SCOTTISH POWER PLC
Form 6-K
February 06, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15a-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

For the month of February 2004

SCOTTISH POWER PLC

(Translation of Registrant s Name Into English)

CORPORATE OFFICE, 1 ATLANTIC QUAY, GLASGOW, G2 8SP

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.) Form 20-F x Form 40-F ¨

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.) Yes ¨ No x

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-____ .)

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1. Announcement of Scottish Power plc, dated February 4, 2004, regarding third quarter and nine month financial results to December 31, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

/s/ Scottish Power plc

(Registrant)

Date February 4, 2003

By: /s/ Donald McPherson

Donald McPherson

Assistant Company Secretary

SCOTTISH POWER plc

2003/04 NINE MONTH RESULTS including 3rd Quarter to 31 December 2003

Profit before tax* increased by £63 million to £651 million

Earnings per share* of 25.8 pence, up 9%

Investment of £654 million, including £283 million (43%) for organic growth

Dividend per share of 4.75 pence for the quarter

Quarter 3			Nine Months	
2003/04	**2002/03**	**£ million**	**2003/04**	**2002/03**
1,524	1,372	Turnover	**4,049**	3,819
279	283	Operating profit	**731**	663
311	317	Operating profit excluding goodwill	**830**	768
226	218	Profit before tax	**553**	483
258	252	Profit before tax excluding goodwill	**651**	588
8.5	8.2	Earnings per share (pence)	**20.4**	17.9
10.2	10.0	Earnings per share excluding goodwill (pence)	**25.8**	23.6
4.75	7.177	Dividends per share (pence)	**14.25**	21.531

*Excluding goodwill amortisation

ScottishPower Chief Executive, Ian Russell, said:

Following another good quarter, earnings per share* for the year to date are up 9%, driven by our strategy of delivering continued operational improvements and additional returns from our investment programme. Our UK customer numbers grew to 4 million for the first time with over 100,000 new customers added in the quarter. For the nine months, approaching half of our capital investment of over £650 million was invested in organic growth opportunities, from which we expect to generate increasing returns in the future.

FINANCIAL OVERVIEW

Group **turnover** for the nine months to 31 December 2003 grew by £230 million to £4,049 million and by £152 million to £1,524 million in the quarter. UK Division turnover increased as a result of higher retail electricity revenues and balancing activities in England and Wales, improved retail and wholesale gas revenues and higher agency sales. Infrastructure Division s turnover increased due to higher regulated and new connection revenues. Increases in PacifiCorp s dollar turnover, driven by growth in retail revenues, were offset by lower wholesale revenues as a result of lower volumes. PPM s revenue improved mainly as a result of gas storage expansion and the addition of new wind generation resources. The weaker US dollar reduced sterling revenues by £144 million for the nine months but the effect on earnings was mitigated by our hedging strategy.

Operating profit for the group increased by £68 million (10%) to £731 million for the nine months, with all four businesses delivering improved results. Excluding goodwill amortisation, operating profit was £830 million for the nine months, up £62 million, (8%). In the quarter, operating profit was lower by £4 million at £279 million and, excluding goodwill amortisation, was £6 million lower at £311 million. Underlying operating profit for the quarter increased by

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£24 million, with performance improvements in Infrastructure Division, UK Division and PPM being partly offset by marginally lower PacifiCorp operating profit. These improvements were offset as the prior year third quarter included an £11 million benefit relating to the first half of 2002/03, following renegotiation of the Nuclear Energy Agreement (NEA), and by the impact of the weaker US dollar on US operations of £19 million. Our financial hedging strategy and the favourable translation effect on US dollar interest charges and taxes mitigated the impact of the dollar on US operating profit.

The financial hedging strategy includes selling the dollar forward against the pound, for up to four years, to hedge expected dollar operating profits not otherwise hedged by interest paid on dollar liabilities or taxes. These forward sales, put in place at or before the beginning of the current financial year, at an effective rate of $1.41, help fully hedge the current year s expected dollar profits, protecting earnings from the recent decline of the US dollar. The expected dollar earnings for 2004/05 have been similarly hedged, at an effective rate of approximately $1.50.

Profit before tax improved by £70 million (14%) to £553 million for the nine months. Excluding goodwill amortisation, profit before tax was up £63 million at £651 million, with our continuing businesses, including associates and joint ventures, contributing £74 million of this increase and lower interest charges contributing £3 million. This was partly offset by the contribution to last year s operating profit from discontinued operations of £14 million. As expected, the effective rate of tax was 27%, up from 25% at December 2002, reducing earnings per share by 0.6 pence for the nine months.

Earnings per share were ahead of last year, up by 2.5 pence to 20.4 pence for the nine months. In the quarter, earnings per share were higher by 0.3 pence. Excluding goodwill amortisation, earnings per share increased by 2.2 pence to 25.8 pence for the nine months and by 0.2 pence to 10.2 pence for the quarter.

For the nine months, **operating cash flow** of £904 million was £26 million lower than last year mainly due to higher gas stocks, which are expected to reduce in the final quarter of the year. Interest, tax and dividend payments totalled £562 million while other net inflows which impact net debt, other than investment in assets, were £57 million. This provided cash of £399 million, which covered all of our refurbishment and upgrade capital spend and contributed to our investment in growth projects. After the benefit from the weaker US dollar of £319 million, net debt was £4,264 million at 31 December 2003, £57 million lower than at 31 March 2003. Gearing (net debt/shareholders funds) was 91%, compared to 93% as at 31 March 2003.

Note: ScottishPower assesses the performance of its businesses by adjusting UK GAAP statutory results to exclude items it considers to be non-recurring or non-operational. In the periods reviewed, goodwill amortisation has been excluded. We have, therefore, focused our presentation of business performance on the results excluding goodwill amortisation. Unless otherwise stated, nine months relates to the nine months to 31 December 2003, and quarter relates to the three months to 31 December 2003.

INVESTMENT

Our investment strategy is to drive the growth and development of our regulated and competitive businesses through a balanced programme of capital investment which will deliver returns ranging from allowed rates of return in our regulated businesses to higher returns in our competitive businesses. All investments are assessed on a risk adjusted returns basis, are expected to be earnings enhancing and should support our aim to retain our A- credit rating for our principal operating businesses. Capital investment totalled £654 million for the nine months and £267 million for the quarter. Our organic growth expenditure was £283 million for the nine months, of which 53% was invested in our regulated businesses and 47% in our competitive businesses and, geographically, 75% was invested in the US and 25% in the UK. Growth expenditure for the quarter was £128 million, with 83% invested in the US and 17% in the UK. These investments include the completion of windfarm projects by PPM in December 2003, which we expect to contribute attractive earnings starting in 2004. We remain on track to achieve our capital investment target of £1 billion for the full year.

DIVIDEND

In line with our stated aim, the third quarter **dividend** of 2003/04 will be 4.75 pence per share, payable on 15 March 2004, taking the nine months dividends to 14.25 pence per share. The ADS dividend rate will be confirmed in a separate announcement today.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (the Act) reduces the rates of US federal income tax on dividends received by individual US shareholders from domestic corporations and qualified foreign corporations . Based on the Act s legislative history and Internal Revenue Service releases, ScottishPower is a qualified foreign corporation as defined in the Act. As a result, in most cases our ADS holders that are individuals should be subject to the same preferential dividend tax rates as US shareholders owning shares in US-based companies. The Act only applies to individuals subject to US federal net income tax and therefore the tax position of UK shareholders is unaffected. (Please refer to the US Dividend Tax Footnote on page 8).

PACIFICORP

PacifiCorp is our regulated US business. Its strategic priorities are to:

- Achieve ROE target/$1 billion EBIT by 2004/05
- Manage energy risk and supply/demand balance
- Deliver excellent customer service
- Invest to grow the regulatory asset base, including delivery of the integrated resource plan

PacifiCorp s operating profit improved by £30 million to £368 million for the nine months. Excluding goodwill amortisation, operating profit increased by £22 million to £462 million. For the nine months, retail sales increased due to customer and load growth of £24 million, sales mix of £12 million, favourable weather conditions of £14 million and higher regulatory recoveries of £11 million. Favourable net power costs of £5 million were offset by lower transmission revenues and a change in the timing of the receipt of synfuel royalties of £11 million. Operating efficiencies delivered £24 million of benefits. Other net expenditure increased by £31 million, due primarily to higher labour related costs of £15 million and increased depreciation of £12 million. The impact of the weaker US dollar was £26 million, which was mitigated by our hedging strategy.

In the quarter, PacifiCorp s operating profit was lower by £18 million at £114 million and excluding goodwill amortisation, reduced by £21 million to £144 million. £18 million of this reduction was attributable to the weaker US dollar, with underlying operating profit for the quarter marginally lower year on year, as strong retail revenue growth was offset by higher depreciation and the timing of synfuel royalties.

During the quarter, the Utah Public Service Commission granted $65 million of additional annual revenue to PacifiCorp effective from April 2004. Additionally, the California Public Utilities Commission granted an annual rate increase of $2.8 million to PacifiCorp, effective from December 2003.

In December 2003, PacifiCorp filed a rate case request for $26.7 million with the Washington Utilities and Transportation Commission to recover costs related to insurance, employees and retirees, power costs and other expenses. This rate case also contains a Multi-State Process (MSP) component, which is designed to address existing and future issues regarding the allocation of costs and benefits in Washington. Similar MSP filings were made earlier in other states served by PacifiCorp.

The $34.9 million general rate case filing in Wyoming, revised from $42 million to reflect more current financial information, is progressing to schedule with hearings held in mid-January 2004. The filing was made to recover rising costs for insurance, pension funding, healthcare and other items. A final resolution on the case is expected by early March 2004 with new rates effective in late March 2004.

Our energy hedging strategy continues to be effective and our demand and supply needs have been substantially hedged through to summer 2005. Demand at that time will be supported by the commissioning of the first phase of the 525 MW Currant Creek plant and work continues to obtain formal certification to begin construction of the plant in February 2004.

PacifiCorp continued to invest in support of network safety, reliability and improved performance, including the continuing targeted investment of more than $200 million in Utah s high-growth Wasatch Front area, which by mid-January 2004 had delivered an additional 702 MVA capacity. However, in late December 2003 and early January 2004 PacifiCorp s network was impacted by severe storms in northern Utah and parts of Oregon and California. As some Utah customers were without power for extended periods, PacifiCorp immediately began an internal review and will report findings to regulatory officials and customers upon completion. Increased costs have been incurred as a result of the storm damage to the network and for tree trimming. Voluntary goodwill credits have been offered to those Utah customers who were without power for extended periods.

PacifiCorp s net investment in assets for the nine months was £302 million, with £109 million (36%) of this invested for organic growth with programmes to improve network reliability and meet load growth demand. Refurbishment and other expenditure totalled £193 million and included network investment, major overhauls of generation plant, information technology and hydro relicensing.

INFRASTRUCTURE DIVISION

Infrastructure Division is our regulated UK wires business. Its strategic priorities are to:

- Invest consistently to add future value, including supporting renewables
- Optimise our position through the 2005 price control reviews and the introduction of BETTA
- Deliver cost-effective, high quality customer service

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Infrastructure Division s operating profit improved by £26 million to £291 million for the nine months and by £18 million to £113 million for the quarter. For the nine months, net operating cost movements were favourable by £12 million and included further savings delivered by the asset manager / service provider model through more efficient allocation of overheads to capital projects, lower management costs and favourable timing of costs incurred. Increases in regulated revenues added £8 million and property sale gains contributed a further £6 million to operating profit. In the quarter, Infrastructure Division s improved performance was due to reduced net operating costs described above and the timing of spend in the prior year.

Infrastructure Division invested £180 million in assets for the nine months, including £41 million (23%) in organic growth areas such as new customer connections and network reinforcement. The remaining £139 million of capital expenditure was primarily spent on refurbishing the network, including the successful overhead line modernisation programme. At the end of December 2003 a significant storm occurred in the UK including ScottishPower s service area in central Scotland. In areas where we have invested significantly to improve infrastructure, minimal disruption occurred demonstrating the returns from investing to upgrade the network.

We are constructively engaged with Ofgem on all of the major issues for the 2005 Distribution Price Control Review including the need for a sufficient and stable return, the requirement for increased investment to secure the long-term safety, reliability and sustainability of the electricity infrastructure in Great Britain, and the development of an appropriate framework to fund infrastructure investment to facilitate renewable generation in line with Government targets. In addition, discussions are continuing on Ofgem s proposals for a two year roll-forward of the current price control for SP Transmission from April 2005.

UK DIVISION

The UK Division is our competitive integrated generation and supply business. Its strategic priorities are to:

- Enhance margins through our integrated operations
- Increase the value of our customer base through targeted sales growth and improved customer service
- Progress towards achieving 10% of electricity supply from renewable sources by 2010

The UK Division reported an increase in operating profit of £23 million to £47 million for the nine months, with operating profit lower by £4 million in the quarter at £42 million. Excluding goodwill amortisation, the operating profit was £51 million for the nine months, up £23 million and £44 million for the quarter, down by £4 million.

For the nine months, electricity margins continued to be favourable, up £27 million on the equivalent period last year, as a result of customer growth and improved margins across the integrated value chain. Gas margins increased by £4 million due to higher customer numbers and improved gas storage performance, and profits from other business activities grew by £1 million. Operating costs increased by £9 million mainly driven by investment in energy efficiency and customer capture.

Operating profit was lower in the quarter due to the timing of the NEA benefit in the previous financial year, when £11 million of the settlement benefit reflected in the third quarter results last year related to the previous two quarters. Excluding this impact, UK Division operating profit for the quarter was higher by £7 million.

The UK Division s net capital expenditure for the nine months was £60 million, with £31 million (52%) of this invested in organic growth projects. This included the upgrade and capacity increase at the 400 MW Cruachan pumped storage hydro station and the continuing development of windfarms, such as Cruach Mhor (30 MW) and Black Law (96 MW). Other capital investment of £29 million included the Longannet generation plant refurbishment programme, designed to improve the plant s flexibility and capability, and hydro refurbishment works at Stonebyres, Carsfad, and Earlstoun (32 MW combined) to allow the capture of Renewables Obligation Certificates (ROCs). The hydro refurbishment work is due to be completed by the end of 2004.

The UK Division reached an agreement with Scottish and Southern Energy on the early termination of the Peterhead and hydro electricity contracts that should save around £20 million a year from April 2005. The contracts termination will also help facilitate the introduction of BETTA in 2005.

Customer numbers continue to grow and an increase of over 100,000 in the quarter has taken our total to four million for the first time. Our cost to serve and customer retention levels continued to meet our expectations over the nine month period. These successes reflect a return on the investment previously made to transfer all domestic customers to a single billing system two years ago, together with the impact of improved Direct Debit penetration and sales of our Capped Price product.

A judicial hearing on 21 January 2004 overturned an earlier decision by Ofgem to introduce zonal transmission losses in England and Wales. The three companies behind the legal challenge, ScottishPower, Teeside Power, and Drax Power, were also awarded costs.

In January 2004, the Government announced draft proposals for the National Allocation Plan for carbon emissions under the EU Emissions Trading Scheme. The allocation of carbon allowances for ScottishPower has been calculated from recent historic average carbon dioxide emissions and provides a solid base for the continued operation of our generation portfolio in the UK. ScottishPower supports the overall Government objective of achieving a lower carbon economy, however we will continue to argue that this burden should be shared equitably across all energy sectors rather than biased to the electricity sector. We will also continue to argue that the emissions scheme should maintain an orderly wholesale market which encourages sufficient investment in new generation to ensure the ongoing security of supply in the UK.

We welcome the Government s extension of the ROCs scheme to 2015 and will continue to work towards satisfying our Government target. Additionally we are exploring offshore opportunities and have been awarded a licence by the Crown Estates Office to develop an application for a 500 MW site off Cumbria.

PPM

PPM is our competitive US energy company. Its strategic priorities are to:

- Continue to be a leading provider of renewable energy products
- Grow natural gas storage and hub services business
- Create additional value by optimising the returns from our capability across gas and power

Operating profit for PPM continued to improve, up £4 million to £25 million for the nine months and up £1 million to £10 million for the quarter. Excluding goodwill amortisation, PPM s operating profit for the nine months was higher by £5 million at £26 million.

In the nine months, the Katy and Alberta Hub gas storage facilities contributed an additional £9 million to operating profit. New wind generation and other resources, including returns from our energy management activities, improved by £7 million. Operating costs and depreciation, which underpin the business s growth, increased by £10 million. The unfavourable impact of the weaker dollar on operating profit was £1 million.

PPM s capital investment for the nine months was £112 million, with £102 million (91%) of this invested in organic growth projects. The majority of this spend was incurred in new wind generation, including the Colorado Green, Moraine, Flying Cloud and Mountain View III windfarm construction projects, all of which were operating commercially by the end of the quarter and qualify for production tax credits. We will be actively working on our pipeline of development opportunities in anticipation of the extension of production tax credits.

PPM remains the second largest provider of wind energy in the US. Six scheduled projects were completed in December 2003, bringing the total wind power under PPM s control to more than 830 MW. During calendar year 2003, PPM added 528 MW of wind power, a 174% increase over the period. PPM has a goal of 2,000 MW of wind power by 2010.

PPM s gas storage business has performed well through its 44 BCF ownership in two facilities. In addition, PPM has increased its available gas storage capacity by 20 BCF in the next year through contracting for capacity in third-party storage facilities in western Canada, Texas and California, to be used along with its existing gas storage facilities to offer energy management and hub services to its customers.

OUTLOOK

Looking ahead, our focus remains on generating earnings growth from continued operational improvements and additional returns from our investment programme. We remain confident that our expectations for the full year will be delivered.

INVESTOR TIMETABLE

11 February 2004	Shares go ex-dividend for the third quarter
13 February 2004	Last date for registering transfers to receive the third quarter dividend
15 March 2004	Third quarter dividend payable
5 May 2004	Full Year Results

US Dividend Tax Footnote

Please note that US federal income tax treatment is dependent upon an individual s tax circumstances. Therefore, you should consult your own tax advisor regarding the tax matters discussed in this statement or any other taxation issue. For further information on the Jobs and Growth Tax Relief Reconciliation Act of 2003, investors are encouraged to go to www.irs.gov *and to consult with their tax advisor.*

Safe Harbor

Some statements contained herein are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These include statements with respect to us, our corporate plans, strategies and beliefs and other statements that are not historical facts. These statements can be identified by the use of the forward-looking terminology such as may , will , expect , anticipate , intend , estimate , continue , plan or other similar words. These statements are based on our management s assumptions and beliefs in light of the information available to us. These assumptions involve risks and uncertainties which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

We wish to caution readers, and others to whom forward-looking statements are addressed, that any such forward-looking statements are not guarantees of future performance and that actual results may differ materially from estimates in the forward-looking statements. We undertake no obligation to revise these forward-looking statements to reflect events or circumstances after the date hereof. Important factors that may cause results to differ from expectations include, for example:

- any regulatory changes (including changes in environmental regulations) that may increase the operating costs of the group, may require the group to make unforeseen capital expenditures or may prevent the regulated business of the group from achieving acceptable returns;
- future levels of industry generation and supply, demand and pricing, political stability, competition and economic growth in the relevant areas in which the group has operations;
- the availability of acceptable fuel at favorable prices;
- the availability of operational capacity of plants;
- the success of reorganizational and cost-saving efforts; and
- development and use of technology, the actions of competitors, natural disasters and other changes to business conditions.

Further Information:

Andrew Jamieson	Head of Investor Relations	0141 636 4527
Colin McSeveny	Group Media Relations Manager	0141 636 4515

Group Profit and Loss Account

for the three months ended 31 December 2003

	Notes	Three months ended 31 December Continuing operations and Total 2003 £m	Continuing operations and Total 2002 £m
Turnover: group and share of joint ventures and associates		**1,529.4**	1,379.7
Less: share of turnover in joint ventures		**(5.2)**	(7.5)
Less: share of turnover in associates		**(0.2)**	(0.2)
Group turnover	2	**1,524.0**	1,372.0
Cost of sales		**(982.1)**	(825.5)
Gross profit		**541.9**	546.5
Transmission and distribution costs		**(155.8)**	(154.5)
Administrative expenses (including goodwill amortisation)		**(112.8)**	(114.2)
Other operating income		**5.7**	5.3
Operating profit before goodwill amortisation		**310.7**	317.1
Goodwill amortisation		**(31.7)**	(34.0)
Operating profit	2	**279.0**	283.1
Share of operating profit in joint ventures		**2.8**	6.6
Share of operating profit in associates			0.2
Profit on ordinary activities before interest		**281.8**	289.9
Net interest and similar charges			
Group		**(54.2)**	(70.5)
Joint ventures		**(1.4)**	(1.6)
		(55.6)	(72.1)
Profit on ordinary activities before goodwill amortisation and taxation		**257.9**	251.8
Goodwill amortisation		**(31.7)**	(34.0)
Profit on ordinary activities before taxation		**226.2**	217.8
Taxation	3	**(69.7)**	(65.5)
Profit after taxation		**156.5**	152.3
Minority interests		**(1.4)**	(1.4)
Profit for the period		**155.1**	150.9
Dividends	5	**(87.3)**	(132.1)

Profit retained		**67.8**	18.8
Earnings per ordinary share	4	**8.48p**	8.18p
Adjusting item goodwill amortisation		**1.73p**	1.84p
Earnings per ordinary share before goodwill amortisation	4	**10.21p**	10.02p
Diluted earnings per ordinary share	4	**8.20p**	8.17p
Adjusting item goodwill amortisation		**1.65p**	1.84p
Diluted earnings per ordinary share before goodwill amortisation	4	**9.85p**	10.01p
Dividend per ordinary share	5	**4.75p**	7.177p

The Notes on pages x to x form part of these Accounts.

Group Profit and Loss Account

for the nine months ended 31 December 2003

	Notes	**Continuing operations and Total 2003 £m**	Nine months ended 31 December Continuing operations 2002 £m	Discontinued operations 2002 £m	Total 2002 £m
Turnover: group and share of joint ventures and associates		**4,069.8**	3,809.9	26.7	3,836.6
Less: share of turnover in joint ventures		**(20.1)**	(17.1)		(17.1)
Less: share of turnover in associates		**(0.5)**	(0.5)		(0.5)
Group turnover	2	**4,049.2**	3,792.3	26.7	3,819.0
Cost of sales		**(2,509.6)**	(2,335.7)	(11.4)	(2,347.1)
Gross profit		**1,539.6**	1,456.6	15.3	1,471.9
Transmission and distribution costs		**(407.1)**	(391.0)		(391.0)
Administrative expenses (including goodwill amortisation)		**(418.7)**	(434.1		