REGISTERED NO.
3477297

Neos Networks Limited

Accounts for the year ended 31 March 2007

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Neos Networks Limited

Report of the Directors

The Directors present their report together with the audited Accounts for theyear ended 31 March 2007

1. Principal Activities

The Company's principal activity during the year was the provision of telecommunications infrastructure services for both external and group customers

2 Business Review

(i) Principal Risks and Uncertainties

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

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

The main financial risks that the Company could face have been considered by the Directors The telecom market continues to be a competitive one, with the pressure to maintain or reduce prices, being one of the most significant that the business faces The Company is able to compensate for these risks, due to it's positioning in the market place, and with the financial backing of Scottish and Southern Energy plc, the Company is one of the most secure and stable Telecoms service providers in the industry

The Company plans to continue to achieve growth by providing a fast, responsive and efficient service, and to focus on larger corporate and local government customers

(ii) Review of Development and Performance

This year has seen the Company achieve an Earnings Before Interest and Tax (EBIT) profit of £2 2m (2005/06 - £0 8m profit, the first profit in Neos' history) This has been achieved by a growth in revenue of 19%, giving rise to an increase in EBIT of 175% In achieving this success the Company has not compromised on its core values, and has succeeded in achieving its health and safety targets of zero lost time injuries and zero class 1 road traffic accidents in the year

(iii) Key Performance Indicators

Revenue, EBIT, Gross Profit Percentage, Average Monthly Order Intake, and Churn (average annual recurring revenue lost per month) are some of the Company's key financial indicators that are important in assessing the performance of the business

Non-financial indicators are used to assess the level of service that is provided to customers, which is considered to be a key area for the business Non-financial measures include Project delivery ratios and an Operational faults fixed within SLA ratio

There have been significant improvements in most of the financial indicators, mainly as a result of winning larger customer contracts that yield higher margins, combined with the continuous review and control of the company's cost base The Churn variance is due to a continuing change in customer base, with increased focus on larger corporate and local authorities The impact of the increase in Churn has had a minimal effect on gross margin, given that many of the larger lost contracts were yielding lower margins

The non-financial indicators continue to be measured and assessed to ensure that efficiencies and quality of service provided are maintained

Neos Networks Limited

Report of the Directors (continued)

2. Business Review (continued)

(iii) Key Performance Indicators (continued)

	2007 £M	2006 £M	Change +/-
Revenue	**25 4**	21 3	19 2%
EBIT	**2.2**	0 8	175%

	2007 Number	2006 Number	Change +/-
Average Monthly Order Intake	**3,000**	2,200	36 4%

	2007 %	2006 %	Change +/-
Churn	1 3%	1 1%	18 2%
Gross Profit Percentage	56 0%	49 0%	14 3%
Standard Projects on time	98 0%	89 0%	10 1%
Non-standard projects on time	93 0%	96 0%	-3 1%
Operational faults fixed within SLA	94 0%	95 0%	-1 1%

3. Results and Dividends

The Company made a profit of £0 8 in the year to 31 March 2007 (2006 - £nil) The Directors do not recommend the payment of a dividend (2006 - £nil)

4. Directors

The Directors who served during the year were as follows -

Colin Hood
Adrian Pike
Dennis Chaloner
Christopher Hillman
Elizabeth Tanner
Michael Wigmore (resigned 17 July 2006)
Calum Wilson (appointed 1 April 2006, resigned 12 February 2007)

Neos Networks Limited

Report of the Directors (continued)

5. Political and Charitable Donations

During the year, no charitable or political donations were made

6. Employment Policies

Staff are actively encouraged to be involved in Company affairs in a wide variety of ways These include monthly team meetings, briefing documents and internal videos Policies on such matters as Equal Opportunities and Health and Safety are regularly communicated to staff and involvement is supported through local committees New staff joining the Company receive induction training

It is Company policy, where possible, to provide employment opportunities for disabled people Staff who become disabled are supported in continuing employment through identification of suitable jobs and the provision of necessary retraining

7. Supplier Payment Policy

The Company complies with the CBI Prompt Payment Code The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to, that there is a clear and consistent policy that bills are paid in accordance with the contract, and that there are no alterations to payment terms without prior agreement Copies of the Code are available on application to the Company Secretary The number of suppliers' days represented by trade creditors was 36 days at 31 March 2007

8. Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the company's auditors are aware of that information

ON BEHALF OF THE BOARD

Vincent Donnelly
Company Secretary
20 September 2007

Neos Networks Limited

Statement of directors' responsibilities in respect of the Directors' Report and the Accounts

The dırectors are responsıble for preparıng the Dırectors' Report and the Accounts ın accordance wıth applıcable law and regulatıons

Company law requıres the dırectors to prepare Accounts for each financıal year Under that law they have elected to prepare the Accounts ın accordance wıth UK Accountıng Standards and applıcable law (UK Generally Accepted Accountıng Practıce)

The Accounts are requıred by law to gıve a true and faır vıew of the state of affaırs of the company and of the profit or loss of the company for that perıod

In preparıng these Accounts, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make ȷudgements and estımates that are reasonable and prudent,
- state whether applıcable UK Accountıng Standards have been followed, subȷect to any materıal departures dısclosed and explaıned ın the Accounts, and
- prepare the Accounts on the goıng concern basıs unless ıt ıs ınapproprıate to presume that the company wıll contınue ın busıness

The dırectors are responsıble for keepıng proper accountıng records that dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the company and enable them to ensure that ıts Accounts comply wıth the Companıes Act 1985 They have general responsıbılıty for takıng such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other ırregularıtıes

Neos Networks Limited

Independent Auditors' Report to the Members of Neos Networks Limited

We have audited the Accounts of Neos Networks Limited for the year ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, and the related notes These Accounts have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors
As described in the Statement of Directors' Responsibilities on page 4, the company's directors are responsible for the preparation of the Accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

Our responsibility is to audit the Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Accounts In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

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

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

Opinion
In our opinion

- the Accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the Accounts have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the Accounts

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
20 September 2007

Neos Networks Limited

Profit and Loss Account
for the year ended 31 March 2007

	Note	2007 £M	2006 £M
Turnover		**25.4**	21 3
Cost of sales		**(11.1)**	(10 9)
Gross profit		**14.3**	10 4
Admınıstratıve costs		**(12.1)**	(9 6)
Operatıng profit	2	**2.2**	0 8
Net ınterest payable	5	**(0.9)**	(0 7)
Profit on ordınary actıvıtıes before taxatıon		**1.3**	0 1
Taxatıon	6	**(0.5)**	(0 1)
Retained profit	16	**0.8**	-

Other than the retaıned profit for the financıal year, there are no other recognısed gaıns or losses

Neos Networks Limited

Balance Sheet
as at 31 March 2007

	Note	2007 £M	2006 £M
Fixed Assets			
Intangible fixed assets	7	**2.2**	2 5
Tangible assets	8	**20.0**	14 1
		22.2	16 6
Current assets			
Debtors	9	**11 1**	11 3
Creditors amounts falling due within one year	10	**(31.0)**	(26 0)
Net current liabilities		**(19.9)**	(14 7)
Total assets less current liabilities		**2.3**	1 9
Creditors amounts falling due after more than one year	11	**(0 7)**	(1 1)
Net assets		**1.6**	0 8
Capital and reserves			
Called up share capital	15	**24.1**	24 1
Share premium account	16	**31 8**	31 8
Profit and loss account	16	**(54.3)**	(55 1)
Equity shareholders' funds		**1 6**	0 8

These Accounts were approved by the Directors on 20 September 2007 and signed on their behalf by

Christopher Hillman, Director

Neos Networks Limited

Statement of Total Recognised Gains and Losses for the year ended 31 March 2007

	2007 £M	2006 £M
Profit/(loss) for the year	**0.8**	-
Total recognised gains and losses relating to the financial year	**0.8**	-
Prior year adjustments		0 2
Total gains and losses recognised since last annual report		0 2

Reconciliation of Movements in Shareholders' Funds as at 31 March 2007

	2007 £M	2006 £M
Profit/(loss) for the year	**0.8**	-
Dividends	-	-
Net addition to/(reduction) in shareholders' funds	**0.8**	-
Opening shareholders' funds	**0.8**	0 8
Closing shareholders' funds	1.6	0 8

Neos Networks Limited

Notes on the Accounts
for the year ended 31 March 2007

1. Principal accounting policies

Basis of accounting

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

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated financial statements

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to produce group accounts These financial statements present information about the Company as an individual undertaking and not about its group

As the Company is a wholly owned subsidiary of Scottish and Southern Energy plc, it has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the Scottish and Southern Energy Group

Turnover

Turnover comprises the value of telecommunication services provided during the period to both internal and external customers This includes income from data network managed service contracts and site sharing rentals

Recognition of profits on contracts

Profit is taken on long-term contracts whilst the contract is in progress having regard to the proportion of the total contract which has been completed at the balance sheet date Provision is made for foreseeable losses

Research and development

Expenditure on research and development is charged to the profit and loss account as incurred

Tangible fixed assets
(i) Depreciation

Heritable and freehold land is not depreciated

Depreciation is provided on other tangible fixed assets to write off cost, less residual values, on a straight line basis over their estimated operational lives The estimated operational lives are as follows

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

1. **Principal accounting policies** (continued)

Tangible fixed assets (continued)

(ii) Subsequent expenditure

Expenditure incurred to replace a component of a tangible fixed asset that is accounted for separately is capitalised Other subsequent expenditure is capitalised only when it increases the future economic benefits of thetangible fixed asset to which it relates

Leases

Operating lease rentals and premiums are charged to the profit and loss account on a straight line basis over the period of the lease Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value The valuation of work in progress is based on the cost of labour, plus appropriate overheads and the cost of materials Progress invoices are deducted in arriving at the amounts stated

Taxation

The charge for taxation is based on the profit or loss for the period and takes into account deferred taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date

Deferred taxation arises in respect of items where there are timing differences between their treatment for accounting and taxation purposes This is recognised where an obligation to pay more tax in the future has originated but not reversed at the balance sheet date A deferred tax asset is recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Goodwill

Goodwill is calculated as being the difference between the fair value of the assets acquired and the consideration paid to acquire those assets Purchased goodwill is capitalised and amortised on a straight line basis to the profit and loss account This is carried out over a period of 10 years from the date of acquisition

Employee benefit obligations
Pensions
Contributions to pension schemes on behalf of the employees of the Company are charged to the profit and loss account in accordance with the contributions incurred in the year

Neos Networks Limited

Notes on the Accounts
for the year ended 31 March 2007

1. Principal accounting policies (continued)

Equity and equity-related compensation benefits
SSE plc, the ultimate parent of the Company, operates a number of All Employee Share Schemes as described in the Remuneration Report of the Group These schemes enable Group employees to acquire shares of SSE plc The employees of the Company are entitled, where applicable, to participate in these schemes The Company has been charged with the cash cost of acquiring shares on behalf of its employees, with a corresponding increase in the equity of SSE plc Where the fair value of the options granted has been measured, the Company has recognised the expense as if the share based payments related to the Company's own shares

Applying the transitional provisions of FRS 20, its requirements have been applied to all grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005

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

The costs associated with the other main employee schemes, the share incentive plan and the deferred bonus scheme, are recognised over the period to which they relate

2. Operating profit

Operating profit is arrived at after charging

	2007 £M	2006 £M
Depreciation of tangible fixed assets	3 4	2 8
Operating lease rentals	12.3	11 5
Amortisation of goodwill	0.3	0 3

The Company also incurred an audit fee of £355 (2006 - £474) in the year

Neos Networks Limited

Notes on the Accounts
for the year ended 31 March 2007

3. Staff costs and numbers

	2007 £M	2006 £M
Staff costs		
Wages and salaries	3.4	3 1
Social security costs	0.3	0 3
Other pension costs	0.3	0 2
	4.0	3 6

Included within the above costs is a charge recognised under FRS 20 of £25,248 (2006 - £14,860)

	2007 Number	2006 Number
Numbers employed at 31 March	60	63

	2007 Number	2006 Number
The monthly average number of people employed by the Company during the period	62	62

4. Directors' emoluments

The level of emoluments of the Directors who provided services to the Company were as follows

	2007 £M	2006 £M
Remuneration as executives	0.2	0 3

5. Net interest payable

	2007 £M	2006 £M
Interest payable		
To group undertakings	(0.8)	(0 5)
On finance leases	(0.1)	(0 2)
	(0.9)	(0 7)
Net interest payable	(0.9)	(0 7)

Neos Networks Limited

Notes on the Accounts
for the year ended 31 March 2007

6. Taxation

	2007 £M	2006 £M
Current tax		
United Kingdom corporation tax	(0 1)	(0 7)
Deferred tax		
Origination and reversal of timing differences	0.6	0 7
Adjustment in respect of prior years	-	0 1
Total Deferred Tax	0 6	0 8
Total tax on profit/(loss) on ordinary activities	0.5	0 1

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	2007 £M	2006 £M
Profit before tax	1.3	0 1
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006 - 30%)	0 4	-
Effects of		
Capital allowances in excess of depreciation	(0.6)	(0 7)
Expenses not deductible for tax purposes	0 1	-
Current tax (credit) for year	(0.1)	(0 7)

7. Intangible fixed assets

	Goodwill on acquisition £M
Cost:	
At 1 April 2006 and 31 March 2007	3 1
Amortisation:	
At 1 April 2006	0 6
Charge for the year	0 3
At 31 March 2007	0 9
Net book value:	
At 31 March 2007	2.2
At 1 April 2006	2 5

Following the transfer of trade from Neos Integration Limited (a subsidiary company), the investment held by the Company was reclassified as goodwill to more accurately reflect the nature of the asset This goodwill is amortised over a period of 10 years, reflecting the competitive nature of the telecommunications market

Neos Networks Limited

Notes on the Accounts
for the year ended 31 March 2007

8. Tangible fixed assets

	Network assets £M	Vehicles and miscellaneous equipment £M	Total £M
Cost			
At 1 April 2006	27 0	20 9	47 9
Additions	9 3	-	9 3
At 31 March 2007	**36.3**	**20.9**	**57.2**
Depreciation:			
At 1 April 2006	15 9	17 9	33 8
Charge for the year	2 4	1 0	3 4
At 31 March 2007	**18 3**	**18.9**	**37.2**
Net book value:			
At 31 March 2007	**18.0**	**2.0**	**20.0**
At 1 April 2006	11 1	3 0	14 1

Included within the above are the following assets held under finance leases

	Network assets £M	Vehicles and miscellaneous equipment £M	Total £M
Cost:			
At 1 April 2006 and 31 March 2007	5 1	7 0	12 1
Depreciation:			
At 1 April 2006	4 3	5 8	10 1
Charge for the period	0 2	0 2	0 4
At 31 March 2007	4 5	6 0	10 5
Net book value:			
At 31 March 2007	**0.6**	**1.0**	**1 6**
At 1 April 2006	0 8	1 2	2 0

9. Debtors

	2007 £M	2006 £M
Amounts falling due within one year		
Trade debtors	**5 6**	4 9
Prepayments and accrued income	**0.1**	0 5
Deferred tax asset (note 12)	**0.1**	0 7
Group relief receivable	**5.3**	5 1
Other debtors	-	0 1
	11.1	11 3

Neos Networks Limited

Notes on the Accounts
for the year ended 31 March 2007

10. Creditors: amounts falling due within one year

	2007 £M	2006 £M
Trade creditors	**5.1**	6 0
Amounts owed to group undertakings	**17.0**	12 5
Taxation and social security	**0.5**	0 5
Accruals and deferred income	**7.7**	6 4
Obligations due under finance leases	**0.4**	0 4
Other creditors	**0.3**	0 2
	31.0	26 0

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

	2007 £M	2006 £M
Obligations due under finance leases	**0 7**	1 1

12. Deferred taxation

Deferred taxation is provided as follows

	At March 2007 £M	At March 2006 £M
Accelerated capital allowances	**(0.1)**	(0 7)
Undiscounted deferred tax asset	**(0.1)**	(0 7)

	as at 31 March 2007 £M
Asset at start of year	(0 7)
Transferred from / (to) profit and loss account	0 6
Asset at end of year	**(0.1)**

In addition to the asset recognised above, there is an unrecognised deferred tax asset of £12 4M (2006 - £12 2M) arising as a result of tax losses amounting to £41 3M (2006 - £40 7M) As it is uncertain when these losses will be recovered, the asset has not been recognised at this stage

13. Pensions

The Company's employees are members of a personal pension scheme which is a money purchase scheme with the Group matching the members' contributions up to a maximum of 6% of salary The scheme is managed by Friends Provident

The Company's share of the total contribution payable to the pension schemes during the period was £0 3M (2006 - £0 2M)

Neos Networks Limited

Notes on the Accounts
for the year ended 31 March 2007

14. Employee share-based payments

The majority of the Company's employees are participants in the following Group share schemes

(i) Savings-related share option schemes ("Sharesave")

This scheme gives employees the option to purchase shares in the parent Company at a discounted market price, subject to them remaining in employment with the Group for the term of the agreement Employees may opt to save between £5 and £250 per month for a period of 3 or 5 years and at the end of this period, employees have six months to exercise their options by using the cash saved (including a bonus equivalent to interest) If the option is not exercised, the funds may be withdrawn by the employee and the option expires

(ii) Share Incentive Plan (SIP)

This scheme allows employees the opportunity to purchase shares in the parent Company on a monthly basis Employees may nominate an amount between £10 and £125 to be deducted from their gross salary, and this is then used to purchase shares ('partnership shares') in the market on the final business day of each month These shares are then held in trust for a period of 5 years, at which point they are transferred at no further cost to the employee These shares may be withdrawn at any point during the 5 years, but tax and national insurance wouldthen be payable on any amounts withdrawn

In addition to the shares purchased on behalf of the employee, the Group will match the purchase up to a maximum of 5 shares ('matching shares') per month Again these shares are held in trust for the five years until they are transferred to the employee If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited

In addition to the above, at 31 March 2005 the Group made a special award of 50 free shares to all employees in employment at both 31 March and 20 August 2005 in recognition of their contribution to the success of the Group Under the arrangements for the award, the shares will be held in trust for five years, at which point they will be transferred to the employees at no cost to the employee These shares may be withdrawn by the employee at any point during years four and five, but tax and national insurance would then be payable on any amounts withdrawn

Details used in the calculation of these costs are as follows

(i) Savings-related share option scheme

		25 July 2003		16 July 2004		14 July 2005		11 July 2006	
		2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Outstanding at start of year	Shares	**10,457**	13,114	**8,015**	8,015	**9,092**	-	-	-
	Price	***562***	*562*	***622***	*622*	***886***	-	-	-
Granted	Shares	-	-	-	-	-	9,092	**10,181**	-
	Price	-	-	-	-	-	*886*	***999***	-
Forfeited	Shares	**(2,833)**	(1,977)	**(1,051)**	-	**(959)**	-	-	-
	Price	***562***	*562*	***622***	-	***886***	-	-	-
Exercised	Shares	**(7,137)**	(680)	-	-	-	-	-	-
	Price	***1,330***	*937*	-	-	-	-	-	-
Outstanding at end of year	Shares	**487**	10,457	**6,964**	8,015	**8,133**	9,092	**10,181**	-
	Price	***562***	*562*	***622***	*622*	***886***	*886*	***999***	-

Of the outstanding options at the end of the year, none were exercisable

14. Employee share-based payments (contınued)

(ı) Savıngs-related share optıon scheme (contınued)

The faır value of these shares at vestıng, calculated usıng the Black-Scholes model, and the assumptıons made ın that model are as follows

	July 2003		July 2004		July 2005		July 2006	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Prıce	659p	667p	730p	739p	1,012p	1,023p	1,216p	1,226p
Expected volatılıty	17%	17%	17%	17%	15%	15%	19%	19%
Rısk free rate	4 7%	4 8%	4 7%	4 8%	4 1%	4 2%	4 7%	4 7%
Expected dıvıdends	4 6%	4 6%	4 6%	4 6%	4 2%	4 2%	4 8%	4 8%
Term of the optıon	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlyıng prıce at grant date	630p	630p	699p	699p	967p	967p	1,180p	1,180p
Strıke prıce	562p	562p	622p	622p	886p	886p	999p	999p

Expected prıce volatılıty was obtaıned by calculatıng the hıstorıcal volatılıty of the Group's share prıce over the prevıous 12 months

(ıı) Share Incentıve Plan

	2007		2006	
	Shares	**Weıghted average price (pence)**	Shares	Weıghted average prıce (pence)
Outstandıng at start of year	**2,503**	**923**	1,261	764
Granted	**1,578**	**1,330**	1,512	1,028
Forfeıted	**(180)**	**923**	(130)	764
Exercısed	**(324)**	**1,273**	(140)	1,015
Outstandıng at end of year	**3,577**	**1,103**	2,503	923
Exercısable at end of year	**555**	**632**	-	-

Shares purchased under thıs scheme prıor to 7 November 2002 have not been ıncluded as permıtted by the transıtıonal rules under FRS 20

Free shares

	2007		2006	
	Shares	**Weighted average price (pence)**	Shares	Weıghted average prıce (pence)
Outstandıng at start of year	**2,400**	**965**	-	-
Granted	**-**	**-**	2,550	965
Forfeıted	**(200)**	**965**	(150)	965
Exercısed	**(100)**	**1,263**	-	-
Outstandıng at end of year	**2,100**	**965**	2,400	965

Of the outstandıng optıons at the end of the year, nonewere exercısable

15. Share capital

	2007 £M	2006 £M
Equity		
Authorised		
2,496,476,173 deferred shares of £0 01 each	25 0	25 0
Allotted, called up and fully paid		
2,405,328,701 deferred shares of £0 01 each	24 1	24 1

Deferred shares carry no voting rights and no rights to receive dividends

16. Reserves

	Share Premium Account £M	Profit and loss account £M
As at 31 March 2006	31 8	(55 1)
Retained profit for the year	-	0 8
At 31 March 2007	**31.8**	**(54.3)**

17. Lease commitments

The payments under operating leases which are due to be made in the next year, analysed over the periods when the leases expire, are

	Other assets 2007 £M	2006 £M
Within one year	2 5	1 8
Between two and five years	5.0	2 2
After five years	0.6	1 0
	8.1	5 0

18. Post balance sheet events

It has been announced that the corporation tax rate applicable to the Company will change from 30% to 28% from 1 April 2008 There are also proposed changes to the tax treatment of industrial buildings allowances The deferred tax asset has been calculated at 30% Any timing differences which reverse before 1 April 2008 will be (charged) or relieved at 30% and any timing differences which exist at 1 April 2008 will reverse at 28% The Company expects that there will be a negligible charge to the Profit and Loss Account in the subsequent financial year

19. Ultimate parent company

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