

**Scottish Power UK Holdings Limited**

**Directors' Report and Accounts  
for the year ended 31 March 2005**

Registered No. 232909



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COMPANIES HOUSE 28/09/05

**Scottish Power UK Holdings Limited**  
**Directors' Report and Accounts**  
**for the year ended 31 March 2005**

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# **Scottish Power UK Holdings Limited**

## **Report of the Directors**

The directors present their report and audited Accounts for the year ended 31 March 2005.

### **Activities and review**

Scottish Power UK Holdings Limited, "the company", principally acts as the holding company of the Scottish Power UK Holdings group, "the group", whose activities comprise the generation, transmission, distribution, energy management and supply of electricity and the supply of gas. The two businesses currently operated by the group are UK Division and Infrastructure.

The UK Division operates the generation assets of the Scottish Power plc group ("ScottishPower") in the British Isles, manages the company's exposure to the wholesale electricity and gas markets and is responsible for energy supply, the sales and marketing of electricity and gas to customers throughout Great Britain, together with the associated customer registration, billing and receipting processes and handling enquiries in respect of these services.

The Infrastructure Division includes "asset-owner companies" holding the group's regulated assets and transmission and distribution licences. In addition, one of the subsidiaries provides asset management expertise and conducts the day-to-day operation of the networks.

Following a restructuring exercise to satisfy the requirements of the industry regulator, Ofgem, the company granted a number of parent company guarantees to trading counterparties of its subsidiaries.

### **Acquisitions**

UK Division completed the acquisition of the Damhead Creek CCGT power plant and associated contracts on 1 June 2004 and completed the purchase of the remaining 50% of the Brighton Power Station CCGT power plant and associated contracts on 28 September 2004. The post acquisition results of the acquired businesses amounted to turnover of £162.2 million and contribution to operating profit of £44.0 million.

### **Results and dividend**

The profit of the group for the year amounted to £320.2 million (2004 £239.7 million), details of which are shown in the profit and loss account on page 15.

The directors declared dividends amounting to £520.0 million (2004 £179.9 million) in respect of the year, and the retained loss for the year of £199.8 million (2004 retained profit of £59.8 million) was transferred to reserves.

### **Future developments**

The group will continue to place a premium on leading operational performance, to secure further improvements in the results of its businesses. There are substantial opportunities to expand the group through incremental investment in each of its businesses, particularly in networks, generation including renewables, and gas storage.

### **Research and development**

The group supports research into development of the generation, transmission, distribution and supply of electricity. It also continues to contribute, on an industry-wide basis, towards the cost of research into electricity utilisation and distribution developments. In the financial year expenditure on research and development in the group was £0.2 million (2004 £0.2 million).

# Scottish Power UK Holdings Limited

## Report of the Directors (continued)

### Environmental regulation

Throughout its operations, the group strives to exceed, or better, relevant legislative and regulatory environmental requirements and codes of practice. ScottishPower will publish its 2004/05 Environmental and Social Impact Report in October 2005. Copies will be available on request from the Company Secretary and the reports will be available on the ScottishPower website.

### Directors and their interests

The directors who held office during the year were as follows:

Charles Berry  
 Ronnie Mercer (resigned 30 March 2005)  
 David Nish  
 Ian Russell  
 James Stanley

David Nish resigned as director on 25 May 2005 and was subsequently replaced by Keith Cochrane and Simon Lowth on 13 June 2005.

None 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 ScottishPower, at the beginning and end of the year were as follows:

#### James Stanley

	1 April 2004	Granted/ Appropriated/ Other net movement	Exercised	Lapsed	Vested	31 March 2005
<b>Shares</b>						
Ordinary Shares (*)	13,445	11,374	-	-	-	24,819
ESOP Free & Matching Shares (#)	1,260	370	-	-	-	1,630
Deferred Share Plan (†)	6,600	-	(2,518)	-	-	4,082
LTIP – Potential (**)	85,790	36,994	-	(14,465)	(9,642)	98,677
LTIP – Vested	6,528	-	(16,170)	-	9,642	-
<b>Options</b>						
Executive Scheme	162,240	61,657	-	-	-	223,897
Sharesave Scheme	2,941	-	-	-	-	2,941

(\*) 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 Inland Revenue approved 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 (LTIP).

As permitted by Statutory Instrument, the Register of Directors' Interests in the company maintained pursuant to section 325 of the Companies Act 1985, does not contain the interests of directors who are also directors of a parent company. Accordingly, the interests of Charles Berry, David Nish and Ian Russell are disclosed in the Annual Report & Accounts for the year ended 31 March 2005 of ScottishPower.

# Scottish Power UK Holdings Limited

## Report of the Directors (continued)

### Employees

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

A more extensive description of how the businesses discharge their wider responsibilities to protect the welfare, health and safety of the public and their employees, can be found in the ScottishPower Environmental and Social Impact Report and the Workplace Performance Report, available on the ScottishPower website. 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.

ScottishPower 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. ScottishPower 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).

#### *Recent Developments*

The UK Employment Act 2002 (Dispute Resolution) Regulations 2004, effective from October 2004, place a legal obligation on employers to follow certain minimum procedures when resolving workplace disputes. In order to comply with the Regulations, ScottishPower undertook a review of its existing employment procedures and concluded that ScottishPower UK procedures far exceeded the minimum standards required.

ScottishPower has also undertaken a review of its existing UK consultation arrangements in order to comply with the Information and Consultation of Employees Regulations which come into force in April 2005. These Regulations give employees in larger firms rights to be informed and consulted on a regular basis about issues in the business they work for. Plans are in place to ensure that, by September 2005, each ScottishPower business in the UK has conducted a review of how it engages with its employees and produced an action plan which takes account of the Regulations. A further review of the company-level machinery will then be undertaken to support and maximize the aims of each business and of the ScottishPower employee relations philosophy.

### Health and safety

During January 2005, the performance of four businesses (Customer Sales & Service, Dataserve, Generation and PowerSystems) was assessed against the Group Health & Safety Standards. The results showed that 29% of the assessed business units achieved the level four and progressing towards level five expected of a world-class performer in comparison with 13% in 2003/04. A further 63% of the assessed business units met the level three threshold of demonstrable attention to the key issues compared with 64% in 2003/04.

## **Scottish Power UK Holdings Limited**

### **Report of the Directors (continued)**

The lost time accident ("LTA") rate for the businesses reduced from 0.62 to 0.42, a reduction in LTAs of 48 to 36. The highlight of the year was in the generation business which had a period of seven months without any LTAs, and only two LTAs during the 12 months to April 2005.

In the UK, the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations set out the requirements for reporting of all work-related accidents. As UK regulators and enforcement authorities increasingly seek to raise the priority and importance that companies give to health and safety issues, they are likely to take action for any non-compliance. The company continues to support industry organisations, such as the Association of Electricity Producers, Engineering Employers Federation and Energy Networks Association, and engages in representation to the UK Health and Safety Executive, the Department of Trade & Industry ("DTI") and other relevant organisations through these industry groups.

### **Financial instruments and risk management**

#### **Overview**

The principal financial risks faced by the group are energy price risk, energy volumetric risk (created by varying demand due to weather and economic circumstances and varying supply due to forced outages or other physical supply and logistics limitations), credit risk, interest rate risk, inflation rate risk, insurance risk, foreign exchange translation and transaction risk, liquidity risk and derivative risk. The ScottishPower Board has reviewed and agreed policies for managing each of these risks as summarised below. In order to mitigate the financial risks identified, the Board has endorsed the use of derivative financial instruments including swaps, both interest rate and cross-currency, swaptions, options, forward-rate agreements, financial and commodity forward contracts, commodity futures and commodity options.

#### **Energy Risk Management**

Energy risk is governed globally (with oversight from the ScottishPower Executive Team) by the Group Energy Risk Committee ("GERC"), chaired by the ScottishPower Group Energy Risk Director with membership from the divisions and the independent risk management team. The GERC defines, and the ScottishPower Board approves, risk management policies and limits. These policies and limits are designed to create consistent risk measurement, monitoring and management standards throughout the ScottishPower group. The monitoring and management of the level of exposure covered is handled by the businesses, with full oversight by a corporate risk management function, independent of the businesses, reporting to the ScottishPower Group Energy Risk Director. The businesses with commodity exposure are authorised to manage this exposure using approved products, policies and limits. These businesses each report no less frequently than monthly to a local risk committee, as well as to the GERC.

Market exposures are quantified and controlled using a number of different risk measures. These include Value-at-Risk ("VaR") methods for earnings volatility control. VaR is a measure of the potential financial loss on a price exposure position over a defined period to a given level of confidence. VaR computations for the group's energy commodity portfolios are based on a historical simulation technique. This technique utilises historical energy market forward price curve changes over a specified period to simulate potential forward price curve changes to estimate the potential unfavourable impact of price changes in the portfolio positions scheduled to settle within the forward 24 months. The quantification of market risk using VaR provides a consistent measure of risk across the group's continually changing portfolio. VaR represents an estimate of possible changes at a given level of confidence in fair value that would be measured on its portfolio assuming hypothetical movements in future market rates, and is not necessarily indicative of actual results that may occur. Future changes in markets inconsistent with historical trends or assumptions used could cause actual results to exceed predicted limits.

The group's VaR computations for its energy commodity portfolio utilise several key assumptions, including a 99% confidence level for the resultant price changes and a holding period of five business

## **Scottish Power UK Holdings Limited**

### **Report of the Directors (continued)**

days. VaR represent an estimate of reasonably possible changes in fair value that would be measured on its portfolio assuming hypothetical movements in future market rates. The calculation includes short-term commodity transactions and commodity derivative instruments held for trading and balancing purposes, the expected resource and demand obligations from the group's long-term contracts, the expected generation levels from the group's generation assets and the expected retail and wholesale load levels. Optionality embedded within the group's bilateral contracts, generation assets and other derivative instruments with option characteristics within the energy portfolio are treated in the historical simulation of VaR as static expected or delta adjusted positions through the simulation process. Expected positions and option deltas are recalculated on a daily basis to determine the portfolio position changes due to changes in market prices.

Commodity price exposure is defined as the possibility that a change in market prices will alter the proceeds of sales or the costs of purchases through the life of the transaction. Commodity volume risk is defined as the possibility that a change in the supply of or demand for the commodity will create an unexpected imbalance and change the requirements for the commodity. Additional risk measures are being developed to quantify risks beyond the confidence intervals defined in the VaR methodology and determine volumetric risks in physical positions. Stress tests are applied to reinforce VaR conclusions and stochastic analysis is used to estimate the impact of risks on outcomes.

#### **Energy Price and Volume Risk Management**

The New Electricity Trading Arrangements ("NETA") were introduced in England & Wales on 27 March 2001, replacing the previous 'Pool' mechanism for the sale and purchase of wholesale electricity in England & Wales. NETA provided for a bilateral wholesale market, with suppliers, traders and generators trading firm physical forward contracts for bulk electricity supply. In addition to transacting to directly manage our market price exposure in the England & Wales market, the UK Division also managed its price exposure arising from sales within the Scottish market by the use of forward contracts. On 1 April 2005, NETA was superseded by the British Energy Trading and Transmission Arrangements ("BETTA"), which combined the Scottish wholesale market with the wholesale market in England & Wales, thus creating a Great Britain-wide wholesale electricity market.

Following the introduction of BETTA, the balancing mechanism, operated from one hour ahead of real-time (gate closure) up to real-time by the National Grid Company, is now used to manage the entire Great Britain grid system on a second-by-second basis, as opposed to only the England & Wales grid under NETA. Market participants can participate actively in this market through the submission of bids and offers to vary their output as a generator or demand as a customer. The mechanism also provides for calculation and settlement of imbalance charges and revenues arising from the differences between parties' contract positions and their actual physical energy flows.

The UK Division has procedures in place to minimise exposure to uncertain balancing mechanism prices, that is, the possibility that the UK Division will face high charges for shortfalls in physical energy or receive low revenues for surplus physical energy. These procedures involve the UK Division entering into bilateral contracts for the sale and purchase of energy across a range of time periods to minimise exposure to the balancing mechanism. In addition, the division's portfolio of flexible generating assets in England and Scotland can be used up to gate closure to minimise further this exposure and also to attract premium income from providing flexible electricity to the balancing mechanism. A proportion of the wind output from several UK Division-owned wind generation facilities located within the UK is dispatched directly as generated into the UK electricity distribution system; however, exposure to imbalance charges for this volume is largely mitigated through persistence modelling of the site output up until gate closure.

The UK Division has also entered into longer-term (in excess of one year) arrangements to protect against longer-term volatility of electricity prices. The time periods covered by these longer-term arrangements are reviewed on a continuous basis to provide the desired level of price stability.

## **Scottish Power UK Holdings Limited**

### **Report of the Directors (continued)**

The UK Division also has procedures in place to minimise exposure to natural gas price variations. *In a similar manner to our electricity price exposure management strategy, natural gas price risk is managed through a combination of longer-term contracts and shorter-term trading contracts with flexible delivery profiles, certain derivative financial instruments and through the use of flexibility within the division's portfolio of electricity generation and natural gas storage assets.* The UK Division mitigates its exposure to coal price risk through the use of a combination of financial and physical contracts as well as currency hedges executed by the ScottishPower treasury function. Cover against volatile spot prices is built up on a rolling basis through the year and, at 31 March 2005, a significant proportion of the UK Division's exposure to electricity, natural gas and coal price variations for the period to 31 March 2007 have been mitigated. Following the commencement of the EU Emissions Trading Scheme ("ETS") in January 2005 the UK Division has an exposure to the price of carbon allowances, in order to enable the maximum economic running of thermal generation plant. The UK Division also has procedures in place to minimise exposure to carbon emission allowance price variations. *In a similar manner to our power and natural gas price exposure management strategy, carbon emission allowance price risk is managed through trading contracts with delivery within each individual year throughout Phase 1 of the ETS (2005 to 2007).* The euro exposure arising as a result of managing this carbon price exposure is mitigated with currency hedges executed by the ScottishPower treasury function.

The UK Division measures the market risk in its energy portfolio daily utilising the VaR approach (described above), stress tests as well as other measurements of net position, and monitors its portfolio exposure to market risk in comparison to established thresholds. The UK Division also measures its open positions at price risk in terms of volumes at each significant delivery location for each forward time period.

As at 31 March 2005, the UK Division's estimated potential five-day unfavourable impact on fair value of the energy commodity portfolio over the next 24 months was £11.9 million, as measured by the VaR computations (described above), compared to £8.8 million as at 31 March 2004. The average daily VaR (five-day holding period) for the year ended 31 March 2005 was £8.0 million. The maximum and minimum VaR measured during the year ended 31 March 2005 were £12.8 million and £4.2 million, respectively. Changes in markets inconsistent with historical trends or assumptions used could cause actual results to exceed predicted limits.

#### **Credit Risk Management**

The role of the group's credit function is to set consistent standards for assessing, quantifying, monitoring, mitigating and controlling the credit risk introduced by contractual obligations of wholesale trading partners, suppliers and industrial and commercial clients. A ScottishPower group credit committee provides umbrella oversight to ensure a consistent approach to counterparty rating. The ScottishPower group credit committee manages credit limits adopted across the group and oversees the allocation of limits to those counterparties that overlap both the US and UK markets. This group credit committee ensures that each individual business is subject to concentration rules that prevent misallocation of credit risk amongst counterparties. Beneath this group credit committee, the UK credit committee provides the expertise to understand the credit environment within its geographic location. All decisions are supported by rigorous measurement and reporting of credit exposures and the use of credit rating models. Credit approvals are subject to regular and/or event driven reviews.

*To be eligible for a credit line, counterparties for energy commodity transactions must meet the following requirements: (a) counterparties must be determined investment grade by an internal process review or through an external assessment process (rated BBB- or better by Standard & Poor's Rating Group ("S&P") or equivalent rating from Moody's Investor Service ("Moody's")) to avoid posting collateral or otherwise perfect their credit, or (b) non-rated or less than BBB- rated counterparties must either have a guarantee from an investment grade entity, post collateral or provide other assurances deemed acceptable to the ScottishPower group credit committee.*



# **Scottish Power UK Holdings Limited**

## **Report of the Directors (continued)**

### **Treasury Risk Management**

The group treasury function is authorised to conduct the day-to-day treasury activities of the group within policies set out by the ScottishPower Board. The group treasury function reports regularly to the ScottishPower Board, through the monthly Group Performance and Risk Report and is subject to internal audit.

### **Interest Rate Risk Management**

The group continues to manage its interest rate exposure by maintaining a percentage of its debt at fixed rates of interest. This is done either directly by means of fixed rate debt issues or by use of interest and cross-currency swaps to convert variable rate debt into fixed rate debt and fixed/variable non-functional currency denominated debt into fixed rate functional currency debt. The use of derivative financial instruments relates directly to underlying existing and anticipated indebtedness.

The exposure to fluctuating interest rates is managed by either issuing fixed or floating rate debt or using a range of financial derivative instruments to create the desired fixed/floating mix. The ScottishPower group's interest rate policy is to target a long-term benchmark of 70% fixed rate interest. At 31 March 2005, 48% (2004 84%) of the group's net debt was either issued as fixed or converted to fixed rates using interest rate swaps. The weighted average period to maturity of year-end fixed debt and interest swaps was 10 years. Based on floating rate net debt of £1,366 million at 31 March 2005, a 1% change in interest rates at that date would result in a £13.7 million change in profit before tax over a twelve-month period.

All treasury transactions are undertaken to manage the risks arising from underlying activities and no speculative trading is undertaken. The counterparties to these instruments generally consist of financial institutions and other bodies rated at least AA- by one of S&P, Moody's or The Fitch Group. Although the group is potentially exposed to credit risk in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party to levels agreed by the ScottishPower Board. The group does not believe that it is over exposed to any material concentration of credit risk.

### **Inflation Risk Management**

In recognition of the fact that a portion of revenues are linked to inflation, the group maintains part of its debt portfolio in index-linked liabilities. This is done either through issues of debt or through swapping fixed rate debt into index-linked. Index-linked liabilities total £275 million, which represents around 6% of the debt portfolio.

### **Insurance Risk Management**

Where cost effective, the group maintains a wide-ranging insurance programme providing financial protection, predominately against catastrophic risks. The insurance market has continued to show mixed trends in pricing over the past year. For property insurance, there has been a general decrease in premiums although the extent of the decrease has shown signs of cooling off. Other classes of insurance are still experiencing upward pressure on premiums. The group has worked closely with its insurance advisors and insurers to maintain efficiencies and long-term stability in premium costs. The renewal of the group's main insurance policies for 2005/06 has been completed with commercial insurers delivering a net premium reduction.

### **Foreign Exchange Risk Management**

Other than the import of coal and trading of carbon allowances, transactions denominated in a foreign currency are not numerous in the group. Where they arise as a result of imports of capital or other goods denominated in foreign currencies the exposure is hedged as soon as it is committed.

### **Liquidity Risk Management**

In recognition of the long life of the group's assets and anticipated indebtedness, and to create financial efficiencies, the group's policy is to arrange that debt maturities are spread over a wide range of dates, thereby ensuring that the group is not subject to excessive refinancing risk in any one

# **Scottish Power UK Holdings Limited**

## **Report of the Directors (continued)**

year. The group has entered into borrowing agreements for periods out to 2039. The weighted average period to maturity of year-end debt was ten years.

### **Derivative Risk Management**

The use of derivative financial instruments (other than those described for energy commodities above) relates directly to underlying existing and anticipated indebtedness.

Credit risk on non-energy commodity derivative transactions is mitigated by a policy of only using counterparties with a credit rating of AA- or above. Exposure to derivative counterparties is monitored using measures, dependent on the type of transaction, that take into account potential market volatility.

### **Creditor payment policy and practice**

The group's current policy and practice concerning the payment of its trade creditors is to follow the Better Payment Practice Code to which ScottishPower is a signatory. Copies of the Code may be obtained from the DTI or from the website [www.payontime.co.uk](http://www.payontime.co.uk).

The group's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts and to pay in accordance with its contractual and legal obligations. The group's creditor days at 31 March 2005 were 15 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 and of the group as at the end of the financial year, and of the group's profit or loss for that 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 2005. The directors also confirm that applicable accounting standards have been followed and that the Accounts have been prepared on the going concern basis.

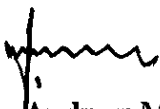
The directors are responsible for maintaining proper accounting records and sufficient internal controls to safeguard the assets of the company and of the group and to prevent and detect fraud or any other irregularities.

### **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.

**By Order of the Board**



**Andrew Mitchell**

Secretary

19 September 2005

# **Scottish Power UK Holdings Limited**

## **Accounting Policies and Definitions**

### **Definitions**

#### **Business segment definitions**

The group defines business segments for management reporting purposes based on a combination of factors, principally differences in products and services and the regulatory environment in which the businesses operate.

The business segments of the group are defined as follows:

#### **UK Division – Integrated Generation and Supply**

The generation of electricity from the group's own power stations, the purchase of external supplies of coal and gas for the generation of electricity, the purchase of external supplies of electricity and gas for sale to customers, together with related billing and collection activities, gas storage, sale of gas to industrial and domestic customers and the sale of electricity to electricity suppliers, in Scotland, Northern Ireland, England & Wales and full participation in the New Electricity Trading Arrangements ("NETA") in England & Wales. NETA was replaced by the British Electricity Trading and Transmission Arrangements ("BETTA") with effect from 1 April 2005.

#### **Infrastructure Division - Power Systems**

The transmission and distribution businesses within the group's authorised area of Scotland and the distribution business of Manweb operating in Merseyside and North Wales.

#### **Revenue cost definitions**

##### **Cost of sales**

The cost of sales for the group, reflect the direct costs of the generation and purchase of electricity and the purchase and transportation of natural gas.

##### **Transmission and distribution costs**

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

##### **Administrative expenses**

The indirect costs of businesses, the costs of corporate services, property rates and goodwill amortisation.

#### **Other definitions**

##### **Company**

Scottish Power UK Holdings Limited.

##### **Group**

Scottish Power UK Holdings Limited and its consolidated subsidiaries.

##### **ScottishPower**

Scottish Power plc.

##### **Associated undertakings**

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

# **Scottish Power UK Holdings Limited**

## **Accounting Policies and Definitions (continued)**

### **Joint ventures**

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

### **Subsidiary undertakings**

Entities in which the group holds a long-term controlling interest.

### **Parent**

Scottish Power plc.

## **Accounting Policies**

### **Basis of accounting**

The Accounts have been prepared under the historical cost convention, modified to include the revaluation of certain tangible fixed assets, and in accordance with applicable accounting standards in the UK and, except for the accounting policy for 'Commodity contracts', described below, comply with the requirements of the Companies Act 1985. Further details explaining this departure are contained in Note 19(h) to the Accounts.

### **Basis of consolidation**

The group Accounts include the Accounts of the company and its subsidiary undertakings together with the group's share of results and net assets of associated undertakings and joint ventures.

For commercial reasons certain subsidiaries have a different year end. The consolidation includes the Accounts of these subsidiaries as adjusted for material transactions in the period between the year ends and 31 March.

### **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.

## **Scottish Power UK Holdings Limited**

### **Accounting Policies and Definitions (continued)**

#### **Turnover**

Turnover comprises the sales value of energy and other services supplied to customers during the year and excludes Value Added Tax and intra-group sales. 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 on the funding attributable to major capital projects is capitalised gross of tax relief during the period of construction and written off as part of the total cost over the operational life of the asset. All other interest payable and receivable is reflected in the profit and loss account as it arises.

#### **Financial instruments**

##### **Debt instruments**

All borrowings are stated at the fair value of consideration received after deduction of issue costs. The issue costs and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond. Premiums and discounts arising on the early repayment of borrowings are recognised in the profit and loss account as incurred and received.

##### **Interest rate swaps/Forward rate agreements**

These are used to manage debt interest rate exposures. Amounts payable or receivable in respect of these agreements are recognised as adjustments to interest expense over the period of the contracts. The cash flows from, and gains and losses arising on terminations of, these contracts are recognised as returns on investments and servicing of finance. Where associated debt is not retired in conjunction with the termination of an interest swap, gains and losses are deferred and are amortised to interest expense, over the remaining life of the associated debt to the extent that such debt remains outstanding.

##### **Interest rate caps/Swaptions/Options**

Premiums received and payable on these contracts are amortised over the period of the contracts and are disclosed as interest income and expense. The accounting for interest rate caps and swaptions is otherwise in accordance with interest rate swaps detailed above.

##### **Cross-currency interest rate swaps**

These are used both to hedge foreign exchange and interest rate exposures arising on foreign currency debt. The debt is recorded at the hedge contracted rate and accounting is otherwise in accordance with interest rate swaps detailed above.

##### **Forward contracts**

The group enters into forward contracts for the purchase and/or sale of foreign currencies in order to manage its exposure to fluctuations in currency rates. The cash flows from forward purchase contracts are classified in a manner consistent with the underlying nature of the hedged transaction. Hence, unrealised gains and losses on contracts hedging forecast transactions are not accounted for until the maturity of the contract. Foreign currency debtors and creditors that are hedged with forward contracts are translated at the contracted rate at the balance sheet date.

## Scottish Power UK Holdings Limited

### Accounting Policies and Definitions (continued)

#### **Commodity contracts**

Where there is no physical delivery associated with commodity contracts, they are recorded at fair value on the balance sheet and movements reflected through the profit and loss account. Gas and electricity forwards and futures are undertaken for hedging and proprietary trading purposes. Where the instrument is a hedge, the fair values are initially reflected on the balance sheet and subsequently reflected through the profit and loss account to match the recognition of the hedged item. Where the instrument is for proprietary trading the fair values are reflected through the profit and loss account. Recognition of unrealised gains on commodity contracts in the profit and loss account is not in accordance with the provisions of the Companies Act 1985. The directors consider that compliance with these requirements would lead to the accounts failing to give a true and fair view of the results of the group. Further details of the effect of this accounting policy are provided in Note 19(h) to the Accounts.

#### **Taxation**

In accordance with Financial Reporting Standard ("FRS") 19 'Deferred tax', full provision is made for deferred tax on a non-discounted basis.

#### **Intangible assets**

Long-term gas purchase contracts acquired as part of acquisitions are capitalised, as intangible fixed assets, separately from goodwill, provided their fair value can be measured reliably on initial recognition. As these contracts do not have readily ascertainable market values, fair value is limited to the amount that does not create or increase any negative goodwill, in accordance with FRS 10, 'Goodwill and intangible assets'. These intangible fixed assets are amortised over the period of the contracts.

#### **Goodwill**

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

#### **Tangible fixed assets**

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

	Years
Coal, oil-fired, gas and other generating stations	22-45
Other buildings	40
Transmission and distribution plant	30-40
Towers, lines and underground cables	40-60
Vehicles, computer software costs, miscellaneous equipment and fittings	3-15

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. For those assets with estimated remaining useful economic lives of more than 50 years, impairment reviews are undertaken annually. Impairment losses are recognised in the period in which they are identified.

## **Scottish Power UK Holdings Limited**

### **Accounting Policies and Definitions (continued)**

#### **Decommissioning costs**

Provision is made for the estimated decommissioning costs at the end of the producing lives of the group's power stations on a discounted basis. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. *The unwinding of the discount is included within net interest and similar charges.*

#### **Leased assets**

##### **- As lessee**

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis.

##### **- As lessor**

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

#### **Investments**

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

#### **Shares held in parent company under trust**

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

Revised Urgent Issues Task Force Abstract 17 'Employee share schemes' ("Revised UITF 17") requires that the profit and loss account charge be determined as the intrinsic value of the share options granted. The group has taken advantage of the exemption within Revised UITF 17 not to apply the requirements therein to Inland Revenue approved savings-related share option schemes.

#### **Long Term Incentive Plan ("LTIP")**

Shares in the company's parent company purchased for the LTIP are held under trust and are recorded within investments in the balance sheet at cost. The cost of awards made by the trust under the LTIP, being the difference between the fair value of the shares and the option price at the date of grant, is taken to the profit and loss account on a straight line basis over the period in which performance is measured.

#### **Stocks**

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

#### **Current asset investments**

Current asset investments are shown at the lower of 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 released to the profit and loss account over the estimated operational lives of the related assets.

## **Scottish Power UK Holdings Limited**

### **Accounting Policies and Definitions (continued)**

#### **Pensions**

The group provides pension benefits through both defined benefit and defined contribution arrangements. The regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations for defined benefit schemes are charged to the profit and loss account over the expected remaining service lives of current employees following consultations with the actuary. Any difference between the charge to the profit and loss account and the actual contributions paid to the pension schemes is included as an asset or liability in the balance sheet. Payments to defined contribution schemes are charged against profits as incurred.

#### **Environmental liabilities**

Provision for environmental liabilities is made when expenditure on remedial work is probable and the group is obliged, either legally or constructively through its environmental policies, to undertake such work. Where the amount is expected to be incurred over the long-term, the amount recognised is the present value of the estimated future expenditure and the unwinding of the discount is included within net interest and similar charges.

#### **Foreign currencies**

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



**Scottish Power UK Holdings Limited**  
**Group Profit and Loss Account**  
**for the year ended 31 March 2005**

Year ended 31 March					
	Notes	Before acquisitions 2005 £m	Acquisitions 2005 £m	Total 2005 £m	Total 2004 £m
<b>Turnover: group and share of joint ventures and associates</b>		<b>3,939.0</b>	<b>162.2</b>	<b>4,101.2</b>	<b>3,166.5</b>
Less: share of turnover in joint ventures		(23.0)	-	(23.0)	(30.0)
Less: share of turnover in associates		(1.2)	-	(1.2)	(0.8)
<b>Group turnover</b>	<b>1</b>	<b>3,914.8</b>	<b>162.2</b>	<b>4,077.0</b>	<b>3,135.7</b>
Cost of sales		(2,762.2)	(96.5)	(2,858.7)	(2,097.6)
<b>Gross profit</b>		<b>1,152.6</b>	<b>65.7</b>	<b>1,218.3</b>	<b>1,038.1</b>
Transmission and distribution costs		(295.0)	-	(295.0)	(294.8)
Administrative expenses		(336.1)	(22.9)	(359.0)	(283.4)
Other operating income		22.6	1.2	23.8	23.5
<b>Operating profit before goodwill amortisation</b>		<b>549.0</b>	<b>44.0</b>	<b>593.0</b>	<b>488.3</b>
Goodwill amortisation		(4.9)	-	(4.9)	(4.9)
<b>Operating profit</b>	<b>1,2</b>	<b>544.1</b>	<b>44.0</b>	<b>588.1</b>	<b>483.4</b>
Share of operating profit in joint ventures				1.5	7.1
Share of operating profit in associates				3.8	0.3
<b>Profit on ordinary activities before interest</b>				<b>593.4</b>	<b>490.8</b>
Net interest and similar charges					
- Group				(132.4)	(97.8)
- Joint ventures				(3.0)	(5.6)
	<b>4</b>			<b>(135.4)</b>	<b>(103.4)</b>
<b>Profit on ordinary activities before goodwill amortisation and taxation</b>				<b>462.9</b>	<b>392.3</b>
Goodwill amortisation				(4.9)	(4.9)
<b>Profit on ordinary activities before taxation</b>				<b>458.0</b>	<b>387.4</b>
Taxation					
- Group				(134.9)	(144.9)
- Joint ventures				(0.2)	(1.0)
- Associates				(1.6)	(0.1)
	<b>5</b>			<b>(136.7)</b>	<b>(146.0)</b>
<b>Profit after taxation</b>				<b>321.3</b>	<b>241.4</b>
Minority interests	<b>27</b>			(1.1)	(1.7)
<b>Profit for the financial year</b>				<b>320.2</b>	<b>239.7</b>
Dividends	<b>6</b>			(520.0)	(179.9)
<b>(Loss)/profit retained</b>	<b>25</b>			<b>(199.8)</b>	<b>59.8</b>

A statement of total recognised gains and losses is not shown as all gains and losses are recognised in the profit and loss account.

The Accounting Policies and Definitions on pages 9 to 14, together with the Notes on pages 19 to 40, form part of these Accounts.

**Scottish Power UK Holdings Limited**  
**Reconciliation of Movements in Shareholders' Funds**  
**for the year ended 31 March 2005**

	2005 £m	2004 £m
<b>Profit for the financial year</b>	<b>320.2</b>	<b>239.7</b>
Dividends	(520.0)	(179.9)
<b>(Loss)/profit retained</b>	<b>(199.8)</b>	<b>59.8</b>
Revaluation reserve arising on the purchase of the remaining 50% of the Brighton Power Station	5.8	-
<b>Net movement in shareholders' funds</b>	<b>(194.0)</b>	<b>59.8</b>
<b>Opening shareholders' funds</b>	<b>1,124.6</b>	<b>1,064.8</b>
<b>Closing shareholders' funds</b>	<b>930.6</b>	<b>1,124.6</b>

The Accounting Policies and Definitions on pages 9 to 14, together with the Notes on pages 19 to 40 form part of these Accounts.

**Scottish Power UK Holdings Limited**  
**Group Cash Flow Statement**  
**for the year ended 31 March 2005**

	Notes	2005 £m	2004 £m
<b>Cash inflow from operating activities</b>	7	<b>508.7</b>	526.1
Dividends received from joint ventures and associates		2.0	0.5
Returns on investments and servicing of finance	8	(118.2)	(86.2)
Taxation		(115.9)	(22.6)
<b>Free cash flow</b>		<b>276.6</b>	417.8
Capital expenditure and financial investment	8	(377.6)	(328.0)
<b>Cash flow before acquisitions and disposals</b>		<b>(101.0)</b>	89.8
Acquisitions and disposals	8	(326.9)	(6.7)
Equity dividends paid		(520.0)	(179.9)
<b>Cash outflow before use of liquid resources and financing</b>		<b>(947.9)</b>	(96.8)
Management of liquid resources	8	(91.2)	(159.2)
Financing			
- Increase in debt	8	1,175.2	587.4
<b>Increase in cash in year</b>	11	<b>136.1</b>	331.4

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

**Reconciliation of Net Cash Flow to Movement in Net Debt**  
**for the year ended 31 March 2005**

	Notes	2005 £m	2004 £m
Increase in cash in year		136.1	331.4
Cash inflow from increase in debt		(1,175.2)	(587.4)
Cash outflow from movement in liquid resources		91.2	159.2
<b>Change in net debt resulting from cash flows</b>		<b>(947.9)</b>	(96.8)
Net debt acquired	33	(116.1)	-
Other non-cash movements		(10.8)	(15.8)
<b>Movement in net debt in year</b>		<b>(1,074.8)</b>	(112.6)
<b>Net debt at end of previous year</b>		<b>(1,576.6)</b>	(1,464.0)
<b>Net debt at end of year</b>	11	<b>(2,651.4)</b>	(1,576.6)

The Accounting Policies and Definitions on pages 9 to 14, together with the Notes on pages 19 to 40, form part of these Accounts.

**Scottish Power UK Holdings Limited**  
**Balance Sheets**  
**as at 31 March 2005**

		<b>Group</b>		<b>Company</b>	
	Notes	2005 £m	2004 £m	2005 £m	2004 £m
<b>Fixed assets</b>					
Intangible assets	13	157.4	82.1	-	-
Tangible assets	14	4,498.0	3,855.4	-	-
<b>Investments</b>					
- Investments in joint ventures:					
Share of gross assets		12.6	125.2	-	-
Share of gross liabilities		(12.6)	(124.6)	-	-
		-	0.6	-	-
- Loans to joint ventures		10.4	38.8	-	-
		10.4	39.4	-	-
- Investments in associates		4.0	2.7	-	-
- Other investments		23.9	25.6	661.1	649.7
	15	38.3	67.7	661.1	649.7
		4,693.7	4,005.2	661.1	649.7
<b>Current assets</b>					
Stocks	16	60.1	47.5	-	-
Debtors	17	988.5	713.0	29.6	-
Current asset investments	18	609.0	703.6	326.2	-
Short-term bank and other deposits		1,512.6	1,190.8	-	-
		3,170.2	2,654.9	355.8	-
<b>Creditors: amounts falling due within one year</b>					
Loans and other borrowings	19	(2,607.3)	(1,193.6)	(384.8)	(43.9)
Other creditors	20	(1,072.3)	(909.0)	-	-
		(3,679.6)	(2,102.6)	(384.8)	(43.9)
<b>Net current (liabilities)/assets</b>		(509.4)	552.3	(29.0)	(43.9)
<b>Total assets less current liabilities</b>		4,184.3	4,557.5	632.1	605.8
<b>Creditors: amounts falling due after more than one year</b>					
Loans and other borrowings	19	(2,165.7)	(2,277.4)	-	-
<b>Provisions for liabilities and charges</b>					
- Deferred tax	21	(506.6)	(487.7)	-	-
- Other provisions	22	(97.6)	(154.9)	-	-
		(604.2)	(642.6)	-	-
<b>Deferred income</b>	23	(480.8)	(510.0)	-	-
<b>Net assets</b>	12	933.6	1,127.5	632.1	605.8
<b>Equity shareholders' funds</b>					
Called up share capital	24,25	592.0	592.0	592.0	592.0
Share premium	25	3.7	3.7	3.7	3.7
Revaluation reserve	25	45.5	41.6	-	-
Merger reserve	25	402.7	402.7	-	-
Profit and loss account	25	(113.3)	84.6	36.4	10.1
<b>Equity shareholders' funds</b>	25	930.6	1,124.6	632.1	605.8
<b>Minority interests</b>	27	3.0	2.9	-	-
<b>Capital employed</b>		933.6	1,127.5	632.1	605.8

The Accounting Policies and Definitions on pages 9 to 14, together with the Notes on pages 19 to 40, form part of these Accounts.

Approved by the Board on 19 September 2005 and signed on its behalf by



**Keith Cochrane**  
**Director**

**Scottish Power UK Holdings Limited**  
**Notes to the Accounts**  
**for the year ended 31 March 2005**

**1 Segmental profit and loss information**

(a) Turnover by segment	Notes	Total turnover		Inter-segment turnover		External turnover	
		2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
UK Division - Integrated Generation and Supply	(i)	3,717.7	2,804.0	(25.9)	(26.6)	3,691.8	2,777.4
Infrastructure Division - Power Systems		733.2	704.1	(348.0)	(345.8)	385.2	358.3
	(ii)					4,077.0	3,135.7

(b) Operating profit by segment		Before goodwill amortisation	Goodwill amortisation	Before goodwill amortisation	Goodwill amortisation	
		2005 £m	2005 £m	2005 £m	2004 £m	2004 £m
UK Division - Integrated Generation and Supply	(i)	178.3	(4.9)	173.4	97.8	(4.9)
Infrastructure Division - Power Systems		414.7	-	414.7	390.5	-
		593.0	(4.9)	588.1	488.3	(4.9)

(i) UK Division - Integrated Generation and Supply completed the acquisition of the Damhead Creek CCGT power plant and associated contracts on 1 June 2004 and completed the purchase of the remaining 50% of the Brighton Power Station CCGT power plant and associated contracts on 28 September 2004. Further details of these acquisitions are contained within Note 33. Operating profit from acquisitions of £44.0 million is stated before operating profit on intra-group transactions of £9.6 million.

(ii) Turnover arises from activities carried out in the UK.

**2 Operating profit**

(a) Operating profit is stated after charging/(crediting):		2005 £m	2004 £m
Depreciation of tangible fixed assets		233.2	197.7
Amortisation of goodwill		4.9	4.9
Amortisation of other intangible fixed assets		24.4	-
Release of grants and customer contributions		(17.4)	(17.5)
Research and development		0.2	0.2
Hire of plant and equipment - operating leases		0.1	0.1
Hire of other assets - operating leases		8.3	9.0
(b) Auditors' remuneration		2005 £m	2004 £m
Audit services			
-statutory audit		0.9	0.8
-audit-related regulatory reporting		0.5	0.3
Further assurance services		1.7	0.5
Tax services			
-compliance services		-	0.1
-advisory services		0.3	0.6
Total audit and non-audit fees paid to auditors		3.4	2.3

For the year ended 31 March 2005, £1.8 million of fees, excluding statutory audit, were charged to operating profit and £0.7 million were included within the cost of acquisitions. For the year ended 31 March 2004, all fees, excluding statutory audit, were charged to operating profit.

Further assurance services principally represents fees associated with due diligence work and advice regarding ScottishPower's implementation of s404 of the Sarbanes-Oxley Act of 2002 and the implementation of International Financial Reporting Standards (IFRS).

**Scottish Power UK Holdings Limited**  
**Notes to the Accounts**  
**for the year ended 31 March 2005**

**3 Employee information**

	2005 £m	2004 £m
<b>(a) Employee costs</b>		
Wages and salaries	241.7	204.9
Social security costs	20.6	17.6
Pension costs	35.9	28.3
<b>Total employee costs</b>	<b>298.2</b>	<b>250.8</b>
Less: charged as capital expenditure	(64.0)	(60.1)
<b>Charged to the profit and loss account</b>	<b>234.2</b>	<b>190.7</b>

**(b) Employee numbers**

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

	At 31 March		Annual average	
	2005	2004	2005	2004
UK Division - Integrated Generation and Supply	5,667	4,793	5,227	4,523
Infrastructure Division - Power Systems	3,541	3,324	3,454	3,256
<b>Total</b>	<b>9,208</b>	<b>8,117</b>	<b>8,681</b>	<b>7,779</b>

The year end and average numbers of full-time equivalent staff employed by the group, including the directors, were:

	At 31 March		Annual average	
	2005	2004	2005	2004
<b>Total</b>	<b>8,739</b>	<b>7,736</b>	<b>8,378</b>	<b>7,413</b>

**(c) Directors' emoluments**

Details of the directors' emoluments are set out in Note 31.

**4 Net interest and similar charges**

	Note	2005 £m	2004 £m
<b>Analysis of net interest and similar charges</b>			
Interest on bank loans and overdrafts		15.0	16.5
Interest on amounts due to group companies		66.3	25.7
Interest on other borrowings		138.2	111.1
<b>Total interest payable</b>		<b>219.5</b>	<b>153.3</b>
Interest receivable from group companies		(36.2)	(22.5)
Interest receivable - other		(56.6)	(35.8)
Capitalised interest	(i)	(1.7)	-
<b>Net interest charge</b>		<b>125.0</b>	<b>95.0</b>
Unwinding of discount on provisions		10.4	8.4
<b>Net interest and similar charges</b>		<b>135.4</b>	<b>103.4</b>

(i) The tax relief on the capitalised interest was £0.5 million (2004 nil).

**Scottish Power UK Holdings Limited**  
**Notes to the Accounts**  
**for the year ended 31 March 2005**

**5 Tax on profit on ordinary activities**

	2005 £m	2004 £m
Current tax:		
UK Corporation tax	129.9	115.5
Adjustment in respect of prior years	(19.1)	27.6
<b>Total current tax for year</b>	<b>110.8</b>	<b>143.1</b>
Deferred tax:		
<i>Origination and reversal of timing differences</i>	25.9	2.9
<b>Total tax on profit on ordinary activities</b>	<b>136.7</b>	<b>146.0</b>

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

	2005 £m	2004 £m
Corporation tax charge at 30%	137.4	116.2
Goodwill amortisation	1.5	1.5
Adjustments in respect of prior years	(19.1)	27.6
Other permanent differences	16.9	0.7
<b>Tax charge (current and deferred)</b>	<b>136.7</b>	<b>146.0</b>
Origination and reversal of timing differences	(25.9)	(2.9)
<b>Current tax charge for year</b>	<b>110.8</b>	<b>143.1</b>

**6 Dividends**

	2005 £m	2004 £m
Interim dividend paid	520.0	179.9

**7 Reconciliation of operating profit to net cash inflow from operating activities**

	2005 £m	2004 £m
Operating profit	588.1	483.4
Depreciation and amortisation	262.5	202.6
Profit on sale of tangible fixed assets	(5.4)	(6.3)
Release of deferred income	(17.4)	(17.5)
Movements in provisions for liabilities and charges	(154.7)	(51.6)
Increase in stocks	(10.9)	(3.9)
Increase in debtors	(240.3)	(122.2)
Increase in creditors	86.8	41.6
<b>Net cash inflow from operating activities</b>	<b>508.7</b>	<b>526.1</b>

Scottish Power UK Holdings Limited  
Notes to the Accounts  
for the year ended 31 March 2005

**8 Analysis of cash flows**

	Note	2005 £m	2004 £m
<b>(a) Returns on investments and servicing of finance</b>			
Interest received		69.4	55.3
Interest paid		(186.6)	(141.0)
Dividends paid to minority interests		(1.0)	(0.5)
<b>Net cash outflow for returns on investments and servicing of finance</b>		<b>(118.2)</b>	<b>(86.2)</b>
<b>(b) Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(431.6)	(365.7)
Deferred income received		25.5	27.7
Sale of tangible fixed assets		19.7	10.8
Sale/(purchase) of fixed asset investments		8.8	(0.8)
<b>Net cash outflow for capital expenditure and financial investment</b>		<b>(377.6)</b>	<b>(328.0)</b>
<b>(c) Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		(319.5)	-
Sale of businesses and subsidiary undertakings		(7.4)	(6.7)
<b>Net cash outflow from acquisitions and disposals</b>	10	<b>(326.9)</b>	<b>(6.7)</b>
<b>(d) Management of liquid resources*</b>			
Cash outflow in relation to short-term deposits and other short-term investments		(91.2)	(159.2)
<b>Net cash outflow for management of liquid resources</b>		<b>(91.2)</b>	<b>(159.2)</b>
<b>(e) Financing</b>			
<b>Debt due within one year:</b>			
- net (repayment)/drawdown of uncommitted facilities		(100.8)	98.7
- medium-term notes/private placements		(69.6)	(26.9)
- redemption of loan notes		(0.1)	(2.5)
- amounts due to other group companies		1,461.8	518.1
- other		(0.5)	-
<b>Debt due after one year:</b>			
- net repayment of uncommitted facilities		(116.1)	-
- other		0.5	-
<b>Increase in debt</b>		<b>1,175.2</b>	<b>587.4</b>
<b>Net cash inflow from financing</b>		<b>1,175.2</b>	<b>587.4</b>

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



**Scottish Power UK Holdings Limited**  
**Notes to the Accounts**  
**for the year ended 31 March 2005**

**9 Effect of acquisitions on cash flows**

	2005 £m	2004 £m
Cash inflow from operating activities	34.2	-
Returns on investments and servicing of finance	(15.5)	-
Taxation	(0.2)	-
Capital expenditure and financial investment	(4.4)	-
<b>Increase in cash</b>	<b>14.1</b>	<b>-</b>

**10 Analysis of cash flows in respect of acquisitions and disposals**

	2005 £m	2004 £m
Cash consideration for subsidiary undertakings including expenses	(346.3)	-
Cash acquired/bank overdraft disposed	26.8	-
Expenses and other costs paid in respect of prior year disposals	(7.4)	(6.7)
	<b>(326.9)</b>	<b>(6.7)</b>

For the year ended 31 March 2005, the cash flows in respect of the acquisition of subsidiary undertakings represents the purchase of Damhead Creek and the remaining 50% of Brighton Power Station. The cash flows in respect of disposals represent expenses and other costs represent expenses and other costs related to prior year disposals.

**Scottish Power UK Holdings Limited**  
**Notes to the Accounts**  
**for the year ended 31 March 2005**

**11 Analysis of net debt**

	At 1 April 2004 £m	Cash flow £m	Acquisitions (excl cash & overdrafts) £m	Other non-cash changes £m	At 31 March 2005 £m
<b>2004/05</b>					
Cash at bank	602.9	136.0	-	-	738.9
Overdrafts	(0.1)	0.1	-	-	-
		136.1			
Debt due after 1 year	(2,277.4)	115.6	(116.1)	112.2	(2,165.7)
Debt due within 1 year	(1,193.5)	(1,290.8)	-	(123.0)	(2,607.3)
		(1,175.2)	-		
Current asset investments	703.6	(94.6)	-	-	609.0
Other deposits	587.9	185.8	-	-	773.7
		91.2			
<b>Total</b>	<b>(1,576.6)</b>	<b>(947.9)</b>	<b>(116.1)</b>	<b>(10.8)</b>	<b>(2,651.4)</b>

'Other non-cash changes' to net debt represents the movement in debt of £123.0 million due after one year to due within one year, amortisation of finance costs of £1.5 million and finance costs of £9.3 million representing the effects of the RPI on bonds carrying an RPI coupon.

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**12 Segmental balance sheet information**

Net assets by segment	Note	2005 £m	2004 £m
UK Division - Integrated Generation and Supply		1,734.3	1,022.5
Infrastructure Division - Power Systems		2,479.8	2,337.4
		<b>4,214.1</b>	<b>3,359.9</b>
<b>Unallocated net liabilities</b>			
Net debt		(2,651.4)	(1,576.6)
Deferred tax		(506.6)	(487.7)
Corporate tax		(91.1)	(98.5)
Fixed asset investments		38.3	67.7
Other	(i)	(69.7)	(137.3)
<b>Total unallocated liabilities</b>		<b>(3,280.5)</b>	<b>(2,232.4)</b>
<b>Total</b>		<b>933.6</b>	<b>1,127.5</b>

(i) Other unallocated net liabilities for the years ended 31 March 2005 and 2004 principally include accrued interest.

**13 Intangible fixed assets**

Group	Note	Goodwill £m	Other £m	Total £m
<b>Cost:</b>				
At 1 April 2004		97.1	-	97.1
Acquisitions	33	-	104.6	104.6
<b>At 31 March 2005</b>		<b>97.1</b>	<b>104.6</b>	<b>201.7</b>
<b>Amortisation:</b>				
At 1 April 2004		15.0	-	15.0
Amortisation for the year		4.9	24.4	29.3
<b>At 31 March 2005</b>		<b>19.9</b>	<b>24.4</b>	<b>44.3</b>
<b>Net book value:</b>				
At 31 March 2005		77.2	80.2	157.4
At 31 March 2004		82.1	-	82.1

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

Other intangible fixed assets represent in-the-money gas contracts acquired as part of the Damhead Creek and Brighton Power Station acquisitions and are being amortised over the life of their respective contracts.

**14 Tangible fixed assets**

Group	Note	Land and buildings £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
<b>Cost or valuation:</b>					
At 1 April 2004		438.4	4,797.6	604.8	5,840.8
Acquisitions	33	13.1	430.2	-	443.3
Additions		22.7	368.1	56.0	446.8
Disposals		(0.4)	(29.8)	(53.3)	(83.5)
<b>At 31 March 2005</b>		<b>473.8</b>	<b>5,566.1</b>	<b>607.5</b>	<b>6,647.4</b>
<b>Depreciation:</b>					
At 1 April 2004		167.0	1,418.2	400.2	1,985.4
Charge for the year		13.0	155.6	64.6	233.2
Disposals		(0.4)	(20.1)	(48.7)	(69.2)
<b>At 31 March 2005</b>		<b>179.6</b>	<b>1,553.7</b>	<b>416.1</b>	<b>2,149.4</b>
<b>Net book value:</b>					
At 31 March 2005		294.2	4,012.4	191.4	4,498.0
At 31 March 2004		271.4	3,379.4	204.6	3,855.4

	2005 £m	2004 £m
<b>Historical cost analysis</b>		
Cost	6,593.4	5,786.8
Depreciation based on cost	(2,135.1)	(1,973.0)
<b>Net book value based on cost</b>	<b>4,458.3</b>	<b>3,813.8</b>

	Notes	Group 2005 £m	2004 £m
<b>Included in the cost or valuation of tangible fixed assets above are:</b>			
Assets in the course of construction		391.1	437.2
Other assets not subject to depreciation	(ii)	77.6	65.9
Capitalised interest	(iii)	15.3	13.6

(i) The Manweb distribution operational assets were revalued by the directors on 30 September 1997 on a market value basis. The valuation of the Manweb distribution assets has not been and will not be updated, as permitted under the transitional provisions of FRS 15 'Tangible fixed assets'. The net book value of tangible fixed assets included at valuation at 31 March 2005 relates to Manweb distribution assets and was £545.7 million (2004 £563.9 million).

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

(iii) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 6% (2004 nil).

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**15 Fixed asset investments**

	Note	Subsidiary undertakings Shares £m	Joint ventures Shares £m	Loans £m	Associated undertakings Shares £m	Shares in parent company held in trust £m	Other investments £m	Total £m
<b>Group</b>								
<b>Cost or valuation:</b>								
At 1 April 2004		-	0.6	38.8	2.7	23.8	1.8	67.7
Additions		-	-	1.5	-	3.9	0.5	5.9
Share of retained profit/(loss)		-	0.1	(1.8)	2.2	-	-	0.5
Disposals and other		-	(0.7)	(9.0)	(0.9)	(4.6)	(1.5)	(16.7)
Transfer of joint venture to subsidiary	33	-	-	(19.1)	-	-	-	(19.1)
<b>At 31 March 2005</b>		-	-	<b>10.4</b>	<b>4.0</b>	<b>23.1</b>	<b>0.8</b>	<b>38.3</b>
<b>Company</b>								
<b>Cost or nominal value:</b>								
At 1 April 2004		649.7	-	-	-	-	-	649.7
Additions		11.4	-	-	-	-	-	11.4
<b>At 31 March 2005</b>		<b>661.1</b>	-	-	-	-	-	<b>661.1</b>

**Shares held in parent company under trust**

	Notes	Dividends waived	Shares held at 31 March 2005 (000s)	Market Value at 31 March 2005 £m	Shares held at 31 March 2004 (000s)	Market Value at 31 March 2004 £m
ScottishPower Sharesave Schemes	(i)	Yes	2,405	9.8	2,405	9.2
Long Term Incentive Plan	(ii)	No	4,059	16.6	3,979	15.1

(i) The ScottishPower Sharesave Scheme is savings related and under normal circumstances share options are exercisable on completion of three or five year save-as-you-earn contracts as appropriate.

(ii) Shares of the parent company are held under trust as part of the Long Term Incentive Plan for executive directors and other senior managers.

The principal subsidiary undertakings, joint ventures and associated undertakings are listed on page 41.

**16 Stocks**

	2005 £m	2004 £m
Raw materials and consumables	48.2	34.6
Fuel stocks	8.4	7.3
Work in progress	3.5	5.6
	<b>60.1</b>	<b>47.5</b>

**17 Debtors**

	Note	Group 2005 £m	2004 £m	Company 2005 £m	2004 £m
<b>(a) Amounts falling due within one year:</b>					
Trade debtors		382.3	274.7	-	-
Amounts receivable under finance leases	(i)	0.2	0.1	-	-
Prepayments and accrued income		575.5	427.9	-	-
Group relief receivable		-	-	1.0	-
Amounts owed from group companies		2.7	1.4	28.6	-
Other debtors		24.0	4.9	-	-
		<b>984.7</b>	<b>709.0</b>	<b>29.6</b>	-
<b>(b) Amounts falling due after more than one year:</b>					
Amounts receivable under finance leases	(i)	3.8	4.0	-	-
		<b>988.5</b>	<b>713.0</b>	<b>29.6</b>	-

(i) Amounts receivable under finance leases relate to SP Transmission Limited. Total amounts receivable during the year under finance leases were £0.2 million (2004 £0.1 million).

**18 Current asset investments**

	Group 2005 £m	2004 £m	Company 2005 £m	2004 £m
Loans receivable from fellow group companies	609.0	703.6	326.2	-

**Scottish Power UK Holdings Limited**  
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**19 Loans and other borrowings**

Details of the group's objectives, policies and strategy with regard to financial instruments and risk management are contained within the Report of the Directors on pages 1 to 8. The analyses of financial instruments in this Note do not include short-term debtors and creditors as permitted by FRS 13.

(a) Analysis by instrument	Notes	Weighted average interest rate		Group		Company	
		2005	2004	2005 £m	2004 £m	2005 £m	2004 £m
Bank overdraft		-	-	-	0.1	-	-
Uncommitted bank loans		4.2%	3.8%	7.2	108.0	-	-
Medium-term notes/private placements	(i)	5.8%	5.4%	963.6	1,023.4	-	-
Loan notes	(ii)	4.8%	3.7%	1.1	1.2	-	-
European Investment Bank loans	(iii)	5.9%	5.9%	199.2	199.2	-	-
5.250% deutschmark bond 2008		6.8%	6.8%	246.1	246.0	-	-
6.625% euro-sterling bond 2010		6.7%	6.7%	198.8	198.6	-	-
Variable rate Australian dollar bond 2011		5.4%	4.4%	235.1	234.7	-	-
8.375% euro-sterling bond 2017		8.5%	8.5%	198.0	197.8	-	-
6.750% euro-sterling bond 2023		6.8%	6.8%	247.3	247.3	-	-
Amounts due to group companies		5.7%	4.6%	2,476.6	1,014.7	384.8	43.9
				4,773.0	3,471.0	384.8	43.9
<b>Loans and other borrowings are repayable as follows:</b>							
Within one year, or on demand				2,607.3	1,193.6	384.8	43.9
After more than one year				2,165.7	2,277.4	-	-
				4,773.0	3,471.0	384.8	43.9

All borrowings are unsecured.

**(i) Medium-term notes/private placements**

Scottish Power plc and Scottish Power UK plc have an established joint US \$7.0 billion (2004 US \$7.0 billion) euro-medium-term note programme. Scottish Power plc has as yet not issued under the programme. Paper is issued in a range of currencies and swapped back into sterling. As at 31 March 2005, maturities range from 1 to 35 years.

**(ii) Loan notes**

All loan notes are redeemable at the holders' discretion. The ultimate maturity date for currently outstanding loan notes is 2006.

**(iii) European Investment Bank ("EIB") loans**

These loans incorporate agreements with various interest rates and maturity dates. The maturity dates of these arrangements range from 2009 to 2011.

(b) Fair value of financial instruments	At 31 March 2005		At 31 March 2004	
	Book amount £m	Fair value £m	Book amount £m	Fair value £m
Short-term debt and current portion of long-term debt	2,601.0	2,601.0	1,194.0	1,194.0
Long-term debt	2,200.6	2,411.6	2,302.5	2,477.5
Cross-currency swaps	(28.6)	(44.9)	(25.5)	(43.2)
<b>Total debt</b>	<b>4,773.0</b>	<b>4,967.7</b>	<b>3,471.0</b>	<b>3,628.3</b>
Interest rate swaps	-	1.1	-	(16.2)
Interest rate swaptions	2.6	1.5	2.6	2.4
Forward contracts	-	0.5	-	8.5
Net investment forward contracts on behalf of group companies	-	(28.1)	-	(47.4)
Net investment forward contracts with group companies	-	28.1	-	47.4
Net investment cross currency interest rate swaps on behalf of group companies	-	(76.5)	-	(177.6)
Net investment cross currency interest rate swaps with group companies	-	76.5	-	177.6
Forward contracts on behalf of group companies	-	(81.5)	-	(78.5)
Forward contracts with group companies	-	81.5	-	78.5
Interest rate swaps on behalf of group companies	-	(32.8)	-	32.3
Interest rate swaps with group companies	-	32.8	-	(32.3)
Energy hedge contracts	-	(31.8)	-	(30.6)
Energy trading contracts	1.3	0.7	(0.2)	(0.2)
<b>Total financial instruments</b>	<b>4,776.9</b>	<b>4,939.7</b>	<b>3,473.4</b>	<b>3,592.2</b>

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

- For short-term borrowings (uncommitted borrowings, commercial paper and short-term borrowings under the committed facilities), the book value approximates to fair value because of their short maturities.
- The fair values of all quoted euro bonds are based on their closing clean market price converted at the spot rate of exchange as appropriate.
- The fair values of the EIB loans have been calculated by discounting their future cash flows at market rates adjusted to reflect the redemption adjustments allowed under each agreement.
- The fair values of unquoted debt have been calculated by discounting the estimated cash flows for each instrument at the appropriate market discount rate in the currency of issue in effect at the balance sheet date.
- The fair values of the sterling interest rate swaps have been estimated by calculating the present value of estimated cash flows.
- The fair values of the sterling interest rate swaptions are estimated using the sterling yield curve and implied volatilities as at 31 March.
- The fair values of the cross-currency swaps have been estimated by adding the present values of the two sides of each swap. The present value of each side of the swap is calculated by discounting the estimated future cash flows for that side, using the appropriate market discount rates for that currency in effect at the balance sheet date.
- The fair values of the forward contracts are estimated using market forward exchange rates on 31 March.
- The fair values of electricity and gas forwards and futures are estimated using market forward commodity price curves as at 31 March.

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**19 Loans and other borrowings - continued**

	Group		Company	
	2005	2004	2005	2004
	£m	£m	£m	£m
<b>(c) Maturity analysis</b>				
Repayments fall due as follows:				
Within one year, or on demand	2,607.3	1,193.6	384.8	43.9
Between one and two years	100.0	122.4	-	-
Between two and three years	25.0	100.0	-	-
Between three and four years	394.9	25.0	-	-
Between four and five years	316.7	394.8	-	-
More than five years	1,329.1	1,635.2	-	-
	<b>4,773.0</b>	<b>3,471.0</b>	<b>384.8</b>	<b>43.9</b>

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed at 31 March		Weighted average period for which interest rate is fixed	
	2005	2004	2005	2004	2005	2004
	£m	£m	%	%	Years	Years
<b>(d) Interest rate analysis</b>						
Fixed rate borrowings	1,285.4	1,331.0	6.7	6.8	10	10
Floating rate borrowings	3,487.6	2,140.0				
	<b>4,773.0</b>	<b>3,471.0</b>				

All amounts in the analysis above are payable in sterling and take into account the effect of interest rate swaps and currency swaps. Floating rate borrowings bear interest at rates based on LIBOR. The average interest rate on short-term borrowings as at 31 March 2005 was 5.7% (2004 4.9%).

Based on the floating rate debt of £3,487.6 million at 31 March 2005 (2004 £2,140.0 million), a 100 basis point change in interest rates would result in a £34.9 million change in profit before tax for the year (2004 £21.4 million change).

**(e) Financial assets**

	At 31 March		Weighted average interest rate at which financial assets are fixed at 31 March		Weighted average period for which interest rate is fixed	
	2005	2004	2005	2004	2005	2004
	£m	£m	%	%	Years	Years
Fixed rate financial assets	3.9	7.1	10.0	8.4	8	6
Floating rate financial assets	2,134.5	1,930.2				
	<b>2,138.4</b>	<b>1,937.3</b>				

All amounts in the analysis above take into account the effect of interest rate swaps and currency swaps. The floating rate financial assets are principally cash deposits and loans to other members of the ScottishPower group, of which £2.3 million (2004 £2.2 million) are subject to either legal assignment or a charge in favour of a third party. Floating rate investments pay interest at rates based on LIBOR. The average interest rate on short-term financial assets as at 31 March 2005 was 5.0% (2004 4.3%).

The fair values of the financial assets are not materially different from their book values.

**(f) Borrowing facilities**

The group has no committed borrowing facilities at 31 March 2005 or 31 March 2004. Scottish Power plc, the parent company, has a £529.1 million (\$1,000 million) (2004 £544.1 million) revolving credit facility which provides liquidity for the larger ScottishPower group as a whole.

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**19 Loans and other borrowings - continued**

**(g) Hedges**

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

	Note	Gains £m	Losses £m	Total net gains/losses £m
Unrecognised gains and (losses) on hedges at 1 April 2003		455.6	(422.7)	32.9
Transfer from gains to losses	(i)	-	-	-
Transfer from losses to gains	(i)	-	-	-
(Gains) and losses arising in previous years that were recognised in 2003/04		(78.7)	53.8	(24.9)
Gains and (losses) arising before 1 April 2003 that were not recognised in 2003/04		376.9	(368.9)	8.0
Gains and (losses) arising in 2003/04 that were not recognised in 2003/04		135.0	(86.8)	48.2
Unrecognised gains and (losses) on hedges at 31 March 2004		511.9	(455.7)	56.2
Gains and (losses) expected to be recognised in 2004/05		113.1	(65.9)	47.2
Gains and (losses) expected to be recognised in 2005/06 or later		398.8	(389.8)	9.0

(i) Figures in the table above are calculated by reference to the 31 March 2004 fair value of the derivative concerned.

	Note	Gains £m	Losses £m	Total net gains/losses £m
Unrecognised gains and (losses) on hedges at 1 April 2004		511.9	(455.7)	56.2
Transfer from gains to losses	(ii)	-	-	-
Transfer from losses to gains	(ii)	(28.2)	28.2	-
(Gains) and losses arising in previous years that were recognised in 2004/05		23.2	(59.3)	(36.1)
Gains and (losses) arising before 1 April 2004 that were not recognised in 2004/05		506.9	(486.8)	20.1
Gains and (losses) arising in 2004/05 that were not recognised in 2004/05		(106.3)	133.7	27.4
Unrecognised gains and (losses) on hedges at 31 March 2005		400.6	(353.1)	47.5
Gains and (losses) expected to be recognised in 2005/06		71.5	(47.3)	24.2
Gains and (losses) expected to be recognised in 2006/07 or later		329.1	(305.8)	23.3

(ii) Figures in the table above are calculated by reference to the 31 March 2005 fair value of the derivative concerned.

**(h) Fair value of financial assets and liabilities held for trading**

	2005 £m	2004 £m
Net realised and unrealised gains included in profit and loss account	3.9	1.9
Fair value of financial assets held for trading at 31 March	3.3	0.2
Fair value of financial liabilities held for trading at 31 March	(2.0)	-

A limited amount of proprietary trading within the limits and guidelines of the risk management framework is undertaken.

The transactions included in the table above consist of forward purchase and sale contracts of electricity and forward purchase and sale contracts of gas and gas futures contracts. These contracts are marked at market value using externally derived market prices and any gain or loss arising is recognised in the profit and loss account. This is not in accordance with the provisions of Schedule 4 to the Companies Act 1985 which requires that these contracts be stated at the lower of cost and net realisable value or that, if revalued, any revaluation difference be taken to revaluation reserve. However, the directors consider that compliance with these requirements would lead to the Accounts failing to give a true and fair view of the results of the group since the marketability of energy trading contracts enables decisions to be made continually on whether to hold or sell them. Accordingly, the measurement of profit in any period is properly made by reference to market values. The effect of the departure on the Accounts is to increase the profit for the year by £3.1 million (2004 £0.1 million) and increase the group's net assets by £3.3 million (2004 £0.2 million).

**(i) Currency exposures**

The Group did not hold material net monetary assets or liabilities in currencies other than sterling at 31 March 2005 and 31 March 2004.

**20 Other creditors**

	Group	
	2005 £m	2004 £m
Amounts falling due within one year:		
Trade creditors	67.3	52.5
Corporate tax	91.1	98.5
Other taxes and social security	17.6	19.4
Payments received on account	48.6	34.5
Capital creditors and accruals	138.9	87.8
Other creditors	45.9	50.3
Accrued expenses	662.9	566.0
	1,072.3	909.0

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**21 Provisions for liabilities and charges - Deferred tax**

Deferred taxation provided in the Accounts is as follows:		
	2005 £m	2004 £m
Accelerated capital allowances	504.5	494.7
Other timing differences	2.1	(7.0)
	506.6	487.7
	Notes	2005 £m
Deferred tax provided at 1 April 2004		487.7
Charge to profit and loss account	5	25.9
Acquisitions	33	(7.4)
Other movements		0.4
Deferred tax provided at 31 March 2005		506.6

**22 Provisions for liabilities and charges - Other provisions**

	Notes	At 1 April 2004 £m	Acquis- itions £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	At 31 March 2005 £m
Decommissioning costs	(a)	15.9	3.5	0.7	1.7	-	21.8
Onerous contracts	(b)	120.5	83.5	-	8.7	(148.1)	64.6
Pensions	(c)	5.0	-	29.5	-	(32.5)	2.0
Other	(d)	13.5	-	3.3	-	(7.6)	9.2
		154.9	87.0	33.5	10.4	(188.2)	97.6

(a) The provision for decommissioning costs is the discounted future estimated costs of decommissioning the group's power plants. The decommissioning of these plants is principally expected to occur over the period between 2010 and 2024.

(b) The provision for onerous contracts comprises the costs of contracted energy purchases. The costs provided are expected to be incurred in the period up to 31 March 2007 as follows: less than 1 year £64.2 million, between 1 and 2 years £0.4 million.

(c) Details of the group's pensions are disclosed in Note 28.

(d) The Other category comprises various provisions which are not individually sufficiently material to warrant separate disclosure. The provisions disclosed separately at 31 March 2004 for environmental and health, reorganisation and restructuring and disposal of and withdrawal from Appliance Retailing have been combined within the Other category with effect from 1 April 2004.

**23 Deferred income**

	At 1 April 2004 £m	Receivable during year £m	Released to profit and loss account £m	Disposals/ Other £m	At 31 March 2005 £m
Grants and customer contributions	510.0	25.5	(17.4)	(37.3)	480.8

**24 Share capital**

	Group and Company 2005 £m	2004 £m
Authorised:		
2,000,000,000 (2004 2,000,000,000) ordinary shares of 50p each	1,000.0	1,000.0
Allotted, called up and fully paid:		
1,183,983,102 (2004 1,183,983,102) ordinary shares of 50p each	592.0	592.0
	592.0	592.0



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25 Analysis of movements in shareholders' funds

	Number of shares 000s	Share capital £m	Share premium £m	Revaluation reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
<b>Group</b>							
At 1 April 2004	1,183,983	592.0	3.7	41.6	402.7	84.6	1,124.6
Retained loss for the year	-	-	-	-	-	(199.8)	(199.8)
Revaluation reserve arising on the purchase of the remaining 50% of the Brighton Power Station	-	-	-	5.8	-	-	5.8
Revaluation surplus realised	-	-	-	(1.9)	-	1.9	-
<b>Balance at 31 March 2005</b>	<b>1,183,983</b>	<b>592.0</b>	<b>3.7</b>	<b>45.5</b>	<b>402.7</b>	<b>(113.3)</b>	<b>930.6</b>
<b>Company</b>							
At 1 April 2004	1,183,983	592.0	3.7	-	-	10.1	605.8
Retained loss for the year	-	-	-	-	-	26.3	26.3
<b>Balance at 31 March 2005</b>	<b>1,183,983</b>	<b>592.0</b>	<b>3.7</b>	<b>-</b>	<b>-</b>	<b>36.4</b>	<b>632.1</b>

(a) Cumulative goodwill written off to the profit and loss account reserve as at 31 March 2005 was £572.3 million (2004 £572.3 million).

26 Company profit and loss account

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The company's profit and loss account was approved by the Board on 7 September 2005. The retained profit for the financial year per the Accounts of the company was £26.3 million (2004 retained loss of £179.9 million).

27 Minority interests

	2005 £m	2004 £m
At 1 April	2.9	1.7
Profit and loss account	1.1	1.7
Dividends paid to minority interests	(1.0)	(0.5)
<b>At 31 March</b>	<b>3.0</b>	<b>2.9</b>

**Scottish Power UK Holdings Limited**  
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**28 Pensions**

At 31 March 2005, ScottishPower UK Holdings Limited had four statutorily approved defined benefit pension schemes and one unapproved scheme. Details of the principal schemes are set out below, with information on other pension arrangements given in Note 28(e).

Pension fund	Scheme type	Funded or unfunded	Pension charge for the year		(Provision)/Prepayment as at 31 March	
			2005 £m	2004 £m	2005 £m	2004 £m
ScottishPower	Defined benefit	funded	14.7	13.2	(2.0)	(2.0)
Manweb	Defined benefit	funded	8.9	8.8	20.7	(2.9)
Final Salary LifePlan	Defined benefit	funded	5.6	3.7	-	-

The components of the pension charge are as follows:

Pension fund	2005				2004			
	Regular cost £m	Interest cost on provision £m	Variation (credit)/cost £m	Net pension charge £m	Regular cost £m	Interest cost on provision £m	Variation (credit)/cost £m	Net pension charge £m
ScottishPower	18.7	6.1	(4.1)	14.7	18.5	0.1	(5.4)	13.2
Manweb	5.6	0.2	3.1	8.9	5.5	-	3.3	8.8
Final Salary LifePlan	5.6	-	-	5.6	3.7	-	-	3.7

The provision as at the year end can be reconciled as follows:

	Provision at 1 April 2004	Employer contribution	Pension charge	(Provision)/ Prepayment at 31 March 2005	Provision at 1 April 2003	Employer Contribution	Pension charge	Provision at 31 March 2004
Pension fund	£m	£m	£m	£m	£m	£m	£m	£m
ScottishPower	(2.0)	14.7	(14.7)	(2.0)	(2.0)	13.2	(13.2)	(2.0)
Manweb*	(2.9)	32.5	(8.9)	20.7	-	5.9	(8.8)	(2.9)
Final Salary LifePlan	-	5.6	(5.6)	-	-	3.7	(3.7)	-

\* The employer made a special contribution of £26.8 million to the Manweb scheme in March 2005.

The individual scheme funding details based on the latest formal actuarial valuations (or later formal review) are as follows:

Pension fund	Actuarial valuation	Valuation carried out by	Value of assets based on valuation £m	Market value of assets £m	Valuation method adopted	Average investment rate of return	Principal actuarial assumptions		
							Average salary increases	Average pension increases	Value of fund assets/accrued benefits
ScottishPower	30 September 2003*	Mercer HR Consulting	1,466.1	1,466.1	Projected unit	6.0%	4.1%	2.6%	105%
Manweb	30 September 2003**	Mercer HR Consulting	508.7	508.7	Projected unit	6.0%	4.1%	2.6%	93%
Final Salary LifePlan	31 March 2002	Mercer HR Consulting	4.8	4.8	Projected unit	6.0%	4.3%	2.8%	94%

\* The most recent formal actuarial scheme valuation was carried out as at 31 March 2003 for ScottishPower.

\*\* The most recent formal actuarial scheme valuation was carried out as at 31 March 2004 for Manweb. The results were subject to discussion between the trustees and company and were finally agreed in March 2005, shortly before the financial year end. For the purposes of expensing for the period ended 31 March 2005, the company adopted the valuation results shown above, which were requested by the company for a review as at 30 September 2003.

**Scottish Power UK Holdings Limited**  
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**28 Pensions - continued**

**(a) Group pension arrangements**

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

The group introduced two new pension plans for new UK employees effective from 1 January 1999. The new plans were a defined benefit plan (Final Salary LifePlan) which is open to continuous contract employees aged between 16 and 60, and a defined contribution plan (Money Purchase LifePlan) which was subsequently closed to new entrants with effect from 31 August 2003 and has now been wound up with all assets and liabilities transferred to the Final Salary LifePlan.

The result of these changes in the UK pension arrangements is that the age profile of the two closed defined benefit schemes is expected to rise over time, due to the lack of new entrants. This will in turn result in increasing service costs for these two schemes due to the method of actuarial valuation used (the projected unit method). However, the same method is also used for the Final Salary LifePlan, which is open to new members and whose age profile is not expected to rise significantly in the short to medium term. Overall, the group believes that the projected unit method is appropriate when adopted across all schemes (closed and open), and in aggregate provides a reasonable basis for assessing the group's pension costs.

Each of the pension schemes are invested in an appropriately diversified range of equities, bonds and property. The broad proportions of each asset class in which the schemes aim to be invested are as follows, however it is important to note that this may vary from time to time as markets change and as cash may be held for strategic reasons.

	Equities	Bonds	Property	Total
	%	%	%	%
ScottishPower	64	28	8	100
Manweb	60	40	-	100
Final Salary LifePlan	100	-	-	100

In broad terms, the investment strategies adopted by the schemes aim to ensure that sufficient assets are available to meet scheme liabilities as they fall due. The ScottishPower and Manweb schemes' investment strategies reflect the large and growing proportion of their liabilities which relate to pensions in payment, and therefore include a growing bond element. A significant equity element is still retained, however, to provide potential for long-term outperformance relative to bonds and therefore to reduce the group's contribution requirements. For the Final Salary LifePlan, the strategy remains 100% equities due to its young membership with on average over 20 years' duration until retirement: with such a long-term until liabilities fall due, the group and trustees have agreed that a fully equity-oriented strategy remains appropriate.

**(b) ScottishPower**

Scottish Power UK plc operates a funded pension scheme of the company providing defined retirement and death benefits based on final pensionable salary. This scheme was open prior to 1 January 1999 to employees of ScottishPower. Members are required to contribute to the Scheme at a rate of 5% of pensionable salary. Scottish Power UK plc meets the balance of cost of providing benefits, and company contributions paid are based on the results of the formal actuarial valuation of the Scheme and are agreed by Scottish Power UK plc and the Scheme Trustees.

The assets of the Scheme are held separately from those of the company in a trustee administered fund. Included in the Scheme assets are 112,150 ScottishPower shares (£458,694, based on market value as at 31 March 2005), purchased only as part of a pooled strategy to match the relative weightings in the UK Stock Exchange index.

The pension charge for the year is based on the advice of the Scheme's independent qualified actuary and is calculated using assumptions that were applied to a formal review of the Scheme at 30 September 2003.

The amount included in the balance sheet represents the difference between the accumulated excess of the actual contributions paid to the Scheme and the pension accounting charge. The net pension charge is derived from a regular cost of 21.1% of salaries, offset by a variation credit of 6.1% of salaries. The variation credit is calculated as the assessed surplus, as adjusted for the balance sheet amount, spread as a fixed percentage of pensionable salaries over 13 years. Employer augmentations and assimilation costs, payable in addition to normal company contributions, have been offset against the variation cost.

Following the formal actuarial valuation of the Scheme as at 31 March 2003, employer contributions of 15% of pensionable salaries were reinstated from that date.

**(c) Manweb**

Prior to 1 January 1999, most of the Manweb employees were entitled to join the Manweb Group of the Electricity Supply Pension Scheme, which provides pension and other related benefits based on final pensionable salary to employees throughout the Electricity Supply Industry in England & Wales. The ongoing contributions to the Scheme are based on the results of the formal actuarial valuation of the Scheme and the advice of the Scheme Actuary.

The assets are held in a separate trustee administered fund. The Scheme assets no longer include any ScottishPower shares. For funding and expensing purposes the Scheme assets are taken at market value plus a smoothing adjustment appropriate at the valuation date.

The pension charge for the year is based on advice from an independent qualified actuary and is calculated using assumptions that were applied to a formal review of the Scheme as at 30 September 2003.

The net pension charge is derived from a regular cost of 13.9% of salaries, increased by a variation cost of 8.1% of salaries. The variation cost is calculated as the assessed deficit at the valuation date, spread as a fixed percentage of pensionable salaries over 13 years.

The actual contributions payable by participating employers during the year ranged between 8.1% and 14.1% for different sections of membership (but tending towards the higher rates), or other rates for particular groups or as required by a business transfer agreement. The rates of contributions payable have been reviewed following the results of the formal actuarial valuation of the Scheme as at 31 March 2004. The contributions payable have been increased, principally by a lump sum paid in March 2005 of £26.8 million, and lump sums payable annually of £13.4 million in March 2006 and March 2007 with the aim of repairing this deficit over 13 years. At the next and subsequent actuarial valuations the company and the trustees will assess the funding position of the scheme and review the level of deficit repair that is appropriate going forward.

**Scottish Power UK Holdings Limited**  
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**28 Pensions - continued**

**(d) Final Salary LifePlan**

ScottishPower operates a funded pension scheme providing defined retirement and death benefits based on final pensionable salary for eligible employees of the company. The assets of the LifePlan are held in a separate trustee administered fund. The pension charge for the year, of 11.4% of pensionable salaries, is based on the advice of the LifePlan's independent qualified actuary, representing the assessed balance of cost of the accruing benefits after allowing for members' contributions of 5% of pensionable salaries. The same actuarial assumptions have been adopted for both funding and expensing purposes.

The actual contributions payable by participating employers during the year were 11.4% of pensionable salaries, except where required by a business transfer agreement. The employer contribution will increase to 15% with effect from 1 April 2005.

**(e) Additional pension arrangements**

Until 31 August 2003 the company operated an approved defined contribution pension scheme (Money Purchase LifePlan) for eligible employees. Contributions were paid by the member and employer at fixed rates. The benefits secured at retirement or death reflect each employee's accumulated fund and the cost of purchasing benefits at that time. The assets and liabilities of the Scheme have been transferred into the Final Salary LifePlan. The pension charge for the year represents the defined employer contribution and amounted to £nil (2004: £nil).

The group also operates pension arrangements for senior executives, namely the ScottishPower Executive Top-Up Plan (for benefits which are held within UK Inland Revenue limits) and the Unfunded Unapproved Retirement Benefit Scheme ("UURBS") for benefits beyond these limits. The UURBS has no invested assets and the group has provided £17.4 million as at 31 March 2005 (2004: £11.3 million) for the benefit promises which will ultimately be paid by the group. The pension charge for the year was £6.4 million (2004: £2.1 million) offset by employer contributions of £0.3 million (2004: £0.3 million).

**(f) Financial Reporting Standard ("FRS 17") 17 'Retirement benefits'**

The pension figures shown above comply with the current pension accounting standard, Statement of Standard Accounting Practice ("SSAP") 24. However, under the transitional arrangements of FRS 17, the group is required to disclose the following information about its pension schemes and the figures that would have been shown under FRS 17 in the balance sheet as at 31 March 2005, 2004 and 2003.

The major assumptions used by the actuary for the pension arrangements were:

	31 March 2005	31 March 2004	31 March 2003
Rate of increase in salaries	4.4% p.a.	4.3% p.a.	3.9% p.a.
Rate of increase in deferred pensions	2.9% p.a.	2.8% p.a.	2.4% p.a.
Rate of increase in pensions in payment	2.9% p.a.	2.8% p.a.	2.4% p.a.
Discount rate	5.4% p.a.	5.5% p.a.	5.4% p.a.
Inflation assumption	2.9 p.a.%	2.8% p.a.	2.4% p.a.

**Scottish Power UK Holdings Limited**  
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**28 Pensions - continued**

The group operates defined benefit pension schemes as described earlier in this Note. Formal actuarial valuations were carried out as described earlier and updated to 31 March 2005 by a qualified independent actuary.

The assets in the schemes and the expected long-term rates of return were as follows:

	Value at 31 March 2005 £m	Value at 31 March 2004 £m	Value at 31 March 2003 £m
Equities	1,426.0	1,345.2	1,241.4
Bonds	666.6	592.3	363.4
Property	123.3	130.7	147.2
Cash	34.9	17.1	21.3
Total market value of assets	2,250.8	2,085.3	1,773.3
Present value of schemes' past service liabilities	(2,461.2)	(2,257.3)	(2,102.6)
Deficit of schemes' assets over past service liabilities	(210.4)	(172.0)	(329.3)
Resulting balance sheet liability	(210.4)	(172.0)	(329.3)
Related deferred tax asset	63.1	51.6	98.8
Net pension liability	(147.3)	(120.4)	(230.5)

The pension arrangements net pension liability comprises assets (net of deferred tax) of £nil (2004 £0.5 million, 2003 £nil) and liabilities (net of deferred tax) of £147.3 million (2004 £120.9 million, 2003 £230.5 million).

	Long-term rates of return expected at 31 March 2005	Long-term rates of return expected at 31 March 2004	Long-term rates of return expected at 31 March 2003
Equities	7.3% p.a.	7.45% p.a.	7.2% p.a.
Bonds	4.7% p.a.	4.80% p.a.	4.5% p.a.
Property	6.3% p.a.	6.45% p.a.	6.2% p.a.
Cash	4.45% p.a.	3.70% p.a.	3.45% p.a.

The long-term rates of return have been derived as follows:

Equities: the long-term UK Government fixed interest stock yield, plus 3% p.a.

Bonds: an appropriate weighted average of long-term UK Government and UK corporate bond yields reflecting the actual split of holdings.

Property: the long-term equities rate of return less 1% p.a.

Cash: the current UK base rate of interest.

In all cases, for FRS 17 reporting purposes the long term rates of return have been reduced by 0.3% p.a. (2004 0.3% p.a., 2003 0.3% p.a.) to reflect scheme expenses to arrive at the figures shown above.

	Note	Year to 31 March 2005 £m	Year to 31 March 2004 £m
<b>Analysis of amount charged to operating profit</b>			
Current service cost		35.5	28.5
Total operating profit charge	(i)	35.5	28.5

	Note	Year to 31 March 2005 £m	Year to 31 March 2004 £m
<b>Analysis of amount credited/(charged) to other finance income</b>			
Expected return on pensions scheme assets	(i)	135.2	113.1
Interest on pension liabilities		(127.0)	(112.3)
Net return on assets		8.2	0.8

(i) The amounts above are stated before capitalisation

	Year to 31 March 2005 £m	Year to 31 March 2004 £m
<b>Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")</b>		
Actual return less expected return on assets	74.4	280.6
Experience gains and losses on liabilities	(28.7)	(17.6)
Changes in assumptions	(110.3)	(101.3)
Actuarial (loss)/gain recognised in STRGL	(64.6)	161.7

Scottish Power UK Holdings Limited  
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28 Pensions - continued

	Year to 31 March 2005 £m	Year to 31 March 2004 £m
<b>Movement in deficit in pension schemes during the year</b>		
Deficit in pension schemes at beginning of year	(172.0)	(329.3)
Movement in year:		
Current service cost	(35.5)	(28.5)
Contributions	53.5	23.3
Net return on assets	8.2	0.8
Actuarial (loss)/gain	(64.6)	161.7
Deficit in pension schemes at end of year	(210.4)	(172.0)

	Year to 31 March 2005 £m	Year to 31 March 2004 £m	Year to 31 March 2003 £m
<b>History of experience gains and losses</b>			
Difference between expected and actual return on scheme assets:			
Amount	74.4	280.6	(647.2)
Percentage of scheme's assets	3%	13%	(36)%
Experience gains and losses on scheme liabilities:			
Amount	(28.7)	(17.6)	68.4
Percentage of scheme's liabilities	(1)%	(1)%	3%
Total amount recognised in statement of total recognised gains and losses:			
Amount	(64.6)	161.7	(571.0)
Percentage of scheme's liabilities	(3)%	7%	(27)%

Summary

If the above FRS 17 pensions and other post-retirement benefits assets and liabilities (net of deferred tax) were recognised in the balance sheet as at 31 March 2005 and 31 March 2004, the company's net assets and profit and loss reserve would be as follows:

	At 31 March 2005 £m	At 31 March 2004 £m
Net assets	933.6	1,127.5
Reversal of SSAP 24 net pensions (asset)/liability (net of deferred tax)	(1.0)	11.3
Reversal of capitalisation of SSAP 24 costs of pensions (net of deferred tax)	(14.6)	(7.7)
Net assets excluding effect of FRS 17	918.0	1,131.1
Capitalisation of FRS 17 costs of pensions (net of deferred tax)	7.1	3.2
Net assets excluding FRS 17 pensions assets and liabilities (net of deferred tax)	925.1	1,134.3
FRS 17 pensions assets (net of deferred tax)	-	0.5
FRS 17 pensions liabilities (net of deferred tax)	(147.3)	(120.9)
Net assets including FRS 17 pensions assets and liabilities (net of deferred tax)	777.8	1,013.9
Profit and loss reserve	(113.3)	84.6
Reversal of SSAP 24 net pensions (asset)/liability (net of deferred tax)	(1.0)	11.3
Reversal of capitalisation of SSAP 24 costs of pensions (net of deferred tax)	(14.6)	(7.7)
Profit and loss reserve excluding effect of FRS 17	(128.9)	88.2
Capitalisation of FRS 17 costs of pensions (net of deferred tax)	7.1	3.2
Profit and loss reserve excluding FRS 17 pensions assets and liabilities (net of deferred tax)	(121.8)	91.4
FRS 17 pensions assets and liabilities (net of deferred tax)	(147.3)	(120.4)
Profit and loss reserve including FRS 17 pensions assets and liabilities (net of deferred tax)	(269.1)	(29.0)

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**29 Contingent liabilities**

**Thus Flotation**

In November 1999, the group floated a minority stake in its internet and telecommunications business, Thus plc. This gave rise to a contingent liability to corporation tax on chargeable gains, estimated at amounts up to £570 million. On 19 March 2002, Scottish Power plc demerged its residual holding in Thus Group plc (the new holding company of Thus plc). The charge referred to above could still arise, in certain circumstances, before 19 March 2007. Members of the ScottishPower group, including Scottish Power UK plc, have agreed to indemnify Thus Group plc for any such liability, except in circumstances arising without the consent of the ScottishPower group.

**Legal proceedings**

The group's businesses are parties to various legal claims, actions and complaints, certain of which may involve material amounts. Although the group is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, the directors currently believe that disposition of these matters will not have a materially adverse effect on the group's consolidated Accounts.

**30 Financial commitments**

	2005 £m	2004 £m
<b>(a) Analysis of annual commitments under operating leases</b>		
<b>Leases of land and buildings expiring:</b>		
Between two and three years	0.4	-
Between three and four years	0.1	0.4
More than five years	4.0	2.6
	4.5	3.0
<b>Other operating leases expiring:</b>		
Within one year	1.3	1.0
Between one and two years	1.5	2.4
Between two and three years	1.4	1.5
	4.2	4.9
<b>(b) Capital commitments</b>		
Contracted but not provided	73.0	47.4

**(c) Energy purchase commitments**

In the UK, ScottishPower manages its energy resource requirements by integrating long-term firm, short-term and spot market purchases with its own generating resources to manage volume and price volatility and maximise value across the energy value chain. As part of its UK energy resource portfolio, ScottishPower is committed under long-term purchase contracts to purchases of £1,570.3 million, £868.2 million, £590.2 million, £423.3 million and £304.8 million for the years 2006 to 2010 respectively and £1,435.0 million thereafter.

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**31 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 group.

	2005 £'000	2004 £'000
<b>Executive directors</b>		
Basic salary	2,096.3	1,875.0
Bonuses	1,797.9	1,138.8
Benefits in kind	154.7	123.4
<b>Total</b>	<b>4,048.9</b>	<b>3,137.2</b>

- (i) One director (2004 nil) exercised share options over Scottish Power plc shares in the year.  
(ii) One director (2004 one) exercised share options under the Long Term Incentive Plan during the year.  
(iii) Five directors (2004 five) have retirement benefits accruing under defined benefit pension schemes.

	2005 £'000	2004 £'000
<b>Highest paid director</b>		
Basic salary	705.0	650.0
Bonuses	627.5	414.4
Benefits in kind	47.6	32.8
<b>Total</b>	<b>1,380.1</b>	<b>1,097.2</b>

- (iv) The amount of pension benefit accrued for the highest paid director is £246,803 (2004 £208,489).

**32 Related party transactions**

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

Related party relationship to group	Sales/(purchases) to/(from) other group companies during the year		Amounts due from/(to) other group companies as at 31 March	
	2005 £m	2004 £m	2005 £m	2004 £m
<b>Sales by related parties</b>				
Joint ventures (i)	113.6	120.8	2.4	15.6
<b>Purchases by related parties</b>				
Joint ventures (i)	(86.9)	(61.1)	-	(8.1)

During the year ended 31 March 2005, ScottishPower Generation Limited made management and similar charges to joint ventures of £0.4 million (2004 £0.4 million).

During the year ended 31 March 2005, ScottishPower Energy Retail Limited acquired customers from N.E.S.T. Makers Limited for £2.1 million (2004 £2.8 million).

(i) On 28 September 2004, the group purchased the remaining 50% of Brighton Power Station; as a result it ceased to be a joint venture from this date. The sales and purchases for 2005 include those transactions between ScottishPower and Brighton Power Station for the period from 1 April 2004 to 27 September 2004.

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

Related party relationship to group	Interest payable to other group companies during the year		Amounts due to other group companies as at 31 March	
	2005 £m	2004 £m	2005 £m	2004 £m
Joint ventures	(0.6)	(2.0)	(10.6)	(38.6)

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.



**Scottish Power UK Holdings Limited**  
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**33 Acquisitions**

**(a) Damhead Creek acquisition**

On 1 June 2004 the group completed the acquisition of Damhead Creek Limited from its creditor banks for a cash consideration, including expenses, of £319.8 million. The acquisition method of accounting has been adopted. The purchase included the Damhead Creek CCGT, all trading assets and the transfer of employees. The details of the transaction and fair value adjustments arising from the change in ownership are shown below:

		Book values at 1 June 2004 £m	Revaluation £m	Fair values at 1 June 2004 £m
<b>Fair value of Damhead Creek consideration</b>	<b>Notes</b>			
Intangible fixed assets	13	-	46.5	46.5
Tangible fixed assets	14	265.4	50.1	315.5
Current assets				
- Deferred tax	21	14.1	-	14.1
- Other current assets		15.5	-	15.5
Creditors: amounts falling due within one year				
- Other creditors		(19.7)	-	(19.7)
Provisions for liabilities and charges				
- Other provisions	22	(2.6)	(49.5)	(52.1)
<b>Net assets</b>		<b>272.7</b>	<b>47.1</b>	<b>319.8</b>
Cash consideration				313.5
Expenses paid				6.3
<b>Purchase consideration</b>				<b>319.8</b>

(i) An intangible fixed asset of £46.5 million has been recognised to reflect an in-the-money gas contract acquired on the transaction. This asset has been limited to an amount that does not create or increase negative goodwill.

(ii) A revaluation of £50.1 million has been made to the book value of Damhead Creek's tangible fixed assets to record them at their depreciated replacement costs.

(iii) A revaluation of £(49.5) million has been made to the book value of Damhead Creek's other provisions to reflect the value of an onerous electricity contract.

The results of Damhead Creek for the year to 31 December 2003 and for the pre-acquisition period from 1 January 2004 to 31 May 2004 are shown below:

	Period from 1 January 2004 to 31 May 2004 £m	Year to 31 December 2003 £m
Turnover	88.9	153.9
Operating (loss)/profit	(3.9)	9.7
Interest	(20.7)	(27.3)
Loss on ordinary activities before taxation	(24.6)	(17.6)
Taxation	14.1	(1.5)
Loss for the financial period	(10.5)	(19.1)
Dividends	-	-
Loss attributable to shareholders	(10.5)	(19.1)

**Scottish Power UK Holdings Limited**  
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**33 Acquisitions - continued**

**(b) Brighton Power Station acquisition**

On 28 September 2004 the group completed the acquisition of the remaining 50% of the share capital of South Coast Power Limited and Shoreham Operations Company Limited (together "Brighton Power Station") for a cash consideration, including expenses, of £26.5 million. The acquisition method of accounting has been adopted. The details of the transaction and fair value adjustments arising from the change in ownership are shown below:

Fair value of Brighton Power Station consideration	Notes	Book values at 28 September 2004	Revaluation	Fair values at 28 September 2004
		£m	£m	£m
Intangible fixed assets	13	-	58.1	58.1
Tangible fixed assets	14	140.5	(12.7)	127.8
Cash		26.8	-	26.8
Other current assets		22.9	-	22.9
Creditors: amounts falling due within one year				
- Other creditors		(22.2)	(2.6)	(24.8)
Creditors: amounts falling due after one year				
- Loans and other borrowings		(116.1)	-	(116.1)
Provisions for liabilities and charges				
- Deferred tax	21	(9.6)	2.9	(6.7)
- Other provisions	22	(0.8)	(34.1)	(34.9)
Net assets		41.5	11.6	53.1
Cash consideration				
- Share capital				4.5
- Loans (including accrued interest)				21.5
Expenses paid				0.5
Purchase consideration				26.5
Previous carrying value of Brighton Power Station as a joint venture				
- Loans	15			19.1
- Accrued interest				1.7
				20.8
Revaluation reserve				5.8
Total				53.1

(i) An intangible fixed asset of £58.1 million has been recognised to reflect an in-the-money gas contract acquired on the transaction. This asset has been limited to an amount that does not create or increase negative goodwill.

(ii) A revaluation of £(12.7) million has been made to the book value of Brighton Power Station's tangible fixed assets to record them at their depreciated replacement cost.

(iii) A revaluation of £(2.6) million has been made to the book value of Brighton Power Station's other creditors to reflect the value of out-of-the-money interest rate swaps.

(iv) A revaluation of £2.9 million has been made to the book value of Brighton Power Station's deferred tax provision to reflect the deferred tax effect of the fair value adjustments.

(v) A revaluation of £(34.1) million has been made to the book value of Brighton Power Station's other provisions to reflect onerous short-term electricity and gas contracts.

(vi) The purchase consideration comprises £4.5 million for the remaining 50% of the share capital, £21.5 million in respect of the vendor's loans to Brighton Power Station and £0.5 million of expenses.

(vii) The previous carrying value of Brighton Power Station as a joint venture included £0.7 million of accumulated losses.

(viii) A revaluation reserve is created as a result of the acquisition of the remaining 50% interest as a fair value exercise is required to be performed as a result of the investment in the joint venture becoming a 100% subsidiary. The group previously held a 50% interest in Brighton Power Station and the revaluation reserve represents 50% of the fair value adjustments of £11.6 million.

(ix) In addition to the group's purchase consideration of £26.5 million for the purchase of the remaining 50% of Brighton Power Station, the group recognised net debt of £89.3 million (being loans and other borrowings of £116.1 million less cash of £26.8 million as shown in the table above). The group had previously effectively recognised 50% of this net debt while Brighton Power Station was a joint venture.

The results of Brighton Power Station for the year to 31 March 2004 and for the pre-acquisition period from 1 April 2004 to 27 September 2004 are shown below:

	Period from 1 April 2004 to 27 September 2004	Year to 31 March 2004
Turnover	102.5	120.9
Operating (loss)/profit	(0.4)	10.3
Interest	(4.9)	(9.2)
(Loss)/profit on ordinary activities before taxation	(5.3)	1.1
Taxation	-	(0.4)
(Loss)/profit for the financial period/year	(5.3)	0.7
Dividends	-	(0.3)
(Loss)/profit attributable to shareholders	(5.3)	0.4

**34 Ultimate parent company**

Scottish Power UK Holdings Limited is a wholly owned subsidiary of Scottish Power plc a company registered in Scotland. Copies of the ultimate parent's consolidated Accounts may be obtained from The Secretary, Scottish Power plc, 1 Atlantic Quay, Glasgow, G2 8SP.

**Scottish Power UK Holdings Limited**  
**Principal Subsidiary Undertakings and Other Investments**

Subsidiary undertakings	Class of share capital	Proportion of shares held	Activity
Core Utility Solutions Limited	'A' Ordinary shares £1 *	100%	Multi-utility design and construction service
CRE Energy Limited (Northern Ireland)	Ordinary shares £1	100%	Wind-powered electricity generation
ScottishPower (DCL) Limited#	Ordinary shares £1	100%	Electricity generation
ScottishPower Energy Management Limited#	Ordinary shares £1	100%	Wholesale energy management company engaged in purchase and sale of electricity, gas and coal
ScottishPower Energy Management (Agency) Limited#	Ordinary shares £1	100%	Agent for energy management activity of ScottishPower Energy Management Limited and Scottish Power UK plc
ScottishPower Energy Retail Limited	Ordinary shares £1	100%	Supply of electricity and gas to domestic and business customers
ScottishPower Generation Limited	Ordinary shares £1	100%	Electricity generation
ScottishPower Insurance Limited (Isle of Man)	Ordinary shares £1	100%	Insurance
ScottishPower Investments Limited	Ordinary shares £1	100%	Holding company
ScottishPower (SCPL) Limited	'A' and 'B' Ordinary shares £1	100%	Electricity generation
ScottishPower (SOCL) Limited	'A' and 'B' Ordinary shares £1	100%	Management services
Scottish Power UK plc#	Ordinary shares 50p	100%	Holding company
SP Dataserve Limited	Ordinary shares £1	100%	Data collection, data aggregation, meter operation and revenue protection
SP Distribution Limited	Ordinary shares £1	100%	Ownership and operation of distribution network within the ScottishPower area
SP Manweb plc	Ordinary shares 50p	100%	Ownership and operation of distribution network within the Mersey and North Wales area
SP Power Systems Limited	Ordinary shares £1	100%	Provision of asset management services
SP Transmission Limited	Ordinary shares £1	100%	Ownership and operation of transmission network within the ScottishPower area
<b>Fixed asset investments</b>			
<b>Joint ventures</b>			
CeltPower Limited	'B' Ordinary shares £1 *	100%	Wind-powered electricity generation
N.E.S.T.Makers Limited	'B' Ordinary shares £1 *	100%	Energy efficiency agent for the 'fuel poor' benefit market
ScotAsh Limited	'B' Ordinary shares £1 *	100%	Sales of ash and ash-related cementitious products
Scottish Electricity Settlements Limited	Ordinary shares £1	50%	Scottish electricity settlements
<b>Associated undertaking</b>			
Wind Resources Limited	'B' Ordinary shares £1 **	100%	Wind-powered electricity generation

\* Represents 50% of the total issued share capital.

\*\* Represents 45% of the total issued share capital.

# The investment in this company is a direct holding of Scottish Power UK Holdings Limited.

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

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

## **Independent Auditors' Report to the members of Scottish Power UK Holdings Limited**

We have audited the Accounts on pages 9 to 41 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 9 to 14.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Directors' Report and Accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 Accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the Accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the Accounts give a true and fair view of the state of the affairs of the group and company at 31 March 2005 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Glasgow  
19 September 2005