

Power Systems
Generation and Supply
Contracting and Connections
Gas Storage
Telecoms



Contents

- 3 Highlights
- 4 Corporate Profile
- 10 Business Review
- 12 Summary Financial Statement
- 13 Summary Reports
- 17 Board of Directors
- 18 Notice of Meeting
- 19 Shareholder Information

Front cover:

In 2004, Scottish and Southern Energy secured energy contracts to supply Salford and Manchester City Councils.

Directors

Bruce Farmer CBE Chairman
Ian Marchant Chief Executive
Gregor Alexander Finance Director
Henry Casley Non-Executive Director
Colin Hood Chief Operating Officer
René Médori Audit Committee Chairman
David Payne Remuneration Committee Chairman
Alistair Phillips-Davies Energy Supply Director
Susan Rice Non-Executive Director
David Sigsworth Generation Director
Kevin Smith Non-Executive Director*
Sir Robert Smith Deputy Chairman

* With effect from 24 June 2004

Financial Calendar

Annual General Meeting	29 July 2004
Ex dividend date	25 August 2004
Record date	27 August 2004
Final dividend payable	24 September 2004
Interim announcement	4 November 2004*

* Provisional date

Our new identity

The front cover of this Annual Review shows the new Scottish and Southern Energy logo. This, together with the Group's other principal logos, have been designed so they all share a new, fresh, colour scheme and style which makes it more obvious they are part of the SSE Group. The new style is being introduced during the year as, for example, existing stocks of branded materials are exhausted and new materials are required.



Sustainable Growth

Pre-tax profit **up 3.8% to £619.9m***
 Earnings per share **up 4.1% to 55.3p***
 Full-year dividend **up 7.7%**
 Dividend cover of **1.5 times**
 Interest cover of **8.4 times**
 Controllable costs **reduced 4.8%**

* Before goodwill, net finance income from pension assets and the impact of deferred tax

Earnings per share pence

04	55.3
03	53.1
02	51.8
01	48.5
00	47.5

Before exceptional item, amortisation of goodwill, impact of FRS 19 and net finance income from pension assets

Dividend per share pence

04	37.7
03	35.0
02	32.4
01	30.0
00	27.5

Corporate Profile

Who we are and what we do

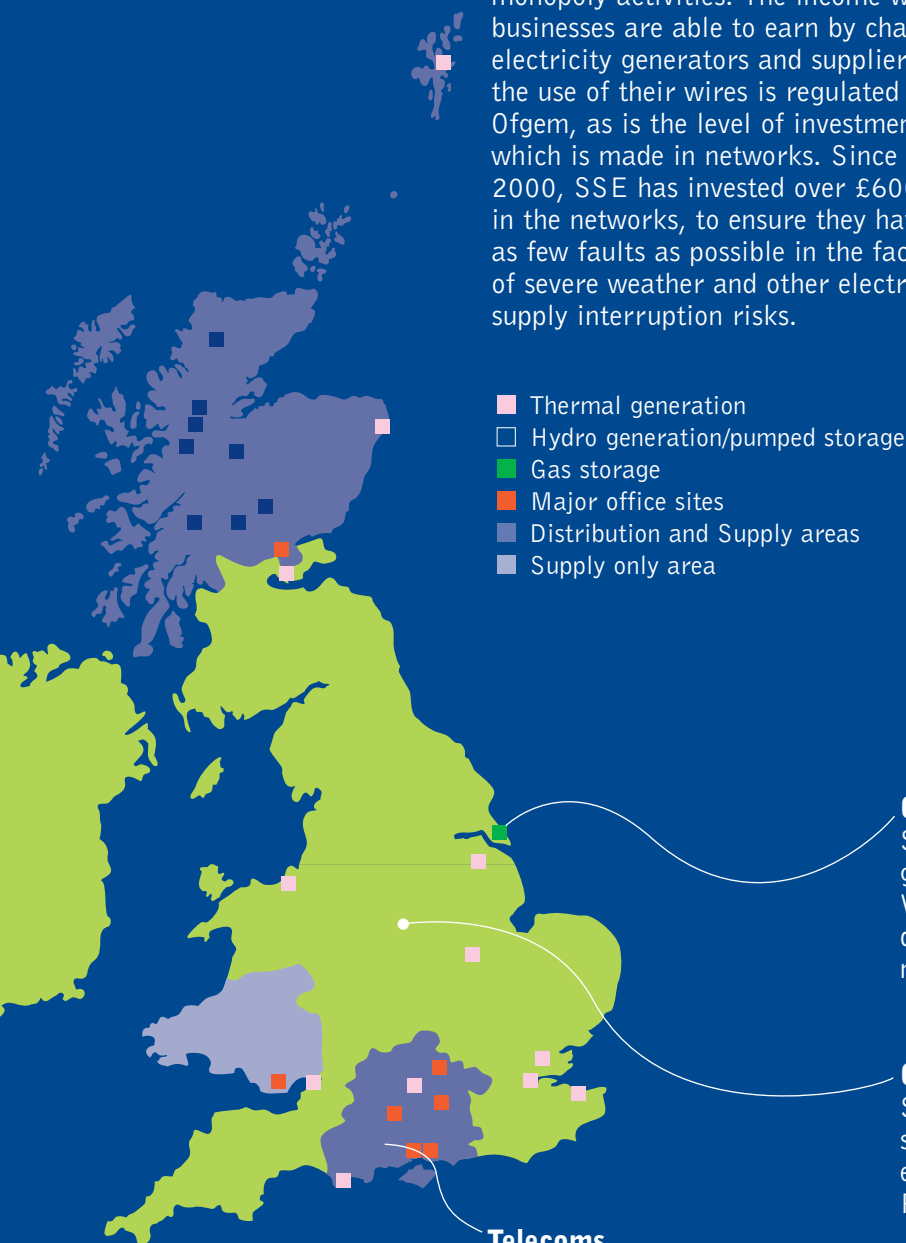
Scottish and Southern Energy is one of the largest energy companies in the UK. It is involved in the generation, transmission, distribution and supply of electricity; energy trading; the storage and supply of gas; electrical, environmental and utility contracting; domestic appliance retailing; and telecoms.

Power Systems

Scottish and Southern Energy owns one electricity transmission network and two electricity distribution networks, comprising 124,000km of overhead lines and underground cables, across one third of the UK landmass. It delivers electricity to 3.4 million homes, offices and businesses. Transmission and distribution are monopoly activities. The income which businesses are able to earn by charging electricity generators and suppliers for the use of their wires is regulated by Ofgem, as is the level of investment which is made in networks. Since April 2000, SSE has invested over £600m in the networks, to ensure they have as few faults as possible in the face of severe weather and other electricity supply interruption risks.

Generation

Scottish and Southern Energy owns over 5,700MW (megawatts) of gas-fired, hydro, pumped storage and wind power stations in Scotland and England. The gas-fired power stations are among the most thermally-efficient in the world. This means they require less fuel to produce a given amount of electricity and make significantly fewer emissions of carbon than other power stations. SSE is also the leading generator from renewable sources in the UK, owning and operating around 40% of the country's total capacity. SSE has the lowest carbon generation portfolio among major, non-nuclear generators. To build on this, SSE has embarked on a major programme of investment in renewable energy.



- Thermal generation
- Hydro generation/pumped storage
- Gas storage
- Major office sites
- Distribution and Supply areas
- Supply only area

Gas Storage

SSE owns the UK's largest onshore gas storage facility at Hornsea. Working with Statoil (UK), it is now developing an even larger facility at nearby Aldbrough.

Connections

SSE provides a range of utility-related services. It constructed and owns the electricity network in the new Bull Ring, Birmingham.

Telecoms

SSE's telecoms business operates from Reading and manages a GB-wide network of around 7,000km, providing services to over 400 organisations.

Supply

Scottish and Southern Energy is one of the largest suppliers of electricity and gas in the UK's competitive energy supply market, with around 5.5m customers. It brings together Southern Electric, SWALEC, Scottish Hydro Electric and Atlantic. These brands offer a range of energy-related products and services. SSE delivers top quality service from its customer service operations in Basingstoke, Cardiff, Perth and Portsmouth. At the end of 2003, the leading industry study by JD Power confirmed that SSE has the highest customer satisfaction among electricity suppliers in the UK. In 2003/04 SSE consistently had the lowest rate of customer complaints to energywatch about customer transfers and account and billing matters.

Contracting

Scottish and Southern Energy's contracting business comprises Southern Electric Contracting (which also trades as Hydro Contracting and SWALEC Contracting) and Thermal Transfer. It employs 3,000 engineers and electricians throughout the country and operates from more than 30 regional offices. It has four main areas of activity: industrial, commercial and domestic electrical contracting; electrical and instrumentation engineering; street and highway lighting; and specialist contracting for the turnkey design, build and refurbishment of facilities requiring a 'controlled' environment. It is the UK's largest street lighting contractor and is now responsible for maintaining more than one million lighting units.

www.scottish-southern.co.uk



Top 5 for 2004

1st **1st for Renewables: owns and operates the UK's biggest renewable electricity generation portfolio**

2nd **2nd for Distribution: owns and operates the UK's second largest high voltage electricity distribution network**

3rd **3rd for Transmission: owns and operates the UK's third largest electricity transmission network**

4th **4th for Supply: owns and operates the UK's fourth largest energy supply business**

5th **5th for Generation: owns and operates the UK's fifth largest electricity generation portfolio**



1st renewables

Renewables

SSE intends to remain the UK's largest generator of electricity from renewable sources, and to that end we have now secured planning permission to develop 162MW of new wind energy capacity. Planning applications have been submitted in respect of a further 120MW of new wind farm capacity and we are now planning the next phase of our investment in wind energy. We expect to submit planning applications in respect of a further 200MW of capacity at five sites during 2004/05.

We have also secured planning permission to develop 7MW of new hydro-electric capacity at Fasnakyle. In April 2004, the Highland Council accepted that the development of the 100MW hydro-electric station planned for Glendoe at Loch Ness should proceed and the planning application is now with Scottish Ministers for determination.



2nd distribution

Distribution

Investment is now the key issue facing electricity network companies in the UK. Since the start of the present price control review period in 2000, our electricity networks have benefited from investment of over £600m.

Looking ahead, as the House of Commons Trade and Industry Select Committee made clear in its Report in March 2004, there needs to be greater emphasis on ensuring that electricity network owners have the financial resources necessary to secure a viable long-term electricity supply. It is encouraging, therefore, that the industry regulator, Ofgem, has said that a key priority in the distribution price control for 2005 to 2010 is to protect the interests of customers by ensuring that there is sufficient scope for companies to invest in the networks to safeguard security of supply and meet future demands from generation directly connected to the distribution network.



3rd transmission

Transmission

Ofgem has acknowledged that the UK's transmission system needs to be reinforced to facilitate the addition of new renewable generation. The first vital step in this is the need to replace the existing transmission line between the Highlands and the central belt of Scotland with an upgraded line. This has to be built if national targets for the generation of electricity from renewable sources are to be achieved.

In keeping with our commitment to take proper account of the interests of the communities in which we operate, we have undertaken extensive environmental studies and public consultations on the selection of a route for the new line and expect to submit an application before the end of 2004 for consent to build it.



4th supply

Supply

SSE's energy supply business has grown from 4.55m customers at the end of 2001, to 5.55m – a net gain of around one million customers. This includes more than 300,000 customers acquired from Atlantic Electric & Gas in April 2004. There was also a net gain of business customers covering around 45,000 sites throughout Great Britain in 2003/04, including contracts to supply renewable energy to the Scottish Executive and Manchester City Council.

The government has announced new rules allowing some energy supply customers to choose a longer contract than the standard 28 days and, in return, receive energy efficient products and services from their supplier – such as house insulation, energy efficient boilers and domestic appliances, or low-energy light bulbs. With established electrical contracting and retail businesses, SSE is well-placed to build on this opportunity over the next few years.

5th generation

Generation

SSE's generation portfolio comprises almost entirely hydro-electric and gas-fired stations. It has been strengthened by the acquisition of 100% ownership of the 688MW Medway Power Station in November 2003, for £241.1m. This enabled us to add another modern, flexible and efficient power station to our group of generation assets. The purchase of the 120MW gas-fired power station at Cardenden, in Fife, for £12.5m in February 2004 will provide further diversity of plant mix within our generation portfolio.

Our gas-fired power stations are among the most thermally-efficient in the world. This means they require less fuel to produce a given amount of electricity and make fewer carbon emissions than other power stations.



Consulting our customers

We are undertaking extensive public consultations on the selection of a route for an upgraded transmission line between the Highlands and the central belt of Scotland.



Dr Bruce Farmer CBE
Chairman

Growing Profit Before Tax

In the financial year to 31 March 2004, profit before tax, goodwill and FRS 17 income grew by 3.8% to £619.9m. On that date, SSE was the 41st largest company in the FT-SE100 by market capitalisation.

The most meaningful comparison of performance for the year is to set aside the exceptional effect of: the termination of the contract to supply power to TXU, which went into administration in November 2002, and which contributed £40m to profit in 2002/03; and a large property disposal which contributed £10.2m in 2003/04. On this basis, profit before tax increased by 9.4% to £609.7m.

Increased Earnings per Share

Earnings per share, before goodwill, the impact of deferred tax and net finance income from pension assets, increased by 4.1% to 55.3p. On an underlying basis, excluding the effects of the TXU contract and a large property disposal, earnings per share increased by 8.6% to 54.1p.

Dividend Ahead of Target

The Board has recommended a final dividend of 26.4p, making a full-year dividend of 37.7p. This is up from 35.0p the year before, an increase of 7.7%. The recommended final dividend is ahead of the target of 4% real growth for 2003/04, and represents the fourth successive year in which the dividend target has been exceeded.

The dividend per share has increased from 25.7p in 1999, when SSE first reported results, to 37.7p in 2004, an increase of 46.7% and a compound annual growth rate of 8%. In line with the established policy, the target dividend increase for 2004/05 is at least 4% above inflation, with sustained real growth thereafter.

Enhancing Shareholder Value

SSE remains focused on enhancing shareholder value through greater efficiencies and in line with this secured an additional £11m of cost savings in 2003/04, representing a further 4.8% reduction compared to the previous year.

This takes the annualised post-merger cost savings to £175m, compared to an original target of £90m. Since SSE was formed at the end of 1998, total cumulative cost savings of £604m have been secured.

Further cost savings will be achieved in 2004/05.

Cash Flow Strength

During the year to 31 March 2004, SSE's net debt increased by £200.1m to £1,417.1m. This increase is more than accounted for by acquisitions, share buy backs and capital expenditure for growth in renewable energy and expansion of electricity networks totalling £408.2m. Underlying operational cash flow, therefore, remains strong.

Financial Strength

SSE continues to have one of the strongest balance sheets in the global utility sector, holding an AA- long-term credit rating, and this carefully-maintained financial strength gives us the opportunity to invest in ways which create value for shareholders.

Our balance sheet strength enabled us to buy back and cancel 1,760,000 of the company's shares at an aggregate consideration of £11.2m and an average price of 633p per share.

Important Acquisitions

In November 2003 we acquired 100% ownership of Medway Power Station in a £241.1m deal, and this acquisition has made a good contribution to earnings in its first five months of ownership. This was followed by the acquisition of Fife Power for £12.5m in February 2004. These acquisitions have added 550MW to our generation portfolio.

We also acquired the assets of Atlantic Electric & Gas in April 2004, taking our supply customer numbers to over 5.5 million.

Combined Code Compliance

Throughout the year ended 31 March 2004 the Group complied with the provisions of the Combined Code of Corporate Governance appended to the Listing Rules of the Financial Services Authority. The Board acknowledges its responsibility for ensuring that an adequate system of internal control exists which accords with the requirements of the Turnbull Committee guidance.

The new Combined Code on Corporate Governance is effective for reporting years commencing on or after 1 November 2003.

SSE continues to have one of the strongest balance sheets in the global utility sector, holding an AA- long-term credit rating, and this carefully-maintained financial strength gives us the opportunity to invest in ways which create value for shareholders.



SSE has expanded through the incremental addition of assets which have been successfully integrated into our existing businesses. As demonstrated during 2003/04, we will continue with this disciplined approach towards all existing and future acquisition possibilities.



The Board has considered its structure and procedures in the light of this new Code and expects to report full compliance with the new Code next year.

Health and Safety

'Being safe' is a core value in the business. In line with this, SSE's Health, Safety and Environment Manual, which has the status of a work instruction, emphasises that safety will not be compromised for business interest or operational pressures and all injuries, plant damage and 'near misses' will be reported and investigated. In the year to 31 March 2004, there was a total of 27 lost-time and reportable incidents across the entire SSE group, which is one fewer than in the previous year and equivalent to 276 per 100,000 employees. During the year, a particular emphasis was placed on safe driving, both in and out of work. The number of serious, or potentially serious, road traffic accidents involving employees driving company vehicles fell by more than half, to 23.

Good Customer Service

Putting customers first is one of SSE's core values. At the end of 2003, the industry-leading study by JD Power confirmed that SSE has the highest customer satisfaction among electricity suppliers in the UK, the second successive year in which this has been achieved. Throughout 2003/04, we focused on improving our operations further to keep complaints about our products and services to a minimum. We secured a 23% reduction, to just over 2,600, in the number of complaints referred to energywatch for resolution.

Environment Performance Improved

Caring for the environment is one of SSE's core values and our environment policy is designed to ensure that we comply with and exceed, where appropriate, all statutory and regulatory environmental requirements and set good standards. We also seek to prioritise and continually improve environmental performance across all activities. The policy is set out in full in SSE's Environment Annual Report 2004, along with SSE's performance in respect of the environmental targets set for 2003/04. To benchmark our activities, SSE participated in the eighth Business in the

Investing in generation

The purchase of 120MW gas-fired power station at Cardenden in Fife takes our total generation capacity to over 5,700MW.

Securing electricity supplies

Since 2000, our electricity networks have benefited from investment of over £600m.

Environment Index, the UK's leading environmental benchmarking tool, the results of which were announced in March 2004. SSE's score improved from 97.92% last year to 98.13% this year, making it the top-performing electricity company. It meant SSE featured in BiE's 'Premier League' of companies for the second consecutive year.

Employee Participation

SSE believes that employees should be encouraged and enabled to be active citizens in the communities in which they live and work. For this reason, we introduced a scheme by which funds raised by employees for charitable and community causes are matched by SSE (up to a limit of £500 per employee). In 2003/04, almost 300 employees took part in the scheme, which helped them to raise a total of £210,000 for good causes. Activities included cycling from Land's End to John O'Groats for Sight Savers International and a skydive in aid of the Big Issue Foundation.

Strategy and Outlook

Our focus continues to be sustainable long-term real dividend growth. Consequently, we attach the highest importance to enhancing value by managing our existing businesses well through operational excellence. Where growth opportunities arise, we will only exploit them to maximise shareholder return in existing areas of activity, typically in the energy and utility sectors in the UK.

This same rigour applies to merger and acquisition opportunities. SSE has expanded through the incremental addition of assets which have been successfully integrated into our existing businesses. As demonstrated during 2003/04, we will continue with this disciplined approach towards all existing and future acquisition possibilities.

There have been, and continue to be, material changes in the energy sector in the UK – in legislation, regulation and in the market as a whole – which are creating substantial opportunities. SSE has the balance sheet strength, the financial discipline and the operational excellence to exploit these opportunities and so continue to deliver significant value for shareholders in the future.

Summary Financial Statement

Summary Group Profit and Loss Account for the year ended 31 March 2004

	2004 £m	2003 £m
Group turnover	5,124.4	4,065.3
Operating profit:		
Group	629.1	604.2
Share of joint ventures	30.6	32.1
Share of associates	20.6	35.2
Total operating profit	680.3	671.5
Gain on disposal of property	10.2	-
Income from fixed asset investments	0.1	0.9
Net interest payable	(85.5)	(89.1)
Other finance income	2.2	32.7
Profit on ordinary activities before taxation	607.3	616.0
Tax on ordinary activities	(159.5)	(170.0)
Profit on ordinary activities after taxation	447.8	446.0
Equity minority interests in subsidiary undertaking	0.1	0.2
Profit attributable to ordinary shareholders	447.9	446.2
Dividends	(322.9)	(300.0)
Retained profit	125.0	146.2
Earnings per share (pence):		
Basic	52.3	52.0
Adjusted	54.1	49.8
Diluted	52.2	51.9

Summary Group Balance Sheet as at 31 March 2004

	2004 £m	2003 £m
Fixed assets	4,610.1	4,247.5
Current assets	811.2	663.2
Creditors: amounts falling due within one year	(1,291.5)	(1,142.6)
Net current liabilities	(480.3)	(479.4)
Total assets less current liabilities	4,129.8	3,768.1
Creditors: amounts falling due after more than one year	(1,668.6)	(1,428.4)
Provisions for liabilities and charges:		
Deferred taxation	(512.7)	(462.2)
Other provisions	(96.0)	(114.2)
Net assets excluding pensions liability	1,852.5	1,763.3
Net pension (liability)	(124.4)	(281.5)
Net assets including pension liability	1,728.1	1,481.8
Capital and reserves	1,728.1	1,481.8

The Summary Financial Statement was approved by the Board of Directors on 18 May 2004 and signed on their behalf by:

Bruce Farmer CBE, Chairman

The Summary Financial Statement is only a summary of the information contained in the Group's consolidated Annual Accounts Directors' Report and Remuneration Report. It does not contain sufficient information to allow as full an understanding of the results of the Group and state of affairs of the company or the Group as would be provided by the full Annual Report and Accounts.

Copies of the full Annual Report and Accounts may be obtained, free of charge, on request from the Company Secretary, 200 Dunkeld Road, Perth, PH1 3AQ. It is also available on the company's website at www.scottish-southern.co.uk.

Shareholders may also elect in writing to receive the Annual Report and Accounts in place of Summary Financial Statements for all future years. To receive the Annual Report and Accounts instead of the Summary Financial Statement, you should write to Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH.

Summary Reports

Summary Remuneration Report

The full Board Remuneration Report for the financial year ending 31 March 2004 is contained in the Annual Report and Accounts 2004.

Company Policy on Executive Directors' Remuneration

The Remuneration Committee's composition, responsibilities and operation comply with Section B of the Combined Code annexed to the Listing Rules of the Financial Services Authority. In forming remuneration policy, the Committee has given full consideration to the best practice provisions set out in Section B1 of the Code.

The company's policy is to attract, retain and incentivise Executive Directors to run the company effectively and meet the expectations of shareholders whilst adopting a conservative and prudent approach to overall remuneration. This is done by providing remuneration consisting of basic salary, benefits, an Annual Bonus Scheme, and a Deferred Bonus Scheme which require the achievement of demanding performance targets.

Annual Salary and Benefits

The Committee follows a broad principle that salaries should take account of those in comparable companies with variations to reflect individual performance, experience and job size. At the same time, salary and benefits levels are generally set below median.

Annual Bonus

The 2003/04 Annual Bonus Scheme for Executive Directors provides for cash bonuses of up to a maximum of 50% of basic salary, attributable approximately two-thirds to corporate performance based on achievement of profit targets and one-third to personal objectives. The personal objectives are based on a wide range of specific business activities. These include achieving targeted improvements in efficiency and reductions in costs, improvements in safety standards and in customer supply standards, and the development of new business areas such as renewable power generation. A number of these targets have been chosen because they are measurable against independently verifiable data within the industry. To achieve the maximum corporate element of bonus, performance had to exceed profit target by 7.5%. No corporate element of the bonus would have been payable if performance had fallen below 92.5% of target. It is intended to operate the Annual Bonus Scheme on the same basis for 2004/05 and subsequent years.

Deferred Bonus Scheme

The Deferred Bonus Scheme, which applies to around 70 Senior Managers and Executive Directors, is designed to contribute to increasing shareholder return and motivation of senior management over the longer-term. It also facilitates the building of a shareholding in the company over a period of time. Directors are granted awards equivalent to a value equal to their actual short-term bonus. The value of the award is then adjusted by reference to three factors: the company's relative performance in terms of Total Shareholder Return ('TSR') over a three-year period (compared to the FT-SE100); Safety (which is externally verified and compared to other energy companies); and relative performance in terms of Customer Complaints, as recorded by the independent regulatory body, energywatch. Dependent on actual performance each factor gives a multiplier of between 0.7 and 1.35 with the highest multiplier requiring upper quartile

performance. A weighted average is then taken using TSR (40%), Safety (40%) and Customer Complaints (20%), to create a single factor which is then applied to the award.

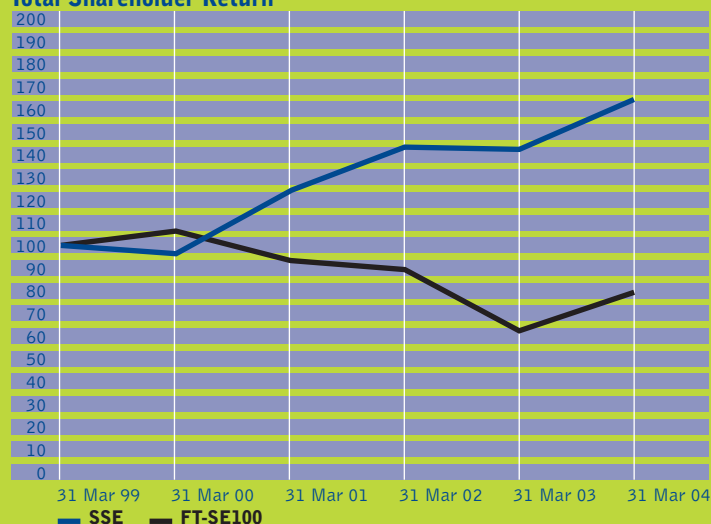
Last year the factor was 1.35. The resultant amount is then used to determine the number of shares to be awarded based on the market value of the shares at the time of the award. The requisite shares are purchased in the market by the independent trustees of the company's Employee Share Ownership Trust and held in trust for three years, at which point the participant is entitled to exercise the award. Upon exercise, the participant usually receives additional shares representing the dividends paid on the shares during the three-year period. The performance conditions were chosen because they were closely aligned with the interests of shareholders, customers and staff.

All-Employee Share Schemes

Executive Directors are eligible to participate in the company's all-employee share schemes on the same terms as other employees. These schemes comprise:

- the Sharesave Scheme, a savings-related share option scheme available to all employees. This scheme operates within specific tax legislation (including a requirement to finance exercise of the option using the proceeds of a monthly savings contract of up to £250 per month), and, in common with all such schemes, exercise of the option is not subject to satisfaction of a performance target. The option price is set at a discount of 10% to market value;
- the Share Incentive Plan (the 'SIP'), also available to all employees, under which employees allocate part of their pre-tax salary to purchase shares up to a maximum of £125 per month. The SIP operates within specific tax legislation. During the year, the company matched the first five shares purchased by the participating employees in the months April to October. Going forward, the company is matching the first five shares purchased each month by participating employees.

Total Shareholder Return



Summary Reports continued

Directors' Emoluments

The emoluments of each of the Directors were as follows:

	Salary/fee £000	Bonuses £000	Benefits £000	Total 2004 £000	Total 2003 £000
Executive Directors					
Ian Marchant	412	187	16	615	511
Gregor Alexander	175	86	16	277	140
Colin Hood	307	134	24	465	333
Alistair Phillips-Davies	205	86	13	304	253
David Sigsworth	242	99	21	362	330
Non-Executive Directors					
Bruce Farmer (Chairman)	210	–	4	214	200
Henry Casley	37	–	–	37	31
Ian Grant (i)	35	–	–	35	57
René Médori	31	–	–	31	0
Sir Graeme Odgers	42	–	–	42	37
David Payne	37	–	–	37	31
Susan Rice	24	–	–	24	0
Sir Robert Smith	40	–	–	40	0
Nick Timpson (ii)	15	–	–	15	31
Former Director					
Jim Forbes	–	–	–	–	526
Totals	1,812	592	94	2,498	2,480

(i) To date of retirement from the Board on 31 October 2003.

(ii) To date of retirement from the Board on 26 June 2003.

Directors' Interests

The interests of the Directors, all of which are beneficial, in the ordinary shares of the company on the dates shown were as follows:

	31 March 2004		1 April 2003	
	Shares held	Shares under option	Shares held	Shares under option
Gregor Alexander	7,900	26,571	6,161	14,435
Henry Casley	96,852	0	106,852	0
Bruce Farmer	9,106	0	9,106	0
Colin Hood	13,465	49,884	13,197	39,232
Ian Marchant	54,119	56,526	47,959	34,635
René Médori	2,000	0	0**	0**
Sir Graeme Odgers	15,900	0	15,900	0
David Payne	8,000	0	8,000	0
Alistair Phillips-Davies	9,267	25,772	8,099	11,819
Susan Rice	2,000	0	2,000*	0*
David Sigsworth	43,298	66,429	49,501	48,078
Sir Robert Smith	7,600	0	7,600**	0**

* At date of appointment to the Board on 24 July 2003.

** At date of appointment to the Board on 26 June 2003.

From 31 March 2004 to 18 May 2004, the following changes to the interests of Directors took place:

Under the Share Incentive Plan, on 30 April 2004 Ian Marchant, Colin Hood, David Sigsworth, Gregor Alexander and Alistair Phillips-Davies each acquired 18 shares.

The Register of Directors' Interests (which is open to shareholders' inspection) contains full details of Directors' shareholdings and options to subscribe for shares.

Summary Directors' Report

Principal Activities

Scottish and Southern Energy plc is a holding company. Its subsidiaries are organised into the main businesses of: generation, transmission, distribution and supply of electricity; energy trading; storage and supply of gas; electrical, environmental and utility contracting; domestic appliance retailing and telecoms. The Business Review and Summary Remuneration Report form part of this report.

Results and Dividends

The Group profit attributable to shareholders for the financial year amounted to £447.9m. The Directors recommend a final dividend of 26.4p per ordinary share which, subject to approval at the Annual General Meeting, will be payable on 24 September 2004 to shareholders on the register at close of business on 27 August 2004. With the interim dividend of 11.3p per ordinary share paid on 24 March 2004, this makes a total dividend of 37.7p per ordinary share.

Directors

Details of the Directors, and their biographies as at the date of this report are set out on page 17.

On 26 June 2003, Sir Robert Smith and René Médori were appointed as non-Executive Directors, on 24 July 2003 Susan Rice was appointed as a non-Executive Director and on 18 May 2004, it was agreed to appoint Kevin Smith as a non-Executive Director with effect from 24 June 2004.

Nick Timpson retired as a non-Executive Director on 26 June 2003, Ian Grant retired as a non-Executive Director on 31 October 2003 and Sir Graeme Odgers retired as a non-Executive Director on 18 May 2004.

In accordance with the Articles of Association, the appointment of Kevin Smith continues until the forthcoming Annual General Meeting when he is required to stand for election.

Henry Casley, Ian Marchant and Alistair Phillips-Davies, retire by rotation at the Annual General Meeting and, being eligible and in accordance with the Articles of Association, offer themselves for re-election.

The interests of the Directors in the ordinary shares of the company are set out in the Summary Remuneration Report on Page 14.

Auditors

The Independent Auditors' Report in the Annual Report and Accounts of the company for the year ended 31 March 2004 was unqualified and did not contain a statement under either section 237(2) or section 237(3) of the Companies Act 1985. Resolutions to re-appoint KPMG Audit Plc as auditors, and to authorise the Directors to fix their remuneration, will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting Special Business

Authority to Allot Shares – Resolution 10

This resolution continues the Directors' authority under section 80 of the Companies Act 1985, to allot shares. The authority to allot is limited to shares with nominal value of £142,917,261 representing one-third of the issued share capital as at 18 May, the latest practicable date before the printing of the Notice of Meeting. This authority was last renewed at the Annual General Meeting in 1999 although the Directors have now decided to seek annual renewal in line with

the authority to disapply pre-emption rights (resolution 11). The authority, if renewed, will terminate at the conclusion of the 2005 Annual General Meeting. The Directors have no present intention of issuing any shares other than pursuant to existing rights under employee share schemes. Any allotment of shares would be offered to existing shareholders first subject to the limited disapplication covered in resolution 11. The authority is in line with current institutional shareholder guidelines.

Authority to Disapply Pre-emption Rights – Special Resolution 11

Resolution 11 proposes as a special resolution to continue the Directors' authority under section 89 of the Companies Act 1985, to allot shares for cash in certain circumstances otherwise than pro rata to all the shareholders. This authority, which was last renewed at the Annual General Meeting in 2003, provides greater flexibility in respect of the company's financing arrangements.

This resolution deals with the allotment of shares for cash under a rights issue with power to make adjustments to deal with overseas shareholders, fractions of shares and other such matters. It also permits the Directors to make additional issues of shares for cash up to £21,436,740 nominal of share capital, representing five per cent of the issued share capital. This limit is in line with current institutional shareholder guidelines. There is no present intention of exercising this authority.

For the purposes of this resolution, allotment of shares includes the sale of treasury shares – see the note to resolutions 12 to 14 for further details.

Purchase of Own Shares and Treasury Shares – Resolutions 12-14

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulation 2003 (the 'Regulations') became effective in December 2003. A company that acquires its own shares by way of market purchase can hold up to 10 per cent of the nominal value of any class of share as treasury stock. These shares can be cancelled at a later date, re-sold for cash or transferred from treasury to satisfy awards made under employee share schemes. Under the rules of the UK Listing Authority, treasury shares must not generally be sold for less than 90% of their market value at the time of sale. The company seeks the flexibility to re-issue treasury shares quickly and cost-effectively which could provide the company with greater flexibility in the management of its capital base. Whilst in treasury shares are treated as if cancelled and no dividends are payable or voting rights attached to them.

The following resolutions are being put to shareholders:

- (a) Purchase of own shares – Special Resolution 12
Each year the Directors seek authority from shareholders to purchase the company's own shares. The Directors recommend that shareholders renew this authority. Save to the extent purchased pursuant to the Regulations, any shares purchased pursuant to the authority will be automatically cancelled. The Regulations permit treasury shares to be dealt with as outlined above. The resolution specifies the maximum number of shares that may be acquired and the maximum and minimum prices at which they may be bought. Purchases will only be made if the Directors expect them to result in an increase in the Group's earnings per share and to be in the best interests of shareholders generally.

During the year the company purchased and cancelled 1,760,000 ordinary shares at 50p each, representing 0.2% of the called-up share capital of the company, at an aggregate consideration of £11.2m. The Directors considered that the share purchases were advantageous for the Group and would enhance earnings per share. The company does not currently hold any treasury shares.

The total number of options to subscribe for equity shares outstanding at the date of this report is 6.9m. This represents 0.8% of the issued share capital. If the company bought back the maximum number of shares permitted pursuant to the passing of this resolution and cancelled them then the total number of options to subscribe for equity shares outstanding would represent 0.9% of the issued share capital as reduced following those repurchases.

- (b) Amendment to the Articles of Association – Special Resolution 13
This resolution will, if passed, make various minor consequential amendments to the Articles of Association of the company, to exclude treasury shares from a number of references to issued share capital and voting rights.
- (c) Share Incentive Plan and Sharesave Scheme – Resolution 14
Resolution 14 seeks to amend the company's two all-employee share schemes – the Share Incentive Plan and the Sharesave Scheme – to allow the use of shares held in treasury to satisfy awards and share options under those schemes. Historically, when dealing with the exercise of options and making of awards under its employee share schemes, the company has had the choice of either issuing new shares or funding an employee share ownership trust to acquire shares in the market. Treasury shares would provide a third way of sourcing shares for the schemes.

As well as allowing the use of treasury shares in connection with the two schemes, the resolution will amend the limit on the number of new issue shares which can be allocated under the schemes, by providing that the use of treasury shares will count against the limit.

Special Share Redemption – Special Resolution 15

On 5 May 2004 the Special Share which Her Majesty's Government held in the company was redeemed by the government at its par value of £1. As a consequence of the redemption of the Special Share, and to comply with listing rules' requirements that listed securities should be freely transferable, resolution 15 proposes that the 15% limitation on the holding of voting shares in the company be removed from the company's Articles of Association.

Statement of the Independent Auditors to the members of Scottish and Southern Energy plc

pursuant to section 251 of the Companies Act 1985

We have examined the Summary Financial Statement set out on page 12.

This statement is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in such a statement 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 work, for this statement, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Summary Financial Statement in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Summary Financial Statement with the full annual financial statements and Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

We also read the other information contained in the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of Opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditor's statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Group's full annual financial statements describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the Summary Financial Statement is consistent with the full annual financial statements, the Directors' Report and the Remuneration Report of Scottish and Southern Energy plc for the year ended 31 March 2004 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh

18 May 2004



Board of Directors

1 Bruce Farmer CBE (67) Chairman

Bruce became Chairman of Scottish and Southern Energy in November 2000. He was Chairman of Southern Electric from April 1998 until the merger forming Scottish and Southern Energy in December 1998. Bruce has also previously been Chairman of Bodycote plc, Allied Colloids and Devro plc, and Chief Executive of Wellworthy, Brico Engineering and The Morgan Crucible Company plc. He retired as Chairman of the Morgan Crucible Company plc during the year. Bruce was President of the Institute of Materials and a Council Member of the CBI. He is Chairman of the Nomination Committee.

2 Ian Marchant (43) Chief Executive

Ian was appointed Chief Executive in October 2002 having been Finance Director since 1998. He joined Southern Electric in 1992 and joined the Board on becoming Finance Director in 1996. Previously he worked for Coopers & Lybrand (now PwC), including a two year secondment to the Department of Energy working on electricity privatisation. Ian is Deputy Chairman of the United Kingdom Business Council for Sustainable Energy, and a member of the Forum for Renewable Energy Development in Scotland and Ofgem's Environmental Advisory Group. He is a member of the Nominations Committee and is lead Director for Corporate Responsibility.

3 Gregor Alexander (41) Finance Director

Gregor joined the Board of Scottish and Southern Energy as Finance Director in October 2002. He was appointed Group Treasurer and Tax Manager in 1998 having held a number of senior positions within the Finance team. He worked with accountants Arthur Andersen for five years before joining Scottish Hydro Electric in 1990, six months before privatisation.

4 Henry Casley (66) Non-Executive Director

Henry was previously a non-Executive Director of Southern Electric, after retiring as Chief Executive, the post he held from 1993 to 1996. He joined the electricity industry in 1961. Henry was a member of the Advisory Committee on Business and the Environment and was a non-Executive Director of Guernsey Electricity. He is a member of the Safety and Environment Advisory Committee.

5 Colin Hood (49) Chief Operating Officer

Colin joined the Board of Scottish and Southern Energy as Power Systems Director in January 2001, becoming Chief Operating Officer in October 2002. Previously he was Director of Distribution for Southern Electric, having joined the industry with the North of Scotland Hydro Electric Board in 1977. He is a member of the Institute of Electrical Engineers Membership Committee. Colin is the lead Director for Health and Safety matters and has Board level responsibility for power systems, customer service, human resources, I.T. and contracting.

6 René Médori (46) Audit Committee Chairman

René joined the Board as a non-Executive Director in June 2003. He is Group Finance Director of BOC Group plc, having previously been Chief Financial Officer of BOC Gases, Americas. Previously he worked for Accenture and Schlumberger Limited. He is Chairman of the Audit Committee.

7 David Payne (61) Remuneration Committee Chairman

David joined the Board as a non-Executive Director of Scottish Hydro Electric in June 1998. He held a number of senior positions with the BP Group and was Deputy Chief Executive of BP Oil. He is Chairman of the Remuneration Committee and a member of the Nomination Committee.

8 Alistair Phillips-Davies (36) Energy Supply Director

Alistair joined the Board in January 2002. He was previously Director of Energy Supply Operations, overseeing the introduction of the New Electricity Trading Arrangements. He joined Southern Electric in February 1997 from the National Westminster Bank where he was Corporate Finance Development Manager. He is Chairman of the Risk Committee and has Board level responsibility for energy trading, electricity and gas supply, marketing and retail.

9 Susan Rice (58) Non-Executive Director

Susan joined the Board as a non-Executive Director in July 2003. She is Chief Executive of Lloyds TSB Scotland plc, having previously been Managing Director, Personal Banking, for the Bank of Scotland. Susan is a member of the Audit, Nomination and Remuneration Committees.

10 David Sigsworth (57) Generation Director

David is a Director and immediate past Chairman of the Combined Heat and Power Association. He was appointed as Commercial Director of Scottish Hydro Electric in January 1995, becoming Energy Trading Director in 1998, Energy Supply Director in April 2000 and Generation Director in January 2002. He held several appointments in the Yorkshire Electricity Board before joining the North of Scotland Hydro Electric Board in 1987. David is the lead Director for the Environment and has Board level responsibility for all generation activities.

11 Kevin Smith CBE (50) Non-Executive Director

Kevin will join the Board as a non-Executive Director on 24 June 2004. He is Chief Executive of GKN having previously been Managing Director, Aerospace. Prior to GKN, he held various positions in BAE Systems over a 20-year period, latterly as Group Managing Director - New Business. Kevin is a Director of The Society of Motor Manufacturers and Traders Ltd, and a Council Member of The Society of British Aerospace Companies Ltd.

12 Sir Robert Smith (59) Deputy Chairman

Sir Robert joined the Board as a non-Executive Director in June 2003. He is Chairman of The Weir Group plc, a Governor of the BBC and a Board Trustee of the British Council. He is a non-Executive Director of Standard Bank Group Limited and Aegion UK plc. Sir Robert was formerly Chief Executive of Morgan Grenfell Asset Management Limited, a member of the Financial Services Authority and the Financial Reporting Council, and Chairman of Stakis plc. He is the Senior Independent Director and is a member of the Audit and Remuneration Committees.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the FIFTEENTH ANNUAL GENERAL MEETING of Scottish and Southern Energy plc will be held at the Bournemouth International Centre, Exeter Road, Bournemouth, BH2 5BH on Thursday, 29 July 2004 at 12 noon for the following purposes:

To consider and, if thought fit, pass resolutions 1 to 10 and 14 as ordinary resolutions, and resolutions 11 to 13 and 15 as special resolutions:

Resolution 1

to receive the Accounts and the Reports of the Directors and the auditors for the financial year ended 31 March 2004.

Resolution 2

to approve the Remuneration Report for the financial year ended 31 March 2004.

Resolution 3

to declare a final dividend for the year ended 31 March 2004 of 26.4 pence per ordinary share.

Resolution 4

to elect Kevin Smith as a Director of the company.

Resolution 5

to re-elect Henry Casley as a Director of the company.

Resolution 6

to re-elect Ian Marchant as a Director of the company.

Resolution 7

to re-elect Alistair Phillips-Davies as a Director of the company.

Resolution 8

that KPMG Audit Plc be appointed auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which the accounts are laid before the company.

Resolution 9

that the Directors be authorised to determine the auditors' remuneration.

Resolution 10

that the Directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to exercise the powers of the company to allot relevant securities (as defined within that section) up to an aggregate nominal amount of £142,917,261 provided that this authority shall expire on the conclusion of the next Annual General Meeting of the company after the passing of this resolution save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred hereby has expired.

Resolution 11

that subject to the passing of resolution 10 the Directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 (the 'Act') to allot 'equity securities' (as defined in section 94 of the Act) wholly for cash pursuant to the authority conferred by resolution 10 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

(b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £21,436,740;

and shall expire on the conclusion of the next Annual General Meeting of the company after the passing of this resolution save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words 'pursuant to the authority conferred by resolution 10' were omitted.

Resolution 12

that, pursuant to Article 12 of the Articles of Association, the company be and is generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (the 'Act') to make one or more market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of ordinary shares of 50p each in the capital of the company provided that:

- (i) the maximum number of ordinary shares authorised to be purchased is 85,746,962 representing 10 per cent of the company's issued ordinary share capital;
- (ii) the minimum price which may be paid for such shares is 50p per share which amount shall be exclusive of expenses;
- (iii) the maximum price which may be paid for an ordinary share shall not be more than five per cent above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased;
- (iv) unless previously renewed, varied or revoked, the authority hereby conferred shall expire on the conclusion of the company's next Annual General Meeting or 15 months from the date of passing of this resolution, if earlier; and
- (v) the company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

Resolution 13

that the Articles of Association of the company be amended as follows:

- (i) in Article 8(A) (method of varying class rights) after 'issued shares of the class' (in each place where those words appear) insert '(excluding any shares of that class held as treasury shares)';
- (ii) in Article 50(B) (disenfranchisement), in sub-paragraph (b), after 'their class' insert '(excluding any shares of that class held as treasury shares)';
- (iii) in Article 59 (period of notice), in sub-paragraph (b), after 'that right' insert '(excluding any shares in the company held as treasury shares)';
- (iv) in Article 69 (methods of voting):
 - (a) in sub-paragraph (c) after 'meeting' insert '(excluding any voting rights attached to any shares in the company held as treasury shares)';
 - (b) at the end of sub-paragraph (d) insert '(excluding any shares in the company conferring the right to vote at the meeting which are held as treasury shares)'; and

Shareholder Information

- (v) in Article 123(D)) (adjusted capital and reserves), in sub-paragraph (a) after 'the company' insert '(excluding any shares in the company held as treasury shares)'.

Resolution 14

that the Directors are authorised to amend:

- (i) the trust deed and rules of the Scottish and Southern Energy Employee Share Ownership Plan: and
- (ii) the rules of the Scottish and Southern Energy plc 2001 Sharesave Scheme

as set out in the marked-up copies which have been produced to the meeting and, for the purposes of identification, signed by the Chairman, to allow for the use of treasury shares to satisfy awards and options.

Resolution 15

that the Articles of Association of the company be amended by deleting Article 51 (limitations on shareholdings) in its entirety (without any consequent renumbering of the other provisions of the Articles of Association).

By Order of the Board
Vincent Donnelly
Company Secretary
15 June 2004

Registered Office:
Inverlmond House
200 Dunkeld Road
Perth
PH1 3AQ

Notes

1. Only holders of ordinary shares on the register at 11.00 p.m. on 27 July 2004 may attend and vote in respect of the number of shares registered in their name at that time. A shareholder of the company is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a shareholder. A Proxy Form is enclosed with this Notice. The Proxy Form, duly completed and signed, together with any power of attorney or other authority under which it is signed or a notarially certified copy thereof, must reach the registrar of the company, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8FB, not later than 12 noon on 27 July 2004. Alternatively, you can submit your proxy vote electronically. Further information can be found in the Guidance Notes on the reverse of the Proxy Form.
2. The following documents will be available for inspection at the registered office of the company and (save for documents (i) and (ii) below) at the offices of Dundas & Wilson, 9th Floor, North West Wing, Bush House, Aldwych, London, WC2B 4EZ during normal business hours on any weekday (public holidays excepted) from the date of this Notice until the date of the Meeting and thereafter at the place of the Meeting from 11.45 a.m. until the conclusion of the Meeting:
 - (i) the register of Directors' share interests kept pursuant to section 325 of the Companies Act 1985;
 - (ii) copies of Directors' service contracts and non-Executive Directors' appointment letters;
 - (iii) the proposed amendments to the Share Incentive Plan;
 - (iv) the rules of the Share Incentive Plan;
 - (v) the proposed amendments to the Sharesave Scheme;
 - (vi) the rules of the Sharesave Scheme; and
 - (vii) the Articles of Association.
3. The summary Group Profit and Loss Account and Balance Sheet are set out on page 12; Details of the total dividend for this year are set out in the Summary Directors' Report on page 15. Information on the Directors seeking election and re-election is set out on page 15. Explanations of resolutions 10 to 15 are set out in the Directors' Report on pages 15 and 16.

Website

Shareholder Information

The company's website at www.scottish-southern.co.uk has a dedicated shareholder information section where shareholders can find more information about the services and initiatives available to them, download forms, view and update their shareholding online, manage their portfolio through Investor Centre and view share price histories and trading graphs.

Voting Electronically

The website and the Guidance Notes on the reverse of the Proxy Form contain information on how shareholders can appoint their proxy electronically. Your on-line proxy can be checked and updated up until 12 noon on 27 July.

Shareholder Enquiries

You can contact the registrar, Computershare Investor Services PLC ('Computershare'), by phoning the dedicated shareholder helpline on 0870 702 0125, or writing to them at: The Pavilions, Bridgwater Road, Bristol, BS13 8FB. Computershare deals with the following:

- Shareholdings details
- Transferring shares
- Dividends
- Death of a shareholder
- Lost share certificates
- Share merging

Shareholder Services and Initiatives

Scottish and Southern Energy has launched a number of new services and initiatives including:

- Elect for eCommunications and have a tree planted
- Telephone and postal share dealings services with ShareGift option
- Merge your shareholdings and have a tree planted
- Dividend reinvestment plan

For further information please see the enclosed Shareholder Initiatives Brochure.

Financial Calendar

Annual General Meeting	29 July 2004
Ex dividend date	25 August 2004
Record date	27 August 2004
Final dividend payable	24 September 2004
Interim Announcement	4 November 2004*

The Group's half-year results will be published on the company's website at www.scottish-southern.co.uk on 4 November* and in the Independent newspaper on 5 November*, and will detail the ex dividend and record dates for the interim dividend payable in March 2005. The half-year results are not distributed to individual shareholders.

*Provisional dates

Company Reports

Copies of other company reports can be obtained, free of charge by accessing the company's website or by writing to the Company Secretary.

Available literature 2004



Annual Report and Accounts 2004

In the financial year to 31 March 2004, Scottish and Southern Energy achieved pre-tax profits of more than £600m. On that date, SSE was the 41st largest company in the FT-SE100 by market capitalisation.



Annual Review 2004

Scottish and Southern Energy focuses on the delivery of consistent, year-on-year increases in the dividend payable to shareholders. The dividend per share has grown by more than 30% in real terms since 1999, when SSE first reported results.



Environment Annual Report 2004

In the 8th Business in the Environment Index of Corporate Environmental Engagement in 2004, Scottish and Southern Energy achieved 'Premier League' status and was the top-performing electricity company for the second year running.



Environment Profile 2004

In its management of environmental issues, Scottish and Southern Energy focuses on use of resources, pollution control, waste management, and biodiversity and ecology.



Corporate Profile 2004

Scottish and Southern Energy has said it will continue to focus on achieving sustainable growth through effective management of core businesses, supplemented by the disciplined delivery of well-founded plans to invest in renewable energy generation, electricity networks and gas storage.

For further information about Scottish and Southern Energy please contact:

Scottish and Southern Energy plc

Corporate Communications
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Telephone: 01738 456000
Facsimile: 01738 457005
E-mail: info@scottish-southern.co.uk
Website: www.scottish-southern.co.uk

Registered in Scotland No. 117119