

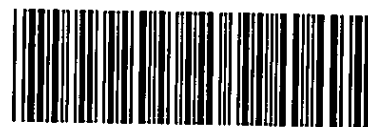
REGISTERED NO.
3477297

Neos Networks Limited

Financial statements for the year ended 31 March 2011

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Neos Networks Limited

Report of the Directors

The Directors present their report together with the audited Financial statements for the year ended 31 March 2011

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) Review of Development and Performance

This year has seen the Company achieve an Earnings Before Interest and Tax (EBIT) profit of £8.4m (2010 - £6.7m). This has been achieved by a growth in revenue of 1.3% alongside a focus on cost savings reducing cost of sales by 6.5%, giving rise to an increase in EBIT of 25.4%. In achieving this success the Company has not compromised on its core values, and has succeeded in achieving the majority of its health and safety targets, notably, zero lost time injuries.

(ii) 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 telecoms 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 its 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 customers.

(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 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)

	2011 £m	2010 £m	Change %
Revenue	38.6	38.1	1.3
EBIT	8.4	6.7	25.4
<hr/>			
	2011 £m	2010 £m	Change %
Average Monthly Order Intake	2.19	3.3	(33.6)
<hr/>			
	2011 %	2010 %	Change %
Churn	0.9	0.6	(57.6)
Gross Profit Percentage	59.1	55.6	3.5
Standard Projects on time	99.3	98.9	0.4
Non-standard projects on time	99.2	100.0	(0.8)
Operational faults fixed within SLA	97.9	98.4	(0.5)

3. Results and Dividends

The Company made a profit after tax of £6.2m in the year to 31 March 2011 (2010 - £5.9m). The Directors do not recommend the payment of a dividend (2010 - £nil).

4. Directors

The Directors who served during the year were as follows -

Colin Hood
Christopher Hillman
Elizabeth Tanner
Neil Hutchings
Adrian Pike (resigned 1 December 2010)
Gregor Alexander (appointed 17 December 2010)
Mark Mathieson (appointed 17 December 2010)

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

It is the Company's policy that payment terms are agreed at the outset of a transaction and are adhered to, that bills are paid in accordance with the contract, and that there are no alterations to payment terms without prior agreement. The number of suppliers' days represented by trade creditors was 39 days at 31 March 2011.

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.

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

ON BEHALF OF THE BOARD



Christopher Hillman
Director
16 September 2011

Neos Networks Limited

Statement of directors' responsibilities in respect of the Directors' Report and the Financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Neos Networks Limited

Independent Auditor's Report to the Members of Neos Networks Limited

We have audited the financial statements of Neos Networks Limited for the year ended 31 March 2011 as set out on pages 6 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

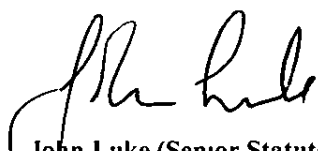
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



John Luke (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

16 September 2011

Neos Networks Limited

Profit and Loss Account for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Turnover		38.6	38.1
Cost of sales		(15.8)	(16.9)
Gross profit		<u>22.8</u>	<u>21.2</u>
Administrative costs		(14.4)	(14.5)
Operating profit	2	<u>8.4</u>	<u>6.7</u>
Interest payable	5	-	-
Profit on ordinary activities before taxation		<u>8.4</u>	<u>6.7</u>
Tax on profit on ordinary activities	6	(2.2)	(0.8)
Profit for the financial year	16	<u><u>6.2</u></u>	<u><u>5.9</u></u>

Other than the retained profit for the financial year, there are no other recognised gains or losses

The above results are derived from continuing activities

The accompanying notes form part of these financial statements

Neos Networks Limited

Balance Sheet as at 31 March 2011

	Note	2011 £m	2010 £m
Fixed Assets			
Intangible assets	7	0.9	1.2
Tangible assets	8	18.3	20.5
		<u>19.2</u>	<u>21.7</u>
Current assets			
Cash at bank and in hand		-	0.1
Debtors	9	30.7	27.0
Creditors amounts falling due within one year	10	(18.6)	(23.7)
Net current assets		<u>12.1</u>	<u>3.4</u>
Total assets less current liabilities		<u>31.3</u>	<u>25.1</u>
Creditors amounts falling due after more than one year	11	(0.4)	(0.4)
Net assets		<u>30.9</u>	<u>24.7</u>
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	(25.0)	(31.2)
Shareholders' funds		<u>30.9</u>	<u>24.7</u>

These Financial statements were approved by the Directors on 16 September 2011 and signed on their behalf by



Christopher Hillman, Director

Company Registered No 3477297

Neos Networks Limited

Reconciliation of Movements in Shareholders' Funds as at 31 March 2011

	2011 £m	2010 £m
Profit for the financial year	6.2	5.9
Net addition to shareholders' funds	6.2	5.9
Opening shareholders' funds	24.7	18.8
Closing shareholders' funds	30.9	24.7

Neos Networks Limited

Notes on the Financial statements for the year ended 31 March 2011

1. Principal accounting policies

Basis of accounting

The Financial statements 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.

Neos Networks Limited is a wholly owned subsidiary of Scottish and Southern energy Plc, and therefore relies upon group facilities to support its activities. The group's facilities and the rationale for preparing the group financial statements under the going concern basis are disclosed in full in the annual report and accounts of Scottish and Southern Energy Plc. For this reason, the going concern basis has been adopted in preparing the financial statements of Neos Networks Limited.

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 s400 of the Companies Act 2006 from the requirement to produce group financial statements. 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

Neos Networks Limited

Notes on the Financial statements for the year ended 31 March 2011

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 the tangible 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 term of the lease. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

Stocks

Stocks are valued at the lower of cost and net realisable value.

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 Financial statements for the year ended 31 March 2011

1 Principal accounting policies (continued)

Equity and equity-related compensation benefits

Scottish and Southern Energy 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 the ultimate parent company. The employees of the Company are entitled, where applicable, to participate in these schemes. The Company has not been charged with the cash cost of acquiring shares on behalf of its employees, this cost is borne by the Ultimate Parent Company. 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.

Under its transitional provisions, the requirements of FRS 20 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 financial statements.

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

	2011 £m	2010 £m
Depreciation of tangible fixed assets	4.3	4.6
Operating lease rentals	17.4	19.0
Amortisation of goodwill	0.3	0.3

The Company also incurred an audit fee of £3,183 (2010 - £3,295) in the year.

3. Staff costs and numbers

	2011 £m	2010 £m
Staff costs		
Wages and salaries	4.0	3.5
Social security costs	0.4	0.4
Share-based remuneration	0.1	-
Other pension costs	0.3	0.3
	4.8	4.2

Included within the above costs is a charge recognised under FRS 20 of £54,887 (2010 - £42,838).

	2011 Number	2010 Number
Numbers employed at 31 March	72	59
	2011 Number	2010 Number
The monthly average number of people employed by the Company during the period	74	68

Neos Networks Limited

Notes on the Financial statements for the year ended 31 March 2011

4. Directors' emoluments

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

	2011 £m	2010 £m
Remuneration as executives	0.2	0.3

Retirement benefits are accruing to two (2010: two) directors under a defined contribution scheme. The company contributions paid in respect of these directors was £20,220 (2010: £24,000).

Highest Paid Director

	2011 £000	2010 £000
Total emoluments and amounts receivable under long-term incentive schemes	118	133
Company contributions to defined contribution scheme	12	16
	130	149

5. Interest payable

	2011 £m	2010 £m
Interest receivable		
From group undertakings	0.1	0.1
	0.1	0.1
Interest payable		
Other	(0.1)	(0.1)
	(0.1)	(0.1)
Total interest payable	-	-

6. Taxation

	2011 £m	2010 £m
Current tax		
Adjustment in respect of prior periods	-	(0.2)
	-	(0.2)
Deferred tax		
Origination and reversal of timing differences	2.4	2.0
Effect of tax rate change	0.4	-
Adjustment in respect of prior years	(0.6)	(1.0)
Total Deferred Tax	2.2	1.0
Total tax charge on profit on ordinary activities	2.2	0.8

Neos Networks Limited

Notes on the Financial statements for the year ended 31 March 2011

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

	2011 £m	2010 £m
Profit before tax	8.4	6.7
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2010 - 28%)	2.3	1.9
Effects of		
Capital allowances in excess of depreciation	(0.3)	(0.5)
Utilisation of tax losses	(2.0)	(1.5)
Expenses not deductible for tax purposes	0.1	0.1
Other timing differences	(0.1)	-
Adjustment in respect of prior periods	-	(0.2)
Current tax charge/(credit) for year	-	(0.2)

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The first change from 28% to 27% was substantially enacted in July 2010 and applies from 1 April 2011. The March 2011 Budget accelerated reduced the tax rate from 1 April 2011 further to 26%. This was substantively enacted on 29 March 2011. These changes will reduce the company's future current tax charge accordingly. As this rate change has been substantively enacted it has the effect of increasing the company's net deferred tax asset recognised at 31 March 2011 by £0.4m. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction (the rate now being reduced to 23%) due to legislation not being enacted, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

7. Intangible assets

	Goodwill on acquisition £m
Cost:	
At 1 April 2010 and 31 March 2011	3.1
Amortisation:	
At 1 April 2010	1.9
Charge for the year	0.3
At 31 March 2011	2.2
Net book value:	
At 31 March 2011	0.9
At 1 April 2010	1.2

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 Financial statements for the year ended 31 March 2011

8. Tangible fixed assets

	Network assets £m	Vehicles and miscellaneous equipment £m	Total £m
Cost			
At 1 April 2010	48.3	20.9	69.2
Additions	2.1	-	2.1
At 31 March 2011	50.4	20.9	71.3
Depreciation:			
At 1 April 2010	27.8	20.9	48.7
Charge for the year	4.3	-	4.3
At 31 March 2011	32.1	20.9	53.0
Net book value:			
At 31 March 2011	18.3	-	18.3
At 31 March 2010	20.5	-	20.5

9. Debtors

	2011 £m	2010 £m
Amounts falling due within one year		
Trade debtors	9.0	7.3
Amounts owed by group undertakings	15.7	8.9
Prepayments and accrued income	0.1	2.7
Deferred tax (note 12)	5.9	8.1
	30.7	27.0

10. Creditors: amounts falling due within one year

	2011 £m	2010 £m
Trade creditors	-	2.6
Amounts owed to group undertakings	4.0	3.5
Taxation and social security	1.1	0.9
Accruals and deferred income	13.1	16.2
Obligations due under finance leases	-	0.1
Corporation tax	0.4	0.4
	18.6	23.7

11. Creditors amounts falling due after more than one year

	2011 £m	2010 £m
Obligations due under finance leases	0.4	0.4

Neos Networks Limited

Notes on the Financial statements for the year ended 31 March 2011

12. Deferred taxation

Deferred taxation is recognised as follows

	2011 £m	2010 £m
Accelerated capital allowances	(0.9)	(0.1)
Tax losses	(5.0)	(8.0)
Deferred tax asset (note 9)	(5.9)	(8.1)
		2011 £m
Asset at start of year		(8.1)
Charged to profit and loss account		2.2
Asset at end of year		(5.9)

The directors have considered the future prospects of the Company and, in conjunction with the recent track record of improving revenues and taxable profits, now consider it is probable that sufficient future taxable profits will be generated to recover the value of the tax losses brought forward. Therefore, the deferred tax asset has been recognised.

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 (2010 - £0.3m).

Neos Networks Limited

Notes on the Financial statements for the year ended 31 March 2011

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 would then 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 6 (previously 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, the following special awards of free shares have been made:

Award made	31 March 2005	31 March 2007	31 March 2008
Free shares per employee	50	20	10
Date at which employee must still be employed to receive award (in addition to 31 March)	20 August 2005	30 May 2007	1 August 2008

These awards were made to all employees in recognition of their contribution to the success of the company. Under the arrangements for the awards, the shares will be held in trust for five years, at which point they will be transferred to the employees at no cost to the employee. These shares may be withdrawn at any point during years four and five, but income 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

As at 31 March 2011

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
14 July 2005	886	3,094	-	(2,162)	-	932	1 October 2010	31 March 2011
11 July 2006	999	6,183	-	-	-	6,183	1 October 2011	31 March 2012
10 July 2007	1,306	2,020	-	-	-	2,020	1 October 2010	31 March 2011
10 July 2007	1,306	750	-	-	-	750	1 October 2012	31 March 2013
17 July 2008	1,274	2,652	-	-	(737)	1,915	1 October 2011	31 March 2012
17 July 2008	1,274	739	-	-	(255)	484	1 October 2013	31 March 2014
30 June 2009	1,042	6,003	-	-	(2,836)	3,167	1 October 2012	31 March 2013
30 June 2009	1,042	7,129	-	-	(3,460)	3,669	1 October 2014	31 March 2015
30 June 2010	871	-	8,587	-	(1,652)	6,935	1 October 2013	31 March 2014
30 June 2010	871	-	8,401	-	(177)	8,224	1 October 2015	31 March 2016
		28,570	16,988	(2,162)	(9,117)	34,279		

Neos Networks Limited

Notes on the Financial statements for the year ended 31 March 2011

14 Employee share-based payments (continued)

(i) Savings-related share option scheme (continued)

As at 31 March 2010

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
16 July 2004	622	4,481	-	(4,481)	-	-	1 October 2009	31 March 2010
14 July 2005	886	3,094	-	-	-	3,094	1 October 2010	31 March 2011
11 July 2006	999	3,008	-	(3,008)	-	-	1 October 2009	31 March 2010
11 July 2006	999	6,799	-	-	(616)	6,183	1 October 2011	31 March 2012
10 July 2007	1,306	2,193	-	-	(173)	2,020	1 October 2010	31 March 2011
10 July 2007	1,306	750	-	-	-	750	1 October 2012	31 March 2013
17 July 2008	1,274	3,978	-	-	(1,326)	2,652	1 October 2011	31 March 2012
17 July 2008	1,274	739	-	-	-	739	1 October 2013	31 March 2014
30 June 2009	1,042	-	6,003	-	-	6,003	1 October 2012	31 March 2013
30 June 2009	1,042	-	7,129	-	-	7,129	1 October 2014	31 March 2015
		25,042	13,132	(7,489)	(2,115)	28,570		

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

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,177p (2010 1,126p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

The fair value of these shares at vesting, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

	July 2005		July 2006		July 2007		July 2008		June 2009		June 2010	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Fair value of option	126p	137p	217p	227p	287p	313p	304p	339p	244p	269p	231p	246p
Expected volatility	15%	15%	19%	19%	25%	25%	28%	28%	35%	35%	19%	19%
Risk free rate	4.1%	4.2%	4.7%	4.7%	5.8%	5.7%	4.9%	5.0%	2.7%	2.9%	1.4%	2.2%
Expected dividends	4.2%	4.2%	4.8%	4.8%	5.3%	5.2%	4.1%	4.2%	4.1%	4.2%	1.7%	2.2%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	967p	967p	1,180p	1,180p	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p
Strike price	886p	886p	999p	999p	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p	871p	871p

Expected price volatility was obtained by calculating the historical volatility of the Group's share price over the previous 12 months.

(ii) Share Incentive Plan

Matching Shares

	2011		2010	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	7,918	1,232	6,223	1,262
Granted	2,706	1,161	2,460	1,137
Forfeited	(616)	1,215	(251)	1,262
Exercised	(281)	1,149	(514)	1,125
Outstanding at end of year	9,727	1,216	7,918	1,232
Exercisable at end of year	4,924	1,196	4,357	1,091

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14 Employee share-based payments (continued)

(ii) Share Incentive Plan (continued)

The fair value of these shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

Shares purchased under this scheme prior to 7 November 2002 have not been included as permitted by the transitional rules under FRS 20.

Free shares	2011		2010	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	2,660	1,238	3,180	1,185
Granted	-	-	-	-
Forfeited	(40)	1,210	(130)	1,185
Exercised	(241)	1,149	(390)	1,125
Outstanding at end of year	2,379	1,247	2,660	1,238
Exercisable at end of year	1,969	1,076	1,650	965

The fair value of these shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

For both the Share incentive plan and free shares, the options are exercised continuously throughout the year, the weighted average share price during this period of 1,149p (2010: 1,125p) is considered representative of the weighted average share price at the date of exercise.

15. Share capital

	2011 £m	2010 £m
Authorised		
2,498,435,626 ordinary shares of £0.01 each	25.0	25.0
Allotted, called up and fully paid		
2,405,428,701 ordinary shares of £0.01 each	24.1	24.1

16. Reserves

	Share Premium Account £m	Profit and loss account £m
As at 1 April 2010	31.8	(31.2)
Profit for the financial year	-	6.2
At 31 March 2011	31.8	(25.0)

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Notes on the Financial statements for the year ended 31 March 2011

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	
	2011	2010
	£m	£m
Within one year	5.9	4.8
Between two and five years	6.1	6.6
After five years	0.7	0.6
	<u>12.7</u>	<u>12.0</u>

18. Ultimate parent company

The Company is a subsidiary of Scottish and Southern Energy plc, which is the ultimate parent company and is registered in Scotland. The largest and smallest group in which the results of the Company are consolidated is that headed by Scottish and Southern Energy plc. The consolidated financial statements of the group (which include those of the Company) are available from Corporate Communications, Inverlmond House, 200 Dunkeld Road, Perth PH1 3AQ.