ScottishPower

Group Overview

Energy businesses

Generation Wholesale
Generates electricity from the company's own power stations, and conducts bulk trading of electricity and gas including the sale of electricity to other electricity companies and the wholesale market in England and Wales.

Power Systems
Manages the transmission and distribution systems which transport electricity from the power station to the customer in Scotland. The business also operates the company's metering function.

Energy Supply
Sells electricity to 1.8 million customers in Scotland and manages the associated customer service, billing and income collection. Supplies electricity and gas to customers throughout the UK.

Manweb
Sells and distributes electricity to 1.3 million customers in North West England and North Wales.

Water business

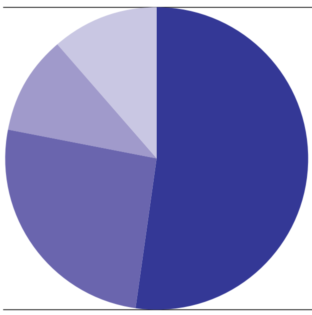
Southern Water
Provides water and waste water services to 1.7 million customers mainly in Kent, Sussex, Hampshire and the Isle of Wight.

Developing businesses

ScottishTelecom
Supplies advanced telecommunications and on-line information services. ScottishTelecom provides services to many of Scotland's major companies, in addition to supporting ScottishPower's electricity businesses.

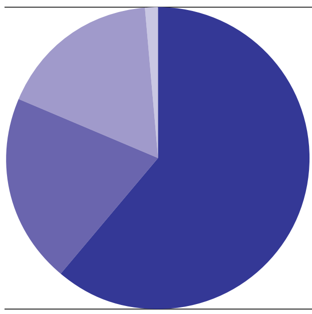
Retail
Operates 158 shops and superstores throughout the UK, selling brown and white goods. The Retail business is the UK's third largest electrical retailer with shops from Inverness to Southampton.

Business turnover 1996-97



ScottishPower Energy Businesses	£1,541.9m
Manweb	£755.1m
Southern Water (post acquisition)	£316.2m
Developing Businesses	£327.5m
Group Total	**£2,940.7m**

Contribution to group operating profit 1996-97



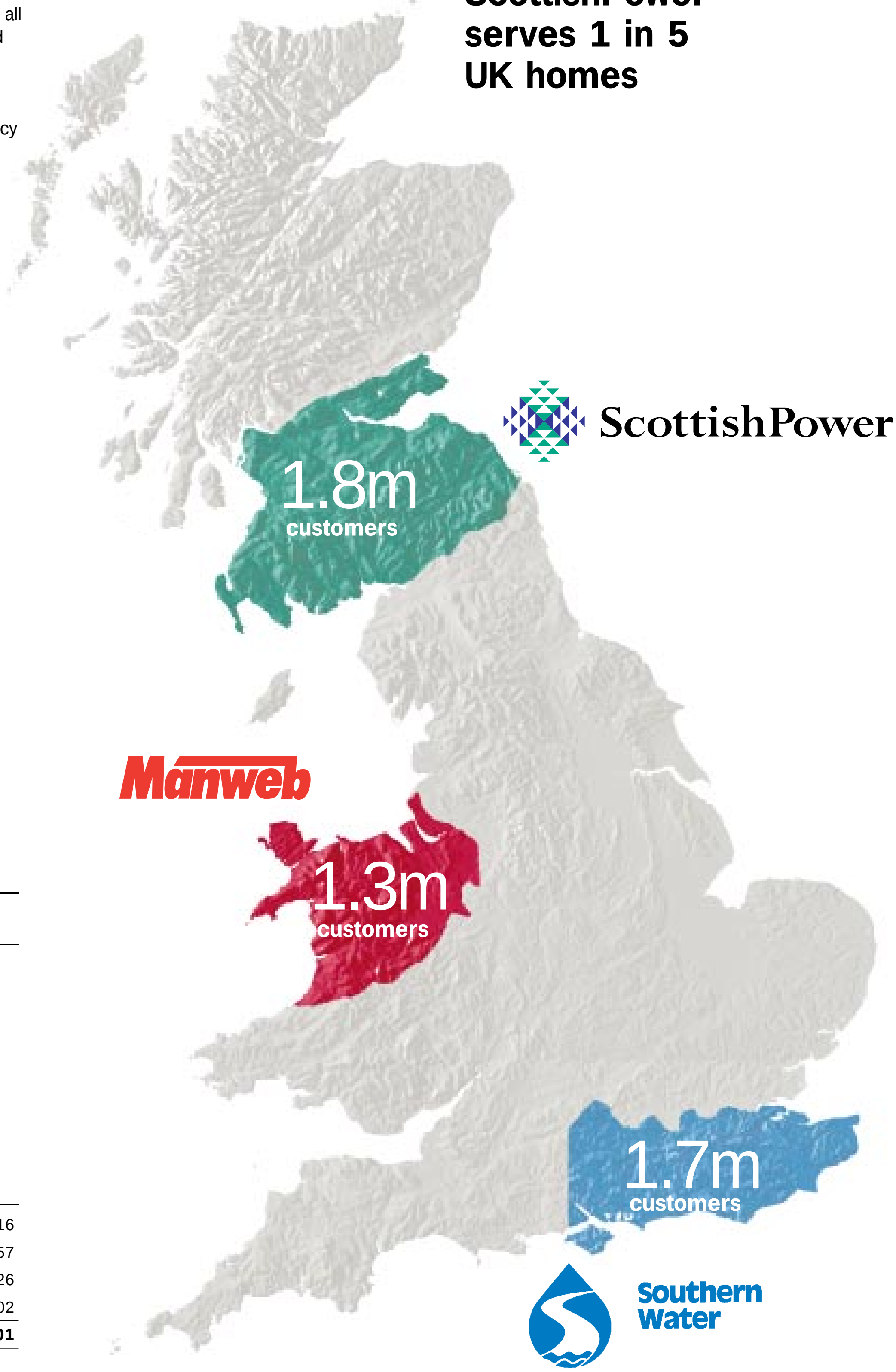
ScottishPower Energy Businesses	£406.5m
Manweb	£135.0m
Southern Water (post acquisition)	£114.4m
Developing Businesses	£8.0m
Group Total	**£663.9m**

ScottishPower is committed to building businesses, providing high standards of customer service and achieving continuous improvements in environmental performance.

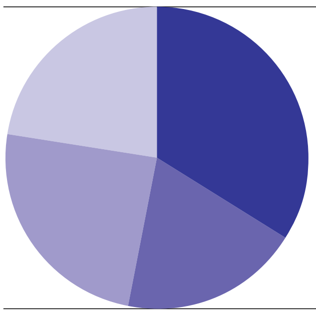
Contracting Services
Conducts the installation and maintenance of all types of electrical plant. Provides project and facilities management services.

Technology
Provides engineering and scientific consultancy services to the ScottishPower group and external customers.

ScottishPower serves 1 in 5 UK homes



No. of employees (full time equivalents) at 31 March 1997



ScottishPower Energy Businesses	4,916
Manweb	2,757
Southern Water	3,526
Developing Businesses	3,202
Group Total	**14,401**

Operational Highlights

Electricity

- Sales from Scotland to England reached a record level of 5,822 GWh
- Manweb's Merseyside region – most reliable distribution network in UK
- Generation and Power Systems achieved upper decile operational performance
- £255 million investment in networks and power stations
- ScottishPower and Manweb awarded Charter Mark

Water

- Customer Charter established
- Leakage rate of 13.2% – one of the lowest in the UK
- Record levels of investment in water and waste water infrastructure
- Water quality amongst the best in Europe

Telecoms

- ScottishTelecom – network call minutes increased fivefold
- 250 large business customers
- 12% share of Scottish mobile market

Gas

- 70,000 domestic gas customers
- 8% of gas market in Kent and Sussex trials
- 8,300 business sites

Retail

- 158 stores UK-wide
- UK's third largest electrical retailer

Financial Highlights

	1997 £m	1996 £m
Turnover	2,941	2,271
Operating profit	664	434
Profit before tax	558	404
Free cash flow	573	242
Earnings per share	38.11p	33.12p
Dividend per share	18.50p	15.50p

	Year	Value	Increase over 5 years
Turnover	97	£2,941m	97%
	96	£2,271m	
	95	£1,716m	
	94	£1,569m	
	93	£1,496m	
Operating profit	97	£664m	109%
	96	£434m	
	95	£380m	
	94	£360m	
	93	£317m	
Earnings per share	97	38.1p	44%
	96	33.1p	
	95	32.9p	
	94	31.0p	
	93	26.4p	
Dividend per share	97	18.5p	66%
	96	15.5p	
	95	13.7p	
	94	12.4p	
	93	11.2p	

For financial years ended 31 March

Five Year Financial Summary

	Years ended 31 March				
	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Results					
Turnover	**2,941**	2,271	1,716	1,569	1,496
Profit before taxation	**558**	404	375	351	297
Taxation	**(136)**	(109)	(101)	(93)	(77)
Profit after taxation	**422**	295	274	258	220
Dividends	**(218)**	(146)	(112)	(101)	(91)
Fixed assets	**4,070**	2,221	1,378	1,250	1,176
Net current (liabilities)/assets	**(1,471)**	(229)	41	(9)	(23)
Non-current liabilities	**(695)**	(442)	(142)	(142)	(142)
Provisions for liabilities and charges	**(46)**	(57)	(37)	(34)	(74)
Deferred income	**(335)**	(286)	(134)	(123)	(137)
Net assets	**1,523**	1,207	1,106	942	800
Ratios and statistics					
Earnings per ordinary share*	**38.11p**	33.12p	32.88p	30.95p	26.37p
Dividend per ordinary share	**18.50p**	15.50p	13.65p	12.40p	11.15p
Gearing	**117.5%**	52.4%	7.8%	0.4%	12.2%
Return on equity	**27.7%**	24.5%	24.8%	27.4%	27.5%
Interest cover	**6.2x**	14.4x	61.5x	41.8x	35.2x
Capital expenditure (net)	**£460m**	£227m	£166m	£142m	£121m
Number of employees (full-time equivalent) at 31 March					
– Energy businesses	**4,916**	5,215	5,595	5,922	6,604
– Manweb	**2,757**	2,979	–	–	–
– Southern Water	**3,526**	–	–	–	–
– Developing businesses	**3,202**	2,579	2,445	2,058	1,434
Group Total	**14,401**	10,773	8,040	7,980	8,038

*The prior year figures are stated after adjusting the number of shares in issue by the bonus element inherent in the rights issue on 30 August 1996.

Chairman's Statement
Creating Shareholder Value

Murray Stuart Chairman

Your company has made major advances across all areas of activity since my last annual statement to you. The report of the Chief Executive which follows, demonstrates in some detail the achievements of the year in terms of strategy, operations, customer service and employee development. The results themselves show another year of growth in turnover, profit and dividends, with the major new acquisitions performing above our initial expectations. Today the ScottishPower group has major activities in electricity, with generation, power systems and supply, and in water and waste water services, gas, telecommunications and retail, and smaller but successful operations in contracting and technology. We now serve, in our three distinct geographic territories, 4.8 million customers.

2
In August 1996 we acquired Southern Water, the water and waste water company operating mainly in Kent, Sussex, Hampshire and the Isle of Wight.

1
The Princess Royal opens the newly refurbished Cathcart Business Park on 17 March. Her visit included a tour of the Customer Service Centre, Open Learning, Occupational Health and the PowerClub.

During the last two years we have developed quickly towards our goal of building a major UK multi-utility business. In August 1996 we acquired Southern Water, the water and waste water company operating mainly in Kent, Sussex, Hampshire and the Isle of Wight, for £1.7 billion. I am pleased to report that to date we have been more than satisfied with the progress we have made in Southern Water and the potential value for shareholders that we have identified. We are confident that through a very large investment programme, and dedicated and highly focused management, we will deliver over the next few years, high quality and improving water and waste water services to our customers.

In October 1995 we completed the acquisition of Manweb, the Regional Electricity Company operating in North West England and North Wales. Manweb's first full year of operation under our ownership has exceeded our expectations in terms of the trading results and the improvements in customer service which we have achieved. The major benefits arising from the co-operation between Manweb and ScottishPower have been a factor in this.

I am happy to report that our Scottish electricity operations have continued to develop, again not only in trading terms, but in the overall level of service provided to our customers. The extreme winter storm experienced in December created an unprecedented level of disruption and damage to both our system and the service we provide to our customers in the Scottish Borders. We committed all available resources to correcting the situation as quickly as possible and we are continuing to make improvements to enable the network to cope with future severe weather.

Our developing businesses – Retail, Telecommunications, Contracting and Technology – all showed substantial growth, in particular ScottishTelecom where external revenues increased by £31 million to £37 million. ScottishTelecom has expanded its network in Scotland and extended the range of services it offers to include mobile telephony and information services. The business launched services to residential customers in April of this year, using the latest radio technology.

A sound performance from our Scottish-based businesses, the first full year of revenues from Manweb and the inclusion of eight months turnover from Southern Water, have increased our group turnover from £2,271 million to £2,941 million, a 30% rise. Pretax profits reached £558 million, a growth of 38%, and earnings per share at 38.11p per share were up 4.99p or 15%.

In the year we have also made substantial capital expenditure totalling £460 million, double the previous year. Southern Water is committed to an investment programme of over £1 billion in the period to March 2000 and we are making significant investments elsewhere in ScottishPower and Manweb particularly in generation, power systems and information systems and in ScottishTelecom. Major investment will be a feature of our business for the years ahead.

We are recommending a final dividend of 12.33p net per share, which together with the increased interim dividend will result in a full year payment of 18.50p net per

3
Manweb continues to improve services to its customers, regaining the Charter Mark and achieving the ISO 9002 international quality accreditation. Its Merseyside region had the most reliable distribution network in the UK, according to OFFER.

4
A ScottishPower linesman inspects the damage to a tower wrecked by one of the most devastating blizzards to hit the Scottish Borders in living memory. A combination of accumulated ice and high winds brought down hundreds of lines, poles and steel towers in December 1996.

4


3


share, an increase of 19%. The dividend is 2.1 times covered by earnings. Our aim remains sustainable 7% to 8% real dividend growth per annum, whilst continuing to maintain a prudent level of dividend cover. Our year end net borrowing was £1,790 million giving gearing of 118%, somewhat less than we forecast when acquiring Southern Water.

The period ahead offers both opportunities and challenges for your company, an experience not new to us after the last two years. The liberalisation of the markets for electricity and gas supply and changes to regulation are major issues for any management. However, we are prepared for these new and very significant issues and have invested both manpower and financial resources to ensure that we maximise the opportunities presented. With regard to a potential windfall levy on the utility companies, ScottishPower was privatised with tougher regulation and on a lower yield than its counterparts in England and Wales. The company has not made windfall profits and has worked hard to deliver equitable returns to all its stakeholders.

In all our businesses, we have continued to strive to improve our service to customers and have continued to deliver further price reductions to our electricity customers. The opportunities for training and development, which are available to all employees within the group, are leading class, as are our Open Learning facilities and the Wellscreen health programme, now extended to Manweb. Not forgotten by any means is our involvement with the communities we serve through support and sponsorship, particularly the arts where we facilitate improved accessibility for all to the opera and orchestras such as the Royal Scottish National Orchestra and the Royal Liverpool Philharmonic Orchestra. Our major new business, ScottishPower Learning, which is in partnership with the trade unions, has successfully begun operations.

During the year we were delighted to welcome to our Board, Baroness Jay of Paddington, Ewen Macpherson, Chief Executive of 3i Group plc, and Sir Peter Gregson, formerly Permanent Secretary of the Department of Trade and Industry. We have already benefited from their excellent advice and support. Following her appointment as Minister of State in the Department of Health, Baroness Jay has resigned from the Board.

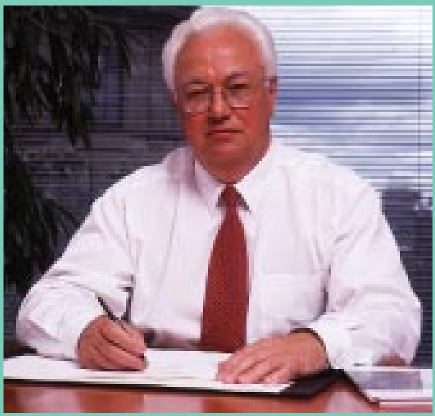
Nick Kuenssberg retires at the Annual General Meeting. Nick has served for 14 years overall as a director of ScottishPower and its predecessor, South of Scotland Electricity Board. He is thus the longest serving director and has twice been Chairman of both the Audit Committee and the Emoluments and Nominations Committee. In his current role as Chairman of the Emoluments and Nominations Committee he will be succeeded by Ewen Macpherson. Nick's sharp mind, ongoing involvement and wise contribution have been invaluable to us, and we are deeply grateful to him.

I can recollect few companies which have had such a sustained and varied period of challenge covering so many areas of activity both strategic and operational. Without the skills of your executive team and the commitment of all employees, such an outcome as we have experienced would scarcely be credible. I would like to thank them on your behalf for their continued efforts.

The next few years will again present rapid change in the utilities sector offering both opportunities and challenges. ScottishPower has established a sound business basis with a breadth of operations and achieved excellence in working for, and caring for, customers. In addition, we have provided growth potential and enhanced income to our shareholders. Looking forward, the ScottishPower group is now uniquely placed to exploit the opportunities presented by the full liberalisation of the energy markets and this will be our principal focus in the year ahead.

Murray Stuart
Chairman
15 May 1997

Building a leading UK multi-utility business



Ian Robinson Chief Executive

In seeking the most effective ways to realise the group's potential in the interest of shareholders and customers, ScottishPower has been transformed from an essentially local electricity company into a national multi-utility offering a broad mix of services.

The purchases of Manweb in October 1995 and Southern Water less than a year later have expanded our core trading areas to three important and varied geographic bases – Central and Southern Scotland, North West England and North Wales, and much of South East England. As a result we now serve 1 in 5 of all UK homes with one or more ScottishPower services.

The two acquisitions and their successful integration have laid the foundations for ScottishPower's UK business, creating a broadly based utility group that is strongly placed to add value for shareholders and customers.

Building Businesses

The strength of the company is founded principally on the efficiency and quality of our Scottish energy businesses, which have year-on-year increased electricity sales while providing an enhanced level of customer service. In these businesses we have made considerable progress towards our aim of achieving best in class performance, our efforts being driven by benchmarking exercises against the very best international companies. The skills which we developed in Scotland have been transferred to Manweb and this has resulted in lower costs and higher levels of service in that business.

Looking ahead the greatest challenges for the energy businesses of ScottishPower and Manweb are the liberalisation of the electricity and gas markets in 1998 – challenges that we are well placed to meet.

Our developing businesses, Retail and ScottishTelecom, have grown rapidly. Our portfolio of electrical retail stores now stretches throughout the UK from Inverness to Southampton. Our move into telecommunications exploited the company's existing private network and we now have a successful Scottish telecommunications business.

Through the acquisition of Southern Water we have completed the foundations of our UK utility business. The priority in Southern Water is to deliver value by focusing on the core water and waste water activities. In addition, Southern Water gives us a base from which to grow energy sales in Southern England. We participated in the Southern gas trials which commenced in March and we were delighted to win 70,000 gas customers. Southern Water's skills also provide the group with the expertise to participate in projects to upgrade the waste water infrastructure in Scotland.

The ScottishPower group is now uniquely positioned to exploit the opportunities presented by the full liberalisation of the energy markets, which is expected in 1998. Our multi-utility portfolio will give us economies of scale unavailable to our competitors, while providing customers with greater choice and added convenience from dealing with a single utility company.

Business review – Energy businesses

The award of the Charter Mark to ScottishPower underlined the commitment of our energy businesses to continued improvements in customer service, all the more important as we prepare for competitive energy markets. At the same time prices have continued to be reduced in real terms to business and domestic customers.

The Customer Service Centre within the newly refurbished Cathcart Business Park in Glasgow is now operational 24 hours a day, 365 days of the year, and this centralisation has resulted in lower costs and improved customer service. The Centre was officially opened in December by George Robertson, then Shadow Secretary of State for Scotland. Three months later the Business Park itself was opened by The Princess Royal.

We have worked hard to maintain ScottishPower's traditionally high customer service standards. In 1996-97 we delivered more than 1.8 million services under guaranteed standards as defined by the Office of Electricity Regulation (OFFER). Supplying the highest quality service in the most cost effective manner drives all our operations and this approach is winning in the already highly competitive market for large business customers. A substantial contract to supply electricity to Motorola's three Scottish plants, won in January, is a prime example of the kind of business which the company is actively exploring with a range of big customers in power critical industries such as electronics.

The interface between our energy supply and generation activities is managed through a newly established central energy trading group. This group will ensure that we achieve the best commercial arrangements possible in the wholesale electricity and gas markets through a portfolio of contracts that match supply and demand.

Continued investment in our Generation business has been made to extend the life of the company's coal-fired power stations, to meet increasingly tight environmental legislation and to confirm our position as one of the UK's largest wind farm operators. The benefits of the company's past investments in generation were visible during the year with increased output from our fossil-fuelled power stations at the same time as unit costs were reduced. The business has now met its benchmark targets, a year ahead of schedule, and has, we believe, achieved upper decile performance against an international peer group.

The sale of our low cost electricity from Scotland into the England and Wales Pool exceeded by 5% the level of the previous year.

Helped by further fine tuning, the average capacity of the interconnector reached 1,300 megawatts (MW), and future sales will be boosted when the upgrade to 2,200 MW is completed. The timing of this is subject to the granting of planning permission by the President of the Board of Trade. This should lead to lower electricity prices for customers across the UK.

Increasing electricity sales outside Scotland will substantially expand the requirements of the company's power stations for coal. We hope to meet these needs from Scottish Coal, currently our main supplier, however, this will be subject to normal competitive processes.

Despite a major programme of investment in our wires network, which has taken place over a number of years, December saw the most destructive storm ever to hit our distribution system. A freak combination of high winds and rapidly icing snow brought down over 100 steel towers and poles in the Borders region of Scotland. Teams brought in from all the ScottishPower regions, Manweb, our contractors and Hydro-Electric, worked around the clock for five days to help local linesmen restore power to customers. At the same time our customer service staff provided support to vulnerable members of the communities affected.

Manweb

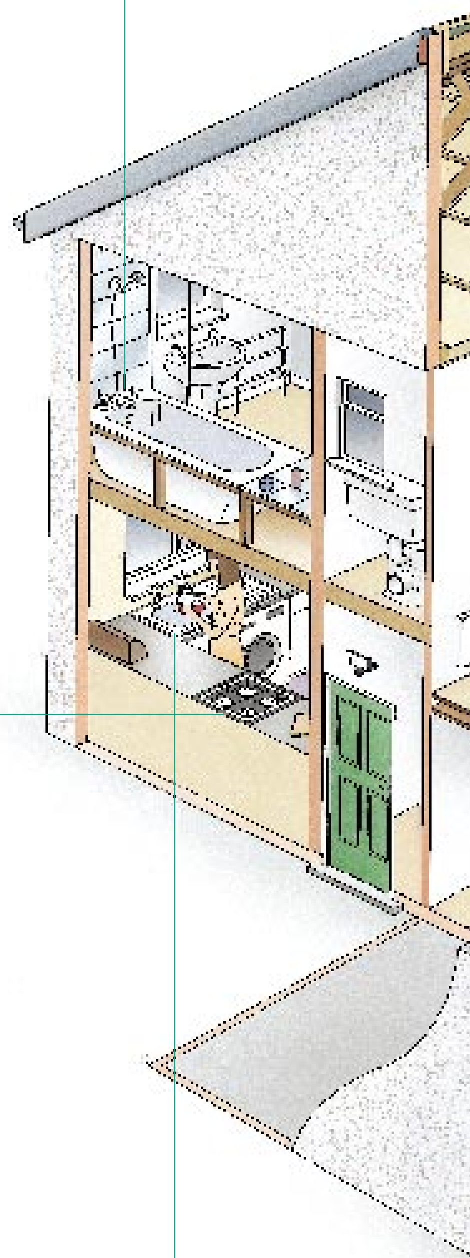
The final stages of the Manweb transition plan have been completed and the targets for reductions in manpower and operating costs have been beaten. Operating costs in 1996-97 were £61 million lower than in 1994-95, the last full year prior to acquisition, and were some £4 million better than our original target. The Manweb headquarters is now in the process of being sold and a small corporate team has been relocated to a smaller, modern building in Chester. In addition, we have announced plans to bring the management of the energy businesses in Scotland and Manweb closer together and this will result in further operating cost savings over the original Manweb transition targets.

During this period of integration and change, Manweb has succeeded on all fronts. The company continued to provide better service to customers, regaining the highly prized Charter Mark and achieving the international quality accreditation ISO 9002.

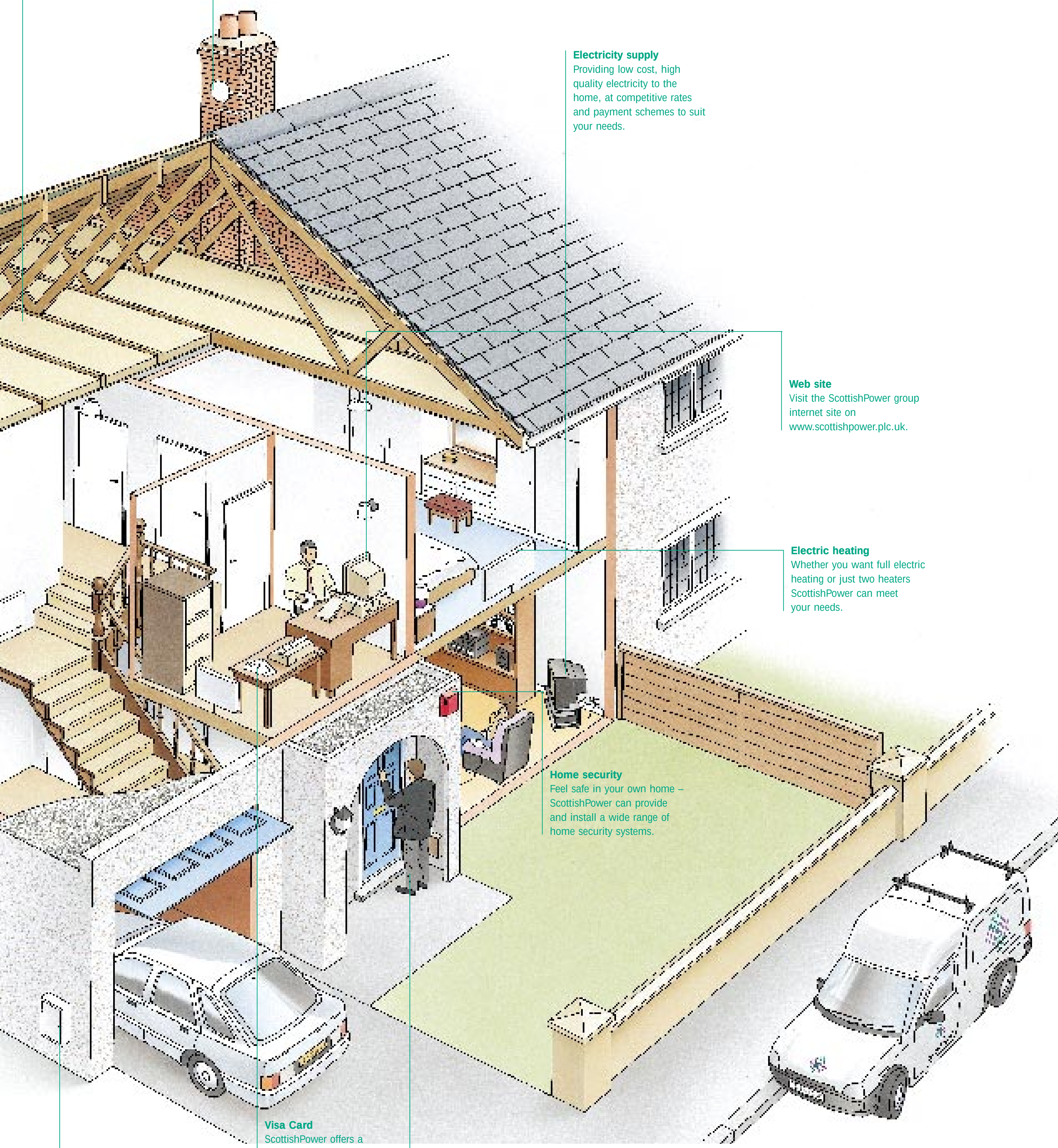
The performance of the Manweb electricity network has further improved. During the year, customer minutes lost were down by 12%, while guaranteed standards payments to customers for failing to provide the relevant services were reduced by 67%. According to OFFER, Manweb's Merseyside region had the most reliable distribution network in the UK.

Continuing the drive to win back customers, the group's share of the competitive electricity supply market in the Manweb region recovered to 26%. As part of ScottishPower, Manweb's electricity customers have enjoyed three price reductions in real terms.

Underlining its commitment to its Welsh speaking customers, Manweb has become the first privatised utility to have its Welsh language scheme approved by the Welsh Language Board.



ScottishPower – providing utility services to the home



1
The gas reburn project at Longannet power station, which boosts the performance of coal-fired boilers while reducing emissions, has won a major Business Commitment to the Environment award.

2
The new Power Systems Management Control centre uses state-of-the-art technology to supervise the operations of ScottishPower's distribution network. The Hamilton-based operation replaces the three previous centres and helps the company maintain its traditionally high performance standards.

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Southern Water

The integration of Southern Water into the ScottishPower group is proceeding well and we are ahead of the targets contained in the Interim Statement published in December 1996. The business has been refocused on its core water and waste water activities and a new county-based structure has been put in place. As a result of this clear focus, our early efficiency drive and the elimination of duplicated activities at the corporate level, manpower numbers have already been reduced by 624, a decrease of 14%. The programme of non-core business disposals, which we forecast would raise £70 million in total, has begun with the sale of IT Southern, which realised £11 million. Further sales will follow during 1997-98. We also expect to realise an additional £30 million in cash through the disposal of surplus property and already 10% of this target has been achieved. Overall, we are on course to meet our target to improve profitability by £52 million per annum and to release £100 million of cash from disposals.

Southern Water customers will also benefit. During the period 1997-2000 prices will be held below those allowed under the company's regulatory pricing formulae. This was agreed with the regulator at the time of the acquisition. In addition, a significant investment is being made in a new centralised call centre at Worthing, based on our service centre at Cathcart, which will lead to improvements in our billing and customer relations activities.

Southern Water's capital programme to meet the regulatory requirements and to ensure environmental compliance and water supply security is being accelerated. Three new waste water treatment works have been commissioned as part of Operation Seaclean and the largest storm water tunnel in Europe is nearing completion at Brighton. Nine out of ten bathing waters in the Southern Water region now meet European Union standards compared with four out of ten eight years ago.

The drought in the South East of England continues but under ScottishPower management a region-wide series of improvements to water supplies and new mains, pumping stations and other improvements has been accelerated. At the end of the normal winter recharge period Southern Water's reservoirs were over 90% full. Whilst aquifer levels are clearly low for the time of year, they are generally at the levels of one year ago. Existing water resources are better able to be distributed through new pipelines. A pipeline from Bewl Reservoir on the Kent county boundary with Sussex will take supplies from Bewl to Darwell Reservoir in East Sussex. Another 12 mile pipeline can take supplies from the River Rother to the Sussex coast. In Hampshire, a

3
Manweb is one of the leaders in ensuring rural communities benefit from energy efficiency schemes. Dairy farmers have seen their electricity costs fall after the installation of highly efficient milk cooling equipment.

4
Southern Water customers will benefit from a significant investment which is being made in a new centralised call centre at Worthing.

5
The quality of water supplied by Southern Water is officially recognised as among the best in Europe and losses through leaks in the distribution system have been halved since privatisation.

3

4

5

new reservoir of 60 million gallons capacity has been built at Testwood to serve 200,000 people in Hampshire and the Isle of Wight.

Southern Water has one of the best records in the water supply industry on leakage. Losses through leaks in our distribution system stand at 13.2% compared to 26% at the time of privatisation, with a target to achieve 10% by the year 2000. The company now saves 26.5 million gallons of water every day, enough to serve a population of 400,000. Last year alone 14,000 leaks were tracked down and repaired. All of these measures will help the water supply situation for the benefit of customers.

Southern Water is pleased to report that the quality of our water is officially recognised as among the best in Europe, helped by state-of-the-art treatment processes to reduce levels of pesticide to exceed the stringent EU water quality standards.

Information Systems

Our Information Systems Division is playing an ever more important role in the ScottishPower group to meet the complex challenges facing a multi-utility operating in a market that will soon go fully competitive. It is a key enabler for all the businesses and by exploiting the economies of scale and synergies across the group we are able to gain competitive advantage unavailable to our competitors.

Major projects delivered by the information systems team have included a series of asset management tools for Power Systems which give geographic information, project planning and trouble call facilities and a new shop system for the Retail business. Information Systems have delivered the systems which underpin the new Customer Service Centre at Cathcart and are currently rolling out new billing systems. Metering, settlements, the development of the billing systems and electricity and gas trading programmes for generation will be key projects in the year ahead. The quality of the Information Systems Division was demonstrated with the award of ISO 9001 during the year.

Multi-utility

An executive director, Duncan Whyte, has been charged with the responsibility of developing the multi-utility aspects of the group's business. While multi-utility can be defined in a number of ways, ScottishPower's approach is twofold. First, extending the range of services that we offer our customers, for example through the sale of gas and secondly, the application of the skills, developed through the management of large electricity assets, to other large assets and multi-utility infrastructures.

The 'cross-selling' of utilities is being made possible by the liberalisation of the energy and telecommunications markets.

1

2

3

4

1
Retail's 158 outlets throughout the UK have been installed with an advanced system which will improve stock control and enhance customer service.

2
ScottishPower offers a glimpse of the future in its SmartHome at the 'Tomorrow's World Live' exhibition in Birmingham. It showed how customers in the next century will be able to take control over their homes.

3
The new Customer Service Centre at Cathcart Business Park handles more than 50,000 calls a week, covering all billing and service enquiries from the 1.8 million customers in Scotland.

4
ScottishPower has been successful in the Southern gas trials winning more than 70,000 customers in Kent and Sussex.

From 1998 the domestic electricity market will be progressively opened up to competition. ScottishPower is investing substantial financial and manpower resources to ensure that competition is introduced smoothly and effectively. However, it is a large and complex process which requires all parties involved to deliver their part of the process.

Our first major step towards extending the range of services offered to domestic customers was our participation in the gas trial in Kent and Sussex, a large part of the Southern Water territory. This has proved to be very successful, with ScottishPower winning 70,000 customers, some 8% of the market in the areas already mentioned. We believe this was more than any of the other new entrants and gives us confidence that we will do even better when the Scottish domestic gas market opens up later in the year. This will enable us to offer our Scottish customers a range of utility services in electricity, gas and telecommunications and we would expect to offer electricity in the Southern Water region, and gas in both Manweb and Southern Water from Spring 1998. We are evaluating the possibility for the longer term of offering additional services.

Good progress has been made on multi-utility infrastructure projects and new connections in the commercial sector. For example, the Power Systems business has won a major project to supply the electricity connection for the LG Group semi-conductor and electronics factories in South Wales.

We are using the skills we have acquired from the Southern Water business to compete for waste water infrastructure projects in Scotland, as part of the Private Finance Initiative. The value of the projects is estimated to be around £1 billion over the next ten years and ScottishPower expects to win a substantial share of these. As outlined above, we have made good progress on a variety of multi-utility projects and we are well placed to develop these in the coming year.

Developing businesses

ScottishTelecom has grown rapidly and has established an impressive niche in the Scottish telecommunications market, enabling it to break even in only its second full year of operation. ScottishTelecom now provides a service to over 250 business customers and in April 1997 launched services to residential customers, who enjoy the benefit of the latest fixed radio access technology, which eliminates the need for new cabling and leads to reduced prices.

The volume of calls on the ScottishTelecom network is increasing rapidly with further growth coming from the expanding range of services being offered by the business. ScottishTelecom now accounts for 12% of the customers

5
Major investment in the wires business has been made to improve the quality and reliability of electricity supply, enhance customer service and provide for new connections.

6
Hagshaw Hill wind farm in Lanarkshire, opened in August 1996, confirms our position as one of the largest wind farm operators in the British Isles with over 50 MW of capacity.

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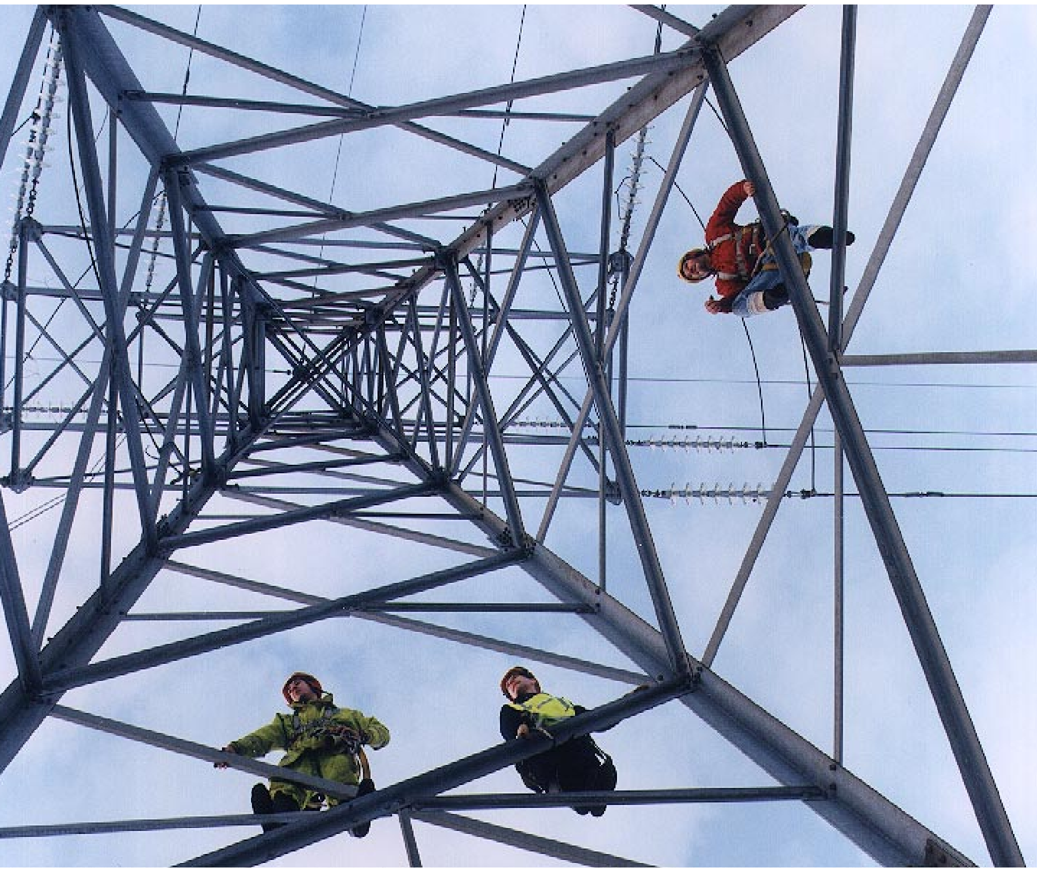

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in the Scottish mobile market and has moved into the provision of value added services. The recent acquisition of Telephone Information Services complements our existing Teledata business and our services now include ‘Club Call’, ‘Prestel’ and ‘Weather Call’. Some £100 million has been invested in ScottishTelecom to date and our aim is to capture 10% of the Scottish telecommunications market by 2000, which is then forecast to be valued at £2 billion.

Retail has continued to perform well with like-for-like sales up 6.5%. Ten stores were opened during the year, of which three stores were in the Southern Water area, making our total number of retail outlets across the UK 158. More than 70% of total selling space is in superstores, an important factor in Retail’s growth. We are now the third largest electrical retailer in the UK. The business has diversified its product range and is moving into the personal computer market after a successful trial period. During the year a new system has been introduced which will improve stock control and enhance customer service through more flexible delivery scheduling.

Our smaller businesses, Technology and Contracting Services, have continued to grow their portfolio of external work and are trading profitably.

Environment

ScottishPower is committed to protecting the environment. This was recognised by a survey of FTSE 100 companies commissioned by Business in the Environment which placed us in the top quintile of leading industrial companies, with businesses such as British Airways and Marks & Spencer.

Major investments have been made to reduce the environmental impact of our energy businesses. The first boiler at the Longannet power station converted to burn gas and coal is now commissioned, allowing the plant to burn more coal with lower levels of gaseous emissions. The project won a Commendation in the 1996 Business Commitment to the Environment scheme.

Our generation portfolio has been enlarged with the purchase of the Hagshaw Hill wind farm in Lanarkshire and the construction of the Barnesmore site in Donegal. This confirms our position as one of the largest wind farm operators in the British Isles with more than 50 MW of capacity.

In ScottishPower and Manweb a significant campaign to promote energy efficiency is being carried out. Working with Age Concern, 100,000 low energy light bulbs are being distributed to senior citizens throughout the Manweb region and in Scotland customers are also benefiting from energy efficiency schemes such as cavity wall insulation.

2
Many employees and their families have benefited from the expansion of open learning facilities which now extend throughout the group.

3
Drive for Youth is one of the several organisations being partnered by the ScottishPower Learning business. The Learning business is a £4 million initiative in partnership with the trade unions.

4
Marwell Zoo, Winchester, was one of the beneficiaries of Southern Water's initiatives when its flock of penguins were provided with their own water main in time for the official opening of Penguin World.

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1
Dave Williams, who suffers from cerebral palsy, operates a specially adapted keyboard as part of his analyst/programmer duties and was a member of the team that won the ScottishPower group business game.

At Southern Water the construction of a new reservoir at Testwood Lakes in Hampshire is enabling the company to establish a nature conservation area with some 60,000 shrubs and trees being planted to create a habitat for birds and otters. In addition, the Little Testwood Reservoir is being stocked as a coarse fishery. Special platforms have been constructed for fishermen and several are specially designed for use by the disabled.

Full details of our environmental credentials are given in the Environment Report which is available from the Company Secretary.

Regulation
ScottishPower has continued to work closely with the electricity and water regulators on a range of issues.

ScottishPower is currently participating in the OFFER review of the Supply Price restraint, with a view to determining what form of restraint should be applied. This review will include discussions on the pricing of the generation component of the supply price and follows a one year agreement, starting in April 1997, on the Scottish trading arrangements.

At Southern Water a proactive working relationship has been developed with the water regulator and a firm set of investment performance milestones have been agreed, which extend through to the year 2000. An enhanced Customer Service Charter has been introduced and a more positive approach to metering has been adopted as part of Southern Water's Water Efficiency Plan. Following discussions with OFWAT, Southern Water has also introduced a targeted programme of sprinkler use metering in those areas where water resources are under most pressure.

Safety
Safety is at the heart of our business. This was recognised by the Royal Society for the Prevention of Accidents by the award of a gold medal for the company and eight individual gold medals for the Power Systems and Generation businesses. These awards recognised the continuous improvement in the company's safety record over the last five years.

We were saddened by the recent fatal accident which occurred at one of our Glasgow substations. Inquiries, both internal and external, into the cause of this accident were initiated and we await their outcome.

Community and Employees
Gaining the trust of the communities within which we operate is one of our core values. Our investment in this important stakeholder group is encompassed in a range of initiatives, the largest of which is the ScottishPower Learning business, a £4 million initiative in partnership with the trade unions. It is designed to provide learning and development

5
Over the past four years Southern Water has helped around 150,000 children learn to swim, under a scheme operated in conjunction with the Amateur Swimming Association.

6
The ScottishPower Pipe Band take the sound and colour of their native land throughout the UK and overseas as part of the company's sponsorship of a range of musical and artistic groups.

7
Annual firework and laser symphony concert at Southern Water's Bewl Reservoir, Kent.

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opportunities for some 300 unemployed adults and last October the first groups started training courses in the ScottishPower and Manweb areas.

ScottishPower has already expanded the initiative through the utilisation of its long established Open Learning network to provide skills and personal development for schoolchildren from deprived urban areas. The Learning business is also partnering a range of other organisations with complementary objectives such as the Prince's Trust, Drive for Youth and Outward Bound.

Full details of our commitment to the community are to be found in our Community Report, which is available from the Company Secretary.

Throughout the year we have continued to make a significant investment in the development of our people at all levels in the organisation. Young employees are benefiting through the young high potential programme, while all managers are about to participate in a values-based development programme. The company's distance learning MBA and business leadership programme are also continuing.

Many employees have benefited from the expansion of the group's Open Learning facilities which now extend throughout the group. In Manweb 36% of staff and in Southern Water 30% of staff are already enrolled in study programmes. New health care initiatives to supplement the current health screening programme are being developed and include new health and fitness clubs which are being introduced at our larger centres.

Summary

This has been an excellent year for ScottishPower, with both a strong operating and financial performance and significant progress towards our objective of building a multi-utility business.

The company's success reflects the commitment of all our employees across the group, whose skills and enthusiasm are vital to the company's future growth. Looking forward, ScottishPower is well positioned for the future. We have a unique portfolio of services, with territories throughout the UK, backed by a strong management team that is looking forward to the exciting challenges ahead.

Ian Robinson

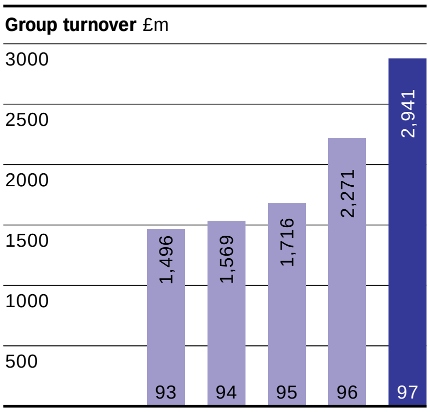
Ian Robinson
Chief Executive

Ian Russell Finance Director

This review discusses the ScottishPower group's financial performance for the year ended 31 March 1997. It provides detailed information about the market, turnover and profitability for each business, together with the associated capital expenditure. It also gives details of the group interest and taxation, cash flow, the growth in earnings per share and dividends, and the resultant balance sheet as at 31 March 1997.

Financial Highlights

	1997 £m	1996 £m
Turnover	**2,941**	2,271
Operating profit	**664**	434
Profit before tax	**558**	404
Free cashflow	**573**	242
Earnings per share	**38.11p**	33.12p
Dividend per share	**18.50p**	15.50p



Group financial results

Group turnover of £2,940.7 million was £669.2 million higher than 1995-96, reflecting growth in our Scottish-based businesses, the first full year of revenues from Manweb and the inclusion of post acquisition turnover from Southern Water. The rise in overall sales and tight control of costs led to a higher operating profit of £663.9 million, an increase of £229.6 million, or 52.9% on the previous year. Operating profit in the Scottish energy businesses rose by £19.4 million. Manweb made an increased contribution to operating profit of £97.3 million, while Southern Water made a first time contribution of £114.4 million, both of these were after reorganisation costs.

The net interest charge increased by £77.4 million to £107.5 million mainly due to the additional borrowings associated with the two major acquisitions, offset in part by additional cash flows arising from working capital control and a lower average cost of debt.

Profit before tax grew by 37.9% to £558.4 million. The lower effective tax rate, down from 27.0% to 24.5% due to the acquisition of Southern Water, resulted in profit after tax increasing by 42.7% to £421.6 million. With a weighted average 1,104.9 million shares in issue during the year, earnings per share were 38.11p, an increase of 15.1%.

The recommended final dividend of 12.33p per share brought the total dividend per share for the year to 18.50p, an increase of 19.4%. The dividend remained covered 2.1 times by earnings. This increase in dividend exceeds our stated aim of achieving sustainable 7% to 8% real growth per annum, whilst continuing to maintain a prudent level of dividend cover.

Free cash flow for the year was £572.7 million, an increase of £330.7 million due partly to the higher level of profitability and also the improved management of working capital. Capital investment totalling £459.7 million has been made across the group primarily to upgrade our wires networks, enhance the performance of our generating stations and meet increasingly strict environmental standards. In addition, capital investment increased due to the inclusion of a full year of expenditure at Manweb and investment during the post acquisition period at Southern Water.

Net debt increased from £632.1 million to £1,790.3 million, mainly due to the acquisition of Southern Water. However, gearing of 117.5% at 31 March 1997 was less than previously forecast, and interest cover remained prudent at 6.2 times.

Group turnover

Group turnover of £2,940.7 million was £669.2 million higher than 1995-96, an increase of 29.5%. Total energy sales, consisting of ScottishPower and Manweb, increased by £291.4 million mainly as a result of the inclusion of the first full year of Manweb. Southern Water's post acquisition turnover was £316.2 million and the group's developing businesses increased their turnover by £54.9 million.

ScottishPower energy sales are divided in Table 1 into four market segments: first tier sales which represent the sale of electricity to customers in the Scottish franchise area; second tier sales by ScottishPower to customers outside the Scottish franchise area; wholesale, which is the sale of electricity to other electricity companies and to

Table 1 Energy turnover	1996-97 £m	1995-96 £m	Change £m	Change %
ScottishPower				
First tier electricity	**1,150**	1,224	(74)	(6)
Second tier electricity	**102**	66	36	54
Wholesale electricity	**196**	179	17	9
Other energy sales	**94**	91	3	3
Manweb	**738**	429	309	72
Total	**2,280**	1,989	291	15

the Pool in England and Wales; and other energy sales which include the sale of gas by ScottishPower, largely to commercial and industrial customers in the UK.

In the first tier market, the domestic sector saw unit sales growing by 0.7% and prices reducing in real terms, reflecting the benefit to customers of lower generation costs. As expected, both prices and sales volumes to industrial and commercial customers showed some decline, due to competitive pressures. As a result overall first tier turnover fell to £1,150.3 million, a decrease of 6.0% over the previous year.

In contrast, second tier volumes showed a substantial increase for the third year running, up by 73%. Turnover was £35.7 million higher at £101.8 million which reflected our success in winning new customers. In part this arose from the combination of the ScottishPower and Manweb sales forces which led to all new customers contracting with ScottishPower.

Wholesale electricity sales increased by 731 GWh to 6,650 GWh as a result of higher sales to other suppliers and increased exports. The average capacity of the interconnector reached 1,300 MW, up from 1,270 MW last year, with sales to England and Wales growing by 292 GWh to 5,822 GWh. As a consequence, wholesale turnover increased by £17.2 million to £195.6 million.

Other energy sales grew by 3.2% to £94.2 million. An increase in third party use of system charges was partially offset by a reduction in commercial gas sales, reflecting lower market prices and volumes.

Manweb's energy turnover for the year was £738.4 million. After adjusting for the £60.9 million customer rebate paid in 1995-96, which resulted from the flotation of the National Grid Group, turnover fell by 6.1% or £48.3 million. This reduction was partially attributable to a fall in franchise revenue, due to the pass through to customers of lower electricity purchase costs, and lower competitive sales in Manweb arising from the combination of the ScottishPower and Manweb sales forces, as mentioned above.

Southern Water's turnover for the full year to 31 March 1997 was £474.5 million, an increase of 11.7% or £49.8 million on the previous year. Of this increase, £27.5 million related to the retained core businesses and the balance arose largely from the acquisition, before our bid, of the vehicle leasing company VCHL. In the period after acquisition by ScottishPower, Southern Water's turnover was £316.2 million.

Turnover in the **developing businesses** increased by £54.9 million to £327.5 million. The strong growth in our Retail business continued, with sales up by more than 11% to £267.7 million, reflecting not only the 10 stores opened during the year but also improved performance in our existing stores. ScottishTelecom also reported a significant rise in external turnover, up £31.2 million to £37.0 million. This was attributable to an increased number of customers in ScottishTelecom, the first year of results from Teledata and the post acquisition contribution from the Woodend group, which was acquired in August 1996.

Group operating costs

Cost of sales has increased by £368.5 million to £1,743.5 million

Table 2 Group operating profit		1996-97 £m	1995-96 £m	Change £m
Generation Wholesale	Generation	**132.0**	130.3	1.7
	Wholesale	**14.1**	20.1	(6.0)
Power Systems	Transmission	**77.3**	66.5	10.8
	Distribution	**150.7**	148.3	2.4
Energy Supply	First tier electricity	**39.4**	31.4	8.0
	Second tier electricity	**(3.2)**	(4.4)	1.2
	Other energy sales	**(3.8)**	(5.1)	1.3
Scottish Energy businesses		**406.5**	387.1	19.4
Manweb		**135.0**	37.7*	97.3
Southern Water		**114.4***	–	114.4
Developing businesses		**8.0**	9.5	(1.5)
Total		**663.9**	434.3	229.6

*after reorganisation costs

mainly due to the full year effect of Manweb, the inclusion of the post acquisition results of Southern Water and increased sales volumes in the developing businesses. ScottishPower energy businesses' cost of sales reduced by £20.9 million which included lower nuclear contract costs arising from the change of price to the market rate in England and Wales following the privatisation of British Energy. Our own generation costs increased due to higher fuel costs offset by reduced station costs resulting from our benchmarking programme. Increased cost of sales in the second tier market reflected increased volumes offset by lower Pool prices.

The focus on operational efficiency has resulted in operating cost reductions across all of our energy businesses. Transmission and distribution costs, excluding Manweb, were £2.6 million lower despite increased depreciation charges of £4.3 million arising mainly from investment in the transmission and distribution networks. Administrative expenses in the ScottishPower energy businesses fell by £14.5 million. In Manweb, operating costs were £61.0 million lower than in 1994-95, the last full year prior to acquisition, and were some £4.0 million lower than our original target. In Southern Water, higher costs associated with the commissioning of new capital schemes were offset by operating cost savings implemented under the transition plan, which achieved cost savings £1.0 million ahead of target.

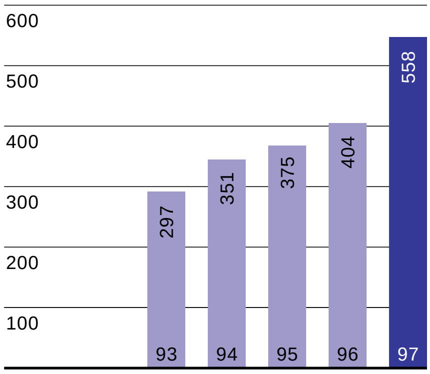
Group operating profit

Group operating profit was £663.9 million, an increase of 52.9%. Operating profit in the Scottish energy businesses increased by £19.4 million reflecting increased use of system charges and the continued drive for cost efficiencies. Manweb contributed an additional £97.3 million arising principally from the inclusion of results for a full year and cost savings delivered by the acquisition transition plan in 1996-97. Year-on-year, Manweb's operating profit increased by 6.6% from £126.6 million to £135.0 million. Southern Water contributed £114.4 million, after reorganisation costs of £21.2 million, in the period following its acquisition in August 1996. For the full year Southern Water's operating profit was 17.2% higher, reaching £200.0 million versus £170.6 million in the previous year. The developing businesses increased profits by £4.7 million before allowing for the initial costs of gas trials and other new business initiatives.

The profit of the Generation Wholesale business decreased by £4.3 million, as can be seen in Table 2, mainly due to lower wholesale electricity margins offset in part by reduced costs and increased volumes. The profitability of the generation component grew by £1.7 million to £132.0 million due to higher sales volumes, up 2% to 29,024 GWh, and reduced operating costs. The profitability of the wholesale component fell by £6.0 million due to reduced margins although this was offset in part by the increased volume of sales to England and Wales.

In Power Systems, overall profit increased by £13.2 million. Transmission operating profit was £10.8 million higher due to increased revenues from the use of the high

Group profit before tax £m



voltage network and greater interconnector availability. Allowing for restructuring costs and additional depreciation arising from capital investment, costs were reduced by £4.0 million in real terms. Distribution profit increased by £2.4 million, primarily as a result of higher distribution charges and an increase in volumes, up 503 GWh to 21,686 GWh. Real cost savings of £4.0 million were offset by increased depreciation, restructuring costs and storm damage arising from severe weather in December 1996.

In Energy Supply, first tier profit grew by £8.0 million to £39.4 million, mainly due to further cost efficiencies, including the centralisation of the customer call centres last summer, and the release of provisions following the conclusion of a number of employment claims. These benefits were in part offset by the effects of further competition. Losses of £3.2 million in the fiercely contested second tier electricity supply market were £1.2 million lower as a result of tighter cost control, while the operating loss in the commercial gas market was reduced by £1.3 million to £3.8 million. While both these markets remain very competitive, our aim is to contain losses as we build market share.

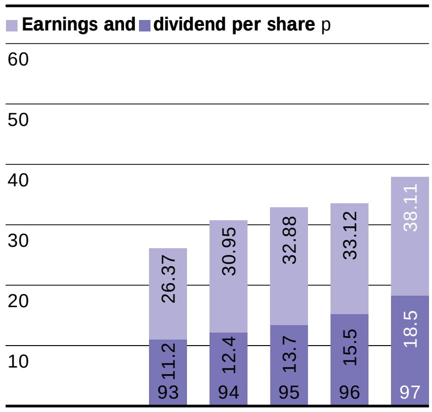
Operating profit for Manweb was £135.0 million, an increase of £8.4 million compared to the full year of 1995-96. The distribution business contributed £113.9 million and supply £21.1 million. The increased profit reflected cost savings, ahead of target, arising from ScottishPower management, offset in part by price reductions.

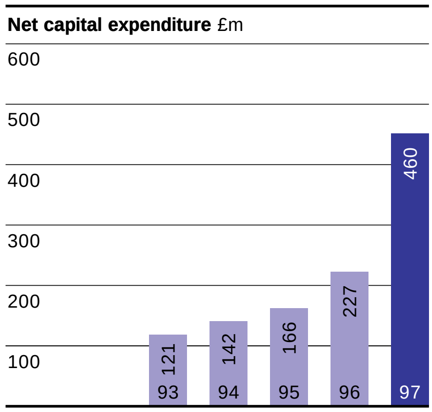
For the full year, Southern Water's operating profit increased by £29.4 million to £200.0 million, primarily as a result of higher turnover in the water and waste water services business. Higher costs associated with the commissioning of new capital schemes were offset by operating cost savings already implemented under the transition plan. In the period after the company's acquisition by ScottishPower, Southern Water's operating profit totalled £135.6 million before reorganisation costs of £21.2 million.

Operating profit in the developing businesses grew by £4.7 million to £14.2 million before initial costs of new business opportunities, predominantly the Southern gas trials. This reflected increased performance in all businesses with Retail up from £12.4 million to £14.1 million. ScottishTelecom improved its performance with increased call volumes and an expanded range of value added services. This led to the business breaking even in 1996-97 as forecast in last year's Annual Report and Accounts.

Interest and taxation

The net interest charge of £107.5 million was £77.4 million higher than in 1995-96. The increase reflected the additional borrowings associated with the acquisitions of Manweb in 1995 and Southern Water in 1996. The effect on interest of the growth in borrowings was offset both by additional cash flows arising from improved management of working capital and a lower average cost of debt as new borrowings and interest rate swaps were arranged to take advantage of declining interest rates. At the same time the average period for which interest costs were fixed was extended from four to eight years, whilst interest cover





remained prudent at above six times.

Profit before tax grew by 37.9% to £558.4 million, while the effective tax rate fell to 24.5% of pretax profit compared to 27.0% in 1995-96. For the group as a whole, the difference between the statutory corporation tax rate of 33% and the group's effective tax rate continued to be accounted for almost exclusively by the relatively high level of capital expenditure which gave rise to tax allowances in excess of the accounting depreciation charge for the year. The changes which were enacted in the Finance Act 1997 to reduce the tax allowances available for capital expenditure on plant and machinery with a life of more than 25 years have had minimal effect on the tax charge for 1996-97 but are expected to result in higher effective tax rates in future years.

Earnings and dividends

The profit after tax for the year amounted to £421.6 million, an increase of £126.1 million. With a weighted average 1,104.9 million shares in issue during the year, earnings per share were 38.11p, an increase of 15.1%. This reflected the continuing strong performance of the Scottish energy businesses and further growth in the developing businesses. Earnings per share also grew as a result of the acquisitions of Manweb and Southern Water, both of which were earnings enhancing in 1996-97.

The recommended final dividend of 12.33p per share brought the total dividend per share for the year to 18.50p, an increase of 19.4%. The dividend remained covered 2.1 times by earnings. This increase in dividend exceeds our stated aim of achieving sustainable 7% to 8% real dividend growth per annum, whilst continuing to maintain a prudent level of dividend cover.

Capital expenditure

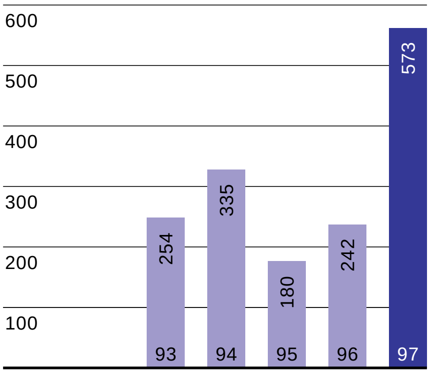
The company has continued to invest to build its businesses, with net capital expenditure for 1996-97 of £459.7 million, an increase of £232.3 million over 1995-96.

Capital expenditure in Generation Wholesale was £77.2 million for the year, an increase of £46.1 million. Investment was targeted towards efficiency and environmental initiatives, together with renewable energy resources. Additional capital expenditure was incurred at Longannet and Cockenzie power stations with the continuation of the gas reburn project and installation of low NO_X burners. These projects will ensure that the group continues to minimise the environmental impact of its generation activities.

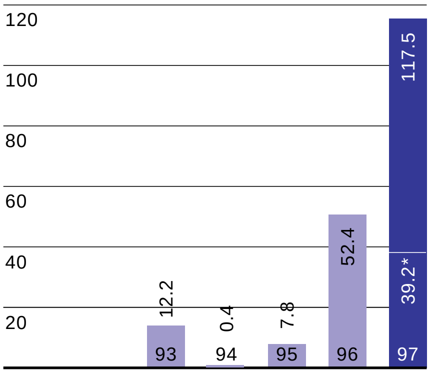
In Power Systems, net capital expenditure in 1996-97 amounted to £102.8 million, an increase of £6.2 million. In distribution £80.3 million was invested with £26.6 million spent on improving the quality and reliability of electricity supply to our customers and £32.3 million on expanding the system to meet demands for new supplies of electricity. The remaining expenditure in distribution was on improving customer service including faults and emergency procedures. In transmission, £5.9 million was invested to reinforce and refurbish targeted parts of the 132 kV system. The majority of the balance was in respect of systems expansion to support business opportunities and inward investment in Scotland.

In ScottishTelecom, £28.8 million was spent on new fibre optic

Free cash flow £m



Gearing %



* excluding Southern Water acquisition

networks and £18.9 million was invested in residential telecommunications. These investments will enable the business to meet the increasing requirements of existing and new customers.

In Manweb, net capital expenditure for 1996-97 was £75.1 million, up from £64.9 million last year, of which £34.7 million was post acquisition. Of the 1996-97 total, £17.8 million was spent on meeting new customer requirements with the majority of the balance directed at improving customer supplies and service.

In Southern Water, capital and infrastructure renewals expenditure for the full year totalled £211.7 million, of which £137.2 million was incurred following the acquisition on 6 August 1996. The full year total was an increase of £48.7 million compared with 1995-96. The investment in the regulated businesses in the year was £192.5 million which included £95.6 million as part of the ongoing programme to meet the higher standards set by European Union (EU) Directives on the quality of bathing water, urban waste water discharges and sludge disposal. Other expenditure included £35.5 million on water resources and water quality improvement projects, £34.2 million on enhancing and extending the water distribution network and £22.4 million on improvements to the waste water system and storm overflows to reduce the risk of flooding.

Cash flow

Cash flow has been the focus of much attention during 1996-97 with the result that we have successfully converted all of our operating profit into cash. Net cash inflow from operations increased from £408.7 million to £791.2 million. This resulted partly from the higher level of profitability in 1996-97 but also the improved management of working capital arising from specific initiatives including the allocation of more resources to debt collection and the development of improved systems. With the acquisition of Southern Water, net interest and tax payments were £51.8 million higher, giving free cash flow for the enlarged group of £572.7 million, up 136.7%. This enabled us to fund capital expenditure of £459.7 million and still be cash positive before acquisitions.

Cash invested in acquisitions was £1,234.6 million whilst dividends paid to shareholders increased by £46.9 million. As a result, net cash outflow before financing was £1,213.3 million in 1996-97.

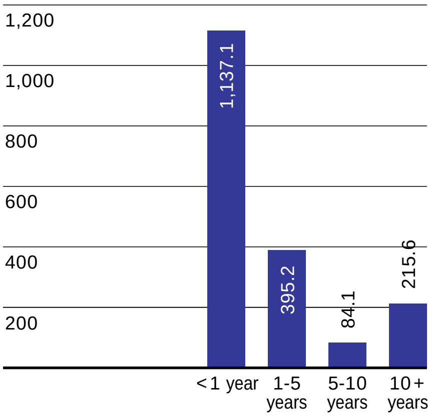
Allowing for receipts from shares issued, mainly in relation to the acquisition of Southern Water, of £238.0 million, net debt acquired of £168.6 million and loan notes issued of £14.3 million, net debt increased by £1,158.2 million during the year. As a result, at 31 March 1997, net debt amounted to £1,790.3 million. With shareholders' funds of £1,523.1 million, this gave a lower than fore-cast gearing level of 117.5%, up from 52.4% at 31 March 1996. Without the acquisition of Southern Water gearing would have fallen to 39.2% demonstrating the group's underlying strong cash flow in the year.

Treasury

The increase in net debt of £1,158.2 million arose principally from the acquisition of Southern Water and resulted in changes to the structure of the borrowings of the enlarged group. A five year revolving credit facility of £2,600 million was arranged with a syndicate of 39 UK and international banks and the group's Euro-Commercial Paper programme was doubled to $1,500 million. In addition the group has started the exercise of extending the maturity profile of its borrowings with the issue in January 1997 of £200 million of 8.375% bonds due 2017.

Uncommitted bank borrowings and commercial paper at 31 March 1997 totalled £1,052.7 million, of which £759 million, all swapped to sterling, related to the Euro-Commercial Paper referred to earlier. Although the uncommitted borrowings were all short term in nature, longer term cover was in place in the form of £2,500 million of committed facilities consisting of the undrawn portion of the revolving credit facility and bilateral bank arrangements.

Analysis of debt by repayment profile (31.3.97) £m



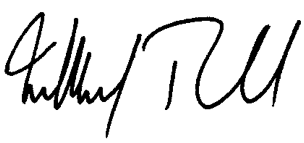
ScottishPower continues to ensure that net borrowings are financed from a range of competitive sources and that committed facilities are available both to cover uncommitted borrowings and to meet the financing needs of the group in the future. The group's credit quality is confirmed by long term credit ratings of Aa2/A+ and short term ratings of P1/A1 from Moody's Investors Service and Standard & Poor's respectively.

In order to manage the risk of exposure to fluctuating interest rates, the company maintains the majority of its debt at fixed rates of interest. This is achieved by a combination of fixed rate debt issues and the conversion of floating rate issues into fixed rate obligations by the use of interest rate swaps, interest rate caps and forward rate agreements. The group's use of such financial instruments relates directly to underlying indebtedness; no speculative or trading transactions are undertaken. The group treasury operates strictly within policies set out by the Board and is subject to regular examination by internal and external audits. At 31 March 1997, the interest rate on some 77% of debt was fixed and the interest rate on a further 11% of borrowings was capped. The weighted average period to maturity of year end fixed rate debt and swaps was eight years, whilst the forward cover on capped debt was for an average period of some five years. This provides adequate cover against the potential impact of interest rate movements. Accordingly, changes in floating interest rates will have a limited impact on interest payable by the group.

The group has limited exposure to foreign currencies. Commercial paper issued in currencies other than sterling is fully covered by forward contracts to convert the debt to sterling. Certain limited imports of capital equipment and fuel are denominated in foreign currencies and the sterling cost of these is fixed by means of forward contracts as soon as the company's contractual commitment is known.

Summary

These results reflect another strong operating and financial performance across the group. Profit grew in our Scottish businesses, in Manweb and in Southern Water whilst we achieved a lower average cost of debt and a lower effective tax rate. The resultant rise in earnings was backed by strong cash flow, leading to a prudent level of interest cover and a lower than expected level of gearing. These results give the group the financial strength to exploit the opportunities presented by the full liberalisation of the energy markets, our principal focus in the year ahead.



Ian Russell
Finance Director

Environment Statement and Safety Report

Moving towards sustainable development

Many of ScottishPower's operations have major environmental impacts. These include emissions to atmosphere from power stations, the visual impact of power lines and the use of water resources. We are committed to minimising the consequences of our operations through our considerable investments in capital and expertise whilst moving progressively towards sustainable development. However, our impact on the environment cannot be entirely eliminated. For example, our use of wind power creates a visual impact on the environment.

We are moving beyond simply complying with legislation by identifying the management issues faced by our businesses and ensuring that we address them adequately, setting improvement targets as necessary and measuring the results.

By consulting with our regulators and other stakeholders, we aim to devise the best policies, taking account of the different viewpoints on how we can minimise these impacts, whilst maintaining our commercial success.

During 1996-97 we made significant progress against targets in all key areas of environmental impact across the group. Some of our key achievements are set out below.

Corporate overview

ScottishPower's environmental record was recognised in the Business in the Environment Survey of FTSE 100 companies, where we secured a position in the top quintile for our environmental performance and communications.

Both Generation Wholesale's Longannet power station and Manweb achieved accreditation for their environmental management systems, being awarded BS 7750 and ISO 14001 respectively. In addition, Manweb, Power Systems and Generation Wholesale have launched a number of environmental initiatives with suppliers.

Fossil fuel use and emissions to atmosphere

ScottishPower's main emissions to the atmosphere arise as a result of burning fossil fuels at our power stations. These emissions include carbon dioxide (CO_2), the gas believed to contribute to global climate change, sulphur dioxide (SO_2) and nitrogen oxides (NO_x), which contribute to acid rain, and particulates which affect local air quality.

Our commitment to the reduction of NO_x emissions was demonstrated by the completion of the low NO_x burner installation programme at Longannet, and their fitment on a first unit at Cockenzie. To achieve further NO_x reductions we have fitted gas reburn to one unit at Longannet. Our commitment to dust emission was demonstrated by completion of the precipitator refurbishment programme at Longannet and the installation of fabric filters at Methil. We acquired a further 15 MW of wind generation capacity, thereby increasing our portfolio of wind energy, which will facilitate a reduction in CO_2.

Customer energy efficiency

Improving the efficiency with which our customers use electricity can significantly reduce emissions from power stations and is central to our environmental strategy. During 1996-97, energy efficiency measures were put in place under the Standards of Performance Scheme to achieve savings of 188 GWh in Scotland and 157 GWh in the Manweb region.

Waste management

The waste arising from Scottish Power's activities ranges from ash resulting from burning coal in our power stations, to waste packaging. In the past year Generation Wholesale has increased by 26% its sales of ash, most of which is used as fill material. Recycling played a major role in our waste management programme, with our Retail business recycling over 33 tonnes of cardboard packaging waste and plastic and our Contracting Services business recycling 95% of all waste paper produced at Cathcart Business Park.

Oil management

Oil contamination can be caused by leakages of oil, for example at substations and from underground cables. In the last year we have completed more than 90% of a programme to assess the environmental risks arising from oil leaks and we are replacing the already small proportion of underground cable which uses oil for insulation.

Water resources

Water is an essential resource and its management and conservation is of paramount importance. Southern Water has one of the lowest leakage rates of the water companies, at 13.2%, and is targeted to reduce leakages to 10% by the year 2000. Southern Water received the 1996 Communicators in Business award for its environmental publication 'Conservation Matters'.

Drinking water

Provision of clean safe drinking water is one of our prime service standards and during the last year Southern Water has achieved above average drinking water compliance, over 99.8%, against the standards set by the Drinking Water Inspectorate.

Waste water treatment

We treat waste water before releasing it into rivers and the sea. Since 1990 Southern Water has upgraded its waste water treatment works, resulting in 98% compliance with consents issued by the Environment Agency and a 23% improvement in river quality.
In addition, nearly 90% of bathing waters exceed European Union (EU) standards compared with only 41% in 1988.

Management of land and visual impact

An innovative substation lighting programme undertaken at our Dewar Place substation in Edinburgh, is an excellent example of our approach to the management of visual impact. In addition, we are continuing the theme of linking engineering and art through an initiative at our Kilmarnock grid supply point in partnership with Enterprise Ayrshire and East Ayrshire Council.

Transport

Vehicle exhaust emissions are believed to contribute to global warming and in the last year our Energy Supply business has sponsored two transport related initiatives: the Electric Bus with Strathclyde Passenger Transport and Glasgow City Council, and an electric vehicle research and development programme.

Summary

Further details of ScottishPower's environmental policy and performance can be found in the company's Environment Report.
A copy of the report is available on request from the Company Secretary.

Safety report

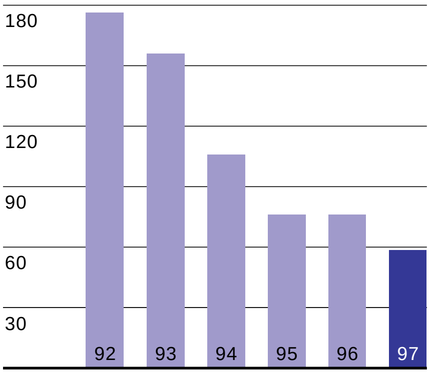
Working within a corporate framework, individual businesses are responsible for the safety of their own staff and operations. The Health and Safety Policy Committee, chaired by the Chief Executive, oversees the policies, standards and performances across the group. This flexible structure allows the businesses to focus on their own safety issues, whilst maintaining a corporate overview.

Over the past few years ScottishPower has made progress in improving standards of safety. In our Scottish businesses the number of accidents reportable under legislation has fallen and the number within Manweb has shown a marked reduction.

Despite these encouraging improvements, we are saddened to report that an accident at one of our Glasgow substations resulted in the death of two engineers. Internal and external inquiries into the cause of the accident are ongoing.

The standards achieved within the group have been recognised by the Royal Society for the Prevention of Accidents (ROSPA) with nine gold medals, four silver medals and three bronze medals awarded to various parts of the business, including a gold medal for ScottishPower itself.

Number of reportable accidents



ScottishPower Businesses
(excluding Manweb and Southern Water)

Community Report

At ScottishPower we have a commitment to all the communities in which we operate and we support a wide range of organisations which help to meet the many different needs of the customers we serve. Through charitable donations, sponsorships, financial and practical assistance and through the voluntary efforts of our people, we seek to enhance the lives of many sections of the community.

During 1996-97 the group contributed to a range of community programmes and initiatives. This commitment underpins our corporate value of gaining the trust of communities in which we operate.

Key programmes initiated in 1996-97 included the launch of the ScottishPower Learning business, a £4 million initiative in partnership with the trade unions, to provide training for 300 unemployed young people and adults combined with a wide-ranging schools initiative. The first groups started training courses in October in the ScottishPower and Manweb areas.

We have extended access to our Open Learning facilities to family and community members and now provide support to school pupils in Edinburgh, Glasgow, Liverpool and Wrexham. The ScottishPower Learning business is also partnering a range of organisations with complementary objectives such as the Prince's Trust, Drive for Youth and Outward Bound.

During the year we have provided practical assistance in response to local needs, for example, by laying a water supply to a children's hospice in Hampshire. In Manweb we supplied mains electricity to an islet in the Menai Straits, off Anglesey, to help the Duke of Edinburgh Award Scheme develop an outdoor pursuits centre for young people with disabilities. We also gave financial and employee assistance and goods in kind to a range of organisations concerned with helping the more vulnerable members of the community, such as Age Concern, The Big Issue and Citizens Advice Bureaux.

In Southern England, around 150,000 children have now benefited from our Learn to Swim programme and more than 500 ponds have been rebuilt or cleaned through our support of Pond Week.

Our support of the arts has been recognised by the ABSA National Award for 'Increasing Access to the Arts' through our sponsorship of the Royal Scottish National Orchestra. Other arts sponsorships include the Firework and Laser Symphony Concert at Bewl and the Chester Summer Music Festival.

ScottishPower is also committed to responding to the concerns of its key stakeholder groups – by working to understand their needs and expectations through dialogue and regular reporting of our activities and their impact. This year we have produced for the first time a Community Report which outlines our activity in support of the communities in which we work. We have also identified 10 key performance indicators that will direct our community activity throughout the group.

The company has produced for the first time, a full Report of our community activities. This is available on request from the Company Secretary.

Board of Directors

Non-executive directors

Murray Stuart CBE (63) joined the Board in March 1990 and was appointed Chairman in August 1992. He is a non-executive director of The Royal Bank of Scotland plc and of Willis Corroon Group plc and Chairman of Intermediate Capital Group plc. He was awarded the CBE in 1995 for his services to the Audit Commission, of which he was latterly Deputy Chairman. He is Chairman of the Hammersmith Hospitals NHS Trust and also serves on the Meteorological Committee and on the Private Finance Initiative Panel as the member for Scotland.

Sir Ronald Garrick CBE (56) joined the Board in February 1992 and is currently Chairman of the Audit Committee. He is Managing Director and Chief Executive of The Weir Group plc, the Glasgow based international engineering company, and a non-executive director of Shell UK Limited.

Sir Peter Gregson GCB (60) joined the Board in December 1996. He was previously Permanent Secretary of the Department of Energy from 1985 to 1989 and then Permanent Secretary of the Department of Trade and Industry until his retirement in June 1996. He is a member of the Board of Companions of the Institute of Management.

Baroness Jay of Paddington (57) joined the Board in September 1996. She was formerly Opposition spokesperson for Health in the House of Lords and a non-executive director of Kensington, Chelsea and Westminster Health Authority and Carlton Television, as well as serving on the Meteorological Committee. Baroness Jay resigned from the Board in May 1997 following her appointment as Minister of State in the Department of Health.

Nick Kuenssberg (54) became a non-executive director in March 1990, having previously served as a director of South of Scotland Electricity Board, and is currently Chairman of the Emoluments and Nominations Committee (in which capacity he will serve until his retirement from the Board at the Annual General Meeting). He is Chairman of David A Hall Limited, a non-executive director of The Standard Life Assurance Company, Stoddard Sekers International plc and other companies, a member of the Scottish Legal Aid Board and Chairman of the Institute of Directors, Scottish Division.

Ewen Macpherson (55) joined the Board in September 1996 and has been nominated to succeed Nick Kuenssberg as Chairman of the Emoluments and Nominations Committee following the Annual General Meeting. He is shortly to retire as Chief Executive of 3i Group plc which he joined in 1970. He is also a non-executive director of Foreign & Colonial Investment Trust plc and M&G Group plc.

John Parnaby CBE (59) joined the Board in September 1994. He is a member of the Executive Committee of LucasVarity plc and Group Director for Development and for the Geared Systems Division, having previously been Managing Director of Lucas Electronic Systems Products. He is immediate Past President of the Institution of Electrical Engineers, a member of the Government's Foresight Panel for Manufacturing, Production and Business Processes and a member of the Senate of the UK Engineering Council.

1 Murray Stuart
2 Sir Ronald Garrick
3 Sir Peter Gregson
4 Baroness Jay of Paddington
5 Nick Kuenssberg
6 Ewen Macpherson
7 John Parnaby
8 Ian Robinson
9 Michael Kinski
10 Ian Russell
11 Ken Vowles
12 Duncan Whyte

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Executive directors

Ian Robinson (55) was appointed Chief Executive in March 1995. He was previously with Trafalgar House plc where he was Chief Executive of John Brown and a main Board director. He is a Fellow of the Royal Academy of Engineering, a Fellow of the Institution of Chemical Engineers and a member of the Senate of the UK Engineering Council; he also serves as a non-executive director of Scottish Enterprise and of Lloyd's Register of Shipping and is a member of the Department of Trade and Industry's Overseas Project Board and the President's Committee of the Confederation of British Industry.

Michael Kinski (45) joined the Board in December 1992 as Human Resources Director. In December 1993, he became Executive Director Corporate Resources, responsible in that capacity for a diverse business portfolio, in addition to the company's human resources and information systems strategy. In October 1995, he was appointed Chief Executive of Manweb plc and then, in August 1996, Chief Executive of Southern Water plc. He retains responsibility at Board level for group human resources strategy and is Chairman of ScottishPower Learning. He was previously Personnel Director of Jaguar Cars Limited. He is a Fellow of the Institute of Personnel Management and a non-executive director of Tickford Limited.

Ian Russell (44) was appointed Finance Director in April 1994. He is a member of the Institute of Chartered Accountants of Scotland, having trained with Thomson McLintock, and has held senior finance positions with Hong Kong and Shanghai Banking Corporation and Tomkins plc. His role encompasses both the financial direction of the company and its corporate strategy, together with responsibility at Board level for the company's information systems and corporate affairs. He is a non-executive director of Scottish Investment Trust plc and of Scottish Knowledge plc and a member of the Investment Committee of the Scottish Equity Partnership.

Ken Vowles (55) joined ScottishPower in September 1990 and was appointed to the Board in September 1994. He is Executive Director Generation, and is responsible in that capacity for the company's Generation Wholesale and Technology businesses, including the Energy Trading Centre, and at corporate level for safety and environment policy. He has over 30 years' experience of the power generation industry, having previously served with the Central Electricity Generating Board and with National Power plc. He is a Fellow of the Institution of Electrical Engineers, a Fellow of the Institution of Mechanical Engineers and a Member of the Institute of Management.

Duncan Whyte (50) has been a director since March 1990, having previously been appointed Finance Director of South of Scotland Electricity Board in July 1988. In January 1993, he became responsible for the core electricity businesses; then, in November 1995, he was appointed Executive Director Strategic Development and, in August 1996, Executive Director Multi-Utility. In this latter capacity, he is now responsible for the company's multi-utility strategy, including its developing businesses in telecommunications, electrical retailing and contracting. He also retains responsibility at Board level for regulatory matters. He is a member of the Council of the Institute of Chartered Accountants of Scotland, and was formerly a managing partner in Scotland of Arthur Andersen and Finance Director of Kwik-Fit Holdings plc.

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Report of the Directors

The directors are pleased to present their eighth Annual Report, together with the audited Accounts for the year ended 31 March 1997.

Results and dividend

The profit of the group for the year amounted to £421.1 million, details of which are set out in the Group Profit and Loss Account on page 48.

The directors recommend that a final dividend of 12.33p net per share be paid on 1 October 1997 to those shareholders whose names appear in the register of members on 22 August 1997. Together with the interim dividend of 6.17p net per share, which was paid on 7 March 1997, this makes a total dividend of 18.50p net for the year. These dividends amount in aggregate to £218.1 million and the balance of the profit for the year of £203.0 million has been transferred to reserves.

Activities and review

The principal activities of ScottishPower are the generation, transmission, distribution and supply of electricity to domestic, commercial and industrial customers throughout the UK particularly in the ScottishPower and Manweb regions. The ScottishPower group is also developing a wider utility business which includes gas supply, telecommunications and electrical retailing as well as technology and contracting services.

The company acquired Southern Water plc on 6 August 1996, thereby extending the group's principal activities to include the supply of water and waste water services.

Research and development

The company supports research into and development of the generation, transmission, distribution and supply of electricity and continually seeks more innovative and cost effective methods of carrying out its water and waste water activities. It also continues to contribute on an industry-wide basis towards the cost of research into electricity utilisation, distribution developments and water purification and waste water treatment.

Environmental policy

The company has approved its second formal Environment Report for publication in July 1997. Throughout its operations ScottishPower will meet, or better, relevant legislative and regulatory environmental requirements and codes of practice. Details of the company's approach to the environment are contained on pages 28 to 29.

Board of Directors

The names and details of the directors of the company are shown on pages 32 and 33.

James Scott retired as a non-executive director on 24 July 1996. Baroness Jay of Paddington and Ewen Macpherson were appointed non-executive directors on 1 September 1996 and Sir Peter Gregson on 13 December 1996. Baroness Jay resigned from the Board on 13 May 1997 following her appointment as Minister of State in the Department of Health.

In accordance with the Articles of Association of the company, Sir Peter Gregson and Ewen Macpherson retire from office at the Annual General Meeting and, being eligible, offer themselves for election. Michael Kinski, Nick Kuenssberg and Ian Russell retire by rotation at the Annual General Meeting. Michael Kinski and Ian Russell, being eligible, offer themselves for re-election. Nick Kuenssberg will retire from the Board and accordingly does not seek re-election.

Michael Kinski and Ian Russell have service contracts terminable by the company upon two years' notice.

Directors' interests

Details of the directors' remuneration and service contracts are set out in the Report of the Emoluments and Nominations Committee on pages 40 to 43 and in note 32 to the Accounts on pages 58 and 59.

Other than as disclosed therein, none of the directors had a material interest in any contract of significance with the company and its subsidiaries during or at the end of the financial year.

The directors' interests, all beneficial, in the ordinary shares of the company at the beginning and end of the financial year, including interests in options held under the company's Executive and Sharesave Schemes and awards made under the Long Term Incentive Plan, are shown below. As at 15 May 1997, being for this purpose the latest practicable date prior to publication of this report, there was no change in the directors' interests.

Directors' and Officers' Liability Insurance

The company maintains liability insurance for the directors and officers of the company and its subsidiaries.

Directors' interest in shares

	Ordinary shares As at		Share Options (Executive) As at		Share Options (Sharesave) As at		*Long Term Incentive Plan As at	
	31.3.97	1.4.96	**31.3.97**	1.4.96	**31.3.97**	1.4.96	**31.3.97**	1.4.96
Murray Stuart	**11,390**	10,336	**–**	–	**–**	–	**–**	–
Sir Ronald Garrick	**2,204**	2,000	**–**	–	**–**	–	**–**	–
Sir Peter Gregson (appointed 13.12.96)	**837**	–	**–**	–	**–**	–	**–**	–
Baroness Jay (appointed 1.9.96/ resigned 13.5.97)	**–**	–	**–**	–	**–**	–	**–**	–
Nick Kuenssberg	**15,904**	12,241	**–**	–	**–**	–	**–**	–
Ewen Macpherson (appointed 1.9.96)	**5,000**	–	**–**	–	**–**	–	**–**	–
John Parnaby	**6,382**	4,281	**–**	–	**–**	–	**–**	–
Ian Robinson	**16,612**	6,000	**286,457**	286,457	**6,581**	6,581	**51,533**	–
Michael Kinski	**3,125**	2,836	**31,855**	31,855	**5,972**	4,861	**36,809**	–
Ian Russell	**6,612**	6,000	**156,781**	156,781	**6,300**	6,300	**38,650**	–
Ken Vowles	**113,553**	89,442	**50,349**	50,349	**7,728**	10,256	**27,607**	–
Duncan Whyte	**24,045**	21,402	**44,865**	44,865	**6,018**	10,256	**35,889**	–

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

The number of shares under option in respect of all options outstanding as at 1 April 1996 and in respect of Sharesave Scheme options granted during the year, prior to the rights issue on 30 August 1996, has been adjusted accordingly.

Full details of options and Long Term Incentive Plan awards held by directors, including options exercised during the year, are set out in note 32 to the Accounts on pages 58 and 59.

Share capital and options

During the year, 223,391,658 ordinary shares were issued in connection with the acquisition of Southern Water. As a result of the exercise of options under the Employee Sharesave and Executive Schemes, a total of 11,548,338 ordinary shares of 50p each were issued during the year. This resulted in the number of ordinary shares in issue being increased to 1,177,365,936 as at 31 March 1997.

Options were granted to 5,821 employees under the company's Employee Sharesave Scheme. No options were granted under the Executive Share Option Scheme, which was replaced by the introduction of a Long Term Incentive Plan ('the Plan') approved by shareholders on 24 July 1996. Awards in respect of 678,460 shares have been made under the Plan, these awards being subject to the achievement of specified performance criteria. Details are contained in note 32 to the Accounts on pages 58 and 59.

Between 31 March 1997 and 15 May 1997, being the latest practicable date prior to publication of this report, a further 1,332,383 ordinary shares have been issued as a result of the exercise of options under the Employee Sharesave and Executive Schemes.

At the Annual General Meeting of the company last year, the shareholders granted authority to the directors to purchase up to 94,270,032 ordinary shares of the company. The directors have not exercised this authority.

Substantial shareholding

As at 15 May 1997, the company had been notified that Prudential Portfolio Fund Managers Limited held 84,615,325 ordinary shares representing 7.17% of the issued share capital.

Employees

Employee involvement and participation

In order to achieve the objective of "Working Together to Build Businesses" the group has corporate values under the following headings:

– well-earned customer loyalty
– enhanced shareholder value
– positive working environment
– trust of communities
– teamwork and leadership

The company has taken a variety of initiatives to support staff at all levels in 'Living the Values'. A values based leadership development programme has been introduced for management across the group. The establishment of the ScottishPower Learning business is an example of the company's determination and commitment to translate the values into tangible actions. The company also provides development opportunities through its network of Open Learning facilities and distance learning MBA programmes.

The group has employee consultation and communication arrangements to encourage the involvement and interest of employees in the group and to develop their awareness of its business plans and objectives. These include local joint bodies, designed to provide regular discussions between management and staff representatives, and local annual conferences. The group's executive and managing directors and the recognised trade unions meet normally two or three times each year to discuss aspects of the business.

Divisional bargaining arrangements have been established to facilitate the development of terms and conditions of employment tailored to the diverse needs of the businesses and, through this, to provide employees with a greater involvement in local employment matters.

Equal opportunity
It is the group's policy to promote equality of opportunity in recruitment, employment continuity, training and career development. The policy is designed to ensure that equal opportunity in these areas extends as far as practicable to people with disabilities. The group operates a career break scheme and is a member of the Employer's Forum on Disability, Equal Opportunities Equality Exchange and the Women's Engineering Society, which pursues the aim of promoting the study and practice of engineering amongst women.

Health and safety
The group's safety strategy is based on a system of corporate determination of strategy, policy and standards with devolved responsibility for implementation and active leadership from the highest levels.

The group continues to manage its operations throughout the organisation to the highest health and safety standards in the interest of staff, customers and members of the public. Details of the company's approach to safety are contained on page 30.

ScottishPower has a well established occupational health service and a voluntary health care programme, Wellscreen, which has now been used by over 36% of employees in Scotland and in the Manweb region. The company has opened fitness centres for staff in Scotland and Manweb and has also introduced a physiotherapy service. Further fitness centres throughout the group are anticipated.

Charitable and political donations
During the financial year donations made by ScottishPower and its subsidiaries for charitable purposes totalled £484,641. There were no contributions for political purposes.

Creditor payment policy and practice
The group's current policy and practice concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code. Copies are available upon request from the Company Secretary. For other suppliers, 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 group's 'creditor days' at 31 March 1997 were 34 days.

Auditors
Coopers & Lybrand have expressed their willingness to continue in office and a resolution to reappoint Coopers & Lybrand as the company's auditors will be proposed at the Annual General Meeting.

Annual General Meeting
The Annual General Meeting will be held at the Royal Concert Hall, Sauchiehall Street, Glasgow, on Wednesday 23 July 1997 at 11.00 a.m. Details of the resolutions to be proposed at the Annual General Meeting are contained in the Notice of Meeting.

By Order of the Board

Andrew Mitchell
Secretary
15 May 1997

The company has complied throughout the financial year with all the provisions of the Cadbury Committee's Code of Best Practice which are currently applicable.

Board of Directors

There is a well established division of authority and responsibility at the most senior level within the company through the separation of the roles of the Chairman and Chief Executive.

As at 31 March 1997 there were five executive and seven non-executive directors (including a non-executive Chairman) on the Board.

The non-executive directors are from varied business and other backgrounds. Their experience allows them to exercise independent judgement on the Board and their views carry substantial weight in Board decisions. They contribute to the company's strategy and policy formulation, in addition to monitoring its performance and its executive management. The non-executive directors are appointed for a specific term and reappointment is not automatic. Each non-executive director's position is reviewed as expiry of their term of office approaches.

The Board meets regularly and has a schedule of matters concerning key aspects of the company's activities which are reserved to the Board for decision. The Board exercises full control over strategy, investment and capital expenditure. In addition, individual executive directors have specific responsibilities for key company-wide operations such as health and safety, the environment and regulatory affairs. All directors have access to the Company Secretary who is responsible for ensuring that all Board procedures are observed. Any directors wishing to do so in the furtherance of his or her duties, may take independent professional advice at the company's expense.

Board committees

The Audit Committee, whose members are all non-executive directors and are noted on page 63, reviews accounting policies, internal control and financial reporting, and makes recommendations on these matters to the Board for decision. It also considers the appointment and fees of the external auditors.

The Emoluments and Nominations Committee, whose members are all non-executive directors and are noted on page 63, is responsible for determining the remuneration policy for the ScottishPower group, including the remuneration arrangements for executive directors and other senior executives and the operation of the company's employee share schemes. It is also responsible for reviewing the company's succession plans and making recommendations to the Board on the appointment of directors. The Report of the Emoluments and Nominations Committee is contained on pages 40 to 43.

The Chief Executive's Committee comprises the Chief Executive, the four other executive directors, the managing directors of the company's Power Systems, Energy Supply and Information Systems businesses, the Chief Executives of Manweb and ScottishTelecom, the Director of Corporate Affairs and the Company Secretary. Operational control and implementation of group strategy and policy are responsibilities delegated by the Board to the Chief Executive who is supported by the Committee in the discharge of these functions. The Committee's terms of reference also include monitoring of the performance of the company's businesses against business plans agreed by the Board. Major issues and decisions are reported monthly to the Board.

Internal financial control

The Board of Directors is responsible for the group's system of internal financial control and for monitoring its effectiveness. It must be recognised that any such system can provide only reasonable and not absolute assurance of the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The key features of the control system which has been established, and which is designed to ensure effective internal financial control, are as follows:

Control environment

The company is committed to ensuring that a proper control environment is maintained. There is a commitment to competence and integrity, and the communication of ethical values and control consciousness to managers and employees. Human Resources policies underpin that commitment by a focus on enhancing job skills and promoting high standards of probity amongst staff. In addition, the appropriate organisational structure has been developed within which to control the businesses and to delegate authority and accountability having regard to acceptable levels of risk. Business managing directors report regularly on operating performance to the relevant executive director with line responsibility, and the performance of each business is reviewed monthly by the Chief Executive's Committee.

Risk assessment and control procedures

The company's strategy is to follow a prudent risk policy, effectively managing exposures where appropriate.

The Board has undertaken a specific exercise to review and assess its key risks at a group level and to ensure that it is receiving appropriate information to monitor the management of those risks. The Board has required each of the businesses to complete a similar exercise to define key risks, controls and monitoring procedures utilising a well defined and consistent methodology. It is a key requirement of the procedures that a written certificate is provided annually by the managing director and financial manager of each business confirming that they have reviewed the effectiveness of the system of internal financial controls during the year. Periodic detailed review by the Finance Director of the accounting records of each business reinforces a focused approach to control throughout the group's finance functions.

Audit of controls

Operation of the group's control and monitoring procedures is reviewed and tested by the group's internal audit function under the supervision of the Head of Internal Audit, reporting directly to the Finance Director. Internal audit reports and recommendations on the group's procedures are reviewed regularly by the Audit Committee. As part of their external audit responsibilities, the external auditors also provide reports to the Audit Committee on the operation of the group's internal financial control procedures.

The directors confirm that they have reviewed the effectiveness of the system of internal financial controls utilising the procedures set out above.

Directors' responsibility for the financial statements

The directors are required by law to prepare financial statements for each financial year and to present them annually to the company's members at the Annual General Meeting. The financial statements of which the form and content is prescribed by the Companies Act 1985 and applicable accounting standards, must give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the group's profit or loss for the period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

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

Going concern

The directors confirm that the company remains a going concern on the basis of adequate cash flow forecasts.

Auditors' responsibilities

The company's registered auditors, Coopers & Lybrand, are responsible for forming an independent opinion on the financial statements of the group presented by the directors and for reporting their opinion to the shareholders. The report of the Auditors to the members of Scottish Power plc is set out on page 61.

The auditors are also required to report to the shareholders if the following requirements are not met:
– that the group has maintained proper accounting records
– that the financial statements are in agreement with the accounting records
– that the contents of the Directors' Report are consistent with the financial statements
– that directors' emoluments and other transactions with directors are properly disclosed in the financial statements
– that they have obtained all information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

In addition, as recommended by the Cadbury Committee, and required by the London Stock Exchange, the auditors have considered the directors' statement of compliance in relation to those points of the Code which can be objectively verified. Their report on corporate governance matters is set out on page 62.

Report of the Emoluments and Nominations Committee

Emoluments and Nominations Committee

The Emoluments and Nominations Committee ('the Committee') is responsible for determining the remuneration policy for the ScottishPower group, including the remuneration arrangements for executive directors and other senior executives. It is also responsible for making recommendations to the Board on the appointment of directors.

The Committee consists solely of non-executive directors. Its members, who have no personal financial interest other than as shareholders in the matters considered by the Committee, are Nick Kuenssberg (Chairman), Sir Ronald Garrick, Sir Peter Gregson, Ewen Macpherson and John Parnaby.

The Committee is advised internally and externally and is provided with independent advice from external remuneration consultants in order to assist in determining and developing its policies.

Committee members are paid a fee and expenses, but do not receive any other remuneration from the company. Details of the remuneration of all non-executive directors are set out in note 32 to the Accounts on pages 58 and 59.

The Committee's policy and disclosures on directors and senior management remuneration are set out below. Throughout the period, the company has complied with Section A of the Best Practice Provisions annexed to the London Stock Exchange Listing Rules.

Executive remuneration policy

The aim of ScottishPower's remuneration policy is to ensure that the rewards for executives and directors attract and retain executives of the highest quality, who are incentivised to achieve performance which exceeds that of competitors. Furthermore, the objective is to ensure that incentive schemes are in line with best practice and promote the interests of the shareholders.

Competitiveness of remuneration

The Committee believes that to attract and retain key executives of the highest calibre, the remuneration package it offers must be market competitive. The remuneration strategy is to adopt a market median positioning on all senior management remuneration packages and to provide packages above the market median only where supported by demonstrably superior personal performance. This positioning is established by advice received from an independent evaluation of job size and an analysis of the market situation by independent remuneration consultants against a comparator group of selected utilities and the FTSE 100 companies.

The Committee takes a balanced view of remuneration, considering each element relative to the market and, in the past, has realigned elements of the package to reflect market, or changes in market, practice. In the last three years, annual bonus arrangements have been further strengthened so that the targets reflect shareholder value and focus on improvements to business performance. In July 1996 shareholders approved the introduction of a long term incentive plan which replaced all future grants

of executive share options.
In determining its remuneration policy the Committee has given full consideration to Section B of the Best Practice Provisions annexed to the London Stock Exchange Listing Rules.

Remuneration policy
In setting remuneration levels, the Committee commissioned an independent evaluation of the executive roles and also the next level of management within the company. The Committee has also continued to take independent advice from three remuneration consultants on market level remuneration based on a comparison with companies of similar size and complexity. In considering the comparator companies, the consultants have included a number of other utilities but have not restricted their study solely to other utilities.

After careful consideration, and with the benefit of the long term incentive plan replacing executive share options, the Committee is of the view that the remuneration policy stated for the company is appropriate. In line with its objective to build a multi-utility business, ScottishPower has recruited a number of executives with key business skills, and hence a reward structure broadly equivalent to other large UK listed companies is necessary.

Base salary
The Committee sets the base salary for each executive director by reference to individual performance through a formal appraisal system and external market data, based on the Hay job evaluation system and reflecting similar roles in other comparable companies. In evaluating the roles, Hay takes into account its view of the environment in which the company is operating.

Annual performance related bonus
Executive directors and senior management participate in the company's performance related pay schemes. The schemes provide a maximum total payment of 40% of salary for executive directors and the managing directors of the company's energy businesses, 30% of salary for other directors and 20% of salary for senior managers, and focus on corporate and business performance. All payments under the schemes are non-pensionable and non-contractual and are subject to the specific approval of the Committee.

The bonus structure is reviewed annually to ensure that it reflects the priorities of the business. The 1997 review of annual bonus arrangements confirmed that these forms of arrangement are widespread within the UK, and the amounts receivable at the on target and maximum levels of performance are broadly in line with the FTSE 100 comparator group.

The scheme for executive directors provides a bonus of a maximum of 40% of salary, with up to a maximum of 25% of base salary determined by the company's performance. Measurement is by reference to a matrix of performance against targets of earnings per share and return on capital employed to reflect shareholder value. The balance of the bonus, of a maximum of 15% of base salary, is linked to each executive's achievement of key strategic objectives, both short term and long term. Objectives are set annually and performance against these is reviewed on a six monthly basis.

During 1996-97 a specific bonus was paid to reflect the key achievement of one executive director relating to the acquisition of Southern Water.

Directors do not participate in the Inland Revenue approved profit related pay scheme which was introduced in April 1995.

Share option schemes
The company operates an executive share option scheme which applies to executive directors and certain senior managers. However, there will be no future grants under this scheme which has been replaced by the company's long term incentive plan. The last grant of executive share options to executive directors was in May 1995. Existing options remain exercisable. The Committee has not awarded any replacement options and does not propose to do so. Options have not been granted at a discounted price.

The company also operates a savings-related share option scheme, which is open to all permanent employees. Under this scheme options are granted over ScottishPower shares at a discount of 20% to the prevailing market price at the time of grant to eligible employees who agree to save up to £250 per month over a period of three or five years.

Long term incentive plan
The company operates a long term incentive plan for executive directors and other senior managers, which was approved by shareholders at the company's Annual General Meeting in July 1996. The plan links the

rewards closely between management and shareholders and focuses on long term corporate performance.

Under the plan, awards to acquire shares in ScottishPower at nil or nominal cost are made to the plan participants up to a maximum value equal to 60% of base salary. The award will vest only if the Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the company and improvements in OFFER published Customer Service Standards are achieved over a period of three financial years commencing with the financial year preceding the date an award is made. Assuming that such targets have been achieved, the number of shares that can be acquired on vesting of the award will be dependent upon how the company ranks, in terms of its total shareholder return performance over a three year performance period, in comparison to the constituent companies of the FTSE 100 Index and the Electricity and Water sectors. Half of each award will be measured against the FTSE 100 companies and half against the Electricity and Water companies. A percentage of each half of the award will vest depending upon the company's ranking within the relevant comparator group as follows:

– 100% if the company ranks in the top decile
– 90% if the company ranks in the second decile
– 80% if the company ranks in the third decile
– 60% if the company ranks in the fourth decile
– 40% if the company ranks in the fifth decile
– nil if the company ranks in the sixth decile or lower.

Once the company's total shareholder return performance has been measured over the three year performance period following the grant of the award, the award must be held for a further year before it may be exercised. The plan participant may acquire the shares in respect of the percentage of the award which has vested at any time after the fourth year up to the seventh year after the grant of the award.

It is the intention to extend the Customer Service Standard measures for all future awards under the plan to include reference to OFWAT Customer Service Standards.

Pension

The executive directors, and other senior management of the company, are provided with pension benefits through the company's main pension scheme and an executive top up pension plan which provides a maximum pension of two-thirds of final salary on retirement at age 63, reduced where service to age 63 is less than 20 years. Pensionable salary is base salary in the 12 months prior to leaving the company.

Individuals who joined the company on or after 1 June 1989 are subject to the Inland Revenue earnings cap introduced by the Finance Act 1989. Entitlement above the cap cannot be provided through the company's approved pension benefits, and therefore arrangements on an unapproved basis have been made to provide total benefits for executives affected by the legislation. The total liability in respect of executives and senior employees arising in relation to unapproved benefits accrued for service for the year to 31 March 1997 is £305,952.

The normal retirement age is 63, apart from the Chief Executive who has a planned retirement age of 60 by special agreement at the time he joined the company.

The trustee body of the executive top up plan is chaired by the Chairman of the company.

The Committee intends to report pension expense in future in accordance with the requirements of the London Stock Exchange which will come into force on 1 July 1997. Pension costs detailed in the accounts are calculated as the cost of providing benefits accrued in the 1996-97 year.

Service contracts

All executive directors have service contracts terminable by the company on two years' notice (prior to September 1994 notice periods were three years) and by the individuals on up to 12 months' notice. Against the need to retain and motivate directors in a competitive environment, the Committee believes that it remains appropriate for the executive directors to continue to be on two year rolling contracts.

None of the executive directors' service contracts provides for predetermined amounts of compensation in the event of early termination. The Committee's policy on early termination is to emphasise the duty to mitigate to the fullest extent practicable.

Senior managers within the company have notice periods ranging from six months to one year.

External non-executive appointments

The company encourages its directors to become non-executive directors of other companies, provided that these are not with competing companies and are not likely to lead to any conflicts of interest, and do not require extensive commitments of time which would prejudice their roles within ScottishPower. This serves to add to their personal and professional experience and knowledge to the benefit of ScottishPower. Any fees derived from such appointments may be retained by the executives.

Benefits

Executive directors are eligible for a range of benefits on which they are assessed for tax and which include the provision of a company car, fuel, private medical insurance and permanent health insurance. Senior executives depending upon grade are eligible for certain of these benefits.

As with salary, the level of benefits is reviewed annually through surveys from independent consultants. Practice varies as to the composition of these items amongst the comparator group and the company's benefits are broadly in line with the practice of the group.

The company provides all levels of staff, including directors and certain pensioners, with a discount on merchandise sold by its retail business.

Remuneration policy for non-executive directors

The remuneration of non-executive directors is determined by the Board and consists of fees for their services in connection with the Board and Board Committees. Additional fees are also payable for chairing Board Committees. The non-executive directors do not have service contracts, are not members of the company's pension scheme and do not participate in any bonus, share option or other profit or incentive schemes.

The company provides life assurance cover, up to a limit of £400,000 on the life of the Chairman.

Full details of the remuneration of the directors are contained in note 32 to the accounts on pages 58 and 59.

Accounts Contents

Accounting Policies and Definitions

Basis of accounting
The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards in the UK and, subject to the treatment of water infrastructure grants and contributions described below, with the requirements of the Companies Act 1985. The cash flow statement has been restated to incorporate the revised requirements of FRS 1 – Cash Flow Statements. The comparative information has been restated to reflect the revised accounting standard.

Basis of consolidation
The group accounts include the accounts of the company and its principal subsidiary undertakings together with the group's share of results and net assets of associated undertakings. For commercial reasons certain subsidiaries have different year ends. The consolidation therefore includes the accounts of these companies, as adjusted for material transactions in the periods between the year ends of the companies and 31 March 1997.

Turnover
Turnover comprises the sales value of energy, goods, water and waste water services and other services supplied to customers during the year and excludes value added tax and intra-group sales. Income from the sale of energy and measured water is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end.

Under/over recovery of regulated income
Under the licences which permit ScottishPower and Manweb to operate as public electricity companies, price control formulae determine the regulated allowable maximum unit revenues of the Transmission, Distribution and Supply businesses, as appropriate. If actual revenue of the year exceeds the regulated allowable maximum, the excess is deducted from turnover and included in creditors. Where there is an under recovery compared with the regulated allowable maximum no anticipation of any potential future recovery is made.

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

Interest
Interest on the funding attributable to major capital projects is capitalised gross of tax relief during the period 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 reflected in the profit and loss account as it arises.

Financial instruments
Debt instruments
All borrowings are stated at fair value of consideration received after deduction of issue costs. The issue costs of bonds and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond.

Interest rate swaps
Interest rate swap agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these agreements are recognised as adjustments to interest expense over the period of the contracts.

Interest rate caps
Interest rate caps are used to limit interest rate exposures. The premiums on these contracts are disclosed as interest expense and are amortised over the period of the contracts.

Premiums and discounts
Premiums and discounts arising on the early repayment of borrowings are written off to the profit and loss account as incurred.

Goodwill
Goodwill arising from the purchase of trading entities represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired and is written off against reserves on acquisition.

Tangible fixed assets
Tangible fixed assets are stated at cost and are depreciated on the straight-line method over their estimated operational lives. Certain hydro civil assets and water infrastructure assets, which have infinite lives, and land are not depreciated. Depreciation is, in general, first charged in the year following that in which the expenditure was incurred. Water infrastructure assets, being mains and sewers, reservoirs, dams, sludge

pipelines and sea outfalls are not depreciated because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life. Expenditure on maintaining the operating capability of the network is charged as an operating cost. The main depreciation periods used by the company are as set out below:

	Years
Coal and oil-fired generating stations	35-40
Hydro plant and machinery	20-40
Other buildings	40
Transmission and distribution plant	30-40
Towers, lines and underground cables	40-60
Vehicles, miscellaneous equipment and fittings	3-15

Leased assets

As lessee

Assets leased to the group under finance leases are capitalised and depreciated in line with the group depreciation policy. The interest element of the finance lease repayments is charged to the profit and loss account in proportion to the balance of the capital repayments outstanding. Rentals payable under operating leases are charged to the profit and loss account as incurred.

As lessor

Rentals receivable under finance leases are allocated to accounting periods to give a constant periodic rate of return on the net cash investment in the lease in each period. The amounts due from lessees under finance leases are recorded in the balance sheet as a debtor at the amount of the net investment in the lease after making provisions for bad and doubtful rentals receivable.

Property clawback

A debenture has been issued to the Secretary of State for Scotland which entitles HM Government to a proportion of any property gain (above certain thresholds and after deducting an amount representing corporation tax thereon) accruing or treated as accruing to ScottishPower as a result of the disposal or deemed disposal after 31 March 1991 of certain property held at 31 March 1990. These arrangements last until 31 March 2001.

In the case of Manweb, if properties are disposed of, or are deemed to have been disposed of, prior to 1 April 2000, a part of the gain over the value at 31 March 1990 (as adjusted for inflation and taxation) will become payable to HM Government.

In the case of both companies, a liability for clawback in respect of property disposals is recognised only when an actual or a deemed disposal occurs.

Investments

Investments in the subsidiary and associated undertakings are stated in the balance sheet of the parent company at cost, or nominal value of shares issued as consideration where applicable, less provision for any permanent diminution in value. The consolidated profit and loss account includes the group's share of the profits less losses and taxation of associated undertakings. The group balance sheet includes the investment in associated undertakings at the group's share of their net assets. Other fixed asset investments are carried at cost less provision for permanent diminution in value.

Stocks

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

Foreign currencies

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

Taxation

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

Pensions

Revaluations of the Pension Schemes are normally conducted by an independent actuary every three years. The regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations are charged to the profit and loss account over the expected remaining service lives of current employees following consultations with the actuary. Any difference between the charge to the profit and loss account and the actual contributions paid to the Pension Schemes is included as an asset or liability in the balance sheet.

Grants and contributions

Capital grants and customer contributions in respect of additions to non-water infrastructure fixed assets are treated as deferred income and released to the profit and loss account over the estimated operational lives of the related assets. The treatment of grants and contributions relating to water infrastructure assets differs, since these assets are not depreciated and therefore no basis exists on which to recognise grants and contributions as deferred income. Accordingly, grants and contributions relating to water infrastructure asset additions are deducted from the cost of water infrastructure assets. This treatment is in accordance with SSAP 4 and the effect on the value of tangible fixed assets is disclosed in note 14. This is not in accordance with the Companies Act 1985 which requires assets to be stated at their purchase price or production cost. The departure from the requirements of the Act is, in the opinion of the directors, necessary to give a true and fair view, since water infrastructure assets are not depreciated.

Own shares held under trust

Shares in the company purchased for the Long Term Incentive Plan, are held under trust and are recorded within investments in the balance sheet at cost. The cost of awards made by the trust are taken to the profit and loss account on a straight-line basis over the period in which performance is measured.

Business segment definitions

The business segments of the group are defined as follows:

Generation Wholesale
The generation of electricity from the company's own power stations, the purchase of external supplies of energy for sale to other business segments of the company and the sale of electricity to other electricity companies and to the Pool in England and Wales.

Power Systems
The transportation of units of electricity from the power stations through the transmission and distribution networks to customers in Scotland and to customers in England and Wales through the Anglo-Scottish Interconnector.

Energy Supply
The sale of energy to customers, together with related billing and collection activities.

Manweb
The purchase, distribution and sale of electricity to customers, together with related billing and collection activities.

Southern Water
The provision of water and waste water services, together with related billing and collection activities.

Developing businesses and ancillary services
The retailing and servicing of domestic electrical goods and home entertainment appliances, the supply of telecommunication services, the provision of electrical contracting, consultancy and corporate services and the company's other subsidiary and associated undertakings.

In the segmental analysis on pages 49 and 53, all material activities are derived from continuing operations in the United Kingdom.

Revenue cost definitions

Cost of sales
Cost of sales for the group, excluding Southern Water, reflects the direct costs of the generation and purchase of electricity, retail trading, telecommunication services, electrical contracting, consultancy services and the purchase of natural gas. For Southern Water cost of sales represents the cost of extracting water from underground and raw water surface reservoirs and of its treatment and supply to customers and the subsequent collection of waste water and its treatment and disposal.

Transmission and distribution costs
Transmission and distribution costs represent the cost of transmitting units of electricity from the power stations through the transmission network to the distribution network and through that network to customers. It includes the costs of metering, billing and debt collection. This heading is considered to be more appropriate to the electricity industry than the standard Companies Act heading of Distribution costs.

Administrative expenses
Administrative expenses comprise indirect costs of the businesses, the costs of centralised services and rates.

Group Profit and Loss Account

for the year ended 31 March 1997

	Notes	Before acquisitions 1997 £m	Acquisitions 1997 £m	Total before reorganisation costs 1997 £m	Reorganisation costs 1997 £m	Total 1997 £m	Total 1996 £m
Turnover from continuing operations	1	**2,624.5**	**316.2**	**2,940.7**	**–**	**2,940.7**	2,271.5
Cost of sales		**(1,590.4)**	**(153.1)**	**(1,743.5)**	**–**	**(1,743.5)**	(1,375.0)
Gross profit from continuing operations		**1,034.1**	**163.1**	**1,197.2**	**–**	**1,197.2**	896.5
Transmission and distribution costs		**(222.8)**	**–**	**(222.8)**	**–**	**(222.8)**	(203.2)
Administrative expenses		**(279.1)**	**(30.8)**	**(309.9)**	**(21.2)**	**(331.1)**	(269.9)
Other operating income		**17.3**	**3.3**	**20.6**	**–**	**20.6**	10.9
Operating profit from continuing operations	1,2	**549.5**	**135.6**	**685.1**	**(21.2)**	**663.9**	434.3
Income from interests in associated undertakings						**2.0**	0.6
Profit on ordinary activities before interest						**665.9**	434.9
Net interest charge	4					**(107.5)**	(30.1)
Profit on ordinary activities before taxation						**558.4**	404.8
Taxation	5					**(136.8)**	(109.3)
Profit after taxation						**421.6**	295.5
Minority interest	26					**(0.5)**	0.9
Profit for the financial year						**421.1**	296.4
Dividends	7					**(218.1)**	(146.1)
Profit retained	24					**203.0**	150.3
Earnings per ordinary share	6					**38.11p**	33.12p
Dividend per ordinary share	7					**18.50p**	15.50p

Acquisitions and reorganisation costs relate to the results of Southern Water for the period 6 August 1996 to 31 March 1997.

A statement of total recognised gains and losses and a reconciliation to historical cost profits and losses are not shown as all gains and losses for 1996 and 1997 are recognised in the profit and loss account under the historical cost convention.

The accounting policies and definitions on pages 45 to 47, together with the notes on pages 49, 51 and 53 to 60 form part of these accounts.

Notes to the Group Profit and Loss Account
for the year ended 31 March 1997

1 Segmental business information

(a) Turnover by business segment

	Total turnover 1997 £m	Total turnover 1996 £m	Inter-segment turnover 1997 £m	Inter-segment turnover 1996 £m	External turnover 1997 £m	External turnover 1996 £m
Generation						
Wholesale	**974.4**	1,034.1	**744.4**	828.6	**230.0**	205.5
Power Systems	**429.2**	408.9	**386.8**	372.5	**42.4**	36.4
Energy Supply	**1,270.4**	1,317.6	**0.9**	–	**1,269.5**	1,317.6
Manweb	**759.3**	439.4	**4.2**	–	**755.1**	439.4
Southern Water	**316.7**	–	**0.5**	–	**316.2**	–
Developing businesses and ancillary services	**412.9**	334.2	**85.4**	61.6	**327.5**	272.6
Total					**2,940.7**	2,271.5

(b) Operating profit by business segment

	Operating profit 1997 £m	Operating profit 1996 £m
Generation Wholesale	**146.1**	150.4
Power Systems	**228.0**	214.8
Energy Supply	**32.4**	21.9
Manweb	**135.0**	80.4
Southern Water	**135.6**	–
Developing businesses and ancillary services	**8.0**	9.5
Sub-total	**685.1**	477.0
Reorganisation costs	**(21.2)**	(42.7)
Total	**663.9**	434.3

2 Operating profit

Operating profit is stated after charging / (crediting):

	Before acquisitions 1997 £m	Acquisitions 1997 £m	Total 1997 £m	Total 1996 £m
Depreciation	**113.1**	**32.4**	**145.5**	86.8
Release of customer contributions / grants	**(21.7)**	**(0.8)**	**(22.5)**	(6.7)
Research and development	**2.9**	**2.7**	**5.6**	3.4
Hire of plant and equipment – operating leases	**1.9**	**0.7**	**2.6**	3.5
Hire of other assets – operating leases	**20.6**	**–**	**20.6**	19.6
Auditors' remuneration for audit of				
– group	**0.5**	**0.1**	**0.6**	0.4
– company	**0.3**	**–**	**0.3**	0.2
Auditors' remuneration for non-audit services to the company and its UK subsidiary undertakings	**1.3**	**0.1**	**1.4**	0.7

Coopers & Lybrand were paid £0.5 million (1996 £0.4 million) which has been included in the expenses of the acquisitions (note 27) and not charged to the profit and loss account.

3 Employee information

(a) Employee costs

	1997 £m	1996 £m
Wages and salaries	**277.1**	190.8
Social security costs	**22.7**	15.4
Pension costs	**24.7**	26.3
Total employee costs	**324.5**	232.5
Less: charged as capital expenditure	**(48.0)**	(46.1)
Charged to the profit and loss account	**276.5**	186.4

3 Employee information continued

(b) Employee numbers

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

	At 31 March 1997	At 31 March 1996	Annual average 1997	Annual average 1996
Generation Wholesale	**1,054**	1,162	**1,094**	1,199
Power Systems	**2,684**	2,867	**2,831**	3,108
Energy Supply	**797**	845	**810**	871
Manweb	**2,830**	3,061	**2,975**	3,245
Southern Water	**3,618**	–	**4,006**	–
Developing businesses and ancillary services	**4,035**	3,424	**3,587**	3,462
	15,018	11,359	**15,303**	11,885
The number of full time equivalent staff was:	**14,401**	10,773	**14,657**	11,344

A total of 4,161 employees were employed by the Southern Water group at the date of acquisition (1996 Manweb 3,260 employees at the date of acquisition).

4 Net interest charge

	1997 £m	1996 £m
Interest on overdrafts, bonds and other borrowings:		
Repayable wholly within five years	**64.7**	34.3
Not wholly repayable within five years	**12.6**	–
Repaid during the year	**33.0**	0.3
	110.3	34.6
On finance leases	**0.5**	–
Total interest payable	**110.8**	34.6
Interest receivable	**(3.3)**	(4.5)
Net interest charge	**107.5**	30.1
Interest cover (times)	**6.2**	14.4

Interest cover is calculated by dividing profit on ordinary activities before interest by the net interest charge.

Total interest payable, other than on finance leases, can be analysed as relating to bank loans and overdrafts £64.8 million (1996 £17.4 million), government borrowings £16.3 million (1996 £16.3 million), loan notes £2.7 million (1996 £0.9 million), commercial paper £24.3 million (1996 £nil) and euro-bonds £2.2 million (1996 £nil).

5 Taxation

	1997 £m	1996 £m
UK Corporation Tax at 33% (1996 33%)	**135.7**	109.0
Associated undertakings	**1.1**	0.3
	136.8	109.3

The charge has been reduced by £64.0 million (1996 £29.9 million) in respect of timing differences for which no deferred tax provision is considered necessary (note 20).

6 Earnings per ordinary share

Earnings per ordinary share have been calculated on the basis of the profit for the financial year of £421.1 million (1996 £296.4 million) and by reference to 1,104,932,445 shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the period after adjusting the number of shares in issue by the bonus element inherent in the rights issue on 30 August 1996. The comparative figure has also been adjusted (1996 894,936,240). There would be no significant dilution of earnings per ordinary share if all outstanding share options were exercised.

7 Dividend per ordinary share

	1997 pence per ordinary share	1996 pence per ordinary share	1997 £m	1996 £m
Interim dividend paid	**6.17**	5.17	**72.6**	48.6
Proposed final dividend	**12.33**	10.33	**145.5**	97.5
Total dividend	**18.50**	15.50	**218.1**	146.1

Group Cash Flow Statement

for the year ended 31 March 1997

	Notes	1997 £m	1997 £m	1996 £m	1996 £m
Cash inflow from continuing operating activities	9		**791.2**		408.7
Returns on investments and servicing of finance	8		**(101.1)**		(17.4)
Taxation			**(117.4)**		(149.3)
Free cash flow			**572.7**		242.0
Capital expenditure and financial investment	8		**(381.4)**		12.6
Cash flow before acquisitions			**191.3**		254.6
Acquisitions	11		**(1,234.6)**		(780.2)
Equity dividends paid			**(170.0)**		(123.1)
Cash outflow before use of liquid resources and financing			**(1,213.3)**		(648.7)
Management of liquid resources	8,12		**(21.0)**		87.2
Financing					
Issue of ordinary share capital (net of expenses)	8	**238.0**		143.7	
Increase in debt	8,12	**1,048.6**		395.5	
			1,286.6		539.2
Increase/(decrease) in cash in year	12		**52.3**		(22.3)

Reconciliation of net cash flow to movement in net debt

	Before acquisitions 1997 £m	Acquisitions 1997 £m	Total 1997 £m	Total 1996 £m
Increase/(decrease) in cash in year	**44.4**	**7.9**	**52.3**	(22.3)
Cash inflow from increase in debt	**–**	**(1,048.6)**	**(1,048.6)**	(395.5)
Cash outflow/(inflow) from movement in liquid resources	**–**	**21.0**	**21.0**	(87.2)
Change in net debt resulting from cashflows	**44.4**	**(1,019.7)**	**(975.3)**	(505.0)
Net debt acquired	**–**	**(168.6)**	**(168.6)**	(0.6)
Loan notes issued	**–**	**(14.3)**	**(14.3)**	(40.2)
Movement in net debt in year			**(1,158.2)**	(545.8)
Net debt at end of previous year			**(632.1)**	(86.3)
Net debt at end of year			**(1,790.3)**	(632.1)

The accounting policies and definitions on pages 45 to 47, together with the notes on pages 49, 51 and 53 to 60 form part of these accounts.

Notes to the Group Cash Flow Statement

for the year ended 31 March 1997

8 Analysis of cash flows

	1997 £m	1997 £m	1996 £m	1996 £m
(a) Returns on investments and servicing of finance				
Interest received	**3.3**		5.8	
Interest paid	**(103.9)**		(24.0)	
Interest element of finance lease rental payments	**(0.5)**		–	
Dividends received from associated undertakings	**–**		0.8	
Net cash outflow for returns on investments and servicing of finance		**(101.1)**		(17.4)
(b) Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(435.4)**		(233.3)	
Deferred income received	**44.7**		35.0	
Sale of listed investments	**–**		207.7	
Sale of tangible fixed assets	**13.9**		4.9	
Acquisition of retail outlets and stock	**–**		(1.1)	
Purchase of fixed assets investments	**(4.6)**		(0.6)	
Net cash (outflow)/inflow for capital expenditure and financial investment		**(381.4)**		12.6
(c) Management of liquid resources*				
Sale of commercial paper held	**–**		101.6	
Cash outflow in relation to short-term deposits	**(21.0)**		(14.4)	
Net cash (outflow)/inflow for management of liquid resources		**(21.0)**		87.2
(d) Financing				
Issue of ordinary share capital**	**263.0**		156.9	
Expenses paid in connection with share issue	**(25.0)**		(13.2)	
		238.0		143.7
Debt due within one year:				
Net drawdown of uncommitted facilities	**252.9**		36.7	
Net commercial paper issued	**700.5**		58.8	
Redemption of loan notes	**(0.4)**		–	
European Investment Bank loan	**8.7**		–	
Issue of Grid exchangeable bonds	**–**		2.3	
Redemption of Grid exchangeable bonds	**–**		(2.3)	
Debt due after one year:				
Net drawdown of uncommitted facilities	**3.8**		–	
Net (repayment)/drawdown of committed facilities	**(100.0)**		300.0	
European Investment Bank loan	**(11.6)**		–	
8.375% euro-sterling bond issue	**196.6**		–	
Capital element of finance lease rental payments	**(1.9)**		–	
		1,048.6		395.5
Net cash inflow from financing		**1,286.6**		539.2

*Liquid resources include term deposits of less than one year, commercial paper and other short-term investments.

**Part of the consideration for the purchase of Southern Water comprised ordinary shares. Further details of the acquisition are set out in note 27.

9 Reconciliation of operating profit to cash inflow from continuing operating activities

	1997 £m	1996 £m
Operating profit	**663.9**	434.3
Acquisition reorganisation accruals and provisions	**15.2**	36.2
Depreciation charge	**145.5**	86.8
Profit on sale of tangible fixed assets	**(2.4)**	(0.1)
Release of deferred income	**(22.5)**	(6.7)
Movement in provisions for liabilities and charges	**(17.1)**	(21.4)
Increase in stocks	**(31.1)**	(0.3)
Decrease/(increase) in debtors	**38.7**	(118.0)
Increase/(decrease) in creditors	**1.0**	(2.1)
Cash inflow from continuing operating activities	**791.2**	408.7

The table above includes cash outflow of £6.0 million in relation to acquisition reorganisation costs for Southern Water (1996 £6.5 million Manweb). The acquisition reorganisation accruals and provisions for 1997 and 1996 relate to the cost of implementing the post acquisition plans for Southern Water and Manweb respectively.

10 Effect of acquisitions on cash flow

	1997 £m	1996 £m
Cash flow from operating activities	**140.3**	(81.5)
Returns on investment and servicing of finance	**(5.6)**	(1.7)
Taxation	**(18.0)**	(28.3)
Capital expenditure and financial investment	**(93.2)**	209.3
Management of liquid resources	**49.0**	–
Financing	**(2.8)**	(86.7)
Increase in cash	**69.7**	11.1

The above analysis for 1997 details the contribution of Southern Water to group cash flows since the date of acquisition (1996 Manweb). The post acquisition cash flows of Woodend Group Limited and Telephone Information Services plc were not material to the group.

11 Analysis of cash flows in respect of acquisitions

	Southern Water 1997 £m	Other acquisitions 1997 £m	Total 1997 £m	Total 1996 £m
Cash consideration including acquisition expenses	**1,283.9**	**6.9**	**1,290.8**	776.3
Cash at bank acquired	**(58.6)**	**–**	**(58.6)**	(16.8)
Bank overdrafts acquired	**–**	**2.4**	**2.4**	20.7
	1,225.3	**9.3**	**1,234.6**	780.2

Other acquisitions relate to Woodend Group Limited and Telephone Information Services plc (see note 27).

12 Analysis of net debt

	At 1 April 1996 £m	Cash flow £m	Acquisitions (excl cash & overdrafts) £m	Other non-cash changes £m	At 31 March 1997 £m
Cash at bank	2.1	0.4	–	–	**2.5**
Overdrafts	(74.1)	51.9	–	–	**(22.2)**
		52.3			
Debt due after one year	(442.6)	(88.8)	(158.0)	–	**(689.4)**
Debt due within one year	(135.7)	(961.7)	–	(14.3)	**(1,111.7)**
Finance leases	–	1.9	(10.6)	–	**(8.7)**
		(1,048.6)			
Other deposits	18.2	21.0	–	–	**39.2**
Total	(632.1)	(975.3)	(168.6)	(14.3)	**(1,790.3)**

"Other non-cash changes" to net debt represents loan notes issued as part of the consideration for Southern Water and Woodend Group Limited.

Group Balance Sheet
as at 31 March 1997

		Group		Company	
		1997	1996	**1997**	1996
	Notes	**£m**	£m	**£m**	£m
Fixed assets					
Tangible assets	14	**4,052.1**	2,210.9	**1,577.8**	1,435.4
Investments	15	**17.7**	10.1	**1,511.0**	991.9
		4,069.8	2,221.0	**3,088.8**	2,427.3
Current assets					
Stocks	16	**113.7**	76.2	**101.0**	71.4
Debtors	17	**622.8**	543.2	**1,500.7**	826.6
Short term bank and other deposits		**41.7**	20.3	**1.1**	1.4
		778.2	639.7	**1,602.8**	899.4
Creditors: amounts falling due within one year					
Loans and other borrowings	18	**(1,137.1)**	(209.8)	**(1,118.6)**	(199.5)
Other creditors	19	**(1,112.0)**	(658.8)	**(983.5)**	(1,035.7)
		(2,249.1)	(868.6)	**(2,102.1)**	(1,235.2)
Net current liabilities		**(1,470.9)**	(228.9)	**(499.3)**	(335.8)
Total assets less current liabilities		**2,598.9**	1,992.1	**2,589.5**	2,091.5
Creditors: amounts falling due after more than one year					
Loans and other borrowings	18	**(694.9)**	(442.6)	**(542.4)**	(442.0)
Provisions for liabilities and charges	21	**(45.6)**	(56.8)	**(17.6)**	(28.6)
Deferred income	22	**(335.3)**	(285.8)	**(172.0)**	(160.4)
Net assets	13	**1,523.1**	1,206.9	**1,857.5**	1,460.5
Called up share capital	23,24	**588.7**	471.2	**588.7**	471.2
Share premium	24	**305.7**	122.0	**305.7**	122.0
Merger reserve	24	**(419.4)**	(230.2)	**13.4**	–
Profit and loss account	24	**1,047.7**	844.7	**949.7**	867.3
Equity shareholders' funds	24	**1,522.7**	1,207.7	**1,857.5**	1,460.5
Minority interest	26	**0.4**	(0.8)	**–**	–
Capital employed		**1,523.1**	1,206.9	**1,857.5**	1,460.5

The accounting policies and definitions on pages 45 to 47, together with the notes on pages 49, 51 and 53 to 60 form part of these accounts.

Approved by the Board on 15 May 1997 and signed on its behalf by

Murray Stuart
Chairman

Ian Russell
Finance Director

Notes to the Group Balance Sheet
as at 31 March 1997

13 Segmental analysis

Net assets/(liabilities) by business segment

	Notes	Net assets/(liabilities) 1997 £m	1996 £m
Generation Wholesale		**323.2**	277.8
Power Systems		**1,030.2**	970.4
Energy Supply		**41.7**	68.4
Manweb		**520.4**	521.5
Southern Water		**1,224.2**	–
Developing businesses and ancillary services	(a)	**246.6**	152.7
Sub-total		**3,386.3**	1,990.8
Unallocated net liabilities	(b)	**(1,863.2)**	(783.9)
Total		**1,523.1**	1,206.9

(a) The net assets of the Retail business, included within developing businesses and ancillary services, are £130.6 million (1996 £114.8 million).
(b) Unallocated net liabilities include net debt, dividends payable and tax liabilities.

14 Fixed assets

(a) Tangible assets – Group

	Land and buildings £m	Water infrastructure assets £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost:					
At 1 April 1996	327.8	–	2,622.7	225.0	3,175.5
Additions	38.6	47.2	313.8	99.5	499.1
Acquisitions	421.5	645.1	307.4	127.6	1,501.6
Grants and contributions	–	(2.5)	–	–	(2.5)
Disposals	(2.6)	–	(7.3)	(31.6)	(41.5)
At 31 March 1997	**785.3**	**689.8**	**3,236.6**	**420.5**	**5,132.2**
Depreciation:					
At 1 April 1996	121.8	–	782.8	60.0	964.6
Charge for the year	19.3	–	91.0	35.2	145.5
Disposals	(1.4)	–	(6.2)	(22.4)	(30.0)
At 31 March 1997	**139.7**	**–**	**867.6**	**72.8**	**1,080.1**
Net book value:					
At 31 March 1997	**645.6**	**689.8**	**2,369.0**	**347.7**	**4,052.1**
At 31 March 1996	206.0	–	1,839.9	165.0	2,210.9

(b) Tangible assets – Company

	Land and buildings £m	Water infrastructure assets £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost:					
At 1 April 1996	272.6	–	1,956.3	155.8	2,384.7
Additions	7.9	–	160.9	46.9	215.7
Disposals	(0.6)	–	(3.1)	(4.4)	(8.1)
At 31 March 1997	**279.9**	**–**	**2,114.1**	**198.3**	**2,592.3**
Depreciation:					
At 1 April 1996	120.5	–	770.5	58.3	949.3
Charge for the year	10.3	–	49.7	10.4	70.4
Disposals	(0.3)	–	(3.7)	(1.2)	(5.2)
At 31 March 1997	**130.5**	**–**	**816.5**	**67.5**	**1,014.5**
Net book value:					
At 31 March 1997	**149.4**	**–**	**1,297.6**	**130.8**	**1,577.8**
At 31 March 1996	152.1	–	1,185.8	97.5	1,435.4

Land held by the group and the company is predominantly freehold. The exceptions are a number of retail premises and other operational sites which are held under lease. Land, water infrastructure and certain hydro civil assets with a book value at 31 March 1997 of £710.3 million are not depreciated (1996 £10.7 million).

Included in the cost of fixed assets of the group and the company at 31 March 1997 is capitalised interest amounting to £8.0 million (1996 £8.0 million). At 31 March 1997, tangible fixed assets include £185.1 million of major assets in the course of construction (1996 £nil).

The net book value of Southern Water's infrastructure assets is stated after deducting grants and contributions since privatisation of £74.7 million.

The net book value of tangible fixed assets held under finance leases was £15.0 million (1996 £nil). The charge for depreciation against these assets during the year was £2.4 million (1996 £nil).

15 Fixed asset investments

	Own shares held under trust £m	Subsidiary undertakings and other investments £m	Associated undertakings Shares £m	Associated undertakings Loans £m	Total £m
Group					
Cost or valuation:					
At 1 April 1996	–	1.4	3.8	4.9	10.1
Additions	2.2	0.2	0.5	1.7	4.6
Acquisitions	–	0.2	2.4	–	2.6
Share of profits	–	–	0.9	–	0.9
Disposals and other	–	(0.2)	–	(0.3)	(0.5)
At 31 March 1997	**2.2**	**1.6**	**7.6**	**6.3**	**17.7**
Company					
Cost or nominal value:					
At 1 April 1996	–	988.2	0.7	3.0	991.9
Additions	2.2	–	–	1.7	3.9
Acquisitions	–	1,396.8	(0.7)	(0.3)	1,395.8
Disposals	–	(880.6)	–	–	(880.6)
At 31 March 1997	**2.2**	**1,504.4**	**–**	**4.4**	**1,511.0**

The principal subsidiary and associated undertakings are listed on page 60.

Own shares held under trust
Shares of the company are held under trust as part of the Long Term Incentive Plan for executive directors and other senior management (see Report of the Emoluments and Nominations Committee on pages 40 to 43 for details of the plan). On 9 August 1996, the trust purchased 678,460 shares in the company on the open market, at a price of £3.27 per share, with funds borrowed from the company. The number of shares held at 31 March 1997 was 678,460. These shares had a market value at that date of £2.4 million.

16 Stocks

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Raw materials and consumables	**41.1**	34.2	**33.6**	30.4
Gas stocks	**36.2**	14.1	**36.2**	14.1
Work in progress	**5.6**	3.3	**1.5**	2.3
Finished goods and goods for resale	**30.8**	24.6	**29.7**	24.6
	113.7	76.2	**101.0**	71.4

Gas stocks represent gas delivered to third parties under sale and repurchase agreements to match gas usage requirements arising mainly from generation, with existing gas purchase obligations. Under the provisions of Financial Reporting Standard 5, the cost of gas delivered to third parties is shown as gas stocks and amounts payable to third parties totalling £25.7 million (1996 £10.9 million) are included in accrued expenses in note 19.

17 Debtors

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
(a) Amounts falling due within one year:				
Trade debtors	**428.9**	370.5	**265.7**	250.2
Amounts owed by subsidiary undertakings	**–**	–	**218.3**	439.1
Prepayments and accrued income	**104.9**	86.9	**67.8**	75.7
Other debtors	**48.6**	58.5	**26.3**	37.2
	582.4	515.9	**578.1**	802.2
(b) Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	**–**	–	**886.2**	–
Amounts receivable under finance leases	**3.6**	2.9	**–**	–
Advance corporation tax recoverable on proposed dividend	**36.4**	24.4	**36.4**	24.4
Other debtors	**0.4**	–	**–**	–
	622.8	543.2	**1,500.7**	826.6

Amounts receivable under finance leases relate to ScottishPower Leasing Limited, one of the company's subsidiaries (see page 60). The total cost of assets acquired by ScottishPower Leasing Limited for letting under leases is £4.0 million (1996 £3.2 million). Total amounts receivable during the year under finance leases were £0.4 million (1996 £0.3 million).

18 Loans and other borrowings

	Notes	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Bank overdraft		**22.2**	74.1	**15.7**	63.8
Uncommitted bank loan		**293.4**	36.7	**293.3**	36.7
Committed bank loan	(a)	**200.6**	300.6	**200.0**	300.0
Commercial paper	(b)	**759.3**	58.8	**759.3**	58.8
Loan notes	(c)	**54.1**	40.2	**54.1**	40.2
European Investment Bank loan		**155.1**	–	**–**	–
Lease finance		**8.7**	–	**–**	–
11.457% bond 2001 (held by HM Treasury)		**142.0**	142.0	**142.0**	142.0
8.375% euro-sterling bond 2017	(d)	**196.6**	–	**196.6**	–
		1,832.0	652.4	**1,661.0**	641.5

With the exception of finance leases, all borrowings are unsecured.

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Repayments fall due as follows:				
Within one year, or on demand	**1,137.1**	209.8	**1,118.6**	199.5
After more than one year	**694.9**	442.6	**542.4**	442.0
	1,832.0	652.4	**1,661.0**	641.5
Repayments due after more than one year are split as follows:				
Between one and two years	**13.3**	–	**–**	–
Between two and five years	**381.9**	442.6	**342.0**	442.0
After five years	**299.7**	–	**200.4**	–
	694.9	442.6	**542.4**	442.0

(a) Committed bank loan
Bank borrowings include drawings of £200 million (1996 £300 million) under a £2.6 billion (1996 £800 million) revolving credit facility in place until 2001. This facility provides a backstop to the commercial paper programme.
(b) Commercial paper
The company has an established US$1.5 billion euro-commercial paper programme. Paper is issued in a range of currencies and swapped back into sterling.
(c) Loan notes
All loan notes are redeemable at the holder's discretion. Ultimate maturity dates range from 1999 to 2006.
(d) Euro-sterling bond
In January 1997 the company issued £200 million 8.375% bonds due 2017. The proceeds of the issue were £196.6 million.

Interest rate analysis

	Borrowings at 31 March 1997 £m	Borrowings at 31 March 1996 £m	Weighted average interest rate at which borrowings are fixed/capped at 31 March 1997 %	1996 %	Weighted average period for which interest rate is fixed/capped 1997 Years	1996 Years
Fixed rate borrowings	**1,384.6**	542.0	**8.6**	8.8	**8**	4
Capped rate borrowings	**200.0**	–	**7.0**	–	**5**	–
Floating rate borrowings	**247.4**	110.4				
	1,832.0	652.4				

All amounts in the analysis above are payable in sterling and take into account the effect of interest rate swaps and caps and currency swaps.

19 Other creditors

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Amounts falling due within one year				
Trade creditors	**165.7**	146.6	**89.9**	89.1
Amounts owed to subsidiary undertakings	**–**	–	**354.0**	564.6
Corporation tax	**148.7**	121.4	**72.1**	80.8
Advance corporation tax	**54.6**	24.4	**54.5**	24.4
Other taxes and social security	**19.9**	29.4	**22.9**	29.7
Payments received on account	**47.9**	14.6	**17.8**	8.4
Capital creditors and accruals	**144.4**	34.0	**34.7**	26.4
Other creditors	**74.3**	25.5	**23.7**	0.8
Accrued expenses	**311.0**	165.4	**168.4**	114.0
Proposed dividend	**145.5**	97.5	**145.5**	97.5
	1,112.0	658.8	**983.5**	1,035.7

20 Deferred taxation

No provision for deferred taxation is considered necessary at 31 March 1997, since future taxation depreciation is expected to exceed accounting depreciation and therefore no deferred taxation liabilities are expected to crystallise in the foreseeable future. Total potential deferred taxation liabilities computed at the current rate of corporation tax of 33% (1996 33%) are as follows:

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Accelerated capital allowances	**632.3**	442.5	**316.2**	300.9
Other timing differences	**(47.8)**	(36.1)	**(16.0)**	(21.1)
Advance corporation tax	**(51.9)**	–	**–**	–
	532.6	406.4	**300.2**	279.8

21 Provisions for liabilities and charges

	Balance at 1 April 1996 £m	On acquisition of Southern Water £m	Charged to profit and loss account £m	Utilised during year £m	Balance at 31 March 1997 £m
Group					
Power station repairs and maintenance	14.3	–	–	(5.1)	**9.2**
Employment claims	11.2	–	(5.8)	–	**5.4**
Loss on disposal of discontinued businesses	3.5	–	–	(2.2)	**1.3**
Reorganisation and restructuring	4.2	–	–	–	**4.2**
Water infrastructure renewal	–	2.5	10.6	(10.7)	**2.4**
Other	23.6	3.4	–	(3.9)	**23.1**
	56.8	5.9	4.8	(21.9)	**45.6**
Company					
Power station repairs and maintenance	14.3	–	–	(5.1)	**9.2**
Employment claims	11.2	–	(5.8)	–	**5.4**
Other	3.1	–	–	(0.1)	**3.0**
	28.6	–	(5.8)	(5.2)	**17.6**

22 Deferred income

	Balance at 1 April 1996 £m	On acquisition of Southern Water £m	Receivable during year £m	Amortised £m	Balance at 31 March 1997 £m
Grants and customer contributions:					
– Group	285.8	29.0	43.0	(22.5)	**335.3**
– Company	160.4	–	25.9	(14.3)	**172.0**

Deferred income excludes grants and contributions received in respect of water infrastructure assets.

23 Share capital

	Notes	1997 £m	1996 £m
Authorised:			
1,700,000,000 (1996 1,300,000,000) ordinary shares of 50p each	(a)	**850.0**	650.0
One Special Share of £1	(b)	**–**	–
		850.0	650.0
Allotted, called up and fully paid:			
1,177,365,936 (1996 942,425,940) ordinary shares of 50p each		**588.7**	471.2
One Special Share of £1	(b)	**–**	–
		588.7	471.2

23 Share capital continued

(a) Increase of authorised share capital
At an Extraordinary General Meeting held on 27 July 1996, a resolution was passed to increase the authorised share capital of the company by 400,000,000 new ordinary shares of 50p each, ranking pari passu in all respects with the existing shares in the capital of the company.
(b) Special Share
The 'Special Share', which can be held only by one of the Secretaries of State or any other person acting on behalf of HM Government, does not carry rights to vote at general or separate meetings but entitles the holder to attend and speak at such meetings. Written consent of the Special Shareholder is required before certain provisions of the company's Articles of Association or certain rights attaching to the Special Share are varied. This share shall confer no rights to participate in the capital or profits of the company, except that in a winding up, the Special Shareholder shall be entitled to repayment in priority to the other shareholders. The Special Share is redeemable at par at any time by the Special Shareholder after consultation with the company.

24 Reconciliation of movements in shareholders' funds

	Notes	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss account £m	Total £m
Group						
Balance at 1 April 1996		471.2	122.0	(230.2)	844.7	1,207.7
Retained profit for the year		–	–	–	203.0	203.0
Share capital issued						
– As part of funding for an acquisition	(a)	63.2	–	332.0	–	395.2
– Rights issue for an acquisition		48.0	191.9	–	–	239.9
– Employee share option scheme		6.2	16.6	–	–	22.8
– Executive share option scheme		0.1	0.2	–	–	0.3
Shares to be issued	(b)	–	–	13.4	–	13.4
Share issue expenses		–	(25.0)	–	–	(25.0)
Goodwill written off	(c)	–	–	(534.6)	–	(534.6)
Balance at 31 March 1997		**588.7**	**305.7**	**(419.4)**	**1,047.7**	**1,522.7**
Company						
Balance at 1 April 1996		471.2	122.0	–	867.3	1,460.5
Retained profit for the year	(d)	–	–	–	82.4	82.4
Share capital issued						
– As part of funding for an acquisition	(a)	63.2	–	–	–	63.2
– Rights issue for an acquisition		48.0	191.9	–	–	239.9
– Employee share option scheme		6.2	16.6	–	–	22.8
– Executive share option scheme		0.1	0.2	–	–	0.3
Shares to be issued	(b)	–	–	13.4	–	13.4
Share issue expenses		–	(25.0)	–	–	(25.0)
Balance at 31 March 1997		**588.7**	**305.7**	**13.4**	**949.7**	**1,857.5**

(a) Merger relief
In accordance with Section 131 of the Companies Act 1985, the company recorded its investment in Southern Water at the nominal value of the shares issued as consideration. The shares were allotted at their fair value of £3.13 and the premium per share has been taken to the merger reserve.
(b) Shares to be issued
This represents shares to be issued, upon exercise of options, to participants in the Southern Water Sharesave Scheme who had elected on acquisition to be granted options over ScottishPower shares in place of options previously granted over Southern Water shares. The merger reserve has been credited with the fair value of the ScottishPower shares on acquisition (see note 27), on the assumption that all share options will be exercised. Where options lapse, the investment in Southern Water will reduce by the attributable cost of the option, with a corresponding adjustment to goodwill.
(c) Goodwill written off
This represents goodwill on acquisition of Southern Water (£518.7 million) and other acquisitions (£15.9 million). See note 27.
(d) Profit and loss account of the company
As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The company's profit and loss account was approved by the Board on 15 May 1997. The profit for the financial year per the accounts of the company was £300.5 million (1996 £315.8 million).

25 Related party transactions

In accordance with Financial Reporting Standard 8, the following disclosure relates to related party transactions during 1996-97.

Scottish Electricity Settlements Limited (50% owned associated undertaking)
In accordance with the instructions of the Director General of Electricity Supply, ScottishPower and Hydro-Electric established Scottish Electricity Settlements Limited ("SES Ltd") during 1996-97. As at 31 March 1997, the company had provided long term loans to SES Ltd of £1.7 million. In addition, the company provided services with a value of £1.2 million to SES Ltd during 1996-97. A balance of £0.7 million in respect of these services was due to the company at 31 March 1997.

25 Related party transactions continued

Scotland On Line Limited (50% owned subsidiary undertaking)
During the year Scotland On Line Limited had sales to other ScottishPower group companies of £0.1 million and purchases from other group companies of £0.1 million. At 31 March 1997, £0.1 million was owed to and receivable from other group companies in respect of these transactions. These transactions were material to Scotland On Line Limited.

26 Minority interest

	1997 £m	1996 £m
Equity minority interest:		
Balance at 1 April	**(0.8)**	0.1
Additions	**0.7**	–
Profit and loss account	**0.5**	(0.9)
Balance at 31 March	**0.4**	(0.8)

27 Acquisitions

Acquisitions consist of Southern Water which was acquired on 6 August 1996, Woodend Group Limited which was acquired on 15 August 1996, and Telephone Information Services plc which was acquired on 6 March 1997.

Southern Water

On 6 August 1996 the company acquired Southern Water for a total consideration of £1,716.5 million. The acquisition method of accounting has been adopted and the goodwill arising on the purchase has been written off to reserves. The details of the transaction, results and fair value adjustments arising from the change in ownership are shown below. Share issue costs of £25.0 million relating to the acquisition and the rights issue have been charged to the share premium account.

The results of Southern Water for the 12 months to 31 March 1996, for the pre acquisition period from 1 April 1996 to 5 August 1996 and for the post acquisition period from 6 August 1996 to 31 March 1997 are shown below.

Results

		12 months to 31 March 1997	
	12 months to 31 March 1996 £m	Pre acquisition £m	**Post acquisition £m**
Turnover	424.7	158.3	**316.2**
Operating profit	170.6	64.4	**135.6**
Profit on ordinary activities before taxation*	165.6	44.4	**106.6**
Taxation	(20.8)	(4.2)	**(7.5)**
Profit on ordinary activities after taxation	144.8	40.2	**99.1**
Minority interests	0.6	–	**–**
Profit attributable to shareholders	145.4	40.2	**99.1**

*Profit on ordinary activities before taxation for the pre acquisition period to 5 August 1996 is stated after a charge of £16.0 million in relation to bid defence costs.

The results to 31 March 1997 do not include fair value adjustments arising from the acquisition.

A reconciliation to historical cost profits and losses is not included as all gains and losses for the period shown were recognised under the historical cost convention.

Statement of total recognised gains and losses

		12 months to 31 March 1997	
	12 months to 31 March 1996 £m	Pre acquisition £m	**Post acquisition £m**
Profit attributable to shareholders	145.4	40.2	**99.1**
Advance corporation tax on share repurchase	(24.0)	–	**–**
Total recognised gains and losses	121.4	40.2	**99.1**

27 Acquisitions continued

Fair value of the Southern Water consideration

The shares issued as part of the purchase consideration were valued on 6 August 1996 at the mid-market price on an ex-dividend basis at the date of acquisition. The loan notes were issued as an alternative to the cash consideration and have been valued at par for the purposes of determining the fair value of the consideration.

	Notes	Book values at 6.8.96 £m	Fair value adjustments £m	Fair values at 6.8.96 £m
Tangible fixed assets	(a),(b)	1,341.4	160.2	1,501.6
Current assets excluding cash		109.1	–	109.1
Creditors and provisions	(c)	(244.2)	(29.7)	(273.9)
Grants and contributions		(29.0)	–	(29.0)
Net borrowings		(110.0)	–	(110.0)
Net assets		1,067.3	130.5	1,197.8
Goodwill arising on acquisition of Southern Water				518.7
Purchase consideration				1,716.5
Satisfied by:				
Cash				1,257.5
Acquisition expenses (excluding share issue costs)	(d)			37.4
Sub-total				1,294.9
Shares allotted				397.9
Loan notes				10.3
Deferred, contingent consideration	(e)			13.4
				1,716.5

(a) Freehold land and buildings (non-operational)

Southern Water's non-operational freehold land and buildings have been adjusted to open market value. This value has been assessed by Matthews and Goodman, and Grimleys (both of whom are chartered surveyors). This resulted in an increase in book value of £23.3 million.

(b) Operational assets

The fair value of the Southern Water operational assets has been determined at their estimated recoverable amount. This has resulted in an increase in valuation of £136.9 million. In estimating the recoverable amounts, due allowance has been made for regulatory, market and other risk factors.

(c) Creditors and provisions

A number of additional liabilities were recognised to reflect their fair value at the date of acquisition. This resulted in a total adjustment of £29.7 million net of a dividend which formed part of the purchase consideration.

(d) Acquisition expenses

Included within acquisition expenses are accruals for £11.0 million.

(e) Deferred, contingent consideration

The deferred, contingent consideration relates to the election made by participants in the Southern Water Sharesave Scheme to be granted options over ScottishPower shares in place of options previously granted over Southern Water shares. The deferred, contingent consideration assumes all options are exercised.

Pre acquisition provisions

The liabilities of Southern Water included in the book value prior to the acquisition at 6 August 1996, set out above, included the following in respect of provisions:

	£m
Infrastructure renewal	2.5
Other	3.4
Total	5.9

Other acquisitions

The company acquired the remaining share capital of Woodend Group Limited and the entire share capital of Telephone Information Services plc during the year for an aggregate fair value consideration of £11.1 million. The total fair value of assets and liabilities acquired was £4.8 million. The goodwill arising on acquisition of £15.9 million has been written off to reserves. The results of these companies for the periods before and since acquisition are not material to the group.

Goodwill written off

The cumulative amount of goodwill written off to reserves at 31 March 1997 was £1,020.5 million (31 March 1996 £485.9 million).

28 Pensions

Pension fund	Scheme type	Funded or unfunded	Pension charge for the year 1997 £m	1996 £m	Prepayment as at 31 March 1997 £m	1996 £m
ScottishPower	Defined benefit	funded	**13.6**	13.8	**18.4**	20.8
Manweb	Defined benefit	funded	**6.0**	12.5	**–**	–
Southern Water	Defined benefit	funded	**5.1**	–	**–**	–

Pension fund	Latest full actuarial valuation	Valuation carried out by	Market value of assets based on valuation £m	Valuation method adopted	Principal actuarial assumptions: Average investment rate of return	Average salary increases	Average pension increases	Value of fund assets/ accrued benefits
ScottishPower	31 December 1994	William M Mercer	1,025.7	projected unit	9.0%	7.0%	5.0%	111%
Manweb	31 March 1995	Bacon & Woodrow	412.3	projected unit	9.0%	7.0%	5.0%	100%
Southern Water	31 March 1995	Watson Wyatt	148.3	projected unit	8.5%	6.5%	5.0%	102%

(a) ScottishPower The company operates a funded pension scheme ("the Scheme") providing defined benefits based on final pensionable salary for eligible employees of the company. The assets of the Scheme are held separately from those of the company in a separate trustee administered fund. The pension charge for the year is based on the advice of the Scheme's independent qualified actuary. The prepayment included in the balance sheet represents the accumulated excess of the actual contributions paid to the Scheme over the pension accounting charge.
(b) Manweb Most of the company's employees are entitled to join the Electricity Supply Pension Scheme ("the Scheme") which provides pension and other related benefits based on final pensionable pay to employees throughout the Electricity Supply Industry in England and Wales. The assets are held in a separate trustee administered fund. The pension charge for the year is based on the advice of the Scheme's independent qualified actuary. The 1996 comparative relates only to the post acquisition period. The full year charge was £16.6 million.
(c) Southern Water The Southern Water group operates a number of pension schemes. The scheme details above relate to the principal defined benefit scheme which covers 70% of the group's employees. The assets are held in a separate trustee administered fund. Southern Water's other schemes are not material to the group. The pension charge for the year is based on the advice of the Scheme's independent qualified actuary and represents the charge for the post acquisition period only. The full year charge was £7.6 million.

29 Contingent liabilities

(a) Windfall levy On 2 May 1997, the Labour Party was invited to form the Government of the United Kingdom. The Labour Party's election manifesto contained proposals for a "windfall levy" of unspecified amount to be imposed on United Kingdom utility companies. It is probable that the windfall levy will be reflected in the Government's legislative proposals for 1997-98. However, details of the application of the proposed levy and its basis of calculation have not been published. Therefore it is not possible for the group to ascertain whether or not it will be liable to a levy, and if it were, the amount that would be charged. Provision for the group's liability, if any, in respect of any such levy will therefore be charged in arriving at the results of the group once details of the levy and its application have been determined.
(b) The group has contingent liabilities under performance bonds and actual and potential claims, none of which, in the opinion of the directors, is material to the group.
(c) The company has guaranteed the overdraft of one subsidiary undertaking up to an amount of £0.5 million (1996 two subsidiary undertakings for £0.5 million each).
(d) The company has guaranteed Manweb's liabilities to the Pool in England and Wales. At 31 March 1997 these liabilities were £30.3 million (1996 no such guarantee existed).
(e) Mutual cross guarantee arrangements exist within the Southern Water group, whereby all wholly owned subsidiaries within the group have provided mutual cross guarantees for borrowings from National Westminster Bank plc. At 31 March 1997 the amount under guarantee was £nil (1996 £nil).

30 Financial commitments

(a) Non-cancellable operating lease, finance lease and capital commitments of the group

	1997 Land and buildings £m	1997 Other £m	1996 Land and buildings £m	1996 Other £m
Operating leases				
Expiring within one year	**0.1**	**6.2**	0.1	2.3
Expiring between two and five years inclusive	**0.8**	**3.9**	0.1	10.6
Expiring in over five years	**13.5**	**0.3**	11.4	0.2
	14.4	**10.4**	11.6	13.1

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Finance leases				
Expiring within one year	**3.2**	–	**–**	–
Expiring between two and five years inclusive	**5.4**	–	**–**	–
Expiring in over five years	**0.1**	–	**–**	–
	8.7	–	**–**	–
Capital commitments				
Contracted but not provided	**394.4**	71.1	**49.5**	65.0

30 Financial commitments continued

(b) Other contractual commitments
Under contractual commitments, the group has rights and obligations in relation to the undernoted contracts. The annual value of the purchases and income arising from these contracts is provided below:

	Notes	Commitment entered into	Commitment expires	Purchases/sales in year under group commitments 1997 £m	1996 £m
The purchase of electricity from Scottish Nuclear		1990	2005	**373.2**	442.2
The purchase of electricity from Hydro-Electric	(1)	1990	see below	**120.5**	121.4
The supply of electricity to Hydro-Electric		1990	2004	**15.7**	16.3
Revenue from the operation of the company's transmission system and access by Hydro-Electric to the Anglo-Scottish Interconnector		1990	no fixed date of expiry	**24.7**	22.1
Purchase of coal from the Scottish Coal Company		1994	1998	**75.5**	75.6
Purchase of gas from various fields in the North Sea	(2)	see below	see below	**50.4**	19.3

(1) There are two agreements relating to the purchase of electricity from Hydro-Electric. These expire in 2012 and 2039.
(2) The group has entered into a number of contracts to purchase gas, primarily from various fields in the North Sea. Gas production from the fields commences on various dates between December 1994 and October 1997 and the duration of the production periods is likely to vary between three and fifteen years. The total expected purchase cost of the contracts entered into is £570 million and the output purchased is expected to be fully utilised by the group within the gas supply business and in the production of electricity by the power stations.

31 Employee share schemes

(a) Summary of movements in share options in ScottishPower shares

	ScottishPower sharesave scheme	Manweb sharesave scheme	Southern Water sharesave scheme	Executive share option scheme	Total
Outstanding at 1 April 1996	18,236,501	436,105	–	1,703,089	20,375,695
Granted	11,187,309	–	7,885,138	–	19,072,447
Exercised	(10,992,686)	(436,105)	(1,043,752)	(119,547)	(12,592,090)
Lapsed	(917,407)	–	(149,461)	(30,753)	(1,097,621)
Outstanding at 31 March 1997	**17,513,717**	**–**	**6,691,925**	**1,552,789**	**25,758,431**

The options granted under the Southern Water Sharesave Scheme represent 7,885,138 options granted to participants in the Southern Water Sharesave Scheme who had elected on acquisition to be granted options over ScottishPower shares in place of options previously granted over Southern Water shares.

(b) Analysis of share options outstanding at 31 March 1997

	Date of grant	Number of participants	Number of shares	Option price	Normal exercisable date
ScottishPower sharesave scheme	06.10.92	1,169	2,735,329	197.6	6 months to June 1998
	30.06.93	739	1,026,697	248.4	6 months to March 1999
	22.06.94	1,441	1,440,030	273.8	6 months to March 2000
	20.06.95	1,053	1,277,228	262.1	6 months to March 2001
	20.06.96	5,750	11,034,433	263.1	6 months to March 2000 or 2002
Southern Water sharesave scheme	16.01.91	109	576,276	70.4	6 months to March 1996 or 1998
	03.02.92	493	1,647,010	74.0	6 months to March 1997 or 1999
	26.01.93	400	1,119,893	111.0	6 months to March 1998 or 2000
	25.01.94	422	740,192	154.9	6 months to March 1999 or 2001
	25.01.95	562	1,473,150	136.1	6 months to March 2000 or 2002
	25.01.96	642	1,135,404	160.2	6 months to March 2001 or 2003
Executive share option scheme	18.12.91	11	195,371	227.4	1994-2001
	25.06.92	20	71,074	237.7	1995-2002
	01.07.93	13	231,911	310.0	1996-2003
	17.12.93	51	79,153	454.8	1996-2003
	27.05.94	24	294,232	354.0	1997-2004
	18.11.94	12	194,748	352.1	1997-2004
	12.05.95	25	398,224	335.0	1998-2005
	10.11.95	3	88,076	357.5	1998-2005

All options are exercisable over ScottishPower shares. Where reference is made to Manweb or Southern Water, this is to identify the sharesave schemes under which the options over ScottishPower shares have been granted. The exercise prices of options granted prior to the rights issue were adjusted to reflect the bonus element inherent in the rights issue.

32 Directors' emoluments and interests

Policy

The Emoluments and Nominations Committee is responsible for determining the remuneration policy for the ScottishPower group. The aim of ScottishPower's remuneration policy is to ensure that the rewards for executives and directors attract and retain executives of the highest quality who are incentivised to achieve performance which exceeds that of competitors. Furthermore, the objective is to ensure that incentive schemes are in line with best practice and promote the interests of the shareholders.

Total emoluments

The following table provides a breakdown of the total emoluments of the Chairman and all directors in office during the year ended 31 March 1997. Full details of the remuneration policy of the ScottishPower group are contained in the Report of the Emoluments and Nominations Committee on pages 40 to 43.

32 Directors' emoluments and interests continued

	Basic salary £	Bonuses £	Benefits in kind £	Total 1997 £	Total 1996 £
Chairman and executive directors (in office as at 1 April 1996)					
C M Stuart	140,000	–	14,665	**154,665**	152,593
I Robinson	280,000	102,900	14,356	**397,256**	385,082
M J Kinski	193,710	67,500	6,506	**267,716**	230,414
I M Russell	210,000	102,175	21,531	**333,706**	284,580
K L Vowles	150,000	54,000	6,576	**210,576**	149,107
D Whyte	195,000	70,200	13,969	**279,169**	266,102
Non-executive directors (fees and expenses)					
Sir Ronald Garrick	25,000	–	449	**25,449**	20,000
Sir Peter Gregson (appointed 13.12.96)	5,894	–	2,105	**7,999**	–
Baroness Jay (appointed 1.9.96/ resigned 13.5.97)	11,667	–	1,371	**13,038**	–
N Kuenssberg	25,000	–	540	**25,540**	25,036
E Macpherson (appointed 1.9.96)	12,292	–	1,129	**13,421**	–
J Parnaby	20,000	–	3,825	**23,825**	25,017
J Scott (retired 24.7.96)	6,667	–	361	**7,028**	20,373
C Black (retired 31.7.95)	–	–	–	**–**	13,306
	1,275,230	396,775	87,383	**1,759,388**	1,571,610
Other emoluments – executive directors					
Relocation expenses	–	–	–	**6,368**	50,705
Pension contributions	–	–	–	**130,752**	118,471
Total	1,275,230	396,775	87,383	**1,896,508**	1,740,786

Directors' pension benefits

Total pension benefit earned from approved and unapproved pension arrangements:	Pension benefit earned in year 1997 £	1996 £
Chairman and executive directors (in office as at 1 April 1996)		
C M Stuart	**–**	–
I Robinson	**12,365**	10,452
M J Kinski	**7,011**	5,715
I M Russell	**6,753**	6,530
K L Vowles	**3,375**	1,958
D Whyte	**3,569**	4,271

(a) The emoluments of the highest paid director (Mr Robinson) excluding pension contributions and relocation expenses were £397,256 (1996 £385,082). Pension contributions made by the company under approved pension arrangements for Mr Robinson amounted to £10,138 (1996 £11,633). In addition to the contributions made by the company under approved pension arrangements disclosed above, Mr Robinson also has an entitlement under the unapproved pension benefits described further in note (c) below. The amount of Mr Robinson's pension benefit accrued in respect of service up to 31 March 1997 was £101,762 per annum payable at age 60. £78,119 of this was provided by a transfer of pension rights received in respect of a previous employment. There were no relocation payments during the year in respect of Mr Robinson (1996 £49,405).

(b) Relocation assistance is provided, in accordance with a standard company scheme, in respect of executives who, at the time of joining the company, do not live within commuting distance of Glasgow. Relocation assistance is also provided under the scheme for executives who, as part of their employment, are relocated to other company offices outwith commuting distance. During the year, payment was made of £6,368 in respect of Mr Kinski.

(c) Executives who joined the company on or after 1 June 1989 are subject to the earnings cap introduced in the Finance Act 1989. Pension entitlement which cannot be provided through the company's approved arrangements due to the earnings cap are provided through unapproved pension benefits. Full details are included in the Report of the Emoluments and Nominations Committee. The total of the liabilities in respect of the 12 executives and senior employees arising in relation to unapproved benefits for service for the year to 31 March 1997 is £305,952.

(d) The aggregate emoluments, including pension and relocation costs, for the year ended 31 March 1997 at £1,896,508 as a ratio to profit before taxation for the year amounted to 0.34%. The ratio of emoluments to current assets amounted to 0.24% and the ratio of emoluments to turnover amounted to 0.06%.

32 Directors' emoluments and interests continued

Directors' interests in share options

Executive director	At 1 April 1996	Granted	Exercised	At 31 March 1997	Option exercise price (pence)	Date exercised	Market price at date of exercise (pence)	Date from which exercisable	Expiry date
Maximum contingent awards under Long Term Incentive Plan									
I Robinson	–	51,533	–	51,533	nil			09.08.2000	08.08.2003
M J Kinski	–	36,809	–	36,809	nil			09.08.2000	08.08.2003
I M Russell	–	38,650	–	38,650	nil			09.08.2000	08.08.2003
K L Vowles	–	27,607	–	27,607	nil			09.08.2000	08.08.2003
D Whyte	–	35,889	–	35,889	nil			09.08.2000	08.08.2003
Executive Share Option Scheme									
I Robinson	286,457	–	–	286,457	335.0			12.05.1998	11.05.2005
M J Kinski	14,822	–	–	14,822	354.0			27.05.1997	26.05.2004
	17,033	–	–	17,033	352.1			18.11.1997	17.11.2004
	31,855	–	–	31,855					
I M Russell	139,748	–	–	139,748	354.0			27.05.1997	26.05.2004
	17,033	–	–	17,033	352.1			18.11.1997	17.11.2004
	156,781	–	–	156,781					
K L Vowles	2,505	–	–	2,505	454.8			17.12.1996	16.12.2003
	3,274	–	–	3,274	354.0			27.05.1997	26.05.2004
	44,570	–	–	44,570	352.1			18.11.1997	17.11.2004
	50,349	–	–	50,349					
D Whyte	6,593	–	–	6,593	454.8			17.12.1996	16.12.2003
	9,316	–	–	9,316	354.0			27.05.1997	26.05.2004
	28,956	–	–	28,956	352.1			18.11.1997	17.11.2004
	44,865	–	–	44,865					
Sharesave Scheme									
I Robinson	6,581	–	–	6,581	262.1			01.09.2000	28.02.2001
M J Kinski	4,861	–	–	4,861	248.4			01.09.1998	28.02.1999
	–	1,111	–	1,111	263.1*			01.09.1999	29.02.2000
	4,861	1,111	–	5,972					
I M Russell	6,300	–	–	6,300	273.8			01.09.1999	29.02.2000
K L Vowles	6,461	–	(6,461)	–	174.1	23.09.96	304.5		
	3,795	–	–	3,795	197.6			01.12.1997	31.05.1998
	–	3,933	–	3,933	263.1			01.09.2001	28.02.2002
	10,256	3,933	(6,461)	7,728					
D Whyte	6,461	–	(6,461)	–	174.1	02.09.96	306.5		
	3,795	–	–	3,795	197.6			01.12.1997	31.05.1998
	–	2,223	–	2,223	263.1*			01.09.1999	29.02.2000
	10,256	2,223	(6,461)	6,018					

(a) The market price of the shares at 31 March 1997 was 353.5p and the range during 1996-97 was 300.5p to 400.5p.
(b) The Long Term Incentive Plan supersedes the Executive Share Option Scheme, and annual awards to acquire shares in ScottishPower at nil or nominal cost are made to the plan participants up to a maximum value equal to 60% of base salary. The award will vest only if the Emoluments and Nominations Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the company and improvements in OFFER published Customer Service Standards are achieved over a period of three financial years commencing with the financial year preceding the date an award is made. The number of shares that can be acquired will be dependent upon how the company ranks, in terms of its total shareholder return performance over a three year period, in comparison to the constituent companies of the FTSE 100 Index and the Electricity and Water sectors. A percentage of half of the award will vest depending upon the company's ranking within each of the relevant comparator groups. The plan participant may acquire the shares in respect of the percentage of the award which has vested at any time after the fourth year up to the seventh year after the grant of the award. No dividends accrue to participants prior to vesting.
(c) The exercise price of options granted prior to the rights issue has been adjusted to reflect the bonus element inherent in the rights issue. The number of shares under option in respect of all options outstanding as at 1 April 1996 and in respect of Sharesave Scheme options granted during the year, prior to the rights issue, has been adjusted accordingly.
(d) The option price of executive share options is based on the middle-market share price on the day immediately preceding the date of grant. For Sharesave options, the option price is calculated in the same way and discounted by 20% in accordance with the Inland Revenue rules for such schemes.
(e) No new grants have been made in 1996-97 under the Executive Share Option Scheme. The options initially granted to each executive director under the Executive Share Option Scheme were based on a multiple of four times salary in respect of the Chief Executive, Mr Robinson, and three times in respect of the other executive directors, which is in accordance with the limits set out in current guidelines. Subsequent grant of options were made to reflect increases in directors' basic salary levels, following periodic review by the Emoluments and Nominations Committee of the performance of the company and the executive directors individually. Executive options are normally exercisable in a manner which does not attract income tax liability provided that exercise occurs between three and ten years after the date of grant and at least three years have elapsed from the date of the last "tax relieved" exercise. Total gains made on exercise of directors' share options in 1996-97 were £16,979.
(f) The number of options granted to a director under the Sharesave Scheme is calculated by reference to the total amount which the director agrees to save for a period of three or five years under an Inland Revenue approved savings contract, subject to a current maximum of £250 per month. Options under the Sharesave Scheme are, subject to a few exceptions, exercisable within a period of six months from the date of completion of the savings contract.
(g) Unless marked with an asterisk (*) all sharesave schemes are for a five year period. An asterisk denotes options granted under a three year contract.

Principal Subsidiary Undertakings and Investments

	Class of share capital	Proportion of shares held	Activity
Principal subsidiary undertakings			
Bowsprit Holdings Limited*	Ordinary shares	100%	Property investment
Caledonian Gas Limited	Ordinary shares	100%	Gas retailing
Clinical Waste Limited*	Ordinary shares	55%	Clinical waste management
CRE Energy Limited*	Ordinary shares	100%	Wind-powered electricity generation
Domestic Appliance Insurance Limited* (Isle of Man)	Ordinary shares	100%	Insurance
Eco-clear Limited*	Ordinary shares	100%	Liquid waste management
ERG Environmental Resource Group plc*	Ordinary shares	100%	Effluent and odour treatment services
Genscot Limited*	Ordinary shares	100%	Holding of investments
GMSS Limited*	Ordinary shares	75%	Laboratory services
Greenhill Enterprises Limited*	Ordinary shares	100%	Waste management
IT Southern Limited*	Ordinary shares	100%	Information technology services
James Leppard & Sons Limited*	Ordinary shares	100%	Landfill operation
Manweb Gas Limited*	Ordinary shares	100%	Gas retailing
Manweb Generation Holdings Limited*	Ordinary shares	100%	Holding company
Manweb Generation (Winnington) Limited*	Ordinary shares	100%	Holding company
Manweb plc*	Ordinary shares	100%	Regional electricity company
McDowells Limited*	Ordinary shares	100%	Civil and structural engineering design and consultancy
Monk Rawling Limited*	Ordinary shares	100%	Estates management and property consultancy
Moreton & Padmore Limited*	Ordinary shares	100%	Quantity surveying
Nationwide Maintenance Limited*	Ordinary shares	100%	Facilities management services
Paperstream Limited*	Ordinary shares	100%	Mailing, remittance processing and printing services
Scotland On Line Limited*	Ordinary shares	50%	Internet service provider
ScottishPower Insurance Limited* (Isle of Man)(a)	Ordinary shares	100%	Insurance
ScottishPower Investments Limited*(b)	Ordinary shares	100%	Holding of investments
ScottishPower Leasing Limited*	Ordinary shares	100%	Leasing company
ScottishPower Telecommunications Limited*	Ordinary shares	100%	Telecommunications
Sectron Systems Limited*	Ordinary shares	100%	Security services
Southern Science Limited*	Ordinary shares	100%	Laboratory analysis and environmental assessment
Southern Water Industries Limited*	Ordinary shares	100%	Industrial and commercial services
Southern Water plc	Ordinary shares	100%	Holding company
Southern Water Services Limited*	Ordinary shares	100%	Water supply and waste water services
Taylor Plant & Haulage Limited*	Ordinary shares	100%	Waste disposal services
Teledata (Holdings) Limited	Ordinary shares	100%	Telecommunications
Telephone Information Services plc	Ordinary shares	100%	Telecommunications
Topmark Vehicle Contracts Limited*	Ordinary shares	100%	Vehicle contract hire, sales and rentals
Total Mailing Services Limited*	Ordinary shares	100%	Mailing and printing services
Tynemarch Systems Engineering Limited*	Ordinary shares	100%	Process control and engineering software services
Vehicle Contract Hire & Leasing Limited*(c)	Ordinary shares	100%	Vehicle contract hire, sales and rentals
Waterline Insurance Company Limited*	Ordinary shares	100%	Insurance
Woodend Group Limited	Ordinary shares	100%	Mobile telecommunications
Fixed asset investments			
– Associated undertakings			
Celtpower Limited	Ordinary shares	50%	Wind-powered electricity generation
Coastal Wastewater Consultants Limited*	Ordinary shares	50%	Marine treatment, engineering design and consultancy
Scottish Electricity Settlements Limited	Ordinary shares	50%	Scottish electricity settlements
Wind Resources Limited*	Ordinary shares	45%	Wind-powered electricity generation
– Other investments			
Folkestone & Dover Water Services Limited*	Ordinary shares	25%	Water supply

Notes

*The investments in these companies are indirect holdings.
(a) Manweb Insurance Limited changed its name to ScottishPower Insurance Limited during the year.
(b) The year end of ScottishPower Investments Limited is 28 February.
(c) The year end of Vehicle Contract Hire & Leasing Limited is 31 August.
All companies are incorporated in the United Kingdom, unless otherwise stated.

Report of the Auditors
to the members of Scottish Power plc

We have audited the financial statements on pages 45 to 60.

Respective responsibilities of directors and auditors
As described on page 39, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group at 31 March 1997 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Glasgow

15 May 1997

Report of the Auditors

to Scottish Power plc on Corporate Governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 38 and 39 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the group's system of internal financial control or its corporate governance procedures nor on the ability of the group and company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on pages 38 and 39 and going concern on page 39, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statements on pages 38 and 39 appropriately reflect the company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers + Lybrand

Coopers & Lybrand
Chartered Accountants
Glasgow

15 May 1997

Company Information

Non-executive directors

Murray Stuart Chairman
Sir Ronald Garrick
Sir Peter Gregson
Baroness Jay of Paddington
(resigned 13 May 1997)
Nick Kuenssberg
Ewen Macpherson
John Parnaby

Executive directors

Ian Robinson
Chief Executive

Michael Kinski
Chief Executive Southern Water

Ian Russell
Finance Director

Ken Vowles
Executive Director Generation

Duncan Whyte
Executive Director Multi-Utility

Members of the Audit Committee

Sir Ronald Garrick Chairman
Baroness Jay of Paddington
(resigned 13 May 1997)
Nick Kuenssberg
Ewen Macpherson
Murray Stuart

Members of the Emoluments and Nominations Committee

Nick Kuenssberg Chairman
Sir Ronald Garrick
Sir Peter Gregson
Ewen Macpherson
John Parnaby

Secretary and registered office

Andrew Mitchell
1 Atlantic Quay
Glasgow G2 8SP

Shareholder Information

The year ahead

23 July 1997	Annual General Meeting
18 August 1997	Shares 'ex-dividend'
22 August 1997	Last date for registering transfers to receive the final dividend
1 October 1997	Final dividend payable
November 1997	Announcement of Interim Results for 1997-98
January 1998	Shares 'ex-dividend'
February 1998	Last date for registering transfers to receive the interim dividend
March 1998	Interim dividend payable
May 1998	Preliminary Announcement of final results for 1997-98

Annual General Meeting
The Annual General Meeting will be held at the Royal Concert Hall, Sauchiehall Street, Glasgow, on Wednesday 23 July 1997 at 11.00 a.m. Details of the resolutions to be proposed at the Annual General Meeting are contained in the Notice of Meeting.

Interim report
The company, as permitted by the London Stock Exchange, publishes its Interim Report in one national newspaper. In 1997, it is expected that the Interim Report will be published in the Financial Times. Press releases and up-to-date information on the company can also be found on the ScottishPower web page (www.scottishpower.plc.uk).

Copies of the Interim Report may be obtained, free of charge, on request from the Company Secretary at the company's registered office.

Share registration enquiries
The Registrar
Bank of Scotland
Apex House, 9 Haddington Place
Edinburgh EH7 4AL
Tel: 0131 243 5317 Fax: 0131 243 5327

Shareholder services
ScottishPower, by arrangement with Bank of Scotland and Barclays Stockbrokers Limited, offers the following services for the private investor:

Share consolidation and PEPs
Share consolidation is a facility which allows a number of holdings, and especially family holdings, to be consolidated into one holding. This service is provided free of charge.
Personal equity plans (PEPs) are suitable for those private investors who may wish to shelter their ScottishPower shares from Income and Capital Gains Taxes. A Corporate PEP service is offered, comprising the ScottishPower General PEP and the ScottishPower Single Company PEP.
Further details of these services, and copies of the ScottishPower PEP brochure, may be obtained from Bank of Scotland on Freephone 0500 143543.

Share dealing
ScottishPower shares may be bought or sold at competitive rates by post or telephone. For further details, please contact Barclays Stockbrokers on Freephone 0800 551177.

Analysis of shareholders

Range of holdings	*No. of shareholders*	*No. of shares*
1-100	16,393	748,068
101-200	276,377	46,248,128
201-600	212,619	64,060,223
601-1,000	42,341	32,311,565
1,001-5,000	51,264	89,377,425
5,001-100,000	4,135	61,813,576
100,001 and above	735	882,806,951

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