

ScottishPower Energy Retail Limited

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

Registered No SC190287



ScottishPower Energy Retail Limited

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

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ScottishPower Energy Retail Limited

Directors' Report

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

Activities and review

The principal activity of ScottishPower Energy Retail Limited, the "company", is the supply of electricity and gas to domestic and business customers throughout Great Britain along with associated customer services such as the sales and marketing of electricity and gas to customers, together with the associated customer registration, billing and receipting processes and handling enquiries in respect of these services. The company will continue with this activity for the foreseeable future.

The company has net current liabilities of £25.0 million at 31 March 2006 (2005 net current assets of £49.6 million), which includes a group loan of £286.7 million (2005 £132.7 million). The directors consider that sufficient funding will be made available to the company by its ultimate parent company, Scottish Power plc, to continue operations and to meet liabilities as they fall due.

Key factors affecting the business

The company is an integral component of ScottishPower's Energy Supply business and is the holder of the ScottishPower group supply licences. The key driver impacting the company's financial performance is the ability to maintain gross margins by managing commodity costs and tariff changes, given that the company is operating in a very competitive market place. Other factors affecting financial performance include variability in customer demand for energy, abnormal weather and the success of the company's pro active approach to debt management.

The company's focus is on gaining profitable customers and the current period of high wholesale prices led the business to slow its rate of customer growth. The company expects this policy to continue in the short term, whilst concentrating on maximising the value of the existing customer base. Against this background, and strong competition, customer numbers have grown to 5.25 million at 31 March 2006 (2005 5.11 million).

The energy markets remain very competitive, and meeting customers' expectations on service is a challenge faced by the whole sector. The company continues to drive customer service improvements and cost efficiency through the 6 Sigma process improvement programme.

Operational financial performance

In the current climate of high input costs the directors are satisfied with the year end financial performance and expect that profits will recover in the future as wholesale prices stabilise and retail tariffs reflect the full cost of energy.

The company's turnover increased by £385.1 million as a result of tariff increases and an increase in customer numbers. Cost of sales increased by £460.4 million mainly as a result of an increase in wholesale energy prices. Not all of the increase in wholesale energy costs was passed onto customers during the year resulting in a decrease in gross profit of £75.3 million.

Operating profit decreased by £99.3 million to £11.6 million mainly as a result of the timing of tariff increases compared with the increase in wholesale gas and electricity costs as described above. Inflation and the cost of serving the increased customer base, together with restructuring costs of £4.9 million also impacted upon operating profit.

Profit before tax decreased by £102.7 million as explained above and as a result of an increase in interest charges of £3.4 million on higher group loan balances.

ScottishPower Energy Retail Limited

Directors' Report – continued

Results and dividend

The profit for the year amounted to £2.4 million (2005: £74.1 million). The directors recommend that no dividend be paid in respect of the year and that the retained profit for the year be transferred to reserves.

The company has applied Financial Reporting Standard ('FRS') 21 'Events after the balance sheet date' for the first time in these Accounts and, as a result, dividends declared after the balance sheet date are not accrued as was the previous practice. Other creditors have decreased and profit and loss reserves have increased at 31 March 2005 by £73.2 million as a result of excluding the proposed final dividend for the year ended 31 March 2005.

Financing review

Capital and Debt Structure

The company is funded by a combination of debt and equity. All equity is held by the immediate parent undertaking, ScottishPower Investments Limited. The majority of the loan facilities have been granted to the company by Scottish Power UK plc.

Treasury and Interest Policy

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

Funding

The loan from Scottish Power UK plc, and other group undertakings, represent drawings under working capital facilities (refer Note 10). The principal outstanding, accrued interest and associated costs are payable on written demand. Interest is calculated at a rate of 1% above base rate and is payable quarterly in arrears.

At the end of the year the company had net debt amounting to £274.0 million (2005: £95.2 million).

Liquidity

The directors confirm that the company remains a going concern on the basis of its future cash flow forecasts and has sufficient working capital for present requirements.

Management of risks

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

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

ScottishPower Energy Retail Limited

Directors' Report – continued

Employees

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

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

Equal Opportunities

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

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

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

Employee Communication

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

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

Employee share schemes

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

Environment

Throughout its operations the company strives to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice. A more extensive description of the ScottishPower group environmental requirements can be found in the Annual Report & Accounts of Scottish Power plc for the year ended 31 March 2006.

ScottishPower Energy Retail Limited

Directors' Report – continued

Health and Safety

The company has a clear strategy to continue to improve health and safety performance using ScottishPower group health and safety standards. A more extensive description of how ScottishPower as a group addresses health and safety requirements can be found in the Annual Report & Accounts of Scottish Power plc for the year ended 31 March 2006.

Directors and their interests

The directors who held office during the year were

Charles Berry (resigned 6 September 2005)

Willie MacDiarmid

David Wark

Neither of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company. The interests of the directors (other than those who are also directors of a parent company of the company) in the shares of Scottish Power plc, at the beginning and end of the year, were as follows

	At 1 April 2005	Granted/ appropriated/ other net movement	Exercised	Lapsed	Vested	At 31 March 2006
Willie MacDiarmid						
Shares						
Ordinary Shares (*)	13,785	12,568				26,353
ESOP Free & Matching Shares (#)	1,630	290				1,920
Deferred Share Plan (†)	5,947		(5,947)			
LTIP – Potential (**)	80,838	24,411		(11,887)	(11,758)	81,604
LTIP – Vested			(11,758)		11,758	
Options						
Executive Scheme	184,455		(89,133)			95,322
Sharesave Scheme	4,729					4,729

	At 1 April 2005	Granted/ appropriated/ other net movement	Exercised	Lapsed	Vested	At 31 March 2006
David Wark						
Shares						
Ordinary Shares (*)	2,593	3,463				6,056
ESOP Free & Matching Shares (#)	1,630	290				1,920
Deferred Share Plan (†)	2,418		(2,418)			
LTIP – Potential (**)	30,859	8,875		(4,785)	(4,732)	30,217
LTIP – Vested			(4,732)		4,732	
Options						
Executive Scheme	71,631		(35,882)			35,749
Sharesave Scheme	5,123					5,123

ScottishPower Energy Retail Limited

Directors' Report – continued

Directors and their interests continued

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

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

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

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

Creditor payment policy and practice

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

The company's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts, and to pay in accordance with its contractual and legal obligations. The company's creditor days at 31 March 2006 were 10 days

Directors' responsibilities

The directors are required by UK company law to prepare Accounts for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for the period

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the Accounts for the year ended 31 March 2006. The directors also confirm that applicable accounting standards have been followed and that the Accounts have been prepared on the going concern basis

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

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

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

ScottishPower Energy Retail Limited

Directors' Report – continued

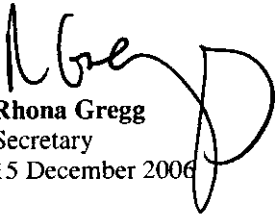
Auditors

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

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

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

By Order of the Board



Rhona Gregg

Secretary

15 December 2006

ScottishPower Energy Retail Limited

Accounting Policies and Definitions

Definitions

Revenue cost definitions

Cost of sales

The cost of sales for the company reflects the direct costs of the purchase of electricity and gas, the costs associated with transmitting units of energy through the electricity transmission and distribution networks and the gas transportation network and other costs directly related to customer energy consumption

Distribution costs

Distribution costs reflect the costs of billing, customer service and debt collection

Administrative and selling expenses

Administrative and selling costs reflect the indirect costs of the business, the costs of support services and the costs of centralised services provided by Scottish Power UK plc

Other definitions

Company

ScottishPower Energy Retail Limited

Joint ventures

Joint ventures are entities in which the company holds a long term interest and shares control with another company

ScottishPower

Scottish Power plc

Ultimate parent company

Scottish Power plc

Accounting policies

Basis of accounting

The Accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards in the UK and comply with the requirements of the Companies Act 1985

Basis of preparation

The Accounts contain information about ScottishPower Energy Retail Limited as an individual company and do not contain consolidated information as the parent of a subsidiary company. The company is exempt under Section 228 of the Companies Act 1985 from the requirements to prepare consolidated Accounts as it and its subsidiary undertaking are included by full consolidation in the consolidated Accounts of its ultimate parent, Scottish Power plc, a company registered in Scotland

Events after the balance sheet date

The company has applied FRS 21 'Events after the balance sheet date' for the first time in these Accounts and as a result dividends declared after the balance sheet date are not accrued as was the previous practice. Other creditors have decreased and profit and loss reserves have increased at 31 March 2005 by £73.2 million as a result of excluding the proposed final dividend for the year ended 31 March 2005

ScottishPower Energy Retail Limited

Accounting Policies and Definitions - continued

Cash flow statement

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

Use of estimates

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

Turnover

Turnover comprises the sales value of energy supplied to customers during the year, rental income and energy services income and excludes Value Added Tax. Turnover from the sale of energy is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end, based on external data supplied by the electricity and gas market settlement processes

Interest

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

Taxation

Where required and in accordance with FRS 19 'Deferred Tax', full provision is made for deferred tax on a non discounted basis

Tangible fixed assets

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

	Years
Buildings	40
Plant and machinery	4 – 30
Computer and other equipment	3 – 15

During the year the company extended the expected useful life of some computer software from 10 years to 15 years as a result of a detailed review of the computer software. The effect of this change is to reduce the annual depreciation charge by £2.6 million

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

ScottishPower Energy Retail Limited

Accounting Policies and Definitions - continued

Leased assets

As lessee

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

As lessor

Rentals receivable under operating leases are credited to the profit and loss account on a straight line basis over the period of the lease

Investments

Investments in subsidiary undertakings and joint ventures are stated in the balance sheet of the parent company at cost, less provision for any impairment in value. Other fixed asset investments are carried at cost less provision for impairment in value.

Stocks

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

Grants and contributions

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

Pensions

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

ScottishPower Energy Retail Limited

Profit and Loss Account for the year ended 31 March 2006

	Notes	2006 £m	2005 £m
Turnover		2,636.1	2,251.0
Cost of sales		(2,272.3)	(1,811.9)
Gross profit		363.8	439.1
Distribution costs		(176.8)	(166.0)
Administrative and selling expenses		(178.9)	(167.9)
Other operating income		3.5	5.7
Operating profit	1	11.6	110.9
Net interest and similar charges	3	(8.2)	(4.8)
Profit on ordinary activities before taxation		3.4	106.1
Taxation	4	(1.0)	(32.0)
Profit for the year	16	2.4	74.1

The above results relate to continuing operations

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

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

ScottishPower Energy Retail Limited

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

		2006	Restated (Note 5) 2005
	Note	£m	£m
Profit for the financial year		2.4	74.1
Dividends	5	(73.2)	(56.0)
Net movement in shareholders' funds		(70.8)	18.1
Opening shareholders' funds as originally stated		59.2	58.3
Adjustment on implementation of FRS 21		73.2	56.0
Opening shareholders' funds (as adjusted for implementation of FRS 21)		132.4	114.3
Closing shareholders' funds		61.6	132.4

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

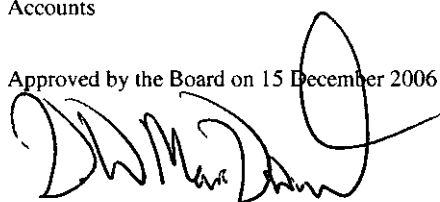
ScottishPower Energy Retail Limited

Balance Sheet as at 31 March 2006

			Restated (Notes 5, 10, 11)
	Notes	2006 £m	2005 £m
Fixed assets			
Tangible assets	6	99 9	91 5
Investments	7	0 1	0 1
		100 0	91 6
Current assets			
Stocks	8	3 9	
Debtors	9	680 5	562 3
Short term bank and other deposits		12 7	37 5
		697 1	599 8
Creditors: amounts falling due within one year			
Loans and other borrowings	10	(286 7)	(132 7)
Other creditors	11	(435.4)	(417 5)
		(722.1)	(550 2)
Net current (liabilities)/assets		(25 0)	49 6
Total assets less current liabilities		75 0	141 2
Provisions for liabilities and charges			
Deferred tax	12	(6 1)	(8 1)
Other provisions	13	(4.5)	(0 1)
		(10.6)	(8 2)
Deferred income	14	(2 8)	(0 6)
Net assets		61 6	132 4
Equity shareholders' funds			
Called up share capital	15, 16	55 4	55 4
Profit and loss account	16	6 2	77 0
Equity shareholders' funds	16	61 6	132 4

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

Approved by the Board on 15 December 2006 and signed on its behalf by



Willie MacDiarmid
Director

ScottishPower Energy Retail Limited

Notes to the Accounts for the year ended 31 March 2006

1 Operating profit

	2006 £m	2005 £m
Operating profit is stated after charging/(crediting)		
Depreciation of tangible fixed assets	14.2	17.1
Loss on disposal of fixed assets	3.7	0.9
Release of grants and contributions	(0.2)	
Rental receivable under operating leases of land and buildings	(1.1)	(0.8)
Hire of land and buildings operating leases	0.7	0.7
Hire of other assets operating leases	2.8	2.5
Restructuring costs	4.9	
Auditors' remuneration for audit of company	0.4	0.4

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

2 Employee information

	Note	2006 £m	2005 £m
(a) Employee costs			
Wages and salaries		68.8	59.8
Social security costs		5.2	4.6
Other pension costs	17	9.6	5.8
Total employee costs		83.6	70.2
Less: charged as capital expenditure			(0.2)
Charged to the profit and loss account		83.6	70.0

(b) Employee numbers

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

	At 31 March		Average	
	2006	2005	2006	2005
Customer services	2,340	2,080	2,389	1,898
Administration	954	1,087	1,008	1,082
Total	3,294	3,167	3,397	2,980

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

	At 31 March		Average	
	2006	2005	2006	2005
Customer services	2,135	1,902	2,182	1,743
Administration	871	1,008	925	1,016
Total	3,006	2,910	3,107	2,759

ScottishPower Energy Retail Limited

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

2 Employee information continued

(c) Directors' emoluments

Details of the directors' emoluments are set out in Note 19

3 Net interest and similar charges

	2006 £m	2005 £m
Analysis of net interest and similar charges		
Interest payable on group loans	8.2	4.8

4 Tax on profit on ordinary activities

	Note	2006 £m	2005 £m
Current tax.			
UK corporation tax		3.0	33.8
Deferred tax			
Origination and reversal of timing differences	12	(2.0)	(1.8)
Total tax on profit on ordinary activities		1.0	32.0

The current tax charge on profit on ordinary activities for the year varied from the standard rate of UK corporation tax as follows

	2006 £m	2005 £m
UK corporation tax at 30%	1.0	31.8
Permanent differences		0.2
Tax charge (current and deferred)	1.0	32.0
Effect of deferred tax	2.0	1.8
Current tax charge for the year	3.0	33.8

5 Dividends

	2006 £m	Restated 2005 £m
Final dividend paid for prior year	73.2	56.0
Total dividends paid	73.2	56.0
Proposed final dividend		73.2

The company has applied FRS21 'Events after the balance sheet date' for the first time in these Accounts and, as a result, dividends declared after the balance sheet date are not accrued as was the previous practice. Other creditors have decreased and profit and loss reserves have increased as at 31 March 2005 by £73.2 million as a result of excluding the proposed final dividend for 2004/05.

ScottishPower Energy Retail Limited

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

6 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Computer and other equipment £m	Total £m
Cost				
At 1 April 2005	36.3	24.1	171.9	232.3
Additions	0.2	3.1	23.5	26.8
Disposals		(8.7)	(0.6)	(9.3)
At 31 March 2006	36.5	18.5	194.8	249.8
Depreciation				
At 1 April 2005	17.8	13.7	109.3	140.8
Charge for the year	0.8	1.2	12.2	14.2
Disposals		(5.0)	(0.1)	(5.1)
At 31 March 2006	18.6	9.9	121.4	149.9
Net book value				
At 31 March 2006	17.9	8.6	73.4	99.9
At 1 April 2005	18.5	10.4	62.6	91.5

Included in the cost of tangible fixed assets above are	Note	2006 £m	2005 £m
Assets in the course of construction		19.1	12.3
Other assets not subject to depreciation	(a)	5.2	5.2
Cost of assets held for use in operating leases		28.2	28.2
Accumulated depreciation charged against assets held for use in operating leases		14.1	13.5

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

7 Fixed asset investments

	Note	Subsidiary undertaking, Joint venture & Other shares £m
(a) Cost		
At 1 April 2005 and 31 March 2006	(b)	0.1

(b) Shares in subsidiary undertaking, joint venture and other investments

The principal holdings of the company are as set out below

Subsidiary undertaking	Class of share capital	Place of incorporation or registration	Proportion of shares held %	Activity
Manweb Energy Consultants Limited	Ordinary shares of £1 each	England and Wales	100	Provision of energy services
Joint venture				
N E S T Makers Limited	Ordinary shares of £1 each	England and Wales	50	Energy efficiency agent for the fuel poor/benefit market

The cost of the investment in N E S T Makers Limited is £22,500 (2005 £22,500)

ScottishPower Energy Retail Limited

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

7 Fixed asset investments continued

(b) Shares in subsidiary undertaking, joint venture and other investments continued

Other investments	Class of share capital	Place of incorporation or registration	Proportion of shares held %	Activity
Gemserv Limited	Ordinary shares of £1 each	England and Wales	8	Dormant
MRA Service Company Limited	Ordinary shares of £1 each	England and Wales	1	Non trading
NFPA Holdings Limited	Ordinary shares of £1 each	England and Wales	8	Agent for Regional Electricity Companies in England and Wales
SPAA Limited	Ordinary shares of £1 each	England and Wales	4	Administers gas suppliers and transporters agreements
St Clements Services Limited	Ordinary shares of £1 each	England and Wales	13	Software consultancy and supply

The cost of other investments is £18,058 (2005 £18,058) with the cost of investment in Gemserv Limited being £18,001 (2005 £18,001) of the total

8 Stocks

	2006 £m	2005 £m
Raw materials and consumables	3.9	

9 Debtors

	2006 £m	2005 £m
Amounts falling due within one year:		
Trade debtors	358.9	300.7
Prepayments and accrued income	303.7	246.3
Amounts owed by group undertakings	17.9	15.3
	680.5	562.3

10 Loans and other borrowings

	Note	2006 £m	Restated (Note b) 2005 £m
Amounts falling due within one year			
Loans owed to group undertakings	(a) (b)	286.7	132.7
		286.7	132.7

ScottishPower Energy Retail Limited

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

10 Loans and other borrowings continued

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

(b) Loans were included in Note 11 'Other creditors', amounts owed to group undertakings, in the year ended 31 March 2005. The Accounts have been restated in order to show £132.7 million as 'Loans and other borrowings' rather than 'Other creditors'.

11 Other creditors

		2006	Restated (Notes 5, (a)) 2005
	Note	£m	£m
Amounts falling due within one year.			
Amounts owed to group undertakings	(a)	270.4	212.3
Trade creditors		14.9	11.5
Corporate tax		5.3	34.6
Other taxes and social security		34.6	36.6
Payments received on account		9.7	5.2
Capital creditors and accruals		8.0	5.6
Other creditors		8.1	0.1
Accrued expenses		84.4	111.6
		435.4	417.5

(a) Loans were included above in amounts owed to group undertakings in the year ended 31 March 2005. The Accounts have been restated in order to show £132.7 million as 'Loans and other borrowings' (note 10) rather than 'Amounts owed to group undertakings' within 'Other creditors'.

12 Provisions for liabilities and charges Deferred tax

	2006	2005
	£m	£m
Deferred tax provided in the Accounts is as follows		
Accelerated capital allowances	8.3	9.5
Other timing differences	(2.2)	(1.4)
	6.1	8.1
	Note	2006 £m
Deferred tax provided at 1 April 2005		8.1
Credit to profit and loss account	4	(2.0)
Deferred tax provided at 31 March 2006		6.1

ScottishPower Energy Retail Limited

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

13 Provisions for liabilities and charges Other provisions

		At 1 April 2005 £m	New Provisions £m	Utilised during year £m	At 31 March 2006 £m
	Note				
Reorganisation and restructuring	(a)	0.1	4.9	(0.5)	4.5

(a) The charge for the year for reorganisation and restructuring comprises the estimated costs of a reduction in employee numbers through redundancies within the ScottishPower Energy Retail business. The balance of the provision at 31 March 2006 is expected to be utilised in the financial year 2006/07.

14 Deferred income

	At 1 April 2005 £m	Receivable during year £m	Released to profit and loss account £m	At 31 March 2006 £m
Grants and customer contributions	0.6	2.4	(0.2)	2.8

15 Share capital

	2006 £m	2005 £m
Authorised:		
100,000,000 (2005: 100,000,000) ordinary shares of £1 each	100.0	100.0
Allotted, called up and fully paid:		
55,407,000 (2005: 55,407,000) ordinary shares of £1 each	55.4	55.4

16 Analysis of movements in shareholders' funds

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2005 as originally stated	55.4	3.8	59.2
Prior year adjustment on implementation of FRS 21		73.2	73.2
At 1 April 2005 as restated	55.4	77.0	132.4
Profit for the year		2.4	2.4
Dividends		(73.2)	(73.2)
At 31 March 2006	55.4	6.2	61.6

ScottishPower Energy Retail Limited

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

17 Pensions

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

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

The company's contributions payable during the year were £9.6 million (2005: £5.8 million) of which £nil (2005: £nil) were outstanding or prepaid at the year end.

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

18 Financial commitments

	2006	2005
	£m	£m
(a) Analysis of annual commitments under operating leases		
Leases of land and buildings expiring:		
Within one year	0.7	
Between one and two years		0.7
	0.7	0.7
Other operating leases expiring:		
Within one year	0.4	0.4
Between two and five years	2.4	2.1
	2.8	2.5
(b) Capital commitments		
Contracted but not provided	0.3	1.3

ScottishPower Energy Retail Limited

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

18 Financial commitments continued

(c) Other contractual commitments

(i) The company is committed under long term energy purchase contracts, to purchases of £21.4 million, £13.6 million, £10.1 million, £10.1 million and £10.1 million for the years 2007 to 2011 respectively and £57.7 million thereafter

(ii) In order to comply with Government Energy Efficiency Commitments, the company is required to undertake projects to deliver energy savings of approximately 14,091 GWh between April 2005 and March 2008 (4,500 GWh between April 2002 and March 2005). As at 31 March 2006 project budgets were in place but there were no contractual commitments (2005: £nil)

19 Directors' emoluments

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

	2006 £'000	2005 £'000
Executive directors		
Basic salary	501.4	693.6
Bonuses	261.9	581.1
Benefits in kind	43.7	68.0
Compensation/payment in lieu of notice	1,224.5	
Total	2,031.5	1,342.7

Included within the above amounts are emoluments in respect of Charles Berry which were paid by another company within the Scottish Power plc group. Consequently these amounts are not included within 'Employee costs' in note 2(a).

Three directors (2005: three) have retirement benefits accruing under defined benefit pension schemes.

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

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

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

	2006 £'000	2005 £'000
Highest paid director		
Basic salary	187.2	400.0
Bonuses		382.0
Benefits in kind	12.5	37.7
Compensation/payment in lieu of notice	1,224.5	
Total	1,424.2	819.7

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

The highest paid director received shares during the year under the Long Term Incentive Plan in both 2006 and

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

ScottishPower Energy Retail Limited

Notes to the Accounts

for the year ended 31 March 2006 - continued

20 Related party transactions

Related party transactions with N E S T Makers Limited, a 50% owned joint venture, and Coldham Windfarm Limited, a fellow group undertaking 80% owned by Scottish Power UK Holdings Limited, are detailed below

Trading and funding transactions and balances arising in the normal course of business

	2006 £m	2005 £m
N.E.S.T.Makers Limited		
Purchases from	-	2.1
Year end balance due from	0.8	0.5
Coldham Windfarm Limited		
Purchases from	1.1	
Year end balance due to	0.2	

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

21 Ultimate parent company

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

ScottishPower Energy Retail Limited

Independent Auditors' Report

To the members of ScottishPower Energy Retail Limited

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its profit for the year then ended, and
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Glasgow

15 December 2006