

REGISTERED NO.
2310571

SSE Generation Limited

Accounts for the year ended 31 March 2003

CONTENTS	Page No.
Report of the Directors	1 - 2
Directors' Responsibilities for Preparation of the Accounts	3
Auditor's Report on the Accounts	4
Profit and Loss Account	5
Balance Sheet	6
Statement of Total Recognised Gain and Losses and Reconciliation of Movements In Shareholders' Funds	7
Notes on the Accounts	8 - 17



SSE Generation Limited

Report of the Directors

The Directors present their report together with the audited Accounts for the year ended 31 March 2003.

1. Principal Activities

The Company's principal activity is the provision and maintenance of generation capacity for use by SSE Energy Supply Limited, a related company. The Company also invests in electricity generation enterprises and other energy related businesses.

2. Business Review

The Directors intend the Company to pursue its principal activity of the maintenance and provision of generation assets to, and on behalf of, SSE Energy Supply Limited.

3. Share Capital

The Company's authorised share capital is £397,900,000 divided into 397,900,000 shares of £1 each.

4. Results and Dividends

The profit for the financial year amounted to £32.7M (2002 - £59.3M). The directors do not recommend the payment of a dividend (2002 - £40.0M).

5. Directors

The Directors who served during the year were as follows:-

Gregor Alexander	(resigned 1 October 2002)
Gavin Brydon	(appointed 1 October 2002)
David Sigsworth	

6. Directors' Interests in Ultimate Holding Company

The interests of David Sigsworth in the shares of the Company's ultimate holding company, Scottish and Southern Energy plc, are noted in the Accounts of Scottish and Southern Energy plc.

The interests of Gavin Brydon in the shares of Scottish and Southern Energy plc are as follows:

	31 March 2003		31 March 2002	
	No. of shares beneficially held	No. of shares under option	No. of shares beneficially held	No. of shares under option
Gavin Brydon	1,030	2,099	-	-

SSE Generation Limited

Report of the Directors (continued)

7. Political and Charitable Donations

During the year, no charitable or political donations were made.

8. Employment Policies

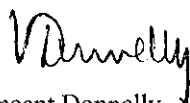
Staff are actively encouraged to be involved in Company affairs in a wide variety of ways. These include monthly team meetings, briefing documents and internal videos. Policies on such matters as Equal Opportunities and Health and Safety are regularly communicated to staff and involvement is supported through local committees. New staff joining the Company receive induction training.

It is Company 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 necessary retraining.

9. Supplier Payment Policy

The Company complies with the CBI Prompt Payment Code. 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 are 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. The number of suppliers' days represented by trade creditors was 30 days at 31 March 2003 (2002 - 32 days).

ON BEHALF OF THE BOARD



Vincent Donnelly
Secretary
21 May 2003

SSE Generation Limited

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 4, 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 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 5 to 17, the Company has 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 to 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 Company and to prevent and detect fraud and other irregularities.

SSE Generation Limited

Independent Auditor's Report to the Members of SSE Generation Limited

We have audited the Accounts on pages 5 to 17.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the directors' report, and as described on page 3, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

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

Basis of Audit Opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 as at 31 March 2003 and of the profit for the year then ended and the accounts have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

21 May 2003

SSE Generation Limited

Profit and Loss Account for the year ended 31 March 2003

	Note	2003 £M	2002 £M
Turnover		185.0	184.8
Cost of Sales		(106.6)	(120.0)
Gross profit		78.4	64.8
Administrative costs		(13.4)	(14.0)
Operating profit	2	65.0	50.8
Income from fixed asset investments		2.5	45.8
Net interest payable	5	(23.2)	(30.1)
Profit on ordinary activities before taxation		44.3	66.5
Tax on profit on ordinary activities	6	(11.6)	(7.2)
Profit for the financial year		32.7	59.3
Dividends	7	-	(40.0)
Retained profit for the financial year	19	32.7	19.3

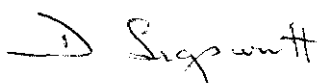
Other than the retained profit for the financial year, there are no other recognised gains or losses - such profit represents the movement in equity shareholders' funds.

SSE Generation Limited

Balance Sheet as at 31 March 2003

	Note	2003 £M	2002 £M
Fixed assets			
Tangible Assets	8	697.7	657.3
Investments	9	98.0	99.6
		<u>795.7</u>	<u>756.9</u>
Current assets			
Stock	10	2.3	2.3
Debtors: amounts falling due within one year	11	280.5	297.9
amounts falling due after more than one year	11	15.6	15.4
Cash at bank and in hand		0.5	1.1
		<u>298.9</u>	<u>316.7</u>
Creditors: amounts falling due within one year	12	(201.4)	(249.7)
Net current assets		<u>97.5</u>	<u>67.0</u>
Total assets less current liabilities		<u>893.2</u>	<u>823.9</u>
Creditors: amounts falling due after more than one year	13	(639.3)	(613.7)
Provisions for liabilities and charges			
Other provisions	14	(0.7)	(1.0)
Deferred taxation	15	(84.3)	(73.0)
Net assets		<u>168.9</u>	<u>136.2</u>
Capital and reserves			
Called up share capital	18	104.4	104.4
Profit and loss account	19	64.5	31.8
Equity shareholders' funds		<u>168.9</u>	<u>136.2</u>

These Accounts were approved by the Board of Directors on 21 May 2003 and signed on their behalf by


David Sigsworth, Director

SSE Generation Limited

Statement of Total Recognised Gains and Losses for the year ended 31 March 2003

	2003 £M	2002 £M
Profit for the financial year	32.7	59.3
Total recognised gains and losses relating to the financial year	32.7	59.3
Total gains and losses recognised	32.7	59.3

Reconciliation of Movement in Shareholders' Funds as at 31 March 2003

	2003 £M	2002 £M
Profit for the financial year	32.7	59.3
Dividends	-	(40.0)
Retained profit for the year	32.7	19.3
Issue of ordinary share capital	-	72.9
Deferred taxation transfer	-	(67.0)
Transfer in of retained profit - Utilities Act 2000	-	65.0
Net addition to shareholders' funds	32.7	90.2
Opening shareholders' funds	136.2	46.0
Closing shareholders' funds	168.9	136.2

SSE Generation Limited

Notes on the Accounts for the year ended 31 March 2003

1. Principal accounting policies

Basis of accounting

The Accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies are summarised below and have been applied consistently. However, comparative amounts are restated, where necessary, to conform with current presentation.

The Company is exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare Group Accounts. These financial statements present information about the Company as an individual undertaking and not about its Group.

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Scottish and Southern Energy plc, it has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the Scottish and Southern Energy Group.

Turnover

Turnover comprises the value of goods, services and facilities provided during the year.

Research and development

Expenditure on research and development is charged to the profit and loss account as incurred.

Pensions

Contributions to pension schemes on behalf of the employees of the Company are charged to the profit and loss account in accordance with the contributions incurred in the accounting period.

Investments

Fixed asset investments are stated at cost. Current asset investments are stated at the lower of cost and net realisable value.

Investment Income

Investment income comprises dividends received from the Company's investments in associated undertakings.

SSE Generation Limited

Notes on the Accounts for the year ended 31 March 2003

1. Principal accounting policies (continued)

Depreciation of tangible fixed assets

The Company is obliged under the Reservoirs Act 1975 to maintain its hydro infrastructure network, including its dams, tunnels and other hydro civil engineering structures. This network is maintained in good repair and is therefore considered to have an indefinite life. Expenditure to maintain the hydro generation infrastructure is dealt with using renewals accounting, and the annualised planned expenditure to maintain the operating capacity of this infrastructure is charged as depreciation to the profit and loss account. The actual maintenance expenditure incurred is capitalised. Cyclical maintenance on hydro civil assets of a longer life nature is capitalised and depreciated over the anticipated useful life of the refurbishment.

Depreciation is provided on tangible fixed assets to write off cost, less residual values, on a straight line basis over their estimated operational lives. The estimated operational lives are as follows:

	Years
Generation assets	20 to 75

Stocks

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

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation.

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Deferred taxation arises in respect of items where there are timing differences between their treatment for accounting and taxation purposes. This is recognised where an obligation to pay more tax in the future has originated but not reversed at the balance sheet date. A deferred tax asset is recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is expected that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on government bonds.

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 life used in calculating contributions.

SSE Generation Limited

Notes on the Accounts for the year ended 31 March 2003

2. Operating profit

The operating profit is arrived at after charging/(crediting):

	2003 £M	2002 £M
Depreciation of tangible fixed assets	38.6	35.3
Release of deferred income in relation to customer contributions and capital grants	(1.0)	(0.8)
Research and development	0.1	0.1
Net management fee in respect of services provided by group companies	13.4	14.0

The Company incurred an audit fee of £0.02M (2002 - £0.01M) in the year.

3. Directors' and staff remuneration

No Director received remuneration in respect of their service to the Company (2002 - nil).

4. Staff costs and numbers

	2003 £M	2002 £M
Staff costs:		
Wages and salaries	11.1	11.4
Social security costs	0.8	0.9
Other pension costs	1.9	1.6
	13.8	13.9
Less: charged as capital expenditure	(6.3)	(4.0)
	7.5	9.9

	2003 Number	2002 Number
Numbers employed at 31 March	354	375

	2003 Number	2002 Number
The monthly average number of people employed by the Company during the year	353	376

SSE Generation Limited

Notes on the Accounts for the year ended 31 March 2003

5. Net interest payable

	2003 £M	2002 £M
Interest receivable		
Bank interest	-	0.1
Interest receivable from group undertakings	4.2	2.6
Interest receivable from associated undertakings	5.9	0.3
	<u>10.1</u>	<u>3.0</u>
Interest payable		
Bank interest	(4.2)	(4.6)
Interest payable to group undertakings	(29.1)	(28.5)
	<u>(33.3)</u>	<u>(33.1)</u>
Net Interest Payable	<u>(23.2)</u>	<u>(30.1)</u>

6. Taxation

	2003 £M	2002 £M
Current tax:		
United Kingdom corporation tax at 30%	<u>0.3</u>	<u>1.2</u>
Deferred tax:		
Origination and reversal of timing differences	11.0	5.0
Movement in discount	(4.4)	1.0
Adjustment in respect of prior years	4.7	-
Total Deferred Tax	<u>11.3</u>	<u>6.0</u>
Total tax on profit on ordinary activities	<u>11.6</u>	<u>7.2</u>

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2003 £M	2002 £M
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2002 - 30%)	13.3	20.0
Effects of:		
Expenses not deductible for tax purposes	0.6	-
Capital allowances in excess of depreciation	(11.0)	(4.3)
Other timing differences	-	(0.7)
Non-taxable income	(2.6)	(13.8)
Current tax charge for year	<u>0.3</u>	<u>1.2</u>

SSE Generation Limited

Notes on the Accounts for the year ended 31 March 2003

7. Dividends

	2003 £M	2002 £M
Dividends of nil pence (2002 – 38.325 pence) on ordinary shares	-	40.0

8. Tangible fixed assets

	Generation assets £M	Total £M
Cost:		
At 31 March 2002	998.6	998.6
Additions	79.0	79.0
At 31 March 2003	1,077.6	1,077.6
Depreciation:		
At 31 March 2002	341.3	341.3
Charge for the year	38.6	38.6
At 31 March 2003	379.9	379.9
Net book value:		
At 31 March 2003	697.7	697.7
At 31 March 2002	657.3	657.3
	2003 £M	2002 £M

Tangible fixed assets include:
Assets in the course of construction

	43.1	5.9
--	------	-----

9. Fixed asset investments

	At 31 March 2002 £M	Repayment £M	At 31 March 2003 £M
Investment in subsidiary undertaking	90.5	-	90.5
Investment in associates	1.9	-	1.9
Loans to associates	7.2	(1.6)	5.6
	9.1	(1.6)	7.5
	99.6	(1.6)	98.0

SSE Generation Limited

Notes on the Accounts for the year ended 31 March 2003

9. Fixed asset investments (continued)

Details of the principal subsidiary undertakings and associates are as follows:

	Holding	Proportion Held	Nature of Business
Subsidiary undertakings			
SSEPG (Operations) Ltd	Ordinary shares	100%	Electricity generation
SSE Power Ltd	Ordinary shares	100%	Generation investment
SSE Investments Ltd	Ordinary shares	100%	Generation investment
SSE Seabank Investments Ltd	Ordinary shares	100%	Generation investment
Associated undertaking			
Barking Power Ltd	Ordinary shares	22.05%	Electricity generation
Medway Power Ltd	Ordinary shares	37.5%	Electricity generation
Derwent Co-generation Ltd	Ordinary shares	49.5%	Electricity generation

10. Stocks

	2003 £M	2002 £M
Fuel, spares and consumables	2.3	2.3

11. Debtors

	2003 £M	2002 £M
Amounts falling due within one year:		
Dividends receivable from subsidiary undertakings	-	39.8
Other Debtors	0.9	2.6
Amounts owed by group undertakings	279.4	255.2
Amounts owed by associated undertakings	0.2	0.3
	280.5	297.9
Amounts falling due after more than one year:		
Amounts owed by group undertakings	15.6	15.4
	296.1	313.3

12. Creditors: amounts falling due within one year

	2003 £M	2002 £M
Trade Creditors	4.0	2.5
Dividends payable to ultimate parent	-	40.0
Other Creditors	1.8	1.1
Amounts owed to group undertakings	174.9	190.1
Corporation Tax	2.2	2.0
Accruals and deferred income	18.5	14.0
	201.4	249.7

SSE Generation Limited

Notes on the Accounts for the year ended 31 March 2003

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

	2003 £M	2002 £M
Loans	125.0	100.0
Loan from ultimate parent	400.0	400.0
Accruals and other deferred income	24.8	24.2
Amounts owed to group undertakings	89.5	89.5
	<u>639.3</u>	<u>613.7</u>

14. Provisions for liabilities and charges

	Hydro Civil £M	Restructure £M	Total £M
At 1 April 2002	0.9	0.1	1.0
Utilised in the year	(0.2)	(0.1)	(0.3)
At 31 March 2003	<u>0.7</u>	<u>-</u>	<u>0.7</u>

15. Deferred taxation

A provision for deferred taxation is recognised in accordance with FRS 19.

Deferred taxation is provided as follows:

	2003 £M	2002 £M
Accelerated capital allowances	116.1	100.0
Other timing differences	(1.1)	(0.7)
Undiscounted provision for deferred tax	115.0	99.3
Discount	(30.7)	(26.3)
Discounted provision for deferred tax	84.3	73.0
Provision at start of period	73.0	-
Transferred from group companies	-	67.0
Transferred from profit and loss account	11.3	6.0
Provision at end of period	84.3	73.0

SSE Generation Limited

Notes on the Accounts for the year ended 31 March 2003

16. Pensions

The majority of the Company's employees are members of the Electricity Supply Pension Scheme or the Scottish Hydro-Electric Pension Scheme which provide defined benefits based on final pensionable pay. The Company's contributions to these schemes are set in relation to the current service period only (i.e. these are not affected by any surplus or deficit in the scheme relating to past service of its own employees and any other members of the scheme) and as such are treated as contributions to a defined contribution scheme. New employees can opt to join a personal pension scheme which is a money purchase scheme with the Company matching the members' contributions up to a maximum of 6% of salary. That scheme is managed by Legal and General.

The Company's share of the total contribution payable to the pension schemes during the year was £1.9M (2002 - £1.6M).

17. Borrowings

Interest rate risk

The Company's funds are managed by the Company Treasurer operating within the policies, strategies and procedures approved by the Board. These policies and strategies are aimed at minimising risk. Derivative financial instruments, predominantly interest rate swaps and forward rate agreements are used to manage the desired mix of fixed and floating rate debt. The current policy is to keep a minimum of 50% of group borrowings at fixed interest rates with the balance being at floating rate.

Interest rate profile

After taking into account interest rate swaps and currency swaps, the interest rate profile of the Company's total borrowings was as follows:

	Borrowings			Fixed rate borrowings	
	Total £M	Floating rate £M	Fixed rate £M	Weighted average interest rate %	Weighted average period for which rate is fixed Years
31 March 2003	525.0	125.0	400.0	6.5	9.88
31 March 2002	500.0	100.0	400.0	6.5	10.88

The floating rate borrowings comprise cash advances from European Investment Bank.

SSE Generation Limited

Notes on the Accounts for the year ended 31 March 2003

17. Borrowings (continued)

Maturity of borrowings

	2003 £M	2002 £M
Over five years		
6.50% Loan Stock repayable to Scottish and Southern Energy plc 31 March 2011	250.0	250.0
Floating rate European Investment Bank repayable on 15 December 2011	100.0	100.0
Floating rate European Investment Bank repayable on 14 December 2012	25.0	-
6.50% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2016	150.0	150.0
	<u>525.0</u>	<u>500.0</u>

Fair values

Set out below is a comparison by category of book values and fair values of the Company's other financial assets and liabilities:

	2003		2002	
	Book value £M	Fair value £M	Book value £M	Fair value £M
Primary financial instruments held or issued to finance the Group's operations				
Long-term borrowings	<u>525.0</u>	<u>497.3</u>	<u>500.0</u>	<u>493.6</u>

All fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

18. Share capital

	Number	£
Equity: Ordinary shares of £1.00 each:		
Authorised:		
At 31 March 2003 and 1 April 2002	<u>397,900,000</u>	<u>397,900,000</u>
Allotted, called up and fully paid:		
At 31 March 2003 and 1 April 2002	<u>104,370,002</u>	<u>104,370,002</u>

SSE Generation Limited

Notes on the Accounts for the year ended 31 March 2003

19. Reserves

	Profit and loss account £M
At 31 March 2002	31.8
Retained profit for the year	32.7
At 31 March 2003	<u>64.5</u>

20. Capital commitments

	2003 £M	2002 £M
Capital expenditure:		
Contracted for but not provided	<u>21.2</u>	<u>61.1</u>

21. Ultimate holding company

The Company's ultimate holding company is Scottish and Southern Energy plc, registered in Scotland. Copies of the Group Accounts, which include the Company, are available from Inveralmond House, 200 Dunkeld Road, Perth, PH1 3AQ.