**REGISTERED NO.
213460**

Scottish Hydro-Electric Power Distribution Limited

Accounts for the year ended 31 March 2003

CONTENTS

Scottish Hydro-Electric Power Distribution Limited

Report of the Directors

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

1. Principal Activities

The Company's principal activity during the year was the regulated distribution of electricity.

2. Business Review

The Directors intend the Company to pursue its principal activity of the distribution of electricity in the north of Scotland.

3. Share Capital

The Company's authorised share capital is £62,001,000 divided into 62,001,000 shares of £1.00 each.

4. Results and Dividends

The profit for the financial year amounted to £41.9M (16 months to March 2002 - £51.6M). The Directors recommend the payment of a dividend of £25.1M (2002 - nil).

5. Directors

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

Gregor Alexander (appointed 1 October 2002)
Colin Hood
Steven Kennedy
Ian Marchant (resigned 1 October 2002)

6. Directors' Interests in Ultimate Holding Company

The interests of Colin Hood and Gregor Alexander 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 Steven Kennedy in 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
Steven Kennedy	**1,566**	**3,648**	52	3,718

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
Company Secretary
21 May 2003

Scottish Hydro-Electric Power Distribution 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.

Scottish Hydro-Electric Power Distribution Limited

Independent Auditors' Report to the Members of Scottish Hydro-Electric Power Distribution 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 Accounts give a true and fair view and 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 have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Scottish Hydro-Electric Power Distribution Limited

Profit and Loss Account
for the year ended 31 March 2003

	Note	**12 months 2003 £M**	16 months 2002 £M
Turnover		**185.3**	184.2
Cost of sales		**(13.5)**	(13.6)
Gross profit		**171.8**	170.6
Distribution costs		**(75.2)**	(66.8)
Administrative costs		**(5.4)**	(8.1)
Operating profit	2	**91.2**	95.7
Gains on disposal of fixed assets		**0.5**	1.3
Net interest payable	5	**(21.2)**	(25.1)
Profit on ordinary activities before taxation		**70.5**	71.9
Tax on profit on ordinary activities	6	**(28.6)**	(20.3)
Profit for the financial year		**41.9**	51.6
Dividends	7	**(25.1)**	-
Retained profit	18	**16.8**	51.6

The above results are derived from continuing activities.

Scottish Hydro-Electric Power Distribution Limited

Balance Sheet
as at 31 March 2003

	Note	2003 £M	2002 £M
Fixed Assets			
Tangible assets	8	**680.8**	680.2
Current assets			
Stocks	9	**1.5**	2.5
Debtors: amounts falling due within one year	10	**152.5**	96.4
amounts falling due after more than one year	10	**28.0**	28.0
		182.0	126.9
Creditors: amounts falling due within one year	11	**(83.5)**	(70.3)
Net current assets		**98.5**	56.6
Total assets less current liabilities		**779.3**	736.8
Creditors: amounts falling due after more than one year	12	**(560.0)**	(538.8)
Provisions for liabilities and charges			
Deferred taxation	14	**(92.1)**	(87.0)
Other provisions	15	**(2.5)**	(3.1)
Net assets		**124.7**	107.9
Capital and reserves			
Called up share capital	17	**62.0**	62.0
Profit and loss account	18	**62.7**	45.9
Total shareholders' funds		**124.7**	107.9

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

Gregor Alexander, Director

Scottish Hydro-Electric Power Distribution Limited

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

	12 months 2003 £M	16 months 2002 £M
Profit for the financial period	**41.9**	51.6
Total recognised gains and losses relating to the financial period	**41.9**	51.6
Total gains and losses recognised	**41.9**	51.6

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

	12 months 2003 £M	16 months 2002 £M
Profit for the financial period	**41.9**	51.6
Dividends	**(25.1)**	-
Retained profit for the period	**16.8**	51.6
Deferred taxation transfer (note 14)	-	(85.7)
Transfer in of retained profit - Utilities Act 2000	-	80.0
Issue of ordinary share capital	-	62.0
Net addition to shareholders' funds	**16.8**	107.9
Opening shareholders' funds	**107.9**	-
Closing shareholders' funds	**124.7**	107.9

Scottish Hydro-Electric Power Distribution Limited

Notes on the Accounts
for the year ended 31 March 2003

1. Principal accounting policies

Basis of accounting

The Accounts have been prepared under the historical cost convention and comply with all applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently.

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 electricity distribution services and facilities provided during the year. Turnover includes an estimate of the value of the distribution of electricity on behalf of customers between the date of the last meter reading and the year-end.

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.

Depreciation of tangible fixed assets

Heritable and freehold land is not depreciated.

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
Distribution assets	10 to 40
Non-operational assets:	
Buildings - freehold	Up to 60
- leasehold	Lower of lease period and 60
Fixtures, equipment, plant and machinery, vehicles and mobile plant	4 to 10

Scottish Hydro-Electric Power Distribution Limited

Notes on the Accounts
for the year ended 31 March 2003

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 labour, plus appropriate overheads and the cost of materials. Progress invoices are deducted in arriving at the amounts stated.

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.

2. Operating profit

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

	12 months 2003 £M	16 months 2002 £M
Depreciation of tangible fixed assets	**35.8**	35.9
Release of deferred income in relation to customer contributions and capital grants	**(3.7)**	(3.7)
Research and development	**0.1**	0.5
Net management fee in respect of services provided by group companies	**5.4**	8.1

The Company incurred an audit fee of £0.06M in the period (2002 - £0.06M).

3. Staff costs and numbers

	12 months 2003 £M	16 months 2002 £M
Staff costs:		
Wages and salaries	**20.6**	21.4
Social security costs	**1.5**	1.6
Other pension costs	**3.1**	2.9
	25.2	25.9
Less charged as capital expenditure	**(11.8)**	(13.8)
	13.4	12.1

	2003 Number	2002 Number
Numbers employed at 31 March	**794**	825

	2003 Number	2002 Number
The monthly average number of people employed by the Company during the period:	**778**	818

4. Directors' remuneration and interests

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

5. Net interest payable

	12 months 2003 £M	16 months 2002 £M
Interest receivable:		
Other interest receivable	**5.3**	2.4
	5.3	2.4
Interest payable and similar charges:		
Bank loans and overdrafts	**(3.9)**	(3.1)
Other financing charges	**(22.6)**	(24.4)
	(26.5)	(27.5)
Net interest payable	**(21.2)**	(25.1)

Scottish Hydro-Electric Power Distribution Limited

Notes on the Accounts
for the year ended 31 March 2003

6. Taxation

	12 months 2003 £M	16 months 2002 £M
Current tax:		
United Kingdom corporation tax at 30%	**23.5**	19.0
Deferred tax:		
Origination and reversal of timing differences	**(1.4)**	2.6
Movement in discount	**2.7**	(1.3)
Adjustment in respect of prior years	**3.8**	-
Total Deferred Tax	**5.1**	1.3
Total tax on profit on ordinary activities	**28.6**	20.3

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:

	12 months 2003 £M	16 months 2002 £M
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2002 - 30%)	**21.1**	21.6
Effects of:		
Expenses not deductible for tax purposes	**0.7**	-
Capital allowances in excess of depreciation	**1.4**	(1.9)
Non-taxable income	**0.3**	-
Other timing differences	**-**	(0.7)
Current tax charge for period	**23.5**	19.0

7. Dividends

	12 months 2003 £M	16 months 2002 £M
Dividends of 40.48p (2002 – nil) per ordinary share	**25.1**	-

Scottish Hydro-Electric Power Distribution Limited

Notes on the Accounts
for the year ended 31 March 2003

8. Tangible fixed assets

	Distribution assets £M	Other land and buildings £M	Vehicles and miscellaneous equipment £M	Total £M
Cost:				
At 1 April 2002	984.7	7.0	60.2	1,051.9
Additions	36.6	-	0.5	37.1
Disposals	(0.2)	(0.9)	-	(1.1)
At 31 March 2003	1,021.1	6.1	60.7	1,087.9
Depreciation:				
At 1 April 2002	336.5	-	35.2	371.7
Charge for the year	33.0	-	2.8	35.8
Disposals	(0.1)	-	(0.3)	(0.4)
At 31 March 2003	369.4	-	37.7	407.1
Net book value:				
At 31 March 2003	**651.7**	**6.1**	**23.0**	**680.8**
At 31 March 2002	648.2	7.0	25.0	680.2

	2003 £M	2002 £M
Tangible fixed assets include:		
Assets in the course of construction	**0.9**	1.9

9. Stocks

	2003 £M	2002 £M
Raw materials and consumables	**1.2**	1.5
Work in progress	**0.3**	1.0
	1.5	2.5

Scottish Hydro-Electric Power Distribution Limited

Notes on the Accounts
for the year ended 31 March 2003

10. Debtors

	2003 £M	2002 £M
Amounts falling due within one year:		
Trade debtors	**5.2**	5.5
Amounts owed by group undertakings	**147.3**	90.9
	152.5	96.4
Amounts falling due after more than one year:		
Amounts owed by group undertakings	**28.0**	28.0
	180.5	124.4

11. Creditors: amounts falling due within one year

	2003 £M	2002 £M
Trade creditors	**7.2**	8.7
Amounts owed to group undertakings	**29.5**	44.6
Corporation tax	**14.2**	9.0
Taxation and social security	**0.8**	1.6
Other creditors	**2.1**	1.6
Accruals and other deferred income	**4.6**	4.8
Dividends payable to parent	**25.1**	-
	83.5	70.3

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

	2003 £M	2002 £M
Loans	**75.0**	50.0
Loans due to ultimate parent	**400.0**	400.0
Accruals and other deferred income	**79.4**	83.2
Amounts owed to group undertakings	**5.6**	5.6
	560.0	538.8

13. Pensions

The majority of the Company's employees are members of the Scottish Hydro-Electric Pension Scheme which provide defined benefits based on final pensionable pay. The Company’s contributions to this scheme 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 £3.1M (2002 - £3.0M).

Scottish Hydro-Electric Power Distribution Limited

Notes on the Accounts
for the year ended 31 March 2003

14. Deferred Taxation

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

Deferred taxation is provided as follows:

	At 31 March 2003 £M	At 31 March 2002 £M
Accelerated capital allowances	**144.8**	143.0
Other timing differences	**(1.4)**	(2.0)
Undiscounted provision for deferred tax	**143.4**	141.0
Discount	**(51.3)**	(54.0)
Discounted provision for deferred tax	**92.1**	87.0

Provision at start of period	**87.0**	-
Transferred from group companies	**-**	85.7
Transferred from profit and loss account	**5.1**	1.3
Provision at end of period	**92.1**	87.0

15. Provisions for liabilities and charges

	Restructure £M
At 1 April 2002	3.1
Utilised during the year	(0.6)
At 31 March 2003	**2.5**

The restructure provision is in relation to expected costs associated with the continuing rationalisation of the business. The costs mainly comprise employee related costs, principally redundancy and early retirement costs. The majority of the expenditure is expected to be incurred over the next two years.

Scottish Hydro-Electric Power Distribution Limited

Notes on the Accounts
for the year ended 31 March 2003

16. Borrowings

Interest rate risk

The Company's funds are managed by the Company Treasurer operating within the policies, strategies and procedures approved by the Company 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	**475.0**	**125.0**	**350.0**	**5.96**	**17.65**
31 March 2002	450.0	100.0	350.0	5.96	18.65

The floating rate borrowings comprise cash advances with European Investment Bank and Loan Stock with Scottish and Southern Energy plc.

Maturity of borrowings

	2003 £M	2002 £M
Between two and five years		
Floating rate Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2006	**100.0**	100.0
Over five years		
6.29% European Investment Bank repayable on 24 September 2012	**50.0**	50.0
Floating rate European Investment Bank repayable on 13 June 2014	**25.0**	-
5.90% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2022	**300.0**	300.0
	475.0	450.0

The Company has provided guarantees in respect of the £150M 7.875% 2007 Eurobond and £300M 5.875% 2022 Eurobond issued by Scottish and Southern Energy plc.

16. Borrowings (continued)

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	**475.0**	**487.6**	450.0	456.1

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

17. Share capital

	2003 £	2002 £
Equity:		
Authorised:		
62,001,000 ordinary shares of £1 each	**62,001,000**	62,001,000
Allotted, called up and fully paid:		
62,000,000 ordinary shares of £1 each	**62,000,000**	62,000,000

18. Reserves

	Profit and loss account £M
At 1 April 2002	45.9
Retained profit for the year	16.8
At 31 March 2003	**62.7**

Notes on the Accounts
for the year ended 31 March 2003

19. Capital commitments

	2003	2002
	£M	£M
Capital expenditure:		
Contracted for but not provided	**5.3**	8.9

20. Ultimate parent company

The Company is a subsidiary of Scottish and Southern Energy plc, a company registered in Scotland, whose consolidated accounts (which include those of the Company) are available from Corporate Communications, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ.