.

Two directors (2005: two) received shares during the year under the Long Term Incentive Plan.

Emoluments of the highest paid director excluding pension contributions are given below.

	2006	2005
	£'000	£'000
Highest paid director		
Basic salary	187	400
Bonus		382
Benefits in kind	13	38
Compensation/payment in lieu of notice	1,224	
Total	1,424	820

During the year the highest paid director exercised share options over Scottish Power plc shares (2005: nil).

The highest paid director received shares under the Long Term Incentive Plan during 2006 and 2005.

The amount of pension benefit accrued for the highest paid director is £166,077 (2005: £152,287).

24 Related party transactions

Scottish Power plc has ultimate control over the company. The company has taken an exemption, as allowed by FRS 8, 'Related Party Disclosures', not to disclose related party transactions with other group companies as the parent company publishes full statutory consolidated Accounts.

25 Post balance sheet event

The company announced the sale of Knapton power station on 7 August 2006 to RGS Energy Limited, a subsidiary of US Energy Systems, for £15.5 million in cash.

26 Ultimate parent company

The directors regard Scottish Power plc as the ultimate parent company, which is also the parent company of the largest group in which the results of the company are consolidated. The parent company of the smallest group in which the results of the company are consolidated is Scottish Power UK plc. Copies of both companies' consolidated Accounts may be obtained from The Secretary, Scottish Power plc, 1 Atlantic Quay, Glasgow, G2 8SP.

ScottishPower Generation Limited

Independent Auditors' Report

To the members of ScottishPower Generation Limited

We have audited the financial statements of ScottishPower Generation Limited for the year ended 31 March 2006 which comprise the Accounting Policies and Definitions, the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. 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 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 United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its loss for the year then ended, and
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Glasgow

17 October 2006