Scottish and Southern Energy

energy made better

Scottish and Southern Energy plc
Annual Report 2007

Our purpose is to provide people with the energy they need – in a reliable and sustainable way.

This Annual Report describes how we’ve worked to make energy better.

And we’re continuing to work to make it better still.

Contents

*This results statement describes adjusted profit before tax before exceptional items, the impact of IAS 32 and IAS 39 and after the removal of taxation on profits from jointly-controlled entities and associates. It also describes adjusted earnings and earnings per share before exceptional items, the impact of IAS 32 and IAS 39 and deferred tax. In addition, it describes adjusted operating profit before exceptional items, the impact of IAS 32 and IAS 39, and after the removal of taxation and interest on profits from jointly controlled entities and associates.

Operational data for 2005 and 2006 has been restated in some places to conform with the definitions for data published for 2007.

Directors

Sir Robert Smith
Chairman
Ian Marchant
Chief Executive
Gregor Alexander
Finance Director
Colin Hood
Chief Operating Officer
Nick Baldwin
Non-Executive Director
Richard Gillingwater
Non-Executive Director
René Médori
Non-Executive Director
David Payne
Deputy Chairman
Alistair Phillips-Davies
Energy Supply Director
Susan Rice CBE
Non-Executive Director
Sir Kevin Smith CBE
Non-Executive Director

Financial Calendar

Annual General Meeting
26 July 2007
Ex dividend date
22 August 2007
Record date
24 August 2007
Final dividend payable
21 September 2007
Interim announcement
14 November 2007*

* Provisional date

Making dividends bigger

Sir Robert Smith Chairman

Scottish and Southern Energy's strategy is to deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses. The successful implementation of this strategy in 2006/07 delivered another year of excellent financial performance, with profit before tax exceeding £1 billion for the first time, and strong operational performance, with our policy of responsible pricing helping us to gain more than one million additional customers.

Assets

There has been very good progress in our major investment programme, with the result that our asset base in energy networks, electricity generation, energy supply and gas storage, which has grown substantially in recent years, will again increase significantly in the coming years. Later this year, for example, the first of the gas storage caverns at our development at Aldbrough in East Yorkshire are set to be commissioned, and our first new large-scale hydro electric scheme for 50 years is taking shape at Glendoe near Loch Ness. This growth in assets will confirm our position as the broadest-based UK energy company, and we have the opportunities and financial strength to invest further.

Customers

SSE has two kinds of customers: those to whom we supply electricity and gas and other energy and utility services in competitive markets; and those to whom we distribute energy via regulated networks. I am very pleased to report that we responded effectively to the power cuts experienced by our electricity network customers and achieved another reduction in the number of complaints sent by customers of Scotia Gas Networks to energywatch for resolution. We have also set the standard in customer service in energy supply, with the implementation of our sector-leading Customer Charter. This, combined with our policy of responsible pricing, has helped us to reach 7.75 million customers, an increase of over 70% in five years.

Dividend

SSE's first responsibility to shareholders is to deliver sustained real growth in the dividend. With its operational and investment focus leading to value enhancement and creation, SSE is in an excellent position to deliver very good results in the years ahead, as a customer-serving, dividend-paying company. Our enhanced dividend policy reflects this. The Board is recommending a final dividend of 39.9p, making a full-year dividend of 55p – an increase of 18.3%. From this new, higher base, our new target is to deliver at least 4% real growth in the dividend in respect of 2007/08, 2008/09 and 2009/10 and to deliver sustained real growth in the dividend thereafter.

Environment

SSE's core activities present significant environmental challenges and our policy is to minimise where possible the emissions of carbon, sulphur and nitrogen from all of our activities through a combination of continuous improvement in the management of our operations and investment in alternative sources of energy. In this context, I am particularly pleased that we have set ourselves the target of reducing the carbon intensity of electricity generated at power stations in which we have an ownership or contractual interest by 20% by 2016. This is just one example of our determination to make energy better.

Values

Sustainability – aiming to operate ethically, taking the long-term view to achieve growth while safeguarding the environment – is one of six core values for SSE which we defined during the year. The others are safety, service, efficiency, excellence and teamwork. These values are demonstrated day-in, day-out by people throughout SSE and it is this which helps to set the company apart from so many others, and to which I pay a fulsome tribute. Adhering to them helped us to achieve another reduction in the number of lost time and reportable injuries to a new record low for the company. Nevertheless, we remain focused on our ultimate goal of injury-free working.

Long-term

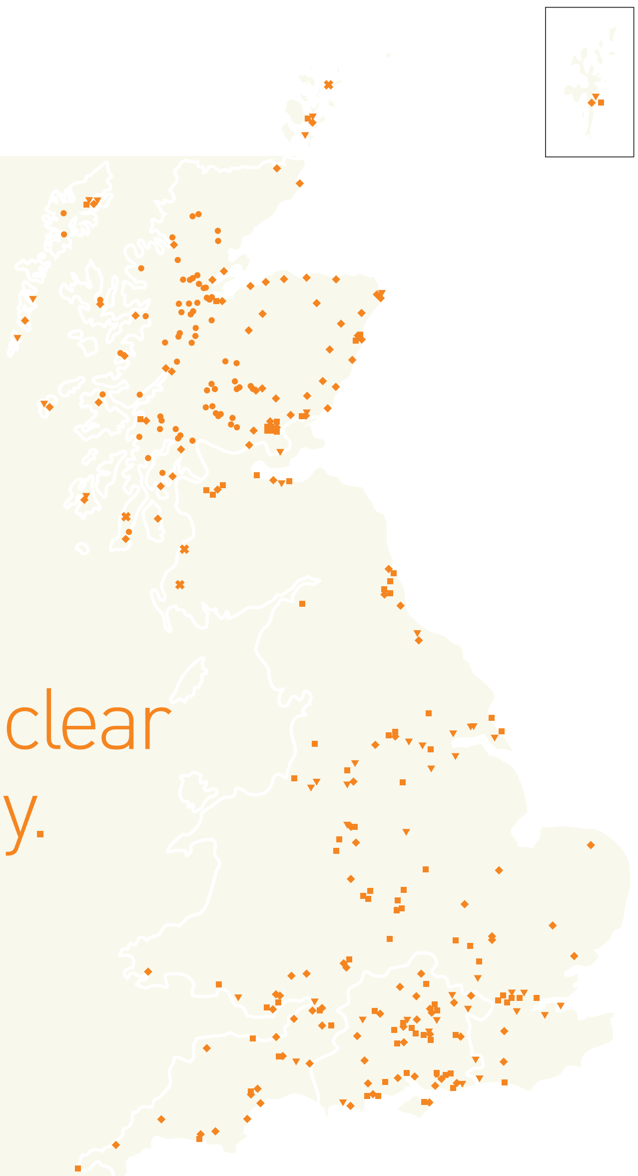
Next year will see the completion of SSE's first decade as one of the UK's leading energy companies, and the company is full of ideas, plans and opportunities for its second decade. That decade will be challenging, and there is absolutely no room whatsoever for complacency, but I am fully confident that the company is exceptionally well-placed to add greatly to its track record of sustained real growth in the dividend.

SSE's core purpose is to provide the energy people need in a reliable and sustainable way.

Our values: safety, service, efficiency, sustainability, excellence and teamwork.

Our strategy: to deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses.

Our team: more than 13,400 people, working from more than 150 power stations, depots, customer service centres, offices and shops.



We have a clear purpose, clear values and a clear strategy. We believe in teamwork. And the net result? Energy made better.

Providing Energy

1. Generation portfolio
SSE owns and operates over 10,000MW of electricity generation capacity, including its share of joint ventures. This capacity includes coal-fired (with biomass co-firing capability) and gas-fired power stations, as well as wind farms and hydro electric schemes.

2. Wind
SSE owns and operates and has consent to build six onshore wind farms in the UK, including the first to generate over 100MW of electricity, and is seeking consent to develop others.

3. Hydro
SSE owns and operates over 50 hydro electric power stations in Scotland and is now building what will be its second largest, at Glendoe near Loch Ness.

4. Electricity networks infrastructure
SSE is responsible for 128,000km of overhead lines and underground cables, distributing electricity to 3.5 million homes, offices and businesses in the north of Scotland and central, southern England.

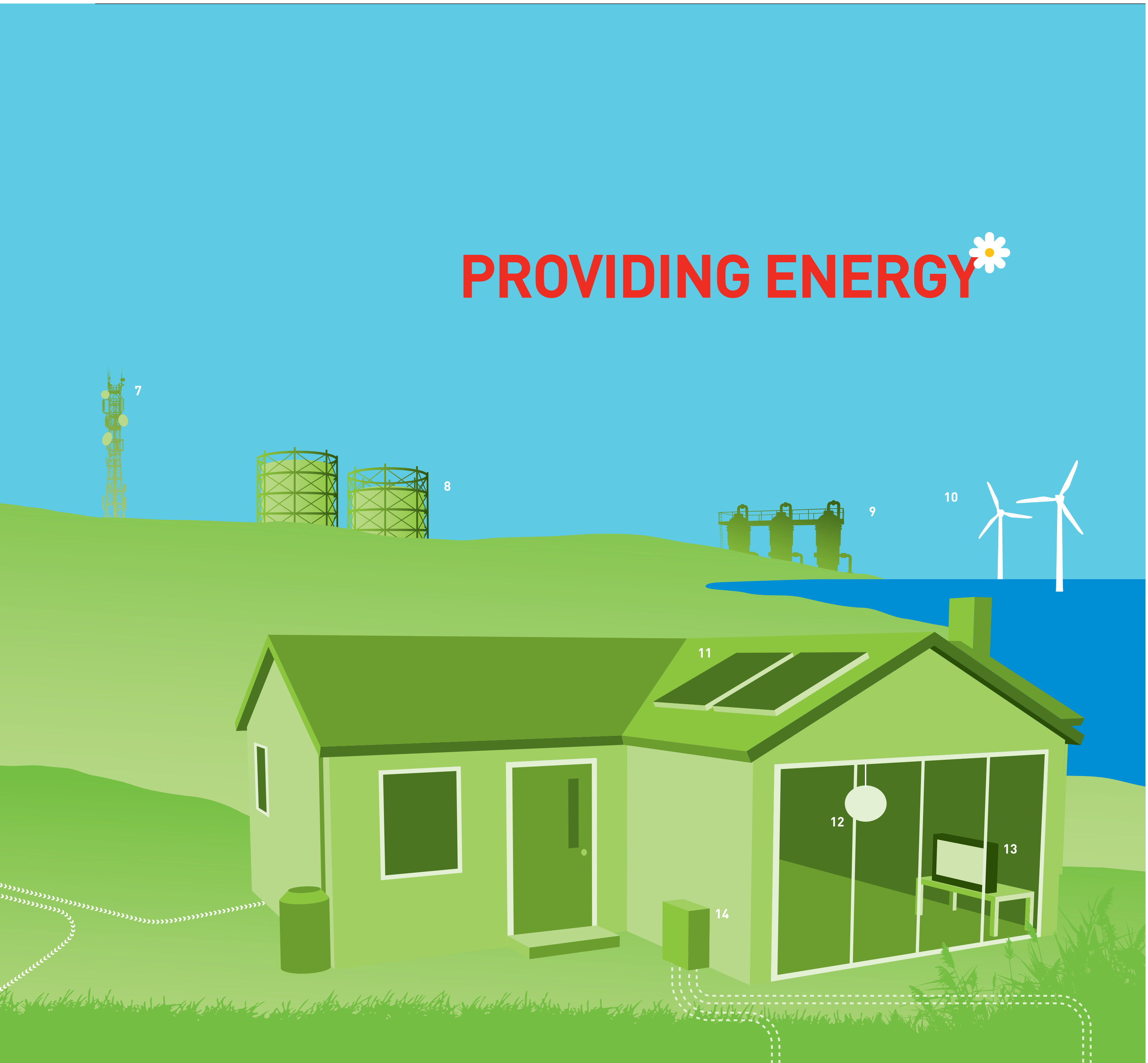
5. Electricity networks management
SSE's investment in its electricity networks, and its response to incidents such as storms, means its electricity network is more than 99.99% reliable.

6. Contracting
SSE's Southern Electric Contracting is one of the UK's largest mechanical and electrical contractors. Its street lighting division is responsible for maintaining around one million street lights in the UK and has contracts to replace and maintain street lights for four local authorities under the Private Finance Initiative.

7. Telecoms
SSE Telecom provides radio sites for local authorities, mobile operators and emergency services and its subsidiary, Neos Networks, operates a 7,500km UK-wide telecoms network, providing services for other telecoms providers, companies and public sector organisations.

8. Gas networks
SSE has a 50% stake in Scotia Gas Networks, which owns the medium and low pressure gas distribution networks in Scotland and the South of England, delivering gas to 5.7 million homes, offices and businesses via 74,000 kms of gas mains and services.

PROVIDING ENERGY



9. Gas storage
SSE owns and operates 325 million cubic metres (mcm) of gas storage capacity at Hornsea, currently the UK's largest onshore gas storage facility and, with Statoil UK, is developing significant new capacity at neighbouring Aldbrough.

10. Offshore wind
SSE and Talisman UK have placed one of the world's largest wind turbines installed anywhere in the world, in 45 metres of water 25 kilometres off the coast of the Moray Firth to test the technical and economic feasibility of deep water wind farms.

11. Solar energy
SSE is an investor in Solarcentury, the UK's leading independent solar photovoltaics company, and its subsidiary, Southern Electric Contracting, is now the preferred installer for Solarcentury.

12. Energy supply
SSE supplies electricity and gas to over 7.75 million domestic and business customers through its Southern Electric, Scottish Hydro Electric, SWALEC and Atlantic brands.

13. Services for the home
SSE supplies a wide range of electrical and gas appliances through its network of high street shops in the north of Scotland and through its websites including www.thehydroshop.co.uk. It also provides home telecoms, security and boiler maintenance services.

14. Alternative technologies
SSE promotes technologies such as ground source heat pumps which replace a 'boiler' in a conventional heating system by using the refrigeration cycle to extract heat at a low temperature and convert it to a higher temperature.

Key Performance Indicators

FINANCIAL OVERVIEW

Adjusted profit before tax – £m* 1

2007	1,079.3	+23.5%
2006	873.9	
2005	732.1	

Adjusted earnings per share – pence 2

2007	92.5	+23.8%
2006	74.7	
2005	64.2	

Dividend per share – pence 3

2007	55.0	+18.3%
2006	46.5	
2005	42.5	

Investment and capital expenditure – £m 4

2007	663.4	+32.1%
2006	502.1	
2005	383.5	

Net debt – £bn 5

2007	2.233	+3.1%
2006	2.166	
2005	1.430	

Underlying interest cover – times 6

2007	11.0	+19.6%
2006	9.2	
2005	9.0	

Dividend cover – times 7

2007	1.68	+4.3%
2006	1.61	
2005	1.51	

ENERGY SYSTEMS

Power Systems capital expenditure – £m 8

2007	204.5	+18.8%
2006	172.1	
2005	171.5	

Energy Systems operating profit – £m* 9

2007	471.1	+0.1%
2006	470.6	
2005	336.8	

Regulatory Asset Value – £bn 10

2007	2.6	+4.0%
2006	2.5	
2005	2.4	

Southern Electric Power Distribution operating profit – £m* 11

2007	224.0	-0.9%
2006	226.1	
2005	201.6	

Scottish Hydro Electric Power Distribution and Transmission operating profit – £m* 12

2007	144.0	+1.6%
2006	141.8	
2005	135.2	

Electricity distributed – TWh 13

2007	42.4	-3.2%
2006	43.8	
2005	42.9	

Southern Electric Power Distribution customer minutes lost 14

2007	72	+1.4%
2006	71	
2005	84	

Southern Electric Power Distribution customer interruptions 15

2007	76	-2.6%
2006	78	
2005	98	

Southern Electric Power Distribution mains in commission – kilometres 16

2007	77,502	+1.1%
2006	76,690	
2005	75,708	

Scottish Hydro Electric Power Distribution customer minutes lost 17

2007	77	+18.5%
2006	65	
2005	82	

Scottish Hydro Electric Power Distribution customer interruptions | 18

2007	79	+1.3%
2006	78	
2005	86	

Scottish Hydro Electric Power Distribution mains in commission – kilometres | 19

2007	45,886	+0.7%
2006	45,586	
2005	44,468	

Scottish Hydro Electric Transmission mains in commission – kilometres | 20

2007	4,913	0%
2006	4,913	
2005	4,913	

SGN capital expenditure – £m | 21

2007	120.4	+10.3%
2006 (10 months)	109.2	
2005	n/a	

SGN repair expenditure – £m | 22

2007	174.8	+41.4%
2006 (10 months)	123.6	
2005	n/a	

SGN operating profit share – £m | 23

2007	103.1	+0.4%
2006 (10 months)	102.7	
2005	n/a	

SGN mains in commission – kilometres | 24

2007	73,661	+0.1%
2006	73,617	
2005	n/a	

SGN gas distributed – GWh | 25

2007	162,336	-12.4%
2006	185,269	
2005	n/a	

SGN Regulatory Asset Value – £bn | 26

2007	3.2	+10.3%
2006	2.9	
2005	n/a	

GENERATION AND SUPPLY

Generation and Supply operating profit – £m* | 27

2007	642.6	+44.5%
2006	444.8	
2005	388.6	

Electricity generation capacity – MW | 28

2007	10,017	0%
2006	10,015	
2005	9,974	

Electricity generated – TWh | 29

2007	46.60	+15.0%
2006	40.52	
2005	38.64	

Renewable energy generation capacity – MW | 30

2007	1,518	+0.1%
2006	1,516	
2005	1,363	

Hydro and wind generation capacity qualifying for ROCs – MW | 31

2007	568	+0.3%
2006	566	
2005	395	

Hydro storage – % of maximum water for generation | 32

2007	75	+22.9%
2006	61	
2005	74	

Hydro output – GWh | 33

2007	3,767	+23.3%
2006	3,054	
10 year average 2005	3,177	

Wind generation in operation, under construction or consented – MW | 34

2007	236	+40.8%
2006	168	
2005	162	

Key Performance Indicators continued

Gas-fired power station availability – % | 35

2007	95	+9.2%
2006	87	
2005	94	

Gas-fired power station thermal efficiency – % | 36

2007	49.5	-1.8%
2006	50.4	
2005	54.3	

Coal and biomass-fired power station availability – % | 37

2007	92	0%
2006	92	
2005	88	

Coal and biomass-fired power station thermal efficiency – % | 38

2007	36.1	-0.3%
2006	36.2	
2005	35.6	

Power station water consumption – million cubic metres | 39

2007	3.18	-8.9%
2006	3.49	
2005	4.66	

Power station CO_2 emissions – million metric tonnes | 40

2007	25.88	+2.7%
2006	25.21	
2005	18.90	

Power station CO_2 emissions – kilograms per kWh | 41

2007	0.555	-10.8%
2006	0.622	
2005	0.489	

Power station SO_2 emissions – metric tonnes | 42

2007	50,776	-21.8%
2006	64,967	
2005	42,604	

Power station SO_2 emissions – grams per kWh | 43

2007	1.090	-32.0%
2006	1.603	
2005	1.103	

Power station NOx emissions – metric tonnes | 44

2007	44,120	-10.3%
2006	49,180	
2005	31,620	

Power station NOx emissions – grams per kWh | 45

2007	0.947	-22.0%
2006	1.214	
2005	0.818	

Electricity supplied – TWh | 46

2007	50.9	+2.0%
2006	49.9	
2005	47.7	

Energy customer numbers – millions | 47

2007	7.75	+15.7%
2006	6.70	
2005	6.08	

Electricity customers – millions | 48

2007	4.95	+11.0%
2006	4.47	
2005	4.21	

Gas customers – millions | 49

2007	2.80	+25.6%
2006	2.23	
2005	1.87	

Complaints received by energywatch | 50

2007	840	-46.6%
2006	1,573	
2005	1,981	

Domestic electricity disconnections for non-payment | 51

2007	133	+79.7%
2006	74	
2005	113	

Domestic electricity disconnections for non-payment – per 1,000 customers | 52

2007	0.03	+50.0%
2006	0.02	
2005	0.03	

Gas disconnections – number | 53

2007	671	+53.5%
2006	437	
2005	502	

Gas disconnections – number per 1,000 customers | 54

2007	0.24	+20.0%
2006	0.20	
2005	0.27	

GAS STORAGE

Gas Storage operating profit – £m* | 55

2007	55.9	+104.8%
2006	27.3	
2005	19.0	

Customer nominations met – % | 56

2007	100	0%
2006	100	
2005	100	

Gas Storage capacity including under construction – mcm | 57

2007	505	0%
2006	505	
2005	505	

TELECOMS

Operating profit – £m* | 58

2007	13.9	+5.3%
2006	13.2	
2005	10.8	

Operational faults fixed within agreed service levels – % | 59

2007	94	+4.4%
2006	90	
2005	90	

Delivery on standard projects – % | 60

2007	98	+10.1%
2006	89	
2005	77	

CONTRACTING, CONNECTIONS, METERING

Operating profit – £m* | 61

2007	51.6	+2.4%
2006	50.4	
2005	47.9	

New electrical connections – thousands | 62

2007	44.6	+4.0%
2006	42.9	
2005	42.0	

New gas connections – thousands | 63

2007	9.2	+16.5%
2006	7.9	
2005	7.0	

Managed networks | 64

2007	24	+26.3%
2006	19	
2005	16	

Southern Electric Contracting order book – £m | 65

2007	95.4	+9.4%
2006	87.2	
2005	75.5	

Apprentices recruited | 66

2007	92	-7.1%
2006	99	
2005	90	

Meters read once a year – % | 67

2007	95.07	n/a%
2006	n/a	
2005	n/a	

Meters read twice a year – % | 68

2007	78.69	n/a%
2006	n/a	
2005	n/a	

Performance made stronger

Ian Marchant Chief Executive

FINANCIAL OVERVIEW

Introduction

The management of SSE is governed by six key financial principles: delivery of sustained real dividend growth; effective management of core businesses; rigorous analysis to ensure investments are well-founded and, where appropriate, innovative; maintenance of a strong balance sheet; deployment of a selective and disciplined approach to acquisitions; and use of purchase in the market of the company's own shares as the benchmark against which financial decisions are taken.

Financial Results for 2006/07

These results for the year to 31 March 2007 are reported under International Financial Reporting Standards. In previous results statements, SSE's focus was on profit before tax before exceptional items, net finance income from pension assets (IAS 19), the impact of IAS 32 and IAS 39, and after the removal of taxation on profits from jointly controlled entities and associates. In these results, however, in line with emerging practice and as stated in the interim results in November 2006, SSE no longer makes any adjustment in respect of net finance income from pension assets (IAS 19). Results for 2005/06 has been restated on this basis.

	March 07 £m	March 06 £m
Reported profit before tax	**1,132.0**	**896.9**
Movement in derivatives	(56.2)	70.9
Exceptional items	(33.9)	(127.4)
Tax on JVs and Associates	33.8	29.9
Interest on convertible debt	3.6	3.6
Adjusted profit before tax*	**1,079.3**	**873.9**
Adjusted current tax charge	(282.6)	(231.5)
Adjusted profit after tax*	**796.7**	**642.4**
Reported profit after tax	830.5	642.3
Number of shares for basic and adjusted EPS (million)	860.9	859.5
Adjusted EPS*	**92.5**	**74.7**
Basic EPS	**96.5**	**74.7**

Adjusted Profit before Tax*

Adjusted profit before tax grew by 23.5%, from £873.9m to £1,079.3m. The most substantial growth continues to be achieved in Generation and Supply. This reflects the benefits from the development and diversification of SSE's electricity generation portfolio, which is over 10,000MW, and the sustained increase in the number of energy supply-related customers, which now total 7.85 million (including 100,000 'talk' telecoms customers).

Adjusted Earnings per Share*

To monitor financial performance over the medium-term, SSE continues to focus on adjusted earnings per share, which increased by 23.8%, from 74.7p to 92.5p.

Dividend

The Board is recommending a final dividend of 39.9p, compared with 32.7p in the previous year, an increase of 22.0%. This will make a full year dividend of 55p, compared with 46.5p last year, an increase of 18.3%.

This increase is also designed to provide a significantly higher base for future dividend growth. From this new, higher base, SSE's target will be to deliver at least 4% annual real growth in the dividend paid to shareholders in respect of 2007/08, 2008/09 and 2009/10. Thereafter, SSE expects to continue to deliver at least sustained real growth in the dividend. This new policy replaces SSE's existing targets, which were to deliver at least 4% annual real growth in the dividend payable to shareholders in respect of 2006/07 and 2007/08, with sustained real growth thereafter.

The expected full-year dividend in respect of 2006/07, of 55p, compares with 32.4p for 2001/02, an increase of 69.8% in five years. This represents a compound annual growth rate of 11.2%, at 55p,it will also be double the dividend paid by SSE to shareholders for the financial year ending 31 March 2000.

The total full-year dividend payment to shareholders for 2006/07 is covered 1.68 times by SSE's adjusted profit after tax, compared with 1.61 times in the previous year.

ENERGY SYSTEMS

→ Operating profit* up to £471.1m compared with £470.6m in previous year

Electricity networks
→ Power Systems operating profit* of £368.0m compared with £367.9m in previous year
→ Investment in electricity networks up 18.8% to £204.5m
→ Additional revenue of £13m earned under Ofgem's Quality of Service and other incentive schemes
→ Agreement on Transmission Price Control Review 2007-12
→ Beauly-Denny Public Inquiry commenced in February 2007

Gas Networks (10 months in 2005/06)
→ Share of SGN's adjusted operating profit* up from £102.7m to £103.1m
→ SGN capital expenditure up 10.3% to £120.4m and replacement expenditure up 41.4% to £174.8m

Energy Systems Introduction
SSE owns Southern Electric Power Distribution, Scottish Hydro Electric Power Distribution and Scottish Hydro Electric Transmission. These companies are the subject of incentive-based regulation by the Office of Gas and Electricity Markets (Ofgem), which sets for periods of five years the prices they can charge for the use of their electricity networks, their capital expenditure and their allowed operating expenditure, within a framework known as the Price Control. In broad terms, Ofgem seeks to strike the right balance between attracting investment in electricity and gas networks, encouraging companies to operate them as efficiently as possible and ensuring that prices ultimately borne by customers are no higher than they need to be. The current Distribution Price Control runs until April 2010. A new five-year Transmission Price Control was agreed during 2006/07 and came into effect on 1 April 2007.

As at 31 March 2007, SSE estimates that Ofgem's valuation of the assets of its electricity distribution and transmission businesses (the Regulated Asset Value or 'RAV') was over £2.6bn, based on Ofgem's methodology.

SSE also has an equity interest of 50% in, and provides corporate and management services to, Scotia Gas Networks (SGN), which owns Southern Gas Networks and Scotland Gas Networks, companies which own and operate the medium and low pressure gas distribution networks in their areas of the UK. They are the subject of incentive-based regulation similar to that which applies in electricity. The Price Control that had applied to gas distribution networks from 1 April 2002 expired on 31 March 2007, at which point a one-year Price Control was put in place to run until 31 March 2008. A Price Control for a full five-year period from 1 April 2008 is now being determined.

SGN estimates that the RAV of the networks it owns was around £3.2bn, based on Ofgem's methodology, as at 31 March 2007.

Energy Systems Overview
Operating profit* in Energy Systems, including gas distribution, increased slightly, from £470.6m to £471.1m, contributing 38.3% of SSE's total operating profit.

The amount of electricity transmitted and distributed through SSE's networks and the amount of gas distributed through SGN's networks is determined by the weather, by customers' demand for energy and by the availability of the networks themselves. Variations in the volume of energy distributed have an impact on the income earned by SSE's energy systems businesses.

2006/07 was marked by higher than normal temperatures throughout the year in all parts of the country. There was also a reduction in customers' use of both electricity and gas, even after allowing for weather-related variations in demand. This may reflect the impact of the higher energy supply prices which prevailed during the year, and a growing awareness of the importance of energy efficiency.

All of this means that Southern Electric Power Distribution, Scottish Hydro Electric Power Distribution, Scottish Hydro Electric Transmission and SGN all distributed fewer units of energy during the year, and this impacted on the revenue that they earned.

If, in any year, regulated energy networks companies' revenue is greater (over recovery) or lower (under recovery) than is allowed under the relevant Price Control, the difference is carried forward and the subsequent prices the companies may charge are adjusted. Under this arrangement, the under recovery of revenue from SSE's electricity distribution networks in 2006/07 means they will receive a favourable revenue adjustment of £3.9m in 2007/08; similarly, SGN will receive a favourable revenue adjustment of £21m in the 12 months following the tariff re-setting in October 2007.

Southern Electric Power Distribution
Southern Electric Power Distribution's operating profit* fell by 0.9%, from £226.1m to £224.0m. During the year, it distributed 33.9TWh of electricity, compared with 34.9TWh in the previous year, despite a growth in the number of customers to whom electricity is distributed. This reduction in the number of units distributed was, however, partially offset by changes in their price.

Ensuring the reliability of the electricity networks it owns and operates is one of SSE's main priorities and the key measures of reliability are customer minutes lost and customer interruptions. The average number of minutes that customers in the Southern Electric Power Distribution area were without supply was 72, one more than in the previous year; and the number of supply interruptions per 100 customers was 76, compared with 78 in the previous year.

Performance in respect of both minutes lost and interruptions was ahead of the targets set by Ofgem under its Quality of Service Incentive Scheme (QSIS), which gives financial benefits to distribution network operators that deliver good performance for customers.

We deliver electricity to

3.5

million homes, offices and businesses

SSE owns one electricity transmission network and two electricity distribution networks, comprising 106,000 substations and 128,000km of overhead lines and underground cables across one third of the UK landmass. It delivers electricity to 3.5 million customers in the north of Scotland and in central southern England.

We distributed

42.4

TWh of electricity

SSE distributed 42.4TWh of electricity to customers connected to its electricity networks in 2006/07. The average number of minutes that these customers were without electricity during the year was 77 in the north of Scotland and 72 in central southern England. This means that the networks were more than 99.99% reliable.

CARE TAKER

Safety

We believe all accidents are preventable, so we aim to do everything safely and responsibly, or not at all. This helped us to achieve yet another reduction in the number of lost-time and reportable injuries during 2006/07, to 11 – an all-time low for SSE. But that's still not low enough. We hate anyone getting hurt. So our ultimate goal is injury-free working.

This, together with income earned in 2006/07 under other incentive arrangements is expected to lead to SSE receiving additional revenue totalling £9m during the next two financial years.

In January 2007, the Southern Electric Power Distribution area was affected by a storm which the Meteorological Office said was the most severe in its scale and impact for 17 years. This led to additional costs of around £2m being incurred. It resulted in almost 200,000 customers having their electricity supply interrupted. Power was restored to around 180,000 customers within a day and to almost all of the affected customers within 36 hours. Over 1,000 people in SSE, from across the country, were involved in dealing with the consequences of the storm, from engineers out in the field to customer service advisers who spoke to over 50,000 affected customers who called in. It was an exercise in which first class teamwork was key. Following the event, SSE undertook a comprehensive review to ensure that it is as well prepared as possible for storms in the future.

Scottish Hydro Electric Power Distribution and Scottish Hydro Electric Transmission

Operating profit* for Scottish Hydro Electric Power Distribution and Scottish Hydro Electric Transmission increased by 1.6%, from £141.8m to £144.0m. In the Scottish Hydro Electric area, 8.5TWh of electricity were distributed during the year, compared with 8.9TWh distributed in the previous year. This reduction in the number of units distributed was, however, offset by changes in their price.

The average number of minutes that customers were without supply was 77, compared with 65 in the previous year (which was the best performance in the area since records began) and 82 in 2004/05. This followed an increase of almost 25% in the number of weather-related faults experienced on the 33kV network during January and February of 2007. The number of supply interruptions per 100 customers was 79, one more than in the previous year.

Performance in respect of both minutes lost and interruptions was, however, ahead of Ofgem's QSIS targets. This, together with income earned in 2006/07 under other incentive arrangements, is expected to lead to SSE receiving additional revenue of just under £4m during the next two financial years.

Electricity Network Investment

The key responsibility of SSE's electricity networks businesses is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. The Distribution Price Control Review for 2005-10 resulted in substantially increased allowances for capital expenditure to maintain and improve the networks' performance. This will enable SSE to increase its revenue from its networks, and delivery of this enhanced investment programme was one of SSE's priorities for 2006/07. It is now well under way, with capital expenditure of £204.5m during the year, which was 18.8% higher than in 2005/06. In the course of the year, SSE added just over 1,000km to the length of its networks, taking the total, including transmission, to over 128,000km.

An example of the type of project in which investment is being made is the installation of a 15km overhead 'BLX' line and 2.5km underground cable, which will improve the security of supply to customers at Marchington on the Dorset/Wiltshire border. The cable is being laid using directional drill techniques which avoid the need for large open trenches under sensitive woodland to comply with requests from English Nature and the National Trust.

Rising demand for electricity in north Hampshire and south Berkshire has created the need for a reinforcement of the local electricity network. In line with this, SSE has begun preliminary work on the installation of two 10km underground 132kV cables that will carry power from National Grid's substation at Bramley to the SSE substation in Basingstoke.

In the north of Scotland, 2007/08 will be marked by the replacement of no fewer than four subsea cables, reinforcing the electricity supply to islands off the north and west coasts.

With two years of the five-year Distribution Price Control period completed, SSE forecasts that the Regulated Asset Value (RAV) of its distribution and transmission businesses is over £2.6bn. It is expected to grow by around £500m over the 2005-10 Distribution Price Control period, based on Ofgem's methodology, to around £3bn. This excludes any major transmission investment. In line with this, SSE expects to invest around £250m in its electricity networks in 2007/08.

Future Transmission Developments

One of SSE's priorities for 2006/07 was to secure a satisfactory outcome from the Transmission Price Control Review for 2007-12, and in December 2006 it decided, on balance, to accept Ofgem's final proposals. While the allowed cost of capital was, and remains, disappointing, SSE concluded, ultimately, that there was within Ofgem's detailed proposals for areas such as capital and operational expenditure sufficient scope and incentive to secure an acceptable level of revenue from its transmission business.

As the licensed transmission company for the north of Scotland, SSE is required to ensure there is sufficient network capacity for those seeking to generate electricity from renewable sources. The project to replace the electricity transmission line connecting Beauly in the Highlands with Denny in the Central Belt of Scotland is in line with that responsibility. It is likely that the construction of its part of the replacement line will require SSE to invest over £250m, and making progress with this project was another of SSE's priorities during 2006/07. A Public Inquiry into the project began in February 2007, and was still on schedule at the end of May. It is expected that the report of the Inquiry will be submitted to Scottish Ministers for a decision during 2008.

We invested over

204

million pounds in our electricity networks

SSE invested £204.5m in its electricity networks during 2006/07 to maintain and improve their performance, an increase of 18.8% on 2005/06. During 2007/08 it expects to invest around £250m in the networks.

We expect to add

500

million pounds to our electricity networks' Regulated Asset Value

SSE forecasts that the Regulated Asset Value (RAV) of its distribution and transmission businesses will grow by around £500m over the 2005-10 Distribution Price Control period, based on Ofgem's methodology. This excludes any major transmission investment.

In December 2006, SSE published a consultation document on the possible development of a new high voltage transmission line capable of accommodating power from possible renewable energy developments on the Western Isles and connecting this to the existing mainland transmission network at Beauly. The consultation document set out a preferred option for the new connection which would involve the construction of a subsea High Voltage Direct Current (HVDC) cable circuit and an underground HVDC cable. The development on this basis would require investment by SSE broadly estimated at around £375m.

Electricity Distribution and Transmission Priorities in 2007/08
During 2007/08, SSE's first objective in electricity distribution and transmission will be to maintain safe and reliable supplies of power and to restore supplies as quickly as possible in the event of interruptions, so performance in terms of customer minutes lost and customer interruptions will continue to be critical. This will be supported by delivery of continuous improvement initiatives, following a fundamental review of internal processes and customer-facing operations that is now under way. Other key priorities will be the efficient delivery of the next phase of the major programme of investment in the networks, targeted at upgrading them so as to benefit the greatest number of customers and the successful completion of the Public Inquiry into the Beauly-Denny transmission line proposal.

Scotia Gas Networks – Financial
In June 2005, Scotia Gas Networks plc (SGN), in which SSE holds 50% of the equity, acquired the Scotland and the Southern gas distribution networks from National Grid. The networks comprise around 74,000km of gas mains, delivering gas to around 5.7m industrial, commercial and domestic customers. SSE's investment was £505m, including shareholder subordinated debt, in return for which it receives 50% of the distributable earnings from the networks. SSE is also providing corporate and management services for SGN.

SSE's share of SGN's adjusted operating profit was £103.1m during 2006/07, compared with £102.7m for the 10 months from 1 June 2005. This result reflects the major reduction in gas transportation volumes experienced during the year. SGN would have earned additional revenue if temperatures had been normal, rather than above average, and transportation volumes had also been normal, rather than lower than average. This would have added £21.0m to SSE's share of SGN's adjusted operating profit. Nevertheless, performance was supported by an ongoing focus on underlying operating costs and by improving results from SGN in its non-regulated activities.

Scotia Gas Networks – Operational
During 2006/07, the gas transportation volume for SGN's network in Scotland was 57,096GWh and for its Southern network the volume was 105,240GWh. This compares with 61,637GWh and 123,632GWh respectively in the previous year.

SGN's objective is to reach and remain at the frontier for safety, customer service and efficiency in gas distribution. During the year, it made significant progress towards the achievement of this goal. In September 2006, following negotiations, the trade unions' ballot produced a substantial vote in favour of SGN's pay and productivity offer for the three years until 2009, which will allow the introduction of much more flexible working patterns. These will be introduced while continuing to attach the highest priority to safety.

Implementation of the new structure for the business is virtually complete. The previous functionally-based arrangement has been replaced with a geographically-based organisation operating out of 24 depots, thereby enabling SGN to secure significant efficiencies. This reorganisation is intended to improve SGN's effectiveness in its customer-facing activities such as emergency response, repairs, metering work and streetworks.

As part of SGN's drive to deliver excellent customer service through this depot structure, customer satisfaction indices have been introduced across the range of activities. Almost 6,000 customers were asked to rate their experience of SGN undertaking work at their home across a range of metrics, and this culminated in an overall score of 4.11 out of 5 (5 being very satisfied). During 2006/07, this focus on customer service helped SGN deliver a reduction of 56%, to 75, in the number of complaints about it sent to energywatch for resolution.

Future performance will be supported by the introduction of new front office management systems, the total number of which has been reduced from over 50 to 11. The final stage of the implementation was completed in April and the systems are bedding in well.

During 2006/07 the number of lost time injuries in SGN fell to 0.21 per 100,000 hours worked.

Scotia Gas Networks – Investment
During the year, SGN invested £120.4m in capital expenditure projects, compared with £109.2m in the 10 months from June 2005. It also invested £174.8m in mains and services replacement expenditure works, compared with £123.6m in the 10 months from June 2005, under the 30:30 mains replacement programme. This is the Great Britain-wide replacement of all iron gas mains within 30 metres of domestic properties in a 30-year timeframe to improve the future reliability and safety of the network. Following this investment, SGN estimates that the RAV of the networks it owns was around £3.2bn as at 31 March 2007 – the same as the total enterprise value paid when they were acquired in June 2005.

In 2007/08, SGN expects to invest around £200m in capital expenditure projects and around £190m in replacement expenditure works. With such high levels of investment expected in future years, the RAV of SGN is on course to increase significantly.

We distribute gas to

5.7

million customers via SGN

SSE owns 50% of Scotia Gas Networks (SGN), the company which owns Scotland Gas Networks and Southern Gas Networks. It also provides corporate and management services to SGN. The two networks comprise around 74,000km of gas mains, delivering gas to 5.7 million customers.

We invested

295

million pounds in our gas networks, via SGN

SGN invested £295.2m in its gas networks during 2006/07. This comprised: £120.4m in capital expenditure projects; and £174.8m in mains and services replacement expenditure works under the 30:30 programme, which is the Great Britain-wide replacement of all iron gas mains within 30 metres of domestic properties.

A SMART IDEA

Service

We give our customers service we are proud of and make commitments that we deliver. That's why we support ways of helping them to save energy – and money. During 2006/07, we won support from the government to run trials of 'smart' meters. These give people a lot more information about the energy they are using and how to use it better. A smart move for all concerned.

Future Scotia Gas Network developments
SGN decided to accept Ofgem's final proposals for the gas distribution one-year price control for 2007-08. As in electricity transmission, the allowed cost of capital in gas distribution was disappointing and should not be seen as a precedent for the forthcoming five-year review for 2008-13. Nevertheless, SGN's networks secured the highest increases in revenue amongst the eight gas distribution networks. The policy frameworks for 'shrinkage' gas, pensions deficit and capital and replacement expenditure were all satisfactorily dealt with in the context of what was a one-year review period.

On 29 May 2007, Ofgem published its initial proposals for the 2008-13 price control. These proposals are comprehensive and detailed and require extensive scrutiny and ongoing dialogue with Ofgem. SGN's objective is to ensure that Ofgem's final proposals, which are expected to be published in November 2007, feature an acceptable cost of capital, opportunities to earn additional revenue and the correct incentives for dealing with operational, capital and replacement expenditure.

In addition to its core gas distribution activities, SGN has established Connections, Contracting and Commercial Services businesses. Amongst other things, these new businesses carry out work previously done by contractors and they will provide the scope for SGN to enhance revenue from non-regulated activities in future years. As a result of this, SGN now employs over 3,500 people – although, because of efficiencies achieved, the total number of people working on SGN activities, including contractors, has fallen.

Scotia Gas Networks Priorities in 2007/08
SSE's priority in gas distribution will continue to be to provide SGN with the corporate and management services to support its ongoing reform of procedures, processes and practices which are designed to secure cost savings and efficiencies, and to support also the continued in-sourcing of services currently provided by National Grid, which will yield further cost savings. It will also assist SGN in the delivery of its substantial capital and replacement expenditure programmes. More specifically, SSE will help SGN in its work with Ofgem on the Gas Distribution Price Control review for 2008-13 and in its drive to achieve a further improvement in its safety performance.

GENERATION AND SUPPLY

→ Operating profit* up 44.5% to £642.6m

Generation
→ Gas-fired power station availability up from 87% to 95%; coal station availability unchanged at 92%
→ Acquisition of 50% stake in Marchwood Power Ltd, a new 840MW gas-fired power station under construction
→ Start of work on ash separation plant at Fiddler's Ferry
→ Fourth highest hydro output on record
→ Hadyard Hill became first UK wind farm to generate over 100MW of electricity
→ Planning permission secured for a further 68MW of new wind farm capacity
→ Partnership Agreement signed with Viking Energy for 600MW wind farm on Shetland
→ Target adopted to reduce carbon intensity of power generated by 20% by 2016

Supply
→ Net gain of over one million energy supply customers, to 7.75m, following policy of responsible pricing
→ Implementation of lower energy prices from 1 March 2007; lowest domestic prices for dual fuel
→ Further reduction, of 47%, in complaints reported by energywatch
→ Ranked first in uSwitch.com customer satisfaction survey and top performer in JD Power study
→ 100,000 'talk' telecoms customers achieved for first time
→ First 20,000 customers won by new domestic gas boiler installation, maintenance and repair business
→ New energy programme rewarding customers for energy efficiency set for launch

Generation and Supply Introduction
SSE owns just over 10,000 megawatts (MW) of electricity generation capacity, including its share of joint ventures. This comprises almost 4,400MW of gas-fired capacity, 4,000MW of coal-fired capacity (with biomass 'co-firing' capability), over 1,500MW of hydro and wind capacity and 150MW of oil-fired capacity, giving SSE diversity in fuels and, as a result, greater optionality in the overall management of its power stations. As at 31 March 2007, SSE supplied energy to over 7.75 million homes, offices and businesses within the UK's competitive electricity and gas supply market.

A series of market reforms, culminating in the introduction of British Electricity Trading and Transmission Arrangements (BETTA) in 2005, means that wholesale gas and wholesale electricity are transacted like any other commodities. SSE purchases gas and, where appropriate, some electricity via bilateral contracts and through the wholesale market – the latter complementing the electricity produced from its own generation portfolio. Within its integrated business model, SSE's power stations and fuel supply contracts are used to support performance in electricity supply, mainly through exploiting flexibility and optionality. Generation and Supply is, therefore, assessed as a single value chain and this approach means, amongst other things, that more sustained value can be created from SSE's balanced portfolio of assets, contracts and customers than would be the case on a stand-alone basis.

We produce electricity from

10

GW (10,000MW) of generation capacity

SSE owns just over 10GW of gas-fired, coal- and biomass-fired, oil-fired, hydro, pumped storage and wind generation capacity in England and Scotland. Its main power stations are at Ferrybridge, Fiddler's Ferry, Keadby, Medway and Peterhead. SSE is also the UK's leading generator of electricity from renewable sources.

We generated

46.6

TWh of electricity

During 2006/07, the amount of electricity generated at SSE's power stations (wholly-owned and owned by joint ventures) was 46.6TWh. This was enough to power around 13 million homes for one year.

Generation and Supply Overview
Operating profit* in Generation and Supply rose by 44.5%, from £444.8m to £642.6m, contributing 52.2% of SSE's total operating profit during the year. Total revenue for Generation and Supply was £10.98bn which accounted for 88% of SSE's total revenue in 2006/07, of which £5.06bn was in relation to sales of electricity and gas to industrial, commercial and domestic customers. The underlying financial performance of Generation and Supply has been reported excluding the impact of IAS 39 revaluations because SSE does not believe this represents underlying business performance.

During 2006/07, SSE generated 46.6TWh of electricity, including power stations it wholly owns and in which it has a share. It also purchased 10.5TWh of electricity via long-term contracts with other generators, including British Energy. In the year, it supplied 26.3TWh of electricity to its domestic and small business customers, and 24.6TWh was supplied under contract to industrial and commercial customers. The net balance was sold in the wholesale electricity market.

The continuing growth achieved by SSE's integrated Generation and Supply business is the outcome of the company's investment in and acquisition of a diverse range of electricity generating assets and a growth of 74% in the number of energy supply-related customers over the past five years. More specifically, it also reflects the fact that SSE's gas-fired power stations delivered a greater level of availability to generate electricity during 2006/07, compared with the previous year, which was a key priority. There was also much more output of wind energy during the year which contributed around £20m to operating profit. Hydro output was the fourth highest on record and the additional output contributed around £25m to operating profit, compared with an average year.

Since the BETTA arrangements were introduced in April 2005, SSE has benefited from its ability to deploy its flexible power stations in Scotland to meet demand from the electricity market in England and Wales. This positive impact from Scottish-based generation contributed around £25m to operating profit during 2006/07.

Operating profit reflects a charge of £18.9m in respect of the write down of Combined Heat and Power facilities and the expensing of costs associated with the deep water offshore wind research, development and demonstration project in the Moray Firth.

Gas-fired Generation – Operations
Good performance in BETTA is dependent on plant reliability. During 2006/07, SSE's principal wholly-owned gas-fired power stations (Fife, Keadby, Medway and Peterhead) achieved an average of 95% of their maximum availability to generate electricity, excluding planned outages, a significant improvement on the 87% availability in the previous year. This followed an intensive programme of engagement with the equipment suppliers to resolve technology and performance issues.

Gas-fired Generation – Investment
During 2007/08, SSE expects to invest over £20m at its Medway, Keadby and Peterhead Power Stations to improve their availability and reliability and to increase the overall performance capability of the plant. Within this, the most significant investment will be in gas turbine efficiency and flexibility improvements at Peterhead, which are scheduled to begin in the autumn of this year.

In December 2006, SSE and ESBI (Ireland's Electricity Supply Board International) completed all of the financial and legal agreements in respect of their 50:50 joint venture, Marchwood Power Ltd. This allowed work on the construction of the venture's new 840MW combined cycle gas turbine (CCGT) power plant in Southampton to begin early in 2007. The plant is expected to be constructed and in commercial operation in time for the winter of 2009/10. On completion, it will take SSE's ownership interest in gas-fired power stations to almost 4,800MW and in electricity generation capacity as a whole to almost 10,500MW.

The plant will be operated by Marchwood Power Ltd, which will be responsible for ensuring it is available to generate electricity as required by its customer, SSE. SSE will supply both the gas for conversion into electricity, and the net carbon emissions allowances, and will sell the resulting output into the UK electricity market. In this respect, the arrangements are similar to those which apply to Seabank Power Limited, in which SSE also has a 50% stake, and which operates a 1,140MW CCGT power station near Bristol.

The plant is being built under a fixed price turnkey contract by Siemens plc, using gas turbines similar to those used at Seabank and at Peterhead. With a net thermal efficiency in excess of 58%, it will be one of the most efficient in the UK and in a typical year will meet the electricity requirements of around one million homes. The favourable location of the plant, on the coast of central southern England, means it will actually receive payments under the current arrangements for charging electricity generators for use of the electricity networks.

The expected capital cost for Marchwood Power Ltd is around £400m. It is being financed on a debt/equity ratio of 80:20. In line with the 50:50 joint venture, SSE's equity investment will be, therefore, around £40m and it is also providing 50% of the project debt requirements (other than the VAT and Working Capital facilities) as a lender. On this basis, SSE has so far incurred £32.5m in respect of the Marchwood development.

During August 2006, Barking Power Ltd, in which SSE has a 30.4% stake, submitted a Section 36 application for consent to develop a new 400MW CCGT. If consented, this would effectively add around 120MW to the portfolio of generation assets owned by SSE.

During 2006/07 SSE and its partner BP delayed a decision on whether to invest in the development of a 475MW carbon capture plant at SSE's power station at Peterhead. The companies had been working for almost two years on what would have been the world's first industrial-scale project to generate 'de-carbonised' electricity from

We achieved

95

per cent availability at our gas-fired power stations

SSE's main wholly-owned gas-fired power stations (Fife, Keadby, Medway and Peterhead) achieved 95% of their maximum availability to generate electricity, excluding planned outages, a significant improvement on the 87% availability in the previous year.

We are developing a new

840

MW gas-fired power station

SSE and ESB International have entered into a 50:50 joint venture to build a new combined cycle gas turbine power station in Southampton. At over 58%, it will have one of the highest net thermal efficiencies in the UK and in a typical year will meet the electricity needs of around one million homes.

hydrogen, and they had completed the front-end engineering and design study. The project was, however, always dependent on the government putting in place a policy framework which encourages the capture of carbon from fossil fuel-based electricity generation, and its long-term storage.

In May 2007, the Energy White Paper set out a timetable for a competition to determine which carbon capture and storage project in the UK would be supported by the government. This timetable was not compatible with the requirements of the participants in the project at Peterhead and BP announced it would take the project no further. Nevertheless, SSE retains an interest in developments in carbon capture and storage technologies and has potential opportunities at its gas-fired and coal-fired power stations.

Coal and Biomass Generation – Operations
The Ferrybridge and Fiddler's Ferry power stations, each with a capacity of almost 2,000MW, achieved 92% of their maximum availability to generate electricity, excluding planned outages, during 2006/07, the same as in the previous year.

The stations also 'co-fire' fuels from renewable sources (biomass) in order to displace fossil fuels, thus reducing the impact of carbon emissions resulting from their operation. The resulting electricity output qualifies for Renewable Obligation Certificates (ROCs). During the year, their output qualifying for ROCs was 741GWh, compared with 795GWh in the previous year. The total for 2006/07 was less than might have been expected following the recent development of the new 'co-firing' facilities at the sites. It reflects the introduction of the regulatory change which limits to 10% the amount that companies can use co-fired fuels to meet their Renewables Obligation. Output was also affected by the fact that the new facilities to 'co-fire' fuels from renewable sources underwent commissioning during the period, which included the need to ensure the quality of fuel for the station was of the required standard.

Nevertheless, the new facilities mean that SSE is now the UK's leading user of biomass co-firing. It is now considering the impact of the proposed new ROC arrangements for biomass, set out in the government's consultation document Reform of the Renewables Obligation, but these are not expected to come into effect until April 2009.

Coal and Biomass Generation – Investment
SSE has opted in to the Large Combustion Plant Directive all of the capacity at Fiddler's Ferry and half of the capacity at Ferrybridge and as a result is installing Flue Gas Desulphurisation (FGD) equipment in an investment expected to total around £225m. This will extend the stations' contribution to the security of the UK's energy supplies and means that SSE will continue to have the country's most diverse electricity generation portfolio.

Making good progress with the investment was one of SSE's priorities during 2006/07, and the civil works at both sites are now well under way, with the first outage connected to the project commencing at Fiddler's Ferry in March 2007. This was to allow the removal of asbestos from the exhaust ducting before the ducting itself was removed and replaced to accommodate the FGD plant. The installation of FGD is expected to be complete in time for the power stations to begin generating electricity through a 'de-sulphurised' process during 2008.

To complement the investment in FGD, SSE is investing £17m in installing re-designed high-pressure turbines and static blades at all four units at Fiddler's Ferry and at two units at Ferrybridge. This will increase their thermal efficiency by around 1.4%, thereby reducing the amount of coal consumed and the amount of CO_2 emitted per MWh of electricity generated. The turbines and the static blades have been installed at the first of the units at Fiddler's Ferry, and further installations will take place at both stations during 2007.

SSE's partnership with Doosan Babcock Energy, Siemens and UK Coal is intended to lead to the installation of 'cleaner coal' technology at Ferrybridge, comprising a 500MW Super-critical Boiler and Steam Turbine, with a thermal efficiency of around 45%, and the subsequent deployment of post-combustion carbon capture equipment. The front-end engineering and design study is almost completed and SSE expects to make a decision before the end of 2007 on whether to proceed with the investment.

It was originally expected that installation of the Super-critical Boiler and related plant to meet all established environmental standards would require investment by SSE of around £250m. Over the past year, costs across the power equipment sector have risen and the required level of investment may be significantly higher, which will clearly influence SSE's final decision.

In February 2007, SSE and RockTron Limited concluded an agreement leading to the construction at Fiddler's Ferry of the first plant in the UK to separate ash arising from electricity generation into constituent mineral parts for sale as cement substitute products and industrial minerals.

Under the agreement, SSE has acquired one preference share in RockTron and is providing it with a loan of up to £22m to facilitate the construction of the plant. All of the necessary consents are in place, and work on the development is now under way, with the plant on course to become fully operational in the summer of 2008.

Over a period of up to 25 years the plant will remove and process all fresh ash produced and all which is currently stored in lagoons at the site, up to a total of around 800,000 tonnes per annum. It will take this as its raw material and process it into its constituent parts such as fine and coarse ash fractions, magnetic fraction, carbon rich fraction and cenospheres.

These constituent parts then become marketable products and will be sold into their respective markets, with the largest volume being used as cement substitutes. Without processing, ash disposal would begin to attract landfill duty and associated environmental liabilities.

We are investing around

225

million pounds in flue gas desulphurisation equipment

SSE is installing flue gas desulphurisation equipment at all of the capacity at Fiddler's Ferry power station and half of the capacity at Ferrybridge. This will extend the stations' contribution to the security of the UK's energy supplies and will prevent emissions from them which cause acid rain.

We are enabling

800

thousand tonnes of ash per annum to be recycled at Fiddler's Ferry

SSE and RockTron Ltd have concluded an agreement leading to the construction at Fiddler's Ferry power station of the first plant in the UK to separate ash arising from electricity generation into constituent mineral parts for sale as cement substitute products and industrial minerals.

A LEADING ROC STAR

Efficiency

We keep things simple, do the work that adds value and avoid wasting money, materials, energy or time. That's why we're building, near Loch Ness, our first large-scale hydro electric power station for 50 years. With 16 kilometres of tunnels collecting rainfall and channelling it to the under ground power station, it will be the most efficient plant of its kind in the UK, producing plenty of green power to earn ROCs.

The agreement between SSE and RockTron governs all of the commercial and operational matters in respect of the new plant, including a lease to allow construction and operation of the plant at the power station and the supply to the plant on a 'must-take' basis of ash from the power station. RockTron will be responsible for the operation of the new plant and for the marketing and sale of the constituent mineral parts arising from the processing.

EU Emissions Trading Scheme
In March 2007, the UK government published its Approved National Allocation Plan for Phase II of the EU Emissions Trading Scheme, from 2008 to 2012. Across its electricity generation portfolio (taking account of contractual shares), SSE will receive an allocation of 16.3 million tonnes per annum. This can be compared with its Phase I allocation of 19.6 million tonnes per annum. SSE's Phase II allocation as a percentage of its Phase I allocation is around 83%, compared with around 80% across the electricity sector as a whole.

Hydro and Wind Generation – Operations
The Energy White Paper, published in May 2007, stated that 'renewable energy is an integral part of the government's strategy for reducing carbon emissions'. It also stated that 'renewables can also make a contribution to security of supply, by diversifying the electricity mix and reducing the need for energy imports'.

SSE owns and operates over 1,500MW of renewable energy generating capacity, including pumped storage. Total output from its hydro electric stations during the year was the fourth highest on record at 3,767GWh. This compares with the 10-year average of 3,177GWh and with output of 3,054GWh during 2005/06. As at 31 March 2007, the amount of water held in SSE's reservoirs which could be used to generate electricity was 75% of the maximum, compared with 61% on the same date last year, enough to generate 670GWh of electricity.

The output of refurbished hydro electric stations with capacity of up to 20MW qualifies for ROCs. The refurbishment of all of SSE's sub-20MW capacity was completed during 2005 and, in total, it has 406MW of capacity in its sub-20MW stations (including the new plant commissioned in the last few years at Culleig, Kingairloch and Fasnakyle). Of the total hydro output in 2006/07, 1,791GWh qualified for ROCs.

The Tangy, Spurness, Artfield Fell and Hadyard Hill wind farms also contributed 384GWh of ROC-qualifying output in 2006/07, compared with the 108GWh of output produced by SSE's wind farms in the previous year. This increase reflects the fact that Hadyard Hill was commissioned at the start of the financial year and became the first wind farm in the UK to generate over 100MW of electricity.

Assuming average 'run off' of water into SSE's reservoirs during the rest of this financial year, and typical wind conditions, the ROC-qualifying output from hydro and wind generation is expected to be almost 2,000GWh in 2007/08.

Hydro Generation – Investment
The construction of what will be SSE's second largest conventional hydro-electric station at Glendoe, near Loch Ness is now well under way. At the end of March, over 500 people were working on the development. By that time, cavern excavation had been completed to power station floor level, the headrace tunnel had advanced to 1,250 metres and the aqueduct tunnel to 520 metres.

With an installed capacity of around 100MW, Glendoe will produce around 180GWh of electricity qualifying for ROCs in an average year. When synchronised, it will be able to start generating 100MW of electricity in 30 seconds. The development of Glendoe is requiring investment of around £140m. The project is a key priority and remains on course for electricity to be generated from the winter of 2008/09.

In March 2007, SSE applied for consent to build a new 2.5MW hydro electric station near Crianlarich; the proposal is for a 'run-of-river' scheme. This was followed by an application, in April 2007, for consent to build another new run-of-river hydro electric scheme of 3.5MW in Wester Ross.

SSE believes there may be potential to develop up to three larger hydro electric schemes in the Highlands, which could be capable of producing a total of up to 200GWh of electricity a year, plus a number of pumped storage schemes. Their development would, however, require a planning and policy framework more attuned to the critical need to maximise production of energy from renewable sources and reform of the current regime for charging generators for the use of the electricity networks.

Wind Generation – Investment
SSE's four operational wind farms have a total installed capacity of 162MW. This will increase to 236MW with completion of construction of the wind farms at Tangy 2 (6MW), Drumderg (32MW) and Toddleburn (36MW). Drumderg finally received consent in September 2006 and Toddleburn received consent in January 2007.

At the start of 2006/07, SSE said it hoped that its applications in respect of seven wind farms in Scotland would be determined and approved during the financial year. Of these seven, two have been approved and one was the subject of a Public Inquiry which has now been completed and of which the result is awaited. Two have been referred to Public Inquiries which will start later this year and two have yet to be determined by the relevant planning authority. Another wind farm, Strathy North, was submitted for planning consent during the year. Its proposed installed capacity is 70MW.

Despite these issues, SSE is still aiming to have around 1,000MW of ROC-qualifying wind and hydro generating capacity by the end of the decade. It already has in place, or has secured consent to develop, 742MW of capacity (568MW in operation and 174MW in development or construction).

In January 2007, SSE signed a partnership agreement with Viking Energy Ltd, the company established to represent

We are investing around

140

million pounds in a new large-scale hydro electric scheme

SSE is developing what will be its second largest conventional hydro electric scheme at Glendoe, near Loch Ness. When synchronised, it will be able to start generating 100MW of electricity in 30 seconds and will help to meet peaks in demand for power.

We are developing a

600

MW community-backed wind farm

SSE has signed a partnership with Viking Energy Ltd, the company established to represent Shetland Islands Council's interests in wind farm development, intended to lead to the development on Shetland's Central Mainland of a 600MW wind farm. Viking Energy's involvement would make it the world's largest community-backed wind farm.

Shetland Islands Council's interests in wind farm development, which is intended to lead to the development on Shetland's central mainland of a wind farm with around 600MW of capacity. SSE and Viking Energy each have a 50% stake in the partnership. Under the agreement, the new partnership will, later this year, submit to the Scottish Executive a planning application for the wind farm which, if consented, could reduce the UK's annual carbon emissions by an estimated two million tonnes, or more. Its development is subject to, amongst other things, planning consent being secured and to the construction of a sub-sea cable between Shetland and the mainland of Scotland.

Innovation
The placing of a 5MW wind turbine, one of the largest installed anywhere in the world, in 45 metres of water 25 kilometres off the coast in the Moray Firth, was a key milestone in a research, development and demonstrator project to test the technical and economic feasibility of deep water wind farms. The project has been funded by Talisman Energy (UK) Ltd and SSE, as well as the European Union, the Scottish Executive and the Department of Trade and Industry. Electricity was first generated by the turbine in May 2007 and is being used to power the Beatrice oil platform, which, in turn, will provide a base from which to carry out turbine maintenance and performance monitoring.

A second turbine was due to be installed, but this did not take place before the onset of the autumn and winter weather, and was postponed until the summer of 2007. In addition, the project has been subject to significant cost over-runs, and total costs have now exceeded £30m, of which SSE's share was £16m. All of this demonstrates the challenges associated with the development of leading-edge technology and this project has had difficulties. Accordingly, SSE has recognised a charge of £5m in 2006/07 in respect of this expenditure.

The development of secure, reliable and cost-effective low carbon energy technologies towards commercial deployment is a key priority for the UK government and is part of SSE's strategy to remain the UK's leading generator of electricity from renewable sources. Against this background, SSE agreed in October 2006 to become a partner in the new Energy Technologies Institute, providing it with up to £2.5m a year for five years. The detailed arrangements for the ETI are still being finalised and if, in practice, SSE's participation in the ETI is not the best way forward, SSE will engage directly with universities and other research establishments to make appropriate investments in new technologies.

SSE is a major contributor to a £6m fund to support renewable energy developments in Scotland. The Sigma Sustainable Energies Fund is being financed by a range of partners – including the Scottish Executive – to stimulate growth in renewable energy. The Fund considers energy-related projects in a wide range of fields including wind, solar, hydro electric, biomass (including biofuels), ocean, hydrogen and geo-thermal. Its early investments include Ocean Power Delivery Ltd, which is developing the Pelamis marine energy device, and Xipower Ltd, which has developed patented battery power management and monitoring technologies.

Micro generation technologies have the potential to become a key way of reducing the demand for energy from the national electricity and gas grids by giving the buildings connected to them the means to produce at least some of the energy that their occupants need. During 2006/07, SSE invested £2.0m to increase its stake in Solarcentury, the leading independent solar photovoltaics company in the UK, to 13.3% of the issued share capital. The development of low carbon buildings is an example of where new business opportunities should arise for SSE, with Southern Electric Contracting (SEC) now the preferred installer for Solarcentury. The two companies have been appointed by the Department of Trade and Industry to supply and install solar panels on Britain's public buildings as part of its £50m Low Carbon Buildings Programme.

SSE's investment in Edinburgh-based Renewable Devices (Swift Turbines) Ltd has not been successful to date. The Swift rooftop-mountable wind energy system will require further work before its long-term feasibility can be confirmed beyond doubt.

SSE's subsidiary Renewable Technology Ventures Ltd has continued with the development of an underwater tidal turbine demonstrator. It is keen to continue to invest in marine energy and is looking for investment opportunities in this area to establish a position as the UK's leading developer of tidal-based electricity generation technologies.

Energy White Paper
In the Energy White Paper, published in May 2007, the UK government said that 'we need a diverse electricity generation mix'. It defined the long-term energy challenges facing the UK – to encourage lower carbon and more secure supplies of energy. SSE agrees that diversity in the electricity generation mix is vitally important and also agrees that the challenges which have been defined by the government are the ones that need to be addressed with practical, consistent and long-term policy framework.

The publication of the White Paper followed the European Union agreement to adopt a binding target on the use of renewable energy, the Approved National Allocation Plan for Phase II of the EU Emissions Trading Scheme and the draft Climate Change Bill. All of these developments point in a single direction: there will have to be a reduction in the amount of carbon dioxide which is produced per unit of electricity generated.

Against this background, SSE has set itself a target to reduce by 20% over 10 years the amount of carbon dioxide per kilowatt hour of electricity produced at power stations in which it has an ownership or contractual interest. The base year for SSE's target is 2005/06, when its emissions of carbon dioxide were 620g/kWh, and it is aiming to achieve the 20% reduction, to 496g/kWh or less, by 2015/16.

We own

13.3

per cent of the share capital of Solarcentury

SSE invested £2.0m during 2006/07 to increase its stake in Solarcentury, the UK's leading independent solar photovoltaics company. The development of low carbon buildings is an example of the new opportunities for SSE, with Southern Electric Contracting now the preferred installer for Solarcentury.

We are targeting a

20

per cent reduction in the carbon intensity of our electricity production

SSE has set itself a target to reduce by 20% the amount of carbon dioxide per kilowatt hour of electricity produced at power stations in which it has an ownership or contractual interest. The base year for SSE's target is 2005/06 and it is aiming to achieve the target by 2015/16.

EMISSIONS STATEMENT

Sustainability

We aim to operate ethically, taking the long-term view to achieve growth while safeguarding the environment. Evidence shows it's important to minimise the release of carbon dioxide from using fossil fuels. That's why we've committed to reducing the amount of carbon dioxide for each unit of electricity produced from power stations. It's all part of the move to a more sustainable way of producing energy.

SSE will report on its progress against the 2016 target each year and the decisions it takes and the investments it makes will be guided by it. Like most long-term targets, achievement will be influenced by circumstances outside its control, but SSE is very serious in its aim to make such a significant cut in carbon intensity. That is why it already has such extensive involvement in developments designed to deliver much more renewable energy, carbon capture and storage and increased thermal efficiency of power plant. It will maintain a balanced approach to reducing carbon intensity in the years ahead.

Alongside the White Paper, the UK government published its consultation on proposals to modify the Renewables Obligation, so that it ceases to be 'technology neutral' and features four technology bands to be fixed from 2009 to 2013. It remains unfortunate that the Obligation has been the subject of a fundamental review when it was originally conceived and presented as a stable mechanism for the long-term. The key test for the proposals in the consultation document is whether they represent an adequate framework for future investment in those mature renewable energy technologies which are most likely to make a meaningful contribution to the achievement of EU and UK government targets, while protecting capital already invested on the basis of the Obligation's original structure. Specifically, therefore, SSE is considering the proposals with regard to biomass investment and the future potential for hydro electricity.

Generation Priorities for 2007/08
During 2007/08, SSE's key objectives in generation will be to ensure that its diverse portfolio of power stations is available to generate electricity, with the maximum possible efficiency, in response to customer demand and market conditions, while complying fully with all safety standards and environmental regulations. The achievement of these objectives will be supported by the delivery of a comprehensive programme which has been established to identify further improvements in the management and operation of its portfolio of power stations.

SSE will also be working to ensure that all generation plant is well-maintained, with timely investment in asset replacement and refurbishment projects and that the new generation projects at Beatrice, Drumderg, Ferrybridge, Fiddler's Ferry, Glendoe, Marchwood, Tangy and Toddleburn proceed on time and on budget.

It will also consider whether to install a Super-critical Boiler and post-combustion carbon capture equipment at Ferrybridge, and progress needs to be made with its plans for new onshore wind developments.

As is the case throughout the generation sector, these projects and plans may be subject to the impact of increasing capital costs and skills shortages as worldwide demand for electricity infrastructure continues to rise.

SSE will also continue to monitor developments in other generation technologies such as offshore wind and carbon capture and storage. Following the publication of the Energy White Paper, it will also continue to participate actively in the debate about how best to meet the UK's need for diverse, more secure and lower carbon sources of energy.

Energy Supply
Further growth in customer numbers was a key priority for SSE during 2006/07 and its energy supply business had 7.75 million energy supply customers at 31 March 2007, a net gain of 1.05 million in 12 months. This comprises 4.95 million electricity customers and 2.80 million gas customers. In addition, SSE had reached 100,000 '**talk**' telecoms customers, giving it an overall customer base of 7.85 million. Within the total, SSE's business customers now cover 390,000 sites throughout Great Britain. Including telecoms, SSE has achieved a net gain of 3.35 million customers in the past five years, an increase of 74%.

This growth is deliberately and clearly related to SSE's responsible pricing policy. It meant that, during periods of rising wholesale energy prices, SSE passed on to its domestic gas and electricity customers much less than the full extent of the increases and it deliberately delayed any price rises. As a result, its customers paid an average of £340 less for their gas and electricity over three years than customers of British Gas.

On 1 March 2007, SSE started implementing cuts in prices for domestic gas customers, the first such cuts for six years, and it started to implement cuts in prices for domestic electricity customers on 1 April. The price cuts meant SSE continued to be the UK's cheapest supplier of energy and it is hoped that they marked the start of a sustained downward trend in the prices paid by customers.

Customer Service
Central to success in Energy Supply is maintaining the highest possible standards of customer service. In May 2007, SSE again secured recognition for the best overall customer service in the large-scale customer satisfaction survey in energy supply, organised by uSwitch.com. In the results of the JD Power 2006 UK Electricity and Gas Customer Satisfaction Study, announced in November, SSE was ranked first amongst gas suppliers and second amongst electricity suppliers.

This recognition followed the introduction by SSE of a Domestic Energy Customer Charter in 2006, the first of its kind in the UK energy supply industry. Part of a comprehensive performance improvement programme in SSE's Customer Service division, the completion of which was one of SSE's priorities for 2006/07, the Charter reflects a 'commitment-based' approach to general customer enquiries, so that a much greater number of customer enquiries are dealt with at the first point of contact.

It is in line with research which has confirmed that the key frustrations for customers are the length of time they spend on hold when seeking help over the telephone and being passed to more than one company representative. In other words, while technology has its part to play in

We supply energy to over

7.75

million customers

SSE is one of the largest suppliers of electricity and gas with over 7.75 million customers. It brings together the Southern Electric, Scottish Hydro Electric, SWALEC and Atlantic brands. In addition, SSE provides its '**talk**' telecoms product to around 100,000 customers, taking its total customer base to over 7.85 million.

We achieved a

47

per cent reduction in the number of customer complaints

SSE had the lowest number of customer complaints in the UK energy supply industry in 2006/07. Watchdog energywatch received 840 complaints about SSE. This compares with 2,509 for the second-best performing company and 37,100 for the poorest-performing company, British Gas.

supporting service delivery, customers like to interact directly with company representatives. SSE has, therefore, broadened the role of its advisers and actively extended call times to ensure there is a full understanding of customers' requirements. In 2006/07, this helped SSE to bring its customer 'churn' rate down from over 14% in the previous year to below 13% for the first time.

Other achievements stemming from the programme include a large increase in the number of customers receiving a minimum of two bills each year based on actual (as opposed to estimated) meter readings. Bills themselves have been totally re-designed to make them clearer and easier to understand.

SSE believes that this approach is having a positive impact on its customers' dealings with, and perceptions of, its Customer Service division. Despite the sustained growth in customer numbers, SSE secured during 2006/07 another significant reduction, of 47%, in the number of customer complaints received by energywatch for resolution. In its statement in April 2007, energywatch said that it had received 840 complaints about SSE, which was the best-performing company, over the year. This compares with 2,509 for the second best-performing company and 37,100 for the poorest-performing company, British Gas. The number of complaints about SSE sent to energywatch has fallen by almost 60% in the last two years, during which time the number of customers has grown by 27%.

Product Marketing

Energy supply remains intensely competitive and, in addition to responsible pricing, the key to long-term growth will be greater success in gaining and retaining customers' loyalty. The performance improvement programme is designed to achieve that, as is product development and marketing.

In line with that, SSE has a suite of energyplus 'loyalty' products, ranging from **energyplus Argos**, which rewards customers with money-off discount vouchers, to **energyplus Pulse**, which supports the British Heart Foundation. Of SSE's 7.75 million energy supply customers, around 1.34 million now have 'loyalty' products – an increase of around 60% during the period.

As part of a six-figure, three-year sponsorship package agreed in January 2007, SSE (under the brand name Scottish Hydro Electric) and Scottish Rugby have agreed to collaborate on the provision and marketing of a new electricity and gas tariff, **energyplus Rugby**, which is scheduled for launch later in 2007.

The Energy White Paper said 'the starting point for our energy policy is to save energy'. It said the government would 'empower consumers to make more informed energy choices' and it also referred to trials of smart meters and real-time displays which enable people to track their energy use, and in which SSE has been selected to participate.

Against this background, SSE will, later this year, launch a unique energy programme, which will enable and encourage customers to commit to using less energy – and reward them for doing so with vouchers enabling them to get money off their energy bills, A-rated electrical and gas appliances and energy efficiency measures.

This progress in product development and marketing, allied to its policy of responsible, value-based pricing and commitment to improving further its customer service, means that SSE's Energy Supply business should be able to continue the period of growth which began at the start of 2002.

Energy Services

The UK energy market is still focused on the delivery of units of energy, but a market is beginning to emerge for the supply of energy services – warmth, light and power. SSE's goal is to deliver products and services 'beyond the meter' which help it to gain, retain and develop long-term relationships with customers.

In line with this, in June 2006, SSE began the phased introduction of a new domestic boiler installation and maintenance and repair service for gas central heating systems. The product features an annual inspection, full breakdown and emergency cover and a 24-hour, 365-day manned customer helpline. It covers customers' entire gas central heating system, including the boiler, pipe work, radiators, cylinders and tanks. Establishing the new business was a priority for 2006/07, and its launch has gone well. While its first-year losses were around £4m, the service had already attracted over 20,000 customers by the end of March 2007. This growth should continue and accelerate as the number of postcode areas covered by the service has now increased from 13 to 24, with a further 18 postcode areas due to be added in 2007/08. The business is, therefore, on course to become profitable in 2009.

SSE is on course to be appointed as the partner for the energy services requirements for the first phase of a major development by a leading UK developer. Under what will be an ESCO (energy services company) Agreement, SSE will be responsible for installing an energy centre, including a Combined Heat and Power (CHP) plant for the development, which will serve over 450 apartments, a nursery unit, primary care trust and commercial units. The installation of CHP is in line with a planning consent requirement for the development to reduce carbon dioxide emissions and the SSE design will achieve a 24% reduction, helping the development to achieve the Eco Homes 'very good' rating. The agreement, when signed, will be a significant milestone in the development of SSE's energy services business and other similar contracts are expected to follow.

Energy Supply Priorities in 2007/08

During 2007/08, SSE will seek to capitalise further on its strong regional brands, best-in-sector customer service, responsible pricing policy and range of value-adding offers to increase further its number of energy supply customers. Central to this will be the development and deployment of further improvements to the level of service

We gained over

20

thousand customers for our new gas boiler business

SSE began the phased introduction of a new domestic boiler installation and maintenance and repair service for gas central heating systems. It had already attracted over 20,000 customers by March 2007 and this should grow further, with the service being extended to an additional 18 postcode areas during 2007/08.

We have

55

regional offices in our Contracting business

SSE's Contracting business, Southern Electric Contracting, is one of the largest mechanical and electrical contracting businesses in the UK, with over 3,500 employees operating from 55 regional offices throughout Great Britain. It also trades as SWALEC Contracting, Scottish Hydro Contracting and Eastern Contracting.

offered to customers, leading to higher standards and fewer complaints, and the successful launch of new products. The expansion of SSE's services 'beyond the meter' will focus principally on the further development of the gas boiler installation and maintenance and repair service and on securing additional ESCO Agreements.

CONTRACTING, CONNECTIONS AND METERING

- Operating profit* up 9.8% to £51.6m, excluding Thermal Transfer which was sold on 31 March 2006
- Leeds City Council street lighting PFI launched
- Continued expansion of out-of-area electricity networks, with 38 now in operation or under construction
- New water business on track for launch
- In-sourcing of Metering work in three areas of the UK

Introduction to Contracting, Connections and Metering

SSE's Contracting business, Southern Electric Contracting (SEC), has three main areas of activity: industrial, commercial and domestic mechanical and electrical contracting; electrical and instrumentation engineering; and public and highway lighting. It is one of the largest mechanical and electrical contracting businesses in the UK, operates from 55 regional offices throughout Great Britain and also trades as SWALEC Contracting in Wales, Scottish Hydro Contracting in Scotland and Eastern Contracting in the east of England.

SSE's national Connections business provides all utility infrastructures and connections for new developments. It designs, finances, builds, owns and operates gas, electricity and telecommunications networks throughout the country.

SSE's Metering business provides services to most electricity suppliers with customers in central southern England and the north of Scotland. It supplies, installs and maintains domestic meters and carries out metering work in the commercial, industrial and generation sector. It also offers data collection services to the domestic and SME sectors.

Contracting, Connections and Metering Overview

Contracting, Connections and Metering delivered operating profit* of £51.6m during 2006/07, compared with £47.0m in the previous year (excluding the £3.4m operating profit from Thermal Transfer, the specialist contracting business sold by SSE on 31 March 2006).

Contracting

SEC made significant progress against its key priorities for the year of broadening further its geographic presence and ensuring there continues to be good performance in the long-term contracts which are central to its ongoing business development.

- In line with the priorities for 2006/07, the integration of Harrison Smith has been completed and is already allowing SEC to offer its customers in the north of England a more comprehensive range of mechanical and electrical services.

- SEC's Eastern Contracting division, acquired in 2005, won the second phase of an infrastructure contract at the Colchester Barracks re-development, one of the UK's largest PFI projects to date, following the successful completion of phase one of Eastern Contracting's work.

- SEC also has contracts worth over £700m to replace and maintain street lights for four local authorities in England under the Private Finance Initiative (PFI), in partnership with the asset finance division of The Royal Bank of Scotland. This includes the largest-ever street lighting PFI in the UK, with Leeds City Council, the successful launch of which was a priority for 2006/07. It will see the majority of the 110,000 street lights, illuminated signs and bollards in the city replaced. The first 8,500 lighting points have already been installed.

During 2006/07 SEC's order book exceeded £90m for the first time. The order book has been supported by significant contract wins with a number of leading organisations such as Marks and Spencer, Texaco and IBM. This business now employs 3,500 people and, to support future growth, recruited 92 apprentice electricians during the year and expects to recruit a further 200 apprentices during 2007.

Connections

Continued expansion of its Connections business was among SSE's priorities for 2006/07, and during the year it completed 44,600 electrical connections, 1,700 more than in the previous year. In addition, it has continued to develop its portfolio of electricity networks outside the Southern Electric and Scottish Hydro Electric Power Distribution areas. It now owns and operates 24 electricity networks outside these two areas and 14 additional networks are under construction, including: St David's Centre, Cardiff; Manor Royal, Crawley; and Quartermile, Edinburgh. As with its domestic gas boiler service, this is a relatively new business for SSE, which is on course to become profitable during 2007/08.

SSE's Connections business is also a licensed gas transporter, owning and operating gas mains and services in many parts of the country. The number of new premises connected to its gas networks has continued to grow, and during the year, it connected a further 9,200 premises, 1,300 more than in the previous year, taking the total number of connections to over 44,000.

With interests in electricity, gas and telecoms connections, SSE completed a review of the extent of its ability to offer 'multi-utility' services to larger customers. This ability is presently limited to a contracting role in providing water connections services. Subject to a short public consultation, SSE has, therefore, sought and secured from Ofwat a so-called 'inset' licence which will allow it to install, own, operate and supply water and sewerage services for end-user customers for the first time.

We have

38

'out-of-area' electricity networks

SSE now owns and operates 24 electricity networks outside the Southern Electric and Scottish Hydro Electric Power Distribution areas and a further 14 networks are under construction, including St David's Centre, Cardiff; Manor Royal, Crawley; and Quartermile, Edinburgh.

We own and operate

325

million cubic metres of gas storage

SSE owns and operates the UK's largest onshore gas storage facility at Hornsea in East Yorkshire, which has a total storage capacity of around 325 million cubic metres. It operates as a tool for meeting peak demand for gas.

CONCRETE SOLUTIONS

Excellence

We continue to get better, smarter and more innovative because we want to be the best in everything we do. That's why our Fiddler's Ferry power station will be the first plant in the UK to convert the ash arising from power generation into cement substitute products and industrial minerals. Recycling in this way makes ash a useful product and helps reduce carbon dioxide emissions from cement production.

The first installation would be at a Charles Church Southern development near Salisbury. Ofwat said this will create the first new water and sewerage company to serve domestic customers since privatisation in England and Wales 18 years ago.

Metering

In total, SSE owns 3.7 million meters and changes around 250,000 meters each year as they reach the end of their useful life or to meet customer requests for changed functionality. During 2006/07, it collected around 4.3 million electricity readings and 1.4 million gas readings.

SSE's Metering activities have expanded following the in-sourcing of meter reading operations in South West England and South Wales electricity distribution areas in April 2007, and will expand further in July 2007 with the in-sourcing of the meter operator work for the South Wales distribution area. This is resulting in the transfer of over 150 employees from Western Power Distribution to SSE and is intended to result in both efficiency savings and high standards of service for SSE's customers in these areas. Later this year, SSE will also in-source meter reading operations and then meter operator work in central and southern Scotland, resulting in around 50 posts becoming part of SSE.

Contracting, Connections and Metering Priorities in 2007/08

The first priority for SEC in 2007/08 is to ensure that it delivers a high standard of service to all customers in all of the sectors in which it operates, given such a major proportion of its business is 'repeat'. It will also seek to secure further increases in its order book. To position itself for long-term growth, it expects to recruit 200 apprentices.

The Connections business' focus will be on the successful delivery of a growing number of utility connections and on continuing to expand its range of electricity networks outside the Southern Electric and Scottish Hydro Electric Power Distribution areas, reinforcing its position as a leading provider of utility infrastructure solutions to the UK land development sector. Subject to the outcome of the Ofwat consultation on its 'inset' appointment, SSE will seek to make a successful start in water connections.

For Metering, the key priority is the successful completion of the 'in-sourcing' of work in the three additional distribution areas, which will be a significant milestone in SSE's long-term objective of building a national metering business. It is also important that SSE's participation in the DTI/DEFRA/Ofgem-sponsored Energy Demand Research Project, with its focus on 'smart' metering technologies, is successful.

GAS STORAGE

→ **Operating profit* up 104.8% to £55.9m**
→ **Commissioning of first new storage capacity at Aldbrough set to start in the autumn of 2007**
→ **Planning permission secured to double the size of Aldbrough development to over 800mcm**

Introduction to Gas Storage

SSE owns and operates the UK's largest onshore gas storage facility at Hornsea in East Yorkshire. Nine salt caverns have been leached into a salt layer 1.8 kilometres below the surface, creating 325 million cubic metres (mcm) of gas storage capacity. Gas can be injected at a rate of 2mcm per day and withdrawn at a rate of 18mcm per day, which is equivalent to the requirements of around four million homes. The services offered at Hornsea provide customers with a reliable source of flexibility with which to manage their gas supply/demand balance and exploit market opportunities. Capacity is sold in Standard Bundled Units (SBUs), of which Hornsea has 195 million available in total, and each SBU provides capacity to inject gas into the facility, store gas there and withdraw gas from it.

Gas Storage – Operations

Gas Storage delivered an operating profit* of £55.9m, an increase of 104.8% compared with the previous year. The value of, and demand for, gas storage facilities in the UK continued to be high. This was demonstrated in July 2006, when SSE completed the auction of around 23% of the capacity (43.9 million SBUs) at Hornsea for a five-year term commencing in May 2007. The average price achieved per SBU was 41.7 pence per annum over each of the five years.

In March 2006, SSE auctioned 54 million SBUs for the one-year term which commenced in May 2006. The average price achieved per SBU then was 54.2 pence per annum. After this auction took place, a number of significant infrastructure projects designed to address the UK's increasing dependence on imports of gas were completed, which means that 2006/07 is likely to prove to be a high point for securing value from gas storage units. In March 2007, SSE completed its storage auction of around 63% of the capacity (121.7 million SBUs) at Hornsea for a one-year term which commenced on 1 May. The average price achieved per SBU was 30.1 pence per annum.

One of SSE's priorities for 2006/07 was to ensure that Hornsea maintained its excellent record of reliability, and during the year it was 100% available to customers, except in instances of planned maintenance. This enabled customers to manage their gas market risks and exploit gas trading opportunities.

Gas Storage – Investment

In line with SSE's priorities for the year, the joint venture with Statoil (UK) Ltd to develop at Aldbrough what will become the UK's largest onshore gas storage facility is continuing to make good progress. Commissioning of the first three of the nine storage caverns is expected to get under way in 2007. SSE is investing around £150m in Aldbrough, out of a total of around £225m for the development. With a total new capacity of around 420mcm, of which SSE will have ownership interest in 280mcm, Aldbrough will provide valuable gas storage for the UK energy industry. Its flexibility is demonstrated by the fact that it will enable gas to be injected at a rate of up to 30mcm per day and withdrawn at a rate of 40mcm.

SSE and Statoil (UK) Ltd have secured consent from East Riding of Yorkshire Council to increase the storage capacity

We are developing

420

million cubic metres of new gas storage

SSE, in partnership with Statoil UK, is already developing at Aldbrough what will become the UK's largest onshore gas storage facility. It will have a total new capacity of around 420 million cubic metres (mcm), of which SSE will have the ownership interest in 280mcm. SSE's investment is £150m.

We delivered

13.9

million pounds operating profit from telecoms

SSE's combined telecoms business (SSE Telecom and Neos) achieved an operating profit of £13.9m during 2006/07, compared with £13.2m in the previous year. The improvement was mainly the result of higher sales achieved by Neos.

at the Aldbrough site beyond that currently under development (subject to reaching agreement under Section 106 of the Town and Country Planning Act). They are now able to develop a further nine gas storage caverns, taking the total to 18. If developed in full, this would approximately double the amount of gas that can be stored, to over 800mcm. After the completion of the extension to its maximum capacity, the Aldbrough facility would be able to provide enough gas in a day to supply around 13 million homes.

The extension is designed to be largely under ground, and the intention is to use above ground facilities already on site, although some additional development would be required. Construction of the extension would help to ensure that the UK can meet gas demand during periods of high energy usage. It is expected that it would cost less than the current development. SSE would contribute 50% of the cost of the extension in return for ownership of 50% of the capacity. On completion of the extension, SSE would have effective ownership of over 800mcm of gas storage capacity, including Hornsea.

Gas Storage Priorities in 2007/08

SSE's priorities in Gas Storage during 2007/08 are to: maintain its excellent record of reliability at Hornsea; ensure that the first of the new caverns at Aldbrough are commissioned; and make material progress with the preparation and planning for the extension of the Aldbrough development.

TELECOMS

→ **Operating profit* up 5.3% to £13.9m**
→ **£5m investment to upgrade ethernet platform**

Introduction to Telecoms

SSE Telecom currently provides radio sites for local authorities, mobile operators and emergency services throughout central southern England and the north of Scotland, enabling customers to improve their coverage and capacity. Its subsidiary, Neos, operates a 7,500km UK-wide telecoms network, including 1,100km of underground and overhead fibre optic cable installed on SSE's electricity network, providing services to other telecoms providers, companies and public sector organisations.

Telecoms Operations

SSE's combined Telecoms business (SSE Telecom and Neos) achieved an operating profit* of £13.9m during 2006/07, compared with £13.2m in the previous year, an increase of 5.3%. The business offers customers a national telecoms network, and has a UK-wide sales force and a competitive range of products targeted at commercial and public sector customers. As a subsidiary of SSE, it is also able to position itself as one of the UK's most financially secure telecoms network operators, which gives an important competitive advantage.

The improvement in performance during 2006/07 was mainly the result of higher sales achieved by Neos, one of the telecoms priorities during the year, and important contracts were signed with a diverse range of major organisations, such as Opal Telecom (part of the Carphone Warehouse) and AT&T and new customers such as Schlumberger Limited, one of the world's leading oilfield services corporations.

Telecoms Investment

Neos has decided to upgrade its ethernet platform (a frame-based technology connecting computer systems to form a network), with an investment of over £5m to be made over five years. This will support future new business growth.

Telecoms Priorities in 2007/08

SSE's priority in Telecoms in 2007/08 is to continue to grow its sales, using its already-established nationwide network, with its competitive range of products targeted at commercial and public sector customers. It will also seek to complete the process of re-focusing its telecoms business on network-related services, including possible fibre optic extensions as opposed to site-related services.

EXCEPTIONAL ITEM

→ **Distribution payments totalling £33.0m received (plus £0.9m in respect of Barking Power Ltd)**
→ **On course for recovery of around 98% of agreed claim**

TXU Europe Group plc

In July 2006, SSE received a fourth distribution payment of £24.5m from the administrators of TXU Europe Group plc in respect of its agreed claim of £294.2m relating to a 14-year contract originally entered into in 1997. This was followed by a fifth distribution payment of £8.5m, taking the total direct receipt from the administration process (excluding Barking Power) to £33.0m in 2006/07 and to £284.2m overall. Following the fifth distribution, SSE has received 96.6% of its agreed claim. In addition, SSE received in July 2006 a share (£0.9m) of the distribution payment to Barking Power Ltd, in which SSE now has a total stake of 30.4%.

When it received its first distribution in March 2005, SSE said it expected that over 75% of its agreed claim would be settled. It expects to receive further, smaller distributions over the next few years, which would result in around 98% of its agreed claim being settled.

INVESTMENT AND CAPITAL EXPENDITURE

Investment and capital expenditure is a key means by which SSE seeks to enhance and create value and it totalled £663.4m during 2006/07, including £32.5m in respect of Marchwood Power Ltd, compared with £502.1m in the previous year.

Capital expenditure in Power Systems was £204.5m, compared with £172.1m in the previous year. The increase is in line with the Distribution Price Control Review for 2005-10. A major part of the investment programme is focused on the reinforcement and replacement of parts of the electricity network that date as far back as the 1960s.

We delivered

663

million pounds of investment and capital expenditure

SSE delivered £663.4m of investment and capital expenditure during 2006/07, compared with £502.1m in the previous year. Its capital expenditure will continue to be substantial during the rest of this decade, with investment in Generation, Gas Storage and Electricity Networks.

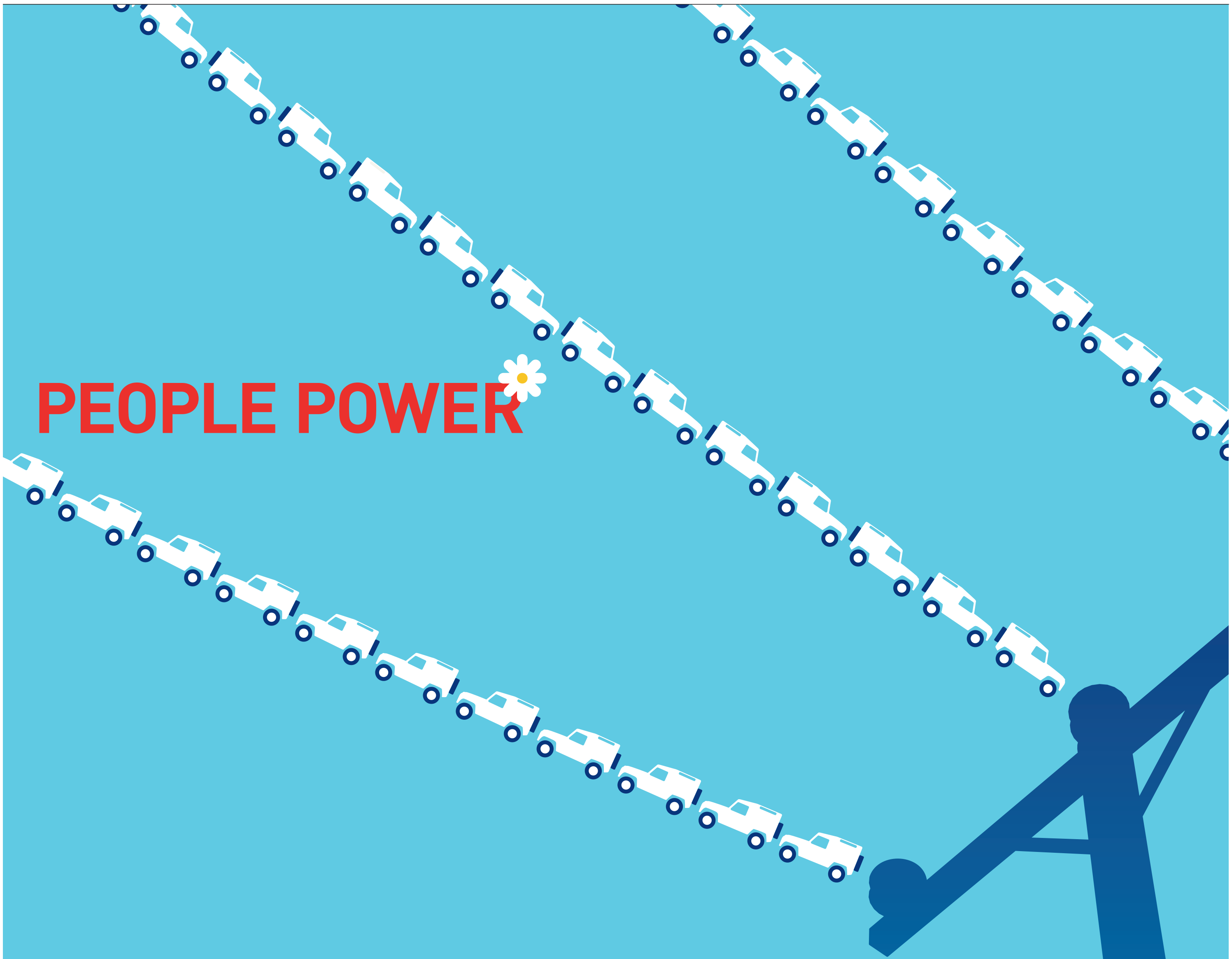
We plan to invest over

2.0

billion pounds over the next three years

Over the three years to March 2010, SSE's capital expenditure and investment is estimated to be over £2bn, compared with £1.5bn in the three years to March 2007. All investments are expected to achieve returns which are greater than the cost of capital and are expected to enhance earnings.

PEOPLE POWER



Teamwork

We support and value our colleagues and enjoy working together as a team in an open and honest way. That's why over 1,000 SSE people were mobilised from all parts of the country, to become involved and help restore supplies to our 200,000 customers who lost their power in the January 2007 storm in central southern England. It was yet another team effort by SSE.

In addition, there was investment of £220.9m for growth in Generation during the year, with the progress of the Marchwood development, construction work being carried out at Glendoe and the installation of FGD equipment and other work such as the installation of re-designed high-pressure turbines and static blades at Fiddler's Ferry and Ferrybridge.

As well as Power Systems and Generation, £41m was invested in the ongoing development of the new gas storage facility at Aldbrough.

Of its expected total investment of around £150m, SSE has so far invested £123m at Aldbrough. Within the total, capital expenditure for growth, including Marchwood, was £394m during 2006/07. This mainly comprised electricity generation and gas storage.

Capital expenditure will continue to be substantial during the rest of this decade, with investment of around £850m expected in 2007/08. This will focus on Generation, including FGD installation and Marchwood, Electricity Networks and Gas Storage. In total, over the next three years to March 2010, SSE's capital expenditure and investment is currently estimated to be over £2bn, compared with £1.5bn in the three years to March 2007. All investments are expected to achieve returns which are greater than the cost of capital and are expected to enhance earnings.

FINANCIAL MANAGEMENT

Treasury Policy

SSE's operations are financed by a combination of retained profits, bank borrowings, long-term debt issuance and commercial paper. As a matter of policy, a minimum of 50% of SSE's debt is subject to fixed rates of interest. Within this policy framework, SSE borrows as required at both fixed and floating rates, with interest rate swaps and forward rate agreements being used to achieve the desired profile. All borrowings in foreign currencies are swapped back into Sterling.

At 31 March 2007, 82.6% of SSE's borrowings were at fixed rates, after taking account of interest rate swaps.

SSE's liquidity policy is to ensure that it has committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 12 month period and on 31 March 2007 it held undrawn borrowings and facilities of £650m.

As the United Kingdom is SSE's main area of operation, foreign currency risk is limited mainly to procurement contracts, fuel purchases and commodity hedging transactions. Its policy is to hedge all material foreign exchange exposures through the use of forward currency purchases and/or derivative instruments. Indirect exposures created by SSE's gas purchasing are similarly hedged on an ongoing basis.

Net Debt and Cash Flow

As at 31 March 2007, SSE's net debt was £2.233bn, compared with £2.166bn at 31 March 2006, an increase of £66.5m. Underlying cash generated from operations increased significantly compared with the previous year, reflecting increased profitability.

Borrowings and Facilities

The objective for SSE is to maintain a balance between continuity of funding and flexibility, with debt maturities staggered across a broad range of dates. Its average age of debt as at 31 March 2007 was 13.8 years, compared with 12.7 years as at 31 March 2006.

During the year, a new £100m index-linked bond, maturing in 2056, with a coupon of 1.429%, was issued by Scottish Hydro Electric Power Distribution; and in March 2007, a £150m bond originally issued by Scottish Hydro Electric Power Distribution, with a coupon of 7.875% matured. As a result, the average cost of SSE's longer-dated debt has decreased and the average age of its debt has increased.

The maturity profile reflects the medium-to-long term nature of SSE's underlying assets and means that its debt structure continues to be strong going forward, with around £1.8bn of borrowings in medium to long-term funding in the form of issued bonds and European Investment Bank borrowings. A total of 20.4% of SSE's borrowings will mature in the 12 months to March 2008.

Net Finance Costs

The basis of the presentation of net finance costs changed on adoption of IFRS and the table below reconciles reported net finance costs to adjusted net finance costs, which SSE believes is a more meaningful measure. Following review during the year, net income associated with pension scheme assets and liabilities is no longer excluded in arriving at adjusted net finance costs. In line with this, SSE's adjusted net finance costs during 2006/07 were £151.8m, compared with £139.6m in the previous year.

	March 07 £m	March 06 £m
Reported net finance costs	48.1	89.4
add/(less)		
Share of JCE Associate interest	117.9	97.3
Convertible debt IAS 32 adjustment	(3.6)	(3.6)
Movement on derivatives	(10.6)	(43.5)
Adjusted net finance costs	151.8	139.6
Return on pension scheme assets	130.1	115.7
Interest on pension scheme liabilities	(107.2)	(100.0)
Notional interest arising on discounted provisions	(1.4)	(4.3)
Adjusted interest costs**	173.3	151.0

**Adjusted finance income and costs for interest cover calculation

The average interest rate for SSE, excluding JCE/Associate interest, during the year was 5.31%, compared with 5.42% in the previous year. Underlying interest cover was 11.0 times, compared with 9.2 times the previous year, and including interest related to SGN it was 7.1 times (6.6 times in the previous year).

The average age of our debt is

13.8

years

SSE seeks to maintain a balance between continuity of funding and flexibility, with debt maturities staggered across a broad range of dates. Its average age of debt as at 31 March 2007 was 13.8 years, compared with 12.7 years as at 31 March 2006.

The tax rate was

26.2

per cent

The effective adjusted current tax rate, based on adjusted profit before tax, was 26.2%, compared with 26.5% in the previous year, on the same basis.

Within the adjusted net finance costs of £151.8m, SGN's net finance costs were £70.6m (compared with £54.1m in the previous year), after netting loan stock interest payable to SSE. Its contribution to SSE's profit before tax* was, therefore, £32.5m, compared with £48.6m in the previous year, reflecting lower transportation volumes.

TAX

To assist the understanding of SSE's tax position, the adjusted current tax charge is calculated as follows:

	March 07 £m	March 06 £m
Reported tax charge	301.5	254.6
add back:		
Share of JCE/ Associate tax	33.8	29.9
less:		
Deferred tax	(27.3)	(37.7)
Exceptional tax	(25.4)	(15.3)
Adjusted current tax charge	282.6	231.5

The adjusted effective current tax rate, based on adjusted profit before tax, was 26.2%, compared with 26.5% in the previous year, on the same basis. The impact of SSE's higher capital expenditure programme and the changes introduced in Budget 2007 are likely to have a positive effect on the effective current tax rate in the coming years. The headline tax charge was 26.6%, compared with 28.3% in the previous year.

BALANCE SHEET

SSE maintains one of the strongest balance sheets in the global utility sector. This gives it significant competitive advantages. It enables SSE to pay interest at lower rates than would otherwise be the case and also enables it to respond speedily to opportunities which emerge to invest in, or acquire assets. It is also characteristic of utility companies which are built to last.

In line with the IAS 19 treatment of pension scheme assets, liabilities and costs, pension scheme liabilities of £220.0m and a pension scheme asset of £128.1m are recognised in the balance sheet at 31 March 2007, gross of deferred tax. This means that there was a reduction of over half in net liabilities compared with the position at March 2006, from £193.8m to £91.9m.

During 2006/07, employer cash contributions to the Scottish Hydro Electric scheme amounted to £11.6m. Contributions to the Southern Electric scheme, including deficit repair contributions of £34.3m, amounted to £50.3m. As part of the Distribution Price Control for 2005-10, it was agreed that allowances for 76% of deficit repair contributions should be recoverable via price controlled revenue.

At 31 March 2007, there was a net asset arising from IAS 39 of £45.0m, before tax, compared with a net asset of £46.5m, before tax, at 1 April 2006.

PURCHASE OF OWN SHARES

The Directors of SSE did not exercise their authority to purchase, in the market, the company's own shares during 2006/07. They are, however, seeking at the Annual General Meeting on 26 July 2007 renewal of their authority to purchase, in the market, the company's own shares should conditions be appropriate.

CORPORATE RESPONSIBILITY

Risk Management

SSE is mindful of the risk factors that may affect it and they were again reviewed by the Board in March 2007. Broadly, the principal risk factors fall into four categories: the operation of assets, equipment and processes; financial risks, such as interest rate and commodity exposure; the impact of public policy or regulatory developments in the areas of energy and the environment; and the impact of the weather on SSE's interests in the generation of electricity from renewable sources, in energy supply and in energy distribution.

At a corporate level, SSE seeks to address these risks by: maintaining the strongest possible focus on the consistent delivery of excellence across all aspects of its operations; adhering to the series of well-defined and established financial principles set out under 'Financial Overview'; and operating and investing in a balanced range of regulated and non-regulated energy-related businesses, thereby limiting both the extent of any single risk and the value associated with it.

At an operational level, comprehensive procedures for internal control and risk management are in place throughout SSE. These procedures are actively maintained and regularly reviewed through an audit programme which addresses the full spectrum of SSE's potential risks. This is complemented by an ongoing programme of business improvement initiatives designed to secure continuous progress in processes and procedures and further improve the overall management and performance of SSE.

Safety and the Environment

SSE aims to create value for shareholders by running the business with a strong emphasis on safety and on sustainability – achieving growth while safeguarding the environment. During 2006/07, the number of lost time and reportable accidents within the company was 11, compared with 17 in both 2005/06 and 2004/05. This means there were 0.05 reportable and lost time injuries per 100,000 hours worked in SSE during 2006/07 compared with 0.17 five years ago, in 2001/02.

The number of serious, or potentially serious, road traffic accidents involving employees driving company vehicles was 19, compared with 17 in 2005/06, 24 in 2004/05 and 50 in 2003/04, the first year for which data is available. They included a fatal injury to a trainee linesman in a tragic accident in Hampshire in February 2007 and SSE's condolences continue to be extended to his family and friends.

SSE's target for any given year is zero reportable environmental incidents. There were no such incidents during 2006/07.

Our net pension liabilities were

91.9

million pounds

During 2006/07, there was a significant improvement in SSE's net pension scheme liabilities, which fell by more than half, from £193.8m to £91.9m.

We had

0.05

reportable and lost-time injuries per 100,000 hours worked

During 2006/07, the number of lost time and reportable accidents within SSE was 11, compared with 17 in both 2005/06 and 2004/05. This means there were 0.05 such accidents per 100,000 hours worked, compared with 0.08 in the previous year.

Corporate Responsibility Index and Business in the Environment Index
Business in the Community's Corporate Responsibility Index provides an authoritative benchmark for companies to evaluate their management practice in four key areas of corporate responsibility (community, environment, marketplace and workplace) and performance in a range of environmental and social impact areas material to their business.

The results of the Index for 2006, in which 128 companies participated, were published in May 2007. SSE's score was 98.5%, compared with 97.5% in the previous year, putting the company in the highest possible performance band of 'Platinum'. Within the main Index is the Business in the Environment Index. SSE's score was 99.58%, compared with 99.20% in the previous year.

Teamwork
The progress made by SSE is due to the professionalism, commitment and teamwork of its employees. For that reason, and reflecting the performance delivered in 2006/07, every person who was employed by SSE on 31 March 2007, and who is still in employment will receive a special award comprising: an offer, free of charge, of 20 shares in the company; a cash award of £150; a £50 'virtual voucher' to spend online with WWF-UK, the world's largest independent conservation organisation; and an additional day's holiday.

STRATEGY AND OUTLOOK

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. In line with this, its strategy has been and will continue to be the delivery of sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses. Implementation of the strategy is founded on a series of well-established financial principles.

This strategy and these principles have been shown to be robust in a wide variety of financial and operational conditions and SSE will continue to adhere to them in the future.

SSE's financial and operational performance during 2006/07 was strong, and the foundations have been laid for this to continue well into the future. That future will be shaped to a significant degree by the ongoing developments in energy and environment policy taking place within the UK and at EU level. These policy developments are geared to addressing what the UK government has described as 'immense challenges... energy security and climate change'.

This means there will have to be significant reductions in emissions of carbon dioxide, while maintaining reliable and affordable supplies of energy in a carbon-constrained world. In other words, there will have to be a substantial fall in the amount of carbon dioxide emitted per kWh of electricity produced, while securing sustained increases in the efficiency with which energy is used.

This is presenting SSE with major investment opportunities in electricity generation from coal, gas and renewable sources. SSE's long-term objective of providing a wider variety of energy-related services is also fully in line with the direction of public policy in the UK.

The need for secure supplies of energy, including the primary fuel with which to generate power, and robust means of distributing it, is also paramount, and sets the context for SSE's plans for significant investment in new gas storage capacity in the UK and in its electricity networks.

As a result of all of this, SSE's asset base in each of its key areas of activity will again expand significantly in the coming years. This value created through investment will be complemented by value enhancement through the strongest possible focus on operational excellence across all aspects of SSE's businesses. It is this operational focus which has enabled SSE to gain over three million customers in the past five years, including one million customers during 2006/07, and which is expected to lead to further growth in customer numbers and expansion in Energy Services, Contracting and Connections.

As it did between 2002 and 2005, SSE may also seek to create value for shareholders through the acquisition of assets, but only if such acquisitions are compatible with its financial principles.

All of this illustrates the fact that there are significant growth opportunities in UK energy networks, supply and services. While SSE is clearly the broadest-based UK energy company, it is not yet the largest participant in any part of it, except in the generation of electricity from renewable sources. Its carefully-maintained financial strength and its focus on operational excellence mean SSE is well-positioned to expand its presence in those activities where it is already a significant player.

The recommended full-year dividend for 2006/07, of 55 pence per share, is double the dividend paid to shareholders for 1999/2000. With its first responsibility to shareholders being to deliver sustained real growth in the dividend, SSE's next long-term objective must be to double it again.

We achieved

98.5

per cent in the Corporate Responsibility Index

SSE's score in the Business in the Community Corporate Responsibility Index was 98.5%. This gave it the highest possible performance band of 'Platinum' in the Index, which evaluates management practice in four key areas of corporate responsibility – community, environment, marketplace and workplace.

We recommend a dividend of

55

pence per share

The recommended full-year dividend for 2006/07, of 55 pence per share, is double the dividend paid to shareholders for 1999/2000. With its first responsibility to shareholders being to deliver sustained real growth in the dividend, SSE's next long-term objective must be to double it again.

CORPORATE RESPONSIBILITY KEY INDICATORS

SAFETY

Lost time and reportable accidents | 69

2007	11	-35.3%
2006	17	
2005	17	

Lost time and reportable accidents – per 100,000 hours worked | 70

2007	0.05	-37.5%
2006	0.08	
2005	0.09	

Serious or potentially serious road traffic accidents | 71

2007	19	+11.8%
2006	17	
2005	24	

Serious or potentially serious road traffic accidents – number per 1,000 employees | 72

2007	1.41	+10.2%
2006	1.28	
2005	2.17	

Scotia Gas Networks lost time accidents | 73

2007	21	+5.0%
2006	20	
2005	30	

Injury-free business units | 74

2007	66	+32.0%
2006	50	
2005	51	

ENVIRONMENT

Non-power station CO_2 emissions – tonnes | 75

2007	16,687	-1.9%
2006	17,019	
2005	17,434	

Breaches of IPC/IPPC | 76

2007	2	-66.7%
2006	6	
2005	7	

Oil leaked – litres | 77

2007	31,761	+13.7%
2006	27,941	
2005	38,105	

Waste produced – offices and depots tonnes | 78

2007	25,052	-11.7%
2006	28,380	
2005	28,776	

Waste sent to landfill – offices and depots tonnes | 79

2007	7,787	-23.8%
2006	10,217	
2005	11,281	

Water consumption in principal offices – cubic metres | 80

2007	118,611	+9.3%
2006	108,564	
2005	88,652	

Water consumption in principal offices per employee – cubic metres | 81

2007	24.98	-2.6%
2006	25.65	
2005	25.23	

Energy consumption in operational buildings – GWh | 82

2007	34.16	-1.9%
2006	34.81	
2005	34.38	

Energy consumption in principal offices – GWh | 83

2007	31.05	+9.7%
2006	28.31	
2005	29.15	

Energy consumption in principal offices – kWh per employee | 84

2007	10.4	-4.6%
2006	10.9	
2005	12.5	

Distance travelled on SSE business – million kilometres | 85

2007	198.51	+2.1%
2006	194.49	
2005	167.43	

Distance travelled on SSE business – kilometres per employee | 86

2007	15,416	-2.8%
2006	15,855	
2005	15,174	

Chief Executive's Statement continued

Business flights 87

2007	9,311	+15.2%
2006	8,079	
2005	7,602	

Flights per 1,000 employees 88

2007	693	+5.2%
2006	659	
2005	689	

Business rail journeys 89

2007	2,545	+68.4%
2006	1,511	
2005	550	

Rail journeys per 1,000 employees 90

2007	189	+53.7%
2006	123	
2005	50	

Business flights – million kilometres 91

2007	9.22	+32.3%
2006	6.97	
2005	6.59	

Business rail journeys – million kilometres 92

2007	0.86	+53.6%
2006	0.56	
2005	0.19	

Operational vehicles – million kilometres 93

2007	156.9	+2.0%
2006	153.8	
2005	126.5	

Company cars – million kilometres 94

2007	31.5	-5.1%
2006	33.2	
2005	34.2	

Travel saved by use of video conferencing facilities – million kilometres (estimated) 95

2007	1.15	-12.9%
2006	1.32	
2005	1.47	

MARKETPLACE

EEC energy savings – GWh 96

2007	7,125	+45.7%
2006	4,891	
3 yr av. 2005	3,109	

Homes insulated – thousands 97

2007	229	+14.5%
2006	200	
2005	120	

Low energy lamps subsidised – thousands 98

2007	560	+36.6%
2006	410	
2005	239	

Energy efficient appliances subsidised – thousands 99

2007	23.4	-5.6%
2006	24.8	
2005	5.5	

Calls to Energy Efficiency Advice Line – thousands 100

2007	54.2	-2.9%
2006	55.8	
2005	18.1	

Customers registered with Priority Service Register – thousands 101

2007	297.8	+35.4%
2006	219.9	
2005	172.6	

Customers with 'tailor made' payment plans – thousands 102

2007	229.0	-2.8%
2006	235.6	
2005	158.3	

Customers on loyalty plans – millions 103

2007	1.34	+59.5%
2006	0.84	
2005	0.27	

New goods and services providers appointed 104

2007	1,112	+2.5%
2006	1,085	
2005	2,155	

WORKPLACE

Employees – SSE Group headcount | 105

2007	13,427	+9.3%
2006	12,287	
2005	11,034	

Employees – SSE Group monthly average | 106

2007	12,472	+5.7%
2006	11,755	
2005	10,642	

Employees – SSE Group whole time equivalent | 107

2007	12,876	+5.0%
2006	12,266	
2005	11,034	

Employees – Generation and Supply whole time equivalent | 108

2007	5,053	+13.6%
2006	4,450	
2005	3,698	

Employees – Power Systems whole time equivalent | 109

2007	1,838	+2.2%
2006	1,799	
2005	1,754	

Employees – other whole time equivalent | 110

2007	5,985	-0.5%
2006	6,017	
2005	5,582	

Average age of employees – years | 111

2007	40	+2.6%
2006	39	
2005	39	

Absence from work per employee – days | 112

2007	6.01	-5.6%
2006	6.37	
2005	5.92	

Annual turnover of employees – % | 113

2007	13.8	+3.8%
2006	13.3	
2005	13.0	

All employees – male/female – % | 114

2007	75/25	n/a
2006	76/24	
2005	n/a	

Managers – male/female – % | 115

2007	89/11	n/a
2006	n/a	
2005	n/a	

Employees in Share Incentive Plan – % | 116

2007	44	-8.3%
2006	48	
2005	36	

COMMUNITY

Employees in receipt of Into Action Grants | 117

2007	278	-8.2%
2006	303	
2005	259	

Employees participating in Quids In | 118

2007	943	+5.7%
2006	892	
2005	n/a	

Community Benefit paid – £000s | 119

2007	292,180	-16.3%
2006	349,001	
2005	n/a	

Charitable donations – £000s | 120

2007	685	+35.1%
2006	507	
2005	400	

Research, development and demonstration project expenditure – £m | 121

2007	6.3	+350%
2006	1.4	
2005	0.6	

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; storage, distribution and supply of gas; electrical and utility contracting; domestic appliance retailing and telecoms. A review of the year's operations and future developments is contained in the Chief Executive's Statement on pages 10 to 34 and the Corporate Governance Report on pages 38 to 41 which form part of this report.

Business Review

The Business Review has been divided into three areas and dealt with in the Annual Report as follows:

- Principal risks and uncertainties – pages 40 and 41 of the Corporate Governance Report;
- Review of the development and performance of the business – included in the Chief Executive's Statement on pages 10 to 34; and
- Key performance indicators – on pages 6 to 9.

Directors

The Directors at the date of this report are:

Executive
Gregor Alexander
Colin Hood
Ian Marchant
Alistair Phillips-Davies

Non-Executive
Sir Robert Smith (Chairman)
Nick Baldwin
Richard Gillingwater
René Médori
David Payne
Susan Rice
Sir Kevin Smith

Nick Baldwin was appointed as a non-Executive Director on 1 September 2006, and Richard Gillingwater was appointed as a non-Executive Director on 25 May 2007.

Alistair Phillips-Davies, Sir Kevin Smith and David Payne retire by rotation at the Annual General Meeting and, being eligible and in accordance with the Articles of Association, Alistair Phillips-Davies and Sir Kevin Smith offer themselves for re-election. David Payne will retire as a non-Executive Director on 26 July 2007 and is not seeking re-election.

Biographical details for all Directors are set out on pages 42 and 43. Details of the service contract for Alistair Phillips-Davies and the letters of appointment for Nick Baldwin, Richard Gillingwater and Sir Kevin Smith are set out in the Remuneration Report on pages 46 and 47 respectively. The interests of the Directors in the ordinary shares of the company are set out in the Remuneration Report on page 48.

Resolution 2 to be proposed at the Annual General Meeting seeks shareholders' approval of the Remuneration Report.

Directors' Indemnity

The Directors have the benefit of the indemnity provision contained in the company's Articles of Association. This provision, which is a qualifying third party indemnity provision as defined by section 309B of the Companies Act 1985, was in force throughout the financial year and is currently in force. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its Directors.

Results and Dividends

The Group profit attributable to shareholders for the financial year amounted to £830.5m. The Directors recommend a final dividend of 39.9p per ordinary share which, subject to approval at the Annual General Meeting, will be payable on 21 September 2007 to shareholders on the register at close of business on 24 August 2007. With the interim dividend of 15.1p per ordinary share paid on 23 March 2007, this makes a total dividend of 55p per ordinary share.

Share Capital

Details of the company's authorised and issued share capital at 31 March 2007, which includes options granted under the Group's employee share option schemes, are detailed in notes 24 and 27 to the Financial Statements.

Annual General Meeting

The 18th Annual General Meeting of the company will be held on 26 July 2007 at 12 noon at the Perth Concert Hall, Mill Street, Perth PH1 5HZ. The Notice of Meeting together with full explanations of special business is set out on pages 101 to 103.

Substantial Shareholdings

As at the date of this report the company had received the following notifications of beneficial interests of three per cent or more in the company's issued share capital:

	Number of shares	Percentage
Capital Group International. Inc.	40,589,213	4.71
Legal & General Group Plc	32,183,700	3.73
Barclays	29,750,083	3.45

We have
11
Directors on our board

SSE's Board comprises four Executive Directors and six non-Executive Directors, plus the Chairman. One of the non-Executive Directors, David Payne, intends to retire at the Annual General Meeting in July 2007.

Our AGM is on
26
July 2007, in Perth

SSE's Annual General Meeting will take place at 12 noon on Thursday 26 July 2007, in the Perth Concert Hall. The 2008 Meeting is currently scheduled for Thursday 24 July and will take place in Bournemouth.

Research and Development
During the year the company invested £6.3m in research, development and demonstration initiatives, which are generally environmentally driven and which are designed to secure changes in the way electricity is produced, distributed and used. Many of the principal initiatives are set out in the Generation and Supply section of the Chief Executive's Statement and include, for example, the company's involvement in the deep water offshore wind research, development and demonstration project in the Moray Firth and in the Sigma Sustainable Energy Fund. There are initiatives in other parts of the Group. For example, the Power Systems business is actively engaged in responding to Ofgem's Innovation Funding Incentive, which encourages electricity network companies to innovate in ways which deliver benefits to customers in areas such as quality of electricity supply, safety, the environment or cost savings. During 2006/07, the company agreed to become a partner in the new Energy Technologies Institute, providing it with up to £2.5m a year for five years.

Employees
The number of staff directly employed by the Group at 31 March 2007 was 13,427.

Employees are encouraged to participate in the business of the company in a variety of ways. In support of the Board's commitment to providing opportunities for employees to become shareholders, the company offers a Share Incentive Plan and a Sharesave Scheme which is open to all eligible employees. Employee participation in these schemes is around 44% and 37% respectively.

The company places a strong emphasis on employee communication and involvement. An employee newspaper – ssenews – is published in-house and distributed to employees. Participation is also encouraged through team meetings, briefings and the intranet. During the year, the senior management held a series of roadshows around the Group to present and discuss the Group's vision, values and strategy.

The company has in place an extensive range of policies to safeguard the interests of employees and potential employees. In particular, its equal opportunities policy aims to ensure that all employees and job applicants are no less fairly treated due to age, sex, marital status, race, disability or other reasons not justified in law or relevant to performing their job. The company also aims to ensure that employees have the right skills to deliver the high standards of performance that are necessary to achieve its objectives. Detailed information about the company's approach to these and related matters is set out in its Corporate Responsibility Report 2007 (see www.scottish-southern.co.uk).

Creditor Payment Policy
The company complies with the CBI Prompt Payment Code. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills are paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. The numbers of suppliers' days represented by trade creditors was 36 days at 31 March 2007.

Donations
Charitable donations amounted to £685,000 (2006 – £507,000). There were no payments for political purposes.

Financing Policy and Derivatives
The Group's policies together with details of financial instruments and derivatives are set out in notes 1 and 28 to the Financial Statements.

Auditors
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.

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and the Director has taken all the steps that ought to have been taken as a Director to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By Order of the Board

Vincent Donnelly
Company Secretary
30 May 2007

We invested

6.3

million pounds in research, development and demonstration projects

During 2006/07, SSE invested around £6.3m in research, development and demonstration initiatives. These initiatives are generally environmentally-driven and are designed to secure changes in the way electricity is produced, distributed and used.

We employ more than

13.4

thousand people

The number of people directly employed by SSE at the end of March 2007 was 13,427 – an increase of 9.3% on the previous year. They work from over 150 sites throughout Great Britain.

Corporate Governance Report

The Board of Directors is committed to the highest standards of corporate governance and believes that strong corporate governance improves the performance of the Group and enhances shareholder value. Due regard is given to the continuing developments in this field, including policy guidelines which are regularly issued and updated by organisations representing major institutional investors. Recently there have been some new appointments to the Board, designed to broaden the range of skills available to the Board. This report sets out how the governance framework is implemented across the Group. The Remuneration Report on pages 44 to 49 details the remuneration policies and practices.

Combined Code Compliance

The Board considers that this report on how the company complies with the UK Financial Reporting Council's Combined Code on Corporate Governance (the 'Combined Code') provides the information necessary to enable shareholders to evaluate how the principles of the Combined Code have been applied. Throughout the year, the company has complied with all the provisions set out in Section 1 of the Combined Code and the Board therefore considers that the company has satisfied its obligations under the Combined Code.

ORGANISATION AND STRUCTURE

Board Membership

The non-Executive Chairman, Sir Robert Smith, chairs the Board. The Board consists of six non-Executive Directors and four Executive Directors in addition to the Chairman, ensuring an appropriate balance of independence and experience. Nick Baldwin joined the Board on 1 September 2006, and Richard Gillingwater joined the Board on 25 May 2007. David Payne will retire at the forthcoming AGM.

All Directors are subject to election by shareholders at the first AGM following appointment and thereafter to re-election at least every 3 years. Alistair Phillips-Davies and Sir Kevin Smith come up for re-election at the forthcoming AGM. Following the Board evaluation reported on below, it is confirmed that the performance of the Directors coming up for re-election continues to be effective and they have demonstrated commitment in their respective roles. In addition, Sir Kevin Smith as a non-Executive Director, has the appropriate experience, knowledge, and independence to scrutinise effectively the performance of management. Nick Baldwin and Richard Gillingwater, both of whom have been appointed since the last AGM, come up for election at the forthcoming AGM.

Biographical details for all the Directors are shown on pages 42 and 43.

Division of Responsibilities

The roles of the Chairman and the Chief Executive are separate and clearly defined and have been approved by the Board. The Chairman is responsible for the operation, leadership and governance of the Board. The Chief Executive is responsible for the management of Group business and the implementation of strategy and policy once agreed by the Board. In discharging his responsibilities, the Chief Executive is advised and assisted by a number of committees including the Executive Committee comprising the senior management of the Group's main businesses.

Director Independence

All of the non-Executive Directors are considered to be independent according to the principles of the Combined Code.

The non-Executive Directors bring a wide range of skills and experience to the Group, including independent judgement on issues of strategy, performance, financial controls and systems of risk management.

The Senior Independent Director is the Deputy Chairman, David Payne. He is a member of the Audit, Nomination and Remuneration Committees.

The Chairman and non-Executive Directors met during the year without the executive management being present. The non-Executive Directors would consider meeting without the Chairman if there were concerns which the Chairman had failed to resolve or if there were any issues concerning his performance. The Directors are fully briefed in advance of all Board meetings on all matters to be discussed, including regular business and financial reports, and they also receive copies of analysts' and brokers' reports on the company.

The non-Executive Directors' appointment letters are available on the company's website. (www.scottish-southern.co.uk).

Directors' Attendance

In addition to the AGM, the Board had nine scheduled meetings during the year and would meet more frequently as required. The attendance of Directors at Board meetings and meetings of its Committees during the year to 31 March 2007 are set out in the table below. There was full attendance at all Board and relevant Committee meetings during the year with the exception of Susan Rice who was unable to attend the Board meeting held in July 2006 due to unforeseen travel problems.

Board Procedures

The Board has a schedule of matters specifically reserved to it for decision, which includes strategic items, Board and Committee appointments and related governance matters, approval of the annual budget, Company Reports and Financial Statements, significant contracts and capital expenditure and certain key policies. The Board regularly reviews this schedule.

The Board receives detailed financial and operational information to allow it to monitor effectively the performance of the key areas of the business. It also receives regular updates on the progress and performance of investments and other major decisions made by it, together with regular business reports and presentations from senior management.

	Board 9 meetings	Audit Committee 3 meetings	Nomination Committee 1 meeting	Remuneration Committee 4 meetings**	Executive Committee 12 meetings	Risk Committee 12 meetings	Health, Safety and Environmental Committee 3 meetings
Nick Baldwin*	6	1	–	–	–	–	–
Gregor Alexander	9	–	–	–	12	12	–
Colin Hood	9	–	–	–	12	–	3
Ian Marchant	9	–	1	–	12	12	–
René Médori	9	3	–	2	–	–	–
David Payne	9	3	1	4	–	–	–
Alistair Phillips-Davies	9	–	–	–	12	12	–
Susan Rice	8	2	1	2	–	–	–
Sir Kevin Smith	9	–	1	4	–	–	2
Sir Robert Smith	9	–	1	2	–	–	–

* Nick Baldwin was appointed to the Board with effect from 1 September 2006 and he attended all meetings from that date.
** All members of the Remuneration Committee attended meetings while members of the Committee.

All of the non-Executive Directors have been appointed for fixed terms of three years.

BOARD EFFECTIVENESS

Induction and Professional Development

Directors receive a comprehensive induction course on joining the Board tailored to their individual requirements which includes meetings with senior management, visits to key sites, and a meeting with the company broker and analysts. It also covers a review of all risks facing the Group including key operational issues such as safety and environmental performance.

During the year, the Board and its key committees received briefings on new developments affecting the Group's activities, such as company law reform, corporate governance, regulatory developments and financial reporting standards. Directors were also able to update their knowledge of the business through regular presentations by senior management on the full range of the Group's activities, and visits to key offices and operational sites. Separate more informal meetings were also held with groups of key managers. There is an agreed procedure for Directors to be able to take independent professional advice in the furtherance of their duties, if necessary, at the Group's expense and all Directors have access to the advice and services of the Company Secretary.

The company continues to operate an enhanced programme of performance coaching for members of the Executive Committee which was rolled out to senior managers of the Group during the year. The purpose of the programme is to develop the Executive Directors and senior management and maximise individual and group performance to ensure that the business is managed effectively.

Performance Evaluation

During the year the Chairman conducted a comprehensive evaluation of the performance of the Board, its six Committees and the individual Directors. Each Director completed a questionnaire which covered such areas as Board reports and presentations, effectiveness, development, strategy, management of risk and corporate responsibility. The Chairman and, where appropriate, the Chairmen of the Committees then discussed these matters with each Director and the Company Secretary during a series of individual meetings. The outcome of this process was reported to the Board at its meeting on 22 January 2007. Following the review, a number of improvements were made to the Board and Committee procedures. However, the outcome was that generally the Board continued to set clear objectives, it monitored performance well, and was focussed on the correct areas. This review will continue to be carried out on an annual basis. The Board was satisfied that the review of its performance was a worthwhile exercise and the Directors had participated in an open and frank basis.

Led by the senior independent director, David Payne, the non-Executive Directors evaluated the performance of the Chairman.

BOARD COMMITTEES

The Board has six committees. The terms of reference for all Committees are available on the company's website (www.scottish-southern.co.uk).

AUDIT COMMITTEE

Role of the Committee

The principal responsibilities of the Committee are:

- ensuring the financial reports represent an accurate, clear and balanced assessment of the company's position;
- monitoring the effectiveness of internal control and risk management in areas such as Energy Trading and Treasury;
- monitoring and reviewing the Group's internal audit function; and
- ensuring the independence of the external auditor.

The Chairman of the Committee reports to the Board following each Committee meeting on the main areas and subjects the Committee has reviewed such as risk management, internal control, internal audit reports and any issues arising from its review of Group Financial Statements.

Membership and Experience

All members of the Committee are independent non-Executive Directors. The membership of the Committee is as follows:

- René Médori (Committee Chairman);
- David Payne, (the company's Senior Independent Director and Deputy Chairman);
- Nick Baldwin; and
- Richard Gillingwater

Susan Rice stood down as a Committee member on 13 November 2006 and Nick Baldwin joined the Committee on that date. Richard Gillingwater joined the Audit Committee on 25 May 2007.

The Board considers that the membership of the Audit Committee as a whole has sufficient recent and relevant financial experience to discharge its functions. René Médori has particular relevant financial experience in his executive career. Currently he is the Finance Director of Anglo American plc.

The Deputy Company Secretary is Secretary of the Audit Committee.

Evaluation of the Committee

As reported above, an evaluation of the performance of this Committee was carried out during the year. This evaluation also included the principal attendees of the Committee, namely the Finance Director, the Group Audit Manager and the external auditors.

Activities of the Committee in 2006 – 2007

The Committee had three meetings during the year. Where appropriate other Directors, the internal and external auditors and senior management attend Committee meetings to present reports and respond to questions posed by the Committee.

Financial Statements

The Committee ensured that the annual and interim statements represented an accurate, clear and balanced assessment of the Group's position. It reviewed the effectiveness of the overall audit process and met with the external auditor and management separately to identify any areas of concern in the preparation of the financial statements.

Internal Financial Control and Risk Management Systems

The Committee considers areas where there could be significant risk such as Energy Trading and Treasury. Follow-up reports are also provided to the Committee to ensure appropriate actions are completed. The review by the Committee of the effectiveness of the company's internal financial control and risk management systems is described in the Internal Control and Risk Management section below.

External Auditors

The Committee has an established policy which restricts the engagement of the auditors for non-audit services. The policy details non-audit work from which the auditors are excluded, and other non-audit work which may be awarded to them in a competitive tender process where non-audit fees exceed a threshold of £30,000 for general advice and £75,000 for tax related advice. Where such non-audit work was awarded, the Committee was satisfied that it was best handled by the auditors because of their knowledge of the Group. The non-audit work awarded during the year related primarily to taxation and regulatory reporting advice. The Committee is confident that the objectivity and independence of the auditors was not affected by this further work. It is clear from independent surveys that the company continues to award a low amount of non-audit work to its auditors KPMG Audit Plc, compared to most FTSE100 companies. Full disclosure of the non-audit fees paid during the year is made in Note 3 to the Accounts.

The external auditors attended each committee meeting. In addition, the Committee met with the external auditors without the presence of management.

During the year the Committee approved the terms of appointment of the external auditors and their remuneration. The Committee recommended to the Board that KPMG Audit Plc be proposed for reappointment, having been satisfied with the scope and results of the audit work, their objectivity and their independence. The Board endorsed the Committee's recommendation.

Internal Audit

The Committee reviews the plans and work of internal audit. The Group Audit Manager reports to the Committee on the audit programme, progress against the programme and any follow-up actions. Further details relating to internal audit can be found below in the section headed 'Internal Control and Risk Management'.

REMUNERATION COMMITTEE

The principal responsibilities of the Remuneration Committee are:

- formulation of remuneration policy and approval of all aspects of the Executive Directors' remuneration, including bonuses and the granting of incentives under the company's schemes;
- ensuring that an appropriate proportion of pay is linked to corporate and individual performance; and
- review and approval of the Chairman's fees.

During the year the Remuneration Committee met four times.

The Committee members are Susan Rice, Sir Robert Smith, Sir Kevin Smith and David Payne.

On 13 November 2006 the following changes were made to the membership of the Committee;

- Susan Rice replaced David Payne as Chairman;
- Sir Robert Smith joined the Committee; and
- René Médori stood down as a Committee member.

Full details of Directors' remuneration, general policy and developments during the year are given in the Remuneration Report set out on pages 44 to 49. The Company Secretary is Secretary to the Remuneration Committee.

NOMINATION COMMITTEE

The Nomination Committee reviews the composition and balance of the Board and following a formal and rigorous review recommends suitable candidates for appointment as Directors.

Membership of the Nomination Committee is made up of: four non-Executive Directors, Susan Rice, David Payne, Sir Kevin Smith and René Médori; the Company Chairman, Sir Robert Smith (who chairs the committee); and Ian Marchant. Members do not take part in discussions about their own appointment. On 13 November 2006, René Médori joined the Committee. The Company Secretary is Secretary to the Nomination Committee.

During the year the Nomination Committee reviewed the current and future structure of the Board including Board committee membership, general succession planning, and the appointment of new non-Executive Directors.

It is the Committee's practice to identify possible future non-Executive Directors with the assistance of a professional search firm. The appointments of Nick Baldwin and Richard Gillingwater were confirmed by the Board following all Directors having the opportunity to meet them. Nick Baldwin was chosen because of his experience of the industry, and Richard Gillingwater because of his investment banking and city experience.

RISK COMMITTEE

The Risk Committee comprises Alistair Phillips-Davies (Chairman), Ian Marchant, Gregor Alexander and senior managers from Energy Trading, Electricity Generation and Finance. It met 12 times during the year to review and manage the operational and financial risks and exposures in Energy Trading, interest rates and currency markets. A senior manager in Energy Trading is Secretary to the Audit Committee.

EXECUTIVE COMMITTEE

The Executive Committee comprises all the Executive Directors and other senior Group Executives. The Chairman is Ian Marchant, apart from meetings on operational performance matters, which are chaired by Colin Hood. It met 12 times during the year and was responsible for all key management issues arising from the business of the Group; the implementation of the Group strategy; and monitoring the operational and financial performance and assessing and reviewing risks arising from the Group's business. The Company Secretary is Secretary to the Executive Committee.

HEALTH SAFETY AND ENVIRONMENTAL ADVISORY COMMITTEE

The Committee met three times during the year and was responsible for ensuring that health, safety and environmental policies had been implemented, setting targets and monitoring performance, and promoting awareness of these issues throughout the Group.

The Committee members are Colin Hood (Chairman), the Director of Human Resources, the Group Safety and Environmental Manager and Sir Kevin Smith, non-Executive Director, with Ian Marchant attending as appropriate. A senior member of the Safety Team is Secretary to the Committee.

INTERNAL CONTROL AND RISK MANAGEMENT

The Directors acknowledge that they have responsibility for the Group's systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate, the risk of failure to achieve business objectives, and provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Group.

No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Group's businesses, to the materiality of the risks inherent in these businesses, and to the relative costs and benefits of implementing specific controls.

The Board and its Committees maintain an ongoing process of identifying, evaluating and managing the significant commercial, financial, social, ethical, environmental and general risks to the Group's business. Throughout the year, each business unit evaluates risks with the key risks being reflected in reports to the Board and/or the appropriate Committee. This process is regularly reviewed by the Board, has been in place throughout the year and up to the date of approval of the accounts. As part of this process the Audit Committee reviews the arrangements by which staff can, in confidence, raise concerns about any possible improprieties in financial and other matters.

Control is maintained through an organisation structure with clearly defined responsibilities, authority levels and lines of reporting; the appointment of suitably qualified staff in specialised business areas; and continuing investment in high quality information systems. These methods of control are subject to periodic review as to their implementation and continued suitability.

The main financial risks which the Group could face includes those in respect of interest rates and, to a lesser extent, inflation, foreign exchange, liquidity and credit. The Board reviews and agrees policies for addressing each of these risks. The other key financial risk of exposure to energy prices and volumes is addressed by the Risk Committee and is further explained in note 28 to the Financial Statements.

There is relatively little exposure to foreign currency risk as the United Kingdom is the Group's main area of operation. If either fuel or plant are contracted in foreign currency, it is the Group's policy to hedge all material purchases through the use of foreign currency swaps and forward rate contracts.

There is also the risk of mechanical or process failure in the Group's operations. Any material failure in the Group's licensed operations in electricity generation, transmission, distribution and supply and in the supply and storage of gas would be particularly significant. Operating risk is addressed through the Group's focus on seeking operational excellence and on maintaining the highest standards of safety and quality.

The Group is exposed to economic regulation and government policy. There are management structures in place to mitigate, influence and respond to such developments, and to engage with the Industry Regulator, Government ministers and officials, and other key bodies.

There are established procedures in place for regular budgeting and reporting of financial information. The Group's performance is reviewed by the Board and the Executive Committee. Reports include variance analysis and projected forecasts of the year compared to approved budgets and non-financial performance indicators.

There are Group policies in place covering a wide range of issues and risks such as financial authorisations, IT procedures, health, safety and environmental risks, crisis management, and a policy on ethical principles. The business risks associated with the Group's operations are regularly assessed by the Board and the Audit Committee. The Risk Committee comprising three Executive Directors, together with senior managers, meets regularly to review risks and authority levels in key areas of the Group's activities.

Review of the System of Internal Control
The effectiveness of the Group's systems of internal control is monitored by the internal audit department which distributes reports and where appropriate action plans to senior managers, Directors and the external auditors. Throughout the year, the Audit Committee kept these systems under review reporting regularly to the Board. The Board during its annual review of the effectiveness of the Group's systems of internal control and risk management did not identify nor was advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate. The Board is satisfied that the Group complies with the Turnbull Guidance on Internal Control.

This process did not extend to joint ventures and associates for the purposes of this report, although the Group seeks to ensure such joint ventures and associates have appropriate corporate governance systems in place.

GOING CONCERN

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The Financial Statements are therefore prepared on a going concern basis.

COMMUNICATION WITH SHAREHOLDERS AND MAJOR BUSINESS STAKEHOLDERS

The Directors acknowledge the importance of communication with shareholders. There is a continuing programme of meetings between Executive Directors and institutional shareholders on a wide range of issues. The non-Executive Directors receive feedback on these meetings on a regular basis to allow them to form a view of the priorities and concerns of institutional investors.

All Directors were present at the Annual General Meeting in 2006 apart from Susan Rice who could not attend due to unforeseen travel problems. All intend to be present at the Annual General Meeting in 2007 to answer shareholders' questions.

The company's shareholders are widely distributed throughout the country. To ensure that the maximum number of shareholders have the chance to attend an AGM, its location is alternated between Scotland and the south of England. The Chairman gave a presentation on the company's business at the AGM in 2006, and will do so again at the forthcoming AGM.

The Chairman introduces the presentation of the company's interim and preliminary results to analysts and investors and he and the Senior Independent Director also meet with major shareholders from time to time.

In September 2006, the Board held its meeting in Edinburgh and took the opportunity of hosting a meeting with representatives of a number of organisations which have an interest in the Group's activities in areas such as the environment, energy efficiency, the community and customer service. The purpose of this was to hear their views, suggestions and any concerns, and also to explain the Group's position on a wide range of business and policy issues.

The company promotes the use of electronic communications with shareholders. For all shareholders who have opted for this service where they can view documents online and lodge their proxy vote over the internet, the company has undertaken to plant a native species tree in a designated woodland.

The company runs a dividend reinvestment plan, details of which can be found on the company's website.

Shareholders can also access Investor Centre, a free-internet based service provided through our registrar where shareholders can view their shareholdings, update their details and manage their share portfolio online. In addition shareholders can also make use of the share dealing service also provided through our registrar. Details of both services can be found on the company's website.

In early 2007 the first provisions of the Companies Act 2006 were brought into force. The key change allows companies to use electronic communications with its shareholders as a default position. The purpose of this change is to reduce the number of paper copies of the Annual Report and Accounts that are printed and posted to shareholders. The company is seeking approval for this proposal at the forthcoming AGM, and more details accompany the notice of meeting. It is intended to review the company's Articles of Association following full implementation of the Companies Act 2006, and bring the proposed changes to the Articles to the AGM in 2008 for approval.

To ensure that shareholders have easy access to as much information as possible, the company website (www.scottish-southern.co.uk) contains financial and other information about the Group, including shareholder presentations, stock exchange announcements, and general business news. In addition, the website contains information relating to the governance of the company, including the Memorandum and Articles of Association, the schedule of matters reserved to the Board, the terms of reference for each Board Committee and the letters of appointment for the non-Executive Directors.

Directors' Biographies and Responsibilities

Ian Marchant David Payne Sir Robert Smith Sir Kevin Smith Colin Hood Susan Rice Richard Gillingwater

Ian Marchant (46)
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 Chairman of the United Kingdom Business Council for Sustainable Energy and of the Climate Change Business Delivery Group, a member of Ofgem's Environmental Advisory Group, the Coal Forum and of the Energy Research Partnership. Ian is a non-Executive Director of Maggie's Cancer Centres and was appointed as a non-Executive Director of John Wood Group PLC on 18 May 2006. He is a member of the Nomination Committee and is lead Director for the Environment and Corporate Responsibility.

David Payne (64)
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 and a member of the Remuneration, Audit and Nomination Committees.

Sir Robert Smith (62)
Chairman
Sir Robert joined the Board as a non-Executive Director in June 2003, was appointed Deputy Chairman in November 2003 and became Chairman in January 2005. 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, Chairman of Stakis plc and a Past President of the Institute of Chartered Accountants of Scotland. He is Chairman of the Nomination Committee and a member of the Remuneration Committee.

Sir Kevin Smith CBE (52)
Non-Executive Director
Sir 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. Sir Kevin is Deputy President of The Society of British Aerospace Companies Ltd and Co-Chairman of the government's Manufacturing Forum. He is a member of the Nomination and Remuneration Committees.

Colin Hood (52)
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 Chairman of Scotia Gas Networks plc and a member of the Forum for Renewable Energy Developments in Scotland. Colin is the lead Director for Health and Safety matters and has Board level responsibility for Generation, Power Systems, Customer Service, Human Resources, I.T. and Contracting.

Susan Rice CBE (61)
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. She chairs the Board of the Edinburgh International Book Festival, is a non-executive director of Charity Bank and several other organisations. Susan chairs the Remuneration Committee and is a member of the Nomination Committee.

Richard Gillingwater (50)
Non-Executive Director
Richard joined the Board as a non-Executive Director in May 2007. He is Dean of Cass Business School and is a non-Executive Director of Debenhams and Tomkins.

Alistair Phillips-Davies Nick Baldwin René Médori Gregor Alexander

He has held senior appointments in the City, including at Kleinwort Benson, BZW and CSFB. He has advised HM Government and most recently was Chief Executive then Chairman of the government's Shareholder Executive. He is a member of the Audit Committee.

Alistair Phillips-Davies (39)
Energy Supply Director
Alistair joined the Board in January 2002, having previously held various positions in the finance and commercial operations areas of the company. 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 a Chartered Accountant and a Director of the Energy Retail Association. Alistair is Chairman of the Risk Committee and has Board level responsibility for Energy Trading, Electricity and Gas Supply, Sales, Marketing and Energy Services.

Nick Baldwin (54)
Non-Executive Director
Nick joined the Board of Scottish and Southern Energy as a non-Executive Director in September 2006. Previously he worked in electricity, gas and water utilities, culminating in being the Chief Executive of Powergen plc. He is a non-Executive Director of the Nuclear Decommissioning Authority and a non-Executive Director of the Forensic Science Service. He also serves on the Advisory Boards of Climate Change Capital and Towerbrook Capital Partners and is Chairman of Worcester Community Housing. He is a member of the Audit Committee.

René Médori (49)
Audit Committee Chairman
René joined the Board as a non-Executive Director in June 2003. He is Finance Director of Anglo American plc and is a non-Executive Director of AngloGold Ashanti and DB (De Beers) Investments. He is a former Finance Director of the BOC Group plc, and previously worked for Accenture and Schlumberger Limited. He is Chairman of the Audit Committee and a member of the Nomination Committee.

Gregor Alexander (44)
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 Arthur Andersen for five years before joining Scottish Hydro Electric in 1990, six months before privatisation. Gregor is a Director of Scotia Gas Networks plc.

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements
The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of the Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent company financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulation, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and the Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Remuneration Report

The following is the report of the Board of Directors in compliance with the Directors' Remuneration Report Regulations 2002 (the Regulations).

The Remuneration Committee
The Remuneration Committee's members are Susan Rice, who chairs the Committee, Sir Robert Smith, David Payne and Sir Kevin Smith. Biographical details of the current Committee members are given on pages 42 and 43. The membership of the Committee changed on 13 November 2006, when Susan Rice joined as Committee Chairman, Sir Robert Smith joined the Committee, and René Médori stepped down. The Committee met on four occasions, with full attendance at all meetings. The Terms of Reference were reviewed during the year to ensure they conform to best practice, and they are available on the company's website (www.scottish-southern.co.uk).

The Committee sets the overall remuneration policy and determines, on behalf of the Board, the detailed remuneration terms of the Executive Directors including their service contracts. It also reviews the remuneration of the Chairman and the Company Secretary. The Board as a whole reviews the fees of the non-Executive Directors. Where requested by the Committee the Chief Executive, Ian Marchant, attends and assists the Committee in respect of those Directors reporting to him. He does not participate in decisions on his own remuneration. The Director of Human Resources, Jim McPhillimy, provides information and advice on various issues relating to the Directors' remuneration, including comparative data drawn from published remuneration and benefit surveys, and advice on appropriate awards of bonuses and long term incentives. The Company Secretary, Vincent Donnelly, provides information to the Committee on developments in corporate governance guidelines as they affect the Committee. During the year the Committee received advice from Towers Perrin on remuneration structures, and in particular received advice from them and from Freshfields Bruckhaus Deringer on the new Performance Share Plan which was approved at the Annual General Meeting held on 27 July 2006 to which amendments will be put forward at the forthcoming Annual General Meeting. Both Towers Perrin and Freshfields Bruckhaus Deringer were appointed by the Company on behalf of the Committee. The views of the company's Brokers, Merrill Lynch, were also sought on the proposals for amending the Performance Share Plan in 2007.

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 Combined Code.

This report sets out the company's policy on Executive Directors' remuneration for the year ended 31 March 2007 and, so far as is reasonable, for subsequent years. The Remuneration Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the company's business environment and in remuneration practice. Any changes in policy for years after 2007 will be described in future Remuneration Reports, which will continue to be subject to shareholder approval.

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 competitive approach to overall remuneration. This has been achieved by providing remuneration consisting of basic salary and benefits, together with an Annual Bonus Scheme and a Performance Share Plan both of which require the achievement of demanding performance targets. Given the nature of the company's business, the Committee believes that around half of total remuneration should be performance related, with up to two thirds for superior performance. The Committee is satisfied that the overall remuneration structure is set at levels which are reasonable and appropriate.

The Committee is fully aware of the need to ensure there is an appropriate relationship between Executive Director remuneration, and the levels of remuneration of other Senior Management within the Group. The Committee took account of this when reviewing remuneration of the Executive Directors during the year.

Executive Directors are entitled to accept a non-Executive appointment outside the company with the consent of the Board. Any fees received can be retained by the Director. In 2006/07 Ian Marchant held a non-Executive Director position with the John Wood Group plc, and received £26,100 in fees.

Shareholding Policy
Share ownership is encouraged throughout the Group. The company has adopted a policy that the Executive Directors and certain other senior Executives should acquire and maintain a level of shareholding approximately equivalent to one year's salary. This level should be attained within a reasonable timescale. Consent to sell shares under the Company's Share Dealing Code is not normally given (unless in exceptional circumstances or to fund a connected tax liability) until this level of shareholding is reached. It is also expected that all non- Executive Directors should hold a minimum of 2,000 shares in the company.

Annual Salary and Benefits
The Committee continues to follow the broad principle that salaries should take account of those in comparable companies with variations to reflect individual performance, experience and job size. While salary levels are generally set below median, regard is paid to retention objectives in setting overall remuneration packages.

As part of the review of overall remuneration, the Committee considered independent salary survey data and also the advice of Towers Perrin. The overall levels of remuneration continued to be significantly below median, and the Committee was satisfied that in order to maintain an effective retention regime, salaries should increase whilst remaining within the prudent, below median, policy approach. The Executive Directors' salary increases with effect from 1 January 2007 were therefore in the range 9%-17%. The current annual base salary levels for the Executive Directors are as follows: Ian Marchant £720,000; Gregor Alexander £405,000; Colin Hood £540,000; Alistair Phillips-Davies £405,000.

Deferred Bonus Scheme
The Deferred Bonus Scheme, which applied to Executive Directors and a selection of senior managers was originally designed to contribute to increasing shareholder return and motivation of senior management over the longer-term. It also facilitated the building of share ownership in the company.

Directors were granted awards of shares based on their actual annual bonus. The value of the award was adjusted by reference to three retrospective factors: the company's relative performance in terms of Total Shareholder Return (TSR) over the three-year period to the date of the award (compared to the FTSE100); Safety (externally verified and compared to other energy companies by the Electricity Networks Association); and relative performance in terms of Account and Billing Complaints, as recorded by the independent regulatory body, energywatch.

Dependent on actual performance each factor gave a multiplier of between 0.7 and 1.35 with the highest multiplier requiring upper quartile performance. A weighted average was then taken using TSR (40%), Safety (40%) and Account and Billing Complaints (20%), to create a single factor which was then applied to the award. The award in 2006 applied the factor of 1.29. The awards were based on bonuses earned for 2006 and therefore in respect of performance for the year ending 31 March 2006. They have however been deferred for three years and will vest in 2009. Upon vesting, the participant usually receives additional shares representing the dividends on the shares during the three-year period they are held in trust.

If a participant resigns voluntarily in the three years following award, all outstanding awards lapse. The shares under award normally vest after three years, but can vest earlier in certain exceptional circumstances such as retirement or redundancy.

No further awards to Executive Directors will be made under this scheme following approval of the new Performance Share Plan at the Annual General Meeting in July 2006.

Current Incentive Arrangements
Following the Committee's review of performance related remuneration, the following arrangements were put in place for 2006/07 and future years. The first awards under the new Performance Share Plan will vest subject to the company's performance between April 2006 to March 2009. The new Annual Bonus arrangements operated from 2007 based on the annual bonus payable in respect of 2006/07.

Annual Bonus Scheme
The maximum bonus level is 100% of base salary and which for 2006/07 comprised 60% for corporate financial performance, 25% for personal objectives, and 15% for relative safety and service standards based on externally verified data from Health and Safety Executive and other utilities and energywatch respectively. Of the bonus awarded, 75% is paid in cash, and the remainder is compulsorily deferred into shares which only vest, subject to continued service, after three years. The number of shares under an award is determined by dividing the relevant pre-tax amount of bonus by the share price shortly after announcement of results for the Financial Year to which the bonus relates. The share award is satisfied by a transfer of shares from the Employee Share Ownership Trust together with shares representing dividends during the period the shares have been held in trust. The bonuses are non-pensionable.

The maximum corporate element is payable if performance exceeds by 10% or more the budgeted profit before tax target, but no corporate element is payable if performance falls below 95% of this target (formerly 90%). The personal objectives are based on a wide range of specific business activities. The specific standards of performance set are commercially confidential but they include objectively measurable improvements in areas such as:

- improvement in Group safety performance;
- improvement in customer service;
- delivery of investment opportunities;
- generation plant availability;
- innovation and sustainable development;
- achievement of customer growth targets;
- improved financial and working capital management; and
- development and delivery of new market opportunities.

The company's performance in all these areas is described in the Chief Executive's Statement on pages 10 to 34 of this Annual Report. The majority of targets are operational in nature, set against measurable and verifiable data either within the Group or more generally within the energy sector. However, some targets are set which require some subjective assessment. This is done by the Chief Executive and reported by the Director of Human Resources to the Committee for consideration, except in the case of targets for the Chief Executive himself, where they are assessed by the Committee, with assistance from the Director of Human Resources and the Company Chairman.

The bonus for 2006/07 was based on performance relative to measures and targets set at the beginning of the year, as well as other factors the Remuneration Committee determined were relevant.

The Corporate Performance of profit before tax outturned at above 110% of budget, and the maximum bonus was therefore paid for this element (60%). The Group again achieved excellent safety and customer service ratings, as externally verified, and the maximum bonus was awarded for this element (15%). The personal objectives were assessed by the Committee. Whilst the majority of individual targets were met, such as customer growth (one million accounts added), safety performance (35% reduction in accident rates) and complaint reduction (a 46% reduction) there was still scope for improvement in areas such as renewable consents and customer retention. The range of payments for the personal element was therefore 17%-21%, against a maximum possible of 25%.

For 2007/08, the bonus will comprise 60% for corporate financial performance, 20% based on teamwork within the Executive team (including performance in Service and Safety), and 20% for individual objectives.

Performance Share Plan ('PSP')
The PSP replaced the previous Deferred Bonus Scheme in 2006.

Under the PSP, the maximum value of share awards made to Executive Directors and other Senior Executives each year is 100% of base salary. Awards will be released after three years to the extent that performance conditions are met. One-half of the award is subject to total shareholder return ('TSR') performance relative to other FTSE100 companies. For full vesting, the company's TSR must be at or above the 75th percentile over the three-year performance period. 30% of the award will vest if the company's TSR is at the median. Awards will vest on a straight-line pro rata basis between median and 75th percentile. Awards based on TSR will only vest if the Committee is satisfied with the underlying financial performance of the company over the performance period. The remaining one-half of the award will be subject to an adjusted earnings per share (EPS) growth target. For the three-year cycle commencing in 2006/07, full vesting will occur if the annual growth in adjusted EPS is equivalent to 8% above RPI per annum. If the annual growth in adjusted EPS is equivalent to 3% above RPI per annum, 30% of the shares will vest with vesting on a straight-line basis between 3% and 8% above RPI. There will be no vesting of the appropriate portion of award if the TSR minimum target of median is not achieved, or if the minimum real annual growth of EPS is not achieved.

The Committee considers the use of two measures, in these proportions, to be appropriate. The relative TSR performance measure is dependent on the company's relative long-term share price performance, and therefore brings a market perspective to the Performance Share Plan. Further vesting of this element requires the Committee to be satisfied with the underlying financial performance of the company. The TSR measure is balanced by a key internal measure, adjusted EPS growth, which is critical to the company's long-term success and ties in with the Group's strategic goals. The Committee considered that the achievement of real annual adjusted EPS growth of 8% above RPI per annum was a suitably demanding target for maximum vesting in light of the regulatory regime in which the company operates and on the basis of independent advice. The target range was set in the light of consensus expectations and the company's own forecasts.

The Committee believed that for 2006/07 this target range struck the right balance between being stretching at the top end, and being achievable and motivational at the lower end. As reported last year, the Committee may set different vesting levels in future years for the EPS or TSR elements in order to ensure that the target remains sufficiently stretching. There will be no retesting of either the TSR or EPS performance measures.

Proposed Changes to PSP
Following the introduction of the PSP last year, the Committee reviewed the scope and operation of the plan in the light of the desired pay mix and emphasis on performance-related pay. The PSP award levels last year were set at a cap of 100% of salary following advice and feedback from shareholders. Since then, the Committee has looked at further developments and has concluded that the cap of 100% is clearly below median. As salaries are also below median and mindful of the need to ensure appropriate incentives are in place to retain the management and to ensure the continuing success of SSE, the Committee, subject to shareholders' approval, proposes to raise the maximum annual award level under the PSP to 150% of base salary, with effect from 2007 in respect of performance in 2007-2010 but also to make the vesting conditions more stringent. The Committee believes that it is appropriate to make more stretching the performance range in respect of the EPS performance criterion by increasing the top end of the range from EPS growth of 8% in excess of RPI to 9% in excess of RPI. Further, the percentage of shares that will vest for threshold or median performance in respect of both criteria will also be reduced from 30% to 25%.

In short, these proposed changes represent an increase in potential payment, but with a consequential toughening of the vesting criteria.

The Committee has consulted with major shareholders and the proposed changes are being put to the AGM in July 2007 for approval. Further information is contained in the explanatory notes accompanying the Notice of AGM.

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:

(a) 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;

(b) 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 each month and intends to continue to do so;

(c) the company is also offering 20 free shares to all eligible employees under the SIP, with no performance conditions attached, in recognition of the overall staff contribution to the performance of the Group in 2006/07; and

(d) there is a long service award scheme whereby shares worth £100, £200, £300 and £400 are purchased on behalf of an employee on the occasion of the employee reaching 10, 20, 30 or 40 years service respectively with the Group.

Service Contracts
It is the company's policy that Executive Directors should have service contracts with the company which are terminable on 12 months' notice given by either party. The key aspects of each contract are as follows:

The Executive Directors are employed under service contracts with the company each dated 11 March 2005. They are eligible under the contracts to participate in the company's Executive Directors' bonus scheme, the company's Sharesave or other employee share schemes and profit sharing schemes (if any). They are each entitled to a company car (or a cash allowance), membership of the company's pension scheme including life assurance cover equal to four times salary, and private health insurance which also covers dependants.

The contracts are each for an indefinite term ending automatically on retirement date (age 60), but may be terminated by 12 months' notice given by the company or by 12 months' notice given by the Director.

The company may at its discretion elect to terminate any Executive Director's contract by making a payment in lieu of notice equal to the basic salary which would have been received during the notice period (excluding any bonus and any other emolument referable to the employment). Payments in lieu of notice will be made in staged payments, and such payments will either reduce or cease completely in circumstances where the departing Executive Director gains new employment. There is also a specific provision obliging the departing Executive to mitigate his/her loss in these circumstances. There are no special provisions applying in the event of change of control.

Remuneration and Pensions
The remuneration of Directors who served during the year was as shown below. All the Executive Directors are members of either the Southern Electric Pension Scheme or the Scottish Hydro Electric Pension Scheme, which are funded final salary pension schemes. The Directors' service contracts provide for a possible maximum pension of two thirds final salary at age 60. In relation to Executive Directors who are subject to the scheme specific salary cap (which mirrors the provisions of the previous HM Revenue and Customs cap arrangements) the company provides top-up (unfunded) arrangements which are designed to provide an equivalent pension on retirement at age 60 to that which they would have earned if they had not been subject to the salary cap. The Executive Directors have no right to any special or preferential pension benefit terms upon leaving. However, in common with all members of the pension schemes, who joined at the time the Directors joined the schemes, in the case of retirement through ill-health an unreduced pension based on service to expected retirement is paid. In the case of reorganisation or redundancy an unreduced accrued pension is paid to a member who has reached the age of 50 or above, with at least five years' service, or for a member who has not yet reached that age, it is payable with effect from 50.

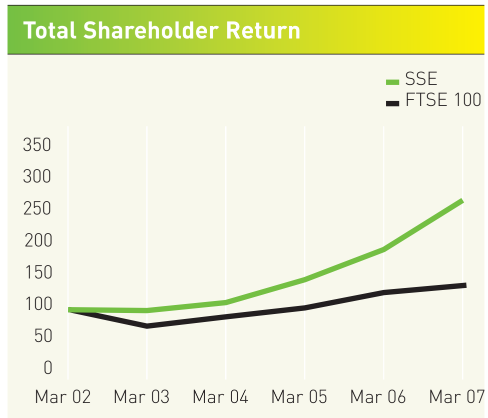
Following legislative changes, from April 2006, existing HM Revenue & Customs limits ceased to apply to benefits provided by the pension schemes. If a member's accrued fund exceeds the new lifetime allowance ('LTA'), the benefits payable by the scheme from that excess will be subject to a higher rate of income tax. The company is maximising the use of the new allowance thereby providing Executive Directors with more of their existing benefits via registered schemes. In the case of Colin Hood, who was not subject to the previous earnings cap but is now limited by the LTA, further accrual for future service is via an unfunded arrangement. There are no arrangements to compensate members for any change in their personal tax liability.

Non-Executive Directors

The remuneration of non-Executive Directors, apart from the company Chairman, is determined by the Board, with the non-Executive Directors concerned not participating in this process. The non-Executive Directors do not have service contracts but instead have letters of appointment. They are appointed for fixed terms of three years, subject to retirement by rotation and re-election at AGMs in terms of the Company's Articles of Association. They do not participate in the Annual Bonus Scheme, Performance Share Plan any of the share option schemes, or contribute to any Group pension scheme. During the year, the Chairman of the Audit Committee received an additional fee of £10,000, the other members of the Audit Committee received £5,000, and the non-Executive Director on the Health, Safety and Environmental Advisory Committee received £5,000.

Performance Graph

The following graph charts the cumulative Total Shareholder Return of the company since 1 April 2002 compared to the FTSE100 Index over the same period. The company is a member of the FTSE100 index, and this was considered to be the most relevant index for comparative purposes.



The Auditors are required to report on the information contained in tables A, B and D.

Table A – Directors' Emoluments

The emoluments of each of the Directors were as follows:

	Salary/fee £000	Bonuses £000	Benefits £000	Total 2007 £000	Total 2006 £000
Executive Directors					
Ian Marchant	675	518	17	1,210	1,040
Gregor Alexander	360	282	14	656	531
Colin Hood	506	373	15	894	772
Alistair Phillips-Davies	360	285	14	659	531
Non-Executive Directors					
Nick Baldwin (i)	24	–	–	24	0
René Médori	47	–	–	47	44
David Payne	69	–	–	69	64
Susan Rice	42	–	–	42	39
Sir Kevin Smith	42	–	–	42	36
Sir Robert Smith(Chairman)	266	–	–	266	218
Former Directors					
Henry Casley	–	–	–	–	6
	2,391	1,458	60	3,909	3,281

(i) From date of appointment to the Board on 1 September 2006

In addition to the annual cash bonus amount for the year, Ian Marchant, Gregor Alexander, Colin Hood and Alastair Phillips-Davies will be awarded £173, £94, £124 and £95 respectively in the form of deferred shares in respect of the bonus due to them for 2006/07. These share awards will not be made until June 2007 and, therefore, the number of shares to which the Executive Directors will be entitled will not be known until that date. These shares will, subject to continued employment, be released on the third anniversary of grant.

David Sigsworth, a former Director, has provided consultancy services to the company in the Energy Services business and represents the company in general industry forums. He received £63,750 (2006 – £105,000) for the provision of these services during the year. These consultancy services have been extended with a reduced time commitment until September 2007.

Table B – Retirement Benefits
Details of Directors' retirement benefits are as follows:

	Years of industry service	Accrued benefit: At 31 March 2007 £000	Increase in year including inflation £000	Increase in year excluding inflation £000	Transfer value of accrued benefit: At 31 March 2007 £000	At 31 March 2006 £000	Increase less directors' contributions £000	Increase in year excluding inflation £000
Ian Marchant	15	**234**	35	28	**3,356**	2,944	396	388
Gregor Alexander	16	**126**	23	20	**1,548**	1,329	203	249
Colin Hood	29	**237**	30	23	**3,999**	3,424	559	366
Alistair Phillips-Davies	10	**87**	18	16	**1,002**	797	189	176

Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table. The retirement age of Executive Directors is 60.

The following is information relating to the pension of Gregor Alexander as a participant in the HMRC approved Scottish Hydro Electric Pension Scheme.

(i) Dependants' pensions on death are half of members' pension entitlements, together with a capital sum equal to four times pensionable pay. On death in retirement, the Director's spouse will receive a pension equal to half of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.

(ii) All benefit payments are guaranteed to increase annually by the same percentage as state pensions, which are currently linked to movements in the UK Retail Price Index.

The following is information relating to the Directors' pensions of Colin Hood, Ian Marchant and Alistair Phillips-Davies, as participants in the HMRC approved Southern Electric Group of the Electricity Supply Pension Scheme.

(i) Dependants' pensions on death are four-ninths of the member's pensionable pay, together with a capital sum equal to four times pensionable pay. If death occurs after attaining the age of 55 an additional lump sum between three to five times notional pension is payable dependent upon age and length of service. On death in retirement, the Director's spouse will receive a pension equal to two-thirds of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.

(ii) Post retirement increases are expected to be in line with inflation (guaranteed up to the level of 5% per annum and discretionary above that level).

All the Executive Directors have unfunded retirement benefits which are included in their pension benefits above with provision in respect of their accrued value included in the Company's Balance Sheet.

Table C – 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 2007 Shares held	31 March 2007 Shares under option	1 April 2006 Shares held	1 April 2006 Shares under option
Gregor Alexander	**21,589**	**87,837**	13,034	48,161
Nick Baldwin	**2,000**	**0**	2,000*	0*
Colin Hood	**26,710**	**162,097**	24,896	88,640
Ian Marchant	**94,785**	**172,266**	73,155	103,224
René Médori	**2,000**	**0**	2,000	0
David Payne	**8,000**	**0**	8,000	0
Alistair Phillips- Davies	**31,116**	**87,074**	20,498	50,754
Susan Rice	**4,254**	**0**	4,000	0
Sir Kevin Smith	**2,000**	**0**	2,000	0
Sir Robert Smith	**15,800**	**0**	15,800	0

* At date of appointment to the Board on 1 September 2006.

From 31 March 2007 to 30 May 2007, the following changes to the interests of Directors took place:

Under the Share Incentive Plan, on 30 April 2007, Ian Marchant, Colin Hood, Gregor Alexander and Alistair Phillips-Davies each acquired 13 shares.

Under a standing order for reinvestment of a PEP, Ian Marchant acquired 1 share on 4 April 2007.

A further analysis of the Directors' shares under option as at 31 March 2007, and options granted and exercised during the year, is set out below.

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

Table D – Directors' Share Options and Long-Term Incentive Arrangements

Option scheme	Options at 1 April 2006	Awarded during year	Options exercised	Market price at time of exercise (pence)	Options at 31 March 2007	Weighted average option price per share (pence)	Normally exercisable or called for
Ian Marchant							
Savings-related	2,253	0	596	–	1,657	622	10/07 – 03/10
Deferred Bonus	100,971	46,081	35,338	1142	116,467	#	7/07 – 6/16
Performance Share Plan	0	54,142	0	–	54,142		7/09
Colin Hood							
Savings-related	2,088	0	596	–	1,492	886	10/10 – 3/11
Deferred Bonus	86,552	33,446	0	–	119,998		7/06 – 6/16
Performance Share Plan	0	40,607	0	–	40,607		7/09
Gregor Alexander							
Savings-related	2,628	0	0	–	2,628	613	10/08 – 03/11
Deferred Bonus	45,831	23,311	14,132	1142	56,908	#	7/07 – 6/16
Performance Share Plan	0	28,301	0	–	28,301		7/09
Alistair Phillips-Davies							
Savings-related	1,865	0	0	–	1,865	886	10/10 – 3/11
Deferred Bonus	48,889	23,311	17,667	1142	56,908	#	7/07 – 6/16
Performance Share Plan	0	28,301	0	–	28,301		7/09

#£1 per grant. No price was paid for the award of any option.

Shares exercised under the Deferred Bonus Scheme included the following arising from dividend reinvestment: Ian Marchant – 4,753 shares, Alistair Phillips-Davies – 2,375 shares, Gregor Alexander – 1,898 shares.

The closing market price of the shares at 31 March 2007 was 1541.5p and range for the year was 1,077.5p to 1,592.00p. The options granted during the year were granted under either the Deferred Bonus Scheme, the Savings-related Scheme, or the Performance Share Plan.

The aggregate amount of gains made by Directors on the exercise of share options during the year was £777,337 (2006 – £284,723). Under the Deferred Bonus Scheme, the aggregate value of the shares placed in trust for Directors in the year to 31 March 2007 was £1,433,053 (2006 – £972,294). Under the Performance Share Plan, the aggregate value of the shares placed in trust for Directors in the year to 31 March 2007 was £1,844,969 (2006 – £0). The aggregate amount of gains made by the highest-paid Director, Ian Marchant was £408,876 (2006 – £136,481).

This report was approved by the Board and signed on its behalf by:

Susan Rice
Remuneration Committee Chairman
30 May 2007

Independent Auditors' Report

to the members of Scottish and Southern Energy plc

We have audited the group and parent company financial statements (the ''financial statements'') of Scottish and Southern Energy plc for the year ended 31 March 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors
The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 43.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive's Statement section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:
- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 March 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2007;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation; and
- the information given in the Director's Report is consistent with the financial statements

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
30 May 2007

Consolidated Income Statement

for the year ended 31 March

	Note	2007 Before exceptional items and certain re-measurements £m	2007 Exceptional items and certain re-measurements (note 4) £m	2007 Total £m	2006 Before exceptional items and certain re-measurements £m	2006 Exceptional items and certain re-measurements (note 4) £m	2006 Total £m
Revenue	2	11,867.1	–	11,867.1	10,145.2	–	10,145.2
Cost of sales		(10,247.7)	61.3	(10,186.4)	(8,816.4)	(14.4)	(8,830.8)
Gross profit		1,619.4	61.3	1,680.7	1,328.8	(14.4)	1,314.4
Operating costs	3	(557.5)	–	(557.5)	(482.4)	–	(482.4)
Other operating income	4	–	33.0	33.0	–	92.1	92.1
Gain on disposal of subsidiary	14	–	–	–	–	18.6	18.6
Operating profit before jointly controlled entities and associates		1,061.9	94.3	1,156.2	846.4	96.3	942.7
Jointly controlled entities and associates:							
Share of operating profit		169.2	0.9	170.1	167.1	16.7	183.8
Share of interest		(117.9)	–	(117.9)	(97.3)	–	(97.3)
Share of movement on derivatives		–	5.5	5.5	–	(13.0)	(13.0)
Share of tax		(31.8)	(2.0)	(33.8)	(28.8)	(1.1)	(29.9)
Share of profit on jointly controlled entities and associates	12	19.5	4.4	23.9	41.0	2.6	43.6
Operating profit	2	1,081.4	98.7	1,180.1	887.4	98.9	986.3
Finance income	6	193.4	–	193.4	164.9	–	164.9
Finance costs	6	(230.9)	(10.6)	(241.5)	(210.8)	(43.5)	(254.3)
Profit before taxation		1,043.9	88.1	1,132.0	841.5	55.4	896.9
Taxation	7	(276.4)	(25.1)	(301.5)	(244.3)	(10.3)	(254.6)
Profit for the year		767.5	63.0	830.5	597.2	45.1	642.3
Attributable to:							
Equity holders of the parent		767.5	63.0	830.5	597.2	45.1	642.3
Basic earnings per share (pence)	9			96.5p			74.7p
Diluted earnings per share (pence)	9			93.9p			72.9p
Dividends paid in the year (£m)	8			£411.3m			£378.8m

The accompanying notes are an integral part of these financial statements.

Balance Sheets

as at 31 March

	Note	Consolidated 2007 £m	Consolidated 2006 restated £m	Company 2007 £m	Company 2006 £m
Assets					
Property, plant and equipment	11	**5,042.1**	4,646.6	**–**	–
Intangible assets:					
Goodwill	10	**293.2**	293.4	**–**	–
Other intangible assets	10	**12.9**	12.5	**–**	–
Investments in associates and jointly controlled entities	12	**702.3**	703.1	**516.9**	521.9
Investments in subsidiaries	13	**–**	–	**777.9**	777.9
Other investments		**4.1**	3.3	**–**	–
Trade and other receivables	16	**–**	–	**1,783.5**	1,794.3
Retirement benefit assets	26	**128.1**	90.2	**128.1**	90.2
Deferred tax assets	22	**66.0**	86.0	**–**	–
Derivative financial assets	28	**54.5**	34.4	**–**	–
Non-current assets		**6,303.2**	5,869.5	**3,206.4**	3,184.3
Intangible assets	10	**177.7**	284.7	**–**	–
Inventories	15	**214.1**	164.2	**–**	–
Trade and other receivables	16	**1,861.4**	1,662.9	**1,754.3**	1,083.1
Cash and cash equivalents	17	**56.1**	49.9	**5.8**	25.7
Derivative financial assets	28	**452.9**	287.2	**–**	–
Current assets		**2,762.2**	2,448.9	**1,760.1**	1,108.8
Total assets		**9,065.4**	8,318.4	**4,966.5**	4,293.1
Liabilities					
Loans and other borrowings	21	**474.8**	417.3	**349.5**	384.8
Trade and other payables	18	**1,935.1**	1,834.6	**2,573.9**	1,900.5
Current tax liabilities	19	**199.2**	165.4	**10.1**	18.1
Provisions	23	**8.0**	2.8	**–**	–
Derivative financial liabilities	28	**351.9**	205.2	**–**	–
Current liabilities		**2,969.0**	2,625.3	**2,933.5**	2,303.4
Loans and other borrowings	21	**1,803.8**	1,797.6	**820.8**	816.5
Deferred tax liabilities	22	**923.7**	919.1	**27.9**	24.9
Trade and other payables	18	**327.7**	396.7	**–**	–
Provisions	23	**104.4**	79.0	**–**	–
Retirement benefit obligations	26	**220.0**	284.0	**–**	–
Derivative financial liabilities	28	**120.9**	71.3	**44.9**	20.9
Non-current liabilities		**3,500.5**	3,547.7	**893.6**	862.3
Total liabilities		**6,469.5**	6,173.0	**3,827.1**	3,165.7
Net assets		**2,595.9**	2,145.4	**1,139.4**	1,127.4
Equity:					
Share capital	24	**431.0**	430.2	**431.0**	430.2
Share premium	25	**99.1**	90.7	**99.1**	90.7
Capital redemption reserve	25	**13.7**	13.7	**13.7**	13.7
Equity reserve	25	**14.6**	14.6	**14.6**	14.6
Hedge reserve	25	**(10.5)**	6.6	**(10.9)**	3.1
Retained earnings	25	**2,048.0**	1,589.6	**591.9**	575.1
Total equity attributable to equity holders of the parent		**2,595.9**	2,145.4	**1,139.4**	1,127.4

These financial statements were approved by the Board of Directors on 30 May 2007 and signed on their behalf by:

Gregor Alexander
Finance Director

Sir Robert Smith
Chairman

Statements of Recognised Income and Expense

for the year ended 31 March

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
(Losses)/gains on effective portion of cash flow hedges (net of tax)	**(22.6)**	(11.7)	**(14.0)**	9.8
Actuarial gain/(loss) on retirement benefit schemes (net of tax)	**33.2**	(9.9)	**12.3**	(20.3)
Jointly controlled entities and associates				
Share of gains on effective portion of cash flow hedges (net of tax)	**5.5**	–	**–**	–
Share of actuarial (loss) on retirement benefit schemes (net of tax)	**(1.4)**	–	**–**	–
Other movements	**–**	(0.4)	**–**	–
Net income/(expense) recognised directly in equity	**14.7**	(22.0)	**(1.7)**	(10.5)
Profit for the year	**830.5**	642.3	**415.8**	472.7
Total recognised income and expense for the year	**845.2**	620.3	**414.1**	462.2
Attributable to:				
Equity holders of the parent	**845.2**	620.3	**414.1**	462.2

Cash Flow Statements

for the year ended 31 March

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
Cash flows from operating activities				
Profit for the year after tax	**830.5**	642.3	**–**	–
Taxation	**301.5**	254.6	**–**	–
Movement on financing and operating derivatives	**(50.7)**	57.9	**–**	–
Finance costs	**230.9**	210.8	**–**	–
Finance income	**(193.4)**	(164.9)	**–**	–
Share of jointly controlled entities and associates	**(23.9)**	(43.6)	**–**	–
Gain on disposal of subsidiary	**–**	(18.6)	**–**	–
Pension service charges less contributions paid	**(31.6)**	(22.3)	**(11.6)**	(9.3)
Depreciation and impairment of assets	**239.1**	200.1	**–**	–
Amortisation and impairment of intangible assets	**57.2**	3.9	**–**	–
Deferred income released	**(15.1)**	(16.4)	**–**	–
(Increase) in inventories	**(48.7)**	(30.8)	**–**	–
(Increase) in receivables	**(225.0)**	(585.1)	**(259.9)**	(11.4)
Increase in payables	**40.4**	436.8	**645.6**	11.3
Increase/(decrease) in provisions	**25.7**	(14.5)	**–**	–
Charge in respect of employee share awards	**6.8**	4.0	**–**	–
Profit on disposal of property, plant and equipment	**(5.0)**	(5.2)	**–**	–
Loss on disposal of replaced assets	**1.7**	5.2	**–**	–
Cash generated from operations	**1,140.4**	914.2	**374.1**	(9.4)
Dividends received from jointly controlled entities	**22.7**	8.0	**–**	–
Dividends received from subsidiaries	**–**	–	**33.8**	458.6
Finance income	**63.4**	51.4	**148.6**	148.5
Finance costs	**(118.8)**	(119.5)	**(157.2)**	(135.1)
Income taxes (paid)/received	**(212.2)**	(217.9)	**(4.8)**	3.8
Payment for consortium relief	**(26.6)**	–	**–**	–
Net cash from operating activities	**868.9**	636.2	**394.5**	466.4
Cash flows from investing activities				
Purchase of property, plant and equipment	**(564.1)**	(529.4)	**–**	–
Purchase of software	**(3.7)**	(1.2)	**–**	–
Deferred income received	**12.4**	7.9	**–**	–
Proceeds from sale of property, plant and equipment	**13.0**	16.3	**–**	–
Net proceeds from sale of business (note 14)	**–**	17.3	**–**	–
Loans to jointly controlled entities	**(5.5)**	–	**–**	–
Loans to associates	**–**	(0.7)	**–**	–
Initial investment in Scotia Gas Networks (note 12)	**–**	(505.0)	**–**	(505.0)
Initial investment in Marchwood Power (note 12)	**(5.0)**	–	**–**	–
Loans repaid by jointly controlled entities	**33.8**	10.8	**23.0**	–
Loans repaid by associates	**0.8**	7.3	**–**	–
Investment in associate	**–**	(15.0)	**–**	–
Increase in other investments	**(2.8)**	(1.9)	**–**	–
Purchase of businesses and subsidiaries (note 14)	**–**	(0.6)	**–**	–
Net cash from investing activities	**(521.1)**	(994.2)	**23.0**	(505.0)
Cash flows from financing activities				
Proceeds from issue of share capital	**9.2**	9.9	**9.2**	9.9
Dividends paid to company's equity holders	**(411.3)**	(378.8)	**(411.3)**	(378.8)
Employee share awards share purchase	**(8.2)**	(9.5)	**–**	–
New borrowings	**236.5**	552.4	**114.7**	235.7
Repayment of borrowings	**(169.4)**	–	**(150.0)**	–
Net cash from financing activities	**(343.2)**	174.0	**(437.4)**	(133.2)
Net increase/(decrease) in cash and cash equivalents	**4.6**	(184.0)	**(19.9)**	(171.8)
Cash and cash equivalents at the start of year (note 17)	**43.8**	227.8	**25.7**	197.5
Net increase/(decrease) in cash and cash equivalents	**4.6**	(184.0)	**(19.9)**	(171.8)
Cash and cash equivalents at the end of year (note 17)	**48.4**	43.8	**5.8**	25.7

for the year ended 31 March 2007

1. SIGNIFICANT ACCOUNTING POLICIES

General information
Scottish and Southern Energy plc (the Company) is a company domiciled in Scotland. The address of the registered office is given on page 101. The Group's principal activities are set out in the Directors' Report at page 36. A review of the Group's operations is set out in the Chief Executive's Statement at pages 10 to 35. The consolidated financial statements for the year ended 31 March 2007 comprise those of the Company and its subsidiaries (together referred to as the Group). The Company financial statements present information about the Company as a separate entity and not about the Group. Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own income statement and related notes.

BASIS OF PREPARATION

Statement of compliance
The financial statements were authorised for issue by the Directors on 30 May 2007. The financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations as adopted by the European Union (adopted IFRS).

Basis of measurement
The financial statements of the Group and the Company are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: certain derivative financial instruments and financial instruments classified as available for sale. The Directors believe the financial statements present a true and fair view. The financial statements are presented in pounds sterling.

Use of estimates and judgements
The preparation of financial statements conforming with adopted IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The Group's critical accounting estimates are summarised at page 61.

As permitted by IAS 1 Presentation of Financial Statements, the Group has disclosed additional information in respect of jointly controlled entities and associates, exceptional items and certain re-measurements on the face of the income statement to aid understanding of the Group's financial performance. An item is treated as exceptional if it is considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood.

The following published standards and interpretations are not yet effective and have not been adopted early by the Group:

- IFRS 7 Financial Instruments: Disclosures
- IFRIC 8 Scope of IFRS 2 Share-based Payment
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment (not yet endorsed)
- IFRIC 11 IFRS 2 – Group and Treasury share transactions (not yet endorsed)
- IFRIC 12 Service Concession Arrangements (not yet endorsed)

Restated amounts
Certain balance sheet items have been reclassified as current and non-current assets or liabilities to enhance understanding of the prior year results and to aid comparability with the current year presentation. No revision on valuations has been made.

BASIS OF CONSOLIDATION
The financial statements consolidate the financial statements of the Company and its subsidiaries together with the Group's share of the results and net assets of its jointly controlled entities and associates.

Subsidiaries
Subsidiaries (including special purpose entities) are those entities controlled by the Group or the Company. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are exercisable or convertible are taken into account. The financial statements of subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases. All business combinations are accounted for by applying the purchase method of accounting.

In the Company, investments in subsidiaries are carried at cost less any impairment charges. Pre-acquisition dividends are accounted for as a reduction in the cost of investment in the subsidiary.

Associates
Associates are those entities in which the Group has significant influence but not control over the financial and operating policies, namely where the Group has a shareholding of between 20% and 50% of the voting rights. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Joint ventures
Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. In the consolidated financial statements, investments are accounted for under the equity method of accounting, as permitted by IAS 31: Interests in Joint Ventures. Jointly controlled operations are businesses which use assets and liabilities that are separable from the rest of the Group. In these arrangements, the Group accounts for its own share of property, plant and equipment, carries its own inventories, incurs its own expenses and liabilities and raises its own finance.

In the Company, investments in jointly controlled entities are carried at cost less any impairment charges.

1. SIGNIFICANT ACCOUNTING POLICIES continued

Basis of consolidation continued

Transactions eliminated on consolidation
Intra-Group balances and any unrealised gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Accounting policies

Revenue recognition: energy, services and goods relating to the sale of energy
Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and that the revenue can be reliably measured. Revenue comprises sales of energy, use of system income, gas storage facility revenue, the value of services and facilities provided and goods sold during the year in the normal course of business.

Revenue on energy sales, including monies received from the electricity and gas balancing markets in the UK and wholesale market energy sales, includes an estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end.

Revenue from use of energy systems includes an estimation of the volume of electricity distributed or transmitted by customers based on independently procured electricity settlement systems data. Annual revenue is dependent on being approved by the industry regulator, Ofgem. Certain circumstances may result in the regulatory 'allowed' income being over- or under-recovered in the financial year. Any over- or under-recovery is included into the calculation of the following year's regulatory use of system revenue within agreed parameters. No adjustment is made for over- or under-recoveries in the year that they arise.

Where the Group has an ongoing obligation to provide services, revenues are recognised as the service is performed and amounts billed in advance are treated as deferred income and excluded from current turnover.

Gas storage facilities revenues are recognised evenly over the contract period, whilst revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities.

Sales of goods are recognised when goods are delivered and title has passed, along with the risks and rewards of ownership.

Government grants and customer contributions
A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised in the income statement on a systematic basis in the same years in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement on a systematic basis over the useful life of the asset to match the depreciation charge. Customer contributions and capital grants have been recorded as deferred income and released to the income statement over the estimated life of the related assets.

Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each year during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and costs
Finance income comprises interest receivable on funds invested and returns on pension scheme assets recognised in the income statement. Finance costs comprise interest payable on borrowings, the release of discounting on provisions, interest on pension scheme liabilities and accretion of the debt component on the convertible less capitalised interest.

Interest income and costs are recognised in the income statement as they accrue, on an effective interest method. The issue costs and interest payable on bonds and all other interest payable and receivable is reflected in the income statement on the same basis.

Foreign exchange
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gain or loss arising on the restatement of such balances is taken to the income statement.

Taxation
Taxation on the profit for the year comprises current and deferred tax. Taxation is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities other than in business combinations that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the Company intends to either settle them on a net basis, or to realise the asset and settle the liability simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Dividends
Dividend income is recognised on the date the entity's right to receive payments is established.

Property, plant and equipment
(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Interest on the funding attributable to major capital projects is capitalised during the years of construction and depreciated as part of the total cost over the useful life of the asset. All items of property, plant and equipment are accounted for under the cost model within IAS 16.

Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment, and depreciated accordingly.

It is the Group policy to capitalise replacement expenditure and depreciate it over the expected useful life of the replaced asset. Replaced assets are derecognised at this point. Where an item of property, plant and equipment is replaced and it is not practicable to determine the carrying amount of the replaced part, the cost of the replacement adjusted for inflation will be used as an approximation of the cost of the replaced part at the time it was acquired or constructed.

(ii) Leased assets

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term.

Assets held under finance leases are recognised as assets of the Group at the fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Benefits received and receivable as an incentive to enter into an operating lease are also allocated on a straight line basis over the lease term.

(iii) Hydro civil assets

The Group is obliged under the Reservoirs Act 1975 to maintain its hydro infrastructure network, including its dams, tunnels and other hydro civil engineering structures (hydro civil assets). All items of property, plant and equipment within hydro civil assets, with the exception of land, are subject to depreciation.

In accordance with the transition provisions of IFRS 1, the Group identified the carrying value of these assets at privatisation and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, has been subject to depreciation over a useful economic life of 100 years. All subsequent maintenance expenditure is chargeable directly to the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES continued

Accounting policies continued

(iv) Depreciation

Depreciation is charged to the income statement to write off cost, less residual values, on a straight line basis over their estimated useful lives. Depreciation policy, useful lives and residual values are reviewed at least annually, for all asset classes to ensure that the current method is the most appropriate. The estimated useful lives are as follows:

	Years
Hydro civil assets	100
Power stations	20 to 60
Gas storage facilities	25 to 50
Overhead lines, underground cables and other network assets	40 to 80
Other transmission and distribution buildings, plant and equipment	10 to 45
Shop refurbishment, fixtures, equipment, vehicles and mobile plant	3 to 10

Heritable and freehold land is not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

(v) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the item of property, plant and equipment to which it relates.

Business combinations

The acquisition of subsidiaries is accounted for under the purchase method. The acquired business is measured at the date of acquisition as the aggregate fair value of assets, liabilities and contingent liabilities as required under IFRS 3 Business Combinations. The excess of the cost of acquisition over the fair value of the acquired business is represented as goodwill.

Intangible assets

i) Goodwill

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and is reviewed for impairment at least on an annual basis. Any impairment is recognised immediately as a charge in the income statement and is not subsequently reversed.

From 1 April 1998 to 31 March 2004, any purchased goodwill was capitalised and amortised on a straight-line basis to the income statement. This was normally over a period of up to 20 years from the date of acquisition, with the exception of goodwill relating to the acquisitions of the Hornsea and Neos businesses, which were amortised over a period of 30 years and 10 years respectively. Goodwill arising on acquisitions purchased prior to 1 April 1998 was written-off to reserves in accordance with the accounting standard then in force. In respect of acquisitions prior to 1 April 2004, goodwill is included on the basis of deemed cost which represents the carrying amount at 1 April 2004. The goodwill amortised between 1 April 2004 and 31 March 2005 was reinstated. On disposal or closure of a previously acquired business, any attributable goodwill will be included in determining the profit or loss on disposal, with the exception of any goodwill written off prior to 1 April 1998.

ii) Research and development

Expenditure on research activities is charged to the income statement as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products or processes, is capitalised if the product or process is considered to be technically and commercially feasible and the Group intends to complete the intangible asset for use or for sale.

iii) Allowances and emissions

The European Emissions trading scheme (EU ETS) has been in operation since 1 January 2005. The IASB withdrew IFRIC 3 Emission Rights in June 2005 and it has not been replaced with definitive guidance or interpretation for carbon emissions trading. The Group recognises carbon allowances granted as a current intangible asset at fair value at the date of grant and does not subsequently revalue these allowances. Carbon emission liabilities incurred are recorded as a current liability. Carbon allowances purchased are recorded at cost. Up to the level of allowances held the liability is measured at the cost of purchased or granted allowances held. When carbon emissions liabilities exceed the carbon allowances held, the net liability is measured at the market price of allowances. Forward carbon contracts are measured at fair value.

The Renewable Obligations Certificates (ROCs) scheme is administered and accounted for in a similar but not identical manner to the European Emissions trading scheme. ROCs obtained from own generation are awarded by a third party. Self-generated ROCs are recorded at market value and purchased ROCs are recognised at cost, both within intangible assets. The liability under the renewables obligation is recognised based on electricity supplied to customers, the percentages set by Ofgem and the prevailing market price.

iv) Other intangible assets

Other intangible assets that have been acquired by the Group, including the Atlantic brand, are stated at cost less accumulated amortisation and impairment losses. Software licenses are stated at cost less accumulated amortisation. Expenditure on internally generated brands is expensed as incurred. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of these other intangible assets. The amortisation periods utilised are as follows:

	Years
Brand values	10
Application software licences	5

Impairment testing

The carrying amounts of the Group's assets, other than inventories or deferred tax assets, are reviewed each financial year to determine whether there is any indication of impairment. If there is evidence of impairment, the recoverable amount of the asset is estimated to determine the extent of any such impairment. For goodwill and other intangible assets with an indefinite life, the test for impairment is carried out annually.

The recoverable amount is the higher of fair value less costs to sell and value in use. Value in use is based on projected cash flows which are discounted for risks and the time value of money. Where the cash flows of the asset under review cannot be assessed independently from other assets, the Group estimates to which cash-generating unit (CGU) the asset belongs. Once established, the discounted projected cash flows of the asset or CGU are calculated and measured against the carrying amount of the asset or CGU. Where the recoverable amount is lower than the carrying amount an impairment charge is recognised.

Inventories and work in progress

With the exception of fuel stocks, inventories are valued at the lower of cost (on a first-in, first-out basis) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The value of fuel stocks is based on the weighted average principle. The valuation of work in progress is based on the cost of labour, the cost of contractors, the cost of materials plus appropriate overheads.

Recognition of revenue and profit on construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured as the proportion of cost incurred on work performed to date compared to the estimated total contract cost, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When it becomes probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately in the income statement.

Employee benefit obligations

(i) Defined benefit pension schemes

The Group operates two defined benefit pension schemes, one of which is operated by the Company. Pension scheme assets are measured using bid market values. Pension scheme liabilities are measured using the projected unit credit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the Group's defined benefit pension schemes expected to arise from employee service in the year is charged as service costs to operating profit.

The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in finance income and finance costs, respectively. Actuarial gains and losses are recognised in full in the consolidated statement of recognised income and expense. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

(ii) Defined contribution pension schemes

The Group also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the income statement.

(iii) Equity and equity-related compensation benefits

Following the transitional provisions of IFRS 1, the requirements of IFRS 2 Share-based Payments have been applied to all grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005.

The Group operates a number of employee share schemes as described in the Remuneration Report and note 27. These schemes enable Group employees to acquire shares of the Company.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of a Black-Scholes model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated for non-market conditions at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the income statement.

The costs associated with the other main employee schemes are recognised over the period to which they relate.

1. SIGNIFICANT ACCOUNTING POLICIES continued

Accounting policies continued

Financial instruments

The Group uses a range of financial instruments to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price fluctuations in its normal course of business and in accordance with the Group's risk management policies. The Group's risk management policies are further explained in Note 28.

Accounting policies under IAS 32 and 39

(i) Interest rate and foreign exchange derivatives

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are re-measured to fair value each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair value movements attributable to the risk being hedged being recorded through the income statement.

A derivative classified as a 'fair value' hedge recognises gains and losses from re-measurement immediately in the income statement. Loans and borrowings are measured at cost except where they form the underlying transaction in an effective fair value hedge relationship. In such cases, the carrying value of the loan or borrowing is adjusted to reflect fair value movements with the gain or loss being reported in the income statement.

A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the Income Statement. The gains or losses that are recognised directly in equity are transferred to the income statement in the same period in which the forecast transaction actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At the point of discontinuation, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction settles. On settlement, the cumulative gain or loss recognised in equity is recognised in the income statement.

(ii) Commodity derivatives

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities such as electricity, gas, coal and oil. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as 'own use' contracts and are measured at cost. These contracts are not within the scope of IAS 39.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised in accordance with the rules noted in part (i) to this note.

Other commodity contracts, where own use is not established and a hedge accounting relationship is not designated, are measured at fair value with gains and losses on re-measurement being recognised in the income statement.

(iii) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where the characteristics of the derivatives are not closely related to those of the host contracts.

(iv) Convertible bond

The Group has issued a convertible bond which represents debt that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value. This is accounted for as a compound financial instrument, net of transaction costs. The equity component of the convertible bond is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest method.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(vi) Trade receivables

Trade receivables do not carry any interest and are measured at cost less an appropriate allowance for irrecoverable receivables.

(vii) Interest-bearing loans and borrowings
All such loans and borrowings are initially recognised at fair value including transaction costs and are subsequently measured at amortised cost, except where the loan or borrowing is the hedged item in an effective fair value hedge relationship.

(viii) Share capital
Ordinary shares are accounted for as equity. Costs associated with the issue of new shares are deducted from the proceeds of issue.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Critical accounting judgements and key sources of estimation uncertainty
In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The most critical of these accounting judgement and estimation areas are noted.

(i) Revenue recognition
Revenue on energy sales includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This will have been estimated by using historical consumption patterns and takes into consideration industry reconciliation processes for total consumption by supplier. At the balance sheet date, the estimated consumption by customers will either have been billed (estimated billed revenue) or accrued (unbilled revenue). Management apply judgement to the measurement of the quantum of the estimated consumption and to the valuation of that consumption. The judgements applied, and the assumptions underpinning these judgements are considered to be appropriate. However, a change in these assumptions would impact upon the amount of revenue recognised.

(ii) Retirement benefits
The assumptions in relation to the cost of providing post-retirement benefits during the period are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the earnings of the Group.

(iii) Impairment testing
The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that the value of those assets is impaired. In assessing for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit (CGU). The recoverable amount of the assets, or the appropriate CGU, is measured as the higher of their fair value less costs to sell and value in use.

Management necessarily apply judgement in allocating assets that do not generate independent cash flows to appropriate CGUs. The value in use calculation also requires estimation of the timing and value of underlying projected cash flows. Subsequent changes to these estimates or judgements may impact the carrying value of the assets within the respective CGUs.

(iv) Provisions and contingencies
The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, this likelihood could alter.

(v) Financial Instruments – fair values
The valuation of the financial instruments reported in note 28 is based upon published price quotations in active markets and valuation techniques where such information is not available. More detail on this is included in note 28.

2. SEGMENTAL INFORMATION

Primary reporting format – business segments
The primary segments are as reported for management purposes and reflect the day-to-day management of the business. The Group's primary segments are the distribution and transmission of electricity in the North of Scotland, the distribution of electricity in the South of England (together referred to as Power Systems) and the generation and supply of electricity and sale of gas in Great Britain (Generation and Supply). The Group's 50% equity share in Scotia Gas Networks plc, a business which distributes gas in Scotland and the South of England (see note 14) is included as a separate business segment where appropriate due to its significance.

Analysis of revenue, operating profit, assets, liabilities and other items by segment is provided below. All revenue and profit before taxation arise from operations within Great Britain and Ireland.

2. SEGMENTAL INFORMATION continued

Primary reporting format – business segments continued

a) Revenue by segment

	Total revenue 2007 £m	Total revenue 2006 £m	Intra-segment revenue (i) 2007 £m	Intra-segment revenue (i) 2006 £m	External revenue 2007 £m	External revenue 2006 £m
Power Systems						
Scotland	**270.4**	261.1	**99.1**	104.1	**171.3**	157.0
England	**407.4**	415.9	**189.6**	204.0	**217.8**	211.9
	677.8	677.0	**288.7**	308.1	**389.1**	368.9
Generation and Supply	**10,977.9**	9,287.8	**15.4**	27.4	**10,962.5**	9,260.4
Other businesses	**859.4**	783.3	**343.9**	267.4	**515.5**	515.9
	12,515.1	10,748.1	**648.0**	602.9	**11,867.1**	10,145.2

(i) Intra-segment revenue is derived from use of system income received by the Power Systems businesses from Generation and Supply, provision of Contracting, Metering and Connections services, use of Gas Storage facilities, Telecoms infrastructure charges, internal heat and light charges and other Corporate services. All are provided on an arm's length basis.

Revenue from the Group's investment in Scotia Gas Networks (SSE share being 2007 – £297.3m; 2006 – £261.5m) is not recorded in the revenue line in the income statement.

b) Operating profit by segment

2007

	Adjusted £m	JCE/Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Power Systems					
Scotland	**144.0**	**–**	**144.0**	**–**	**144.0**
England	**224.0**	**–**	**224.0**	**–**	**224.0**
	368.0	**–**	**368.0**	**–**	**368.0**
Scotia Gas Networks	**103.1**	**(122.2)**	**(19.1)**	**3.8**	**(15.3)**
Energy Systems	**471.1**	**(122.2)**	**348.9**	**3.8**	**352.7**
Generation and Supply	**642.6**	**(27.1)**	**615.5**	**94.9**	**710.4**
Other businesses	**125.2**	**(0.4)**	**124.8**	**–**	**124.8**
	1,238.9	**(149.7)**	**1,089.2**	**98.7**	**1,187.9**
Unallocated expenses (ii)	**(7.8)**	**–**	**(7.8)**	**–**	**(7.8)**
	1,231.1	**(149.7)**	**1,081.4**	**98.7**	**1,180.1**

2006

	Adjusted £m	JCE/Associate share of interest and tax (i) £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Power Systems					
Scotland	141.8	–	141.8	–	141.8
England	226.1	–	226.1	–	226.1
	367.9	–	367.9	–	367.9
Scotia Gas Networks	102.7	(97.9)	4.8	(9.1)	(4.3)
Energy Systems	470.6	(97.9)	372.7	(9.1)	363.6
Generation and Supply	444.8	(28.2)	416.6	89.4	506.0
Other businesses	106.0	–	106.0	18.6	124.6
	1,021.4	(126.1)	895.3	98.9	994.2
Unallocated expenses (ii)	(7.9)	–	(7.9)	–	(7.9)
	1,013.5	(126.1)	887.4	98.9	986.3

(i) The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives and tax from jointly controlled entities and associates. The share of Scotia Gas Networks plc interest and tax includes loan stock interest payable to the consortium shareholders (£35.8m; 2006 – £28.8m), other interest payable (£70.6m; 2006 – £54.1m) and tax (£15.8m; 2006 – £15.0m). The Group has accounted for its 50% share of the loan stock interest, £35.8m (2006 – £28.8m), as finance income (note 6). The gas distribution network businesses owned by Scotia Gas Networks plc were acquired on 1 June 2005 (note 14).

(ii) Unallocated expenses comprise corporate office costs which are not directly allocable to particular segments.

The Group's share of operating profit from jointly controlled entities and associates has been recognised in Generation and Supply other than that from Scotia Gas Networks plc, which is recorded as a separate segment, and PriDE (South East Regional Prime), which is recognised in other businesses (£1.4m before tax; 2006 – nil).

c) Assets and liabilities

	Segment Assets (i)		Segment Liabilities (ii)		Capital additions to Property Plant and Equipment (note 11)	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Power Systems						
Scotland	**1,363.8**	1,338.7	**898.4**	473.4	**73.9**	61.0
England	**2,202.9**	2,030.7	**1,446.0**	1,331.4	**130.6**	111.1
	3,566.7	3,369.4	**2,344.4**	1,804.8	**204.5**	172.1
Scotia Gas Networks (iii)	**438.8**	455.0	**–**	–	**–**	–
Energy Systems	**4,005.5**	3,824.4	**2,344.4**	1,804.8	**204.5**	172.1
Generation and Supply (iv)	**8,992.9**	7,837.3	**7,590.8**	6,105.4	**299.6**	228.7
Other businesses (iv)	**1,203.7**	1,069.8	**742.5**	669.4	**126.8**	101.3
Corporate and unallocated	**6,907.5**	5,515.2	**7,836.0**	7,521.7	**–**	–
	21,109.6	18,246.7	**18,513.7**	16,101.3	**630.9**	502.1
Less: inter-segment	**(12,044.2)**	(10,067.5)	**(12,044.2)**	(10,067.5)	**–**	–
	9,065.4	8,179.2	**6,469.5**	6,033.8	**630.9**	502.1

(i) Segment assets consist of property, plant and equipment, goodwill, other intangible assets, investments in joint ventures and associates, inventories, financial assets (operating derivatives), receivables and cash. Unallocated assets include pension assets, deferred tax assets, financial assets (financing derivatives) and investments.

(ii) Segment liabilities consist of operating liabilities. Unallocated liabilities include taxation, corporate borrowings, pension liabilities and deferred taxation.

(iii) The asset balance represents the Group's net investment in Scotia Gas Networks plc. The Group's share of the capital additions in Scotia Gas Networks plc is not included within Property, Plant and Equipment.

(iv) Excluding Scotia Gas Networks plc, investments in joint ventures and associates included within segment assets constitute £262.5m (2006 – £247.4m) in Generation and Supply and £1.0m (2006 – £0.7m) in Other businesses.

d) Other non-cash expenses

	Depreciation/ Impairment on Property, Plant and Equipment (note 11)		Amortisation/ impairment of capital (note 10)	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Power Systems				
Scotland	**38.3**	37.4	**–**	–
England	**63.8**	60.7	**–**	–
	102.1	98.1	**–**	–
Generation and Supply	**99.1**	71.6	**54.8**	0.9
Other businesses	**36.5**	30.4	**–**	–
Corporate and unallocated	**–**	–	**2.4**	3.0
	237.7	200.1	**57.2**	3.9
	237.7	200.1	**57.2**	3.9

The Group's share of Scotia Gas Networks plc depreciation (2007 – £39.9m; 2006 – £34.9m) and amortisation (2007 – nil; 2006 – nil) is not included within operating costs. Property, plant and equipment impairment charges of £13.9m (2006 – nil) are included within Generation and Supply. The impairment charge relating to granted carbon allowances of £53.9m (2006 – nil) has nil impact on the Income Statement (note 10).

Notes on the Financial Statements continued

for the year ended 31 March 2007

3. OTHER OPERATING INCOME AND EXPENSE

Group operating costs can be analysed thus:

	2007 £m	2006 £m
Distribution costs	**265.8**	238.6
Administration costs	**291.7**	243.8
	557.5	482.4

Group operating profit is stated after charging (or crediting) the following items:

	2007 £m	2006 £m
Depreciation and impairment of property, plant and equipment (note 11)	**237.7**	200.1
Impairment of investment	**1.4**	–
Research and development costs	**6.3**	1.4
Operating lease rentals (note 30)	**235.8**	185.8
Release of deferred income in relation to customer contributions and capital grants	**(15.1)**	(16.4)
Gain on disposal of property, plant and equipment	**(5.0)**	(5.2)
Loss on disposal of replaced assets	**1.7**	5.2
Amortisation of brand costs (note 10)	**0.9**	0.9
Amortisation of intangible assets (note 10)	**2.4**	3.0

No charge has been recognised in respect of the impairment of granted carbon allowances (£53.9m) as this has been offset by an equal deduction in the related carbon emissions liability (note 10).

Auditor's remuneration

	2007 £m	2006 £m
Statutory audit services – SSE Group	**0.2**	0.2
Other Fees		
Statutory audit of subsidiary accounts	**0.2**	0.2
Audit of parent and subsidiary entities	**0.4**	0.4
Other services	**0.2**	0.6

Tax service fees (included within Other above) incurred in the year were £0.04m (2006 – £0.03m).

In addition to the amounts shown above, the auditors received fees of £0.04m (2006 – £0.03m) for the audit of the Scottish Hydro-Electric Pension Scheme. A description of the work of the Audit Committee is set out at pages 39 and 40 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Amounts paid to the Company's auditor in respect of services to the Company other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

i) Exceptional items

The financial statements to 31 March 2007 included net dividends of £33.0m (2006 – £92.1m) received or approved in relation to the administration of TXU Europe Energy Trading Limited which had been placed into administration in 2002. The net receipts have been shown separately in the income statement. In addition to this, the Group's share of the net dividend from the administration of TXU Europe Energy Trading Limited recognised as income by an associate company, Barking Power Limited, amounting to £0.9m (2006 – £16.7m) is shown separately within share of operating profit from jointly controlled entities and associates.

A gain on disposal of Thermal Transfer Limited, a wholly owned subsidiary, of £18.6m was recognised in the year to 31 March 2006. Details of this are included at note 14. There is no tax effect on this exceptional item.

ii) Certain re-measurements
Certain re-measurements arising from IAS 39 are disclosed separately to aid understanding of the underlying performance of the Group. This category includes the movement on derivatives as described in note 28.

These transactions can be summarised thus:

	2007 £m	2006 £m
Exceptional items		
Distributions from TXU administrator	**33.9**	108.8
Disposal of Thermal Transfer	**–**	18.6
	33.9	127.4
Certain re-measurements		
Movement on operating derivatives (note 28)	**61.3**	(14.4)
Movement on financing derivatives (note 28)	**(10.6)**	(43.5)
Share of movement on derivatives in jointly controlled entities (note 14)	**5.5**	(13.0)
	56.2	(70.9)
Profit before taxation	**90.1**	56.5
Taxation [1]	**(27.1)**	(11.4)
Impact on profit for the year	**63.0**	45.1

(1) Taxation includes £2.0m (2006 – £1.1m) recognised within share of associates and jointly controlled entities on the face of the income statement.

5. DIRECTORS AND EMPLOYEES

(i) Staff costs

	Consolidated 2007 £m	Consolidated 2006 £m
Staff costs:		
Wages and salaries	**369.0**	324.3
Social security costs	**35.5**	30.5
Share-based remuneration (note 27)	**6.8**	4.0
Pension costs (note 26)	**34.3**	25.2
	445.6	384.0
Less: capitalised as property, plant and equipment	**(48.3)**	(51.1)
	397.3	332.9

Employee numbers:

	Consolidated 2007 Number	Consolidated 2006 Number	Company 2007 Number	Company 2006 Number
Numbers employed at 31 March	**13,427**	12,287	**4**	4

The monthly average number of people employed by the Group (including Executive Directors) during the year was:

	Consolidated 2007 Number	Consolidated 2006 Number	Company 2007 Number	Company 2006 Number
Power Systems	**2,274**	2,249	**–**	–
Generation and Supply	**4,695**	4,102	**–**	–
Other businesses and corporate services	**5,503**	5,404	**4**	4
	12,472	11,755	**4**	4

The costs associated with the employees of the Company, who are the executive Directors of the Group, are borne by Group companies. No amounts are charged to the Company.

(ii) Directors' remuneration and interests
Information concerning Directors' remuneration, shareholdings, options, long term incentive schemes and pensions is shown in the Remuneration Report on pages 44 to 49. No Director had, during or at the end of the year, any material interest in any other contract of significance in relation to the Group's business.

Notes on the Financial Statements continued

for the year ended 31 March 2007

6. FINANCE INCOME AND COSTS

	Year ended 31 March 2007 £m	Year ended 31 March 2006 £m
Finance income:		
Return on pension scheme assets	**130.1**	115.7
Interest income from short term deposits	**3.8**	3.3
Other interest receivable		
Scotia Gas Networks loan stock	**35.8**	28.8
Other jointly controlled entities and associates	**9.5**	10.4
Other receivable	**14.2**	6.7
	59.5	45.9
Total finance income	**193.4**	164.9
Finance costs:		
Bank loans and overdrafts	**(34.0)**	(40.1)
Other loans and charges	**(98.2)**	(71.1)
Interest on pension scheme liabilities	**(107.2)**	(100.0)
Accretion of convertible debt component (note 21)	**(3.6)**	(3.6)
Less: interest capitalised (i)	**13.5**	8.3
Notional interest arising on discounted provisions	**(1.4)**	(4.3)
Finance costs excluding movement on financing derivatives	**(230.9)**	(210.8)
Movement on financing derivatives (note 28)	**(10.6)**	(43.5)
Total finance costs	**(241.5)**	(254.3)
Net finance costs	**(48.1)**	(89.4)

(i) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 5.42% (2006 – 5.52%).

Adjusted net finance costs are arrived at after the following adjustments:

	2007 £m	2006 £m
Net finance costs	**(48.1)**	(89.4)
(add)/less:		
Share of interest from jointly controlled entities and associates		
Scotia Gas Networks loan stock	**[35.8]**	[28.8]
Other jointly controlled entities and associates	**[82.1]**	[68.5]
	[117.9]	[97.3]
Accretion of convertible debt component (note 21)	**3.6**	3.6
Movement on financing derivatives (note 28)	**10.6**	43.5
Adjusted finance income and costs	**(151.8)**	(139.6)
(add)/less:		
Return on pension scheme assets	**(130.1)**	(115.7)
Interest on pension scheme liabilities	**107.2**	100.0
Notional interest arising from discounted provisions	**1.4**	4.3
Adjusted finance income and costs for interest cover calculations	**(173.3)**	(151.0)

7. TAXATION

Analysis of charge recognised in the income statement:

	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	2007 £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	2006 £m
Current tax						
UK corporation tax	**286.5**	**9.9**	**296.4**	218.1	27.6	245.7
Adjustments in respect of previous years	**(19.9)**	**–**	**(19.9)**	(0.4)	–	(0.4)
Total current tax	**266.6**	**9.9**	**276.5**	217.7	27.6	245.3
Deferred tax						
Current year	**7.1**	**15.2**	**22.3**	14.6	(17.3)	(2.7)
Adjustments in respect of previous years	**2.7**	**–**	**2.7**	12.0	–	12.0
Total deferred tax	**9.8**	**15.2**	**25.0**	26.6	(17.3)	9.3
Total taxation charge	**276.4**	**25.1**	**301.5**	244.3	10.3	254.6

The charge for the year can be reconciled to the profit per the income statement as follows:

	2007 £m	2007 %	2006 £m	2006 %
Group profit before tax	**1,132.0**		896.9	
Less: share of results of associates and jointly controlled entities	**(23.9)**		(43.6)	
Profit before tax	**1,108.1**		853.3	
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006 – 30%)	**332.4**	**30.0**	256.0	30.0
Tax effect of:				
Expenses not deductible for tax purposes	**1.5**	**0.1**	0.7	0.1
Non taxable income	**(6.3)**	**(0.6)**	(4.8)	(0.6)
Adjustments to tax charge in respect of previous years	**(17.1)**	**(1.5)**	11.6	1.3
Consortium relief not paid for	**(8.9)**	**(0.8)**	(8.6)	(1.0)
Utilisation of tax losses	**(0.1)**	**–**	(0.3)	–
Group tax charge and effective rate	**301.5**	**27.2**	254.6	29.8

7. TAXATION continued

The adjusted current tax charge is arrived at after the following adjustments:

	2007 £m	2007 %	2006 £m	2006 %
Total taxation charge	**301.5**	**26.6**	254.6	28.3
Effect of adjusting items (see below)	**–**	**1.3**	–	0.8
Total taxation charge on adjusted basis	**301.5**	**27.9**	254.6	29.1
(add)/less:				
Share of current tax from jointly controlled entities and associates	**16.0**	**1.5**	13.8	1.6
Exceptional items	**(9.9)**	**(0.9)**	(27.6)	(3.2)
Tax on movement on derivatives	**(15.2)**	**(1.4)**	17.3	2.0
Deferred tax (including share of jointly controlled entities)	**(9.8)**	**(0.9)**	(26.6)	(3.0)
Adjusted current tax charge and effective rate	**282.6**	**26.2**	231.5	26.5

The adjusted effective rate is based on adjusted profit before tax being:

	2007 £m	2006 £m
Profit before tax	**1,132.0**	896.9
(add)/less:		
Exceptional items and certain re-measurements	**(88.1)**	(55.4)
Share of tax from jointly controlled entities and associates	**31.8**	28.8
Accretion of convertible debt component (note 21)	**3.6**	3.6
Adjusted profit before tax	**1,079.3**	873.9

Tax charge/(credit) recognised directly in equity

	2007 £m	2006 £m
Relating to:		
Pension scheme actuarial movements	**14.2**	(4.2)
Cash flow hedge movements	**(9.8)**	(5.1)
Share based payments	**(8.8)**	–
	(4.4)	(9.3)

All tax recognised directly in equity is deferred tax other than £4.0m (2006 – nil) current tax (credit) relating to employee share awards.

8. DIVIDENDS

	2007 £m	2006 £m
Amounts recognised as distributions from equity:		
Final dividend for the previous year of 32.7p (2006 – 30.3p) per share	**281.3**	260.0
Interim dividend for the current year of 15.1p (2006 – 13.8p) per share	**130.0**	118.8
	411.3	378.8
Proposed final dividend for the current year of 39.9p (2006 – 32.7p) per share	**343.9**	281.3

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The final dividend paid, £281.3m (32.7p, 2006 – 30.3p), was declared on 31 May 2006, approved at the Annual General Meeting on 27 July 2006 and was paid to shareholders on 22 September 2006. An interim dividend, £130.0m (15.1p, 2006 – 13.8p), was paid on 23 March 2007.

9. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 March 2007 is based on the net profit attributable to equity shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2007. All earnings are from continuing operations.

Adjusted earnings per share

Adjusted earnings per share has been calculated by excluding the charge for deferred tax and exceptional items and certain remeasurements.

	Year ended 31 March 2007 Earnings £m	Year ended 31 March 2007 Earnings per share pence	Year ended 31 March 2006 Earnings £m	Year ended 31 March 2006 Earnings per share pence
Basic	**830.5**	**96.5**	642.3	74.7
Exceptional items and certain re-measurements (note 4)	**(63.0)**	**(7.3)**	(45.1)	(5.2)
Basic excluding exceptional items and certain re-measurements	**767.5**	**89.2**	597.2	69.5
Adjusted for:				
Deferred tax (note 7)	**9.8**	**1.1**	26.6	3.1
Deferred tax from share of jointly controlled entities and associates results	**15.8**	**1.8**	15.0	1.7
Accretion of convertible debt component (note 6)	**3.6**	**0.4**	3.6	0.4
Adjusted	**796.7**	**92.5**	642.4	74.7

Basic	**830.5**	**96.5**	642.3	74.7
Convertible debt interest (net of tax) (note 21)	**10.7**	**1.2**	10.5	1.2
Dilutive effect of convertible debt	**–**	**(3.8)**	–	(3.0)
Diluted	**841.2**	**93.9**	652.8	72.9
Exceptional items and certain re-measurements (note 4)	**(63.0)**	**(7.0)**	(45.1)	(5.0)
Diluted excluding exceptional items and certain re-measurements	**778.2**	**86.9**	607.7	67.9

The weighted average number of shares used in each calculation is as follows:

	31 March 2007 Number of shares (millions)	31 March 2006 Number of shares (millions)
For basic and adjusted earnings per share	**860.9**	859.5
Effect of exercise of share options	**1.8**	1.7
	862.7	861.2
Effect of dilutive convertible debt	**33.3**	33.3
For diluted earnings per share	**896.0**	894.5

Notes on the Financial Statements continued

for the year ended 31 March 2007

10. INTANGIBLE ASSETS

Consolidated

	Goodwill £m	Allowances and certificates (i) £m	Development expenditure (ii) £m	Brands (iii) £m	Other intangibles (iv) £m	Total £m
Cost:						
At 1 April 2005	292.6	94.0	–	9.0	14.8	410.4
Additions	–	389.6	–	–	1.2	390.8
Acquisitions (note 14)	0.8	–	1.4	–	–	2.2
Disposals	–	(198.9)	–	–	–	(198.9)
At 31 March 2006	293.4	284.7	1.4	9.0	16.0	604.5
Additions	–	349.3	–	–	3.7	353.0
Other (note 14)	(0.2)	–	–	–	–	(0.2)
Disposals	–	(402.4)	–	–	–	(402.4)
At 31 March 2007	**293.2**	**231.6**	**1.4**	**9.0**	**19.7**	**554.9**
Aggregate amortisation and impairment:						
At 1 April 2005	–	–	–	(0.8)	(9.2)	(10.0)
Charge for the year	–	–	–	(0.9)	(3.0)	(3.9)
At 31 March 2006	–	–	–	(1.7)	(12.2)	(13.9)
Charge for year	–	(53.9)	–	(0.9)	(2.4)	(57.2)
At 31 March 2007	**–**	**(53.9)**	**–**	**(2.6)**	**(14.6)**	**(71.1)**
Carrying amount:						
At 31 March 2007	**293.2**	**177.7**	**1.4**	**6.4**	**5.1**	**483.8**
At 31 March 2006	293.4	284.7	1.4	7.3	3.8	590.6
At 1 April 2005	292.6	94.0	–	8.2	5.6	400.4

Intangible assets have been analysed as current and non-current as follows:

	2007 £m	2006 £m
Current	**177.7**	284.7
Non-current	**306.1**	305.9
	483.8	590.6

(i) Allowances and certificates
Allowances and certificates consist of granted or purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs). These assets are reported as current assets which represents a change in presentation from the accounts to 31 March 2006. The impairment charge reflects the reduction in the fair value of granted carbon allowances following the date of grant. The value of carbon emissions liabilities was reduced by an identical amount resulting in a nil impact on the Income Statement.

(ii) Development expenditure
Development costs relate to the design, construction and testing of renewable generation devices which the Group believes will generate probable future economic benefits.

(iii) Brands
Included within brands is the Atlantic brand, acquired on the acquisition of Atlantic Electric and Gas Limited (in administrative receivership) during the year ended 31 March 2005. The Group have assessed the economic life of the Atlantic brand to be 10 years and the brand is being amortised over this period. The charge is reported as part of operating costs.

(iv) Other intangible assets
Included within other intangible assets are application software license fees, software development work, software upgrades and purchased PC software packages. These assets are amortised over 5 years.

The Company does not hold intangible assets.

Impairment testing of goodwill:

Goodwill description	Cash-generating unit	2007 £m	2006 £m
Swalec	Swalec (i)	**187.0**	187.0
Medway	Generation (ii)	**22.2**	22.2
Fiddlers Ferry and Ferrybridge	Generation (ii)	**17.7**	17.7
Hornsea	SSE Hornsea Limited (iii)	**56.2**	56.2
Neos	Neos Networks Limited (iv)	**7.8**	7.8
Connect South West	Contracting (v)	**0.8**	0.8
Eastern Contracting	Contracting (v)	**0.9**	0.9
Harrison Smith (Batley)	Contracting (v)	**0.6**	0.8
		293.2	293.4

Impairment review on goodwill balances
Goodwill is tested annually for impairment. The impairment test involves determining the cash generating unit to which the goodwill belongs and thereafter estimating the recoverable amount of the cash generating unit, which is the higher of fair value less costs to sell or the value in use. Value in use calculations have been used to determine the recoverable amounts for the cash generating units noted above. These are based on five year projected cash flows extracted from the corporate business model which has been approved by the Executive and the Board. Discount rates in the range of 9.5% to 10.5% on a pre-tax basis have been applied to those cash flows. The Generation and Supply business segment, which is managed and accounted for as an integrated business unit, has been split into cash generating units for the purpose of impairment testing only. The key assumptions applied in determining the recoverable amounts for the cash generating units are as follows:

(i) Swalec
The impairment test on the carrying value of goodwill relating to Swalec is based on an assessment of the recoverable amount of the Swalec business unit, which was acquired in 2001 and is an electricity and gas supply business serving, primarily, South Wales. In projecting the gross margin for the business, factors such as market demand, market share and forward wholesale energy prices are considered. Management believes that the assumed margins are reasonably achievable.

(ii) Generation
The impairment tests on the carrying value of goodwill relating to Medway and Fiddler's Ferry/Ferrybridge is based on an assessment of the recoverable amount of the Group's combined Generation assets. The projected cash flows of this cash generating unit have been assessed solely in order to comply with the requirements of IAS 36. In projecting the gross margin for the combined Generation assets, factors such as market demand, market share and forward wholesale energy prices have been considered. Management believes that the assumed margins are reasonably achievable. The specific goodwill balances relate to the following acquired businesses: (a) Medway, a gas-fired power station, which was acquired after the acquisition of the remaining 62.5% shareholding in the power station in November 2003, and (b), the Fiddlers Ferry and Ferrybridge coal-fired power stations, which were acquired in August 2004.

(iii) SSE Hornsea Limited
The impairment test on the carrying value of goodwill associated with Hornsea has been carried out based on the recoverable amount of SSE Hornsea Limited. This is based on projected cash flows which include management estimates of projected demand for gas storage, injection and withdrawal tariffs and wholesale gas prices. Management believes that the assumed margins are reasonably achievable.

(iv) Neos Networks Limited
The impairment test on the carrying value of goodwill associated with Neos has been carried out based on the recoverable amount of Neos Networks Limited. This is based on projected cash flows which include management estimates of sales growth in the range of 10 – 20%. Management believes that the assumed margins are reasonably achievable.

(v) Contracting
The impairment test on the carrying value of goodwill related to the acquisitions of Eastern Contracting, Connect South West and Harrison Smith (Batley) were based on cash flow projections of the acquiring subsidiary entity, Southern Electric Contracting, which has successfully integrated these businesses into its operations. Management believes that the assumed margins included in the projections are reasonably achievable. It should be noted that the carrying value of the goodwill associated with Harrison Smith (Batley) has changed to £0.6m. This is explained at note 14.

In all cases management conclude that the projected future cash flows are sufficient to support the carrying value of the recognised goodwill and the other cash generating unit assets. Management believe that while cash flow projections are subject to inherent uncertainty, any reasonably possible changes to the key assumptions utilised in assessing recoverable amounts would not cause the carrying amounts to exceed the recoverable amounts of the cash generating units identified. Management's approach to assessing the value in use takes into account past experience and other relevant external information.

Scotia Gas Networks investment in gas distribution networks
The Group's share of Scotia Gas Networks' investment in the gas distribution networks includes an amount of acquired goodwill. In testing for impairment, management believe that both the fair value less costs to sell of the business and the value in use of the cash generating unit support the carrying value of goodwill inherent in the Group's financial statements.

Notes on the Financial Statements continued

for the year ended 31 March 2007

10. INTANGIBLE ASSETS continued

Goodwill is allocated to the following business segments:

	2007 £m	2006 £m
Generation and Supply	**226.9**	226.9
Other businesses	**66.3**	66.5
	293.2	293.4

11. PROPERTY, PLANT AND EQUIPMENT

Consolidated

	Generation and gas storage assets £m	Land and buildings £m	Network assets £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:					
At 1 April 2005	2,463.2	80.5	4,145.5	223.3	**6,912.5**
Additions	276.4	14.8	193.8	17.1	**502.1**
Acquired (note 14)	–	–	–	0.1	**0.1**
Revised decommissioning provision (i)	(14.2)	–	–	–	**(14.2)**
Reclassification (ii)	–	–	(2.5)	–	**(2.5)**
Disposals (iii)	(34.9)	(0.1)	(0.4)	(15.6)	**(51.0)**
Disposal of subsidiary (note 14)	–	–	–	(2.4)	**(2.4)**
At 31 March 2006	2,690.5	95.2	4,336.4	222.5	**7,344.6**
Additions	343.1	24.4	242.2	21.2	**630.9**
New decommissioning provision (i)	–	–	–	3.3	**3.3**
Disposals (iii)	(1.1)	(0.2)	(4.5)	(13.9)	**(19.7)**
At 31 March 2007	**3,032.5**	**119.4**	**4,574.1**	**233.1**	**7,959.1**
Depreciation:					
At 1 April 2005	724.3	19.8	1,604.2	178.1	**2,526.4**
Charge for the year	74.7	1.8	111.1	12.5	**200.1**
Reclassification (i)	–	–	(0.6)	–	**(0.6)**
Disposals (iii)	(10.7)	(0.1)	(0.1)	(15.3)	**(26.2)**
Disposal of subsidiary (note 14)	–	–	–	(1.7)	**(1.7)**
At 31 March 2006	788.3	21.5	1,714.6	173.6	**2,698.0**
Charge for the year (iv)	102.0	2.7	116.1	16.9	**237.7**
Disposals (iii)	(0.8)	–	(4.3)	(13.6)	**(18.7)**
At 31 March 2007	**889.5**	**24.2**	**1,826.4**	**176.9**	**2,917.0**
Net book value					
At 31 March 2007	**2,143.0**	**95.2**	**2,747.7**	**56.2**	**5,042.1**
At 31 March 2006	1,902.2	73.7	2,621.8	48.9	**4,646.6**
At 1 April 2005	1,738.9	60.7	2,541.3	45.2	**4,386.1**

(i) The net book value of generation and gas storage assets includes decommissioning costs with a net book value of £20.3m, (2006 – £21.0m). The value of the decommissioning assets at Fiddler's Ferry and Ferrybridge was reassessed in the year to 31 March 2006 following the Group's decision to invest in flue gas desulphurisation plant at these stations, which is expected to extend the useful lives of the stations by between 15 and 20 years. This change in the timing of the expected decommissioning expenditure was adjusted out of the carrying value of the asset. In the year to 31 March 2007, an increase to the net book value of office and computer equipment has been recognised in relation to decommissioning costs of £3.3m (2006 – nil) arising from the Group's obligations under the EU Waste Electrical and Electronic Equipment (WEEE) directive, which passed into law on 2 January 2007.
(ii) The reclassification in the year ended 31 March 2006 relates to telecoms fibre that was transferred to stock in the year.
(iii) Assets disposed includes those assets which have been replaced after damage or obsolescence in the year.
(iv) Included within the charge for the year are impairment charges against Generation assets of £13.9m (2006 – nil). These impairments were made following identification of indications of impairment and a subsequent review of the projected cash flows associated with the assets, which are not part of the Group's main Generation fleet. In line with Group policy, these charges have been reported in Cost of Sales.

Land is predominantly heritable or freehold. The net book value of other land and buildings includes freehold £47.0m (2006 – £32.0m) and short leasehold £nil (2006 – £nil). Generation assets comprise generating stations and related plant and machinery and include all hydro civil assets.

Cumulative interest capitalised for the Group, included in the cost of tangible fixed assets amounts to £44.7m (2006 – £31.2m).

At the balance sheet date the cumulative amounts capitalised in respect of assets in the course of construction were as follows:

	2007 £m	2006 £m
Generation and gas storage assets	**454.7**	355.2
Transmission and distribution assets	**56.9**	27.0
	511.6	382.2

Included within the assets in the course of construction is the Group's share of expenditure on the Aldbrough gas storage facility and the Beatrice offshore wind farm project which are managed under joint participation agreements.

Included within property, plant and equipment are the following assets held under finance leases:

	Network assets £m	Vehicles and miscellaneous equipment £m	Total £m
Cost			
At 31 March 2006 and 31 March 2007	**5.1**	**7.0**	**12.1**
Depreciation			
At 1 April 2005	4.0	5.5	9.5
Charge for the year	0.3	0.3	0.6
At 31 March 2006	4.3	5.8	10.1
Charge for the year	0.2	0.2	0.4
At 31 March 2007	**4.5**	**6.0**	**10.5**
Net book value			
At 31 March 2007	**0.6**	**1.0**	**1.6**
At 31 March 2006	0.8	1.2	2.0
At 1 April 2005	1.1	1.5	2.6

The Company does not hold any property, plant or equipment.

12. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	Scotia Gas Networks (ii)		Other jointly controlled entities		Associates		
	Shareholder investment £m	Loans £m	Shareholder investment £m	Loans £m	Shareholder investment £m	Loans £m	Total £m
Consolidated							
Share of net assets/cost							
At 1 April 2005	–	–	53.6	115.3	35.7	7.4	**212.0**
Initial investment	213.9	270.0	–	–	–	–	**483.9**
Increase in equity investment	21.1	–	–	0.3	14.7	–	**36.1**
Change in designation of investment(i)	–	–	–	(1.4)	–	–	**(1.4)**
Increase in shareholder loans	–	16.9	–	–	–	0.7	**17.6**
Repayment of shareholder loans	–	–	–	(10.8)	–	(7.3)	**(18.1)**
Dividends received	–	–	(8.0)	–	–	–	**(8.0)**
Share of (loss)/profit after tax	(4.3)	–	16.8	–	31.1	–	**43.6**
Opening financial derivative liability (net of tax)	(62.6)	–	–	–	–	–	**(62.6)**
At 31 March 2006	168.1	286.9	62.4	103.4	81.5	0.8	**703.1**
Initial investment	–	–	5.0	–	–	–	**5.0**
Increase in shareholder loans	–	18.0	–	5.5	–	–	**23.5**
Repayment of shareholder loans	–	(23.0)	–	(10.8)	–	(0.8)	**(34.6)**
Dividends received	–	–	(21.5)	–	(1.2)	–	**(22.7)**
Share of (loss)/profit after tax	(15.3)	–	17.3	–	21.9	–	**23.9**
Share of other reserves adjustments	4.1	–	–	–	–	–	**4.1**
At 31 March 2007	**156.9**	**281.9**	**63.2**	**98.1**	**102.2**	**–**	**702.3**

Notes on the Financial Statements continued

for the year ended 31 March 2007

12. INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

	Joint Ventures Investment £m	Joint Ventures Shareholder loans £m	Total £m
Company			
Share of net assets/cost			
At 1 April 2005	–	–	–
Scotia Gas Networks plc (ii)			
Initial investment	213.9	270.0	**483.9**
Increase in equity investment	21.1	–	**21.1**
Increase in shareholder loans	–	16.9	**16.9**
At 31 March 2006	235.0	286.9	**521.9**
Increase in shareholder loans	–	18.0	**18.0**
Repayment of shareholder loans	–	(23.0)	**(23.0)**
At 31 March 2007	**235.0**	**281.9**	**516.9**

(i) The Group's interest in Renewable Technology Ventures Limited was increased from 50% to 100% on 27 January 2006.
(ii) The investment in Scotia Gas Networks is disclosed separately to aid understanding of the Group's financial performance.

Prior to the investment in Scotia Gas Networks (note 14), the Company did not have any investments in joint ventures or associates.

Details of the principal jointly controlled entities, operations and associates are as follows:

	Country of incorporation	31 March 2007 Holding %	31 March 2006 Holding %	Principal activity
Jointly controlled entities				
PriDE (South East Regional Prime) Limited (ii)	England and Wales	**50**	50	Defence estates contractor
Seabank Power Limited (iii)	England and Wales	**50**	50	Electricity generation
Scotia Gas Networks plc (iv)	England and Wales	**50**	50	Investment in gas networks
Marchwood Power Limited (i)	England and Wales	**50**	50	Electricity generation
Associates				
Barking Power Limited (i)	England and Wales	**30**	30	Electricity generation
Derwent Co-generation Limited (i)	England and Wales	**49.5**	49.5	Electricity generation

	Location of operations	31 March 2007 Holding %	31 March 2006 Holding %	Principal activity
Jointly controlled operations (unincorporated)				
Aldbrough	England	**66.7**	66.7	Development of gas storage facility
Beatrice	Scotland	**50**	50	Development of offshore wind farm facility

The above companies' shares consist of ordinary shares only. All companies operate in Great Britain and Ireland. Seabank Power Limited and Marchwood Power Limited have an accounting periods ending on 31 December. All other companies have accounting periods ending on 31 March.

(i) Shares held by SSE Generation Limited
(ii) Shares held by SSE Contracting
(iii) Shares held by SSE Seabank Investments Limited
(iv) Shares held by Scottish and Southern Energy plc

The Group's investment in Barking Power Limited was increased from 22.05% to 30.4% on 13 January 2006.

At 31 March 2007, the Group had invested £10.5m in Marchwood Power Limited. In addition to this, the Group had provided an interest-bearing loan of £22.0m to Marchwood Power Limited, which is included within other receivables (note 16).

The details of the Group's share of Scotia Gas Networks plc's acquisition in the year ended 31 March 2006 of the Scotland and the South of England gas distribution networks are included in note 14. The material significance of this investment warrants separate disclosure from other jointly controlled entities. Accordingly, the result from the Group's share of these businesses is included as a separate segment in the analysis of Group operating profit (note 2). The results of Scotia Gas Networks plc, of which the Group has a 50% share, can be illustrated thus:

	2007			2006		
	Before exceptional items and certain re-measurements £m	**Exceptional items and certain re-measurements £m**	**Total £m**	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Operating profit	**206.3**	**–**	**206.3**	205.4	–	205.4
Finance costs: excluding loan stock	**(141.2)**	**10.9**	**(130.3)**	(108.2)	(26.0)	(134.2)
Finance costs: interest on loan stock	**(71.6)**	**–**	**(71.6)**	(57.6)	–	(57.6)
(Loss)/profit before tax	**(6.5)**	**10.9**	**4.4**	39.6	(26.0)	13.6
Taxation	**(31.7)**	**(3.2)**	**(34.9)**	(30.0)	7.8	(22.2)
(Loss)/profit for the year	**(38.2)**	**7.7**	**(30.5)**	9.6	(18.2)	(8.6)
SSE share of (loss)/profit	**(19.1)**	**3.8**	**(15.3)**	4.8	(9.1)	(4.3)

As an investor, Scottish and Southern Energy plc received £35.8m (2006 – £28.8m) in relation to loan stock interest payable to the Group.

The balance sheet of Scotia Gas Networks plc can be summarised as follows (100%):

	Assets £m	Liabilities £m
Scotia Gas Networks plc		
31 March 2007	**4,576.6**	**(4,263.1)**
31 March 2006	4,564.8	(4,228.9)

The financial statements of the Group's other jointly controlled entities and associates can be summarised as follows (100%):

	Assets £m	Liabilities £m	Revenues £m	Profit after tax £m
Jointly controlled entities				
31 March 2007	**471.9**	**(364.0)**	**211.9**	**34.6**
31 March 2006	492.4	(384.8)	201.1	41.0
Associates				
31 March 2007	**827.2**	**(500.8)**	**453.1**	**68.4**
31 March 2006	779.7	(519.6)	364.8	83.3

for the year ended 31 March 2007

13. SUBSIDIARY UNDERTAKINGS

Details of the principal subsidiary undertakings are as follows:

	Country of incorporation	2007 Holding %	2006 Holding %	Principal activity
SSE Services plc (i)	England and Wales	**100**	100	Finance and IT support services
SSE Energy Supply Limited (i)	England and Wales	**100**	100	Electricity supply
SSE Retail Limited (i)	Scotland	**100**	100	Electrical appliance sales and servicing
SSE Telecommunications Limited (i)	Scotland	**100**	100	Telecommunication services
SSE Generation Limited (i)	England and Wales	**100**	100	Electricity generation
SSE Insurance Limited (i)	Isle of Man	**100**	100	Insurance services
SSE Stock Limited (i)	Scotland	**100**	100	Holds inventory for Group companies
Tay Valley Lighting (Stoke on Trent) Limited (i)	England and Wales	**50**	50	Contracting services
Tay Valley Lighting (Newcastle and North Tyneside) Limited (i)	England and Wales	**50**	50	Contracting services
Tay Valley Lighting (Leeds City Council) Limited (i)	England and Wales	**50**	50	Contracting services
Medway Power Limited (ii)	England and Wales	**100**	100	Electricity generation
SSE Medway Operations Limited (ii)	England and Wales	**100**	100	Maintenance contractor
Keadby Generation Limited (ii)	England and Wales	**100**	100	Electricity generation
Renewable Technology Ventures Limited (ii)	Scotland	**100**	100	Renewable generation development
Scottish Hydro-Electric Transmission Limited (iii)	Scotland	**100**	100	Transmission of electricity
Scottish Hydro-Electric Power Distribution plc (iii)	Scotland	**100**	100	Distribution of electricity
Southern Electric Power Distribution plc (iii)	England and Wales	**100**	100	Distribution of electricity
S+S Limited (iii)	Scotland	**100**	100	Electricity connections
Southern Electric Contracting Limited (iv)	England and Wales	**100**	100	Electrical contractor
SSE Utility Services plc (iv)	England and Wales	**100**	100	Utility contractor
Southern Electric Gas Limited (v)	England and Wales	**100**	100	Gas supply
SSE Hornsea Limited (v)	England and Wales	**100**	100	Gas storage
SSE Trading Limited (v)	England and Wales	**100**	100	Energy trading
Neos Networks Limited (vi)	England and Wales	**100**	100	Telecommunication services

The above companies' shares consist of ordinary shares only. All companies operate in Great Britain and Ireland except for SSE Insurance Limited which operates in the Isle of Man. All companies have accounting periods ending on 31 March.

A full list of Group companies will be included in the Company's annual return and the shares are held by:

(i) Scottish and Southern Energy plc
(ii) Shares held by SSE Generation Limited.
(iii) Shares held by SSE Power Distribution Limited.
(iv) Shares held by SSE Contracting Limited.
(v) Shares held by SSE Energy Supply Limited.
(vi) Shares held by SSE Telecommunications Limited.

The Company's investment in subsidiaries at 31 March 2007 is £777.9m (31 March 2006 – £777.9m).

Service concession arrangements

In 50:50 partnership with Royal Bank Leasing Limited, the Group has established three companies to provide street lighting services to councils under the Private Finance Initiative (PFI). These services are thereafter sub-contracted to Southern Electric Contracting Limited, a wholly owned subsidiary. The companies established are as follows:

Company	Council
Tay Valley Lighting (Stoke on Trent) Limited	Stoke-on-Trent
Tay Valley Lighting (Newcastle and North Tyneside) Limited	Newcastle and North Tyneside
Tay Valley Lighting (Leeds City Council) Limited	Leeds City Council

Under SIC-12 Consolidation – Special Purpose Entities, these companies are categorised as subsidiaries and are accounted for accordingly. The debt associated with these companies is non-recourse to the Group. The arrangements for all three companies are materially similar.

Characteristics of the arrangements

Description
The contracts are 25 year arrangements to replace ageing street-lighting stock and to subsequently maintain the new assets throughout each Councils' areas.

Significant terms
The cash flows under the PFI arrangements come from the unitary charge for these services paid by the Councils. The unitary charge can only be adjusted if performance under the contract falls below the required standards. Any significant change to the services proposed by either party is subject to a formal change procedure and agreement to such a change is required by the other party.

Nature and extent of rights and obligations
The assets are part of the public highway and ownership of the assets remains with the Councils. The Tay Valley Lighting companies are licenced to replace and maintain the assets for the period of the contract. This obligation is passed down to Southern Electric Contracting Limited through the operating sub-contract. Any failure to provide the services to the required standards will result in financial penalties which are taken from the unitary charge.

The companies have 25 year contracts with no extension options. Termination during this period can be initiated through a number of routes including service provider default, force majeure or the event of a risk becoming uninsurable, authority default, voluntary authority termination, or termination for a prohibited act or breach of refinancing provisions. In all cases, a formula exists for calculating compensation payments to the service provider.

Throughout the contract period there are a number of circumstances under which the companies could potentially be required to provide additional services:

(i) Changes in the law
If circumstances arise where by a change in legislation would mean a change in the way the services are to be provided the companies would be liable for part of the cost of this change. This liability is capped.

(ii) Final survey
The Councils have the ability to deduct 20% of the unitary charge in the last two years if an independent survey indicates the assets are unlikely to have a 5-year residual life.

The Group's exposure to unforeseen obligations is insured.

14. ACQUISITIONS AND DISPOSALS

i. Acquisitions in the previous financial year
The fair values of the assets and liabilities of the following acquisitions made during the year ended 31 March 2006 and the consideration paid or due are shown below:

(a) The acquisition of gas distribution networks by Scotia Gas Networks plc
At 1 June 2005, Scotia Gas Networks plc, an entity of which the Group holds 50%, acquired the Scotland and the South of England gas distribution networks from National Grid Transco plc.

The total value of the acquired businesses after finalisation of the completion process was £3,217.8m. The transaction was initially funded by a non-recourse borrowing facility with the balance being funded by the shareholders. The Group's share of the initial transaction cost at 1 June 2005 was £483.9m which consisted of £270.0m of subordinated loans and £213.9m of equity funding. The non-recourse funding of this transaction was replaced by the issue of listed debt by the distribution network entities of £2,219.8m on 21 October 2005.

At 31 March 2007, the Group, through Scotia Gas Networks plc, had invested £516.9m (2006 – £521.9m) in the gas distribution networks, consisting of £247.0m (2006 – £270.0m) of subordinated loans, £235.0m (2006 – £235.0m) of equity funding and £34.9m (2006 – £16.9m) of accrued interest. The movement in the capital invested in the Scotia Gas Networks group is disclosed in note 12.

14. ACQUISITIONS AND DISPOSALS continued

Scotia Gas Networks plc entered into a contingent interest rate swap on 30 August 2004 subject to the acquisition of the gas networks in Scotland and the South of England being completed. From 1 April 2005, 50% of the fair value of the swap was reflected in the Group's accounts being the fair value loss on financing derivatives up to 1 June 2005, when the transaction to acquire the distribution networks was concluded. Since 1 June 2005, the Group's share of this loss has been reflected as part of the share of losses on financing derivatives within the results of Scotia Gas Networks plc. On 21 October 2005, the formerly contingent swap was closed off by the issue of a new 'mirror' swap, both of which are marked to market under IAS 39. The issue of the listed debt at 21 October 2005 was achieved at the same time as entering a number of new interest rate and currency swaps.

The investment in the jointly controlled entity is accounted for using the equity method.

The acquisition of the Scotland and the South of England gas distribution networks by Scotia Gas Networks plc at 1 June 2005 can be represented as follows:

	Carrying Value of acquired entities £m	Fair Value adjustments on acquisition £m	Accounting policy alignments £m	**Fair Value of acquired entities £m**
Property, plant and equipment	3,117.8	31.9	–	**3,149.7**
Net current liabilities	(76.6)	39.6	–	**(37.0)**
Retirement benefit obligations	(60.9)	5.9	–	**(55.0)**
Deferred tax	(271.0)	166.4	(667.9)	**(772.5)**
Other provisions	(30.3)	(15.7)	–	**(46.0)**
Net assets	**2,679.0**	**228.1**	**(667.9)**	**2,239.2**
Goodwill	401.0	(90.3)	667.9	**978.6**
	3,080.0	**137.8**	**–**	**3,217.8**

Satisfied by cash:	
Bank facility	**2,250.0**
Equity investment by shareholders	**967.8**
	3,217.8
The Group's share of the equity investment (50%):	**483.9**
Represented by:	
Share capital	**213.9**
Loan Stock	**270.0**
	483.9

Goodwill has been subject to impairment test review (note 10).

It should be noted that following the finalisation of the 31 March 2006 accounts of Scotia Gas Networks plc, the above table has been corrected from that included in the Group's 2006 Annual Report to reflect the final agreed opening fair value balances. Following restatement of the opening deferred taxation balance acquired, the value of goodwill included has been amended by £10.2m in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. This has no impact on the Group's share of the equity investment and requires no restatement of the prior year Group accounts.

The fair value adjustments reflect the assessment of fair value based on the regulatory value of the businesses, the fair value of current liabilities and provisions including the deferred tax liability. The accounting policy adjustments reflect the adoption of Group policies on deferred taxation. The adjustments have been made effective at the date of acquisition and the subsequent movements in deferred taxation have been recognised in the current year.

(b) Other acquisitions in the previous financial year
On 27 January 2006, SSE Generation Limited acquired the remaining 50% of the share capital of Renewable Technology Ventures Limited, a company which was previously a joint venture with The Weir Group plc. On 9 February 2006, Southern Electric Contracting Limited acquired 100% of the equity of Harrison Smith (Batley) Limited.

In aggregate, the fair value of net assets acquired was £0.4m and the combined consideration was £1.0m. Accordingly, goodwill on acquisition of £0.6m was recognised on these combinations. Consideration was £0.8m cash and £0.2m deferred consideration. The net cash outflow was £0.6m, being the £0.8m cash consideration less £0.2m of acquired cash. The goodwill recognised has been adjusted in the current financial year on finalisation of the combined consideration.

ii. Disposals in the previous financial year

The Group disposed of its shareholding in Thermal Transfer Limited on 31 March 2006 for a consideration of £21.5m, net of costs of disposal, resulting in a gain on disposal of £18.6m. The assets and liabilities sold and the consideration received can be stated as follows:

	£m
Property, plant and equipment	0.7
Stock and work-in-progress	2.6
Trade and other receivables	11.8
Cash and cash equivalents	2.7
Trade and other payables	(14.5)
Deferred tax liabilities	(0.4)
Net assets disposed of	**2.9**
Gain on disposal	**18.6**
Net consideration	**21.5**

The proceeds of disposal constituted £20.0m cash and £1.5m of deferred consideration, net of disposal costs. The net cash inflow associated with the disposal in the year was £17.3m (£20.0m consideration received less £2.7m cash and cash equivalents).

15. INVENTORIES

	Consolidated	
	2007 £m	2006 £m
Fuel and consumables	**199.9**	153.9
Work in progress	**19.4**	15.1
Goods for resale	**2.6**	2.6
Less: provisions held	**(7.8)**	(7.4)
	214.1	164.2

The Group has recognised £766.8m as an expense in the year (2006 – £821.1m) and have also recognised £15.3m (2006 – £0.1m) relating to stock write-downs and increases in provisions held. The Company does not hold any inventories.

16. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Current assets				
Amounts owed by subsidiary undertakings	**–**	–	**1,726.5**	1,079.8
Trade receivables	**1,356.2**	1,254.6	**2.3**	2.3
Other receivables	**76.8**	69.2	**25.5**	1.0
Prepayments and accrued income	**428.4**	339.1	**–**	–
	1,861.4	1,662.9	**1,754.3**	1,083.1
Non-current assets				
Amounts owed by subsidiary undertakings	**–**	–	**1,783.5**	1,794.3
	1,861.4	1,662.9	**3,537.8**	2,877.4

Other receivables include £22.3m (including interest) receivable from Marchwood Power Limited (note 12).

17. CASH AND CASH EQUIVALENTS

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
Bank balances	**17.5**	17.6	**2.5**	15.3
Call deposits	**38.6**	32.3	**3.3**	10.4
Cash and cash equivalents	**56.1**	49.9	**5.8**	25.7

Cash and cash equivalents (which are presented as a single class of assets in the face of the balance sheet) comprise cash at bank and short term highly liquid investments with a maturity of three months or less.

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
Cash and cash equivalents (from above)	**56.1**	49.9	**5.8**	25.7
Bank overdraft (Note 21)	**(7.7)**	(6.1)	**–**	–
Cash and cash equivalents in the statement of cash flows	**48.4**	43.8	**5.8**	25.7

18. TRADE AND OTHER PAYABLES

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
Current liabilities				
Amounts due to subsidiary undertakings	**–**	–	**2,570.2**	1,896.9
Payments received in advance	**24.8**	20.3	**–**	–
Trade payables	**1,412.2**	1,311.2	**–**	–
Taxation and social security	**12.9**	11.4	**–**	–
Other creditors	**83.1**	74.2	**3.7**	3.6
Accruals and deferred income	**402.1**	417.5	**–**	–
	1,935.1	1,834.6	**2,573.9**	1,900.5
Non-current liabilities				
Accruals and deferred income	**327.7**	396.7	**–**	–
	2,262.8	2,231.3	**2,573.9**	1,900.5

19. CURRENT TAX LIABILITIES

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
Corporation tax	**199.2**	165.4	**10.1**	18.1

20. CONSTRUCTION CONTRACTS

	2007 £m	2006 £m
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in trade and other receivables (note 16)	**28.8**	27.2
Amounts due to contract customers included in trade and other payables (note 18)	**(20.5)**	(17.9)
Contract costs incurred plus recognised profits less recognised losses to date	**150.3**	126.1
Less: Progress billings	**(152.3)**	(130.7)
	(2.0)	(4.6)

At 31 March 2007, retentions held by customers for contract work amounted to £1.8m (2006 – £1.4m). Advances received from customers for contract work amounted to £5.9m (2006 – £5.5m).

At 31 March 2007, amounts of nil (2006 – nil) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

The Company does not hold any construction contracts.

21. LOANS AND OTHER BORROWINGS

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
Current				
Bank overdraft	**7.7**	6.1	**–**	–
Other short-term loans	**466.6**	410.7	**349.5**	384.8
Obligations under finance leases	**0.5**	0.5	**–**	–
	474.8	417.3	**349.5**	384.8

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
Non current				
Loans including convertible debt	**1,803.2**	1,796.5	**580.6**	576.3
Obligations under finance leases	**0.6**	1.1	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**240.2**	240.2
	1,803.8	1,797.6	**820.8**	816.5

i. Borrowings

Borrowing facilities
The Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into Sterling). The Group has £650m (2006 – £650.0m) of committed credit facilities in place maturing in 2009. These provide a back-up facility to the commercial paper programmes and at 31 March 2007 there was no draw down of these facilities.

Analysis of borrowings

	Weighted average interest rate (viii) 2007	Weighted average interest rate (viii) 2006	2007 £m	2006 £m
Current				
Bank Overdrafts (i)	**6.25%**	5.50%	**7.7**	6.1
Other short-term loans – amortising (ii)	**7.70%**	7.69%	**21.4**	19.6
Other short-term loans – non-amortising (iii)	**5.56%**	4.52%	**374.5**	234.7
Non-recourse funding (iv)	**6.21%**	6.44%	**9.2**	6.5
7.875% Eurobond repayable on 26 March 2007	**–**	7.88%	**–**	149.9
US $100m repayable on 1 May 2007 (vi)	**7.78%**	–	**61.5**	–
Total current	**5.96%**	5.92%	**474.3**	416.8
Non-current				
Between two and five years				
Loans – amortising (ii)	**7.43%**	7.60%	**64.9**	78.0
Loans – non-amortising (v)	**5.45%**	6.25%	**150.0**	25.1
US $100m repayable on 1 May 2007 (vi)	**–**	7.78%	**–**	61.5
3.75% Convertible bond repayable 29 October 2009 (vii)	**3.75%**	3.75%	**284.9**	280.8
Non-recourse funding (iv)	**6.21%**	6.44%	**36.3**	19.7
	4.81%	5.18%	**536.1**	465.1
Over five years				
Loans – amortising (ii)	**5.88%**	6.27%	**5.5**	13.7
Loans – non-amortising (v)	**5.65%**	5.12%	**200.0**	350.0
5.875% Eurobond repayable on 26 September 2022	**5.88%**	5.88%	**295.5**	295.5
5.50% Eurobond repayable on 19 June 2032	**5.50%**	5.50%	**350.3**	350.3
4.625% Eurobond repayable on 20 February 2037	**4.63%**	4.63%	**323.3**	323.3
1.429% Index linked bond repayable on 20 October 2056	**5.08%**	–	**100.0**	–
Non-recourse funding (iv)	**6.42%**	–	**2.9**	–
	5.36%	5.28%	**1,277.5**	1,332.8
Fair value adjustment (note 28)	**–**	–	**(10.4)**	(1.4)
	5.36%	5.28%	**1,267.1**	1,331.4
Total non-current	**5.19%**	5.25%	**1,803.2**	1,796.5
Total	**5.35%**	5.38%	**2,277.5**	2,213.3

Notes on the Financial Statements continued

for the year ended 31 March 2007

21. LOANS AND OTHER BORROWINGS continued

(i) Bank overdrafts are repayable on demand.
(ii) Balances under amortising loans are adjusted for capital repayments or drawings in the financial year. These are held with the European Investment Bank (EIB) in a combination of fixed and floating rates.
(iii) Balances include commercial paper and cash advances.
(iv) The Tay Valley Lighting companies formed under 50:50 partnership with Royal Bank Leasing Limited to provide street-lighting services are categorised as subsidiaries under SIC-12 (note 13). The debt held by these companies is included on consolidation but is non-recourse to the Group.
(v) The floating rate European Investment Bank advances are reset quarterly at a rate normally less than three month LIBOR. Other loans include a mixture of fixed and floating debt repayable between 2007 and 2014.
(vi) The US$100M loan has been swapped into Sterling with £60.0m being fixed at an effective rate of 7.78%.
(vii) The liability component of the convertible bond is presented separately under IAS 32.
(viii) The weighted average interest rates are as noted. The weighted average interest rates for the Group (including swaps) for the year ended 31 March 2007 was 5.31% (2006 – 5.42%).

Convertible bond
The convertible bond was issued on 26 October 2004 in exchange for £300.0m in cash. The bond entitles holders to convert the bond into ordinary shares at any time up to 24 October 2009 at the applicable conversion share price of £9.00 per ordinary share at the date of issue. The conversion price is subject to adjustment in certain circumstances set out in the offering circular including payment of dividends greater than amounts set out in the circular, capital restructuring and change of control. Conversion is at the option of the bond holder.

The net proceeds received from the issue of the bond have been split between a liability element and an equity component, the liability element representing the initial fair value of the debt excluding the embedded option to convert the liability into equity of the Group.

	At 31 March 2007 £m	At 1 April 2006 £m
Nominal value of issue of convertible bond (i)	**299.9**	300.0
Costs of issue (ii)	**(1.4)**	(2.0)
Net proceeds of convertible bond issued	**298.5**	298.0
Equity component	**(14.6)**	(14.6)
Deferred tax on temporary differences	**(6.2)**	(6.2)
Interest charged (iii)	**30.3**	15.0
Interest paid	**(23.1)**	(11.4)
Accretion of debt component	**7.2**	3.6
Liability component	**284.9**	280.8

(i) On 4 August 2006, nominal debt of £0.1m was converted into equity at the conversion price.
(ii) The costs of issue of the bond are amortised over the term of the bond.
(iii) Interest is charged by applying an effective interest rate of 5.35% to the liability component for the period from adoption of IAS 32.

For the purpose of diluted Earnings per Share (EPS), convertible bond interest of £15.3m (2006 – £15.0m) is added back to earnings and the number of potential ordinary shares to be issued includes the following in respect of this bond:

	2007 Number of shares	2006 Number of shares
Weighted average number of shares	**33,322,222**	33,333,333

ii. Finance lease liabilities

Future finance lease commitments are as follows:

	Minimum lease payments 2007 £m	Minimum lease payments 2006 £m	Present value of minimum lease payments 2007 £m	Present value of minimum lease payments 2006 £m
Amounts payable:				
Within one year	**0.5**	0.5	**0.5**	0.5
Between one and five years	**0.5**	1.0	**0.4**	0.8
After five years	**0.6**	0.7	**0.2**	0.3
	1.6	2.2	**1.1**	1.6
Less: future finance charge	**(0.5)**	(0.6)		
Present value of lease obligations	**1.1**	1.6		

The average lease term is 12 to 13 years. For the year ended 31 March 2007, the average effective borrowing rate was 8% (2006 – 8%). Interest rates are fixed at the contract date. All leases, held by the Group's telecoms businesses, are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates their carrying amount. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets. The Company does not have any obligations under finance leases.

22. DEFERRED TAXATION

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated capital allowances £m	Fair value gains/(losses) on derivatives £m	Convertible bond £m	Retirement benefit obligations £m	Share based payments £m	Other £m	Total £m
Consolidated							
At 1 April 2005	895.9	9.6	6.2	(68.3)	(1.4)	(35.8)	**806.2**
Charge/(credit) to Income Statement (i)	1.8	(17.4)	(1.1)	14.4	–	11.6	**9.3**
Charge/(credit) to equity	–	(5.1)	–	(4.2)	–	–	**(9.3)**
Transfer to Scotia Gas Networks (ii)	–	26.9	–	–	–	–	**26.9**
At 1 April 2006	897.7	14.0	5.1	(58.1)	(1.4)	(24.2)	**833.1**
Charge/(credit) to Income Statement	0.3	15.2	(1.1)	16.3	1.5	(7.2)	**25.0**
Charge/(credit) to equity	–	(9.8)	–	14.2	(4.8)	–	**(0.4)**
At 31 March 2007	**898.0**	**19.4**	**4.0**	**(27.6)**	**(4.7)**	**(31.4)**	**857.7**

	Accelerated capital allowances £m	Fair value gains/(losses) on derivatives £m	Convertible bond £m	Retirement benefit obligations £m	Share based payments £m	Other £m	Total £m
Company							
At 1 April 2005	–	(13.1)	6.2	29.7	–	(1.4)	**21.4**
Charge/(credit) to Income Statement	–	2.7	(1.1)	6.1	–	0.4	**8.1**
Charge/(credit) to equity	–	4.1	–	(8.7)	–	–	**(4.6)**
At 1 April 2006	–	(6.3)	5.1	27.1	–	(1.0)	**24.9**
Charge/(credit) to Income Statement	–	(1.2)	(1.1)	6.0	–	0.1	**3.8**
Charge/(credit) to equity	–	(6.1)	–	5.3	–	–	**(0.8)**
At 31 March 2007	**–**	**(13.6)**	**4.0**	**38.4**	**–**	**(0.9)**	**27.9**

(i) Includes movement relating to Scotia Gas Networks swap from 1 April 2005 to 31 May 2005 of £10.4m (note 14).
(ii) Being transfer of deferred asset relating to financing derivative at 1 June 2005 on completion of acquisition of gas distribution networks.

22. DEFERRED TAXATION continued

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
Deferred tax liabilities	**923.7**	919.1	**27.9**	24.9
Deferred tax assets	**66.0**	86.0	**–**	–
Net deferred tax liabilities	**857.7**	833.1	**27.9**	24.9

The deferred tax asset relates to the defined benefit pension scheme liability in a subsidiary company. The parent company defined benefit scheme has a deferred tax liability in 2007 and 2006.

At the balance sheet date, the Group has unused tax losses of £40.6m (2006 – £40.6m) available for offset against future profits.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £2.1m (2006 – £2.3m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with interests in associates and jointly controlled entities are recorded as part of the Group's share of investment in those entities. The aggregate amount of these is £17.5m (2006 – £11.1m).

23. PROVISIONS

	Onerous energy contracts (i) £m	Decommissioning (ii) £m	Other (iii) £m	Total £m
Consolidated				
At 1 April 2006	38.6	24.7	18.5	**81.8**
Charged in the year	25.6	4.5	5.1	**35.2**
Utilised during the year	(1.6)	–	(3.0)	**(4.6)**
At 31 March 2007	**62.6**	**29.2**	**20.6**	**112.4**
At 31 March 2007				
Non-current	61.3	28.5	14.6	**104.4**
Current	1.3	0.7	6.0	**8.0**
	62.6	29.2	20.6	**112.4**
At 31 March 2006				
Non-current	38.6	24.7	15.7	**79.0**
Current	–	–	2.8	**2.8**
	38.6	24.7	18.5	**81.8**

(i) The onerous energy contracts provision relates to future losses on purchase contracts designated as own use under IAS 39 and future losses on specific contracts. The purchase contract losses will be incurred over a maximum period to 2011 when the contracts terminate. The other contract losses will be incurred over a maximum period to 2019.

(ii) Provision has been made for the estimated net present cost of decommissioning certain generation and gas storage assets. The estimate is based on a forecast of clean-up costs at the time of decommissioning discounted for the time value of money. The timing of costs provided is dependent on the lives of the facilities. In the year to March 2007, the Group has also recognised a provision of £3.3m (2006 – nil) in relation to its projected decommissioning obligations under the EU Waste Electrical and Electronic Equipment (WEEE) directive, which passed into law on 2 January 2007.

(iii) Other provisions include balances held in relation to restructuring, insurance and warranty claims. In addition, the Group has an employer financed retirement benefit provision for pensions for certain directors and former directors and employees.

The Company does not hold provisions.

24. SHARE CAPITAL

	Number (millions)	Number £m
Company		
Equity: Ordinary shares of 50p each: Authorised: At 31 March 2007	**1,200.0**	**600.0**
Allotted, called up and fully paid:		
At 1 April 2006	860.3	430.2
Issue of shares (i)	1.6	0.8
At 31 March 2007	**861.9**	**431.0**

(i) The Company issued 1,651,166 (2006 – 1,455,451) shares during the year under the savings-related share option schemes, and discretionary share option schemes for a consideration of £9.2m (2006 – £9.9m).

During the year, the Company purchased 702,057 shares (2006 – 940,323) for a consideration of £8.2m (2006 – £9.5m) to be held in trust for the benefit of employee share schemes. At 31 March 2007, the trust held 1,976,506 shares (2006 – 1,530,082) which had a market value of £30.5m.

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

25. RESERVES

	Share premium account £m	Capital redemption reserve £m	Equity reserve £m	Retained earnings £m	Hedge reserve £m	Total £m
Consolidated						
Reconciliation of movement in reserves						
At 1 April 2005	81.6	13.7	14.6	1,341.9	18.3	**1,470.1**
Profit for the year	–	–	–	642.3	–	**642.3**
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(11.7)	**(11.7)**
Premium on issue of shares	9.1	–	–	–	–	**9.1**
Actuarial (losses) on retirement benefit schemes (net of tax)	–	–	–	(9.9)	–	**(9.9)**
Dividends to shareholders	–	–	–	(378.8)	–	**(378.8)**
Credit in respect of employee share awards	–	–	–	4.0	–	**4.0**
Investment in own shares	–	–	–	(9.5)	–	**(9.5)**
Other movements	–	–	–	(0.4)	–	**(0.4)**
At 31 March 2006	90.7	13.7	14.6	1,589.6	6.6	**1,715.2**
Profit for the year	–	–	–	830.5	–	**830.5**
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(22.6)	**(22.6)**
Premium on issue of shares	8.4	–	–	–	–	**8.4**
Actuarial gains on retirement benefit schemes (net of tax)	–	–	–	33.2	–	**33.2**
Jointly controlled entities:						
Share of change in fair value of effective cash flow hedges	–	–	–	–	5.5	**5.5**
Share of actuarial losses on retirement benefit schemes (net of tax)	–	–	–	(1.4)	–	**(1.4)**
Dividends to shareholders	–	–	–	(411.3)	–	**(411.3)**
Credit in respect of employee share awards	–	–	–	6.8	–	**6.8**
Current and deferred tax recognised in equity in respect of employee share awards (note 7)	–	–	–	8.8		**8.8**
Investment in own shares	–	–	–	(8.2)	–	**(8.2)**
At 31 March 2007	**99.1**	**13.7**	**14.6**	**2,048.0**	**(10.5)**	**2,164.9**

25. RESERVES continued

	Share premium account £m	Capital redemption reserve £m	Equity reserve £m	Retained earnings £m	Hedge reserve £m	Total £m
Company						
Reconciliation of movement in reserves						
At 1 April 2005	81.6	13.7	14.6	501.5	(6.7)	**604.7**
Profit for the year	–	–	–	472.7	–	**472.7**
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	9.8	**9.8**
Premium on issue of shares	9.1	–	–	–	–	**9.1**
Actuarial (losses) on retirement benefit schemes (net of tax)	–	–	–	(20.3)	–	**(20.3)**
Dividends to shareholders	–	–	–	(378.8)	–	**(378.8)**
At 31 March 2006	90.7	13.7	14.6	575.1	3.1	**697.2**
Profit for the year	–	–	–	415.8	–	**415.8**
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(14.0)	**(14.0)**
Premium on issue of shares	8.4	–	–	–	–	**8.4**
Actuarial gains on retirement benefit schemes (net of tax)	–	–	–	12.3	–	**12.3**
Dividends to shareholders	–	–	–	(411.3)	–	**(411.3)**
At 31 March 2007	**99.1**	**13.7**	**14.6**	**591.9**	**(10.9)**	**708.4**

The profit for the year attributable to shareholders dealt with in the financial statements of the Company was £415.8m (2006 – £472.7m). As allowed by section 230 of the Companies Act 1985, the Company has not presented its own income statement.

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

The equity reserve comprises the equity component of the Group's convertible bond (note 21).

26. RETIREMENT BENEFIT OBLIGATIONS

Defined benefit schemes
The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay. The schemes are subject to independent valuations at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters. The Company operates one of these schemes, being the Scottish Hydro-Electric scheme.

The Group also has an Employer Financed Retirement Benefit scheme and a Group Personal Pension Plan. The Group Personal Pension Plan operates on a money purchase basis and has been arranged with Friends Provident. The Company matches employee contributions up to a specified limit. In most circumstances this is set at 6%. The Company provides additional contributions of 3% after five and ten years' continuous Company service.

Pension summary:

	Scheme type	Net actuarial gain/(loss) recognised in respect of the pension asset in the SoRIE		Net pension (liability) / asset	
		2007 £m	2006 £m	**2007 £m**	2006 £m
Scottish Hydro Electric (Company)	Defined benefit	**17.6**	(29.0)	**128.1**	90.2
Southern Electric (incorporating KGL)	Defined benefit	**29.8**	14.9	**(220.0)**	(284.0)
		47.4	(14.1)	**(91.9)**	(193.8)

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric	Southern Electric	KGL
Latest formal actuarial valuation	31 March 2006	31 March 2004	31 March 2004
Valuation carried out by	Hymans Robertson	Hewitt, Bacon & Woodrow	Hewitt, Bacon & Woodrow
Value of assets based on valuation	£970.0m	£770.5m	£46.4m
Value of liabilities based on valuation	£942.0m	£1,046.0m	£60.1m
Valuation method adopted	Projected Unit	Projected Unit	Projected Unit
Average investment rate of return	4.9%	6.0%	6.5%
Average salary increase	5.3%	4.9%	3.9%
Average pension increase	3.0%	3.0%	2.8%
Value of fund assets/accrued benefits	103.0%	73.7%	77.2%

An actuarial valuation of the Southern Electric Pension Scheme (incorporating KGL) as at 31 March 2007 is currently in progress. All schemes have been updated to 31 March 2007 by qualified independent actuaries. The valuations have been prepared for the purposes of meeting the requirements of IAS 19. The major assumptions used by the actuaries were:

	At 31 March 2007	At 31 March 2006
Rate of increase in pensionable salaries	**4.6%**	4.4%
Rate of increase in pension payments	**3.1%**	2.9%
Discount rate	**5.4%**	4.9%
Inflation rate	**3.1%**	2.9%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2007 are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions equivalent to future longevity for members in normal health at age 65 are as follows:

	At 31 March 2007 Male	**At 31 March 2007 Female**	At 31 March 2006 Male	At 31 March 2006 Female
Currently aged 65	**21**	**23**	20	23
Currently aged 45	**22**	**24**	21	24

Valuation of combined Pension Schemes

	Consolidated				**Company**			
	Long-term rate of return expected at 31 March 2007 %	**Value at 31 March 2007 £m**	Long-term rate of return expected at 31 March 2006 %	Value at 31 March 2006 £m	**Long-term rate of return expected at 31 March 2007 %**	**Value at 31 March 2007 £m**	Long-term rate of return expected at 31 March 2006 %	Value at 31 March 2006 £m
Equities	**8.0**	**1,253.6**	7.7	1,258.5	**8.0**	**579.3**	7.7	645.2
Government bonds	**4.5**	**378.6**	4.2	321.8	**4.5**	**173.3**	4.2	115.7
Corporate bonds	**5.4**	**221.4**	4.9	211.4	**5.4**	**98.0**	4.9	88.9
Other investments	**5.7**	**256.8**	5.0	225.6	**5.7**	**139.6**	5.0	106.0
Total fair value of plan assets		**2,110.4**		2,017.3		**990.2**		955.8
Present value of defined benefit obligation		**(2,202.3)**		(2,211.1)		**(862.1)**		(865.6)
(Deficit)/surplus in the scheme		**(91.9)**		(193.8)		**128.1**		90.2
Deferred tax thereon		**27.6**		58.1		**(38.4)**		(27.1)
Net pension (liability)/asset		**(64.3)**		(135.7)		**89.7**		63.1

for the year ended 31 March 2007

26. RETIREMENT BENEFIT OBLIGATIONS continued

Movements in the defined benefit obligation during the year:

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
At 1 April	**(2,211.1)**	(1,878.9)	**(865.6)**	(686.9)
Movements in the year:				
Service costs	**(30.3)**	(22.9)	**(12.7)**	(8.0)
Member contributions	**(7.7)**	(7.7)	**(2.8)**	(2.8)
Benefits paid	**89.2**	86.1	**33.7**	32.6
Interest on pension scheme liabilities	**(107.2)**	(100.0)	**(42.0)**	(36.5)
Losses on curtailments	**–**	(0.6)	**–**	(0.2)
Actuarial gains/(losses)	**64.8**	(287.1)	**27.3**	(163.8)
At 31 March	**(2,202.3)**	(2.211.1)	**862.1**	(865.6)

Movements in scheme assets during the year:

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
At 1 April	**2,017.3**	1,651.3	**955.8**	785.8
Movements in the year:				
Expected return on pension scheme assets	**130.1**	115.7	**63.4**	55.8
Assets distributed on settlement	**(89.2)**	(86.1)	**(33.7)**	(32.6)
Employer contributions	**61.9**	55.7	**11.6**	9.2
Member contributions	**7.7**	7.7	**2.8**	2.8
Actuarial (losses)/gains	**(17.4)**	273.0	**(9.7)**	134.8
At 31 March	**2,110.4**	2,017.3	**990.2**	955.8

Charges/(credits) recognised:

	Consolidated 2007 £m	Consolidated 2006 £m	Company 2007 £m	Company 2006 £m
Current service cost (charged to operating profit)	**30.3**	22.9	**12.7**	8.0
Losses on curtailment (charged to restructuring provision)	**–**	0.6	**–**	0.2
	30.3	23.5	**12.7**	8.2
Charged/(credited) to finance costs:				
Expected return on pension scheme assets	**(130.1)**	(115.7)	**(63.4)**	(55.8)
Interest on pension scheme liabilities	**107.2**	100.0	**42.0**	36.5
	(22.9)	(15.7)	**(21.4)**	(19.3)

History of experience gains and losses

	Consolidated 2007 £m	Consolidated 2006 £m	Consolidated 2005 £m	Company 2007 £m	Company 2006 £m	Company 2005 £m
Total actuarial gains and (losses) in the Statement of Recognised Income and Expense before adjustment for taxation	**47.4**	(14.1)	(18.3)	**17.6**	(29.0)	6.2
Experience gains and losses on scheme liabilities	**(40.0)**	(123.3)	(38.0)	**–**	–	–

Defined contribution scheme
The total contribution paid by the Group to defined contribution schemes was £4.0m (2006 – £2.3m).

Employer financed retirement benefit (EFRB) pension costs
The provision made in the year for EFRB was £1.1m (2006 – £2.6m). This is included in other provisions (note 23).

Staff costs analysis
The pension costs in note 5 can be analysed thus:

	2007 £m	2006 £m
Service costs	**30.3**	22.9
Defined contribution scheme payments	**4.0**	2.3
	34.3	25.2

Expected contribution in the year to 31 March 2008

The Group expects to make contributions of £13.5m and £51.6m to the Scottish Hydro Electric Pension Scheme and the Southern Electric Pension Scheme in the year to 31 March 2008, respectively.

27. EMPLOYEE SHARE-BASED PAYMENTS

The Scottish and Southern Energy Group operates a number of share schemes for the benefit of its employees. Details of these schemes, all of which are equity settled, are as follows:

(i) Discretionary share option scheme
In the past, the Company operated this scheme, under which senior executives and staff were awarded share options. The options granted to the senior executives from 1996 were subject to the performance criterion of normalised earnings per share over a three year period showing average compound annual growth rate of at least 2% above the increase in the UK retail price index for that year. This criterion was met and any remaining discretionary share options are now exercisable. This scheme has now ended and no options have been granted under this scheme since 1998.

(ii) Savings-related share option schemes ('Sharesave')
This scheme gives employees the option to purchase shares in the Company at a discounted market price, subject to the employees remaining in employment for the term of the agreement. Employees may opt to save between £5 and £250 per month for a period of 3 or 5 years. At the end of this period, the employees have six months to exercise their options by using the cash saved (including a bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

(iii) Share Incentive Plan (SIP)
This scheme allows employees the opportunity to purchase shares in the Company on a monthly basis. Employees may nominate an amount between £10 and £125 to be deducted from their gross salary. This is then used to purchase shares ('Partnership' shares) in the market on the final business day of each month. These shares are then held in trust for a period of 5 years, at which point they are transferred at no further cost to the employee. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would then be payable on any amounts withdrawn.

In addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 5 shares ('Matching' shares) per month. Again these shares are held in trust for the five years until they are transferred to the employee. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited.

In addition to the above, at 31 March 2005 the company made a special award of 50 free shares to all employees in employment at both 31 March and 20 August 2005 in recognition of their contribution to the success of the company. Under the arrangements for the award, the shares will be held in trust for five years, at which point they will be transferred to the employees at no cost to the employee. These shares may be withdrawn at any point during years four and five, but tax and national insurance would then be payable on any amounts withdrawn.

(iv) Deferred bonus scheme
This scheme applied to senior managers and executive directors. Those eligible were awarded an amount equal to their cash bonus for the period which was adjusted by a multiplier of between 0.7 and 1.35 depending on three factors, namely: relative performance in terms of Total Shareholder Return (TSR) over a three year period compared to the FTSE100; safety; and relative performance in terms of customer complaints (as recorded by energywatch). This amount was then used to purchase shares in the market which are held in trust on behalf of the employee for a period of three years, at which point the employee is entitled to exercise the award. In addition to shares purchased using the adjusted bonus award, additional shares will also be purchased using any dividends received on the shares held by the trust. If the employee resigns, they lose all outstanding awards.

27. EMPLOYEE SHARE-BASED PAYMENTS continued

(v) Performance Share Plan

Following approval at the AGM on 27 July 2006, this new share scheme has been introduced. This scheme applies to executive directors and senior executives. Those eligible are awarded a maximum value of share awards of 100% of base salary. These awards will vest after three years to the extent that certain performance conditions are met. These performance conditions are as follows: 50% of the award is subject to a Total Shareholder Return (TSR) target relative to other FTSE100 companies over the performance period, with full vesting if the Company is above the 75th percentile and 30% vesting if the Company is at the median, with pro rata vesting between the median and 75th percentile and subject to the Remuneration Committee being satisfied on the underlying financial performance; the remaining 50% of the award is subject to an Earnings Per Share (EPS) growth target with full vesting occurring if adjusted EPS is 8% above RPI per annum and 30% vesting if adjusted EPS is 3% above RPI per annum with pro rata vesting between 3% and 8% above RPI. There will be no vesting of the relevant portion of the award if the TSR minimum target is not met or the minimum EPS growth target is not achieved.

As allowed by IFRS 2, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been included.

A charge of £6.8M (2006 – £4.0M) was recognised in the Income Statement in relation to these schemes.

Details used in the calculation of the costs of these schemes are as follows:

(i) Discretionary share option scheme

Date of grant	**Number at 31 March 2007**	Price (pence)	Date from which exercisable	Expiry date
July 1998	**140,300**	547	July 2001	July 2008

No additional costs were expensed in relation to this scheme as no options have been granted after 7 November 2002.

(ii) Savings-related share option scheme

Grant date	25 July 2003		16 July 2004		14 July 2005		11 July 2006	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Consolidated								
Outstanding at the start of the year								
Shares	**1,469,934**	1,535,702	**908,043**	951,823	**1,631,394**	–	**–**	–
Price	**562**	562	**622**	622	**886**	–	**–**	–
Granted								
Shares	**–**	–	**–**	–	**–**	1,678,450	**1,107,199**	–
Price	**–**	–	**–**	–	**–**	886	**999**	–
Forfeited								
Shares	**(36,183)**	(59,602)	**(36,652)**	(42,932)	**(85,277)**	(46,961)	**(21,202)**	–
Price	**562**	562	**622**	622	**886**	886	**999**	–
Exercised								
Shares	**(628,581)**	(6,166)	**(13,703)**	(848)	**(8,954)**	(95)	**(10)**	–
Price	**1,330**	998	**1,248**	986	**1,273**	1,001	**1,523**	–
Outstanding at the end of the year								
Shares	**805,170**	1,469,934	**857,688**	908,043	**1,537,213**	1,631,394	**1,085,987**	–
Price	**562**	562	**622**	622	**886**	886	**999**	–
Exercisable at the end of the year								
Shares	**3,169**	–	**–**	–	**–**	–	**–**	–
Price	**562**	–	**–**	–	**–**	–	**–**	–

Grant date	25 July 2003		16 July 2004		14 July 2005		11 July 2006	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Company								
Outstanding at the start of the year								
Shares	**1,700**	1,700	**2,287**	2,287	**3,655**	–	**–**	–
Price	**562**	562	**622**	622	**886**	–	**–**	–
Granted								
Shares	**–**	–	**–**	–	**–**	3,655	**–**	–
Price	**–**	–	**–**	–	**–**	886	**–**	–
Outstanding at the end of the year								
Shares	**1,700**	1,700	**2,287**	2,287	**3,655**	3,655	**–**	–
Price	**562**	562	**622**	622	**886**	886	**–**	–

No options were forfeited or exercised in the year. Of the outstanding options at the end of the year, none were exercisable.

The fair value of these shares at vesting, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

	July 2003		July 2004		July 2005		July 2006	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Price	659p	667p	730p	739p	1,012p	1,023p	1,216p	1,226p
Expected volatility	17%	17%	17%	17%	15%	15%	19%	19%
Risk free rate	4.7%	4.8%	4.7%	4.8%	4.1%	4.2%	4.7%	4.7%
Expected dividends	4.6%	4.6%	4.6%	4.6%	4.2%	4.2%	4.8%	4.8%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	630p	630p	699p	699p	967p	967p	1,180p	1,180p
Strike price	562p	562p	622p	622p	886p	886p	999p	999p

Expected price volatility was determined by calculating the historical volatility of the Group's share price over the previous 12 months. Benefits under other schemes are not subject to valuation using the Black-Scholes model.

In addition to the sharesave schemes detailed above, at 31 March 2007 there were outstanding options under the 2001 sharesave issue. Since the shares under this scheme were granted prior to 7 November 2002, they have not been included as permitted by the transitional rules under IFRS 1. However, at 31 March 2007, the outstanding options are as follows:

Date of grant	**Number at 31 March 2007**	Price (pence)	Date from which exercisable	Expiry date
October 2001	**12,095**	566	December 2006	May 2007

27. EMPLOYEE SHARE-BASED PAYMENTS continued

(iii) Share Incentive Plan

	Consolidated 2007 Shares	Consolidated 2007 Weighted average price (pence)	Consolidated 2006 Shares	Consolidated 2006 Weighted average price (pence)	Company 2007 Shares	Company 2007 Weighted average price (pence)	Company 2006 Shares	Company 2006 Weighted average price (pence)
Outstanding at start of year	**527,237**	**874**	290,258	729	**700**	**832**	460	731
Granted during the year	**263,772**	**1,330**	255,993	1,028	**240**	**1,332**	240	1,025
Forfeited during the year	**(20,413)**	**874**	(13,958)	729	**–**	**–**	–	–
Exercised during the year	**(19,625)**	**1,251**	(5,056)	1,066	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–	**–**	**–**	–	–
Outstanding at end of year	**750,971**	**1,034**	527,237	874	**940**	**959**	700	832
Exercisable at end of year	**117,834**	**632**	–	–	**240**	**632**	–	–

Shares purchased under this scheme prior to 7 November 2002 have not been included as permitted by the transitional rules under IFRS 1.

Free shares

	Consolidated 2007 Shares	Consolidated 2007 Weighted average price (pence)	Consolidated 2006 Shares	Consolidated 2006 Weighted average price (pence)	Company 2007 Shares	Company 2007 Weighted average price (pence)	Company 2006 Shares	Company 2006 Weighted average price (pence)
Outstanding at start of year	**477,450**	**965**	–	–	**200**	**965**	–	–
Granted during the year	**–**	**–**	502,550	965	**–**	**–**	200	965
Forfeited during the year	**(22,300)**	**965**	(20,000)	965	**–**	**–**	–	–
Exercised during the year	**(21,850)**	**1,218**	(5,100)	1,073	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–	**–**	**–**	–	–
Outstanding at end of year	**433,300**	**965**	477,450	965	**200**	**965**	200	965

Of the outstanding shares at the end of the year, none were realisable.

(iv) Deferred bonus scheme

	Consolidated 2007 Shares	Consolidated 2007 Price (pence)	Consolidated 2006 Shares	Consolidated 2006 Price (pence)	Company 2007 Shares	Company 2007 Price (pence)	Company 2006 Shares	Company 2006 Price (pence)
Outstanding at start of year	**525,395**	**860**	406,219	660	**266,135**	**784**	207,185	657
Granted during the year	**244,423**	**1,146**	181,780	1,009	**126,149**	**1,146**	95,958	1,009
Forfeited during the year	**–**	**–**	(3,816)	1,061	**–**	**–**	–	–
Exercised during the year	**(169,788)**	**1,180**	(58,788)	988	**(67,137)**	**1,142**	(37,008)	989
Expired during the year	**–**	**–**	–	–	**–**	**–**	–	–
Outstanding at end of year	**600,030**	**976**	525,395	860	**325,147**	**924**	266,135	784
Exercisable at end of year	**33,727**	**626**	–	–	**19,116**	**626**	–	–

(v) Performance Share Plan

	Consolidated 2007 Shares	Consolidated 2007 Price (pence)	Consolidated 2006 Shares	Consolidated 2006 Price (pence)	Company 2007 Shares	Company 2007 Price (pence)	Company 2006 Shares	Company 2006 Price (pence)
Outstanding at start of year	**–**	**–**	–	–	**–**	**–**	–	–
Granted during the year	**256,554**	**1,220**	–	–	**151,351**	**1,220**	–	–
Forfeited during the year	**–**	**–**	–	–	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–	**–**	**–**	–	–
Outstanding at end of year	**256,554**	**1,220**	–	–	**151,351**	**1,220**	–	–

Of the outstanding options at the end of the year, none were exercisable.

28. FINANCIAL INSTRUMENTS

The Group and Company adopted IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement from 1 April 2005.

Exposure to commodity price and volume risk, counterparty credit risk, interest rate risk, currency risk and liquidity risk arises in the normal course of the Group's business. Derivative financial instruments are entered into to hedge exposure to risk. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below. The Risk Committee, a standing committee of the Board comprising three executive directors and senior managers from the Generation and Supply and Finance functions, oversees the control of these activities. This committee is discussed further in the Directors Report.

The Group's Treasury function is responsible for managing the banking and liquidity requirements of the Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Risk Committee and Audit Committee.

(i) Risk

Counterparty credit risk and liquidity risk
Credit risk arising from the Group's normal commercial operations is controlled by individual business units operating in accordance with group policies and procedures. Generally, individual business units enter into contracts or agreements with counterparties having investment grade credit ratings only, or where suitable collateral or other security has been provided. Counterparty credit validation is undertaken prior to contractual commitment.

Credit risk management for the Group's regulated businesses is performed in accordance with industry standards as set out by the Regulator and is controlled by the individual business units. The Group's greatest credit risks lie with the non-regulated operations of the Generation and Supply business and the activities carried out by the Group's Treasury function, for which specific credit risk controls that match the risk profile of those activities, are applied.

Liquidity risk, the risk that the Group will have insufficient funds to meet liabilities, is managed by the Group's Treasury function.

Generation and Supply
Exposure to credit risk in the supply of electricity and gas arises from the potential of a customer defaulting on their invoiced payables. The financial strength and creditworthiness of business customers is assessed before commencing, and during, their contract of supply. Domestic customers' creditworthiness is reviewed from a variety of internal and external information.

Exposure to credit risk in the procurement of wholesale energy and fuel is managed by reference to agreed transaction credit limits which are determined by whether the counterparty:

i) holds an investment grade credit rating; or
ii) can be assessed as adequately credit worthy in accordance with internal credit rules using information from other external credit agencies; or
iii) can provide a guarantee from an investment grade rated entity or post suitable collateral or provide other acceptable assurances in accordance with group procedures where they have failed to meet the above conditions; or
iv) can be allocated a non-standard credit limit approved by the Risk Committee within its authorised limits as delegated by the Group Board.

Credit support clauses or side agreements are typically included or entered into to protect the Group against counterparty failure or non-delivery. Within the Generation and Supply business, increasing volumes of commodity derivative products are now traded through cleared exchanges to further mitigate credit risk. Such exchanges are subject to strict regulation by the UK Financial Services Authority (FSA) and participants in these exchanges are obliged to meet rigorous capital adequacy requirements.

Individual counterparty credit exposures are monitored by category of credit risk and are subject to approved limits. At 31 March 2007, the Group had pledged £90m (2006 – £100m) of cash collateral and letters of credit and had received £696m (2006 – £660m) of cash collateral and letters of credit principally to reduce exposures on commodity price risk.

Treasury
In relation to the Group's liquidity risk, the Group's relationship banks (defined as those banks who support the company's financing activities through their ongoing participation in the committed lending facilities that are maintained by the Group), are each allocated financial limits, subject to the maintenance of a minimum credit rating of "A" or equivalent allocated by a recognised major ratings group. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria.

Bank credit exposures, which are monitored and reported on daily, are calculated on a mark-to-market basis and are adjusted for future volatility and probability of default. Any issues relating to these credit exposures are presented for discussion and review by the Risk Committee.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

28. FINANCIAL INSTRUMENTS continued

Energy commodity price risk

The Group's Generation and Supply business faces exposure to energy commodity price movements as part of its normal course of business. This arises from the Group's requirement to source gas or electricity to supply customers, or to procure fuel to produce electricity from its generation assets.

The Group's strategy is to mitigate the economic risks associated with this exposure through a selection of term contracts and the flexibility of its portfolio of generation assets. Within these parameters, the Group procures gas, electricity and fuel through longer term contracts (including forwards, futures contracts and financial instruments) which will reduce the volume required to be procured in the short-term market. Short-term demand management is commented upon in Energy Volume Risk, below. In addition to the procurement of commodities, the Group can choose to manage this exposure through strategic decision making in the retail market or through managing the output of its generation plant beyond the level currently committed to cover customer demand. Commodity contracts entered into are done so primarily for own use or hedging purposes. A number of contracts do not qualify for own use or hedge accounting under IAS 39 and are therefore subject to fair value measurement through the income statement.

The resulting energy commodity price risk is quantified by the use of a Value at Risk (VaR) model which considers exposures in all commodities and provides an estimate of the potential change to the Groups forecast profits over a given period and to a given confidence level. The calculated financial risk is controlled through the imposition of a number of risk limits approved by the Risk Committee.

Energy volume risk

Inherently linked to the Group's energy commodity price risk is the Group's energy volume risk. This risk, which is predominately short term, arises from the requirement to match volumes of procured gas, electricity and power station fuel with demand for gas and electricity by its customers, which can vary from expectations and result in a requirement to close the resulting positions at unfavourable prices. This risk is managed through the ability to increase or decrease energy production either in the form of flexible purchase contracts (which are marked-to-market) or assets such as pumped storage generating plant, flexible hydro generating plant, standby oil plant and gas storage.

Again, the Group has assessed its portfolio of sources of production and supply and has been able to identify contracts which are held for own use (which are not accounted for as financial derivatives) and those which are held to manage commodity price and volume risk. Certain physical contracts are treated as the hedging instrument in documented cash flow hedging relationships where the hedged item is the forecast future purchase requirement to meet production or customer demand.

Currency risk

In addition to spot purchases of foreign currency, the Group uses forward contracts, swaps and options to manage its exposures to foreign exchange risk. All such exposures are transactional in nature, and relate primarily to procurement contracts, commodity purchasing and related freight requirements, commodity hedging, long term plant servicing and maintenance agreements, and the purchase and sale of carbon emission certificates. Significant exposures are reported to, and discussed by, the Risk Committee on an ongoing basis and additionally form part of the bi-annual Treasury report to the Audit Committee.

At the balance sheet date, the total nominal value of outstanding forward foreign exchange contracts that the Group has committed to is:

	2007 £m	2006 £m
Forward foreign exchange contracts	**677.7**	777.1

The Group has no subsidiaries outside the UK and therefore has minimal exposure to currency translation risk arising from operations outside the UK.

Interest rate risk

Interest rate risk derives from the Group's exposure to changes in value of an asset or liability or future cash flows through changes in interest rates.

The Group's policy is to manage this risk by stipulating that a minimum of 50% of Group borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than sterling, cross currency swaps.

Although interest rate derivatives are primarily used to hedge risk relating to current borrowings, under certain circumstances they may also be used to hedge future borrowings. Any such pre-hedging is unwound at the time of pricing the underlying debt, either through cash settlement on a net present value basis or by transacting offsetting trades. The floating rate borrowings mainly comprise commercial paper issued at interest rates less than LIBOR and cash advances from the European Investment Bank (EIB).

(i) Risk continued

Effective interest rate analysis

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates as at the balance sheet date and the periods in which they re-price or mature:

At 31 March 2007

	Effective interest rate %	Total £m	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Cash and cash equivalents	**4.98**	**(36.6)**	(36.6)	–	–	–
Bank overdrafts	**6.25**	**7.7**	7.7	–	–	–
Long term bonds	**5.44**	**1,136.5**	61.5	–	–	1,075.0
Other bank loans – fixed	**6.24**	**316.7**	46.4	23.3	91.4	155.6
Other bank loans – floating	**5.46**	**501.0**	351.0	–	100.0	50.0
Interest rate swaps – fixed	**5.97**	**310.0**	–	25.0	50.0	235.0
Interest rate swaps – floating	**4.59**	**200.0**	200.0	–	–	–
Convertible debt	**3.75**	**300.0**	–	–	300.0	–
Finance lease obligations	**8.00**	**1.1**	0.5	0.2	0.2	0.2
Non-recourse borrowings	**6.19**	**48.4**	9.2	9.2	27.1	2.9

(ii) Fair values

The fair values of the Group's financial assets and financial derivatives and the carrying amounts in the Group's consolidated balance sheet are analysed below. Balances included in the analysis of primary financial assets and liabilities include cash and cash equivalents, loans and borrowings, trade and other receivables, trade and other payables and provisions, all of which are disclosed separately. Own use commodity contracts are not considered to be financial instruments.

Summary fair values

The fair values of the primary financial assets and liabilities together with their carrying values are as follows:

	2007 Carrying value £m	2007 Fair value £m	2006 Carrying value £m	2006 Fair value £m
Financial assets				
Trade and other receivables	**1,861.4**	**1,861.4**	1,662.9	1,662.9
Cash and cash equivalents	**17.5**	**17.5**	17.6	17.6
Other financial assets (i)	**38.6**	**38.6**	15.3	15.3
Financial liabilities				
Trade and other payables	**(2,261.0)**	**(2,261.0)**	(2,231.3)	(2,231.3)
Provisions	**(112.4)**	**(112.4)**	(81.8)	(81.8)
Bank loans and overdrafts (ii)	**(824.0)**	**(827.8)**	(726.8)	(747.7)
Long-term bonds (iii)	**(1,120.2)**	**(1,106.7)**	(1,180.5)	(1,232.0)
Convertible bond (iii)	**(284.9)**	**(515.0)**	(280.8)	(389.4)
Non-recourse borrowings	**(48.4)**	**(48.4)**	(26.2)	(26.2)
Obligations under Finance Leases	**(1.1)**	**(1.1)**	(1.6)	(1.6)

The fair values of the primary financial assets and liabilities of the Company together with their carrying values are as follows:

	2007 Carrying value £m	2007 Fair value £m	2006 Carrying value £m	2006 Fair value £m
Financial assets				
Trade and other receivables	**28.8**	**28.8**	3.3	3.3
Cash and cash equivalents	**2.5**	**2.5**	15.3	15.3
Other financial assets (i)	**3.3**	**3.3**	10.4	10.4
Financial liabilities				
Trade and other payables	**(3.7)**	**(3.7)**	(3.6)	(3.6)
Bank loans and overdrafts (ii)	**(349.5)**	**(349.5)**	(234.9)	(234.9)
Long-term bonds (iii)	**(295.7)**	**(307.0)**	(441.3)	(479.6)
Convertible bond (iii)	**(284.9)**	**(515.0)**	(280.8)	(389.4)

(i) Represents carrying value of equity in unlisted investments.
(ii) Fair value of bank loans and overdrafts is equivalent to carrying value due to short-term maturity.
(iii) Fair values have been determined with reference to closing market prices.

Unless otherwise stated, carrying value approximates fair value.

Notes on the Financial Statements continued

for the year ended 31 March 2007

28. FINANCIAL INSTRUMENTS continued

Financial derivative instruments – disclosure

For financial reporting purposes, the Group has classified derivative financial instruments into two categories, operating derivatives and financing derivatives. Operating derivatives include all qualifying commodity contracts including those for electricity, gas, oil, coal and carbon. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market), interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted (MTM) foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

The net movement reflected in the Income Statement can be summarised thus:

	2007 £m	2006 £m
Operating derivatives		
Total result on operating derivatives (i)	**(134.5)**	176.1
Less: amounts settled (ii)	**195.8**	(190.5)
Movement in unrealised derivatives	**61.3**	(14.4)
Financing derivatives (and hedged items)		
Total result on operating derivatives (i)	**(117.7)**	(47.3)
Less: amounts settled (ii)	**107.1**	3.8
Movement in unrealised derivatives	**(10.6)**	(43.5)
Total	**50.7**	(57.9)

(i) Total result on derivatives in the income statement represents the total amounts (charged) or credited to the income statement in respect of operating and financial derivatives.

(ii) Amounts settled in the year represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

The net financial assets/(liabilities) have been offset in this note. The following is an analysis of these items for financial reporting purposes.

	Consolidated		Company	
	2007 £m	2006 restated £m	2007 £m	2006 £m
Financial assets				
Non-current	**54.5**	34.4	**–**	–
Current	**452.9**	287.2	**–**	–
	507.4	321.6	**–**	–
Financial liabilities				
Non-current	**(120.9)**	(71.3)	**(44.9)**	(20.9)
Current	**(351.9)**	(205.2)	**–**	–
	(472.8)	(276.5)	**(44.9)**	(20.9)
Loans (note 21)	**10.4**	1.4	**–**	–
	45.0	46.5	**(44.9)**	(20.9)

Basis of determining fair value

Closing rate market values have been used to determine the fair values of the interest rate and foreign currency contracts and denominated long-term fixed rate debt. Commodity contracts fair values are based on published price quotations where liquid markets exist and on future price forecasts where markets are illiquid. The estimates applied reflect the management's best estimates of these factors.

29. RELATED PARTY TRANSACTIONS
The following transactions took place during the year between the Group and entities which are related to the Group but which are not members of the Group. Related parties are defined as those in which the Group has control, joint control or significant influence over.

	Sale of goods and services 2007 £m	Purchase of goods and services 2007 £m	Other transactions 2007 £m	Sale of goods and services 2006 £m	Purchase of goods and services 2006 £m	Other transactions 2006 £m
Jointly controlled entities:						
Seabank Power Limited	8.9	(113.4)	29.8	19.9	(70.9)	17.9
PriDE (South East Regional Prime) Limited	26.2	–	–	19.2	–	0.1
Scotia Gas Networks plc	68.7	(80.3)	9.6	52.3	(62.1)	30.3
Marchwood Power Limited	–	–	2.1	–	–	–
Associates:						
Scottish Electricity Settlements Limited	–	–	–	0.1	(0.2)	0.5
Barking Power Limited	11.6	(139.6)	–	–	(125.9)	–
Derwent Co-generation Limited	45.7	(68.2)	–	32.5	(68.5)	–

The transactions with Seabank Power Limited, Barking Power Limited and Derwent Co-generation Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. PriDE (South East Regional Prime) Limited operates a long-term contract with Defence Estates for management of MoD facilities in the South East of England. All operational activities are sub-contracted to the ventures partners including Southern Electric Contracting Limited. Scotia Gas Networks plc has operated the gas distribution networks in Scotland and the South of England from 1 June 2005. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services, stock procurement services and the provision of the capital expenditure on the development of front office management information systems. Scottish Electricity Settlements Limited previously operated the settlement systems for the Scottish electricity market prior to the opening of BETTA and the other transactions represent the interest paid on the loans provided to the company. Sales of goods to related parties were made at an arms length price. The transactions with Marchwood Power Limited relate to fees and loan interest.

The balances outstanding with related parties at 31 March were as follows:

	Amounts owed by related parties 2007 £m	Amounts owed by related parties 2006 £m	Amounts owed to related parties 2007 £m	Amounts owed to related parties 2006 £m
Consolidated				
Jointly controlled entities:				
Seabank Power Limited	93.7	133.8	32.5	36.2
PriDE (South East Regional Prime) Limited	3.8	6.5	–	–
Scotia Gas Networks plc	305.0	299.8	0.6	0.3
Marchwood Power Limited	22.3	–	–	–
Associates:				
Barking Power Limited	–	3.8	6.7	13.2
Derwent Co-generation Limited	2.0	0.6	6.9	8.0

The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties. Aggregate capital loans to jointly controlled entities and associates are shown in note 12.

Notes on the Financial Statements continued

for the year ended 31 March 2007

29. RELATED PARTY TRANSACTIONS continued

During the year, the Company entered into the following transactions with its subsidiaries (note 14):

	2007 £m	2006 £m
Company		
Loans granted to subsidiaries	–	–
Loans repaid by subsidiaries	–	425.0
Interest charged to subsidiaries	64.7	86.6
Sale of goods	–	–
Purchase of goods	–	–
Balances outstanding at 31 March:		
Loan balances outstanding at the year end	858.1	858.1

Remuneration of key management personnel

The remuneration of the executive directors, who are the key management personnel of the Group, is set out below in aggregate.

	2007 £m	2006 £m
Short-term employment benefits	3.4	2.9

In addition, the key management personnel receive share based remuneration, details of which are found at note 27. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report. The key management personnel are employed by the Company.

Information regarding transactions with post-retirement benefit plans is included in note 26.

30. COMMITMENTS AND CONTINGENCIES

i. Capital commitments

	2007 £m	2006 £m
Capital expenditure:		
Contracted for but not provided	450.8	637.1

ii. Operating lease commitments

a) Leases as lessee:

	2007 £m	2006 £m
Minimum lease payments	169.2	166.7
Other Power Purchase Agreement capacity charges	61.2	14.4
Other lease payments	5.4	4.7
	235.8	185.8

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007 £m	2006 £m
Power purchase agreements		
Within one year	**159.5**	158.4
In second to fifth years inclusive	**345.9**	479.6
After five years	**30.0**	67.8
	535.4	705.8
Other leases		
Within one year	**13.8**	8.3
In second to fifth years inclusive	**21.9**	16.5
After five years	**26.2**	28.5
	61.9	53.3
Total		
Within one year	**173.3**	166.7
In second to fifth years inclusive	**367.8**	496.1
After five years	**56.2**	96.3
	597.3	759.1

The average lease is over 12 years.

Included in the above operating leases are obligations under power purchase agreements with various power generating companies including certain related parties (note 29). Each arrangement was assessed in accordance with IFRIC 4 Determining whether an Arrangement contains a Lease and IAS 17 Leases and while all were deemed to meet the definition of a lease, none were deemed to qualify as finance leases.

b) Leases as lessor:
The Group leases out a number of combined heat and power plants under operating leases. The leases typically run for a period of 15 years, with an average of 10 years to run, with an option to renew the lease after that date. None of the leases include contingent rentals.

The Group leases out certain plant, property and equipment under leases, which have been reassessed as finance leases. The future minimum lease payments under non-cancellable leases are as follows:

	2007 £m	2006 £m
Within one year	**0.3**	0.3
In second to fifth years inclusive	**1.0**	1.0
After five years	**1.0**	1.2
	2.3	2.5

During the year ended 31 March 2007 £0.3m was recognised as rental income in the income statement (2006 – £0.3m). Lease payments are straight line over the term of the lease.

The Company has no operating lease commitments as either a lessee or a lessor.

Notes on the Financial Statements continued

for the year ended 31 March 2007

30. COMMITMENTS AND CONTINGENCIES continued

iii. Guarantees and indemnities

Scottish and Southern Energy plc has provided guarantees on behalf of subsidiary and associated undertakings as follows:

	2007 £m	2006 £m
Bank borrowing	**50.0**	63.6
Performance of contracts	**379.9**	370.6
Purchase of gas	**120.5**	120.5

In addition, unlimited guarantees have been provided on behalf of subsidiary undertakings in relation to four contracts in respect of performance of work and any liabilities arising. Southern Electric Power Distribution plc and the Company have provided guarantees to the Southern Group of the ESPS in respect of the funding required by the scheme.

The Company has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company does not expect the amendments to have any impact on the financial statements.

31. ANALYSIS OF NET DEBT

	At 1 April 2006 £m	Decrease in cash and cash equivalents £m	(Increase)/ decrease in debt £m	At 31 March 2007 £m
Cash and cash equivalents (note 17)	49.9	6.2	–	**56.1**
Bank overdraft (i)	(6.1)	(1.6)	–	**(7.7)**
	43.8	4.6	–	**48.4**
Loans and borrowings (ii)	(2,214.7)	–	(73.2)	**(2,287.9)**
Finance lease creditors (note 21)	(1.6)	–	0.5	**(1.1)**
Bank overdrafts (i)	6.1	–	1.6	**7.7**
	(2,210.2)	–	(71.1)	**(2,281.3)**
Net debt	**(2,166.4)**	**4.6**	**(71.1)**	**(2,232.9)**

(i) Bank overdrafts are reported on the balance sheet as part of current loans and borrowings. For cash flow purposes, these have been included as cash and cash equivalents.

(ii) Loans and borrowings are adjusted for £10.4m (2006 – £1.4m) of fair value adjustments to borrowings (note 21).

32. POST BALANCE SHEET EVENTS

It has been announced that the corporation tax rate applicable to the Group companies is expected to change from 30% to 28% from 1 April 2008. The deferred tax asset and liability have been calculated at 30% in accordance with IAS 12. Any temporary differences which reverse before before 1 April 2008 will be (charged) or relieved at 30% and any temporary differences which exist at 1 April 2008 will reverse at 28%. The Group expects that there will be a credit to the income statement in the subsequent financial year in the region of £60.0m.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the EIGHTEENTH ANNUAL GENERAL MEETING of Scottish and Southern Energy plc will be held at the Perth Concert Hall, Mill Street, Perth, PH1 5HZ on Thursday, 26 July 2007 at 12 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions, of which resolutions 1 to 10 and 13-14 will be proposed as ordinary resolutions, and resolutions 11 and 12 will be proposed as special resolutions:

Resolution 1
to receive the Financial Statements and the Reports of the Directors and the auditors for the financial year ended 31 March 2007.

Resolution 2
to approve the Remuneration Report of the Board for the financial year ended 31 March 2007.

Resolution 3
to declare a final dividend for the year ended 31 March 2007 of 39.9 pence per ordinary share.

Resolution 4
to elect Nick Baldwin as a Director of the company.

Resolution 5
to elect Richard Gillingwater as a Director of the company.

Resolution 6
to re-elect Alistair Phillips-Davies as a Director of the company.

Resolution 7
to re-elect Sir Kevin Smith as a Director of the company.

Resolution 8
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 Financial Statements are laid before the company.

Resolution 9
that the Directors be authorised to determine the auditor's 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 £143,668,653 provided that this authority shall expire on the conclusion of the next Annual General Meeting of the company after the passing of this resolution unless previously renewed, varied or revoked by the company in general meeting 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 above 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 above 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 £21,550,298;

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 'subject to the passing of resolution 10 above' and 'pursuant to the authority conferred by resolution 10 above' 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 86,201,192 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.

Resolution 13
that the company may send or supply documents or information to members by making them available on a website.

Resolution 14
that the limit on the maximum potential value of awards which may be granted in any financial year to an executive under rule 3.5 of the Scottish and Southern Energy plc Performance Share Plan be increased from 100% of base salary to 150% of base salary.

By order of the Board

Vincent Donnelly
Company Secretary
30 May 2007

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

Notes and Information on Resolutions

1. Only holders of ordinary shares on the register at 11.00pm on 24 July 2007 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 24 July 2007.

   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 11.45am 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; and

(iii) The Performance Share Plan Rules

3. Information on resolutions 1 to 9 is detailed below.

Resolution 1
The Audited Accounts are set out on pages 51 to 99.

Resolution 2
The Remuneration Report is set out on pages 44 to 49.

Resolution 3
Details of the total dividend for the year are set out in the Directors' Report on pages 36 and 37.

Resolutions 4, 5, 6 and 7
Directors' biographical details are set out on pages 42 and 43; information on the Directors seeking re-election is set out on page 36.

Resolution 8
Details of the audit and non-audit fees charged by KPMG Audit Plc are set out in note 3 to the Audited Accounts.

Resolution 9
The resolution seeks authority for the Directors to fix the auditor's remuneration.

4. Authority to Allot Shares – **Resolution 10**.

   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 £143,668,653 representing one-third of the issued share capital as at 30 May 2007, the latest practicable date before the printing of the Notice of Meeting. This authority was last renewed at the Annual General Meeting in 2006. The authority, if renewed, will terminate at the conclusion of the 2008 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 pre-emption disapplication contained in resolution 11. The authority is in line with current institutional shareholder guidelines.

5. Disapplication of Pre-emption Rights – **Special Resolution 11**.

   Resolution 11 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 2006, 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 £21,550,298 nominal 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 resolution 12 for further details.

6. Purchase of Own Shares and Treasury Shares – **Special Resolution 12**.

   In certain circumstances it may be advantageous for the company to purchase its own ordinary shares, and resolution 12 will, if approved, renew the company's authority from shareholders to make such purchases until the Annual General Meeting in 2008 or 24 October 2008 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 5.3 million ordinary shares, representing 0.61% of the issued share capital; if the authority given by resolution 12 were to be fully used, these options would represent 0.68% 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. Shares held in treasury may subsequently be sold for cash (within the limit of the shareholder pre-emption disapplication contained in resolution 11), 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.

7. Electronic Communications – **Resolution 13**.

Resolution 13 will, if passed, give approval for the company to communicate with shareholders via the company's website. The Companies Act 2006 "the 2006 Act" contains new provisions facilitating communications between companies and their shareholders in electronic form and by means of a website. To implement the powers granted under the resolution, the company must write to shareholders asking them individually if they would prefer information in printed format or via the company's website. If a shareholder fails to respond within 28 days, the company can assume that the shareholder agrees to website communications. This default position goes beyond the previous legislation, under which a shareholder had to opt positively for communication in electronic form. The introduction of the new provisions has no effect on shareholders who have opted for electronic communication under the previous legislation. Shareholders who have agreed, or been deemed to have agreed, to website communication will be notified by e-mail or hard copy that a document has been posted for viewing on the company's website. If a shareholder fails to respond, and is taken to agree to website communications, he or she can ask for a hard copy of any document from the company at any time. The Company will then send the document free of charge within 21 days of receiving the request. Shareholders may revoke their consent (or deemed consent) to website communication at any time.

In the event that Resolution 13 is passed and the company decides to progress this initiative, shareholders will be contacted in writing, and invited individually to agree to website communication. The invitation will set out the options for shareholders and the procedures involved. Shareholders who sign up for electronic communications can help the environment and will in future be notified by email that a document has been posted for viewing on the company's website. Shareholders who do not provide an electronic address will need to be notified in paper form.

The company intends to undertake a full review of its Articles of Association next year to take account of all new changes under the 2006 Act. However, the passing of this resolution would allow the company to take advantage of the significant early environmental and administrative benefits that have so far been implemented by the 2006 Act provisions.

8. Proposed amendment to the Scottish and Southern Energy plc Performance Share Plan (PSP) – **Resolution 14**.

Following the introduction of the PSP last year, the Remuneration Committee reviewed the scope and operation of the plan. The outcome of this review was that the performance based element of senior management's remuneration be increased, but only if more stringent performance conditions are met. Further details of the background to this review are set out in the Remuneration Report on page pages 45 to 46.

The PSP, which was approved by shareholders at the AGM in 2006, provides for the grant of performance related share awards to executive directors and other senior executives. The vesting of these awards is subject to the company's performance over a three year period, by reference to two separate performance measures. The vesting of one half of the award is dependent on the company's relative total shareholder return (TSR). The vesting of the remaining half of the award is dependent on the real compound growth of the company's earnings per share (EPS).

In light of further advice the Remuneration Committee wishes to increase the potential maximum value of share awards which may be made under the PSP in any financial year from 100% to 150% of base salary. This amendment requires shareholder approval.

In connection with the amendment described above, the Remuneration Committee considers it appropriate to:

(i) reduce the threshold vesting level in respect of both the TSR (for median performance) and EPS (for compound annual growth in EPS equivalent to 3% per annum above the UK retail price index) elements of awards under the PSP from 30% to 25% of the shares under each part of the award; and

(ii) amend the vesting schedule for the EPS element of awards under the PSP so that that element would only vest in full if the company's compound annual growth in EPS were equivalent to 9% per annum above the UK retail price index (as opposed to 8%). It is not considered necessary to make any further amendments to the TSR element.

These two changes do not require shareholder approval.

Shareholder Information

Website
Shareholder Information
The company's website at www.scottish-southern.co.uk has a dedicated Investor Centre section where shareholders can find more information about the services available to them, download forms, view and update their shareholding online, manage their portfolio 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 24 July 2007.

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 and Internet share dealing 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 www.scottish-southern.co.uk>investor centre>shareholder services.

Electronic Communications with Shareholders
In early 2007 the first provisions of the Companies Act 2006 were brought into force. The key change allows companies to use electronic communications with its shareholders as a default position. Shareholders that do not respond to a letter from the company advising of the position will going forward receive notification through the post of the availability of the Annual Report and Accounts on the company's website. Shareholders will at any time be able to elect to recommence receiving paper copies of the Annual Report and Accounts

eCommunications Programme
Millions of annual reports are posted to shareholders each year, but now there is another way to receive this information, which is better for the environment.

- Elect to receive your AGM documentation via an email advising of its availability on the company's website. You will need an internet enabled computer with Internet Explorer 5 or Netscape 4.
- In return, we will plant a tree in one of the Scottish and Southern Energy Woodlands.

Registering for the Programme

- Register your email address by visiting our website scottish-southern.co.uk>investor centre>shareholder services (you will need your Shareholder Reference Number)
- You will receive a confirmation email to which you must respond to complete the process.

Benefits of eCommunication

- You will receive email notification of the availability of the interim results and have access to all annual reports and company announcements.
- You can lodge your proxy appointment securely over the internet.
- You will save paper, help reforest areas of the UK and the tree planted may help reduce global warming gases.

Keep us Informed
Where delivery of an email fails, the company is required to recommence sending you paper copies of documents. You can help to avoid this by:

- Keeping the company informed of changes to your email address by visiting scottish-southern.co.uk>investor centre>shareholder services>eCommunications Programme and clicking on 'Click here' following the instructions under 'How to register'; and
- Regularly clearing out your in-box.

Duplicate Share Accounts
If you receive more than one annual report mailing, this may be due to you having more than one share account due to minor differences in your name and address details. You can merge duplicate share accounts by completing a Duplicate Share Account form. For a form call 0845 143 4005.

If you choose to merge duplicate share accounts, the company will plant a native species tree in one of the Scottish and Southern Energy Woodlands.

Dividend Reinvestment Plan (DRP)
The DRP is a simple and cost effective way to build your shareholding in the company by using cash dividends to buy additional shares. To join the DRP either download a Dividend Reinvestment Plan Mandate form and Terms and Conditions from scottish-southern.co.uk>investor centre>shareholder service>reinvestment or, telephone the Shareholder Helpline on 0845 143 4005 to request a form.

Investor Centre
The free online service, provided by the registrar, allows shareholders to manage their share portfolios. Shareholders can:

- View, update and calculate the market value of their shareholdings;
- Change address details and dividend payment instructions online; and
- View share price histories and trading graphs for listed companies.

To register, go to www.scottish-southern.co.uk, click on 'Investor Centre' in the left hand menu and follow the links to 'shareholder services'.

Share Dealing Service
A Telephone Share Dealing service has been arranged with Stocktrade which provides a simple way of buying or selling Scottish and Southern Energy plc Ordinary Shares. Full details can be obtained by telephoning 0845 601 0995 and quoting reference 'Low Co 33'.

Also, Computershare Investor Services PLC offer Telephone and Internet Share Dealing services to buy or sell SSE plc Ordinary Shares. Further details can be obtained from www.computershare.com/dealing/uk or by telephoning 0870 703 0084.

Please note that the value of shares can fall and you may get back less than you invest. If you are in any doubt about the suitability of an investment, please consult a professional adviser.

Share Price Information
The share price of Scottish and Southern Energy appears on www.scottish-southern.co.uk. It also appears in the financial columns of the national press and on various broadcast interactive services.

Financial Calendar
Annual General Meeting
26 July 2007

Ex dividend date
22 August 2007

Record date
24 August 2007

Final dividend payable
21 September 2007

Interim announcement
14 November 2007*

The Group's half-year results will be published on the company's website at www.scottish-southern.co.uk on 14 November 2007* and in the Independent newspaper on 15 November 2007*, and will detail ex dividend and record dates for the interim dividend payable in March 2008. 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 www.scottish-southern.co.uk:

- Annual Report and Accounts 2007
- Annual Review 2007
- Corporate Responsibility Report 2007
- Corporate Profile 2007

Designed and produced by Tayburn Corporate

Glossary of Terms

BETTA
The British Electricity Trading and Transmission Arrangements – arrangements relating to the trading and transmission of electricity in Great Britain.

Biomass
Biomass is anything derived from plant or animal matter and includes agricultural and forestry wastes or residues and energy crops. It can be used for fuel directly by burning or by extraction of combustible oils.

BLX
A strong high voltage overhead conductor system designed to withstand harsh weather conditions and improve the reliability of electricity supply.

Careline
A dedicated helpline staffed by advisers who give elderly customers, and those with disabilities extra help with their energy bills, advice on saving energy and other matters to do with gas and electricity, including security issues.

Carbon dioxide (CO_2)
One of the so-called 'greenhouse gasses' believed to contribute to global warming.

Charitable donations
Cash contributions made to UK-based charities and community organisations (excluding gifts in kind and community funds established for specific generation projects).

Combined Cycle Gas Turbine (CCGT)
The waste heat from a gas turbine-powered electricity generator is used to make steam to generate additional electricity via a steam turbine; this last step enhances the efficiency of electricity generation

Combined Heat and Power (CHP)
The heat created as a byproduct of electricity generation is captured and distributed through pipe to provide heating for industrial processes or to heat houses.

Contracting
SSE's business that offers mechanical and electrical engineering services.

Customer Minutes Lost (CMLs)
A measurement of the reliability of the electricity transmission and distribution networks calculated as the total of the number of minutes of each power interruption times the number of customers affected by each incident, divided by the total number of customers.

Distribution network
The network of high and low voltage overhead lines and underground cables distributing electricity to end users (customers), owned by the Distribution Network Operators (DNOs).

Distribution price controls
The regulatory mechanism set by Ofgem which determines the level of capital expenditure the electricity and gas distribution businesses are allowed to invest in their networks, and the revenue recoverable from customers.

energywatch
The independent gas and electricity watchdog set up in November 2000 through the Utility Act to protect and promote the interests of all gas and electricity consumers.

Energy Efficiency Commitment (EEC)
Domestic energy suppliers are given energy saving targets related to the size of their customer base. Energy Efficiency Commitment funding provides for energy efficiency improvements for householders. Half of all energy savings are to be achieved in properties occupied by members of a priority group – households in receipt of means-tested or disability-related benefits.

Energy Systems
The term used to cover the transmission and distribution of electricity and gas.

European Union Energy Trading Scheme (EU ETS)
A mechanism whereby the amount of emissions from installations such as power stations are capped. Savings on this cap can be sold, or excess emissions covered by purchasing surplus allowances from other installations.

Ethernet
A frame-based technology for Local Area Letworks (LANs) and Wide Area Networks (WANs) connecting computer systems to form a network.

Flue Gas Desulphurisation (FGD)
In FGD processes, waste gases are treated with a chemical absorbent such as limestone to remove sulphur dioxide. The resulting slurry is then oxidised to calcium sulphate (gypsum) which can then be used in the building trade.

Gas storage
SSE's gas storage facilities consist of underground caverns created by dissolving large subterranean salt deposits. Gas is pumped into the caverns under pressure and released into the gas network as required.

Gigawatt (GW)
1,000 megawatts (1,000,000,000 watts).

Gigawatt/hour (GWh)
1,000 megawatt/hours.

Integrated Pollution Control (IPC) and Integrated Pollution Prevention and Control (IPPC)
Systems to control pollution from industry, enforced by the Environment Agency and Scottish Environmental Protection Agency.

Into Action Grant
Employees can apply for fundraising of up to £1,000 to match funds raised or time spent volunteering for their chosen charity.

JD Power
JD Power and Associates, a business unit of McGraw-Hill, is a global marketing information firm that conducts independent surveys of customer satisfaction, product quality and buyer behaviour.

Kilovolt (kV)
1,000 volts.

Kilowatt (kW)
1,000 watts.

Kilowatt/hour (kWh)
One unit of electricity.

Large Combustion Plant Directive (LCPD)
The Large Combustion Plant Directive applies to combustion plants with a thermal output of greater than 50 MW. It aims to reduce acidification, ground level ozone, and particles throughout Europe by controlling emissions of sulphur dioxide, nitrogen oxides, and dust (particulate matter) from large combustion plants such as power stations, petroleum refineries, steelworks, and other industrial processes running on solid, liquid, or gaseous fuel.

Megawatt (MW)
1,000 kilowatts, (1,000,000 watts).

Megawatt/hour (MWh)
1,000 units of electricity.

Glossary of Terms

Micro generation
Small-scale generation supplying energy to a few or single premises, usually with the capability to export to the Grid surplus generation. Technologies include roof-top wind turbines and photovoltaic cells.

Nitrogen oxides (NOx)
Toxic gasses produced by the combustion of carbon-based primary fuels by transport and in power stations (see also SO_2).

Office of Gas and Electricity Markets (Ofgem)
Ofgem is the regulator for Britain's gas and electricity industries. Its role is to promote choice and value for all customers.

PRiDE
A joint venture between Interserve Defence Limited (IDL) and Southern Electric Contracting (SEC), responsible, as the Prime Contractor, for the provision of estate management and construction services at over 100 MOD sites throughout the south east England.

Private Finance Initiative (PFI)
A system for providing capital assets for the provision of public services. Typically, the private sector designs, builds and maintains infrastructure and other capital assets and then operates those assets and contracts for a fee to the public sector.

Quality of Service Incentive Scheme (QSIS)
Schemes introduced by Ofgem to encourage electricity distribution businesses to deliver benefits to customers by identifying innovative ideas to improve efficiency and customer service.

Quids In
Employee payroll giving scheme with funds raised for charity matched by SSE.

Regulated Asset Value (RAV)
The value placed by Ofgem on the assets of the regulated. businesses (transmission, distribution and metering) which is used as the basis for calculating the income that is recoverable from customers.

Renewables Obligation Certificates (ROCs)
A system which encourages the development of renewable energy projects. An obligation is placed on suppliers to buy an increasing proportion of energy from renewable sources. If the suppliers do not meet this obligation, they are 'fined' and the proceeds distributed to the operators of renewable generation.

Run of river
A type of hydro electric generation whereby the natural flow of water is used to generate electricity.

Run off
Water draining from hills within catchment areas into reservoirs supplying hydro electric schemes.

Scotia Gas Networks plc
The holding company, in which SSE has a 50% equity stake, for the two gas distribution networks acquired from National Grid Transco in 2005, Southern Gas Networks and Scotland Gas Networks.

Solar photovoltaic cell
A device that converts light into electrical energy.

Standard Bundled Units (SBU)
Gas storage capacity at Hornsea is offered in Standard Bundled Units (SBU) of capacity. Each SBU provides the capability to inject gas into store), store gas and then withdraw it from store when required. The total number of SBU available at Hornsea is 195 million.

Sulphur dioxide (SO_2)
Toxic gasses produced by the combustion of carbon-based primary fuels by transport and in power stations (see also NOx).

Substation
Part of an electricity distribution or transmission system, where electricity is redirected and transformed from one voltage to another.

Terawatt/hour (TWh)
1,000 gigawatt/hours.

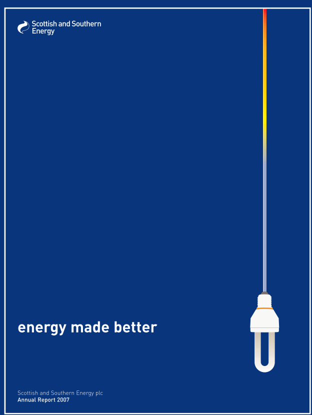
Thermal efficiency
A measurement of the effectiveness of converting primary fuels to electrical energy in power stations.

Transmission price controls
The regulatory mechanism set by Ofgem which determines the level of capital expenditure the electricity transmission business is allowed to invest in its network, and the revenue recoverable from customers.

Transmission network
The system on which electricity is transmitted at voltages of 132,000 volts and above in Scotland and 275,000 volts and above in England and Wales.

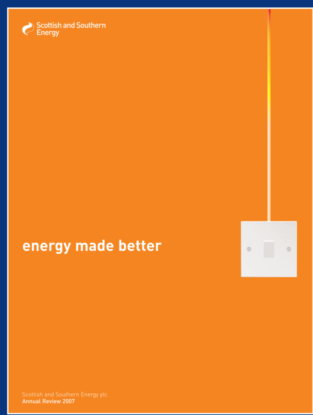
Unit of electricity
One unit of electricity equals one kilowatt/ hour(kWh) i.e. 1,000 watts of electricity used continuously for one hour.

uSwitch.com
A free, impartial online and phone-based comparison and switching service that helps customers compare prices on a range of services including gas and electricity providers. Its aim is to help customers take advantage of the best prices and services on offer from suppliers.



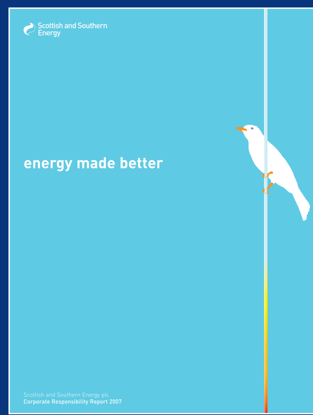
Annual Report 2007

The management of SSE is governed by six key financial principles: delivery of sustained real dividend growth; effective management of core businesses; rigorous analysis to ensure investments are well-founded and, where appropriate, innovative; maintenance of a strong balance sheet; deployment of a selective and disciplined approach to acquisitions; and use of purchase in the market of the company's own shares as the benchmark against which financial decisions are taken.



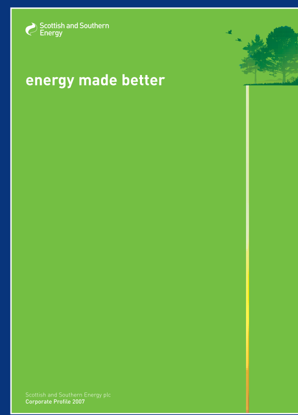
Annual Review 2007

Through its Southern Electric, Scottish Hydro Electric, SWALEC and Atlantic brands, SSE now supplies over 7.75 million electricity and gas customers, a net gain of over one million in 2006/07. It has over 10,000MW of generation capacity including almost 4,400MW of gas-fired capacity, 4,000MW of coal-fired capacity (with biomass co-firing capability) and over 1,500MW of hydro and wind capacity. It manages one electricity transmission, two electricity distribution networks and two gas distribution networks, in all totalling over 200,000 kilometres.



Corporate Responsibility Report 2007

Business in the Community's Corporate Responsibility Index provides an authoritative benchmark for companies to evaluate their management practice in four key areas of corporate responsibility (community, environment, marketplace and workplace). The results of the Index for 2006 were published in May 2007. SSE's score was 98.5%, compared with 97.5% in the previous year, putting the company in the highest possible performance band of 'Platinum'.



Corporate Profile

SSE is one of the largest energy companies in the UK. It is involved in the generation, transmission, distribution and supply of electricity; the storage, distribution and supply of gas; electrical and utility contracting; energy services; and telecoms. In 2006/07 SSE reported adjusted profit before tax* in excess of £1 billion for the first time.

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

T: 01738 456000
E: info@scottish-southern.co.uk
W: www.scottish-southern.co.uk
Registered in Scotland No. 117119

This report was printed on Revive 50:50 Silk which contains 50% recovered waste and conforms to government requirements for recycled paper. It is also certified as an FSC mixed sources grade. Both the paper mill and printing involved in this production are environmentally accredited with ISO 14001. The printer is also registered as a Carbon Neutral company.

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
www.fsc.org Cert no. SGS-COC-1732
© 1996 Forest Stewardship Council