

SENIOR HIGH INCOME PORTFOLIO INC

Form N-CSR

May 02, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT  
COMPANIES

Investment Company Act file number 811-07456

Name of Fund: Senior High Income Portfolio, Inc.

Fund Address: P.O. Box 9011  
Princeton, NJ 08543-9011

Name and address of agent for service: Robert C. Doll, Jr., Chief  
Executive Officer, Senior High Income Portfolio, Inc., 800  
Scudders Mill Road, Plainsboro, NJ, 08536. Mailing address:  
P.O. Box 9011, Princeton, NJ, 08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 02/28/05

Date of reporting period: 03/01/04 - 02/28/05

Item 1 - Report to Stockholders

Senior High  
Income  
Portfolio, Inc.

Annual Report  
February 28, 2005

(BULL LOGO) Merrill Lynch Investment Managers  
[www.mlim.ml.com](http://www.mlim.ml.com)

Mercury Advisors  
A Division of Merrill Lynch Investment Managers  
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Senior High Income Portfolio, Inc. seeks to provide shareholders with as high a level of current income as is consistent with its investment policies and prudent investment management by investing principally in senior debt obligations of companies, including corporate loans made by banks and other financial institutions and both privately placed and publicly offered corporate bonds and notes. The Fund invests primarily in debt obligations that are rated in the lower rating categories of the established rating services

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(Baa or lower by Moody's Investors Service, Inc. or BBB or lower by Standard & Poor's) or unrated debt investments of comparable quality.

This report, including the financial information herein, is transmitted to shareholders of Senior High Income Portfolio, Inc. for their information. It is not a prospectus. Past performance results shown in this report should not be considered a representation of future performance. The Fund leverages its Common Stock to provide Common Stock shareholders with a potentially higher rate of return. Leverage creates risk for Common Stock shareholders, including the likelihood of greater volatility of net asset value and market price of Common Stock shares, and the risk that fluctuations in short-term interest rates may reduce the Common Stock's yield. Statements and other information herein are as dated and are subject to change.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (1) without charge, upon request, by calling toll-free 1-800-MER-FUND (1-800-637-3863); (2) at [www.mutualfunds.ml.com](http://www.mutualfunds.ml.com); and (3) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>. Information about how the Fund voted proxies relating to securities held in the Fund's portfolio during the most recent 12-month period ended June 30 is available (1) at [www.mutualfunds.ml.com](http://www.mutualfunds.ml.com) and (2) on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

Senior High Income Portfolio, Inc.  
Box 9011  
Princeton, NJ  
08543-9011

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Senior High Income Portfolio, Inc.

### The Benefits and Risks of Leveraging

Senior High Income Portfolio, Inc. (the "Fund") utilizes leverage through borrowings or issuance of short-term debt securities or shares of Preferred Stock. The concept of leveraging is based on the premise that the cost of assets to be obtained from leverage will be based on short-term interest rates, which normally will be lower than the income earned by the Fund on its longer-term portfolio investments. To the extent that the total assets of the Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Fund's Common Stock shareholders will be the beneficiaries of the incremental yield.

Leverage creates risks for holders of Common Stock including the likelihood of greater net asset value and market price volatility. In addition, there is the risk that fluctuations in interest rates on borrowings (or in the dividend rates on any Preferred Stock, if

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the Fund were to issue the Preferred Stock) may reduce the Common Stock's yield and negatively impact its net asset value and market price. If the income derived from securities purchased with assets received from leverage exceeds the cost of leverage, the Fund's net income will be greater than if leverage had not been used. Conversely, if the income from the securities purchased is not sufficient to cover the cost of leverage, the Fund's net income will be less than if leverage had not been used, and therefore the amount available for distribution to Common Stock shareholders will be reduced.

### Availability of Quarterly Schedule of Investments

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's Web site at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

### Electronic Delivery

The Fund offers electronic delivery of communications to its shareholders. In order to receive this service, you must register your account and provide us with e-mail information. To sign up for this service, simply access this Web site at <http://www.icsdelivery.com/live> and follow the instructions. When you visit this site, you will obtain a personal identification number (PIN). You will need this PIN should you wish to update your e-mail address, choose to discontinue this service and/or make any other changes to the service. This service is not available for certain retirement accounts at this time.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

### A Letter From the President

Dear Shareholder

Financial markets broadly posted positive returns over the most recent reporting period, with international equities providing some of the most impressive results.

Total Returns as of February 28, 2005	6-month	12-month
U.S. equities (Standard & Poor's 500 Index)	+ 9.99%	+ 6.98%
International equities (MSCI Europe Australasia Far East Index)	+21.18	+18.68
Fixed income (Lehman Brothers Aggregate Bond Index)	+ 1.26	+ 2.43

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Tax-exempt fixed income (Lehman Brothers Municipal Bond Index)	+ 2.40	+ 2.96
High yield bonds (Credit Suisse First Boston High Yield Index)	+ 7.53	+11.21

The U.S. economy has continued to show resilience in the face of the Federal Reserve Board's (the Fed) continued interest rate hikes and, more recently, higher oil prices. The Fed's measured tightening program recently brought the federal funds rate to 2.75% en route to a more "neutral" short-term interest rate target (relative to inflation). Since the U.S. presidential election, progress has been monitored on many fronts in Washington, although concerns remain about the structural problems of debt and deficits, as reflected by a significant decline in the U.S. dollar.

U.S. equities ended 2004 in a strong rally, but remained in a fairly narrow trading range for the first two months of 2005. Divergences were notable among sectors, with energy emerging as a clear leader. On the positive side, corporations have accelerated their hiring plans, capital spending remains reasonably robust and merger-and-acquisition activity has increased. Offsetting the positives are slowing corporate earnings growth, renewed energy price concerns and the potential for an economic slowdown. International equities, particularly in Asia, have benefited from higher economic growth rates (China recorded growth of 9.3% in 2004), stronger currencies and relatively reasonable valuations.

The major action in the bond market has been a flattening of the yield curve. As short-term interest rates continued to rise, yields on the long end of the curve remained relatively stable - even declining at certain points since the Fed's monetary tightening program began in June 2004. This phenomenon has been largely attributed to continued foreign interest in U.S. bonds, which has served to absorb much of the excess supply. By period-end, many believed long-term yields were long overdue for a rise.

Looking ahead, the environment is likely to be a challenging one for investors, with diversification and selectivity becoming increasingly important themes. With this in mind, we encourage you to meet with your financial advisor to review your goals and asset allocation and to rebalance your portfolio, as necessary, to ensure it remains aligned with your objectives and risk tolerance. As always, we thank you for trusting Merrill Lynch Investment Managers with your investment assets, and we look forward to serving you in the months and years ahead.

Sincerely,

(Robert C. Doll, Jr.)  
Robert C. Doll, Jr.  
President and Director

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

A Discussion With Your Portfolio Manager

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The Portfolio's total return significantly exceeded that of its blended benchmark for the fiscal year, primarily because of our overweight position in high yield bonds and our active use of leverage.

How did the Portfolio perform during the fiscal year in light of the existing market conditions?

For the 12-month period ended February 28, 2005, the Common Stock of Senior High Income Portfolio, Inc. had net annualized yields of 8.77% and 8.87%, based on a year-end per share net asset value of \$6.28 and a per share market price of \$6.21, respectively, and \$0.551 per share income dividends. Over the same period, the total investment return on the Portfolio's Common Stock was +12.88%, based on a change in per share net asset value from \$6.10 to \$6.28, and assuming reinvestment of all distributions. The Portfolio's total return for the year significantly exceeded the +8.25% return of its benchmark, which is an equal blend of the Credit Suisse First Boston (CSFB) High Yield Index and the CSFB Leveraged Loan Index.

For the six-month period ended February 28, 2005, the total investment return on the Portfolio's Common Stock was +7.67%, based on a change in per share net asset value from \$6.10 to \$6.28, and assuming reinvestment of all distributions. The blended benchmark provided a return of +5.25% for the same six-month period.

For a description of the Portfolio's total investment return based on a change in the per share market value of the Portfolio's Common Stock (as measured by the trading price of the Portfolio's shares on the New York Stock Exchange), and assuming reinvestment of dividends, please refer to the Financial Highlights section of this report. As a closed-end fund, the Portfolio's shares may trade in the secondary market at a premium or discount to the Portfolio's net asset value. As a result, total investment returns based on changes in the market value of the Portfolio's Common Stock can vary significantly from total investment returns based on changes in the Portfolio's net asset value.

The high yield market closed out 2004 with an 11% return, far lower than the 29% return recorded in 2003, but still quite respectable. High yield bond issuance in 2004 totaled \$131 billion, slightly down from \$133 billion in 2003. As in 2003, when 79% of proceeds were used to refinance existing debt, some 69% of the proceeds went for refinancing in 2004 as corporate treasurers continued to exploit cheaper financing opportunities. While the yield on the 10-year Treasury note (which is the typical reference rate for high yield bonds) has not changed appreciably over the past two years, the required spread off of Treasury securities for high yield bonds has narrowed significantly. This spread compression has been the principal driver of the high yield bond rally, and has presented these refinancing opportunities. The high yield market momentum has slowed somewhat thus far in 2005, with a year-to-date return of +1.31% as of February 28, 2005.

The market's appetite for risk was greater in 2004 than in 2003, as measured by the major rating agencies. Issues rated B and lower accounted for 62% of 2004's high yield bond volume compared to 63% for 2003, 54% for 2002 and 45% for 2001. Moreover, CCC and split-CCC issuance was 7.2% in 2004 versus 3.0% in 2003 and 0.4% in 2002. Despite this, credit measures remained relatively intact.

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Debt/EBITDA (earnings before interest, taxes, depreciation and amortization) in 2003 was 4.9 times versus 5.0 times in 2004. Interest coverage in 2003 was 2.5 times versus 2.7 times in 2004. The anomaly of better interest coverage despite higher leverage is explained by compression-driven lower spreads for high yield bonds. Default rates continued to decline in 2004 to 1.27% versus 4.13% in 2003 and 15.41% in 2002. While 2002 saw the highest default rate ever, 2004 saw the lowest since 1997, according to CSFB.

Conditions in the leveraged bank loan market were much the same as those impacting high yield bonds. That is, strong demand has been leading to compressed spreads, which has encouraged companies to refinance their bank debt. This dynamic was even more pronounced in the bank loan market because, unlike high yield bonds, bank loans generally lack call protection.

What factors contributed most to Portfolio performance?

The outperformance of the benchmark is attributed primarily to an overweight bond position and our use of the Portfolio's leverage line. We use commercial paper-based borrowings up to a maximum of 33% of the Portfolio's market value. The average amount of Portfolio leverage during the six-month period was around 27%. (For a complete discussion of the benefits and risks of leveraging, refer to page 2 of this report to shareholders.)

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Specific credits that made significant contributions to Portfolio performance included GEO Specialty Chemicals, Inc., Mission Energy Holding Co. and Highland Legacy Ltd. GEO is a specialty chemical company that supplies functional chemicals to a variety of markets, including the industrial water treatment, paints and coatings, construction and electronics industries. Our \$3.6 million bond position rallied from 30 to 64 prior to the company's Chapter 11 filing in March 2004. We subsequently participated in financing the company's emergence from Chapter 11 whereby we have a \$4.7 million floating rate note position that appreciated from 99 to 106.75. The strength of the market segments in which the company participates has contributed to a favorable financial outlook for GEO.

At period-end, the Portfolio held \$3.9 million in Mission Energy bonds with a coupon of the 13.5%. The bonds are set to mature on July 15, 2008. We sold \$2.9 million as the bonds appreciated in price from 103 to 122 during the period. The company sold a portfolio of international assets and received much higher-than-expected bids. This has led to speculation that Mission Energy will tender for this issue somewhere in the 120s range. The indenture allows the company to call the bonds at a T+50 make-whole, a premium using a discount rate based on a 50 basis point spread above the comparable Treasury rate. This would price the bonds in the mid 130s.

Our \$4 million investment in the collateralized debt obligation (CDO) of Highland Legacy rallied from 55 to 81. This price action reflects the favorable impact of the high yield rally on the CDO portfolio's valuation.

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Investments that detracted from performance over the past year included Advanced Accessory Systems LLC, Atkins Nutritionals, Inc. and Star Gas Partners LP (SGU). The Portfolio's \$7.5 million bond investment in Advanced Accessory Systems, a tier-1 automotive supplier, declined in price from 106 to 92 during the year. The company's prospects continue to be impaired by higher steel costs and pricing concession demands from the original equipment manufacturers.

In terms of Atkins Nutritionals, we sold first and second lien term loans totaling \$3 million during the year. The loans had weakened 28 points following disappointing financial results. Retailers are struggling to work through a glut of low-carb inventory, which severely impacted Atkins' sales.

Our \$4.25 million investment in SGU bonds fell 18 points during the period. SGU is a heating oil distributor that made strategic missteps with a centralized call/service initiative leading to customer defections. The adverse impact on operations was further compounded by the relatively mild winter weather experienced in the Northeast.

What changes were made to the Portfolio during the period?

During the year, we completed a repositioning of the portfolio, moving from 75% fixed rate and 25% floating rate investments to a 52% fixed rate and 48% floating rate composition. In doing so, we have essentially lessened the negative impact that rising interest rates would have on the portfolio's net asset value.

Since June 2004, the Federal Reserve Board (Fed) has raised interest rates 25 basis points (.25%) at each of its meetings, bringing the federal funds rate from 1% to 2.75%. The consensus view is that the Fed will continue its measured monetary tightening program until the target rate reaches a point of "neutrality," which most have placed in the area of 3% to 4%. Although long-term interest rates have been slow to follow short-term interest rates higher - a market phenomenon that even Fed Chairman Alan Greenspan has called a "conundrum" - we continue to believe that rising long-term interest rates are the primary threat to investors in the high yield market.

How would you characterize the Portfolio's position at the close of the period?

We would characterize our position at period-end as increasingly defensive, with greater investment in floating rate securities, while still focused on maintaining the Portfolio's attractive yield. We also continue to be cautious and selective in adding new positions, and intend to maintain our use of leverage within a target range of 25% - 30%.

Kevin J. Booth  
Vice President and Portfolio Manager

March 29, 2005

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SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

## Portfolio Information

As of February 28, 2005

Ten Largest Holdings	Percent of Net Assets
Wellman, Inc. First Lien Term Loan, due 2/10/2009	2.3%
Charter Communications Operating LLC Tranche B Term Loan, due 4/07/2011	2.3
Sealy Mattress Co. Term Loan Unsecured, due 4/06/2013	1.8
TransWestern Publishing Co., LLC First Lien Tranche B Term Loan, due 2/25/2011	1.5
Goodyear Tire & Rubber Tranche B Term Loan, due 3/31/2006	1.4
Century Cable Holdings LLC Term Loan, due 6/30/2009	1.4
Insight Midwest Holdings, LLC Term Loan B, due 12/31/2009	1.2
Waste Services, Inc. Tranche B Term Loan, due 3/31/2011	1.1
Olympus Cable Holdings, LLC Term Loan B, due 9/30/2010	1.1
Polymer Group, Inc. First Lien Term Loan, due 4/01/2010	1.1

Five Largest Industries*	Percent of Net Assets
Chemicals	22.4%
Cable--U.S.	16.4
Manufacturing	7.5
Paper	7.2
Packaging	7.0

\* For Fund compliance purposes, "Industries" means any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease.

Quality Ratings by S&P/Moody's	Percent of Total Investments
BB/Ba	17.1%
B/B	68.5
CCC/Caa	8.4
CC/Ca	0.3
NR (Not Rated)	3.0

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Other\* 2.7

\* Includes portfolio holdings in common stocks, preferred stocks, other interests, warrants and short-term investments.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

### Schedule of Investments

Industry*	Face Amount	Corporate Debt Obligations
Aerospace & Defense--2.6%	\$ 400,000  1,000,000 2,977,099 4,510,000	K&F Acquisition, Inc., 7.75% due 11/15/2014 (i) Titan Corp.: 8% due 5/15/2011 Term Loan B, due 6/30/2009 (a) Vought Aircraft Industries, Inc., 8% due 7/15/2011
Airlines--0.2%	900,000	Evergreen International Aviation, Inc., 12% due 5/15/2010
Automotive--6.1%	7,550,000 1,975,000 1,350,000 5,000,000  1,800,000 2,000,000  475,000 1,092,618 557,382  700,000 3,325,000	Advanced Accessory Systems LLC, 10.75% due 6/15/2011 Cooper Standard Auto, 8.375% due 12/15/2014 (i) Delco Remy International, Inc., 6.66% due 4/15/2009 (f) Goodyear Tire & Rubber Tranche B Term Loan, due 3/31/2006 Metaldyne Corp.: 11% due 6/15/2012 Term Loan D, due 12/31/2009 (a) Tenneco Automotive, Inc.: Series B, 10.25% due 7/15/2013 Term Loan B, due 12/12/2010 (a) Tranche B-1 Credit Linked, due 12/12/2010 (a) Venture Holdings Co. LLC (c): 12% due 6/01/2009 Series B, 9.50% due 7/01/2005
Broadcasting--0.8%	3,000,000	Granite Broadcasting Corp., 9.75% due 12/01/2010
Cable-- International--2.6%	4,650,000  2,350,000 350,000  566,667 433,333	Kabel Deutschland GmbH, 10.625% due 7/01/2014 (i) NTL Cable Plc (i): 7.66% due 10/15/2012 (f) 8.75% due 4/15/2014 Telewest Communications Networks, Ltd. (a): Term Loan B, due 11/30/2012 Term Loan C, due 11/30/2013
Cable--U.S.--16.3%	1,800,000  3,000,000 5,000,000  1,750,000 1,000,000	CSC Holdings, Inc., 7.25% due 7/15/2008 Century Cable Holdings LLC (a): Discretionary Term Loan, due 12/31/2009 Term Loan, due 6/30/2009 Charter Communications Holdings LLC: 10% due 4/01/2009 11.75% due 1/15/2010

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2,000,000	11.125% due 1/15/2011
1,500,000	9.92% due 4/01/2011
1,000,000	10% due 5/15/2011
7,960,000	Charter Communications Operating LLC Tranche B Term Loan, 4/07/2011 (a)
	Inmarsat Facility (a):
2,292,136	Term Loan B, due 1/08/2011
2,297,523	Term Loan C, due 1/08/2012
3,960,000	Insight Midwest Holdings, LLC Term Loan B, due 12/31/2009
	Intelsat Bermuda Ltd. (i):
1,925,000	7.794% due 1/15/2012 (f)
1,675,000	8.25% due 1/15/2013
2,400,000	8.625% due 1/15/2015
2,328,240	Mallard Cablevision LLC & Sun Tel Communications Term Loan 9/30/2008 (a) (c)
1,400,000	Mediacom Broadband LLC, 11% due 7/15/2013
1,675,000	Mediacom LLC, 9.50% due 1/15/2013
	New Skies Satellites NV:
1,550,000	7.438% due 11/01/2011 (i)
2,450,000	9.125% due 11/01/2012 (i)
806,870	Term Loan, due 5/04/2011 (a)

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Schedule of Investments (continued)

Industry*	Face Amount	Corporate Debt Obligations
Cable--U.S. (concluded)	\$4,000,000 5,250,000	Olympus Cable Holdings, LLC Term Loan B, due 9/30/2010 (a) Rainbow National Services LLC, 8.75% due 9/01/2012 (i)
Chemicals--21.8%	1,350,000 555,000 2,641,151 2,600,000 2,250,000 3,900,000 3,000,000 4,744,000 1,000,000 1,219,000 1,913,962 1,750,000 3,000,000 1,682,206 758,971 2,500,000 1,650,000 1,200,000 5,350,000 1,334,127 1,281,041	ArCo Chemical Co., 9.80% due 2/01/2020 BCP Caylux Holdings Luxembourg SCA, 9.625% due 6/15/2014 (a) CII Carbon, LLC Term Loan, due 6/25/2008 (a) Celanese Holdings, LLC Term Loan B, due 4/06/2011 (a) Compass Minerals International, Inc. Series B, 12%** due 6/30/2011 (a) Crompton Corp.: 8.71% due 8/01/2010 (f) 9.875% due 8/01/2012 GEO Speciality Chemicals, Inc., 11.064% due 12/31/2009 (g) Huntsman International LLC: 9.875% due 3/01/2009 10.125% due 7/01/2009 Term Loan B, due 12/31/2010 (a) ISP Holdings, Inc. Series B, 10.625% due 12/15/2009 Invista B.V.: 9.25% due 5/01/2012 (i) New Tranche B-1 Term Loan, due 4/29/2011 (a) New Tranche B-2 Term Loan, due 4/29/2011 (a) Koppers, Inc., 9.875% due 10/15/2013 Lyondell Chemical Co., 11.125% due 7/15/2012 Millennium America, Inc., 7.625% due 11/15/2026 Omnova Solutions, Inc., 11.25% due 6/01/2010 Pinnacle Polymers (Epsilon Products) Term Loan, due 12/15/2010 Pioneer Cos., Inc., 6.05% due 12/31/2006 (f)

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	3,753,333	Polymer Group, Inc. First Lien Term Loan, due 4/01/2010 (a)
	6,375,000	PolyOne Corp., 10.625% due 5/15/2010
		Rockwood Specialties Group, Inc.:
	1,825,000	10.625% due 5/15/2011
	250,000	7.50% due 11/15/2014 (i)
	1,600,000	Tranche D Term Loan, due 12/10/2012 (a)
		Terra Capital, Inc.:
	2,500,000	12.875% due 10/15/2008
	832,000	11.50% due 6/01/2010
	361,000	United Agri Products, 8.25% due 12/15/2011 (i)
	8,000,000	Wellman, Inc. First Lien Term Loan, due 2/10/2009 (a)
Consumer-- Durables--2.8%	6,000,000	Sealy Mattress Co. Term Loan Unsecured, due 4/06/2013 (a)
		Simmons Bedding Co.:
	450,000	7.875% due 1/15/2014
	3,000,000	Term Loan, due 6/19/2012 (a)
Consumer-- Non-Durables--2.8%	1,675,000	Chattem, Inc., 5.91% due 3/01/2010 (f)
	1,500,000	Culligan International Co. Term Loan, due 9/30/2011 (a)
	1,000,000	General Binding Corp., 9.375% due 6/01/2008
	1,975,000	Hines Nurseries, Inc., 10.25% due 10/01/2011
	2,125,000	North Atlantic Trading Co., 9.25% due 3/01/2012
	200,000	Riddell Bell Holdings, Inc., 8.375% due 10/01/2012 (i)
	1,485,000	Solo Cup Co. Term Loan, due 2/27/2011 (a)
Diversified Media--1.9%	325,000	Houghton Mifflin Co., 9.875% due 2/01/2013
	5,295,000	TransWestern Publishing Co., LLC First Lien Tranche B Term due 2/25/2011 (a)
		Universal City Florida Holding Co. I/II (i):
	700,000	7.493% due 5/01/2010 (f)
	175,000	8.375% due 5/01/2010

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Schedule of Investments (continued)

Industry*	Face Amount	Corporate Debt Obligations
Energy--Exploration & Production--1.0%	\$1,500,000	Quest Cherokee, LLC (a):
	1,773,333	Revolving Credit, due 7/22/2009
	222,222	Term Loan B, due 7/22/2010
		Term Loan C, due 12/31/2008
Energy-- Other--5.4%	1,000,000	Dresser, Inc.:
	718,038	9.375% due 4/15/2011
	1,250,000	Term Loan C, due 4/10/2009 (a)
		Term Loan Unsecured, due 2/25/2010 (a)

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	1,100,000	Dresser-Rand Group, Inc., 7.375% due 11/01/2014 (i)
	1,035,000	Energy Corp. of America Series A, 9.50% due 5/15/2007
	3,656,000	Giant Industries, Inc., 11% due 5/15/2012
		Regency Gas Services, LLC (a):
	1,500,000	Second Lien Term Loan, due 12/01/2010
	3,500,000	Term Loan, due 6/01/2010
		Star Gas Partners LP:
	2,750,000	10.25% due 2/15/2013
	1,750,000	10.25% due 2/15/2013 (i)
Financial--3.6%	2,650,000	Fairfax Financial Holdings Ltd., 7.75% due 4/26/2012
	4,000,000	Highland Legacy Ltd., 8.993% due 6/01/2011 (f) (i)
	500,000	Investcorp SA, 7.54% due 10/21/2008
	1,000,000	Pennant CBO Ltd., 13.43% due 3/14/2011 (i)
	3,925,000	Refco Finance Holdings LLC, 9% due 8/01/2012 (i)
		SKM-LibertyView CBO Ltd. Series 1A (c) (i):
	1,500,000	Class C1, 8.71% due 4/10/2011
	1,000,000	Class D, 11.91% due 4/10/2011
Food & Drug--0.2%	850,000	Duane Reade Inc., 7.01% due 12/15/2010 (f) (i)
Food/Tobacco--3.9%		Commonwealth Brands, Inc. (i):
	2,250,000	9.75% due 4/15/2008
	2,825,000	10.625% due 9/01/2008
	1,800,000	Dole Food Co., Inc., 8.875% due 3/15/2011
	1,793,219	Dr. Pepper/Seven Up Bottling Group, Inc. Tranche B Term Loan due 12/19/2010 (a)
	1,442,000	Gold Kist Inc., 10.25% due 3/15/2014
	1,000,000	Merisant Co., 9.50% due 7/15/2013 (i)
	1,820,000	Pierre Foods, Inc. Term Loan B, due 6/30/2010 (a)
Gaming--1.1%	2,000,000	Jacobs Entertainment, Inc., 11.875% due 2/01/2009
	925,000	Majestic Star Casino LLC, 9.50% due 10/15/2010
	675,000	Penn National Gaming, Inc., 6.75% due 3/01/2015 (i)
Health Care--4.6%	3,000,000	CDRV Investors, Inc., 9.75%** due 1/01/2015 (i)
		Elan Finance Plc (i):
	2,325,000	6.49% due 11/15/2011 (f)
	1,650,000	7.75% due 11/15/2011
	1,708,405	Medpointe Capital Partners, LLC Tranche B Term Loan, due 9/15/2011
	1,744,318	Orthofix International NV Term Loan B, due 12/15/2008 (a)
	3,000,000	Tenet Healthcare Corp., 7.375% due 2/01/2013
		VWR International, Inc.:
	700,000	8% due 4/15/2014
	3,661,334	Tranche B Dollar Term Loan, due 4/07/2011 (a)

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

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### Schedule of Investments (continued)

Industry*	Face Amount	Corporate Debt Obligations
Housing--3.7%	\$ 226,860	Formica Holdings Corp., 7.87% due 6/10/2011
	2,300,000	General Growth Properties, Inc. Tranche B Term Loan, due 11/12/2008 (a)
	500,000	Goodman Global Holding Co., Inc. (i): 5.76% due 6/15/2012 (f)
	1,750,000	7.875% due 12/15/2012
	3,318,750	Headwaters, Inc. Term Loan B, due 4/30/2011 (a)
	2,000,000	LNR Property Corp. Tranche B Term Loan, due 2/03/2008 (a)
	2,000,000	Lone Star Industries, 8.85% due 6/15/2005 (i)
	700,000	US Concrete, Inc., 8.375% due 4/01/2014
Information Technology--3.2%	3,100,000	Amkor Technology, Inc., 9.25% due 2/15/2008
	2,450,000	Freescale Semiconductor, Inc., 5.41% due 7/15/2009 (f)
	1,375,000	MagnaChip Semiconductor SA, 5.78% due 12/15/2011 (f) (i)
	500,000	TTI Holding Corp., 8.875% due 3/01/2013 (i)
	3,778,125	VUTEK Inc. Term Loan, due 6/25/2010 (a)
Leisure--4.0%	6,000,000	Felcor Lodging LP, 6.874% due 6/01/2011 (f)
	274,000	Host Marriott Corp. Series B, 7.875% due 8/01/2008
	2,000,000	True Temper Sports, Inc., 8.375% due 9/15/2011
	4,458,489	Wyndham International, Inc. (a): Term Loan I, due 6/30/2006
	905,180	Term Loan II, due 4/01/2006
Manufacturing--7.5%	275,000	Aearo Co., 8.25% due 4/15/2012
	3,000,000	Communications & Power Industries, Inc., 8% due 2/01/2012
	3,057,865	EaglePicher Holdings, Inc. Tranche B Term Loan, due 8/07/2012
	2,250,000	EaglePicher Industries, Inc., 9.75% due 9/01/2013
	3,750,000	High Voltage Engineering Corp. Term Loan A, due 7/31/2006
	4,942,893	Invensys International Holdings Ltd. First Lien Term Loan, 9/04/2009 (a)
	2,825,000	Invensys Plc, 9.875% due 3/15/2011 (i)
	3,500,000	Metokote Corp. Second Lien Term Loan, due 2/13/2011 (a)
	300,000	NMHG Holding Co., 10% due 5/15/2009
	250,000	NSP Holdings LLC, 11.75% due 1/01/2012 (i)
	2,000,000	Propex Fabrics, Inc., 10% due 12/01/2012 (i)
Metal--	500,000	IMCO Recycling Escrow, Inc., 9% due 11/15/2014 (i)
Other--1.8%	5,375,000	Massey Energy Co., 6.95% due 3/01/2007
Packaging--7.0%	5,200,000	Anchor Glass Container Corp., 11% due 2/15/2013
	1,900,000	Consolidated Container Co. LLC, 10.75%** due 6/15/2009
	2,300,000	Crown European Holdings SA, 10.875% due 3/01/2013
	3,631,029	Owens-Illinois Group Inc. French Tranche C-1 Term Loan, due 4/01/2008 (a)
	3,300,000	Pliant Corp., 13% due 6/01/2010
	650,000	Tekni-Plex, Inc., 8.75% due 11/15/2013 (i)

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	5,550,000	US Can Corp., 10.875% due 7/15/2010
	1,250,000	Wise Metals Group LLC, 10.25% due 5/15/2012
Paper--7.2%	3,275,000	Abitibi-Consolidated, Inc., 5.99% due 6/15/2011 (f)
	2,975,000	Ainsworth Lumber Co. Ltd., 6.30% due 10/01/2010 (f)(i)
	718,591	Boise Cascade Holdings, LLC Tranche B Term Loan, due 10/28
		Boise Cascade LLC (i):
	250,000	5.535% due 10/15/2012 (f)
	350,000	7.125% due 10/15/2014
	4,625,000	Bowater, Inc., 5.49% due 3/15/2010 (f)
	4,325,000	Georgia-Pacific Corp., 9.375% due 2/01/2013
	625,000	Graphic Packaging International Corp., 9.50% due 8/15/2013
	3,150,000	JSG Funding Plc, 7.75% due 4/01/2015 (i)

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Schedule of Investments (continued)

Industry*	Face Amount	Corporate Debt Obligations
Paper (concluded)		SP Newsprint Co. (a):
	\$ 966,667	Tranche B L/C, due 1/09/2010
	518,333	Tranche B Term Loan, due 1/09/2010
	800,000	Smurfit-Stone Container Enterprises, Inc., 8.375% due 7/01
	1,500,000	Tembec Industries, Inc., 8.625% due 6/30/2009
Retail--0.1%	306,789	General Nutrition Centers, Inc. Tranche B Term Loan, due 12/05/2009 (a)
Services--6.7%		Allied Waste North America:
	720,000	7.875% due 4/15/2013
	3,125,000	Series B, 7.375% due 4/15/2014
	1,963,062	Allied Waste North America, Inc. Tranche D Term Loan, due
	1,600,000	Corrections Corp. of America, 9.875% due 5/01/2009
	250,000	Great Lakes Dredge & Dock Corp., 7.75% due 12/15/2013
	1,000,000	HydroChem Industrial Services, Inc., 9.25% due 2/15/2013 (
	3,000,000	MSW Energy Holdings LLC, 8.50% due 9/01/2010
		United Rentals, Inc. (a):
	1,654,167	Term Loan, due 2/14/2011
	333,333	Tranche B, Credit-Linked Deposit, due 2/14/2011
	5,450,000	United Rentals North America, Inc., 7.75% due 11/15/2013 (
	3,970,000	Waste Services, Inc. Tranche B Term Loan, due 3/31/2011 (a
Telecommunications-- 4.8%	2,045,000	Cincinnati Bell, Inc., 8.375% due 1/15/2014
	2,185,333	Consolidated Communications, Inc. Term Loan C, due 10/14/2
	4,000,000	Qwest Communications International, 6.294% due 2/15/2009 (
		Time Warner Telecom Holdings, Inc.:
	3,500,000	6.794% due 2/15/2011 (f)
	2,000,000	9.25% due 2/15/2014 (i)
	2,500,000	Time Warner Telecom, Inc., 9.75% due 7/15/2008

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Transportation--0.4%	1,325,000	Laidlaw International, Inc., 10.75% due 6/15/2011
Utilities--6.2%	1,461,000	The AES Corp., 8.50% due 11/01/2007
	1,300,000	Calpine Corp.:
	3,940,000	8.50% due 2/15/2011
		Second Lien Term Loan, due 7/15/2007 (a)
	750,000	El Paso Corp. (a):
	1,245,000	Deposit Account, due 11/23/2009
	3,900,000	Term Loan, due 11/23/2009
	2,000,000	Mission Energy Holding Co., 13.50% due 7/15/2008
	2,100,000	Northwest Pipeline Corp., 6.625% due 12/01/2007
	2,750,000	Sierra Pacific Resources:
	788,000	8.75% due 5/15/2005
	725,000	8.625% due 3/15/2014
		TNP Enterprises, Inc. Term Loan, due 12/31/2006 (a)
		Williams Cos., Inc., 8.625% due 6/01/2010
Wireless	739,000	American Tower Corp., 9.375% due 2/01/2009
Communications--	2,970,000	Centennial Cellular Operating Co. Term Loan, due 2/09/2011
6.5%	5,000,000	Crown Castle International Corp., 7.50% due 12/01/2013
	2,200,000	Dobson Cellular Systems (i):
	1,000,000	7.493% due 11/01/2011 (f)
	500,000	8.375% due 11/01/2011
	1,000,000	Horizon PCS, Inc., 11.375% due 7/15/2012 (i)
	3,482,500	Rural Cellular Corp., 6.99% due 3/15/2010 (f)
	3,700,000	SBA Senior Finance, Inc. Tranche C Term Loan, due 10/31/20
	800,000	Spectrasite, Inc., 8.25% due 5/15/2010
		US Unwired, Inc., 6.74% due 6/15/2010 (f)
		Total Investments in Corporate Debt Obligations
		(Cost--\$469,664,636)--136.8%

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Schedule of Investments (continued)

Industry*	Shares Held	Common Stocks
Cable-- International--1.6%	323,906	Telewest Global, Inc. (e)
Chemicals--0.6%	142,466	GEO Specialty Chemicals, Inc. (e)
Leisure--0.2%	41,866	Lodgian, Inc. (e)
Manufacturing--0.0%	62,580	High Voltage Engineering Corp. (e)
Telecommunications-- 0.1%	32,057	IDT Corp. Class B (e)
		Total Investments in Common Stocks

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(Cost--\$12,584,020)--2.5%

Preferred Stocks

Cable--U.S.--0.0% 2,500 Adelphia Communications Corp. Series B (e)

Total Investments in Preferred Stocks  
(Cost--\$225,000)--0.0%

Warrants (h)

Paper--0.0% 3,500 MDP Acquisitions Plc (expires 10/01/2013)

Wireless 600 American Tower Corp. (expires 8/01/2008)  
Communications--0.0%

Total Investments in Warrants  
(Cost--\$39,036)--0.0%

Beneficial Interest/  
Shares Held

Other Interests (d)

Automotive \$4,130,972 Cambridge Industries, Inc. (Litigation Trust Certificates)  
Equipment--0.0%

Gaming--0.1% 27,112 Peninsula Gaming LLC (Convertible Membership Interest)

Health \$ 10,284 MEDIQ Incorporated (Preferred Stock Escrow due 2/01/2006)  
Services--0.0%

Telecommunications--0.0% \$2,750,000 WilTel Communications Group, Inc. (Litigation Trust Certif

Total Investments in Other Interests  
(Cost--\$163,493)--0.1%

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Schedule of Investments (concluded)

Beneficial  
Interest

Short-Term Securities

\$ 4,343,454 Merrill Lynch Liquidity Series, LLC Cash Sweep Series I (b

Total Investments in Short-Term Securities  
(Cost--\$4,343,454)--1.2%

Total Investments (Cost--\$487,019,639\*\*\*)--140.6%  
Liabilities in Excess of Other Assets--(40.6%)

Net Assets--100.0%

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\* For Fund compliance purposes, "Industry" means any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine industry sub-classifications for reporting ease. Breakdown is a percent of net assets. These industry classifications are unaudited.

\*\* Represents a step bond; the interest rate shown reflects the effective yield at the time of purchase by the Fund.

\*\*\* The cost and unrealized appreciation (depreciation) of investments as of February 28, 2005, as computed for federal income tax purposes, were as follows:

Aggregate cost	\$ 486,645,383	
	=====	
Gross unrealized appreciation	\$ 23,231,395	
Gross unrealized depreciation	(18,050,973)	
	-----	
Net unrealized appreciation	\$ 5,180,422	
	=====	

(a) Floating Rate Corporate Debt in which the Fund invests generally pays interest at rates that are periodically redetermined by reference to a base lending rate plus a premium. These base lending rates are generally (i) the lending rate offered by one or more major European banks, such as London InterBank Offered Rate ("LIBOR"), (ii) the prime rate offered by one or more major U.S. banks or (iii) the certificate of deposit rate. Floating rate corporate debt represents 48.0% of the Fund's net assets.

(b) Investments in companies considered to be an affiliate of the Fund (such companies are defined as "Affiliated Companies" in Section 2(a)(3) of the Investment Company Act of 1940) were as follows:

	Net Activity	Interest Income
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	\$(476,492)	\$34,395

(c) Non-income producing security; issuer filed for bankruptcy or is in default of interest payments.

(d) Other interests represent beneficial interest in liquidation trusts and other reorganization entities and are non-income producing.

(e) Non-income producing security.

(f) Floating rate note.

(g) Convertible security.

(h) Warrants entitle the Fund to purchase a predetermined number of shares of common stock and are non-income producing. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date.

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(i) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.

See Notes to Financial Statements.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

### Statement of Assets, Liabilities and Capital

As of February 28, 2005

#### Assets

Investments in unaffiliated securities, at value (identified cost--\$482,676,185)	
Investments in affiliated securities, at value (identified cost--\$4,343,454)	
Cash	
Receivables:	
Interest (including \$1,470 from affiliates)	\$ 7
Securities sold	1
Principal paydowns	
Commitment fees	
	-----
Unfunded loan commitment	
Prepaid expenses	
Total assets	

#### Liabilities

Loans	
Payables:	
Securities purchased	3
Dividends to shareholders	
Investment adviser	
Interest on loans	
Other affiliates	
Commitment fees	
	-----
Deferred income	
Accrued expenses and other liabilities	
Total liabilities	

#### Net Assets

Net Assets

#### Capital

Common Stock, par value \$.10 per share; 200,000,000 shares authorized (55,740,573 shares issued and outstanding)	
Paid-in capital in excess of par	
Undistributed investment income--net	\$ 3
Accumulated realized capital losses--net	(155,

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Unrealized appreciation--net

4

Total accumulated losses--net

Total capital--Equivalent to \$6.28 net asset value per share of Common Stock  
(market price--\$6.21)

See Notes to Financial Statements.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

## Statement of Operations

For the Year Ended February 28, 2005

### Investment Income

Interest (including \$34,395 from affiliates)

Dividends

Facility and other fees

Total income

### Expenses

Loan interest expense

\$ 2

Investment advisory fees

2

Borrowing costs

Accounting services

Professional fees

Transfer agent fees

Printing and shareholder reports

Directors' fees and expenses

Listing fees

Custodian fees

Pricing services

Other

Total expenses

Investment income--net

### Realized & Unrealized Gain (Loss)--Net

Realized gain (loss) on:

Investments--net

2

Foreign currency transactions--net

Change in unrealized appreciation (depreciation) on:

Investments--net

5

Unfunded corporate loans--net

Foreign currency transactions--net

Total realized and unrealized gain--net

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Net Increase in Net Assets Resulting from Operations

See Notes to Financial Statements.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

## Statements of Changes in Net Assets

	For Year Febru 2005
Increase (Decrease) in Net Assets:	2
Operations	
Investment income--net	\$ 31
Realized gain (loss)--net	2
Change in unrealized appreciation (depreciation)--net	5
	-----
Net increase in net assets resulting from operations	40
	-----
Dividends to Shareholders	
Dividends to shareholders from investment income--net	(30,
	-----
Capital Share Transactions	
Value of shares issued to Common Stock shareholders in reinvestment of dividends	
	-----
Net increase in net assets resulting from capital share transactions	
	-----
Net Assets	
Total increase in net assets	9
Beginning of year	339
	-----
End of year*	\$ 349
	=====
* Undistributed investment income--net	\$ 3
	=====

See Notes to Financial Statements.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

## Statement of Cash Flows

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For the Year Ended February 28, 2005

### Cash Provided by Operating Activities

Net increase in net assets resulting from operations  
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:

Decrease in receivables  
Increase in other assets  
Increase in other liabilities  
Realized and unrealized gain--net  
Realized loss on foreign currency transactions--net  
Amortization of premium and discount--net  
Proceeds from sales and paydowns of long-term investments  
Proceeds on other investment related transactions  
Purchases of long-term investments  
Proceeds from sales and maturities of short-term investments--net

Net cash provided by operating activities

### Cash Used for Financing Activities

Cash receipts from borrowings  
Cash payments on borrowings  
Dividends paid to shareholders

Net cash used for financing activities

### Cash

Net increase in cash  
Cash at beginning of year  
Cash at end of year

### Cash Flow Information

Cash paid for interest

### Non-Cash Financing Activities

Capital shares issued on reinvestment of dividends paid to shareholders

See Notes to Financial Statements.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

### Financial Highlights

The following per share data and ratios have been derived from information provided in the financial statements.

	For the Year Ended February 28, 2005	For the Year Ended February 29, 2004	For the Year Ended February 28, 2003
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### Per Share Operating Performance

Net asset value, beginning of year	\$ 6.10	\$ 4.82	\$ 5.40
	-----	-----	-----
Investment income--net**	.57	.62	.63
Realized and unrealized gain (loss)--net	.16	1.30	(.59)
	-----	-----	-----
Total from investment operations	.73	1.92	.04
	-----	-----	-----
Less dividends from investment income--net	(.55)	(.64)	(.62)
	-----	-----	-----
Net asset value, end of year	\$ 6.28	\$ 6.10	\$ 4.82
	=====	=====	=====
Market price per share, end of year	\$ 6.21	\$ 6.11	\$ 5.45
	=====	=====	=====

### Total Investment Return\*

Based on net asset value per share	12.88%	41.49%	1.18%
	=====	=====	=====
Based on market price per share	11.44%	25.34%	4.88%
	=====	=====	=====

### Ratios to Average Net Assets

Expenses, excluding interest expense	.91%	.90%	.97%
	=====	=====	=====
Expenses	1.69%	1.42%	1.78%
	=====	=====	=====
Investment income--net	9.28%	11.23%	12.75%
	=====	=====	=====

### Leverage

Amount of borrowings, end of year (in thousands)	\$ 147,500	\$ 132,297	\$ 104,600
	=====	=====	=====
Average amount of borrowings outstanding during the year (in thousands)	\$ 137,934	\$ 112,037	\$ 110,348
	=====	=====	=====
Average amount of borrowings outstanding per share during the year**	\$ 2.48	\$ 2.02	\$ 2.02
	=====	=====	=====

### Supplemental Data

Net assets, end of year (in thousands)	\$ 349,791	\$ 339,950	\$ 265,423
	=====	=====	=====
Portfolio turnover	54.18%	63.78%	74.70%
	=====	=====	=====

\* Total investment returns based on market price, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

\*\* Based on average shares outstanding.

See Notes to Financial Statements.

## Edgar Filing: SENIOR HIGH INCOME PORTFOLIO INC - Form N-CSR

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

### Notes to Financial Statements

#### 1. Significant Accounting Policies:

Senior High Income Portfolio, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with U.S. generally accepted accounting principles, which may require the use of management accruals and estimates. Actual results may differ from these estimates. The Fund determines and makes available for publication the net asset value of its Common Stock on a daily basis. The Fund's Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol ARK.

(a) Corporate debt obligations--The Fund invests principally in senior debt obligations of companies, including Corporate Loans made by banks and other financial institutions and both privately and publicly offered corporate bonds and notes. Because agents and intermediaries are primarily commercial banks or other financial institutions, the Fund's investment in Corporate Loans could be considered concentrated in financial institutions.

(b) Valuation of investments--Corporate Loans are valued in accordance with guidelines established by the Fund's Board of Directors. Corporate Loans are valued at the mean between the last available bid and asked prices from one or more brokers or dealers as obtained from Loan Pricing Corporation. For the limited number of Corporate Loans for which no reliable price quotes are available, such Corporate Loans will be valued by Loan Pricing Corporation through the use of pricing matrixes to determine valuations. If the pricing service does not provide a value for a Corporate Loan, the Investment Adviser will value the Corporate Loan at fair value, which is intended to approximate market value.

Securities that are held by the Fund that are traded on stock exchanges or the Nasdaq National Market are valued at the last sale price or official close price on the exchange on which such securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price for long positions, and at the last available ask price for short positions. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated as the primary market by or under the authority of the Board of Directors of the Fund. Long positions in securities traded in the over-the-counter ("OTC") market, Nasdaq Small Cap or Bulletin Board are valued at the last available bid price or yield equivalent obtained from one or more dealers or pricing services approved by the Board of Directors of the Fund. Short positions in securities traded in the OTC market are valued at the last available ask price. Portfolio securities that are traded both in the OTC market and on a stock exchange are valued according to the broadest and most representative market. When the Fund writes an option, the amount of the premium received is recorded on the books of the Fund as an asset and an equivalent liability. The amount of the liability is subsequently valued to reflect the current market value of the option written, based on the last sale price in the case of exchange-traded options or, in the case of options traded in the

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OTC market, the last ask price. Options purchased by the Fund are valued at their last sale price in the case of exchange-traded options or, in the case of options traded in the OTC market, the last bid price. The value of swaps, including interest rate swaps, caps and floors, will be determined by obtaining dealer quotations. Other investments, including futures contracts and related options, are stated at market value. Obligations with remaining maturities of 60 days or less are valued at amortized cost unless the Investment Adviser believes that this method no longer produces fair valuations. Repurchase agreements will be valued at cost plus accrued interest. The Fund employs certain pricing services to provide securities prices for the Fund. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund, including valuations furnished by the pricing services retained by the Fund, which may use a matrix system for valuations. The procedures of a pricing service and its valuations are reviewed by the officers of the Fund under the general supervision of the Board of Directors. Such valuations and procedures will be reviewed periodically by the Board of Directors.

Generally, trading in foreign securities, as well as U.S. government securities and money market instruments, is substantially completed each day at various times prior to the close of business on the NYSE. The values of such securities used in computing the net asset value of the Fund's shares are determined as of such times. Foreign currency exchange rates also are generally determined prior to the close of business on the NYSE. Occasionally, events affecting the values of such securities and such exchange rates may occur between the times at which they are determined and the close of business on the NYSE that may not be reflected in the computation of the Fund's net asset value. If events (for example, a company announcement, market volatility or a natural disaster) occur during such periods that are expected to materially affect the value of such securities, those securities may be valued at their fair value as determined in good faith by the Board of Directors or by the Investment Adviser using a pricing service and/or procedures approved by the Board of Directors.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Notes to Financial Statements (continued)

(c) Derivative financial instruments--The Fund may engage in various portfolio investment strategies both to increase the return of the Fund and to hedge, or protect, its exposure to interest rate movements and movements in the securities markets. Losses may arise due to changes in the value of the contract or if the counterparty does not perform under the contract.

\* Financial futures contracts--The Fund may purchase or sell financial futures contracts and options on such futures contracts for the purpose of hedging the market risk on existing securities or the intended purchase of securities. Futures contracts are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required

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by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

\* Options--The Fund may write and purchase call and put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option written. When a security is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction is less than or exceeds the premiums paid or received).

Written and purchased options are non-income producing investments.

\* Swaps--The Fund may enter into swap agreements, which are OTC contracts in which the Fund and a counterparty agree to make periodic net payments on a specified notional amount. The net payments can be made for a set period of time or may be triggered by a pre-determined credit event. The net periodic payments may be based on a fixed or variable interest rate; the change in market value of a specified security, basket of securities, or index; or the return generated by a security. These periodic payments received or made by the Fund are recorded in the accompanying Statement of Operations as realized gains or losses, respectively. Gains or losses are also realized upon termination of the swap agreements. Swaps are marked-to-market daily based on dealer-supplied valuations and changes in value are recorded as unrealized appreciation (depreciation). Risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms and the possible lack of liquidity with respect to the swap agreements.

(d) Income taxes--It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no federal income tax provision is required.

(e) Security transactions and investment income--Security transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the identified cost basis. Interest income is recognized on the accrual basis. The Fund amortizes all premiums and discounts on debt securities.

(f) Dividends and distributions--Dividends from net investment income are declared and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates. The Fund may at times pay out less than the entire amount of net investment income earned in any particular period and may at times pay out such accumulated

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undistributed income in other periods to permit the Fund to maintain a more stable level of dividends.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Notes to Financial Statements (continued)

(g) Securities lending--The Fund may lend securities to financial institutions that provide cash or securities issued or guaranteed by the U.S. government as collateral, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. Where the Fund receives securities as collateral for the loaned securities, it receives a fee from the borrower. The Fund typically receives the income on the loaned securities, but does not receive the income on the collateral. Where the Fund receives cash collateral, it may invest such collateral and retain the amount earned on such investment, net of any amount rebated to the borrower. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within five business days. The Fund may pay reasonable finder's, lending agent, administrative and custodial fees in connection with its loans. In the event that the borrower defaults on its obligation to return borrowed securities because of insolvency or for any other reason, the Fund could experience delays and costs in gaining access to the collateral. The Fund also could suffer a loss where the value of the collateral falls below the market value of the borrowed securities, in the event of borrower default or in the event of losses on investments made with cash collateral.

(h) Reclassifications--U.S. generally accepted accounting principles require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, during the current year, \$2,699 has been reclassified between undistributed net investment income and paid-in capital in excess of par, \$278,414 has been reclassified between paid-in capital in excess of par and accumulated net realized capital losses, and \$51,788 has been reclassified between undistributed net investment income and accumulated net realized capital losses as a result of permanent differences attributable to foreign currency transactions, the expiration of capital loss carryforwards, the reclassification of proceeds on sales of securities in default and amortization methods for premiums and discounts on fixed income securities. These reclassifications have no effect on net assets or net asset values per share.

2. Investment Advisory Agreement and Transactions with Affiliates: The Fund has entered into an Investment Advisory Agreement with Fund Asset Management L.P. ("FAM"). The general partner of FAM is Princeton Services, Inc. ("PSI"), an indirect, wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("ML & Co."), which is the limited partner.

FAM is responsible for the management of the Fund's portfolio and

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provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays a monthly fee at an annual rate of .50% of the Fund's average weekly net assets plus the proceeds of any outstanding borrowings used for leverage.

The Fund has received an exemptive order from the Securities and Exchange Commission permitting it to lend portfolio securities to Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), an affiliate of FAM, or its affiliates. Pursuant to that order, the Fund also has retained Merrill Lynch Investment Managers, LLC ("MLIM, LLC"), an affiliate of FAM, as the securities lending agent for a fee based on a share of the returns on investment of cash collateral. MLIM, LLC may, on behalf of the Fund, invest cash collateral received by the Fund for such loans, among other things, in a private investment company managed by MLIM, LLC or in registered money market funds advised by FAM or its affiliates.

For the year ended February 28, 2005, the Fund reimbursed FAM \$7,401 for certain accounting services.

In addition, MLPF&S received \$2,406 in commissions on the execution of portfolio security transactions for the Fund for the year ended February 28, 2005.

Certain officers and/or directors of the Fund are officers and/or directors of FAM, PSI, and/or ML & Co.

### 3. Investments:

Purchases and sales (including paydowns) of investments, excluding short-term securities, for the year ended February 28, 2005 were \$276,907,931 and \$256,256,224, respectively.

### 4. Capital Share Transaction:

The Fund is authorized to issue 200,000,000 shares of capital stock par value \$.10, all of which are initially classified as Common Stock. The Board of Directors is authorized, however, to classify and reclassify any unissued shares of capital stock without approval of the holders of Common Stock.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Notes to Financial Statements (continued)

Shares issued and outstanding during the years ended February 28, 2005 and February 29, 2004 increased by 55,635 and 614,404, respectively, as a result of dividend reinvestment.

### 5. Unfunded Corporate Loans:

As of February 28, 2005, the Fund had unfunded loan commitments of approximately \$1,000,000, which would be extended at the option of the borrower, pursuant to the following loan agreement:

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Borrower	Unfunded Commitment (in thousands)
Quest Cherokee LLC	\$1,000

6. Short-Term Borrowings:

The Fund has entered into a revolving credit and security agreement funded by a commercial paper asset securitization program with Citicorp North America, Inc. ("Citicorp") as Agent, certain secondary backstop lenders, and certain asset securitization conduits as lenders (the "Lenders"). The credit facility has a maximum limit of \$163,500,000. Under the Citicorp program, the conduits will fund advances to the Fund through the issuance of highly rated commercial paper. As security for its obligations to the Lenders under the revolving securitization facility, the Fund has granted a security interest in substantially all of its assets to and in favor of the Lenders. The interest rate on the Fund's borrowings is based on the interest rate carried by the commercial paper plus a program fee. The Fund pays additional borrowing costs including a backstop commitment fee.

The weighted average annual interest rate was 1.93% and the average borrowing was approximately \$137,934,000 for the year ended February 28, 2005.

7. Distributions to Shareholders:

The Fund paid an ordinary income dividend in the amount of \$.047000 per share on March 31, 2005 to shareholders of record on March 15, 2005.

The tax character of distributions paid during the fiscal years ended February 28, 2005 and February 29, 2004 was as follows:

	2/28/2005	2/29/2004
Distributions paid from:		
Ordinary income	\$ 30,760,697	\$ 35,624,986
	-----	-----
Total taxable distributions	\$ 30,760,697	\$ 35,624,986
	=====	=====

As of February 28, 2005, the components of accumulated losses on a tax basis were as follows:

Undistributed ordinary income--net	\$ 2,720,247
Undistributed long-term capital gains--net	--
	-----
Total undistributed earnings--net	2,720,247
Capital loss carryforward	(150,707,056)*
Unrealized gains--net	36,005**
	-----
Total accumulated losses--net	\$ (147,950,804)
	=====

\* On February 28, 2005, the Fund had a net capital loss carryforward of \$150,707,056, of which \$4,282,847 expires in 2007,

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\$12,755,214 expires in 2008, \$25,658,795 expires in 2009, \$54,958,583 expires in 2010, \$30,706,546 expires in 2011 and \$22,345,071 expires in 2012. This amount will be available to offset like amounts of any future taxable gains.

\*\* The difference between book-basis and tax-basis net unrealized gains is attributable primarily to the book/tax differences in the accrual of income on securities in default, amortization methods for premiums and discounts on fixed income securities and the deferral of post-October capital losses for tax purposes.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of  
Senior High Income Portfolio, Inc.:

We have audited the accompanying statement of assets, liabilities and capital, including the schedule of investments, of Senior High Income Portfolio, Inc. as of February 28, 2005, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Portfolio's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Portfolio is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Portfolio's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of February 28, 2005, by correspondence with the custodian and financial intermediaries; where replies were not received from financial intermediaries, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Senior High Income Portfolio, Inc. as of February 28, 2005, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and its financial highlights

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for each of the five years in the period then ended in conformity with U.S. generally accepted accounting principles.

Deloitte & Touche LLP  
Princeton, New Jersey

April 22, 2005

Fund Certification (unaudited)

On September 17, 2004, the Fund filed its Chief Executive Officer Certification for the prior year with the New York Stock Exchange pursuant to Section 303A.12(a) of the New York Stock Exchange Corporate Governance Listing Standards.

The Fund's Chief Executive Officer and Chief Financial Officer Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 were filed with the Fund's Form N-CSR and are available on the Securities and Exchange Commission's Web site at <http://www.sec.gov>.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Automatic Dividend Reinvestment Plan

The following description of the Fund's Automatic Dividend Reinvestment Plan (the "Plan") is sent to you annually as required by the federal securities laws.

Pursuant to the Fund's Automatic Dividend Reinvestment Plan (the "Plan"), unless a holder of Common Stock otherwise elects, all dividend and capital gains distributions will be automatically reinvested by The Bank of New York, as agent for shareholders in administering the Plan (the "Plan Agent"), in additional shares of Common Stock of the Fund. Holders of Common Stock who elect not to participate in the Plan will receive all distributions in cash paid by check mailed directly to the shareholder of record (or, if the shares are held in street or other nominee name then to such nominee) by The Bank of New York, as dividend paying agent. Such participants may elect not to participate in the Plan and to receive all distributions of dividends and capital gains in cash by sending written instructions to The Bank of New York, as dividend paying agent, at the address set forth below. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by written notice if received by the Plan Agent not less than ten days prior to any dividend record date; otherwise such termination will be effective with respect to any subsequently declared dividend or distribution.

Whenever the Fund declares an income dividend or capital gains distribution (collectively referred to as "dividends") payable either in shares or in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the

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equivalent in shares of Common Stock. The shares will be acquired by the Plan Agent for the participant's account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized shares of Common Stock from the Fund ("newly issued shares") or (ii) by purchase of outstanding shares of Common Stock on the open market ("open-market purchases") on the New York Stock Exchange or elsewhere. If, on the payment date for the dividend, the net asset value per share of the Common Stock is equal to or less than the market price per share of the Common Stock plus estimated brokerage commissions (such condition being referred to herein as "market premium"), the Plan Agent will invest the dividend amount in newly issued shares on behalf of the participant. The number of newly issued shares of Common Stock to be credited to the participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If, on the dividend payment date, the net asset value per share is greater than the market value (such condition being referred to herein as "market discount"), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases.

In the event of a market discount on the dividend payment date, the Plan Agent will have until the last business day before the next date on which the shares trade on an "ex-dividend" basis or in no event more than 30 days after the dividend payment date (the "last purchase date") to invest the dividend amount in shares acquired in open-market purchases. It is contemplated that the Fund will pay monthly income dividends. Therefore, the period during which open-market purchases can be made will exist only from the payment date on the dividend through the date before the next "ex-dividend" date which typically will be approximately ten days. If, before the Plan Agent has completed its open-market purchases, the market price of a share of Common Stock exceeds the net asset value per share, the average per share purchase price paid by the Plan Agent may exceed the net asset value of the Fund's shares, resulting in the acquisition of fewer shares than if the dividend had been paid in newly issued shares on the dividend payment date. Because of the foregoing difficulty with respect to open-market purchases, the Plan provides that if the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent will cease making open-market purchases and will invest the uninvested portion of the dividend amount in newly issued shares at the close of business on the last purchase date determined by dividing the uninvested portion of the dividend by the net asset value per share.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

The Plan Agent maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the account, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy

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solicitation materials to participants and vote proxies for shares held pursuant to the Plan in accordance with the instructions of the participants.

In the case of shareholders such as banks, brokers or nominees that hold shares of others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the record shareholders as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who are to participate in the Plan.

There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends.

The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends.

Shareholders participating in the Plan may receive benefits not available to shareholders not participating in the Plan. If the market price plus commissions of the Fund's shares is above the net asset value, participants in the Plan will receive shares of the Fund at less than they could otherwise purchase them and will have shares with a cash value greater than the value of any cash distribution they would have received on their shares. If the market price plus commissions is below the net asset value, participants will receive distributions in shares with a net asset value greater than the value of any cash distribution they would have received on their shares. However, there may be insufficient shares available in the market to make distributions in shares at prices below the net asset value. Also, since the Fund does not redeem shares, the price on resale may be more or less than the net asset value.

The value of shares acquired pursuant to the Plan will generally be excluded from gross income to the extent that the cash amount reinvested would be excluded from gross income. If, when the Fund's shares are trading at a premium over net asset value, the Fund issues shares pursuant to the Plan that have a greater fair market value than the amount of cash reinvested, it is possible that all or a portion of such discount (which may not exceed 5% of the fair market value of the Fund's shares) could be viewed as a taxable distribution. If the discount is viewed as a taxable distribution, it is also possible that the taxable character of this discount would be allocable to all the shareholders, including shareholders who do not participate in the Plan. Thus, shareholders who do not participate in the Plan might be required to report as ordinary income a portion of their distributions equal to their allocable share of the discount.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence concerning the Plan should be directed to the Plan Agent at The Bank of New York, Church Street Station, P.O. Box

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11258, New York, NY 10286-1258, Telephone: 800-432-8224.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

### Officers and Directors

Name, Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portf Fund Overs Direc
<b>Interested Director</b>				
Robert C. Doll, Jr.* P.O. Box 9011 Princeton, NJ 08543-9011 Age: 50	President and Director	2005 to present	President of MLIM/FAM-advised funds since 2005; President of MLIM and FAM since 2001; Co-Head (Americas Region) thereof from 2000 to 2001 and Senior Vice President from 1999 to 2001; President and Director of Princeton Services, Inc. (Princeton Services) since 2001; President of Princeton Administrators, L.P. ("Princeton Administrators") since 2001; Chief Investment Officer of Oppenheimer Funds, Inc. in 1999 and Executive Vice President thereof from 1991 to 1999.	114 F 150 P

\* Mr. Doll is a director, trustee or member of an advisory board of certain other investment companies for which MLIM or FAM acts as investment adviser. Mr. Doll is an "interested person," as described in the Investment Company Act, of the Fund based on his current positions with MLIM, FAM, Princeton Services and Princeton Administrators, L.P. The Director's term is unlimited. Directors serve until their resignation, removal or death, or until December 31 of the year in which they turn 72. As Fund President, Mr. Doll serves at the pleasure of the Board of Directors.

### Independent Directors\*

Ronald W. Forbes P.O. Box 9095 Princeton, NJ 08543-9095 Age: 64	Director	1993 to present	Professor Emeritus of Finance, School of Business, State University of New York at Albany since 2000 and Professor thereof from 1989 to 2000; International Consultant, Urban Institute from 1995 to 1999.	48 Fu 48 Po
Cynthia A. Montgomery P.O. Box 9095 Princeton, NJ 08543-9095 Age: 52	Director	1993 to present	Professor, Harvard Business School since 1989; Associate Professor, J.L. Kellogg Graduate School of Management, Northwestern University from 1985 to 1989; Associate Professor, Graduate School of Business Administration, University of Michigan from 1979 to 1985; Director, Harvard Business School of Publishing since 2005.	48 Fu 48 Po

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Jean Margo Reid P.O. Box 9095 Princeton, NJ 08543-9095 Age: 59	Director	2004 to present	Self-employed consultant since 2001; Counsel of Alliance Capital Management (investment adviser) in 2000; General Counsel, Director and Secretary of Sanford C. Bernstein & Co., Inc. (investment adviser/broker-dealer) from 1997 to 2000; Secretary, Sanford C. Bernstein Fund, Inc. from 1994 to 2000; Director and Secretary of SCB, Inc. since 1998; Director and Secretary of SCB Partners, Inc. since 2000; Director of Covenant House from 2001 to 2004.	48 Fu 48 Po
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Roscoe S. Suddarth P.O. Box 9095 Princeton, NJ 08543-9095 Age: 69	Director	2000 to present	President of Middle East Institute from 1995 to 2001; Foreign Service Officer, United States Foreign Service from 1961 to 1995; Career Minister, from 1989 to 1995; Deputy Inspector General, U.S. Department of State from 1991 to 1994; U.S. Ambassador to The Hashemite Kingdom of Jordan from 1987 to 1990.	48 Fu 48 Po
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Richard R. West P.O. Box 9095 Princeton, NJ 08543-9095 Age: 67	Director	1993 to present	Professor of Finance from 1984 to 1995, Dean from 1984 to 1993 and since 1995 Dean Emeritus of New York University Leonard N. Stern School of Business Administration.	48 Fu 48 Po
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SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Officers and Directors (concluded)

Name, Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years	Number Portf Fund Overs Direc
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Independent Directors\* (concluded)

Edward D. Zinbarg P.O. Box 9095 Princeton, NJ 08543-9095 Age: 70	Director	2000 to present	Self-employed financial consultant since 1994; Executive Vice President of The Prudential Insurance Company of America from 1988 to 1994; former Director of Prudential Reinsurance Company and former Trustee of the Prudential Foundation.	48 Fu 48 Po
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\* The Director's term is unlimited. Directors serve until their resignation, removal or death, or until December 31 of the year in

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which they turn 72.

Name, Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
<b>Fund Officers*</b>			
Donald C. Burke P.O. Box 9011 Princeton, NJ 08543-9011 Age: 44	Vice President and Treasurer	1993 to present and 1999 to present	First Vice President of MLIM and FAM since 1997 and 1999; Senior Vice President and Treasurer of Princ and Director since 2004; Vice President of FAMD si of MLIM and FAM from 1990 to 1997; Director of Tax to 2001; Vice President, Treasurer and Secretary o
Kevin J. Booth P.O. Box 9011 Princeton, NJ 08543-9011 Age: 50	Vice President	2001 to present	Director (Global Fixed Income) of MLIM since 2000; from 1994 to 2000.
Jeffrey Hiller P.O. Box 9011 Princeton, NJ 08543-9011 Age: 53	Chief Compliance Officer	2004 to present	Chief Compliance Officer of the IQ Funds since 200 of the MLIM/FAM-advised funds and First Vice Presi Officer of MLIM (Americas Region) since 2004; Glob at Morgan Stanley Investment Management from 2002 and Global Director of Compliance at Citigroup Ass to 2002; Chief Compliance Officer at Soros Fund Ma Compliance Officer at Prudential Financial from 19 in the Commission's Division of Enforcement in Was to 1995.
Alice A. Pellegrino P.O. Box 9011 Princeton, NJ 08543-9011 Age: 44	Secretary	2004 to present	Director (Legal Advisory) of MLIM since 2002; Vice 1999 to 2002; Attorney associated with MLIM since FAM, FAMD and Princeton Services since 2004.

\* Officers of the Fund serve at the pleasure of the Board of Directors.

Custodian  
The Bank of New York  
100 Church Street  
New York, NY 10286

Transfer Agent  
The Bank of New York  
101 Barclay Street--11 East  
New York, NY 10286

NYSE Symbol  
ARK

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Effective January 1, 2005, Terry K. Glenn, President and Director and Kevin A. Ryan, Director of Senior High Income Portfolio, Inc. retired. The Fund's Board of Directors wishes Messrs. Glenn and Ryan well in their retirements.

Effective January 1, 2005, Robert C. Doll, Jr. became President and Director of the Fund.

SENIOR HIGH INCOME PORTFOLIO, INC., FEBRUARY 28, 2005

Item 2 - Code of Ethics - The registrant has adopted a code of ethics, as of the end of the period covered by this report, that applies to the registrant's principal executive officer, principal financial officer and principal accounting officer, or persons performing similar functions. A copy of the code of ethics is available without charge upon request by calling toll-free 1-800-MER-FUND (1-800-637-3863).

Item 3 - Audit Committee Financial Expert - The registrant's board of directors has determined that (i) the registrant has the following audit committee financial experts serving on its audit committee and (ii) each audit committee financial expert is independent: (1) Ronald W. Forbes, (2) Richard R. West, and (3) Edward D. Zinbarg.

Item 4 - Principal Accountant Fees and Services

(a) Audit Fees -           Fiscal Year Ending February 28, 2005 - \$39,000  
                                  Fiscal Year Ending February 29, 2004 - \$35,900

(b) Audit-Related Fees -  
                                  Fiscal Year Ending February 28, 2005 - \$7,500  
                                  Fiscal Year Ending February 29, 2004 - \$7,500

The nature of the services include assurance and related services reasonably related to the performance of the audit of financial statements not included in Audit Fees.

(c) Tax Fees -           Fiscal Year Ending February 28, 2005 - \$5,700  
                                  Fiscal Year Ending February 29, 2004 - \$5,200

The nature of the services include tax compliance, tax advice and tax planning.

(d) All Other Fees - Fiscal Year Ending February 28, 2005 - \$0  
                                  Fiscal Year Ending February 29, 2004 - \$0

(e) (1) The registrant's audit committee (the "Committee") has adopted policies and procedures with regard to the pre-approval of services. Audit, audit-related and tax compliance services provided to the registrant on an annual basis require specific pre-approval by the Committee. The Committee also must approve other non-audit services provided to the registrant and those non-audit services provided to the registrant's affiliated service providers that relate directly to the operations and the financial reporting of the registrant. Certain of these non-audit services that the Committee believes are a) consistent with the SEC's auditor independence rules and b) routine and recurring services that will not impair the independence of the independent accountants may be approved by the Committee without consideration on a specific case-by-case basis

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("general pre-approval"). However, such services will only be deemed pre-approved provided that any individual project does not exceed \$5,000 attributable to the registrant or \$50,000 for all of the registrants the Committee oversees. Any proposed services exceeding the pre-approved cost levels will require specific pre-approval by the Committee, as will any other services not subject to general pre-approval (e.g., unanticipated but permissible services). The Committee is informed of each service approved subject to general pre-approval at the next regularly scheduled in-person board meeting.

(e) (2) 0%

(f) Not Applicable

(g) Fiscal Year Ending February 28, 2005 - \$11,046,527  
Fiscal Year Ending February 29, 2004 - \$18,175,900

(h) The registrant's audit committee has considered and determined that the provision of non-audit services that were rendered to the registrant's investment adviser and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

Regulation S-X Rule 2-01(c) (7) (ii) - \$945,000, 0%

Item 5 - Audit Committee of Listed Registrants - The following individuals are members of the registrant's separately-designated standing audit committee established in accordance with Section 3(a) (58) (A) of the Exchange Act (15 U.S.C. 78c(a) (58) (A)):

Ronald W. Forbes  
Cynthia A. Montgomery  
Jean Margo Reid (as of August 20, 2004)  
Kevin A. Ryan (retired as of December 31, 2004)  
Roscoe S. Suddarth  
Richard R. West  
Edward D. Zinbarg

Item 6 - Schedule of Investments - Not Applicable

Item 7 - Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies -

Proxy Voting Policies and Procedures

Each Fund's Board of Directors/Trustees has delegated to Merrill Lynch Investment Managers, L.P. and/or Fund Asset Management, L.P. (the "Investment Adviser") authority to vote all proxies relating to the Fund's portfolio securities. The Investment Adviser has adopted policies and procedures ("Proxy Voting Procedures") with respect to the voting of proxies related to the portfolio securities held in the account of one or more of its clients, including a Fund. Pursuant to these Proxy Voting Procedures, the Investment Adviser's primary objective when voting proxies is to make proxy voting decisions solely in the best interests of each Fund and its shareholders, and to act in a manner that the Investment Adviser believes is most likely to enhance the economic value of the securities held by the Fund. The Proxy Voting Procedures are

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designed to ensure that that the Investment Adviser considers the interests of its clients, including the Funds, and not the interests of the Investment Adviser, when voting proxies and that real (or perceived) material conflicts that may arise between the Investment Adviser's interest and those of the Investment Adviser's clients are properly addressed and resolved.

In order to implement the Proxy Voting Procedures, the Investment Adviser has formed a Proxy Voting Committee (the "Committee"). The Committee is comprised of the Investment Adviser's Chief Investment Officer (the "CIO"), one or more other senior investment professionals appointed by the CIO, portfolio managers and investment analysts appointed by the CIO and any other personnel the CIO deems appropriate. The Committee will also include two non-voting representatives from the Investment Adviser's Legal department appointed by the Investment Adviser's General Counsel. The Committee's membership shall be limited to full-time employees of the Investment Adviser. No person with any investment banking, trading, retail brokerage or research responsibilities for the Investment Adviser's affiliates may serve as a member of the Committee or participate in its decision making (except to the extent such person is asked by the Committee to present information to the Committee, on the same basis as other interested knowledgeable parties not affiliated with the Investment Adviser might be asked to do so). The Committee determines how to vote the proxies of all clients, including a Fund, that have delegated proxy voting authority to the Investment Adviser and seeks to ensure that all votes are consistent with the best interests of those clients and are free from unwarranted and inappropriate influences. The Committee establishes general proxy voting policies for the Investment Adviser and is responsible for determining how those policies are applied to specific proxy votes, in light of each issuer's unique structure, management, strategic options and, in certain circumstances, probable economic and other anticipated consequences of alternate actions. In so doing, the Committee may determine to vote a particular proxy in a manner contrary to its generally stated policies. In addition, the Committee will be responsible for ensuring that all reporting and recordkeeping requirements related to proxy voting are fulfilled.

The Committee may determine that the subject matter of a recurring proxy issue is not suitable for general voting policies and requires a case-by-case determination. In such cases, the Committee may elect not to adopt a specific voting policy applicable to that issue. The Investment Adviser believes that certain proxy voting issues require investment analysis - such as approval of mergers and other significant corporate transactions - akin to investment decisions, and are, therefore, not suitable for general guidelines. The Committee may elect to adopt a common position for the Investment Adviser on certain proxy votes that are akin to investment decisions, or determine to permit the portfolio manager to make individual decisions on how best to maximize economic value for a Fund (similar to normal buy/sell investment decisions made by such portfolio managers). While it is expected that the Investment Adviser will generally seek to vote proxies over which the Investment Adviser exercises voting authority in a uniform manner for all the Investment Adviser's clients, the Committee, in conjunction with a Fund's portfolio manager, may determine that the Fund's specific circumstances require that its proxies be voted differently.

To assist the Investment Adviser in voting proxies, the Committee

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has retained Institutional Shareholder Services ("ISS"). ISS is an independent adviser that specializes in providing a variety of fiduciary-level proxy-related services to institutional investment managers, plan sponsors, custodians, consultants, and other institutional investors. The services provided to the Investment Adviser by ISS include in-depth research, voting recommendations (although the Investment Adviser is not obligated to follow such recommendations), vote execution, and recordkeeping. ISS will also assist the Fund in fulfilling its reporting and recordkeeping obligations under the Investment Company Act.

The Investment Adviser's Proxy Voting Procedures also address special circumstances that can arise in connection with proxy voting. For instance, under the Proxy Voting Procedures, the Investment Adviser generally will not seek to vote proxies related to portfolio securities that are on loan, although it may do so under certain circumstances. In addition, the Investment Adviser will vote proxies related to securities of foreign issuers only on a best efforts basis and may elect not to vote at all in certain countries where the Committee determines that the costs associated with voting generally outweigh the benefits. The Committee may at any time override these general policies if it determines that such action is in the best interests of a Fund.

From time to time, the Investment Adviser may be required to vote proxies in respect of an issuer where an affiliate of the Investment Adviser (each, an "Affiliate"), or a money management or other client of the Investment Adviser (each, a "Client") is involved. The Proxy Voting Procedures and the Investment Adviser's adherence to those procedures are designed to address such conflicts of interest. The Committee intends to strictly adhere to the Proxy Voting Procedures in all proxy matters, including matters involving Affiliates and Clients. If, however, an issue representing a non-routine matter that is material to an Affiliate or a widely known Client is involved such that the Committee does not reasonably believe it is able to follow its guidelines (or if the particular proxy matter is not addressed by the guidelines) and vote impartially, the Committee may, in its discretion for the purposes of ensuring that an independent determination is reached, retain an independent fiduciary to advise the Committee on how to vote or to cast votes on behalf of the Investment Adviser's clients.

In the event that the Committee determines not to retain an independent fiduciary, or it does not follow the advice of such an independent fiduciary, the powers of the Committee shall pass to a subcommittee, appointed by the CIO (with advice from the Secretary of the Committee), consisting solely of Committee members selected by the CIO. The CIO shall appoint to the subcommittee, where appropriate, only persons whose job responsibilities do not include contact with the Client and whose job evaluations would not be affected by the Investment Adviser's relationship with the Client (or failure to retain such relationship). The subcommittee shall determine whether and how to vote all proxies on behalf of the Investment Adviser's clients or, if the proxy matter is, in their judgment, akin to an investment decision, to defer to the applicable portfolio managers, provided that, if the subcommittee determines to alter the Investment Adviser's normal voting guidelines or, on matters where the Investment Adviser's policy is case-by-case, does not follow the voting recommendation of any proxy voting service or other independent fiduciary that may be retained to provide research or advice to the Investment Adviser on that matter, no proxies relating to the Client may be voted unless the Secretary, or in the

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Secretary's absence, the Assistant Secretary of the Committee concurs that the subcommittee's determination is consistent with the Investment Adviser's fiduciary duties

In addition to the general principles outlined above, the Investment Adviser has adopted voting guidelines with respect to certain recurring proxy issues that are not expected to involve unusual circumstances. These policies are guidelines only, and the Investment Adviser may elect to vote differently from the recommendation set forth in a voting guideline if the Committee determines that it is in a Fund's best interest to do so. In addition, the guidelines may be reviewed at any time upon the request of a Committee member and may be amended or deleted upon the vote of a majority of Committee members present at a Committee meeting at which there is a quorum.

The Investment Adviser has adopted specific voting guidelines with respect to the following proxy issues:

\* Proposals related to the composition of the Board of Directors of issuers other than investment companies. As a general matter, the Committee believes that a company's Board of Directors (rather than shareholders) is most likely to have access to important, nonpublic information regarding a company's business and prospects, and is therefore best-positioned to set corporate policy and oversee management. The Committee, therefore, believes that the foundation of good corporate governance is the election of qualified, independent corporate directors who are likely to diligently represent the interests of shareholders and oversee management of the corporation in a manner that will seek to maximize shareholder value over time. In individual cases, the Committee may look at a nominee's history of representing shareholder interests as a director of other companies or other factors, to the extent the Committee deems relevant.

\* Proposals related to the selection of an issuer's independent auditors. As a general matter, the Committee believes that corporate auditors have a responsibility to represent the interests of shareholders and provide an independent view on the propriety of financial reporting decisions of corporate management. While the Committee will generally defer to a corporation's choice of auditor, in individual cases, the Committee may look at an auditors' history of representing shareholder interests as auditor of other companies, to the extent the Committee deems relevant.

\* Proposals related to management compensation and employee benefits. As a general matter, the Committee favors disclosure of an issuer's compensation and benefit policies and opposes excessive compensation, but believes that compensation matters are normally best determined by an issuer's board of directors, rather than shareholders. Proposals to "micro-manage" an issuer's compensation practices or to set arbitrary restrictions on compensation or benefits will, therefore, generally not be supported.

\* Proposals related to requests, principally from management, for approval of amendments that would alter an issuer's capital structure. As a general matter, the Committee will support requests that enhance the rights of common shareholders and oppose requests that appear to be unreasonably dilutive.

\* Proposals related to requests for approval of amendments to an issuer's charter or by-laws. As a general matter, the Committee

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opposes poison pill provisions.

\* Routine proposals related to requests regarding the formalities of corporate meetings.

\* Proposals related to proxy issues associated solely with holdings of investment company shares. As with other types of companies, the Committee believes that a fund's Board of Directors (rather than its shareholders) is best-positioned to set fund policy and oversee management. However, the Committee opposes granting Boards of Directors authority over certain matters, such as changes to a fund's investment objective, that the Investment Company Act envisions will be approved directly by shareholders.

\* Proposals related to limiting corporate conduct in some manner that relates to the shareholder's environmental or social concerns. The Committee generally believes that annual shareholder meetings are inappropriate forums for discussion of larger social issues, and opposes shareholder resolutions "micromanaging" corporate conduct or requesting release of information that would not help a shareholder evaluate an investment in the corporation as an economic matter. While the Committee is generally supportive of proposals to require corporate disclosure of matters that seem relevant and material to the economic interests of shareholders, the Committee is generally not supportive of proposals to require disclosure of corporate matters for other purposes.

Item 8 - Portfolio Managers of Closed-End Management Investment Companies - Not Applicable at this time

Item 9 - Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers - Not Applicable

Item 10 - Submission of Matters to a Vote of Security Holders - Not Applicable

Item 11 - Controls and Procedures

11(a) - The registrant's certifying officers have reasonably designed such disclosure controls and procedures to ensure material information relating to the registrant is made known to us by others particularly during the period in which this report is being prepared. The registrant's certifying officers have determined that the registrant's disclosure controls and procedures are effective based on our evaluation of these controls and procedures as of a date within 90 days prior to the filing date of this report.

11(b) - There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the second fiscal half-year of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12 - Exhibits attached hereto

12(a) (1) - Code of Ethics - See Item 2

12(a) (2) - Certifications - Attached hereto

12(a) (3) - Not Applicable

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12(b) - Certifications - Attached hereto

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Senior High Income Portfolio, Inc.

By:     /s/ Robert C. Doll, Jr.            
Robert C. Doll, Jr.,  
Chief Executive Officer of  
Senior High Income Portfolio, Inc.

Date: April 22, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:     /s/ Robert C. Doll, Jr.            
Robert C. Doll, Jr.,  
Chief Executive Officer of  
Senior High Income Portfolio, Inc.

Date: April 22, 2005

By:     /s/ Donald C. Burke            
Donald C. Burke,  
Chief Financial Officer of  
Senior High Income Portfolio, Inc.

Date: April 22, 2005