

REGISTERED NO.
2764438

SSEPG (Operations) Limited

Accounts for the year ended 31 March 2002

CONTENTS	Page No.
Report of the Directors	1
Directors' Responsibilities for Preparation of the Accounts	2
Auditor's Report on the Accounts	3
Profit and Loss Account	4
Balance Sheet	5
Notes on the Accounts	6 - 13



SSEPG (Operations) Limited

Report of the Directors

The Directors present their report together with the audited Accounts for the year ended 31 March 2002.

1. Principal Activities

The Company's principal activity is the development, construction and operation of small scale power plants.

2. Review of Developments and Future Prospects

The Directors do not anticipate any change in the activities of the Company in the forthcoming period.

3. Share Capital

The Company's authorised share capital is £42,500,000 divided into 2,500,000 shares of £1 each and 40,000,000 preference shares of £1 each.

4. Results and Dividends

The loss for the financial year amounted to £2,946,000 (2001 - £1,424,000). The Directors do not recommend the payment of a dividend

5. Directors

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

David Sigsworth
Brian Smith


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 interest of Brian Smith in the shares in Scottish and Southern Energy plc are as follows:

	31 March 2002		31 March 2001	
	No of shares beneficially held	No of shares under option	No of shares beneficially held	No of shares under option
Brian Smith	4,575	5,323	5,757	3,413

ON BEHALF OF THE BOARD


L J V Donnelly
Secretary
30 May 2002

SSEPG (Operations) 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 3, 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 4 to 13, 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.

SSEPG (Operations) Limited**Independent Auditor's Report to the Members of
SSEPG (Operations) Limited**

We have audited the Accounts on pages 4 to 13.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Directors' Report and as described on page 2, 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 Accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the 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 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 the Company's affairs as at 31 March 2002 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
30 May 2002

SSEPG (Operations) Limited**Profit and Loss Account
for the year ended 31 March 2002**

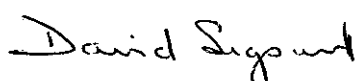
	Note	2002 £000	2001 £000 restated
Turnover		4,474	7,991
Cost of sales		(5,652)	(7,331)
Operating (loss) / profit	2	(1,178)	660
Net Interest payable	5	(2,763)	(2,315)
(Loss) on ordinary activities before taxation		(3,941)	(1,655)
Tax on (loss) on ordinary activities	6	995	231
Retained (loss) for the financial year	15	(2,946)	(1,424)

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

SSEPG (Operations) Limited**Balance Sheet as at 31 March 2002**

	Note	2002 £000	2001 £000 restated
Fixed assets			
Tangible assets	7	24,296	26,977
Current assets			
Stocks	8	167	176
Debtors	9	24,313	15,605
Cash at bank and in hand		-	357
		<u>24,480</u>	<u>16,138</u>
Creditors: amounts falling due within one year	10	(38,249)	(1,837)
Net current (liabilities) / assets		<u>(13,769)</u>	<u>14,301</u>
Total assets less current liabilities		<u>10,527</u>	<u>41,278</u>
Creditors: amounts falling due after more than one year	11	(6,385)	(34,394)
Provisions for liabilities and charges			
Deferred taxation	12	(4,067)	(3,863)
Net assets		<u>75</u>	<u>3,021</u>
Capital and reserves			
Called up share capital	14	1,200	1,200
Profit and loss account	15	(1,125)	1,821
Equity shareholders' funds		<u>75</u>	<u>3,021</u>

These Accounts were approved by the Board of Directors on 30 May 2002 and signed on their behalf by



David Sigsworth, Director

SSEPG (Operations) Limited**Statement of Total Recognised Gains and Losses
for the year ended 31 March 2002**

	2002 £000	2001 £000 restated
Loss for the financial year	(2,946)	(1,424)
Total recognised gains and losses relating to the financial year	(2,946)	(1,424)
Total gains and losses recognised	(2,946)	(1,424)

**Reconciliation of Movement in Shareholders' Funds
as at 31 March 2002**

	2002 £000	2001 £000 restated
Loss for the financial year	(2,946)	(1,424)
Dividends including non-equity	-	-
Retained loss for the year	(2,946)	(1,424)
Prior year adjustment - FRS19 (note 1)	-	1,080
Prior year adjustment included in loss for the year (note 1)	-	260
Net addition to shareholders' funds	(2,946)	(84)
Opening shareholders' funds	3,021	3,105
Closing shareholders' funds	75	3,021

Opening shareholders' funds at 1 April 2001 were originally £1,941,000 before prior year adjustment of £1,080,000 (note 1).

SSEPG (Operations) Limited

Notes on the Accounts for the year ended 31 March 2002

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.

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, stated net of value added tax, represents the amounts derived from the generation and sale of electricity, together with the provision of other goods and services in the UK.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Plant and machinery	15 years
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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 period 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.

SSEPG (Operations) Limited

Notes on the Accounts for the year ended 31 March 2002

1. Principal accounting policies (continued)

Taxation (continued)

Deferred tax is measured on a discounting 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.

Accounting policy changes

FRS 19 – Deferred Tax, including the option to discount, has also been applied. The effect of these changes on the Group's profit and loss account and balance sheet is as follows with comparative figures restated as required:

Profit attributable to shareholders	31 March 2002 £000	31 March 2001 £000
Impact of FRS 19		
Increased tax charge	(204)	(260)
Total net profit decrease	(204)	(260)
As previously reported		(1,164)
As restated		(1,424)
Net assets as at 31 March 2001		As at 31 March 2001 £M
Impact of FRS 19		
Decrease in provision for deferred tax		1,080
Increase in net assets		1,080
As previously reported		1,941
As restated		3,021

2. Operating (loss)/profit

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

	2002 £000	2001 £000
Auditors' remuneration	3	3
Depreciation of tangible fixed assets	2,013	2,019

3. Directors' and staff remuneration

No Director received remuneration in respect of their service to the Company (2001 - nil).

SSEPG (Operations) Limited**Notes on the Accounts
for the year ended 31 March 2002****4. Staff costs and numbers**

	2002 £M	2001 £M
Staff costs:		
Wages and salaries	106	-
Social security costs	9	-
Other pension costs	21	-
	<u>136</u>	<u>-</u>
Less charged as capital expenditure	(23)	-
	<u>113</u>	<u>-</u>
	2002 Number	2001 Number
The monthly average number of people employed by the Company during the year	5	-

5. Net interest payable

	2002 £000	2001 £000
Interest receivable:		
Interest receivable from ultimate parent	(640)	(923)
Other interest receivable	(2)	(5)
	<u>(642)</u>	<u>(928)</u>
Interest payable:		
Loan interest payable to parent	-	259
Recognised interest costs on loan note	3,405	2,984
	<u>3,405</u>	<u>3,243</u>
Net interest payable	<u>2,763</u>	<u>2,315</u>

SSEPG (Operations) Limited

Notes on the Accounts for the year ended 31 March 2002

6. Taxation

	2002 £000	2001 £000
Current tax:		
United Kingdom corporation tax at 30%	(1,199)	(827)
Total Current Tax	(1,199)	(827)
Deferred tax:		
Origination and reversal of timing differences	17	331
Discount	187	265
Total Deferred Tax	204	596
Total tax on profit on ordinary activities	(995)	(231)

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:

	2002 £000	2001 £000
Tax on loss on ordinary activities at standard UK corporation tax rate of 30% (2001 - 30%)	(1,182)	(496)
Effects of:		
Capital allowances in excess of depreciation	(17)	(331)
Current tax charge for period	(1,199)	(827)

7. Tangible Fixed Assets

	Plant and Machinery £000
Cost:	
At 1 April 2001	31,964
Additions in the year	253
Disposals in the year	(997)
At 31 March 2002	31,220
Depreciation:	
At 1 April 2001	4,987
Provided in the year	2,103
On disposals in the year	(166)
At 31 March 2002	6,924
Net Book Value:	
At 31 March 2002	24,296
At 31 March 2001	26,977

SSEPG (Operations) Limited**Notes on the Accounts
for the year ended 31 March 2002****8. Stocks**

	2002	2001
	£000	£000
Raw materials	167	176

9. Debtors

	2002	2001
	£000	£000
Amounts falling due within one year:		
Trade debtors	74	-
Amounts owed by group undertakings	17,821	15,372
Corporation Tax	1,199	-
Value Added Tax	37	25
Other debtors	3	208
	19,134	15,605
Amounts falling due within one year:		
Amounts owed by group undertakings	5,179	-
	24,313	15,605

10. Creditors: amounts falling due within one year

	2002	2001
	£000	£000
Amounts owed to group undertakings	37,795	1,402
Accruals and deferred income	436	417
Other creditors	18	18
	38,249	1,837

SSEPG (Operations) Limited

Notes on the Accounts for the year ended 31 March 2002

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

	2002 £000	2001 £000
Loans from group undertaking	-	34,394
Amounts owed to group undertakings	6,385	-
	<u>6,385</u>	<u>34,394</u>

The loan from Southern Electric plc (group undertaking) was unsecured loan stock which is redeemable on 2 December 2002 for £40,000,000. The loan note was issued for a subscription price of £25,409,000. The issue price represents a discount of £14,591,000 to the note's redemption value, giving an effective cost of capital of 9.5%.

On or at any time after 2 December 2002, the holder has the option to require conversion into 40 million preference shares of £1 each.

The balance at 31 March 2002 of £37,661,100 (2001 - £34,393,592) represents the issue price plus recognised interest costs of £12,251,993 (2001 - £8,984,592).

12. Deferred taxation

A provision for deferred taxation is recognised in accordance with FRS 19 at 31 March 2002.

Deferred taxation is provided as follows:

	2002 £000	2001 £000
Accelerated capital allowances	4,965	4,948
Other timing differences	-	-
Undiscounted provision for deferred tax	<u>4,965</u>	<u>4,948</u>
Discount	(898)	(1,085)
Discounted provision for deferred tax	<u>4,067</u>	<u>3,863</u>

Provision at start of period	3,863	4,607
Prior year adjustment	-	(1,340)
Provision at start of period (restated)	<u>3,863</u>	<u>3,267</u>
Transferred (to)/from profit and loss account	204	596
Discounted provision for deferred tax	<u>4,067</u>	<u>3,863</u>

SSEPG (Operations) Limited

Notes on the Accounts for the year ended 31 March 2002

13. 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 is 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. 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 and administered by Simple2 Ltd.

The Company's share of the total contribution payable to the pension schemes during the year was £21,000.

14. Share capital

The authorised and called up share capital was:

	2002 £000	2001 £000
Authorised:		
2,500,000 ordinary shares of £1 each	2,500	2,500
40,000,000 preference shares of £1 each	40,000	40,000
	<u>42,500</u>	<u>42,500</u>
Allotted, called up and fully paid, or issued:		
1,200,002 ordinary shares of £1 each	<u>1,200</u>	<u>1,200</u>

15. Profit and loss account

	£000
Balance at 1 April 2001	741
Prior year adjustment	1,080
Balance at 1 April 2001 (restated)	<u>1,821</u>
Retained loss for the financial year	<u>(2,946)</u>
Balance at 31 March 2002	<u>(1,125)</u>

16. 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 Inverlmond House, 200 Dunkeld Road, Perth, PH1 3AQ.