

Group Profit and Loss Account for the years ended 31 March

	Notes	2004 £m	2003 £m	2002 £m
Turnover, including share of joint ventures'		9,104	9,566	7,821
Less: share of joint ventures' turnover – continuing operations		(71)	(99)	(141)
Less: share of joint ventures' turnover – discontinued operations		–	(67)	(126)
Group turnover – continuing operations		8,875	8,833	7,078
Group turnover – discontinued operations		158	567	476
Group turnover	2(a)	9,033	9,400	7,554
Operating costs	3	(7,178)	(7,788)	(6,494)
Operating profit of Group undertakings – continuing operations	2(b)	1,855	1,806	1,558
Operating loss of Group undertakings – discontinued operations	2(b)	–	(194)	(498)
		1,855	1,612	1,060
Share of joint ventures' operating profit/(loss) – continuing operations	2(b)	7	15	(29)
Share of joint ventures' and associate's operating profit/(loss) – discontinued operations	2(b)	–	109	(672)
		7	124	(701)
Operating profit				
– Before exceptional items and goodwill amortisation	2(b)	2,238	2,185	1,783
– Exceptional items – continuing operations	4(a)	(277)	(308)	(285)
– Exceptional items – discontinued operations	4(a)	–	(39)	(1,042)
– Goodwill amortisation		(99)	(102)	(97)
Total operating profit	2(b)	1,862	1,736	359
Gain on assets held for exchange – discontinued operations	4(b)	226	–	–
Profit on disposal of tangible fixed assets – continuing operations	4(b)	96	48	94
Loss on sale or termination of operations – discontinued operations	4(b)	–	(68)	–
Merger costs – continuing operations	4(b)	–	(79)	–
Gain on sale of shares by employee share plan – continuing operations	4(b)	–	–	31
Profit on disposal of investments – discontinued operations	4(b)	–	–	31
Net interest				
– Excluding exceptional items	8	(822)	(939)	(657)
– Exceptional items	4(c),8	–	(31)	(142)
Total interest	8	(822)	(970)	(799)
Profit/(loss) on ordinary activities before taxation		1,362	667	(284)
Taxation				
– Excluding exceptional items	9	(350)	(373)	(251)
– Exceptional items	4(d),9	89	128	166
Total taxation	9	(261)	(245)	(85)
Profit/(loss) on ordinary activities after taxation		1,101	422	(369)
Minority interests				
– Excluding exceptional items		(2)	(3)	(2)
– Exceptional items	4(e)	–	(28)	50
Total minority interests		(2)	(31)	48
Profit/(loss) for the year				
– Before exceptional items and goodwill amortisation		1,064	870	873
– Exceptional items – operating	4(a)	(277)	(347)	(1,327)
– Exceptional items – non-operating	4(b)	322	(99)	156
– Exceptional items – financing	4(c)	–	(31)	(142)
– Exceptional items – taxation	4(d)	89	128	166
– Exceptional items – minority interests	4(e)	–	(28)	50
– Goodwill amortisation		(99)	(102)	(97)
Profit/(loss) for the year		1,099	391	(321)
Dividends	10	(609)	(530)	(580)
Profit/(loss) transferred to/(from) profit and loss account reserve	24	490	(139)	(901)
Earnings/(loss) per ordinary share				
– Basic, including exceptional items and goodwill amortisation	11	35.8p	12.7p	(11.3)p
– Adjusted basic, excluding exceptional items and goodwill amortisation	11	34.7p	28.3p	30.8p
– Diluted, including exceptional items and goodwill amortisation	11	35.7p	12.8p	(10.1)p
– Adjusted diluted, excluding exceptional items and goodwill amortisation	11	34.6p	27.9p	30.2p

The notes on pages 77 to 128 form part of the Accounts.

Balance Sheets at 31 March

	Notes	Group		Company	
		2004 £m	2003 (restated) £m	2004 £m	2003 £m
Fixed assets					
Intangible assets	12	1,537	1,893	-	-
Tangible assets	13	16,706	16,847	-	-
Investments in joint ventures					
- Share of gross assets		395	542	-	-
- Share of gross liabilities		(376)	(498)	-	-
- Share of net assets		19	44	-	-
Other investments		132	170	2,225	2,225
Total investments	14	151	214	2,225	2,225
		18,394	18,954	2,225	2,225
Current assets					
Stocks	15	91	126	-	-
Debtors (amounts falling due within one year)	16	1,588	1,811	3,884	2,664
Debtors (amounts falling due after more than one year)	16	2,708	3,395	-	-
Assets held for exchange	17	-	17	-	-
Current asset investments		520	482	6	123
Cash at bank and in hand		96	119	-	1
		5,003	5,950	3,890	2,788
Creditors (amounts falling due within one year)					
Borrowings		(1,706)	(2,246)	(388)	(557)
Other creditors		(2,807)	(2,800)	(2,056)	(1,764)
	18	(4,513)	(5,046)	(2,444)	(2,321)
Net current assets					
		490	904	1,446	467
Total assets less current liabilities					
		18,884	19,858	3,671	2,692
Creditors (amounts falling due after more than one year)					
Convertible bonds		-	(502)	-	-
Other borrowings		(11,542)	(11,731)	(746)	-
Other creditors		(1,922)	(2,022)	(13)	-
	19	(13,464)	(14,255)	(759)	-
Provisions for liabilities and charges					
	22	(4,157)	(4,406)	-	-
Net assets employed					
		1,263	1,197	2,912	2,692
Capital and reserves					
Called up share capital	23	309	308	309	308
Share premium account	24	1,280	1,247	1,280	1,247
Other reserves	24	(5,131)	(5,131)	2	2
Profit and loss account	24	4,755	4,689	1,321	1,135
Equity shareholders' funds					
Minority interests		1,213	1,113	2,912	2,692
Equity		12	15	-	-
Non-equity	25	38	69	-	-
		50	84	-	-
		1,263	1,197	2,912	2,692

Commitments and contingencies are shown in note 29.

The notes on pages 77 to 128 inclusive form part of the accounts which were approved by the Board of Directors on 19 May 2004 and were signed on its behalf by:

Sir John Parker Chairman

Steve Lucas Group Finance Director

Group Cash Flow Statement for the years ended 31 March

	Notes	2004 £m	2003 £m	2002 £m
Net cash inflow from operating activities before exceptional items	27(a)	3,058	3,154	2,394
Expenditure relating to exceptional items		(248)	(328)	(103)
Net cash inflow from operating activities		2,810	2,826	2,291
Dividends from joint ventures		8	11	13
Returns on investments and servicing of finance				
Interest received and similar income		137	56	88
Interest paid and similar charges		(823)	(957)	(784)
Dividends paid to minority interests		(6)	(11)	(9)
Net cash outflow for returns on investments and servicing of finance		(692)	(912)	(705)
Taxation				
Net corporate tax paid		(18)	(112)	(212)
Capital expenditure and financial investment				
Net payments to acquire intangible and tangible fixed assets		(1,400)	(1,518)	(1,734)
Receipts from disposals of tangible fixed assets		146	111	191
Receipts from disposals of shares by an employee share plan		–	–	50
Other		–	–	10
Net cash outflow for capital expenditure and financial investment		(1,254)	(1,407)	(1,483)
Acquisitions and disposals				
Payments to acquire investments		(26)	(165)	(56)
Receipts from disposals of investments	27(b)	33	328	37
Acquisition of Group undertaking	27(c)	–	–	(950)
Net cash inflow/(outflow) for acquisitions and disposals		7	163	(969)
Equity dividends paid		(560)	(571)	(478)
Net cash inflow/(outflow) before the management of liquid resources and financing		301	(2)	(1,543)
Management of liquid resources				
(Increase)/decrease in short-term deposits		(48)	(138)	347
Net cash (outflow)/inflow from the management of liquid resources	27(d),(e)	(48)	(138)	347
Financing				
Issue of ordinary shares		38	4	12
Payments to repurchase ordinary shares		–	(97)	–
Termination of cross currency swaps	27(d)	148	–	–
(Decrease)/increase in borrowings	27(d),(e)	(426)	267	1,206
Net cash (outflow)/inflow from financing		(240)	174	1,218
Movement in cash and overdrafts	27(d),(e)	13	34	22

Included in the cash flows above are cash flows for discontinued operations as set out below:

	2004 £m	2003 £m	2002 £m
Net cash inflow/(outflow) from operating activities	5	(70)	53
Net cash outflow for returns on investments and servicing of finance	(2)	(14)	(3)
Net cash (outflow)/inflow for taxation	–	(1)	13
Net cash outflow for capital expenditure and financial investment	(1)	(123)	(344)
Net cash outflow for acquisitions and disposals	–	(3)	(12)
Net cash inflow/(outflow) before the management of liquid resources and financing	2	(211)	(293)

Liquid resources comprise money market deposits, equities and gilts.

Group Statement of Total Recognised Gains and Losses for the years ended 31 March

	2004 £m	2003 £m	2002 £m
Profit/(loss) for the year	1,099	391	(321)
Exchange adjustments	(417)	(322)	(58)
Tax on exchange adjustments	(12)	12	21
Reduction in revaluation reserve on reclassification of investment properties	–	–	(50)
Unrealised gain on transfer of fixed assets to a joint venture (net of tax)	–	6	7
Total recognised gains and losses	670	87	(401)

The notes on pages 77 to 128 form part of the Accounts.

Notes to the Accounts

1. Adoption of UITF 38

During the year, the Group adopted UITF 38 'Accounting for ESOP trusts'. The adoption of this standard constitutes a change in accounting policy. Therefore, the impact has been reflected as a prior year adjustment in accordance with Financial Reporting Standard 3. At 31 March 2003, the Group reported £39m of own shares within fixed asset investments. On adoption of UITF 38, the own shares were reclassified from fixed asset investments and are now reflected within the profit and loss account reserve. The adoption of UITF 38 has resulted in a decrease in net assets of £34m at 31 March 2004 and £39m at 31 March 2003.

2. Segmental analysis

Segmental information is presented in accordance with the management responsibilities and economic characteristics of the Group's business activities. Management responsibilities changed during the year ended 31 March 2004. Segmental reporting has been aligned to reflect the changes in responsibilities, resulting in a restatement of segmental results for the years ended 31 March 2003 and 31 March 2002. The principal effect of this is to reclassify the results of the UK Interconnectors and LNG Storage businesses from 'UK electricity and gas transmission' to 'Other activities'.

The US electricity distribution segment shown below includes the recovery of stranded costs.

'Continuing operations – Other activities' primarily relates to: gas metering activities; liquefied natural gas storage activities; the UK electricity interconnector business; Advantica – the energy technology and systems solutions business; and Gridcom which provides telecommunications infrastructure to operators in the UK and the US.

Discontinued operations comprise activities formerly within Other activities. Discontinued operations primarily include EnMO for all years presented, The Leasing Group and 186k Limited for 2003 and 2002 in Group undertakings, and telecom joint ventures and an associate in 2003 and 2002.

In the 2002 segmental analysis of turnover and operating profit, the repayment of £267m of surplus entry capacity auction revenue, that was rebated to shippers through distribution tariffs, has been reported within the UK electricity and gas transmission segment.

a) Turnover

	Total sales 2004	Sales between businesses 2004	Sales to third parties 2004	Total sales 2003 (restated) £m	Sales between businesses 2003 (restated) £m	Sales to third parties 2003 (restated) £m	Total sales 2002 (restated) £m	Sales between businesses 2002 (restated) £m	Sales to third parties 2002 (restated) £m
Turnover, including share of joint ventures'									
– continuing operations	9,408	462	8,946	9,302	370	8,932	7,509	290	7,219
– discontinued operations	158	–	158	653	19	634	639	37	602
Less: share of joint ventures' turnover									
– continuing operations	(71)	–	(71)	(99)	–	(99)	(141)	–	(141)
– discontinued operations	–	–	–	(67)	–	(67)	(126)	–	(126)
Group turnover	9,495	462	9,033	9,789	389	9,400	7,881	327	7,554
Continuing operations									
UK gas distribution	2,245	120	2,125	2,089	47	2,042	2,013	–	2,013
UK electricity and gas transmission	1,867	35	1,832	1,893	29	1,864	1,799	45	1,754
US electricity transmission	318	48	270	407	5	402	278	1	277
US electricity distribution	3,537	1	3,536	3,446	1	3,445	2,282	5	2,277
US gas distribution	464	–	464	446	–	446	104	–	104
Other activities	906	258	648	922	288	634	892	239	653
	9,337	462	8,875	9,203	370	8,833	7,368	290	7,078
Discontinued operations	158	–	158	586	19	567	513	37	476
Group turnover	9,495	462	9,033	9,789	389	9,400	7,881	327	7,554
UK			4,736			5,096			4,865
US			4,297			4,304			2,689
			9,033			9,400			7,554

The analysis of turnover by geographical area is on the basis of origin. Turnover on a destination basis would not be materially different. There is no turnover between the UK and US geographical areas.

Approximately 15% (2003: 16%) of the Group's turnover for the year ended 31 March 2004 amounting to approximately £1.4bn (2003: £1.5bn) derives from a single customer, the Centrica Group. The majority of this turnover is in the UK gas distribution segment with lesser amounts in other activities and the UK electricity and gas transmission segment.

2. Segmental analysis (continued)**b) Operating profit**

	Operating profit					
	Before exceptional items and goodwill amortisation			After exceptional items and goodwill amortisation		
	2004 £m	2003 (restated) £m	2002 (restated) £m	2004 £m	2003 (restated) £m	2002 (restated) £m
Group undertakings – continuing operations						
UK gas distribution	729	554	548	640	443	504
UK electricity and gas transmission	769	820	756	755	774	713
US electricity transmission	133	128	87	105	103	64
US electricity distribution	449	513	266	294	413	149
US gas distribution	48	58	17	37	49	8
Other activities	103	143	206	24	24	120
	2,231	2,216	1,880	1,855	1,806	1,558
Group undertakings – discontinued operations	–	(26)	(62)	–	(194)	(498)
Operating profit of Group undertakings	2,231	2,190	1,818	1,855	1,612	1,060
Joint ventures and associate – continuing operations						
Electricity activities	7	15	36	7	15	36
Other activities	–	–	(17)	–	–	(65)
	7	15	19	7	15	(29)
Joint ventures and associate – discontinued operations	–	(20)	(54)	–	109	(672)
Operating profit/(loss) of joint ventures and associate	7	(5)	(35)	7	124	(701)
Total operating profit	2,238	2,185	1,783	1,862	1,736	359
UK	1,600	1,481	1,420	1,440	1,051	440
US	632	704	377	416	549	224
Latin America	–	(7)	(19)	–	128	(310)
Rest of the World	6	7	5	6	8	5
	2,238	2,185	1,783	1,862	1,736	359

c) Total and net assets

	Total assets		Net assets	
	2004 £m	2003 (restated) £m	2004 £m	2003 (restated) £m
	Group undertakings – continuing operations			
UK gas distribution	4,928	4,998	3,403	3,480
UK electricity and gas transmission	6,284	5,737	5,472	4,994
US electricity transmission	1,539	1,736	1,465	1,656
US electricity distribution	7,200	8,507	5,548	6,405
US gas distribution	821	930	734	778
Other activities	1,890	2,189	940	1,359
	22,662	24,097	17,562	18,672
Group undertakings – discontinued operations	–	109	(7)	(2)
Group undertakings	22,662	24,206	17,555	18,670
Joint ventures – continuing operations				
Electricity activities	19	42	19	42
Other activities	–	2	–	2
Joint ventures	19	44	19	44
Unallocated	716	654	(16,311)	(17,517)
	23,397	24,904	1,263	1,197
UK	12,846	12,974	9,565	9,774
US	9,679	11,209	7,854	8,873
Rest of the World	156	67	155	67
Unallocated	716	654	(16,311)	(17,517)
	23,397	24,904	1,263	1,197

The analysis of total assets and net assets by business segment includes all attributable goodwill and excludes inter-business balances. Unallocated total assets include current asset investments, cash, taxation and taxation related regulatory assets. Unallocated net liabilities include net borrowings, taxation, interest, dividends and taxation related regulatory assets.

2. Segmental analysis (continued)

d) Other segmental information

	Capital expenditure			Depreciation and amortisation		
	2004 £m	2003 (restated) £m	2002 (restated) £m	2004 £m	2003 (restated) £m	2002 (restated) £m
Group undertakings – continuing operations						
UK gas distribution	293	380	455	195	185	176
UK electricity and gas transmission	584	567	613	276	243	233
US electricity transmission	53	49	38	67	71	46
US electricity distribution	227	209	141	365	359	192
US gas distribution	50	40	3	32	34	6
Other activities	274	180	204	182	170	173
	1,481	1,425	1,454	1,117	1,062	826
Group undertakings – discontinued operations	–	95	393	–	26	50
Group undertakings	1,481	1,520	1,847	1,117	1,088	876
UK	1,071	1,172	1,638	644	613	619
US	332	298	203	473	475	257
Rest of the World	78	50	6	–	–	–
	1,481	1,520	1,847	1,117	1,088	876

Capital expenditure comprises additions to tangible and intangible fixed assets (excluding goodwill) amounting to £1,479m (2003: £1,519m; 2002: £1,840m) and £2m (2003: £1m; 2002: £7m) respectively.

Depreciation and amortisation includes depreciation of tangible fixed assets, amortisation of intangible fixed assets and amortisation of regulatory assets.

3. Operating costs

	Continuing operations			Discontinued operations			Total		
	2004 £m	2003 £m	2002 £m	2004 £m	2003 £m	2002 £m	2004 £m	2003 £m	2002 £m
Total operating costs	7,020	7,027	5,521	158	780	1,011	7,178	7,807	6,532
Charged from:									
– continuing operations	–	–	–	–	–	(1)	–	–	(1)
– discontinued operations	–	(19)	(37)	–	–	–	–	(19)	(37)
External operating costs	7,020	7,008	5,484	158	780	1,010	7,178	7,788	6,494
Depreciation	866	825	700	–	26	50	866	851	750
Payroll costs (note 5(a))	1,020	1,093	907	–	14	39	1,020	1,107	946
Other operating charges:									
– Purchases of electricity	1,998	1,901	1,410	–	–	–	1,998	1,901	1,410
– Purchases of gas	371	357	171	–	–	–	371	357	171
– Rates and property taxes	516	537	422	–	–	2	516	537	424
– Electricity transmission services scheme direct costs	277	252	204	–	–	–	277	252	204
– EnMO direct costs	–	–	–	158	530	395	158	530	395
– Replacement expenditure	388	405	368	–	–	–	388	405	368
– Exceptional operating items (note 4)	277	308	237	–	168	436	277	476	673
– Other non-exceptional operating charges	1,307	1,330	1,065	–	42	88	1,307	1,372	1,153
	5,134	5,090	3,877	158	740	921	5,292	5,830	4,798
	7,020	7,008	5,484	158	780	1,010	7,178	7,788	6,494

Operating costs (except where otherwise noted) include:

Research and development costs	10	18	16
Operating lease rentals			
– Plant and machinery	27	16	8
– Other	45	52	22
Amortisation of intangible fixed assets (i)	101	105	91
Amortisation of regulatory assets	150	132	35
Auditors' remuneration (ii)			
Statutory audit services			
– Annual audit (audit fee for the Company was £8,700 (2003: £8,500; 2002: £8,000))	4	3	4
– Regulatory reporting	1	1	1
Further audit related services (iii)	2	3	2
Tax compliance and advisory services	1	3	1
Other non-audit services (iv)	2	3	6

(i) Includes the amortisation of goodwill amounting to £99m (2003: £102m; 2002: £85m) and negative goodwill of £nil (2003: £4m; 2002: £nil) but excludes the amortisation of goodwill of £nil (2003: £nil; 2002: £12m) related to joint ventures and associate.

(ii) In addition to the fees included above, fees of £nil (2003: £nil; 2002: £2m) incurred in respect of acquisitions have been capitalised.

(iii) £1.5m of assurance services were provided in respect of the separation of UK-based distribution networks. Also included are £nil (2003: £2m) of fees related to the Merger which were reflected within non-operating exceptional items.

(iv) Other non-audit services, in the current year, related to vendor due diligence work associated with the potential gas distribution network sales. For the years ended 31 March 2003 and 2002, other non-audit services included £2m and £6m respectively in relation to services provided by the consulting business unit of PricewaterhouseCoopers which was sold to IBM United Kingdom Limited on 30 September 2002.

4. Exceptional items

The Group has categorised the following items as exceptional items under UK GAAP because, by either their size, incidence or because they are specifically prescribed, they need to be separately disclosed for the accounts to show a true and fair view.

Paragraph 20 of FRS 3, requires that certain items should be disclosed after operating profit and are shown below as 'non-operating exceptional items'. These items comprise: a) costs associated with a fundamental reorganisation which in the case of the Group relate to the transaction costs relating to the Merger; b) profit on disposal of fixed assets (including the gain on sale of shares by an employee share plan, gain on assets held for exchange and other fixed asset investments); and c) profit or loss on the sale or termination of operations.

Other exceptional items are shown below as 'operating exceptional items'. The Directors believe these items require separate disclosure, as permitted by FRS 3, within operating profit to show a true and fair view. These items include: restructuring costs; costs arising from the recognition of employee and property costs arising as a direct result of the Merger; share of exceptional operating items of a joint venture; impairment of business; impairment of investments in joint ventures and associate; impairment of assets; and environmental provision which are all disclosed by virtue of their size.

a) Operating

	2004 £m	2003 £m	2002 £m
Continuing operations			
Restructuring costs (i)	249	203	187
Environmental provision (ii)	28	–	–
Impairment of assets (iii)	–	–	50
Merger costs (iv)	–	105	–
Share of exceptional operating items of joint venture (v)	–	–	48
	277	308	285
Discontinued operations			
Restructuring costs (i)	–	6	–
Impairment of investments in joint ventures and associate (vi)	–	(135)	792
Impairment of business (vii)	–	168	250
	–	39	1,042
Total operating exceptional items	277	347	1,327

- (i) The 2004 restructuring costs consist of £24m of costs associated with the proposed disposal of UK-based distribution networks and other charges of £225m. The other charges primarily related to planned cost reduction programmes in the UK and US businesses. The 2003 and 2002 charges primarily related to costs incurred in reorganisations in the UK and US businesses (2004: £170m after tax; 2003: £165m after tax; 2002: £130m after tax).
- (ii) Following completion of site investigations in the UK, the environmental obligations in respect of those sites was adjusted resulting in the recognition of an additional charge of £28m (£28m after tax).
- (iii) The impairment charge for 2002 related to a review of the carrying value of LNG storage assets, which resulted in a charge to operating profit amounting to £50m (£35m after tax). In the LNG review, future cash flows were determined based on a five-year business plan projected out to 20 years and discounted at a pre-tax rate of 6.25%.
- (iv) Represented employee and property costs associated with the Merger (£76m after tax).
- (v) Share of exceptional operating items of a joint venture in 2002 represented the Group's share of the write-off of an investment and the write-down of goodwill in a joint venture prior to it becoming a wholly-owned subsidiary of the Group (£48m after tax). The write-down of goodwill followed an impairment review which applied a discount rate of 15%. The review used growth rates over a plan period covering nine years. The assumptions of the plan were consistent with management's views of the market and the joint venture's performance therein.
- (vi) The 2003 credits related to Intelig and other telecoms joint ventures (£155m after tax). The exceptional credits arising in 2003 substantially represented the reversal of the Group's share of retained losses incurred by these joint ventures during the period from 1 April 2002 to the date of disposal or the date that equity accounting ceased. £129m of the pre-tax exceptional credits were reflected in 'Share of joint ventures' and associate's operating profit/(loss) – discontinued operations'. The 2002 exceptional charge of £792m (£775m after tax) related to the write-down of the Group's investment in its joint ventures and associate. This charge comprised a write-down of the carrying value of the investments of £606m (£589m after tax) to their estimated recoverable amounts, and the recognition of related liabilities of £186m (£186m after tax).
- (vii) In 2002 and 2003, following a review of the carrying value of certain of the Group's telecoms assets, the Group incurred impairment charges that resulted in the write-down of those assets to their estimated recoverable amounts and the recognition of other related costs (2003: £143m after tax; 2002: £175m after tax).

b) Non-operating

	2004 £m	2003 £m	2002 £m
Continuing operations			
Profit on disposal of tangible fixed assets (viii)	(96)	(48)	(94)
Merger costs (ix)	–	79	–
Gain on sale of shares by an employee share plan (x)	–	–	(31)
	(96)	31	(125)
Discontinued operations			
Gain on assets held for exchange (xi)	(226)	–	–
Loss on sale or termination of operations (xii)	–	68	–
Profit on disposal of investments (xiii)	–	–	(31)
	(226)	68	(31)
Total non-operating exceptional items	(322)	99	(156)

(viii) The after tax profit on disposal of tangible fixed assets was £96m (2003: £50m; 2002: £96m).

(ix) The 2003 after tax transaction cost of the Merger was £71m.

(x) The 2002 after tax gain on sale of shares by an employee share plan was £31m.

(xi) The gain on assets held for exchange related to the profit recognised on Energis shares delivered to Equity Plus Income Convertible Securities (EPICs) bondholders on 6 May 2003 in settlement of all EPICs outstanding at that date that had a carrying value of £243m. This transaction represented the culmination of a deferred sale arrangement entered into in February 1999. The after tax gain on assets held for exchange was £226m.

(xii) The charges for 2003 related to losses on the sale of The Leasing Group of £45m and loss on closure of 186k of £23m. The after tax loss relating to the 2003 sale and closure amounted to £68m.

(xiii) The after tax profit on disposal of investments was £nil (2003: £nil; 2002: £31m).

4. Exceptional items (continued)**c) Financing costs**

For 2003 and 2002, the exceptional net interest cost (2003: £31m; 2002: £142m) (2003: £31m after tax; 2002: £142m after tax) related to the Group's share of foreign exchange losses incurred on foreign currency borrowings by joint ventures (2003: £98m; 2002: £142m), partially offset by the Group's share of a gain on net monetary liabilities (2003: £67m; 2002: £nil). The gain on the net monetary liabilities related to Citelec, a joint venture operating in Argentina, and reflected the net gain that arose on net monetary liabilities that were financing the operation in a hyper-inflationary economy.

d) Taxation

The exceptional tax credit for 2004 of £89m included a net credit amounting to £10m relating to investments disposed of in prior periods.

e) Minority interests

The 2003 exceptional minority interest charge of £28m related to the Group's share of the minority interest in the after taxation exceptional items of Citelec, a joint venture, and primarily reflected the minority interest's share of the gain on net monetary liabilities referred to in note 4(c).

The 2002 exceptional minority interest credit of £50m related to the Group's share of the minority interest in the after taxation exceptional items of Citelec, a joint venture, and primarily related to foreign exchange losses incurred on foreign currency borrowings.

5. Payroll costs and employees

	2004 £m	2003 £m	2002 £m	
a) Payroll costs				
Wages and salaries	1,025	1,124	940	
Social security costs	79	84	73	
Other pension costs	150	117	90	
	1,254	1,325	1,103	
Less: Amounts capitalised	(175)	(158)	(129)	
Payroll costs included in replacement expenditure	(59)	(60)	(28)	
	1,020	1,107	946	
	31 March 2004 Number	Average 2004 Number	Average 2003 Number	Average 2002 Number
b) Number of employees				
UK	15,498	16,241	18,399	19,227
US	9,018	9,402	10,120	5,094
Rest of the World	11	10	14	25
Continuing operations	24,527	25,653	28,533	24,346
Discontinued operations	–	5	407	768
	24,527	25,658	28,940	25,114

The vast majority of employees in:

- the UK are either directly or indirectly employed in the transmission and distribution of gas or the transmission of electricity.
- the US are either directly or indirectly employed in the transmission and distribution of electricity or the distribution of gas.

In addition to the payroll costs shown above, there were restructuring costs of £249m (2003: £209m; 2002: £187m), primarily in respect of severance costs, which have been included as part of restructuring costs within other operating charges – exceptional items.

6. Directors' emoluments

Details of Directors' emoluments are contained in the auditable part of the Directors' Remuneration Report on pages 58 to 67.

7. Pensions and post-retirement benefits**UK post-retirement schemes**

Substantially all the Group's UK employees are members of either the Electricity Supply Pension Scheme or the Lattice Group Pension Scheme.

Electricity Supply Pension Scheme

The Electricity Supply Pension Scheme provides final salary defined benefits on a funded basis. The assets of the scheme are held in a separate trustee administered fund. The scheme is divided into sections, one of which is the Group's section. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme. The latest full actuarial valuation of the Group's section of the scheme was carried out by Bacon & Woodrow, Consulting Actuaries (now Hewitt, Bacon and Woodrow), at 31 March 2001.

The projected unit method was used for the last valuation of the pension scheme and for the purposes of accounting under Statement of Standard Accounting Practice (SSAP) 24 'Accounting for Pension Costs' and the principal actuarial assumptions adopted were that the real annual rates of return on investments held in respect of pre-retirement members would average 4.5% and on investments held in respect of post-retirement members would average 3.5%; that the annual rate of inflation would average 2.3%; that the real annual increase in salary would average 1.0%; and that pensions would increase at a real annual rate of 0.2%. The market value of the assets relating to the Group's section of the scheme at 31 March 2001 was £1,336m and the actuarial value of the assets represented approximately 118.3% of the actuarial value of the benefits that had accrued to members measured on a past service basis. The current agreed employers' and employees' contribution rates for the forthcoming year are 12% and 6% respectively. These contribution rates will be reviewed when the next independent actuarial valuation is completed based on the position at 31 March 2004. The valuation is in the process of being carried out and therefore the outcome is currently unknown.

Lattice Group Pension Scheme

The Lattice Group Pension Scheme provides final salary defined benefits for employees who joined the Lattice Group prior to 31 March 2002. A defined contribution section was added to the scheme from 1 April 2002 for employees joining Lattice Group from that date. The scheme is funded with assets held in a separate trustee administered fund. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The latest full actuarial valuation of the scheme was carried out by Watson Wyatt LLP at 31 March 2003. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.50% and that future real increases in pensionable earnings would be 1.5%. Investments held in respect of pensions before they become payable would average 4.9% real annual rate of return and investments held in respect of pensions after they become payable would average 2.6% real annual rate of return and that pensions would increase at a real annual rate of 0.05%. The aggregate market value of the scheme's assets was £10,141m and the value of the assets represented approximately 92% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2003 on an ongoing basis and allowing for projected increases in pensionable earnings and pensions.

The results of the actuarial valuation carried out at 31 March 2003 showed that based on long-term financial assumptions the contribution rate required to meet the future benefit accrual was 23.7% of pensionable earnings (20.7% employers and 3% employees). Employers' contributions were increased from 8.5% to 20.7% with effect from 1 April 2003. This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be no later than 31 March 2006. The ongoing contribution rate does not include an allowance for administration expenses. These contributions are reviewed annually. From 1 April 2003 the rate used for the recovery of administration costs was 1.4% of salary, from 1 April 2004 the rate was 1.6% of salary. Employers are currently, therefore, paying a total contribution rate of 22.3%. The actuarial valuation revealed a deficit of £879m gross (£615m net of tax) in the defined benefit section on the basis of the assumptions adopted by the actuary. It has been agreed that no funding of the deficit identified in the 2003 actuarial valuation will need to be provided to the scheme until the outcome of the actuarial valuation at 31 March 2007 is known. At this point, the Group will pay the gross amount of any deficit up to a maximum amount of £520m (£364m net of tax) into the scheme. For the period prior to these lump sum deficiency contributions being paid, the Group has arranged for banks to provide the trustees of the Lattice Scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which would imperil the interests of the scheme, such as Transco plc becoming insolvent or the Group failing to make agreed payments into the fund.

A further valuation was carried out at 31 March 2003, to calculate the charge in accordance with SSAP 24. The principal assumptions adopted were: price inflation of 2.5%; pension increases in payment of 2.55%; general pensionable pay escalation of 3.5%; and a discount rate of 6%. The principal results of this valuation were the need to recognise a regular cost based on 21.4% of salary (excluding administration costs) and a deficit of £468m, which is being spread over the average expected future service lives of employees in the Lattice scheme amounting to 14.1 years.

US post-retirement schemes**Pension**

Substantially all the Group's US employees are members of defined benefit plans. The assets of the plans are held in separate trustee administered funds. The latest full actuarial valuations of these plans were carried out by Hewitt Associates LLC at 1 April 2003 and these valuations were used to calculate the pension cost for the year ended 31 March 2004 (in compliance with SSAP 24). These valuations have been updated using assumptions and market values at 31 March 2004. The projected unit method was used for the updated valuations and the principal actuarial assumptions adopted were: that the real annual rate of return on investments would average 4.25%; that real annual increases in salary would average nil for New York schemes and 1.45% for other US schemes; that inflation would average 3.25% for New York schemes and 3.5% for other US schemes; and that nominal increases in pensions would be nil. The market value of the assets relating to the Group's US defined benefit plans at 31 March 2004 totalled US\$1,945m and the actuarial value of the assets represented 75% of the actuarial value of the benefits that had accrued to members, after allowing for future salary increases. There are no formally agreed contribution rates for the US plans.

Healthcare and life insurance – retirees

In the US, the Group provides healthcare and life insurance to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in some cases retirees must contribute to the cost of their coverage. The latest full actuarial valuations were carried out at 1 April 2003. These valuations have been updated using assumptions and market values at 31 March 2004. The principal assumptions adopted were a discount rate of 5.75% and that medical costs would increase by 10.0% per annum, decreasing to 5.0% by 2009 and remain at this rate thereafter.

The cost of providing healthcare and life insurance to retired US employees for the year ended 31 March 2004 amounted to £31m net of capitalised amounts (2003: £37m; 2002: £9m).

7. Pensions and post-retirement benefits (continued)**Pension cost, prepayment and provisions for liabilities and charges**

The pension cost charged to operating profit for the year ended 31 March 2004 was £150m (2003: £117m; 2002: £90m). This represented defined contribution scheme costs of £2m (2003: £1m; 2002: £nil), defined benefit regular pension costs of £106m (2003: £136m; 2002: £127m) and a variation from the regular pension cost totalling £42m (2003: £20m credit; 2002: £37m credit), of which £2m (2003: £2m; 2002: £2m) related to the partial release of a pension provision. In addition, net interest included a charge of £56m (2003: £3m credit; 2002: £30m credit) in respect of the notional interest element of the variation from the regular pension cost.

Included in debtors at 31 March 2004 was a pension prepayment of £19m (2003: £37m).

Included within provisions for liabilities and charges at 31 March 2004 was a pension and other post-retirement benefits provision of £464m (2003: £551m) – see note 22.

FRS 17 Retirement Benefits

On 20 November 2000, the Accounting Standards Board introduced a new accounting standard, FRS 17 'Retirement Benefits', replacing SSAP 24. FRS 17 is fully effective for periods beginning on or after 1 January 2005, though disclosures are required in the financial years prior to its full implementation. Disclosures showing the impact on the Group's profit and loss account and balance sheet, together with other disclosures required by FRS 17, are set out below.

The disclosures have been prepared by updating the results of the aforementioned valuations by independent qualified actuaries using the projected unit method of valuation on the basis of the following assumptions:

	2004			2003			2002		
	UK Pensions %	US Pensions %	US Other post-retirement benefits %	UK Pensions %	US Pensions %	US Other post-retirement benefits %	UK Pensions %	US Pensions %	US Other post-retirement benefits %
Rate of increase in salaries (i)	3.9	3.8	–	3.5	4.0	–	4.7	4.0	–
Rate of increase in pensions in payment and deferred pensions	3.0	–	–	2.6	–	–	2.8	–	–
Discount rate for liabilities	5.5	5.8	5.8	5.4	6.3	6.3	5.8	7.5	7.5
Rate of increase in Retail Price Index or equivalent	2.9	3.3	–	2.5	3.2	–	2.8	3.5	–
Initial healthcare cost trend rate	–	–	10.0	–	–	10.0	–	–	10.0
Ultimate healthcare cost trend rate	–	–	5.0	–	–	5.0	–	–	5.0

(i) A promotional age-related scale has also been used where appropriate.

An analysis of the assets held in the various pension and other post-retirement benefit schemes and the expected rates of return at 31 March 2004, 31 March 2003 and 31 March 2002 were as follows:

	UK Pensions		US Pensions		US Other post-retirement benefits	
	Long-term rate of return expected at 31 March 2004 %	Value at 31 March 2004 £m	Long-term rate of return expected at 31 March 2004 %	Value at 31 March 2004 £m	Long-term rate of return expected at 31 March 2004 %	Value at 31 March 2004 £m
Equities	8.0	5,260	10.8	685	10.8	309
Bonds	4.9	5,896	4.0	360	4.0	180
Property	6.5	913	8.0	6	–	–
Other	4.0	300	12.0	12	0.9	7
Total market value of assets		12,369		1,063		496
Present value of scheme liabilities		(13,790)		(1,488)		(1,002)
Deficit in schemes		(1,421)		(425)		(506)
Related deferred tax asset		426		166		197
Net liability		(995)		(259)		(309)

	UK Pensions		US Pensions		US Other post-retirement benefits	
	Long-term rate of return expected at 31 March 2003 %	Value at 31 March 2003 £m	Long-term rate of return expected at 31 March 2003 %	Value at 31 March 2003 £m	Long-term rate of return expected at 31 March 2003 %	Value at 31 March 2003 £m
Equities	8.5	4,590	11.0	586	11.0	158
Bonds	4.6	5,436	5.1	395	5.0	157
Property	6.5	901	9.0	8	–	–
Other	4.0	171	6.8	28	3.5	58
Total market value of assets		11,098		1,017		373
Present value of scheme liabilities		(13,269)		(1,617)		(1,003)
Deficit in schemes		(2,171)		(600)		(630)
Related deferred tax asset		651		238		250
Net liability		(1,520)		(362)		(380)

7. Pensions and post-retirement benefits (continued)

	UK – Pensions		US – Pensions		US – Other post-retirement benefits	
	Long-term rate of return expected at 31 March 2002 %	Value at 31 March 2002 £m	Long-term rate of return expected at 31 March 2002 %	Value at 31 March 2002 £m	Long-term rate of return expected at 31 March 2002 %	Value at 31 March 2002 £m
Equities	7.5	7,462	10.2	902	10.3	236
Bonds	5.4	4,115	6.4	476	5.0	160
Property	6.5	852	8.0	11	–	–
Other	4.4	520	5.6	48	5.9	1
Total market value of assets		12,949		1,437		397
Present value of scheme liabilities		(12,642)		(1,623)		(884)
Asset/(deficit) in schemes		307		(186)		(487)
Related deferred tax asset		(93)		74		193
Net asset/(liability)		214		(112)		(294)

The net liability for UK – Pensions comprises net pension liabilities relating to funded schemes in deficit of £976m (2003: £1,503m), and net pension liabilities relating to unfunded schemes of £19m (2003: £17m).

The net liability for US – Pensions comprises net pension liabilities relating to funded schemes in deficit of £221m (2003: £319m), and net pension liabilities relating to unfunded schemes of £38m (2003: £43m).

The net liability for US – Other post-retirement benefits relates to funded schemes for both years presented.

At 31 March 2004, an increase of 0.1% in the discount rate would decrease the present value of liabilities for all schemes by around £241m and decrease the liability net of deferred tax by £169m and vice versa.

If the FRS 17 position had been recognised in the Group's accounts, the Group's net assets employed at 31 March would have been as follows:

	2004 £m	2003 (restated) £m
Net assets employed excluding net SSAP 24 liabilities and related impact on regulatory assets	1,482	1,442
Net FRS 17 liabilities	(1,563)	(2,262)
Net liabilities including net FRS 17 liabilities	(81)	(820)

The impact of the implementation of FRS 17 on net assets employed, as shown above, would be reflected within the profit and loss account reserve.

The pension and other post-retirement deficit has moved during the year ended 31 March 2003 and 31 March 2004 as set out below:

	2004 £m	2003 £m
At 1 April	(3,401)	(366)
Current service cost	(215)	(171)
Past service cost	(3)	(8)
Net loss on settlements or curtailments	(61)	(118)
Contributions	393	317
Other financial income	(43)	89
Actuarial gains/(losses)	822	(3,208)
Exchange adjustments	156	64
At 31 March	(2,352)	(3,401)

If FRS 17 had been implemented for the years ended 31 March 2003 or 31 March 2004, the following amounts would have been charged to the profit and loss account in respect of pensions and other post-retirement benefits for the year.

	2004 £m	2003 £m
Operating charge		
Current service cost	146	171
Past service cost	3	8
Net loss on settlements or curtailments	130	118
Total charge to operating profit	279	297
Other financial (income)/costs		
Expected return on scheme assets	(806)	(977)
Interest on scheme liabilities	849	888
Impact on financial income	43	(89)
Net profit and loss charge before taxation	322	208

As the Lattice scheme is a closed scheme, under the projected unit method of valuation, the current service cost will increase as the members of the scheme approach retirement.

If the Group were to prepare its accounts under FRS 17, the net loss on settlements or curtailments above would be reported as part of exceptional items. The net FRS 17 profit and loss account impact before tax excluding these exceptional items amounted to £192m (2003: £90m) and compares with the current UK GAAP charge in respect of pensions and other post-retirement benefits amounting to £264m (2003: £151m). The FRS 17 pre-exceptional profit and loss account charge (pre-tax) would therefore be £72m lower (2003: £61m lower) than the SSAP 24 charge.

7. Pensions and post-retirement benefits (continued)

The following pre-tax amounts would have been recognised in the statement of total recognised gains and losses:

	2004 £m	2003 £m
Difference between actual and expected return on scheme assets	1,310	(2,529)
Experience gains arising on scheme liabilities	51	11
Changes in assumptions	(539)	(690)
Actuarial gains/(losses)	822	(3,208)
Exchange adjustments	(156)	64
Net credit/(charge) to the statement of total recognised gains and losses	666	(3,144)

History of experience gains and losses that would be recognised on an FRS 17 basis is set out below:

	2004 £m	2003 £m
Difference between actual and expected return on scheme assets (£m)	1,310	(2,529)
– percentage of scheme assets	9%	(20%)
Experience gains arising on scheme liabilities (£m)	51	11
– percentage of present value of scheme liabilities	–	–
Actuarial gains/(losses) (£m)	822	(3,208)
– percentage of present value of scheme liabilities	5%	(20%)

8. Net interest

	2004 £m	2003 (restated) £m	2002 (restated) £m
Bank loans and overdrafts	51	36	63
Other	869	945	692
Interest payable and similar charges	920	981	755
Unwinding of discount on provisions	11	13	17
Interest capitalised	(55)	(28)	(38)
Interest payable and similar charges net of interest capitalised	876	966	734
Interest receivable and similar income	(58)	(55)	(123)
	818	911	611
Joint ventures (including exceptional net interest of £nil (2003: £31m; 2002: £142m), net of interest capitalised £nil (2003: £1m; 2002: £10m))	4	59	172
Associate	–	–	16
	4	59	188
Net interest	822	970	799
Comprising:			
Net interest, excluding exceptional net interest	822	939	657
Exceptional net interest (note 4(c))	–	31	142
Net interest, including exceptional net interest	822	970	799

Interest on the funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.7% (2003: 5.9%; 2002: 6.2% to 7.0%).

Interest payable and similar charges includes £4m (2003: £12m; 2002: £3m) relating to the loss incurred on the repurchase of debt during the year.

The comparatives for prior years have been restated resulting in a reclassification of interest from bank loans and overdrafts to other amounting to £221m and £80m for 2003 and 2002 respectively.

9. Taxation

	2004 £m	2003 £m	2002 £m
United Kingdom			
Corporation tax at 30%	193	12	153
Adjustment in respect of prior years (i)	(35)	–	(78)
Deferred tax	(15)	107	(22)
	143	119	53
Overseas			
Corporate tax	16	27	73
Adjustment in respect of prior years	–	–	1
Deferred tax	99	94	(48)
	115	121	26
Joint ventures	258	240	79
	3	5	6
Taxation	261	245	85
Comprising:			
Taxation – excluding exceptional items	350	373	251
Taxation – exceptional items (note 4(d))	(89)	(128)	(166)
	261	245	85

(i) The UK corporation tax adjustment in respect of prior years includes £29m (2003: £nil; 2002: £75m) that relate to exceptional items.

The comparatives have been re-presented to accord with the analysis of the current year tax charge.

9. Taxation (continued)

A reconciliation of the UK corporation tax rate to the effective tax rate of the Group is as follows:

	% of profit before taxation		
	2004	2003	2002
UK corporation tax rate	30.0	30.0	30.0
Effect on tax charge of:			
– Origination and reversal of timing differences	(8.1)	(12.3)	(4.6)
– Permanent differences	(7.5)	2.1	1.2
– Overseas income taxed at other than UK statutory rate	3.3	(2.5)	(5.2)
– Other	(0.1)	0.3	2.6
Current tax charge	17.6	17.6	24.0
Deferred taxation	7.5	12.3	5.0
Effective tax rate before goodwill amortisation, prior year adjustments in respect of current tax and exceptional items	25.1	29.9	29.0
Effect of goodwill amortisation	1.9	2.7	2.7
Effective tax rate before prior year adjustments in respect of current tax and exceptional items	27.0	32.6	31.7
Current tax adjustment in respect of prior years	(0.5)	–	(7.3)
Effective tax rate after adjustments in respect of prior years and before exceptional items	26.5	32.6	24.4
Exceptional items	(7.4)	4.1	(54.3)
Effective tax rate after exceptional items	19.1	36.7	(29.9)

Factors that may affect future tax charges

The Group has brought forward non-trading debits of £75m (2003: £75m; 2002: £75m), which may reduce taxable profits in future years.

No provision has been made for deferred tax arising on gains recognised in respect of the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the replacement assets were sold without it being possible to claim roll-over relief. The total amount unprovided for at 31 March 2004 was £58m (2003: £58m; 2002: £56m). At present, it is not envisaged that any tax on amounts rolled over will become payable in the foreseeable future.

10. Dividends

The following table shows the dividends paid or proposed by National Grid Transco for the year ended 31 March 2004:

	2004 pence (per ordinary share)	2004 £m	2003 pence (per ordinary share)	2003 £m
National Grid Transco				
Ordinary dividends				
Interim	7.91	243	6.86	213
Proposed final	11.87	366	10.34	317
	19.78	609	17.20	530

The following disclosures relate to National Grid and Lattice prior to the Merger:

	2002 pence (per ordinary share)	2002 £m
National Grid		
Ordinary dividends		
Interim	6.46	96
Final	9.58	169
	16.04	265
Lattice		
Ordinary dividends		
Interim	3.60	126
Second interim	5.40	189
Final	–	–
	9.00	315
Total pre-Merger dividends	n/a	580

11. Earnings per share and adjusted profit on ordinary activities before taxation**a) Earnings per share**

	Earnings per share 2004 pence	Profit for the year 2004 £m	Weighted average number shares 2004 million	Earnings per share 2003 pence	Profit for the year 2003 £m	Weighted average number shares 2003 million	(Loss)/earnings per share 2002 pence	(Loss)/profit for the year 2002 £m	Weighted average number shares 2002 million
Basic, including exceptional items and goodwill amortisation	35.8	1,099	3,070	12.7	391	3,078	(11.3)	(321)	2,832
Exceptional operating items (note 4(a))	9.0	277	-	11.3	347	-	46.9	1,327	-
Exceptional non-operating items (note 4(b))	(10.4)	(322)	-	3.2	99	-	(5.5)	(156)	-
Exceptional financing charge (note 4(c))	-	-	-	1.0	31	-	5.0	142	-
Exceptional tax credit (note 4(d))	(2.9)	(89)	-	(4.1)	(128)	-	(5.9)	(166)	-
Exceptional minority interests (note 4(e))	-	-	-	0.9	28	-	(1.8)	(50)	-
Goodwill amortisation	3.2	99	-	3.3	102	-	3.4	97	-
Adjusted basic, excluding exceptional items and goodwill amortisation	34.7	1,064	3,070	28.3	870	3,078	30.8	873	2,832
Dilutive impact of employee share options	(0.1)	-	7	(0.1)	-	10	(0.2)	-	21
Dilutive impact of 4.25% Exchangeable Bonds	n/a	n/a	n/a	(0.3)	22	110	(0.4)	22	110
Adjusted diluted, excluding exceptional items and goodwill amortisation	34.6	1,064	3,077	27.9	892	3,198	30.2	895	2,963
Exceptional operating items (note 4(a))	(9.0)	(277)	-	(10.9)	(347)	-	(44.8)	(1,327)	-
Exceptional non-operating items (note 4(b))	10.4	322	-	(3.1)	(99)	-	5.3	156	-
Exceptional financing charge (note 4(c))	-	-	-	(1.0)	(31)	-	(4.8)	(142)	-
Exceptional tax credit (note 4(d))	2.9	89	-	4.0	128	-	5.6	166	-
Exceptional minority interests (note 4(e))	-	-	-	(0.9)	(28)	-	1.7	50	-
Goodwill amortisation	(3.2)	(99)	-	(3.2)	(102)	-	(3.3)	(97)	-
Diluted, including exceptional items and goodwill amortisation	35.7	1,099	3,077	12.8	413	3,198	(10.1)	(299)	2,963

Earnings per ordinary share, excluding exceptional items and goodwill amortisation, are provided in order to reflect the underlying performance of the Group.

In respect of the years ended 31 March 2003 and 31 March 2002, the potential ordinary shares that related to the 4.25% Exchangeable Bonds were dilutive as they decreased earnings from continuing operations. Consequently, the diluted earnings per share were higher than basic earnings per share for these years because of the effect of losses that arose from discontinued operations.

b) Adjusted profit on ordinary activities before taxation

The following table reconciles profit before taxation on ordinary activities to adjusted profit on ordinary activities before taxation. Adjusted profit on ordinary activities before taxation excludes exceptional items and goodwill amortisation and is provided to reflect the underlying pre-tax performance of the Group.

	2004 £m	2003 £m	2002 £m
Profit/(loss) on ordinary activities before taxation	1,362	667	(284)
Exceptional operating items (note 4(a))	277	347	1,327
Exceptional non-operating items (note 4(b))	(322)	99	(156)
Exceptional financing charge (note 4(c))	-	31	142
Goodwill amortisation	99	102	97
Adjusted profit on ordinary activities before taxation	1,416	1,246	1,126

12. Intangible fixed assets

Group	£m
Cost at 1 April 2003	2,146
Exchange adjustments	(292)
Additions	3
Cost at 31 March 2004	1,857
Amortisation at 1 April 2003	253
Exchange adjustments	(46)
Charge for the year	101
Impairment charge (i)	12
Amortisation at 31 March 2004	320
Net book value at 31 March 2004	1,537
Net book value at 31 March 2003	1,893

(i) Impairment charge related to business restructuring activities.

Negative goodwill with a cost of £37m which was fully amortised at 31 March 2003, was written off during the year.

The net book value of intangible fixed assets at 31 March 2004 included £1m (2003: £3m) relating to telecoms licences and £nil (2003: £3m) relating to capitalised software. The remaining net book value of intangible fixed assets related entirely to goodwill. The charge for the year relating to goodwill amortisation amounted to £99m (2003: £102m).

13. Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2003	1,037	22,665	1,035	870	25,607
Exchange adjustments	(67)	(965)	(17)	(6)	(1,055)
Additions	13	345	1,020	101	1,479
Disposals	(128)	(144)	(2)	(124)	(398)
Reclassifications	3	760	(907)	144	–
Cost at 31 March 2004	858	22,661	1,129	985	25,633
Depreciation at 1 April 2003	343	7,818	–	599	8,760
Exchange adjustments	(12)	(358)	–	(4)	(374)
Charge for the year	19	732	–	115	866
Impairment charge (i)	–	5	–	3	8
Disposals	(74)	(140)	–	(119)	(333)
Depreciation at 31 March 2004	276	8,057	–	594	8,927
Net book value at 31 March 2004	582	14,604	1,129	391	16,706
Net book value at 31 March 2003	694	14,847	1,035	271	16,847

(i) Impairment charge related to business restructuring activities.

The net book value of land and buildings comprised:

	2004 £m	2003 £m
Freehold	564	653
Long leasehold (over 50 years)	4	32
Short leasehold (under 50 years)	14	9
	582	694

The cost of tangible fixed assets at 31 March 2004 included £402m (2003: £347m) relating to interest capitalised.

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) at 31 March 2004 are contributions to the cost of tangible fixed assets amounting to £46m (2003: £32m) and £1,130m (2003: £1,079m) respectively.

14. Fixed asset investments

	Group			Company	
	Unlisted joint ventures share of net assets £m	Own shares £m	Other investments £m	Total £m	Group undertakings £m
At 1 April 2003 (as previously reported)	44	39	170	253	2,225
Prior year adjustment (note 1)	–	(39)	–	(39)	–
At 1 April 2003 (restated)	44	–	170	214	2,225
Exchange adjustments	(5)	–	(21)	(26)	–
Additions	1	–	5	6	–
Disposals	(17)	–	(22)	(39)	–
Share of retained loss	(4)	–	–	(4)	–
At 31 March 2004	19	–	132	151	2,225

With the exception of investments in unlisted joint ventures, which are carried in the balance sheet at the Group's share of their net assets, all investments are carried at cost.

The names of the principal Group undertakings and joint ventures are included in note 30.

15. Stocks

	Group	
	2004 £m	2003 £m
Raw materials and consumables	53	60
Work in progress	21	53
Fuel stocks	17	13
	91	126

16. Debtors

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Amounts falling due within one year:				
Trade debtors	496	628	–	–
Amounts owed by Group undertakings	–	–	3,883	2,652
Regulatory assets	472	406	–	–
Other debtors	158	381	–	12
Prepayments and accrued income	462	396	1	–
	1,588	1,811	3,884	2,664
Amounts falling due after more than one year:				
Regulatory assets	2,639	3,337	–	–
Other debtors	69	58	–	–
	2,708	3,395	–	–
	4,296	5,206	3,884	2,664

Provision for doubtful debts

	Group £m
At 1 April 2003	116
Exchange adjustments	(13)
Reinstatement of amounts previously written off	14
Charge for the year	50
Uncollectable amounts written off net of recoveries	(39)
At 31 March 2004	128

Other debtors falling due within one year included tax recoverable of £nil (2003: £62m).

17. Assets held for exchange

The assets held for exchange in 2003 of £17m represented the carrying value of 74m shares of Energis plc which were held to satisfy obligations under the 6% Mandatorily Exchangeable Bonds 2003, as explained in note 20. The voting rights in respect of 61m of these shares were vested in the bondholders.

18. Creditors (amounts falling due within one year)

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Borrowings (note 20)	1,706	2,246	388	557
Trade creditors and accruals	1,031	1,249	–	–
Amounts owed to Group undertakings	–	–	1,680	1,439
Purchased power obligations	57	68	–	–
Corporate tax	122	–	–	–
Social security and other taxes	191	203	–	–
Proposed dividend	366	317	366	317
Liability for index-linked swap contracts	100	121	–	–
Other creditors	606	589	6	8
Deferred income	334	253	4	–
	4,513	5,046	2,444	2,321

Other creditors included interest payable of £286m (2003: £269m).

19. Creditors (amounts falling due after more than one year)

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Borrowings (note 20)	11,542	12,233	746	–
Purchased power obligations	149	253	–	–
Liability for index-linked swap contracts	291	381	–	–
Other creditors	289	309	–	–
Deferred income	1,193	1,079	13	–
	13,464	14,255	759	–

Other creditors included £9m (2003: £nil) of corporate tax.

Purchased power obligations

As part of the sale of substantially all its non-nuclear generating business, National Grid USA entered into purchased power transfer agreements with the purchasers whereby the purchasers took over a number of long-term contracts between National Grid USA and owners of various generating units. In exchange, National Grid USA committed to make fixed monthly payments to the purchasers towards the above-market cost of the contracts. The creditor relating to purchased power obligations, which is also reflected in regulatory assets (note 16), represents the net present value of these monthly payments discounted at 3.3%. At 31 March 2004, amounts falling due after more than five years totalled £1m (2003: £15m).

Liability for index-linked swap contracts

National Grid USA has entered into indexed swap contracts that expire in 2008. A further three swap contracts expired in June and September 2003. National Grid USA has recorded a liability in respect of these contractual obligations and recorded a corresponding regulatory asset as losses on these instruments will be recovered from customers. The amount of the liability and regulatory asset will fluctuate over the remaining terms of the swaps as nominal energy quantities are settled and may be adjusted as periodic assessments are made of energy prices.

20. Borrowings

The following table analyses the Group's total borrowings after taking account of currency and interest rate swaps:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Amounts falling due within one year:				
Bank loans and overdrafts	314	484	33	–
Commercial paper	557	557	355	557
6% Mandatorily Exchangeable Bonds 2003	–	243	–	–
Other bonds	832	730	–	–
Other loans	3	232	–	–
	1,706	2,246	388	557
Amounts falling due after more than one year:				
Bank loans	823	613	–	–
4.25% Exchangeable Bonds 2008	–	502	–	–
Other bonds	10,587	10,881	746	–
Other loans	132	237	–	–
	11,542	12,233	746	–
Total borrowings	13,248	14,479	1,134	557
Total borrowings are repayable as follows:				
In one year or less	1,706	2,246	388	557
In more than one year, but not more than two years	877	1,031	52	–
In more than two years, but not more than three years	2,043	834	–	–
In more than three years, but not more than four years	458	1,924	–	–
In more than four years, but not more than five years	1,575	882	308	–
In more than five years				
– by instalments	35	46	–	–
– other than by instalments	6,554	7,516	386	–
	13,248	14,479	1,134	557

Charges over property, plant and other assets of the Group were provided as collateral over borrowings totalling £925m at 31 March 2004 (2003: £1,415m).

In February 1999, National Grid Holdings One plc issued 14.7m Equity Plus Income Convertible Securities ("EPICs") in the form of 6% Mandatorily Exchangeable Bonds 2003 ('exchangeable bonds') in the aggregate principal amount of US\$401m. The EPICs were exchangeable, subject to certain exceptions, on or prior to 26 April 2003 at the option of the holder of the bonds ("bondholders") into ordinary shares of Energis plc, a company which prior to 16 July 2002 was an associated undertaking. On 16 July 2002, trading in the shares of Energis plc was suspended and on 6 May 2003, five Energis shares for each EPICs were delivered by the Group to bondholders in satisfaction of the bonds outstanding at that date.

The notional amount at maturity of the Group's debt portfolio at 31 March 2004 was £14,164m (2003: £15,621m).

20. Borrowings (continued)

The 4.25% Exchangeable Bonds 2008 ('the Bonds') were redeemed in whole at the option of the Group on 29 September 2003. The Bonds were redeemed at their principal amount, including the redemption premium, except where the holder elected to exchange their Bonds for ordinary shares in the Company. There was no gain or loss on redemption.

The principal items included within Other bonds are listed below. Unless otherwise indicated, these instruments were outstanding at both 31 March 2004 and 31 March 2003.

Issuer	Description of instrument (notional amount)
British Transco Finance (No5) Limited	GBP 115 million Floating Rate Instruments due 2006
British Transco Finance Inc.	USD 300 million 6.625% Fixed Rate Instruments due 2018
British Transco International Finance BV (i)	USD 500 million 6.125% Fixed Rate Instruments due 2003
British Transco International Finance BV (i)	ITL 150,000 million 10.75% Fixed Rate Instruments due 2003
British Transco International Finance BV (i)	USD 250 million 6.25% Fixed Rate Instruments due 2003
British Transco International Finance BV	USD 300 million 6.0% Fixed Rate Instruments due 2004
British Transco International Finance BV	USD 350 million 6.625% Fixed Rate Instruments due 2004
British Transco International Finance BV	ITL 250,000 million 5.25% Fixed Rate Instruments due 2005
British Transco International Finance BV	USD 350 million 7.0% Fixed Rate Instruments due 2006
British Transco International Finance BV	FRF 2,000 million 5.125% Fixed Rate Instruments due 2009
British Transco International Finance BV	USD 1,500 million Zero Coupon Bond due 2021
National Grid Company plc	GBP 240 million 8.0% Fixed Rate Instruments due 2006
National Grid Company plc (ii)	EUR 600 million 4.125% Fixed Rate Instruments due 2008
National Grid Company plc	GBP 250 million 4.75% Fixed Rate Instruments due 2010
National Grid Company plc	GBP 300 million 2.983% Guaranteed Retail Price Index-Linked Instruments due 2018
National Grid Company plc	GBP 220 million 3.806% Retail Price Index-Linked Instruments due 2020
National Grid Company plc	GBP 450 million 5.875% Fixed Rate Instruments due 2024
National Grid Company plc	GBP 360 million 6.5% Fixed Rate Instruments due 2028
National Grid Company plc	GBP 70 million 3.589% Limited Retail Price Index-Linked Instruments due 2030
National Grid Company plc	GBP 50 million 2.817% Guaranteed Limited Retail Price Index-Linked Instruments due 2032
National Grid Transco plc (ii)	EUR 500 million 3.75% Fixed Rate Instruments due 2008
National Grid Transco plc (ii)	EUR 600 million 5.0% Fixed Rate Instruments due 2018
New England Power Company	USD 135.85 million Tax-Exempt Pollution Control Revenue Bonds, Variable Rate due 2020
New England Power Company	USD 106.15 million Tax-Exempt Pollution Control Revenue Bonds, Variable Rate due 2022
NGG Finance plc	EUR 1,250 million 5.25% Fixed Rate Instruments due 2006
NGG Finance plc	EUR 750 million 6.125% Fixed Rate Instruments due 2011
Niagara Mohawk Power Corporation (i)	USD 400 million 7.375% Senior Notes due 2003
Niagara Mohawk Power Corporation (i)	USD 220 million 7.375% Taxable First Mortgage Bonds due 2003
Niagara Mohawk Power Corporation	USD 300 million 8.0% Taxable First Mortgage Bonds due 2004
Niagara Mohawk Power Corporation	USD 300 million 5.375% Senior Notes due 2004
Niagara Mohawk Power Corporation	USD 110 million 6.625% Taxable First Mortgage Bonds due 2005
Niagara Mohawk Power Corporation	USD 400 million 7.625% Senior Notes due 2005
Niagara Mohawk Power Corporation	USD 150 million 9.75% Taxable First Mortgage Bonds due 2005
Niagara Mohawk Power Corporation	USD 275 million 7.75% Taxable First Mortgage Bonds due 2006
Niagara Mohawk Power Corporation	USD 200 million 8.875% Senior Notes due 2007
Niagara Mohawk Power Corporation	USD 600 million 7.75% Senior Notes due 2008
Niagara Mohawk Power Corporation (iii)	USD 500 million 8.5% Senior Notes due 2010
Niagara Mohawk Power Corporation (iii)	USD 210 million 7.875% Taxable First Mortgage Bonds due 2024
Niagara Mohawk Power Corporation	USD 115.71 million 7.2% Tax-Exempt First Mortgage Bonds due 2029
Transco Holdings plc	GBP 503.078 million Floating Rate Instruments due 2009
Transco Holdings plc	GBP 503.078 million 4.1875% Index-Linked Instruments due 2022
Transco Holdings plc	GBP 503.078 million 7.0% Fixed Rate Instruments due 2024
Transco plc	EUR 650 million 5.25% Fixed Rate Instruments due 2006
Transco plc	GBP 250 million 6.125% Fixed Rate Instruments due 2006
Transco plc (iv)	GBP 250 million 5.625% Fixed Rate Instruments due 2007
Transco plc	GBP 250 million 8.875% Fixed Rate Instruments due 2008
Transco plc	AUD 500 million 7.0% Fixed Rate Instruments due 2008
Transco plc	GBP 300 million 5.375% Fixed Rate Instruments due 2009
Transco plc (iv)	GBP 300 million 6.0% Fixed Rate Instruments due 2017
Transco plc	GBP 275 million 8.75% Fixed Rate Instruments due 2025
Transco plc	GBP 50 million 6.2% Fixed Rate Instruments due 2028

(i) Matured during the year ended 31 March 2004.

(ii) Issued during the year ended 31 March 2004.

(iii) Redeemed during the year ended 31 March 2004.

(iv) Issue tapped during the year ended 31 March 2004.

21. Financial instruments

The Group's treasury policy, described on pages 43 to 46, includes details of the objectives, policies and strategies of the Group associated with financial instruments with off balance sheet risk.

The Group's counterparty exposure under foreign currency swaps and foreign exchange contracts at 31 March 2004 was £442m (2003: £443m) and under interest rate swaps was £115m (2003: £170m).

The Group had no significant exposure to either individual counterparties or geographical groups of counterparties at 31 March 2004.

Where permitted by FRS 13 'Derivatives and other Financial Instruments: Disclosures', short-term debtors and creditors have been excluded from the following disclosures. It is assumed that because of short maturities, the fair value of short-term debtors and creditors approximates to their book value.

Currency and interest rate composition of financial liabilities

The currency and interest rate composition of the Group's financial liabilities are shown in the table below after taking into account currency and interest rate swaps:

	Fixed rate liabilities				
	Total £m	Variable rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed years
At 31 March 2004					
Sterling	8,988	5,231	3,757	6.09	8.7
US dollars	4,260	1,376	2,884	7.03	4.9
Borrowings	13,248	6,607	6,641	6.50	7.1
Other financial liabilities (sterling)	40	40	-	-	-
Other financial liabilities (US dollars)	602	564	38	5.07	-(i)
	13,890	7,211	6,679	6.49	7.1
At 31 March 2003					
Sterling	9,655	4,157	5,498	6.29	8.3
US dollars	4,824	965	3,859	7.09	5.9
Borrowings	14,479	5,122	9,357	6.62	7.3
Other financial liabilities (sterling)	76	60	16	5.34	2.7
Other financial liabilities (US dollars)	824	755	69	5.77	-(i)
	15,379	5,937	9,442	6.61	7.2

(i) Excludes non-equity minority interests of £38m (2003: £69m) with no final repayment date.

At 31 March 2004 the weighted average interest rate on short-term borrowings of £1,706m (2003: £2,246m) was 4.0% (2003: 5.8%).

Foreign exchange forward deals held to manage the currency mix of the Group's borrowings portfolio comprising a £141m (2003: £165m) forward sale of US dollars have not been adjusted in the table above.

Other US dollar financial liabilities comprised indexed-linked energy swap contracts of £391m (2003: £502m), purchased power obligations due after more than one year of £149m (2003: £253m), non-equity minority interests of £38m (2003: £69m), and interest rate swaps of £24m (2003: £nil) which are shown at fair value as they are no longer considered a hedge.

Substantially all the variable rate borrowings are subject to interest rates which fluctuate with LIBOR for the appropriate currency at differing premiums or, in the case of certain US companies, are based on the market rate for tax-exempt commercial paper.

In calculating the weighted average number of years for which interest rates are fixed, swaps which are cancellable at the option of the swap provider are assumed to have a life based on the earliest date at which they can be cancelled.

21. Financial instruments (continued)**Currency and interest rate composition of financial assets**

The currency and interest rate composition of the Group's financial assets are shown in the table below after taking into account currency and interest rate swaps:

	Total £m	Non-interest bearing £m	Variable rate £m	Fixed rate assets		
				Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed years
At 31 March 2004						
Sterling	428	-	428	-	-	-
US dollars	165	-	165	-	-	-
Other currencies	23	-	23	-	-	-
Cash and investments	616	-	616	-	-	-
Other financial assets (sterling)	45	-	-	45	11.50	5.1
Other financial assets (US dollars)	34	-	-	34	5.08	13.8
	695	-	616	79	8.74	8.8
At 31 March 2003						
Sterling	423	-	423	-	-	-
US dollars	147	-	147	-	-	-
Other currencies	31	-	31	-	-	-
Cash and investments	601	-	601	-	-	-
Other financial assets (sterling)	67	17	-	50	11.50	4.5
Other financial assets (US dollars)	34	-	1	33	4.77	10.8
	702	17	602	83	8.85	7.0

Cash and investments earned interest at local prevailing rates for maturity periods generally not exceeding 12 months, and included listed investments with a cost of £241m (2003: £226m) and market value of £241m (2003: £226m). Other financial assets at 31 March 2004 predominantly related to a net investment in a finance lease of £45m (2003: £50m), fixed asset investments of £34m (2003: £33m) and assets held for exchange of £nil (2003: £17m). The non-interest bearing assets held for exchange were realised in May 2003, on redemption of the 6% Mandatorily Exchangeable Bonds 2003, as described in notes 17 and 20.

The maturity profile of the Group's financial liabilities and assets are shown in the tables below after taking into account currency and interest rate swaps:

Maturity of financial liabilities at 31 March	2004 £m	2003 £m
In one year or less	1,848	2,380
In more than one year, but not more than two years	1,029	1,192
In more than two years, but not more than three years	2,189	1,005
In more than three years, but not more than four years	589	2,090
In more than four years, but not more than five years	1,598	1,040
In more than five years	6,637	7,672
	13,890	15,379
Maturity of financial assets at 31 March		
In one year or less	625	611
In more than one year, but not more than two years	11	8
In more than two years, but not more than three years	10	25
In more than three years, but not more than four years	11	10
In more than four years, but not more than five years	10	11
In more than five years	28	37
	695	702

21. Financial instruments (continued)**Fair values of financial instruments at 31 March**

	2004		2003	
	Book value £m	Fair value £m	Book value £m	Fair value £m
6% Mandatorily Exchangeable Bonds 2003	-	-	(243)	(17)
Other short-term debt	(1,666)	(1,678)	(1,965)	(1,973)
4.25% Exchangeable Bonds 2008	-	-	(502)	(510)
Other long-term debt	(11,767)	(12,800)	(12,081)	(13,042)
Cash and investments	616	616	601	601
Other financial liabilities	(642)	(641)	(900)	(871)
Net investment in finance lease	45	45	50	50
Assets held for exchange	-	-	17	17
Other financial assets	34	36	34	50
Financial instruments held to manage interest rate and currency profiles:				
Interest rate swaps	-	(42)	-	8
Forward foreign currency contracts and cross-currency swaps	185	331	312	533

Market values, where available, have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

The notional principal amounts relating to financial instruments held to manage interest rate and currency profiles for interest rate swaps and forward rate agreements, foreign currency contracts and cross-currency swaps at 31 March 2004 amounted to £14,301m (2003: £6,363m) and £7,898m (2003: £5,017m) respectively.

Gains and losses on hedges

	Unrecognised gains £m	Unrecognised losses £m	Unrecognised net gain £m	Deferred gains £m	Deferred losses £m	Deferred net (loss)/gain £m
Gains/(losses) on hedges at 1 April 2003	458	(229)	229	39	(88)	(49)
(Gains)/losses arising in previous years recognised in the year	(50)	18	(32)	(12)	12	-
Gains/(losses) arising in previous years not recognised in the year	408	(211)	197	27	(76)	(49)
Gains/(losses) arising in the year	22	(115)	(93)	104	(6)	98
Gains/(losses) on hedges at 31 March 2004	430	(326)	104	131	(82)	49
Of which:						
Gains/(losses) expected to be recognised within one year	5	(21)	(16)	21	(13)	8
Gains/(losses) expected to be recognised after one year	425	(305)	120	110	(69)	41

Borrowing facilities

At 31 March 2004, the Group had bilateral committed credit facilities of £1,823m (2003: £1,221m), of which £1,808m (2003: £1,221m) were undrawn. The Group also had committed credit facilities from syndicates of banks of £1,313m at 31 March 2004 (2003: £1,880m), £1,201m (2003: £1,880m) of which were undrawn, and an analysis of the maturity of these undrawn committed facilities is shown below:

Undrawn committed borrowing facilities

	2004 £m	2003 £m
Expiring:		
In one year or less	2,269	1,155
In more than one year, but not more than two years	575	966
In more than two years	165	980
	3,009	3,101

Of the unused facilities at 31 March 2004 £2,604m (2003: £2,135m) was held as back-up to commercial paper and similar borrowings. The remainder was available as additional back-up to commercial paper and for other general corporate purposes.

22. Provisions for liabilities and charges

	Group						Total provisions £m
	Decommissioning £m	Post-retirement benefits £m	Environmental £m	Deferred taxation £m	Restructuring £m	Other £m	
At 1 April 2003	143	551	442	3,031	156	83	4,406
Exchange adjustments	(21)	(59)	(25)	(148)	–	–	(253)
Additions	24	260	35	84	87	13	503
Unwinding of discount	7	–	22	–	–	–	29
Unused amounts reversed	–	–	(10)	–	–	–	(10)
Utilised	(22)	(288)	(36)	–	(154)	(3)	(503)
Other	–	–	–	(15)	–	–	(15)
At 31 March 2004	131	464	428	2,952	89	93	4,157

The decommissioning provision of £131m at 31 March 2004 represented the net present value of the estimated expenditure (discounted at a nominal rate of 4.25%) expected to be incurred in respect of the decommissioning of certain nuclear generating units and other related provisions. Related regulatory assets were also recognised (note 16). Expenditure is expected to be incurred between 2005 and 2010. Additions in the year included £3m in respect of the change in the discount rate.

The post-retirement benefits provision was in respect of pensions £273m (2003: £253m) and other post-retirement benefits (health care and life insurance) £191m (2003: £298m).

The environmental provision represented the estimated environmental restoration and remediation costs relating to a number of sites owned and managed by the Group.

At 31 March 2004, £252m (2003: £244m) of the environmental provision represented the net present value of the estimated statutory decontamination costs of old gas manufacturing sites in the UK (discounted using a nominal rate of 5.25%). The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but it is expected to be incurred over the period 2005 to 2057 with some 60% of the spend projected to be spent over the next five years. During the year ended 31 March 2004, a project to survey all old gas work contaminated sites was completed. With this new information, a re-evaluation of the provision was made which also took into account the impact of the recent changes to the regulations on waste disposal and resulted in an additional provision being made as an exceptional charge of £28m in the profit and loss account – see note 4a.

There are a number of uncertainties that affect the calculation of the provision for UK gas site decontamination, including the impact of regulation, the accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. The Group has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision and hence the profit and loss account.

The undiscounted amount of the provision at 31 March 2004 relating to UK gas site decontamination was £341m, being the undiscounted best estimate of the liability having regard to the uncertainties referred to above (excluding the impact of changes in discount rate). The Group believes that the best estimate of this liability lies in a range of between £260m and £420m.

The environmental provision at 31 March 2004 also included £165m (2003: £186m) which represented the net present value of estimated remediation expenditure in the US which has been discounted at a nominal rate of 5.75%. This expenditure is expected to be incurred between 2005 and 2046. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK gas decontamination. However, unlike the UK, with the exception of immaterial amounts of such costs, this expenditure is recoverable from rate payers under the terms of the Group's various rate agreements in the US. As a consequence, any movement in the calculation of the best estimate of the Group's liability is matched by a corresponding movement in the value of regulatory assets (note 16). Therefore, there is no material impact on the Group's profit and loss account arising from changes in the calculation of this liability.

The undiscounted amount of environmental provision relating to the Group's US based sites amounted to £233m at 31 March 2004. The Group does not have sufficient information to calculate a range of outcomes, but it is expected that any outcome of the liability would be recovered from rate payers.

The remainder of the environmental provision of £11m related to the expected cost of remediation of certain other sites in the UK, is calculated on an undiscounted basis and is expected to be utilised within the next five years.

The undiscounted amount of the total Group environmental provision at 31 March 2004 was £585m.

At 31 March 2004, £42m of the total restructuring provision (2003: £50m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs in the UK.

Other provisions at 31 March 2004 included £54m (2003: £49m) of estimated liabilities in respect of past events incurred by the Group's insurance undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates were based on experience from previous years and there was, therefore, no identifiable payment date. Other provisions at 31 March 2004 also included £12m (2003: £12m) in respect of obligations associated with the impairment of investments in joint ventures.

Deferred taxation comprised:

	Provided	
	2004 £m	2003 £m
Accelerated capital allowances	2,748	2,997
Other timing differences	204	34
	2,952	3,031

A deferred tax asset in respect of substantial capital losses has not been recognised because their future recovery was uncertain. Final agreement of certain of these losses is outstanding, however, losses in excess of £700m have been agreed with the relevant tax authorities as at 31 March 2004.

23. Share capital

Group	Allotted, called up and fully paid	
	millions	£m
At 31 March 2001 (i)	2,808	281
Issued during the year	292	29
At 31 March 2002	3,100	310
Issued during the year	1	–
Redeemed during the year	(24)	(2)
At 31 March 2003	3,077	308
Issued during the year	11	1
At 31 March 2004	3,088	309

One £1 special rights non-voting redeemable preference share (2003 and 2002: one).

(i) In accordance with merger accounting principles, the shares issued in connection with the Merger have been treated as if those shares were in issue throughout the year ended 31 March 2003 and comparative periods.

The total consideration received by the Group and Company in respect of ordinary shares issued during the year ended 31 March 2004 was £34m.

Company	Allotted and issued		Called up and partly paid		Called up and fully paid	
	number	£	number	£	millions	£m
At 31 March 2001	500,000	50,000	500,000	12,500	–	–
Cancelled during the year	(500,000)	(50,000)	(500,000)	(12,500)	–	–
Issued during the year	1,776,932,870	177,693,287	23,450 (i)	2,345	1,777	178
At 31 March 2002	1,776,932,870	177,693,287	23,450	2,345	1,777	178
Issued during the year	1,324,195,509	132,419,551	–	–	1,324	132
Fully paid up during the year	–	–	(23,450)	(2,345)	–	–
Repurchased and cancelled during the year	(24,225,000)	(2,422,500)	–	–	(24)	(2)
At 31 March 2003	3,076,903,379	307,690,338	–	–	3,077	308
Issued during the year	10,700,377	1,070,038	–	–	11	1
At 31 March 2004	3,087,603,756	308,760,376	–	–	3,088	309

One £1 special rights non-voting redeemable preference share (2003: one; 2002: nil).

(i) These shares were nil paid at 31 March 2002. They represented shares issued to financial institutions in order to purchase Niagara Mohawk which were not required to form part of the final consideration and were sold on the open market during the year ended 31 March 2003.

At 31 March 2001, the authorised share capital of the Company was £250m and the allotted and issued share capital of the Company was £50,000 (500,000 ordinary shares of 10 pence each), of which £12,500 had been called up and paid.

At 31 March 2002, the authorised share capital of the Company was £250m (2,500m ordinary shares of 10 pence each and one £1 special rights non-voting redeemable preference share).

On 21 October 2002, the authorised share capital of the Company was increased to £500m (5,000m ordinary shares of 10 pence each and one £1 special rights non-voting redeemable preference share). This remained unchanged at 31 March 2003 and 31 March 2004.

During the year ended 31 March 2003, the Group purchased for cancellation 24,225,000 of its ordinary shares at an average price per ordinary share of 401.59p.

The special rights non-voting redeemable preference share of £1 in National Grid Transco plc ('the Special Share'), held on behalf of the Crown, was issued by National Grid to the Secretary of State for Trade and Industry on 31 January 2002 as part of a scheme of arrangement. It was redeemed at par on 5 May 2004. The Special Share did not carry any rights to vote at general meetings but entitled the holder to receive notice of and to attend and speak at such meetings. Certain matters, in particular the alteration of certain Articles of Association of the Company, required the prior written consent of the holder of the Special Share. The Special Share conferred no right to participate in the capital or profits of the Company, except that on a winding-up the holder of the Special Share was entitled to repayment of £1 in priority to other shareholders. Prior to 31 January 2002, the Secretary of State for Trade and Industry held a Special Share with equivalent rights in National Grid Holdings One plc. A similar special share in Lattice was held at 31 March 2002 by the Crown. This share was redeemed on 21 October 2002 as part of the Merger arrangements.

Share option schemes

The Group operates two principal forms of share option scheme. They are an employee sharesave scheme and an Executive Share Option Scheme ('the Executive Scheme'). The details given below relate to the schemes operated by the Group and the sharesave scheme formerly operated by Lattice. Following the Merger, most Lattice scheme options were converted into 0.375 National Grid Transco plc options. The remaining Lattice scheme options lapsed on 29 April 2003.

In any 10-year period, the maximum number of shares that may be issued or issuable pursuant to the exercise of options under all of the Group's share option schemes may not exceed the number of shares representing 10% of the issued ordinary share capital from time to time.

23. Share capital (continued)**Share option schemes** (continued)

The sharesave scheme is savings related where, under normal circumstances, share options are exercisable on completion of a three or a five-year save-as-you-earn contract. The exercise price of options granted represents 80% of the market price at the date the option was granted.

The Executive Scheme applies to senior executives, including Executive Directors. Options granted for the 1999/2000 financial year are subject to the achievement of performance targets related to earnings per share growth over a three-year period and have now vested. Options granted for the 2000/01 financial year and thereafter are subject to the achievement of performance targets related to total shareholder returns over a three-year period and these have not yet vested. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

Movement in options to subscribe for ordinary shares under the Group's various options schemes for the three years ended 31 March 2004 are shown below and include those options related to shares issued to employee benefit trusts:

	Sharesave scheme options		Executive share scheme options		Total options
	Weighted average price £	millions	Weighted average price £	millions	millions
At 31 March 2001	2.54	13.1	4.31	6.9	20.0
Granted	4.57	2.4	5.50	2.6	5.0
Lapsed – forfeited	3.74	(0.7)	–	–	(0.7)
Lapsed – expired	–	–	4.17	(0.1)	(0.1)
Exercised	1.76	(5.0)	3.05	(0.9)	(5.9)
At 31 March 2002	3.33	9.8	4.81	8.5	18.3
Converted from Lattice sharesave scheme	3.18	26.7	–	–	26.7
Granted	3.62	9.9	4.78	5.1	15.0
Lapsed – forfeited	4.14	(3.7)	5.10	–	(3.7)
Lapsed – expired	3.68	(1.0)	2.85	(0.1)	(1.1)
Exercised	2.39	(3.7)	2.84	(0.4)	(4.1)
At 31 March 2003	3.31	38.0	4.86	13.1	51.1
Granted	3.17	10.4	4.05	0.1	10.5
Lapsed – expired	3.52	(5.1)	5.24	(0.9)	(6.0)
Exercised	3.16	(11.6)	2.90	(0.3)	(11.9)
At 31 March 2004	3.32	31.7	4.84	12.0	43.7

Included within options outstanding at 31 March 2004 and 31 March 2003 were the following options which were exercisable:

At 31 March 2004	3.32	0.8	3.78	2.4	3.2
At 31 March 2003	3.34	1.7	3.72	2.4	4.1

The weighted average remaining contractual life of options in the employee sharesave scheme at 31 March 2004 was 2 years and 6 months. These options have exercise prices between £3.12 and £4.57.

Lattice sharesave scheme

	Weighted average price £	Sharesave scheme millions
At 31 March 2001	1.18	71.0
Granted	1.29	11.0
Lapsed – forfeited	1.18	(2.8)
At 31 March 2002	1.19	79.2
Lapsed – forfeited	1.21	(1.4)
Lapsed – expired	1.20	(3.4)
Exercised	1.19	(1.9)
Converted to National Grid Transco options	1.19	(71.2)
At 31 March 2003	1.20	1.3
Lapsed – expired	1.20	(1.3)
At 31 March 2004	–	–

Following the merger of Lattice and National Grid, a number of employees did not convert their Lattice sharesave options into National Grid Transco options. These options lapsed on 29 April 2003 if they had not been exercised by that date.

The National Grid Transco employee sharesave scheme is Inland Revenue approved and hence, as permitted by UITF abstract 17 (revised 2000) 'Employee share schemes', no charge has been made to the profit and loss account.

23. Share capital (continued)**Share option schemes** (continued)

Executive options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2004 are as follows:

	Weighted average exercise price of exercisable options £	Number exercisable millions	Weighted average exercise price of outstanding options £	Number outstanding millions	Exercise price per share pence	Normal dates of exercise Years
Executive scheme	2.77	0.7	2.77	0.7	258.0 – 280.5	2001 – 2008
	3.78	0.7	3.78	0.7	375.8 – 490.0	2002 – 2009
	4.91	0.2	5.31	1.9	424.0 – 566.5	2003 – 2010
	5.36	0.2	5.33	1.4	526.0 – 623.0	2004 – 2011
	5.56	0.2	5.50	2.3	479.5 – 563.0	2005 – 2012
	4.57	0.3	4.68	4.9	434.3 – 481.5	2006 – 2013
	4.05	0.1	4.05	0.1	405.0	2007 – 2014
	3.78	2.4	4.84	12.0		

24. Reserves

	Group				Company		
	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Share premium account £m	Other reserve £m	Profit and loss account £m
At 31 March 2001 (as previously reported)	–	50	(5,202)	6,225	–	–	–
Prior year adjustment	–	–	–	(26)	–	–	–
At 31 March 2001 (restated)	–	50	(5,202)	6,199	–	–	–
Exchange adjustments	–	–	–	(58)	–	–	–
Tax on exchange adjustments	–	–	–	21	–	–	–
Ordinary shares issued during the year							
– Share option scheme	46	–	–	–	1	–	–
– Acquisition	1,242	–	–	–	1,242	–	–
Transfer on issue of certain shares under share option schemes	11	–	–	(11)	–	–	–
Unrealised gain on transfer of assets to a joint venture (net of tax)	–	–	7	–	–	–	–
Reduction in revaluation reserve	–	(50)	–	–	–	–	–
Movement in shares held by employee share trusts	–	–	–	(27)	–	–	–
Retained (loss)/profit for the year	–	–	–	(901)	–	–	498
Transfer	(56)	–	56	–	–	–	–
At 31 March 2002 (restated)	1,243	–	(5,139)	5,223	1,243	–	498
Exchange adjustments	–	–	–	(322)	–	–	–
Tax on exchange adjustments	–	–	–	12	–	–	–
Ordinary shares issued during the year	2	–	–	–	4	–	–
Repurchase and cancellation of ordinary shares	–	–	2	(97)	–	2	(97)
Transfer on issue of certain shares under share option schemes	2	–	–	(2)	–	–	–
Unrealised gain on transfer of assets to a joint venture (net of tax)	–	–	6	–	–	–	–
Movement in shares held by employee share trusts	–	–	–	14	–	–	–
Retained (loss)/profit for the year	–	–	–	(139)	–	–	734
At 31 March 2003 (restated)	1,247	–	(5,131)	4,689	1,247	2	1,135
Exchange adjustments	–	–	–	(417)	–	–	–
Tax on exchange adjustments	–	–	–	(12)	–	–	–
Ordinary shares issued during the year	33	–	–	–	33	–	–
Movement in shares held by employee share trusts	–	–	–	5	–	–	–
Retained profit for the year	–	–	–	490	–	–	186
At 31 March 2004	1,280	–	(5,131)	4,755	1,280	2	1,321

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's profit after taxation was £795m (2003: £1,264m; 2002: £667m).

Other reserves are non-distributable reserves. They primarily represent the difference between the carrying value of Group undertakings, investments and their respective capital structures following the Lattice Demerger from BG Group plc and the 1999 Lattice Refinancing of £(5,745)m. The reserve also included the merger differences described below of £221m and £359m together with unrealised gains of £32m on transfer of fixed assets to a former joint venture which subsequently became a Group undertaking.

The revaluation reserve brought forward as at 1 April 2001 related to investment properties. These properties were reclassified as other land and buildings in 2001 and are now reported at historical cost.

During the year ended 31 March 2002, the application of merger accounting principles to a group reconstruction which involved the creation of a new holding company gave rise to a difference of £359m. It was accounted for as a merger difference and included within other reserves. In accordance with merger accounting principles, the shares issued in connection with the scheme of arrangement to acquire the former holding company of the Group (National Grid Holdings One plc), as adjusted to reflect the issue of options were treated as if issued throughout the year ended 31 March 2002 and comparative period.

24. Reserves (continued)

During the year ended 31 March 2003, the application of merger accounting principles to the Merger gave rise to a difference of £221m. It was accounted for as a merger difference and included within other reserves. The difference represented the excess of nominal share capital in issue by Lattice at the date of the Merger over the National Grid Transco plc share capital issued to Lattice shareholders. In accordance with merger accounting principles, the shares issued in connection with the Merger were treated as if issued throughout the year ended 31 March 2003 and comparative periods.

Own shares are included in the profit and loss account reserve at 31 March 2004 and related to 9m 10p ordinary shares in National Grid Transco plc, held by employee share trusts for the purpose of satisfying certain obligations under various share option schemes operated by the Group. The carrying value of £34m (market value £43m) at 31 March 2004 represented the exercise amounts receivable in respect of those which were issued at market value by the Company and the cost in respect of those shares purchased in the open market. These own shares were, in prior years, held in fixed assets investments, the adoption of UITF 38 as indicated in note 1 has resulted in these shares now being held within the profit and loss account reserve, as a result the profit and loss account reserve for 31 March 2001, 31 March 2002 and 31 March 2003 were restated.

Funding is provided to the trusts by Group undertakings. The trusts have waived their rights to dividends on these shares.

Own shares at 31 March 2003 related to 10m 10p ordinary shares in National Grid Transco plc (book value £39m, market value £37m).

Own shares at 31 March 2002 related to 13m 10p ordinary shares in National Grid (book value £46m, market value £61m) and 33m 10p ordinary shares in Lattice (book value £7m, market value £57m), prior to the Merger.

25. Non-equity minority interests

The non-equity minority interests of £38m (2003: £69m) comprised cumulative preference stock issued by Group undertakings.

26. Reconciliation of movement in equity shareholders' funds

	2004	2003	2002
	£m	(restated) £m	(restated) £m
Profit/(loss) for the year	1,099	391	(321)
Dividends	(609)	(530)	(580)
	490	(139)	(901)
Issue of ordinary shares	34	2	1,317
Repurchase and cancellation of ordinary shares	–	(97)	–
Exchange adjustments	(417)	(322)	(58)
Tax on exchange adjustments	(12)	12	21
Movement in shares held by employee share trust	5	14	(27)
Unrealised gain on transfer of assets to a joint venture (net of tax)	–	6	7
Reduction in revaluation reserve on reclassification of investment properties	–	–	(50)
Net increase/(decrease) in equity shareholders' funds	100	(524)	309
Equity shareholders' funds at start of year	1,113	1,637	1,328
Equity shareholders' funds at end of year	1,213	1,113	1,637

27. Group cash flow statement**a) Reconciliation of operating profit to net cash inflow from operating activities before exceptional items**

	2004 £m	2003 £m	2002 £m
Operating profit of Group undertakings	1,855	1,612	1,060
Group exceptional operating items	277	476	673
Depreciation and amortisation	1,117	1,088	876
Decrease/(increase) in stocks	31	(16)	3
(Increase)/decrease in debtors	(121)	(149)	222
(Decrease)/increase in creditors	(6)	159	(180)
Decrease in provisions	(95)	(16)	(260)
Net cash inflow from operating activities before exceptional items	3,058	3,154	2,394

b) Disposal of investments

	2004 £m	2003 £m	2002 £m
Cash consideration received	33	328	37
Comprises:			
Disposal of Group undertakings	–	92	37
Disposal of other investments	33	236	–
	33	328	37

c) Acquisition of Group undertakings

	2004 £m	2003 £m	2002 £m
Payments to acquire Group undertakings	–	–	(943)
Overdraft of Group undertakings acquired	–	–	(7)
	–	–	(950)

d) Reconciliation of net cash flow to movement in net debt

	2004 £m	2003 £m	2002 £m
Movement in cash and overdrafts	13	34	22
Net cash outflow/(inflow) from the management of liquid resources	48	138	(347)
Decrease/(increase) in borrowings	426	(267)	(1,206)
Change in net debt resulting from cash flows	487	(95)	(1,531)
Acquisition of Group undertakings	–	–	(3,678)
Disposal of Group undertaking	–	(62)	–
Exchange adjustments	534	593	20
Settlement of EPICs (see note 4(b))	243	–	–
Other non-cash movements	(18)	(15)	(5)
Movement in net debt in the year	1,246	421	(5,194)
Net debt at start of year	(13,878)	(14,299)	(9,105)
Net debt at end of year	(12,632)	(13,878)	(14,299)

During the year ended 31 March 2004 certain cross-currency swaps were terminated and £209m of cash was received. £61m of this cash flow was reported in the cash flow statement within the total of net cash outflow for returns on investments and servicing of finance amounting to £(692)m, and £148m was reported within net cash inflow from financing. Termination of these cross-currency swaps also necessitated a re-translation of Euro denominated debt at new swapped rates amounting to £(140)m, which was reported within the net exchange adjustments of £534m reported above.

27. Group cash flow statement (continued)**e) Analysis of changes in net debt**

	At 1 April 2001 £m	Cash flow £m	Acquisition of Group undertakings £m	Exchange adjustments £m	Other non-cash movements £m	At 31 March 2002 £m
Cash at bank and in hand	28	82	–	–	–	110
Bank overdrafts	(24)	(60)	–	–	–	(84)
		22				
Current asset investments	491	(347)	215	(5)	–	354
Borrowings due after one year	(8,254)	(1,830)	(3,189)	11	549	(12,713)
Borrowings due within one year	(1,346)	624	(704)	14	(554)	(1,966)
		(1,206)				
	(9,105)	(1,531)	(3,678)	20	(5)	(14,299)
	At 1 April 2002 £m	Cash flow £m	Disposal of Group undertakings £m	Exchange adjustments £m	Other non-cash movements £m	At 31 March 2003 £m
Cash at bank and in hand	110	12	–	(3)	–	119
Bank overdrafts	(84)	22	–	–	–	(62)
		34				
Current asset investments	354	138	–	(10)	–	482
Borrowings due after one year	(12,713)	(1,226)	(55)	497	1,264	(12,233)
Borrowings due within one year	(1,966)	959	(7)	109	(1,279)	(2,184)
		(267)				
	(14,299)	(95)	(62)	593	(15)	(13,878)
	At 1 April 2003 £m	Cash flow £m	Exchange adjustments £m	Settlement of EPICs £m	Other non-cash movements £m	At 31 March 2004 £m
Cash at bank and in hand	119	(21)	(2)	–	–	96
Bank overdrafts	(62)	34	2	–	–	(26)
		13				
Current asset investments	482	48	(10)	–	–	520
Borrowings due after one year	(12,233)	(1,117)	448	–	1,360	(11,542)
Borrowings due within one year	(2,184)	1,543	96	243	(1,378)	(1,680)
		426				
	(13,878)	487	534	243	(18)	(12,632)

28. Related party transactions

Transactions with related parties were in the normal course of business and are summarised below. Transactions with subsidiaries or associated undertakings disposed of during the year are deemed to be related party transactions from the date of disposal and have been included within the following table:

	2004 £m	2003 £m	2002 £m
Sales:			
Services supplied	6	10	33
Finance lease rentals	–	11	9
Tangible fixed assets	–	–	28
Purchases:			
Services received	25	59	55
Finance lease rentals	–	1	–
Tangible fixed assets	–	12	3

At 31 March 2004, the Group had amounts receivable and payable amounting to £1m and £1m respectively with related parties.

During 2002/03, amounts were paid to or in respect of joint ventures, arising from the Group's obligations from its decision to exit from these investments. The payments made during that year amounted to £153m, all of which had been provided for at 31 March 2002.

At 31 March 2003, amounts due to and from The Leasing Group plc, a former subsidiary undertaking, amounted to £73m and £79m respectively. In addition, at 31 March 2003 the Group had a net investment in a finance lease with a related party amounting to £50m, of which £5m fell due within one year. Rentals received and receivable relating to this lease in 2003 amounted to £11m.

29. Commitments and contingencies**a) Future capital expenditure**

	Group		Joint ventures	
	2004 £m	2003 £m	2004 £m	2003 £m
Contracted for but not provided	448	664	-	1

b) Lease commitments

At 31 March 2004, the Group's operating lease commitments for the financial year ending 31 March 2005 amounted to £59m (2003: £74m) and are analysed by lease expiry date as follows:

	Land and buildings		Other		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Within one year	2	1	4	7	6	8
Between two and five years	5	4	15	20	20	24
After five years	21	26	12	16	33	42
	28	31	31	43	59	74

Total Group commitments under non-cancellable operating leases were as follows:

	2004 £m	2003 £m
In one year or less	59	74
In more than one year, but not more than two years	45	52
In more than two years, but not more than three years	40	41
In more than three years, but not more than four years	32	32
In more than four years, but not more than five years	31	30
In more than five years	271	247
	478	476

c) Power commitments

At 31 March 2004, the Group had obligations to purchase energy under long-term contracts. The following table analyses these commitments, excluding those purchased power obligations, the net present value of which is already reflected in creditors (notes 18 and 19):

	2004 £m	2003 (restated) £m
In one year or less	1,065	1,320
In more than one year, but not more than two years	629	1,016
In more than two years, but not more than three years	592	679
In more than three years, but not more than four years	575	662
In more than four years, but not more than five years	559	624
In more than five years	2,135	2,374
	5,555	6,675

At 31 March 2003, power commitments were shown net of agreed forward contractual sales of £346m. In the current year the commitments shown above are presented without the netting off of any related contractual sales. As a result, the comparatives have been restated.

29. Commitments and contingencies (continued)**d) Other commitments, contingencies and guarantees**

The value of other Group commitments, contingencies and guarantees at 31 March 2004 amounted to £263m (2003: £221m), including guarantees amounting to £168m (2003: £134m). Included within these amounts are outstanding BG Group related commitments and contingencies amounting to £13m (2003: £13m), arising from the restructuring of BG Group in 1999.

Details of the guarantees entered into by the Group at 31 March 2004 are shown below:

- i) performance guarantees of £24m relating to certain property obligations of a group undertaking;
- ii) £50m guarantee of the obligations of a Group undertaking to pay liabilities under a meter operating contract for a duration expected to be 20-30 years;
- iii) a performance guarantee during construction of the Victoria to Tasmania interconnector, that expires on commissioning, of £41m;
- iv) a four-year guarantee relating to an interconnector construction project amounting to £20m provided by the Company;
- v) guarantees in respect of a former associate amounting to £14m; and
- vi) other guarantees amounting to £19m arising in the normal course of business and entered into on normal commercial terms.

The Company has also guaranteed the lease obligations of a former associate to a Group undertaking, amounting to £45m (2003: £50m).

e) Parent Company loan guarantees on behalf of Group undertakings

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from certain Group undertakings to third parties. At 31 March 2004, the sterling equivalent amounted to £1,892m (2003: £1,845m). The guarantees are for varying terms between four and 10 years.

f) Larkhall prosecution

Following a fatal accident in Larkhall, Lanarkshire in December 1999 in which four people died, Transco faces charges alleging breaches of sections 3 and 33 of the Health & Safety at Work Act 1974. The case is currently listed for trial in Edinburgh commencing on 27 September 2004. The maximum penalty for breach of either of the above sections is an unlimited fine.

g) Sale of Millstone 3

In November 1999, New England Power (NEP), a subsidiary of National Grid USA, entered into an agreement with Northeast Utilities (NU) to settle claims made by NEP in relation to the operation of the Millstone 3 nuclear unit. As part of this agreement, NU agreed to include NEP's 16.2% share in an auction of NU's share in that unit, at a guaranteed price, irrespective of the price actually received at auction. On 31 March 2001, the Millstone 3 sale was completed and proceeds of US\$28m (£20m) were received by NEP. Millstone 3 was subsequently sold to Dominion Resources Inc. for a total of approximately US\$855m (£602m).

Regulatory authorities from Rhode Island, New Hampshire and Massachusetts have expressed an intent to challenge the reasonableness of the settlement agreement as NEP would have received approximately US\$140m of sale proceeds without the agreement. Any dispute will be resolved by the Federal Energy Regulatory Commission (FERC). The Group believes that it acted prudently since the amount received under the settlement agreement was the highest sale price for a nuclear unit at the time the agreement was reached.

h) Environmental related litigation

On 10 January 2002, New York State filed a civil action against Niagara Mohawk in US District Court in Buffalo, New York, for alleged violations of the federal Clean Air Act, related state environmental laws and the common law at the Huntley and Dunkirk power plants, which Niagara Mohawk sold in 1999 to affiliates of NRG Energy, Inc. (collectively with its affiliates, NRG). The State alleged, among other things, that between 1982 and 1999, Niagara Mohawk modified the two plants 55 times without obtaining proper preconstruction permits and implementing proper pollution equipment controls.

On 27 March 2003, the court issued an order granting in part Niagara Mohawk's motion to dismiss, which had been filed in 2002. Based on applicable statutes of limitations, the court reduced the number of projects allegedly requiring preconstruction permits under the Clean Air Act from 55 to nine.

On 31 December 2003, the court granted the State's motion to amend the complaint, allowing it to assert operating permit violations against Niagara Mohawk and NRG, though still barring monetary penalties for actions outside the statute of limitations period. Niagara Mohawk answered the amended complaint on 2 March 2004 and filed a counterclaim against the State in response to its common law public nuisance claim, seeking contribution for the company's portion of any alleged harm caused by emissions from facilities that the State owns or to which it has given permits.

Prior to the commencement of the enforcement action, NRG took the position that Niagara Mohawk would be at least partly responsible for the costs of pollution control equipment and post-sale fines and penalties, notwithstanding contrary language in the agreement governing the sale of the plants to NRG. As a result, on 13 July 2001, Niagara Mohawk sued NRG in New York State Supreme Court (Onondaga County), seeking a declaratory ruling that under the agreement, NRG is responsible for the costs of pollution controls and mitigation, as well as post-sale fines and penalties, that may result from the State's enforcement action. The parties are awaiting a decision on NRG's partial summary judgment motion, which was argued on 15 January 2004. The court's decision has been delayed pending the hearing judge's determination of whether to recuse himself due to a perceived conflict of interest.

30. Group undertakings and joint ventures

Principal Group undertakings

The principal Group undertakings included in the Group accounts at 31 March 2004 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in Great Britain.

	Principal activity
Transco plc (i)	Gas transportation
National Grid Company plc (i)	Transmission of electricity in England and Wales
New England Power Company (Incorporated in the US) (i)	Transmission and generation of electricity
Massachusetts Electric Company (Incorporated in the US) (i)	Distribution of electricity
The Narragansett Electric Company (Incorporated in the US) (i)	Distribution of electricity
Niagara Mohawk Power Corporation (Incorporated in the US) (i)	Distribution and transmission of electricity and gas
GridAmerica LLC (formed in the US) (i)	Management of electricity transmission assets
Gridcom (UK) Limited (i)	Telecommunications infrastructure
NGG Finance plc (ii)	Financing
British Transco International Finance B.V. (Incorporated in The Netherlands) (i)	Financing
SecondSite Property Portfolio Limited (i)	Property
National Grid Holdings One plc (ii)	Holding company
Lattice Group plc (ii)	Holding company
National Grid USA (Incorporated in the US) (i)	Holding company
Niagara Mohawk Holdings Inc. (Incorporated in the US) (i)	Holding company
Lattice Group Holdings Limited (i)	Holding company
Transco Holdings plc (i)	Holding company
National Grid (US) Holdings Limited (ii)	Holding company
National Grid Holdings Limited (i)	Holding company

(i) Issued ordinary share capital held by Group undertakings.

(ii) Issued ordinary share capital held by National Grid Transco plc.

Principal joint ventures

(at 31 March 2004)

	Group holding	Country of incorporation and operation	Principal activity
Compañía Inversora En Transmision Eléctrica CITELEC S.A. (i)	42.5% ordinary shares	Argentina	Transmission of electricity
Copperbelt Energy Corporation Plc. (i)	38.5% ordinary shares	Zambia	Transmission, distribution and supply of electricity

(i) 31 December year end.

The investments in joint ventures are held by Group undertakings.

A full list of all Group and associated undertakings is available from the Group Company Secretary.

31. Summary US GAAP income statement, balance sheet, notes and associated reconciliations

The Group prepares its consolidated accounts in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP), which differ in certain respects from United States Generally Accepted Accounting Principles (US GAAP).

The most significant difference between UK and US GAAP is that, under UK GAAP, the combination of National Grid and Lattice was accounted for as a merger (pooling of interests), while under US GAAP this transaction was accounted for as an acquisition (purchase accounting) of Lattice by National Grid. Consequently, under UK GAAP, the accounts represent the combined accounts of National Grid and Lattice on an historical cost basis for all periods presented. Under US GAAP, the accounts presented prior to the Merger are those of National Grid only.

The income statement and balance sheet shown on the following pages are presented in a US GAAP format. The balance sheets at 31 March 2003 and 31 March 2004 include the impact of the fair value of the acquired assets and liabilities of Lattice prepared under US GAAP at the date of acquisition. A summary of the principal differences between UK and US GAAP is shown in note 32.

The comparative figures for discontinued operations and continuing operations have been restated for 2001/02 for US GAAP reporting purposes. This restatement does not affect UK GAAP reported figures. This restatement arose because the results of operations relating to the joint ventures and the associate, from which the Group has now exited and were treated as discontinued operations under UK GAAP, were reported as part of discontinued operations under US GAAP. This treatment is not permitted under US GAAP as these results should have been reported as part of the interest in equity accounted affiliates. The net loss for the Group reported under US GAAP for 2001/02 is not affected by this restatement.

The effect of this restatement was to reclassify amounts of net loss amounting to £857m for 2001/02 from discontinued operations to continuing operations through a restatement of the interest in equity accounted affiliates. Earnings per share for continuing and discontinued operations has similarly been restated.

31. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)**Summary US GAAP income statement**

	2004 National Grid Transco (UK GAAP) £m	2004 US GAAP adjustments £m	2004 National Grid Transco (US GAAP) £m
Turnover	9,033	(167)	8,866
Operating costs			
Depreciation	(866)	(298)	(1,164)
Payroll and severance costs	(1,020)	(277)	(1,297)
Purchases of electricity	(1,998)	–	(1,998)
Purchases of gas	(371)	–	(371)
Rates and property taxes	(516)	–	(516)
Electricity transmission services scheme direct costs	(277)	–	(277)
EnMO direct costs	(158)	158	–
Replacement expenditure	(388)	388	–
Provision for doubtful debts	(50)	–	(50)
Other operating charges	(1,534)	263	(1,271)
	(7,178)	234	(6,944)
Operating profit	1,855	67	1,922
Share of joint ventures' operating profit	7	(7)	–
Non-operating items	322	(290)	32
Profit before interest and taxation	2,184	(230)	1,954
Net interest	(822)	150	(672)
Profit on ordinary activities before taxation	1,362	(80)	1,282
Taxation	(261)	(21)	(282)
Profit on ordinary activities after taxation	1,101	(101)	1,000
Minority interests	(2)	–	(2)
Net income from continuing operations	1,099	(101)	998
Net loss from discontinued operations (net of taxation of £nil)		–	–
Net income for the year	1,099	(101)	998
Basic earnings per share under US GAAP (pence) – continuing operations			32.5p
Diluted earnings per share under US GAAP (pence) – continuing operations			32.4p
Basic earnings per ADS under US GAAP (pence) – continuing operations			162.5p
Diluted earnings per ADS under US GAAP (pence) – continuing operations			162.0p
Basic earnings per share under US GAAP (pence) – total Group			32.5p
Diluted earnings per share under US GAAP (pence) – total Group			32.4p
Basic earnings per ADS under US GAAP (pence) – total Group			162.5p
Diluted earnings per ADS under US GAAP (pence) – total Group			162.0p
There was no dilution of net income under US GAAP.			
Weighted average number of shares in issue (million) – for basic EPS			3,070
Weighted average number of shares in issue (million) – for diluted EPS			3,077

Basic and diluted earnings per share and per ADS for discontinued operations under US GAAP were 0.0p.

Consolidated statement of comprehensive income and changes in shareholders' equity under US GAAP

	2004 £m
Net income	998
Additional minimum pension liability (net of tax of £188m)	415
Exchange adjustments (including tax of £12m)	(438)
Mark to market of financial instruments (net of tax credit of £26m)	(84)
Comprehensive net income	891
Dividends	(560)
Shares issued	34
Share options granted	25
Movement in treasury stock	5
Shareholders' equity at 1 April 2003	9,426
Shareholders' equity at 31 March 2004	9,821

31. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)**Summary US GAAP income statement** (continued)

	US GAAP adjustments			2003 National Grid Transco (US GAAP) £m
	2003 Lattice pre- acquisition (UK GAAP) £m	2003 Other US GAAP adjustments £m	2003 National Grid Transco (US GAAP) £m	
Turnover				9,400
Operating costs		(1,470)	(529)	7,401
Depreciation	(851)	249	(129)	(731)
Payroll and severance costs	(1,107)	308	(305)	(1,104)
Purchases of electricity	(1,901)	–	–	(1,901)
Purchases of gas	(357)	53	–	(304)
Rates and property taxes	(537)	130	–	(407)
Electricity transmission services scheme direct costs	(252)	–	–	(252)
EnMO direct costs	(530)	–	530	–
Replacement expenditure	(405)	239	166	–
Provision for doubtful debts	(24)	1	–	(23)
Other operating charges	(1,824)	542	320	(962)
	(7,788)	1,522	582	(5,684)
Operating profit	1,612	52	53	1,717
Share of joint ventures' operating profit/(loss)	124	1	(125)	–
Non-operating expenses	(99)	67	27	(5)
Profit before interest and taxation	1,637	120	(45)	1,712
Net interest	(970)	203	103	(664)
Profit on ordinary activities before taxation	667	323	58	1,048
Taxation	(245)	(29)	16	(258)
Profit on ordinary activities after taxation	422	294	74	790
Minority interests	(31)	(1)	29	(3)
Interest in equity accounted affiliates (net of tax of £5m)			3	3
Net income from continuing operations	391	293	106	790
Net loss from discontinued operations (net of tax of £nil)			(39)	(39)
Net income for the year	391	293	67	751
Basic earnings per share under US GAAP (pence) – continuing operations				33.6p
Diluted earnings per share under US GAAP (pence) – continuing operations				32.9p
Basic earnings per ADS under US GAAP (pence) – continuing operations				168.0p
Diluted earnings per ADS under US GAAP (pence) – continuing operations				164.5p
Basic earnings per share under US GAAP (pence) – total Group				31.9p
Diluted earnings per share under US GAAP (pence) – total Group				31.3p
Basic earnings per ADS under US GAAP (pence) – total Group				159.5p
Diluted earnings per ADS under US GAAP (pence) – total Group				156.5p
				£m
Net income under US GAAP after £22m dilutive impact of 4.25% Exchangeable Bonds 2008				773
Weighted average number of shares in issue (million) – for basic EPS				2,348
Weighted average number of shares in issue (million) – for diluted EPS				2,468

Basic loss per share and per ADS for discontinued operations under US GAAP was (1.7)p and (8.5)p respectively. Diluted loss per share and per ADS for discontinued operations under US GAAP was (1.6)p and (8.0)p respectively.

Under UK GAAP, the weighted average number of shares in issue for basic EPS for the year ended 31 March 2003 was 3,078m compared with 2,348m under US GAAP. The difference related to shares issued on the combination of National Grid and Lattice. As this transaction was accounted for as a merger (pooling of interests) under UK GAAP, shares issued were included in the weighted average share capital as if they were in issue throughout the year. Under US GAAP, they are included from the date of issue (21 October 2002). This difference impacted 2003 and earlier periods but will not affect future accounting periods.

Consolidated statement of comprehensive income and changes in shareholders' equity under US GAAP (continued)

	2003 £m
Net income	751
Additional minimum pension liability (net of tax credit of £417m)	(886)
Exchange adjustments (net of tax credit of £12m)	(322)
Share of joint ventures' other comprehensive loss	(10)
Other	9
Comprehensive loss	(458)
Dividends	(382)
Shares issued to purchase Lattice	6,566
Other shares issued	2
Share options granted	29
Repurchase of shares	(97)
Movement in treasury stock	7
Shareholders' equity at 1 April 2002	3,759
Shareholders' equity at 31 March 2003	9,426

31. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)**Summary US GAAP income statement** (continued)

	US GAAP adjustments			2002 National Grid Transco (US GAAP) £m
	2002 National Grid Lattice pre- acquisition (UK GAAP) £m	2002 Other US GAAP adjustments (restated) £m	2002 National Grid Transco (US GAAP) (restated) £m	
Turnover	7,554	(3,153)	(397)	4,004
Operating costs				
Depreciation	(750)	431	3	(316)
Payroll and severance costs	(946)	581	(52)	(417)
Purchases of electricity	(1,410)	–	–	(1,410)
Purchases of gas	(171)	113	–	(58)
Rates and property taxes	(424)	227	–	(197)
Electricity transmission services scheme direct costs	(204)	–	–	(204)
EnMO direct costs	(395)	–	395	–
Replacement expenditure	(368)	368	–	–
Provision for doubtful debts	(23)	(3)	–	(26)
Other operating charges	(1,803)	883	411	(509)
	(6,494)	2,600	757	(3,137)
Operating profit	1,060	(553)	360	867
Share of joint ventures' and associate's operating profit/(loss)	(701)	65	636	–
Non-operating income	156	(104)	(30)	22
Profit before interest and taxation	515	(592)	966	889
Net interest	(799)	364	309	(126)
Profit on ordinary activities before taxation	(284)	(228)	1,275	763
Taxation	(85)	60	12	(13)
Profit on ordinary activities after taxation	(369)	(168)	1,287	750
Minority interests	48	(4)	(46)	(2)
Interest in equity accounted affiliates (note 32)			(900)	(900)
Net loss from continuing operations	(321)	(172)	341	(152)
Net loss from discontinued operations (net of tax credit of £1m)			(1)	(1)
Net loss before cumulative effects of changes in accounting principles	(321)	(172)	340	(153)
Cumulative effects of changes in accounting principles (FAS 133 transitional adjustment)			(14)	(14)
Net loss for the year	(321)	(172)	326	(167)
Basic loss per share under US GAAP (pence) – continuing operations				(10.0)p
Basic loss per ADS under US GAAP (pence) – continuing operations				(50.0)p
Basic loss per share under US GAAP (pence) – total Group				(10.9)p
Basic loss per ADS under US GAAP (pence) – total Group				(54.5)p
Weighted average number of shares in issue (million) – for basic EPS				1,527

The Group's 4.25% Exchangeable Bonds 2008 were antidilutive under US GAAP. Therefore no dilutive earnings per share information has been shown.

The cumulative effect of changes in accounting principles (FAS 133 transitional adjustment) increased basic loss per share and per ADS for the Group by 0.9p and 4.5p respectively.

Basic loss per share and per ADS for discontinued operations under US GAAP was 0.0p.

Consolidated statement of comprehensive income and changes in shareholders' equity under US GAAP (continued)

	2002 £m
Net loss	(167)
Exchange adjustments (net of tax credit of £7m)	(2)
Share of associate's other comprehensive loss	(5)
Other	(4)
Comprehensive loss	(178)
Dividends	(229)
Other shares issued	1,305
Share options granted	5
Movement in treasury stock	(36)
Share of associate's capital transactions	(33)
Other	5
Shareholders' equity at 1 April 2001	2,920
Shareholders' equity at 31 March 2002	3,759

31. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)**Summary US GAAP balance sheet**

	2004 £m	2003 (i) £m
Assets		
Current assets		
Cash and cash equivalents	528	570
Marketable securities	102	48
Accounts and notes receivable	496	628
Inventories	91	126
Regulatory assets	512	461
Prepaid expenses and other current assets	596	705
Total current assets	2,325	2,538
Property, plant and equipment – cost	32,216	31,987
Property, plant and equipment – accumulated depreciation	(9,091)	(8,603)
	23,125	23,384
Goodwill – cost	5,698	5,971
Goodwill – accumulated amortisation and impairments	(93)	(71)
	5,605	5,900
Intangible assets	50	74
Investments	155	210
Regulatory assets	3,136	3,998
Other debtors	951	843
Total assets	35,347	36,947
Liabilities and shareholders' equity		
Current liabilities		
Bank overdrafts	26	62
Accounts payable	1,036	1,266
Short-term borrowings	1,644	1,973
Accrued income taxes	122	–
Purchased power obligations	57	68
Liability for index-linked swap contracts	100	121
Other accrued liabilities	1,402	1,121
Total current liabilities	4,387	4,611
Long-term borrowings	12,256	13,058
Purchased power obligations	149	253
Liability for index-linked swap contracts	291	381
Post-retirement benefits	1,681	2,283
Deferred income taxes	4,867	4,687
Other liabilities	1,841	2,159
Total liabilities	25,472	27,432
Minority interest – equity	12	15
Cumulative preference stock issued by Group undertakings	42	74
Shareholders' equity		
Common stock (par value £0.10 per share; shares authorised 5,000m; shares issued 2004: 3,088m; 2003: 3,077m)	309	308
Additional paid in capital	7,768	7,710
Other reserves	359	359
Retained earnings	2,701	2,263
Other comprehensive loss	(1,282)	(1,175)
Treasury stock	(34)	(39)
Equity shareholders' funds	9,821	9,426
Total liabilities and shareholders' equity	35,347	36,947

(i) Certain amounts have been reclassified for consistency with current year presentation.

Other comprehensive loss can be analysed as follows:

	2004 £m	2003 £m
Foreign exchange losses	(821)	(365)
Additional minimum pension liability	(672)	(1,305)
Mark to market of financial instruments	(88)	22
Taxation	295	469
Other	4	4
	(1,282)	(1,175)

31. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)
Segmental information under US GAAP

	2004 £m	2003 (i) £m	2002 (i) £m
Turnover by business segment			
Continuing operations			
UK gas distribution	2,229	1,239	–
UK electricity and gas transmission	1,875	1,615	1,283
US electricity transmission	318	400	278
US electricity distribution	3,536	3,446	2,278
US gas distribution	464	446	104
Other	906	462	113
Sales between businesses	(462)	(207)	(52)
Group turnover – continuing operations	8,866	7,401	4,004
Operating profit by business segment			
Continuing operations			
UK gas distribution	758	567	–
UK electricity and gas transmission	676	573	520
US electricity transmission	124	116	95
US electricity distribution	333	446	240
US gas distribution	39	52	17
Other	(8)	(37)	(5)
Group undertakings – continuing operations	1,922	1,717	867

Turnover and operating profit in the other segment relates primarily to the UK.

(i) Prior year comparatives have been amended to reflect changes in business segments (see note 2).

	Tangible fixed assets	
	2004 £m	2003 (i) £m
Analysis by business segment		
Continuing operations		
UK gas distribution	10,233	10,153
UK electricity and gas transmission	6,442	6,135
US electricity transmission	1,174	1,348
US electricity distribution	2,819	3,167
US gas distribution	615	680
Other	1,842	1,898
	23,125	23,381
Discontinued operations	–	3
	23,125	23,384
Analysis by geographical region		
UK	18,335	18,131
US	4,652	5,194
Rest of the World	138	59
	23,125	23,384

(i) Prior year comparatives have been amended to reflect changes in business segments (see note 2) and balance sheet reclassifications.

Goodwill

	UK gas distribution £m	UK electricity and gas transmission £m	US electricity transmission £m	US electricity distribution £m	US gas distribution £m	Other £m	Total £m
1 April 2002	–	–	438	1,558	141	86	2,223
Exchange adjustments	–	–	(44)	(161)	(14)	(9)	(228)
Additions	3,040	753	–	–	–	20	3,813
Adjustments to provisional fair value	–	–	9	36	8	39	92
1 April 2003	3,040	753	403	1,433	135	136	5,900
Exchange adjustments	–	–	(55)	(195)	(19)	(18)	(287)
Additions	–	–	–	–	–	1	1
Impairment	–	–	–	–	–	(20)	(20)
Adjustments to provisional fair value	(50)	3	–	–	–	58	11
31 March 2004	2,990	756	348	1,238	116	157	5,605

31. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)**Reconciliation of net income from UK to US GAAP**

The following is a summary of the material adjustments to net income which would have been required if US GAAP had been applied instead of UK GAAP:

	2004 £m	2003 £m	2002 £m
Net income/(loss) under UK GAAP	1,099	391	(321)
Adjustments to conform with US GAAP			
Elimination of Lattice pre-acquisition results, measured under UK GAAP	–	293	(172)
Merger costs	–	32	–
Deferred taxation	(24)	7	7
Pensions	7	35	29
Share option schemes	(25)	(29)	(5)
Fixed assets – purchase of Lattice	(364)	(169)	–
Impairment of Advantica – goodwill and other intangible assets	(31)	–	–
Replacement expenditure (net of depreciation)	383	166	–
Financial instruments	82	40	(69)
Cumulative effect of changes in accounting principles (FAS 133 transitional adjustment)	–	–	(14)
Carrying value of EPICs liability	(226)	2	203
Severance and integration costs	–	(110)	67
Recognition of income	(9)	2	(4)
Goodwill	99	70	78
Restructuring – purchase of Lattice	2	46	–
Share of joint ventures' and associate's adjustments	–	(27)	37
Other	5	2	(3)
	(101)	360	154
Net income/(loss) under US GAAP	998	751	(167)

Reconciliation of equity shareholders' funds from UK to US GAAP

The following is a summary of the material adjustments to equity shareholders' funds which would have been required if US GAAP had been applied instead of UK GAAP:

	2004 £m	2003 (restated) £m
Equity shareholders' funds under UK GAAP	1,213	1,113
Adjustments to conform with US GAAP		
Deferred taxation	(1,868)	(1,593)
Pensions	(1,069)	(1,800)
Ordinary dividends	366	317
Tangible fixed assets – reversal of partial release of impairment provision	(32)	(35)
Fixed assets – impact of Lattice purchase accounting and replacement expenditure – gross	7,776	7,385
Fixed assets – impact of Lattice purchase accounting and replacement expenditure – accumulated depreciation	(458)	(142)
Financial instruments	(285)	(253)
Carrying value of EPICs liability	–	243
Severance liabilities	3	3
Recognition of income	(35)	(27)
Regulatory assets	128	241
Goodwill – purchase of Lattice	3,820	3,829
Goodwill – other acquisitions	245	179
Restructuring – purchase of Lattice	(4)	(6)
Share of joint ventures' adjustments	–	(17)
Other	21	(11)
	8,608	8,313
Equity shareholders' funds under US GAAP	9,821	9,426

31. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)**Group cash flow statement**

The Group accounts include a cash flow statement prepared in accordance with UK Financial Reporting Standard 1 (Revised 1996) 'Cash Flow Statements' ('FRS 1 (revised)'), the objectives and principles of which are substantially the same as US Statement of Financial Accounting Standard 95 'Statement of Cash Flows' ('SFAS 95') under US GAAP. The principal differences between FRS 1 (revised) and SFAS 95 relate to the classification of items within the cash flow statement and the definition of cash and cash equivalents. Under UK GAAP, cash flows are classified under nine standard headings whereas US GAAP only requires presentation of cash flows from three activities, being operating activities, investing activities and financing activities.

Under US GAAP, in contrast to UK GAAP, cash and cash equivalents do not include bank overdrafts but do include investments with original maturities of three months or less.

Set out below is a summary of the Group cash flow statement under US GAAP:

	2004 £m	2003 £m	2002 £m
Net cash provided by operating activities (i)	2,500	2,000	902
Investing activities			
Payments to acquire tangible fixed assets	(1,788)	(1,170)	(500)
Acquisition of Group undertakings (net of cash acquired)	–	338	(934)
Payments to acquire investments	–	(163)	(50)
Receipts from disposal of tangible fixed assets	146	53	28
Receipts from disposal of investments	7	328	37
Net movement in investments with an original maturity date of more than three months	(65)	–	193
Other	–	(22)	26
Net cash used in investing activities (ii)	(1,700)	(636)	(1,200)
Net cash (used in)/provided by financing activities (iii)	(828)	(962)	222
Net (decrease)/increase in cash and cash equivalents	(28)	402	(76)
Cash and cash equivalents at beginning of year	570	178	259
Exchange adjustments	(14)	(10)	(5)
Cash and cash equivalents at end of year	528	570	178

Set out below is an explanation of the reconciliation from US GAAP to UK GAAP cash flow headings:

- (i) Net cash provided by operating activities comprised net cash inflow from operating activities (excluding payments in respect of replacement expenditure), dividends from joint ventures, returns on investments and servicing of finance, excluding costs relating to the issue of debt and taxation.
- (ii) Net cash used in investing activities comprised capital expenditure, payments in respect of replacement expenditure (included in operating activities under UK GAAP), acquisitions and disposals and the component of the management of liquid resources which comprised deposits with an original maturity of more than three months.
- (iii) Net cash (used in)/provided by financing activities comprised equity dividends paid, financing, including costs relating to the issue of debt and movements in bank overdrafts.

32. Principal differences between UK and US accounting principles

The principal differences between UK and US GAAP, as applied in preparing the Group accounts under US GAAP, are set out below:

Acquisition (purchase) accounting adjustments (including elimination of merger costs)

In order to determine the allocation of purchase price relating to the acquired assets and liabilities of Lattice under US GAAP purchase accounting, the cost of acquisition was calculated using the market value of the shares issued, the fair value of vested options exchanged and direct external acquisition costs and these amounts were allocated to the fair value of net assets acquired. As a result of the fair value exercise, increases in the value of Lattice's tangible fixed assets, financial instruments, pension obligations and restructuring provisions were recognised and market values were attributed to its intangible fixed assets, mainly product licences, patents and trademarks, together with the recognition of appropriate deferred taxation effects. The difference between the cost of acquisition and the fair value of the separable assets and liabilities of Lattice was recorded as goodwill. Additional depreciation in respect of the fair value of tangible fixed assets will be recorded over their respective economic useful lives.

The adjustments to the assets and liabilities of Lattice to reflect the fair values and allocation of the excess purchase consideration over the fair values of net assets acquired, based on management's best estimates of fair value, are discussed below. The fair value adjustments to UK gas transmission and distribution and other fixed assets, pensions, restructuring provision and the related deferred tax thereon were revised during the year ended 31 March 2004. The adjustments are detailed in the table on page 113.

- a) The total purchase consideration was calculated by multiplying the number of National Grid shares issued to Lattice shareholders for all outstanding Lattice shares by the average fair value of National Grid shares. The average fair value of National Grid shares was calculated over a period of five business days, including two days prior to and two days subsequent to the announcement of the Merger on 22 April 2002.

The total purchase consideration, which included merger costs of £32m that were expensed under UK GAAP, also included the fair value of Lattice vested options exchanged for vested options in National Grid Transco.

The total number of Lattice vested options was multiplied by the respective fair value of each of the ordinary shares determined at 22 April 2002.

- b) The increase in the fair value of tangible fixed assets primarily related to UK gas transmission and distribution. This was determined by calculating the value in use of these businesses. Value in use represented the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital. Future cash flows were based on a five-year plan projected out to perpetuity. The fair value of other tangible fixed assets, largely gas metering assets, was determined using their depreciated replacement costs, based on the current cost of replacing meters and expected remaining useful economic lives.
- c) The fair value attributed to pension obligations reflected the recognition of previously unrecognised actuarial gains and losses, prior service costs and transition amounts. The amounts recognised were based on actuarial assessments at the acquisition date.

32. Principal differences between UK and US accounting principles (continued)**Acquisition (purchase) accounting adjustments (including elimination of merger costs)** (continued)

- d) The fair value attributed to intangible fixed assets related to licences, patents and trade marks and was determined based on discounted future cash flows.
- e) Restructuring costs (£60m) represented the costs incurred in respect of the integration of activities within the newly merged Group and related primarily to redundancy and property relocation costs.
- f) Deferred taxes were computed on the excess of the fair value over book value, other than for goodwill, using the applicable statutory UK corporation tax rate.
- g) Goodwill represented the remainder of unallocated purchase consideration.

The fair value of consideration, assets and liabilities and the resulting goodwill is set out in the table below:

	Provisional fair value at acquisition £m	Final fair value adjustments £m	Final fair value £m
Assets			
Total current assets	1,336	–	1,336
Property, plant and equipment	14,148	67 (i)	14,215
Intangible assets	20	–	20
Other assets	6	–	6
Total assets	15,510	67	15,577
Liabilities			
Total current liabilities	2,656	–	2,656
Long-term borrowings	5,935	–	5,935
Pensions	535	–	535
Other liabilities	470	–	470
Deferred income taxes	3,129	78 (i)(ii)	3,207
Total liabilities	12,725	78	12,803
Net assets	2,785	(11)	2,774
Consideration	6,598	–	6,598
Goodwill	3,813	11	3,824

Final fair value adjustments related to:

- (i) A revision to the fair values attributed to UK gas transmission and distribution property, plant and equipment due to improved estimates of future cash flows following finalisation of the latest available business plans (£67m increase in property, plant and equipment carrying values; £20m deferred tax impact).
- (ii) The recognition of a deferred tax liability on gains relating to the sale of properties where taxable gains were rolled over into replacement assets (£58m). There is no deferred tax recognised for this under UK GAAP.

Acquisitions – pro forma results

The following unaudited pro forma summary gives effect to the acquisitions of Lattice and Niagara Mohawk, as if the acquisitions had taken place on 1 April 2001. The pro forma summary combines the actual consolidated results of the Group (excluding the effect of the acquisitions in the actual period that they took place) and the results of Lattice and Niagara Mohawk after giving effect to certain adjustments. These adjustments include estimates of the effect of adopting the final fair value adjustments for both acquisitions, and the increased net interest expense, together with the associated tax effects, as a result of financing the acquisition of Niagara Mohawk. In addition, the earnings per share calculation has been adjusted as if the shares issued to acquire Lattice and Niagara Mohawk were issued on the assumed date of acquisition for the purposes of preparing the pro forma summary. The pro forma summary does not necessarily reflect the results of operations as they would have been if the Group (excluding the acquisitions) and the acquisitions had constituted a single entity during the periods presented.

Continuing operations

	2003 £m	2002 £m
Turnover	8,802	7,486
Net income before cumulative effects of changes in accounting principles	580	115
Net income after cumulative effects of changes in accounting principles	580	101
	pence	pence
Earnings per share	18.9	3.3
Earnings per ADS	94.5	16.5

Deferred taxation

Under UK GAAP, deferred taxation is provided in full on all material timing differences with certain exceptions, as outlined in 'Accounting Policies – Deferred taxation and investment tax credits'. Under US GAAP, deferred tax is provided in full, using the liability method, and requires the recognition of deferred taxation on all timing differences except for non tax deductible goodwill.

The deferred taxation adjustment principally reflects the tax effect of the other differences between UK and US GAAP.

32. Principal differences between UK and US accounting principles (continued)**Deferred taxation** (continued)

The deferred tax liability under US GAAP is analysed as follows:

	2004 £m	2003 £m
Deferred taxation liabilities:		
Excess of book value over taxation value of fixed assets	4,943	4,955
Other temporary differences	1,169	1,229
	6,112	6,184
Deferred taxation assets:		
Other temporary differences (i)	(1,245)	(1,497)
	4,867	4,687
Analysed as follows:		
Current	63	31
Non-current	4,804	4,656
	4,867	4,687

(i) Deferred taxation assets at 31 March 2004 were stated net of a £210m valuation allowance adjustment associated with certain capital losses (31 March 2003: £nil).

Pensions

Under UK GAAP, pension costs have been accounted for in accordance with UK Statement of Standard Accounting Practice (SSAP) 24 and disclosures have been provided in accordance with SSAP 24 and FRS 17.

Under US GAAP, pension costs are determined in accordance with the requirements of US Statements of Financial Accounting Standards (SFAS) 87 and 88 and pension disclosures are presented in accordance with SFAS 132. Differences between UK GAAP and US GAAP figures arise from the requirement to use different actuarial methods and assumptions and a different method of amortising certain surpluses and deficits. Under US GAAP, the Company has estimated the effect on net income and shareholders' equity assuming the adoption and application of SFAS 87 'Employers' Accounting for Pensions' as of 1 April 1996, as the adoption of SFAS 87 on the actual effective date of 1 April 1989 was not feasible. The unrecognised transition asset at 1 April 1989, using the financial assumptions at 1 April 1996, amounted to £172m and is being amortised over 15 years commencing 1 April 1989.

Under UK GAAP, as explained in note 7, net interest includes a charge of £52m (2003: £3m credit; 2002: £30m credit) in respect of the notional interest element of the variation from the regular pension cost. Under US GAAP, this cost is not recognised.

The net periodic charge/(credit) for pensions and other post-retirement benefits is as follows:

	Pensions			Other post-retirement benefits		
	2004 £m	2003 £m	2002 £m	2004 £m	2003 £m	2002 £m
Service cost	143	78	30	10	8	5
Interest cost	799	456	125	59	59	29
Settlements	14	19	(12)	10	–	–
Expected return on assets	(814)	(490)	(160)	(36)	(32)	(21)
Amortisation of prior service cost	5	5	4	–	–	–
Amortisation of previously unrecognised losses	39	4	–	21	2	–
Amortisation of transitional asset	(11)	(11)	(11)	–	–	–
	175	61	(24)	64	37	13
Release of pension provision	(2)	(2)	(2)	–	–	–
	173	59	(26)	64	37	13

The additional cost incurred in respect of severance cases computed in accordance with SFAS 88 'Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits' is as follows:

	2004 £m	2003 £m	2002 £m
Cost of termination benefits and curtailments	129	119	46

The principal financial assumptions used for the SFAS 87 calculations of net periodic charge/(credit), based on a measurement date of 31 March 2003 in respect of the US and UK defined benefit schemes are shown below:

	US			UK		
	2004 %	2003 %	2002 %	2004 %	2003 %	2002 %
Discount rate	6.3	7.5	7.3	5.4	6.0	5.5
Return on assets	8.5	8.5	7.5-9.0	6.3-6.9	6.3-7.1	7.0
General salary increases	3.3-5.3	3.3-4.5	4.0	3.5	3.8	3.3
Pension increases	nil	nil	nil	2.6	2.9	2.5

In respect of US schemes, the estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward-looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of our long-term assumption. A small premium is added for active management of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with our target asset allocation, and the resulting long-term return on asset rate is then applied to the market-related value of assets.

32. Principal differences between UK and US accounting principles (continued)**Pensions** (continued)

In respect of UK schemes, the expected long-term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long-term asset allocation strategy adopted for each plan. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the plans' actuaries.

The assumptions used for other post-retirement costs relate solely to US schemes. These assumptions were that the discount rate used would be 5.75% (2003: 6.25%; 2002: 7.5%) and that medical costs would increase by 10% (2003: 10%; 2002: 10%), decreasing to 5% (2003: 5%; 2002: 5%) by 2009 and remain at 5% (2003: 5%; 2002: 5%) thereafter.

A reconciliation of the funded status of the Group pension and other post-retirement schemes to the net accrued benefit liability that were included in the Group's balance sheet prepared under US GAAP is as follows:

	Pensions		Other post-retirement benefits	
	2004 £m	2003 £m	2004 £m	2003 £m
Projected benefit obligation	(15,394)	(15,030)	(1,002)	(1,004)
Fair value of plan assets	13,432	12,115	496	373
Excess of projected benefit obligation over plan assets	(1,962)	(2,915)	(506)	(631)
Unrecognised transition asset	-	(11)	-	-
Unrecognised net loss	1,493	2,508	328	336
Unrecognised prior service cost/(credit)	48	57	(5)	(1)
Net accrued benefit liability – before minimum liability adjustment	(421)	(361)	(183)	(296)
Additional minimum liability adjustment	(840)	(1,583)	-	-
Net accrued benefit liability	(1,261)	(1,944)	(183)	(296)

At 31 March 2004, as required under SFAS 87, an intangible asset of £48m (2003: £57m) was recognised in relation to the additional minimum liability, being equal to the unrecognised prior service cost. A regulatory asset of £120m (2003: £221m) was also created. The remaining additional minimum liability of £672m (2003: £1,303m) has been included in other comprehensive income.

The net accrued benefit liability above is shown net of a prepaid cost of £174m in respect of one group scheme.

The principal financial assumptions used for the SFAS 87 calculations of the projected benefit obligation, based on a measurement date of 31 March 2004, in respect of the US and UK defined benefit schemes are shown below:

	US			UK		
	2004 %	2003 %	2002 %	2004 %	2003 %	2002 %
Discount rate	5.8	6.3	7.5	5.5	5.4	6.0
General salary increases	3.3-5.3	3.3-5.3	3.3-4.5	3.9	3.5	3.8
Pension increases	nil	nil	nil	3.0	2.6	2.9

All pension schemes had an additional minimum liability adjustment except the Lattice Group Pension Scheme. The accumulated benefit obligation for pensions was £14,507m at 31 March 2004 (2003: £14,059m). The Group has followed approach two of Emerging Issues Task Force (EITF) Abstract 88-1 in calculating the accumulated benefit obligation. Changes in the projected benefit obligation and changes in the fair value of plan assets are shown below:

	Pensions		Other post-retirement benefits	
	2004 £m	2003 £m	2004 £m	2003 £m
Projected benefit obligation at start of year	15,030	2,953	1,004	884
Service cost	143	78	10	8
Interest cost	799	456	59	59
Plan participants' contributions	18	10	-	-
Plan amendment – prior service cost	-	8	(5)	-
Terminations	129	58	5	-
Curtailments	(2)	42	10	-
Settlements	(80)	(109)	-	-
Actuarial loss	322	1,212	119	195
Benefits paid	(736)	(423)	(51)	(54)
Acquisition of Group undertakings	-	10,908	-	-
Transfers	-	(1)	-	-
Exchange adjustments	(229)	(162)	(149)	(88)
Projected benefit obligation at end of year	15,394	15,030	1,002	1,004
Fair value of plan assets at start of year	12,115	2,698	373	397
Actual return on assets	2,023	(437)	92	(35)
Employer contributions	244	150	123	68
Plan participants' contributions	18	10	-	-
Benefits paid	(736)	(423)	(24)	(18)
Acquisition of Group undertakings	-	10,373	-	-
Settlements	(80)	(109)	-	-
Exchange adjustments	(152)	(147)	(68)	(39)
Fair value of plan assets at end of year	13,432	12,115	496	373

It is estimated that a 1% change in the assumed healthcare cost trends would have increased or decreased the accumulated post-retirement benefit obligation at 31 March 2004 by £106m (2003: £106m; 2002: £91m) and £96m (2003: £96m; 2002: £82m) respectively. The net periodic cost for the year ended 31 March 2004 would have increased or decreased by £7m and £8m respectively (2003: £8m and £7m respectively).

Estimated contributions for the year ending 31 March 2005 are £164m.

32. Principal differences between UK and US accounting principles (continued)**Pensions** (continued)

In the UK, the trustees for each plan are responsible for setting the long-term strategy after consultation with the Group and professional advisers. The trustees' objectives are to invest in assets of appropriate liquidity, which together with future contributions from employers and members, will generate income and capital growth to meet the cost of benefits from the plans; to limit the risk and to minimise long-term cost. In the US, the Group manages its pension plan investments to minimise the long-term cost of operating the plan, with a reasonable level of risk.

Risk tolerance is determined as a result of periodic asset/liability studies which analyse plan liabilities and funded status and results in the determination of the allocation of assets.

Equity investments, fixed income and index-linked portfolios are broadly diversified. Investments are also held in property, private equity and timber with the objective of enhancing long-term returns whilst improving diversification. Investment risk and return are reviewed by investment committees on a quarterly basis.

Share option schemes

As permitted under UK GAAP, no cost is accrued for share options awarded under the sharesave scheme where the exercise price of the options is below the market value at the date of grant. In respect of the grant of options under the Executive scheme, no cost is accrued under UK GAAP as the exercise price is equivalent to the market value at the date of grant.

Under US GAAP, a charge is made against net income based on the fair value of grants in accordance with SFAS 123 'Accounting for Stock Based Compensation'. Disclosures are provided in accordance with SFAS 123 and SFAS 148 'Accounting for Stock Based Compensation – Transition and Disclosure – an amendment of FAS No. 123'.

The average exercise price of the options granted during each of the three financial years ended 31 March are as follows:

	2004	2003	2002
Where the exercise price is less than the market price at the date of grant	317.0p	362.0p	457.0p
Where the exercise price is equal to the market price at the date of grant	405.0p	478.0p	550.0p

The average fair value of the options granted during each of the three financial years ended 31 March are estimated as follows:

	2004	2003	2002
Where the exercise price is less than the market price at the date of grant	152.8p	123.0p	158.0p
Where the exercise price is equal to the market price at the date of grant	73.6p	50.0p	62.0p

The fair value of the options granted are estimated using the Black-Scholes European option pricing model using the following principal assumptions:

	2004	2003	2002
Dividend yield (%)	7.0	3.5	3.5
Volatility (%)	20.4	35.0	30.0
Risk-free investment rate (%)	4.6	4.4	5.4
Average life (years)	3.4	4.0	4.2

The compensation cost charged for the year ended 31 March 2004 amounted to £25m (2003: £29m; 2002: £5m).

Further details of the Group's share-based plans are given in note 23, pages 97 to 99.

Ordinary dividends

Under UK GAAP, final ordinary dividends are provided for in the year in respect of which they are proposed by the Board of Directors for approval by the shareholders. Under US GAAP, dividends are not provided until declared.

Tangible fixed assets – reversal of partial release of impairment provision

During the financial year ended 31 March 1990, an impairment provision was recorded in respect of certain tangible fixed assets. Part of this impairment provision was subsequently released and shareholders' equity credited. Under US GAAP, this partial release would not be permitted.

Fixed assets – impact of Lattice purchase accounting and replacement expenditure

Under UK GAAP, the combination of National Grid and Lattice was accounted for as a merger (pooling of interests), while under US GAAP this transaction was accounted for as an acquisition (purchase accounting) of Lattice by National Grid. Consequently, under US GAAP the tangible fixed assets of Lattice have been recorded at their fair value at the date of purchase, and depreciation subsequent to acquisition has been calculated on that fair value.

In addition, under UK GAAP the Group charges to the profit and loss account replacement expenditure on certain components of plant and equipment, which is principally undertaken to repair and to maintain the safety of the pipeline system. Under US GAAP, such expenditure is capitalised and depreciated over the assets' expected useful economic lives.

Financial instruments

Under UK GAAP, derivative financial instruments that qualify for hedge accounting are recorded at their historical cost, if any, and are not re-measured. Any related monetary assets or liabilities, including foreign currency borrowings, are translated at the hedged rate. In addition, under UK GAAP, it is permissible to hedge account for the net assets of overseas operations with hedging instruments denominated in currencies other than the functional currencies of the overseas operations.

Under US GAAP, as required by SFAS 133 'Accounting for Derivative Instruments and Hedging Activities', all derivative financial instruments, including derivatives embedded within other contracts, are required to be recognised in the balance sheet as either assets or liabilities and measured at fair value. SFAS 133 only permits hedge accounting in specific circumstances, where the hedge is identified as one of three types: fair value; cash flow; or foreign currency exposures of net investments in foreign operations. Provided that it can be demonstrated that the hedge is highly effective and the relevant hedging criteria have been met, then in respect of fair value hedges, both the change in fair value of the derivative and hedged item are reflected in net income in the period of the change. For cash flow hedges and hedges of foreign currency exposures of net investments in foreign operations, changes in fair value are reflected through other comprehensive income. In the event that the conditions for hedge accounting are not met, changes in the fair value of derivatives are reflected in net income.

32. Principal differences between UK and US accounting principles (continued)**Financial instruments (continued)**

The primary differences that arise between UK GAAP and US GAAP result from the different criteria that are applied under UK GAAP and US GAAP to permit the use of hedge accounting, and the application of different measurement criteria.

Equity Plus Income Convertible Securities (EPICs)

Under UK GAAP, EPICs were carried in the balance sheet at the gross proceeds of the issue. This resulted in a gain being recognised on disposal during 2004. The related issue costs were written off in the year of issue. Under US GAAP, the issue costs were deferred and written off over the period to the date of redemption of the EPICs on 6 May 2003.

US GAAP required that the carrying value of the EPICs be adjusted to the settlement amount of the debt, which was linked to the Energis plc share price and therefore no gain was recorded on the disposal – see note 20.

Regulatory assets

SFAS 71 'Accounting for Certain Types of Regulation' establishes US GAAP for utilities whose regulators have the power to approve and/or regulate rates that may be charged to customers. Provided that through the regulatory process the utility is substantially assured of recovering its allowable costs by the collection of revenue from its customers, such costs not yet recovered are deferred as regulatory assets. Due to the different regulatory environment, no equivalent accounting standard applies in the UK.

Under UK GAAP, regulatory assets established in accordance with the principles of SFAS 71 are recognised where they comprise rights or other access to future economic benefits which arise as a result of past transactions or events which have created an obligation to transfer economic benefit to a third party. Measurement of the past transaction or event and hence of the regulatory asset is determined in accordance with UK GAAP. Where the application of UK GAAP results in the non or partial recognition of an obligation compared with US GAAP, any related regulatory asset is either not or partially recognised. Under UK GAAP, in certain circumstances, regulatory assets may be reported net of related regulatory liabilities. Such amounts are shown gross in the US GAAP balance sheet.

Recognition of income

Under US GAAP, income is recognised in the period that the service is provided up to the maximum revenue allowed under the terms of the relevant regulatory regime. Under UK GAAP, any income received or receivable in excess of the maximum revenue allowed for the period, under the terms of the relevant regulatory regime, is recognised as income, even where prices will be reduced in a future period.

Severance and integration costs

Under UK GAAP, severance costs are provided for in the accounts if it is determined that a constructive or legal obligation has arisen from a restructuring programme where it is probable that it will result in the outflow of economic benefits and the costs involved can be estimated with reasonable accuracy. Under US GAAP, severance costs are recognised when the employees accept the severance offer. In addition, where the number of employees leaving results in a significant reduction in the accrual of pension benefits for employees' future service (a curtailment under US GAAP), the effects are reflected as part of the cost of such termination benefits. Accordingly, timing differences between UK and US GAAP arise on the recognition of such costs.

Goodwill – purchase of Lattice

Under UK GAAP, the combination of National Grid and Lattice has been accounted for as a merger (pooling of interests) while under US GAAP this transaction was accounted for as an acquisition (purchase accounting) of Lattice by National Grid. In accordance with US GAAP, goodwill arising on the purchase has been capitalised, but is not amortised.

Goodwill – other

Under US GAAP, the fair value of net assets acquired is calculated in accordance with US GAAP principles which differ in certain respects from UK GAAP principles. As a result, the US GAAP fair value of net assets of Group undertakings acquired differs from the fair value of net assets as determined under UK GAAP principles.

Under UK GAAP, goodwill is amortised over its expected useful economic life, principally 20 years. Under US GAAP, goodwill is not amortised but is reviewed periodically for impairment. An impairment assessment has been carried out during 2004 and it resulted in an impairment of goodwill being recorded in respect of Advantica, which was acquired by the Group as part of the Lattice acquisition.

Restructuring – purchase of Lattice

Under US GAAP, certain reorganisation costs relating to an acquired entity are included in liabilities in determining the fair value of net assets acquired. Under UK GAAP, such costs are not recognised as liabilities of the acquired entity at the date of acquisition and are treated as post-acquisition costs.

Share of joint ventures' and associate's adjustments

The Group's share of the associated undertaking's results and net assets, which also impact on the exceptional profit on disposal of investments and assets held for exchange, have been adjusted to conform with US GAAP.

On 16 July 2002, Energis plc ('Energis') went into administration. As a direct result of this event, Energis ceased to be an associate of the Group from that date. The results for 2002/03 have not been affected by this change in status, because the Group investment in Energis had been fully written down during 2001/02 and Energis had not publicly declared any results since reporting its results for the six months ended 30 September 2001.

The Group ceased equity accounting for Intelig, its Brazilian telecoms joint venture, with effect from 30 September 2002. This arose as a result of the Group's share of net assets falling to zero and the Group declaring its intention not to fund this business any further while pursuing a withdrawal strategy.

The Group's interest in Manquehue net and Silica Networks were disposed of in October 2002 and September 2002 respectively. The Group ceased equity accounting for Manquehue net and Silica Networks from the date of disposal. In the case of Energis Polska, the interest reduced to a level where the Group has no significant influence on the activities of this business as of November 2002. As a result, these entities are no longer equity accounted for, and any losses arising from the disposal or reduction in interest have previously been reflected in the income statement.

The tables on pages 118 and 119 provide summarised information of the Group's equity in the loss or income for 31 March 2001 and 2002 and also summarised balance sheet information as at 31 March 2002.

32. Principal differences between UK and US accounting principles (continued)**Summary financial information for equity investments**

The following information is provided to enable the reader to see the impact on the US GAAP results of equity accounted affiliates for the years ended 31 March 2001 and 31 March 2002 and to allow further understanding of the impact of these investments on the financial condition of the Group at those dates.

The following table summarises the underlying results of all material equity accounted investments included within the Group accounts for the year ended 31 March 2002:

	2002					
	Energis (i) £m	Intelig £m	Silica Networks (ii) £m	Manquehue net (ii) £m	Energis Polska (ii) £m	Citelec (ii) £m
Net revenue	482	300	-	28	1	149
Total expenses	(582)	(408)	(13)	(46)	(8)	(301)
Loss before income taxes and minority interests	(100)	(108)	(13)	(18)	(7)	(152)
Taxation	2	-	-	2	-	(14)
Minority interests	1	-	-	-	-	58
Net loss	(97)	(108)	(13)	(16)	(7)	(108)
Group's % ownership in investee	36.9%	50.0%	50.0%	30.0%	48.8%	42.5%
Group's equity in net loss of investee under US GAAP	(36)	(54)	(6)	(5)	(3)	(46)

The following table reconciles the Group's equity in the net (loss)/income of equity accounted investees to the Group's reported interest in equity accounted affiliates as measured under US GAAP, including consolidation adjustments, for the year ended 31 March 2002:

	2002							
	Energis (i) £m	Intelig £m	Silica Networks (ii) £m	Manquehue net (ii) £m	Energis Polska (ii) £m	Citelec (ii) £m	Other £m	Total £m
Group's equity in net (loss)/income of investee under US GAAP	(36)	(54)	(6)	(5)	(3)	(46)	7	(143)
Consolidation adjustments								
Impairments – write down carrying value	(392)	(116)	(41)	(37)	(20)	-	-	(606)
Provisions for related liabilities	-	(83)	(11)	(2)	(90)	-	-	(186)
Other	25 (iii)	2	-	2	(2)	(3)	11	35
Group's equity in net (loss)/income under US GAAP including consolidation adjustments	(403)	(251)	(58)	(42)	(115)	(49)	18	(900)

(i) Only includes six months' results to September 2001. No results are available after this date, as a consequence of Energis being placed in administration.

(ii) Results included in the Group accounts for Silica Networks, Manquehue net, Energis Polska and Citelec are based on their results reported for the year ended 31 December 2001.

(iii) Represents a profit on a deemed disposal of Energis shares, arising from a dilution of the Group's equity interest.

The following table summarises the balance sheet of all material equity accounted investments:

	2002					
	Energis £m	Intelig £m	Silica Networks (i) £m	Manquehue net (i) £m	Energis Polska (i) £m	Citelec (i) £m
Current assets	342	117	11	28	47	25
Non-current assets	2,276	525	77	156	89	366
Total assets	2,618	642	88	184	136	391
Current liabilities	389	551	23	24	93	151
Non-current liabilities	1,151	4	-	63	-	207
Minority interests	3	-	-	-	-	17
Shareholders' equity	1,075	87	65	97	43	16
Total liabilities and equity	2,618	642	88	184	136	391

The following table shows the Group's investment in equity accounted affiliates, under US GAAP, as at 31 March 2002:

	2002							
	Energis £m	Intelig £m	Silica Networks (i) £m	Manquehue net (i) £m	Energis Polska (i) £m	Citelec (i) £m	Other £m	Total £m
Group's investment in and advances to equity investees plus equity in undistributed earnings since acquisition:								
Before impairment	392	126	43	41	20	7	57	686
Impairment	(392)	(126)	(43)	(41)	(20)	(7)	-	(629)
After impairment	-	-	-	-	-	-	57	57
Group's % ownership in investee at end of year	36.8%	50.0%	50.0%	30.0%	48.8%	42.5%	various	

(i) The balance sheets shown for Silica Networks, Manquehue net, Energis Polska and Citelec are as at 31 December 2001. The amounts included within the Group's investment carrying value at 31 March 2002 are based on these balance sheets.

32. Principal differences between UK and US accounting principles (continued)**Summary financial information for equity investments** (continued)

The following table summarises the results of all material equity accounted investments included within the Group accounts for the year ended 31 March 2001:

	2001					
	Energis £m	Intelig £m	Silica Networks £m (i)	Manquehue net (i) £m	Energis Polska (i) £m	Citelec(i) £m
Net revenue	812	192	-	28	-	152
Total expenses	(936)	(416)	(3)	(28)	(4)	(117)
(Loss)/income before income taxes and minority interests	(124)	(224)	(3)	-	(4)	35
Tax	(21)	-	-	-	-	(11)
Minority interests	2	-	-	-	-	(9)
Net (loss)/income	(143)	(224)	(3)	-	(4)	15
Group's % ownership in investee	37.6%	50.0%	50.0%	30.0%	23.8%	42.5%
Group's equity in net (loss)/income of investee under US GAAP	(53)	(112)	(1)	-	(1)	6

The following table reconciles the Group's equity in the net (loss)/income of equity accounted investees to the Group's reported interest in equity accounted affiliates as measured under US GAAP, including consolidation adjustments, for the year ended 31 March 2001:

	2001							
	Energis £m	Intelig £m	Silica Networks (i) £m	Manquehue net (i) £m	Energis Polska (i) £m	Citelec (i) £m	Other £m	Total £m
Group's equity in net (loss)/income of investee under US GAAP	(53)	(112)	(1)	-	(1)	6	9	(152)
Consolidation adjustments								
Goodwill amortisation	-	-	-	(1)	-	-	-	(1)
Other	534 (ii)	-	-	-	-	(1)	-	533
Group's equity in net income/(loss) under US GAAP including consolidation adjustments	481	(112)	(1)	(1)	(1)	5	9	380

(i) Results for Silica Networks, Manquehue net, Energis Polska and Citelec are for the year ended 31 December 2000.

(ii) The 'Other' consolidation adjustment comprises:

- a gain of £288m on a deemed disposal of Energis shares, caused by a dilution of the Group's interest as a result of Energis issuing additional shares to third party investors;
- a tax credit of £230m from the release of tax liabilities relating to profits on disposal of fixed assets in earlier years, as a result of the realisation in 2001 of capital losses arising from a group reorganisation; and
- sundry other consolidation adjustments amounting to £16m.

Non-GAAP measures

In preparing the accounts in accordance with the Companies Act and UK GAAP, certain information is presented that would be viewed as 'non-GAAP' under regulations issued by the SEC. The Group has described such items and provided disclosure of the effects and reasons for presentation along with a condensed US GAAP income statement using the format prescribed by the SEC. The disclosure of each of the exceptional items would be prohibited within the Form 20-F if such exceptional items were not expressly permitted by FRS 3.

Management uses 'adjusted' profit measures in considering the performance of the Group's operating segments and businesses. References to 'adjusted operating profit', 'adjusted profit before taxation', 'adjusted earnings' and 'adjusted earnings per share' are stated before exceptional items and goodwill amortisation.

The Directors believe that the use of these adjusted measures better indicates the underlying business performance of the Group than the unadjusted measures because the exclusion of these items provides a clearer comparison of results from year to year for each of the years presented. This is because this method of presentation removes the distorting impact of exceptional items and removes the impact of goodwill amortisation in order to enhance comparability with the reporting practices of other UK companies.

Exceptional items, which are adjusted for in the adjusted measures referred to above, are defined as material items that derive from events that fall within the ordinary activities of the Group, but that require separate disclosure on the grounds of size or incidence for the accounts to give a true and fair view. Such exceptional items include, for example, material restructuring costs and impairments. Note 4 on pages 80 and 81 contains a discussion of the nature of these exceptional items for each period.

Other differences between UK and US GAAP

UK GAAP requires the investors' share of operating profit or loss, interest and taxation relating to associates and joint ventures to be accounted for and disclosed separately from those of Group undertakings. Under US GAAP, the investors' share of the after tax profits and losses of joint ventures and associates is included within the income statement as a single line item. UK GAAP requires the investors' share of gross assets and gross liabilities of joint ventures to be shown on the face of the balance sheet. Under US GAAP, the net investment in joint ventures is shown as a single line item.

Under UK GAAP, the impact of discontinued operations on turnover, operating costs and operating profit is required to be accounted for and disclosed separately from continuing operations. Under US GAAP, the net income/(loss) arising from discontinued operations of Group undertakings is required to be separately accounted for and disclosed as a single line item.

The Group reviews all long-lived assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Under UK GAAP, recognition and measurement of impairment is determined on the basis of discounted cash flows attributable to income generating units. Under US GAAP, impairments on long-lived assets are determined in accordance with SFAS 144 'Accounting for the Impairment or Disposal of Long-Lived Assets' and are recognised on the basis of undiscounted future cash flows and measured on the basis of discounted future cash flows. For the year ended 31 March 2004, there was an additional £11m impairment of intangible fixed assets relating to Advantica under US GAAP over the impairment under UK GAAP. This difference has no effect on the Group accounts for the years ended 31 March 2003 and 31 March 2002.

Under UK GAAP, assets in the balance sheet are presented in ascending order of liquidity and the balance sheet is analysed between net assets and shareholders' funds. Under US GAAP, assets are presented in descending order of liquidity and the balance sheet is analysed between total assets and liabilities and shareholders' funds – see note 31.

32. Principal differences between UK and US accounting principles (continued)**New US Accounting Standards adopted during 2003/04**

During 2003/04, the Group adopted the following US GAAP accounting standards to the extent necessary to comply with their reporting obligations in respect of these accounts:

- SFAS 143 'Accounting for Asset Retirement Obligations' ('FAS 143');
- SFAS 132 'Employers' Disclosures about Pensions and Other Post-Retirement Benefits – an amendment of FASB Statements No 87, 88 and 106' ('FAS 132');
- FIN 46 'Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin (ARB) 51'; and
- SFAS 150 'Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity' ('FAS 150').

FAS 143 prescribes the accounting for retirement obligations associated with tangible long-lived assets, including the timing of liability recognition and initial measurement of the liability. FAS 143 requires that an asset retirement cost should be capitalised as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The adoption of FAS 143 has had no material impact on the results or the financial position of the Group. However, in accordance with industry-wide guidance received from the Securities and Exchange Commission in February 2004, costs of removal totalling £266m at 31 March 2004, which were previously classified as accumulated depreciation, have been reclassified as liabilities. Prior period numbers have also been reclassified by £297m at 31 March 2003. There has been no impact on net assets.

FAS 132 (Revised 2003) requires entities to make additional disclosures about pensions and other post-retirement obligations. The Group has complied with these disclosure requirements to the extent necessary at 31 March 2004.

In January 2003, the Financial Accounting Standards Board (FASB) issued FIN 46 'Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin (ARB) 51'. FIN 46 addresses the consolidation of entities for which control is achieved through means other than through voting rights ('variable interest entities' or 'VIE') by clarifying the application of ARB 51 'Consolidated Financial Statements' to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its own activities without additional subordinated financial support from other parties. FIN 46 provides guidance on how to determine when and which business enterprise (the 'primary beneficiary') should consolidate the VIE. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures.

The disclosure provisions of FIN 46 are effective in all financial statements initially issued after 31 January 2003. FIN 46 is required to be immediately applied by all entities with a variable interest in a VIE created after 31 January 2003. A public foreign private issuer with a variable interest in a VIE created before 1 February 2003 is required to apply FIN 46 to that entity from 1 April 2004.

There have been no entities created since 31 January 2003 which fall within the scope of FIN 46 and therefore the application of FIN 46 has not had any material impact on the results or the financial condition of the Group. The impact of FIN 46 on future results is still being assessed in respect of the as yet unapplied provisions of the standard.

In May 2003, the FASB issued FAS 150. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that certain obligations that could be settled by issuance of an entity's equity but lack other characteristics of equity be reported as liabilities. Some provisions of this statement are consistent with the FASB's proposal to revise the definition of liabilities in FASB Concepts Statement 6 'Elements of Financial Statements'. This statement was effective beginning 1 July 2003. On 7 November 2003, FASB Staff Position (FSP) FAS 150-3 was issued deferring the effective date for the measurement provisions of paragraphs 9 and 10 of FAS 150, as they apply to mandatorily redeemable non-controlling interests (eg minority interest in finite-lived entities). The FSP indicated, however, that the disclosure requirements of FAS 150 continue to apply. The Group has adopted the effective provisions of FAS 150 in the current year without material impact on results of operations or financial position.

Recent US pronouncements

In January 2004, the FASB issued FSP FAS 106-1 'Accounting and Disclosure Requirements Related to Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the 'Act')'. This FSP addresses the accounting implications of the newly issued Act to an entity that sponsors a post-retirement healthcare plan that provides prescription drug benefits. This Act, signed into law in December 2003 in the US, introduces a prescription drug benefit under Medicare as well as a Federal subsidy to sponsors of certain retiree healthcare benefit plans. The FSP includes an election to defer accounting for the implications of this new law until specific authoritative guidance to address the accounting treatment has been issued. As such, as a result of the lack of the existence of such guidance, any measures included in these accounts of the accumulated post-retirement benefit obligation (APBO) or net periodic post-retirement benefit cost in the accounts or accompanying notes do not reflect the effect of the Act on the plan. Authoritative guidance, when issued, could require a change in previously reported information.

33. Transco plc additional US GAAP disclosures

The following condensed consolidating financial information, comprising income statements, balance sheets and cash flow statements, is given in respect of Transco plc ('Subsidiary Guarantor'), which became joint full and unconditional guarantor on 11 May 2004 with National Grid Transco plc ('Parent Guarantor') of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc. (then known as British Gas Finance Inc.) ('Issuer of notes'). Transco plc and British Transco Finance Inc. are wholly-owned subsidiaries of National Grid Transco Group.

The following financial information for National Grid Transco plc, Transco plc and British Transco Finance Inc. on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information and is provided pursuant to Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2004. Summary income statements of National Grid Transco plc and Transco plc are presented under UK and US GAAP measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary balance sheets of National Grid Transco plc and Transco plc include the investments in subsidiaries recorded under the equity method for the purposes of presenting condensed consolidating financial information under UK and US GAAP. The UK GAAP balance sheet presents these investments as 'Net assets of subsidiaries (equity accounted)'. The US GAAP summary balance sheet presents these investments within 'Investments'.

The consolidation adjustments column includes the necessary amounts to eliminate the inter-company balances and transactions between National Grid Transco plc, Transco plc, British Transco Finance Inc. and other subsidiaries.

Transco plc and British Transco Finance Inc. were treated as acquired (as part of the Lattice acquisition) under US GAAP. As a consequence, under US GAAP, their results only feature in the following tables for the period after acquisition on 21 October 2002. There are no results under US GAAP for these or other Lattice entities reflected in the following tables for the year ended 31 March 2002; where appropriate this is indicated by 'n/a'. In contrast, under UK GAAP, results are presented for these entities for all periods as these entities have been accounted for under merger accounting principles.

33. Transco plc additional US GAAP disclosures (continued)

Summary income statement for the twelve months to 31 March 2004 – UK GAAP

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor	Other subsidiaries	Consolidation adjustments	National Grid Transco Group
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	£m	£m	£m
Turnover	–	–	3,194	6,310	(471)	9,033
Operating costs						
Depreciation	–	–	(423)	(443)	–	(866)
Payroll costs	–	–	(392)	(628)	–	(1,020)
Purchases of electricity	–	–	–	(1,998)	–	(1,998)
Purchases of gas	–	–	(86)	(285)	–	(371)
Rates and property taxes	–	–	(238)	(278)	–	(516)
Electricity transmission services scheme direct costs	–	–	–	(277)	–	(277)
EnMO direct costs	–	–	–	(158)	–	(158)
Replacement expenditure	–	–	(388)	–	–	(388)
Provisions for doubtful debts	–	–	2	(64)	–	(62)
Other operating charges (including exceptional items)	(13)	–	(634)	(1,343)	468	(1,522)
	(13)	–	(2,159)	(5,474)	468	(7,178)
Operating profit	(13)	–	1,035	836	(3)	1,855
Share of joint ventures' operating profit	–	–	–	7	–	7
Non-operating exceptional items	–	–	–	322	–	322
Profit before interest and taxation	(13)	–	1,035	1,165	(3)	2,184
Net interest	(17)	–	(304)	(501)	–	(822)
Dividends receivable	–	–	–	70	(70)	–
Profit on ordinary activities before taxation	(30)	–	731	734	(73)	1,362
Taxation	13	–	(184)	(90)	–	(261)
Profit on ordinary activities after taxation	(17)	–	547	644	(73)	1,101
Minority interests	–	–	–	(2)	–	(2)
Interest in group undertakings on an equity accounted basis	1,116	–	11	–	(1,127)	–
Net income for the year	1,099	– (i)	558	642	(1,200)	1,099

Summary income statement for the twelve months to 31 March 2004 – US GAAP

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor	Other subsidiaries	Consolidation adjustments	National Grid Transco Group
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	£m	£m	£m
Turnover	–	–	3,186	6,151	(471)	8,866
Operating costs						
Depreciation	–	–	(726)	(438)	–	(1,164)
Payroll and severance costs	–	–	(484)	(813)	–	(1,297)
Purchases of electricity	–	–	–	(1,998)	–	(1,998)
Purchases of gas	–	–	(86)	(285)	–	(371)
Rates and property taxes	–	–	(238)	(278)	–	(516)
Electricity transmission services scheme direct costs	–	–	–	(277)	–	(277)
Provision for doubtful debts	–	–	2	(64)	–	(62)
Other operating charges	(13)	–	(553)	(1,161)	468	(1,259)
	(13)	–	(2,085)	(5,314)	468	(6,944)
Operating profit	(13)	–	1,101	837	(3)	1,922
Non-operating expenses	–	–	–	32	–	32
Profit before interest and taxation	(13)	–	1,101	869	(3)	1,954
Net interest	(34)	–	(365)	(273)	–	(672)
Dividends receivable	–	–	–	70	(70)	–
Profit on ordinary activities before taxation	(47)	–	736	666	(73)	1,282
Taxation	18	–	(189)	(111)	–	(282)
Profit on ordinary activities after taxation	(29)	–	547	555	(73)	1,000
Minority interests	–	–	–	(2)	–	(2)
Interest in equity accounted affiliates	1,027	–	64	–	(1,091)	–
Net income from continuing operations	998	–	611	553	(1,164)	998
Net loss from discontinued operations	–	–	–	–	–	–
Net income for the year	998	– (i)	611	553	(1,164)	998

(i) Net income for the year for British Gas Transco Finance Inc. is £nil as interest payable to external bondholders is offset by interest receivable on loans to Transco plc.

33. Transco plc additional US GAAP disclosures (continued)**Summary income statement for the twelve months to 31 March 2003 – UK GAAP**

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor	Other subsidiaries	Consolidation adjustments	National Grid Transco Group
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	£m	£m	£m
Turnover	–	–	3,083	6,764	(447)	9,400
Operating costs						
Depreciation	–	–	(385)	(466)	–	(851)
Payroll costs	–	–	(432)	(675)	–	(1,107)
Purchases of electricity	–	–	–	(1,901)	–	(1,901)
Purchases of gas	–	–	(108)	(249)	–	(357)
Rates and property taxes	–	–	(235)	(302)	–	(537)
Electricity transmission services scheme direct costs	–	–	–	(252)	–	(252)
EnMO direct costs	–	–	–	(530)	–	(530)
Replacement expenditure	–	–	(405)	–	–	(405)
Provision for doubtful debts	–	–	(4)	(20)	–	(24)
Other operating charges (including exceptional items)	(21)	–	(735)	(1,518)	450	(1,824)
	(21)	–	(2,304)	(5,913)	450	(7,788)
Operating profit	(21)	–	779	851	3	1,612
Share of joint ventures' operating profit	–	–	–	124	–	124
Non-operating exceptional items	(32)	–	(12)	(51)	(4)	(99)
Profit before interest and taxation	(53)	–	767	924	(1)	1,637
Net interest	21	–	(343)	(648)	–	(970)
Dividends receivable	–	–	–	244	(244)	–
Profit on ordinary activities before taxation	(32)	–	424	520	(245)	667
Taxation	(5)	–	(140)	(100)	–	(245)
Profit on ordinary activities after taxation	(37)	–	284	420	(245)	422
Minority interests	–	–	–	(31)	–	(31)
Interest in group undertakings on an equity accounted basis	428	–	23	–	(451)	–
Net income for the year	391	– (i)	307	389	(696)	391

Summary income statement for the twelve months to 31 March 2003 – US GAAP

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor	Other subsidiaries	Consolidation adjustments	National Grid Transco Group
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	£m	£m	£m
Turnover	–	–	1,673	5,945	(217)	7,401
Operating costs						
Depreciation	–	–	(311)	(420)	–	(731)
Payroll and severance costs	–	–	(191)	(913)	–	(1,104)
Purchases of electricity	–	–	–	(1,901)	–	(1,901)
Purchases of gas	–	–	(56)	(248)	–	(304)
Rates and property taxes	–	–	(105)	(302)	–	(407)
Electricity transmission services scheme direct costs	–	–	–	(252)	–	(252)
Provision for doubtful debts	–	–	(3)	(20)	–	(23)
Other operating charges	(21)	–	(298)	(864)	221	(962)
	(21)	–	(964)	(4,920)	221	(5,684)
Operating profit	(21)	–	709	1,025	4	1,717
Non-operating expenses	(32)	–	(10)	37	–	(5)
Profit before interest and taxation	(53)	–	699	1,062	4	1,712
Net interest	21	–	(97)	(588)	–	(664)
Dividends receivable	–	–	–	120	(120)	–
Profit on ordinary activities before taxation	(32)	–	602	594	(116)	1,048
Taxation	(5)	–	(193)	(60)	–	(258)
Profit on ordinary activities after taxation	(37)	–	409	534	(116)	790
Minority interests	–	–	–	(3)	–	(3)
Interest in equity accounted affiliates	788	–	17	3	(805)	3
Net income from continuing operations	751	–	426	534	(921)	790
Net loss from discontinued operations	–	–	–	(39)	–	(39)
Net income for the year	751	– (i)	426	495	(921)	751

(i) Net income for the year for British Gas Transco Finance Inc. is £nil as interest payable to external bondholders is offset by interest receivable on loans to Transco plc.

33. Transco plc additional US GAAP disclosures (continued)

Summary income statement for the twelve months to 31 March 2002 – UK GAAP

	Parent Guarantor National Grid Transco plc £m	Issuer of notes British Transco Finance Inc. £m	Subsidiary Guarantor Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
Turnover	–	–	2,994	4,800	(240)	7,554
Operating costs						
Depreciation	–	–	(371)	(379)	–	(750)
Payroll costs	–	–	(466)	(480)	–	(946)
Purchases of electricity	–	–	–	(1,410)	–	(1,410)
Purchases of gas	–	–	(112)	(59)	–	(171)
Rates and property taxes	–	–	(231)	(193)	–	(424)
Electricity transmission services scheme direct costs	–	–	–	(204)	–	(204)
EnMO direct costs	–	–	–	(395)	–	(395)
Replacement expenditure	–	–	(368)	–	–	(368)
Provision for doubtful debts	–	–	3	(26)	–	(23)
Other operating charges (including exceptional items)	(78)	–	(610)	(1,351)	236	(1,803)
	(78)	–	(2,155)	(4,497)	236	(6,494)
Operating profit	(78)	–	839	303	(4)	1,060
Share of joint ventures' and associate's operating profit/(loss)	–	–	–	(701)	–	(701)
Non-operating exceptional items	–	–	11	128	17	156
Profit before interest and taxation	(78)	–	850	(270)	13	515
Net interest	(8)	–	(355)	(436)	–	(799)
Dividends receivable	–	–	–	352	(352)	–
Profit on ordinary activities before taxation	(86)	–	495	(354)	(339)	(284)
Taxation	3	–	(149)	61	–	(85)
Profit on ordinary activities after taxation	(83)	–	346	(293)	(339)	(369)
Minority interests	–	–	–	48	–	48
Interest in group undertakings on an equity accounted basis	(238)	–	15	–	223	–
Net loss for the year	(321)	– (i)	361	(245)	(116)	(321)

(i) Net income for the year for British Gas Transco Finance Inc. is £nil as interest payable to external bondholders is offset by interest receivable on loans to Transco plc.

Summary income statement for the twelve months to 31 March 2002 – US GAAP

	Parent Guarantor National Grid Transco plc £m	Issuer of notes British Transco Finance Inc. £m	Subsidiary Guarantor Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
Turnover	–	n/a	n/a	4,004	–	4,004
Operating costs						
Depreciation	–	n/a	n/a	(316)	–	(316)
Payroll and severance costs	–	n/a	n/a	(417)	–	(417)
Purchases of electricity	–	n/a	n/a	(1,410)	–	(1,410)
Purchases of gas	–	n/a	n/a	(58)	–	(58)
Rates and property taxes	–	n/a	n/a	(197)	–	(197)
Electricity transmission services scheme direct costs	–	n/a	n/a	(204)	–	(204)
Provision for doubtful debts	–	n/a	n/a	(26)	–	(26)
Other operating charges	(78)	n/a	n/a	(431)	–	(509)
	(78)	n/a	n/a	(3,059)	–	(3,137)
Operating profit	(78)	n/a	n/a	945	–	867
Non-operating expenses	–	n/a	n/a	22	–	22
Profit before interest and taxation	(78)	n/a	n/a	967	–	889
Net interest	(8)	n/a	n/a	(118)	–	(126)
Profit on ordinary activities before taxation	(86)	n/a	n/a	849	–	763
Taxation	3	n/a	n/a	(16)	–	(13)
Profit on ordinary activities after taxation	(83)	n/a	n/a	833	–	750
Minority interests	–	n/a	n/a	(2)	–	(2)
Interest in equity accounted affiliates	(84)	n/a	n/a	(900)	84	(900)
Net loss from continuing operations	(167)	n/a	n/a	(69)	84	(152)
Net loss from discontinued operations	–	n/a	n/a	(1)	–	(1)
Net loss before cumulative effects of changes in accounting principles	(167)	n/a	n/a	(70)	84	(153)
Cumulative effects of changes in accounting principles (FAS 133 transitional adjustment)	–	n/a	n/a	(14)	–	(14)
Net loss for the year	(167)	n/a	n/a	(84)	84	(167)

33. Transco plc additional US GAAP disclosures (continued)**Balance sheet as at 31 March 2004 – UK GAAP**

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor	Other subsidiaries	Consolidation adjustments	National Grid Transco Group
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	£m	£m	£m
Fixed assets						
Intangible assets	–	–	–	1,537	–	1,537
Tangible assets	–	–	7,880	8,829	(3)	16,706
Investments	–	–	–	7,303	(7,152)	151
Net assets of subsidiaries (equity accounted)	526	–	22	–	(548)	–
	526	–	7,902	17,669	(7,703)	18,394
Current assets						
Stocks	–	–	32	59	–	91
Debtors (amounts falling due within one year)	3,884	–	292	4,291	(6,879)	1,588
Debtors (amounts falling due after one year)	–	168	2,544	3,792	(3,796)	2,708
Current asset investments	6	–	264	440	(190)	520
Cash at bank and in hand	–	1	–	95	–	96
	3,890	169	3,132	8,677	(10,865)	5,003
Creditors (amounts falling due within one year)						
Borrowings	(388)	–	(861)	(947)	490	(1,706)
Other creditors	(2,056)	(4)	(1,801)	(5,286)	6,340	(2,807)
	(2,444)	(4)	(2,662)	(6,233)	6,830	(4,513)
Net current assets/(liabilities)	1,446	165	470	2,444	(4,035)	490
Total assets less current liabilities	1,972	165	8,372	20,113	(11,738)	18,884
Creditors (amounts falling due after more than one year)						
Borrowings	(746)	(165)	(2,768)	(8,103)	240	(11,542)
Other creditors	(13)	–	(2,111)	(3,593)	3,795	(1,922)
	(759)	(165)	(4,879)	(11,696)	4,035	(13,464)
Provisions for liabilities and charges	–	–	(1,356)	(2,801)	–	(4,157)
Net assets employed	1,213	–	2,137	5,616	(7,703)	1,263
Capital and reserves						
Called up share capital	309	–	45	540	(585)	309
Share premium account	1,280	–	204	1,557	(1,761)	1,280
Other reserves	(5,131)	–	1,332	(181)	(1,151)	(5,131)
Profit and loss account	4,755	–	556	3,650	(4,206)	4,755
Equity shareholders' funds	1,213	–	2,137	5,566	(7,703)	1,213
Minority interests						
Equity	–	–	–	12	–	12
Non-equity	–	–	–	38	–	38
	–	–	–	50	–	50
	1,213	–	2,137	5,616	(7,703)	1,263

33. Transco plc additional US GAAP disclosures (continued)
Balance sheet as at 31 March 2004 – US GAAP

	Parent Guarantor National Grid Transco plc £m	Issuer of notes British Transco Finance Inc. £m	Subsidiary Guarantor Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
Assets						
Current assets						
Cash and cash equivalents	6	1	264	447	(190)	528
Marketable securities	–	–	–	102	–	102
Accounts and notes receivable	–	–	16	480	–	496
Inventories	–	–	32	59	–	91
Amounts owed by Group undertakings	3,883	–	22	2,430	(6,335)	–
Regulatory assets	–	–	–	512	–	512
Prepaid expenses and other current assets	1	–	254	395	(54)	596
Total current assets	3,890	1	588	4,425	(6,579)	2,325
Property, plant and equipment	–	–	13,785	9,343	(3)	23,125
Goodwill	–	–	3,746	1,859	–	5,605
Intangible assets	–	–	–	50	–	50
Investments	8,851	–	(94)	9,881	(18,483)	155
Amounts owed by Group undertakings	–	161	2,544	1,084	(3,789)	–
Regulatory assets	–	–	–	3,136	–	3,136
Other debtors	161	–	196	629	(35)	951
Total assets	12,902	162	20,765	30,407	(28,889)	35,347
Liabilities and shareholders' equity						
Current liabilities						
Bank overdrafts	–	–	6	20	–	26
Accounts payable	–	–	406	630	–	1,036
Short-term borrowings	389	–	856	399	–	1,644
Accrued income taxes	–	–	176	–	(54)	122
Purchased power obligations	–	–	–	57	–	57
Liability for index-linked swap contracts	–	–	–	100	–	100
Amounts owed to Group undertakings	1,680	–	750	3,856	(6,286)	–
Other accrued liabilities	127	4	561	787	(77)	1,402
Total current liabilities	2,196	4	2,755	5,849	(6,417)	4,387
Long-term borrowings	872	158	2,894	8,572	(240)	12,256
Amounts owed to Group undertakings	–	–	1,084	2,705	(3,789)	–
Purchased power obligations	–	–	–	149	–	149
Liability for index-linked swap contracts	–	–	–	291	–	291
Post-retirement benefits	–	–	–	1,681	–	1,681
Deferred income taxes	–	–	3,312	1,590	(35)	4,867
Other liabilities	13	–	148	1,680	–	1,841
Total liabilities	3,081	162	10,193	22,517	(10,481)	25,472
Minority interest – equity						
Minority interest – equity	–	–	–	12	–	12
Cumulative preference stock issued by Group undertakings	–	–	–	42	–	42
Shareholders' equity						
Common stock	309	–	45	540	(585)	309
Additional paid in capital	7,768	–	9,680	7,799	(17,479)	7,768
Other reserves	359	–	–	–	–	359
Retained earnings	2,701	–	847	712	(1,559)	2,701
Other comprehensive loss	(1,282)	–	–	(1,181)	1,181	(1,282)
Treasury stock	(34)	–	–	(34)	34	(34)
Equity shareholders' funds	9,821	–	10,572	7,836	(18,408)	9,821
Total liabilities and shareholders' equity	12,902	162	20,765	30,407	(28,889)	35,347

33. Transco plc additional US GAAP disclosures (continued)**Balance sheet as at 31 March 2003 – UK GAAP**

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor			
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
Fixed assets						
Intangible assets	–	–	–	1,893	–	1,893
Tangible assets	–	–	7,785	9,062	–	16,847
Investments	–	–	–	7,371	(7,157)	214
Net assets of subsidiaries (equity accounted)	646	–	13	–	(659)	–
	646	–	7,798	18,326	(7,816)	18,954
Current assets						
Stocks	–	–	31	95	–	126
Debtors (amounts falling due within one year)	2,664	4	298	4,089	(5,244)	1,811
Debtors (amounts falling due after one year)	–	190	2,241	5,032	(4,068)	3,395
Assets held for exchange	–	–	–	17	–	17
Current asset investments	123	–	206	355	(202)	482
Cash at bank and in hand	1	–	–	118	–	119
	2,788	194	2,776	9,706	(9,514)	5,950
Creditors (amounts falling due within one year)						
Borrowings	(557)	–	(580)	(1,458)	349	(2,246)
Other creditors	(1,764)	(4)	(1,633)	(4,294)	4,895	(2,800)
	(2,321)	(4)	(2,213)	(5,752)	5,244	(5,046)
Net current assets/(liabilities)	467	190	563	3,954	(4,270)	904
Total assets less current liabilities	1,113	190	8,361	22,280	(12,086)	19,858
Creditors (amounts falling due after more than one year)						
Borrowings	–	(190)	(2,838)	(9,407)	202	(12,233)
Other creditors	–	–	(2,424)	(3,666)	4,068	(2,022)
	–	(190)	(5,262)	(13,073)	4,270	(14,255)
Provisions for liabilities and charges	–	–	(1,450)	(2,956)	–	(4,406)
Net assets employed	1,113	–	1,649	6,251	(7,816)	1,197
Capital and reserves						
Called up share capital	308	–	45	540	(585)	308
Share premium account	1,247	–	204	1,557	(1,761)	1,247
Other reserves	(5,131)	–	1,332	(181)	(1,151)	(5,131)
Profit and loss account	4,689	–	68	4,251	(4,319)	4,689
Equity shareholders' funds	1,113	–	1,649	6,167	(7,816)	1,113
Minority interests						
Equity	–	–	–	15	–	15
Non-equity	–	–	–	69	–	69
	–	–	–	84	–	84
	1,113	–	1,649	6,251	(7,816)	1,197

33. Transco plc additional US GAAP disclosures (continued)
Balance sheet as at 31 March 2003 – US GAAP

	Parent Guarantor National Grid Transco plc £m	Issuer of notes British Transco Finance Inc. £m	Subsidiary Guarantor Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
Assets						
Current assets						
Cash and cash equivalents	124	–	206	442	(202)	570
Marketable securities	–	–	–	48	–	48
Accounts and notes receivable	–	–	27	601	–	628
Inventories	–	–	31	95	–	126
Amounts owed by Group undertakings	2,652	4	4	2,584	(5,244)	–
Regulatory assets	–	–	–	461	–	461
Prepaid expenses and other current assets	12	–	559	134	–	705
Total current assets	2,788	4	827	4,365	(5,446)	2,538
Property, plant and equipment	–	–	13,584	9,800	–	23,384
Goodwill	–	–	3,793	2,107	–	5,900
Intangible assets	–	–	–	74	–	74
Investments	8,642	–	(156)	9,935	(18,211)	210
Amounts owed by Group undertakings	–	182	2,241	1,645	(4,068)	–
Regulatory assets	–	–	–	3,998	–	3,998
Other debtors	–	–	–	843	–	843
Total assets	11,430	186	20,289	32,767	(27,725)	36,947
Liabilities and shareholders' equity						
Current liabilities						
Bank overdrafts	–	–	13	49	–	62
Accounts payable	–	–	341	925	–	1,266
Short-term borrowings	557	–	567	1,198	(349)	1,973
Purchased power obligations	–	–	–	68	–	68
Liability for index-linked swap contracts	–	–	–	121	–	121
Amounts owed to Group undertakings	1,439	–	796	2,660	(4,895)	–
Other accrued liabilities	8	4	626	535	(52)	1,121
Total current liabilities	2,004	4	2,343	5,556	(5,296)	4,611
Long-term borrowings	–	182	3,004	10,074	(202)	13,058
Amounts owed to Group undertakings	–	–	1,447	2,621	(4,068)	–
Purchased power obligations	–	–	–	253	–	253
Liability for index-linked swap contracts	–	–	–	381	–	381
Post-retirement benefits	–	–	–	2,283	–	2,283
Deferred income taxes	–	–	3,329	1,358	–	4,687
Other liabilities	–	–	135	2,024	–	2,159
Total liabilities	2,004	186	10,258	24,550	(9,566)	27,432
Minority interest – equity	–	–	–	15	–	15
Cumulative preference stock issued by Group undertakings	–	–	–	74	–	74
Shareholders' equity						
Common stock	308	–	45	540	(585)	308
Additional paid in capital	7,710	–	9,680	7,799	(17,479)	7,710
Other reserves	359	–	–	–	–	359
Retained earnings	2,263	–	306	1,003	(1,309)	2,263
Other comprehensive loss	(1,175)	–	–	(1,175)	1,175	(1,175)
Treasury stock	(39)	–	–	(39)	39	(39)
Equity shareholders' funds	9,426	–	10,031	8,128	(18,159)	9,426
Total liabilities and shareholders' equity	11,430	186	20,289	32,767	(27,725)	36,947

33. Transco plc additional US GAAP disclosures (continued)**Cash flow statements**

	Parent Guarantor National Grid Transco plc £m	Issuer of notes British Transco Finance Inc. £m	Subsidiary Guarantor Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
UK GAAP cash flow statements						
Twelve months to 31 March 2004						
Cash flow from operating activities	(7)	–	1,397	1,420	–	2,810
Dividends from subsidiary undertakings and joint ventures	352	–	2	78	(424)	8
Returns on investments and servicing of finance	8	–	(243)	(457)	–	(692)
Taxation	–	–	(61)	43	–	(18)
Capital expenditure and financial investment	–	–	(497)	(757)	–	(1,254)
Acquisitions and disposals	–	–	–	7	–	7
Equity dividends paid	(560)	–	(70)	(354)	424	(560)
Net cash (outflow)/inflow before management of liquid resources	(207)	–	528	(20)	–	301
Management of liquid resources	117	–	(56)	(109)	–	(48)
Financing	90	–	(465)	135	–	(240)
Increase in cash in the year	–	–	7	6	–	13
Twelve months to 31 March 2003						
Cash flow from operating activities	(53)	–	1,291	1,588	–	2,826
Dividends from subsidiary undertakings and joint ventures	1,301	–	28	348	(1,666)	11
Returns on investments and servicing of finance	14	–	(335)	(591)	–	(912)
Taxation	–	–	(50)	(62)	–	(112)
Capital expenditure and financial investment	–	–	(605)	(802)	–	(1,407)
Acquisitions and disposals	(90)	–	860	240	(847)	163
Equity dividends paid	(382)	–	(337)	(2,365)	2,513	(571)
Net cash inflow/(outflow) before management of liquid resources	790	–	852	(1,644)	–	(2)
Management of liquid resources	(123)	–	2	(17)	–	(138)
Financing	(670)	–	(833)	1,677	–	174
(Decrease)/increase in cash in the year	(3)	–	21	16	–	34
Twelve months to 31 March 2002						
Cash flow from operating activities	(1)	–	1,253	1,039	–	2,291
Dividends from subsidiary undertakings and joint ventures	750	–	4	374	(1,115)	13
Returns on investments and servicing of finance	(10)	–	(335)	(360)	–	(705)
Taxation	3	–	(204)	(11)	–	(212)
Capital expenditure and financial investment	–	–	(754)	(729)	–	(1,483)
Acquisitions and disposals	(660)	–	(860)	(969)	1,520	(969)
Equity dividends paid	–	–	(361)	(1,232)	1,115	(478)
Net cash inflow/(outflow) before management of liquid resources	82	–	(1,257)	(1,888)	1,520	(1,543)
Management of liquid resources	–	–	1	346	–	347
Financing	(78)	–	1,239	1,577	(1,520)	1,218
Increase/(decrease) in cash in the year	4	–	(17)	35	–	22

	Parent Guarantor National Grid Transco plc £m	Issuer of notes British Transco Finance Inc. £m	Subsidiary Guarantor Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
US GAAP cash flow statements						
Twelve months to 31 March 2004						
Net cash provided by operating activities	353	–	1,463	1,106	(422)	2,500
Net cash used in investing activities	117	–	(921)	(896)	–	(1,700)
Net cash (used in)/provided by financing activities	(470)	–	(535)	(245)	422	(828)
Net increase/(decrease) in cash and cash equivalents	–	–	7	(35)	–	(28)
Twelve months to 31 March 2003						
Net cash provided by operating activities	1,262	–	1,060	979	(1,301)	2,000
Net cash used in investing activities	(90)	–	(438)	(108)	–	(636)
Net cash (used in)/provided by financing activities	(1,175)	–	(601)	(487)	1,301	(962)
Net (decrease)/increase in cash and cash equivalents	(3)	–	21	384	–	402
Twelve months to 31 March 2002						
Net cash provided by operating activities	742	n/a	n/a	910	(750)	902
Net cash used in investing activities	(660)	n/a	n/a	(1,200)	660	(1,200)
Net cash (used in)/provided by financing activities	(78)	n/a	n/a	210	90	222
Net increase/(decrease) in cash and cash equivalents	4	n/a	n/a	(80)	–	(76)