ScottishPower Generation Limited

Directors' Report and Accounts
for the year ended 31 March 2007

Registered No. SC189124

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ScottishPower Generation Limited

Directors' Report and Accounts
for the year ended 31 March 2007

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ScottishPower Generation Limited

Report of the Directors

The directors present their report and audited Accounts for year ended 31 March 2007

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

During the year, the company acquired the gas storage facility at Hatfield Moor for £11 5 million This acquisition allowed the company to take ownership of the well site, related equipment and the production licences and will increase and enhance the company's gas storage facilities The company also recorded an exceptional gain of £15 1 million following the sale of Knapton power station in August 2006

The company has net current liabilities of £591 9 million at 31 March 2007 (2006 £556 9 million), which includes a loan owed to the parent undertaking of £737 4 million (2006 £777 5 million) and loans owed to other group companies of £49 9 million (2006 £51 9 million) The directors consider that sufficient funding will be made available to the company by Scottish Power UK plc to continue operations and to meet liabilities as they fall due

On 22 May 2007, Iberdrola S A , the company's ultimate parent company, announced plans to sell up to 20% of the shares in its renewable energy subsidiary, Iberdrola Energias Renovables (Iberenova) The board of Iberdrola also authorised a reorganisation of this business area with the goal of incorporating all renewable energy related companies within the Iberdrola and ScottishPower groups in Iberenova Some of the companies included within this reorganisation are Beaufort Energy Limited, CeltPower Limited, CRE Energy Limited, and Wind Resources Limited, all companies in which ScottishPower Generation has either a direct or indirect financial investment As part of this reorganisation, the company sold its investments in Beaufort Energy Limited and CeltPower Limited to another company within the Iberdrola group (refer to Note 25 for details) The release of the Iberenova shares to the market took place on 13 December 2007

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 As a result, the company embarked upon a major investment programme in Flue Gas Desulphurisation ("FGD") equipment during the year The total investment in FGD equipment in the current year was £56 0m This investment shall free the facility from certain operating restrictions that would otherwise apply, will maintain the balance of the company's generation portfolio and will potentially extend Longannet's life beyond 2020 In addition, the investment will deliver environmental benefits

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
Overall, the directors are satisfied with the level of business and the year end financial position

The gross profit for the year was £82 4 million (2006 £52 2 million), an increase of £30 2 million This was due mainly to an increase in output from the company's coal fired power stations, along with the capture of improved margins on power sales from these stations in the first half of the financial year The increase was also attributable to the optimisation of improved economic running of the company's gas fired power station at Rye House, along with the capture of improved margins on power sales from this station during the second half of the financial year

ScottishPower Generation Limited

Report of the Directors – continued

The operatıng profit for the year ıncreased by £51 5 mıllıon to £54 8 mıllıon This reflects the strong performance at gross profit level, as well as a reduction ın admınıstratıve expenses of £14 1 mıllıon, due maınly to reduced levels of commercıal rates across all propertıes, savıngs ın ınsurance costs and cost savıngs as a result of the corporate restructurıng whıch took place ın the prıor year In addıtıon, other operatıng ıncome ıncreased by £7 2 mıllıon to £16 6 mıllıon as a result of ıncreased ıncome from ancıllary servıces ın the BETTA envıronment and receıpts of monıes from lıquıdated damages and ınsurance recoverıes

The profit before tax for the year was £101 3 mıllıon (2006 loss of £18 1 mıllıon), an ıncrease of £119 4 mıllıon In addıtıon to the strong operatıonal performance, thıs was due to dıvıdends of £56.0 mıllıon receıved from fixed asset ınvestments and the exceptıonal ıtem of £15 1 mıllıon, beıng the gaın on dısposal of Knapton power statıon

Results and dıvıdend
The profit for the year amounted to £95 0 mıllıon (2006 loss of £6 7 mıllıon) The aggregate dıvıdends paıd durıng the year amounted to £8 0 mıllıon (2006 £nıl)

Financing revıew
Capıtal and Debt Structure
The company ıs funded by a combınatıon of debt and equıty All equıty ıs held by Scottısh Power UK plc ("SPUK"), the ımmedıate parent undertakıng, whıch has also granted the majorıty of loan facılıtıes to the company

Treasury and Interest Polıcy
Treasury servıces are provıded by SPUK The rısk polıcy wıthın treasury and financıng ıs desıgned to ensure that the company's exposure to varıabılıty of cash flows and asset values, due to fluctuatıons ın market ınterest rates and ınflatıon, are mınımısed and managed at acceptable rısk levels Further detaıls of the treasury and ınterest polıcy for the ScottıshPower group and how the group manages them are ıncluded ın the Annual Report & Accounts of Scottısh Power Lımıted (formerly Scottısh Power plc), for the year ended 31 March 2007

Fundıng
The loan from SPUK represents drawıngs under workıng capıtal facılıtıes (refer to Note 12) The prıncıpal outstandıng, accrued ınterest and assocıated costs are repayable ın full on wrıtten demand, or on the occurrence of any of the default events specıfied ın the loan agreement Interest ıs calculated at a rate of 1% above base rate and ıs payable quarterly ın arrears

The loans from other group undertakıngs represent drawıngs under workıng capıtal facılıtıes (refer to Note 12) wıth the same terms and condıtıons as the loan from SPUK above

At the end of the year the company had net debt amountıng to £345 9 mıllıon (2006 £497 6 mıllıon)

Lıquıdıty
The dırectors confirm that the company remaıns a goıng concern on the basıs of ıts future cash flow forecasts and has suffıcıent workıng capıtal for present requırements The dırectors consıder that suffıcıent fundıng wıll be made avaılable to the company to contınue operatıons and to meet lıabılıtıes as they fall due

Management of rısks
The busıness ıdentıfies and assesses the key busıness rısks assocıated wıth the achıevement of ıts strategıc objectıves Any key actıons needed to enhance the control envıronments are ıdentıfied, along wıth the person responsıble for the management of the specıfic rısk

The credıt, lıquıdıty, cash flow and prıce rısks faced by the company are managed at an Energy Retaıl & Wholesale busıness unıt level Further detaıls of the rısk management practıces can be found ın the Scottısh Power Lımıted Annual Report & Accounts

ScottishPower Generation Limited

Report of the Directors – continued

Employees

Employee regulation

ScottishPower 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' and have been brought together in the ScottishPower policy document, 'Compliance – Behaviour and the Law' (which also outlines expectations for employees' conduct)

Employee consultation

The Group's businesses use employee/staff surveys and other tools to understand the key issues for employees within each business unit Regular consultation takes place using a variety of means, including monthly team meetings, team managers' conferences, business unit road shows, safety committees, presentations and employee magazines The Group believes that an important element of a positive working experience is stable employee and industrial relations, it recognises the legitimacy of trade union involvement and has formal agreements in place to foster open, two way communication and consultation Positive relationships and ongoing liaison with employees and their representatives are seen as contributing significantly to achieving the performance objectives of the businesses

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 In recruitment the Group aims to employ the best candidate for a job, irrespective of gender, race, disability or any other status protected by relevant laws Further details of group workplace policy and performance can be found in the 'Corporate Responsibility' section of www scottishpower com

Employee share schemes

The company participates in the employee share schemes operated by the Scottish Power Limited group Full details of these schemes are disclosed in the Annual Report & Accounts of Scottish Power Limited for the year ended 31 March 2007

Environmental regulation

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

ScottishPower published its 2006/07 Corporate Responsibility Report in June 2007 Further information is available via the ScottishPower website – www scottishpower com

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 Limited for the year ended 31 March 2007

ScottishPower Generation Limited

Report of the Directors – continued

Directors
The directors who held office during the year were

Alan Bryce	(resigned 16 October 2006)
John Campbell	
David Morrison	
Charles Reynard	(appointed 22 January 2007)

Frank Mitchell was appointed as a director on 23 April 2007

Charles Reynard resigned as a director of the company on 30 September 2007 and was replaced by Heather Chalmers on the same day

Creditor payment policy and practice
The current policy and practice of the ScottishPower group, 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 for Business, Enterprise and Regulatory Reform 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 2007 were 12 days

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements 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 financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements 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 the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors
Each of the persons who is a director at the date of approval of this report confirms that

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

ScottishPower Generation Limited

Report of the Directors – continued

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, Deloitte and Touche LLP were appointed auditors of the company for the year ended 31 March 2007 Following the acquisition of Scottish Power Limited by Iberdrola, S A, the Board of Scottish Power Limited recommended that Ernst & Young LLP be appointed auditors of Scottish Power Limited for the year ending 31 March 2008 in place of the retiring auditors, Deloitte & Touche LLP A resolution to this effect was approved at the Annual General Meeting of Scottish Power Limited The directors of ScottishPower Generation Limited will appoint Ernst and Young LLP as auditors of the company for the year ending 31 March 2008

On Behalf of the Board

Frank Mitchell
Director
11 January 2008

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
Administrative expenses include 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 Limited (formerly 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 Scottish Power Limited, 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 Limited, which has included a consolidated statement of cash flows in its consolidated Accounts

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

ScottishPower Generation Limited

Accounting Policies and Definitions – continued

Turnover
Turnover comprises the sales value of energy and other related 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 All revenue is earned wholly within the United Kingdom.

Interest
Interest on the funding attributable to major capital projects is capitalised gross of tax relief during the year of construction and written off as part of the total cost over the operational life of the asset All other interest payable and receivable is recognised in the profit and loss account as it is incurred

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

Deferred tax
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date

Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the years in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

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 is 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 within intangible assets Allocated allowances awarded to the company 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 will 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, interest 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

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

Leased assets
As lessee
Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease

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
ScottishPower 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 The company 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 and therefore treats these schemes as if they were defined contribution schemes The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or where applicable, at the hedged contracted rate At the year end, non monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate at the date of the transaction or where applicable, at the hedged contracted rate Any gain or loss arising on the restatement of such balances is taken to the profit and loss account

ScottishPower Generation Limited

Profit and Loss Account
for the year ended 31 March 2007

	Notes	**2007 £m**	2006 £m
Turnover		**894.1**	665 6
Cost of sales		**(811 7)**	(613 4)
Gross profit		**82 4**	52 2
Administrative expenses		**(44 2)**	(58 3)
Other operating income		**16.6**	9 4
Operating profit	2	**54 8**	3 3
Income from fixed asset investments		**56 0**	
Exceptional item profit on disposal of fixed assets	1	**15 1**	
Profit on ordinary activities before interest and taxation		**125 9**	3 3
Net interest and similar charges	4	**(24 6)**	(21 4)
Profit/(loss) on ordinary activities before taxation		**101 3**	(18 1)
Taxation	5	**(6 3)**	11 4
Profit/(loss) for the year	18	**95 0**	(6 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 6 to 8, together with the Notes on pages 12 to 21, form part of these Accounts

ScottishPower Generation Limited

Reconciliation of Movements in Shareholder's Funds for the year ended 31 March 2007

	Note	2007 £m	2006 £m
Profit/(loss) for the financial year		**95 0**	(6 7)
Dividends	6	**(8 0)**	
Net movement in shareholder's funds		**87 0**	(6 7)
Opening shareholder's funds		**57.9**	64 6
Closing shareholder's funds		**144.9**	57 9

The Accounting Policies and Definitions on pages 6 to 8, together with the Notes on pages 12 to 21, form part of these Accounts

ScottishPower Generation Limited

Balance Sheet
as at 31 March 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Intangible assets	7	**140 9**	86 1
Tangible assets	8	**718.3**	624 1
Investments	9	**10 6**	11 5
		869 8	721 7
Current assets			
Stocks	10	**12.8**	12 0
Debtors	11	**722 2**	508 0
		735.0	520 0
Creditors. amounts falling due within one year			
Loans and other borrowings	12	**(787.3)**	(829 5)
Other creditors	13	**(539 6)**	(247 4)
		(1,326 9)	(1,076 9)
Net current liabilities		**(591.9)**	(556 9)
Total assets less current liabilities		**277 9**	164 8
Provisions for liabilities			
Deferred tax	14	**(101.7)**	(83 1)
Other provisions	15	**(28 3)**	(20 4)
		(130 0)	(103 5)
Deferred income	16	**(3.0)**	(3 4)
Net assets		**144.9**	57 9
Called up share capital	17,18	**130.7**	130 7
Profit and loss account	18	**14.2**	(72 8)
Shareholder's funds		**144.9**	57 9

The Accounting Policies and Definitions on pages 6 to 8, together with the Notes on pages 12 to 21, form part of these Accounts

Approved by the Board on 11 January 2008 and signed on its behalf by

Frank Mitchell
Director

ScottishPower Generation Limited

Notes to the Accounts
for the year ended 31 March 2007

1 Exceptional item

An exceptional gain of £15 1 million, and related tax charge of £4 5 million, is included in the profit for the year ended 31 March 2007 relating to the sale of Knapton power station An impairment charge of £12 0 million, and related tax credit of £3 6 million, in respect of this asset was previously recognised during the year ended 31 March 2005 At 31 March 2006, the asset, in its condition at that time, was considered to be impaired

2 Operating profit

Operating profit is stated after charging/(crediting)	**2007 £m**	2006 £m
Depreciation of tangible fixed assets	**54 0**	51 0
Profit on disposal of tangible fixed assets	**(0 1)**	
Amortisation of goodwill	**4 8**	4 8
Amortisation of intangible fixed assets	**0.1**	
Release of grants and customer contributions	**(0 4)**	(0 6)
Hire of other assets operating leases	**0 3**	
Hire of other assets rents receivable under operating leases	**(0.8)**	
Auditors' remuneration audit of the company	**0.1**	0 2
Auditors' remuneration other services		0 1

Auditors' remuneration for the audit of the company represents £122,000 (2006 £110,000) for the audit of the company and £Nil (2006 £110,000) of an apportionment of the overall group audit fee in respect of Scottish Power Limited Auditors' remuneration for other services comprises £17,000 (2006 £16,000) for the auditing of accounts of subsidiaries of the company pursuant to legislation, £Nil (2006 £4,000) for other services supplied pursuant to legislation and £Nil (2006 £54,000) for services relating to corporate finance transactions entered into by the company

3 Employee information

(a) Employee costs	Note	**2007 £m**	2006 £m
Wages and salaries		**29 2**	29 9
Social security costs		**2.7**	2 6
Other pension costs	20	**6.4**	5 6
Total employee costs		**38.3**	38 1
Less charged as capital expenditure		**(3 1)**	(2 6)
Charged to the profit and loss account		**35 2**	35 5

(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**	
	2007	2006	**2007**	2006
Operations	**531**	519	**524**	513
Management and administration	**182**	199	**179**	211
Total	**713**	718	**703**	724

A total of 89 (2006 86) employees are seconded from ScottishPower Energy Management Limited The contracts of employment of these employees are with ScottishPower Energy Management Limited but the costs are re charged to ScottishPower Generation Limited, the company for which they work Accordingly these employees are included in tables 3(a) and 3(b)

3 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	
	2007	2006	**2007**	2006
Total	**705**	704	**704**	713

(c) Directors' emoluments

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

4 Net interest and similar charges

Analysis of net interest and similar charges	Note	**2007 £m**	2006 £m
Interest payable on external borrowings		**0 1**	1 6
Interest payable on group loans		**47 2**	44 8
Total interest payable		**47 3**	46 4
Interest receivable on external funds		**(0.4)**	(0 2)
Interest receivable on group loans		**(21.6)**	(26 4)
Total interest receivable		**(22 0)**	(26 6)
Capitalised interest		**(0 8)**	
Net interest charge		**24.5**	19 8
Unwinding of discount on provisions	15	**0 1**	1 6
Net interest and similar charges		**24.6**	21 4

5 Taxation

	Note	**2007 £m**	2006 £m
Current tax			
UK Corporation tax charge/(credit)		**10 1**	(2 5)
Adjustments in respect of prior years		**(22 4)**	31 4
Total current tax for year		**(12 3)**	28 9
Deferred tax :			
Origination and reversal of timing differences		**13 7**	(1 4)
Adjustment in respect of prior years		**4 9**	(38 9)
Total deferred tax for year	14	**18 6**	(40 3)
Total tax on profit/(loss) on ordinary activities		**6.3**	(11 4)

5 Taxation continued

The current tax (credit)/charge on profit/(loss) on ordinary activities for the year varied from the standard rate of UK Corporation tax as follows

	Note	2007 £m	2006 £m
UK corporation tax at 30%		**30.3**	(5 4)
Goodwill amortisation		**1 4**	1 4
Adjustment in respect of prior years		**(17 5)**	(7 5)
Interest on tax contingencies		**6 1**	
Other permanent differences		**(14 0)**	0 1
Tax charge/(credit) on ordinary activities		**6 3**	(11 4)
Effect of deferred tax	14	**(18.6)**	40 3
Current tax (credit)/charge for the year		**(12 3)**	28 9

6 Dividends

	2007 £m	2006 £m
Interim dividend paid	**8 0**	
Total dividends paid	**8 0**	

7 Intangible fixed assets

	Goodwill	Emissions allowances £m	Licences £m	Total £m
Cost.				
At 1 April 2006	97 1	13 7		110 8
Acquisitions		63 9	9 5	73 4
Disposals		(13 7)		(13 7)
At 31 March 2007	**97.1**	**63.9**	**9.5**	**170.5**
Amortisation.				
At 1 April 2006	24 7			24 7
Amortisation for the year	4 8		0 1	4 9
At 31 March 2007	**29 5**		**0 1**	**29.6**
Net book value·				
At 31 March 2007	**67.6**	**63.9**	**9.4**	**140.9**
At 1 April 2006	72 4	13 7		86 1

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

Notes to the Accounts
for the year ended 31 March 2007 - continued

8 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Vehicles and miscellaneous equipment £m	Total £m
Cost·				
At 1 April 2006	167 2	1,091 3	13 6	1,272 1
Additions	1 2	160 9	3 3	165 4
Disposals	(6 4)	(53 8)	(1 1)	(61 3)
At 31 March 2007	**162.0**	**1,198 4**	**15 8**	**1,376.2**
Depreciation.				
At 1 April 2006	90 7	547 2	10 1	648 0
Charge for the year	4 1	48 8	1 1	54 0
Disposals	(5 7)	(37 3)	(1 1)	(44 1)
At 31 March 2007	**89 1**	**558 7**	**10.1**	**657.9**
Net book value				
At 31 March 2007	**72 9**	**639.7**	**5 7**	**718 3**
At 1 April 2006	76 5	544 1	3 5	624 1

Included in the cost of tangible fixed assets above are	Notes	**2007 £m**	2006 £m
Assets in the course of construction		**123.1**	41 2
Other assets not subject to depreciation	(i)	**42 3**	36 0
Capitalised interest	(ii)	**0 8**	

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

(ii) Interest on the funding attributable to major capital projects was capitalised during the year at rates of 5 5% to 6 25%

9 Fixed asset investments

	Subsidiary undertakings Shares £m	Joint ventures Loans £m	Total £m
(a) Cost:			
At 1 April 2006	9 1	2 4	11 5
Loan repayment		(0 9)	(0 9)
At 31 March 2007	**9 1**	**1 5**	**10 6**

ScottishPower Generation Limited

Notes to the Accounts
for the year ended 31 March 2007 - continued

9 Fixed asset investments continued

(b) Shares in subsidiary undertakings

The principal holdings of the company are as set out below

Subsidiary undertakings	Country of incorporation	Class of share capital	Proportion of shares held %	Activity
Beaufort Energy Limited	Scotland	Ordinary shares £1	100%	Holding company
CRE Energy Limited	Northern Ireland	Ordinary shares £1	100%	Wind powered electricity generation
Emerald Power Generation Limited	England	Ordinary shares £1	100%	Agency services
Manweb Generation Holdings Limited	England	Ordinary shares £1	100%	Holding company
ScottishPower (SCPL) Limited	England	'A' and 'B' Ordinary shares £1	100%	Electricity generation
ScottishPower (SOCL) Limited	England	'A' and 'B' Ordinary shares £1	100%	Management services
SMW Limited	Scotland	Ordinary shares £1	100%	Water and wastewater treatment and related activities
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

* 50% of voting shares
** 45% of voting shares

10 Stocks

	2007 £m	2006 £m
Raw materials and consumables	12.8	12 0

11 Debtors

	2007 £m	2006 £m
Amounts falling due within one year.		
Trade debtors	8.0	6 4
Prepayments and accrued income	5 1	6 4
Loans owed by group undertakings	441 4	331 9
Amounts owed by group undertakings	256.8	161 7
Other debtors	10 9	1 6
	722.2	508 0

ScottishPower Generation Limited

Notes to the Accounts for the year ended 31 March 2007 continued

12 Loans and other borrowings

	Note	2007 £m	2006 £m
Amounts falling due within one year·			
Bank overdraft			0 1
Loan payable to parent undertaking	(i)	**737 4**	777 5
Loans payable to group undertakings		**49 9**	51 9
		787 3	829 5

(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

13 Other creditors

	2007 £m	2006 £m
Amounts falling due within one year		
Amounts owed to group undertakings	**322 9**	109 9
Trade creditors	**9 7**	8 3
Corporate tax	**58.7**	54 8
Capital creditors and accruals	**60 0**	22 3
Other creditors	**0 2**	
Accrued expenses	**88 1**	52 1
	539 6	247 4

14 Provisions for liabilities Deferred tax

Deferred tax provided in the Accounts is as follows	2007 £m	2006 £m
Accelerated capital allowances	**102 6**	89 1
Other timing differences	**(0 9)**	(6 0)
	101 7	83 1

	Note	£m
Deferred tax provided at 1 April 2006		83 1
Charge to profit and loss account	5	18 6
Deferred tax provided at 31 March 2007		**101 7**

The UK 2007 Finance Bill proposes two changes in corporate taxation effective from 1 April 2008 but these were not enacted or substantively enacted at 31 March 2007 Consequently these changes have not been taken into account when calculating deferred tax The changes are the phasing out of Industrial Buildings Allowances (IBA) over the next four years and the reduction in the rate of corporation tax from 30% to 28% Had changes to IBA been substantively enacted at the balance sheet date, this would have resulted in a credit to the profit and loss account of £1 2 million and a corresponding debit to deferred tax In addition had the change in the corporation tax rate been applicable at the balance sheet date this would have resulted in a credit to the profit and loss account of £6 7 million and a corresponding reduction in the deferred tax provision The total impact of these changes is a reduction in the provision for deferred tax of £7 9 million

ScottishPower Generation Limited

Notes to the Accounts
for the year ended 31 March 2007 - continued

15 Provisions for liabilities Other provisions

	Notes	At 1 April 2006 £m	New provisions £m	Released to profit and loss account £m	Unwinding of discount (Note 4) £m	Utilised during year £m	**At 31 March 2007 £m**
Reorganisation and restructuring	(i)	1 4				(1 4)	
Decommissioning costs	(ii)	15 4	2 4	(0 3)	0 1	(0 1)	**17.5**
Onerous contracts	(iii)	1 4				(0 4)	**1.0**
Health and safety	(iv)	2 2	9 8	(1 2)		(1 0)	**9 8**
		20 4	12 2	(1 5)	0 1	(2 9)	**28.3**

(i) The provision for reorganisation and restructuring comprised the costs of a reduction in employee numbers through redundancies, following the corporate restructuring The provision was fully utilised during the year

(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 commence over the period between 2008 and 2035

(iii) The provision for onerous contracts comprises an onerous grid connection agreement The balance of the provision at 31 March 2007 is expected to be utilised in the period to 31 March 2013

(iv) Health and safety obligations principally relate to asbestos removal, which is expected to be completed in the period up to March 2032

16 Deferred income

	At 1 April 2006 £m	Released to profit and loss account £m	**At 31 March 2007 £m**
Grants and customer contributions	3 4	(0 4)	**3 0**

17 Share capital

	2007 £m	2006 £m
Authorised.		
200,000,000 (2006 200,000,000) ordinary shares of £1 each	**200 0**	200 0
Allotted, called up and fully paid		
130,700,000 (2006 130,700,000) ordinary shares of £1 each	**130 7**	130 7

ScottishPower Generation Limited

Notes to the Accounts
for the year ended 31 March 2007 - continued

18 Analysis of movements in shareholder's funds

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2006	130 7	(72 8)	57 9
Profit for the year		95 0	95 0
Dividends		(8 0)	(8 0)
At 31 March 2007	**130.7**	**14.2**	**144.9**

19 Derivative financial instruments

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 2007 is a net liability of £605,000 (2006 net asset of £33,960)

20 Pensions

The company's contributions payable in the year were £6 4 million (2006 £5 6 million)

The company contributes to the ScottishPower Group's defined benefit and defined contribution schemes in the UK Full details of these schemes are provided in the Scottish Power Limited Annual Report & Accounts These financial statements have been prepared under International Financial Reporting Standards ("IFRS"), however, the pension assets and liabilities disclosed in accordance with IFRS would not be materially different had they been calculated under UK GAAP in accordance with FRS 17, "Retirement Benefits"

As at 31 March 2007, the surplus of scheme assets over obligations in the Scottish Power Group's defined benefit schemes in the UK amounted to £44 6 million (2006 deficit of £145 6 million)

The employer contribution rate for these schemes in the year ended 31 March 2007 was 15%-15 8% with additional special contributions of £113 5 million made over the course of the year The employer contribution rate for the year ending 31 March 2008 is expected to be consistent with the year ended 31 March 2007 and a further £13 1 million of special contributions are planned

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 2007, was £1,966 2 million (2006 £1,960 0 million)

22 Financial commitments

(a) Analysis of annual commitments under operating leases	2007 £m	2006 £m
Leases of land and buildings expiring in		
Less than one year	**0 3**	
	0 3	

(b) Capital commitments	2007 £m	2006 £m
Contracted but not provided	**133 4**	8 5

22 Financial commitments continued

(c) Energy purchase commitments

Under contractual arrangements, the company has the following commitments relating to energy purchases

	2007 £m	2006 £m
Within one year	166.6	317 2
Between one and two years	90.4	295 6
Between two and three years	8.5	124 7
Between three and four years	6 1	18 3
Between four and five years	4.2	18 8
More than five years	10.8	69 5
	286.6	844 1

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

Executive directors	2007 £'000	2006 £'000
Basic salary	392	504
Bonuses	417	249
Benefits in kind	29	29
Compensation/payment in lieu of notice		1,224
Total	838	2,006

Included within the above amounts are emoluments in respect of John Campbell and Charles Reynard which were paid by another company within the ScottishPower group Consequently, these amounts are not included within 'Employee costs' in Note 3(a)

Four directors (2006 four) have retirement benefits accruing under the company's defined benefit pension scheme

Three directors (2006 four) exercised share options over ScottishPower shares in the year

Two directors (2006 two) received shares during the year under the Long Term Incentive Plan

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

Highest paid director	2007 £'000	2006 £'000
Basic salary	205	187
Bonus	164	
Benefits in kind	17	13
Compensation/payment in lieu of notice		1,224
Total	386	1,424

During the year the highest paid director exercised share options over ScottishPower shares (2006 nil)

The highest paid director received shares under the Long Term Incentive Plan during 2007 and 2006

The amount of pension benefit accrued for the highest paid director is £63,511 (2006 £166,077)

ScottishPower Generation Limited

Notes to the Accounts
for the year ended 31 March 2007 continued

24 Related party transactions

Scottish Power Limited had ultimate control over the company during the year The company has taken an exemption, as allowed by Financial Reporting Standard 8, 'Related Party Disclosures', not to disclose related party transactions with other group companies as Scottish Power Limited publishes full statutory consolidated Accounts

25 Events after the balance sheet date

On 22 May 2007, Iberdrola S A announced plans to sell up to 20% of the shares in its renewable energy subsidiary, Iberdrola Energias Renovables (Iberenova) The board of Iberdrola also authorised a reorganisation of this business area with the goal of incorporating all renewable energy related subsidiaries of Iberdrola and ScottishPower group companies in Iberenova The reorganisation involved the sale by the company of its investments in Beaufort Energy Limited and CeltPower Limited to another Iberdrola group company, for a total cash consideration of £25 6 million The result of this transaction was to record a gain on sale of £25 6 million and to increase distributables reserves by the same amount Prior to the sale of Beaufort Energy Limited, Beaufort Energy Limited increased its investment in Wind Resources Limited to 100% for a cash consideration of £7 0 million

26 Ultimate parent company

At 31 March 2007 the directors regarded Scottish Power Limited to be 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 can be obtained from The Secretary, Scottish Power Limited, 1 Atlantic Quay, Glasgow, G2 8SP Subsequent to the year end, on 23 April 2007, Scottish Power Limited was acquired by Iberdrola S A From this date the directors consider Iberdrola S A to be the ultimate parent company

Independent Auditors' Report
To the shareholders of ScottishPower Generation Limited

We have audited the financial statements of ScottishPower Generation Limited for the year ended 31 March 2007 which comprise the Accounting Policies and Definitions, the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholder's Funds and Notes 1 to 26 These financial statements 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 auditors' 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
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

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

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 also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements In addition we 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 2007 and of its profit for the year then ended,
- the financial statement 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

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Glasgow, United Kingdom
11 January 2008