

SSE UTILITY SERVICES plc

*A Member of the Contracting Group
of Scottish and Southern Energy plc*

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2003



SSE UTILITY SERVICES plc

DIRECTORS' REPORT

The Directors of SSE Utility Services plc present their report and accounts for the year ended 31 March 2003.

Principal Activities

The principal activities of the company are utility contracting, overhead lines and metering work.

Dividends

The Directors recommend a dividend payment of £1,339,000 (2002: £9,750,000).

Business Review

During the year, the Company concentrated its activities on works for the ultimate parent company, Scottish and Southern Energy plc, with the successful integration of overhead lines and metering work as well as existing activities.

Contracts with other customers were brought through to completion. In the coming year, the Company will continue its work for Scottish and Southern Energy plc with which it has developed a close working relationship.

This year's performance has produced a turnover of £21.9m and operating profit of £5.1m.

	2003	2002
	£000's	£000's
Turnover	<u>21,932</u>	<u>31,921</u>
Operating Profit	<u>5,101</u>	<u>5,450</u>
Profit after interest and tax	<u>4,018</u>	<u>4,075</u>

SSE UTILITY SERVICES plc

DIRECTORS' REPORT (continued)

Directors and Directors' Interests

The Directors of the Company who served during the year are:-

Mr P Culbert	<i>(Appointed 1 October 2002)</i>
Mr J Morea	<i>(Appointed 1 October 2002)</i>
Mr A G Murray	<i>(Appointed 16 January 2003)</i>
Mr C W Hood	<i>(Resigned 16 January 2003)</i>
Mr R A G Stowell	<i>(Resigned 1 October 2002)</i>
Mr D M Gauntlett	<i>(Resigned 30 September 2002)</i>

None of the Directors have a beneficial interest in the shares of the Company.

The beneficial interests of the Executive Directors and their families in the ordinary shares and share options of Scottish and Southern Energy plc are shown in note 9 of the accounts. The interests of the Non-Executive Directors are shown in the accounts of Scottish and Southern Energy plc.

Employees

The policy of the company for the employment of disabled persons is to give them equal opportunities with other employees to train for and attain any position in the company having regard to the maintenance of a safe working environment and the constraints of their disabilities.

The company provides regular information to employees and promotes consultation with employees in order for them to have a better understanding of the issues facing the business.

Safety, Health and Environment

The Company regards Safety, Health and Environmental (SHE) issues as their highest priority. As part of the ongoing improvement process, SSE Utility Services moved to the Scottish and Southern Energy Group Safety Management System during 2002. As part of this process, managers and supervisors have been retrained in the Injury Prevention Process (IPP). Revised on site assessment reporting and supervision processes have been introduced which allow us to monitor how actively Safety is managed in any business unit. Each unit develops annual Safety Plans to ensure year on year improvement.

During the coming year, particular emphasis will be placed upon training staff in environmental issues.

SSE UTILITY SERVICES plc

DIRECTORS' REPORT (continued)

Policy on Payment to Creditors

It is the Company's policy to pay each creditor in line with the contract terms and conditions, subject to the terms and conditions being met by the supplier.

In accordance with Statutory Instrument 1997/571, the number of supplier days represented by trade creditors was calculated as 12 at 31 March 2003 (2002 : 25).

Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the Directors are required to:

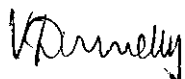
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 financial statements comply with the Companies Act 1985. They have 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.

Auditors

During the year, KPMG Audit Plc have continued as the Company's auditors and have indicated their willingness to continue as auditors.

By order of the Board



Vincent Donnelly
Company Secretary
25 June 2003

AUDITORS' REPORT

Report of the independent auditors to the Members of SSE Utility Services plc.

We have audited the financial statements on pages 6 to 15.

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 auditors' 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 4, the financial statements 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 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 financial statements, 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2003 and of its profit 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
Arlington Business Park
Theale
Reading, RG7 4SD

25 June 2003

SSE UTILITY SERVICES plc**PROFIT AND LOSS ACCOUNT**

For the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	21,932	31,921
Cost of sales		<u>(16,459)</u>	<u>(24,934)</u>
Gross profit		5,473	6,987
Administrative expenses		(398)	(1,537)
Other operating income	3	<u>26</u>	<u>-</u>
Operating profit	4	5,101	5,450
Interest receivable	5	<u>588</u>	<u>500</u>
Profit on ordinary activities before taxation		5,689	5,950
Taxation	6	<u>(1,671)</u>	<u>(1,875)</u>
Profit for the financial year		4,018	4,075
Dividends	7	<u>(1,339)</u>	<u>(9,750)</u>
Retained profit/(loss) for the financial year	17	<u>2,679</u>	<u>(5,675)</u>

The above results derive from continuing operations.

There are no recognised gains or losses for the year other than the retained profit.

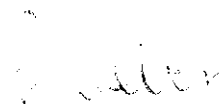
The accompanying notes are an integral part of this profit and loss account.

SSE UTILITY SERVICES plc**BALANCE SHEET**

At 31 March 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	10	95	179
Current assets			
Stocks	11	1,057	2,097
Debtors	12,13	8,705	18,078
		9,762	20,175
Creditors: amounts falling due within one year	14	(5,376)	(18,922)
Net current assets		4,386	1,253
Total assets less current liabilities		4,481	1,432
Provisions for liabilities and charges	15	(1,237)	(867)
Net assets		3,244	565
Capital and reserves			
Called-up share capital	16	75	75
Profit and loss account	17	3,169	490
Equity shareholders' funds	18	3,244	565

The financial statements on pages 6 to 15 were approved by the Board on 25 June 2003.



P Culbert
Director

The accompanying notes are an integral part of this balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

(a) Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Group Accounts

At the end of the year the Company was a wholly owned subsidiary of a company incorporated in England and Wales. Accordingly, the preparation of group accounts is not required under Section 228 of the Companies Act 1985.

(c) Turnover

Turnover comprises the value of work completed and agreed with the client during the year, exclusive of value added tax.

(d) Recognition of profits on contracts

With the exception of contracts under £5,000 in value (for which profit is recognised on completion), profit is taken on contracts whilst the contract is in progress, having regard to a prudent estimate of profit based on costs incurred and valuations agreed with clients. Provision is made for all foreseeable losses.

(e) Pension Costs

The regular cost of providing retirement pensions for certain employees is charged to the profit and loss account over the employees' service lives.

(f) Leased Assets

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

(g) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. In accordance with FRS19, full provision without discounting is made for deferred taxation.

SSE UTILITY SERVICES plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

(h) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. The charge for depreciation is calculated to write off these assets on a straight line basis over their estimated useful lives to their estimated residual value. The lives of each major class of depreciable asset are as follows :-

Building	40 years
Vehicles and mobile plant	5 years
Fixtures, equipment and other plant and machinery	5 years

(i) Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value. The valuation of work in progress is based on the cost of direct labour and material plus attributable overheads.

(j) Cash flow statement

The Company's ultimate parent company produces a cash flow statement in accordance with Financial Reporting Standard 1 (Revised 1996). Accordingly the Company, which is a wholly owned subsidiary, is not required to produce a cash flow statement.

(k) Related Party Transactions

As a subsidiary undertaking of Scottish and Southern Energy plc, the Company has taken advantage of the exemption in Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with other members of the group headed by Scottish and Southern Energy plc.

2. Turnover

The Company's turnover arose mainly from utility contracting in the United Kingdom.

3. Other Operating Income

	2003	2002
	£'000	£'000
Rentals receivable in respect of operating leases	26	-

4. Operating Profit

Operating profit is stated after charging/(crediting):	2003	2002
	£'000	£'000
Depreciation on owned assets - normal charge	4	734
- permanent diminution in value	27	-
Hire of plant and machinery	556	2,411
Auditors' remuneration - audit work	6	9
Profit on sale of fixed assets	(5)	(427)

SSE UTILITY SERVICES plc**NOTES TO THE FINANCIAL STATEMENTS (continued)****5. Interest Receivable**

	2003 £'000	2002 £'000
Receivable from group undertakings	588	500

6. Taxation

	2003 £'000	2002 £'000
UK Taxation on profit for the year:		
Corporation tax at 30%	1,435	1,650
Corporation tax (over)/under provided in previous years	(28)	68
	1,407	1,718
Deferred taxation (see note 13)	264	157
Taxation charge for the year	1,671	1,875

Reconciliation of profit before tax to taxation charge for the year:

	£000's	£000's
Taxation charge based on profit before tax at 30%	1,707	1,785
(Over)/under provided in previous years – corporation tax	(28)	68
Expenses not deductible for tax purposes	180	(96)
Depreciation for period (less)/greater than capital allowances	(451)	67
Accounting profit on disposal of fixed assets	(1)	(128)
Other	-	22
	1,407	1,718

7. Dividends

	2003 £'000	2002 £'000
Interim	-	8,200
Final	1,339	1,550
	1,339	9,750

SSE UTILITY SERVICES plc**NOTES TO THE FINANCIAL STATEMENTS (continued)****8. Employees**

	2003 No.	2002 No.
The average monthly number of employees (including Executive Directors) was		
Administration	8	24
Industrial	455	445
	463	469
	£'000	£'000
Total employee costs during the year:		
Wages and salaries	11,025	10,413
Social security costs	955	934
Other pension costs	93	5
	12,073	11,352

In accordance with Financial Reporting Standard 17 (Retirement Benefits), the Company's contributions to the Electricity Supply Pension Scheme (ESPS) have been treated as contributions to a defined contribution scheme.

9. Directors' Remuneration and Interests

Directors' remuneration included in aggregate payroll costs in Note 8 above were as follows :-

	2003 £'000	2002 £'000
Salaries and other emoluments	-	128
Company contributions to money purchase schemes	-	10
	-	138

Amounts paid to or receivable by Directors under long-term incentive schemes were £Nil (2002 : £13,939).

The beneficial interests of the Executive Directors and their families in the ordinary shares and share options of Scottish and Southern Energy plc were :-

	2003		2002	
	Shares (No)	Options (No)	Shares (No)	Options (No)
P Culbert	4,745	3,284	-	-
J Morea	1,718	2,935	-	-
A G Murray	743	3,543	-	-
R A G Stowell	-	-	3,690	990

SSE UTILITY SERVICES plc

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Tangible Fixed Assets

	Short Leasehold Property £'000	Freehold buildings £'000	Plant and Machinery £'000	Motor vehicles £'000	Office Equipment £'000	Total £'000
Cost						
1 April 2002	1,636	160	8,696	3,465	1,348	15,305
Disposals	(1,636)	-	(8,696)	(3,465)	(1,348)	(15,145)
31 March 2003	-	160	-	-	-	160
Depreciation						
1 April 2002	1,636	34	8,696	3,412	1,348	15,126
Charge for year	-	31	-	-	-	31
Disposals	(1,636)	-	(8,696)	(3,412)	(1,348)	(15,092)
31 March 2003	-	65	-	-	-	65
Net book value						
31 March 2003	-	95	-	-	-	95
31 March 2002	-	126	-	53	-	179

The charge for depreciation of the freehold buildings includes provision for permanent diminution in value of £27,000 (2002 : £Nil). Rents receivable from freehold buildings are included in other operating income.

11. Stocks

	2003 £'000	2002 £'000
Work in Progress	<u>1,057</u>	<u>2,097</u>

12. Debtors - amounts falling due within one year

	2003 £'000	2002 £'000
Trade debtors	199	243
Amount owed by group undertakings	8,023	17,201
Prepayments	189	76
Deferred tax (see note 13)	294	558
	<u>8,705</u>	<u>18,078</u>

SSE UTILITY SERVICES plc**NOTES TO THE FINANCIAL STATEMENTS (continued)****13. Deferred Tax Asset**

	2003 £'000	2002 £'000
The movement in the year was:		
1 April 2002	558	715
Transfer to profit and loss account	(264)	(157)
31 March 2003	294	558
Comprising:		
Accelerated capital allowances	-	443
Other timing differences	294	115
	294	558

The Directors regard that the deferred tax asset is recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

14. Creditors – amounts falling due within one year

	2003 £'000	2002 £'000
Bank overdraft	144	677
Payments received on account	-	214
Trade creditors	254	805
Amount owed to group undertakings (incl dividends)	1,950	10,382
Corporation tax	1,434	2,451
Other taxes and social security	691	711
Other creditors and accruals	903	3,682
	5,376	18,922

15. Provisions for Liabilities and Charges

	Other Provisions £'000
At 1 April 2002	867
Utilised in the year	(333)
Charge to profit & loss account	703
At 31 March 2003	1,237

SSE UTILITY SERVICES plc**NOTES TO THE FINANCIAL STATEMENTS (continued)****16. Called up Share Capital**

	Number	£'000
Authorised:		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100</u>
Allotted, called up and fully paid:		
75,000 ordinary shares of £1 each	<u>75,000</u>	<u>75</u>

17. Profit and Loss Account

	£'000
At 1 April 2002	490
Retained profit for the year	<u>2,679</u>
At 31 March 2003	<u>3,169</u>

18. Reconciliation of Movement in Shareholders' Funds

	2003 £'000	2002 £'000
Profit for the year	4,018	4,075
Dividends	<u>(1,339)</u>	<u>(9,750)</u>
Net addition/(reduction) to shareholders' funds	2,679	(5,675)
Opening shareholders' funds	<u>565</u>	<u>6,240</u>
Closing shareholders' funds	<u>3,244</u>	<u>565</u>

19. Operating Lease Commitments

Annual commitments under non-cancellable operating leases relating wholly to land and buildings are as follows :-	2003 £'000	2002 £'000
Expiry date within one year	2	2
Expiry date between two and five years	3	-
Expiry date greater than five years	<u>-</u>	<u>1</u>
	<u>5</u>	<u>3</u>

20. Contingent Liabilities

The company has outstanding indemnities in respect of performance bonds in the normal course of business.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Pensions Commitments

Many of the Company's employees are members of the Electricity Supply Pension Scheme which provides pension and other related benefits based on final pensionable pay (defined benefit scheme) to employees throughout the Electricity Supply Industry in England and Wales.

The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 "retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the current accounting period (ie these are not affected by any surplus or deficit in the scheme relating to past service of its employees and any other members of the scheme).

Full details of the Electricity Supply Pension Scheme (defined benefit scheme) can be found in the ultimate parent company's accounts.

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 (currently 5% of salary). That scheme is managed by Scottish Equitable and administered by Ernst & Young.

The Company's share of the total contribution payable to the pension schemes during the year was £93k (2002 : £5k).

Contributions amounting to £7k (2002 : £1k) were payable to the schemes and are included in creditors.

22. Ultimate Parent Company

The ultimate parent company is Scottish and Southern Energy plc, a company registered in Scotland. Copies of the group accounts of Scottish and Southern Energy plc may be obtained from :-

The Director of Corporate Communications
Scottish and Southern Energy plc
Inveralmond House
200 Dunkeld Road
PERTH
PH1 3AQ.