

# ALL IN THE DELIVERY

Scottish and Southern Energy plc  
Annual Review 2005



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Front cover:  
**Power Systems:** Engineers upgrading  
the overhead electricity network

## Directors

**Sir Robert Smith**  
Chairman  
**Ian Marchant**  
Chief Executive  
**Gregor Alexander**  
Finance Director  
**Colin Hood**  
Chief Operating Officer  
**René Médori**  
Non-Executive Director

**David Payne**  
Deputy Chairman  
**Alistair Phillips-Davies**  
Energy Supply Director  
**Susan Rice CBE**  
Non-Executive Director  
**Kevin Smith CBE**  
Non-Executive Director

## Financial Calendar

**Annual General Meeting**  
28 July 2005  
**Ex dividend date**  
24 August 2005  
**Record date**  
26 August 2005  
**Final dividend payable**  
23 September 2005  
**Interim announcement**  
16 November 2005\*

\* Provisional date

Note: This Business Review describes profits and earnings before goodwill, net finance income from pension assets (FRS 17) and the impact of deferred tax.

# DELIVERING VALUE



Ian Marchant  
Chief Executive

## Growing Profit Before Tax

In 2004/05, SSE again achieved increases in profit before tax, earnings per share and the dividend.

Profit before tax, before goodwill, net finance income from pension assets and exceptional items, grew by 17.2%, from £609.7m to £714.8m. There was profit growth in Power Systems, Generation and Supply, Gas Storage and Telecoms. The most significant growth was achieved in Generation and Supply, reflecting SSE's success in delivering value from its growing customer base and its investment in, and acquisition of, generation assets in recent years.

	2004/05 £m	2003/04 £m	Change %
Profit Before Tax (PBT)	785.3	607.3	29.3
Exceptional Items			
- TXU distribution	(133.5)	-	-
- Peterhead write-down	61.0	-	-
- Property disposal	-	(10.2)	-
PBT before exceptionals	712.8	597.1	19.4
- FRS 17 income	(13.4)	(2.2)	-
- Goodwill	15.4	14.8	-
Underlying PBT	714.8	609.7	17.2

## Increasing Earnings per Share

To monitor financial performance over the medium-term, SSE continues to focus on earnings per share before the non-cash items of goodwill, the impact of deferred tax and net finance income from pension assets. On this basis, and after excluding the impact of the exceptional items, earnings per share increased by 15.0%, from 54.1p to 62.2p.

## Delivering Dividends ahead of Target

The Board is recommending a final dividend of 30.3p, an increase of 14.8%, making a full-year dividend of 42.5p, an increase of 12.7%. This compares with 27.5p five years ago, in 2000, since when the dividend has increased by 54.5%, which represents a compound annual growth rate of 9.1%.

The dividend increase for 2004/05 is significantly ahead of SSE's target for the year of 4% real growth, reflecting the underlying performance of the business and its prospects. It is also being recommended to establish a new, higher base from which the dividend is expected to grow in future years.

The continuing delivery of strong performance in SSE's businesses, allied to the prospects for securing benefits from acquisitions and investment opportunities, means SSE is in a position to target at least 4% real growth in the dividend payable to shareholders in each of the three years to March 2008, with sustained real growth thereafter.

## Power Systems

Operating profit in Power Systems increased by 2.3%, from £317.5m to £324.7m, contributing 40.3% of SSE's total operating profit.

The key responsibility of SSE's Power Systems businesses is to maintain safe and reliable supplies of electricity, and to restore supplies as quickly as possible following interruptions. In line with that, SSE has invested £780m in its electricity networks since 2000, including £176m in 2004/05.

Earnings per share (pence)	
05	62.2
04	54.1
03	53.1
02	51.8
01	48.5

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

Dividend per share (pence)	
05	42.5
04	37.7
03	35.0
02	32.4
01	30.0

Throughout the process for determining the new electricity Distribution Price Control for 2005 to 2010, SSE's objective was to reach agreement with Ofgem on an overall package of measures which would allow it to deliver a quality service for customers while achieving a reasonable return for investors. Agreement was reached in December 2004.

Overall, SSE expects the outcome of the Distribution Price Control Review to enable it to increase the revenue earned by its electricity distribution businesses in future years. The priority now is to maintain the highest standards of customer service and efficiency within the new price control framework.

### Gas Distribution Networks

In August 2004, a consortium (now named Scotia Gas Networks) in which SSE holds 50% of the equity entered into an agreement to acquire the Scotland and the South of England gas distribution networks from National Grid Transco. In total, they comprise 73,000km of gas mains, delivering gas to around 5.6 million industrial, commercial and domestic customers.

When completed, the acquisitions will make SSE the second largest energy distributor in the UK. A programme of work to complete the acquisition process, and to put in place all the necessary arrangements for the change of ownership, is now well advanced.

### Generation and Supply

Operating profit in Generation and Supply rose by 29.5%, from £298.5m to £386.5m, contributing 48.0% of SSE's total operating profit.

With the acquisition of Ferrybridge and Fiddler's Ferry, SSE now owns and operates nearly 10,000MW of electricity generation.

Comprising a balanced mix of baseload, mid-merit and peaking plant, SSE's portfolio of power stations is now the second largest and the most diverse in the UK.

As a result of its ongoing programme of investment in renewable energy, SSE remains on course to have around 1,000MW of ROC-qualifying wind and hydro generating capacity by 2008. Of this, it already has in place, or has secured consent to develop, 566MW of capacity with 395MW in operation and 171MW in construction or refurbishment.

SSE's energy supply business had 6.1 million customers at 31 March 2005. It grew by 16% in 2004/05, with a net gain of 850,000 customers, including over 300,000 customers from Atlantic Electric & Gas in April 2004. Growth in customer numbers has continued at a similar rate since the end of March. Overall, SSE now has 1.5 million more customers than at the start of 2002, an increase of one third.

SSE remains the most efficient energy supplier in the UK, incurring the lowest cost when serving customers, according to a study by Datamonitor published in January 2005. The study said that SSE's 'cost to serve' is between 10% and 23% lower than that of other suppliers.

The leading independent study, by JD Power, published in November 2004, found that SSE has the highest level of customer satisfaction among UK gas suppliers and the third highest among electricity suppliers.

### Contracting and Connections

Contracting and Connections delivered operating profit of £47.5m during 2004/05, compared with £48.7m in the previous year. Southern Electric Contracting (SEC) acquired the electric contracting division of what was previously Eastern Contracting in January

2005, in a transaction with a value of around £2m. The acquired business is based in Bury St Edmunds, employs around 200 staff and extends significantly SEC's area of operation.

The Connections business completed around 42,000 electrical connections during 2004/05 and continued to expand its portfolio of electricity networks outside the Southern Electric and Scottish Hydro Electric Power Distribution areas. SSE's Connections business now owns and manages 16 electricity networks outside SSE's two electricity distribution areas.

### Gas Storage

Gas storage delivered an operating profit of £18.3m, an increase of 60.5% compared with the previous year. Demand for gas storage facilities in the UK remains high and, in a volatile gas market, SSE has continued to enter into new contracts to provide storage at a significantly higher value than the contracts they replace.

SSE's joint venture with Statoil (UK), in which SSE is investing £150m, to develop what will become the UK's largest onshore gas storage facility at Aldbrough, is continuing to make good progress.

### Telecoms

SSE's combined Telecoms business (SSE Telecom and Neos) achieved an operating profit of £10.6m in 2004/05, compared with £3.5m in the previous year.

### 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 that all injuries, plant damage and 'near misses' will be reported and investigated.

## 01 Power Systems



## 02 Gas Distribution Networks



In the year to 31 March 2005, there was a total of 17 lost-time and reportable injuries across the entire SSE Group, which was 10 fewer than in the previous year and equivalent to 154 per 100,000 employees. This is the best-ever performance achieved by employees of SSE.

The number of serious, or potentially serious, road traffic accidents involving employees driving company vehicles during 2004/05 was 0.42 per 100 vehicles, an improvement on the 0.52 recorded in the previous year.

### Environment

'Caring for our environment' is one of SSE's core values. In addition, two of SSE's eight principles of corporate responsibility relate directly to the environment: complying with and exceeding, where appropriate, all statutory and regulatory environmental requirements; and prioritising, and continually improving, environmental performance across all activities.

SSE's Environment Policy, which was reviewed in January 2005, is set out in full in its Sustainability Report 2005, along with SSE's performance in respect of the environmental targets set for 2004/05.

To benchmark its environment-related activities, SSE participated in the 2004 BitC Environment Index, the UK's leading environmental benchmarking tool, in which 178 companies participated.

The Index results were announced in April 2005. SSE's score was 98.80%, compared with 98.13% in the previous year. This score made SSE the joint top performing company in its sector and put it in BitC's 'Premier League' of participating companies.

### Employee Participation

In line with its principles of corporate responsibility, 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, it has in place 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 2004/05, over 250 employees took part in the scheme, which helped them to raise a total of around £150,000 for good causes.

### Strategy and Outlook

SSE has consistently set out four areas in which it can enhance and create value for shareholders: maintaining and investing in energy networks; adding to its leading-edge generation portfolio; growing its energy supply business; and developing its growing presence in businesses such as contracting, connections, telecoms and gas storage. This focus on energy and energy-related businesses in the UK has delivered growth in the dividend of 54.5% between 2000 and 2005, and it will continue, with the clear objective of delivering the new dividend target in the years ahead.

In practice, this means that SSE's emphasis during 2005/06 will continue to be on the effective day-to-day management of its businesses and on securing value from its acquisitions and its investment programme. Following a period in which the scale and scope of SSE's activities has increased significantly, the highest importance during 2005/06 will be attached to delivering significant value for shareholders from the opportunities that have been created over the past two years. ■

## Delivering in 2005



### 01 Power Systems

SSE invested £172m in its electricity networks in 2004/05, including automating over 100 urban substations and installing over 500 new radio-controlled automated switching units in rural areas, to allow faster restoration of supply to customers.

### 02 Gas Distribution Networks

With its partners – Canadian financial institutions Borealis Infrastructure and Ontario Teachers' – SSE is becoming a major player in gas distribution during 2005 with its investment in the Scotland and South of England gas distribution networks.

### 03 Renewable Energy

Spurness Wind Farm on the Orkney Islands was officially opened in March, taking SSE's operational wind farm capacity to 22MW. Construction is advancing well at the 20MW wind farm at Artfield Fell in Wigtownshire and the 120MW wind farm at Hadyard Hill in Ayrshire and both should begin generation in 2005/06.

### 04 Gas Storage

Work has begun on 'leaching' the first of nine caverns that will store 420 cubic metres of gas at the Aldrough facility which SSE is developing in a joint venture with Statoil (UK). The first cavern is expected to be ready to store gas by 2007.

03 Renewable Energy



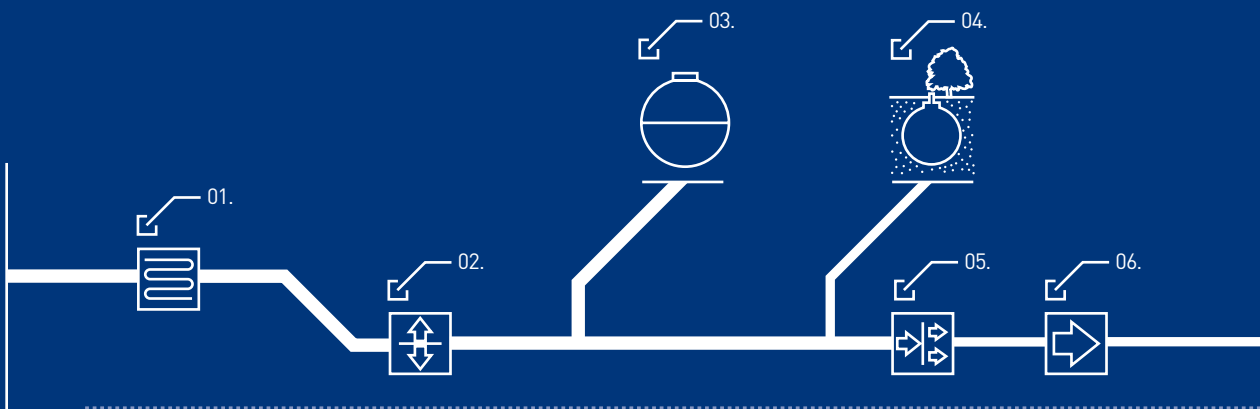
04 Gas Storage



## GAS BUSINESSES



**Suppliers**  
Gas is supplied from offshore fields, onshore fields and an interconnector with mainland Europe.



**01. Terminal**  
Gas is delivered to the National Transmission System through six beach terminals and is transported at pressures up to 85 bar gauge (barg)

**02. Compressor**  
Maintains pressure and propels gas through the system

**03. Liquefied Natural Gas Storage**  
Gas is cooled and stored as liquefied natural gas

**04. Gas Storage**  
Gas is stored in underground caverns

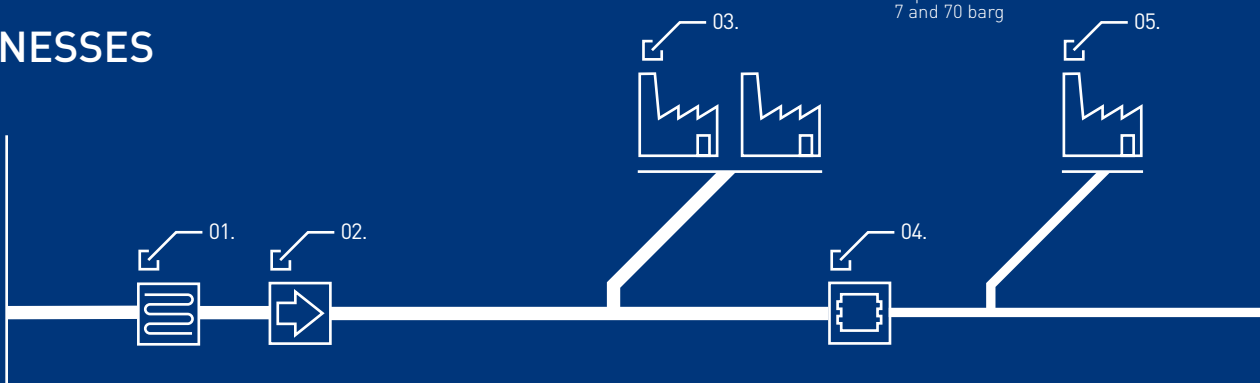
**05. Offtake**  
The point where gas is delivered to the distribution system operator

**06. High Pressure System**  
Transports gas in steel pipes over large distances at pressures between 7 and 70 barg

## ELECTRICITY BUSINESSES



**Power Station**  
Electricity is generated from nuclear, gas, electricity, coal, oil, hydro and wind power



**01. Grid Entry Point**  
The voltage is increased to 275kV or 400kV and the transmission company takes responsibility for transmitting the electricity

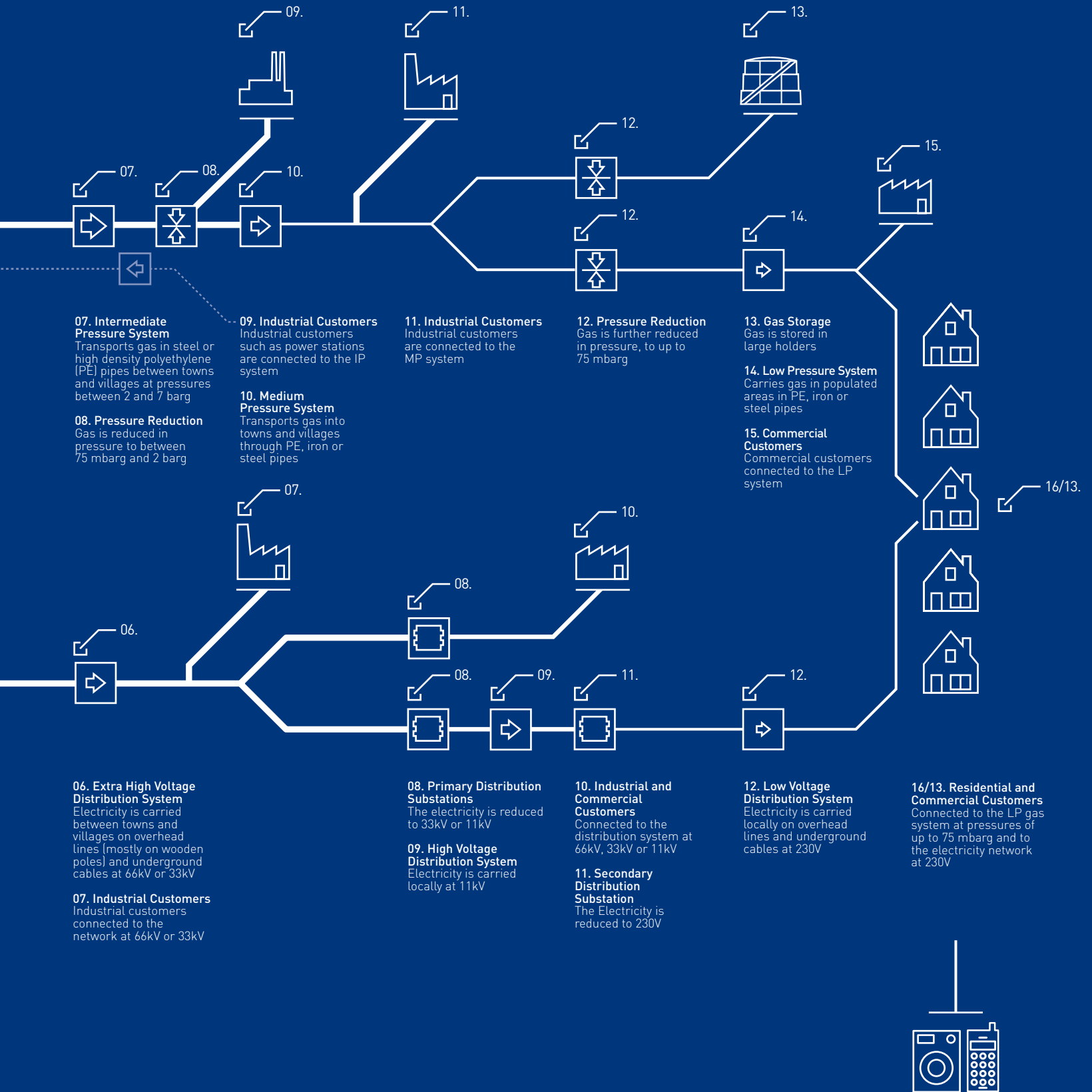
**02. Transmission System**  
The electricity is transmitted over large distances at 400kV or 275kV (also 132kV in Scotland)

**03. Very Large Industrial Customers**  
Very large customers such as steel producers take their electricity direct from the transmission system at voltages up to 400kV

**04. Grid Supply Point**  
The voltage is reduced to 132kV and responsibility for distribution of the electricity is handed onto the regional distribution companies

**05. Large Industrial Customers**  
Large industrial customers connected to the distribution system at 132kV

# MORE THAN AN ELECTRICITY COMPANY



**07. Intermediate Pressure System**  
Transports gas in steel or high density polyethylene (PE) pipes between towns and villages at pressures between 2 and 7 barg

**08. Pressure Reduction**  
Gas is reduced in pressure to between 75 mbarg and 2 barg

**09. Industrial Customers**  
Industrial customers such as power stations are connected to the IP system

**10. Medium Pressure System**  
Transports gas into towns and villages through PE, iron or steel pipes

**11. Industrial Customers**  
Industrial customers are connected to the MP system

**12. Pressure Reduction**  
Gas is further reduced in pressure, to up to 75 mbarg

**13. Gas Storage**  
Gas is stored in large holders

**14. Low Pressure System**  
Carries gas in populated areas in PE, iron or steel pipes

**15. Commercial Customers**  
Commercial customers connected to the LP system

**06. Extra High Voltage Distribution System**  
Electricity is carried between towns and villages on overhead lines (mostly on wooden poles) and underground cables at 66kV or 33kV

**07. Industrial Customers**  
Industrial customers connected to the network at 66kV or 33kV

**08. Primary Distribution Substations**  
The electricity is reduced to 33kV or 11kV

**09. High Voltage Distribution System**  
Electricity is carried locally at 11kV

**10. Industrial and Commercial Customers**  
Connected to the distribution system at 66kV, 33kV or 11kV

**11. Secondary Distribution Substation**  
The Electricity is reduced to 230V

**12. Low Voltage Distribution System**  
Electricity is carried locally on overhead lines and underground cables at 230V

**16/13. Residential and Commercial Customers**  
Connected to the LP gas system at pressures of up to 75 mbarg and to the electricity network at 230V

**DEFINITIONS**

**bar** Atmospheric pressure (approximately)

**barg** Measurement of pressure with respect to atmospheric pressure

**kV** Thousand Volts

**mbarg** Approximately 1000th of normal atmospheric pressure



**15/12. Beyond the Meter**  
Including contracting, appliance retailing and energy efficiency services

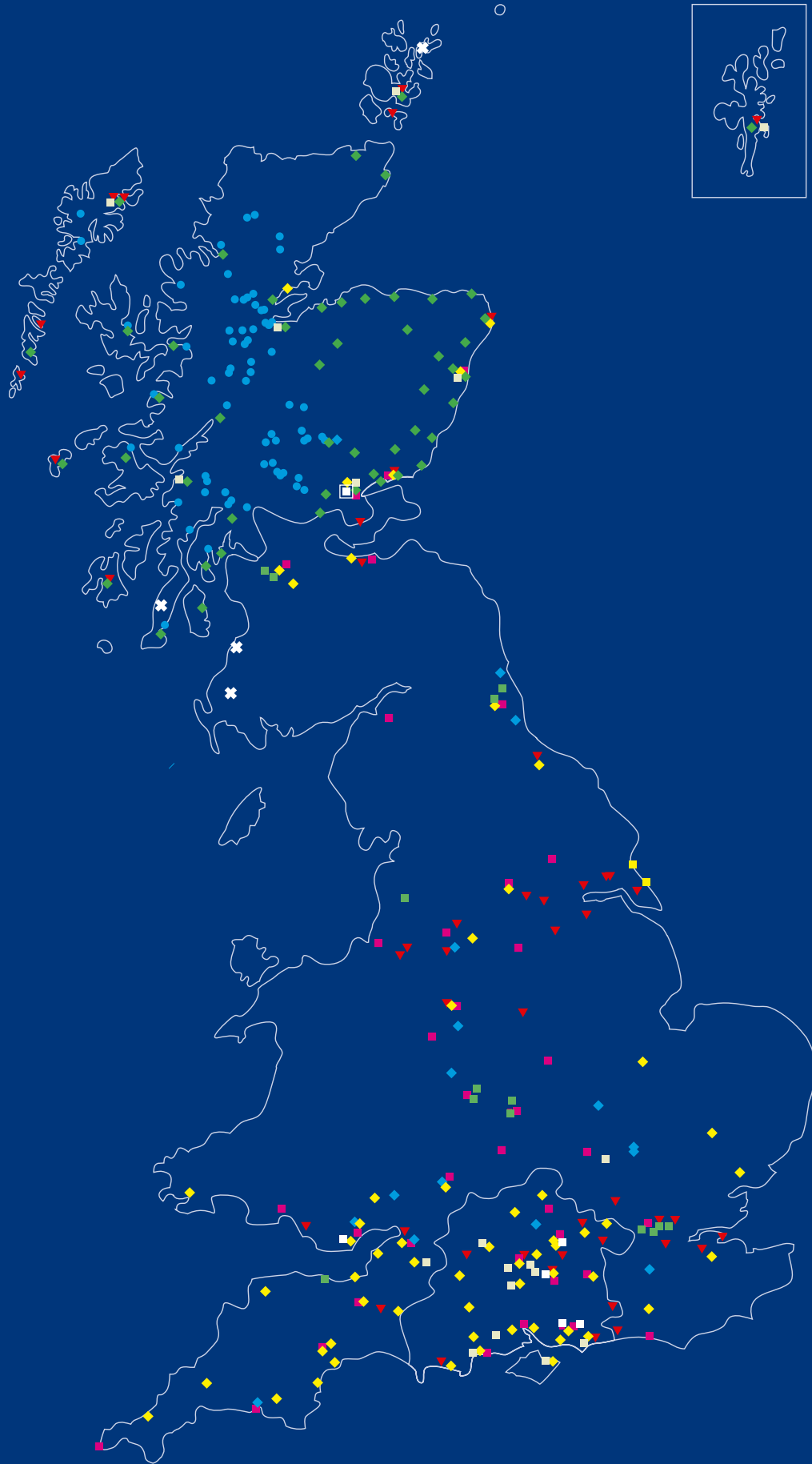
Scottish and Southern Energy is more than just Scottish and Southern.

It serves customers from more than 150 sites across the country.

The map shows the locations of the main power stations, depots, customer service centres and shops.

- **Headquarters**
- **Customer Service Centres** – including Perth, Basingstoke, Cardiff, Havant, Portsmouth, Reading
- **Hydro Generation** – power stations throughout the north of Scotland
- ✱ **Wind Farms** – four operational or under construction
- ▼ **Thermal Generation** – main, wholly-owned power stations at Fife, Ferrybridge, Fiddler's Ferry, Keadby, Medway, Peterhead
- **Gas Storage** – Hornsea operational and Albrough under construction
- **Energy Networks** – distributing electricity to 3.6 million customers and, from 1 June 2005, gas to 5.6 million customers
- **Embedded Distribution Networks** - 16 electricity networks outside its electricity distribution areas
- **Telecoms** – managing 7,500km of telecoms network
- ◆ **Direct Sales** – teams of direct sales staff operating in locations across the country
- ◆ **Shops** – serving local communities in northern Scotland
- ◆ **Contracting Group** – operating from over 40 regional offices nationwide

MORE THAN JUST  
SCOTTISH AND  
SOUTHERN



## PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2005

	Before exceptionals £m	Exceptionals £m	2005 £m	2004 £m
<b>Group turnover</b>	<b>7,424.6</b>	-	<b>7,424.6</b>	5,124.4
<b>Operating profit:</b>				
Group	739.5	50.2	789.7	629.1
Share of joint ventures	28.9	-	28.9	30.6
Share of associates	21.9	22.3	44.2	20.6
<b>Total operating profit</b>	<b>790.3</b>	<b>72.5</b>	<b>862.8</b>	680.3
Gain on disposal of property	-	-	-	10.2
Income from fixed asset investments	-	-	-	0.1
<b>Net interest payable and similar charges</b>	<b>(90.9)</b>	-	<b>(90.9)</b>	(85.5)
Other finance income	13.4	-	13.4	2.2
<b>Profit on ordinary activities before taxation</b>	<b>712.8</b>	<b>72.5</b>	<b>785.3</b>	607.3
Tax on ordinary activities	(215.0)	(27.2)	(242.2)	(159.5)
<b>Profit on ordinary activities after taxation</b>	<b>497.8</b>	<b>45.3</b>	<b>543.1</b>	447.8
Equity minority interests in subsidiary undertaking	0.1	-	0.1	0.1
<b>Profit attributable to ordinary shareholders</b>	<b>497.9</b>	<b>45.3</b>	<b>543.2</b>	447.9
Dividends	(364.7)	-	(364.7)	(322.9)
<b>Retained profit</b>	<b>133.2</b>	<b>45.3</b>	<b>178.5</b>	125.0
<b>Earnings per share (p)</b>				
- basic	58.1		63.4	52.3
- adjusted	62.2		67.5	54.1
- diluted	57.4		62.6	52.2

## BALANCE SHEET

as at 31 March 2005

	2005 £m	2004 £m
Fixed assets	4,866.4	4,610.1
Current assets	1,440.0	811.2
Creditors: amounts falling due within one year	(1,700.8)	(1,307.8)
Net current liabilities	(260.8)	(496.6)
Total assets less current liabilities	4,605.6	4,113.5
Creditors: amounts falling due after more than one year	(1,918.4)	(1,652.3)
Provisions for liabilities and charges:		
Deferred taxation	(530.4)	(512.7)
Other provisions	(111.3)	(96.0)
Net assets excluding net pension liability	2,045.5	1,852.5
Net pension liability	(143.6)	(124.4)
Net assets including net pension liability	1,901.9	1,728.1
Capital and reserves	1,901.9	1,728.1

The Summary Financial Statement was approved by the Board of Directors on 17 May 2005 and signed on their behalf by Sir Robert Smith, Chairman.

The Summary Financial Statement is only a summary of the information contained in the Group's consolidated Annual Accounts and Directors' 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 [scottish-southern.co.uk](http://scottish-southern.co.uk).

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



Sir Robert Smith **Chairman**



Ian Marchant **Chief Executive**



Gregor Alexander **Finance Director**



Colin Hood **Chief Operating Officer**



Alistair Phillips-Davies **Energy Supply Director**



René Médori **Audit Committee Chairman**



David Payne **Deputy Chairman**



Susan Rice CBE **Non-Executive Director**



Kevin Smith CBE **Non-Executive Director**

## Sir Robert Smith (60) **Chairman**

Sir Robert joined the Board as a non-Executive Director in June 2003 and was appointed Deputy Chairman in November 2003. He became Chairman following the retirement of Dr Bruce Farmer on 31 December 2004. He is Chairman of The Weir Group plc and a non-Executive Director of 3i Group plc, Standard Bank Group Limited and Aegon 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, a Governor of the BBC, a Board Trustee of the British Council and Chairman of Stakis plc.

## Ian Marchant (44) **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 Nomination Committee and is lead Director for Corporate Responsibility.

## Gregor Alexander (42) **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.

## Colin Hood (50) **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 Fellow of the Institute of Electrical Engineers. Colin is the lead Director for the Environment and Health and Safety matters and has Board level responsibility for Generation, Power Systems, Customer Service, Human Resources, I.T. and Contracting.

## René Médori (47) **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 been Chief Financial Officer of BOC Gases, Americas. Previously he worked for Accenture and Schlumberger Limited. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

## David Payne (62) **Deputy Chairman**

David joined the Board as a non-Executive Director of Scottish Hydro Electric in June 1998 and became Deputy Chairman in January 2005. He held a number of senior positions with the BP Group and was Deputy Chief Executive of BP Oil. He is the Senior Independent Director, Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

## Alistair Phillips-Davies (37) **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 having previously worked for HSBC and the National Westminster Bank in corporate finance and business development roles. He is Chairman of the Risk Committee and has Board level responsibility for Energy Trading, Electricity and Gas Supply, Marketing and Energy Services.

## Susan Rice CBE (59) **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 and Nomination Committees.

## Kevin Smith CBE (50) **Non-Executive Director**

Kevin joined the Board as a non-Executive Director in 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 Vice-President of The Society of Motor Manufacturers and Traders Ltd, and President of The Society of British Aerospace Companies Ltd. He is a member of the Nomination and Remuneration Committees.

**SUMMARY REMUNERATION REPORT**

The Remuneration Committee sets the overall remuneration policy on behalf of the Board. The policy, which gives full consideration to the best practice provisions of the Combined Code of Corporate Governance, 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.

Remuneration for 2005 and beyond comprises:

- Salary taking account of those in comparable companies;
- Annual cash bonus aligned with corporate performance and the achievement of personal objectives; and
- Longer term deferred bonus adjusted to take account of performance conditions closely aligned with the interests of shareholders, customers and employees.

**(1) Salary and Benefits**

Salaries are reviewed annually, and take account of independent data on salary rates for comparable companies with variations to reflect individual performance, experience and job size. At the same time, the policy is that salary and benefits levels are generally set below market median. However, independent data which was reviewed by the Remuneration Committee during the year showed that Executive Director salary levels had fallen significantly below median. Their conclusion was that this exposed the company to a retention risk, which was not in the interests of the company or its shareholders. Salaries were increased as a result of the review although these have remained within the overall 'below median' policy.

**(2) Annual Bonus**

Annual bonuses of up to 50% basic salary may be paid. These are two thirds attributable to corporate performance based on the achievement of profit targets and one third to personal objectives - including: improvements on safety performance; reduction in customer complaints; exceeding quality of supply standards; achievement of further efficiency savings; successful delivery of results from recent acquisitions; and delivery of major projects on or ahead of schedule. No corporate element of the bonus would have been payable if performance had fallen below 92.5% of target. As part of the review by the Remuneration Committee it was identified that the maximum bonus level was significantly below market median. The maximum bonus level for 2005/06 and future years has been increased to 75% by the Committee and performance targets have been stretched further.

**(3) Deferred Bonus Scheme**

Around 75 Senior Managers, including the Executive Directors, are entitled to participate in the Deferred Bonus Scheme. The scheme is designed to contribute to increasing shareholder return and motivation of senior management over the longer-term. Directors are granted awards based on their actual annual bonus. Therefore if the annual bonus were to be zero, there would be no award under the Deferred Bonus Scheme. The value of the award is adjusted to reflect the company's relative performance in terms of (a) Total Shareholder Return over a three-year period (compared to the FT-SE 100); (b) safety (which is externally verified and compared to other energy companies); and (c) customer complaints (as recorded by the independent regulatory body, energywatch). After adjustment, the resultant amount is used

by the independent trustees of the scheme to buy shares in the market at market value. These shares are held in trust for three years, after which time the Executive has the option to acquire the shares for a nominal sum, usually with additional shares representing dividends paid on the shares during the three-year period.

The Executive Directors are also entitled to participate in the company's two all-employee share schemes on the same terms as other employees - the Sharesave Scheme (where a maximum of £250 per month can be saved) and the Share Incentive Plan (where a maximum of £125 per month can be used to buy shares).

**Service Contracts**

It is the company's policy that Executive Directors should have service contracts which are terminable on 12 months notice by either party. During the year the Remuneration Committee decided to change the terms of the Service Contracts to bring them in line with developing best practice. As a result the contracts no longer have a change of control clause (which provided for a payment of 125% of salary), and the payment in lieu of notice will now be in staged payments which will either reduce or cease where the departing Executive gains new employment. There is also now a requirement on the Executive to mitigate his or her loss in these circumstances.



## Directors' Emoluments and Interests

The emoluments and interests of each of the Directors were as follows:

	Salary/fee £000	Bonuses £000	Benefits £000	Total 2005 £000	Total 2004 £000	Shares held 31 March 2005 <sup>5</sup>	Shares held under option 31 March 2005
<b>Executive Directors</b>							
Ian Marchant	525	262	16	803	615	64,580	80,198
Gregor Alexander	260	130	13	403	277	9,279	42,047
Colin Hood	390	195	15	600	465	21,651	64,016
Alistair Phillips-Davies	260	130	14	404	304	13,144	40,120
David Sigsworth <sup>1</sup>	297	131	21	449	362	44,049	85,086
<b>Non-Executive Directors</b>							
Bruce Farmer <sup>2</sup>	165	-	12	177	214	-	-
Henry Casley	38	-	-	38	37	89,352	-
René Médori	43	-	-	43	31	2,000	-
Sir Graeme Odgers <sup>3</sup>	7	-	-	7	42	-	-
David Payne	44	-	-	44	37	8,000	-
Susan Rice	38	-	-	38	24	2,000	-
Kevin Smith <sup>4</sup>	26	-	-	26	0	2,000	-
Sir Robert Smith (Chairman)	99	-	-	99	40	15,800	-
<b>Former Directors</b>							
Ian Grant	-	-	-	-	35	-	-
Nick Timpson	-	-	-	-	15	-	-
<b>Totals</b>	<b>2,192</b>	<b>848</b>	<b>91</b>	<b>3,131</b>	<b>2,498</b>		

1. David Sigsworth's salary of £297,000 includes a payment of £35,000 in respect of a holiday in suspense entitlement, arising from a historical electricity industry agreement which applies to employees in the industry in the early 1970s. This amount was both non-bonusable and non-pensionable.
2. To date of retirement from the Board on 31 December 2004.
3. To date of retirement from the Board on 18 May 2004.
4. From date of appointment to the Board on 24 June 2004.
5. From 31 March 2005 to 17 May 2005, the following changes to the interests of Directors took place on 29 April 2005. Ian Marchant, Colin Hood, Gregor Alexander and Alistair Phillips-Davies each acquired 18 shares under the Share Incentive Plan.

The information contained in the Summary Group Profit and Loss Account and Summary Group Balance Sheet is only a summary of the information which appears in the full Annual Report and Accounts.

### Principal Activities

The principal activities of the Group are the generation, transmission, distribution and supply of electricity; energy trading, storage and supply of gas; electrical, environmental and utility contracting and domestic appliance retailing and telecoms.

### Results and Dividends

Group profit before tax was £785.3m (2004 - £607.3m). The Directors propose a final dividend of 30.3p per share to be paid on 23 September 2005. The final dividend brings the total dividend to 42.5p, up 12.7% on 2004.

### Corporate Governance

The Board is committed to the highest standards of corporate governance and to the provisions of the Combined Code of Corporate Governance set out in the Listing Rules of the Financial Services Authority. The company has complied with the Combined Code during the year apart from the provision on composition of the Board, and the evaluation of performance of the Chairman. Full explanations are contained in the detailed report on corporate governance which is contained in the full Annual Report and Accounts.

### Directors

The names of the current Directors are set out in the Directors' Emoluments and Interests table. Sir Graeme Odgers, Bruce Farmer, David Sigsworth and Henry Casley retired as Directors on 18 May 2004, 31 December 2004, 31 March 2005 and 17 May 2005 respectively. Kevin Smith was appointed as a non-Executive Director on 24 June 2004.

Colin Hood, René Médori and Sir Robert Smith retire by rotation and resolutions for their re-election will be proposed at the forthcoming Annual General Meeting.

### Auditors

The financial information set out in the Summary Financial Statement does not constitute the Group's statutory accounts. The auditors have however reported on these accounts and their report was unqualified and did not contain a statement under section 237(2) or 237(3) of the Companies Act 1985.

Resolutions to authorise the Directors to re-appoint KPMG Audit Plc as auditors and to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

### ANNUAL GENERAL MEETING SPECIAL BUSINESS

#### Authority to Allot Shares (Resolution 9)

This resolution renews the Directors' authority, under section 80 of the Companies Act 1985, to allot shares. The authority to allot is limited to shares with a nominal value of £143,137,431 representing one third of the issued share capital as at 17 May 2005, the latest practicable date before the printing of the Notice of Meeting. This authority was last renewed at the Annual General Meeting in 2004. The authority, if renewed, will terminate at the conclusion of the Annual General Meeting in 2006. 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 pre-emption disapplication contained in resolution 10. The authority is in line with current institutional shareholder guidelines.

#### Disapplication of Pre-emption Rights (Special Resolution 10)

Resolution 10 proposes as a special resolution to renew 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 2004, gives the company greater flexibility in its financing arrangements.

This resolution deals with the allotment of shares for cash under a rights issue, 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 £21,470,614 nominal share capital representing 5% of the issued share capital as at 17 May 2005, the last practicable date before the printing of the Notice of Meeting. 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 resolution 11 for further details.

#### Purchase of Own Shares and Treasury Shares (Special Resolution 11)

In certain circumstances it may be advantageous for the company to purchase its own ordinary shares, and resolution 11 will, if approved, renew the company's authority from shareholders to make such purchases until the Annual General Meeting in 2006 or 28 October 2006 whichever is the earlier. Purchases will only be made if the Directors believe that to do so would result in an increase in the Group's earnings per share and would be in the best interests of shareholders generally.

The resolution (which will be proposed as a special resolution) specifies the maximum number of shares which may be acquired (10% of the company's issued share capital) and minimum and maximum prices at which they may be bought. There are options outstanding at the date of this report over 5.9 million ordinary shares, representing 0.7% of the issued share capital; if the authority given by resolution 11 were to be fully used, these options would represent 0.8% of the share capital in issue on that date.

Any shares purchased in this way will either be cancelled and the number of shares in issue reduced accordingly or held in treasury under the Companies (Acquisition of Own

Shares) (Treasury Shares) Regulations 2003.

Shares held in treasury may subsequently be sold for cash (within the limit of the shareholder pre-emption disapplication referred to above), cancelled, or used for the purposes of employee share schemes. Holding its own shares as treasury shares would give the company the ability to re-issue them quickly and cost effectively, and would provide the company with additional flexibility in the management of its capital base. The Directors believe that it is desirable for the company to have this flexibility. No dividends will be paid on shares whilst held in treasury and no voting rights will be exercisable in respect of treasury shares. Treasury shares transferred for the purposes of the company's employee share schemes will count towards the limits in those schemes on the number of new shares which may be issued.

During the year no ordinary shares were purchased by the company. The company does not currently hold any treasury shares.

#### **Annual General Meeting**

The 16th Annual General Meeting of the company will be held on 28 July 2005 at 12 noon at the Pitlochry Festival Theatre, Port-na-Craig, Pitlochry PH16 5DR. The Notice of Meeting is set out on pages 14 and 15.

#### **By Order of the Board**

**Vincent Donnelly**  
Company Secretary  
17 May 2005

#### **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 8.

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 Annual Review 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 Annual Review 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 2005 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  
17 May 2005

NOTICE IS HEREBY GIVEN that the SIXTEENTH ANNUAL GENERAL MEETING of Scottish and Southern Energy plc will be held at the Pitlochry Festival Theatre, Port-na-Craig, Pitlochry PH16 5DR on Thursday, 28 July 2005 at 12 noon for the following purposes:

To consider and, if thought fit, pass resolutions 1 to 9 as ordinary resolutions, and resolutions 10 and 11 as special resolutions:

### Resolution 1

to receive the Accounts and the Reports of the Directors and the auditor for the financial year ended 31 March 2005.

### Resolution 2

to approve the Remuneration Report for the financial year ended 31 March 2005.

### Resolution 3

to declare a final dividend for the year ended 31 March 2005 of 30.3 pence per ordinary share.

### Resolution 4

to re-elect Colin Hood as a Director of the company.

### Resolution 5

to re-elect René Médori as a Director of the company.

### Resolution 6

to re-elect Sir Robert Smith as a Director of the company.

### Resolution 7

that KPMG Audit Plc be appointed auditor 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 8

that the Directors be authorised to determine the auditor's remuneration.

### Resolution 9

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 £143,137,431, 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 10

that subject to the passing of resolution 9 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 9 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 £21,470,614;

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 9' were omitted.

### Resolution 11

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 85,880,075 representing 10% 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 5% 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.

**By Order of the Board**  
**Vincent Donnelly**  
**Company Secretary**  
**17 May 2005**

**Registered Office:**  
**Inveralmond House**  
**200 Dunkeld Road**  
**Perth**  
**PH1 3AQ**

## Notes

1. Only holders of ordinary shares on the register at 11.00 pm. on 26 July 2005 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 26 July 2005.

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 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 am until the conclusion of the Meeting:
  - (i) the register of Directors' share interests kept pursuant to section 325 of the Companies Act 1985; and
  - (ii) copies of Directors' service contracts and non-Executive Directors' appointment letters.
3. The Summary Group Profit and Loss Account and Balance Sheet are set out on page 8; details of the total dividend for this year are set out in the Summary Directors' Report on page 12; information on the Directors seeking re-election is set out on page 12; and explanations of resolutions 9 to 11 are set out in the Directors Report on page 12 and 13.

### Website

#### Shareholder Information

The company's website at [scottish-southern.co.uk](http://scottish-southern.co.uk) has a dedicated shareholder information section where shareholders can find more information about the services available to them, download forms, view and update their shareholding online, manage their portfolio through Investor Centre and view share price and dividend 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 26 July 2005.

### Shareholder Enquiries

You can contact the registrar, Computershare Investor Services PLC ('Computershare'), by phoning the dedicated shareholder helpline on 0845 143 4005, or writing to them at: The Pavilions, Bridgwater Road, Bristol BS13 8FB.

Computershare deal with the following:

- Shareholding details
- Transferring shares
- Dividends
- Death of a shareholder
- Lost share certificates
- Merging duplicate share accounts
- eCommunication

### Shareholder Services

Scottish and Southern Energy has a number of services including:

- Elect for eCommunications and have a tree planted
- Telephone, Internet and postal share dealings services with ShareGift option
- Merge duplicate share accounts and have a tree planted
- Dividend reinvestment plan

You can find further information on these services on the company's website at [scottish-southern.co.uk/shareholder](http://scottish-southern.co.uk/shareholder), or on the Proxy Form.

### Financial Calendar

Annual General Meeting  
28 July 2005  
Ex dividend date  
24 August 2005  
Record date  
26 August 2005  
Final dividend payable  
23 September 2005  
Interim announcement  
16 November 2005\*

The Group's half-year results will be published on the company's website at [scottish-southern.co.uk](http://scottish-southern.co.uk) on 16 November\* and in the Independent newspaper on 17 November\*, and will detail the ex dividend and record dates for the interim dividend payable in March 2006. Paper copies of the half-year results are not distributed to individual shareholders, although shareholders who have elected for eCommunications do receive notification of the half-year results on the company's website.

\* Provisional dates

### Copy Reports

Copies of the following documents can be obtained, free of charge, from the Company Secretary, Scottish and Southern Energy plc, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ or by accessing the company's website at [scottish-southern.co.uk](http://scottish-southern.co.uk):

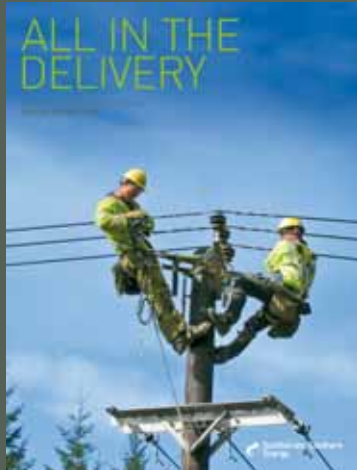
- Annual Report and Accounts 2005
- Annual Review 2005
- Sustainability Report 2005
- Corporate Profile 2005





#### Annual Report 2005

Scottish and Southern Energy delivered an excellent financial performance in 2004/05, achieving results well in excess of expectations at the start of the year. This was supported by a strong operational performance, driven by the fact that putting customers first is one of SSE's core values. As a result, the company has continued to meet its core objective, which is to deliver sustained real growth in the dividend.



#### Annual Review 2005

Scottish and Southern Energy now has 6.1 million energy supply customers, an increase of 16% in 2004/05. It has the second largest, and most diverse and flexible, generation portfolio in the UK. SSE's investment in the Scotland and South of England gas distribution networks will make it the second largest energy distributor in the UK.



#### Sustainability Report 2005

Caring for the environment is one of Scottish and Southern Energy's core values. SSE participated in the 2004 BitC Environmental Index, the UK's leading environmental benchmarking tool. SSE's score was 98.80%, making it the joint top performing company in its sector. This result places SSE in BitC's 'Premier League' of participating companies.



#### Corporate Profile 2005

SSE has consistently set out four areas in which it can enhance and create value for shareholders: maintaining and investing in energy networks; adding to its leading-edge generation portfolio; growing its energy supply business; and developing its contracting, connections, telecoms and gas storage businesses.

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

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