

SSE Metering Limited

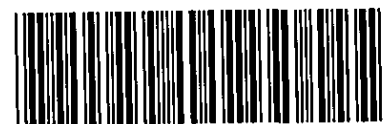
Financial statements for the year ended 31 March 2010

CONTENTS

Page No.

Report of the Director	1 - 3
Statement of Director's Responsibilities in respect of the Director's Report and the Financial statements	4
Independent Auditors' Report to the Members	5
Profit and Loss Account	6
Balance Sheet	7
Reconciliation of Movements in Shareholders' Funds	8
Notes on the Financial statements	9 - 15

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SSE Metering Limited

Report of the Director

The Director presents his report together with the audited Financial statements for the year ended 31 March 2010.

1. Principal Activities

The Company is a wholly owned subsidiary of Scottish and Southern Energy plc and part of the Scottish and Southern Energy Group ('SSE' or the 'Group').

The Company's principal activity is to provide services to most electricity suppliers with customers in central southern England and the north of Scotland and has undertaken a programme of in-sourcing of meter reading operations and meter operator work in other parts of Great Britain to establish a national metering business. It supplies, installs and maintains domestic meters and carries out metering work in the commercial, industrial and generation sectors. It also offers data collection services to the domestic and SME sectors.

2. Business Review

(i) Review of Developments and Performance

In total, SSE owns 3.8 million meters. During 2009/10 it collected:

- 6.8 million electricity readings, up from 6.4 million in the previous year; and
- 3.9 million gas readings, up from 2.6 million in the previous year.

This increase reflects the fact that the company has completed the in-sourcing of its meter reading and electricity meter operation services throughout Great Britain, a year ahead of schedule.

Before the in-sourcing was completed, the company relied on a combination of its own employees in central southern England and the north of Scotland and up to nine external agencies elsewhere in the country to read electricity and gas meters and install and repair electricity meters.

In line with its general preference for services and operations to be carried out in-house, the company decided to in-source metering services in a programme which started in 2007. This programme has now been completed and, as a result, the company's metering team now comprises 1,500 directly employed people working in all parts of Great Britain. In addition to securing annual cost savings of at least £5m, the in-house metering team delivers more reliable metering services, allows more effective management of customer data and creates face-to-face contact between the company and its customers. It thus helps in the retention of customers. Longer term, the company's Great Britain wide team will be able to support the transition to smart meters which will take place over the next 10 years and will help SSE deploy other energy-related services and products during that time.

Smart Metering

'Smart' metering is an emerging system that enables the quantity and value of electricity and gas used by the customer to be continuously monitored and allows information about its use and cost to be available to the customer and exchanged with the supplier, through two-way electronic communications. All homes in Great Britain are expected to have smart meters by 2020. In early 2010, SSE successfully completed the first community-wide energy reduction trials in the UK, helping two communities achieve a 10% reduction in their electricity consumption. The trials, part of the Energy Research Demand Project (EDRP), involved working with communities to help them achieve the reduction over a two-and-a-half-year period.

The EDRP trials are managed by Ofgem, on behalf of the UK Department of Energy and Climate Change, and aim to gain an understanding of how consumers react to improved information about their energy consumption. The trials consist of different elements using different methods to provide feedback on energy consumption.

SSE was the only energy supplier in the EDRP to hold trials involving engagement with entire communities. The trials were held in North Leigh in Oxfordshire, Alyth in Perthshire and St Athan in South Wales. The communities of North Leigh and Alyth achieved their community-wide 10% energy reduction and received an award of £20,000 each from SSE. The trial in St Athan started later, and is therefore not due to be completed until later this year, but good progress is being made.

SSE Metering Limited

Report of the Director (continued)

2. Business Review (continued)

A variety of measures was available to each community including smart meters, real-time display devices (which show energy use in monetary value), energy efficiency advice and insulation offers. As well as the support provided by SSE, the communities arranged various events locally, designed to involve the whole community.

The information that has been obtained during the trials has been and will be extremely useful and it will be used to help shape the future of the energy industry. The primary purpose of the trials was to understand how people use energy and how savings can be made when more control is given to individuals and communities.

Metering Priorities in 2009/10 and Beyond

For Metering, the key priorities are:

- maximising the number of bills issued to customers on the basis of an actual – as opposed to estimated – meter reading;
- applying the lessons learned from the EDRP to inform a full roll-out of smart meters throughout the country.

SSE believes that there must be radical changes in the way that energy is produced and consumed and these energy reduction trials, which have used a number of innovative technologies, will assist customers in reducing their energy consumption. It strongly supports smart meters, and the opportunity they provide to help customers cut their energy consumption, while reducing the number of service-based tasks which are largely administrative and reactive in nature, and replacing them with more substantive energy advice, products and services. They have the potential to help transform the relationship between customers and their energy supplier.

(ii) Principal Risks and Uncertainties

The Director acknowledges that he has 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 Director has 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.

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

There are established procedures in place for regular budgeting and reporting of financial information. The Company's performance is reviewed by the Group Board and Group Executive Committee. Reports include variance analysis and projected forecasts of the year compared to approved budgets and non-financial performance indicators. There are Company policies in place covering a wide range of issues and risks including financial authorisations, IT procedures, health, safety and environmental risks, crisis management and a policy on ethical principles. The effectiveness of the Company's systems of internal control is monitored by the SSE Group internal audit department which distributes reports and, where appropriate, action plans to senior managers, Director and external auditors.

(iii) Key Performance Indicators

	2010	2009	% change
Operating profit (£m)	11.0	15.2	(27.6)
Meters read once a year (%)	95.0	95.0	0.0
Meters read twice a year (%)	79.0	77.0	2.6

SSE Metering Limited

Report of the Director (continued)

3. Results and Dividends

The profit after tax for the year to 31 March 2010 was £7.9m (31 March 2009: £11.0m). The Director does not recommend the payment of a dividend.

4. Director

The Director who served during the year was as follows:-

Alistair Phillips-Davies

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.

8. Auditors

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

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



Peter Lawns

Secretary

31 August 2010

SSE Metering Limited

Statement of director's responsibilities in respect of the Director's Report and the Financial statements

The director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

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

Under company law the director must not approve the financial statements unless he is 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 director is 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 director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He has 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.

SSE Metering Limited

Independent Auditors' Report to the Members of SSE Metering Limited

We have audited the financial statements of SSE Metering Limited for the year ended 31 March 2010 as set out on pages 6 to 15. 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 auditors' 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 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 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/UKNP.

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 2010 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.

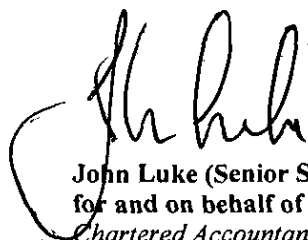
Opinion on other matter prescribed by the Companies Act 2006

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

31 August 2010

SSE Metering Limited

Profit and Loss Account for the year ended 31 March 2010

	Note	2010 £m	2009 £m
Turnover		62.9	49.5
Cost of Sales		(32.3)	(29.0)
Gross profit		30.6	20.5
Administrative expenses		(19.6)	(5.3)
Operating profit	2	11.0	15.2
Net interest receivable	5	-	0.1
Profit on ordinary activities before taxation		11.0	15.3
Taxation on ordinary activities	6	(3.1)	(4.3)
Profit for the year	12	7.9	11.0

There are no recognised gains and losses other than the profit for the year.

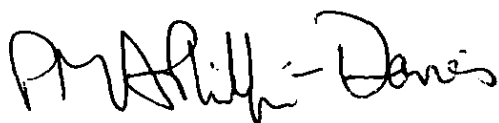
The accompanying notes are an integral part of these financial statements.

SSE Metering Limited

Balance Sheet as at 31 March 2010

	Note	2010 £m	2009 £m
Fixed assets	7	<u>43.3</u>	<u>28.4</u>
Current assets			
Debtors	8	1.3	17.7
Creditors: amounts falling due within one year	9	<u>(20.5)</u>	<u>(32.2)</u>
Net current liabilities		<u>(19.2)</u>	<u>(14.5)</u>
Total assets less current liabilities		<u>24.1</u>	<u>13.9</u>
Provisions for liabilities and charges			
Deferred taxation	10	(3.7)	(1.6)
Net assets		<u>20.4</u>	<u>12.3</u>
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account	12	20.4	12.3
Shareholders' funds		<u>20.4</u>	<u>12.3</u>

These financial statements were approved by the Director on 31 August 2010 and signed on their behalf by



Alistair Phillips-Davies
Director

Company Registered Number 318950

SSE Metering Limited

Reconciliation of Movements in Shareholders' Funds for the year ended 31 March 2010

	2010 £m	2009 £m
Profit for the year	7.9	11.0
Credit in respect of employee share schemes	0.2	0.1
Net addition to shareholders' funds	8.1	11.1
Opening shareholders' funds	12.3	1.2
Closing shareholders' funds	20.4	12.3

SSE Metering Limited

Notes on the Financial statements for the year ended 31 March 2010

1. Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies are summarised below and have been applied consistently.

The Company's balance sheet at 31 March 2010 shows a net current liability position of £19.2m (2009 - £14.5m). The parent company Scottish and Southern Energy Plc has confirmed that it will continue to provide financial support to the Company and in particular will not seek repayment of the amounts currently made available. On this basis, the directors believe that the Company will be in a position to meet its liabilities as they fall due and that the financial statements are appropriately prepared on a going concern basis.

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.

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, stated exclusive of Value Added Tax, relates to metering reading and meter operator services income, in addition to the supply, installation and maintenance of meters in the UK.

Taxation

The charge for taxation is based on the profit for the year 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.

Property, plant and equipment

Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment, and depreciated accordingly.

SSE Metering Limited

Notes on the Financial statements for the year ended 31 March 2010

1. Principal accounting policies (continued)

Property, plant and equipment (continued)

Depreciation

Depreciation is charged to the income statement to write off cost, less residual values, on a straight line basis over their estimated useful lives. The estimated useful lives are as follows:

Vehicles and miscellaneous equipment 3 to 10 years

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 a Black-Scholes model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated 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 is arrived at after charging/(crediting):

	2010	2009
	£m	£m
Depreciation	1.9	1.1
Net management fee in respect of services provided by group companies	5.7	0.4

The audit fees for the current and previous financial year were borne by the ultimate parent company.

3. Staff costs and numbers

	2010	2009
	£m	£m
Staff costs:		
Wages and salaries	31.1	23.3
Social security costs	2.7	2.0
Share based remuneration	0.2	0.1
Other pension costs	2.9	2.5
	36.9	27.9

SSE Metering Limited

Notes on the Financial statements for the year ended 31 March 2010

3. Staff Costs and numbers (continued)

	2010 Number	2009 Number
Numbers employed at 31 March	1,590	1,132
	2010 Number	2009 Number
The monthly average number of people employed by the Company during the year	1,308	942

4. Director's remuneration

The director received no remuneration in respect of his service to the Company.

5. Net interest receivable

	2010 £m	2009 £m
Interest receivable		
From Group companies	-	0.3
Interest payable		
To Group companies	-	(0.2)
Net interest receivable	-	0.1

6. Taxation

	2010 £m	2009 £m
Current tax:		
United Kingdom corporation tax	1.0	2.9
Deferred tax:		
Origination and reversal of timing differences (note 10)	2.1	1.4
Total tax on profit on ordinary activities	3.1	4.3

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:

	2010 £m	2009 £m
Profit before tax	11.0	15.3
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2009 - 28%).	3.1	4.3
Capital allowances in excess of depreciation	(2.1)	(1.4)
Current tax charge for year	1.0	2.9

SSE Metering Limited

Notes on the Financial statements for the year ended 31 March 2010

7. Fixed assets

	Vehicles and miscellaneous equipment £m
Cost:	
At 1 April 2009	29.5
Additions	16.8
At 31 March 2010	46.3
Depreciation:	
At 1 April 2009	1.1
Charge for the year	1.9
At 31 March 2010	3.0
Net book value:	
At 31 March 2010	43.3
At 1 April 2009	28.4

8. Debtors

	2010 £m	2009 £m
Trade debtors	0.8	1.3
Amounts owed by group companies	-	15.7
Prepayments and accrued income	0.5	0.7
	1.3	17.7

9. Creditors: amounts falling due within one year

	2010 £m	2009 £m
Trade creditors	0.8	0.5
Amounts owed to group companies	18.7	30.2
Corporation tax	-	1.1
Accruals and deferred income	0.9	0.2
Other creditors	0.1	0.2
	20.5	32.2

10. Deferred tax

Deferred tax is provided as follows:

	2010 £m	2009 £m
Accelerated capital allowances	3.6	1.6
Share based payments	0.1	-
Provision for deferred tax	3.7	1.6
		2010 £m
Provision at 1 April 2009		1.6
Charged to profit and loss account		2.1
Provision at 31 March 2010		3.7

SSE Metering Limited

Notes on the Financial statements for the year ended 31 March 2010

11. Share capital

	Number	£
Authorised:		
At 1 April 2009 and 31 March 2010	1,000	1,000
Allotted and called up:		
At 1 April 2009 and 31 March 2010	1	1

12. Profit and loss account

	£m
Balance at 1 April 2009	12.3
Profit for the year	7.9
Credit in respect of employee share schemes	0.2
Balance at 31 March 2010	20.4

13. Employee share-based payments

The Group operates a number of share schemes for the benefit of all employees. Details of these schemes are as follows:

(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

SSE Metering Limited

Notes on the Financial statements for the year ended 31 March 2010

13. Employee share-based payments (continued)

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.

As allowed by FRS 20, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been included.

Details used in the calculation of these costs are as follows:

(i) Savings-related share option scheme

As at 31 March 2010

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
10 July 2007	1,306	1,501	-	(433)	1,068	1 October 2010	31 March 2011
10 July 2007	1,306	9,190	-	(751)	8,439	1 October 2012	31 March 2013
17 July 2008	1,274	15,261	-	(3,136)	12,125	1 October 2011	31 March 2012
17 July 2008	1,274	26,144	-	(3,877)	22,267	1 October 2013	31 March 2014
30 June 2009	1,042	-	25,945	(1,270)	24,675	1 October 2012	31 March 2013
30 June 2009	1,042	-	45,611	(387)	45,224	1 October 2014	31 March 2015
		52,096	71,556	(9,854)	113,798		

As at 31 March 2009

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
10 July 2007	1,306	1,501	-	-	1,501	1 October 2010	31 March 2011
10 July 2007	1,306	9,190	-	-	9,190	1 October 2012	31 March 2013
17 July 2008	1,274	-	15,578	(317)	15,261	1 October 2011	31 March 2012
17 July 2008	1,274	-	26,271	(127)	26,144	1 October 2013	31 March 2014
		10,691	41,849	(444)	52,096		

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,126p (2009: 1,164p) 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 2007		July 2008		June 2009	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Fair value of option	287p	313p	304p	339p	244p	269p
Expected volatility	25%	25%	28%	28%	35%	35%
Risk free rate	5.8%	5.7%	4.9%	5.0%	2.7%	2.9%
Expected dividends	5.3%	5.2%	4.1%	4.2%	4.1%	4.2%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p
Strike price	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p

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

SSE Metering Limited

Notes on the Financial statements for the year ended 31 March 2010

13. Employee share-based payments (continued)

(ii) Share Incentive Plan

Matching shares	2010		2009	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	67,092	1,226	54,216	1,170
Granted	28,038	1,137	19,683	1,260
Forfeited	(1,233)	1,226	(5,437)	775
Exercised	(4,396)	1,125	(1,370)	1,290
Outstanding at end of year	89,501	1,203	67,092	1,226
Exercisable at end of year	34,124	1,091	849	974

As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,125p (2009: 1,290p) is considered representative of the weighted average share price at the date of exercise.

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	2010		2009	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	36,707	1,197	33,119	1,161
Granted	-	-	6,450	1,417
Forfeited	(200)	1,197	(400)	1,161
Exercised	(2,149)	1,125	(2,462)	1,290
Outstanding at end of year	34,358	1,201	36,707	1,197
Exercisable at end of year	18,659	965	18,448	965

As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,125p (2009: 1,290p) is considered representative of the weighted average share price at the date of exercise.

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.

14. Ultimate holding 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.