

ScottishPower



Corporate Responsibility Report 2006/07

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Welcome

ScottishPower publishes its 2006/07 Corporate Responsibility Report at an exciting time.

Following the merger with Iberdrola, we have created one of the largest energy groups in the world, with a combined enterprise value of more than €70 billion and a total installed capacity of nearly 40,000 MW. Of this, 6,238 MW is wind power, consolidating our position as the leading world operator in this technology.

As part of the Iberdrola group, ScottishPower will play an important role in our goal of becoming the leading world player in terms of our commitment to clean energy and respect for the environment. We are equally committed to delivering sustainable value for shareholders, employees, customers and society. This is ScottishPower's first Corporate Responsibility Report since the merger with Iberdrola. While this report covers the period immediately prior to merger, it demonstrates an approach to responsible business that is aligned to that of the Iberdrola Group.

I hope you find the report useful and interesting. I would be pleased to hear from you on any of the matters raised within the report, or indeed on any other aspects of our operations.

José Luis del Valle
ScottishPower CEO
June 2007



Performance Summary 2006/07

Provision of Energy

- ▶ Ended 2006/07 as the largest owner, operator and developer of windfarms in the UK
- ▶ Commissioned 417 MW of new wind capacity across the UK and US, and started construction work on Whitelee Windfarm, at 322 MW Europe's largest
- ▶ Improved the output efficiency of our thermal plant

Health and Safety

- ▶ Tragically, one of our employees and two members of the public were fatally injured during the year
- ▶ RIDDOR rate (per 100 employees) was 0.34, compared to a UK national average of 1.6

Customer Experience

- ▶ uSwitch placed ScottishPower second for overall customer satisfaction in their November 2006 customer survey, although this remains a challenging area
- ▶ We have already achieved our three year (2005-08) targets, which were set under the Energy Efficiency Commitment (EEC2)
- ▶ Continued to provide free energy audits for all

Climate Change and Emissions to Air

- ▶ We remain on track to beat our target of a 25% reduction in CO₂ emissions per GWh by 2010, despite a 1.2% increase during the year*
- ▶ We announced plans to trial wave generation technology in Scotland

Waste and Resource Use

- ▶ Reduced UK internal energy usage by 3.2%
- ▶ Increased the amount of ash reused or sold rather than sent to landfill by over 80,000 tonnes

Biodiversity

- ▶ We developed Biodiversity Action Plans (BAPs) at three further windfarm sites

**Our coal burn increased during the year to compensate for outages in Scotland's nuclear generating plant and at our gas-fired plants, and due to sustained high gas prices which made coal economically more favourable*

Performance Summary 2006/07 | continued

Sites, Siting and Infrastructure

- ▶ Connected five new windfarms to the grid
- ▶ Work completed on building a substation at Sparling Street in Liverpool to complement redeveloped buildings as Liverpool prepares to become European Capital of Culture in 2008

Employment Experience

- ▶ Completed our first Times 100 Best Companies survey
- ▶ Improved internal communications through ScottishPower News, a new quarterly newspaper for all staff and ScottishPower Way, a regular e-zine

Customers with Special Circumstances

- ▶ ScottishPower contributed a further £1 million to the ScottishPower Energy People Trust
- ▶ The Energy People Trust awarded funding of over £1.7 million to 43 projects, helping 42,337 households

Community

- ▶ Community investment of £4.6 million, an increase of 20% on 2005/06
- ▶ 50,980 pupils at 254 primary schools benefited from our public safety programme “Be Safe with ScottishPower”
- ▶ 62,000 pupils benefited from ScottishPower’s sponsorship of Generation Science
- ▶ 233 ScottishPower staff participated in Community Development programmes during 2006/07, an increase of 38% from 2005/06

Procurement

- ▶ Our procurement function was restructured to better meet customer needs and manage suppliers effectively
- ▶ Agreed a strategy for making “Verify” a mandatory requirement for all high risk contractors in the UK

Economic

- ▶ Improved financial performance and return to shareholders
- ▶ We commenced work on a £170 million programme to install Flue Gas Desulphurisation (FGD) equipment at Longannet, extending the life of the plant, securing 320 permanent staff onsite and directly providing 300 construction jobs in Fife over a two year period

Managing our Responsibilities | Our Approach

ScottishPower has an approach to doing business that is inherently responsible because we know that acting responsibly is essential to the long-term success of the company.

In 2005 we identified our 12 most significant social and environmental impacts, and during 2006 identified Executive Team Leaders for each. Adopting a 'leadership approach' allows responsibility for management to sit within the appropriate business areas and help ensure that Corporate Responsibility is part of our business operations. Senior leadership of our impacts also ensures that our aspirations for tomorrow align with what we do today.

That's why the Impact Leader for **Provision of Energy** is the Director of our Energy Wholesale business. He is responsible not only for ensuring that our generating plant meets today's customer demand for affordable and sustainable energy, but also that the company delivers on its future commitment to build 1,000 MW of new renewable generation assets in the UK by 2010.

Within our reporting, each Impact area is split into three levels: - the Leader's Overview of the Impact area, our Approach to managing the Impact, and our Performance during the year.

We believe that this integrated approach to managing our Impacts, together with our uncomplicated and transparent reporting structure best suits our business and our stakeholders.

Managing our Responsibilities | Governance

Since the acquisition of ScottishPower by Iberdrola, the company have ceased to be a listed company in the UK, and has adopted the corporate governance arrangements of the Iberdrola Group. You can read more about these arrangements on Iberdrola's website. The Group is committed to the highest standard of business conduct.

Within the UK, our Chief Executive Officer (CEO) has overall responsibility for Corporate Responsibility. ScottishPower's progress on each Impact is monitored by an Executive Team member who serves as an Impact Leader. The Executive Team receives regular progress reports from the Executive Team Impact Leaders, and on our Corporate Responsibility strategy, management and reporting from the Corporate Responsibility Steering Committee.

The Corporate Responsibility Steering Committee is made up of senior managers, with each business and each Impact represented. The Committee meets four or five times per year and provides the link between the Executive Team and business operations. The Committee is responsible for driving the Corporate Responsibility agenda at operational management level and ensures that there is continued clarity about the role of Corporate Responsibility at ScottishPower. The CEO and other members of the Executive Team raise and address Corporate Responsibility matters as required.

At business level Corporate Responsibility performance is managed as part of key business issues.

Within the UK, our risk management processes operate across our operations and corporate functions, providing an assessment of environmental and social risks. Where considered material, these are highlighted to the Board.

Managing our Responsibilities | Environment

Environmental Management

Understanding and managing the impact we have on the environment and striving for continuous improvement is a significant part of ScottishPower's overall approach to corporate responsibility.

Over the years in our Environmental Performance Report our aim has been to provide a transparent account of how we've performed across all the key areas that are relevant to our business, publicising our successes, but at the same time documenting the areas where our reporting process highlighted results that signalled "could do better".

Our environmental performance is now reported within the 12 impact areas that make up our overall corporate responsibility report.

We have designed the 12 impact areas to ensure they are compatible with the recently published Defra Reporting Guidelines for UK Business – "Environmental Key Performance Indicators" which cover the areas of emissions, resource use, supply chains, products, biodiversity and regulatory compliance.

For further information please contact:

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The Defra categories are as follows:

Emissions to air

- ▶ CO₂
- ▶ SO₂
- ▶ NO_x
- ▶ Particulates
- ▶ Heavy metals

Emissions to water

Resource use

- ▶ Summary resource use
- ▶ Transport
- ▶ Internal energy use

Biodiversity

- ▶ Implementation of action plans
- ▶ Habitat management area

Emissions to land

(including waste recycle and reuse)

- ▶ General waste
- ▶ Power station ash
- ▶ SF₆
- ▶ Oil containment
- ▶ PCB status

Supply chains

Products

- ▶ Fuel source mix
- ▶ Renewable energy
- ▶ Energy efficiency
- ▶ System losses

Regulatory compliance

- ▶ Environmental compliance
- ▶ Incidents and complaints
- ▶ Environmental expenditure and fines

Managing our Responsibilities | Environment continued

Environmental Principles

Our commitment to the environment is outlined in a set of Environmental Principles that set out our promises to stakeholders and the actions we require of our businesses in conducting their activities.

Environmental Vision

We are committed to achieving sustainable growth across our activities, considering the economic, environmental and social effects of our business growth strategy. This includes striving to become a world leader in renewable energy, investing in cleaner forms of generation and working to improve resource efficiency, while continuing to provide safe and secure energy supplies and working with Government and external agencies to address issues such as fuel poverty.

Visionary Goals

Our long-term environmental goals show how our environmental strategy is linked to business growth.

Environmental Vision

Energy Networks

- ▶ To be acknowledged as a good and trusted neighbour in all areas of our operational activity, recognising biological diversity, cultural heritage and natural resources as we strive to meet the changing patterns of UK energy supply and demand via our transmission and distribution networks
- ▶ To create new infrastructure resources in support of the Government's renewable targets
- ▶ To identify and use cleaner technology, materials and fuel sources where practicable and cost effective, and pilot these into the business where appropriate

Energy Retail

- ▶ To become the UK energy experts, who provide an integrated energy solution to the home by going beyond a commodity-supplier offering to our customers
- ▶ Up to 2008 we will contribute 14.8 TWh of energy saving in the domestic sector. In addition, 50% of these savings will be delivered within the Priority Group
- ▶ To support, beyond the requirements of regulation, the UK Government's strategy to eradicate fuel poverty
- ▶ To offer both business and domestic customers a range of products and services to enable them to manage their energy use in an efficient manner

Energy Wholesale

- ▶ To be the leading generator of wind energy in the UK and expand our renewables portfolio to at least 1,000 MW by 2010, in line with the UK supply obligation of 10%
- ▶ To invest in higher levels of environmental protection for our coal-fired plant, responding to concerns about acidification, haze and local air quality
- ▶ To be an early adopter of clean coal technologies (such as super-critical boiler technology, IGCC, carbon capture and sequestration) and develop renewables in offshore wind and marine energy
- ▶ To meet best available techniques (BAT) environmental requirements at all power stations by 2010
- ▶ To deliver a 25% CO₂, 85% SO₂ and 50% NO_x reduction per GWh based on our 1999 generation portfolio by 2010

Managing our Responsibilities | Environment continued

PPM Energy

- ▶ To build on our renewable portfolio by securing at least 3,500 MW of new capacity by 2010
- ▶ To build on our position as the leading wholesaler of clean and green energy products, thus playing a critical role in developing a strong wholesale market for green resources
- ▶ To create a marketplace with rules to help encourage the development of new renewable resources

Environmental Governance

The lead Board member with Environmental Responsibility is the ScottishPower Chief Executive. Environmental policy, strategy and leadership is decided at the Executive Team level within ScottishPower and implemented via subsidiary businesses.

Reporting to the Executive Team, the cross-company Environmental Co-ordination Committee is the key vehicle for environmental governance, policy development and is chaired by the Group Energy and Environment Director. It also monitors compliance and performance issues.

Environmental issues are incorporated into the company's risk and control management framework, to ensure environmental risks to the business are addressed. Material environmental issues are central to strategy development and these are formally included in the company's business planning process.

Environmental Performance is measured through targets and associated KPIs and reported to external stakeholders on an annual basis.

The ScottishPower Environment Forum, provides a balanced stakeholder perspective and constructive feedback on our environmental policies and proposals. Internal membership of the Forum includes our most senior executives with external representatives drawn from individuals who are eminent in the fields of energy and environmental issues.

The Environment Forum meets at least twice a year to discuss key topical and emerging issues linked to energy and the environment. Subject matter covered during the year included clean coal developments for thermal power stations, Flue Gas Desulphurisation (FGD) investment at Longannet, energy services development, marine and tidal energy development, smart metering, developments in environmental markets and the Government's Energy Review.

Environmental Policies

ScottishPower operations are organised to follow group environmental policies for internal energy use, transport, biodiversity, green purchasing and contaminated land. These policies can be found within individual Impact areas on our website where appropriate.

Managing our Responsibilities | Stakeholder Engagement

As an integrated energy company, ScottishPower has always taken the view that understanding our stakeholders' perceptions and concerns is essential to the company's success. We maintain close dialogue with stakeholders through established channels of communication.

In this past year, we convened two workshop sessions, involving a wide range of stakeholders, designed to elicit views on our approach to responsible business, and, more specifically, on our first online Corporate Responsibility Report. These sessions provided valuable feedback on our Corporate Responsibility strategy and management, an endorsement of our Impact Leadership approach, and constructive comments on our new online reporting. Where possible this feedback has been reflected in this year's report. We were encouraged that stakeholders continue to recognise the conflicting demands placed upon operators within our industry, and their understanding that some decisions have to reflect a degree of compromise.

Our work with individual stakeholder groups continued during the year, and you can read more detail below.

Customers

We continued to carry out our quarterly Voice of the Customer Research, hearing directly what our customers think, and planning our response to that.

Environment

During the year, we continued to operate our Environmental Forum which meets twice a year. The Forum is made up of a range of people with detailed environmental knowledge, including academics and representatives from environmental agencies. This provides a Forum that is challenging but constructive.

Community

We maintained close links with communities at our existing sites and conducted significant community consultation on networks and windfarm projects.

Employees

During the year we carried out the first survey using the Times 100 Best Companies model. The result of that survey has allowed us to target engagement most constructively.

Government

We engaged extensively with Governments and their agencies on all key industry issues, and continue to consult on the UK Energy Review.

Regulators

We maintained regular dialogue with our industry regulators including Ofgem, the Environment Agency and Scottish Environmental Protection Agency (SEPA).

NGOs/Special interest groups

We continue to consult widely with a variety of NGOs and where appropriate work closely with them on specific project developments.

Suppliers

We engage in regular feedback sessions with all our major suppliers, and maintain close communications both at contract award stage and during contract delivery.

Managing our Responsibilities | Scope

Our approach to Corporate Responsibility reporting is unashamedly business focussed – it reflects the environmental and social impacts of our business strategy, and has been structured to provide information that stakeholders tell us is important to them.

In the past, we received feedback that, although our reporting was thorough, it did not adequately prioritise our most significant social and environmental impacts. Nor did it provide enough depth and coverage on those key issues.

In 2005, our stakeholders helped us define our most significant social and environmental impacts during an extensive consultation process. Those 12 impacts have been adopted by our Executive Team as the basis for ScottishPower's Corporate Responsibility strategy, management framework and reporting.

In 2006 we reported online for the first time, setting out our approach to managing these Impacts, and directly linking our performance to that approach. This year, we publish our second online report, incorporating many refinements proposed at the stakeholder sessions in March 2007. These include easier access to summary and pdf versions of the report, and greater use of bullet points and charts.

This year's report again covers all material activity across all of our operations. Unless otherwise noted, our reported results have been consolidated on a basis consistent with our approach to financial reporting. Results for Core Utility Solutions which became a 100% subsidiary during the year, have been consolidated this year, unless otherwise noted.

While business and stakeholder led, we have continued to review our reporting against industry-specific corporate responsibility performance indicators including: the Global Reporting Initiative, AA1000, Dow Jones Sustainability Index and FTSE4Good.

The audience for our corporate responsibility report is internal and external stakeholders: employees, shareholders, investors, analysts, customers, Government, non-governmental organisations, community groups, corporate responsibility and industry analysts and other opinion leaders.

The reporting period covered by this report is 1 April 2006 to 31 March 2007, unless otherwise stated.

Managing our Responsibilities | Benchmarking and Recognition

ScottishPower participates in a number of external indices and awards programmes to allow comparison of our approach and performance against others in our industry, and more broadly.

Important indices that we participate in include:

Business in the Community

- ▶ 2006 BitC CR Index - Platinum Company (> 95%)
- ▶ 2006 Business in the Environment Index – Platinum Company (> 95%)
- ▶ Member of the BitC CR Index Leadership Group

Since their inception, ScottishPower has received more Big Ticks from BitC than any company in the UK. That position was maintained in 2007, when we were awarded the following Big Ticks:

- ▶ A new Big Tick for the EDF Energy Environmental Leadership Award (shortlisted for the UK Example of Excellence)
- ▶ A new Big Tick for the HBOS Responsible Marketing category for Energy Retail (also shortlisted for the UK Example of Excellence)
- ▶ A Jubilee Award Silver Big Tick for ScottishPower Learning
- ▶ A new Big Tick in the Merrill Lynch Raising Achievement for Young People category for ScottishPower Learning's School to Work Programme

5 of our existing Big Ticks received reaccreditations

- ▶ ScottishPower Renewables
- ▶ Energy Retail's Green Energy Trust
- ▶ ScottishPower Learning (Education)
- ▶ ScottishPower Learning (Healthy Communities)
- ▶ ScottishPower Learning's Skillseeker Programme (Education)

Business in the Community www.bitc.org.uk/

Carbon Disclosure Project

ScottishPower is listed within the Carbon Disclosure Project's Climate Leadership Index of top 50 global companies. This is the world's largest institutional investor collaboration on the business implications for climate change. The Carbon Disclosure Project (CDP) represents an efficient process whereby many institutional investors collectively sign a single global request for disclosure of information on Greenhouse Gas Emissions. More than 1,000 large corporations report on their emissions through their website.

Carbon Disclosure Project: www.cdproject.net/

FTSE4Good

During 2006/07, ScottishPower was a member of the FTSE4Good Index.

FTSE4Good: www.ftse.com

Managing our Responsibilities | Benchmarking and Recognition

FTSE International Shareholder Services Corporate Governance Index

During 2006/07, ScottishPower was a constituent of the International Shareholder Services Corporate Governance Index.

ISS CG Index: www.ftse.com

WWF

In WWF's Generating Climate Change report published in June 2006, ScottishPower was ranked top of the UK's six largest power companies according to performance on greenhouse gas emissions, energy efficiency and renewable energy.

In WWF's European Dirty 30 report published in May 2007 – ranking of the most polluting power stations in Europe - our largest station Longannet, was listed as the 15th dirtiest station in Europe.

ScottishPower using independently verified emissions data from the station, believes 'relative emissions' from Longannet to be 8.2% lower than those used in the WWF rating, and that our position in the table should be 10 places lower.

WWF: www.wwf.org.uk

Our 12 Impacts

Our 12 Impacts were selected following internal and external consultation and represent our most significant environmental and social impacts.

After years of proving our credentials through externally defined benchmarks and reporting frameworks, we found that what most people wanted us to do was define our own approach, based on the challenges facing our industry, our areas of operation and the nature of our businesses.

Our stakeholders and our businesses agreed that we needed to manage and report with greater depth and focus on the areas where our business was having greatest impact on society and the environment. Our Executive Team endorsed this change in approach and our Corporate Responsibility Steering Committee led an exhaustive consultation to define our most significant areas of impact. Twelve were identified and these were approved by the Executive Team as the foundation of our Corporate Responsibility management and reporting.

This year, following further stakeholder consultation, we have elevated Climate Change and Emission to Air, to join Provision of Energy, Health and Safety and Customer Experience as one of our top impacts.

In each Impact area you will find:

- ▶ an **Overview** which sets out the nature of the Impact;
- ▶ our **Approach** to managing that Impact; and
- ▶ our **Performance** during the year

We hope this helps you navigate our report.

Our 12 Impacts | Provision of Energy

Overview

Ensuring the long-term security of Britain's energy supplies and reducing greenhouse gas emissions to address climate change have been key priorities for the Government and UK energy companies for the last few years.

The Government's White Paper on Energy: "Meeting the Energy Challenge", published on 23 May 2007, sets out the framework for how these twin objectives can be achieved.

In its Energy Review of 2006, the Government examined how best to fill the "energy gap" that could emerge by 2020 following the retirement of around one third of Britain's power station fleet, and the country's growing dependence on gas imported from the Middle East, North Africa, Russia and Central Asia.

The White Paper sets out a suite of measures aimed at providing Britain with a secure, diverse and sustainable energy supply. A key part of the strategy will be an increased focus on reducing energy use through energy efficiency measures, and the introduction of the world's first mandatory carbon reduction programme for businesses.

In addition, the White Paper details how the Government plans to provide the right investment conditions to encourage low carbon electricity generation projects, including renewables, and clean coal technologies such as carbon capture and storage.

Key measures outlined in the White Paper include:

- ▶ The introduction over 10 years of "smart" meters in homes and businesses to encourage more efficient use of energy
- ▶ Proposed reforms of the Renewables Obligation to benefit offshore wind, wave, biomass co-firing, tidal and other emerging technologies
- ▶ A "cap and trade" scheme to encourage organisations such as banks, supermarkets and local authorities to reduce CO₂ emissions
- ▶ A competition for bids to build the world's first end-to-end Carbon Capture and Storage (CCS) plant, to deliver a minimum capacity of 300 MW, a 90% CO₂ saving, and be commissioned between 2011 and 2014
- ▶ Legislation to allow the storage of natural gas under the seabed and unloading of Liquefied Natural Gas (LNG) at sea
- ▶ A three month deadline for the DTI to make consent decisions (in England and Wales) on large scale energy projects, pending more radical reforms set out in the Planning White Paper
- ▶ Publication of a biomass strategy
- ▶ Publication of a report on distributed microgeneration, such as household wind turbines and solar panels

The White Paper also promises consultations on several key issues including the possible construction of new nuclear power stations by the private sector; how to improve the energy efficiency of consumer electronics; and the proposed doubling of energy companies' energy efficiency obligations under a new Carbon Emission Reduction Target scheme, starting in 2008.

John Campbell, Impact Leader

Our 12 Impacts | Provision of Energy

Approach

The Government's Energy White Paper has confirmed that the strategic direction we have been taking is the right one. During the last few years we have been aiming to become a world leader in renewable energy and a champion of customer energy efficiency programmes.

We have been an early supporter of emerging renewable technologies, such as wave and tidal power and we believe that cleaner coal generation, incorporating carbon capture and storage, is an important component of ensuring future security of energy supply. We have therefore launched a feasibility study into the potential for implementing supercritical boiler technology, backed by carbon capture, at our two coal fired power stations, Longannet and Cockerzie.

If this project goes ahead, Longannet and Cockerzie could continue to generate more than a quarter of Scotland's energy needs for many years to come, providing valuable base load back-up for our extensive renewables capacity.

We are also working together with Hammerfest Strom of Norway to investigate building a 1 MW tidal stream demonstration project in Scottish waters. We have also announced plans to build the world's largest commercial wave farm off the coast of Orkney.

Another important consideration in ensuring security of supply is supply chain management, particularly of fuel. Following the long-term gas supply contract with Statoil signed in December last year, we bought the Hatfield Moor gas storage facility in Yorkshire from Edinburgh Oil and Gas Ltd. This will give us outright ownership of 1.25 billion cubic metres (bcm) of storage capacity. In addition, our parent company Iberdrola secured regasification capacity at the Isle of Grain LNG importation terminal in Kent of up to 2.75 bcm per year.

All of these projects aim to deliver secure, diverse and sustainable energy that is affordable for our customers.

Key elements of our approach to Provision of Energy include:

Security

- ▶ Establishing long-term contracts with reliable suppliers of coal and gas to reduce exposure to volatile market prices
- ▶ Securing sufficient gas storage and importation capability to meet customer needs
- ▶ Ensuring we have enough carbon allowances to generate power in line with customer demand
- ▶ Strengthening our energy networks to support new renewable generation and improve network integrity
- ▶ Continuing to develop new generation capacity, or re-power established assets sustainably, to maintain a capacity that is broadly in line with customer demand

Diversity

- ▶ Reducing the risk of energy shortfalls and volatile market prices by maintaining a balanced generation portfolio that includes coal, gas, hydro, biomass and new renewable technologies

Our 12 Impacts | Provision of Energy

Approach | continued

Sustainability

- ▶ Investing £1.5 billion in renewable energy, mainly onshore windfarms, to achieve a portfolio of at least 1,000 MW in the UK by 2010. We aim to achieve a windfarm portfolio in the US of 3,500 MW in the same timescale
- ▶ Investigating the feasibility of deploying clean coal technologies at our two coal power stations in Scotland
- ▶ Developing a dedicated biomass plant of up to 20 MW at Longannet Power Station, while continuing to co-fire biomass fuels, such as sawdust, with coal at Longannet and Cockenzie
- ▶ Supporting the next generation of renewable technologies by developing a commercial wave farm, a tidal stream demonstration project and offshore windfarms
- ▶ Considering how we may need to adapt our networks to accommodate an increasing number of microgeneration schemes
- ▶ Meeting the energy efficiency targets we have been set under the Energy Efficiency Commitment

Affordability

- ▶ Delivering energy efficiency programmes through Community Energy and Warm Zone Partnerships and alliances with more than 60 social housing providers. The programmes help customers to reduce their energy use and cut fuel bills
- ▶ Incorporating energy efficiency messages in our mainstream advertising campaign
- ▶ Funding projects to help people suffering from fuel poverty through our charity, The ScottishPower Energy People Trust
- ▶ Advising customers on the most cost-effective tariff for their needs, through "The ScottishPower Price Challenge"

Our 12 Impacts | Provision of Energy

Performance Summary 2006/07

- ▶ While gas prices remained high, we generated more electricity from coal in 2006 to keep retail prices affordable. Our coal plant performed well in the wholesale power Balancing Mechanism*
- ▶ We bought Hatfield Moor gas storage facility in Yorkshire from Edinburgh Oil and Gas, boosting our gas storage capabilities
- ▶ We ended the year as the UK's largest owner, operator and developer of windfarms, with 818 MW operational, consented or under construction, taking us more than 80% towards our 2010 target to achieve 1,000 MW of new renewables
- ▶ In the US we added 361 MW of new wind capacity during the year, taking PPM's wind generation portfolio to 1,766 MW
- ▶ We announced our plans to build the world's largest commercial wave farm off the coast of Orkney
- ▶ We have applied for planning consent to build a new, dedicated biomass plant at Longannet Power Station of up to 20 MW
- ▶ We met 100% of our energy saving target under the Energy Efficiency Commitment (EEC2) for 2005-2008
- ▶ ScottishPower Renewables received a Queen's Award in the Sustainable Development category in Scotland in April 2006 for its responsible approach to windfarm development. The business also received an Environmental Big Tick from Business in the Community in June 2006 and won a Vision in Business for the Environment of Scotland (VIBES) Award in December 2006
- ▶ During the year work started on the construction of Whitelee Windfarm, a 140 turbine site with a capacity of 322 MW at Whitelee Forest near Glasgow, which will be Europe's largest onshore windfarm
- ▶ Energy Networks connected 5 new windfarms in Scotland adding another 145 MW of renewable energy capacity onto the network
- ▶ Following unusually severe storms, our Customer Minutes Lost and Customer Interruptions performance deteriorated from the previous year

In May 2007, just outside the period under review we:

- ▶ Announced that we are working with Hammerfest Strom of Norway to investigate building a tidal stream demonstration project in Scottish waters
- ▶ Completed construction of Wether Hill Windfarm, with a capacity of 18 MW and began construction of Greenknowes, a 30 MW windfarm
- ▶ Announced a 19 month feasibility study to retrofit clean coal technology at our existing coal-fired power stations, Longannet and Cockenzie, utilising supercritical turbines and boilers, which would reduce CO₂ emissions by 20%. If the proposal goes ahead, it would also incorporate carbon capture and storage, pumping CO₂ into deep underground disused coal seams

Performance Targets 2007

- ▶ Aim to secure Kyoto credits up to the UK Kyoto credit cap
- ▶ Achieve Customer Minutes Lost and Customer Interruptions targets set by Ofgem
- ▶ Complete installation of Flue Gas Desulphurisation plant at Longannet by the end of 2008

**National Grid Transco (NGT) employs a power 'balancing mechanism' for managing short-term system requirements necessary to keep the real-time demand and supply equation in equilibrium. Market participants who cause the system to go out of balance (eg a power station forced shutdown due to technical difficulties or poor retail demand forecasting) pay a penalty and those that are flexible and can provide these balancing services to NGT are generally paid a premium. Our coal plant performed well in 2006/07 and actually reduced their overall output as a result of operating in the Balancing Mechanism. The income from that source assists funding for environmental projects.*

Our 12 Impacts | Provision of Energy

Performance Detail 2006/07

Group Fuel Explanation

	UK		US		Total	
	GWh 2006	GWh 2005	GWh 2006	GWh 2005	GWh 2006	GWh 2005
Coal	16,421	11,703	0	0	16,421	11,703
% fuel source mix	61.1%	47.9%	0%	0%	51.1%	42.3%
Gas	8,041	10,645	705	979	8,746	11,624
% fuel source mix	29.9%	43.6%	13.4%	30.3%	27.2%	42.0%
Wind	742	549	4,537	2,249	5,279	2,798
% fuel source mix	2.8%	2.2%	86.6%	69.7%	16.4%	10.1%
Hydro	371	468	0	0	371	468
% fuel source mix	1.4%	1.9%	0%	0%	1.2%	1.7%
Other	1,321	1,053	0	0	1,321	1,053
% fuel source mix	4.9%	4.3%	0%	0%	4.1%	3.8%
Total	26,896	24,418	5,242	3,228	32,138	27,646
% fuel source mix	100%	100%	100%	100%	100%	100%

The proportion of our generation from coal increased to 51% from 42% last year. This was due to reduced output from Scotland's nuclear stations, sustained high gas prices, which made coal economically more favourable, outages at our gas-fired plants, notably Shoreham and the sale of our Knapton Generating Station in August 2006 to RGS Limited.

The proportion of generation from other sources increased on last year. These include biomass, co-fired along with coal at Longannet and Cockenzie, and also pumped storage generation from Cruachan, where the power generated comes from water pumped to the storage reservoir using off-peak electricity. Generation from run-off water at Cruachan is counted as hydro.

In the US, generation from wind increased to 87% of total energy produced due to full contribution of wind plants built in the prior year, and from additional new wind plants coming on stream during the year.

Total Energy Generated



We report our emissions data and fuel source mix on calendar year, which is consistent with the Annual Report and Accounts and calendar year emissions reporting. Other data reported relates to the financial year from 1st April 2006 to 31st March 2007. We send details of our supply fuel mix to every ScottishPower customer. This information can also be found on our Energy Retail website.

Gas Supply

We supplied 1,142 million therms of gas to customers during 2006/07, a reduction of 23% on the previous year. The year on year reduction in supply of gas to customers is consistent with the milder winter weather reported by the Meteorological Office.

In December we bought Hatfield Moor gas storage facility from Edinburgh Oil & Gas Limited (EOG), for £11.5 million to enhance our abilities to match supply and demand more cost effectively.

Our 12 Impacts | Provision of Energy

Performance Detail 2006/07 | continued

The facility, located in South Yorkshire can store 1.25 billion cubic metres (bcm) of gas – enough to supply 450,000 homes. We have used the site since 1999 and already owned the associated compressor station at Lindholme. Since the acquisition the well site, related equipment and production licenses have been under ScottishPower ownership.

Investment in Renewable Technology

Our investment in renewable technologies includes the development of windfarms in the UK and in the US as well as in other renewables.

Renewable Energy UK	2006	2005
Total installed wind capacity (MW)	344	288
Total generation from renewables (GWh)	1,306	1,040
% of total generation from renewables	4.9%	4.3%

Renewable Energy PPM Energy	2006	2005
Total installed wind capacity (MW)	1,766	1,405
Total generation from renewables (GWh)	4,537	2,249
% of total generation from renewables	86.6%	69.7%

Renewable Energy Obligation UK	2006/07	2005/06
Obligation redeemed	(2005/06) 99%	(2004/05) 73%
CHP/renewable electricity supply contracts (TWh)	0.65	1.18

In 2006/07 ScottishPower was required to meet 6.7% of customer energy demand in Great Britain with eligible renewable sources. Indications are that ScottishPower is on schedule to meet 100% of its obligation. This will not be confirmed until the end of July. Current position (end May 2007) is over 99% compliance.

Windfarm growth in the UK

In the UK, we added 56 MW of new wind energy capacity during the year, with the completion of Phase 11 of Black Law in Lanarkshire (27 MW) and Beinn Tharsuinn, our 29 MW windfarm in Easter Ross. We ended the year with a windfarm portfolio totalling 344 MW of owned capacity across 17 sites in the UK and Ireland. Wether Hill, our 18 MW windfarm in Dumfries and Galloway was completed in early April 2007. Work commenced at our 30 MW project at Greenknowes in Perth during May 2007, and the first turbines will arrive at our 322 MW Whitelee Windfarm in late summer 2007. As detailed below, we had an additional 474 MW of projects consented or under construction and over 576 MW onshore and 202 MW offshore in planning at the 31 March 2007.

Wind energy projects as at 31 March 2007

Windfarm	Number of turbines	Location	Capacity
Operational			
Barnsmore	25	County Donegal, Republic of Ireland	15 MW
Beinn an Tuirc	46	Argyll and Bute, Scotland	30 MW
Black Law	42	Lanarkshire, Scotland	97 MW
Callagheen	13	County Fermanagh, Northern Ireland	17 MW
Carland Cross (45% ownership)	15	Cornwall, England	3 MW
Coal Clough (45% ownership)	24	Lancashire, England	4 MW
Coldham	8	Cambridgeshire, England	16 MW
Corkey	10	County Antrim, Northern Ireland	5 MW
Cruach Mhor	35	Argyll and Bute, Scotland	30 MW
Dun Law	26	Midlothian, Scotland	17 MW

Our 12 Impacts | Provision of Energy

Performance Detail 2006/07 | continued

Windfarm	Number of turbines	Location	Capacity
Operational continued			
Elliots Hill	10	County Antrim, Northern Ireland	5 MW
Hagshaw Hill	26	Lanarkshire, Scotland	16 MW
Hare Hill	20	Ayrshire, Scotland	13 MW
Penryddlan & Llidiartywaun (50% ownership)	103	Monmouthshire, Wales	15 MW
Rigged Hill	10	County Londonderry, Northern Ireland	5 MW
Black Law Phase 2	12	Lanarkshire, Scotland	27 MW
Beinn Tharsuin	20	Easter Ross, Scotland	29 MW
Total operational			344 MW
Consented or under construction			
Beinn an Tuirc extension	19	Argyll and Bute, Scotland	38 MW
Greenknowes	18	Perthshire	30 MW
Hagshaw Hill extension	20	Lanarkshire, Scotland	26 MW
Dun Law extension	35	Midlothian, Scotland	30 MW
Wether Hill**	14	Dumfries and Galloway, Scotland	18 MW
Whitelee*	140	South of Glasgow, Scotland	322 MW
Wolf Bog	5	County Antrim, Northern Ireland	10 MW
Total consented or under construction			474 MW
In planning			
Onshore			
Arecleoch	60	South Ayrshire, Scotland	180 MW
Black Law Phase 3	8	Lanarkshire, Scotland	18 MW
Dersalloch	26	South Ayrshire, Scotland	78 MW
Ewe Hill	40	Dumfries and Galloway, Scotland	51 MW
Harestanes	71	Dumfries and Galloway, Scotland	213 MW
Lynemouth	15	Northumberland, England	36 MW
Total in planning onshore			576 MW
In planning Offshore			
Shell Flats (17% ownership)	90	Liverpool Bay England	37 MW
West of Duddon Sands (33% ownership)	160	Liverpool Bay England	165 MW
Total in planning offshore			202 MW
Total in planning			778 MW

Jointly owned plants: amount shown represents ScottishPower's share only

*Whitelee was consented 27 April 2006

** Construction of Wether Hill Windfarm was completed in May 2007

Our 12 Impacts | Provision of Energy

Performance Detail 2006/07 | continued

Windfarm growth in US

PPM Energy added 361 MW of new wind energy capacity during the year with the completion of three projects, ending the year with a wind portfolio of 1,766 MW across the US. These included Big Horn in Washington, Leaning Juniper in Oregon and Phase 2 of Maple Ridge, Upstate New York.

PPM Energy Wind Energy Projects as at 31 March 2007

Windfarm	Number of Turbines	Location	Capacity
Operational			
Colorado Green (50% ownership)	108	Southeast Colorado	81 MW
Elk River	100	Central Kansas	150 MW
Flying Cloud	29	Northwest Iowa	44 MW
High Winds**	90	Northern California	162 MW
Klondike	16	North Central Oregon	24 MW
Klondike II	50	North Central Oregon	75 MW
Maple Ridge (50% ownership)	120	Upstate New York	98 MW
Moraine	34	Southwest Minnesota	51 MW
Mountain View III	34	Southern California	22 MW
Phoenix	-	Southern California	3 MW
Shiloh	100	Northern California	150 MW
Southwest Wyoming**	80	Southwest Wyoming	144 MW
Stateline**	399	Oregon/Washington	300 MW
Trimont	67	Southwest Minnesota	100 MW
Big Horn	133	Washington	200 MW
Leaning Juniper*	67	Oregon	100 MW
Maple Ridge Phase 2 (50% ownership)		Upstate New York	62 MW
Total operational			1,766 MW
Under construction			
Twin Buttes	50	Colorado	75 MW
MinnDakota	100	South Dakota	150 MW
Casselman	23	Pennsylvania	34 MW
Klondike III	124	North Central Oregon	224 MW
Total under construction			483 MW
In planning			
Pebble Springs		Oregon	99 MW
Dillion		California	45 MW
Buffalo Ridge I		South Dakota	50 MW
Total in planning			194 MW

Jointly owned plants: amount shown represents PPM Energy's share only

**Sold under BOT to PacifiCorp*

***plant output purchased under PPA*

Other Renewables

In the UK we are also supporting other forms of renewable energy including offshore wind, wave and tidal energy and biomass. For further details see More About Renewable Energy on our website.

Our Green Energy Trust has supported 79 small renewable energy projects at community level to date.

The large scale development of renewable energy is a key part of ScottishPower's strategy. We regard renewable energy as an investment for growth, as well as a means of lowering our CO₂ emissions.

Our 12 Impacts | Provision of Energy

Performance Detail 2006/07 | continued

At 31 March 2007 we were the largest owner, operator and developer of windfarms in the UK. Now, as part of the Iberdrola Group we are the global leader in renewable energy with 6,500 “green” megawatts worldwide and a project pipeline of many thousands more.

Renewable energy is fundamental to two of ScottishPower’s key impacts – **Provision of Energy** and **Climate Change and Emissions to Air**.

Currently our focus is on onshore wind as wind resource is abundant, the technology is reliable and it is supported by the Renewables Obligation in the UK and the Production Tax Credit in the US.

In the UK, we have set our sights on generating at least 10% of our electricity from renewables by 2010, equivalent to approximately 1,000 MW and in the US, where we have 1,766 MW of wind power, our target for 2010 is 3,500 MW.

For information on our operational and planned windfarm sites see Windfarm Growth section of the report.

We aim to deliver responsible and sustainable windfarm projects, choosing to develop primarily on low impact locations such as commercial forests and brownfield sites, where we can minimise the impact on the landscape and create new habitats for wildlife. We also make sure local communities benefit from our windfarm projects. These efforts were recognised with a Queen’s Award in the Sustainable Development category in April 2006.

In February 2007 we announced our plans to build the world’s largest commercial wave farm to date in Orkney’s coastal waters, close to the European Marine Energy Centre. The £10 million wave farm, which is receiving support from the Scottish Executive, will consist of four, 160 metre Pelamis wave energy converters.

Network Reliability

We provide network connections for 3.5 million customers in our home territories, although competition means that customers may be served by another supplier through our wires.

Investment in Scotland’s transmission infrastructure is being driven by the growth in renewable generation development, particularly new windfarms. We have plans to rewire Scotland to increase capacity on our transmission network to allow energy to be transferred from remote wind generating stations to the centres of population. In total, we have committed to spending £1.7 billion on the security and reliability of supply over the next 5 years.

For more information see Our Plans to Rewire Scotland case study.

The two key measures of network reliability are Customer Minutes Lost and Customer Interruptions. These measures are reported to the industry regulator Ofgem on an annual basis, with consideration made for exceptional events e.g. storms. The performance indicated in this report are only draft, as the Ofgem review process is not complete. What is clear from the performance last year is the additional impact on our network by the weather in comparison to the previous year.

For more information, see Customer Experience or visit Ofgem’s website.

Our 12 Impacts | Health and Safety

Overview

Health and safety is a top priority for ScottishPower and is one of our most significant impact areas. Although great improvements have been made in society to promote health and safety at work, each year many people are still injured or made ill by their work.

Good health and safety performance benefits not only the safety and well-being of people, but also the financial health and productivity of businesses and regional and national economies.

Stakeholders expect companies to demonstrate a sense of social responsibility that includes accountability for the health and safety of employees, customers and local communities. This section summarises some key aspects and highlights of our health and safety activities and performance during the past year.

José Luis del Valle, Impact Leader

Our 12 Impacts | Health and Safety

Approach

Our aim is to operate in a way that ensures all our employees go home safely, that our customers have safe access to energy, and that the public are unharmed by our equipment and operations. We want ScottishPower's health and safety performance to be world class.

The Chief Executive and the Executive Team demonstrate their leadership and commitment to health and safety by substantial investment in health and safety resources including training, occupational health and safety arrangements, and comprehensive community programmes.

Good health and safety performance is encouraged via proactive assessments of health and safety standards. In addition, systems are used to ensure regular monitoring and investigation of adverse incidents, injuries, diseases and dangerous occurrences.

Our approach includes:

- ▶ Appointing our Chief Executive as the Senior Executive with responsibility for Health and Safety, and designating Health and Safety as one of the priority areas used to assess the performance of our senior managers
- ▶ Establishing a clear policy on Health and Safety
- ▶ Developing our strategic alliance with the Health and Safety Executive (HSE) through a collaborative programme to promote best health and safety practices relating to common workplace hazards, specifically the Field Operations Interventions with Large Employers (FOILE) programme
- ▶ Having Trade Union appointed Health and Safety representatives throughout our businesses
- ▶ Managing Occupational Health and Safety risk through Risk Registers to identify and evaluate risk and guide the management of health surveillance for our employees
- ▶ Maintaining a Group Framework of Health and Safety Standards, to promote the achievement of world class health and safety performance
- ▶ Completing annual assessments of business performance in meeting the 12 standards
- ▶ Establishing Health and Safety Champions in each business for each of the 12 health and safety standards. Each business has appointed Champions with responsibility for promoting best practice and driving performance in each of their allotted standard areas. This provides management focus across a broad spectrum of health and safety requirements
- ▶ Investing in Health and Safety Training for team leaders to ensure that we have strong leadership on Health and Safety, and involving all employees through training, communication and behavioural safety programmes
- ▶ Ensuring appropriate Health surveillance for employees significantly exposed to specific work-related health hazards and methods to validate the effectiveness of control measures to mitigate these exposures
- ▶ Establishing and maintaining effective safe systems of work to protect against injury and ill health
- ▶ Ensuring robust compliance systems are in place at all stages of work including the design, construction, operation and maintenance of our plant, networks and offices
- ▶ Highlighting the safety risks of power lines, cables and equipment to the public, and continuing to play an active role in community safety events for schools and communities. Information on public safety is available on our Energy Networks website, or PowerWise website and through Crucial Crew
- ▶ Supporting consultation and research relating to electro-magnetic fields (EMF)
- ▶ Developing stretching targets, and monitoring and comparing our performance against similar companies, and effectively communicating our achievements to our stakeholders

Our 12 Impacts | Health and Safety

Performance Summary 2006/07

- ▶ Tragically, one of our employees was fatally injured during 2006 while working in Core Utility Solutions business site building works. Decisive action was taken to suspend this business operation temporarily to establish a Panel of Inquiry and make remedial actions
- ▶ Also, two members of the public were fatally injured during the past year in separate incidents after coming into contact with our electrical equipment. The first incident occurred following storm damage to an overhead power line that struck a pedestrian, and the other involved a roof worker carrying a ladder coming into contact with an overhead line

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) rates: -

Reportable Injuries	2006/07	2005/06	2004/05	2003/04
Reportable Injuries	24*	17	22	24
Fatal Injuries	1*	0	0	1
Work related diseases	2	9	7	8
Dangerous Occurrences	1*	n/a	n/a	n/a
Enforcement actions	1	0	0	0

*these figure include incidents recorded by Core Utility Solutions, reported here for the first time since Core became a wholly owned subsidiary (Core Reportable Injuries 4, Fatal Injuries 1, Dangerous Occurrences 1)

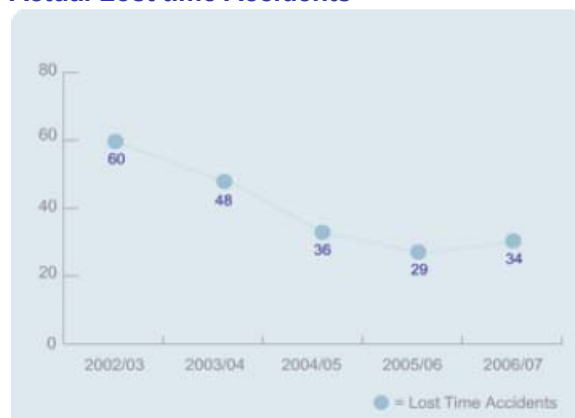
RIDDOR rate (per 100 employees) comparison

ScottishPower	0.34
UK national average	1.6
European Union	3.3

Lost Time Accidents

Group lost time accident (LTA) rates are based on all accidents resulting in lost work time (as distinct from the RIDDOR reportable injuries > 3 days). 2006 07 data now includes Core Utility Solutions, which became a 100% owned subsidiary during the year.

Actual Lost time Accidents



Our 12 Impacts | Health and Safety

Performance Summary 2006/07 | continued

Lost time Accident Rate per 100 employees



This continues the steady progress made in accident prevention over past years.

Internal annual assessments against 12 Health and Safety Standards

	2006/07	2005/06	2004/05
Group-wide average for all 12 standards	68	62	54
Leadership	76	71	63
Employee Involvement	71	64	57
Training and Competence	69	59	52
Occupational Health	70	57	47

- ▶ Assessment scores for the overall group standards and for the specific focus standards of leadership, employee involvement, training and competence, and occupational health all showed good incremental improvement
- ▶ Energy Networks and Energy Retail have undertaken extensive public safety campaigns including school education programmes
- ▶ A Wellbeing Forum was formed during the past year to coordinate and leverage the health promotion programmes provided throughout the businesses. Calendar month themes were aligned and a brand logo introduced to enhance recognition of group wellbeing activities
- ▶ A new First Aid Charter was introduced during the year to support first aid arrangements
- ▶ A number of awards were achieved across the group for Scotland's Health at Work (SHAW) health promotion campaign. Energy Wholesale achieved gold and both Energy Networks and Energy Retail each achieved silver

Our 12 Impacts | Health and Safety

Performance Targets 2007

Each business has its own specific health and safety targets to maintain and promote health and safety performance. However, the business Health and Safety Departments work collaboratively and have agreed a set of common group targets for 2007:

- ▶ An expectation of 'zero' harm striving to prevent all adverse health and safety incidents. The measure for tracking performance will be historical comparison with year on year and a target of continuous improvement reflected in reducing incidence and frequency rates
- ▶ Adoption of the OHSAS 18001 health and safety management system standard
- ▶ Development of a common group system for reporting, investigating and recording health and safety incidents
- ▶ Promotion of 'Behavioural Safety' through appropriate business based health and safety programmes
- ▶ Ongoing support for the Field Operations Interventions with Large Employers (FOILE) programme to develop, enhance and share best practice for management of workplace hazards of noise, manual handling and stress

Performance Detail 2006/07

Work-Related Diseases

A comprehensive programme of occupational health surveillance is conducted to monitor employees exposed to work-related health hazards such as noise, vibration and chemical substances. Employees requiring health surveillance are identified by an occupational health risk register compiled and maintained by health and safety specialists including occupational hygienists. Disease rates in most instances are a legacy of historical exposures when the hazards of work-related exposures to physical and chemical agents were not as well understood.

In recent years the incidence of diseases such as noise-induced deafness has much reduced due to health and safety control measures. However, a number of cases of hand-arm vibration syndrome cases are still being detected, albeit case numbers are also reducing.

Dangerous Occurences

A structural failure led to the collapse of the main coal conveyor system at Longannet Power Station in January 2007. Fortunately there were no injuries and everyone was accounted for. Emergency procedures and business continuity plans were implemented and prompt action was taken to evacuate the plant and safeguard the affected area. An independent Panel of Inquiry was assembled which liaised closely with representatives of the Health and Safety Executive (HSE). High standards of health and safety procedures enabled the site management and project team to demolish the remaining damaged structure, clear the debris and construct a replacement system. There were no injuries to employees or contractors during the restoration.

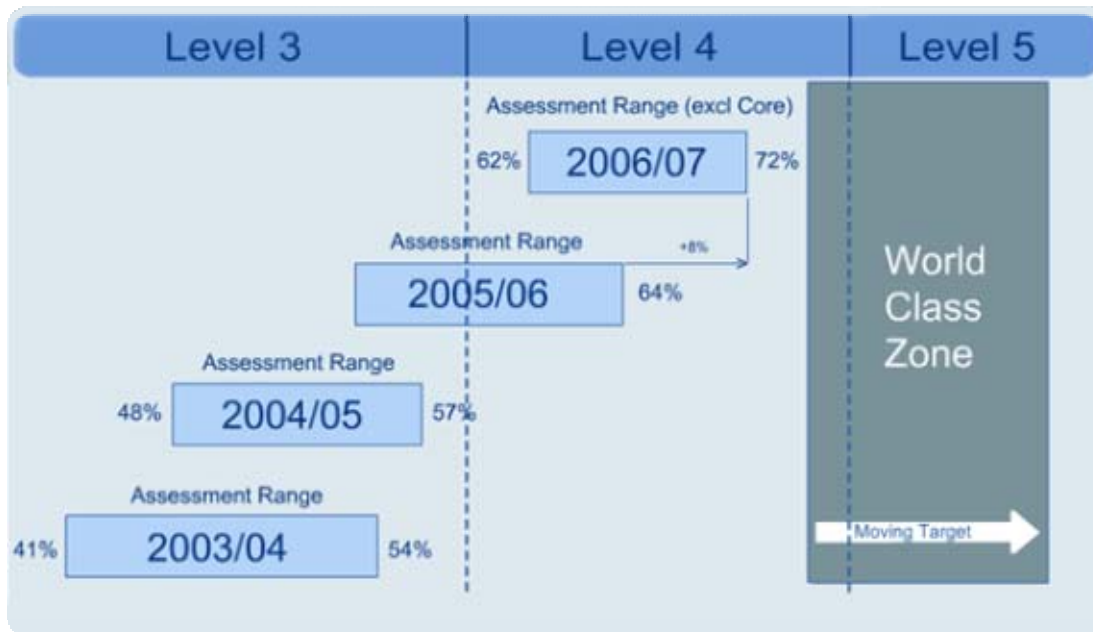
Annual Group Health and Safety Assessments

The ScottishPower Group Health and Safety Department makes an annual assessment of each business to rate performance within the framework of the Group Health and Safety Standards. The assessments are made at the beginning of the calendar year using a standard assessment protocol and assessment team including an external independent auditor.

The overall performance assessments for the group businesses improved with incremental progression as below towards the world class health and safety zone.

Our 12 Impacts | Health and Safety

Performance Detail 2006/07 | continued



All businesses are now ranked in the level 4 zone and the overall group assessment scores showed good improvement in 11 of the 12 standards. Three standards; leadership, information and communication and public safety and stakeholder relationships have achieved level 5 (considered to be world class performance) and significant advances have been made in training and competence, contractor and supplier safety and audit and review.

ScottishPower Best Practice Health and Safety Assessment Results 2006/07



Our 12 Impacts | Health and Safety

Performance Detail 2006/07 | continued

	EW	EN	ER	PPM	Best Practice Scores		Var
					Group	Group	
	2006/07 %	2006/07 %	2006/07 %	2006/07 %	2006/07 %	2005/06 %	%
Leadership	82.3	70.7	78.7	73.9	82.63	75.0	+7.3
Employee Involvement	74.7	63.3	76.0	71.6	76.0	70.2	+5.8
Risk Management	63.4	54.8	67.8	64.7	67.8	63.8	+4.0
Training and Competence	75.0	64.9	73.3	64.6	75.0	63.6	+11.4
Occupational Health	75.1	58.7	73.8	70.7	75.1	70.4	+4.7
Information and Communication	82.3	76.4	78.3	85.6	85.6	77.6	+8.0
Rules and Procedures	71.9	58.7	71.9	64.1	71.9	73.4	-1.5
Contractor & Supplier Safety	77.7	68.2	71.5	70.0	77.7	68.8	+8.9
Accident Investigation & Analysis	68.4	60.8	59.0	60.6	68.4	64.6	+3.8
Change Management	43.7	15.5	51.0	47.7	51.0	45.6	+5.4
Public Safety & Stakeholder Relationships	67.4	75.3	71.4	63.4	75.3	70.2	+5.1
Audit and Review	81.0	72.2	72.6	47.5	81.0	72.4	+8.6

Public Safety

Storms and high winds during the past year created abnormal and excessive physical loading on the networks infrastructure. Field engineers worked hard to make safe downed lines and to reinstate supplies to our customers. However, damaged lines etc create serious or fatal risks for members of the public in their vicinity. Also, outdoor work as in farming or building construction near overhead lines poses the risk of accidental contact. Sadly, two members of the public were fatally injured during the past year in separate incidents.

Also, the increasing price of copper on the world market has led to an increase in criminal ingress into the networks electrical substations for the purpose of stealing copper cables. Again, this creates serious risks of electrical injury.

Energy Networks and Energy Retail have undertaken extensive public safety campaigns including school education programmes. In recent years we have implemented a Child Electrical Safety Education programme, supported Fixed Safety Centres in Flintshire, North Wales, and at Priesthill, and maintained the PowerWise website.

Occupational health and wellbeing

The group occupational health department provides a comprehensive service for health surveillance, treatment and rehabilitation, and promotion of wellbeing. The service appointments provided were;

Pre-employment assessments	2,610
Management referrals	3,449
Self-referrals	900
Health Surveillance	1,871

Energy Wholesale -	100% completion of target
Energy Networks -	96% completion of target

Physiotherapy	4,512
Counselling	1,393
Health Promotion/Others	763
Total appointments	15,498

Our 12 Impacts | Health and Safety

Performance Detail 2006/07 | continued

A Wellbeing Forum was formed during the past year to coordinate and leverage the health promotion programmes provided throughout the businesses. Calendar month themes were aligned and a brand logo introduced to enhance recognition of group wellbeing activities.

A number of awards were achieved across the group for Scotland's Health at Work (SHAW) health promotion campaign. Energy Wholesale achieved gold and both Energy Networks and Energy Retail each achieved silver.

Absence / lost days

Days lost due to sickness absence show a mix across the business operations;

Business	2006/07 %	2006/07 Days/person	2005/06* %	2005/06* Days/person
Energy Wholesale	2.0	5.0	3.4	8.9
Energy Networks	2.9	7.6	3.0	7.7
Energy Retail	6.8	16.0	7.7	17.9
Corporate	2.7	6.8	2.5	6.4
UK	4.6	11.5	5.3	13.0

**restated*

Absence levels for the overall group and for most businesses reduced over the past year.

The overall group absence rate is typical of that for large employers.
(CBI AXAPP Workplace Absence Survey 2006)

First Aid Arrangements

A new First Aid Charter was introduced during the year to support first aid arrangements.

The Annual First Aid Conference and Competition was held at Hampden in February 2007.

A total of 46 new Automatic External Defibrillators (AED's) in addition to the existing 16, were deployed throughout all major operational sites and AED training was provided to first aiders.

Our 12 Impacts | Customer Experience

Overview

Energy is essential to society. Consequently, energy suppliers can affect the lives of their customers to a much greater extent than providers of other goods and services. So it is vitally important that we understand, and meet, customers' needs and expectations.

The Government's report on the Energy Review 'The Energy Challenge' was released in July 2006. It sets out the two major long term challenges in UK energy policy - the need to tackle climate change by reducing CO₂ emissions and the need to deliver secure, clean and affordable energy.

In the UK, energy prices have continued to be the dominant issue for customers during 2006/07. In the first 6 months most suppliers across the industry were forced to raise gas and electricity prices as a result of rising wholesale energy costs. However, prices stabilised in the second half of the year and began to come down. Despite this fall it is reported that fuel poverty figures have increased to over 3 million.

Changing consumer behaviour is viewed as a key component in helping to reduce CO₂ emissions by using energy more efficiently. The third phase of EEC will run from 2008-2011 and we expect the target for suppliers to promote energy efficiency by a further 100% as well as reshaping the scheme in terms of the percentage of priority group customers. These higher targets raise concerns about the ability of the insulation industry to meet these increased demands and we remain closely involved in the consultation process.

There was also much debate throughout the industry in relation to the recalibration of prepayment meters to ensure the meters are set to the correct tariff following recent price movements.

Willie MacDiarmid, Impact Leader

Our 12 Impacts | Customer Experience

Approach

In a market where price differences have narrowed and consumers are becoming more aware, delivering a quality Customer Experience that differentiates ScottishPower is viewed as a business priority.

In September 2006, the Customer Experience programme was rolled out as a business wide initiative, promoting a culture that places the customer at the heart of our business. This creates an environment where the customers needs are listened to and their feedback is used to drive continuous improvement, by realigning and redesigning processes to match customers' expectations.

A key enabler of this programme is the insight provided from customer research, in particular the implementation of findings from the Voice of the Customer and Voice of the Competitor research:

Customer satisfaction has improved within the last year and recent Voice of the Competitor research has seen ScottishPower move from mid table to 'best in class' in over half the measures deemed as critical to quality by our customers.

This has been achieved as a result of the business driving improvements by focusing on customer feedback and insight.

Our key aim is to embed a culture across the organisation based on operationally excellent processes and underpinned by strong customer focussed leadership.

We remain committed to improving levels of customer satisfaction by delivering a service that meets or exceeds the expectations of our customers and by offering choice and value. We have 5.36 million retail customers and provide network connections for over 3 million customers in our home territories.

To ensure we achieve this, our approach includes:

- ▶ **Offering a range of products and payment options** to suit the needs of different customers, including Prepayment, Online, Capped Price and Green Energy deals
- ▶ **Continuing to improve our customer service centres**, all of which are based in the UK, by investing in our staff through continual training and coaching and through new systems such as our new telephony infrastructure. We also operate a Welsh language call centre in Caernarfon
- ▶ Introducing a new call routing and complaints escalation process to "fast track" problem enquiries to our most skilled staff
- ▶ **Increasing the volume of meter readings** to improve the accuracy of our bills
- ▶ Investing in replacing all token prepayment meters with new key metering over the next five years
- ▶ **Conducting customer attitude surveys** and acting on the results to make improvements; and
- ▶ **Investing in our networks** to reduce the number and duration of interruptions to customers' electricity supplies

Our 12 Impacts | Customer Experience

Approach | continued

Our reputation and the trust of our customers is very important to us, so we ensure all sales activities are carried out in line with the stringent standards laid down by the independent Association of Energy Suppliers (AES) Code of Practice, known as the EnergySure scheme. In addition, we are the only UK energy supplier that is a member of the Direct Selling Association.

The customer service centres (with sites in England, Scotland and Wales) are focused on delivering a fast, quality resolution to each of our customers' enquiries. Our aim is to resolve four out of five customer enquiries the first time a customer contacts us. To achieve this, we continue to invest in our systems, processes and people through our successful externally recognised Six Sigma programme.

We invest significantly in energy efficiency projects that can help customers save energy and reduce their fuel bills. We are required to do this through the Government's Energy Efficiency Commitment programme. Most of these services are free and many are targeted at low income households to help combat fuel poverty. In addition, ScottishPower was the first supplier to align our prepayment prices for both gas and electricity with our quarterly cash prices.

For customers who are elderly or have special needs, we run a Carefree Service that offers extra help, such as a password scheme for home visits. Last year we launched a new charity, The ScottishPower Energy People Trust, to support projects aimed at combating fuel poverty. In addition, we have continued to support the Government's Home Heat Helpline and the Ofgem led pilot to target pensioner households with a package of measures to assist them over the winter months.

Our 12 Impacts | Customer Experience

Performance Summary 2006/07

Customer Service Satisfaction - ScottishPower measures the quality of customer service satisfaction across a variety of metrics:

- ▶ **uSwitch** placed ScottishPower second for overall customer satisfaction in their November 2006 customer survey. In the same survey, we were ranked top for online, billing and meter reading services
- ▶ Of the 70 metrics in our internal customer survey **Voice of the Customer**, 54 have remained steady over the last year, 14 have declined and 2 have shown improvement
- ▶ **Energywatch complaints** have dropped in all three categories by over 60%. We remain committed to our ongoing Customer Complaints improvement programme

Quality of Supply - Energy Networks Performance

Customer Minutes Lost

	Change in the year	2006/07	2005/06
SP Distribution	+17%	*78.2	66.7
SP Manweb	+9%	*62.8	57.4

Customer Interruptions

	Change in the year	2006/07	2005/06
SP Distribution	+14%	*65.4	57.6
SP Manweb	+8%	*46.3	42.7

**Provisional figures - to be confirmed by Ofgem*

Acting on Fuel Poverty

The ScottishPower Energy People Trust received an additional £1 million during the year to continue funding not for profit organisations and groups that represent some of the most vulnerable people in our society. Since its launch the Trust has awarded almost £2.2 million to 57 projects helping 56,124 households.

Energy Efficiency

We have completed enough work to meet our 3 year EEC2 targets, which have been set under the Energy Efficiency Commitment.

Product Choice

At 31 March 2007, we had 565,000 Online Energy customers, (2005/06 430,000), more than a million customers on a capped price tariff and continued to offer a choice of Green Energy products.

Price and Value

Along with other suppliers we were forced to increase prices during the year. This resulted from the increase in wholesale prices during the year. However, in the second half of the year we have seen prices stabilise and begin to come down.

Performance Targets 2007

To resolve 4 out of 5 customer queries on the first contact

To meet quality of supply targets set by Ofgem

Our 12 Impacts | Customer Experience

Performance Detail 2006/07

Voice of the Customer

We conduct Voice of the Customer (VoC) surveys every three months and use the results to drive improvements in our business. The research involves interviews with up to 1,500 customers per quarter and measures satisfaction in 26 areas that customers have told us are critical to the quality of their relationship with ScottishPower. These areas include reliability of supply, meter reading, enquiries, complaints, billing, sales and registration, value for money and our reputation in the market.

Twenty five of these areas also form part of the 70 weighted service attributes we measure, ranging from bill accuracy to providing confidence in the outcome of enquiries and complaints.

Of the areas and weighted attributes, 54 have remained steady over the last year, 14 have declined and 2 have shown improvement. We continue to design programmes based on these results to deliver improvements in customer service.

uSwitch

We were ranked top in the UK for online, billing and meter reading services and second for overall customer satisfaction in an independent survey of UK energy suppliers conducted for consumer organisation uSwitch in November 2006. Around 59% of customers said they were "satisfied" or "very satisfied" with the overall service ScottishPower provides. More than 7,000 customers took part in the survey.

JD Power and Associates

Against the backdrop of volatile wholesale prices, leading to customer price increases and associated adverse media coverage, ScottishPower was ranked third in a very tightly-packed field in the J.D. Power and Associates 2006 survey. We have responded through a significant Customer Service improvement programme.

Energy Retail Customer Complaints

Following a slight increase trend in the number of customer complaints being referred to energywatch during 2005/06, customer complaints across the industry (with the exception of British Gas) dropped slightly during 2006/07.

Comparing 2005/06 with 2006/07, our energywatch performance within our Energy Retail business improved dramatically

- ▶ Direct Selling complaints dropped dramatically from 0.14 per 1,000 transfers (Jan to March 2006) to 0.04 per 1,000 transfers (Jan to March 2007)
- ▶ Transfer complaints dropped dramatically from 1.42 per 1,000 transfers (Jan to Mar 2006) to 0.51 per 1,000 transfers (Jan to Mar 2007)
- ▶ Account and Billing complaints dropped dramatically from 0.098 per 1,000 customers (Jan to Mar 2006) to 0.038 per 1,000 customers (Jan to Mar 2007)

Our 12 Impacts | Customer Experience

Performance Detail 2006/07 | continued

We are committed to reducing complaints and improving performance. Steps we are taking include:

- ▶ Improving the effectiveness of feedback to Agents by harnessing 100% call recording capability
- ▶ Driving earlier complaint resolution through Operational Excellence
- ▶ Improving the handling of disputed accounts
- ▶ Continuing to drive root cause analysis and fix problems through the application of six sigma and lean sigma methodology
- ▶ Applying statistical analysis models to assess complaint propensity and proactively outbound call customers who may be experiencing poor service
- ▶ Harnessing insight from our Voice of the Complainant research to validate improvements from a customer perspective using net promoter score
- ▶ Harnessing new call routing technology to connect customers to an appropriate agent quickly
- ▶ Implementing a revised new start training increasing the induction time from 5 weeks to a programme of 13 weeks
- ▶ Continuing to invest heavily in our prepayment service delivery through new systems and the roll-out of key metering for this customer base

For information on our Supply Guaranteed Standards of Performance, visit Ofgem's website

A Six Sigma project to improve customer correspondence handling won an award in the European Six Sigma Excellence Awards 2006.

Energy Networks Performance

The two main measures of network performance are Customer Minutes Lost and Customer Interruptions. The performance data shown is provisional, subject to annual review by Ofgem. What is clear from the performance this year, is the impact of storms in comparison to the previous year. The performance masks the investment Energy Networks have made to significantly increase automatic switching points on the 11,000 volt network, reducing the length of time customers are without power when a fault occurs. There has also been a rollout of over 1,000 satellite navigation and vehicle tracking devices to frontline operational staff, to ensure they are equipped to quickly respond to faults.

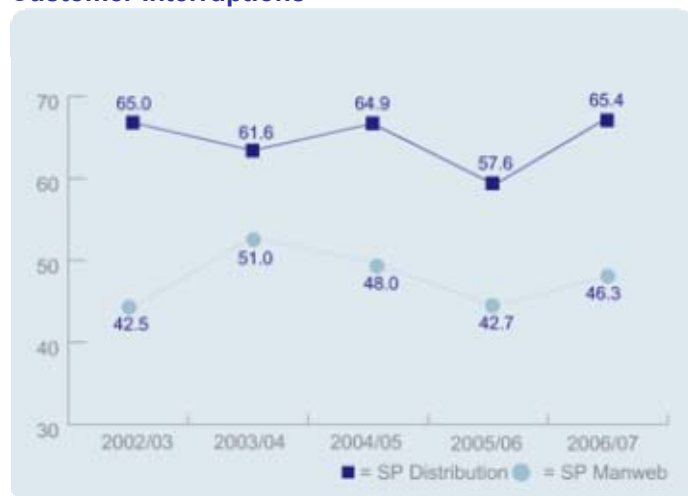
Customer Minutes Lost



Our 12 Impacts | Customer Experience

Performance Detail 2006/07 | continued

Customer Interruptions



Complaints to the independent consumer watchdog energywatch relating to our Energy Networks business increased from 96 in 2005/06 to 125 in 2006/07. This uplift has been influenced by the impact of numerous storms over the year. The most significant storm events experienced being; Hogmanay (31 December), which badly affected Scotland, and 18 January which damaged a large portion of England and Wales. The January event is now classed as the worst in 17 years.

We are investing £1.7 billion over five years to improve network security and reliability. For more information, see the Rewiring Scotland Case Study on our website.

For information on our Network Guaranteed Standards of Performance, visit Ofgem's website

Energy Efficiency

Over the past year we have now completed enough Energy Efficiency work to meet our 3 year EEC2 target. This was possibly due to the early start we made with a carryover from EEC1 and the concentration on Priority Group work during the 2nd year of EEC2. We plan to carry over all work from the next year of EEC2 into the expected doubled target for EEC3 which will cover the period April 2008 to March 2009.

During the last year we have:

- ▶ Insulated more than 104,000 cavity walls and 55,000 lofts
- ▶ Supplied over 40,000 A rated boilers
- ▶ Given out more than 3.6 million energy efficient light bulbs

We deliver our energy efficiency projects through partnerships with over 100 local authorities and housing associations. We continued our funding of the Newcastle and Gateshead Warm Zones in England and the North and South Lanarkshire Community Energy Partnerships and are pleased to be selected as the EEC partner for 2 new Warm Zones in Kirklees and North Stafford.

Our energy efficiency performance is reported in more detail in our Energy Efficiency Commitment Annual Report.

Our 12 Impacts | Customer Experience

Performance Detail 2006/07 | continued

Product choice

We offer a range of products to suit the different needs and lifestyles of our customers.

We continue to offer Capped Price products to customers to give them the peace of mind of fixed energy costs. More than one million customers have taken up the assurance of our Capped Price offers.

To reinforce ScottishPower's competitive price position as "cheaper than British Gas" for Dual Fuel, we offer a British Gas Tracker product that has the added guarantee, for the duration of the contract, of always having combined units prices that are below the equivalent Dual Fuel offer provided by British Gas.

Managing your account online and paying monthly by Direct Debit continues to be the cheapest option for the average Dual Fuel customer. At March 2007 we had 565,000 Online Energy customers. During the year we started offering online facilities for customers who continue to receive a paper bill. The Manage Your Paper Bill service allows customers to input meter readings and make bill payments online.

Green Energy

ScottishPower offers several Green Energy products for domestic and business customers. Green Energy H₂O is linked to our hydro generation and the Green Energy Fund product diverts the £10.50 annual discount given to Dual Fuel customers to the ScottishPower Green Energy Trust, which awards grants to small scale renewable energy projects at community level.

Over recent years we have supported those business customers who have a distinct requirement and robust targets to reduce carbon emissions. We are now one of the leading companies supplying Green climate change levy (CCL) exempt electricity to both the Public Sector and large retail organisations.

During the year we supplied 2.2 TWh of renewable and CHP energy to our business customers.

For our Business Green Source offer, over 160 large organisations have purchased green energy representing around 20,400 sites across Great Britain. The total consumption for these organisations was 2.2 TWh (2006/07) - maintaining our competitive performance from the previous year. Our Green Source customers include Scottish Water, the Authorities Buying Consortium (ABC), the Co-op Group, Debenhams and the Scottish Executive.

During the year the ScottishPower Green Energy Trust awarded funding totalling £127,744 to another 11 projects. As of March 2007, the Green Energy Trust had pledged funds totalling £810,446 to 79 small renewable energy projects across the UK.

In 2005 for the first time, the positive impact Green Energy Trust projects are having on the environment and local communities was recognised with a Big Tick from Business in the Community in its annual awards scheme. The Big Tick has since been reaccredited.

For more information on our Green Energy products, and projects that receive funding from the Green Energy Trust, see Green Energy case study on our website.

"The Green Energy Trust projects – many in schools – are helping to save CO₂ emissions, educating hundreds of people about the benefits of renewable energy and, in many cases, helping to save money on fuel bills."

Chris Brennan, ScottishPower, Energy Services Marketing Manager

To see our full range of products visit our Energy Retail website.

Our 12 Impacts | Customer Experience

Performance Detail 2006/07 | continued

Price and Value

During the year, in common with most other energy suppliers, we were forced to increase prices for gas and electricity as a result of an 80% increase in wholesale energy costs over a year compared to the previous 12 month period to July 2006.

We have been proactive in advising customers how to reduce the impact of the price rises. We:

- ▶ Launched a new Capped Price Offer to shield customers from further price increases until October 2008
- ▶ Advised customers of the savings they could make if they pay by Direct Debit or sign up for the Online Energy service
- ▶ Applied only 75% of the price increase to customers who use prepayment meters on 10 July 2006
- ▶ Aligned prepayment, weekly and quarterly cash/cheque electricity prices; and
- ▶ We made a £50 winter payment to existing Priority Service Register customers who have a prepayment meter or pay by weekly card

Our 12 Impacts | Climate Change and Emissions to Air

Overview

Energy – how we provide it and use it – is central to the climate change debate. The need for generators to deliver secure, diverse and sustainable electricity supplies has never been greater.

Since 1990 the average global temperature has risen by 0.2°C. The concentration of atmospheric CO₂ has risen by more than 7% – and it continues to rise.

These changes are already having a detrimental effect on the natural world and unless urgent global action is taken to stabilise emissions, climate change will affect the food and water supplies, living conditions and economies of people worldwide.

In March, the UK Government published its Climate Change Bill, becoming the first country to begin the process of making its climate change targets legally binding.

These targets include:

- ▶ Reducing CO₂ emissions on 1990 levels by 26% - 32% by 2020
- ▶ Achieving a 60% reduction in CO₂ emissions by 2050

The draft Bill sets out a vision for how the UK can move to a low carbon economy through investment in low-carbon fuels and technologies, such as carbon capture and storage (CCS), wind, wave and solar power and significant emphasis on energy efficiency.

The UK is responsible for less than 2% of global CO₂ emissions so a key part of the Government's climate change agenda is encouraging action internationally.

While the energy sector in Europe is managing its carbon impacts through measures such as emissions trading, the global picture is not so encouraging. A report published by the Intergovernmental Panel on Climate Change in May shows that the largest growth in greenhouse gas emissions between 1970 and 2004 came from the energy sector.

It is clear that as well as reducing our own CO₂ emissions, the UK will have a role to play in the transfer of low carbon energy technologies to developing nations, such as China, India and Brazil, where coal-fired generation continues to be developed on a large scale.

There is no quick fix solution to the threat of climate change, but with a collaborative approach, support for research and development and the right policy framework for investment, the UK could take a global lead in delivering innovative solutions that will reduce our carbon intensity – without compromising the competitiveness of our businesses, or the strength of the UK economy.

John Campbell, Impact Leader

Our 12 Impacts | Climate Change and Emissions to Air

Approach

At ScottishPower we are balancing the transition to a low carbon economy with the need to maintain affordable prices for customers, security of supply and attractive returns for investors.

ScottishPower is committed to reducing emissions of CO₂, SO₂ and NO_x per kWh generated and we strongly believe that this needs to be delivered at the same time as maintaining high levels of security and affordability. This means that we need to invest more in new forms of clean generation such as wind and wave, but also in reducing emissions from our existing thermal generation plant.

We have transformed our business to address these challenges – rebalancing our generation portfolio with large-scale investment in renewables, increasing our fleet of gas stations and moving into biomass, clean coal, wave and tidal energy.

Our strategic aim has been to be a world leader in renewables and our merger with Iberdrola in April 2007 is therefore an excellent strategic fit. As part of Iberdrola, we are now the global leader in renewable energy with some 6,500 “renewable” megawatts worldwide and a project pipeline of many thousands more.

We also believe that low-carbon coal generation will continue to be critical to sustain energy supplies in the future. In May we announced a 19 month development programme for the retrofit of clean coal technology at our existing coal-fired power stations, Longannet and Cockerzie, utilising supercritical turbines and boilers, which would reduce CO₂ emissions by 20%. The programme will also consider the potential for further reductions in CO₂ emissions by examining carbon capture ready designs which could accommodate the separation and subsequent storage of CO₂.

In summary our approach includes:

Rebalancing our generation portfolio to achieve emission reductions by 2010 against a 1999 baseline of:

CO ₂	25%
SO ₂	85%
NO _x	50%

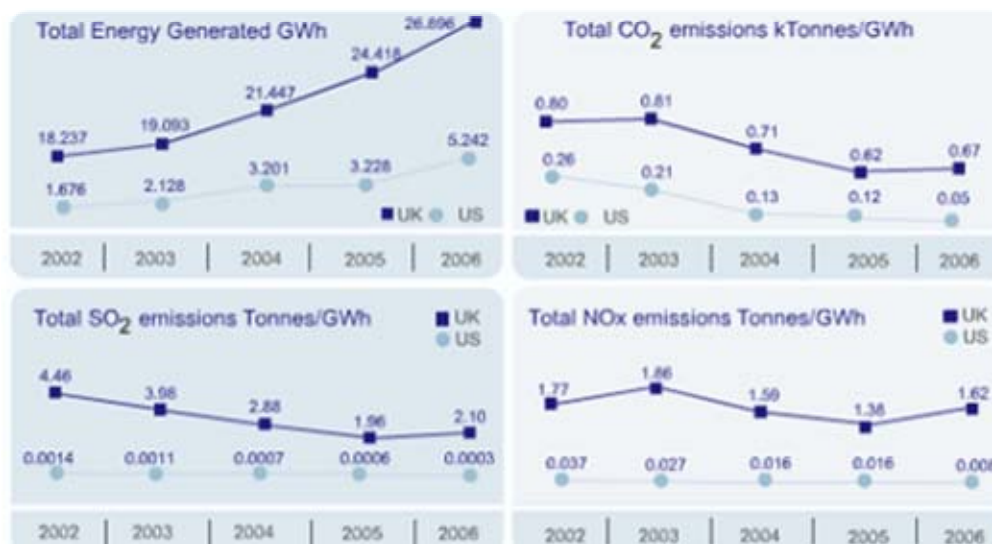
- ▶ **Large scale investment in renewable energy** to achieve a wind portfolio of at least 1,000 MW in the UK by 2010 and 3,500 MW in the US
- ▶ **Investing in emissions abatement technologies at coal plant, such as** Flue Gas Desulphurisation (FGD) and air overfiring to reduce NO_x emissions
- ▶ **Large-scale investment in the transmission network** to support renewable energy developments – and investing in low loss transformers during network refurbishment, where practical
- ▶ **Investigating other renewable technologies** through our involvement in the development of the world’s largest commercial wave farm in Orkney’s coastal waters and joining forces with Hammerfest Strom of Norway to pursue tidal stream opportunities
- ▶ **Investigating supercritical clean coal technology** at our at our two coal-fired power stations
- ▶ **Developing our capability in carbon capture and storage** through participation in cross industry projects covering CO₂ separation, transportation and storage in, for example, unmineable coal seams, deep underground saline aquifers and oil/gas reservoirs
- ▶ Other investments at Longannet and potentially Cockerzie aimed at reducing NO_x levels by over 20% from current levels through Over Fire Air technology (OFA). The announcement in May 2007 of a feasibility study to explore the potential for retro-fitting more efficient generation, with the potential for full carbon capture, at our two coal stations in Scotland underlines our commitment to reducing our CO₂ impact
- ▶ **Co-firing biomass fuels** at our coal-fired power stations and developing a dedicated biomass plant
- ▶ **Exceeding our customer energy efficiency targets** set out in Phase 2 of the Government’s Energy Efficiency Commitment

Our 12 Impacts | Climate Change and Emissions to Air

Performance Summary 2006/07

Total Greenhouse Gas Footprint

	2006	2005
Total ScottishPower Greenhouse Gas (CO ₂) Footprint	18,458,961	15,736,390



- ▶ In 2006 our emissions of SO₂, NO_x and CO₂ per GWh of electricity generated were higher than in 2005 as we increased coal generation in the UK due to greatly increased gas costs and reduced output from Scotland's nuclear stations
- ▶ However, looking at the longer term picture, in the UK we have reduced our CO₂ emissions per GWh of electricity generated by 26% since 1999
- ▶ In addition, we have cut our SO₂ emissions per GWh by 59% since 1999. To date this has been achieved by sourcing low sulphur coal from around the world but we are now investing c. £170 million in installing Flue Gas Desulphurisation (FGD) at Longannet, which will result in a further significant reduction in SO₂ emissions from 2008
- ▶ In the US, PPM Energy's CO₂ emissions per GWh of electricity generated decreased by 56% on 2005 due to increased generation from windfarms
- ▶ As a group our CO₂ emissions per GWh of electricity generated increased by 1.2% on 2005 levels. However, we have exceeded our target of achieving a 25% reduction in CO₂ emissions per unit of electricity generated by 2010 against a 1999 baseline. To date we have achieved a 26% reduction in the carbon intensity of our generation and we are on track to exceed our 2010 target by a significant margin
- ▶ Currently, ScottishPower is the biggest owner, operator of onshore windfarms in the UK with 811 MW of wind energy in operation, under construction or consented, taking us more than 80% of the way towards our 2010 target of 1,000 MW
- ▶ Added 417 MW of new wind energy – 56 MW in the UK and 361 MW in the US
- ▶ Our £1.5 billion development programme includes the 322 MW Whitelee project – Europe's largest onshore windfarm – which currently is under construction
- ▶ Continued work on our £170 million project to install Flue Gas Desulphurisation at Longannet Power Station, due to be completed in 2008

Our 12 Impacts | Climate Change and Emissions to Air

Performance Summary 2006/07 | continued

- ▶ Announced in May 2007 a 19 month feasibility study into the potential to retrofit clean coal technology at Longannet and Cockerhills power stations, comprising supercritical boilers and turbines, combined with and carbon capture and storage
- ▶ Increased the co-firing of biomass at our coal stations by 26% to 126,000 tonnes, helping to offset coal
- ▶ Achieved 100% of our Energy Efficiency Commitment (EEC2) target for the period 2005-2008. We met our targeted energy savings of 9,000 GWh, equivalent to the amount of energy used by two-thirds of London's households
- ▶ Complied with legal requirements of the EU ETS by submitting 18 Mt of permits during 2006
- ▶ Energy Networks completed a study with the University of Strathclyde to assess the impact high penetrations of 11 kV and LV connected generation will have on the electricity distribution system. The resulting analysis has led to a proposal for a demonstration network, which is currently under consideration with partners including Scottish Enterprise, Rolls-Royce and University of Strathclyde
- ▶ Energy Networks is establishing a partnership with the University of Strathclyde to form the first ScottishPower Advanced Research Centre (SPARC). The centre will fund a minimum of 3 researchers and undertake targeted research in the areas of asset engineering, asset strategy and network development

We also announced that

- ▶ We would continue to work with the clean coal consortium
- ▶ We started trials on boosted over fired air techniques to reduce emissions of NO_x at Longannet power station, and at Rye House Power Station invested in new low NO_x burners, which curtail the amount of NO_x formed during fuel combustion

Performance Targets 2010

- ▶ To have 1,000 MW of wind capacity in the UK
- ▶ To have 3,500 MW of wind capacity in the
- ▶ Reductions in group emissions per GWh against 1999 baseline as follows:
 - CO₂ - 25%
 - SO₂ - 85%
 - NO_x - 50%

Our 12 Impacts | Climate Change and Emissions to Air

Performance Detail 2006/07

Company Greenhouse Gas (CO ₂) Emissions	2006	2005
UK		
From power stations (for energy generated – tonnes)	18,017,077*	15,167,496
From transport (tonnes)	19,847	15,628
From internal energy and process use (tonnes)	126,788	127,389**
Equivalent from SF ₆ released (tonnes)	9,529	41,108
Total CO ₂ emissions (tonnes)	18,173,241	15,351,621
PPM Energy (US)		
From power stations (for energy generated – tonnes)	267,834	377,588
Fugitive emissions from gas facilities (tonnes)	-	-
From transport (tonnes)	1,143	-
From internal energy and process use (tonnes)	43,743	7,181
Total CO ₂ emissions (tonnes)	312,720	384,769
Total ScottishPower Greenhouse Gas (CO₂) footprint	18,485,961	15,736,390

*Made up of EU ETS installations figure 17,891,258 tonnes and PI CO₂ figure for Blackburn Mill CHP (this site is opted out of EU ETS) 125,819 tonnes

**Restated

ScottishPower UK – Summary Emissions Information

Fact table for UK totals	2006	2005
Total electricity generated / controlled (GWh)	26,896	24,418
CO₂		
Total CO ₂ emissions per GWh of energy generated / controlled (ktonnes)	0.67	0.62
Total CO ₂ emissions for energy generated / controlled (ktonnes)	18,017	15,167
SO₂		
Total SO ₂ emissions per GWh of energy generated / controlled (ktonnes)	2.10	1.96
Total SO ₂ emissions for energy generated / controlled (ktonnes)	56.52	47.79
NO_x		
Total NO _x emissions per GWh of energy generated / controlled (ktonnes)	1.62	1.38
Total NO _x emissions for energy generated / controlled (ktonnes)	43.49	33.70
Particulates		
Total particulates emissions per GWh of energy generated / controlled (ktonnes)	0.10	0.07
Total particulates emissions for energy generated / controlled (ktonnes)	2.7513	1.6690
Heavy Metals		
Arsenic	0.100	0.041
Cadmium	0.137	0.14
Chromium	0.487	0.544
Copper	0.608	0.558
Lead	1.304	1.367
Mercury	0.205	0.125
Nickel	1.042	0.798
Selenium	0.899	0.898
Vanadium	0.498	0.450
Zinc	0.542	0.419
PM 10 (t)	2,201	1,359
Hydrocarbons (as CH ₄)	116	93
NM VOCs	180	130
HCL	1,449	1,286
N ₂ O	171	161
HF	657	298
Dioxin ITEQ	1.99 –E7	1.54 –E7
Dioxin WHO TEQ	2.32 –E7	1.69 –E7
Boron	86	42
Manganese	0.512	0.549
Beryllium	0.232	0.02831

Our 12 Impacts | Climate Change and Emissions to Air

Performance Detail 2006/07 | continued

Fact table for PPM Energy totals	2006	2005
Total electricity generated / controlled (GWh)	5,242	3,228
CO₂		
Total CO ₂ emissions per GWh of energy generated / controlled (ktonnes)	0.05	0.12
Total CO ₂ emissions for energy generated / controlled (tonnes)	267,834	377,588
SO₂		
Total SO ₂ emissions per GWh of energy generated / controlled (ktonnes)	0.0003	0.0006
Total SO ₂ emissions for energy generated / controlled (tonnes)	1.54	2.05
NO_x		
Total NO _x emissions per GWh of energy generated / controlled (ktonnes)	0.0077	0.0156
Total NO _x emissions for energy generated / controlled (tonnes)	40.54	50.31
Particulates		
Total particulates emissions per GWh of energy generated / controlled (ktonnes)	4.70	-
Total particulates emissions for energy generated / controlled (tonnes)	0.001	-

Total greenhouse gas emissions, including CO₂ from generation and transport and SF₆ gas (used as an insulator in electrical equipment) reduced by 220,000 tonnes (1.3%) during the year across the group.

In the UK, the amount of greenhouse gases reduced not only within our generation, but from internal energy and process usage. The following contributed to that reduction;

- ▶ Increasing the proportion of gas and renewable generation in our mix. Looking to the future, we are actively reviewing the latest Integrated Gasification Combined Cycle (IGCC) technologies as we proceed with resource planning decisions for the UK
- ▶ Burning 100,000 tonnes of Biomass and Waste Derived Fuel (WDF) rather than coal in our stations
- ▶ Completing a major refurbishment at Cruachan pumped storage/hydro station that increased capacity by 10% to 440 MW.

Our 12 Impacts | Waste and Resource Use

Overview

Waste is a very significant issue for us all. It represents an inefficient use of resources – and a potential environmental hazard. According to the Department for Food and Rural Affairs (Defra), around 400 million tonnes of waste are produced in the UK each year, 100 million tonnes of which is from businesses and households. The rest comes from construction and demolition wastes, mining and agricultural wastes, sewage sludge and dredged spoils.

Despite increasing focus on waste minimisation and recycling schemes, there is a high dependence on landfill for waste management, but with limited landfill space available there is an urgent need to reduce the volume of waste going to landfill. Landfill Tax, brought in by the Government in 1996 to reduce the amount of waste land filled in the UK is encouraging the industrial and commercial sectors to reduce the volume of waste they send to landfill – around 35% of industrial and commercial waste is now recycled. During the year new waste regulations were introduced, increasing the responsibilities of business to manage waste appropriately.

Waste is also part of the wider issue of overall resource efficiency – sustainable production and consumption – that is essential to sustainable economic growth. Resource efficiency helps to avoid the unnecessary depletion of natural resources, as well as the environmental impacts of energy and water consumption and waste disposal.

Inefficient use of resources affects not only the environment, but the prosperity of business and the national economy. Department of Trade and Industry figures suggest that inefficient use of resources costs UK businesses around £20 billion a year and that 30% of energy used in business is wasted – equivalent to £12 billion per annum.

Clearly, as large industrial consumers, energy companies have a critical role to play not only in the efficient use of resources, but in ensuring responsible reuse, recycling and disposal of waste.

Susan Reilly, Impact Leader

Our 12 Impacts | Waste and Resource Use

Approach

Our aim is to manage our resources wisely to minimise environmental and economic impact and ensure we comply with all the relevant legislation. We manage waste as part of our Environmental Management Systems (EMS), and have processes in place to identify, segregate, recycle and dispose of waste appropriately. New regulations on “special” or “hazardous” wastes came into force in July 2005 and our businesses reviewed operations to ensure we would comply. We plan our resource use with care to balance environmental impact with economic needs.

Our approach includes:

Waste

- ▶ **Reducing** – looking at ways to reduce the amount of energy, water, vehicle fuel and other raw materials we use through process improvements and encouraging employees to be waste aware. Waste minimisation and waste data systems are in place across Energy Wholesale and Energy Networks
- ▶ **Reusing** – utilising resources, such as refurbished meters and transformers and reconditioned oils and selling surplus equipment for reuse. We also use Waste Derived Fuel (WDF) and biomass products and are building a new 25 MW biomass generating station that will increase the volume of this material we can use. ScotAsh, our ash processing joint venture with Lafarge Cement, processes ash from our coal stations into products for the construction industry. ScotAsh aims eventually to recycle ScottishPower's total ash output as construction materials
- ▶ **Recycling** – we have segregation and recycling programmes in place across the company. Materials recycled include wood, metals, SF₆ gas, power station ash, paper and other office consumables, from toner cartridges to light bulbs and mobile phones. Another significant waste is spoil from excavation of roads and pavements to lay cables or carry out repairs to our distribution network.
- ▶ **Responsible Disposal** – where we cannot reuse or recycle wastes, disposal is carried out by certified contractors inline with all relevant regulations and inline with our duty of care obligations

Resource Use

- ▶ **Resource Substitution** – we try to use non-hazardous materials whenever possible, for example eliminating Polychlorinated Biphenyls (PCBs) from transformer oil and using timber distribution poles treated with safe and environmentally friendly materials. Our green procurement policies help us identify greener and safer alternatives to conventional substances and materials
- ▶ **Internal Resource Use** – we monitor our energy and water use and have rolling targets in place across the group to reduce consumption year on year by identifying process improvements to achieve this. Examples include condensate recycling and the widespread use of low energy lighting

Contaminated Land

- ▶ **Contaminated Land Policy** - includes a number of activities to help identify, assess, control and remediate the risks of land or property contamination. Each business has ongoing programmes of investigation, including desktop and invasive surveys, the outcomes of which are fed in to contaminated land registers.

Relevant Policies

Internal Energy Use, Contaminated Land, Environmental Purchasing Policy

Our 12 Impacts | Waste and Resource Use

Performance Summary 2006/07

- ▶ The volume of resource use and waste across the group varies from year to year in line with the number and type of refurbishment or construction projects we have undertaken, such as replacing large items of power station plant. In addition, upgrades to the transmission and distribution network may involve some redesign, enabling us to remove short stretches of overhead lines
- ▶ The primary energy resources used are a function of the energy generation and conversion efficiency from our power plant
- ▶ In the last year, we have moved our reporting framework for waste to be in line with the classification found within the European Waste Catalogue. This enables our external disclosure to be in line with our regulatory reporting arrangements, become more aligned with our operational business activities and to be consistent with future Group reporting as part of the wider Iberdrola Group

Observations from this year include:

- ▶ Reuse of ash by-product from power station production increased from 310kt to 400kt
- ▶ The increase on construction waste on spoil reflects greater activity and development projects and operations
- ▶ Biomass use increased by 26% between 2005 and 2006
- ▶ Oil losses from underground cables increased by 5,794 litres
- ▶ Oil losses from transformer and switchgear equipment increased by 26,170 litres
- ▶ SF₆ releases were reduced by 1.32 tonnes during the year, coupled with an increase in SF₆ recycling and reuse of 0.11 tonnes

Key Waste and Resource Use measures summarised in the table below*

	2006/07	2005/06
Coal ('000 tonnes)	6,682	4,894
Oil ('000 tonnes)	10	22
Gas ('000 tonnes)	1,447	1,630
Biomass & WDF ('000 tonnes)	126	100
Internal Energy (GWh)	1,361	1,406
Townswater (million m ³)	3.63	5.5
PFA ash by-product reused ('000 tonnes)	400	310
FFC oil containment losses (litres)	15,711	9,917

*Waste and resource use performance excludes data from ScotAsh other than ash data, and excludes data from Core Utility Solutions other than inert spoil and transport data

Performance Targets 2007

- ▶ Embed updated environmental KPI's into business unit scorecards to enhance governance and environmental performance
- ▶ Implement revised policies on Transport and Internal Resource Use (energy, water, waste)
- ▶ Update the integrated environmental performance and reporting criteria into the selected contacts within Energy Networks
- ▶ Review depot waste stream segregation in Energy Networks to maximise waste recovery and recycling activities
- ▶ To undertake waste minimisation reviews for PPC permitted sites within Energy Wholesale

Our 12 Impacts | Waste and Resource Use

Performance Detail 2006/07

UK general waste data

	2006/07
EU Waste Categorisation	
07 Wastes from organic chemical process	
Hazardous waste arising (tonnes)	0.28
08 Wastes from MFSU of coatings, adhesives, sealants and printing inks	
Hazardous waste arising (tonnes)	0.23
13 Oil waste and wastes of liquid fuels	
Hazardous waste arising (tonnes)	12,183
Hazardous waste recovered (tonnes)	11,598
15 Waste packaging	
Hazardous waste arising (tonnes)	4.26
Non hazardous waste arising (tonnes)	0.01
16 Waste not otherwise specified in the list	
Hazardous waste arising (tonnes)	38.12
Hazardous waste recovered (tonnes)	38.12
Non hazardous waste arising (tonnes)	778
Non hazardous waste recovered (tonnes)	778
17 Construction and demolition wastes	
Non hazardous waste arising (tonnes)	259,073*
20 Municipal wastes (household and similar commercial and industrial)	
Hazardous waste arising (tonnes)	36,204
Hazardous waste arising (litres)	79,905
Hazardous waste recovered (tonnes)	2,010
Hazardous waste recovered (litres)	83
Non hazardous waste arising (tonnes)	8,088
Non hazardous waste arising (litres)	414,384
Non hazardous waste recovered (tonnes)	1,330
Non hazardous waste recovered (litres)	-
IT equipment (recycled tonnes)	24
IT equipment (recovered for use - items)	855

figure does not include waste arising from windfarm development programme

Our 12 Impacts | Waste and Resource Use

Performance Detail 2006/07..I continued

Generation (UK) Ash Data		2006/07
Non hazardous ash arising (tonnes)		
FBA from Longannet and Cockenzie		79,549
PFA Cockenzie	234,537	
PFA Longannet	445,446	
PFA total		679,983
Ash recovered for sale (tonnes)		
FBA from Longannet and Cockenzie		
FBA sold out of stock		61,419
FBA held in stock for sale		18,130
PFA Cockenzie	269,552	
PFA Longannet	130,144	
PFA total		399,696
Net disposal of ash (tonnes)		
FBA from Longannet and Cockenzie		-
PFA Cockenzie	-35,015	
PFA Longannet	315,302	
PFA Total		280,287

FBA – furnace Bottom Ash

PFA – Pulverised Fuel Ash

SF₆ releases and quantities held	2006/07	2005/06
Total UK quantity held (tonnes)	80	56
Total UK number of switchgear units holding SF ₆	21,036	15,401
Total UK quantity of SF ₆ released (tonnes)	0.39	1.72
Total UK quantity of SF ₆ recycled / reused (tonnes)	0.154	0.046

Contaminated land site review	2006/07	2005/06
Phase I surveys	58	67
Phase II surveys	4	2
Remediation expenditure	0	0

Oil Containment	2006/07	2005/06
FFC oil losses from underground cables		
Litres Lost	15,711	9,917
Transformer and switchgear oil containment data		
Total volume of oil held (litres)	92,195,410	81,450,080
Volume of oil lost (litres)	33,097	6,927
Total number of transformers banded to date	444	440
Annual investment in bunding (£'000)	91	104

PCB status of equipment	2006/07	2005/06
Number of samples tested - <i>we currently have no programme to test equipment. Issues will be managed if they arise</i>	0	0
Number of samples above 50 ppm	0	0
% equipment now tested for PCB levels (ground mounted equipment)	100	100

Our 12 Impacts | Waste and Resource Use

Performance Detail 2006/07..I continued

UK resource use total	2006	2005
Coal burn ('000 tonnes)	6,682	4,894
Oil burn ('000 tonnes)	10	22
Gas burn ('000 tonnes)	1,447	1,630
Townswater water use (million m ³)	3.63*	5.5
Tidal / river / bore hole water use (million m ³)	2,463*	1,949
Biomass and WDF ('000 tonnes)	126	100

*Townswater use reduced due to efficiency improvements and the use of bore hole water at Longannet

Total business mileage	2006/07	2005/06
UK businesses	17,902,433	18,860,457
Vehicle Fuel Consumption for Main Group Fleets (estimated figures)		
Volume of unleaded and leaded petrol used ('000 litres)	138	67
Volume of diesel used ('000 litres)	6,613*	3,359
Volume of Liquefied Petroleum Gas (LPG) used ('000 litres)	3	5

*This includes figures for Core Utility Solutions and Dataserve

Internal energy use	2006/07	2005/06
UK businesses		
Electricity (GWh)	1,361	1,406
Gas (GWh)	156	151
Gas/diesel oil (litres)	146,568*	1,226,662
LPG (kWh)	—	515,022

*this is diesel used in generators only. CO₂ has been accounted for in EU ETS CO₂ total. 2005/06 figure included diesel from plant vehicles

Internal energy use	2006/07	2005/06
PPM Energy – Klammath Energy plant only		
Electricity (GWh)	n/a	46.3
Natural gas (mm SCF)	n/a	0.90
Other (gallons diesel)	n/a	n/a

Our 12 Impacts | Biodiversity

Overview

Our planet is rich in biological diversity. Around nine million species of animal and plant occupy their own special place in the world ecosystem. Each species has a different size, shape, colour and lifecycle. It's this richness of life that provides the support systems that sustain human existence – our food, medicine, clothing, clean soil, clear water, fresh air and quality of life.

However, the world is losing biodiversity at an ever increasing rate as a result of human activity.

International action to sustain the variety of life on Earth is based on the Convention on Biological Diversity, signed by more than 150 countries following the Rio Earth Summit in 1992. Each signatory country has committed to developing a national strategy for the conservation and sustainable use of biological diversity.

In response, the UK Government has implemented the UK Biodiversity Action Plan (BAP) that has published action plans for 45 vulnerable habitats and 391 of our most threatened species – some rare but others very familiar, such as Song Thrushes and Bluebells, that have undergone severe declines in population.

While lead partners and agencies are implementing these action plans, a network of country-wide and regional Biodiversity Action Plans is delivering biodiversity conservation at a local level, raising public awareness and promoting environmental education.

In the US, there is no national biodiversity policy, though the majority of states have biodiversity policies that have been developed in various ways including Governors' executive orders, memoranda of understanding and statutory law. State Wildlife Action Plans, incorporating biodiversity programmes, have been created in most states under the State Wildlife Grants Program. In addition, many states have incorporated environmental issues in their planning laws.

The key piece of legislation at federal level is the Endangered Species Act (ESA) which provides protection for listed species and their habitats, as well as recovery plans. However, the Endangered Species Act does not cover species in slow decline or ecosystems that are deemed "at risk".

ScottishPower has both a direct and indirect impact on biodiversity. Directly, how and where we use land and water for our operations affects biodiversity. Indirectly, climate change is a significant threat to biodiversity and our operations have an influence on climate change. As a key element of sustainable development, biodiversity has been an integral part of our Environmental Policy for many years.

As indicated in the Defra Environmental Key Performance Indicator – Reporting Guidelines for UK Business, there is no single, universally accepted method for measuring the impacts of company activity on biodiversity. This report highlights the breadth of activity across our various UK and US operations, summarises the work of our Biodiversity/Habitat Management Plans and lists some case examples of good practice.

Susan Reilly, Impact Leader

Our 12 Impacts | Biodiversity

Approach

ScottishPower has significant land holdings – power stations, windfarms and substations – ranging from southern England to the Scottish Highlands, many of which are rich in wildlife.

We recognise that our activities in the fields of power station, windfarm, transmission line and gas storage construction and operation could have potential effects on biodiversity.

Our policies aim not only to minimise the effects of our operations on biodiversity, but also to promote wildlife and habitats through implementing positive conservation management and research at our sites and in the wider countryside.

We work closely with statutory agencies such as Scottish Natural Heritage, Natural England, Fisheries Boards and non-governmental organisations including the Royal Society for the Protection of Birds (RSPB), WWF and Wildlife Trusts in respect of our present sites and future developments.

Our approach includes:

- ▶ Developing our windfarms in accordance with industry leading policies that focus on careful site selection, extensive consultation and proactive conservation management. For more information, see Windfarm Sustainable Development Strategy, and Biodiversity Conservation Strategy
- ▶ Carrying out Environmental Impact Assessments for new build developments, such as overhead lines, and ensuring Environmental Management Plans are developed for projects where aspects of nature conservation value are identified
- ▶ Implementing Biodiversity Action Plans (BAPs) at all of our electricity generation and gas storage sites in the UK
- ▶ Developing Windfarm Habitat Management Areas. Setting aside 3,428 hectares of land to promote biodiversity at five of our windfarms – Beinn an Tuirc and Cruach Mhor in Argyll, Black Law in Lanarkshire, Beinn Tharsuinn in the Scottish Highlands and Wether Hill in Dumfries and Galloway
- ▶ Setting aside additional land as conservation easements at windfarm sites in the US to conserve rare habitat, such as wetlands and preserve grassland, shrub-steppe habitats that are being lost to agriculture and development
- ▶ Working in partnership with Fisheries Boards, particularly at our hydroelectric facilities to protect and enhance the aquatic environment, and linking in to local authority biodiversity plans and projects
- ▶ Following a Biodiversity Procedure to protect wildlife and habitats during overhead line or substation construction
- ▶ Much of our biodiversity work goes well beyond any statutory obligations or planning conditions. For example, the Habitat Management Plans at UK windfarms go beyond mitigation for the effects of the windfarm and aim to preserve special wildlife species such as Golden Eagles, Black Grouse and Otters
- ▶ Playing a key role in pioneering research into bird and bat interactions with windfarms, blanket bog restoration, and supporting the development of best practice habitat management techniques in a partnership with WWF, Scottish Natural Heritage and RSPB in the UK and with the National Wind Co-ordinating Committee Wildlife Workgroup and others in the US

Our 12 Impacts | Biodiversity

Performance Summary 2006/07

In the UK we:

- ▶ Developed Biodiversity Action Plans (BAPs) at Hagshaw Hill, Hare Hill and Dun Law, bringing the number of BAPs to twelve
- ▶ Set aside further windfarm habitat management areas in UK windfarms increasing the total to 3,428 hectares
- ▶ Moved forward our groundbreaking research into Golden Eagle and Hen Harrier interaction with wind turbines and blanket bog restoration. For more information see Raptor Studies Highlight Positive Effect of Habitat Management case study
- ▶ Continued to engage ecological clerks of works for major projects and co-sponsored Countryside Rangers at key sites to monitor the effects of our operations on land and the Aquatic Environment
- ▶ Implemented a Biodiversity Protocol for Major Energy Networks Projects
- ▶ Sponsored Argyll & Bute Community Action for Biodiversity as part of our commitment to support initiatives that promote conservation of nationally and internationally important habitats and species in the wider countryside
- ▶ Participated for the first time this year in the Insight Investment Management/Fauna Flora International biodiversity benchmarking exercise. Scores were ranked into three bands. We were placed in the middle band

In the US we:

- ▶ Implemented our Windfarm Siting and Avian Policy
- ▶ Set aside an additional 57 hectares of land subject to habitat management bringing the total to 245 hectares
- ▶ Established or instigated negotiations on four Habitat Management Areas (conservation easements) on land adjacent to US windfarms to be managed for biodiversity. Conservation easements established or planned include 455 acres at Big Horn in Washington, 120 acres at Shiloh, and 30 acres at Klondike III in Oregon
- ▶ Continued funding for several biodiversity research programmes including the project by the Kansas State University Foundation on the effects of wind energy development on Prairie Grouse and a project by the Bat-Wind Energy Cooperative for research on bat interactions with wind turbines at our Casselman site in Pennsylvania
- ▶ Commitments have been forthcoming to fund additional bat conservation projects associated with the Klondike III wind project in Oregon and the Hoosac wind project in Massachusetts

Performance Targets 2007

- ▶ Outline Biodiversity Action Plans at all UK windfarm sites
- ▶ Revise and extend existing Biodiversity Action Plans for those sites in the final year of their existing BAP
- ▶ Develop Habitat Management Plans for new windfarm sites within 12 months of commissioning

Our 12 Impacts | Biodiversity

Performance Detail 2006/07

Biodiversity Action Plans launched in year

UK biodiversity management	2006/07	2005/06
Biodiversity Action Plans developed	12	9
Hectares of land subject to habitat management	3,428	3,424

PPM Energy biodiversity management	2006/07	2005/06
Hectares of land subject to habitat management	245	188

During 2006/07, three new Biodiversity Action Plans were developed for Dun Law, Hagshaw Hill and Hare Hill windfarms. This means a total of twelve of our generating sites have adopted Biodiversity Action Plans as a way of formalising their approach to biodiversity. The Biodiversity Action Plans we have developed at our generation sites are not part of any statutory obligations or license conditions and we are following this up by developing Biodiversity Action Plans for existing windfarm sites not covered by Habitat Management Plans.

BAPs site by site detail	
Longannet	Wetland, grassland, breeding and roosting waders, nestbox scheme, Ranger sponsorship
Cockenzie	Wetlands and wader scrapes, woodland creation, nestbox scheme, Ranger sponsorship
Rye House	Pond creation, grasslands, bat and bird nest boxes, Great Crested Newt
Damhead Creek	Wetland, reedbeds, wader scrapes, nestbox scheme, Barn Owls, Water Vole
Shoreham	Vegetated shingle, fish monitoring, Peregrine nestbox, wildflowers
Cruachan	Native woodland, meadows, bird, bat and insect boxes, upland species
Lanark / Galloway Hydros	Native woodland, wetland, nestbox scheme, sponsorship of Ranger
Knapton	Grassland, hedgerows, Water Vole, amphibians
Hatfield Moor	Grassland, heathland, Nightjar, Wood Lark

Windfarm habitat management areas		
Site	HMA area	Key elements / species
Beinn an Tuirc, Kintyre, Argyll	1,215 hectares	Removal of 450 hectares of forestry and management of upland moor to create feeding conditions for Red and Black Grouse, Golden Eagles
Cruach Mhor, Cowal, Argyll	577 hectares	Removal of 386 hectares of forestry and management of moor to create feeding conditions for Hen Harrier, Short-eared Owl, Black Grouse
Black Law, Lanarkshire	1,440 hectares	Removal of 400 hectares of forestry and restoration of opencast coal mine. Creation of wader scrapes and management of moor for waders
Beinn Tharsuinn, The Scottish Highlands	194 hectares	Planting of deciduous trees to regenerate native woodland and upland habitat to benefit Black Grouse, Capercaillie and Hen Harrier. Existing blanket bog and grassland to be managed for upland birds, such as Meadow Pipit, Skylark, Curlew and Snipe.
Wether Hill, Dumfries and Galloway	2 hectares	Black Grouse

ScottishPower is a leader in the field of developing Habitat Management Areas (HMAs) to mitigate for the impact of our windfarm developments. Some of this development is a statutory requirement of the planning process, however we also carry out significant work beyond what is legally required.

Our 12 Impacts | Biodiversity

Performance Detail 2006/07 | continued

We have Habitat Management Areas at five windfarms throughout Scotland, totalling 3,428 hectares.

By improving habitats through measures such as the removal of commercial forestry and restoration of blanket bog, we aim to demonstrate that our windfarms can live in harmony with wildlife and local people.

Key species benefiting from our work include Golden Eagle, Hen Harrier, Black Grouse, Otter, Water Vole and wading birds.

In spring 2005, work commenced on our most ambitious Habitat Management Area yet at Black Law Windfarm and on a smaller Habitat Management Area at Beinn Tharsuinn Windfarm, in the Scottish Highlands.

Biodiversity procedure in Energy Networks

A comprehensive Biodiversity Procedure has been developed for major projects in Energy Networks, including the construction of overhead lines and substations. The procedure covers projects from the planning and consultation phase through to the development of site specific plans to protect biodiversity and habitats during construction. Staff and contractors receive training in the plans which include, where appropriate, identification of species and procedures that must be followed to minimise disturbance to wildlife or habitats. Follow up maintenance and monitoring after completion of construction is also a key part of the procedure.

Protecting wildlife during windfarm construction

PPM Energy worked closely with biologists to protect the endangered California Tiger Salamander during construction of the Shiloh 1 Wind Plant Project.

The amphibian spends much of its life underground to escape the heat of the sun but needs seasonal ponds for successful breeding. These vernal pools are fast disappearing, with 95% of such habitats in California lost to development.

During construction of the 150 MW windfarm, located in Solano County, contractors followed best practice guidelines that aimed to minimise disturbance to the salamander, its habitat and other wildlife species.

All turbines, collection cables and other project facilities were located away from vernal pools and stock ponds, with a 567 feet exclusion area maintained for all on-site activities.

Contractors underwent training to raise awareness of the species on site and biologists were involved at key stages of construction to offer advice and carry out inspections.

If a salamander was located, work at Shiloh was stopped until the animal could be relocated by approved biologists, while measures were taken to prevent individuals being trapped in trenches on the site.

Other measures were taken to avoid disturbance to breeding birds of prey, including Burrowing Owls and Golden Eagles.

US conservation easements

Big Horn

At the Big Horn wind project in Klickitat County, Washington, 280 acres are being set aside as a conservation area in line with the Washington State Wind/Wildlife Guidelines.

The guidelines call for PPM Energy to acquire 238 acres, according to a formula based on the size of the site and temporary impacts on particular habitats, but we are going beyond that, acquiring a conservation area of 280 acres for the life of the project. The objective of the conservation area is to protect valued shrub-steppe and lithosol (shallow soil) habitats that are being lost to agriculture and development in Eastern Washington.

Our 12 Impacts | Biodiversity

Performance Detail 2006/07 | continued

The area, a beautiful canyon along Big Horn Creek, includes permanent pools of water and associated wetlands, which are rare in the region's arid environment, as well as steep basalt canyon walls. Among the native species in the area are Black Bear, deer, elk and a wide range of raptors.

Leaning Juniper

The conservation area at Leaning Juniper, Gilliam County, Oregon, is being acquired to meet the conditions of our Oregon Energy Facility Siting Council Site Certificate, which requires mitigation for impacts to higher level habitats of 65 acres. We are negotiating to acquire 80 acres to protect high quality grassland that has the potential to support the Washington Ground Squirrel, a rodent that is an endangered species in Oregon.

Shiloh

At Shiloh wind project, in Solano County, California, PPM's Solano County Conditional Use Permit requires the company to acquire, within two years of starting commercial operation, a 120 acre tract of land that is suitable for raptors, such as Golden Eagle and Red Tail Hawk. Once a parcel of land has been selected and acquired, it will be managed by a conservation land trust. Measures such as tree planting will be carried out to enhance habitat value for raptors and nesting song birds.

We have also committed to carry out three years of avian monitoring, post construction. The findings will be shared with Solano County's Technical Advisory Committee, on which the US Fish and Wildlife Service and the Californian Department of Fish and Game are represented.

Klondike III

We have committed to enhance 30 acres of low quality grassland at the Klondike III wind project in Sherman County, Oregon, to meet the conditions of our Oregon Energy Facility Siting Council Site Certificate. The grassland will be improved to create a higher quality habitat that will diversify the range of grassland nesting birds, and support big game wildlife.

Supporting Research

Bat Conservation International

We are contributing \$50,000 a year for three years to Bat Conservation International (BCI) in relation to our Casselman wind project in Pennsylvania to fund research that will improve understanding of the effects of wind turbines on bats and develop mitigation solutions. Commitments have been made to fund additional bat conservation projects associated with the Klondike III wind project in Oregon and \$100,000 for bat research at the Hoosac wind project in Massachusetts.

Prairie Chicken

We invested \$25,000 – and have committed to \$100,000 in total over four years – to fund a collaborative research project into the effects of wind power on the Demography and Population Genetics of the Greater Prairie Chicken.

The study is being conducted by researchers at Kansas State University, on behalf of the Grassland and Shrub Steppe Species Collaborative (GS3C) a sub group of the National Wind Co-ordinating Committee Wildlife Workgroup.

Greater Prairie Chicken populations indicate the overall health of grassland ecosystems in Kansas, Oklahoma and other parts of the Great Plains.

The collaborative study aims to identify the potential impacts of wind power on populations of the birds and develop mitigation strategies to address them.

PPM owns and operates the largest windfarm in Kansas, the 150 MW Elk River project in Butler County.

Our 12 Impacts | Sites, Siting and Infrastructure

Overview

Generating, transporting and supplying energy to meet the needs of our customers requires significant engineering and physical structures. In order to provide energy we build, operate and maintain distribution, transmission, storage and generation facilities including power plants, water reservoirs, windfarms, gas storage facilities, substations, and overhead and underground lines. These sites and structures are located in environments that range from remote hillsides, forests and coastlines, to facilities that are right in the heart of local communities. We work hard to minimise any impact these essential pieces of infrastructure have on land and homeowners, businesses, communities and the local environment.

Operating in this diverse range of locations means we must have effective policies that balance our need to maintain the safety and integrity of our plant with the landowners' and local communities' activities and wishes.

During the last few years, site selection and land stewardship have become increasingly important issues for us as we expand our windfarm portfolio and reinforce the electricity networks to transport electricity from renewables sites to population centres. ScottishPower remain committed to working with our stakeholders in the consultation process for such developments.

An emerging issue for the energy industry nationally is the need to co-ordinate the planning process for renewable generation developments, such as windfarms with planning for associated networks projects to ensure that renewable energy sites can be connected to the grid as soon as they are ready to start generating. Delays in obtaining planning approval for network reinforcements could limit the availability of green energy in the UK and result in the Government targets for renewable energy not being met. ScottishPower have been raising awareness of this issue with national and local Government and are committed to working with developers and authorities alike to achieve the UK's goals for renewable energy production.

Alan Bryce, Impact Leader

Our 12 Impacts | Sites, Siting and Infrastructure

Approach

Our approach to the development of distribution, transmission, storage and generation facilities includes widespread engagement with stakeholders and proactive consideration of landscape and ecological issues early in the design stage.

We consult with communities across our operations, and particularly where we are planning new developments. This helps ensure that community groups can give us feedback and allows them to have the opportunity to input into the planning process. At major sites that are close to communities, we establish Local Liaison Committees and we have visitor centres at four sites so that local communities and other interested groups can visit our operations. Equally, our community programmes and consultations play an important role in identifying and addressing key issues of local concern.

We sponsor countryside rangers at four generation sites, including our ash lagoons, our Kintyre windfarms and the Lanark Hydro-electric Scheme, to enhance biodiversity as part of our commitment to responsible land management.

Wind power is a long-term commitment for ScottishPower and we have established a unique and socially responsible approach to windfarm development that was recognised in April 2006 with a Queen's Award in the Sustainable Development category for ScottishPower Renewables. We choose to develop primarily on low impact locations such as commercial forests and brownfield sites, where we can minimise the impact on the landscape and create new habitats for wildlife. We also make sure local communities benefit from our windfarm projects. Our approach includes:

- ▶ Careful site selection choosing low impact sites and avoiding locations where development would have an unacceptable impact upon ecology, landscape or amenity
- ▶ Extensive consultation with communities, local authorities, landowners, wildlife and heritage bodies at the earliest stages of development
- ▶ Incorporating feedback from consultation into the final designs
- ▶ We have set out our approach in two policy documents that provide a benchmark of best practice for the industry. The documents: Windfarm Sustainable Development Policy and Windfarm Biodiversity Conservation Strategy were developed with input from Scottish Natural Heritage, the Royal Society for the Protection of Birds (RSPB), Friends of the Earth Scotland and WWF.

For the construction of new overhead lines

- ▶ We have developed separate policies to ensure that construction of distribution and transmission overhead lines are carried out with consideration for the environment through which they pass. This approach includes extensive consultation with communities, landowners, Scottish Natural Heritage, Historic Scotland and Non-governmental organisations such as the Royal Society for the Protection of Birds, and helps ensure that routes are planned carefully to avoid areas with outstanding landscape, ecological or heritage value
- ▶ We are also working to reduce the impact of our networks operations in scenic areas, including undergrounding sections of overhead line in suitable areas, trialling a new technique to plough in cables, which creates significantly less disturbance to landscape and ecology than conventional trench excavation
- ▶ We recognise the possibility, even if very low, of the concern of an increased risk to public health from electro magnetic fields (EMF). We take the issue of EMF very seriously, and outline our approach in more detail here
- ▶ We recognise that our installations can have an effect on the environment and community, and we seek to minimise this through careful planning and execution of our projects. The approach is to carefully work within environmental limits and bring about improvements where opportunities arise

Our 12 Impacts | Sites, Siting and Infrastructure

Performance Summary 2006/07

- ▶ In April 2006 ScottishPower Renewables won a Queen's Award 2006 in the Sustainable Development category for their responsible, collaborative approach to windfarm development
- ▶ Final consent received and work commenced at Whitelee - Europe's largest onshore windfarm
- ▶ In June 2006 Longannet Power Station opened the final link in a network of public footpaths at the Valleyfield Ash Lagoons
- ▶ Energy Networks connected 5 new windfarms in Scotland adding another 145 MW of renewable energy capacity onto the network
- ▶ Work completed on building a substation at Sparling Street in Liverpool to complement redeveloped buildings as Liverpool prepares to become European City of Culture in 2008
- ▶ Site of decommissioned transmission substation in Dalkeith (south of Edinburgh) now being restored to its previous green site condition
- ▶ Plans progressing to include a visitor centre as part of the Whitelee Windfarm development
- ▶ There were no environmental prosecutions during the year in the UK or the US
- ▶ Increase in customer enquiries to Energy Networks from 5,000 to 6,344 during the year indicating increase in public interest and thoroughness in responding to such enquiries

Performance Targets 2007

- ▶ No environmental prosecutions in the UK or US

Our 12 Impacts | Employment Experience

Overview

Having the right people, with the right knowledge, skills and attitude is essential to the success of any organisation.

With demand for many skills now outstripping supply, attracting high quality employees and retaining valued members of the workforce has become a competitive business.

To do this successfully requires a competitive package of benefits and a great employment experience. This includes a safe working environment, good training and development, work that is interesting and stimulating and good performance management systems that deliver motivation, encouragement and feedback.

It also involves providing opportunities for personal and professional development and taking time to recognise and celebrate success. All of this requires good leadership – and providing a career path, rather than just a job.

Finally, a crucial part of the employment experience is shared goals, a pride in the organisation and confidence among our people that their company operates responsibly with the environment, its employees and society, and is committed to doing the right thing in both its daily business and long-term plans.

Stephen Dunn, Impact Leader

Our 12 Impacts | Employment Experience

Approach

ScottishPower is continually developing a consistent and safe employment experience for our people, which clearly articulates what we stand for as an employer of choice for both current and future employees.

We recognise that people make a choice about who they want to work for and we have invested time during the year to seek feedback to help us understand what matters to our people and how they think we are performing as an employer.

We believe in building a joint commitment with our people to have a great employment experience and are focusing on the following areas:

Health, safety and wellbeing - within ScottishPower we take a holistic approach to the health, safety and wellbeing of our employees and we take this very seriously. The Occupational Health Team undertakes a proactive role in this and provides a number of different services to support both managers and employees. These include: Fitness to Work Assessments, Management Referrals, Occupational Health Monitoring, Voluntary Health Lifestyle Assessments, Self Referrals, Counselling, Physiotherapy, Health Promotion Initiatives and access to Health Clubs.

Our team - we know that having skilled, diverse and motivated teams builds a positive working environment and so we work hard to ensure that we have the right people in our teams. We are developing a UK Resourcing Strategy that encompasses 'best in class' approaches. Wherever possible we fill vacancies internally to ensure that we use our internal talent pools to their greatest advantage.

Leadership and communication - we recognise that effective leadership and communication is critical and, in support, we run a number of programmes to continually develop our leadership population as part of our overall approach to talent management. We also work hard to develop and maintain a positive and open communication culture, encouraging all employees, regardless of their position to communicate with each other. Due to the diverse nature of the job roles within ScottishPower we need to use a range of media to communicate with our people and continually explore new methods to ensure we reach as many employees as possible.

What we do and employee satisfaction - it is important that we understand what matters to our people and how satisfied they are with ScottishPower as an employer. Our approach is to listen to what people have to say through surveys and action groups and then commit to actions that our people tell us will help to improve employee satisfaction and engagement.

Recognition, reward and working conditions - we ensure an equal and fair approach to pay, reward and working conditions, meaning that contribution is recognised and matched with a competitive salary and benefits package.

This includes pension provision and our philosophy is to ensure that our employees' contribution to our business is matched with competitive, tax efficient and flexible pension arrangements providing value for money options to support our employees in saving for their retirement.

Our key focus on pensions has been:

- ▶ Supporting the funding requirements of all of our pension schemes
- ▶ The efficient delivery of our pension promises through sound management and governance of all our pension arrangements
- ▶ Aligning our pension provision to our current and longer term workforce needs, within the context of new legislation, industry regulation and Government direction
- ▶ Increasing the financial awareness of our employees by raising the profile and accessibility of our employee support on pensions

Our 12 Impacts | Employment Experience

Approach | continued

Performance and growth - we believe it is essential that all employees have the skills, knowledge and experience to be effective in their work, and as a result, directly support the achievement of our business strategy and objectives. We also believe that we should support our employees in growing and reaching potential within our business. This is achieved through effective performance management and development. We have created frameworks for performance management to help employees and their managers agree the right performance, development objectives and feedback mechanisms.

Ongoing development for employees at all levels is an essential part of our performance-based culture and includes activities such as:

- ▶ Modern Apprenticeship Programme
- ▶ Graduate Development Programme, which includes working in conjunction with the Prince's Trust
- ▶ Support for professional qualifications
- ▶ Ongoing upskilling for employees to perform effectively in their current roles
- ▶ Health and Safety training for staff at all levels

Respect and recognition - a positive employment experience is created through respecting each other. Both the company and all its employees take responsibility for our working environment and balance both work and life commitments. This includes recognising the legitimacy of trade union involvement in the workplace and the right for individuals to join a trade union.

To support our managers and their teams, we have a range of human resource policies which help us develop a consistent approach to people management and protection.

Human Resource Policies

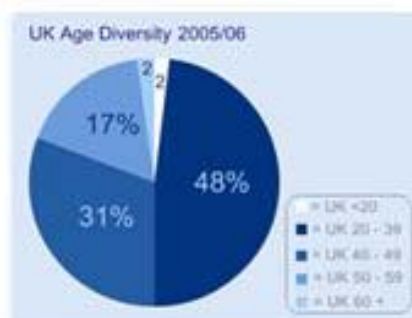
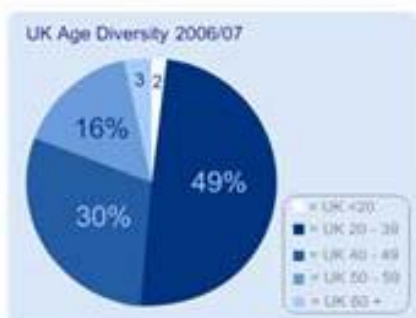
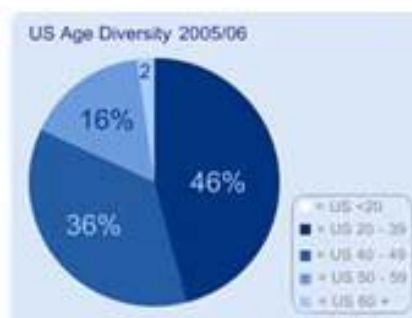
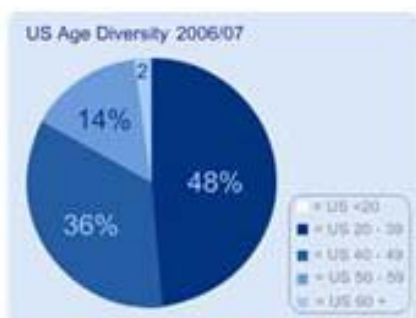
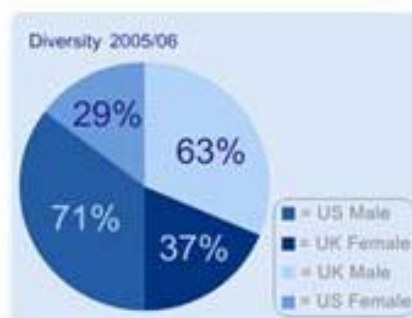
- ▶ Policy Statement on Equal Pay
- ▶ Policy on Equal Opportunities
- ▶ Policy on the Management of Stress
- ▶ Policy on Smoking
- ▶ Policy on Racial & Religious Discrimination
- ▶ Policy on Harassment
- ▶ Policy on Alcohol and Drugs
- ▶ Policy on People with Disabilities
- ▶ Speaking Out and Whistleblower Protection Policy
- ▶ Policy on Sex & Sexual Orientation Discrimination

Our 12 Impacts | Employment Experience

Performance Summary 2006/07

Employee statistics

	2006/07	2005/06
Number of employees	10,316	9,793
Total payroll	£408.5 million	£376.5 million



	2006/07	2005/06
Employee turnover		
UK	14%	19%
US	16%	13%
Sickness absence		
UK	4.6%	5.3%*

*restated

Our 12 Impacts | Employment Experience

Performance Summary 2006/07 | continued

Health, safety and wellbeing

- ▶ Introduced a new Occupational Health software programme
- ▶ Implemented defibrillators across all sites
- ▶ Energy Wholesale achieved the SHAW Gold Award and Energy Retail and Energy Networks achieved the SHAW Silver Award
- ▶ There have also been a number of health monitoring programmes completed across the businesses
- ▶ Specific information about the health and safety aspects of working at ScottishPower can be found in the Health and Safety Impact

Our team

- ▶ Conducted external and internal market research to help us understand what people think of ScottishPower
- ▶ Introduced Performance Based Selection interviewing within Energy Retail to help us identify those people who fit most closely to our requirements

Leadership and communication

- ▶ Reviewed our leadership development approach and programmes which include: ScottishPower Leadership Programme - for our Emerging Leader development population; Building Leadership Excellence Programme (BLE) - for Team Leaders in Energy Retail; and ScottishPower People Leader Programme - a new company-wide team leader programme
- ▶ Refreshed our collective bargaining structures and employee for a that support consultation and allow regular dialogue between managers and the trade unions/employee representatives
- ▶ ScottishPower News, our quarterly staff newspaper was launched, and a more frequent on-line magazine looking at ScottishPower from the perspective of our people was introduced in March 2007

Employee satisfaction

- ▶ During May 2006, 350 people were involved in 'What Matters to You' workshops which helped identify the key issues that are important to our people
- ▶ During November 2006, we completed the Times Best Companies Survey. Approximately 4,000 people (41% of our workforce) returned their views about satisfaction with ScottishPower as an employer

Recognition, reward and working conditions

- ▶ In December 2006, we introduced "Your Choices", which details a range of products and services that ScottishPower employees and immediate family can benefit from
- ▶ New Performance Management framework agreed for Personal Contract employees for performance year 2007/08
- ▶ Ranked 26 out of 100 in the Guardian Britain's Top Employers 2007 Award

Our 12 Impacts | Employment Experience

Performance Summary 2006/07 | continued

Performance and growth

Employee Development Review (EDR)

Implemented the Employee Development Review (EDR) process - a single, consistent and simplified approach to collecting talent management and development data. The EDR process has reduced administration and time for HR and the businesses in collecting talent management and development data and added value in terms of the outputs provided.

Investors in People (IIP)

Some of our Businesses are accredited or in the process of seeking accreditation as Investors in People (IIP). During 2006/07

- ▶ Energy Retail was reaccredited
- ▶ IIP accreditation was expanded from Generation to all of Energy Wholesale
- ▶ HR began preparations to seek accreditation in 2007

Ongoing Development

- ▶ Launched our Learning4Work programme which is open to all employees – several hundred programmes are available online at learning centres, at workstations and from home.
- ▶ Launched a new Welcome Pack that provides new employees with the key knowledge they require to be effective as an employee in ScottishPower. It includes regulatory information; policies that people need to be aware of; and documentation that needs to be completed to ensure a smooth transition into ScottishPower.
- ▶ Developed an on-line Induction package which will be launched in 2007.

Respect and recognition

During the year there have been a number of activities that demonstrate our commitment to respect and recognition:

Diversity

As a result of the introduction of the Employment Equality (Age) Regulations 2006, a decision was taken to provide training across the Company, not just on age discrimination, but on diversity as a whole. The project team worked together to develop the policies, procedures and awareness training for all staff, which was then delivered through a single, on-line portal.

Two on-line courses were developed using video scenarios along with on-line questions and narratives to enhance the learning. The programme is also available on CD Rom to allow field-based staff to attend facilitated sessions.

Formal recognition

We continue to recognise 5 Trade unions (Unison, Amicus, GMB, T&G, Prospect) and have established a framework to ensure they can make a valid contribution to the company decisions. Trade Union membership is 56% of our employee group.

Performance Targets 2007

- ▶ Complete ScottishPower UK Employee Engagement survey
- ▶ Increase the response rate for the Employee Engagement survey from 41% to 46% of the overall employee group
- ▶ Develop Employee Engagement Action Plans for each ScottishPower UK business following the 2006 Employee Engagement survey results

Our 12 Impacts | Employment Experience

Performance Detail 2006/07

Employee health, safety and wellbeing

Occupational health appointments

Appointment type	Number of appointments
Pre-placement	2,610
Occupational health monitoring	1,871
Management referrals	3,449
Self referrals	900
Voluntary health and lifestyle assessment	344
Counsellor	1,393
Physiotherapist	4,512

Specific information about the health and safety aspects of working at ScottishPower can be found in the Health and Safety Impact

Leadership and Communication

ScottishPower Leadership Programme

ScottishPower is looking to develop tomorrow's leaders through:

- ▶ Courageous leadership providing meaning, structure and value that can create a sustainable future
- ▶ A thorough understanding of business strategy and the utility market including renewable energy sources
- ▶ Understanding personal strengths and emotional intelligence

During 2006/07 ScottishPower identified participants for its new Senior Management Development Programme, the ScottishPower Leadership Programme. Participants were identified through the ScottishPower's talent management process as individuals who are high performing and have potential to move further within the company.

The programme is a partnership between participants, ScottishPower and Impact Development Training Group (an external supplier) and runs via four residential modules over twelve months supported by individual coaching.

The programme has a journey theme. In between modules individuals are encouraged by their guide to engage in and explore unique elements of their journey that are appropriate to their individual needs. In this way each journey is unique whilst crossing paths with others at times and with the comfort that they are not on their own!

The programme managers, Deirdre Macdonald and Pamela Malkin, stated: "The programme has a blended approach ensuring our emerging leaders are catered for whatever their preferred learning styles and personal preference. Our leadership journey for emerging leaders has only recently started but the response from the first modules has been overwhelmingly positive. The shift from learning from a purely theoretical perspective into action has been a welcome and challenging one for participants. The Impact facilitators have assisted the groups to share feedback information to assist their learning in a positive and constructive way."

Our 12 Impacts | Employment Experience

Performance Detail 2006/07 | Continued

Building Leadership Excellence Programme (BLE)

Energy Retail's Building Leadership Excellence (BLE) programme is equipping more than 515 team leaders with the skills to help them motivate their teams and help team members understand the Business' vision and the part they play in achieving Energy Retail's Big Goals.

Scottish Power People Leader Programme

During 2006/07 we have designed an innovative leadership excellence programme which will become a common programme for Team Leaders across ScottishPower's UK businesses.

Leadership excellence and the desire to develop a more agile and commercially aware culture within ScottishPower is a key factor for success. Therefore, we have taken best practice from the individual team leader programmes that have been delivered independently within each of our Businesses and, building on their success, have developed a company wide people leader programme to providing opportunities to widen business acumen through networking with colleagues from all Business areas within ScottishPower UK.

The ScottishPower People Leader programme consists of a range of core essential and business specific modules that ensure we have a consistent approach to leadership at this level of management across the piece. These core essential modules are supported by a choice of elective modules, to tailor individuals' development according to their need as identified through our Performance Management and Employee Development Review processes.

One new concept that we are piloting within these core essential modules is that each module has been developed into a Customised Award accredited module working in partnership with Awards UK. This provides formal recognition of learning with the option to receive a formal certificate double badged with the national Awarding Body Scottish Qualifications Authority and EDEXCEL South of the borders equivalent and therefore will be recognised UK-wide.

The pilot of the core essential modules, to include relevant business specific modules, will start mid 2007 with 55 participants in attendance. It is expected to run to the middle of 2008 with continuous gathering of feedback for analysis to enable us to review and refine the programme as appropriate based on tangible data.

Val Hughes, Programme Manager, explained: "This is an exciting and challenging project bringing key leadership skills and principles that have been proven best practice within the individual Businesses together in one programme. Having the programme accredited externally will improve the currency of the training and also provide each participant with the opportunity to create robust and meaningful personal development plans to support his or her continuous development. Feedback from the participants to date has been extremely positive."

Communication

During 2006/07 we improved our communication with staff.

- ▶ We launched ScottishPower News, a quarterly staff newspaper covering all group employees, both in the UK and US. ScottishPower News provides updates for staff from a corporate and business by business perspective. A new, more frequent online magazine, ScottishPower Way was launched in March 2007 to provide a very people-focused perspective on ScottishPower.
- ▶ Following the announcement of ScottishPower's proposed merger with Iberdrola, a number of new communication channels were introduced. These included a dedicated intranet portal, and regular email updates as well as webcasts.

Our 12 Impacts | Employment Experience

Performance Detail 2006/07 | continued

Our Team

We conducted market research to help us understand what people think of ScottishPower both from both an external and internal perspective. This research will help inform many of our people initiatives and has already helped us to define how we position ourselves in the recruitment marketplace. We have created a unique look and feel to recruitment advertising to ensure that we attract the best possible people into our teams. This will be piloted in June 2007 with a full launch to follow.

We have also introduced Performance Based Selection interviewing within Energy Retail to help us identify those people who fit most closely to our requirements. This makes it very clear to applicants what we expect the outputs of their role to be, and enables them to demonstrate their capability to deliver these. This is proving to be an effective selection experience for both parties.

What we do and employee satisfaction

During May 2006, 350 people were involved in 'What Matters to You' workshops which helped identify the key issues that are important to our people. The results were used to establish a cross organisation working group which developed the themes that describe our Employment Experience - these are detailed in Our Approach.

This work was supported by the launch of the ScottishPower wide Times Best Companies Survey during November 2006 when approximately 4,000 people (41% of our workforce) returned their views about satisfaction with ScottishPower as an employer. Although we were not listed in the UK's Top 20 big employers, it did provide us with baseline data and an excellent insight into the areas that we need to focus on to improve employee satisfaction. Our target areas for action are Leadership and Listening, Personal Growth, My Manager and Giving Something Back. These are the areas where our performance was most notably short of the overall Big Company benchmark. Each part of our business is now developing action plans to improve Employee Engagement.

Recognition, reward and working conditions

Our Defined Contribution pension arrangements for employees joining our business since 1 April 2006 have been designed to provide employees with an incentive to save for retirement with the company's support in an easy, flexible and tax efficient way in the early stage of their careers whilst benefiting from increasing company financial support and wider pension options as they progress in their careers with ScottishPower.

Our longer serving employees benefit from our final salary pension schemes and have the security of building up valuable pension benefits with flexible, innovative options for topping up their Scheme benefits. Members can also take comfort from the fact that our schemes are well funded and managed by effective, responsible trustee bodies committed to safeguarding these pension schemes for all members. Through a combination of significant cash funding by the company and improving global stock markets and interest rate environment, the UK defined benefit pension schemes funding has improved. On the current corporate accounting basis the company schemes are in balance.

We took the decision in April 2006 to appoint Independent Chairpersons to the trustee boards of our final salary schemes. From our experience to date this has been a positive step in terms of strengthening the overall governance structure that supports our schemes.

Our overall aim is to offer pension arrangements with sufficient flexibility and choice throughout employees' careers to allow each employee to build up the savings they need in retirement in a manner best suited to their particular circumstances and retirement savings plans.

Our 12 Impacts | Employment Experience

Performance Detail 2006/07 | continued

We continuously strive to ensure that all our employees fully understand and value the pension / retirement savings elements comprising their total reward package. Our in-house Pensions Team provides professional, accessible support to all our employees by pro-actively helping them;

- ▶ Understand the benefits and options from our pension arrangements
- ▶ Answer their questions on pensions generally
- ▶ Benefit from wider education around the principles of saving, and
- ▶ Investing for retirement and increasing their awareness of tax advantages available through different pension routes

We use a range of different approaches and media to communicate our pension arrangements targeting support appropriately throughout the lifecycle of our employees - pre-employment, induction programmes, mid-career, lifestyle changes, leaving service, pre-retirement and post retirement.

Dedicated pensions helpline	1:1 on site pension surgeries	Annual pension scheme newsletters	Pensions scheme AGMs
Your Pensions Intranet information and useful links site	Saving for retirement road shows	Pensions knowledge integrated into online induction programmes	Pre-retirement counselling
Annual benefit statements incorporating state benefit forecasts	Easy, plain English guides to all pension arrangements	Retirement Association	Access to individual financial advice

Performance and Growth

Number of Graduates and Apprentices taken on in 2006/07

Business	Graduates	Apprentices
Corporate	2	0
Energy Networks (including Core Utility Solutions)	13	38
Energy Retail	0	0
Energy Wholesale	5	0

Finally, our employees continue to take part in development activities which involve the community and during the year we saw a 38% increase in this type of development.

Our 12 Impacts | Customers with Special Circumstances

Overview

Energy suppliers provide an essential public service that some customers, such as elderly people or those with medical conditions, are particularly dependent on. The UK industry recognises this and makes special arrangements to accommodate their needs and help others in special circumstances, such as non English speakers, people with disabilities and those on low incomes.

The first part of last year saw continued pressure on energy prices and although prices began to come down in 2007, affordability is one of the most talked about social issues in the energy supply sector – and tackling fuel poverty effectively requires a combined effort by Governments, housing providers and energy suppliers. The industry has responded through installing improved metering technology, targeting energy efficiency spend, and establishing charitable trusts or social tariffs – steps that together with Government actions and ongoing improvement of housing stock, should help to reduce fuel poverty over time.

UK energy suppliers operate under a supply licence that sets out the specially tailored service to be offered to customers who have special needs. The licence was reviewed last year and may result in strengthening suppliers obligations to groups with special needs. The outcome of the review is expected to be known later this year.

In providing such an essential service, we recognise our responsibilities to all our customers, especially those with special circumstances.

Willie MacDiarmid, Impact Leader

Our 12 Impacts | Customers with Special Circumstances

Approach

Our aim is to try and meet the needs of all our customers, regardless of their situation, and to achieve that we place a priority on doing that bit extra for customers who need it. This includes help and advice for customers who are finding it difficult to pay their energy bills and services for people who have disabilities or other special needs.

Our approach includes:

- ▶ Working in partnership with Government, housing providers and charities to alleviate fuel poverty. This year, this included supporting the Department of Work and Pensions (DWP) with an Ofgem led initiative, that targeted pensioner households across England to increase awareness of, and provide access to, a range of services e.g. benefit health checks, details of free insulation, energy efficiency advice and becoming a Priority Services Register customer
- ▶ Funding projects to address fuel poverty, especially in families with young children, through our independent charity, the ScottishPower Energy People Trust
- ▶ Working with Citizens' Advice Bureau (CAB) on energy debt prevention as well as the national fuel poverty charities - National Energy Action and Energy Action Scotland
- ▶ Developing a 'Warmth Without Worry' Customer Charter, a practical guide to help customers manage their energy bills. The booklet includes energy efficiency advice, explains what happens if you can't pay and where to get further advice on debt counselling and money management. The aim of the booklet is to encourage people to contact ScottishPower at an early stage if they are having payment difficulties
- ▶ Contributing to industry driven initiatives, such as the Home Heat Helpline
- ▶ Maintaining and promoting our Carefree Priority Services Register for customers with special circumstances
- ▶ Offering customer literature, including bills and advice leaflets, in a variety of formats and languages
- ▶ Maintaining a team of experienced Community Liaison Officers who undertake home and community visits
- ▶ We provide free energy efficiency audits for households

Our 12 Impacts | Customers with Special Circumstances

Performance Summary 2006/07

- ▶ Contributed a further £1 million to the ScottishPower Energy People Trust. During this year alone The Trust awarded funding of over £1.7 million to 43 projects, helping 52,337 households
- ▶ Over 1,000 calls referred to ScottishPower from Home Heat Helpline, an industry initiative to provide a free, central phone number offering practical energy advice for people concerned about paying their energy bills
- ▶ Provided Carefree Register customers who pay by prepayment or weekly card, with a £50 payment to help with their winter fuel costs. In addition, this customer group was sent a information pack providing energy efficiency advice, measures and access to Benefit Health Checks to maximise their income
- ▶ 4,542 customer visits made by ScottishPower's Community Liaison Officers. In addition the Carefree Team carried out more than 17,000 gas safety checks, for domestic gas customers. This is one of the services that Carefree Register customers, the number of which increased by 3,000 last year, can benefit from
- ▶ Significant investment in customer energy efficiency programmes to help achieve our energy saving target under the three year Energy Efficiency Commitment. In the long term energy efficiency is one of the best solutions to fuel poverty. Using energy more efficiently can dramatically reduce the cost of light and power in any home

Performance Targets 2007

- ▶ Contribute a further £1 million to the ScottishPower Energy People Trust
- ▶ In the next three years we will invest over £200 million on improving the energy efficiency of homes across Britain. Many of these projects will be carried out in partnership with local authorities and housing associations whose tenants include a high proportion of vulnerable people. We have well over 60 such partnerships including four Warm Zone projects, two Community Energy Partnerships and two Community Energy Solution areas

Our 12 Impacts | Customers with Special Circumstances

Performance Detail 2006/07

ScottishPower Energy People Trust

The ScottishPower Energy People Trust is an independent charity set up by ScottishPower to help end fuel poverty in Great Britain. The Trust awards grant funding to not-for-profit organisations and groups that represent some of the most vulnerable people in our society, with particular emphasis on projects that involve children or young people.

The widely accepted definition of fuel poverty is when a household spends 10% or more of its income on energy to maintain enough warmth for health and comfort. The number of households estimated to suffer from fuel poverty is approximately 328,000 in Scotland, 2.2 million in England and 220,000 in Wales. The Government has set a target to eliminate fuel poverty in vulnerable households by 2010 and to end it completely in England and Scotland by 2016 and by 2018 in Wales. Fuel poverty usually occurs in low income households and homes that are hard to heat and keep warm due to the poor condition of the building and a lack of insulation. Many of these homes are in the social housing or private rented sector. The cost of energy also plays a part. Decreasing wholesale costs have resulted in a decrease in energy costs which should help some individuals out of fuel poverty.

ScottishPower opted to create a charitable trust rather than offer a social tariff, following a major research programme. We believe that by working with not-for-profit organisations the funding can be better targeted at those in need than would be possible with a social tariff. Visit the ScottishPower Energy People Trust website, telephone **0141 568 3388**, or email: enquiries@energypeopletrust.co.uk

At March 2007 the ScottishPower Energy People Trust had awarded funding of nearly £2.2 million to 57 projects, helping at least 56,000 households.

Among the projects to be funded was CLIC Sargent Scotland. The Trust funding will be used to provide crisis funds to help families with a child diagnosed with cancer or leukaemia deal with the unexpected financial burden they experience, such as loss of income through becoming a full time carer.

Many of the other projects, including Warming Bristol, focus on ensuring income maximisation for families and vulnerable individuals, and/or maximising the energy efficiency of homes through the installation of measures and through providing advice.

Projects such as Claverhouse in Dundee aim to achieve individuals long-term economic independence as part of wider programme addressing lifestyle changes, including individuals approach to using energy. See our case studies for more information, or view a summary of projects funded.

Organisations and groups can apply for funding to support projects or schemes covering:

- ▶ Crisis funding, for example, women and children needing emergency accommodation and vulnerable young people setting up their first home
- ▶ Benefits health checks or income maximisation - for example, helping households that are not claiming all the benefits to which they're entitled; or people who are not eligible for current Government grants or funding because they don't receive the appropriate benefit
- ▶ Energy efficiency measures - for example, a scheme that aims to improve the energy efficiency of homes by draught proofing, insulating and energy efficiency advice
- ▶ Research - for example, a research project that aims to understand the link between fuel poverty and health
- ▶ A combination of the above

Our 12 Impacts | Customers with Special Circumstances

Performance Detail 2006/07..I continued

Home Heat Helpline

ScottishPower has for a second year supported the Home Heat Helpline, an independent telephone service funded by the UK's six largest energy companies, designed to help people who are struggling to pay their energy bills or to keep warm in winter.

Independent advisors can provide information and advice on keeping warm and using energy efficiently, as well as payment plan options and how those with special needs can become a Priority Service Customer.

This year the helpline received more than 27,000 calls with over 1,000 of these being referred to ScottishPower.

The free phone number is **0800 33 66 99**. For further information visit the Home Heat Helpline website at www.homeheathelpline.org

"I would urge all older people and single parents on low incomes to take advantage of this helpline if they are having problems keeping their homes warm in winter. It is particularly pleasing to see the energy industry respond to the need to give appropriate advice on keeping warm and reducing energy costs to vulnerable customers."

Norman Kerr, Director of Energy Action Scotland

Carefree Register Payments

Whether they say they have come to check your meter, carry out repairs or tell you about new products, unexpected visitors to your door can make you feel uneasy.

To help offer you complete peace of mind, ScottishPower has special security measures in place through the Carefree scheme. As a Carefree member, you can choose a personal password to help you identify callers.

Your password is given only to staff who need to visit your home, so you can check quickly and easily that any visitors claiming to be from ScottishPower are telling the truth. Don't be embarrassed to ask - it only takes a minute and we are happy to help.

This year we provided existing Carefree Register customers who pay by prepayment or weekly card with a £50 payment to help with their winter fuel costs. In addition these customers were sent an information pack including energy efficiency measures and advice, and providing access to a Benefit Health Check to maximise their income.

The Carefree Team also carried out more than 17,000 gas safety checks for domestic gas customers - one of the services that customers on the Carefree Register can benefit from.

Community Liaison Officers

ScottishPower has a dedicated team of 12 Community Liaison Officers. Part of the role of these skilled and experienced employees is to identify and deal with vulnerable customers.

Last year ScottishPower's 12 Community Liaison Officers made over 4,500 customer visits, including 967 relating to energy efficiency and 576 home visits to customers with special needs. They also attended 34 community events, resolved various customer complaints and provided advice and information on heating and the Carefree Register.

Our 12 Impacts | Community

Overview

The nature of our business means that we are part of a wide variety of communities throughout the UK and US, from major cities, such as Glasgow and Liverpool, to vast rural areas, from the Scottish Borders to the prairies of Kansas.

Our presence, in the form of generation stations, windfarms, electricity networks and offices can directly affect the well-being of those communities – positively by providing jobs or sharing our resources, or sometimes adversely through works traffic or environmental effects such as noise.

Even where we don't have much of a visible presence in terms of infrastructure, members of our workforce, such as meter readers are involved with individuals in local communities nearly every day of the year.

It is important that our communities trust us, as we often need their cooperation to do our job effectively. Our relationship with local communities is something we can never take for granted, and as a result we must work hard to maintain that trust.

Stephen Dunn, Impact Leader

Our 12 Impacts | Community

Approach

Building the trust of communities and being a good corporate neighbour is essential to ScottishPower. We have a long track record of consulting with, and supporting local communities by sharing our resources, the skills of our employees and by offering financial support to projects that create real and lasting benefits.

Our aim is to be trusted by the communities we serve by being open and honest, by keeping people informed and by fulfilling the promises we make. When we invest in a community, we tend to be there for the long-term.

Our approach is simply as follows:

- ▶ **We consult with communities across our operations, particularly where we are planning new developments. This helps ensure community groups can give feedback and allows them the opportunity to input into the planning process.** For more information, see Sites, Siting and Infrastructure. At major sites, close to communities, we establish Local Liaison Committees. Where appropriate we have visitor centres to allow local communities and other interested groups to visit our operations. Equally our community programmes and sponsorships play an important role in identifying and addressing key issues of local concern
- ▶ **We promote payroll giving and encourage staff development through community programmes** as we believe enabling our employees to contribute to community causes has a powerful and positive impact on their levels of job satisfaction and performance. By using our programmes to develop leadership and other people skills, our community programmes benefit both the community and our businesses, and helps ensure their sustainability
- ▶ **Each of our businesses operates distinct community programmes relevant to their strategy.** These programmes, ranging from science and safety related educational projects, to support for energy efficiency are focused on helping young people. Our flagship community programme, ScottishPower Learning is focused on employability
- ▶ **We recognise our economic impact on local communities** and we are committed to maximise local benefits wherever possible

Our 12 Impacts | Community

Performance Summary 2006/07

- ▶ Overall Community Investment - £4.60 million (2005/06 - £3.83 million)
- ▶ Community Consultation – Re-accreditation in May 2007 of the Environmental Big Tick we received in June 2006 from Business in the Community for our approach to windfarm development at Black Law. Over £600,000 was provided to local communities through our windfarm development trust funds in 2006/07
- ▶ Community Programmes are now aligned with our business strategy
- ▶ **Employability** - Milestone reached - ScottishPower Learning celebrated its 10th year at a celebratory event held at the Scottish Parliament. See Case Study
- ▶ **Public Safety** - 80,000 schools pupils reached across a range of public safety education programmes. 50,980 pupils at 254 primary schools benefited from “Be Safe with ScottishPower”
- ▶ **Science** – 62,000 school pupils benefit from sponsorship of Generation Science
- ▶ **Energy Efficiency** – 13,000 young people benefit from school athletics sponsorship
- ▶ 233 ScottishPower staff participated in Community Development programmes during 2006/07, an increase of 38% from 2005/06
- ▶ Jubilee Award from Business in the Community for ScottishPower Learning, a Big Tick for ScottishPower Learning's School to Work Programme and 3 other Big Tick reaccreditations in the 2007 Awards

Performance Targets 2007

- ▶ Involve 150 staff in community programmes as part of their development during 2007, through ScottishPower Learning
- ▶ Develop and launch new Energy Networks public safety education programme

Our 12 Impacts | Community

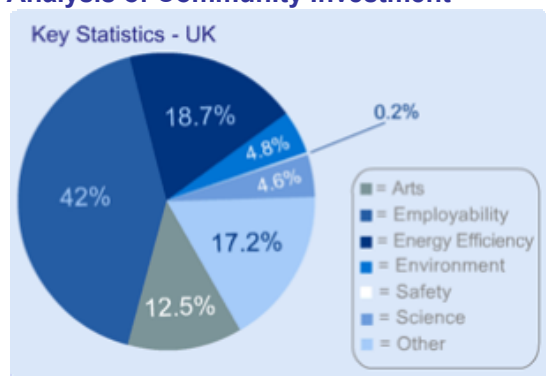
Performance Detail 2006/07

Overall community investment

In order to encourage benchmarking and comparability, ScottishPower uses the London Benchmarking Group (LBG) model to evaluate community support activities across the group. The LBG is the standard for community reporting currently adopted by 105 leading UK companies. It endeavours to provide consistency and comparability across the companies and to account for the total impact on communities, rather than charitable contributions alone. ScottishPower's use of the model is reviewed each year by the LBG to help ensure its evaluation principles are correctly and consistently applied.

During 2006/07, ScottishPower businesses in the UK contributed £4.60 million (2005/06: £3.83 million) in community support activity, of which £2.78 million was contributed to registered charitable organisations. The total also incorporated £1.27 million categorised by the LBG model as charitable gifts, £3.04 million categorised as community investment and £292,317 categorised as commercial initiatives, given in cash, through staff time and in-kind donations.

Analysis of Community Investment



Strategic Alignment

In 2005/06 we simplified our community strategy, and aligned it more clearly to our business strategy. During 2006/07 we embedded this strategy across our businesses. As a result, all UK community programmes are focused on helping young people. These programmes are themed to align specifically to each business. At a corporate level, following internal and external consultation, we have moved significantly to align all corporate sponsorships and programmes to a single theme – education /employability.

At a business level our community programmes focus on the following themes:

Corporate	Education/Employability
Energy Networks	Public Safety
Energy Wholesale	Science
Energy Retail	Energy Efficiency

Community Consultation

We consult with communities when we are planning new developments to ensure they have the opportunity to input into the process. For more information, see Sites, Siting and Infrastructure.

In the last year, many of the key new developments we embarked upon were onshore windfarms. Before entering the formal planning process, we began extensive consultation with stakeholders, in particular those in the local community. This consultation continued throughout the planning process and beyond.

Our 12 Impacts | Community

Performance Detail 2006/07 | continued

At major sites that are close to communities, such as Longannet and Cockenzie power stations, we have established Local Liaison Committees that meet regularly to discuss topics of mutual interest. At these sites, we have close links with the local community.

We also have visitor centres at several of our sites – Cruachan Power Station's centre, near Oban, is particularly successful and welcomes visitors all year round. A new visitor centre is planned at our Whitelee Windfarm. For more information about our visitor centres, see the Community section of the website.

Education/Employability

ScottishPower Learning is ScottishPower's corporate community programme focusing on employability. The long term impact of ScottishPower Learning's work was recognised through a Jubilee Award by Business in the Community, as well as four Big Ticks across its range of programmes.

During 2006/07, over 10,000 young people benefited from ScottishPower Learning's programmes, with 1,306 being trained directly by ScottishPower staff. Our programmes can be split into three broad categories:

School-Based Programmes designed to support the school to work transition and reignite a passion for learning

- ▶ 710 pupils participated in a range of intensive programmes including School to Work (205 pupils), Young Managers (95 young people) and Looking Forward to Work (234 participants) during 2006/07
- ▶ In recognition of the success of the School to Work programme, Business in the Community awarded a Big Tick in the Raising Achievement in Young People category
- ▶ ScottishPower Learning has sponsored an innovative programme developed by the newly created National Theatre of Scotland. Transform allows schools and creative communities to transform their approaches to learning. During the year over 1,000 people took part
- ▶ Through ScottishPower's sponsorship of the RSNO School Prom, nearly 7,500 pupils participated in a range of musical workshops and performances

Community Based Programmes designed to help unemployed young people build their skills in preparation for work

- ▶ During 2006/07, ScottishPower Learning delivered 16 Prince's Trust Team programmes involving 182 young people
- ▶ Community Champions is a community awards and recognition programme covering our operating areas in Merseyside and North Wales
- ▶ Project Scotland is an initiative which was created to connect young Scots with fulltime volunteering opportunities. ScottishPower is a founding champion and corporate sponsor of Project Scotland with financial support committed until 2007/08
- ▶ As an Outward Bound Trust Patron's Company, ScottishPower Learning helped 131 young people from 4 schools and 4 community initiatives access a development course at the Loch Eil residential centre

Our 12 Impacts | Community

Performance Detail 2006/07 | continued

Work Based/Vocational Programmes designed to provide young people with work experience and training

- ▶ During 2006/07, 69 young people benefited from our Skillseeker programme. The programme's success rate has continued to improve in recent years with over 80% of participants in the last 3 years moving into sustainable employment. To date over 1,200 school leavers have benefited from the Skillseeker programme
- ▶ The Skillseeker programme was awarded a Big Tick from Business in the Community during 2006
- ▶ We continued our sponsorship of Ballet Central, which provides young dancers with the essential experience in staging live dance performances which is required to support their future career aspirations

Staff Development in the community

We believe that enabling our employees to contribute to community causes has a powerful and positive impact on their levels of job satisfaction and performance. By using our programmes to develop leadership and other people skills, our community programmes benefit both the community and our businesses and helps ensure their sustainability.

During 2006/07, 233 staff participated in community development programmes through ScottishPower Learning. These ranged from frontline staff becoming mentors to young unemployed school leavers on our Skillseeker programme, to secondments as Prince's Trust team leaders, to senior managers joining the boards of charitable organisations.

Evaluation of this innovative form of staff development has been completed. The data shows that it is highly valued way of enhancing skills and that it can be very motivational and inspiring. Staff are also proud that the company actively demonstrates its commitment to local communities.

The evaluations shows:-

- ▶ They had developed new skills and enhanced existing ones (95.7%)
- ▶ It encouraged them to interact with their colleagues in a new way (88.5%)
- ▶ They had developed their coaching skills (73.4%)
- ▶ It was a fun and motivating experience (95.7%)
- ▶ They had developed their communication skills (83.2%)
- ▶ They felt proud of the company as a result of promoting its community activities (88.4%)
- ▶ It helped develop team working skills (80.0%)

Staff commented as follows:-

"A greater awareness for me of how ScottishPower can have a positive impact on our communities, by seeing real school children learning in real situations facilitated by ScottishPower staff. I have a greater sense of pride and purpose in the company."

"The reality that hard work in the community benefits much more than just those you help. It also benefits all those involved in the experience and gives a great sense of community spirit."

"I really enjoyed it and would recommend it to my colleagues."

"Participating in the programme has provided a development opportunity that would be hard to get elsewhere. For me, it is a chance to work and reflect on softer people skills in a real but 'safe' environment – a classroom training course could not provide this."

Our 12 Impacts | Community

Performance Detail 2006/07 | continued

"It gave me a chance to practice being a mentor in challenging situations. This will stay with me throughout my life as a manager."

"Achievement of giving something back to the community whilst representing the company."

Teams of ScottishPower staff have also benefited from this innovative form of skills development. Staff from Business Improvement, Energy Wholesale joined one of the ScottishPower Learning delivered Prince's Trust Teams during their community project challenge.

They worked with the unemployed young people to reclaim a large number of plants, shrubs and trees from Croftgroighn School in Garthamlock which was being demolished. The school caters for children with severe and complex learning disabilities and was relocating to new premises. The plants were taken to the ScottishPower offices in Cathcart and sold to staff. Nearly £400 was raised from the sale and the Business Improvement team donated a further £250 to the school.

David Anderson, Business Improvement Director said; "We all got a lot out of this – we learned a little more about ourselves, a little more about each other, some more about the good work of the school and quite a bit about the young people on the Prince's Trust programme. Many on our team thought it worked for them on so many levels and all were pleased to have taken part."

A group of ScottishPower Graduate Trainees also participated in a community based activity as part of their graduate training programme. They joined a Prince's Trust Team led by a ScottishPower Team Leader, to help the Samaritans Purse and the Operation Christmas Child campaign to send toys, books and clothing to some of the world's poorest children. This provided an excellent opportunity to bring together graduates and young people from disadvantaged backgrounds, to share a common experience and work as a team. The graduates enhanced their understanding of the issues facing young people today and learned how people from different backgrounds have many things in common. This community intervention supported their diversity awareness training to which ScottishPower is committed.

For more information on ScottishPower Learning and its programmes, see the Community section of the website.

Public Safety

For Energy Networks, public safety is the key issue that drives its community programme.

We recognise that World Class health and safety is not restricted to the confines of the workplace, rather, such standards encapsulate all areas where our operations impact the wider society. Our accident statistics, whilst better than the average for our sector, sadly indicate that members of the public – predominantly children, young persons and contractors, are often unaware of the risk associated with the plant and equipment that form our network operations. A holistic approach to managing health and safety must therefore prevail. The business supports and runs a range of programmes designed to help improve the awareness in young people of the dangers of electricity.

Energy Networks currently provide safety information and educational events to the public, including schools; high-risk industrial sectors, such as farming, agriculture and leisure; and contractor associations and trade bodies. Within the last twelve months, our public safety initiatives have been recognised by the DTI, the Health and Safety Commission, and the Health and Safety Executive as amongst some of the most productive and innovative activities they have observed in our industry.

We believe that education starts early and our 'Be Safe with ScottishPower' classroom lessons are part of a pioneering safety education programme to teach primary school children the potential dangers of electricity. In 2006/07, 50,980 children received important safety messages from this programme in Scotland, England and Wales.

Our 12 Impacts | Community

Performance Detail 2006/07 | continued

With over 525,000 primary school children in our operating regions we offer a range of other activities to help reach our target audience. Crucial Crew is a national experiential learning event where children take part in a range of fast-paced scenarios designed to raise awareness of the inherent dangers of electricity and other common hazards. Last year Energy Networks presented key safety messages to over 15,000 children at ten Crucial Crew events across the UK.

Energy Networks also support three innovative, dedicated Safety Education Centres within our network areas. We have realistic substation and overhead line environments at centres based at Priesthill in Glasgow; DangerPoint in North Wales; and a brand new centre called The Risk Factory in Edinburgh. In 2006/07 Energy Networks were able to extend electrical safety messages to in excess of 22,000 children via these centres.

Children's safety education is driving forward with the planned launch of a new interactive website for 2007/08 which will be accessed at www.powerwise.org.uk. This site is packed with lesson plans, interactive games and useful information that both parents and teachers can use. With lesson plans and activities aligned to the National Curriculum for Scotland, and England and Wales our website provides teachers with an instant and invaluable resource to use in the classroom.

In 2006/07 Energy Networks joined the Health and Safety Executive's Agricultural Industry Advisory Group to raise the awareness of electricity safety issues in this sector. Our team of public safety specialists have published guidance and feature articles in a number of trade and industry journals such as those issued by the Institution of Occupational Health, and the National Farmers Union. We recognise that electricity can present a potential hazard to other industries and have sent targeted mailshots to over 400 trade groups and associations including Council Planning departments, boating and yachting marinas and leisure aircraft users and balloonists. The emergency services play a key role in responding to incidents which may occur on our sites, and we have built close working relationships with each of the response services delivering bespoke training events and distributing informative bulletins to ensure that firefighters, paramedics, and police officers are aware of potential dangers and have the knowledge essential to stay safe.

We're proud of our positive approach to public safety and invite you to become 'PowerWise' too - why not log onto our PowerWise website, or email us at ensafety@spenergynetworks.co.uk for more information.

Science

ScottishPower is a business built on science and technology so it makes real business sense for us to support initiatives that encourage a greater interest and understanding of science among young people. Interactivity is a common thread running through our science programmes, and during 2006/07 we supported an exciting range of science projects across the UK. These included:

- ▶ Primary school pupils from all over Scotland got the chance to learn about science and energy as part of the Generation Science programme that ScottishPower sponsored as part of the Edinburgh International Science Festival. The programme of 17 shows entertain youngsters in the 7 to 11 age group, seen by more than 62,000 children from the Highlands to the Borders. This is the first year for ScottishPower as headline sponsor following the success of supporting a show called Light fantastic last year
- ▶ ScottishPower sponsored The Royal Society Glasgow Science Exhibition which took place from 12 to 14 September 2006 at the Glasgow Science Centre. The exhibition comprised of 22 exhibits from around the UK, and was attended by 1,750 people, including 31 school groups
- ▶ We continued our sponsorship of the ScottishPower Planetarium – the UK's largest – at the Glasgow Science Centre. Each year, around 70,000 visitors visit the planetarium where 15 presenters, supplemented by guest speakers from the world of science, deliver five shows a day

Our 12 Impacts | Community

Performance Detail 2006/07 | continued

- ▶ Over twenty schools received the innovative S Cube during 2006/07. The S Cube allows children to build simple electrical circuits, powered by renewable energy, to conduct a series of experiments designed to increase their understanding and enjoyment. Produced by Solar and Wind Applications in Ayr, the S Cube is an excellent tool which highlights many of the advantages and disadvantages of renewable energy
- ▶ New windfarm education pack developed. Whenever possible, ScottishPower Renewables welcomes school visits to our operational windfarms. In order to help children gain the maximum educational benefits from these visits, an education pack, written by teachers, for teachers, has been produced. Every school visiting one of our windfarms is now given a pack in advance. We allow schools to reproduce the material in the pack for educational purposes. Over 20 schools received the education pack during 2006/07

Energy Efficiency

Within Energy Retail, community sponsorships are designed to help young people become more energy efficient. That's why we sponsored Scottish schools athletics through the "Energising Scotland's Youth" initiative, which is encouraging children to switch off their televisions, computers and hi-fis and engage in sport instead.

Around 13,000 young athletes were put through their paces at a series of sporting events. Junior athletes from across Scotland took part in events including the ScottishPower National Cross Country Championships at Falkirk's Callendar Park in February, the Secondary School Indoor Championships at Glasgow's Kelvin Hall International Sports Arena and primary and secondary schools cross country events at Irvine and Kirkcaldy.

Equally our Read for the Future campaign with Friends of the Earth is not only encouraging children to switch off electrical gadgets in favour of reading, but is helping to improve literacy standards and raising money for energy efficiency projects. For more information, see Read for the Future case study.

During 2006/07 the Green Energy Trust funded 11 projects across the UK, totalling £127,744. Many of the Trust's projects are in schools, and are helping to educate people about the benefits of renewable energy, and, in many cases, helping save money on fuel bills. In 2005, for the first time, the positive impact that Green Energy Trust projects are having on local communities was recognised with a Big Tick from Business in the Community in its annual awards scheme. The Big Tick was reaccredited in 2007.

Our 12 Impacts | Procurement

Overview

ScottishPower purchases goods and services from hundreds of suppliers to meet the needs of our businesses.

We purchase components for our windfarms, power stations and networks, and thousands of other items necessary for a large and diverse business, ranging from IT equipment to envelopes. We also buy many services ranging from financial auditing and specialist engineering services, to catering, security, design, print and IT support.

We have an obligation to manage the sourcing and award of contracts in a fair, transparent and non-discriminatory manner and to treat suppliers fairly and with integrity. We also recognise that in doing work on our behalf, many of our suppliers are an extension of our business and therefore must be expected to adhere to acceptable social, environmental and business performance standards.

One of the major challenges for today's companies is maximising the benefits of globalisation without adverse social and environmental impacts. Whilst offering new opportunities, the globalisation of supply chains exposes business to the challenge of managing ethical risk.

ScottishPower operates increasingly in this global marketplace, sourcing products and services on a truly worldwide scale as the migration of many manufacturing and service providers to lower cost economies continues apace. For example, there is just one manufacturer of distribution transformers in the UK, compared with several only a few years ago – resulting in electricity companies having to widen their search across the globe to obtain a competitive pool of suppliers.

Meanwhile, the drive to reduce emissions through a low sulphur coal policy has involved a global search for suitable suppliers culminating in contracts being placed for the supply of coal from Russia, Colombia, South Africa and Australia. As the UK's domestic gas supplies diminish, British energy companies are having to look further afield to secure long term contracts that will ensure security of supply for their customers in the future.

Susan Reilly, Impact Leader

Our 12 Impacts | Procurement

Approach

Our aim is to ensure we source goods and materials at a cost and quality that best meet our needs, while ensuring full consideration is given to the environmental, social and ethical credentials of suppliers – both at home and overseas. Together with other utilities, ScottishPower is working to ensure that our formal supplier qualification process, called Achilles, meets these requirements. Achilles is used by numerous utilities within the UK.

The UK Procurement Team is committed to maintaining compliance of their operations against the increasingly complex range of UK and European legislation and codes, and demonstrating this as part of the authorisation process for each contract. ScottishPower's Red Book on compliance behaviour and the law sets out minimum standards, principles and policy for the Team's approach to compliance.

Our approach to procurement in the UK includes:

- ▶ Implementing a standard approach to supplier pre-qualification and tender evaluation that includes assessing the environmental, social and ethical credentials of potential suppliers in the UK and overseas, as well as ensuring good financial value. This is assisted by the use of the Achilles UVDB (Utilities Vendor Database) and their Verify scheme, which is a second stage supplier verification and assessment scheme applicable for high risk contracts, particular in the areas of safety, health, environment or quality (SHEQ)
- ▶ Ensuring contract award letters include a requirement for health and safety induction training for all contractors working on our sites
- ▶ Conducting Supplier Audits
- ▶ Including social factors into our coal supply contracts. Fuel procurement, one of our biggest areas of spend, is handled by a separate specialist team in Energy Wholesale. We review a number of factors as part of coal supply contracts. These factors include management of local operations, social and welfare arrangements for local employees, living standards, health and education provisions, and comparisons of local salaries against both industry and national average wages

In the US it is PPM's policy that all materials, supplies, equipment and services shall be competitively procured from responsible and qualified contractors and suppliers, evaluated to provide the best overall value consistent with performance, technical, schedule, safety, risk management, credit, and environmental protection requirements. All procurement must be in compliance with all applicable laws, regulations, and company policies on ethical business conduct.

Our 12 Impacts | Procurement

Performance Summary 2006/07

Objectives delivered during 2006/07

- ▶ The procurement function was restructured to better meet customer needs and manage suppliers effectively
- ▶ Promotion of continuous professional development of procurement staff towards membership of CIPS (The Chartered Institute of Purchasing and Supply)
- ▶ Agreed a strategy internally and externally for making Verify a mandatory requirement for all high risk contractors within Energy Networks and Energy Wholesale
- ▶ Provided confidential feedback to all unsuccessful suppliers when requested

Performance Targets 2007

- ▶ Make verify membership a mandatory requirement for all high risk contractors
- ▶ Strengthen our supplier relationships by introducing a category management strategy
- ▶ Extend our safety and environmental auditing of contractors working in Energy Wholesale, across other business units

Our 12 Impacts | Economic

Overview

A company's economic impacts are significant at individual, local, national and global levels. However, many of these are not measured and reported through traditional financial accounting.

We pay the wages and salaries of over 10,000 people both here and in the US, and therefore indirectly support a whole range of businesses used by our staff, which in turn generates tax revenues for public services. The purchases we make from supplier companies directly benefit another tier of companies and employees, and generate further tax revenues for Government. Many of the UK's largest pension funds have holdings in our parent company, Iberdrola, and therefore people throughout the UK benefit from ScottishPower's strong financial performance, whether or not they are directly linked to ScottishPower as suppliers, customers or employees.

With energy a fundamental part of the national economy, changes in wholesale energy prices affect many aspects of the economy, both directly and indirectly. ScottishPower as a major part of the UK energy industry, recognises the impact of energy prices on society.

Our 12 Impacts | Economic

Approach

Our aim is to operate in a way that considers the economic effects of our actions on all our stakeholder groups:

Shareholders

As a subsidiary of the Iberdrola Group, we believe that by operating our business in a responsible way with regard to our employees, the environment and society generally, we will generate the best return for our shareholders in the long-term

Customers

We recognise the impact of energy prices on our customers, and we report the measures we take to minimise that impact within Customer Experience

Employees

We aim to offer our employees a competitive employment benefits package, for more information, see Employment Experience

Suppliers and local economies

We aim to create relationships with suppliers and the local economies in which we operate which are long-term and mutually beneficial.

Examples of our approach include:

- ▶ Our Renewables and Major Projects business is committed to ensuring our windfarm developments provide economic opportunities for local businesses and has led a project in this area for FREDS – the Forum for Renewable Energy Development in Scotland
- ▶ All our customer service centres are UK based – in Scotland, the northwest of England and in Wales – and we remain committed to supporting the economies of the communities we serve
- ▶ We also support economies in our home territories by providing employability training for disadvantaged young people. This includes our award-winning ScottishPower Learning initiative which has to date trained over 13,000 young people within our local communities
- ▶ We fund local community trusts, in all areas where we develop windfarms
- ▶ In the US, property taxes for wind turbines amounting to many hundreds of thousands of dollars annually are helping to support small counties, funding schools and infrastructure, while lease payments to individual landowners are helping to preserve family farms, shielding them against the effects of fluctuating crop prices

Our 12 Impacts | Economic

Performance Summary 2006/07

Key Financial Measures		
Continuing Operations	2006/07 £ million	2005/06 £ million
Revenues	**	5,446.10
Adjusted Operating Profit*	**	804.5
Non-fuel Purchases	**	723.1
Total Payroll	**	376.5
Corporation Taxes Paid	**	74.8
Donations and Community Investment	**	3.8

*Adjusted Operating Profit above has been presented in accordance with the basis applied in the Financial Statements 2006/07

**Our results will be updated here when our 2006/07 Financial Statements are published

Performance Detail 2006/07

Employability training figures

2006/07	2005/06
1,306 people	1,300 people

(more than 13,000 to date)

We continue to work with young people in our communities to enhance their employability and help them develop the skills necessary for the world of work

Skillseekers into work figures

2006/07	2005/06
81.5%	80.3%

Our Skillseekers programme continues to have a very high success rate of skillseekers moving on into employment or further education. Our average success rate over 10 years is 75%.

Flue Gas Desulphurisation

In 2006, we commenced work on a £170 million programme to install Flue Gas Desulphurisation (FGD) equipment at Longannet Power Station. This will extend the life of the plant, secure jobs for the 320 permanent staff on site, improve its environmental performance and directly provide 300 construction jobs in Fife for the next two years.

Independent Assurance Statement



Scope and objectives

ScottishPower commissioned **csrnetwork** to undertake an independent assurance engagement over the information and data within the online version of the ScottishPower 2006/07 Corporate Responsibility Report ('the Report'). The objectives of the assurance process were to check claims and the systems for collection of data, and to review the arrangements for the management and reporting of sustainability issues. The assurance process was conducted in accordance with the AA1000 Assurance Standard, and we have commented on the report against the principles of materiality, completeness and responsiveness. Any financial information contained within the Report is excluded from the scope of this assurance process, as are case studies and any information or claims relating to Iberdrola. The scope of our work did not include a review of the Report against the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.

Responsibilities of the directors of ScottishPower and the assurance providers

The directors of ScottishPower have sole responsibility for the preparation of the Report. In performing our assurance activities, our responsibility is to the management of ScottishPower, however our statement represents our independent opinion and is intended to inform all of ScottishPower's stakeholders including the management of ScottishPower. We were not involved in the preparation of any part of the Report. We have no other contract with ScottishPower. This is the fifth year that we have acted as independent assurance providers for ScottishPower. We adopt a balanced approach towards all ScottishPower stakeholders and a Statement of Impartiality relating to our contract with ScottishPower will be made available on request. The opinion expressed in this assurance statement should not be relied upon as the basis for any financial or investment decisions. The independent assurance team for this contract with ScottishPower comprised Jon Woodhead, Todd Cort and Judith Murphy. Further information, including a statement of competencies relating to the team can be found at: www.csrnetwork.com

Basis of our opinion

Our work was designed to gather evidence on which to base our conclusions. We undertook the following activities:

- ▶ We conducted interviews with a selection of directors and senior managers responsible for areas of management and stakeholder relationships covered by the Report. The objective of these discussions was to understand ScottishPower's governance arrangements and management priorities;
- ▶ We discussed ScottishPower's approach to stakeholder engagement with relevant managers, and we attended a stakeholder consultation session held during March 2007;
- ▶ We conducted a top level review of issues raised by external parties that could be relevant to ScottishPower's policies to provide a check on the appropriateness of statements made in the report;
- ▶ Subject to the exclusions set out below under 'Observations', we reviewed data collated at the corporate level, and claims made in the Report. We undertook verification of selected data and claims through meetings with managers responsible for gathering data within the Credit 360 system, reviewed their processes for gathering and ensuring the accuracy of data, and requested supporting evidence;
- ▶ In addition to our review of consolidated corporate data we reviewed the business level controls and assurance processes in place. This included reviewing the external audit that was undertaken of the site level environment data reported by Energy Wholesale;
- ▶ The scope of our work included a meeting with the Energy Efficiency Commitment (EEC) Team to review the ScottishPower programme for meeting Government energy saving targets. We visited a local installation to review work under the EEC programme;

Assurance Statement I continued

- ▶ We undertook an assessment of the company's reporting and management processes against the principles of materiality, completeness and responsiveness as described in the AA1000 Assurance Standard.
- ▶ We reviewed claims and data contained within the Report presented to us on 25th June 2007 with the understanding that this material would be published on the ScottishPower website.

Observations:

Materiality – has ScottishPower provided information on material issues to enable stakeholders to make informed judgements?

- ▶ **With the exception of the issues noted below** the Report includes information on ScottishPower's main corporate responsibility performance issues and should enable stakeholders to make informed judgements.
- ▶ In our statement last year we recommended that ScottishPower should consider providing further discussion of the reasons for changes in **wholesale energy costs and the volatility of future domestic energy prices**. Given the significance of these issues over the reporting period, the ability of stakeholders to make judgements in this area would be improved by inclusion of additional data on price volatility. Also, although we note ScottishPower's ongoing commitment to addressing issues surrounding fuel poverty, the discussion of the impact of recent price rises in this area could be expanded.
- ▶ In our statement last year we recommended that ScottishPower should include in the report information on how the **current emission levels** compare with the corporate targets for CO₂, SO₂ and NO_x emissions reductions against 1999 baseline data. We restate this recommendation.
- ▶ Reporting under the **'Procurement' impact area** does not provide sufficient information on the company's actions and performance during the year, to enable stakeholders to make informed judgements about issues identified within the 'overview' and 'approach' sections. We recommend that ScottishPower considers developing a set of key performance measures for this area, and introduces management arrangements to provide systematic information against issues of concern to stakeholders.
- ▶ The **'Waste and Resource Use' impact area** would benefit from additional commentary on performance – particularly where performance has moved adversely since 2005/06.

Completeness – does ScottishPower have systems in place to understand changes to stakeholder expectations and to provide complete and accurate information against the issues identified as material for inclusion in the Report?

On the basis of the method and scope of work undertaken and the information provided to us by ScottishPower:

- ▶ For **environmental performance data**, nothing came to our attention to suggest that these data have not been properly collated from information reported at divisional level. The reporting of some issues such as waste management is constrained by the availability or comparability of data and work continues to make additional improvements to the relevant reporting processes. The move to reporting on 'total energy generated' as opposed to 'energy sent out' from generation facilities, has improved the completeness of these data.
- ▶ For **health and safety performance data**, nothing came to our attention to suggest that these data have not been properly collated from information reported at divisional level.

Assurance Statement I continued

- ▶ For other **social performance data**, nothing came to our attention to suggest that these data have not been properly collated from information reported at divisional level. Specifically, for data collated under the Energy Efficiency Commitment (EEC) programme, which is also independently reported to OFGEM, we reviewed sample data and calculations. For these data, nothing came to our attention to suggest that these data have not been properly collated from information reported by project managers.
- ▶ In our statement last year we recommended that consideration should be given to more complete **reporting on subsidiaries and joint ventures**. We re-state this recommendation. For example, we recommend that ScottishPower provide performance data across the 12 impact areas from joint ventures such as ScotAsh and wholly owned subsidiaries such as SMW, and make clear when these organisations are included and excluded in Group data.
- ▶ The work undertaken during the year to ensure strategic alignment of corporate sponsorships and community programmes is reflected in more systematic reporting of activity in these areas.
- ▶ We recommend that future reports should include additional information on the uptake of 'green' energy products, the impact of extreme weather events on key performance measures such as quality of supply, and data on all complaints received by the business in addition to those received via Energywatch.


Responsiveness – how does ScottishPower demonstrate that it has responded to stakeholder concerns?

The structure of internet based reporting introduced last year continues to provide a flexible and appropriate approach to making information available to ScottishPower's stakeholders. We recommend that over time, greater use be made of this media to enable representation and recognition of the viewpoints of stakeholders about the key issues.

The stakeholder workshops undertaken in March 2007 provided useful information on stakeholder expectations and feedback that has been incorporated into the report. The report would be improved through specific recognition of how the company understands the concerns of its stakeholders, and explicit links to where the report provides information on the company's response. A summary of the main changes to the report resulting from stakeholder feedback would also increase transparency, for example whether the company has responded to feedback around the prioritization of the 12 impacts areas.

csr network ltd

U.K. June 2007



Jon Woodhead
Director



Todd Cort
Principal Consultant



JM Murphy
Judith Murphy
Consultant

csrnetwork is a business focused, corporate social responsibility consultancy organisation, bringing together specialists from the fields of environmental management, social accounting, and sustainable development.
www.csrnetwork.com