Annual Report and Accounts
1998-99

ScottishPower

Over 5 million customers are ScottishPowered

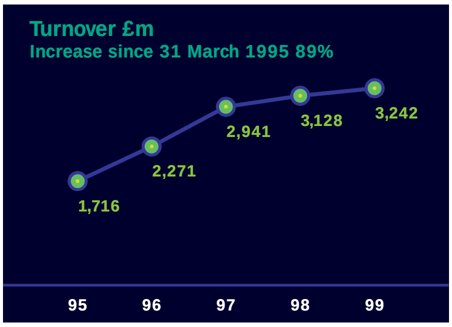
Note

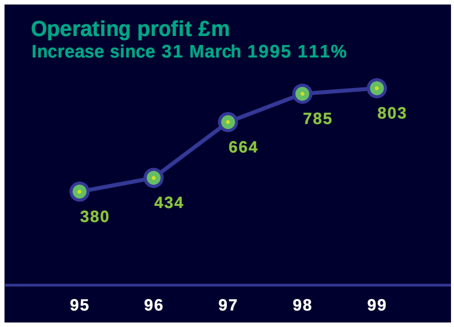
The company is required to prepare and publish separate accounts for its regulated businesses in accordance with its Licences. Copies of the Scottish Power plc, Manweb plc and Southern Water Services Limited regulatory accounts may be obtained on request from the Company Secretary at the company's registered office.

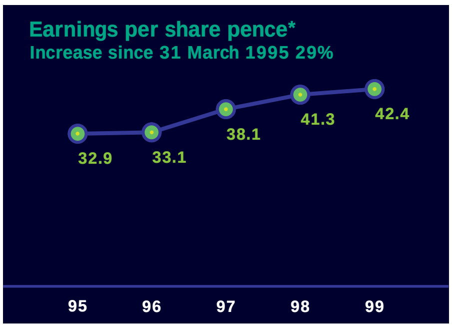
Financial Highlights 1998-99

	1999 £m	1998 £m
Turnover	**3,242**	3,128
Operating profit	**803**	785
Profit before tax	**644**	640
EBITDA†	**1,017**	951
Free cash flow*	**702**	734
Earnings per share**	**42.42p**	41.28p
Dividends per share	**22.50p**	20.40p

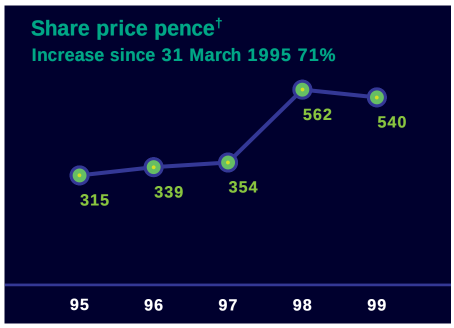
† EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation
* 1999 and 1998 figures quoted before windfall tax payments
** 1998 figure quoted before windfall tax charge







* 1998 figure quoted before windfall tax charge



† Price at 31 March. Share prices prior to 1997 have been adjusted to reflect the rights issue in August 1996

Another year of satisfactory operating and financial performance

Leading position in competitive electricity and gas markets

ScottishTelecom doubles turnover

Southern Water delivers transition plan savings

PacifiCorp merger on track

Chairman’s Statement

Murray Stuart
Chairman

Our goal is to provide better service and value to customers and enhanced returns for shareholders

I remarked last year, in my statement to shareholders, on the development of ScottishPower into one of the major investor-owned utility companies in the world. I also commented on the pace and breadth of change facing regulated utilities in the United Kingdom, across our operations in electricity, gas, water and telecommunications.

Against this background, ScottishPower in the year ended 31 March 1999 has delivered satisfactory financial performance, and has yet again been successful in achieving its goals, while at the same time providing a quality service and fair prices for our customers. We maintained good progress towards our objective of international growth, announcing on 7 December 1998 a merger with PacifiCorp, a large electricity company headquartered in the Western USA. We believe that this major strategic initiative will provide a good basis for the further creation of shareholder value.

Financial results

We can report another year of satisfactory performance. Group turnover increased from £3,128 million to £3,242 million, an increase of 3.6%. Pre-tax profit was £644 million, an increase of £4 million over last year, and earnings per share were 42.42p, up 2.8% on a comparable basis.

During the year, we continued to invest to build and improve our businesses. Capital expenditure totalled £754 million, an increase of £97 million. Major components in this large capital spend included: £347 million at Southern Water, part of an ongoing £1 billion investment programme over five years to the year 2000; £280 million in our energy businesses; and £103 million at ScottishTelecom. Expenditure on systems development throughout the group was £51 million. In addition, we spent some £20 million on preparing for Year 2000 compliance.

We are recommending a final dividend of 15.0p net per share which, together with the interim dividend, will result in an increase of 10.3% over last year. The full-year dividend is covered 1.9 times by earnings. We have followed our stated aim of growing dividends at 7% to 8% real per annum until the new regulatory price controls are implemented next year. It is the company’s current aim to deliver real dividend growth thereafter, and this will be re-examined once the outcome of the regulatory reviews is known.

At the year-end, interest cover was 5.0 times, and our net borrowing was £2,421 million, giving gearing of 124% compared to 114% the previous year.

Operational performance

Across our businesses we have made good progress in achieving growth, coupled with improvements in operational standards and efficiency.

In Manweb and Southern Water, we are pleased to have delivered against the transition plans that we set for each of these businesses at the time of acquisition. We now have plans in place to make further improvements.

ScottishPower's impact in the UK

Business Strategies Limited reviewed the 1997-98 activities of the ScottishPower group. Key findings of this report highlighted:

The group accounts for around 1% of the UK economic output, spending £5.8 billion and supporting almost 140,000 full-time equivalent jobs.

In Scotland the company supports more than 26,000 full-time equivalent jobs and invests some £1.4 billion in the economy.

In the Manweb area more than 6,000 full-time equivalent jobs are supported and £411 million spent in the local economy.

Southern Water is similarly important to its region, covering much of south-east England, with £422 million contributed to its economy, helping to support around 8,800 full-time equivalent jobs.

Source: 'Impact of ScottishPower Group' – Business Strategies Limited (November 1998)

The year has been a very challenging one for our energy businesses, as the residential electricity supply market has opened to competition. For both ScottishPower and the industry, the skills required have been hugely demanding in terms of systems development and project management. We have performed well in achieving deadlines and meeting the required performance standards and have been substantially successful in retaining our existing customer base, and have captured a large number of new customers in the areas open for competition. During the period, we have achieved some of our highest ever standards of customer service, right across the business. Through targeted investment and training, we anticipate further customer service improvements in the future.

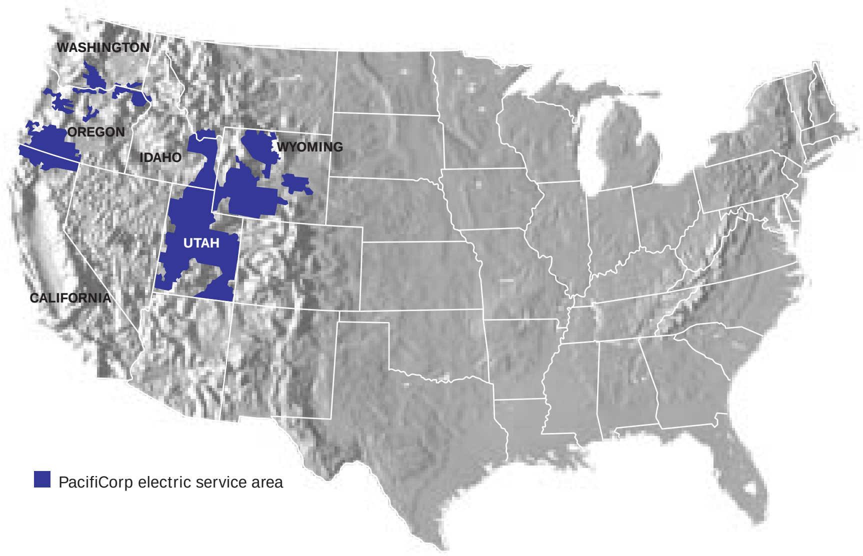
In late December 1998 and early January 1999, we sustained in Scotland the worst storms for some 30 years. Gusts of up to 100 mph caused extensive damage throughout the whole of our network. The level of supply interruptions experienced by our customers was very high and, where the damage was greatest, it took a long time to reconnect customers. We deeply regret this. We are already implementing measures to improve further our ability to handle such widespread incidents. However, it would be difficult to envisage a network with resilience sufficient to withstand such severe weather at an economic cost, and our worldwide benchmarking exercises confirm this.

Utility sector development

Since privatisation your company, and the sectors in which we operate, have been the subject of a whole series of major changes. These changes, which have affected business size and ownership, have involved greater vertical and horizontal integration and a revolution in customer service. They are apparent not only in the UK but increasingly throughout the world. It is our belief that this process of change will continue and, given our own experience, that it should benefit both customer and shareholder. This is set against a background of tighter regulation, with more demanding and broader standards. The incidence of competition in our markets, combined with the factors above, makes operation of your company's regulated businesses an even more challenging task.

PacifiCorp merger

The most important strategic development of the year was the announcement in December 1998 of the merger with PacifiCorp. In last year's Annual Report, I indicated that we would be looking at international investment, particularly in the United States of America, where we saw the opportunity to create value for shareholders. Your Board deliberated at length on the strategy to do this, and on the selection of an appropriate partner. We believe that PacifiCorp, a Fortune 500 company in electricity generation, distribution and supply, operating in the north-west of the USA and in Australia, is an excellent partner.



It has high quality assets and a sound customer base.

Shareholders in both ScottishPower and PacifiCorp will have the opportunity to approve the proposed all-share transaction in June. Successful completion of the deal will bring ScottishPower into the top 10 electricity companies in the world and make the company a significant UK-based international utility business. The merger approval process, although complex, has proceeded in line with our plans and we envisage completing the transaction later this year. We believe that our range of skills, our managerial resources and our track record can develop a large and successful business with PacifiCorp in the USA.

We believe that the merger, and the subsequent development of your company in the USA, together with the development of the existing UK businesses, will provide longer-term growth and balance to earnings. The merger is expected to be earnings enhancing from the first full year, before goodwill amortisation, compared to the directors' present expectations for the existing ScottishPower group.

ScottishTelecom

ScottishTelecom has continued to grow rapidly, extending both its markets and its product range, with turnover exceeding £200 million. The success of ScottishTelecom and its achievement of critical mass makes it appropriate for us to review its future as part of the development of the ScottishPower group. Accordingly, we are currently considering, with financial advisers, how best to maximise shareholder value from this business, and we expect to reach a decision during this year. This assessment includes a review of services provided by ScottishTelecom, its funding needs and any consequential restructuring.

Regulation

Regulatory decisions affecting the price controls for both our energy and water businesses are scheduled for later in the current financial year, and will take effect from 1 April 2000. We seek to manage our businesses to very high standards in terms of customer service and operating efficiency. An acceptable outcome to each of these reviews would be one that recognises both our performance to date and the need to provide acceptable long-run rates of return to encourage further investment; and one that provides incentives to secure greater efficiencies.

Investing for the future

Your company continually seeks to invest for future growth, to improve its operational efficiency and customer service, to enhance the skills and opportunities for its employees, and to build the trust of the communities it serves. Over the last few years, Chief Executive Ian Robinson and his team have been very successful in this.

In today's more testing environment, we have built a national business of quality, a vertically integrated electricity business, and a multi-utility serving 5.5 million British homes. We have created high-quality, efficient, low-cost operations. The ScottishPower brand is now recognised nationally for its attributes of quality, service and value, attributes upon which we intend to build further. Our other businesses, ScottishTelecom, Retail, Contracting Services and Technology, have continued to develop. Our ambitions are to continue to increase our UK customer base and we have a substantial track record in this area.

We shall invest further in our UK regulated businesses, complete the interconnector to Northern Ireland, enlarge the capacity of our interconnector to England and Wales, strengthen our network of wires and pipes, and develop ScottishTelecom. We are also looking at the innovative use of technology to control utilities within the home, and have already piloted electricity and gas sales on the Internet.

Environment

We have always regarded the environment as fundamental to our business and we accord it the highest priority. This year has seen sustainable development and climate change emerge as key drivers in UK environmental policy. The delivery of energy and wastewater services at prices people can afford, and with reduced impact on the environment, are at the very heart of these policies.

ScottishPower has responded positively to these challenges by playing an active part in the debate and by increasingly aligning our business strategy with the objectives of sustainable development. As detailed in the Chief Executive's Review, care of the environment is an integral component of our strategic thinking for the future and a key factor in our investment decisions.

Devolution

Your company has continued to be involved supportively in the process of devolution. ScottishPower will work constructively with the two new administrations, and we look forward to the positive contribution that these new bodies will make to the future of Scotland and Wales.

Board and senior management changes

Given the size and complexity of the PacifiCorp transaction, your Board asked me to postpone, into the year 2000, my previously announced retirement in July 1999.

Charles Berry and Alan Richardson were appointed to the Board on 1 April 1999. Charles is now Executive Director Customer Sales & Services, and Alan, until recently Managing Director of Power Systems, will become Chief Executive Officer of PacifiCorp on completion of the merger later this year. Both have excellent professional backgrounds and have been members of the senior management team of your company for some years. On 1 November 1998, Ian Russell was appointed Deputy Chief Executive, a new role recognising his broad range of skills. He retains his position as Finance Director.

On 27 January 1999, we announced that Duncan Whyte would be leaving us at the end of May, to become Chief Executive of The Weir Group plc, a leading engineering group in Scotland. Duncan has served the Board of ScottishPower and its predecessor, The South of Scotland Electricity Board, for more than 10 years in a variety of key roles. We wish him well in his new post and express our thanks for his major contribution to the group.

Ron Garrick indicated his wish to retire from the Board in April 1999 and we thank him for his contribution over the past seven years. During the year just ended, he was Chairman of the Audit Committee and from 1 May 1999 was succeeded in this role by John Parnaby.

ScottishPower people

As a Board, we are very proud of the talents, commitment and teamwork of the many people at all levels who make our business thrive. My statement has, I hope, shown you the range and diversity of challenges faced by them in this past year. For the very successful outcome which they have achieved, I thank them profoundly on your behalf.

Outlook

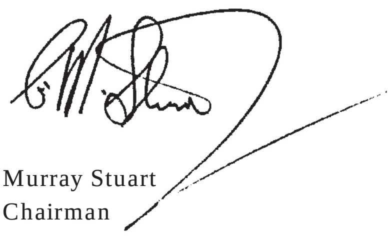
Apart from the many changes and opportunities which the year ahead offers in our UK operations, we expect to complete the PacifiCorp merger later this year. This would make ScottishPower one of the top 10 electricity companies in the world and would bring the total employment complement in the new enlarged group to 25,000.

The merger is expected to be earnings enhancing from the first full year, before goodwill amortisation, compared to the directors' present expectations for the existing ScottishPower group.

Looking ahead into the new millennium, regulation will continue to have a significant bearing on the profitability and investment capability of the ScottishPower group. The Board believes that the group has high standards of operation and customer service. Nevertheless, the Board is unable to judge accurately the outcome of the current UK regulatory reviews and there can be no assurance that they will not materially affect the group's profits.

Our goal is to provide better service and value to customers, and at the same time enhanced earnings for shareholders. In our view, this must be supported by a process of regulation which takes a balanced long-term view to reward investment and encourages improvements in service and efficiency.

We will progress our strategy to develop and grow the business. This will require ongoing revenue and capital investment in the year ahead. We are confident in our strategy for long-term growth. Given the quality of your company and its people, we look forward to further success.



Murray Stuart
Chairman

Competitive
More than one million new gas and electricity domestic accounts have been won by ScottishPower

Clear strategy
ScottishPower is determined to be among the small group of world-class utilities likely to dominate the sector in the 21st century

Scottish

Innovative
Single bill and contact number for gas and electricity. Advanced telecommunications and Internet services. Pioneering 'Smart Home' technology

Driven by customers
Range of services and products for homes and businesses. Striving for excellence in customer service. Added value for every product

Powered

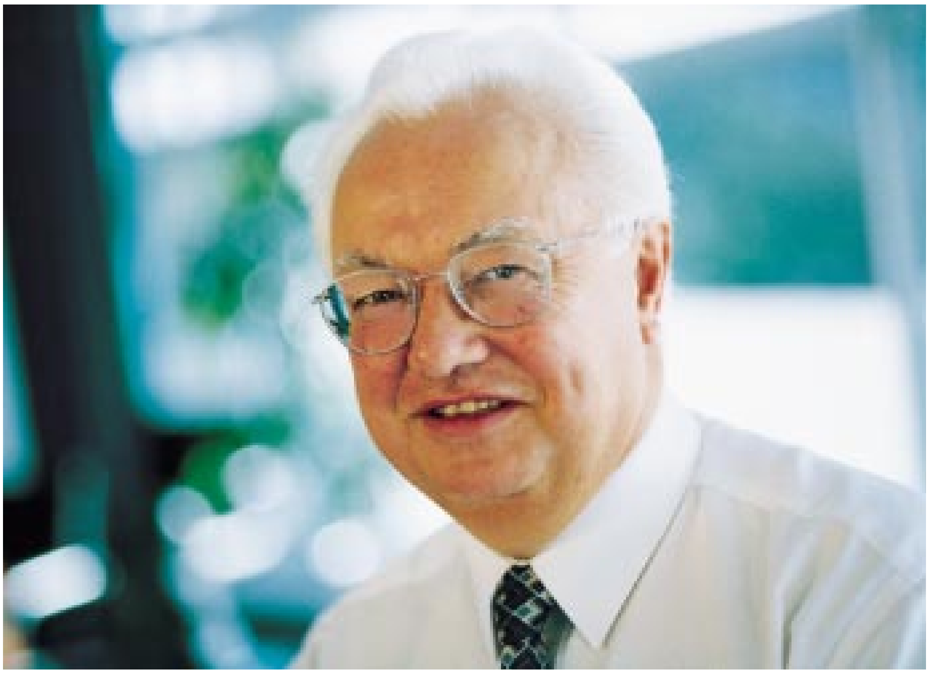
Responsible
Committed to meeting or improving on our environmental requirements. Comprehensive learning-for-life staff initiative. Leading role in Government's New Deal programme

Successful
Strong consistent performance. Further potential for success

Chief Executive's Review

Ian Robinson
Chief Executive

We have made a substantial investment to grow the business, and have established the company as a leader in the competitive UK energy supply markets



ScottishPower today is a leading UK multi-utility, offering combinations of electricity, gas, water and wastewater services, and telecommunications to 5.5 million homes. This year has witnessed growth in a number of these sectors, and the company has established a strong position in the competitive energy markets.

The company has also made substantial investments across each of our businesses, in order to grow future earnings by developing our infrastructure assets and building our customer base.

Regulation and competition are continuing to drive change across each of the sectors in which we operate. We have responded by improving the cost performance and efficiency of our regulated businesses. We are also working closely with our customers, large and small, to ensure that we continue to understand and to meet their developing needs.

Over the last year, the corporate identities of Manweb and Southern Water have been brought into line with the ScottishPower 'Powermark'. This was an important first step towards establishing a national brand for the ScottishPower group, through which we can deliver across the UK the range of quality innovative services for which ScottishPower is renowned.

Our success has been recognised by a number of observers, including *The Times* newspaper, which has ranked ScottishPower top in an ongoing survey of FTSE 100 companies, taking into account brand strength, innovation, share price performance and ethical policies. The company was awarded The Sir George Earle Trophy, the UK's top award for occupational health and safety, by RoSPA. ScottishPower was also named as the best safety performer in the electricity industry. It was the top-rated electricity company for positive press coverage in a survey carried out by the independent monitoring agency Presswatch.

PacifiCorp merger

The Chairman has referred to the merger with PacifiCorp, announced in December 1998. PacifiCorp is a vertically integrated electricity company, which directly serves 1.5 million customers in territories covering 135,800 square miles in parts of six states in the north-west of the USA.

PacifiCorp owns or has interests in generating plants with a combined net capability of 8,445 MW, as well as a significant electricity business, Powercor, based in Melbourne, Australia. The company has some 9,000 employees.

Alan Richardson, formerly the Managing Director of our Power Systems business, is leading a management team in Portland, Oregon, which is examining how to maximise the benefits from integrating the business into the ScottishPower group. We have detailed, in testimony to the state regulatory bodies, the benefits that we believe ScottishPower will bring in terms of customer service improvements, efficiency gains and community and environmental investments.

ScottishPower is working closely with the various regulatory and other official agencies within the six states, as well as with the US Federal Energy Regulatory Commission and authorities in the UK and Australia. It is expected that full regulatory clearance will be given later this year.

Energy Supply

Residential customers

Competition in the domestic electricity supply market within ScottishPower's home territories began in September 1998 and will be completed across Great Britain by summer 1999. The company's operations in Scotland, England and Wales were among the first to be ready for the new market environment. This reflected the company's significant investment in new systems and procedures and the commitment of our project management team.

The company is well on its way to achieving its customer targets in the competitive markets. In electricity, we are seeking to increase market share from 12% to 13% by March 2000. In gas supply, our target is to achieve a 7% share of the domestic market, some 1.3 million customers, from our current base of 4%. This is equivalent to growing a customer base, in gas, similar in size to that of a small Regional Electricity Company.

ScottishPower is winning new gas and electricity accounts at an average rate of 20,000 per week. At 31 March 1999, customers had opened 950,000 new accounts, 760,000 of them for gas and 190,000 for electricity. At the beginning of May the number of new

Top: ScottishPower offers dual fuel and a single bill to our domestic customers.

Bottom: Ian Robinson, with Sam Galbraith MP, Minister for Health and the Arts, and Stuart Gurney, a contributor to the ScottishPower sponsored Twentieth Century Gallery at the National Museum of Scotland, Edinburgh.

accounts had reached one million. Attracting new customers leads to initial costs in sales and marketing, information systems and new procedures. However, we believe that this investment is necessary to grow the energy supply business for the medium to long-term.

Our progress has been achieved in spite of intense competition. Within our franchise areas, we have lost just 5% of our electricity customers since last September (147,000 accounts).

ScottishPower was one of the first companies to offer a 'dual fuel' product, offering customers the opportunity to order both gas and electricity supplies and pay for them simultaneously. This was an important step in the company's multi-utility strategy. So far, 317,000 customers across the UK have contracted to take both products from ScottishPower.

ScottishPower has launched a national advertising campaign aimed at building our brand across the UK. Television and poster advertisements carry a 'ScottishPowered' message that reflects the values of the company. Customer response to the campaign has been very positive.

It remains important that the company finds innovative ways to help all UK energy customers benefit from competition. For example, ScottishPower has entered into partnership with Eaga Ltd., formerly the Energy Action Grants Agency, to deliver a unique service package to low-income families, which aims to provide better heating as well as options to manage bill and debt repayment.

Commercial and industrial customers
ScottishPower's approach to the commercial and industrial market has become increasingly sophisticated. A greater emphasis is being placed on the tailoring of special energy packages for large-scale power users. At the same time, we continue to focus on ensuring that the quality of electricity supply and customer service remains of the highest standard.

Customers seek comprehensive solutions encompassing electricity and gas supplies as well as innovative performance contracts involving Combined Heat and Power (CHP) and boiler systems. Three CHP projects have been completed this year, as well as nearly 70 smaller projects, and there are a number of other potential projects.

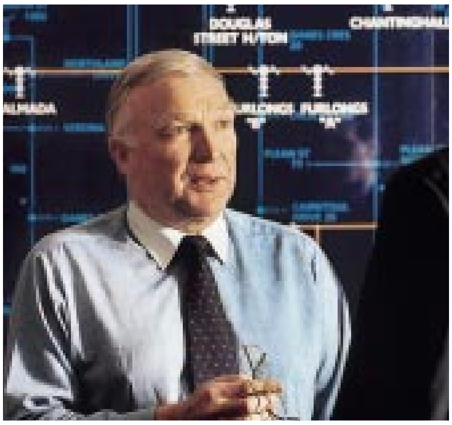
Cross-business teams have been drawn together to tackle key commercial projects for clients such as Pilkington, for whom ScottishPower is providing a combined on-site heating and steam generation system over 10 years, as well as building three 9 MW CHP units in a 20-year deal. The deal offers Pilkington significant savings in energy costs, as well as reducing CO_2 emissions by 30,000 tonnes a year.

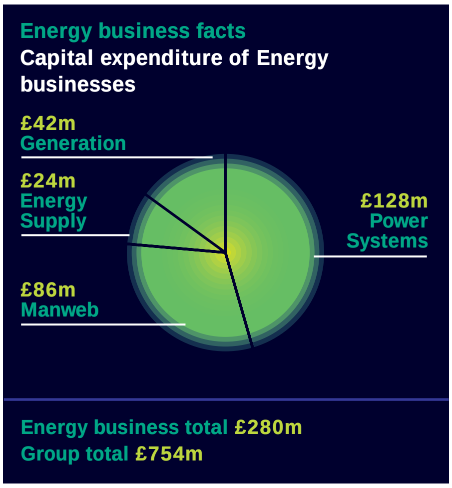
Market liberalisation has allowed small and medium-sized businesses to take advantage of the competitive environment and secure tailored packages from ScottishPower, which can include energy supply, telecoms and Internet services.

Company	Score	Review Date
ScottishPower	81.5	9.2.98
Shell	79	27.10.97
British Land	79	7.12.98
BAA	78	22.12.97
BP	78	29.6.98
Legal & General	78	22.6.98
Granada	78	2.2.98
Cadbury Schweppes	77	14.4.98
PowerGen	76	6.7.98
Boots	76	27.4.98
Lloyds TSB	75	10.11.97
British Aerospace	75	15.6.98
Stagecoach	74	1.9.98
Schroders	74	1.6.98
BG	74	3.11.97
Asda	74	13.10.97
Reuters	73	14.12.98
Tesco	73	8.6.98
Reckitt & Colman	73	18.5.98
British Energy	73	20.4.98

ScottishPower has been ranked top plc, to date, by *The Times* newspaper in an ongoing survey of FTSE 100 companies, taking into account brand strength, innovation, share price performance and ethical policies.

Ken Vowles – Executive Director UK Power Operations
at the Power Systems management centre, Hamilton





Top: One of ScottishPower's largest industrial customers is the Caledonian Paper mill based in Irvine, Scotland.

Opposite: The Generation business is investing in the LOMIS 'smart' control system at Longannet power station.

Customer service
ScottishPower's record in electricity customer service continues to improve, despite the additional pressures of rapid market expansion and the strategic switch into new areas of utility service.

Excellence in customer service is integral to the success of our supply business and we are pleased to report that our performance in respect of failures in guaranteed standards and improvements in underlying customer minutes lost were significantly improved over the already good figures for 1998. In Manweb, for example, supply complaints to OFFER have shown a 41% decrease, dropping from 123 complaints to 72.

Domestic gas suppliers faced increases in complaints during the period of market liberalisation. Most commonly, complaints to the Gas Consumers' Council have concerned the change of supplier process, and sales and marketing activity. ScottishPower's performance in terms of customer complaints was considerably better than that of other new entrants to the gas market.

Generation

In light of the new competitive environment, the Generation business has been restructured in order to focus more effectively on its key activities in fossil-fuel, gas and renewable energy sources.

In addition to supplying ScottishPower's Energy Supply business, Generation must compete to serve other companies who are supplying electricity to customers in Scotland. The new market situation demands an enhanced focus on customer needs at every level, and the business has responded with a wide-ranging review, fully supported by the Trade Unions through the Partnership Council, of core activities and work practices.

The result has been an agreement aimed at reducing operating costs during the period to 2000-01. Every area of activity has been scrutinised, and solutions include the outsourcing of non-core activities, the regrouping of supply services, and a 'step change' in work practices.

This programme includes significant capital investment, particularly in the fossil-fuelled power stations at Longannet and Cockenzie. The Longannet Operational Management Improvement Scheme (LOMIS) includes a project to introduce a 'smart' control system offering quick and accurate diagnosis of operating problems, as well as extending the working life of existing plant.

Significant progress has been made with several important investments which will further enhance the company's ability to reach and service energy markets throughout the UK. Full consent was awarded for the conversion of Hatfield Moors underground gas reservoir in Yorkshire, for the storage of approximately 4.1 billion cubic feet of gas. Construction of this facility has begun which, on completion, will provide storage to link ScottishPower's North Sea gas supplies and the peak demands of some 450,000 customers. We expect to be importing gas from the end of August 1999.

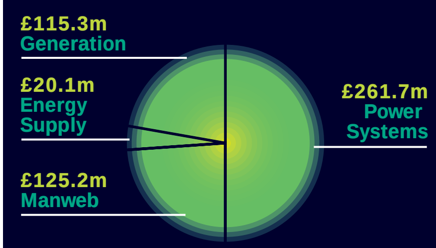

scottishpower

Charles Berry – Executive Director Customer Sales & Services
at the Pollok retail superstore, Glasgow

Top: Power Systems, Manweb has completed a project to move power cables underground around the historic Chirk Castle, near Wrexham, North Wales.

Opposite: The benefits of dual fuel are enjoyed by a range of commercial customers, including the restaurant of TV chef Nick Nairn.

Energy business facts
Contribution to operating profit



Energy business total **£522.3m**
Group total **£802.8m**

Energy Supply
Customer base: 760,000 gas accounts; 317,000 dual fuel energy contracts; gained 1 million new accounts (May 1999)
Power Systems
Geographic area: ScottishPower and Manweb franchise territories
64,000 km of underground cables
50,000 km of overhead lines
Generation
Owned capacity: 3,570 MW
Available capacity: 6,400 MW

Final approval has been received and construction has begun on the 400 MW Combined-Cycle Gas Turbine (CCGT) station near Brighton, a joint venture with Central & South-West, the US owner of SEEBOARD. The £200 million project was approved prior to the moratorium on CCGT developments, and is expected to commence commercial operation in winter 2000.

Expanding sales in England and Wales
The Generation business is enjoying increased sales via the Scotland-England interconnector, up 0.4 TWh from 1997-98 to 6.0 TWh. Consent has been granted to upgrade the capacity of the link and the current completion date for this project is September 2001.

The company welcomed the approval of the proposed interconnector between Scotland and Northern Ireland. The company expects the line to be operational by December 2001.

Power Systems

The Power Systems business continued to focus strongly on the efficient delivery of electricity to customers in its franchise areas via its overhead and underground network.

An ongoing benchmarking programme continues to drive high-quality, low-cost services.

Investment in the business, totalling £212 million during 1998-99, has included significant upgrades and refurbishments to the transmission and distribution network. Several parts of North Wales and the Scottish Borders have been targeted for improvement.

In September 1998 the first private generator connection on to the ScottishPower transmission system was completed. In the Inverclyde area, nearly £9 million was invested to reinforce the transmission and distribution system to improve supply reliability to major electronics manufacturers. A 132 kV connection to an independent generation scheme at Bridgewater Paper on the Wirral, near Ellesmere Port, is due for completion by summer 1999.

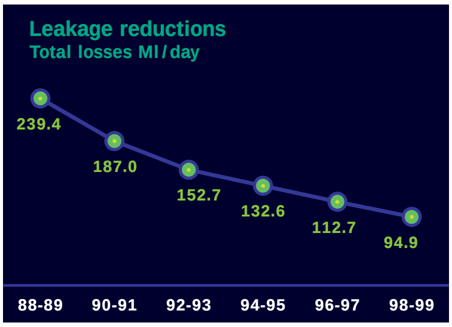
Power Systems has also adopted innovative work management and control systems to deliver further benefits to customers. Investment has led to continuing improvements in performance against guaranteed standards.

Power Systems' training organisation, PowerLearning, is developing to meet the demands for a wider, more flexible skills base, and its Hoylake House facility has been reopened after a £1 million refurbishment. Power Systems has won a prestigious UK National Training Award for its intensive procurement training programme, which has helped identify savings of more than £7 million.

A focus on safety has led to the Royal Society for the Prevention of Accidents (RoSPA) presenting awards to all six ScottishPower and Manweb areas and to a significant reduction in reportable accidents. Power Systems' environmental credentials were underlined by the award of ISO 14001 certification to several parts of the business.

Opposite: The Millbrook sludge treatment centre, near Southampton, produces a range of bioproducts for use as fertiliser and soil conditioner.

Top: An additional market for the bioproducts from Millbrook is in a high quality dressing for golf course greens.



Winter storms

Our network and our people were tested to the full in the worst storms for 30 years, which swept across Scotland from Boxing Day. Gusts of up to 100 mph caused unprecedented damage to our network, with more than 7,000 separate incidents, more faults than we normally experience in five months. At the peak of the storm, around 125,000 customers were without power. Ninety per cent of the damage was due to trees falling on to our overhead lines.

The response from staff was exceptional. It demonstrated the importance of emergency preparations and the group's ability to pool resources successfully. Within 30 hours, around 1,000 people from Power Systems, Energy Supply, Contracting Services and other electricity companies had been mobilised. Around 94% of customers were restored within 36 hours, though inevitable strain on the telecommunication systems, allied to the time taken to assess the damage, did attract criticism.

We deeply regret the inconvenience that our customers suffered as a result of these storms. Following an internal review, a number of measures are being introduced. These include investment to increase the call-handling capacity of our call-centres, overhaul of automatic systems monitoring the network, and a more rigorous policy for ensuring adequate tree clearance. In addition, we have a major programme under way to strengthen the network in certain areas.

The company has contributed to a review by OFFER into how electricity companies coped with the bad weather, which also affected customers in Northern Ireland and the north of England.

Regulatory reviews

The current year is an important one for Power Systems, with OFFER undertaking a periodic review of the price-controlled revenues of the transmission business and the distribution businesses in Manweb and Scotland. Business plans have been submitted and OFFER is consulting on the policy and principles behind future price controls.

Southern Water

Southern Water continues to make substantial progress in terms of cost efficiency and improved customer service standards. This is supported by significant capital investment, which amounted this year to £347 million, or more than £6.5 million a week.

Regular reviews by the regulator OFWAT have recorded continuing improvements. Southern Water emerged as the top overall performer of the large water companies for water supply and customer service, and was also top for efficiency in water supply. The regulator takes these measures into account when setting prices for the future.

Southern Water's water distribution leakage level of 11.5%, down from 12.4% in 1997, is the lowest level among the 10 major water and wastewater companies. More than 300 million gallons were saved, compared with the year before, by finding and repairing leaks. Availability of water resources is now back in line with the long-term average.

Investment in the wastewater infrastructure is also delivering results. A record 97% of beaches in Southern Water's area have now reached European bathing water standards.

A major sludge treatment centre was commissioned at Millbrook, in the Southampton Docks area. This is one of a number of regional treatment centres being provided to produce a range of sewage sludge-derived bioproducts, which are being actively marketed as a fertiliser and soil conditioner.

Approval was received for the construction of a new wastewater works at Portsmouth. This will feature a tunnel beneath the environmentally sensitive Langstone Harbour, an internationally important wintering bird site. Work is proceeding on a scheme to combine much of the Isle of Wight's wastewater treatment at a new works at Sandown. Work to upgrade the sewerage infrastructure in Hastings is also well advanced.

The Government's upgrading of minimum levels of wastewater treatment for coastal works will mean further improvements to recently completed new works such as Eastbourne and Shoreham, as well as several long-term investment projects at Dover and Folkestone, Littlehampton and Bognor, Margate and Broadstairs, and the Isle of Wight.

Top and bottom: ScottishTelecom acquired Demon Internet one of the UK's largest and best-known Internet Service Providers.

Opposite: Retail has expanded to 183 stores nationwide and now offer a means of marketing gas and electricity services to many more customers.

Transition plan savings remain ahead of target, achieving £10 million this year. The new five-year 'Way Ahead' initiative, which builds on the success of the transition plan, envisages the closure of existing county headquarters and the redeployment of essential staff to under-utilised accommodation at water and wastewater works. Further restructuring is taking place in order to reduce operating costs.

Regulatory reviews

This was the third year in which price increases have been held below the permitted level, resulting in a rate 3% below that set by the regulator in his price review.

OFWAT recognised in the 'Prospects for Prices' document that prices will have to continue to rise in Southern Water's area because of the ongoing capital programme. Customers have indicated that they would rather see stable prices over the five-year period of the review, rather than introducing a large one year price cut followed by a series of price increases. We have submitted business plans to the regulator that reflect this.

ScottishTelecom

ScottishTelecom had a successful year, fulfilling growth targets and continuing to complete strategic acquisitions.

The £66 million acquisition of Demon, one of the UK's largest and best-known Internet Service Providers, currently with over 275,000 customers, had a significant impact on the scale of the business, as well as extending its reach into a sector which continues to grow rapidly. One example of this is a joint initiative with the News International group to provide Internet access and network facilities for their free Internet service.

Substantial growth has resulted from the handling of Demon's network traffic, following a £14 million investment in a network switch and supporting infrastructure, which was completed in February.

Two smaller acquisitions, of Megafone and Watermark, helped to seal ScottishTelecom's position as the market leader in premium rate services, reinforcing the company's strategy of building a significant presence in each key market where it competes: namely in, telecommunication services, Internet services, call-centre services and premium-rate services.

Over the past year, ScottishTelecom has significantly increased services to the Scottish corporate market. Its directly-serviced customer base has doubled to more than 500 Scottish corporate accounts. ScottishTelecom estimates that this growth has positioned it as the second largest service provider to the Scottish corporate market.

ScottishTelecom won the contract to provide telecommunications services to the Scottish Parliament for its launch in 1999. It is also well advanced with its digital fibre network in the Highlands & Islands, and has expanded its network reach into the north of England and London areas, with further network extensions planned during the coming year to give the company a UK-wide presence.

ScottishTelecom operates the largest cellular service retailer in Scotland. The CallCentre Service is one of the UK's leading call-centre companies with major clients including Sony, Microsoft, Compaq, W. H. Smith, Toyota and SkyDigital.

Retail

The Retail business now has 183 stores across the UK, and their profile offers a particular advantage in the midst of electricity market liberalisation. This 'brand presence' in the High Street helps to raise the company's profile, as well as providing a means of marketing gas and electricity services.

The past year has been a difficult one for all electrical retailers, but we were pleased that we substantially and profitably maintained our share of the UK market.

Technology

The Technology business is involved in many of the projects at the heart of the group's activities, particularly in the creation of systems to support the generation and energy supply operations in today's competitive environment. The business, which is profitable in its own right, also undertakes external work for a range of customers, including British Energy, British Steel and One2One.

Contracting Services

The Contracting business has continued to expand its activities outside the group, as well as winning ScottishPower contracts such as the LOMIS project at Longannet power


GAS
ELECTRICITY

Top: The Technology business is involved in a number of innovative projects. One of these is to build a wind generator on the remote Scottish island of Muck.

Bottom: Energy Supply installed a CHP plant in tomato growers A. Pearson & Sons' site at Alderley Edge, Cheshire.

Opposite: Contracting Services has recently completed a new lighting system for the picturesque village of Crail in Fife.

station where technical staff from Contracting installed a state-of-the-art monitoring and diagnostic system.

External clients now include many UK utility groups, notably PowerGen, Hyder, British Telecom and British Gas, and major companies such as British Aerospace, DuPont, Rolls Royce and Vauxhall as well as local authorities and governmental organisations.

Environment

As the Chairman commented earlier, ScottishPower is committed to sustainable development.

We have continued to strive to reduce the impact of fossil-fuelled generation, which has been recognised by the Government as having a continued role to play in view of its low cost and its value as a source of employment. We have continued to make substantial improvements in wastewater treatment and in reducing the amount of water lost through leakage.

Our track record was once again recognised by a number of awards for Power Systems and Southern Water. ScottishPower's 1998 Environment Report was rated top of the utility sector in a survey of environment reports, assessed by the environmental group within OXERA, a respected economic consultancy.

During the year a 'Green Energy' tariff was introduced, whereby customers can choose to pay a premium that will fund investment in wind and hydro-generation. This followed market research which showed that a sizeable number of existing customers would support such an initiative.

ScottishPower has invested almost £14 million in various energy efficiency schemes, including the PowerSave project in Merseyside.

Increased sales of electricity to England and Wales, generated using low sulphur Scottish coal, have supplanted power produced in England and Wales by higher sulphur coal sources.

Southern Water's £1 billion improvement programme has helped to produce the cleanest bathing water in the south-east of England for decades. The company has complied with 99% of wastewater discharge consents. It is on track to end liquid disposal of untreated sludge by the end of 1999 and to end the routine landfilling of sludge by 2000.

To advise on our environmental policy, we have established an Environmental Forum, which comprises key figures from industry, government and lobby groups such as Friends of the Earth. More detail on the group's environmental activities are contained in the ScottishPower Environment Report, available from the Company Secretary.

Top: ScottishPower sponsored the Twentieth Century Gallery at the National Museum of Scotland in Edinburgh.

Middle: Southern Water sponsored a water efficiency play which has been performed to thousands of school children across the Southern Water area.

Bottom: Manweb supports the development of youth rugby and has donated a Fair Play trophy.

Opposite: ScottishPower participates in many ways in the BBC's Red Nose Day charity appeal – from staff all across the group individually raising money, to ScottishTelecom providing the call-centre services for the pledge lines.

Employees

As ScottishPower faces the challenges of becoming a global company in increasingly liberalised markets, our 16,000 employees are being encouraged to make the most of their abilities to 'grow' with the company.

Great emphasis is placed on employee development at every level, through schemes such as our Open Learning programme, which enables employees to choose personal development options. The company has invested heavily in management training, involving top international business schools in the UK and overseas, as well as tailoring its graduate recruitment programme to target the best students while they are still completing their studies.

The changing environment has given rise to the need to reduce costs and reform working practices in order to support the company's drive for greater efficiencies. This entails the acceptance of continual change and flexibility in all our businesses, including Retail, Metering and Contracting Services. These changes have been achieved with the full co-operation of the relevant Trade Unions, and it is a tribute to our staff that they have adopted a realistic approach to the future.

ScottishPower's ability to capture new markets and exploit opportunities in the changing world of utilities will depend heavily on the skills of our workforce at every level. The company will continue to lead the drive for change, in line with our efficiency targets, and will seek the continued co-operation and involvement of our employees.

Safety

Safety is of paramount importance to the company, and several initiatives have been implemented to encourage best practice. We have introduced a new health and safety strategy throughout the group, based on methodology designed by RoSPA, which should lead to further improvements.

The company was awarded The Sir George Earle Trophy, the UK's top award for occupational health and safety, by RoSPA. ScottishPower was also named as the best safety performer in the electricity industry. The group businesses were awarded a total of four commendations, eleven gold awards and four silver awards.

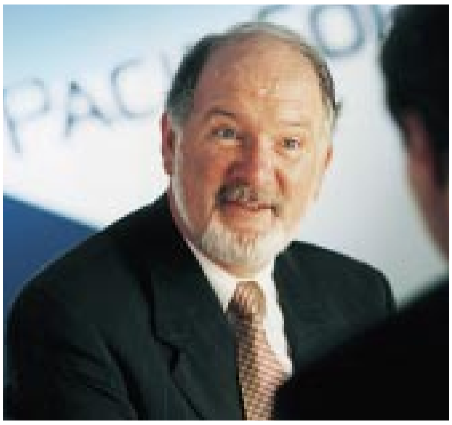
Significant milestones have been achieved in terms of safety. Cruachan power station has operated for four years without a lost time accident, and Galloway hydro-electric station achieved 1,000 days without a lost time accident. The company's commitment to training continues, with more than 50 employees receiving training to NEBOSH Occupational Health Certificate standard.

The Contracting Services business was awarded a Sword of Honour by the British Safety Council for management of safety performance; this award is presented annually to only 40 companies worldwide.

The group played a prominent part in the European Week of Safety, running several promotions and incentive schemes, and was subsequently awarded a certificate of recognition by the Health and Safety Executive.


ottishPower

Alan Richardson – PacifiCorp Chief Executive Officer Designate
at the 1999 ScottishPower Preliminary Results presentation, London



Opposite: Power Systems has developed an innovative lighting scheme for its substation at Mathew Street, Liverpool. Moving imagery reinforces the links in this area with The Beatles and the nearby site of the Cavern Club.

Year 2000 Compliance

The Company is well advanced in its programme to mitigate the effect of the Year 2000 issue. Compliance work commenced during 1998 and the majority of projects have now been completed. All remaining projects will be completed well in advance of the rollover date. Further information is contained on page 35.

Community

ScottishPower has continued to develop and enhance its links with the communities in which we operate.

Since July 1996, the company has supported the training of more than 1,000 young unemployed people through a framework of programmes delivered by ScottishPower Learning.

This year the company offered 300 places under the Government's New Deal initiative. These places have been made available across all four New Deal options: employment, education and training, voluntary sector, and environmental task force. To date, 170 young people have participated in this programme.

We also opened a further six community learning centres and provided support to nearly 200 pupils in eight schools as part of our school-to-work programme. Twenty-seven community projects were delivered, and the company organised seven Outward Bound courses for adults with learning difficulties. Four thousand schoolchildren and other community members have now benefited from the company's Open Learning programme. These achievements exceeded the company's own targets.

Since Southern Water launched its 'Learn to Swim' programme in 1992, more than 250,000 schoolchildren have been taught to swim. This successful partnership with the Amateur Swimming Association will continue into the millennium, operating through 70 local swimming clubs and centres.

ScottishPower's commitment to the arts remains strong. The company supports a range of dance events connected to the Edinburgh International Festival. ScottishPower and ScottishTelecom have supported the Scottish Opera 'Soundbites' series and Manweb continues to be a major supporter of Welsh National Opera.

The ScottishPower Proms programme, in conjunction with the Royal Scottish National Orchestra, supports a series of concerts and a programme of education and outreach activities introducing classical music to schoolchildren. Manweb's involvement with the Royal Liverpool Philharmonic Orchestra's popular summer season also helps to achieve our aim of widening access to the arts.

We sponsored the Twentieth Century Gallery, part of the new National Museum of Scotland, which was officially opened by Her Majesty the Queen in November 1998. Our support allowed the Museum to display a collection of memorabilia and personal objects that provides a fascinating visual record of everyday life over the last 100 years. The company also contributed to the development of the Museum's website.

The company unveiled a unique lighting project in Liverpool's Cavern Quarter, where a computer-controlled system will revive the Sixties, using psychedelic lighting in a district which has become a major tourist attraction because of its historic connection with The Beatles.

Further details on community investment can be found in the ScottishPower Community Report, available from the Company Secretary.

Summary

The financial year ended 31 March 1999 has been a very significant one for the company. It has been a year in which we have made a substantial investment to grow the business for the future.

We have continued to grow strongly in the UK, establishing ScottishPower as a leader in the competitive energy supply markets, delivering continued value from our acquisition of Southern Water and achieving further growth in ScottishTelecom.

The merger with PacifiCorp will create one of the largest international utility companies, open up further opportunities for growth and, we believe, lead to the creation of significant value for shareholders.

Ian Robinson

Ian Robinson
Chief Executive

Financial Review

Ian Russell
Deputy Chief Executive
and Finance Director

The financial results demonstrate another year of satisfactory financial performance, with continued cost efficiency and a focus on investing for future growth

Overview

Group turnover grew during the year by £114 million to £3,242 million, an increase of 3.6%. This was due mainly to growth in the developing domestic gas area and telecommunications business. Gas and other energy sales were up by £77 million to £240 million, reflecting our continuing success in gaining new customers in the domestic market, and the total sales of ScottishTelecom were almost doubled at £220 million.

The rise in overall turnover, together with continued strong control over operating costs, led to good growth in earnings before interest, tax, depreciation and amortisation (EBITDA), up £66 million to £1,017 million, and higher operating profit of £803 million, up £18 million.

The net interest charge increased by £14 million to £161 million, mainly due to the impact on debt of the two windfall tax payments in December 1997 and December 1998, totalling £317 million, and the continued capital expenditure programme.

Profit before tax grew by £4 million to £644 million. At £142 million, the ordinary tax charge represented an effective tax rate of 22.0%, reduced from 23.7% in the previous year.

Earnings per share amounted to 42.42p, a rise of 2.8% on a comparable basis. The recommended final dividend of 15.00p net per share brought the total dividend per share for the year to 22.50p net, an increase of 10.3%. This is in line with our aim of 7% to 8% real dividend growth per annum until at least the regulatory reviews in the year 2000, whilst maintaining a prudent level of dividend cover. The dividend cover reduced marginally to 1.9 times from 2.0 times the previous year.

Free cash flow for the year, before windfall tax, was £702 million, a reduction of £32 million, reflecting working capital increases in our developing gas and telecommunications businesses. The group invested £754 million in capital projects during the year, £97 million more than in the previous year. This investment was primarily to improve the quality of the infrastructure assets in our electricity, and water and wastewater services businesses, and to support the growth of our telecommunications business.

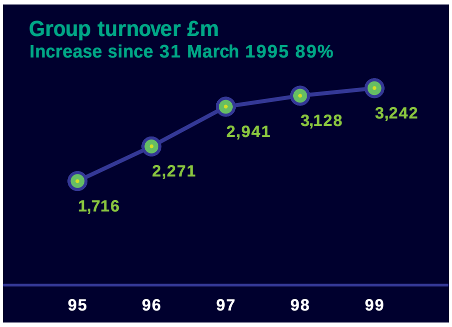
Net debt increased from £1,953 million to £2,421 million, mainly due to the continuing capital investment programme. Gearing at 31 March 1999 increased to 124% compared to 114% a year ago. Interest cover remained prudent at 5.0 times.

Group turnover

Group turnover of £3,242 million was £114 million higher than 1997-98, an increase of 3.6%. Total energy sales across the group were £2,274 million, a reduction of £6 million on the previous year. Higher sales volumes in the ScottishPower franchise area and further growth in our share of the domestic gas market were more than offset by lower revenues in Manweb and in the ScottishPower second tier and large business markets, due to competitive pricing. Southern Water's

Table 1 – Energy external turnover	1998-99 £m	1997-98 £m	Change £m	%
ScottishPower				
First tier electricity	**1,116**	1,111	5	–
Second tier electricity	**137**	153	(16)	(10)
Wholesale electricity	**185**	199	(14)	(7)
Gas and other energy sales	**240**	163	77	47
Manweb	**596**	654	(58)	(9)
Total	**2,274**	2,280	(6)	–

Financial Highlights	1999 £m	1998 £m
Turnover	**3,242**	3,128
Operating profit	**803**	785
Profit before tax	**644**	640
EBITDA†	**1,017**	951
Free cash flow*	**702**	734
Earnings per share**	**42.42p**	41.28p
Dividends per share	**22.50p**	20.40p



† EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation
* 1999 and 1998 figures quoted before windfall tax payments
** 1998 figure quoted before windfall tax charge

contribution to group turnover reduced by £13 million, reflecting the full-year impact of the disposal of non-core businesses in the prior year, with underlying business turnover increasing by £19 million year-on-year. ScottishTelecom increased its total turnover by £107 million to £220 million, with external sales rising by £99 million to £181 million. The group's other businesses increased their turnover by £35 million.

ScottishPower energy sales are shown in Table 1 in 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 the Pool in England and Wales; and gas and other energy sales, which include the sale of gas by ScottishPower in both the established commercial and industrial market and in the emerging domestic gas market in the UK.

First tier sales were £1,116 million, an increase of £5 million on the previous year. Volumes increased in the year by 1.4% to 19,831 GWh, primarily due to more normal winter weather following the unusually mild winter in 1997-98. Sales in the first tier competitive market were broadly in line with the previous year, despite prices being lower in the domestic and commercial sectors, and because of continued competition in the industrial sector.

Sales of electricity in the second tier market sector reduced by £16 million to £137 million, with lower sales volumes outside our home territories as a result of exiting from loss-making business in this area.

Wholesale turnover reduced in the year, down 7% to £185 million, with higher export volumes, up by 442 GWh to 6,049 GWh, offset by lower Pool prices. Agency sales were 2.7% lower at 1,010 GWh.

Gas and other energy sales increased by £77 million to £240 million, mainly as a result of our success in winning customers in the new domestic gas markets.

Manweb's energy turnover for the year was £596 million, a fall of £58 million or 9% compared to the previous year. Distribution revenues increased by £8 million, principally as a result of the regulatory pricing formula. The benefits of lower costs were passed on to domestic and business customers through reduced tariffs. The effect on profit from tariff reductions to the domestic and small business sectors, some £20 million, was more than offset by improved performance elsewhere in the commercial and industrial sector, arising from exiting from loss-making business.

Southern Water's contribution to group turnover fell by £13 million to £440 million, due entirely to the previous year's disposal of the non-core businesses. Turnover in the regulated business increased to £439 million, a rise of £19 million compared to the previous year, due to higher prices to fund the capital expenditure programme.

Total sales in **ScottishTelecom** increased by £107 million to £220 million, including a contribution to group turnover of £49 million from Demon Internet for the period since acquisition. Total turnover in Telecommunication Services increased by £41 million to £126 million, with total turnover in The CallCentre Service rising by £3 million to £12 million, and in Information Services by £14 million to £33 million. External turnover in ScottishTelecom increased by £99 million to £181 million.

The group's **other businesses** increased their turnover by £35 million to £348 million. The Retail business, despite the poor market conditions during the year, increased its turnover to £287 million due to new store openings, with like-for-like sales falling by 5.7%.

Group operating costs

The 0.5% increase in cost of sales to £1,861 million compared favourably with the 3.6% increase in turnover. Cost of sales in the energy businesses increased due to the higher gas sales volumes.

Transmission and distribution costs increased by £39 million year-on-year, largely due to customer capture costs in the growing electricity and gas supply businesses, together with costs of the severe winter storms in Scotland. Administrative expenses increased by £46 million in the year, due to the expansion of our developing businesses, especially telecommunications, and increased rates and depreciation charges in our wires and pipes businesses.

The group has continued to use benchmarking as a tool to reduce substantially underlying operating costs and improve performance during the year.

In the **Scottish energy businesses,** Generation Wholesale announced a major new cost savings initiative, while Power Systems' continued reduction of core business costs has been achieved, principally through benchmarking and continued transfer of best practices – specifically by comparing performance between regions. Energy Supply achieved significant efficiency improvements through best practice transfer between ScottishPower and Manweb and from external benchmarking of cost and service performance.

Table 2 – Group operating profit		1998-99 £m	1997-98 £m	Change £m
Generation Wholesale		**115.3**	130.8	(15.5)
Power Systems	Transmission	**83.5**	80.1	3.4
	Distribution	**178.2**	169.4	8.8
Energy Supply	First tier electricity	**36.3**	38.0	(1.7)
	Second tier electricity	**–**	(3.8)	3.8
	Gas and other energy sales	**(16.2)**	(19.1)	2.9
Scottish energy businesses		**397.1**	395.4	1.7
Manweb		**125.2**	131.3	(6.1)
Southern Water		**262.2**	240.7	21.5
ScottishTelecom		**10.3**	4.7	5.6
Other businesses		**8.0**	13.0	(5.0)
Total		**802.8**	785.1	17.7

In **Manweb** further cost savings have been identified through best practice transfers with both the Power Systems and Energy Supply businesses.

Cost reduction initiatives in **Southern Water** have achieved significant improvements in OFWAT ratings of cost performance in water and drainage businesses. Transition plan savings totalled £10 million in the year, bringing total savings to £41 million since acquisition. Further initiatives announced in September 1998 to build on the success of the transition plan will deliver additional cost savings.

Group operating profit

Group operating profit, as shown in Table 2, amounted to £803 million, an increase of 2.3% or £18 million compared with 1997-98. This increase in group operating profit is after absorbing an additional £28 million of costs compared to the previous year, for capturing new energy and telecoms customers, marketing the ScottishPower brand, and depreciation of new systems required to operate in the competitive electricity and gas markets.

Operating profit in the **Scottish energy businesses** increased by £2 million to £397 million. Reduced Generation profit from lower sales prices was more than offset by increased profit in Power Systems from higher distribution revenues and in Energy Supply from increasing domestic gas margins and improved performance in the second tier market.

The profit in **Generation Wholesale** was £115 million in the year, down £16 million compared with 1997-98. Higher electricity volumes were sold at lower prices, both to our Energy Supply business and to the wholesale market. In addition there were higher capacity and transmission charges. Interconnector capacity was increased in the year, with volumes up by 7.9%, but with contribution unchanged due to reductions in Pool prices.

Power Systems increased profit by more than £12 million to £262 million. Transmission increased operating profit by £3 million to £84 million, due to price increases allowed under the regulatory formula. Distribution profits improved by £9 million, as a result of higher distribution revenues from allowed price increases, higher sales volumes and a more favourable mix of units sold. Further business cost reductions were achieved, which partially offset increased depreciation charges and new industry costs associated with the operation of the competitive electricity market.

In **Energy Supply**, first tier profit reduced by £2 million to £36 million, with lower generation costs more than offset by price reductions to customers and the costs of operating in the competitive electricity market. The impact of competition on financial performance in our first tier market has not been significant. The second tier segment recorded a break-even result, despite absorbing £3 million of capture costs for new domestic electricity customers won in this market. Margins have been improved despite the competitive pressures in the large business sector of this market, primarily as a result of lower Pool prices and exit from loss-making contracts.

In the commercial and domestic gas markets the operating loss of £16 million reflects customer capture costs of £17 million this year, increased costs from serving the expanded customer base, in part offset by the margins obtained from supplying new gas customers in the domestic sector. Payback on our initial investment in acquiring a domestic gas customer is currently being achieved in 18 months. Overall, Energy Supply profits increased by £5 million to £20 million.

Operating profit in **Manweb** decreased by £6 million to £125 million. Increased depreciation charges and marketing costs in the competitive electricity market contributed to the reduction in profit, with price reductions passed on to customers offset by lower generation prices.

Southern Water contributed more than £21 million of additional operating profit, mainly from increased revenues and continuing cost savings of £10 million delivered by the acquisition transition plan during 1998-99. These savings offset the additional £7 million costs of new obligations arising from the construction and operation of new wastewater treatment plants. Year-on-year, Southern Water's operating profit increased by 8.9% from £241 million to £262 million. All non-core businesses have been sold and, together with property sales, have realised £129 million, £29 million ahead of the target set at acquisition.

ScottishTelecom's contribution to group operating profit was £10 million, up from £5 million in 1997-98, with EBITDA higher by £15 million to £26 million. The improvement in operating profit reflects the increased volume of network traffic and growth in the provision of Internet services, resulting from our acquisition of Demon Internet on 1 May 1998. Operating profit for Demon totalled £12 million including increased ingress receipts, with the Information Services business recording a profit of £7 million and The CallCentre Service £2 million. Telecommunication Services recorded a loss of £11 million, primarily from one-off customer capture costs and increased depreciation.

Profits in the **other businesses** were £8 million, £5 million lower than the previous year due to a fall in Retail's profits, as a result of difficult market conditions in this sector throughout 1998-99. Performance in the other businesses was in line with the prior year.

Interest and taxation

The net interest charge of £161 million was £14 million higher than in 1997-98. This was due mainly to the full-year effect of increased debt on payment of the first instalment of the windfall tax in December 1997, and part-year impact from the second instalment, paid in December 1998. Changes to the group's debt portfolio were made during the year to take advantage of falling interest rates and to extend the maturity profile of the group's borrowings. As a result, the average interest rate for the group during the year was 8.0%, versus 8.4% in 1997-98. Interest cover remained prudent at 5.0 times, against 5.3 times in the prior year. The effective tax rate was reduced to 22.0% from 23.7% in the previous year due largely to higher capital allowances on the current mix and level of capital expenditure.

Earnings and dividends

The profit after ordinary tax for the year amounted to £502 million, an increase of £14 million or 2.9%. With a weighted average 1,185 million shares in issue during the year, earnings per share were 42.42p, an increase of 2.8% on a comparable basis.

The proposed final dividend of 15.00p net per share brings the total dividend per share for the year to 22.50p net, an increase of 10.3%. The full-year dividend was covered 1.9 times by earnings, versus 2.0 times in 1997-98. This increase in dividend is in line with our stated aim of achieving 7% to 8% real dividend growth until at least the regulatory reviews in the year 2000, whilst maintaining a prudent level of dividend cover. It is ScottishPower's current aim to deliver real dividend growth thereafter and this will be re-examined once the outcome of the regulatory reviews is known.

Capital expenditure

The group continued to increase investment in its businesses, with net capital expenditure for 1998-99 of £754 million, an increase of £97 million over 1997-98. This reflected increased expenditure on the capital programme in Southern Water and the continued emphasis on growth of ScottishTelecom. Capital expenditure in **Generation Wholesale** was £42 million, with investment directed towards efficiency and environmental improvements and development of gas storage facilities at Hatfield Moors. Further expenditure was incurred at Longannet and Cockenzie power stations to extend station lives.

In **Power Systems**, net capital expenditure for the year amounted to £128 million, a decrease of £14 million. The distribution business spent £36 million to improve the quality and reliability of the electricity supply to customers, and £22 million on expanding the network to meet demand for new electricity supply. More than £42 million was invested in new systems for improved network management, the opening up of the electricity market to full competition, and on enhancing customer service.

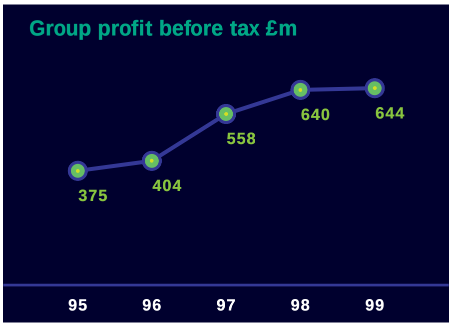
In transmission, £28 million was invested to reinforce and refurbish specific parts of the overhead line system, and on network expansion to support new business opportunities.

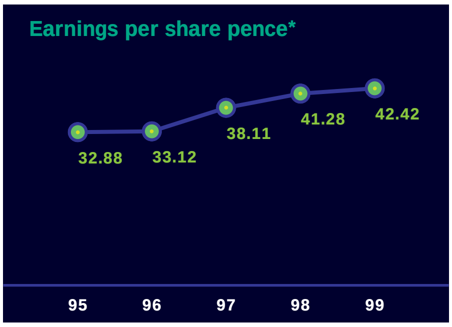
In **Energy Supply**, capital expenditure of £24 million mainly reflected further investment in new systems for the liberalisation of the electricity market, and in the development of Energy Services products for large business customers.

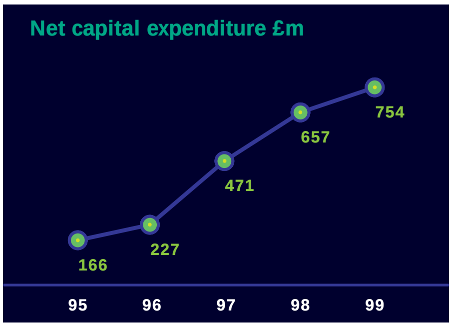
Manweb capital expenditure amounted to £86 million. £26 million was spent on modernising the network to improve reliability and quality of electricity supply to customers. Net expenditure on expanding the network to meet demand growth and on providing new connections to customers was £37 million. The balance was invested in enhancing customer service and business systems for the competitive market.

Capital expenditure in **Southern Water**, including infrastructure renewal expenditure, amounted to £347 million, compared with £285 million in the previous year. The amount included £197 million as part of the ongoing programme to ensure compliance with the higher standards set by European Union Directives on the quality of bathing water, urban wastewater discharges and sludge disposal. Investment was also undertaken to improve security of supply, increase the availability of water resources and reduce leakage in line with Water Summit commitments.

Capital expenditure in **ScottishTelecom** amounted to £103 million, with £48 million associated with the expansion of







* 1998 figure quoted before windfall tax charge

network reach and capacity, including £16 million in the north of Scotland and £5 million for expansion in the Manweb territory. A further £29 million of spend was attributable to Demon Internet, including expenditure related to the migration of Demon customers to the ScottishTelecom network and to acquiring increased transatlantic capacity.

In the **other businesses,** Retail's capital expenditure totalled £8 million, most of which related to the opening of new stores.

Cash flow

Net cash inflow from operations decreased from £1,014 million to £945 million. This reflected the group's investment in working capital, primarily in the growing gas and telecommunications businesses.

Net interest paid of £150 million was £3 million higher than the equivalent figure in 1997-98, with increases due to the higher debt level, partly offset by a change in the mix of our debt portfolio. Ordinary tax paid decreased by £41 million. Free cash flow for the group, before windfall tax, was £702 million, £32 million lower than in 1997-98. From this cash flow was funded the payment of the final instalment of windfall tax of £158 million and capital expenditure of £683 million, up £90 million on last year.

Business acquisitions in the year totalled £77 million, all of which were undertaken by ScottishTelecom. Of this total, £66 million related to Demon Internet, £2 million to Watermark Games and the remainder comprised deferred consideration for prior year acquisitions of Megafone and Teledata. Dividends paid to shareholders amounted to £253 million, up from £226 million last year.

Net debt at 31 March 1999 was £2,421 million, an increase of £468 million compared with a year ago, principally due to payments of windfall tax and the increased programme of capital expenditure. Gearing at 31 March 1999 was 124%, up from 114% at 31 March 1998.

Treasury

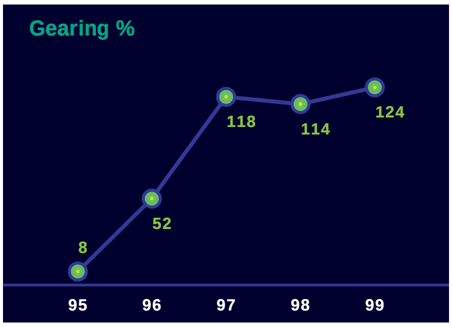
The treasury focus during the year was on further refinancing of the group's debt to minimise interest payments and reduce risk. The group continues to ensure that borrowings are financed from a variety of competitive sources and that committed facilities are available both to cover uncommitted borrowings and to meet the financing needs of the group in the future.

Under the Euro-Medium Term Note (EMTN) Programme, established in November 1997, several issues were undertaken during the financial year. These included a £250 million, 25-year, 6.75% issue in May 1998 and a DM725 million, 5.25%, 10-year issue in August 1998, providing a fixed rate in sterling of 6.79%. In addition to these, there were nine other smaller issues with maturities between two and ten years. Cumulative issues under the programme reached a peak during the year of $1,870 million and, as a result, the programme limit was increased from $2,000 million to $4,000 million. This increase will allow the group continued access to a variety of funding sources and the ability to tap market demand as and when appropriate. As part of the group's strategy to develop new funding sources, a £150 million facility with the European Investment Bank was completed in December. Drawings under the facility as at the balance sheet date totalled £51 million.

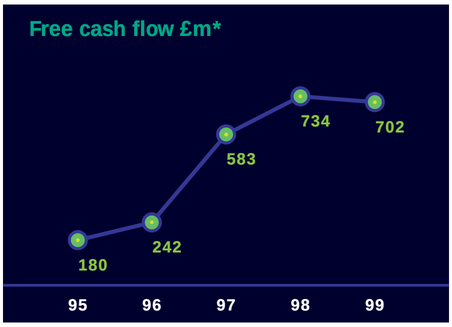
On 12 March 1999 the company's £2,600 million revolving credit facility was renegotiated in order to allow for the merger with PacifiCorp. In effect this meant reducing it to £2,000 million, incorporating the creation of a new holding company and raising the margin. At the same time a new facility of £600 million was arranged in order to finance maximum working capital requirements during the next 12 to 18 months. This facility has a 364-day life with an option to extend it to June 2001, the same maturity date as the £2,000 million facility.

The group continues to manage interest rate exposure by maintaining 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 use of 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 audit. At 31 March 1999, the interest rate on some 77% of debt was fixed and the interest rate on a further 8% of borrowings was capped.

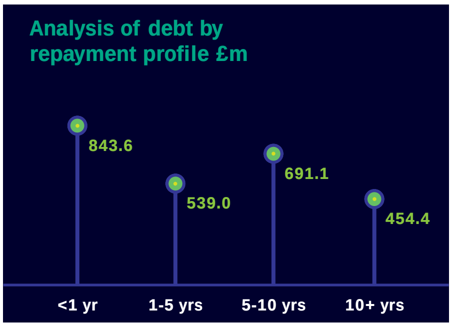
The weighted average period of maturity of year-end fixed debt and swaps was nine years, while the forward cover on capped debt was for an average period



Gearing %



Free cash flow £m*



Analysis of debt by repayment profile £m

* 1998 and 1999 figures quoted before windfall tax payments

of some three years. Accordingly, changes in floating interest rates will have a limited impact on interest payable by the group.

In order to reduce the weighted average cost of capital by improving the efficiency of the balance sheet, the group is targeting an ‘A’ credit rating, which implies a minimum interest cover of approximately 3.0 times. It is expected that the merger with PacifiCorp will be structured in order to achieve this aim. As a result, the group’s long-term credit ratings may decline from the current levels of Aa 3 (Moody’s Investors Service) and A+ (Standard & Poor’s), both of which are under review for possible downgrade. The short-term credit ratings of P1/A1 are not under review.

The group has limited exposure to foreign currencies. Commercial paper and EMTNs issued in currencies other than sterling are fully covered by forward contracts or swaps to convert the debt into 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 commitments are known.

Accounting developments

During the past year, the Accounting Standards Board (ASB) has issued five new standards, all of which have been applied in preparing this year’s Accounts. In addition, the group has implemented FRS 10 ‘Goodwill and intangible assets’, which was issued in December 1997. Those standards which have had an effect on the Accounts are described briefly below.

Prior to the introduction of FRS 10, the group had a policy of writing off goodwill to reserves. From 1 April 1998, goodwill on acquisitions is capitalised and amortised through the profit and loss account over its useful economic life. FRS 12 ‘Provisions, contingent liabilities and contingent assets’ has led to a revision of our accounting policy for water infrastructure renewals. The change in policy has no effect on the profit and loss account other than a reclassification of costs and has an immaterial effect on the balance sheet. FRS 13 ‘Derivatives and other financial instruments: disclosures’ requires a number of additional disclosures to be made, most of which were provided in last year’s Accounts. New disclosures have been made as required, including the effects of financial instruments used for hedging purposes. FRS 14 ‘Earnings per share’ requires disclosure of diluted earnings per share even where, as in our case, the dilution is not material. Additional disclosures have been provided in accordance with FRS 15 ‘Tangible fixed assets’.

The ASB has issued a number of exposure drafts and discussion papers in recent years, including accounting for deferred tax, which may impact on future years’ Accounts. The potential effect of a future accounting standard on deferred tax is likely to be to reduce reported earnings and net assets. However, such an accounting change would have no impact on our cash flows, nor on the underlying value of the group.

European Economic and Monetary Union and the impact of the euro

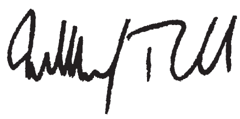
European Economic and Monetary Union (EMU) commenced on 1 January 1999 with the introduction of a new currency, the euro.

The group’s businesses are almost totally domestic in nature, with very few sales denominated in currencies other than sterling, and relatively few purchases. As a result, while the United Kingdom remains outside EMU, the group will be affected to only a very minor extent by the introduction of the euro. A project team has been established to review the impact of the first wave of EMU on customers and suppliers and to formulate the group’s response. The project group is also considering the implications of potential UK membership of EMU.

The benefits of a new integrated capital market have been recognised and the group has already issued commercial paper denominated in euros and will consider issuing bonds in euros in due course.

Summary

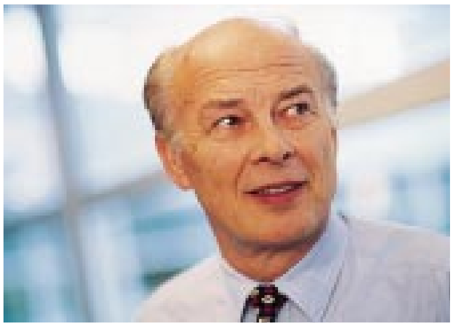
The financial results demonstrate another year of satisfactory financial performance, with continued cost efficiency and a focus on investing for future growth. Interest and dividend cover remain prudent, with debt tightly controlled. The results underline the financial strength of the group and our success in the newly competitive markets.



Ian Russell
Deputy Chief Executive and
Finance Director

Board of Directors

1 Murray Stuart
2 Mair Barnes
3 Sir Peter Gregson
4 Ewen Macpherson
5 John Parnaby



Non-executive directors

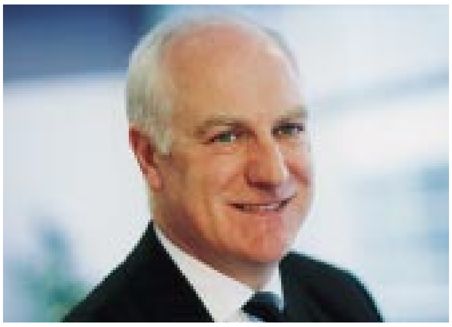
Murray Stuart CBE (65) joined the Board in March 1990 and was appointed Chairman in August 1992; he is also Chairman of the Nomination Committee. He is a non-executive director of The Royal Bank of Scotland Group plc, CMG plc and The Royal Scottish National Orchestra Society Limited, and Chairman of Intermediate Capital Group plc. He was appointed a non-executive director of Old Mutual plc on 25 March 1999. 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. He was previously Deputy Managing Director of ICL plc, Chief Executive of Metal Box plc and Chairman of MB Group plc. He is a member of the Institute of Chartered Accountants of Scotland and qualified as a lawyer.

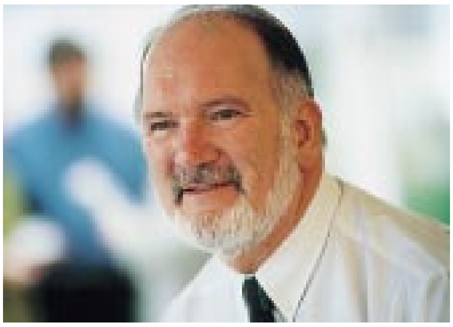
Mair Barnes (54) joined the Board in April 1998. She is a director of General Optica Limited and a non-executive director of Abbey National plc and George Wimpey plc. She was previously Managing Director of Woolworths plc.

Sir Peter Gregson GCB (62) joined the Board in December 1996 and was nominated during the year as the senior independent non-executive director. 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 Deputy Chairman of the Board of Companions of the Institute of Management and was appointed a non-executive director of Woolwich plc in November 1998.

Ewen Macpherson (57) joined the Board in September 1996 and is Chairman of the Remuneration Committee. In July 1997, he retired as Chief Executive of 3i Group plc, which he joined in 1970. He is also a non-executive director of Booker plc, Foreign & Colonial Investment Trust plc, The Law Debenture Corporation plc and M&G Group plc, and was recently appointed Chairman of Glynwed International plc and a non-executive director of Pantheon International Participations plc.

John Parnaby CBE (61) joined the Board in September 1994 and, with effect from 1 May 1999, is Chairman of the Audit Committee. He retired in October 1997 as Group Director and Director of Geared Systems Inc. of LucasVarity plc, having previously been Sector Managing Director and Group Director – Technology. In July 1998, he was appointed a director of Molins plc, and in October 1998 he joined the Board of Jarvis plc. He is a past President of the Institutions of Electrical and Manufacturing Engineers, a member of the Council of the Royal Academy of Engineering, a member of the Senate of the UK Engineering Council and a member of the Management Committee of the UK Government Integrated Manufacturing Initiative.




1 Ian Robinson
2 Charles Berry
3 Ian Russell
4 Alan Richardson
5 Ken Vowles

1	2	3
4	5	

Executive directors

Ian Robinson (57) 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 is a non-executive director of Asda Group plc and also serves as a member of the President's Committee of the Confederation of British Industry. In July 1997, he was appointed Chairman of the Scottish Advisory Task Force on Welfare to Work.

Charles Berry (47) joined ScottishPower in November 1991 and was appointed to the Board on 1 April 1999. He is Executive Director Customer Sales & Services, with responsibility for the Energy Supply, Electricity Trading and Retail businesses. He will also assume responsibility at Board level for regulatory matters from 1 June 1999. He has played a key role in the development of the company's multi-utility strategy; he was appointed Chief Executive of Manweb in 1996, and in 1998 he assumed responsibility for Energy Supply. He continues to be a member of the Manweb and Southern Water Boards. He was previously Group Development Director of Norwest Holst, a subsidiary of Compagnie Général des Eaux, and prior to that held positions of Technical Director, Business Development Director and Marketing Director within subsidiaries of Pilkington plc.

Ian Russell (46) was appointed Finance Director in April 1994. He was appointed Deputy Chief Executive in November 1998, while retaining his position as Finance Director. 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 ScottishPower's information systems and corporate affairs; he is also Chairman of Southern Water and ScottishTelecom. He is a non-executive director of Scottish Investment Trust plc and Scottish Knowledge plc.

Alan Richardson (52) joined ScottishPower in 1991 and was appointed to the Board on 1 April 1999. He currently has responsibility for managing all US–West Coast aspects of the merger process with PacifiCorp and he will take up the role of Chief Executive Officer of PacifiCorp upon completion of the merger. In 1995, he became Managing Director Power Systems, with responsibility for the Distribution businesses in Scotland and Manweb. He was previously Director and General Manager of both The Bushing Company Limited and Reyrolle Limited. He is a Fellow of the Institution of Electrical Engineers, vice-chairman of IEE Scotland and a visiting Professor in Electronic and Electrical Engineering at Strathclyde University.

Ken Vowles (57) joined ScottishPower in September 1990 and was appointed to the Board in September 1994. He is Executive Director UK Power Operations and is responsible in that capacity for Generation Wholesale, Power Systems, Technology and Contracting Services, and for safety and environmental policy on a group-wide basis. He became Chairman of Manweb on 21 April 1999. 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, a member of the Institute of Management and a member of the Electricity Association in the UK and the Power Generation Committee of the Association of Edison Illuminating Companies in the USA.

Duncan Whyte (52), who served as a director during the year, will resign from the Board on 31 May 1999.

Report of the Directors

The directors are pleased to present their tenth Annual Report, together with the audited Accounts for the year ended 31 March 1999.

Activities and review

The principal activities of the ScottishPower group are the generation, transmission, distribution and supply of electricity and the supply of water and wastewater services. The group is also developing a wider utility business which includes gas supply, telecommunications and electrical retailing, as well as technology and contracting services.

Results and dividend

The profit of the group for the year amounted to £502.8 million, details of which are set out in the Group Profit and Loss Account on page 44.

The directors recommend that a final dividend of 15.0p net per share be paid on 4 October 1999 to those shareholders whose names appear in the register of members on 25 June 1999. Together with the interim dividend of 7.5p net per share, which was paid on 8 March 1999, this makes a total dividend of 22.5p net for the year. These dividends amount in aggregate to £267.9 million and the balance of the profit for the year of £234.9 million has been transferred to reserves.

PacifiCorp merger

On 7 December 1998, the announcement was made of the proposed merger of ScottishPower with PacifiCorp. An Extraordinary General Meeting has been convened, to be held on 15 June 1999, at which ScottishPower shareholders will be asked to vote in favour of the resolution to approve the merger with PacifiCorp. The directors believe that significant benefits will be derived from the merger and that the combined group will be more operationally efficient and stronger than either ScottishPower or PacifiCorp would be on its own. The merger is expected to enhance earnings per share, before goodwill amortisation, from the first full year after completion of the merger, compared to the directors' present expectations for the existing ScottishPower group.

Following the merger with PacifiCorp, and subject to the completion date, ScottishPower dividends will be paid quarterly in February, May, August and November. The total dividends paid each year will be unaffected by this move, but the payment dates will be earlier than currently and, for this reason, it is intended that the final dividend in each year will be approved by the directors rather than at the Annual General Meeting.

New holding company

An announcement was made on 25 February 1999 of the intention to recommend to ScottishPower shareholders the proposal to introduce a new holding company for the ScottishPower group, New Scottish Power plc (to be renamed Scottish Power plc on the scheme becoming effective). The proposal is to be achieved through a scheme of arrangement between ScottishPower and its shareholders under Section 425 of the Companies Act 1985, and is subject to the sanction of the Court of Session. The scheme will require the approval of ScottishPower shareholders at a meeting convened by the Court. In addition, it will be necessary for ScottishPower shareholders to approve the scheme at both an Extraordinary General Meeting and a separate 'Class Meeting' for the holders of ScottishPower shares. All three of these meetings have been convened for 15 June 1999 and will run consecutively, immediately following the meeting to approve the merger. However, the directors will not take the necessary steps to enable the scheme to become effective unless, at the relevant time, they consider that it continues to be in ScottishPower's best interests and certain conditions have been satisfied or waived, including the obtaining of tax and regulatory clearances or confirmations.

Once the scheme becomes effective, ScottishPower shareholders will hold the same number of shares, economic interest and voting rights in New ScottishPower as they held in ScottishPower.

The directors have decided that the group would be more effective if it is structured with a holding company which does not have any operating activities. In particular, this will facilitate:

- a clearer demarcation between certain of the group's activities
- the financial independence of different operating areas of the group.

It is also anticipated that the creation of a new holding company for the group will assist the regulatory review process of the merger in the UK and in the USA.

Directors' interests in shares	Ordinary Shares as at 31.3.99 or date of appointment	1.4.98	Share Options (Executive) as at 31.3.99 or date of appointment	1.4.98	Share Options (Sharesave) as at 31.3.99 or date of appointment	1.4.98	*Long Term Incentive Plan as at 31.3.99 or date of appointment	1.4.98
Murray Stuart	15,000	15,000	–	–	–	–	–	–
Mair Barnes	–	–	–	–	–	–	–	–
Charles Berry (appointed 1 April 1999)	–	–	5,134	–	3,849	–	37,810	–
Sir Ronald Garrick (retired 30 April 1999)	2,204	2,204	–	–	–	–	–	–
Sir Peter Gregson	905	870	–	–	–	–	–	–
Ewen Macpherson	5,000	5,000	–	–	–	–	–	–
John Parnaby	6,692	6,536	–	–	–	–	–	–
Alan Richardson (appointed 1 April 1999)	295	–	1,450	–	5,404	–	39,672	–
Ian Robinson	57,412	17,412	–	286,457	6,581	6,581	147,295	105,379
Ian Russell	15,612	15,612	–	–	6,300	6,300	107,279	75,573
Ken Vowles	117,327	117,327	–	–	5,501	3,933	77,869	55,299
Duncan Whyte	28,612	28,612	–	–	3,109	2,223	93,453	68,196

As at 6 May 1999, the latest practicable date prior to the publication of this report, there was no change in the directors' interests.
*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.
Details of all options held and exercised by directors, and details of awards made to directors under the Long Term Incentive Plan, during the year are set out in Note 33 to the Accounts pages 62 to 63.

Research and development

ScottishPower 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 wastewater activities. It also continues to contribute on an industry-wide basis towards the cost of research into electricity utilisation, distribution developments, water purification and wastewater treatment.

Environmental policy

ScottishPower will publish its fourth Environment Report in June 1999. 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 page 18. Copies of the Environment Report are available on request from the Company Secretary.

Board of Directors

The names and details of the directors of the company are shown on pages 30 to 31.

During the year, Mair Barnes joined the Board on 1 April 1998 and Michael Kinski resigned from the Board on 7 April 1998. Since the year end, Charles Berry and Alan Richardson joined the Board on 1 April 1999. Sir Ronald Garrick retired on 30 April 1999 and it has been announced that Duncan Whyte will resign from the Board on 31 May 1999.

In accordance with the Articles of Association, Charles Berry and Alan Richardson retire from office at the Annual General Meeting and, being eligible, offer themselves for election. In addition, Murray Stuart, Ian Russell and Ken Vowles retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

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

Directors' interests

Details of the directors' service contracts and remuneration are set out in the Remuneration Report on pages 38 to 40 and in Note 33 to the Accounts on pages 62 to 63.

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, including interests in options under the company's Executive and Sharesave Schemes and awards under the Long Term Incentive Plan, are shown above.

Directors' and Officers' Liability Insurance

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

Share capital and options

As a result of the exercise of options under the employee Sharesave and Executive Share Option Schemes, a total of 1,925,898 ordinary shares of 50p each were issued during the year. Accordingly, the number of ordinary shares in issue was 1,198,678,222 as at 31 March 1999.

During the year, options were granted to 5,944 employees under the ScottishPower Sharesave Scheme. No options were granted under the Executive Share Option Scheme, which was replaced in 1996 by the introduction of the Long Term Incentive Plan. Awards in respect of 482,783 shares were made under the Plan during the year, and these awards are subject to the achievement of specified performance criteria. Details are contained in Note 33 to the Accounts on pages 62 to 63.

Between 31 March 1999 and 6 May 1999, being the latest practicable date prior to publication of this report, a further 645,732 ordinary shares have been issued as a result of the exercise of options under the Sharesave Schemes.

At the Annual General Meeting of the company last year, shareholders granted authority to the directors to purchase up to 119,796,734 ordinary shares. The directors have not exercised this authority. However, the Board intends to implement a share buy-back programme of up to £500 million, following approval of the merger both by ScottishPower shareholders and PacifiCorp shareholders, to take place prior to the merger date. It is anticipated that the buy-back will be undertaken through on-market purchases.

Substantial shareholding

As at 6 May 1999, the company had been notified that Prudential Corporation group of companies held 79,160,248 ordinary shares representing 6.60% of the issued share capital.

Employees

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 group has continued to strengthen awareness and practical application of its corporate values among staff and management. Within the businesses, many initiatives have also been undertaken in line with the theme of 'Living the Values'.

Equal opportunity

It is the group's policy to promote equality of opportunity in recruitment, employment continuity, training and career development. To support the Policy Statement on Equal Opportunities, specific policies have been introduced on people with disabilities, on sex and race discrimination and on harassment. In addition, career break schemes are available.

ScottishPower is a Gold Card Member of the Employers' Forum on Disability, and also a member of the Employers' Forum on Age, the Equal Opportunities Commission Equality Exchange and the Women's Engineering Society. The latter aims to promote the study and practice of engineering among women.

As part of the ongoing development and implementation of its equal opportunities strategy, the group has designed and implemented an Equality Framework, which is used to audit and undertake action plans on an annual basis. Equal opportunities strategy and specific courses have been developed and implemented during 1998-99.

Employee consultation and negotiation

The group has employee consultation and communication arrangements to encourage the involvement and interest of employees in the group, and to develop an awareness of its business plans and objectives. These include divisional and 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 informally twice a year to discuss aspects of the business.

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

Health and safety

The group's safety strategy is based on a system of corporate determination of strategy, policy and auditing 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 interests of staff, customers and members of the public.

The group has a well-established occupational health service and lifestyle health care programme, the provision of which is managed to the same degree and standards as the other core businesses. The employees therefore benefit from some of the best occupational health facilities in the United Kingdom.

Charitable and political donations

During the financial year donations made by ScottishPower and its subsidiaries for charitable purposes totalled £416,123. There were no contributions for political purposes.

Benchmarking studies recently completed across the ScottishPower group have identified over £5 million of community support activity comprising charitable donations, community investment and commercial initiatives. This support is given in cash, through staff time and in-kind donations.

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 Better Payment Practice Code. Copies are available upon request from the Company Secretary. For other suppliers, the group'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 1999 were 32 days.

Auditors

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

Annual General Meeting

The Annual General Meeting will be held at The Glasgow Royal Concert Hall, Sauchiehall Street, Glasgow, on Wednesday 21 July 1999 at 11.00 am. 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

Andrew Mitchell
Secretary

6 May 1999

Statement on Year 2000 compliance

Potential computer problems associated with the Year 2000 date change are an issue for users of computer systems throughout the world, including systems with embedded chips. ScottishPower is dependent on its own systems and on those of its key suppliers and customers. The directors do not believe that ScottishPower faces greater risks from Year 2000 issues than other comparable utility companies in the UK.

ScottishPower established its group-wide Year 2000 programme in 1997 to seek to manage the effects that Year 2000 issues may have on the group's operations. The methodology used builds on practices developed in conjunction with several user groups, including the Electricity Association (the trade association for electricity), UK Y2K Interest Group (the largest Year 2000 self-help group in the UK) and IMPACT (a confederation of many of the top 100 companies in the UK). The scope of ScottishPower's programme covers all aspects of the group's business.

ScottishPower's approach concentrates on three main areas which are as follows:

- working on and testing its own internal systems through gathering inventory, assessing criticality, prioritisation and planning, testing and remediation
- understanding the Year 2000 readiness of its suppliers and major customers
- modifying and developing contingency processes to reduce residual risk.

The programme focuses on IT systems, both corporate and desktop, non-IT systems (embedded chip systems) including process monitoring and control, business processes and business partners. ScottishPower is currently reviewing contingency plans, operational procedures, staffing issues and "worst case" scenarios. A Millennium Operating Regime is being implemented, and is particularly aimed at enhancing the group's state of readiness for the rollover period.

Within each of ScottishPower's businesses, the directors believe that scheduled remediation projects on the group's systems are well advanced with 89% of all critical projects substantially complete. The group is finalising compliance work on its systems, and this work is planned to be completed well in advance of the end of 1999.

ScottishPower's systems and operations are also dependent on products and services provided by others. Since autumn 1997, all orders and contracts placed by ScottishPower have included a Year 2000 clause requiring compliance to the BSI standard PD2000-1. As part of the supply chain management work undertaken, ScottishPower is assessing critical suppliers and customers for their Year 2000 compliance. The group has made an initial assessment of all of its critical suppliers and will continue to monitor all of them during 1999. Interdependencies with other utilities are being reviewed through the UK Y2K Utilities Forum and other forums and one-to-one meetings. All other suppliers are being treated in accordance to the group's reliance on them. Where appropriate, alternative suppliers may be appointed.

ScottishPower's Year 2000 programme has been carried out using internal resources where possible, supplier resources where appropriate and specialist contractors where considered necessary. As at 31 March 1999, the group has already spent approximately £22 million on its Year 2000 programme. The directors estimate, based on the group's best estimates and, where appropriate, advice from specialist contractors, that the total cost to ScottishPower of the Year 2000 programme will be approximately £30 million. This does not include the cost of certain capital investment programmes which are being accelerated in order to seek to resolve the Year 2000 issues.

The directors believe that the group's work on its own systems and equipment and review of critical suppliers means that the group is taking all reasonable steps to minimise the risks associated with Year 2000 issues. Based on the current state of knowledge on managing Year 2000 issues and the management's best estimates, the directors believe that, because of the anticipated short-term nature of any potential interruptions, it is unlikely that Year 2000 issues will have a material impact on the group's financial condition or operations. However, there can be no assurance that the steps taken by the group will successfully minimise vulnerabilities of its software and systems, or those of its suppliers, to the problems associated with the transition to the Year 2000, that disruptions to the group's business will not occur or that the costs associated with the advent of the Year 2000 will not be greater than anticipated.

Corporate Governance

In June 1998, the Committee on Corporate Governance published the Combined Code ('the Code') derived by the Committee from the Cadbury, Greenbury and Hampel Reports. The Stock Exchange introduced new rules later in the year obliging listed companies to report on how they apply the Principles of Good Governance set out in the Code, and whether they complied with the Code's provisions throughout the accounting period.

The company has complied throughout the financial year with all the continuing provisions of the Code; the appointment of a senior independent non-executive director was made in February 1999 and the requirements on internal financial control were met, as described on page 37, following guidance given by the Stock Exchange in December 1998.

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 Chairman and Chief Executive. There are currently six executive and five non-executive directors (including a non-executive Chairman) on the Board. Sir Peter Gregson was nominated during the year as the senior independent non-executive director. With the exception of the Chairman, all non-executive directors are considered by the Board to be independent.

The non-executive directors are from varied business and other backgrounds, and all directors have the benefit of induction visits and briefings following their appointment to the Board. 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 specified term; reappointment is not automatic, and each non-executive director's position is subject to review prior to the expiry of his or her term of office.

The Board meets on a regular monthly basis 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 such matters as health, safety, environment and regulation. All directors have access to the Company Secretary, who is responsible for ensuring that all Board procedures are observed. Any director wishing to do so, in furtherance of his or her duties, may take independent professional advice at the company's expense.

Board Committees

The Board has four principal standing committees: namely, the Audit Committee, Nomination Committee, Remuneration Committee and Chief Executive's Committee. The composition, purpose and function of each of these committees are described below.

Audit Committee

The Audit Committee is comprised of non-executive directors only and is chaired by John Parnaby (succeeding Sir Ronald Garrick with effect from 1 May 1999). It has a remit to review the company's 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.

Nomination Committee

The Nomination Committee is chaired by the Chairman of the Board with, as members of the Committee, the Chief Executive and two independent non-executive directors. It has a remit to consider and make recommendations to the Board on all new appointments of directors, having regard to the overall balance and composition of the Board; to consider and approve the remit and responsibilities of the executive directors; and to review and advise upon issues of succession planning and organisational development.

Remuneration Committee

The Remuneration Committee is comprised exclusively of independent non-executive directors and is chaired by Ewen Macpherson. It has a remit to consider and make recommendations on Board remuneration policy and, on behalf of the Board, to determine specific remuneration packages for each of the executive directors. In discharging its remit, the Committee has regard to the provisions of the Combined Code and has as an objective the aim of providing packages to attract, retain and motivate executive directors of the quality required; to judge the company's position in matters of remuneration policy and practice relative to other companies; and to take into account wider issues of pay-setting. It also has responsibility for the company's bonus and incentive schemes. The Remuneration Report for 1998-99 is set out on pages 38 to 40.

Chief Executive's Committee

The Chief Executive's Committee

comprises the Chief Executive and all other executive directors, together with the managing directors of the group's Manweb and Information Systems businesses, and the Director of Corporate Affairs, Legal Director and 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 Combined Code has introduced a requirement that the directors review the effectiveness of the group's system of internal control. This extends the directors' review to cover all controls – including operational, compliance and risk management, as well as financial, controls. The Institute of Chartered Accountants in England & Wales has established a working party to provide guidance on the new requirements, and a Consultation Draft was published in April 1999. The directors will seek to ensure that the group complies with this guidance when it is finalised. Until then, the directors have continued to follow the existing guidance, issued in December 1994, for the review of the effectiveness of 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 described below.

Control environment

The company is committed to ensuring that a proper control environment is maintained. There is a commitment to competence and integrity, and to 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 among 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.

Identification and evaluation of risks and control objectives

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. This covers financial, operational and compliance controls and risk management.

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 Finance Manager of each business confirming that they have reviewed the effectiveness of the system of internal financial controls during the year.

Information and communication

Business managing directors report regularly on operating performance to the relevant executive director with line responsibility. A monthly report is prepared for the Chief Executive's Committee and for the Board on the performance of the group and its businesses. The report compares actual results with budgets and forecasts and covers key performance indicators, both financial and non-financial.

Control procedures

Accounting policies for the group are set out in a finance policies and procedures manual. There is a formal process throughout the group by which specific levels of delegated authority to incur capital and revenue expenditure are set, and there are well-established procedures for the preparation, approval and monitoring of budgets. The effectiveness of controls over the key transaction cycles, and the exercise of delegated authority, are subject to regular internal audit. 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. Energy trading is monitored by a Risk Committee, and an Investment Committee reviews major capital expenditure projects. In addition, the group has established procedures to ensure compliance with laws and regulations which have significant financial implications and employs specialist staff to deal with legal, regulatory, environmental, human resource, health and safety matters.

Monitoring and corrective action

The Chief Executive's Committee reviews quarterly the key risks facing the group and the controls and monitoring procedures for these. 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 to the Finance Director and with access to the Chairman of the Audit Committee. 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 Accounts

The directors are required by law to prepare Accounts for each financial year and to present them annually to the company's members at the Annual General Meeting. The Accounts, of which the form and content are 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 of 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 Accounts for the year ended 31 March 1999. The directors also confirm that applicable accounting standards have been followed and that the Accounts have been prepared on the going concern basis.

The directors are responsible for maintaining proper accounting records and sufficient internal controls to safeguard the assets of the company and of 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 its future cash flow forecasts.

Auditors' responsibilities

The company's registered auditors, PricewaterhouseCoopers, are responsible for forming an independent opinion on the Accounts of the group as 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 67.

Remuneration Report of the Directors

Remuneration Committee

The Remuneration Committee ('the Committee') was formed in February 1999. Previously known as the Emoluments and Nominations Committee, the 'nominations' aspect of its remit has been delegated by the Board to a separate committee known as the Nomination Committee.

The Board is responsible for determining the remuneration policy for the ScottishPower group. The Remuneration Committee determines the detail of remuneration arrangements for executive directors and reviews proposals in respect of other senior executives.

The Remuneration Committee consists solely of independent non-executive directors. Its members, who have no personal financial interest, other than as shareholders, in the matters considered by the Committee, are Ewen Macpherson (Chairman), Mair Barnes, Sir Peter Gregson 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 33 to the Accounts on pages 62 to 63.

The Committee's policy and disclosures on directors and senior management remuneration are set out below.

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 high quality, who are incentivised to achieve performance which exceeds that of our competitors. Furthermore, the objective is to ensure that incentive schemes are in line with best practice and promote the interests of our shareholders.

Competitiveness of remuneration

The Committee believes that to attract and retain key executives of high calibre, the remuneration package it offers must be market-competitive. The remuneration strategy is to adopt a market median position 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 by independent remuneration consultants against a comparator group of selected utilities and FTSE 100 companies.

The Committee takes a balanced view of remuneration, considering each element relative to market and, in the past, has realigned elements of the package to reflect market conditions or changes in market practice. In the last four years, annual bonus arrangements have been further strengthened, so that 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.

Remuneration policy

In setting remuneration levels, the Committee commissioned an independent evaluation of the roles of the executive, and also of the next levels of management within the company. The Committee has also continued to take independent advice from three remuneration consultants on market-level remuneration, based on 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 utilities.

After careful consideration, the Committee is of the view that the remuneration policy stated for the company is appropriate. In line with its objectives 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 to 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 focus on corporate and business performance and provide a maximum total payment of 40% of salary for executive directors and managing directors of the company's energy businesses, 30% of salary for other directors and 20% of salary for senior managers. All payments under the schemes are non-pensionable and non-contractual and are subject to the approval of the Committee.

The scheme for executive directors provides a bonus of a maximum of 40% of salary, with up to a maximum of 20% 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, a maximum of 20% 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.

The bonus structure is reviewed annually to ensure that it reflects the priorities of the business. The 1999 review of annual bonus arrangements confirmed that, while these forms of arrangement are widespread within the UK, the amounts receivable at the 'on target' and maximum levels of performance were now out of line with the FTSE 100 comparator group. As a consequence, the bonus maximum for executive directors in the coming year will be 50% of salary. Concurrent with this change, half of any bonus payment will be paid as previously, and the remaining half deferred for a six-month period.

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. All future grants under this scheme have 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 company also operates a savings-related share option scheme, which is open to all UK-based permanent employees. Under this scheme, options are granted over ScottishPower shares at a discount of 20% from 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 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 are met. These relate to the sustained underlying financial performance of the company and customer service standards, including those set by OFFER and OFWAT.

Assuming that the Committee is satisfied, 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.

Pension
The executive directors, and other senior management of the company, are provided with pension benefits through the company's main pension scheme, and through 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 as though there was no cap. 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 1999 was £448,600.

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 has reported the pension expense in accordance with the requirements of the Stock Exchange. Pension costs detailed in the Accounts are calculated as the cost of providing benefits accrued in the 1998-99 year.

Service contracts

Existing executive directors appointed before 1 April 1999, have service contracts terminable by the company on two years' notice (prior to September 1994 notice periods were three years) and by the individuals concerned on 12 months' notice. The Committee believes that it remains appropriate for these executive directors to continue to be on two-year rolling contracts.

Two new executive directors, Charles Berry and Alan Richardson, were appointed to the Board in April 1999 and these appointments have service contracts terminable on one year's notice from both parties.

None of the executive directors' service contracts provides for pre-determined 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, 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. These include the provision of a company car, fuel, private medical provision 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 service 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 long-term incentive scheme.

The company provides life assurance cover, up to a limit of £500,000, on the life of the Chairman.

Full details of the remuneration of the directors are contained in Note 33 to the Accounts on pages 62 to 63.

Accounting Policies and Definitions

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 public electricity suppliers and to the Pool in England and Wales.

Power Systems
The transmission and distribution businesses in Scotland and, specifically, 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 for customers contracted to Scottish Power plc.

Manweb
The distribution and supply businesses operating in Merseyside and North Wales and, specifically, the purchase, distribution and sale of electricity to customers, together with related billing and collection activities within that licensed area.

Southern Water
The provision of water and wastewater services in the south-east of England, together with related billing and collection activities.

ScottishTelecom
The provision of telecommunications services, Internet access and information services to national corporates, small and medium-sized enterprises and residential customers.

Other
The retailing and servicing of domestic electrical goods and home entertainment appliances, the provision of electrical contracting, consultancy and corporate services, gas trading and the businesses of the company's other subsidiary and associated undertakings.

In the segmental analyses on pages 46, 47 and 51, all material activities are derived from continuing operations in the United Kingdom.

Revenue cost definitions

Cost of sales
The cost of sales for the group, excluding Southern Water, reflect the direct costs of the generation and purchase of electricity, the purchase of natural gas, retail trading, telecommunication services, electrical contracting and consultancy services. 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 wastewater and its treatment and disposal.

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

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

Other definitions

Company or ScottishPower
Scottish Power plc.

Group
Scottish Power plc and its consolidated subsidiaries.

Associated undertakings
Entities in which the company holds a long-term participating interest and exercises significant influence.

Joint ventures
Entities in which the company holds a long-term interest and shares control with another company external to the group.

Subsidiary undertakings
Entities in which the company holds a long-term controlling interest.

Accounting Policies

Basis of accounting

The Accounts have been prepared under the historical cost convention, modified to include the revaluation of certain tangible fixed assets, and in accordance with applicable accounting standards in the UK and, subject to the treatment of water infrastructure grants and contributions described under "Grants and contributions" below, comply with the requirements of the Companies Act 1985.

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 and joint ventures. For commercial reasons one subsidiary has a different year end. The consolidation includes the Accounts of this subsidiary as adjusted for material transactions in the period between its year end and 31 March.

Turnover

Turnover comprises the sales value of energy, goods, water, wastewater 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 issued to Scottish Power plc and Manweb plc which permit them to operate as public electricity companies, price control formulae determine the regulated allowable maximum unit revenues of the transmission and distribution businesses, as appropriate. If actual revenue for the year exceeds the regulated allowable maximum, the excess is deducted from turnover and included in creditors where amounts are due to be returned to customers. 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 the fair value of consideration received after deduction of issue costs. The issue costs 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 and are accounted for using hedge accounting. In order to qualify for hedge accounting, the company's notional amount of interest rate swaps and caps must be less than or equal to existing variable rate debt. Amounts payable or receivable in respect of these agreements are recognised as adjustments to interest expense over the period of the contracts. The cash flows from interest rate swaps and gains and losses arising on terminations of interest rate swaps are recognised as returns on investments and servicing of finance. Where associated debt is not retired in conjunction with the termination of an interest swap, gains and losses are deferred and are amortised to interest expense over the remaining life of the associated debt to the extent that such debt remains outstanding.

Interest rate caps

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

Forward contracts

The company enters into forward contracts for the purchase and/or sale of foreign currencies in order to manage its exposure to fluctuations in currency rates. Unrealised gains and losses on contracts are not accounted for until the maturity of the contract. The cash flows from forward purchase contracts are classified in a manner consistent with the underlying nature of the hedged transaction.

Premiums and discounts

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

Contracts for Differences (CfDs)

The company uses CfDs to minimise exposure to Pool price variations. The cost or the income attributable to CfDs is recorded in the accounting records when settlement is made. Where delivery under the CfD has taken place prior to the period end, adjustments are made to account for the known variances between the contract strike price and the Pool price on the date of delivery.

Goodwill

Purchased goodwill represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired. Goodwill arising from the purchase of trading entities in accounting periods prior to 31 March 1998 has been written off on acquisition against the merger reserve to reduce it to zero and thereafter has been offset against the profit and loss reserve. On disposal of trading entities, the goodwill previously included in reserves is charged to the profit and loss account matched by an equal credit to reserves. Goodwill arising on acquisitions since 1 April 1998 is capitalised and amortised through the profit and loss account over its useful economic life.

Tangible fixed assets

Accounting for non-water infrastructure assets

Tangible fixed assets are stated at cost or valuation and are depreciated on the straight line method over their estimated operational lives. Tangible fixed assets include capitalised employee costs which are directly attributable to construction of fixed assets. Land is not depreciated. The main depreciation periods used by the group 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

Infrastructure accounting

Water infrastructure assets, being mains and sewers, reservoirs, dams, sludge pipelines and sea outfalls comprise a network of systems. Expenditure on water infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition to fixed assets.

The depreciation charge for water infrastructure assets is the estimated level of annualised expenditure required to maintain the operating capability of the network and is based on the asset management plan agreed with the water industry regulator as part of the price regulation process.

The asset management plan is developed from historical experience combined with a rolling programme of reviews of the condition of the infrastructure assets.

The method of accounting for water infrastructure renewals has been revised following the introduction of FRS 12 'Provisions, contingent liabilities and contingent assets' and the infrastructure renewals accounting basis as set out in FRS 15 'Tangible fixed assets'. As a consequence the balance sheet has been restated to take account of the necessary changes since the date of acquisition of Southern Water in August 1996. Further information is given in Note 16. The change of accounting policy has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation.

Comparative figures have been restated in the cash flow statement, the balance sheet, Notes 2, 9(b), 10, 16 and 19 and the five year summary.

Leased assets

As lessee

Assets leased 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 subsidiary and associated undertakings and joint ventures 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 impairment in value. The group profit and loss account includes the group's share of the operating profits less losses, net interest charge and taxation of associated undertakings and joint ventures. The group balance sheet includes the investment in associated undertakings and joint ventures at the group's share of their net assets. Other fixed asset investments are carried at cost less provision for 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, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, where applicable, at the 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 ordinary taxation is based on the profits for the year and takes into account deferred taxation, using the liability method, in respect of timing differences to the extent that it is probable that a liability will crystallise in the foreseeable future. Such timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and the depreciation of fixed assets.

Pensions

The group provides pension benefits through both defined benefit and defined contribution arrangements. The regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations for defined benefit schemes 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. Payments to the defined contribution schemes are charged against profits as incurred.

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. Grants and contributions receivable relating to water infrastucture assets have been deducted from the cost or valuation of those assets. While this treatment is in accordance with Statement of Standard Accounting Practice (SSAP) 4, it is not in accordance with the Companies Act 1985. The Act requires capital grants and contributions to be shown as deferred income rather than offset against the cost or valuation of tangible fixed assets. This departure from the requirements of the Act is, in the opinion of the directors, necessary for the Accounts to give a true and fair view as, while provision is made for depreciation of water infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this treatment on the value of tangible fixed assets is disclosed in Note 16.

Own shares held under trust

The amount recorded in the balance sheet for shares in the company purchased for employee sharesave schemes represents the amounts receivable from option holders on exercise of the options.

Long Term Incentive Plan

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 under the Long Term Incentive Plan, being the difference between the fair value of the shares and the option price at the date of grant, is taken to the profit and loss account on a straight line basis over the period in which performance is measured.

Group Profit and Loss Account

for the year ended 31 March 1999

	Notes	**1999 £m**	1998 £m
Turnover: group and share of joint ventures and associates		**3,251.5**	3,134.1
Less: share of turnover in joint ventures		**(7.3)**	(3.8)
Less: share of turnover in associates		**(1.9)**	(2.1)
Group turnover from continuing operations	1	**3,242.3**	3,128.2
Cost of sales		**(1,860.5)**	(1,850.7)
Gross profit from continuing operations		**1,381.8**	1,277.5
Transmission and distribution costs		**(258.1)**	(219.1)
Administrative expenses		**(348.8)**	(303.0)
Other operating income		**27.9**	29.7
Operating profit from continuing operations	1,2	**802.8**	785.1
Share of operating profit in joint ventures		**2.1**	1.6
Share of operating profit in associates		**0.2**	0.3
Profit on ordinary activities before interest		**805.1**	787.0
Net interest charge			
– Group		**(160.8)**	(147.1)
– Joint ventures		**(0.5)**	(0.2)
– Associates		**–**	(0.1)
	4	**(161.3)**	(147.4)
Profit on ordinary activities before taxation		**643.8**	639.6
Ordinary taxation			
– Group		**(141.0)**	(151.5)
– Joint ventures		**(0.5)**	(0.4)
– Associates		**(0.1)**	0.3
	5	**(141.6)**	(151.6)
Profit after ordinary taxation		**502.2**	488.0
Exceptional taxation – windfall tax	6	**–**	(317.0)
Profit after taxation		**502.2**	171.0
Minority interests	27	**0.6**	(0.9)
Profit for the financial year		**502.8**	170.1
Dividends	8	**(267.9)**	(243.3)
Profit/(loss) retained	26	**234.9**	(73.2)
Earnings per ordinary share	7	**42.42p**	14.41p
Adjusting items – goodwill amortisation		**0.10p**	–
– windfall tax		**–**	26.87p
Earnings per ordinary share before goodwill amortisation and windfall tax	7	**42.52p**	41.28p
Diluted earnings per ordinary share	7	**42.00p**	14.27p
Adjusting items – goodwill amortisation		**0.10p**	–
– windfall tax		**–**	26.60p
Diluted earnings per ordinary share before goodwill amortisation and windfall tax	7	**42.10p**	40.87p
Dividends per ordinary share	8	**22.50p**	20.40p

The Accounting Policies and Definitions on pages 41 to 43, together with the Notes on pages 46 to 47, 49 and 51 to 66 form part of these Accounts.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 1999

	Note	1999 £m	1998 £m
Profit for the financial year		**502.8**	170.1
Surplus on revaluation of assets	16	**–**	229.0
Total recognised gains and losses for the financial year		**502.8**	399.1

Note of Historical Cost Profits and Losses

for the year ended 31 March 1999

	1999 £m	1998 £m
Profit on ordinary activities before taxation	**643.8**	639.6
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount of fixed assets	**3.4**	1.7
Historical cost profit on ordinary activities before taxation	**647.2**	641.3
Historical cost profit / (loss) retained for the financial year after taxation, minority interests and dividends	**238.3**	(71.5)

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 March 1999

	1999 £m	1998 £m
Profit for the financial year	**502.8**	170.1
Dividends	**(267.9)**	(243.3)
Profit / (loss) retained	**234.9**	(73.2)
Share capital issued	**3.2**	45.5
Revaluation of fixed assets	**–**	229.0
Goodwill written off	**–**	(16.2)
Net movement in shareholders' funds	**238.1**	185.1
Opening shareholders' funds	**1,707.8**	1,522.7
Closing shareholders' funds	**1,945.9**	1,707.8

The Accounting Policies and Definitions on pages 41 to 43 together with the Notes on pages 46 to 47, 49 and 51 to 66 form part of these Accounts.

Notes to the Group Profit and Loss Account

for the year ended 31 March 1999

1 Segmental business information

(a) Turnover by business segment	Notes	Total turnover 1999 £m	Total turnover 1998 £m	Inter-segment turnover 1999 £m	Inter-segment turnover 1998 £m	External turnover 1999 £m	External turnover 1998 £m
Generation Wholesale	(i)	**914.3**	1,014.3	**695.3**	764.8	**219.0**	249.5
Power Systems		**470.1**	443.0	**416.8**	391.1	**53.3**	51.9
Energy Supply		**1,434.5**	1,336.2	**28.8**	11.5	**1,405.7**	1,324.7
Manweb		**614.2**	667.8	**18.1**	13.9	**596.1**	653.9
Southern Water		**440.2**	453.0	**0.7**	0.4	**439.5**	452.6
ScottishTelecom	(ii),(iii)	**219.9**	113.3	**39.2**	31.2	**180.7**	82.1
Other	(i),(ii)	**612.8**	410.7	**264.8**	97.2	**348.0**	313.5
Total						**3,242.3**	3,128.2

(b) Operating profit by business segment		1999 £m	1998 £m
Generation Wholesale		**115.3**	130.8
Power Systems		**261.7**	249.5
Energy Supply		**20.1**	15.1
Manweb	(iv)	**125.2**	131.3
Southern Water		**262.2**	240.7
ScottishTelecom	(ii),(iii)	**10.3**	4.7
Other	(ii)	**8.0**	13.0
Total		**802.8**	785.1

(i) The Generation Wholesale segment previously included sales from gas trading activities which are now reported in the Other business segment. Total turnover for the Generation Wholesale segment for 1998 included £100.5 million of gas trading sales of which £82.4 million related to internal sales.

(ii) The ScottishTelecom business segment and the Other business segment were previously combined as the Developing businesses and ancillary services segment. The ScottishTelecom business segment has been separately identified due to its increased significance to the group. Prior year figures have been restated accordingly.

(iii) Within the ScottishTelecom business segment, Demon Internet Limited contributed external turnover of £48.5 million and operating profit before goodwill amortisation of £12.4 million since its acquisition on 1 May 1998. The turnover and operating profit of Watermark Games Limited are not material to the ScottishTelecom business segment.

(iv) Operating profit for Manweb comprises distribution operating profit of £91.9 million (1998 £95.4 million) and supply and other operating profit of £33.3 million (1998 £35.9 million).

2 Operating profit

Operating profit is stated after charging/(crediting):	1999 £m	1998 £m
Depreciation and amortisation	**225.4**	184.6
Release of customer contributions/grants	**(13.6)**	(20.6)
Research and development	**5.3**	5.4
Hire of plant and equipment – operating leases	**4.6**	2.6
Hire of other assets – operating leases	**31.0**	25.0
Auditors' remuneration for audit of		
– group	**0.7**	0.6
– company	**0.4**	0.3
Non-audit fees paid to auditors:		
Regulatory advice	**0.9**	0.6
Advice on new financial systems	**–**	0.2
US Listing	**–**	0.2
General consultancy	**0.9**	0.2
Due diligence reporting and other services	**3.6**	–
Total	**5.4**	1.2

Fees of £3.1 million, paid to the auditors in respect of due diligence reporting and other services in connection with the proposed acquisition of PacifiCorp, have been included within prepayments and accrued income. Non-audit fees of £5.4 million for PricewaterhouseCoopers in 1999 include £0.7 million paid to Coopers & Lybrand and £0.4 million paid to Price Waterhouse prior to the date of appointment of PricewaterhouseCoopers as auditors. Non-audit fees in 1998 comprise solely amounts paid to the previous auditors Coopers & Lybrand.

3 Employee information

(a) Employee costs	1999 £m	1998 £m
Wages and salaries	**329.3**	304.6
Social security costs	**25.9**	24.0
Pension costs	**18.0**	18.1
Total employee costs	**373.2**	346.7
Less: charged as capital expenditure	**(71.8)**	(67.8)
Charged to the profit and loss account	**301.4**	278.9

(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 1999	At 31 March 1998	Annual average 1999	Annual average 1998
Generation Wholesale	**913**	1,020	**1,009**	1,068
Power Systems	**2,675**	2,736	**2,708**	2,757
Energy Supply	**1,388**	1,139	**1,318**	982
Manweb	**2,201**	2,248	**2,245**	2,330
Southern Water	**2,262**	2,406	**2,352**	2,856
ScottishTelecom	**2,383**	1,481	**2,410**	1,147
Other	**4,210**	4,069	**4,133**	3,939
	16,032	15,099	**16,175**	15,079
The number of full-time equivalent staff was:	**15,145**	14,306	**15,196**	14,356

4 Net interest charge

(a) Analysis of net interest charge	1999 £m	1998 £m
Interest on overdrafts, bonds and other borrowings:		
Repayable wholly within five years	**35.1**	41.6
Not wholly repayable within five years	**90.2**	33.8
Repaid during the year	**54.6**	84.7
	179.9	160.1
On finance leases	**–**	0.4
Total interest payable	**179.9**	160.5
Interest receivable	**(3.8)**	(3.1)
Capitalised interest	**(14.8)**	(10.0)
Net interest charge	**161.3**	147.4
Interest cover (times)	**5.0**	5.3

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

(b) Analysis of total interest payable	1999 £m	1998 £m
Bank loans and overdrafts	**35.5**	45.0
Government borrowings	**16.3**	16.3
Loan notes	**1.3**	1.6
Commercial paper	**33.4**	73.3
Medium-term notes/private placements	**31.9**	4.5
Euro bonds	**61.5**	19.4
Finance leases	**–**	0.4
	179.9	160.5

5 Ordinary taxation

Reconciliation of tax charge to standard rate of UK Corporation Tax

	1999 £m	1998 £m
Tax on profit before tax at standard rate of 31% (1998 31%)	**199.6**	198.2
Timing differences between taxable and accounting profit:		
– accelerated capital allowances	**(40.6)**	(35.8)
– other timing differences	**(0.2)**	1.1
Permanent differences	**(4.3)**	27.0
Advance corporation tax written back	**(12.9)**	(38.9)
Ordinary taxation charged to profit and loss account	**141.6**	151.6
Effective tax rate	**22.0%**	23.7%

The effective tax rate is calculated by dividing ordinary taxation by profit on ordinary activities before taxation.

6 Exceptional taxation – windfall tax

Exceptional taxation in 1997-98 related to the group's share of the windfall tax according to the formula contained within the Finance (No. 2) Act 1997. The first of two equal instalments was paid on 1 December 1997 and the second instalment was paid on 1 December 1998.

7 Earnings per ordinary share

(a) Earnings per ordinary share have been calculated in accordance with FRS 14 'Earnings per share' for both years by dividing the profit for the financial year by the weighted average number of ordinary shares in issue during the financial year, based on the following information:

	1999	1998
Profit for the financial year (£million)	**502.8**	170.1
Basic weighted average share capital (number of shares, million)	**1,185.2**	1,180.1
Diluted weighted average share capital (number of shares, million)	**1,197.2**	1,191.9

The difference between the basic and the diluted weighted average share capital is wholly attributable to outstanding share options.

(b) The calculation of earnings per ordinary share, on a basis which excludes goodwill amortisation and the windfall tax, is based on the following adjusted earnings:

	1999 £m	1998 £m
Profit for the financial year	**502.8**	170.1
Adjusting items – goodwill amortisation	**1.2**	–
– windfall tax	**–**	317.0
Adjusted earnings	**504.0**	487.1

Adjusted earnings per share has been presented in addition to earnings per share calculated in accordance with FRS 14 in order that more meaningful comparisons of financial performance can be made. The figures for the year ended 31 March 1998 do not contain goodwill amortisation as the group has adopted the transitional provisions of FRS 10 and only capitalised goodwill arising on acquisitions since 1 April 1998.

8 Dividends per ordinary share

	1999 pence per ordinary share	1998 pence per ordinary share	1999 £m	1998 £m
Interim dividend paid	**7.50**	6.80	**89.9**	80.4
Proposed final dividend	**15.00**	13.60	**178.0**	162.9
Total dividends	**22.50**	20.40	**267.9**	243.3

Group Cash Flow Statement

for the year ended 31 March 1999

	Notes	1999 £m	1998 £m
Cash inflow from continuing operating activities	10	**944.9**	1,014.1
Dividends received from associates and joint ventures		**0.9**	0.9
Returns on investments and servicing of finance	9	**(149.9)**	(146.7)
Ordinary taxation		**(93.7)**	(134.5)
Free cash flow before windfall tax		**702.2**	733.8
Exceptional taxation – windfall tax	6	**(157.8)**	(157.8)
Free cash flow		**544.4**	576.0
Capital expenditure and financial investment	9	**(683.0)**	(592.7)
Cash flow before acquisitions and disposals		**(138.6)**	(16.7)
Acquisitions and disposals	9	**(77.4)**	67.9
Equity dividends paid		**(252.8)**	(226.0)
Cash outflow before use of liquid resources and financing		**(468.8)**	(174.8)
Management of liquid resources	9,13	**(12.1)**	(17.5)
Financing			
– Issue of ordinary share capital	9	**3.2**	8.9
– Increase in debt	9,13	**451.0**	252.6
		454.2	261.5
(Decrease)/increase in cash in year	13	**(26.7)**	69.2

Free cash flow represents cash flow from continuing operating activities after adjusting for dividends received from associates and joint ventures, returns on investments and servicing of finance and taxation.

Reconciliation of Net Cash Flow to Movement in Net Debt

for the year ended 31 March 1999

	Note	1999 £m	1998 £m
(Decrease)/increase in cash in year		**(26.7)**	69.2
Cash inflow from increase in debt		**(451.0)**	(252.6)
Cash outflow from movement in liquid resources		**12.1**	17.5
Change in net debt resulting from cash flows		**(465.6)**	(165.9)
Net debt acquired		**(2.7)**	(0.1)
Net debt disposed		**–**	6.7
Loan notes issued		**–**	(3.0)
Other non-cash movements		**(0.3)**	–
Movement in net debt in year		**(468.6)**	(162.3)
Net debt at end of previous year		**(1,952.6)**	(1,790.3)
Net debt at end of year	13	**(2,421.2)**	(1,952.6)

The Accounting Policies and Definitions on pages 41 to 43 together with the Notes on pages 46 to 47, 49 and 51 to 66 form part of these Accounts.

Notes to the Group Cash Flow Statement

for the year ended 31 March 1999

9 Analysis of cash flows

	1999 £m	1998 £m
(a) Returns on investments and servicing of finance		
Interest received	**3.5**	2.7
Interest paid	**(153.4)**	(149.0)
Interest element of finance lease rental payments	**–**	(0.4)
Net cash outflow for returns on investments and servicing of finance	**(149.9)**	(146.7)
(b) Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(745.1)**	(664.6)
Deferred income received	**47.8**	57.9
Sale of tangible fixed assets	**20.4**	26.4
Purchase of fixed asset investments	**(6.1)**	(12.4)
Net cash outflow for capital expenditure and financial investment	**(683.0)**	(592.7)
(c) Acquisitions and disposals		
Purchase of subsidiary undertakings	**(77.4)**	(0.4)
Sale of subsidiary businesses	**–**	68.3
Net cash (outflow)/inflow from acquisitions and disposals	**(77.4)**	67.9
(d) Management of liquid resources*		
Cash outflow in relation to short-term deposits and other short-term investments	**(12.1)**	(17.5)
Net cash outflow for management of liquid resources	**(12.1)**	(17.5)
(e) Financing		
Issue of ordinary share capital	**3.2**	8.9
Debt due within one year:		
– net repayment of uncommitted facilities	**(39.1)**	(81.8)
– net commercial paper redeemed	**(174.9)**	(31.0)
– medium-term notes/private placements	**(62.5)**	62.5
– redemption of loan notes	**(1.1)**	(39.4)
– European Investment Bank loans	**(10.0)**	1.3
Debt due after one year:		
– net repayment of committed facilities	**–**	(200.6)
– medium-term notes/private placements	**197.5**	240.9
– European Investment Bank loans	**51.2**	20.0
– 5.875% euro-US dollar bond issue	**–**	182.9
– Variable coupon bond issue	**–**	99.6
– 8.375% euro-sterling bond issue	**–**	0.2
– 6.750% euro-sterling bond issue	**247.0**	–
– 5.250% deutschmark bond issue	**245.5**	–
Capital element of finance lease rental payments	**(2.6)**	(2.0)
Increase in debt	**451.0**	252.6
Net cash inflow from financing	**454.2**	261.5

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

10 Reconciliation of operating profit to net cash inflow from continuing operating activities

	1999 £m	1998 £m
Operating profit	**802.8**	785.1
Depreciation and amortisation	**225.4**	184.6
Profit on sale of tangible fixed assets and disposal of businesses	**(18.6)**	(21.7)
Release of deferred income	**(13.6)**	(20.6)
Movements in provisions for liabilities and charges	**(7.3)**	(5.1)
Decrease/(increase) in stocks	**18.4**	(32.0)
(Increase)/decrease in debtors	**(68.7)**	81.9
Increase in creditors	**6.5**	41.9
Net cash inflow from continuing operating activities	**944.9**	1,014.1

11 Effect of acquisitions and disposals on cash flows

	1999 £m	1998 £m
Cash flow from operating activities	**21.1**	10.0
Returns on investments and servicing of finance	**0.3**	(0.7)
Taxation	**(0.1)**	–
Capital expenditure and financial investment	**(10.6)**	(5.3)
Management of liquid resources	**(9.2)**	–
Financing	**(1.6)**	2.1
(Decrease)/increase in cash	**(0.1)**	6.1

12 Analysis of cash flows in respect of acquisitions and disposals

	1999 £m	1998 £m
Cash consideration including expenses	**(69.7)**	70.2
Cash at bank and in hand acquired/(disposed)	**1.4**	(1.9)
Deferred consideration in respect of prior year acquisitions	**(9.1)**	–
	(77.4)	68.3

The acquisitions in 1999 were Demon Internet Limited and Watermark Games Limited (see Note 15).

13 Analysis of net debt

	At 1 April 1998 £m	Cash flow £m	Acquisitions (excl. cash & overdrafts) £m	Other non-cash changes £m	**At 31 March 1999 £m**
Cash at bank	58.8	(20.7)	–	–	**38.1**
Overdrafts	(9.3)	(6.0)	–	–	**(15.3)**
		(26.7)			
Debt due after 1 year	(1,032.4)	(741.2)	(0.1)	89.2	**(1,684.5)**
Debt due within 1 year	(1,026.4)	287.6	–	(89.5)	**(828.3)**
Finance leases	–	2.6	(2.6)	–	**–**
		(451.0)			
Other deposits	56.7	12.1	–	–	**68.8**
Total	(1,952.6)	(465.6)	(2.7)	(0.3)	**(2,421.2)**

'Other non-cash changes' to net debt represents the movement in debt of £89.5 million due after more than one year to due within one year and amortisation of finance costs of £0.3 million.

Balance Sheets

as at 31 March 1999

	Notes	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Fixed assets					
Intangible assets	15	71.3	–	–	–
Tangible assets	16	5,295.1	4,723.9	1,893.3	1,755.1
Investments					
– Investments in joint ventures:					
Share of gross assets		54.2	23.8		
Share of gross liabilities		(29.8)	(8.0)		
		24.4	15.8	21.1	13.6
– Investments in associates		5.9	7.4	–	–
– Other investments		43.4	44.1	1,731.3	1,731.2
	17	73.7	67.3	1,752.4	1,744.8
		5,440.1	4,791.2	3,645.7	3,499.9
Current assets					
Stocks	18	125.8	144.2	105.6	128.9
Debtors	19	559.3	525.9	1,910.1	1,811.1
Short-term bank and other deposits		106.9	115.5	29.2	48.6
		792.0	785.6	2,044.9	1,988.6
Creditors: amounts falling due within one year					
Loans and other borrowings	20	(843.6)	(1,035.7)	(826.5)	(1,031.1)
Other creditors	21	(1,332.8)	(1,396.3)	(1,196.6)	(1,455.5)
		(2,176.4)	(2,432.0)	(2,023.1)	(2,486.6)
Net current (liabilities)/assets		(1,384.4)	(1,646.4)	21.8	(498.0)
Total assets less current liabilities		4,055.7	3,144.8	3,667.5	3,001.9
Creditors: amounts falling due after more than one year					
Loans and other borrowings	20	(1,684.5)	(1,032.4)	(1,584.8)	(932.8)
Provisions for liabilities and charges	23	(30.8)	(38.1)	(11.9)	(10.4)
Deferred income	24	(393.2)	(364.6)	(196.2)	(179.9)
Net assets	14	1,947.2	1,709.7	1,874.6	1,878.8
Called up share capital	25,26	599.4	598.4	599.4	598.4
Share premium	26	394.0	388.7	394.0	388.7
Merger reserve	26	–	–	5.1	8.2
Revaluation reserve	26	223.9	227.3	–	–
Profit and loss account	26	728.6	493.4	876.1	883.5
Equity shareholders' funds	26	1,945.9	1,707.8	1,874.6	1,878.8
Minority interests	27	1.3	1.9	–	–
Capital employed		1,947.2	1,709.7	1,874.6	1,878.8

Approved by the Board on 6 May 1999 and signed on its behalf by

Murray Stuart
Chairman

Ian Russell
Deputy Chief Executive and Finance Director

The Accounting Policies and Definitions on pages 41 to 43, together with the Notes on pages 46 to 47, 49 and 51 to 66 form part of these Accounts.

Notes to the Balance Sheets

as at 31 March 1999

14 Segmental business information

Net assets/(liabilities) by business segment	Notes	1999 £m	1998 £m
Generation Wholesale		**322.7**	361.2
Power Systems		**1,234.7**	1,136.4
Energy Supply		**97.8**	45.2
Manweb		**672.4**	607.3
Southern Water		**1,612.4**	1,222.4
ScottishTelecom	(a)	**307.6**	151.0
Other	(a),(b)	**69.9**	69.4
Sub total		**4,317.5**	3,592.9
Unallocated net liabilities	(c)	**(2,370.3)**	(1,883.2)
Total		**1,947.2**	1,709.7

(a) The ScottishTelecom business segment and the Other business segment were previously combined as the Developing businesses and ancillary services segment.

(b) The net assets of the Retail business, included within the Other business segment, excluding short-term bank and other deposits of £37.2 million (1998 £19.7 million), are £18.6 million (1998 £35.6 million).

(c) Unallocated net liabilities include net debt, dividends payable, tax liabilities and fixed asset investments.

15 Intangible fixed assets

Group	Goodwill £m
Cost:	
At 1 April 1998	–
Additions	72.5
At 31 March 1999	**72.5**
Amortisation:	
At 1 April 1998	–
Amortisation for the year	1.2
At 31 March 1999	**1.2**
Net book value:	
At 31 March 1999	**71.3**
At 31 March 1998	–

Demon Internet Limited was acquired on 1 May 1998 for cash consideration of £66 million. On 18 May 1998 Watermark Games Limited was acquired for £2.9 million cash including deferred consideration of £1.0 million. Details of the adjustments made in respect of these acquisitions are shown below:

	Net book value £m	Adjustments £m	Fair value £m
Tangible fixed assets	9.4	(2.4)	7.0
Stocks	0.1	–	0.1
Debtors	5.8	–	5.8
Short-term bank and other deposits	1.4	–	1.4
Creditors: amounts falling due within one year	(13.7)	(2.3)	(16.0)
Creditors: amounts falling due after more than one year	(0.1)	–	(0.1)
	2.9	(4.7)	(1.8)
Consideration			70.7
Goodwill on acquisition			72.5

Analysis of consideration	£m
Cash paid	67.9
Expenses paid	1.8
Deferred consideration	1.0
	70.7

The adjustments relate to alignment of fixed asset capitalisation policies and recognition of unrecorded liabilities.

The acquisition method of accounting has been adopted in respect of both acquisitions. The results of these companies for the periods before and since acquisition are not material to the group.

Goodwill on these acquisitions is being amortised over 15 years. The directors have estimated the useful economic life of goodwill acquired after assessment of trade barriers and technology and rate of market change.

16 Tangible fixed assets

(a) Group	Land and buildings £m	Water infra-structure assets £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost or valuation:					
At 1 April 1998	847.5	852.2	3,644.7	510.7	5,855.1
Additions	100.2	145.2	392.8	163.8	802.0
Acquisitions	–	–	6.0	1.0	7.0
Grants and contributions	–	(5.6)	–	–	(5.6)
Disposals	(7.0)	(0.4)	(11.4)	(16.8)	(35.6)
At 31 March 1999	**940.7**	**991.4**	**4,032.1**	**658.7**	**6,622.9**
Depreciation:					
At 1 April 1998	152.6	29.1	857.3	92.2	1,131.2
Charge for the year	20.3	19.7	119.4	64.8	224.2
Disposals	(2.0)	(0.4)	(9.7)	(15.5)	(27.6)
At 31 March 1999	**170.9**	**48.4**	**967.0**	**141.5**	**1,327.8**
Net book value:					
At 31 March 1999	**769.8**	**943.0**	**3,065.1**	**517.2**	**5,295.1**
At 31 March 1998	694.9	823.1	2,787.4	418.5	4,723.9

Historical cost analysis	**1999 £m**	1998 £m
Cost	**6,470.9**	5,703.1
Depreciation based on cost	**(1,399.7)**	(1,206.5)
Net book value based on cost	**5,071.2**	4,496.6

(b) Company	Land and buildings £m	Water infra-structure assets £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost:					
At 1 April 1998	288.3	–	2,249.0	307.8	2,845.1
Additions	17.4	–	139.7	85.1	242.2
Disposals	(0.3)	–	(8.4)	(3.5)	(12.2)
At 31 March 1999	**305.4**	**–**	**2,380.3**	**389.4**	**3,075.1**
Depreciation:					
At 1 April 1998	131.7	–	857.7	100.6	1,090.0
Charge for the year	6.2	–	61.8	35.4	103.4
Disposals	(0.2)	–	(8.0)	(3.4)	(11.6)
At 31 March 1999	**137.7**	**–**	**911.5**	**132.6**	**1,181.8**
Net book value:					
At 31 March 1999	**167.7**	**–**	**1,468.8**	**256.8**	**1,893.3**
At 31 March 1998	156.6	–	1,391.3	207.2	1,755.1

Included in the cost or valuation of tangible fixed assets above are:	Notes	Group **1999 £m**	Group 1998 £m	Company **1999 £m**	Company 1998 £m
Major assets in the course of construction		**537.2**	277.3	**109.9**	12.9
Grants and contributions in respect of water infrastructure assets		**(18.0)**	(12.4)	**–**	–
Capitalised interest	(ii)	**32.8**	18.0	**8.0**	8.0
Assets not subject to depreciation	(iii)	**60.6**	71.8	**19.0**	29.2

(i) The Manweb distribution and Southern Water operational assets were revalued by the directors on 30 September 1997 by assessing discounted estimated future cash flows. These revaluations followed the imposition of the windfall tax which reduced significantly uncertainties taken into account in assessing the values ascribed to these assets at their respective dates of acquisition. In view of the isolated nature of the reason for the revaluation, the valuations have not been and will not be updated, as permitted under the transitional provisions of FRS 15 ‘Tangible fixed assets’. The net book value of tangible fixed assets included at valuation at 31 March 1999 was £2,311.2 million (1998 £2,373.9 million).

(ii) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 9% (1998 10%).

(iii) Assets not subject to depreciation are land. Land and buildings held by the group and company are predominantly freehold.

(iv) The opening balances in respect of cost or valuation and depreciation of water infrastructure assets have been restated as a result of implementing the infrastructure renewals accounting basis as set out in FRS 15 ‘Tangible fixed assets’. The effect of the adjustment has been to increase tangible fixed assets and reduce prepayments and accrued income by £15.7 million (1998 £5.4 million). There is no effect on the profit and loss account other than to reclassify the renewals charge as depreciation.

17 Fixed asset investments

	Subsidiary undertakings		Joint ventures		Associated undertakings		Own shares held under trust	Other investments	Total
	Shares £m	Loans £m	Shares £m	Loans £m	Shares £m	Loans £m	£m	£m	£m
Group							(a)		
Cost or valuation:									
At 1 April 1998	–	–	2.2	13.6	6.7	0.7	41.6	2.5	67.3
Additions	–	–	–	7.5	–	–	2.8	0.1	10.4
Share of retained profit	–	–	1.1	–	0.1	–	–	–	1.2
Disposals and other	–	–	–	–	(0.9)	(0.7)	(2.8)	(0.8)	(5.2)
At 31 March 1999	**–**	**–**	**3.3**	**21.1**	**5.9**	**–**	**41.6**	**1.8**	**73.7**
Company									
Cost or nominal value:									
At 1 April 1998	1,512.9	176.2	–	13.6	–	–	41.6	0.5	1,744.8
Additions	–	–	–	7.5	–	–	2.8	0.1	10.4
Disposals and other	–	–	–	–	–	–	(2.8)	–	(2.8)
At 31 March 1999	**1,512.9**	**176.2**	**–**	**21.1**	**–**	**–**	**41.6**	**0.6**	**1,752.4**

The principal subsidiary undertakings, joint ventures and associated undertakings are listed on page 66.

The company is currently evaluating the strategy of ScottishTelecom and the options to maximise shareholder value from its investment in this business. This assessment includes a review of services provided by ScottishTelecom, its funding needs and any consequential restructuring. The company has agreed to indemnify its subsidiary in respect of any costs and losses which may result.

(a) Shares in the company held under trust during the year are as follows:

	Notes	Dividends waived	Shares held at 1 April 1998 (000s)	Shares acquired during year (000s)	Shares transferred during year (000s)	**Shares held at 31 March 1999 (000s)**	**Market value at 31 March 1999 £m**
Long Term Incentive Plan	(i)	no	1,394	483	–	**1,877**	**10.1**
ScottishPower Sharesave Scheme	(ii)	yes	13,918	–	(1,128)	**12,790**	**69.1**
			15,312	483	(1,128)	**14,667**	**79.2**

(i) Shares of the company are held under trust as part of the Long Term Incentive Plan for executive directors and other senior managers (see the Remuneration Report on pages 38 to 40 for details of the plan).

(ii) Shares of the company are held in a Qualifying Employee Share Ownership Trust as part of the ScottishPower Sharesave Scheme. Holders of options granted under the scheme between 22 June 1994 and 20 June 1996 will be awarded shares by the Trust following the completion of savings contracts and upon exercise of the options. Details of options granted under the scheme are disclosed in Note 32.

18 Stocks

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Raw materials and consumables	**44.8**	50.1	**31.1**	41.5
Gas stocks	**30.0**	48.3	**30.0**	48.3
Work in progress	**10.2**	7.3	**6.7**	3.1
Finished goods and goods for resale	**40.8**	38.5	**37.8**	36.0
	125.8	144.2	**105.6**	128.9

Gas stocks include gas delivered to third parties under sale and repurchase agreements to match gas usage requirements with existing gas purchase obligations. Under the provisions of FRS 5, the cost under such agreements of gas delivered to third parties is shown as gas stocks and amounts payable to third parties totalling £17.4 million (1998 £29.4 million) are included in accrued expenses in Note 21.

19 Debtors

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
(a) Amounts falling due within one year:				
Trade debtors	**260.1**	255.5	**123.0**	127.3
Amounts owed by subsidiary undertakings	**–**	–	**530.6**	428.6
Amounts receivable under finance leases	**0.2**	0.2	**–**	–
Prepayments and accrued income	**227.8**	153.9	**154.9**	102.3
Other debtors	**64.7**	68.7	**35.3**	33.0
	552.8	478.3	**843.8**	691.2
(b) Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	**–**	–	**1,066.3**	1,079.2
Amounts receivable under finance leases	**2.7**	3.0	**–**	–
Advance corporation tax recoverable on proposed dividend	**–**	40.7	**–**	40.7
Other debtors	**3.8**	3.9	**–**	–
	559.3	525.9	**1,910.1**	1,811.1

Amounts receivable under finance leases relate to ScottishPower Leasing Limited, one of the company's subsidiaries (see page 66). The total cost of assets acquired by ScottishPower Leasing Limited for letting under leases is £3.6 million (1998 £3.7 million). Total amounts receivable during the year under finance leases were £0.4 million (1998 £0.4 million).

20 Loans and other borrowings

(a) Analysis by instrument	Notes	Weighted average interest rate 1999	Weighted average interest rate 1998	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Bank overdraft		**–**	–	**15.3**	9.3	**–**	8.4
Uncommitted bank loan		**7.0%**	7.0%	**172.7**	211.7	**171.9**	211.1
Commercial paper	(ii)	**7.1%**	6.9%	**553.4**	728.3	**553.4**	728.3
Medium-term notes/private placements	(iii)	**7.1%**	7.6%	**438.4**	303.4	**438.4**	303.4
Loan notes	(iv)	**6.8%**	6.2%	**16.6**	17.7	**15.5**	14.6
European Investment Bank loans	(v)	**9.1%**	10.0%	**217.6**	176.4	**217.6**	176.4
11.457% sterling bond 2001 (held by HM Treasury)		**11.5%**	11.5%	**142.0**	142.0	**142.0**	142.0
5.875% euro-US dollar bond 2003		**6.9%**	6.9%	**183.0**	182.9	**183.0**	182.9
Variable coupon bond 2008		**6.8%**	6.8%	**99.6**	99.6	**–**	–
5.250% deutschmark bond 2008		**6.8%**	–	**245.5**	–	**245.5**	–
8.375% euro-sterling bond 2017		**8.4%**	8.4%	**197.0**	196.8	**197.0**	196.8
6.750% euro-sterling bond 2023		**6.8%**	–	**247.0**	–	**247.0**	–
				2,528.1	2,068.1	**2,411.3**	1,963.9

All borrowings are unsecured.

(i) Committed bank loan As at 31 March 1999 there were no amounts drawn under the new committed facilities totalling £2.6 billion. There were no drawings under the previous £2.6 billion facility as at 31 March 1998. The company cancelled during this financial year £100 million of committed bilateral facilities that were outstanding, undrawn as at 31 March 1998.

(ii) Commercial paper The company has an established US$2.0 billion (1998 US$2.0 billion) euro-commercial paper programme. Paper is issued in a range of currencies and swapped back into sterling. Amounts borrowed under the commercial paper programme are repayable in less than one year.

(iii) Medium-term notes/private placements The company has an established US$4.0 billion euro-medium term note programme. Paper is issued in a range of currencies and swapped back into sterling. As at 31 March 1999, maturities range from 1 to 9 years.

(iv) Loan notes All loan notes are redeemable at the holders discretion. Ultimate maturity dates range from 1999 to 2006.

(v) European Investment Bank loans These loans incorporate agreements with various interest rates and maturity dates. The maturity dates of these arrangements range from 2006 to 2011.

(b) Maturity analysis	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Repayments fall due as follows:				
Within one year, or on demand	**843.6**	1,035.7	**826.5**	1,031.1
After more than one year	**1,684.5**	1,032.4	**1,584.8**	932.8
	2,528.1	2,068.1	**2,411.3**	1,963.9
Repayments due after more than one year are analysed as follows:				
Between one and two years	**165.8**	89.5	**165.8**	89.5
Between two and three years	**61.3**	165.8	**61.3**	165.8
Between three and four years	**243.2**	31.4	**243.2**	31.4
Between four and five years	**68.7**	243.0	**68.7**	242.9
More than five years	**1,145.5**	502.7	**1,045.8**	403.2
	1,684.5	1,032.4	**1,584.8**	932.8

(c) Interest rate analysis	Borrowings at 31 March 1999 £m	Borrowings at 31 March 1998 £m	Weighted average interest rate at which borrowings are fixed/capped at 31 March 1999 %	Weighted average interest rate at which borrowings are fixed/capped at 31 March 1998 %	Weighted average period for which interest rate is fixed/capped 1999 Years	Weighted average period for which interest rate is fixed/capped 1998 Years
Fixed rate borrowings	**1,944.1**	1,668.6	**7.9**	8.2	**9**	7
Capped rate borrowings	**200.0**	200.0	**7.0**	7.0	**3**	4
Floating rate borrowings	**384.0**	199.5				
	2,528.1	2,068.1				

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. Floating rate borrowings bear interest at rates based on LIBOR.

Based on the floating rate net debt of £384.0 million at 31 March 1999 (1998 £199.5 million), a 1% change in interest rates would result in a £3.8 million change in profit before tax for the year (1998 £2.0 million change).

(d) Borrowing facilities

The group has the following undrawn committed borrowing facilities at 31 March in respect of which all conditions precedent have been met. The £600 million committed facility that expires within one year has a term out option that allows the facility to be extended until June 2001.

	Floating rate 1999 £m	Total 1999 £m	Total 1998 £m
Expiring within one year	**600.0**	**600.0**	–
Expiring between one and two years	**–**	**–**	700.0
Expiring in more than two years	**2,000.0**	**2,000.0**	2,000.0

20 Loans and other borrowings continued

(e) Financial instruments and risk management

(i) Overview
The main financial risks faced by the group are exchange rate risk, interest rate risk and Pool price risk. The Board has reviewed and agreed policies for managing each of these risks as summarised below. The use of all classes of financial instruments to manage these risks has been approved by the Board. Corporate treasury, which is authorised to conduct the day-to-day treasury activities of the group, reports at least annually to the Board and is subject to examination by internal audit. The energy trading group, which is authorised to carry out activities to manage the group's Pool price risk, reports monthly to a risk committee which is comprised of two executive directors and an external consultant. The energy trading group also reports at least annually to the Board and is subject to examination by internal audit.

(ii) Treasury strategy
The group's treasury aims to obtain finance at the lowest possible cost by borrowing in the global financial markets in a range of different instruments. Debt is sourced in a range of different currencies, maturities and interest terms, primarily by means of a US$4,000 million debt issuance programme and a US$2,000 million euro-commercial paper programme. These are supported by committed and uncommitted bank facilities and funds from the European Investment Bank.

Treasury strategy is regularly reviewed by the Board, which sets parameters for the maturity and interest profiles of the group's debt. Borrowings sourced in currencies other than sterling are swapped back to sterling by means of cross currency swaps and the approved balance between fixed and floating rate debt is achieved by means of interest rate swaps and caps.
This means that the group has a substantial portfolio of derivative contracts which help to increase flexibility and reduce cost. The credit risk associated with such derivative contracts is approved by the Board and is limited by reference to credit ratings published by the international credit rating agencies. These limits also apply to any credit risk associated with cash deposits. The group does not believe that it is exposed to any material concentration of credit risk.

All derivative contracts are undertaken as hedging arrangements; speculative trades are not undertaken. In view of the long life of some of these contracts the effect of marking them to market can give rise to substantial present value opportunity profits or losses as is the case for medium and long-term primary instruments. These present value opportunity profits and losses are not recognised in the profit and loss account in the current year since they relate to future periods and are matched by cash flows in those periods.

(iii) Energy trading strategy
Almost all electricity generated in England and Wales must be sold to the Pool, and electricity suppliers including Manweb must likewise buy electricity from the Pool for resale to their customers. The Pool was established at the time of privatisation in England and Wales for bulk electricity trading between generators and suppliers. ScottishPower participates in the Pool by exporting/importing electricity to/from England and Wales via the Interconnector. The Pool is operated under a Pooling and Settlement Agreement to which all licensed generators and suppliers of electricity in Great Britain are party.

The group has procedures in place to minimise exposure to Pool price variations, that is, the possibility that a change in Pool prices will reduce the proceeds of electricity sold to the Pool or increase the cost of electricity purchased from the Pool. These procedures involve ScottishPower and its subsidiary Manweb entering into contracts for differences (CfDs). In general, the terms of CfDs are such that contracts are settled monthly (or more frequently) in arrears by reference to actual half hourly Pool prices.

During the year ended 31 March 1999, more than 90% of the group's exposure to Pool prices was hedged in this way. Cover is built up throughout the year and at 31 March 1999 a significant proportion of the group's exposure to Pool price variations for the following financial year is covered.

The group has also entered into some longer term (in excess of one year) arrangements to protect against the volatility of Pool prices. These arrangements have the potential to be increased as the business grows and the time period covered will be reviewed on an ongoing basis.

These CfDs involve a degree of credit risk. This is the risk that the counterparty to the CfD defaults on settlement. The group controls credit risk arising from holding the CfDs through credit approvals, limits and monitoring procedures.

(iv) Principal financial instruments used by the group

Interest rate swaps
Interest rate swaps are used mainly to convert floating rate borrowings to fixed rates to reduce the financial risk to the group from potential future increases in interest rates.

Cross currency swaps
Cross currency swaps are used to convert liabilities for borrowings in currencies other than sterling into sterling liabilities.

Interest rate caps
Interest rate caps are used solely to limit the group exposure to possible future increases in interest rates.

Forward contracts
The group generally hedges foreign exchange transaction exposures up to one year forward. Hedges are put in place using forward contracts at the time that the forecast exposure becomes reasonably certain. Gains and losses resulting from changes in exchange rates on contracts designated as hedges of forecast foreign exchange transactions are deferred and included in the measurement of the related foreign currency transaction in the period they occur.

Commercial paper is issued in several different foreign currencies. Forward contracts are taken out solely to convert the debt to sterling to eliminate the financial risk to the group of currency movements. As at the year end, the group had outstanding forward foreign exchange contracts, the majority of which were for periods of three months or less, denominated in US Dollars, Canadian Dollars, Swiss Francs, German Marks and Euros.

Contracts for differences (CfDs)
A CfD is a contract between two parties (e.g. a generator and a public electricity supplier) that requires each party to either make or receive monthly payments over a specific term based on the difference between an agreed price (i.e. the bilaterally determined strike price) and a price that varies with a specified commodity index (i.e. the Pool), applied to an agreed quantity (i.e. number of kWs). The average duration for these contracts is approximately one year. The group's use of such derivative instruments relates directly to the underlying purchase and sale of electricity to and from the Pool.

It is difficult to estimate the long-term level of Pool prices with reasonable accuracy and there is no readily identifiable market through which the CfDs could be realised in an exchange. However, based on management projections of the future prices of electricity, and considering the outcome under several future price scenarios, the group has determined that the fair value amount of CfDs, outstanding at the year end, is not material to the group's Accounts. The fair value amount is the difference between the strike price of the contract and the estimated Pool price for the relevant half hourly periods.

The gross value of outstanding CfDs as at 31 March 1999 was £467.8 million (1998 £781.2 million).

20 Loans and other borrowings continued

(f) Current value of financial instruments	At 31 March 1999 Book amount £m	At 31 March 1999 Current value £m	At 31 March 1998 Book amount £m	At 31 March 1998 Current value £m
Short-term debt and current portion of long-term debt	**843.6**	**843.6**	1,035.7	1,035.7
Long-term debt	**1,684.5**	**1,829.3**	1,032.4	1,101.4
Total debt	**2,528.1**	**2,672.9**	2,068.1	2,137.1
Interest rate swaps	**–**	**80.0**	–	51.7
Interest rate caps	**(3.4)**	**(0.6)**	(4.7)	(3.0)
Cross currency interest rate swaps	**–**	**1.6**	–	13.1
Total financial instruments	**2,524.7**	**2,753.9**	2,063.4	2,198.9

The assumptions used to estimate current fair values of debt and other financial instruments are summarised below:

(i) For cash, short-term deposits and short-term borrowings (uncommitted borrowing, commercial paper, and short-term borrowings under the committed facilities) the book value approximates to fair value because of their short maturities.

(ii) The fair values of all quoted euro bonds are based on their closing clean market price converted at the spot rate of exchange as appropriate.

(iii) The fair values of the sterling bond 2001 and the European Investment Bank loans have been calculated by discounting their future cash flows at market rates adjusted to reflect the redemption adjustments allowed under each agreement.

(iv) The fair values of the sterling interest rate swaps and sterling interest rate caps have been estimated by calculating the present value of estimated cash flows.

(v) The fair values of the cross currency interest rate swaps have been estimated by adding the present values of the two sides of each swap. The present value of each side of the swap is calculated by discounting the estimated future cash flows for that side, using the appropriate market discount rates for that currency in effect at the balance sheet date.

(vi) The fair values of unquoted debt have been calculated by discounting the estimated cash flows for each instrument at the appropriate market discount rate in the currency of issue in effect at the balance sheet date.

(g) Hedges
The group's policy is to hedge the following exposures:

– interest rate risk using interest swaps, both sterling and cross currency, caps, collars, and forward foreign currency contracts;

– currency exposures on foreign denominated debt and future purchases/sales using currency swaps and forwards and spot foreign currency contracts.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains/losses £m
Unrecognised (losses) on hedges at 1 April 1998	(1.6)	(60.2)	(61.8)
Losses arising in previous years that were recognised in 1998-99	9.7	6.5	16.2
Gains and (losses) arising before 1 April 1998 that were not recognised in 1998-99	8.1	(53.7)	(45.6)
Gains and (losses) arising in 1998-99 that were not recognised in 1998-99	2.6	(38.0)	(35.4)
Unrecognised gains and (losses) on hedges at 31 March 1999	10.7	(91.7)	(81.0)
Gains and (losses) expected to be recognised in 1999-00	(4.6)	(23.6)	(28.2)
Gains and (losses) expected to be recognised in 2000-01 or later	15.3	(68.1)	(52.8)

The total net unrecognised loss of £81.0 million principally represents the opportunity cost of protecting the group's interest charge against movements in interest rates at a time when interest rates were higher than at 31 March 1999.

The analyses of financial instruments in this Note do not include short-term debtors and creditors as permitted by FRS 13.

21 Other creditors

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Amounts falling due within one year:				
Trade creditors	**181.4**	204.6	**99.5**	122.7
Amounts owed to subsidiary undertakings	**–**	–	**462.0**	689.7
Corporation tax	**210.8**	164.1	**95.0**	74.2
Windfall tax	**–**	159.2	**–**	47.4
Advance corporation tax	**22.1**	60.8	**22.1**	60.8
Other taxes and social security	**9.3**	7.3	**13.7**	12.4
Payments received on account	**35.0**	32.7	**1.7**	3.2
Capital creditors and accruals	**221.6**	183.8	**55.3**	62.6
Other creditors	**80.2**	65.7	**31.1**	27.9
Accrued expenses	**394.4**	355.2	**238.2**	191.7
Proposed dividend	**178.0**	162.9	**178.0**	162.9
	1,332.8	1,396.3	**1,196.6**	1,455.5

22 Deferred taxation

No provision for deferred taxation is considered necessary at 31 March 1999, 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 liabilities computed at the future rate of corporation tax of 30% (1998 30%) are as follows:

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Accelerated capital allowances	**631.6**	609.4	**307.3**	303.5
Other timing differences	**(37.4)**	(35.8)	**(16.8)**	(7.3)
Advance corporation tax	**–**	(12.9)	**–**	–
	594.2	560.7	**290.5**	296.2

23 Provisions for liabilities and charges

	Notes	At 1 April 1998 £m	Transferred to creditors £m	Charged to the profit and loss account £m	Utilised during year £m	**At 31 March 1999 £m**
Group						
Reorganisation and restructuring	(a)	16.7	(6.8)	–	(0.4)	**9.5**
Environmental and health	(b)	10.0	–	1.5	(1.4)	**10.1**
Other	(c)	11.4	–	2.1	(2.3)	**11.2**
		38.1	(6.8)	3.6	(4.1)	**30.8**
Company						
Environmental and health	(b)	6.6	–	1.5	(1.3)	**6.8**
Other	(c)	3.8	–	1.5	(0.2)	**5.1**
		10.4	–	3.0	(1.5)	**11.9**

(a) This provision comprises redundancy costs, including enhanced pension benefit, in relation to the group's Voluntary Selective Severance arrangements. These costs are expected to be incurred by 31 March 2000.

(b) The environmental and health provisions include:
(i) Costs which will be incurred in complying with Health and Safety requirements. It is anticipated that most of this expenditure will be incurred during the period to 31 March 2002.
(ii) Obligations to ensure certain former operational sites remain in an environmentally safe state. The costs are expected to be incurred during the period to 31 March 2003.

(c) The Other category comprises various provisions which are not individually sufficiently material to warrant separate disclosure.

24 Deferred income

	At 1 April 1998 £m	Receivable during year £m	Released to profit and loss account £m	**At 31 March 1999 £m**
Grants and customer contributions:				
– Group	364.6	42.2	(13.6)	**393.2**
– Company	179.9	22.1	(5.8)	**196.2**

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

25 Share capital

	Note	**1999 £m**	1998 £m
Authorised:			
1,700,000,000 (1998 1,700,000,000) ordinary shares of 50p each		**850.0**	850.0
One Special Share of £1	(a)	**–**	–
		850.0	850.0
Allotted, called up and fully paid:			
1,198,678,222 (1998 1,196,752,324) ordinary shares of 50p each		**599.4**	598.4
One Special Share of £1	(a)	**–**	–
		599.4	598.4

(a) 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 the 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.

26 Analysis of movements in shareholders' funds

	Notes	Number of Shares 000s	Share capital £m	Share premium £m	Merger reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
Group								
At 1 April 1998		**1,196,752**	**598.4**	**388.7**	**–**	**227.3**	**493.4**	**1,707.8**
Retained profit for the year		–	–	–	–	–	234.9	234.9
Share capital issued								
– Employee sharesave scheme	(b)	1,554	0.8	4.2	(3.1)	–	–	1.9
– Executive share option scheme		372	0.2	1.1	–	–	–	1.3
Revaluation surplus realised		–	–	–	–	(3.4)	3.4	–
Transfers		–	–	–	3.1	–	(3.1)	–
Balance at 31 March 1999		**1,198,678**	**599.4**	**394.0**	**–**	**223.9**	**728.6**	**1,945.9**
Company								
At 1 April 1998		**1,196,752**	**598.4**	**388.7**	**8.2**	**–**	**883.5**	**1,878.8**
Retained loss for the year	(c)	–	–	–	–	–	(7.4)	(7.4)
Share capital issued								
– Employee sharesave scheme	(b)	1,554	0.8	4.2	(3.1)	–	–	1.9
– Executive share option scheme		372	0.2	1.1	–	–	–	1.3
Balance at 31 March 1999		**1,198,678**	**599.4**	**394.0**	**5.1**	**–**	**876.1**	**1,874.6**

(a) Cumulative goodwill written off

	1999 £m	1998 £m
Merger reserve	**574.2**	574.2
Profit and loss account	**462.5**	462.5
Total	**1,036.7**	1,036.7

(b) Share capital issued

The movement on the merger reserve reflects the reduction in shares which were to be issued following the acquisition of Southern Water plc in August 1996. It represented the cost to ScottishPower of transferring existing options over Southern Water plc shares to the Scottish Power plc Share Option Scheme. As these options are exercised, the merger reserve is reduced for the attributable cost of the option.

(c) 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 6 May 1999. The profit for the financial year per the Accounts of the company was £260.5 million (1998 £219.1 million).

27 Minority interests

	1999 £m	1998 £m
Equity minority interests:		
At 1 April	**1.9**	0.4
Additions	**–**	0.6
Profit and loss account	**(0.6)**	0.9
At 31 March	**1.3**	1.9

28 Pensions

Pension fund	Scheme type	Funded or unfunded	Pension charge for the year 1999 £m	Pension charge for the year 1998 £m	Prepayment as at 31 March 1999 £m	Prepayment as at 31 March 1998 £m
ScottishPower	Defined benefit	funded	**6.9**	6.5	**5.0**	11.9
Manweb	Defined benefit	funded	**5.8**	5.8	**–**	–
Southern Water	Defined benefit	funded	**5.3**	5.8	**–**	–
Final Salary LifePlan	Defined benefit	funded	**–**	–	**–**	–
Money Purchase LifePlan	Defined contribution	funded	**–**	–	**–**	–

Pension fund	Latest full actuarial valuation	Valuation carried out by	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 1997	William M Mercer	1,292.0	projected unit	8.5%	6.5%	4.5%	123%
Manweb	31 March 1998	Bacon & Woodrow	467.6	projected unit	8.5%	6.5%	4.5%	105%
Southern Water	31 March 1998	Watson Wyatt	231.1	projected unit	8.5%	6.5%	4.5%	108%

(a) Group pension arrangements
Following a review of the group's pension arrangements, the ScottishPower Pension Scheme, Manweb Pension Scheme and Southern Water Pension Scheme were closed to new members from 31 December 1998.

The company has introduced two new group pension plans for new employees effective from 1 January 1999. The new plans are a defined benefit plan and a defined contribution plan. The defined benefit plan has an initial employer's contribution of 10% of pensionable salary and the employer's contributions to the defined contribution plan vary, dependent on age, between 3-5%. The pension charge in respect of these schemes since their introduction is £30,000.

(b) ScottishPower
The company operates a funded pension 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. The outcome of the valuation mentioned in the table above resulted in the accounting rate used for the calculation of the 1998-99 pension charge remaining at 4.8% of pensionable salaries.

(c) Manweb
Most of the Manweb employees are entitled to join the Electricity Supply Pension 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, of 12% of pensionable salaries, is based on the advice of the Scheme's independent qualified actuary.

(d) 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 the majority of the Southern Water 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, of 12.8% of pensionable salaries, is based on the advice of the scheme's independent qualified actuary.

29 Contingent liabilities

(a) 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.

(b) The company has guaranteed the overdrafts of three subsidiary undertakings up to an amount of £0.7 million (1998 one subsidiary undertaking for £0.5 million).

(c) The company has guaranteed Manweb's liabilities to the Pool in England and Wales. At 31 March 1999 these liabilities were £30.9 million (1998 £37.4 million).

(d) Under the terms of the merger agreement between ScottishPower and PacifiCorp dated 6 December 1998 (as amended), if the merger agreement is terminated by PacifiCorp following a change in control of ScottishPower, other than through a Scheme of Arrangement under Section 425 of the Companies Act 1985, ScottishPower would be required to pay PacifiCorp a termination fee of US$250 million.

If the merger agreement is terminated by ScottishPower due to the failure to obtain the requisite vote of its shareholders and the termination fee described above is not payable, ScottishPower would be required to pay PacifiCorp US$10 million if the merger agreement is approved by the PacifiCorp shareholders.

30 Financial commitments

(a) Group analysis of annual commitments under operating leases

Leases of land and buildings	1999 £m	1998 £m
Expiring within one year	**1.0**	0.5
Expiring between two and five years inclusive	**0.9**	1.3
Expiring in over five years	**20.4**	16.2
	22.3	18.0
Other operating leases		
Expiring within one year	**2.2**	4.5
Expiring between two and five years inclusive	**5.6**	7.8
Expiring in over five years	**–**	0.6
	7.8	12.9

30 Financial commitments continued

(b) Capital commitments	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Contracted but not provided	**315.8**	262.0	**54.2**	70.3

(c) 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 sales arising from these contracts is provided below:

	Note	Commitment entered into	Commitment expires	Purchases/sales in year under group commitments 1999 £m	Purchases/sales in year under group commitments 1998 £m
The purchase of electricity from British Energy Generation (UK) Limited		1990	2005	**367.7**	365.8
The purchase of electricity from Scottish and Southern Energy plc	(i)	1990	see below	**78.8**	100.5
The supply of electricity to Scottish and Southern Energy plc		1990	2004	**18.2**	16.8
Revenue from the operation of the company's transmission system and access by Scottish and Southern Energy plc to the Anglo-Scottish Interconnector		1990	No fixed date of expiry	**27.7**	26.1
Purchase of coal from the Scottish Coal Company Limited		1998	2003	**22.0**	76.9
Purchase of coal from the Scottish Coal (Deep Mine) Company Limited		1998	2004	**50.5**	–
Purchase of gas from various fields in the North Sea		1994	2010	**123.6**	81.8

(i) There are two agreements relating to the purchase of electricity from Scottish and Southern Energy plc. These expire in 2012 and 2039.

31 Related party transactions

Related party transactions and balances with joint ventures and associated undertakings

(a) Trading transactions and balances arising in the normal course of business

Related party	Related party relationship to group	Sales/(purchases) to/(from) other group companies during the year 1999 £m	Sales/(purchases) to/(from) other group companies during the year 1998 £m	Amounts due from/(to) other group companies as at 31 March 1999 £m	Amounts due from/(to) other group companies as at 31 March 1998 £m
Sales by related parties					
Scottish Electricity Settlements Limited	50% owned joint venture	**5.8**	–	**2.3**	–
Purchases by related parties					
Scottish Electricity Settlements Limited	50% owned joint venture	**(0.9)**	(1.3)	**(0.8)**	(0.3)
South Coast Power Limited	50% owned joint venture	**(8.1)**	–	**(0.1)**	–
CeltPower Limited	50% owned joint venture	**(0.1)**	–	**(0.1)**	–

Southern Water non-core businesses

In the year ended 31 March 1998 the group made purchases of £18 million on normal trading terms from the Southern Water non-core businesses subsequent to their disposal.

(b) Funding transactions and balances arising in the normal course of business

Related party	Related party relationship to group	Interest payable to other group companies during the year 1999 £m	Interest payable to other group companies during the year 1998 £m	Amounts due to other group companies as at 31 March 1999 £m	Amounts due to other group companies as at 31 March 1998 £m
Scottish Electricity Settlements Limited	50% owned joint venture	**(1.5)**	(0.6)	**(19.1)**	(11.8)
South Coast Power Limited	50% owned joint venture	**(0.2)**	–	**–**	–
CeltPower Limited	50% owned joint venture	**–**	–	**(2.0)**	(2.0)
Wind Resources Limited	45% owned associated undertaking	**–**	–	**–**	(0.7)

32 Employee Share Schemes

The group has three types of share scheme for employees. Options have been granted and awards made to eligible employees to subscribe for ordinary shares in Scottish Power plc in accordance with the rules of each scheme. The ScottishPower and Southern Water Sharesave Schemes are savings related and under normal circumstances share options are exercisable on completion of a three, five or seven year save-as-you-earn contract as appropriate. The Executive Share Option Scheme applied to executive directors and certain senior managers. However, this Scheme has been replaced with the Long Term Incentive Plan and, although it will not affect options already granted, this plan supersedes executive share options. Options granted under the Long Term Incentive Plan will vest only if the Remuneration Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the group and improvements in customer service standards are achieved over a period of three financial years commencing with the financial year preceding the date an award is made.

(a) Summary of movements in share options in ScottishPower shares	ScottishPower Sharesave Scheme (number of shares 000s)	Southern Water Sharesave Scheme (number of shares 000s)	Executive Share Option Scheme (number of shares 000s)	Total (number of shares 000s)
Outstanding at 1 April 1998	18,995	4,249	854	24,098
Granted	4,284	–	–	4,284
Exercised	(1,224)	(1,458)	(372)	(3,054)
Lapsed	(783)	(91)	(50)	(924)
Outstanding at 31 March 1999	**21,272**	**2,700**	**432**	**24,404**

(b) Analysis of share options outstanding at 31 March 1999	Date of grant	Number of participants	Number of shares (000s)	Option price (pence)	Normal exercisable date
ScottishPower Sharesave Scheme	22.06.94	1,029	1,296	273.8	6 months to March 2000
	20.06.95	958	1,172	262.1	6 months to March 2001
	20.06.96	5,098	9,896	263.1	6 months to March 2000 or 2002
	20.06.97	4,646	4,692	307.0	6 months to March 2001 or 2003
	12.06.98	5,849	4,216	440.0	6 months to March 2002 or 2004
Southern Water Sharesave Scheme	03.02.92	63	249	74.0	6 months to September 1999
	26.01.93	76	215	111.0	6 months to September 2000
	25.01.94	302	486	154.9	6 months to September 1999 or 2001
	25.01.95	398	987	136.1	6 months to September 2000 or 2002
	25.01.96	437	763	160.2	6 months to September 2001 or 2003
Executive Share Option Scheme	18.12.91	8	128	227.4	1994–2001
	25.06.92	14	23	237.7	1995–2002
	01.07.93	4	60	310.0	1996–2003
	17.12.93	35	61	454.8	1996–2003
	27.05.94	11	18	354.0	1997–2004
	18.11.94	3	22	352.1	1997–2004
	12.05.95	19	72	335.0	1998–2005
	10.11.95	1	48	357.5	1998–2005

All options are exercisable over Scottish Power plc shares. Where reference is made to Southern Water, this is to identify the Sharesave Scheme under which the options over Scottish Power plc shares have been granted. The exercise prices of options granted prior to the rights issue on 30 August 1996 were adjusted to reflect the bonus element inherent in the rights issue.

For the Southern Water Sharesave Scheme, the date of grant refers to the date the original Southern Water share options were granted. These options were exchanged for options over ScottishPower shares following acquisition in 1996.

33 Directors' emoluments and interests

(a) Policy

The Remuneration Committee is responsible for making recommendations to the Board on the company's remuneration policy. The objective of ScottishPower's remuneration policy is to ensure that the rewards for executives and directors attract and retain executives of high 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. The Remuneration Committee determines the detail of each executive's remuneration package.

(b) 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 1999. Full details of the remuneration policy of the ScottishPower group are contained in the Remuneration Report on pages 38 to 40.

	Basic salary £	Bonuses £	Benefits in kind £	**Total 1999 £**	Total 1998 £
Chairman and executive directors					
C M Stuart	200,000	–	16,863	**216,863**	194,294
I Robinson	390,000	109,200	16,093	**515,293**	487,345
M J Kinski (resigned 7 April 1998)	13,195	–	81	**13,276**	335,470
I M Russell	295,000	85,550	46,435	**426,985**	356,078
K L Vowles	210,000	60,900	9,293	**280,193**	253,501
D Whyte	235,000	65,800	16,120	**316,920**	305,976
Non-executive directors (fees and expenses)					
M Barnes	22,708	–	5,754	**28,462**	–
Sir Ronald Garrick (retired 30 April 1999)	30,000	–	555	**30,555**	31,889
Sir Peter Gregson	25,208	–	8,167	**33,375**	24,960
Baroness Jay of Paddington (resigned 13 May 1997)	–	–	–	**–**	3,497
N C D Kuenssberg (retired 23 July 1997)	–	–	–	**–**	10,000
E C S Macpherson	30,000	–	6,412	**36,412**	30,022
J Parnaby	22,708	–	9,007	**31,715**	26,645
	1,473,819	321,450	134,780	**1,930,049**	2,059,677
Other emoluments – executive directors					
Relocation expenses	–	–	–	**–**	14,358
Total	1,473,819	321,450	134,780	**1,930,049**	2,074,035

The emoluments of the highest paid director (Mr Robinson) excluding pension contributions were £515,293 (1998 £487,345). In addition, gains on exercise of share options during the year by Mr Robinson amounted to £592,966 (1998 £nil). Pension contributions made by the company under approved pension arrangements for Mr Robinson amounted to £nil (1998 £nil). Mr Robinson also has an entitlement under the unapproved pension benefits described further in Note c(iii) below. The total of the liabilities for the 15 executives and senior employees arising in relation to unapproved benefits for service for the year to 31 March 1999 was £448,600 (1998 £432,676). All benefits for the above are provided on a defined benefit basis.

(c) Directors' pension benefits

An overview of pension benefits provided to all executive directors is set out in the Remuneration Report on pages 38 to 40.
Details of pension benefits earned by the executive directors are shown below:

Defined benefits pension scheme	Transferred in benefits £	Additional pension earned in the year £	Accrued entitlement £	Transfer value of increases after indexation (net of directors' contribution) £
Chairman and executive directors				
C M Stuart	–	–	–	–
I Robinson	108,808	30,041	180,080	540,333
M J Kinski (resigned 7 April 1998)	29,367	473	61,340	5,153
I M Russell	8,098	14,823	52,460	160,830
K L Vowles	89,467	17,644	122,500	272,592
D Whyte	66,035	10,796	113,664	144,024

(i) The accrued entitlement of the highest paid director (Mr Robinson) was £180,080 (1998 £141,348).

(ii) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year assuming normal retirement at age 63. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

(iii) Executives who joined the company on or after 1 June 1989 are subject to the earnings cap introduced in the Finance Act 1989. Pension entitlements which cannot be provided through the company's approved schemes due to the earnings cap are provided through unapproved pension arrangements. Full details are included in the Remuneration Report. The pension benefits disclosed above include approved and unapproved pension arrangements.

(iv) The increase in accrued pension during the year allows for an increase in inflation of RPI as measured at December 1998 (2.8%) except in the case of Mr Kinski who left service on 19 April 1998.

(v) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions.

(vi) Transferred in benefits represent pension rights accrued in respect of previous employments.

33 Directors' emoluments and interests continued

(d) Directors' interests in share options

Executive director	At 1 April 1998	Granted	Exercised	At 31 March 1999	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
	53,846	–	–	53,846	nil			16.05.2001	15.05.2004
	–	41,916	–	41,916	nil			07.05.2002	06.05.2005
	105,379	41,916	–	147,295					
I M Russell	38,650	–	–	38,650	nil			09.08.2000	08.08.2003
	36,923	–	–	36,923	nil			16.05.2001	15.05.2004
	–	31,706	–	31,706	nil			07.05.2002	06.05.2005
	75,573	31,706	–	107,279					
K L Vowles	27,607	–	–	27,607	nil			09.08.2000	08.08.2003
	27,692	–	–	27,692	nil			16.05.2001	15.05.2004
	–	22,570	–	22,570	nil			07.05.2002	06.05.2005
	55,299	22,570	–	77,869					
D Whyte	35,889	–	–	35,889	nil			09.08.2000	08.08.2003
	32,307	–	–	32,307	nil			16.05.2001	15.05.2004
	–	25,257	–	25,257	nil			07.05.2002	06.05.2005
	68,196	25,257	–	93,453					
Executive Share Option Scheme									
I Robinson	286,457	–	(286,457)	–	335.0	15.05.1998	542.0	12.05.1998	11.05.2005
Sharesave Scheme									
I Robinson	6,581	–	–	6,581	262.1			01.09.2000	28.02.2001
I M Russell	6,300	–	–	6,300	273.8			01.09.1999	29.02.2000
K. L Vowles	3,933	–	–	3,933	263.1			01.09.2001	28.02.2002
	–	1,568	–	1,568	440.0			01.09.2003	29.02.2004
	3,933	1,568	–	5,501					
D Whyte	2,223	–	–	2,223	263.1*			01.09.1999	29.02.2000
	–	886	–	886	440.0*			01.09.2001	28.02.2002
	2,223	886	–	3,109					

*Denotes options granted under a three year scheme.

The interests of C A Berry and A V Richardson in the shares of Scottish Power plc as at the date of their appointment, being 1 April 1999, are shown in the Report of the Directors on page 33.

Footnote

Awards made to directors under the Long Term Incentive Plan on 11 May 1999 were as follows: I Robinson 46,927; C A Berry 18,994; A V Richardson 18,994; I M Russell 37,988; and K L Vowles 27,932.

Notes

(i) The market price of the shares at 31 March 1999 was 540.0p and the range during 1998–99 was 521.0p to 675.0p.

(ii) 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 Remuneration Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the company and improvements in certain OFFER published Customer Service Standards and OFWAT published levels of service (in the case of awards granted in 1997 and 1998) 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 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 each 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.

(iii) The option price of executive share options was 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 at the date of invitation and discounted by 20% in accordance with the Inland Revenue rules for such schemes.

(iv) 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 grants of options were made to reflect increases in directors' basic salary levels, following periodic review by the Remuneration Committee of the performance of the company and the executive directors individually. Executive options are normally exercisable in a manner which does not attract an 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 during the year were £592,966 (1998 £424,097).

(v) 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.

34 Summary of differences between UK and US Generally Accepted Accounting Principles ('GAAP')

The consolidated Accounts of the group are prepared in accordance with UK GAAP which differs in certain significant respects from US GAAP. The effect of the US GAAP adjustments to profit for the financial year and equity shareholders' funds are set out in the tables below.

(a) Reconciliation of profit for the financial year to US GAAP:	Notes	1999 £m	1998 £m
Profit for the financial year under UK GAAP		**502.8**	170.1
US GAAP adjustments:			
Amortisation of goodwill	(i)	**(30.0)**	(29.8)
Deferred tax	(ii)	**(33.5)**	(28.1)
Pensions	(iii)	**17.6**	22.7
Depreciation on revaluation uplift	(iv)	**3.4**	1.7
		460.3	136.6
Deferred tax effect of US GAAP adjustments:			
Pensions		**(5.3)**	(6.8)
Profit for the financial year under US GAAP		**455.0**	129.8
Earnings per share under US GAAP	(vii)	**38.39p**	11.00p
Diluted earnings per share under US GAAP	(vii)	**38.01p**	10.89p

(b) Effect on equity shareholders' funds of differences between UK GAAP and US GAAP:		1999 £m	1998 £m
Equity shareholders' funds under UK GAAP		**1,945.9**	1,707.8
US GAAP adjustments for:			
Goodwill	(i)	**1,036.7**	1,036.7
Business combinations	(i)	**163.1**	163.1
Amortisation of goodwill	(i)	**(92.1)**	(62.1)
ESOP shares held in trust	(vi)	**(33.8)**	(36.6)
Pensions	(iii)	**116.8**	99.2
Dividends	(v)	**178.0**	162.9
Revaluation of fixed assets	(iv)	**(229.0)**	(229.0)
Depreciation on revaluation uplift	(iv)	**5.1**	1.7
Deferred tax:			
Effect of US GAAP adjustments	(ii)	**(35.7)**	(30.4)
Effect of differences in methodology	(ii)	**(594.2)**	(560.7)
Equity shareholders' funds under US GAAP		**2,460.8**	2,252.6

(i) Goodwill and business combinations

Goodwill

Under UK GAAP, goodwill arising from the purchase of trading entities up to 31 March 1998 has been written off directly against the merger reserve to reduce the merger reserve to zero and thereafter has been offset against the profit and loss reserve. Goodwill arising on acquisitions subsequent to 31 March 1998 is capitalised and amortised over its useful economic life. Under US GAAP, goodwill arising from the purchase of trading entities should be held as an intangible asset in the balance sheet and amortised over its expected useful life.

Business combinations

In addition to reinstating the goodwill calculated under UK GAAP as described above, goodwill must also be recalculated in accordance with US GAAP. This is required due to differences between UK GAAP and US GAAP in the determination of acquisition price and valuation of assets and liabilities at the acquisition date. The adjustment referred to as business combinations reflects principally the impact of recalculating the goodwill arising on the acquisitions of Manweb and Southern Water under US GAAP.

(ii) Deferred taxation

Under UK GAAP, provision for deferred tax is only required to the extent that it is probable that a taxation liability or asset will crystallise, in the foreseeable future, as a result of timing differences between taxable profit and accounting profit. Provision is made at known rates of tax.

Under US GAAP, full provision for deferred tax is required to the extent that accounting profit differs from taxable profit due to temporary timing differences. Provision is made at future enacted rates.

The item 'effect of US GAAP adjustments' reflects the additional impact of making full provision for deferred tax in respect of adjustments made in restating the balance sheet to US GAAP.

The item 'effect of differences in methodology' reflects the impact of making full provision for deferred tax.

34 Summary of differences between UK and US Generally Accepted Accounting Principles ('GAAP') continued

(iii) Pension costs

The fundamental differences between UK GAAP and US GAAP are as follows:

(a) Under UK GAAP, the annual pension charge is determined so that it is a substantially level percentage of the current and expected future payroll. Under US GAAP, the aim is to accrue the cost of providing pension benefits in the year in which the employee provides the related service.

(b) Under UK GAAP, pension liabilities are usually discounted using an interest rate that represents the expected long-term return on plan assets. Under US GAAP, pension liabilities are discounted using the current rates at which the pension liability could be settled.

(c) Under UK GAAP, variations from plan can be aggregated and amortised over the remaining service lives. Under US GAAP, variations from plan must be amortised separately over remaining service lives.

(d) Under UK GAAP, alternative bases can be used to value plan assets. Under US GAAP, plan assets should be valued at market or at market related values.

(iv) Revaluation of fixed assets

The revaluation of Manweb distribution assets and Southern Water operational assets is not permitted under US GAAP. Accordingly, the reconciliation restates fixed assets to historical cost and the depreciation charge has been adjusted.

(v) Ordinary dividends

Under UK GAAP, final ordinary dividends are recognised in the financial year in respect of which they are recommended by the Board of Directors for approval by shareholders. Under US GAAP, such dividends are not recognised until they are formally declared by the Board of Directors.

(vi) ESOP shares held in trust

Under UK GAAP, shares held by the Employee Share Ownership Plan ('ESOP') are recorded as fixed asset investments at cost less amounts written off. Under US GAAP, shares held in trust are recorded at cost in the balance sheet as a deduction from shareholders' funds. No dividends have been paid on the shares held by the ESOP and future dividends have been waived.

(vii) Earnings per share

Under UK GAAP, earnings per share is calculated by dividing the net profit or loss for the period by the weighted average number of shares (for basic and diluted number of shares) outstanding for the period. UK GAAP permits the presentation of more than one measure of earnings per share provided that all such measures are clearly explained and are given equal prominence on the face of the profit and loss account.

Under US GAAP, earnings per share is calculated by dividing earnings from continuing operations, excluding extraordinary items, by the weighted average number of shares (for basic and diluted number of shares) outstanding for the period. US GAAP permits only one measure of earnings per share as a performance measure.

a) Earnings per ordinary share have been calculated by dividing the profit for the financial year under US GAAP by the weighted average number of ordinary shares in issue during the financial year, based on the following information:

	1999	1998
Profit for the financial year under US GAAP (£ million)	**455.0**	129.8
Basic weighted average share capital (number of shares, millions)	**1,185.2**	1,180.1
Diluted weighted average share capital (number of shares, millions)	**1,197.2**	1,191.9

The difference between the basic and the diluted weighted average share capital is wholly attributable to outstanding share options.

b) As permitted under UK GAAP, earnings per share have been presented including and excluding the impact of the windfall tax and goodwill amortisation, to provide an additional measure of underlying performance. In accordance with US GAAP, earnings per share have been presented above based on US GAAP earnings, without adjustments for the impact of windfall tax and goodwill amortisation. As such additional measures of underlying performance are not permitted under US GAAP, the inclusion of windfall tax in the determination of earnings for the purpose of computation of earnings per share in accordance with US GAAP decreased earnings by £317.0 million or 26.86 pence per share for the year ended 31 March 1998. The inclusion of goodwill amortisation decreased earnings by £31.2 million or 2.63 pence per share for the year ended 31 March 1999 and by £29.8 million or 2.53 pence per share for the year ended 31 March 1998.

Principal Subsidiary Undertakings and Other Investments

Subsidiary undertakings	Class of share capital	Proportion of shares held	Activity
Caledonian Gas Limited	Ordinary shares £1	100%	Gas retailing
CRE Energy Limited*	Ordinary shares £1	100%	Wind-powered electricity generation
Demon Internet Limited*	Ordinary shares 10p	100%	Internet service provider
Domestic Appliance Insurance Limited* (Isle of Man)	Ordinary shares £1	100%	Insurance
Genscot Limited*	Ordinary shares £1	100%	Holding of investments
Lancastrian Holdings Limited*	Ordinary shares £1	100%	Premium rate service company
Manweb Energy Consultants Limited*	Ordinary shares £1	100%	Provision of energy services
Manweb Gas Limited*	Ordinary shares £1	100%	Gas retailing
Manweb Generation Holdings Limited*	Ordinary shares £1	100%	Holding company
Manweb plc*	Ordinary shares 50p	100%	Regional electricity company
Pinnacle Cellular Limited*	Ordinary shares £1	100%	Specialist communication retailer
Scotland On-Line Limited*	Ordinary shares £1	50%	Internet service provider
ScottishPower Inc (USA)**	Common stock	100%	Holding of investments
ScottishPower Insurance Limited* (Isle of Man)	Ordinary shares £1	100%	Insurance
ScottishPower Investments Limited (a)	Ordinary shares £1	100%	Holding of investments
ScottishPower Leasing Limited*	Ordinary shares £1	100%	Leasing company
ScottishPower NA1 Limited	Ordinary shares £1	100%	Holding of investments
ScottishPower NA2 Limited	Ordinary shares £1	100%	Holding of investments
ScottishPower Telecommunications Limited*	Ordinary shares £1	100%	Telecommunications
ScottishPower Telecommunications (Services) Limited	Ordinary shares £1	50%	Mobile telecommunications
Southern Water plc	Ordinary shares £1	100%	Holding company
Southern Water Services Finance plc*	Ordinary shares £1	100%	Finance company
Southern Water Services Limited*	Ordinary shares £1	100%	Water supply and wastewater services
Teledata (Holdings) Limited	Ordinary shares £1	100%	Telecommunications
Telephone Information Services plc*	Ordinary shares £1	100%	Telecommunications
Telephone International Media Limited*	Ordinary shares £1	100%	Telecommunications
Watermark Games Limited*	Ordinary shares 1p	100%	Promotive printing

Fixed asset investments

Joint ventures			
CeltPower Limited	Ordinary shares £1	50%	Wind-powered electricity generation
Scottish Electricity Settlements Limited	Ordinary shares £1	50%	Scottish electricity settlements
Shoreham Operations Company Limited	Ordinary shares £1	50%	Management services
South Coast Power Limited	Ordinary shares £1	50%	Electricity generation
Associated undertakings			
Coastal Wastewater Consultants Limited*	Ordinary shares £1	50%	Marine treatment, engineering design and consultancy
Wind Resources Limited*	Ordinary shares £1	45%	Wind-powered electricity generation
Other investments			
Folkestone & Dover Water Services Limited*	Ordinary shares £1	25%	Water supply
	Preference shares £1	22%	
	Deferred shares £1	12%	

Notes

*The investments in these companies are indirect holdings.

**The common stock of ScottishPower Inc has no denomination.

(a) The year end of ScottishPower Investments Limited is 28 February.

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The information above includes the subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affect the results or financial position of the group.

All companies are incorporated in Great Britain, unless otherwise stated.

Report of the Auditors

to the members of Scottish Power plc

We have audited the Accounts on pages 41 to 66.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report including, as described on page 37, the Accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Report of the Directors is not consistent with the Accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

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

We review whether the statement on pages 36 and 37 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or group's corporate governance procedures or internal controls.

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 Accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Accounts, and of whether the Accounting Policies are appropriate to the 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 Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Accounts.

Opinion
In our opinion the Accounts give a true and fair view of the state of the affairs of the company and the group at 31 March 1999 and of the profit, total recognised gains and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Glasgow

6 May 1999

Five Year Financial Summary

	Notes	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
				Years ended 31 March		
Results						
Turnover		**3,242**	3,128	2,941	2,271	1,716
Earnings before interest, tax, depreciation and amortisation	(c)	**1,017**	951	801	515	430
Profit before taxation		**644**	640	558	404	375
Profit after ordinary taxation		**502**	488	422	295	274
Windfall tax		**–**	(317)	–	–	–
Profit for financial year		**503**	170	421	296	274
Dividends		**(268)**	(243)	(218)	(146)	(112)
Free cash flow	(a),(c)	**702**	734	583	242	180
Capital expenditure (net)	(c)	**754**	657	471	227	166
Net debt		**2,421**	1,953	1,790	632	86
Net assets		**1,947**	1,710	1,523	1,207	1,106
Ratios and statistics						
Gearing		**124%**	114%	118%	52%	8%
Earnings per ordinary share before windfall tax	(b)	**42.42p**	41.28p	38.11p	33.12p	32.88p
Earnings per ordinary share before goodwill amortisation and windfall tax		**42.52p**	41.28p	38.11p	33.12p	32.88p
Dividends per ordinary share		**22.50p**	20.40p	18.50p	15.50p	13.65p
Interest cover		**5.0x**	5.3x	6.2x	14.4x	61.5x
Employees						
Number of employees (full-time equivalent) at 31 March						
– Scottish Energy businesses		**4,823**	4,748	4,916	5,215	5,595
– Manweb		**2,099**	2,151	2,757	2,979	–
– Southern Water		**2,205**	2,364	3,526	–	–
– ScottishTelecom		**2,336**	1,430	702	191	141
– Other		**3,682**	3,613	2,500	2,388	2,304
		15,145	14,306	14,401	10,773	8,040
US GAAP information						
Profit for the financial year under US GAAP		**£455m**	£130m	£353m	£271m	–
Earnings per ordinary share under US GAAP	(d)	**38.39p**	11.00p	31.94p	30.39p	–
Equity shareholders' funds under US GAAP		**£2,461m**	£2,253m	£2,340m	£1,510m	–

(a) The free cash flow figures are quoted excluding the effects of the windfall tax payment of £158 million in 1999 and £158 million in 1998.

(b) The 1998 figure is quoted excluding the effects of the windfall tax liability of £317 million.

(c) 1998 and 1997 figures have been restated for the change in policy in 1999 relating to accounting for renewals of water infrastructure assets.

(d) The inclusion of windfall tax in the determination of earnings for the purposes of computation of earnings per share in accordance with US GAAP decreased earnings by £317.0 million or 26.86 pence per share for the year ended 31 March 1998. The inclusion of goodwill amortisation decreased earnings by £31.2 million or 2.63 pence per share for 1999, £29.8 million or 2.53 pence per share for 1998, £23.7 million or 2.14 pence per share for 1997 and £7.5 million or 0.84 pence per share for 1996.

Company Information

Non-executive directors

Murray Stuart *Chairman*
Mair Barnes
Sir Peter Gregson
Ewen Macpherson
John Parnaby

Executive directors

Ian Robinson *Chief Executive*
Charles Berry* *Executive Director Customer Sales & Services*
Alan Richardson* *PacifiCorp CEO Designate*
Ian Russell *Deputy Chief Executive and Finance Director*
Ken Vowles *Executive Director UK Power Operations*
Duncan Whyte** *Executive Director Multi-Utility*

* *Appointed 1 April 1999*
** *Resigns with effect from 31 May 1999*

Secretary and Registered Office

Andrew Mitchell
1 Atlantic Quay
Glasgow G2 8SP

Members of the Audit Committee

John Parnaby* *Chairman*
Sir Peter Gregson
Ewen Macpherson
Murray Stuart

**Appointed to the Audit Committee on 19 February 1999 and appointed Chairman on 1 May 1999.*

Members of the Nomination Committee (formed 19 February 1999)

Murray Stuart *Chairman*
Ian Robinson
Mair Barnes
Sir Peter Gregson

Members of the Remuneration Committee

Ewen Macpherson *Chairman*
Mair Barnes
Sir Peter Gregson
John Parnaby

Shareholder Information

The year ahead

15 June 1999	Merger Extraordinary Meeting, Court Meeting, Scheme Extraordinary Meeting, Class Meeting
21 June 1999	Shares 'ex-dividend'
25 June 1999	Last date for registering transfers to receive the final dividend
21 July 1999	Annual General Meeting
4 October 1999	Final dividend payable
November 1999	Announcement of interim results for 1999–00
May 2000	Preliminary announcement of final results for 1999–00

Annual General Meeting

The Annual General Meeting will be held at The Glasgow Royal Concert Hall, Sauchiehall Street, Glasgow, on Wednesday 21 July 1999 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 1999, it is expected that the Interim Report will be published in The Daily Telegraph. Copies of the Interim Report may be obtained, free of charge, on request from the Company Secretary at the company's registered office.

Press releases and up-to-date information on the company can also be found on the ScottishPower website (www.scottishpower.plc.uk).

Share registration enquiries

The Registrar
Lloyds TSB Registrars Scotland
117 Dundas Street
Edinburgh
EH3 5ED

Tel: 0870 601 5366
Fax: 0870 900 0020

ADR Enquiries

The Bank of New York
Shareholder Relations
PO Box 11258
Church Street Station
New York
NY 10286-1258, USA

Tel: 1(888) BNY-ADRS (Toll Free)
(402) 963 9394 (Outside USA)

Shareholder services

ScottishPower, by arrangement with Lloyds TSB and Stocktrade, offers the following services for the private investor:

Share consolidation and ISAs
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.

Individual Savings Accounts (ISAs) are suitable for private investors who wish to shelter their ScottishPower shares from Income and Capital Gains Tax. Details of the ScottishPower ISA service are available from Lloyds TSB at the following address;

Lloyds TSB Registrars ISA's
The Causeway
Worthing, West Sussex
BN99 6UY

Alternatively please call the ISA helpline on 0870 242 4244.

Share dealing
ScottishPower shares may be bought or sold at competitive rates by post or telephone. For further details, please contact Stocktrade on 0845 601 0979, quoting LOW C0070.

Analysis of shareholders

Range of holdings	No. of shareholders	No. of shares
1–100	18,218	784,965
101–200	233,210	38,882,895
201–600	188,964	58,201,695
601–1,000	42,482	32,986,170
1,001–5,000	49,127	88,929,504
5,001–100,000	3,945	64,067,304
100,001 and above	764	914,825,689

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Registered office
1 Atlantic Quay
Glasgow G2 8SP
www.scottishpower.plc.uk

ScottishPower