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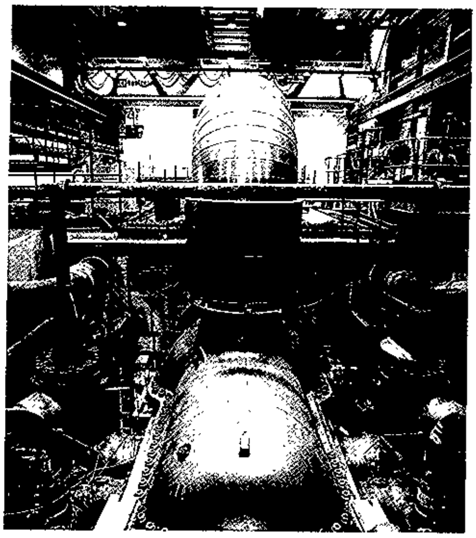


Scottish Hydro-Electric's highest priority is delivering exceptional customer satisfaction. It also aims to be recognised as an outstanding Company by its customers, staff, shareholders, community and suppliers.

Key Financial Highlights

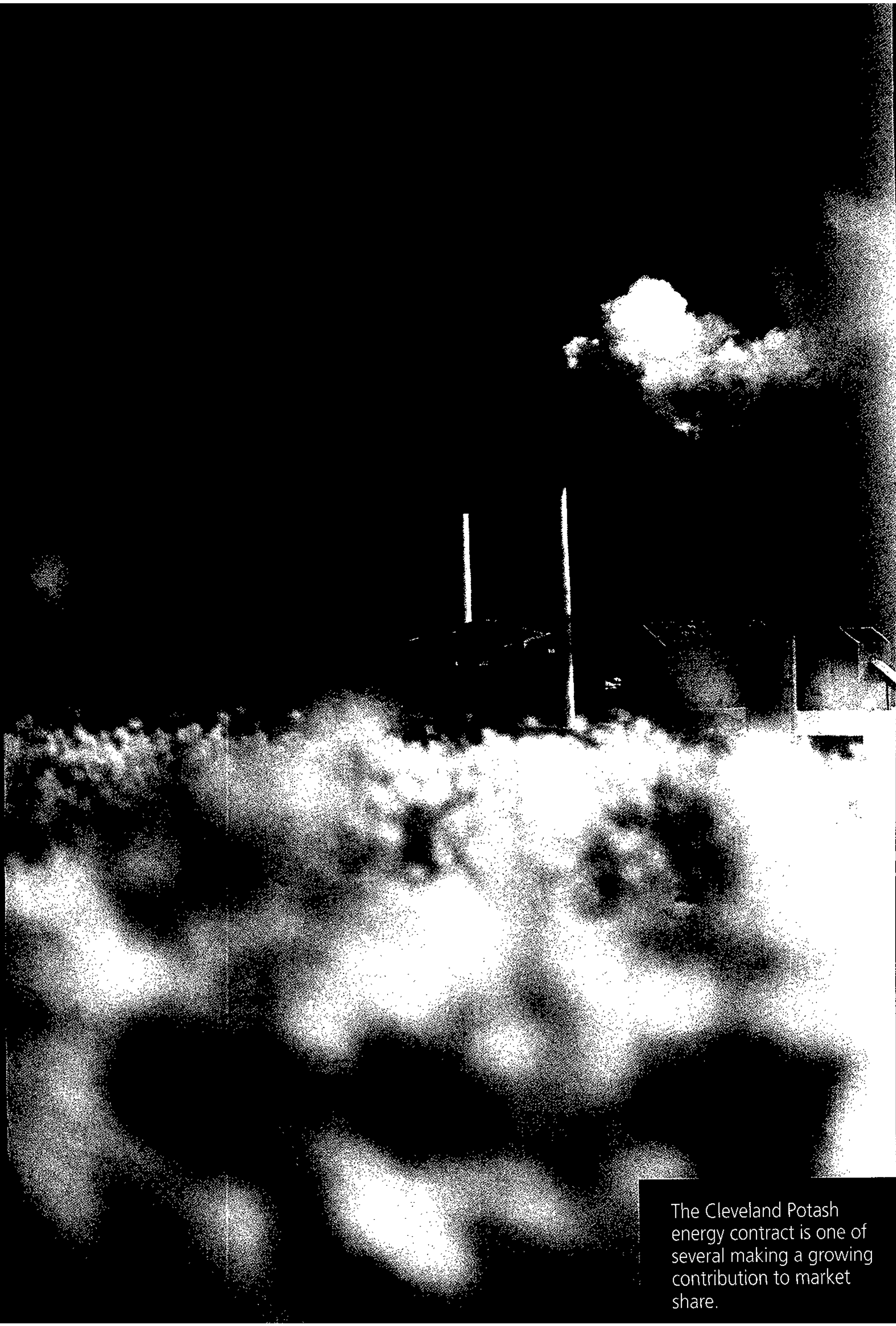
	1998 £M	1997 £M	Change %
Turnover	**1034.7**	951.1	8.8
Profit before interest	**246.7**	227.5	8.4
Profit before tax	**213.1**	205.4	3.7
Profit after tax, before windfall tax	**175.2**	164.2	6.7
Profit for the financial year	**130.9**	164.2	-20.3
Capital expenditure and investment	**220.9**	404.5	-45.4
Capital and reserves	**942.8**	881.6	6.9
Net debt	**490.0**	459.6	6.6
Number of staff at year-end	**3,205**	3,177	0.9
Earnings per share	**33.61p**	42.35p	-20.6
Adjusted earnings per share*	**44.98p**	42.35p	6.2
Dividends per share	**19.41p**	17.64p	10.0
Net assets per share	**242.1p**	227.4p	6.5
Interest cover	**7.3x**	10.3x	-
Dividend cover	**1.7x**	2.4x	-
Adjusted dividend cover*	**2.3x**	2.4x	-

* adjusted for £44.3M windfall tax charge

Household names such as Lloyd's, the International Insurance Markets, have contributed to the strong growth of our commercial business in England and Wales. (Front cover)

Refurbishment of our hydro station at Rannoch will help extend its life and improve efficiency. (Opposite)

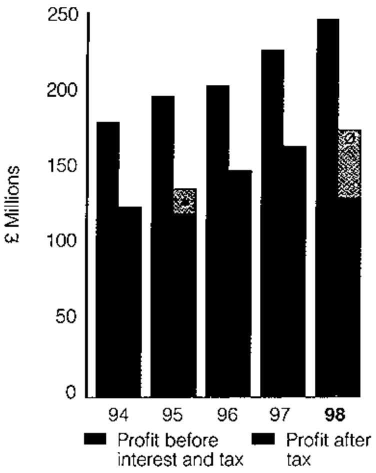
Scottish Hydro-Electric



The Cleveland Potash energy contract is one of several making a growing contribution to market share.

Financial Statistics

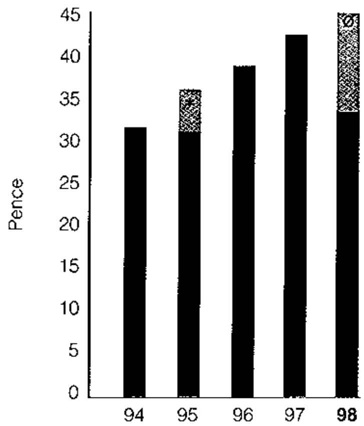
Profit trend



* Profit after tax adjusted for exceptional charge for debt redemption.

Ø Profit after tax adjusted for windfall tax

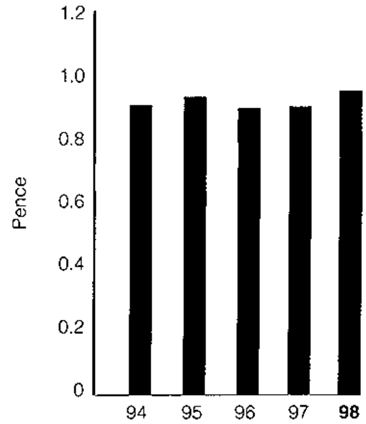
Earnings per share



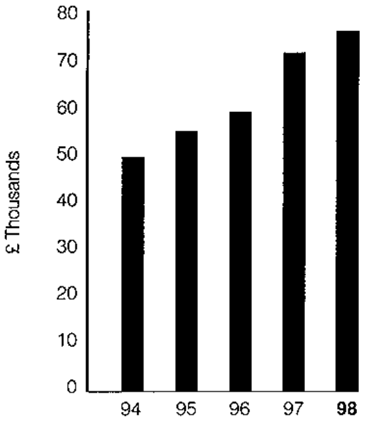
* EPS adjusted for exceptional charge for debt redemption.

Ø EPS adjusted for windfall tax.

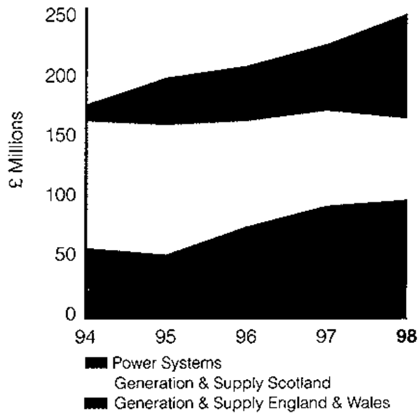
Profit before interest and tax per kWh traded



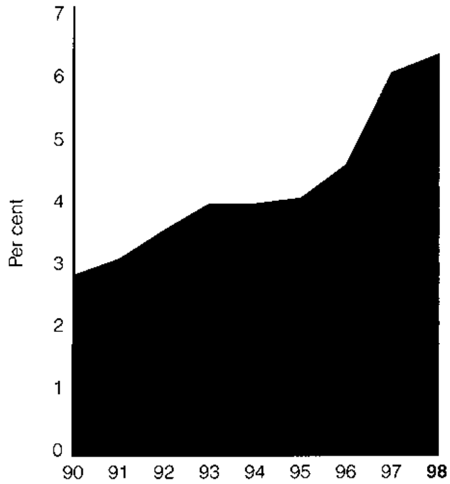
Profit before interest and tax per member of staff



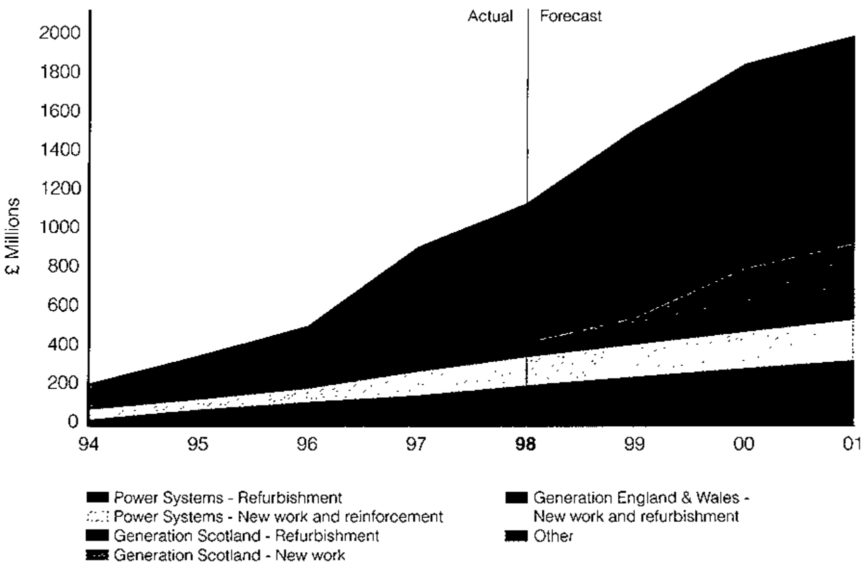
Profit before interest and tax by activity



British market share



Cumulative investment



Scottish Hydro-Electric

Refurbishment of our hydro plant - seen here at Glenmoriston - delivers better reliability and efficiency.

Scottish Hydro-Electric Profile

Scottish Hydro-Electric is a growth Company. We are expanding as a vertically integrated business generating and supplying energy to customers throughout Great Britain. In the north of Scotland we also manage a power supply network business which delivers electricity for all licensed suppliers across 25% of the British landmass, where just 2% of the population live.

Our prime aim is to deliver exceptional products, service and value for money to all our customers and thereby to provide attractive returns to our shareholders.

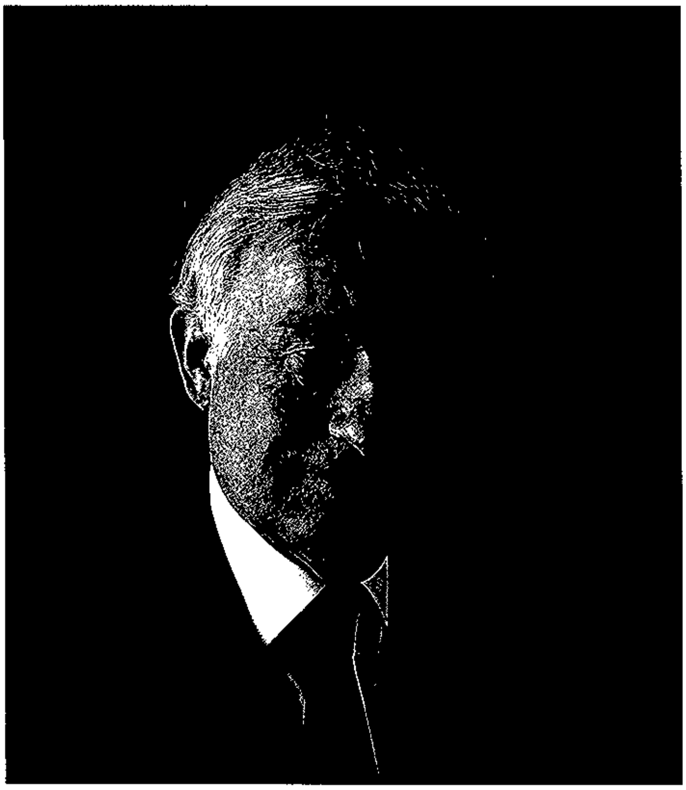
Since 1990, Scottish Hydro-Electric's development strategy has consistently focused on building on our strong foundations as an integrated energy company. Our roots are in the north of Scotland, and serving the communities there is our first priority. From this traditional base we have concentrated our efforts on expanding the business we know best - the energy business. This strategy has driven an investment programme which has resulted in our share of the generation and supply market in Great Britain more than doubling since 1990, and will see it treble over the first decade of open electricity markets.

Over 60% of Scottish Hydro-Electric's pre-interest profits now come from the generation and supply of electricity throughout Britain, the balance coming primarily from our power supply network in the north of Scotland. Our investment programme has given us a wide range of generation plant extending from the south of England to Scotland's island communities. By 1999, including plant now under construction, our production capacity owned or under long-term contract will have increased by almost 65% since 1990. Our sales volume traded has already increased over two and a half times. We currently have 3,242MW of generation capacity owned or under long-term contract in Scotland and 849MW in England and Wales. The latter will rise to 2,056MW by 1999. We have substantially sold our existing generation capacity in England and Wales into the early part of the next century. Our generation portfolio is the youngest, most efficient and environmentally attractive of the major generators.

Over the last five years our underlying earnings have increased 56.2% as a result of growing market share and productivity. We are confident that our tightly focused strategy for growth will continue to deliver value to our shareholders. The focus of this growth will continue to be in England and Wales, while in parallel we will maintain our commitment to investing in our north of Scotland infrastructure of power supply and generation assets. We have the balance sheet strength and the project opportunities to maintain our momentum of growth, and are confident of our ability to deliver.

We have an excellent team which has proved itself agile and forceful in the competitive market, capable of growing real new business which will provide improved performance for our shareholders in a tightening regulatory regime.

Chairman's Statement



LORD WILSON OF TILLYORN CHAIRMAN

Building for the future

Building on the strategy successfully implemented during the last few years, Scottish Hydro-Electric is now well placed to take advantage of the final stage in the opening of the electricity market which is scheduled to begin later this year. We have a well balanced range of generation assets in terms of energy source, age profile and geographical positioning, with the best efficiency and environmental performance of all the major UK generators. We are investing heavily in improving our distribution network in the North of Scotland. Thanks to the tremendous work done by our staff, we are also steadily reducing costs and improving service. All this is delivering good value to shareholders.

Our financial figures show pre-tax profits up 3.7%, but earnings down due entirely to the special "windfall tax" imposed on utilities this year. Adjusted earnings per share are up 6.2% allowing the Board to recommend a full year dividend increased by 10.0%. Adjusted dividend cover is a very satisfactory 2.3 times.

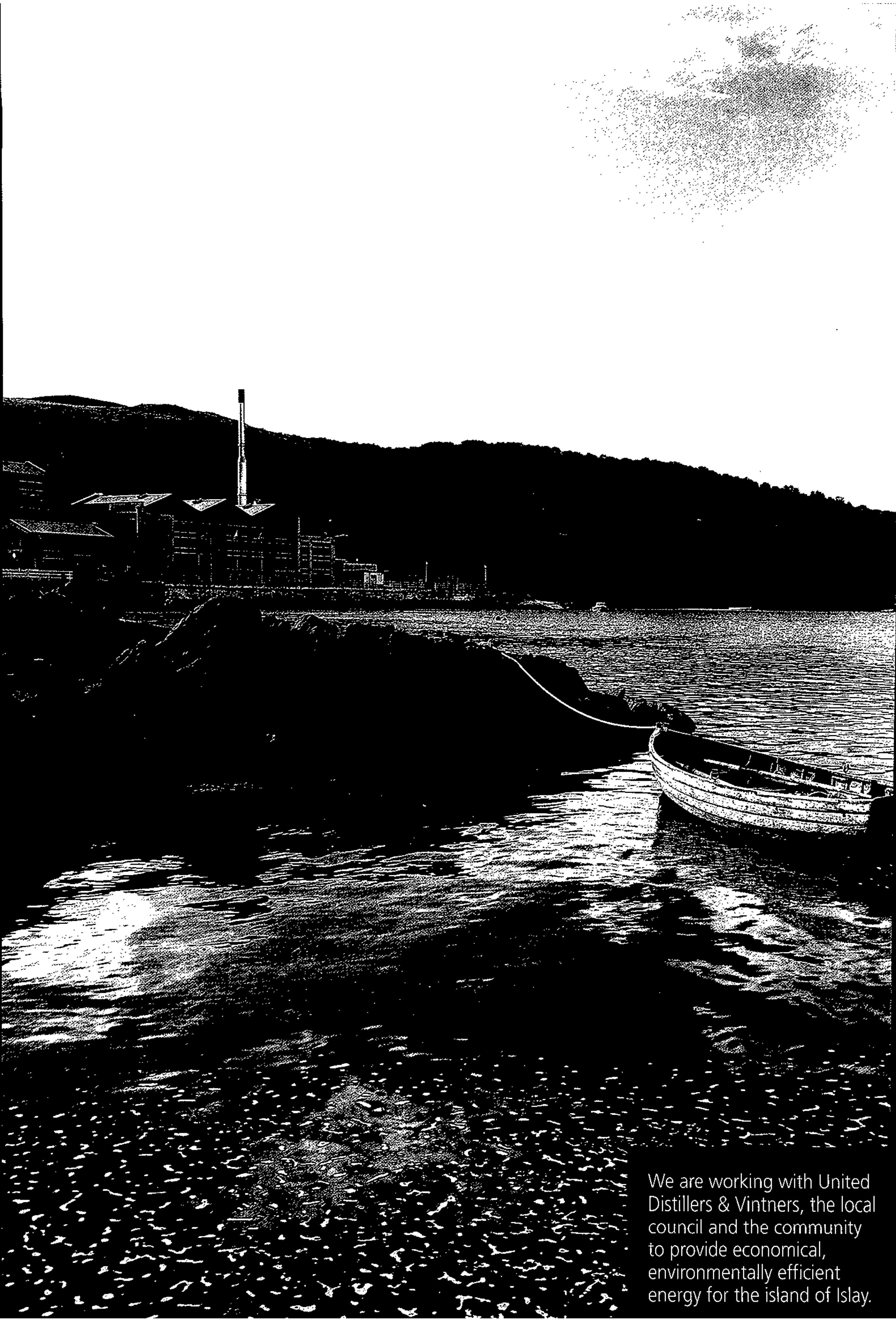
Both the major parts of our business have done well. In Power Systems, pre-interest profits increased by 6.1%, and Generation and Supply figures rose by 13.3%. Particularly encouraging was the 57.1% profit growth in England and Wales, which more than offset the expected fall in profits North of the Border as regulatory and competitive pressures continued. For the first time our Generation and Supply profits in England and Wales exceeded those in Scotland.

Our Balance Sheet is very strong, supported by a healthy cash flow. This has allowed us to maintain a high level of expenditure on improving our existing North of Scotland infrastructure and, at the same time, to invest in new developments in the South. The financial capacity is there to fund substantial further investment in expansion and we are actively developing suitable projects. At the AGM we shall be seeking shareholders' authority to buy back up to 10% of our shares in the market, but this is no more than providing ourselves with a form of authority which many companies have and which we have no current intention of using. Our preference remains to maintain the momentum of organic growth of the Company through attractive and carefully calculated investments, an approach which to date has generated considerable returns for shareholders.

The strategy we will continue to follow is to develop our position in Scotland while expanding significantly South of the Border. Over a third of our pre-interest profits, some £88 million, now comes from England and Wales. This proportion will rise further as new capacity, and in particular the 750MW Seabank Power Station, built as a joint venture with BG plc, and Intergen's Rocksavage plant, where we have a long term contract for 400MW of capacity, come on stream later this year. In addition, Keadby Power Station in South Yorkshire, which initially suffered some teething problems, is being upgraded; and we have been making good progress with expanding our portfolio of highly efficient and environmentally friendly Combined Heat and Power (CHP) plants, thus maintaining our position as one of the leading CHP operators in the country. All of these projects are expected to provide attractive returns to shareholders over many years, their output already having been sold through to the early years of the next century. We also have preliminary consents for further expansion of the plants at Keadby and Seabank, although it is not yet clear if these developments could be affected by the uncertainty surrounding the Government's attitude to gas fired power stations.

In Scotland, we are investing substantially in modernising our generation assets. Work has started on repowering our gas and oil fired power station at Peterhead so as to increase its efficiency significantly and maintain its position as one of Scotland's most economic plants. We are also continuing our long term programme of refurbishing the hydro generation assets which make us, by a long way, the largest provider of renewable energy generation in the UK.

In the Power Systems part of the business (Transmission and Distribution), we continue to invest heavily in improving service throughout the North of Scotland, particularly in the more weather-vulnerable and remote areas. A further 1550km (about 1000 miles) of distribution wires were refurbished during the year - part of an overall system refurbishment investment of £47.1 million - and our aim is to reduce minutes off supply for customers by 30% before 2005. The winter saw some late storms which affected our area less than other parts of the UK. But, where there was storm damage, effective pre-planning, plus the stalwart efforts of our linesmen and engineers, helped to speed up the restoration of service while improvements to our Customer Service Centre made dissemination of information about faults and storm damage quicker and more efficient.



We are working with United Distillers & Vintners, the local council and the community to provide economical, environmentally efficient energy for the island of Islay.

We are now engaged in the Regulator's next round of Price Control Reviews for Transmission, Distribution and Supply. The outcome, which is expected in the autumn of 1999, will be a key factor in determining earnings from these businesses after April 2000. Although Power Systems only accounts for some 40% of our total profits, these reviews, together with likely changes to regulation following the present Government review, inevitably create some uncertainty.

One major preoccupation for many months has been preparing for the opening up of the domestic electricity market which will take place in stages, starting later this year. It has been a massive undertaking, requiring an immense amount of investment in manpower and computer systems. At one stage the Group had 180 specialists working on this project alone and expenditure is likely to be in the region of £100 million. It is still not clear how much of this expenditure can be recovered through the regulated pricing mechanism and how much will fall on shareholders. However, our team is doing an excellent job and we expect customers to benefit from fully competitive markets.

The end of the monopoly supply to domestic customers means there will inevitably be some incursions into our traditional market in the North of Scotland. More important though is the opportunity to expand our own activities elsewhere. As with the earlier liberalisation of the market, we are confident that we shall benefit from increased competition and gain more customers than we lose. Our Commercial team has been working hard to ensure that this is so.

Change has been the constant companion of the electricity supply business ever since privatisation. If anything, the pace quickens year by year. That Scottish Hydro-Electric has done so well, under ever-increasing competitive pressure, is a great tribute to all our staff and to the leadership provided by Roger Young, our Chief Executive, and the Executive team. I should like also to pay tribute to the work of the Board, and particularly to Peter Everett, one of our non-executive Directors, who leaves after eight years on the Board. He is being replaced by David Payne whose service in BP has given him long experience of the oil industry within the UK and internationally. A new member of the Board is James Martin, our Generation Director, who has been with the Company for nearly nine years. Also joining the Board will be David Gray, to replace as Finance Director John Gray whose retirement I announced last year: to him too I should like to express my thanks for his service with the Company.

The coming year will face us with many challenges: the further opening of the electricity market; Government reviews of regulation and energy supply; the Electricity Regulator's price control reviews for the Transmission, Distribution and Supply businesses; and an ever more competitive marketplace. I am confident that Scottish Hydro-Electric, with a strategy which has proved its value to shareholders, and with a staff whose consistent display of energy, skill and determination have enabled us to grow rapidly while improving service and reducing costs, will continue to flourish and prosper in this new environment.

Lord Wilson of Tillyorn Chairman

Lord Wilson of Tillyorn (63) Chairman * †
Lord Wilson of Tillyorn joined the Board of Scottish Hydro-Electric in February 1993 and became Chairman on 1 April that year. He devotes roughly half his time to duties at Scottish Hydro-Electric.

After a career in the Foreign Service, Lord Wilson served as Governor of Hong Kong from 1987 to 1992. Amongst the other responsibilities he has taken on since returning to the United Kingdom, he is Chancellor of the University of Aberdeen, Chairman of the Scottish Committee of the British Council, and a Director of Martin Currie Pacific Trust. He also serves on the Scottish Council of the CBI.

Peter Everett (66) * †
Peter Everett was appointed a non-Executive Director of Scottish Hydro-Electric in September 1989. Until his retirement in 1989, he was Managing Director of Shell UK Ltd and Shell UK Exploration and Production. He is currently a non-Executive Director of Forth Ports plc, Ramco Energy Ltd and Edinburgh Java Trust Ltd. He retired as a Director of the Company on 31 May 1998.

Ian Grant (54) *
Ian Grant was appointed a non-Executive Director of Scottish Hydro-Electric in May 1992 and is Chairman of the Remuneration Committee and of the Scottish Hydro-Electric Community Trust. He is the Crown Estate Commissioner for Scotland and is a Director of the NFU Mutual Insurance Society and of East of Scotland Farmers Ltd. He retired in February as Chairman of the Scottish Tourist Board, a position he took up in 1990, having previously served as President of the National Farmers Union of Scotland for six years.

John Gray (56) Finance Director
John Gray was appointed Finance Director of Scottish Hydro-Electric in May 1989. He had previously held financial positions in a number of companies, and immediately prior to joining Scottish Hydro-Electric, was Finance Director of VSEL Consortium PLC. He is retiring as a Director with effect from 31 July 1998.

Ian McMillan (54) Power Systems Director
Ian McMillan worked as Electricity Supply Engineer with Scottish Hydro-Electric throughout the north of Scotland, was appointed Area Manager for electricity supply operations from 1985 and became Head of Public Electricity Supply in 1989. Following the merger of Transmission and Distribution businesses in January 1993, he became Head of Power Systems. He joined the Board of Scottish Hydro-Electric in April 1996, with executive responsibility as Power Systems Director. He is a Chartered Electrical Engineer and a Fellow of the Institution of Electrical Engineers and the Institute of Management.

Board of Directors

(left to right)

James Martin, David Sigsworth, Michael Walker, Ian Grant, Lord Wilson of Tillyorn, Roger Young, Peter Everett, Ian McMillan, Peter Stormonth Darling and John Gray

James Martin (44) Generation Director
James Martin was appointed Generation Director of Scottish Hydro-Electric in April 1998. He joined Scottish Hydro-Electric in 1989 as Head of Engineering and was responsible for all electrical, mechanical and civil work behind the Company's generation asset management and growth. After a period as Hydro Generation Manager he was promoted to the Executive as Director of Generation in May 1996. In addition to the management and development of generation, he is head Director on IT and the environment. He has worked with UK and overseas engineering consultants on dams, high speed railways, major infrastructure, nuclear waste and hydro.

David Sigsworth (51) Commercial Director
David Sigsworth was appointed Commercial Director of Scottish Hydro-Electric in January 1995, having been in the Electricity Supply Industry since 1962, and latterly Head of Energy Trading with the Company for two years. He previously headed Scottish Hydro-Electric's Business Development team with responsibility for delivering a number of major energy projects outside the north of Scotland. In addition, he is a Director and Deputy Chairman of the Combined Heat and Power Association and Chairman of the Energy Services Association.

Peter Stormonth Darling (65) * †
Peter Stormonth Darling was appointed a non-Executive Director of Scottish Hydro-Electric in October 1994 and is the Chairman of the Audit Committee. He was Chairman of Mercury Asset Management Group (MAM) for thirteen years and prior to this was Vice Chairman of S G Warburg & Co. He is a Director of Scottish Equitable plc and is on the Board of a number of other companies.

Michael Walker (64) *
Michael Walker was appointed a non-Executive Director of Scottish Hydro-Electric in 1982. He is Chairman of Sidlaw Group, Chairman of Ivory & Sime UK Smaller Companies Trust and a Director of Dunedin Smaller Companies Investment Trust.

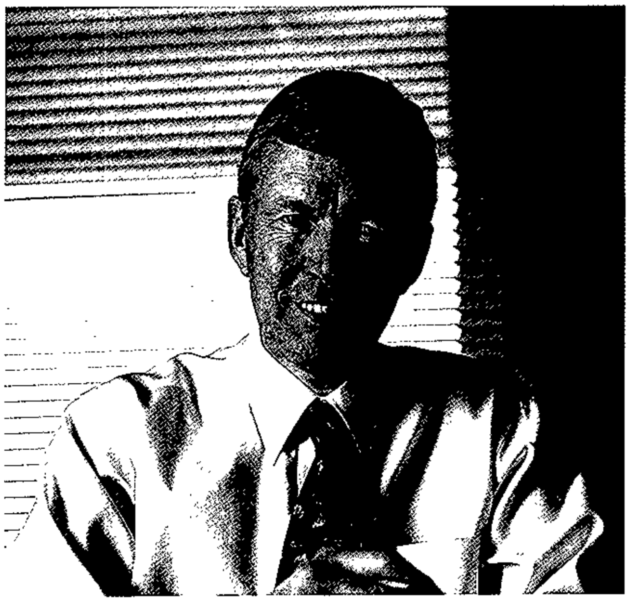
Roger Young (54) Chief Executive †
Roger Young was appointed Chief Executive of Scottish Hydro-Electric in 1988. His early career was as an engineer and commercial manager in the aviation industry followed by a number of general management posts in electrical and mechanical engineering companies. Latterly he was Managing Director of Bonar Long Ltd and then Chief Executive of the Electronics Division of Low and Bonar PLC. He has held directorships of many companies in the UK and overseas and is currently a non-Executive Director of Bank of Scotland and Friends Ivory & Sime plc.

* Audit Committee and Remuneration Committee Member

† Nomination Committee Member

A key element of our strategy for the domestic electricity market is an exclusive arrangement to offer AIR MILES awards to our customers.

Chief Executive's Financial and Operational Review



ROGER YOUNG CHIEF EXECUTIVE

Delivering Growth

OVERVIEW

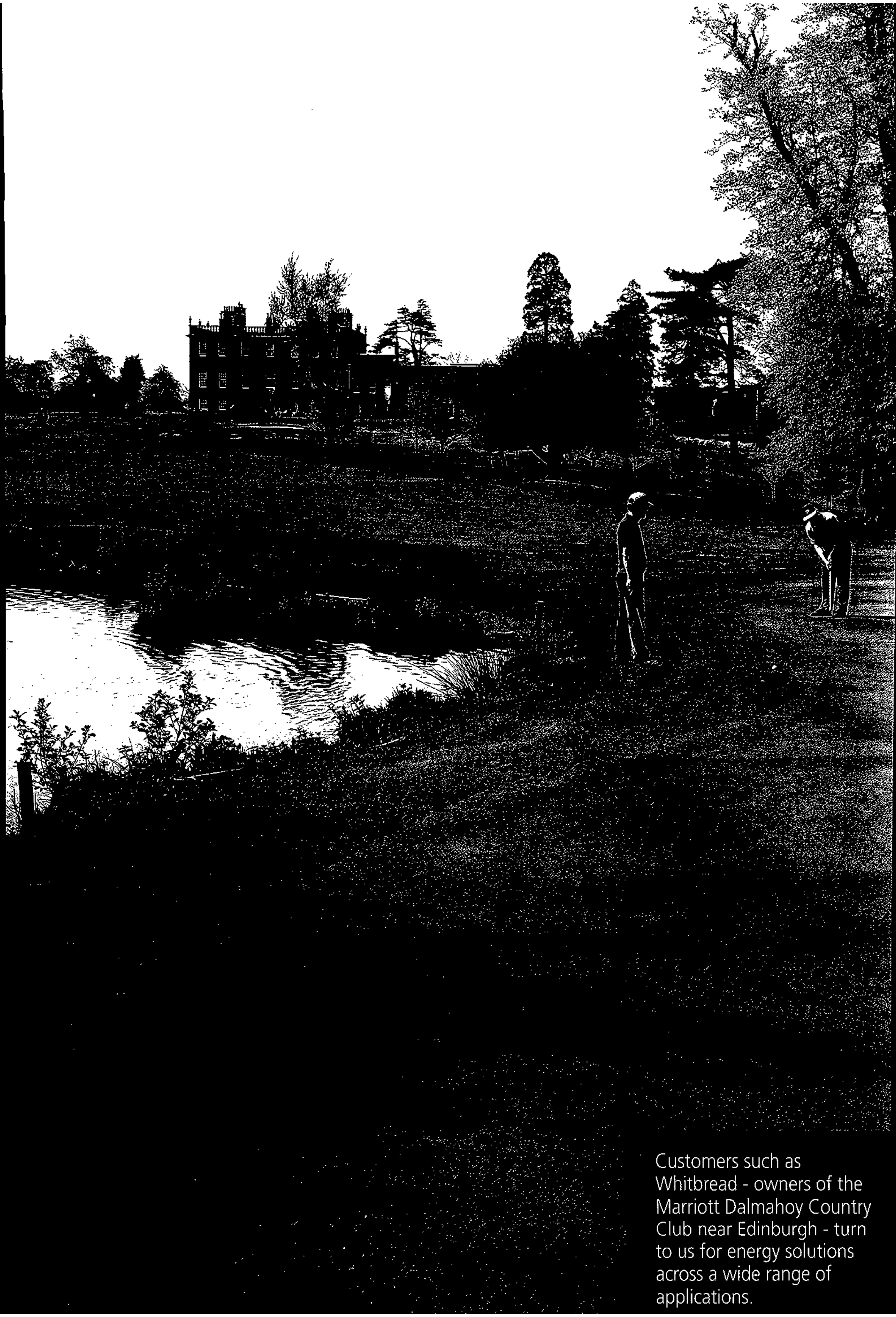
Scottish Hydro-Electric has developed significantly in 1997/98 in pursuit of its tightly focused development strategy. This concentrates on expanding in Britain only in businesses which the Group understands well and where it can see the opportunity to add value for customers and shareholders. Implementation of this strategy has delivered customer service excellence, organic expansion of market share, the best plant for the task and careful control of risk. It has also delivered substantial value for shareholders, in spite of the pressures of tightening regulation and increasing competition.

Profits (excluding windfall tax) and dividends are up again; the geographical spread of our sources of profit throughout Britain is proceeding apace; further growth opportunities are being evaluated; and our finances are strong, allowing us both to weather uncertain times and to develop expansion prospects with confidence.

Our five year record shows underlying pre-tax profits up 42.5%, underlying earnings up 56.2% and dividends up over 70%, driven by rapid and profitable growth of market share and very substantial productivity improvements in all businesses.

Our investment programme remains high and further substantial investment has been committed in 1997/98, particularly in our Scottish Generation and Power Systems businesses. The benefits of this will flow through to investors over time.

Our safety performance is a special priority in consideration of both our staff and our community. Performance improved to record levels for the eighth successive year, and this achievement was recognised by RoSPA making its annual electricity sector award to the Group.



Customers such as Whitbread - owners of the Marriott Dalmahoy Country Club near Edinburgh - turn to us for energy solutions across a wide range of applications.

There are many challenges ahead, in particular the regulatory price control reviews due in Transmission, Distribution and Supply. While these affect only about 40% of our profits, they are nonetheless likely to be significant in terms of workload, commercial implications and uncertainty of outcome. We have a strong team working on these programmes and expect it to acquit itself well.

A further set of challenges may flow from the new Government's reviews of Regulation, Generation Consents, Competition law and electricity trading arrangements in Britain. The likely direction and timescale of these changes will become clear over the next 6-12 months. The Group is well placed to ride out any difficulties and to exploit the opportunities which are likely to arise.

FINANCIAL REVIEW

Profit Improvement

Group pre-tax profit increased 3.7% and, excluding windfall tax, post-tax return on equity was maintained at over 18%. A very strong performance by our Generation and Supply business in England and Wales and a good result from our Power Systems business in Scotland were offset by the expected reduction in Generation and Supply profits in Scotland. Our strategy of pursuing rapid growth south of the border to counteract the regulatory and competitive pressures on our traditional business in the north is thus delivering real value to shareholders. The Accounts starting on page 44 show full details of the financial performance.

Profit before Interest and Tax (£M)

	Scotland	England & Wales	Other	Total
Generation and Supply	66.6	87.8	-	154.4
Power Systems	94.0	-	-	94.0
Other	-	-	(1.7)	(1.7)
Total	160.6	87.8	(1.7)	246.7

% of Total Profit before Interest and Tax

	Scotland	England & Wales	Other	Total
Generation and Supply	27.0	35.6	-	62.6
Power Systems	38.1	-	-	38.1
Other	-	-	(0.7)	(0.7)
Total	65.1	35.6	(0.7)	100.0

% Growth

	Scotland	England & Wales	Other	Total
Generation and Supply	(17.1)	57.1	-	13.3
Power Systems	6.1	-	-	6.1
Other	-	-	not applicable	not applicable
Total	(5.0)	57.1	not applicable	8.4

The profit mix at the pre-interest level, set out in the table on page 15, shows that in total profits rose 8.4% to £246.7M. Generation and Supply, which is increasingly unregulated, delivered 62.6% of profits. For the first time Generation and Supply profits in England and Wales exceeded those in Scotland, growing by over 57% as new production capacity enabled us to increase the volume of energy traded by about 23% in a static market. Average prices in the south also improved as we continued to seek out more attractive customers.

Much of the volume growth in England and Wales came from our acquisition of NORWEB's 50% share of Keadby Power Station in March 1997, together with the growth of our Combined Heat and Power (CHP) operations. The latter contributed £9M to profits, making them a significant and growing specialist area of our business.

In Scotland, Generation and Supply profits fell 17.1% to £66.6M. This was as a result of regulatory and competitive pressure on prices, a reduction in heating sales volume due to unusually warm weather, and an £8.4M charge relating to our customer information system being developed for the open market, as well as some Year 2000 costs. Market share, however, was maintained in spite of increasing competition.

Our Power Systems business, which operates primarily in Scotland, is closely regulated and likely to remain so. It increased its pre-interest profits by 6.1% to £94.0M, principally due to price increases agreed following our appeal to the MMC in 1994/95, and despite turnover being depressed by the effect of warm weather on heating volume. This improved profitability is essential to funding of our continuing heavy refurbishment programme aimed at improving the quality of our supply to customers.

We have continued to devote a lot of effort to improving the efficiency of all our operations. A useful measure of this is the pre-interest profit per member of staff which, as shown on page 3, grew a further 8.1% to deliver a 50.0% improvement over five years.

Our substantial investment programme, and in particular the Keadby share purchase at the end of last year, increased average debt significantly so that the net interest charge rose 52% to £33.6M. Interest cover has reduced to 7.3 times and is expected to drop to around five times in the next three years as we borrow to finance our committed expansion programme. We are content to see cover fall to around four times and are working on a number of investment opportunities whose funding could be accommodated within this guideline.

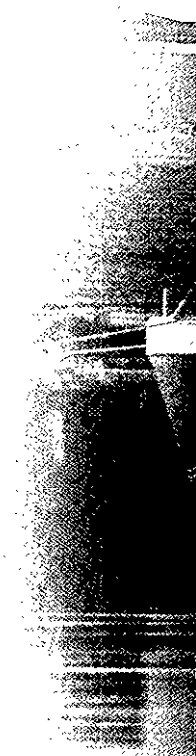
The tax charge is about twice the normal level comprising the once-off windfall tax of £44.3M and corporation tax on Group profits of £37.9M. The effective corporation tax rate of 17.8% is lower than last year due to a combination of higher capital expenditure, prior year adjustments and the lowering of the corporation tax rate to 31%.

As a result of the windfall tax, post tax profit fell £33.3M to £130.9M. For the same reason earnings per share fell by 20.6% to 33.61p. However, adjusted eps rose 6.2% - a strong performance.

The final dividend recommended by the Board results in a proposed full year dividend of 19.41p, up by 10.0% on last year and once again well ahead of our stated target. The effect of the windfall tax is to reduce dividend cover to 1.7 times. However, the adjusted cover is a strong 2.3 times.

Balance Sheet and Cash Flow

The Group balance sheet and cash flow statement set out on pages 47 and 48 show the Group's financial strength and its capacity to fund further expansion. The cash flow available for investment and reduction of borrowings was £155.2M, £6.2M up on last year. £220.9M, including capital accruals of £35.3M, was invested as shown on page 25 resulting in a £30.4M increase in borrowings. Working capital was reduced substantially and gearing remained stable at 52%.



Combined Heat and Power plants (CHPs) provide excellent economic and environmental performance for large industrial customers such as Bitmac who need both process heat and electricity.

Control of Risk

The prime financial risks to which the Group is exposed are market prices for electricity and fuel, interest rates, liquidity and foreign exchange rate movements. The management of risk in electricity and fuel prices receives close management attention by:

- the Board setting limits to exposures which are monitored by Corporate Audit and the administrative and settlement staff.
- operating a permanently manned Energy Management Centre to monitor and control risk exposure hour by hour.
- ensuring proper segregation between energy traders and administration and settlement staff.
- entering into short term and long term sales and purchase commitments which provide secure hedges against price movements.
- indexing some sales and purchase contracts to relevant market prices.
- ensuring that there is effective insurance for major plant breakdown.
- developing a diverse portfolio of flexible generation plant to allow the Group to respond economically to movements in fuel and electricity prices.
- evaluating new investment opportunities against a wide range of market conditions.

As electricity trading in England and Wales is conducted via the Pool, many energy contracts are settled by reference to the Pool price. These are in the form of financial instruments known as Contracts for Differences. We also use other financial instruments such as oil swaps. These instruments are an integral part of the hedging of market risks, and can also provide a hedge for long term fuel purchases.

The management of interest rate risks is conducted within parameters set by the Board. The current policy is to hold between 50% and 80% of debt at fixed interest rates, the balance being at floating rates. Details of the year end position are shown in note 18 to the Accounts on page 56. Interest on the "floating" portion of debt is managed by using the most appropriate combination of bank overdrafts, bank loans and commercial paper issues.

To ensure sufficient liquidity reserves, the Group has back-up committed bank facilities to cover at least 125% of forecast requirements. Details of the undrawn committed facilities are also shown in note 18 to the Accounts on page 56.

Purchases of fuel and plant items are sometimes contracted in foreign currencies and all such material transactions are immediately hedged by forward contracts for the currency concerned.

Year 2000 Compliance

The Group has established a programme of work to address and resolve the Year 2000 problem affecting computerised systems. It covers risk assessment and resolution from the perspectives of safety, continuity of supply and financial security, and it involves appropriate contact with our customers, suppliers and local community. We are also participating in relevant Electricity Industry working groups.

The cost of this programme is expected to be £7M, being a mixture of capital and revenue expenditure, incurred primarily in 1998/99.

The programme, which includes contingency for unforeseen events, is proceeding satisfactorily. Given the complexity of the issues, it is not possible to guarantee that all Year 2000 problems will be solved. However, we believe we will achieve an acceptable state of readiness in good time.

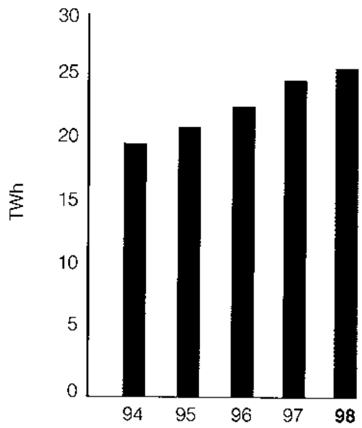
Scottish Hydro-Electric's ability to provide cost efficient energy solutions made them our first choice of supplier says John Spence of semi-conductor manufacturers Fujitsu Microelectronics.

Chief Executive's Financial and Operational Review

Generation and Supply

Scottish Hydro-Electric runs an integrated Generation and Supply business to manage most effectively both rapid growth and the risks associated with fuel and electricity market price movements. This business, which is increasingly unregulated, now contributes over 62% of Group profits and raised its pre-interest profits by over 13% in 1997/98.

TWh traded



The total volume of energy traded was increased by 3.7%. Fourteen per cent of this energy was sold to domestic customers, 35% to commercial and industrial customers, and the remaining 51% in the wholesale market to other electricity companies. We aim to sell a significant proportion of our capacity forward to contain the risks of market price fluctuations and our longest contract extends for 13 years. During the past year we have successfully sold substantially all our generation in England and Wales into the early part of next century, including 1150MW of new capacity at Seabank and Rocksavage, which we are contracted to start taking later in 1998.

Outstanding Customer Service

Delivering exceptional customer satisfaction is our highest priority and independent polls show that we are consistently the utility highest rated by customers. Our commitment to delivering a range of energy solutions to customers' needs differentiates our approach in the marketplace, improves the finances of our customers and delivers profitable market share growth for the Group. Our range of products includes innovative electricity contracts, CHP plants, contract energy management, operation and maintenance contracts, energy efficiency advice and financial risk analysis.

Our Customer Service team has committed a great deal of energy to further improving both our performance and our systems. Examples of their achievements include 80% of letters answered within 3 days, 94% of the 1.5M calls we receive being answered within 10 seconds and fewer than 1% of calls abandoned by customers. Complaints to the industry regulator have reduced by 70% over the last five years, although in the past year there was an increase of 12% due largely to poorly managed staff changes in our Customer Service Centre. We again successfully delivered over 99.9% of services covered by the Regulator's Guaranteed Standards and met all the Overall Standards.

The majority of our regulated customers in the north of Scotland enjoyed a further reduction in tariffs, bringing prices down by 18% in real terms since 1992. Over 80% of our customers now benefit from payment discounts of between 2 and 4%, while close to 50% now take advantage of one of our range of budget payment plans.

Opening of the Mass Market

The opening of the domestic and small business electricity market to full competition over the next year is an opportunity which we are pursuing with great interest as it represents about 66% of the total market volume. We are preparing a number of new products and services aimed at reinforcing the loyalty of existing customers and attracting new ones. One already announced is Scottish Hydro-Electric's exclusive position as the UK AIR MILES partner for electricity. We are also interested in offering gas to our customers if it can be done profitably.

Our first Combined Heat and Power plant in Scotland is currently under construction as a Private Finance Initiative project at Dundee's Ninewells Hospital.

Sources of electricity traded	% of Energy delivered	
	1997/98	1996/97
Hydro	**11**	11
Gas	**44**	46
Oil	**1**	1
Coal	**10**	10
Nuclear	**16**	16
Other	**18**	16
Total	**100**	100

We are in the final stages of preparing our computer systems and procedures for the opening of the mass market to competition and extensive testing of our systems is now well underway. The cost of this work is very substantial and further discussion with the Regulator is necessary about cost recovery arrangements.

Production Performance

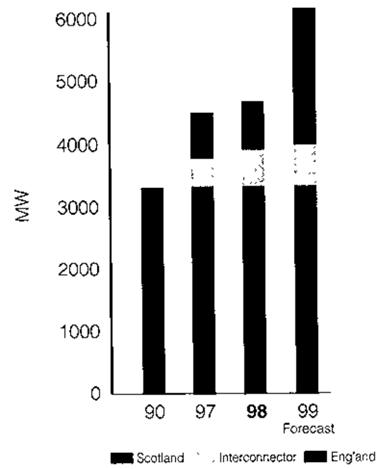
Our fuel sources are set out in the table below and are the most diverse of all the major UK generators.

Our hydro plant delivered high availability during the year, thanks to improved organisation and rigour in our maintenance work. Our programme of refurbishment of these assets is being implemented successfully, and over £15M was committed to further increase efficiency and reliability. The major projects have been at Fasnakyle, Glenmoriston and Rannoch.

Our new power station at Keadby performed well until one of its two gas turbines suffered a compressor failure last autumn. The financial effect of this was largely covered by insurance and warranties, with the result that there was no significant impact on profits in the financial year. We have decided to take the opportunity while carrying out the repair to upgrade both turbines which will raise the station's efficiency and capacity. The economics of the upgrade are very attractive, taking account of the lost profit opportunity over the summer months of this year when the second turbine will be out of service. The upgrade is expected to be completed in time for the winter of 1998.

Our largest thermal plant at Peterhead achieved good availability, particularly after a planned summer maintenance outage. Deliveries of low cost Miller gas have been falling as the field depletes and, since the year end, have dropped below the contractual "plateau". As a result, the opportunity has been taken to burn some low cost "spot" gas.

Net generating capacity owned or under long term contract



Note: Interconnector capacity forecasts are maximum capacities.

In addition, ScottishPower's share of Peterhead's capacity has reduced from 70% to 50%. The additional generation capacity thus available to Scottish Hydro-Electric may be sold in both the wholesale and end user markets in Scotland, or exported to England and Wales.

Two new CHP plants came into operation during the year. These were a £16M investment at East Lancashire Paper Mill and a £29M project at Salt Union and both show considerable promise. The established major plants at Dover and Fellside are now mature and successful operations. Smaller plants are also operating now at the Heathrow Ramada Hotel, Van Heyningen Brothers and Doncaster Dome Leisure Centre.

Investment

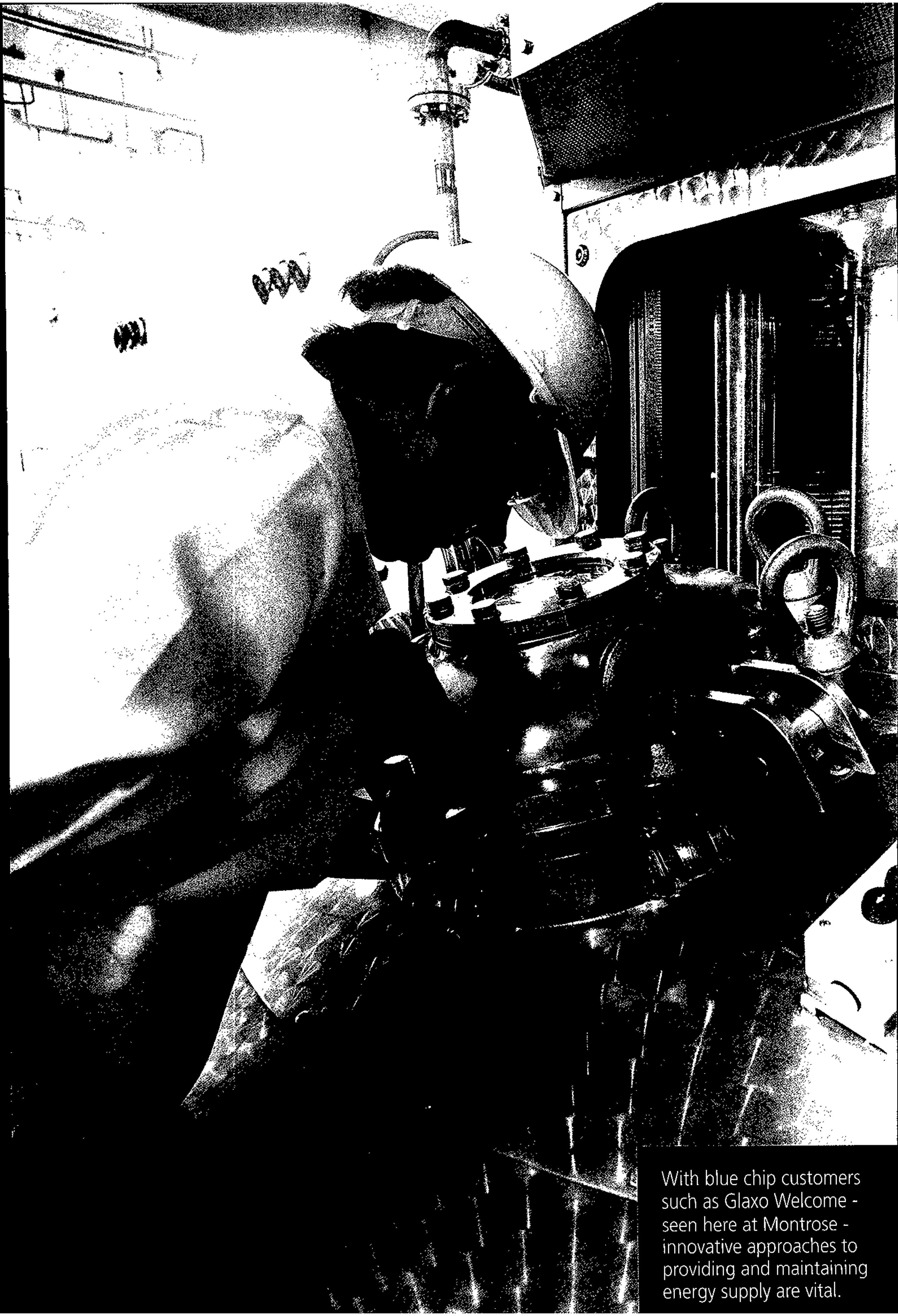
Following a review of the future of our Peterhead Power Station after Miller gas runs out, we have decided to invest £220M to repower the plant and connect it to Transco's national gas pipeline network. This is effectively a major energy efficiency project and the first of its kind in the UK. It will increase the station's efficiency from around 38% to about 52% and maintain its position as one of the most economic in Scotland, as well as significantly improving its environmental performance. The project is scheduled for completion by the winter of 2000.

Seabank Power, our £315M 50:50 joint venture near Bristol with BG plc, is being commissioned and is expected to be operational during the winter of this year, all output being committed to us. Intergen's Rocksavage plant, where we have a 400MW capacity contract, is also being commissioned and its capacity will be available to us from the autumn.

Taken together these two plants will increase the capacity available to us in England and Wales by 135%, all of it having been sold forward for several years. Completion of these two new plants will give us three different locations and plant suppliers for our major generation assets in England and Wales, significantly diversifying our exposure to the risk of technical problems, while giving us the benefit of the most economic and environmentally attractive production capacity.

We have successfully negotiated a contract with the National Grid for the provision of a £16M black start facility at Keadby. These plants ensure that, in the event of a regional or nation-wide blackout, there are power stations which can start independently. Implementation of the contract is subject to Government consents.

Our focus on the specialised CHP business has been further developed, maintaining our position within the top three investors in the UK in this high efficiency product and creating a significant profit contribution to the Group. We have announced a number of new projects during the year, including our first in Scotland, a £3M investment in a 2.5MW plant for the Dundee Teaching Hospitals NHS Trust, which is also our first Private Finance Initiative (PFI) project. Construction of our £38.6M plant for Smurfit Townsend Hook in Kent is proceeding well and it should be in production by the autumn of 1998. A further eight smaller plants are also under development for completion this year.



With blue chip customers such as Glaxo Welcome - seen here at Montrose - innovative approaches to providing and maintaining energy supply are vital.

All of these projects demonstrate our commitment to providing energy solutions for our customers which deliver significant improvements in their financial and environmental performance. They also play an important role in our management of risk, providing a long term revenue stream and reducing exposure to short term market movements.

Further Investment Opportunities

Having now substantially sold the output of our committed generation capacity in England and Wales for some years ahead we have the confidence to explore further investment opportunities in new CHP plants and power stations. We are well placed to do this with existing Section 36 consents for an additional 400MW of capacity at Seabank and 710MW at Keadby.

We have begun the technical and economic appraisal of both opportunities, which would require an estimated investment of £130M at Seabank, shared with BG plc, and £250M at Keadby. Completion of either would take our share of the GB market to almost 11%. Any decision to proceed may be influenced by the development of Government policy on the delivery of its environmental targets and generation fuel issues.

The major expansion of our generation portfolio in recent years has led to it being the youngest, most efficient and environmentally attractive of all the major UK generators. By the end of 2000 we will have no significant plant with an operating efficiency below 50%.

	Year to 31 March			
Investment and capital expenditure	**1998 £M**	**£M**	1997 £M	£M
Generation				
New investments	**7.6**		264.5	
Refurbishment	**29.7**		12.1	
CHP	**24.5**		14.2	
Peterhead pipeline	**5.2**		-	
Other	**10.8**		6.3	
		77.8		297.1
Power Systems				
Refurbishment	**47.1**		46.2	
New work and reinforcement	**27.3**		25.3	
Interconnector expansion	**-**		2.4	
		74.4		73.9
Other				
Telecoms	**2.8**		1.8	
Mass market opening	**36.1**		6.4	
Other	**29.8**		25.3	
		68.7		33.5
Total		**220.9**		404.5

Power Systems

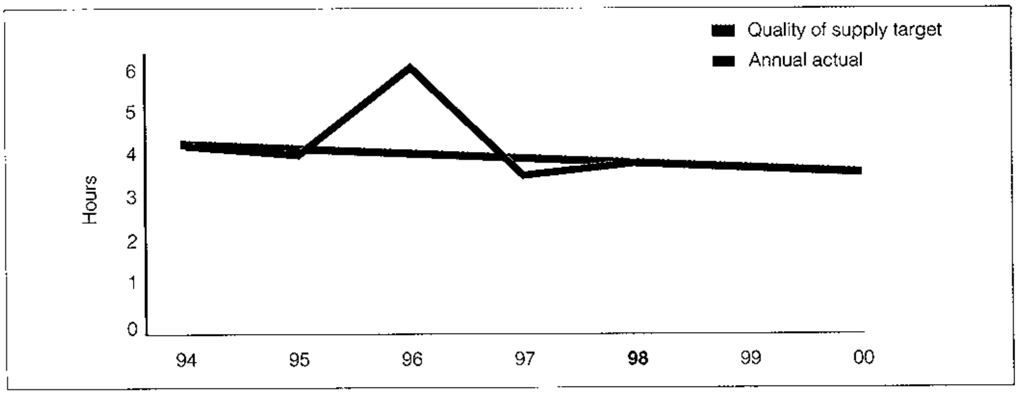
In the north of Scotland our Power Systems business is responsible for successfully managing the power supply network which distributes electricity to customers. It generates over 38% of Group profits and has increased pre-interest profits by over 6% in 1997/98.

Our refurbishment programme is a major focus of activity and is delivering significant benefits to customers as the reliability of their supply improves. We have again achieved our target of refurbishing 1550km of our network during the year - part of an overall system refurbishment investment of £47.1M. This work is expected to continue well into the next century. The major projects in 1997/98 included schemes in Skye, Shetland, Orkney, Easter Ross, Aberdeenshire and Tayside.

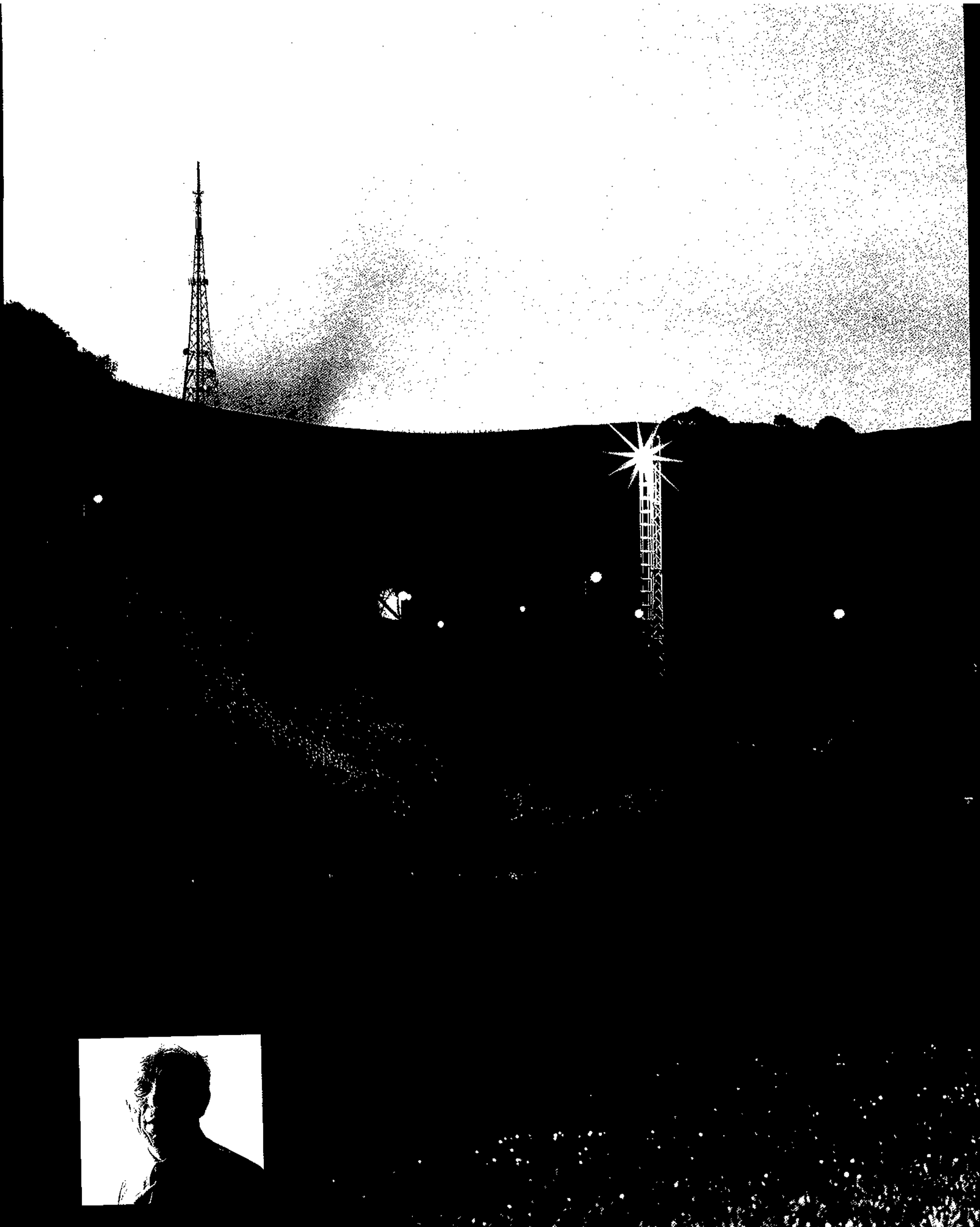
The most significant benefit of all this is the reduction in the time our customers are without power due to system faults. Varying weather conditions make comparisons of one year with another difficult. However, the time for which customers had no supply was 13% below the five year average, an endorsement of both our investment programme and our commitment to delivering exceptional customer satisfaction. It also met our improvement target, as shown in the illustration below.

During the course of this year we agreed with OFFER a one year extension to our Transmission Price Control to March 2000 on the basis that our allowed income for this year remained the same in real terms as in 1998/99. A more extensive consideration of the future revenue requirements of this business will be included in the parallel Transmission and Distribution Price Control reviews now starting for implementation from 1 April 2000.

Average hours lost per customer including planned interruptions to supply



Scottish Hydro-Electric



A good relationship with our energy supplier, as we have with Scottish Hydro-Electric, is essential in our business says Tom Dougan of , at Burntisland in Fife.

Scottish Hydro-Electric's Team

Scottish Hydro-Electric's people are key to our continuing success. The rapidly changing business environment and the number of opportunities we are pursuing mean that everyone is working under considerable pressure. However, in the open culture of devolved responsibility which we have, many people find that very stimulating and satisfying.

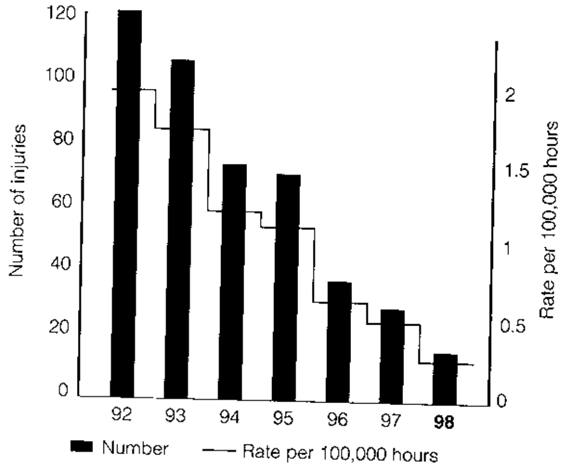
Keeping our staff well trained and well informed, and helping everyone to understand their role in the Group is important to successfully developing and exploiting our talent. Two new initiatives in this area during 1997/98 have been the introduction of Learning Maps and Open Book Management. The former are innovative tools for interactive learning about industry and Group strategic issues, and commercial and financial facts. The latter allows individuals to understand better their personal contribution to the Group's performance and how they can increase it. The response to both these initiatives has been very positive and we will continue to seek out new ways to increase the effectiveness of our team.

Safety

The safety of our staff and community is a high priority and our improvement programme has been pursued throughout the year with particular focus on risk assessment, workplace inspections and post incident analysis and remedial action. As a result our safety performance improved sharply for the eighth year in succession putting us amongst the best in our industry.

Our rate of injuries causing time off work reduced by 48% on the previous year and is now 87% below the level of six years ago. This achievement has been recognised by the Royal Society for the Prevention of Accidents' Sector Award for the electricity supply industry. In addition, three gold awards were made to our businesses for their successes in health and safety management, and a fourth was awarded to Fellside Heat and Power Ltd, our joint venture CHP business with British Nuclear Fuels Ltd. We remain committed to our goal of zero lost time injuries and are working hard throughout the Group to achieve it.

Lost time injuries

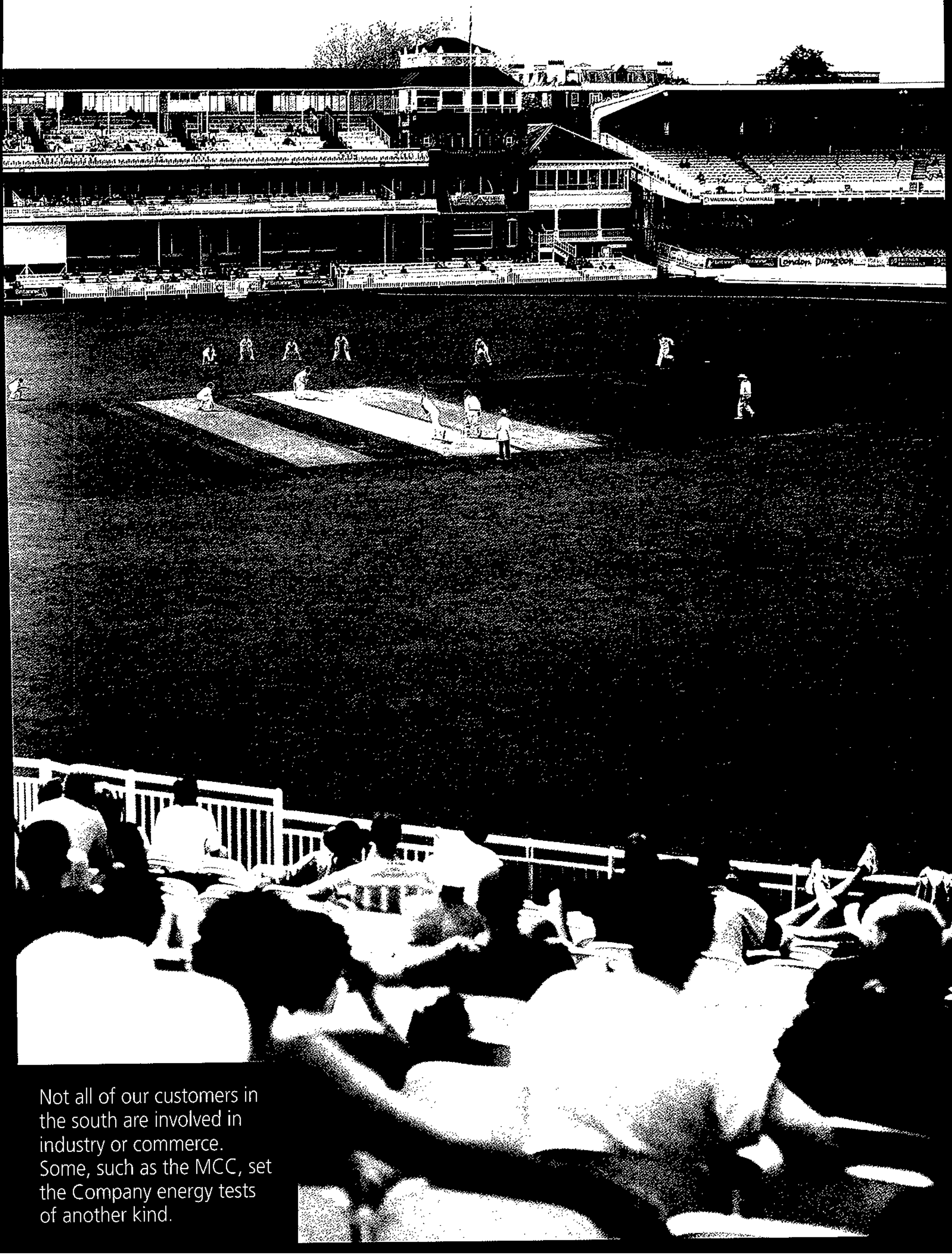


Environment

We have a long tradition of responsibility towards the environment and are committed to improve performance still further. This is expected by the communities we serve.

We place great store on what we learn from our annual independent external audit of our environmental performance, which is reported fully in our Annual Environmental Report. This year's recommendations focus on the need for further improvements to our environmental management process and skills, and these will be implemented.

A significant achievement during 1997/98 has been the accreditation of our Scottish Generation business and our operational CHP plants to the ISO 14001 environmental management standard. Keadby Power Station is also operating to ISO 14001, and is expected to be audited and accredited during the coming year. Work is underway to prepare our Power Systems business for similar accreditation.



Not all of our customers in the south are involved in industry or commerce. Some, such as the MCC, set the Company energy tests of another kind.

In December 1997, we spilled a quantity of diesel fuel oil during refuelling of mobile plant at the West of Scotland Water Authority (WOSWA) Burncrook Water Treatment Plant. Our normal environmental procedures were rapidly implemented to clean up the spill, and this was completed to the satisfaction of WOSWA and the Scottish Environment Protection Agency (SEPA).

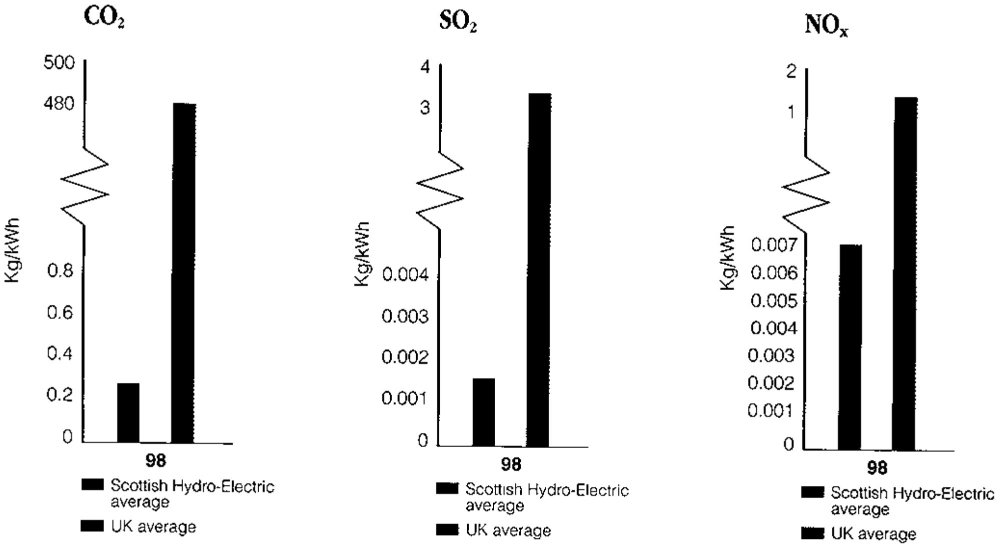
There have been no reportable environmental incidents during the past year which could have led to regulatory action. However, there have been a number of minor breaches of environmental regulations. These include temporarily exceeding our NO_x emissions at our East Lancs Paper Mill CHP and failing to check with Historic Scotland on sites of historic interest before starting certain refurbishment works.

Important progress has been made in improving energy efficiency of both domestic and industrial customers. To larger consumers we are offering a range of energy services including CHP, contract energy management and energy efficiency advice. In the domestic arena we now have a total of 50 energy efficiency schemes approved by OFFER which have delivered about 112GWh of energy savings over the three year period to March 1998 as a result of an investment of £1.9M. This is well ahead of the target of 102GWh set for this period. A substantial proportion of this investment has helped customers in remote rural communities and the elderly and disabled. We welcome the extension of the Standards of Performance programme to 2000 and the opportunity this gives to build on the imaginative work which has already been done in this area.

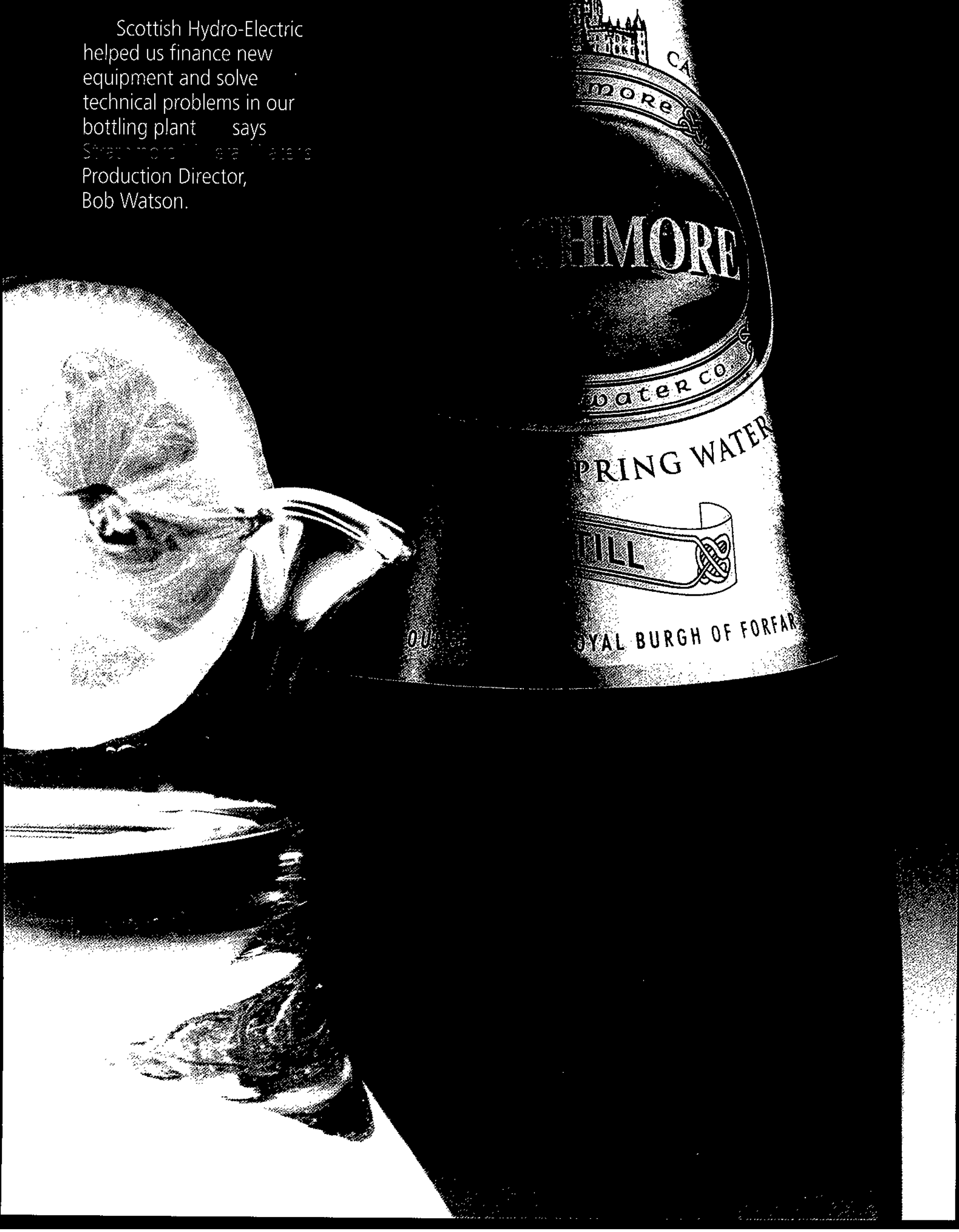
The energy efficiency of our own activities is steadily improving, most significantly in the area of power station fuel conversion. By the end of 2000 we expect that all except our island diesel powered stations, making a very small proportion of our total output, will be more than 50% efficient. This is the best figure of all the major UK generators.

Full reports on our environmental and energy efficiency performance are published as separate documents which are available on request.

Emissions per kWh of electricity produced



Scottish Hydro-Electric helped us finance new equipment and solve technical problems in our bottling plant says Strathmore Mineral Waters Production Director, Bob Watson.



OUTLOOK

Scottish Hydro-Electric's strategy of focused expansion in the British electricity market has delivered substantial value for shareholders, despite the challenges of tightening regulation and increasing competition. We have doubled our British market share in recent years, and expect to have trebled it by the end of the decade. Through this further expansion, and our commitment to our customers and staff, we aim to continue providing value to our shareholders.

In the year ahead, the biggest challenge and opportunity facing the Company is the successful opening of the mass market to competition. We are preparing diligently for that and look forward to the opportunity it presents to sustain our expansion strategy. There will undoubtedly be implementation difficulties, but we expect customers to benefit from the new arrangements before long. We share the Government's wish that these benefits should flow to all customers and have proposed ways in which this goal can be reached, even for the more disadvantaged customers.

The Government's reviews of Utility Regulation, Generation Consents, Electricity Trading arrangements and Competition law, together with its commitment to higher environmental performance, all have a potential impact on our business. However, change will also create opportunities which we will seek to exploit for the benefit of Scottish Hydro-Electric.

Our Generation team has three major capital projects to deliver successfully over the next two years, in addition to their customary capital and refurbishment programmes. We believe they will succeed and thus maintain our expansion momentum. Further new projects are being explored and our financial strength gives us confidence that economically attractive ones can be pursued.

The Scottish Hydro-Electric team understands the wide front on which change is happening in our industry and is vigorously seeking out the opportunities that is creating. We look forward with optimism to maintaining our distinctive approach and our record of delivery.

Roger Young Chief Executive

Report of the Directors

The Directors submit their report together with the Audited Accounts for the year ended 31 March 1998.

Principal Activities

The Group's principal business is the generation, transmission, distribution and supply of electricity to industrial, commercial, domestic and wholesale customers. The Company holds the Generation, Transmission and Public Electricity Supply Licence for the north of Scotland, and second tier electricity licences for supply of electricity throughout the rest of Great Britain.

A review of the year's operations and future developments is contained in the Chief Executive's Financial and Operational Review on pages 13 to 32.

Results and Dividends

The Group profit after tax for the year amounted to £130.9M, after payment of £44.3M windfall tax. The Directors recommend a final dividend of 13.60 pence per ordinary share and, subject to approval at the Annual General Meeting, it will be payable on 1 October 1998 to shareholders on the Register at 11 September 1998. With the interim dividend of 5.81 pence per ordinary share paid on 18 March 1998, this makes a total dividend of 19.41 pence per ordinary share.

Share Capital

Changes during the year to the share capital of the Company, which include shares issued to the Group's Qualifying Employee Share Ownership Trust (QUEST), are detailed in note 22 to the Accounts.

The power given to Directors at the last Annual General Meeting to allot shares for cash, otherwise than in accordance with statutory pre-emption rights, expires on the date of the forthcoming Annual General Meeting. The Directors are seeking to renew this power in terms of Resolution 9 which will be put to the forthcoming Annual General Meeting. An explanation of Resolution 9 is set out in the accompanying Notice of Meeting document.

In certain circumstances it may be advantageous for the Company to purchase its own shares and Resolution 10 seeks authority from shareholders to do so. This Resolution proposes that shareholders give authority to the Directors to allow the Company to purchase its own ordinary shares on a recognised investment exchange. The authority is restricted to 39,295,900 ordinary shares which represents 10% of the current issued share capital. The Resolution also sets the maximum and minimum prices at which the shares may be bought. Purchases will be made only if the Directors expect them to result in an increase in the Company's earnings per share and to be in the best interests of the shareholders generally. Any shares purchased in this way will be cancelled and the number of issued shares will be accordingly reduced.

Employee Share Schemes

The Group has a Discretionary Share Option Scheme and an Employee Savings-related Share Option Scheme. Details of options granted under these Schemes are set out in note 22 to the Accounts.

During the year, 1,707 employees were granted options over 1,484,200 shares under the terms of the Savings-related Share Option Scheme and 58 employees were granted options over 525,500 shares under the terms of the Discretionary Share Option Scheme.

Report of the Directors

Substantial Shareholdings

At the date of this report the Company has received the following notifications of beneficial interests of 3 per cent or more in the Company's issued share capital.

	Number of Shares	Percentage
Standard Life Group	11,905,358	3.03

Directors

The Directors as at the date of this report are:-

Lord Wilson of Tillyorn*	Ian McMillan
Peter Stormonth Darling*	David Sigsworth
Ian Grant*	Michael Walker*
John Gray	Roger Young
James Martin	

* non-Executive

With the exception of Dr Martin, all of the above served for the whole of the period 1 April 1997 to 31 March 1998. Biographical details are set out on pages 10 to 11. Dr Read retired as a Director on 24 July 1997, and Mr Everett retired on 31 May 1998.

In accordance with the Articles of Association of the Company, Mr John Gray, Mr Sigsworth and Mr Young retire by rotation at the Annual General Meeting. As he is retiring from the Company on 31 July 1998, Mr John Gray is not offering himself for re-election. Mr Sigsworth and Mr Young, being eligible, offer themselves for re-election.

Dr Martin was appointed a Director with effect from 13 April 1998, Mr David Payne has been appointed as a non-Executive Director with effect from 15 June 1998 and Mr David Gray has been appointed a Director with effect from 13 July 1998. In accordance with the Company's Articles of Association, their respective appointments continue until the forthcoming Annual General Meeting. Accordingly, Dr Martin, Mr David Gray and Mr Payne offer themselves for election. Details of the service contracts of Directors standing for election or re-election are set out in the Report of the Remuneration Committee on page 38.

The beneficial interests of the Directors in the ordinary shares of the Company as at 31 March 1998, and at the end of the preceding financial year, are detailed in the Report of the Remuneration Committee on page 41.

Report of the Directors

Corporate Governance

The Group continues to comply with all aspects of the Code of Best Practice contained in the Cadbury Committee's report on the Financial Aspects of Corporate Governance.

The Board normally meets ten times during the year. It has a schedule of matters specifically reserved to it, and a number of matters are delegated by the Board to Board Committees.

The Audit Committee is chaired by Mr Stormonth Darling and consists of all the non-Executive Directors. It reviews the financial reports of the Group and considers the results of the auditors' examination of Group Accounts. It also considers such matters as internal control procedures.

The Remuneration Committee is chaired by Mr Grant and consists of all the non-Executive Directors. It is responsible for approving all aspects of Executive Directors' remuneration including the granting of share options under the Discretionary Share Option Scheme. The Report of the Remuneration Committee is set out on pages 37 to 41.

The Nomination Committee is chaired by Lord Wilson and its other members are Mr Young, Mr Stormonth Darling and Mr Grant. It meets when necessary to consider the composition and balance of the Board and recommends suitable candidates to the Board for appointment as Directors.

Internal Control

The Directors acknowledge their responsibility for the systems of internal financial control, the effectiveness of which is regularly reviewed. The purpose of these systems is to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Group. No system of control, however, can provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Group's businesses; to the materiality of the risks inherent in these businesses; and to the relative costs and benefits of implementing specific controls.

Control is assisted through an organisational structure with clearly defined responsibilities, authority levels and lines of reporting; through the appointment of suitably qualified staff in specialised business areas; and through continuing investment in high quality information systems. There are established procedures in place for regular budgeting and reporting of financial information and the business risks associated with the Group's operations are regularly assessed. The effectiveness of the Group's systems of internal financial control is monitored by the Group's Corporate Audit Department and reviewed periodically by the Audit Committee.

Report of the Directors

Going Concern
The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The Accounts are therefore prepared on a going concern basis.

Staff Participation and Development
Staff are actively encouraged to be involved in Group affairs in a wide variety of ways. These include monthly team meetings, briefing documents, conferences, internal videos and local staff receptions. The Group's in-house journal 'Hydro News' is distributed to all staff. Additionally, a series of Learning Maps has been developed to help staff in understanding the Group's core business strategy. Policies on such matters as Equal Opportunities and Health & Safety are regularly communicated to staff and involvement is supported through local negotiating committees. New staff joining the Group receive induction training and all employees are encouraged in personal development.

It is Group policy, where possible, to provide employment opportunities for disabled people. Staff who become disabled are supported in continuing employment through identification of suitable jobs and the provision of any necessary retraining.

Creditor Payment Policy
The Company complies with the CBI Prompt Payment Code and has registered its support.

The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills will be paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. Copies of the Code are available on application to the Company Secretary. Trade creditors outstanding at the end of the year represented 35 days' purchases.

Political and Charitable Donations
During the year donations to charities in the United Kingdom amounted to £109,900 (1997 - £89,798). No political donations were made.

Research and Development
Expenditure on research and development was £0.8M in the year.

The Company pursues a range of research and development, particularly for increasing energy efficiency and for energy management on the remoter parts of its electricity network. It contributes to the research activities managed by the Electricity Association. Generation research includes a programme of fisheries work, thermal power plant emissions and new energy conversion technology.

Auditors
A resolution to re-appoint KPMG Audit Plc as auditors, and to authorise the Directors to fix their remuneration, will be proposed at the forthcoming Annual General Meeting.

By Order of the Board
L J V Donnelly
Secretary
10 June 1998

Report of the Remuneration Committee

Remuneration Committee

The Remuneration Committee consists only of non-Executive Directors and has been established with formal terms of reference approved by the Board. It is chaired by Mr Grant, its other members currently being Mr Stormonth Darling, Mr Walker and Lord Wilson. It has specific authority to determine the remuneration, benefits and employment conditions of the Executive Directors and regularly reviews the Company's related remuneration policies and practices. The Committee consults both internally and with external professional advisers.

Company Policy on Executive Directors' Remuneration

The Committee's composition, responsibilities and operation comply with Section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange. In forming remuneration policy, the Committee has given full consideration to Section B of the best practice provisions.

The Company's policy is to ensure that the Executive Directors are rewarded competitively compared to other companies in order to attract, retain and motivate them to run the Company effectively and meet the expectations of shareholders. This is done by providing remuneration consisting of basic salary, benefits and an annual bonus scheme, together with long term incentives in the form of share options.

Annual Salary and Benefits

The Remuneration Committee follows a broad principle that salaries should be comparable to those in other companies with variations to reflect individual performance, experience and job size. For guidance, the Committee considers data extracted from surveys produced by professional consultants.

Annual Bonus

The annual bonus scheme for Executive Directors currently provides for cash bonuses of up to a maximum of 45% of basic salary. Payments under this scheme are determined by the Committee and the bonus is based on: (i) a Group profit element; (ii) the Director's individual achievement judged against a range of personal individual objectives linked to business sector profits, cash flow management, customer service, safety and other operational performance targets; and (iii) a discretionary element.

The Committee considers that the performance conditions applying to such annual bonuses are relevant, stretching and designed to enhance the performance of the business and that this approach is in the best interest of shareholders. Details of bonuses earned in the period are contained in the table on page 39.

Report of the Remuneration Committee

Share Option Schemes
The Executive Directors, like other members of staff, participate in the Company's Discretionary and Savings-related Share Option Schemes. Options granted during the year to Executive Directors are shown in the table on page 41.

Options granted under the Discretionary Scheme to the Executive Directors during the year may not be exercised unless normalised earnings per share over a three year period have shown average compound annual growth of at least 2% above the increase in the UK retail price index for that period. Options granted prior to 1996 are not subject to this performance criterion.

Service Contracts and Compensation
Mr John Gray and Mr Young have service contracts with the Company with notice periods from the Company of two years. However, the two year notice period reduces to one year in the event of unsatisfactory performance and can be reduced further in certain circumstances. Mr John Gray is retiring on 31 July 1998 and accordingly his contract will terminate at that date. Dr Martin, Mr David Gray, Mr Sigsworth and Mr McMillan all have service contracts with notice periods from the Company of one year. The Committee considers that these arrangements are in the best interests of the Company.

The following are the details of the service contracts of those Directors proposed for election or re-election at the forthcoming Annual General Meeting:-

David Gray	- contract terminable on 1 year's notice
James Martin	- contract terminable on 1 year's notice
David Payne	- no service contract
David Sigsworth	- contract terminable on 1 year's notice
Roger Young	- contract terminable on 2 years' notice (subject to the above condition)

Remuneration and Pensions
The remuneration of Directors who served during the year was as detailed on pages 39 to 41.

The Executive Directors are provided with pension benefits through the Group's main pension scheme and an executive top-up plan exists which provides a possible maximum pension of two-thirds of final salary on retirement at age 63. The main pension scheme is currently in surplus and no Group contributions are being made.

Report of the Remuneration Committee

Non-Executive Directors

The remuneration of non-Executive Directors is determined by the Board, with the non-Executive Directors concerned not participating in this process. The fees include a variable amount to reflect specific commitments. The non-Executive Directors do not participate in the annual bonus scheme, nor in any of the share option schemes or any Group pension scheme, apart from Lord Wilson whose contributory interest in the Group pension scheme is disclosed on page 40.

Directors' Emoluments

The emoluments of each of the Directors was as follows:-

		Salary/fee £	Bonuses £	Benefits £	Total £
Lord Wilson	**1998**	**117,875**	-	**8,883**	**126,758**
	1997	117,875	-	8,869	126,744
Peter Everett	**1998**	**19,500**	-	-	**19,500**
	1997	25,000	-	-	25,000
Ian Grant	**1998**	**19,500**	-	-	**19,500**
	1997	19,500	-	-	19,500
John Gray	**1998**	**150,000**	**48,300**	**9,657**	**207,957**
	1997	125,742	25,148	9,474	160,364
Ian McMillan	**1998**	**127,000**	**23,368**	**8,916**	**159,284**
	1997*	85,404	26,252	8,557	120,213
Arnold Read	**1998†**	**75,833**	-	**4,904**	**80,737**
	1997	125,742	35,887	8,371	170,000
David Sigsworth	**1998**	**160,000**	**33,056**	**10,232**	**203,288**
	1997	125,742	32,932	8,488	167,162
Peter Stormonth Darling	**1998**	**19,500**	-	-	**19,500**
	1997	19,500	-	-	19,500
Michael Walker	**1998**	**24,500**	-	-	**24,500**
	1997	20,000	-	-	20,000
Roger Young	**1998**	**235,000**	**49,350**	**12,798**	**297,148**
	1997	209,504	60,128	12,932	282,564
Total - 1998		**948,708**	**154,074**	**55,390**	**1,158,172**
Total - 1997		874,009	180,347	56,691	1,111,047

* From date of appointment.

† Up to date of retirement.

Report of the Remuneration Committee

Directors' Pensions

Details of Directors' pensions are as follows:-

	Age at year end	Directors' contributions in the year (note 3) £	Increase in accrued pension during year (note 2) £	Accumulated total accrued annual pension at year end (note 1) £
Lord Wilson	63	5,040*	1,400	7,000
John Gray	56	9,000	13,661	73,073
Ian McMillan	54	7,620	24,104	85,196
Arnold Read (note 4)	60	4,550	1,117	80,590
David Sigsworth	51	9,600	19,600	93,618
Roger Young	54	14,100	13,834	93,804

*Lord Wilson's salary has been reduced by £7,125. This sum was used to meet the cost of his pension benefits.

Notes to Directors' Pensions

1 - The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year.

2 - The increase in accrued pension during the year excludes any increase for inflation. For individuals retiring during the year it is the increase before any reduction in lieu of a cash sum.

3 - These figures relate to the contributions paid or payable in the year by the Directors under the terms of the scheme.

4 - Dr Read retired on 31 October 1997.

Members of the scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

The following is information relating to Directors' pensions:-

Normal retirement age:	The pension scheme has equalised benefits as a result of the European Court ruling. As a result, different periods of service may result in different effective retirement ages in the range of 60 to 63.
Dependants' pensions:	Dependants' pensions are $^1/_2$ of members' pension entitlements.
Pension increases:	For members who joined the pension scheme before 1 February 1996, all benefit payments are increased annually by the same percentage as state pensions, which is currently linked to movements in the Retail Price Index. For members who joined the pension scheme after 31 January 1996, members' pensions are increased in the same way, but only up to a maximum of 5%. Any increases above this level are at the discretion of the Company.

Report of the Remuneration Committee

Directors' Interests

The interests of the Directors, all of which are beneficial, in the ordinary shares of the Company on the dates shown were as follows:-

	31 March 1998		1 April 1997	
	Shares held	**Shares under option**	Shares held	Shares under option
Lord Wilson	**5,000**	-	5,000	-
Peter Everett	**2,750**	-	2,750	-
Ian Grant	**3,000**	-	3,000	-
John Gray	**56,751**	**87,000**	13,885	181,552
Ian McMillan	**24,609**	**103,749**	9,938	109,694
David Sigsworth	**21,640**	**148,369**	10,144	131,737
Peter Stormonth Darling	**5,000**	-	5,000	-
Michael Walker	**4,400**	-	4,400	-
Roger Young	**87,440**	**147,599**	14,922	321,463

A further analysis of the Directors' shares under option as at 31 March 1998, and options exercised during the year, is as follows:-

	Option scheme	**Number of shares**	**Price per share (pence)**	**Year of grant**	**Normally exercisable**	**Number exercised**	**Date exercised**	**Closing price at date of exercise**
John Gray	Savings-related	3,537	212	1992	Sept 1997 - Feb 1998	3,537	30 Sept 97	471.5p
	Discretionary	88,608	237	1991	July 1994 - July 2001	88,608	12 June 97	425.0p
	Discretionary	37,000	348	1994	June 1997 - June 2004			
	Discretionary	30,000	327	1995	July 1998 - July 2005			
	Discretionary	20,000	282	1996	Oct 1999 - Oct 2006			
Ian McMillan	Savings-related	2,490	277	1993	Sept 1998 - Feb 1999			
	Savings-related	4,259	243	1996	Sept 2001 - Feb 2002			
	Discretionary	23,945	237	1991	July 1994 - July 2001	23,945	1 July 97	432.5p
	Discretionary	22,000	348	1994	June 1997 - June 2004	22,000	1 July 97	432.5p
	Discretionary	22,000	327	1995	July 1998 - July 2005			
	Discretionary	35,000	282	1996	Oct 1999 - Oct 2006			
	Discretionary†	40,000	406	1997	June 2000 - June 2007			
David Sigsworth	Savings-related	3,537	212	1992	Sept 1997 - Feb 1998	3,537	30 Sept 97	471.5p
	Savings-related	4,259	243	1996	Sept 2001 - Feb 2002			
	Savings-related*	2,110	327	1997	Oct 2002 - Mar 2003			
	Discretionary	21,941	237	1991	July 1994 - July 2001	21,941	23 June 97	405.5p
	Discretionary	22,000	348	1994	June 1997 - June 2004			
	Discretionary	35,000	327	1995	July 1998 - July 2005			
	Discretionary	45,000	282	1996	Oct 1999 - Oct 2006			
	Discretionary†	40,000	406	1997	June 2000 - June 2007			
Roger Young	Savings-related	3,537	212	1992	Sept 1997 - Feb 1998	3,537	30 Sept 97	471.5p
	Savings-related	2,407	243	1996	Sept 1999 - Feb 2000			
	Savings-related*	1,192	327	1997	Oct 2000 - Mar 2006			
	Discretionary	221,519	237	1991	July 1994 - July 2001	221,519	23 June 97	405.5p
	Discretionary	50,000	348	1994	June 1997 - June 2004			
	Discretionary	30,000	327	1995	July 1998 - July 2005			
	Discretionary	14,000	282	1996	Oct 1999 - Oct 2006			
	Discretionary†	50,000	406	1997	June 2000 - June 2007			

†Options granted on 24 June 1997 *Options granted on 15 July 1997

The closing market price of the shares at 31 March 1998 was 589.5p and the range for the year was 362.0p to 589.5p. There have been no changes to the interests of the Directors in the ordinary shares of the Company from 31 March 1998 to 10 June 1998.

The aggregate amount of gains made by Directors on the exercise of share options during the year was £669,751 (1997 - £35,866) before taxation. The aggregate amount of gains made by the highest-paid Director, was £382,438 (1997 - £7,047). The gains are calculated as at the date of exercise although the shares may have been retained.

Review Report by KPMG Audit Plc to Scottish Hydro-Electric plc on Corporate Governance Matters

In addition to our audit of the Accounts, we have reviewed the Directors' statement on page 35 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the Accounts. The objective of our review is to draw attention to any non-compliance with the disclosure requirements of the Listing Rules 12.43(j) and 12.43(v).

Basis of Opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control on page 35, and going concern on page 36, in our opinion the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the Accounts.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statements on page 35 appropriately reflect the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Edinburgh
10 June 1998

Directors' Responsibilities for Preparation of the Accounts

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the auditors' report on page 43, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the Accounts.

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year. The Directors are required to use a going concern basis in preparing the Accounts unless this is inappropriate.

The Directors consider that, in preparing the Accounts on pages 44 to 60, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and which enable them to ensure that the Accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to guard against fraud and other irregularities.

Report of the Auditors

to the Members of Scottish Hydro-Electric plc

We have audited the Accounts on pages 44 to 60. We have also examined the amounts disclosed relating to remuneration, share options and Directors' pension entitlements which form part of the Report of the Remuneration Committee on pages 37 to 41.

Respective Responsibilities of Directors and Auditors

As described on page 42 the Company's Directors are responsible for the preparation of Accounts. It is our responsibility to form an independent opinion, based on our audit, on those Accounts and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 affairs of the Company and the Group as at 31 March 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
10 June 1998

Accounting Policies

Basis of Accounting

The Accounts have been prepared under the historical cost convention, modified to include the revaluation of certain assets and in accordance with applicable accounting standards. The Accounts include the early adoption of Financial Reporting Standard No.9 on Associates and Joint Ventures.

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Accounts.

Basis of Consolidation

The Group Accounts consolidate the Accounts of the Company and its subsidiary undertakings together with the Group's share of the results and net assets of its associated undertakings and joint ventures.

Turnover

Turnover, stated exclusive of value added tax, represents the sales value of electricity supplied during the year and the value of goods, services and facilities provided. Electricity turnover includes an estimate of the value of electricity supplied to customers between the date of the last meter reading and the year end.

The sales value of electricity includes fees receivable less payments arising from financial instruments relating to sales of electricity.

The regulatory framework under which the Group operates can result in the under or over-recovery of revenues in any one year. Provisions reducing turnover are made for any over-recoveries made during the year. Where there are under-recoveries, no anticipation of any potential future recovery is made.

Cost of Sales

Cost of sales comprises the cost of generation and purchase of electricity including payments arising less fees receivable from financial instruments relating to purchases of electricity, together with the cost of appliances for resale.

Research and Development

Expenditure on fixed assets acquired or constructed in order to provide facilities for research and development activities is capitalised and written off over the facilities' useful lives.

All other expenditure on research and development is charged to the profit and loss account as incurred.

Pensions

Contributions to the Group's pension schemes are charged to the profit and loss account in order to spread the cost of pensions over employees' working lives with the Group.

Interest Rate Transactions

Interest rate swap agreements, used to manage the Group's interest charge, are carried at cost. Interest receipts and payments are accrued to match the net income or cost with the related finance expense. No amounts are recognised in respect of future periods. Gains and losses on early termination of interest rate swaps or on repayment of the borrowings are taken to the profit and loss account.

Interest on the funding attributable to major generation capital projects is capitalised 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.

Accounting Policies

Depreciation of Tangible Fixed Assets

Heritable land is not depreciated.

The Group is obliged under the Reservoirs Act 1975 to maintain its dams. Such dams and associated hydro civil assets, specifically tunnels, roads and stone buildings, are considered to have an infinite life and are not depreciated as they are maintained in good repair.

Assets in the course of construction are not depreciated until commissioned. Depreciation is provided on other tangible fixed assets to write off cost or valuation, less residual values, on a straight line basis over their estimated operational lives. Depreciation is, in general, first charged in the year following that in which the expenditure was incurred. The estimated operational lives are as follows:

	Years	Approximate weighted average Years
Power stations	20 to 60	26
Overhead lines	40 to 80	43
Other transmission and distribution buildings, plant and equipment	15 to 45	30
Shop refurbishment, fixtures, equipment, vehicles and mobile plant	3 to 10	5

Provision for Hydro Civil Works Maintenance

Provision is made, as appropriate, by a charge to the profit and loss account, for the estimated average annual cost of maintenance and refurbishment works to hydro civil assets. The cost of the maintenance and refurbishment works is charged against the resulting provision. Other maintenance expenditure is charged as incurred.

Leased Assets

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

Stocks

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

Bank Borrowings

Bank borrowings are carried at their net issue proceeds plus finance costs less amounts paid. Finance costs, which comprise interest and issue cost, are allocated over the period of the borrowing to achieve a constant rate on the carrying amount.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Customer Contributions and Capital Grants

Customer contributions and capital grants are recorded as deferred income and released to the profit and loss account over the estimated operational lives of the related assets.

Goodwill

Purchased goodwill is written off against reserves in the year in which it arises.

Group Profit and Loss Account

for the Year Ended 31 March 1998

	Notes	1998 £M	1997 £M
Turnover	1	1034.7	951.1
Cost of sales		574.1	522.1
Gross profit		460.6	429.0
Transmission and distribution costs		140.7	130.8
Administration costs		77.0	75.4
Operating profit			
Group	2	242.9	222.8
Share of joint ventures		3.8	2.5
		246.7	225.3
Profit on part disposal of subsidiary		-	2.2
Profit on ordinary activities before interest and similar charges		246.7	227.5
Net interest payable	5	33.6	22.1
Profit on ordinary activities before taxation		213.1	205.4
Tax on profit on ordinary activities	6	37.9	41.2
Windfall tax	7	44.3	-
Profit for the financial year		130.9	164.2
Dividends	8	75.8	69.1
Retained profit	23,24	55.1	95.1
Earnings per share (p) - basic	9	33.61p	42.35p
- adjusted	9	44.98p	42.35p

Group Statement of Total Recognised Gains and Losses

for the Year Ended 31 March 1998

Other than the profit for the financial year, there are no other recognised gains or losses.

There is no material difference between the result as disclosed in the Profit and Loss Account and the result on an unmodified historic cost basis.

Balance Sheets

as at 31 March 1998

		Group		Company	
	Notes	1998 £M	1997 £M	1998 £M	1997 £M
Fixed assets					
Tangible fixed assets	10	**1,682.1**	1,548.3	**1,350.6**	1,203.3
Investments in subsidiaries	11	**-**	-	**140.6**	142.3
Investments in associates	11	**11.6**	-	**11.6**	-
Investments in joint ventures					
Share of gross assets		**96.0**	82.4		
Share of gross liabilities		**49.6**	43.6		
	11	**46.4**	38.8	**20.0**	20.0
Trade investments	11	**3.5**	4.9	**3.5**	4.9
		61.5	43.7	**175.7**	167.2
		1,743.6	1,592.0	**1,526.3**	1,370.5
Current assets					
Stocks	13	**31.5**	33.7	**24.1**	21.9
Debtors	14	**169.7**	175.9	**508.9**	471.6
Investments	15	**21.0**	18.6	**-**	-
Cash at bank and in hand		**8.8**	2.0	**7.9**	2.3
		231.0	230.2	**540.9**	495.8
Creditors: amounts falling due within one year					
Borrowings	16	**349.9**	312.8	**348.5**	312.8
Other	16	**343.2**	280.3	**503.5**	370.1
		693.1	593.1	**852.0**	682.9
Net current liabilities		**(462.1)**	(362.9)	**(311.1)**	(187.1)
Total assets less current liabilities		**1,281.5**	1,229.1	**1,215.2**	1,183.4
Creditors: amounts falling due after more than one year					
Borrowings	17	**148.9**	148.8	**148.9**	148.8
Other	17	**112.4**	109.1	**112.4**	109.1
		261.3	257.9	**261.3**	257.9
Provisions for liabilities and charges					
Other provisions	19	**38.1**	48.8	**34.1**	43.9
Deferred taxation	20	**39.3**	40.8	**-**	-
Net assets		**942.8**	881.6	**919.8**	881.6
Capital and reserves - including non-equity					
Called up share capital	22	**196.5**	194.5	**196.5**	194.5
Share premium account	24	**23.0**	7.6	**23.0**	7.6
Revaluation reserve	24	**1.9**	0.6	**1.9**	0.6
Profit and loss account	24	**721.4**	678.9	**698.4**	678.9
		942.8	881.6	**919.8**	881.6

These Accounts were approved by the Board of Directors on 10 June 1998 and signed on their behalf by

J B Gray, Finance Director

Lord Wilson of Tillyorn, Chairman

Group Cash Flow Statement

for the Year Ended 31 March 1998

	1998		1997	
	£M	£M	£M	£M
Net cash inflow from operating activities (note 25(i))		319.5		253.2
Dividends received from joint ventures		1.2		0.9
Returns on investments and servicing of finance				
Interest received	1.8		1.0	
Interest paid	(33.9)		(17.8)	
Cost of issue of debt	0.1		(1.2)	
Net cash outflow from returns on investments and servicing of finance		(32.0)		(18.0)
Taxation (including £22.1M windfall tax)		(66.8)		(36.8)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(175.2)		(131.7)	
Sale of tangible fixed assets	2.3		2.6	
Purchase of short term investments	(2.4)		(1.4)	
Capital contributions from customers	8.6		6.1	
Net cash outflow from capital expenditure and financial investment		(166.7)		(124.4)
Acquisitions and disposals				
Disposal of shares in trade investments	0.2		2.1	
Acquisition of shares in subsidiary undertaking	-		(122.7)	
Acquisition of shares in associates	(11.6)		-	
Acquisition of shares in joint ventures	(7.6)		(8.3)	
Net cash outflow from acquisitions and disposals		(19.0)		(128.9)
Equity dividends paid		(70.9)		(63.4)
Net cash outflow before use of liquid resources and financing		(34.7)		(117.4)
Management of liquid resources		-		-
Financing				
New secured loan	-		150.0	
New short term loans	343.8		310.1	
Repayment of loans	(310.1)		(348.4)	
Issue of ordinary share capital (note 22)	4.4		8.5	
Net cash inflow from financing		38.1		120.2
Increase in cash (note 25(ii))		3.4		2.8

Notes on the Accounts

for the Year Ended 31 March 1998

1. Turnover and profit analysis

	1998 £M	1997 £M
Turnover: group and share of joint ventures' turnover	**1,051.9**	969.9
Less: share of joint ventures' turnover	**17.2**	18.8
Group turnover	**1,034.7**	951.1

Turnover	1998 £M	1997 £M
Electricity sales:		
Domestic	**219.5**	225.1
Commercial	**189.7**	194.2
Industrial	**189.6**	180.4
Electricity companies	**344.3**	299.4
Appliance retailing	**25.9**	26.6
Other income	**65.7**	25.4
Total	**1,034.7**	951.1

All turnover and profit before taxation arise from operations within Great Britain and relate to continuing operations. Turnover of £371.3M (1997 - £289.9M) derives from electricity trading in England and Wales.

The Group's principal business is the generation and supply of electricity in Great Britain and the transmission and distribution of electricity in the north of Scotland. The Power Systems business below covers the regulated transmission and distribution activities. A more detailed analysis of turnover, profit and net assets by activity is provided below:

Turnover

	Total turnover		Internal turnover (including cross subsidy)		External turnover	
	1998 £M	1997 £M	1998 £M	1997 £M	1998 £M	1997 £M
Generation and Supply	**1,369.7**	1,288.5	**383.9**	382.6	**985.8**	905.9
Power Systems	**207.1**	199.5	**188.9**	182.7	**18.2**	16.8
Retail	**25.9**	26.6	-	-	**25.9**	26.6
Other	**4.8**	1.8	-	-	**4.8**	1.8
Total	**1,607.5**	1,516.4	**572.8**	565.3	**1,034.7**	951.1

Profit/(loss) before interest and taxation and net assets/(liabilities)

	Profit/(loss) before interest and taxation		Net assets/ (liabilities)	
	1998 £M	1997 £M	1998 £M	1997 £M
Generation and Supply	**155.3**	136.3	**886.7**	856.4
Power Systems	**91.7**	88.6	**625.1**	557.5
Retail	**0.1**	0.5	**12.0**	9.8
Other	**(0.4)**	2.1	**38.1**	25.4
	246.7	227.5	**1,561.9**	1,449.1
Unallocated net liabilities	-	-	**(619.1)**	(567.5)
Total	**246.7**	227.5	**942.8**	881.6

The total profit before interest and taxation relating to joint ventures of £3.8M (1997 - £2.5M) is included as a profit of £3.6M (1997 - £3.7M) in Generation and Supply and a profit of £0.2M (1997 - loss of £1.2M) in Other.

Income and costs have been allocated specifically to the activity to which they relate wherever possible. However, because of the integrated nature of the Group's activities, certain costs have been apportioned or recharged between businesses. Unallocated net liabilities include corporate items such as taxation, dividends, investments and borrowings.

Notes on the Accounts

for the Year Ended 31 March 1998

2. Operating profit

Operating profit is arrived at after charging/(crediting):

	1998 £M	1997 £M
Depreciation of tangible fixed assets	**64.5**	61.5
Operating lease rentals - hire of plant and machinery	**0.1**	0.1
- other	**9.4**	8.8
Release of deferred income in relation to customer contributions and capital grants	**(4.4)**	(4.3)
Research and development	**0.8**	0.8

Operating costs include payment to auditors and their associates as follows:

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Statutory audit fees:				
KPMG Audit Plc	**144.0**	135.0	**135.0**	129.0
Others	**4.6**	12.6	-	-
	148.6	147.6	**135.0**	129.0
Other services:				
KPMG Audit Plc and its associates	**592.6**	511.7	**592.6**	511.7

3. Staff costs and numbers

	1998 £M	1997 £M
Staff costs:		
Wages and salaries	**75.1**	71.9
Social security costs	**6.0**	5.8
Other pension costs	**0.3**	1.6
	81.4	79.3

	1998 Number	1997 Number
Numbers employed at 31 March	**3,205**	3,177
The average number of people employed by the Group during the year was:		
Generation and Supply	**1,120**	1,031
Power Systems	**1,660**	1,692
Retail	**403**	430
Other	**72**	92
	3,255	3,245

4. Directors' remuneration and interests

Information concerning Directors' remuneration, shareholdings, options and pensions is shown in the Report of the Remuneration Committee on pages 37 to 41. No Director had, during or at the end of the year, any material interest in any contract of significance in relation to the Group's business.

Notes on the Accounts

for the Year Ended 31 March 1998

5. Net interest payable

	1998 £M	1997 £M
Interest receivable:		
Interest from short term investments	-	0.3
Interest from short term deposits	0.3	0.2
Other interest receivable	1.5	0.6
	1.8	1.1
Interest payable and similar charges:		
Bank loans and overdrafts	20.3	15.2
Other loans	11.9	3.1
Other financing charges	2.1	3.5
Joint ventures	1.8	1.9
	36.1	23.7
Less interest capitalised	(0.7)	(0.5)
	35.4	23.2
Net interest payable	33.6	22.1

6. Taxation

		1998 £M	1997 £M
United Kingdom taxation:			
Corporation tax at 31% (1997 - 33%)		42.2	51.6
Deferred tax		2.2	(1.9)
Previous year adjustments	- deferred tax	(3.7)	(9.1)
	- corporation tax	(2.7)	-
Joint ventures	- current year	0.5	0.6
	- previous year adjustment	(0.6)	-
		37.9	41.2

The taxation charge for the year has benefited by £23.8M (1997 - £20.0M) from the effects of timing differences which are unlikely to result in a liability in the foreseeable future.

7. Windfall tax

This is the Company's share of the windfall tax according to the formula contained in the Finance (No. 2) Act 1997. The first of two equal instalments was paid on 1 December 1997 with the second instalment due on 1 December 1998.

8. Dividends on ordinary shares

	1998 £M	1997 £M
Interim of 5.81p (1997 - 5.28p) paid on 18 March 1998	22.7	20.5
1996/97 dividends paid on shares issued 1997/98	-	0.6
Final of 13.60p (1997 - 12.36p) proposed	53.1	48.0
	75.8	69.1

9. Earnings per share

Additional information on the earnings per share has been provided to enable the effects of the windfall tax on reported earnings to be understood.

	1998 pence per share	1997 pence per share
Basic earnings per share	33.61	42.35
Adjustment for windfall tax	11.37	-
Adjusted earnings per share	44.98	42.35

The basic earnings per share has been calculated by dividing the profit for the financial year of £130.9M (1997 - £164.2M) by 389.5M ordinary shares (1997 - 387.7M), being the daily average number of ordinary shares in issue during the year.

There would be no material dilution of earnings per share if the outstanding share options were exercised.

Notes on the Accounts

for the Year Ended 31 March 1998

10. Tangible fixed assets

Group	Generation assets £M	Assets in the course of construction £M	Other land and buildings £M	Transmission and distribution assets £M	Vehicles and miscellaneous equipment £M	Total £M
Cost or valuation:						
At 1 April 1997	936.1	150.5	45.1	904.4	62.4	2,098.5
Transfers	36.4	(93.0)	-	49.2	7.4	-
Additions	12.4	107.0	1.2	63.8	17.3	201.7
Disposals	-	-	(2.2)	(2.3)	-	(4.5)
At 31 March 1998	**984.9**	**164.5**	**44.1**	**1,015.1**	**87.1**	**2,295.7**
Depreciation:						
At 1 April 1997	211.9	-	4.6	290.9	42.8	550.2
Charge for the year	28.5	-	1.1	29.5	5.4	64.5
Disposals	-	-	-	(1.1)	-	(1.1)
At 31 March 1998	**240.4**	-	**5.7**	**319.3**	**48.2**	**613.6**
Net book value:						
At 31 March 1998	**744.5**	**164.5**	**38.4**	**695.8**	**38.9**	**1,682.1**
At 31 March 1997	724.2	150.5	40.5	613.5	19.6	1,548.3

Company	Generation assets £M	Assets in the course of construction £M	Other land and buildings £M	Transmission and distribution assets £M	Vehicles and miscellaneous equipment £M	Total £M
Cost or valuation:						
At 1 April 1997	574.8	150.5	45.1	904.4	62.4	1,737.2
Transfers	36.4	(93.0)	-	49.2	7.4	-
Additions	12.2	107.0	1.2	63.8	17.3	201.5
Disposals	-	-	(2.2)	(2.3)	-	(4.5)
At 31 March 1998	**623.4**	**164.5**	**44.1**	**1,015.1**	**87.1**	**1,934.2**
Depreciation:						
At 1 April 1997	195.6	-	4.6	290.9	42.8	533.9
Charge for the year	14.8	-	1.1	29.5	5.4	50.8
Disposals	-	-	-	(1.1)	-	(1.1)
At 31 March 1998	**210.4**	-	**5.7**	**319.3**	**48.2**	**583.6**
Net book value:						
At 31 March 1998	**413.0**	**164.5**	**38.4**	**695.8**	**38.9**	**1,350.6**
At 31 March 1997	379.2	150.5	40.5	613.5	19.6	1,203.3

Notes on the Accounts

for the Year Ended 31 March 1998

Land is predominantly heritable. Generation assets comprise generating stations and related plant and machinery and include all hydro civil assets.

Main office buildings and shops were revalued at 31 December 1995 by independent chartered surveyors on an existing use basis; the remaining properties were valued at £20.8M.

Depreciation is not charged on land and certain hydro civil assets. The gross amount of depreciable assets included in the categories affected are £801.1M (1997 - £768.3M) for generation assets, £1,006.4M (1997 - £895.4M) for transmission and distribution assets and £24.3M (1997 - £23.5M) for other land and buildings.

Tangible fixed assets include cumulative interest capitalised for the Group and Company of £1.2M (1997 - £0.5M).

11. Fixed asset investments

Group	**Investment in associates £M**	**Investment in joint ventures £M**	**Trade investments £M**	**Total £M**
Cost:				
At 1 April 1997	-	36.5	4.9	41.4
Additions	11.6	7.6	-	19.2
Disposals	-	-	(1.4)	(1.4)
Dividends received	-	(1.2)	-	(1.2)
At 31 March 1998	**11.6**	**42.9**	**3.5**	**58.0**
Share of post acquisition profits/(losses):				
At 1 April 1997	-	2.3	-	2.3
Income	-	1.8	-	1.8
Taxation	-	(0.6)	-	(0.6)
At 31 March 1998	-	**3.5**	-	**3.5**
Net book value:				
At 31 March 1998	**11.6**	**46.4**	**3.5**	**61.5**
At 31 March 1997	-	38.8	4.9	43.7

Company	**Investment in associates £M**	**Investment in joint ventures £M**	**Trade investments £M**	**Loans to subsidiary undertakings £M**	**Equity in subsidiary undertakings £M**	**Total £M**
Cost:						
At 1 April 1997	-	20.0	4.9	23.8	118.5	167.2
Reclassification	-	-	-	25.4	(25.4)	-
Additions	11.6	-	-	0.2	-	11.8
Disposals	-	-	(1.4)	-	(1.9)	(3.3)
At 31 March 1998	**11.6**	**20.0**	**3.5**	**49.4**	**91.2**	**175.7**

Notes on the Accounts

for the Year Ended 31 March 1998

Details of the joint ventures, associates, trade investments and subsidiary undertakings are as follows:

	Country of incorporation	Holding	Activities
Joint ventures:			
Fellside Heat and Power Limited	England	50%	Generation of steam and electricity
Seabank Power Limited	England	50%	Electricity generation and wholesale
Associates:			
Scottish Electricity Settlements Limited	Scotland	50%	Electricity trading systems and supply
Trade investments:			
RMS Communications plc	England	26%	Power line communications
EA Technology Limited	England	8%	Research and development
Subsidiary undertakings:			
HE Insurance Services Limited	Isle of Man	100%	Insurance services
HE Leasing Limited	Scotland	100%	Leasing company
HE Seabank Investments Limited	England	100%	Investment holding company
HE Trustees Limited	Scotland	100%	Employee share scheme Trustee
HE Weston Limited (formerly HE Gas Limited)	England	100%	Investment holding company
Hydro-Electric Energy Limited	England	100%	Electricity trading
Hydro-Electric Investments Limited	England	100%	Investment holding company
Hydro-Electric Power Limited	England	100%	Investment holding company
Hydro-Electric Production Services Limited	England	100%	Power station operation and maintenance
Keadby Construction Limited	England	100%	Power station construction
Keadby Developments Limited	England	100%	Property holding company
Keadby Generation Limited	England	100%	Electricity generation and wholesale
Keadby Power Limited	England	100%	Holding company

The above companies' shares consist of ordinary shares only. All companies operate in Great Britain except for HE Insurance Services Limited which operates in the Isle of Man. The shares in Keadby Power Limited are held equally by Hydro-Electric Investments Limited and Hydro-Electric Power Limited. The shares in Keadby Developments Limited are held by Hydro-Electric Investments Limited. The shares in Seabank Power Limited are held by HE Seabank Investments Limited.

Trade investments

The Company has a 26% interest in RMS Communications plc. As the Company has no Board representation and does not exercise any significant influence over operating and financial policy, the investment has been re-classified as a trade investment.

At 31 March 1998, the market value of this investment, which is listed on the London Stock Exchange, was £3.5M compared to the book value of £2.9M.

12. Related party transactions

The following transactions during the year were entered into with entities which were joint ventures and associates:

	Scottish Electricity Settlements Limited		Fellside Heat and Power Limited		Seabank Power Limited	
	1998	1997	**1998**	1997	**1998**	1997
	£M	£M	**£M**	£M	**£M**	£M
Loans to	**9.9**	1.7	-	-	**7.6**	8.0
Advances from	-	-	**1.3**	4.9	-	-
Payable for corporation tax consortium relief	-	-	**0.9**	4.6	-	-
Sales of electricity	-	-	**2.5**	-	-	-
Purchases of electricity	-	-	**3.6**	1.2	-	-
Consultancy fees	-	-	-	-	**0.1**	0.2

13. Stocks

	Group		Company	
	1998	1997	**1998**	1997
	£M	£M	**£M**	£M
Fuel and consumables	**26.9**	29.0	**19.6**	17.2
Work in progress	**1.1**	1.2	**1.1**	1.2
Goods for resale	**3.5**	3.5	**3.4**	3.5
	31.5	33.7	**24.1**	21.9

Notes on the Accounts

for the Year Ended 31 March 1998

14. Debtors

	Group 1998 £M	Group 1997 £M	Company 1998 £M	Company 1997 £M
Amounts owed by subsidiary undertakings	-	-	**358.5**	316.5
Amounts owed by joint ventures and associates	-	1.7	**1.6**	2.9
Trade debtors:				
Electricity companies	**29.4**	41.7	**23.5**	22.6
Other trade debtors	**57.8**	73.7	**55.4**	69.2
	87.2	115.4	**78.9**	91.8
Other debtors	**29.1**	4.0	**20.0**	3.7
Prepayments and accrued income:				
Net unbilled energy	**32.6**	38.2	**32.6**	38.2
Advance corporation tax recoverable	**13.2**	12.0	**13.2**	12.0
Other prepayments	**7.6**	4.6	**4.1**	6.5
	53.4	54.8	**49.9**	56.7
Total debtors	**169.7**	175.9	**508.9**	471.6

Total debtors due after more than one year of £2.3M (1997 - £1.9M) are included in other debtors £1.2M (1997 - nil), other prepayments £1.1M (1997 - nil) and other trade debtors (1997 - £1.9M).

Other debtors include a relocation bridging loan outstanding to an officer of the Group, in respect of a house purchase, amounting to £0.1M (1997 - £0.5M).

15. Current asset investments

The Group balance of £21.0M (1997 - £18.6M) represents monies invested in a managed fund by the insurance subsidiary, at cost.

Of these monies, £4.2M (1997 - £4.8M) are subject to the terms of a Trust Deed as security for payment of liabilities due under a reinsurance treaty.

16. Creditors: amounts falling due within one year

	Group 1998 £M	Group 1997 £M	Company 1998 £M	Company 1997 £M
Borrowings:				
Bank loans and overdrafts	**11.7**	258.4	**10.3**	258.4
Bills of exchange payable	-	9.9	-	9.9
Other short term loans	**338.2**	44.5	**338.2**	44.5
	349.9	312.8	**348.5**	312.8
Other:				
Trade creditors:				
Electricity companies	**28.7**	29.0	**28.6**	29.0
Other trade creditors	**44.7**	42.2	**40.3**	32.2
	73.4	71.2	**68.9**	61.2
Amounts owed to subsidiary undertakings	-	-	**184.7**	114.5
Amounts owed to joint ventures	**11.7**	9.5	**11.7**	9.5
Corporation tax	**29.9**	32.6	**20.2**	24.6
Windfall tax	**22.2**	-	**22.2**	-
Proposed dividends	**53.0**	48.0	**53.0**	48.0
Advance corporation tax payable	**18.9**	17.2	**18.9**	17.2
Other creditors	**8.9**	0.8	**0.6**	0.8
Payments received in advance	**0.4**	0.9	**0.4**	0.9
Taxation and social security	**4.2**	6.9	**2.3**	6.5
Deferred income - grants	**5.1**	1.5	**5.1**	1.5
Accruals and other deferred income	**115.5**	91.7	**115.5**	85.4
	343.2	280.3	**503.5**	370.1

Notes on the Accounts

for the Year Ended 31 March 1998

17. Creditors: amounts falling due after more than one year

Group and Company	**1998** **£M**	1997 £M
Borrowings:		
7.875% Sterling Eurobond due 2007	**150.0**	150.0
Finance costs	**(1.1)**	(1.2)
	148.9	148.8
Other:		
Deferred income - capital grants	**18.6**	20.7
- customer contributions	**93.8**	88.4
	112.4	109.1

18. Analysis of Group loans and borrowings

Interest rate

After taking into account interest rate swaps and currency swaps, the interest rate exposure of the gross borrowings of the Group was as follows:

	1998 **£M**	1997 £M
Floating rate borrowings	**224.9**	187.8
Fixed rate borrowings	**275.0**	275.0
	499.9	462.8

The weighted average fixed interest rate at 31 March 1998 was 7.97% (1997 - 7.58%) and the weighted average time for which the rate is fixed was 8.3 years (1997 - 9.3 years).

The floating rate borrowings mainly comprise Commercial Paper borrowings bearing interest rates less than LIBOR at the date of issue. The rates are fixed in advance for periods ranging from 1 month to 364 days.

Maturity of borrowings	**1998** **£M**	1997 £M
Within one year	**349.9**	312.8
Over five years	**150.0**	150.0
	499.9	462.8
Unamortised issue costs	**(1.1)**	(1.2)
	498.8	461.6

All borrowings are unsecured.

Borrowing facilities

The Company has an established US$1bn Euro Commercial Paper programme. Paper is issued in a range of currencies and swapped back into Sterling.

The Company has a £600M revolving credit facility in place until 2002. This facility provides a backstop to the Euro Commercial Paper programme and at 31 March 1998 there was no drawdown of the facility.

Notes on the Accounts

for the Year Ended 31 March 1998

19. Provisions for liabilities and charges

Group	1 April 1997 £M	Profit and loss account £M	Costs incurred £M	**31 March 1998 £M**
Re-organisation and restructuring	5.4	(0.9)	(4.5)	**-**
Employment charges and claims	2.4	0.2	-	**2.6**
Cable location	0.1	-	(0.1)	**-**
Hydro civil works maintenance	31.0	(4.0)	(0.5)	**26.5**
Others	9.9	-	(0.9)	**9.0**
	48.8	(4.7)	(6.0)	**38.1**
Company				
Re-organisation and restructuring	5.4	(0.9)	(4.5)	**-**
Employment charges and claims	2.4	0.2	-	**2.6**
Cable location	0.1	-	(0.1)	**-**
Hydro civil works maintenance	31.0	(4.0)	(0.5)	**26.5**
Others	5.0	-	-	**5.0**
	43.9	(4.7)	(5.1)	**34.1**

20. Deferred taxation

Deferred taxation provided in the Accounts:

Group	1 April 1997 £M	Profit and loss account Previous years £M	Profit and loss account Current year £M	**31 March 1998 £M**
Accelerated capital allowances	31.9	(2.9)	3.4	**32.4**
Other timing differences	8.9	(0.8)	(1.2)	**6.9**
	40.8	(3.7)	2.2	**39.3**

Deferred taxation not provided in the Accounts:

	Group 1998 £M	Group 1997 £M	**Company 1998 £M**	Company 1997 £M
Accelerated capital allowances	**224.0**	224.0	**224.0**	224.0
Other timing differences	**(12.0)**	(16.7)	**(21.8)**	(27.0)
Restated for change in statutory rate of tax	**-**	(18.8)	**-**	(17.9)
	212.0	188.5	**202.2**	179.1

21. Pensions

The Group operates two funded pension schemes providing defined benefits based on final pensionable salary, a main scheme for all permanent employees of the Group and a Senior Executive Scheme. The assets of the schemes are held separately from those of the Group in independently administered funds. Members' contributions to the main scheme are at 6% of pensionable salary (5% for new members from 1 February 1996).

The most recent actuarial valuation of the main scheme was carried out by an independent qualified actuary as at 31 December 1996 using the projected unit method. The principal actuarial assumptions adopted in reaching this valuation were that, over the long term, the investment rate of return would be 9%, the rate of dividend increases would be 4.25%, the rate of salary increases would be 7% and the rate of pension increases would be 5%.

The market value of the main scheme's assets at 31 December 1996 was £631.0M and the value of those assets was sufficient to cover 125% of the accrued liabilities to members at the valuation date (giving a surplus on actuarial valuation of £105.2M).

On the statutory basis of the Finance Act 1986, the surplus is greater than 5% of assets. Actions taken to reduce the Group's contribution rate are planned to reduce the surplus to 5% over the 5 year period from 1 April 1997.

The Group's contribution to the main scheme has been suspended from 1 April 1996 as the fund is in surplus. The charge to the profit and loss account which reflects the regular cost, assessed in accordance with the advice of the actuary, to finance the liabilities of the main scheme over the working lives of the existing contributors has also been reduced to zero.

Following the removal during the year of the ability of pension schemes to reclaim tax credits on dividend income, an informal actuarial review was commissioned of the impact of this change on the main scheme. The change will reduce the period of suspension of contribution to the scheme and will be taken into account in the next triennial valuation.

The Senior Executive Scheme is funded entirely by the Group at a contribution rate determined for each member. The total contribution during the year ended 31 March 1998 was £133,685. An actuarial valuation of this scheme at 31 December 1996 identified a deficit of £188,000 which has been paid by the Group at 31 March 1998. The principal actuarial assumptions adopted were that, over the long term, the investment rate of return would be 9%, the rate of dividend increases would be 4%, the rate of salary increases would be 7% and the rate of pension increases would be 5%.

Notes on the Accounts

for the Year Ended 31 March 1998

22. Share capital

The authorised and called up share capital was:

	1998 £	1997 £
Authorised:		
550,000,000 ordinary shares of 50p each - equity	**275,000,000**	275,000,000
1 special rights non-voting redeemable preference share of £1 - non-equity	**1**	1

	1998 £	1997 £
Allotted, called up and fully paid:		
392,901,270 ordinary shares of 50p each (1997 - 389,086,791) - equity	**196,450,635**	194,543,396
1 special rights non-voting redeemable preference share of £1 - non-equity	**1**	1

(i) 3,814,478 shares have been issued during the year under the Savings-related Share Option Schemes and the Discretionary Share Option Schemes. 1,804,178 of these shares were issued for a consideration of £4.4M and 2,010,300 were funded by contributions to the QUEST (note 24).

(ii) The special share is redeemable, at par, at any time at the option of the Secretary of State for Scotland after consulting the Company. This share, which may only be held by the Secretary of State for Scotland or another person acting on behalf of HM Government, confers the right to attend and speak at any general meeting but has no voting rights or rights to participate in the profits or capital of the Company except on a winding-up of the Company. Certain matters are effective only with the written consent of the special shareholder: in particular there are limitations which prevent a person from owning or having an interest in 15% or more of the ordinary shares in the Company.

(iii) Share options

Shares subject to option under the various schemes are as follows:

	Date of grant	Number 31 March 1998	Price (pence)	Normally exercisable
Discretionary Share Option Scheme	July 1991	21,203	237	July 1994 - July 2001
Discretionary Share Option Scheme	January 1994	17,897	447	January 1997 - January 2004
Discretionary Share Option Scheme	June 1994	195,000	348	June 1997 - June 2004
Discretionary Share Option Scheme	July 1995	289,000	327	July 1998 - July 2005
Discretionary Share Option Scheme	October 1996	519,000	282	October 1999 - October 2006
Discretionary Share Option Scheme	December 1996	1,525,800	315	December 1999 - December 2006
Discretionary Share Option Scheme	June 1997	485,500	406	June 2000 - June 2007
Savings-related Share Option Scheme	August 1992	26,703	212	September 1997 - February 1998
Savings-related Share Option Scheme	July 1993	548,542	277	September 1998 - February 1999
Savings-related Share Option Scheme	July 1994	556,792	272	September 1999 - February 2000
Savings-related Share Option Scheme	July 1995	453,147	267	September 2000 - February 2001
Savings-related Share Option Scheme	July 1996	412,182	243	September 1999 - February 2000
Savings-related Share Option Scheme	July 1996	1,170,434	243	September 2001 - February 2002
Savings-related Share Option Scheme	July 1997	403,477	327	October 2000 - March 2001
Savings-related Share Option Scheme	July 1997	1,048,782	327	October 2002 - March 2003

23. Reconciliation of movement in shareholders' funds

	Group		Company	
	1998 £M	1997 £M	**1998 £M**	1997 £M
Profit for the financial year	**130.9**	164.2	**107.7**	142.2
Dividends	**75.8**	69.1	**75.8**	69.1
	55.1	95.1	**31.9**	73.1
Revaluation reserve adjustment	**1.7**	-	**1.7**	(14.4)
Goodwill on acquisitions	**-**	(87.7)	**-**	-
New share capital subscribed	**4.4**	8.5	**4.6**	8.5
Net addition to shareholders' funds	**61.2**	15.9	**38.2**	67.2
Opening shareholders' funds	**881.6**	865.7	**881.6**	814.4
Closing shareholders' funds	**942.8**	881.6	**919.8**	881.6

The adjustment to the revaluation reserve arises from a temporary diminution in the value of a building now being regarded as permanent.

Notes on the Accounts

for the Year Ended 31 March 1998

24. Reserves

	Share premium account £M	Revaluation reserve £M	Profit and loss account £M
Group			
Balance at 1 April 1997	7.6	0.6	678.9
Premium on issue of shares	3.5	-	-
Adjustment arising on revaluation (note 23)	-	1.7	-
Transfer to profit and loss account	-	(0.4)	0.4
Premium on issue of shares to QUEST	11.9	-	-
Contribution to QUEST	-	-	(13.0)
Retained profit for the year	-	-	55.1
Balance at 31 March 1998	**23.0**	**1.9**	**721.4**

The Group's reserves include £3.5M (1997 - £2.3M) reserves retained in joint ventures.

Goodwill written off
The cumulative amount of goodwill written off to reserves at 31 March 1998 was £92.0M (1997 - £92.0M).

	Share premium account £M	Revaluation reserve £M	Profit and loss account £M
Company			
Balance at 1 April 1997	7.6	0.6	678.9
Premium on issue of shares	3.5	-	-
Adjustment arising on revaluation (note 23)	-	1.7	-
Transfer to profit and loss account	-	(0.4)	0.4
Premium on issue of shares to QUEST	11.9	-	-
Contribution to QUEST	-	-	(12.8)
Retained profit for the year	-	-	31.9
Balance at 31 March 1998	**23.0**	**1.9**	**698.4**

The Group has established a QUEST for the purposes of share option schemes for staff. During the year, contributions of £13.0M have been made to the QUEST and used by the QUEST to subscribe for 2.6M ordinary shares of 50p each in the Company. The effect of these transactions has been to reduce profit and loss account reserves by £13.0M. At 31 March 1998, 0.6M of the ordinary shares of 50p each issued to the QUEST had been transferred to option holders exercising options under the Employee Savings-related Share Option Scheme.

The profit for the year attributable to shareholders dealt with in the Accounts of the Company was £107.7M (1997 - £142.2M). As allowed by section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

25. Cash flow

(i) Reconciliation of operating profit to net cash inflow from operating activities:

	1998 £M	1997 £M
Operating profit	**242.9**	222.8
Depreciation, amortisation and revaluation adjustments	**66.2**	61.5
Customer contributions and capital grants released	**(4.4)**	(4.3)
Decrease/(increase) in stocks	**2.2**	(8.2)
Decrease/(increase) in debtors	**7.3**	(3.4)
Increase/(decrease) in creditors	**15.8**	(3.7)
(Decrease) in provisions	**(10.7)**	(10.6)
Loss/(profit) on sale of tangible fixed assets	**0.2**	(0.9)
Net cash inflow from operating activities	**319.5**	253.2

(ii) Reconciliation of net cash flow to movement in net debt:

	1998 £M	**1998 £M**	1997 £M	1997 £M
Increase in cash in the year	**3.4**		2.8	
Cash inflow from increase in debt and lease financing	**(33.7)**		(110.5)	
Change in net debt resulting from cash flows		**(30.3)**		(107.7)
Bank loan acquired on acquisition of Keadby		**-**		(133.3)
Finance costs		**(0.1)**		(3.2)
Movement in net debt in the year		**(30.4)**		(244.2)
Net debt at 1 April		**(459.6)**		(215.4)
Net debt at 31 March		**(490.0)**		(459.6)

Notes on the Accounts

for the Year Ended 31 March 1998

(iii) Analysis of net debt:

	As at 1 April 1997 £M	Increase/ (decrease) in cash £M	(Increase)/ decrease in debt £M	Acquisition of Keadby £M	Non-cash items £M	**As at 31 March 1998 £M**
Cash in bank and in hand	2.0	6.8	-	-	-	**8.8**
Overdrafts	(2.7)	(3.4)	-	-	-	**(6.1)**
Other debt due within one year	(310.1)	-	(33.7)	-	-	**(343.8)**
Borrowings due within one year	(312.8)	(3.4)	(33.7)	-	-	**(349.9)**
Borrowings due after more than one year	(148.8)	-	-	-	(0.1)	**(148.9)**
Total movement 1997/98	(459.6)	3.4	(33.7)	-	(0.1)	**(490.0)**
Total movement 1996/97	(215.4)	2.8	(110.5)	(133.3)	(3.2)	(459.6)

26. Capital and lease commitments

Group and Company

	1998 £M	1997 £M
Capital expenditure:		
Contracted for but not provided	**230.6**	49.3

Leases:

The payments under operating leases which are due to be made in the next year, analysed over the periods when the leases expire, are:

Group and Company

	Properties		**Other assets**	
	1998 £M	1997 £M	**1998 £M**	1997 £M
Within one year	**0.2**	0.1	**2.5**	2.2
Between two and five years	**0.1**	-	**5.0**	5.7
After five years	**1.3**	1.5	-	-
	1.6	1.6	**7.5**	7.9

27. Commitments - Seabank Power Limited

The Company and BG plc own a 50:50 joint venture company, Seabank Power Limited, which is constructing and will operate a 750MW combined cycle gas turbine power station on a site at Avonmouth near Bristol. The project has an expected capital spend of up to £315.0M. The Company and BG plc have agreed to provide 100% of the funding in the form of 15% equity and 85% debt. The Company has invested £26.4M up to 31 March 1998 and has an outstanding commitment to provide up to £137.4M debt.

The Company and Seabank Power Limited have entered into a Power Purchase Agreement under which the Company will buy all the electricity produced by the power station for 10.5 years from completion of the station.

28. Regulatory Accounts

The Company publishes Regulatory Accounts, copies of which are available on application to the Company Secretary, 10 Dunkeld Road, Perth PH1 5WA.

Financial Calendar

30 July 1998	Annual General Meeting
7 September 1998	Ex dividend date
11 September 1998	Record date
1 October 1998	Final dividend date
9 December 1998	Half year results*
February 1999	Ex dividend date
February 1999	Record date
March 1999	Interim dividend date

**The Company's half year results will be published in the Financial Times, The Daily Telegraph, The Scotsman and The Herald and will detail the ex dividend and record dates for the interim dividend payable in March 1999. The half year results are not circulated to individual shareholders.*

Shareholder Information

Shareholder statistics as at May 1998	**% of shares**
British institutions	61.5
Individuals in Scotland	10.2
Individuals in the rest of Great Britain	10.3
Europe	1.8
Asia	0.3
North America	3.8
Other	12.1
Number of shares in issue at 31 May 1998	*392,965,584*

Designed by Gardiner Russell

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