

SSE Metering Limited

Financial statements for the year ended 31 March 2015

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SSE Metering Limited

Strategic Report

i) Review of Developments and Performance

SSE's metering business undertakes meter reading operations and meter operator work in all parts of the UK. As metering currently involves being at customers' premises, there are significant operational issues and risks associated with this activity. The number of SSE electricity and gas supply customers who receive bills based on actual meter readings stands at 96.2%, compared to 96.7% last year. SSE Metering has also installed over 25,500 AMR (automatic meter reading) meters which are read remotely. In the 12 months to 31 March 2015, SSE collected 7.8 million electricity readings and 5.2 million gas readings.

The rollout of smart meters to every home in Great Britain represents a unique opportunity to transform the relationship between customers and the energy they use. Empowering customers with real-time data about their energy usage, providing them with more accurate bills and unlocking innovation in tariffs and propositions, smart meters have the potential to drive ever greater consumer engagement with energy.

In preparation for the introduction of the critical infrastructure that will enable mass rollout to begin, SSE has been focused primarily on building and testing systems and gradually ramping up delivery, in line with its strategy of 'doing it once and doing it right'. At 31 March 2015, SSE had installed over 40,000 smart meters in customers' homes. In the coming year ending 31 March 2016, it expects to install a further 210,000 smart meters to bring the cumulative total to 250,000.

With the cost of the rollout being levied on customer bills, and with the net benefit of smart meters largely dependent on consumers embracing the technology, it is critical that the programme is delivered in a way which is both cost-effective and customer-centric. In other words, if the cost of the programme increases, or consumers become disengaged with the technology, the business case will be eroded and the opportunity will have been missed.

SSE has consistently stated that achieving a cost-effective and customer-centric rollout will require a delivery window of five unconstrained years. However, despite ongoing delays to critical infrastructure such as that provided by the Data Communications Company (DCC), and other constraints still inhibiting suppliers' ability to install smart meters at volume, the end target of 100% of homes by 2020 has not moved. This means that the delivery window is shrinking; with less time to achieve the same target, the only logical outcome is that costs will increase and the customer experience will be worse than it would otherwise have been.

In order to ensure that the crucial smart opportunity is not missed, while remaining supportive of the role of DCC, SSE is calling for:

- delays to the front end of the delivery window to be reflected at the back end such that suppliers have a period of five years unconstrained in which to deliver their obligations;
- a reversion to the EU requirements to deliver smart meters to 80%, rather than 100%, of homes by 2020 in order to prevent cost escalations; and
- the programme to be subject to a review to provide sufficient assurance that it is being delivered in a way which achieves its aim of being cost-effective and net positive for customers.

(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.

Control is maintained through an organisational 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.

SSE Metering Limited

Strategic Report (continued)

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 principal risk concerns of the company are failing to anticipate and react appropriately to changing customer and regulatory requirements; becoming technologically obsolete in line with moving trends; and failing to deliver high standards of customer service. 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, directors and external auditors.

(iii) Key Performance Indicators

| | 2015 | 2014 | % change |
|--------------------------------------|------|------|----------|
| Operating profit (£m) | 13.7 | 8.5 | 62 |
| Electricity meter readings (million) | 7.8 | 8.4 | (7) |
| Gas meter readings (million) | 5.2 | 5.6 | (7) |

ON BEHALF OF THE BOARD



Stephen Forbes
Director

10 February 2016

SSE Metering Limited

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 March 2015.

1. Principal Activities

The company is a wholly owned subsidiary of SSE plc and part of the SSE Group ('Group').

SSE's metering business provides services to most electricity suppliers with customers in central southern England and the north of Scotland. It undertakes meter reading operations and meter operator work in all other parts of Great Britain. 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. Results and Dividends

The profit after tax for the year to 31 March 2015 was £9.2m (2014: £5.7m). There were no dividends paid during for the year ending 31 March 2015 (2014: £20.0m).

3. Directors

The Directors who served during the year were as follows:

William Morris
Stephen Forbes

4. Political and Charitable Donations

During the year, no charitable or political donations were made.

5. 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.

6. 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.

SSE Metering Limited

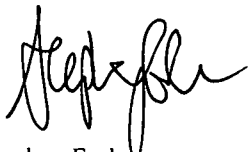
Directors' Report (continued)

7. Auditor

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 auditor is 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 auditor is aware of that information.

Pursuant to Section 487 of the Companies Act 2006 the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

ON BEHALF OF THE BOARD



Stephen Forbes
Director

10 February 2016

SSE Metering Limited

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the financial Statements

The directors are responsible for preparing the Strategic Report, 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 judgements 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.

Independent Auditor's Report to the Members of SSE Metering Limited

We have audited the financial statements of SSE Metering Limited for the year ended 31 March 2015 set out on pages 7 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 5, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2015 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 Strategic Report and 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.



William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

12/2/16

SSE Metering Limited

Profit and Loss Account for the year ended 31 March 2015

| | Note | 2015 £m | 2014 £m |
|--|------|-------------|-------------|
| Turnover | | 99.1 | 98.0 |
| Cost of Sales | | (65.8) | (58.0) |
| Gross profit | | 33.3 | 40.0 |
| Administrative expenses | | (19.6) | (21.3) |
| Exceptional items | 2 | - | (10.2) |
| Operating profit | 3 | 13.7 | 8.5 |
| Net interest (payable) / receivable | 6 | (2.0) | 0.9 |
| Profit on ordinary activities before taxation | | 11.7 | 9.4 |
| Tax on profit on ordinary activities | 7 | (2.5) | (3.7) |
| Profit for the year | 15 | 9.2 | 5.7 |

The accompanying notes form part of these financial statements.

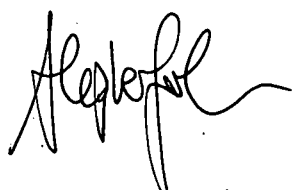
The above results are derived from continuing operations.

SSE Metering Limited

Balance Sheet as at 31 March 2015

| | Note | 2015 £m | 2014 £m |
|---|------|------------|------------|
| Fixed assets | | | |
| Property, plant & equipment | 8 | 103.1 | 98.9 |
| Current assets | | | |
| Debtors: amounts falling due within one year | 9 | 67.3 | 13.9 |
| Debtors: amounts falling due after more than one year | 9 | - | 0.9 |
| Creditors: amounts falling due within one year | 10 | (31.1) | (31.8) |
| Net current assets/(liabilities) | | 36.2 | (17.0) |
| Total assets less current liabilities | | 139.3 | 81.9 |
| Creditors: amounts falling due after more than one year | 11 | (93.8) | (49.2) |
| Provisions | 12 | (5.7) | (2.8) |
| Net assets | | 39.8 | 29.9 |
| Capital and reserves | | | |
| Called up share capital | 14 | - | - |
| Profit and loss account | 15 | 39.8 | 29.9 |
| Shareholders' funds - equity | | 39.8 | 29.9 |

These financial statements were approved by the Directors and signed on their behalf by



Stephen Forbes

Director

10 February 2016

Company Registered Number SC318950

SSE Metering Limited

Notes on the financial statements for the year ended 31 March 2015

1. Principal accounting policies

Basis of accounts

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.

SSE Metering Limited is a wholly owned subsidiary of SSE 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 SSE plc. For this reason, the going concern basis has been adopted in preparing the financial statements of SSE Metering 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.

As the company is a wholly owned subsidiary of SSE 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 SSE 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.

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:

| | |
|--|----------------|
| Meter assets and miscellaneous equipment | 10 to 15 years |
|--|----------------|

SSE Metering Limited

Notes on the financial statements (continued) for the year ended 31 March 2015

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 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.

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. Exceptional Items

| | 2015 £m | 2014 £m |
|----------------------|------------|-------------|
| Restructuring costs | - | 2.8 |
| Impairment of Assets | - | 7.4 |
| | <u>-</u> | <u>10.2</u> |

There was a voluntary employee release on enhanced terms of £2.8m in 2015; this avoided the need for compulsory redundancies. The impairment of £7.4m was in respect of Metering related system and software development.

3. Operating profit is arrived at after charging:

| | 2015 £m | 2014 £m |
|---|------------|------------|
| Depreciation | 6.8 | 6.6 |
| Operating lease charges | 4.7 | 4.2 |
| Net management fee in respect of services provided by group companies | 8.7 | 8.8 |

The audit fee of £17,000 (2014: £17,000) for these accounts was borne by the ultimate parent company.

SSE Metering Limited

Notes on the financial statements (continued) for the year ended 31 March 2015

4. Staff costs and numbers

| | 2015 £m | 2014 £m |
|---|--------------|--------------|
| Staff costs: | | |
| Wages and salaries | 48.9 | 44.8 |
| Social security costs | 4.4 | 4.0 |
| Share based remuneration | 0.8 | 0.7 |
| Other pension costs | 7.6 | 5.9 |
| | <u>61.7</u> | <u>55.4</u> |
| Less capitalised as tangible fixed assets | <u>(8.9)</u> | <u>(8.3)</u> |
| | <u>52.8</u> | <u>47.1</u> |

| | 2015 Number | 2014 Number |
|-----------------------------------|----------------|----------------|
| Numbers employed at 31 March 2015 | <u>1,948</u> | <u>1,772</u> |

| | 2015 Number | 2014 Number |
|--|----------------|----------------|
| The monthly average number of people employed by the company during the year | <u>1,908</u> | <u>1,772</u> |

5. Directors' remuneration

The directors received no remuneration in respect of their services to the Company (2014: £nil).

6. Net interest (payable) / receivable

| | 2015 £m | 2014 £m |
|-----------------------------------|--------------|--------------|
| Interest receivable | | |
| From Group companies | <u>-</u> | <u>0.9</u> |
| Interest payable | | |
| To Group companies | <u>(4.3)</u> | <u>(0.9)</u> |
| Interest capitalised | <u>2.3</u> | <u>0.9</u> |
| Net interest (payable)/receivable | <u>(2.0)</u> | <u>0.9</u> |

SSE Metering Limited

Notes on the financial statements (continued) for the year ended 31 March 2015

7. Taxation

| | 2015 £m | 2014 £m |
|--|------------|------------|
| Current tax: | | |
| United Kingdom corporation tax | (0.5) | 0.2 |
| Adjustment in respect of previous year | (3.6) | 1.0 |
| | (4.1) | 1.2 |
| Deferred tax: | | |
| Origination and reversal of timing differences | 3.0 | 2.0 |
| Adjustment in respect of previous year | 3.6 | 0.5 |
| Change in applicable tax rate | - | - |
| | 6.6 | 2.5 |
| Total tax on profit on ordinary activities | 2.5 | 3.7 |

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:

| | 2015 £m | 2014 £m |
|---|------------|------------|
| Profit before tax | 11.7 | 9.4 |
| Tax on profit on ordinary activities at standard UK corporation tax rate of 21% (2014 - 23%). | 2.5 | 2.2 |
| Capital allowances in excess of depreciation | (2.6) | (1.8) |
| Expenses not deductible for tax purposes | - | (0.2) |
| Other timing items | (0.4) | - |
| Adjustment in respect of previous year | (3.6) | 1.0 |
| Current tax credit/(charge) for year | (4.1) | 1.2 |

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 18% by 2020. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 March 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

SSE Metering Limited

Notes on the financial statements (continued) for the year ended 31 March 2015

8. Fixed assets

| | Vehicles and miscellaneous equipment £m | Assets under construction (AUC) £m | Total £m |
|---|--|---|--------------|
| Cost: | | | |
| At 1 April 2014 | 130.8 | 52.5 | 183.3 |
| Additions | - | 47.9 | 47.9 |
| Disposal | - | (7.4) | (7.4) |
| Transfer between Businesses | - | (36.9) | (36.9) |
| Transfer from AUC to fully commissioned | 7.4 | (7.4) | - |
| At 31 March 2015 | 138.2 | 48.7 | 186.9 |
| Depreciation: | | | |
| At 1 April 2014 | 77.0 | 7.4 | 84.4 |
| Charge for the year | 6.8 | - | 6.8 |
| Disposal | - | (7.4) | (7.4) |
| At 31 March 2015 | 83.8 | - | 83.8 |
| Net book value: | | | |
| At 31 March 2015 | 54.4 | 48.7 | 103.1 |
| At 31 March 2014 | 53.8 | 45.1 | 98.9 |

9. Debtors

| | 2015 £m | 2014 £m |
|--|-------------|-------------|
| Amounts falling due within one year: | | |
| Trade debtors | 1.3 | 0.9 |
| Prepayments and accrued income | 4.3 | 2.9 |
| Other receivable | 0.3 | 0.2 |
| Corporation tax | 0.5 | - |
| Amounts owed by group undertakings | 60.9 | 9.9 |
| | 67.3 | 13.9 |
| Amounts falling due after more than one year: | | |
| Deferred tax asset (note 13) | - | 0.9 |
| | - | 0.9 |
| | 67.3 | 14.8 |

10. Creditors: amounts falling due within one year

| | 2015 £m | 2014 £m |
|---------------------------------|-------------|-------------|
| Trade creditors | 0.1 | 0.1 |
| Amounts owed to group companies | 24.3 | 23.9 |
| Corporation tax | - | 0.2 |
| Accruals and deferred income | 6.7 | 7.6 |
| | 31.1 | 31.8 |

SSE Metering Limited

Notes on the financial statements (continued) for the year ended 31 March 2015

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

| | 2015 £m | 2014 £m |
|---------------------------------|-------------|-------------|
| Amounts owed to group companies | 93.8 | 49.2 |
| | <u>93.8</u> | <u>49.2</u> |

12. Provisions

| | Restructuring £m |
|----------------------------------|---------------------|
| Balance at 1 April 2014 | 2.8 |
| Utilised in the year | (2.8) |
| Deferred tax liability (note 13) | 5.7 |
| Balance at 31 March 2015 | <u>5.7</u> |

13. Deferred tax

Deferred tax is provided as follows:

| | 2015 £m | 2014 £m |
|---------------------------------------|---------------------|-------------------|
| Accelerated capital allowances | (5.7) | 0.9 |
| Deferred tax (liability)/asset | <u>(5.7)</u> | <u>0.9</u> |

| | 2015 £m |
|------------------------------------|---------------------|
| Asset at 1 April 2014 | 0.9 |
| Debited to profit and loss account | (6.6) |
| Asset at 31 March 2015 | <u>(5.7)</u> |

14. Share capital

| | Number | £ |
|--|----------|----------|
| Allotted and called up: At 1 April 2014 and 31 March 2015 | <u>1</u> | <u>1</u> |

15. Profit and loss account

| | £m |
|---|--------------------|
| Balance at 1 April 2014 | 29.9 |
| Profit for the year | 9.2 |
| Credit in respect of employee share schemes | 0.7 |
| Balance at 31 March 2015 | <u>39.8</u> |

SSE Metering Limited

Notes on the financial statements (continued) for the year ended 31 March 2015

16. Employee share-based payments

The SSE Group operates a number of share schemes for the benefit of its employees. Details of these schemes, all of which are equity-settled, are as follows:

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

This scheme gives employees the option to purchase shares in the Company at a discounted market price, subject to the employees remaining in employment for the term of the agreement. Employees may opt to save between £5 and £500 per month for a period of 3 and / or 5 years. At the end of these periods employees have six months to exercise their options by using the cash saved (including any 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 Company on a monthly basis. Employees may nominate an amount between £10 and £150 to be deducted from their gross salary. This is then used to purchase shares ('Partnership' shares) in the market each month. These shares are held in trust and become free of liability to income tax and national insurance on their fifth anniversary. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would become payable on any shares withdrawn.

In addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 6 (previously 5) shares ('Matching' shares) per month. These shares are also held in trust and become free of liability to income tax and national insurance on their fifth anniversary. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited.

(iii) Deferred Annual Incentive Scheme

This scheme (previously deferred bonus scheme) applies to senior managers and Executive Directors. Under this scheme, 25% of all eligible employees' annual bonus is deferred into shares which only vest after three years, subject to continued service. The number of shares awarded is determined by dividing the relevant pre-tax bonus amount by the share price shortly after the announcement of the results for the financial year to which the bonus relates.

(iv) Performance Share Plan

This scheme applies to executive Directors and senior executives. Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant three year performance period as set out below:

| Award made | | 02 June 2011 | 02 June 2010 | 02 June 2013 | 02 June 2014 |
|--|--------------|-------------------|-------------------|-------------------|-------------------|
| Maximum value of award as a % of base salary | | 150 | 150 | 150 | 150 |
| Performance conditions | | | | | |
| Total shareholder return (i) | Full vesting | ≥ 75th percentile | ≥ 75th percentile | ≥ 75th percentile | ≥ 75th percentile |
| | 25% vesting | median | median | median | ≥ 50th percentile |
| Earnings per share (ii) | Full vesting | RPI + 8% | RPI + 8% | RPI + 8% | RPI + 8% |
| | 25% vesting | RPI + 2% | RPI + 2% | RPI + 2% | RPI |
| Dividend per share growth (iii) | Full vesting | RPI + 6% | RPI + 6% | RPI + 6% | RPI + 4% |
| | 50% vesting | RPI + 2% | RPI + 2% | RPI + 2% | RPI |
| Quality of Service | Full vesting | - | - | - | First Place |
| | 50% vesting | - | - | - | Second Place |

SSE Metering Limited

Notes on the financial statements (continued) for the year ended 31 March 2015

16. Employee share-based payments (continued)

These awards will vest after three years to the extent that the relevant performance conditions are met.

- i. Total Shareholder Return (TSR) target relative to other FTSE100 companies and MSCI Europe Utilities (a dedicated peer group of UK and other European utilities) Index. Pro rata vesting will take place between the 50th and 75th percentile, with no vesting if the minimum target is not met.
- ii. Under the EPS performance condition, pro rata vesting between the lower and upper level above RPI, with no vesting if the minimum EPS growth target is not achieved and full vesting if RPI +8% is achieved.
- iii. Under the Dividend per share growth performance condition, pro rata vesting between RPI and 4% above RPI, with no vesting if the minimum dividend per share growth target is not achieved.

A charge of £15.0m (2014: £15.5m) was recognised in the Income Statement in relation to these schemes, £1m (2014: £1.7m) of this was in relation to the Directors of the Company.

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

(i) Savings-related share option scheme

The movement in savings related share option schemes in the year were as follows:

Consolidated

As at 31 March 2015

| Award Date | Duration | Option Price (pence) | Opening | Granted | Exercised | Early Exercised | Lapsed Due to Early Exercise | Lapsed | Reinstatement | Closing |
|------------|----------|----------------------|----------------|----------------|-----------------|-----------------|------------------------------|-----------------|---------------|----------------|
| 2009 | 5 year | 1,042 | 25,217 | - | (24,800) | (392) | (25) | - | 2,415 | 2,415 |
| 2010 | 3 year | 871 | - | - | - | - | - | - | - | - |
| 2010 | 5 year | 871 | 109,124 | - | - | (6,905) | (1,569) | (954) | 27,471 | 127,167 |
| 2011 | 3 year | 1,105 | 24,365 | - | (21,755) | (1,318) | (151) | (653) | - | 488 |
| 2011 | 5 year | 1,105 | 37,522 | - | - | (462) | (375) | (306) | 810 | 37,189 |
| 2012 | 3 year | 1,065 | 34,368 | - | - | (2,633) | (1,032) | (1,254) | 413 | 29,862 |
| 2012 | 5 year | 1,065 | 35,935 | - | - | (126) | (155) | (995) | 1,663 | 36,322 |
| 2013 | 3 year | 1,197 | 47,058 | - | - | (812) | (1,410) | (3,527) | 4,526 | 45,835 |
| 2013 | 5 year | 1,197 | 31,914 | - | - | (62) | (188) | (1,882) | - | 29,782 |
| 2014 | 3 year | - | - | 86,325 | - | - | - | (6,710) | - | 79,615 |
| 2014 | 5 year | - | - | 57,121 | - | - | - | (2,825) | - | 54,296 |
| | | | 345,503 | 143,446 | (46,555) | (12,710) | (4,905) | (19,106) | 37,298 | 442,971 |

As at 31 March 2014

| Award Date | Duration | Option Price (pence) | Opening | Granted | Exercised | Early Exercised | Lapsed Due to Early Exercise | Lapsed | Reinstatement | Closing |
|------------|----------|----------------------|----------------|---------------|-----------------|-----------------|------------------------------|-----------------|---------------|----------------|
| 2008 | 5 year | 1,274 | 12,650 | - | (12,039) | (172) | (6) | (433) | - | - |
| 2009 | 3 year | 1,042 | - | - | - | - | - | - | - | - |
| 2009 | 5 year | 1,042 | 29,004 | - | - | (2,014) | (671) | (1,102) | - | 25,217 |
| 2010 | 3 year | 871 | 29,273 | - | (28,717) | (309) | - | (247) | - | - |
| 2010 | 5 year | 871 | 121,009 | - | - | (896) | - | (10,989) | - | 109,124 |
| 2011 | 3 year | 1,105 | 26,873 | - | - | (253) | (73) | (2,182) | - | 24,365 |
| 2011 | 5 year | 1,105 | 44,042 | - | - | (172) | (386) | (5,962) | - | 37,522 |
| 2012 | 3 year | 1,065 | 41,494 | - | - | - | - | (7,126) | - | 34,368 |
| 2012 | 5 year | 1,065 | 41,435 | - | - | - | - | (5,500) | - | 35,935 |
| 2013 | 3 year | - | - | 51,316 | - | - | - | (4,258) | - | 47,058 |
| 2013 | 5 year | - | - | 33,881 | - | - | - | (1,967) | - | 31,914 |
| | | | 345,780 | 85,197 | (40,756) | (3,816) | (1,136) | (39,766) | - | 345,503 |

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Notes on the financial statements (continued) for the year ended 31 March 2015

16. Employee share-based payments (continued)

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,564p (2014: 1,455p) 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 share options at the measurement date, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

| | July 2008 | | July 2009 | | July 2010 | | July 2011 | | July 2012 | | July 2013 | | July 2014 | |
|--------------------------------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|
| | 3 Year | 5 Year | 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 | 304p | 339p | 244p | 269p | 231p | 246p | 171p | 163p | 182p | 159p | 194p | 168p | 146p | 163p |
| Expected volatility | 28% | 28% | 35% | 35% | 19% | 19% | 18% | 18% | 18% | 18% | 15% | 15% | 15% | 15% |
| Risk free rate | 4.9% | 5.0% | 2.7% | 2.9% | 1.4% | 2.2% | 1.2% | 2.1% | 0.4% | 0.9% | 0.7% | 1.4% | 1.2% | 1.7% |
| Expected dividends | 4.1% | 4.2% | 4.1% | 4.2% | 1.7% | 2.2% | 6.1% | 6.1% | 5.9% | 5.8% | 5.9% | 5.9% | 5.9% | 5.8% |
| 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 | 3 yrs | 5 yrs |
| Underlying price at grant date | 1,397p | 1,397p | 1,139p | 1,139p | 1,089p | 1,089p | 1,393p | 1,393p | 1,391p | 1,391p | 1,579p | 1,579p | 1,595p | 1,595p |
| Strike price | 1,274p | 1,274p | 1,042p | 1,042p | 871p | 871p | 1,105p | 1,105p | 1,065p | 1,065p | 1,197p | 1,197p | 1,247p | 1,247p |

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

(ii) Share Incentive Plan

| | 2015 | | 2014 | |
|----------------------------------|----------|--------------------------------|----------|--------------------------------|
| | Shares | Weighted average price (pence) | Shares | Weighted average price (pence) |
| Outstanding at start of year | 168,731 | 1,297 | 154,230 | 1,240 |
| Granted during the year | 56,076 | 1,556 | 49,804 | 1,470 |
| Forfeited during the year | (9,320) | 1,449 | (9,635) | 1,239 |
| Exercised during the year | (19,035) | 1,316 | (9,621) | 1,383 |
| Transfer to pool during the year | (17,500) | 1,137 | (16,048) | 1,262 |
| Outstanding at end of year | 178,952 | 1,336 | 168,730 | 1,297 |
| Exercisable at end of year | 51,136 | 1,241 | 50,208 | 1,150 |

When shares have been held for 5 years they are transferred to a pooled share account. At this point the holder has an unconditional right to the share.

The fair value of shares in the share incentive plan 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 and is based on the 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.

SSE Metering Limited

Notes on the financial statements (continued) for the year ended 31 March 2015

16. Employee share-based payments (continued)

Free Shares

| | 2015 | | 2014 | |
|----------------------------------|--------|--------------------------------|---------|--------------------------------|
| | Shares | Weighted average price (pence) | Shares | Weighted average price (pence) |
| Outstanding at start of year | - | - | 6,867 | 1,417 |
| Forfeited during the year | - | - | - | - |
| Exercised during the year | - | - | (380) | 1,404 |
| Transfer to pool during the year | - | - | (6,487) | 1,408 |
| Outstanding at end of year | - | - | - | 1,408 |
| Exercisable at end of year | - | - | - | 1,408 |

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 and is based on the 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.

(iii) Deferred Annual Incentive Scheme

| | 2015 | | 2014 | |
|------------------------------|--------|--------------------------------|--------|--------------------------------|
| | Shares | Weighted average price (pence) | Shares | Weighted average price (pence) |
| Outstanding at start of year | 1,456 | 1,409 | 1,522 | 1,257 |
| Granted during the year | 559 | 1,545 | 507 | 1,496 |
| Forfeited during the year | - | 1,502 | - | 1,208 |
| Exercised during the year | (502) | 1,343 | (573) | 1,183 |
| Outstanding at end of year | 1,513 | 1,486 | 1,456 | 1,409 |
| Exercisable at end of year | - | 1,322 | 502 | 1,327 |

The fair value of the annual incentive scheme 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 and is based on the 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.

(iv) Performance Share Plan

| | 2015 | | 2014 | |
|------------------------------|--------|--------------------------------|---------|--------------------------------|
| | Shares | Weighted average price (pence) | Shares | Weighted average price (pence) |
| Outstanding at start of year | 9,844 | 1,408 | 10,655 | 1,246 |
| Granted during the year | 2,204 | 1,545 | 3,187 | 1,496 |
| Forfeited during the year | - | 1,350 | (1,949) | 1,140 |
| Exercised during the year | (741) | 1,342 | (2,049) | 1,079 |
| Outstanding at end of year | 11,307 | 1,477 | 9,844 | 1,408 |

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

The fair value of the performance share plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to the closing market price on the date of grant.

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Notes on the financial statements (continued) for the year ended 31 March 2015

17. Capital commitments

| | 2015 £m | 2014 £m |
|---------------------------------|-------------|------------|
| Capital expenditure: | | |
| Contracted for but not provided | <u>13.8</u> | <u>4.6</u> |

Contracted for but not provided capital commitments includes the fixed contracted costs of the Company's large capital projects. In practice contractual variations may arise on the final settlement of these contractual costs.

18. Operating lease commitments

Leases as lessee:

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

| | 2015 £m | 2014 £m |
|----------------------------|------------|------------|
| Within one year | 0.4 | 0.8 |
| Between two and five years | <u>2.2</u> | <u>2.1</u> |
| | <u>2.6</u> | <u>2.9</u> |

19. Ultimate holding company

The Company is a subsidiary of SSE 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 SSE plc. The consolidated financial statements of the group (which include those of the Company) are available from the Company Secretary, SSE plc, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ or by accessing the Company's website at www.sse.com.