

Transco

**Transco plc
Regulatory Accounting Statements 2002/2003
for the Transco business**

Contents

1	Important information
1	The obligation to produce regulatory accounting statements
2	Developments
2	Regulatory ring-fence
3	Treasury policy
5	Directors' responsibilities for preparing separate regulatory accounting statements
6	Independent Auditors' report to the Gas and Electricity Markets Authority and the Directors of Transco plc
8	Accounting policies
10	Consolidated profit and loss accounts
11	Consolidated statement of total recognised gains and losses
12	Balance sheets
13	Reconciliation of change in net assets
14	Cash flow statement
15	Reconciliation to the Annual Report and Accounts of Transco plc
16	Notes to the regulatory accounting statements
45	Corporate history
46	Definitions

Important information

Transco is the regulated gas transportation, metering and storage business of Transco plc, which is a part of National Grid Transco. Transco operates Britain's gas transportation infrastructure, including liquefied natural gas (LNG) storage assets.

The financial information contained in these statements does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for Transco plc for the year ended 31 March 2003, to which the financial information relates, have been delivered to the Registrar of Companies. The Auditors have made a report under Section 235 of the Companies Act 1985 on those statutory accounts which was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The statutory accounts of Transco plc can be obtained from the Company Secretary's Office, National Grid Transco plc, 1-3 The Strand, London WC2N 5EH.

The full Chairman's Statement, the Business Review, and the Directors' Report, incorporating the Operating and Financial Review for Transco plc, can be found in that company's annual report and accounts. Certain extracts from these reports, necessary to enable these Regulatory Accounting Statements to comply with the Condition, are included below, on pages 2 and 3.

The obligation to produce regulatory accounting statements

The obligation to prepare and publish regulatory accounting statements for Transco is placed on Transco plc by Amended Standard Condition 30 (the Condition) of its Gas Transporter's Licence (the Licence) granted under the Utilities Act 2000 (the Utilities Act). The principal requirements of the Condition are that for each of the Transco, Transportation, Metering, Meter Reading and Liquefied Natural Gas (LNG) Storage businesses, the regulatory accounting statements must:

- show a true and fair view of the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, that business;
- have the same content and format as the statutory accounts of Transco plc and conform to UK generally accepted accounting practice, in so far as reasonably practicable;
- separately show in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions which have been charged from or to any non-Transco business of National Grid Transco Group, or which have been determined by apportionment ('charges and apportionments');
- be subject to audit by Transco plc's statutory auditors; and
- be published, except for the information on charges and apportionments.

Developments

Merger between National Grid and Lattice

On 22 October 2002, Transco's then parent company, Lattice Group plc, merged with National Grid Group plc which was renamed National Grid Transco plc.

Metering Business

On 7 July 2002, Transco plc transferred its activities concerned with the management of its gas meters and its meter reading business to a new subsidiary undertaking, Transco Metering Services Limited.

LNG storage unbundling

As mentioned in last year's regulatory accounting statements, on 28 February 2002, Transco, in accordance with the terms of the Licence, gave the Gas and Electricity Markets Authority (the Authority) notice of its intention to dispose of its LNG storage assets to an affiliate. On 12 April 2002, the Authority formally rejected Transco's notice and confirmed its intention to Transco to seek industry views on Transco's proposal to dispose of the LNG storage assets.

Regulatory ring-fence

Transco's Licence contains special 'ring-fence conditions', which were introduced into the Licence with Transco's consent in December 1999. These ring-fence conditions include requirements on Transco:

- only to carry on certain activities;
- to ensure that it has sufficient management and financial resources to carry out its business;
- to use reasonable endeavours to maintain an investment grade credit rating as the issuer of corporate debt; and
- to deal on an arm's length basis and on normal commercial terms with other companies in the National Grid Transco group and not to give new guarantees for them.

If Transco is in material default of any of the ring-fence conditions it can be prohibited from declaring and paying a dividend.

Treasury policy

The funding and treasury risk management of Transco is carried out on its behalf by a central department operating under policies and guidelines approved by the Board of National Grid Transco. The Finance Committee, a committee of the Board of National Grid Transco, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions, the authority for which may be delegated. The National Grid Transco group has a Treasury function that raises all of the funding for the National Grid Transco group and manages interest rate and foreign exchange rate risk.

There is a separate financing programme for Transco. All significant issues in relation to the funding of Transco are approved by the Finance Committees of both National Grid Transco and Transco.

The Treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement. The use of derivative financial instruments is controlled by policy guidelines set by the Board of National Grid Transco. Derivatives entered into in respect of gas commodities are used in support of the business operational requirements and the policy regarding their use is explained below.

Details of the maturity, currency and interest rate profile of Transco's borrowings as at 31 March 2003 are shown in note 17 to the regulatory accounting statements on pages 28 to 30.

Transco's financial position enables it to borrow on the wholesale capital and money markets and most of its borrowings are through public bonds and commercial paper. These borrowings contain no restrictive covenants.

Transco places surplus funds on the money markets usually in the form of short term fixed deposits which are invested with approved banks and counterparties. Details of Transco's short term investments as at 31 March 2003 are shown in note 17 to the regulatory accounting statements on pages 28 to 30.

Transco plc has a credit rating of A2/A. It is a condition of the regulatory ring-fence around Transco plc that it uses reasonable endeavours to maintain an investment grade credit rating. This rating means that Transco should have ready access to the capital and money markets for future funding when necessary.

The main risks arising from Transco's financing activities are set out below. The Board of National Grid Transco and the Finance Committee of that Board reviews and agrees policies for managing each risk and they are summarised below.

Refinancing risk management

The Board of National Grid Transco mainly controls refinancing risk by limiting the amount of financing obligations (both principal and interest) arising on borrowings in any 12-month and 36-month period. This policy restricts Transco from having an

excessively large amount of debt to refinance in a given time-frame. During the year, a mixture of short term debt and long term debt was issued.

Interest rate risk management

The interest rate exposure of Transco arising from its borrowings and deposits is managed by the use of fixed and floating rate debt, interest rate swaps, swaptions and forward rate agreements. Transco's interest rate risk management policy is to seek to minimise total financing costs (ie. interest costs and changes in the market value of debt) subject to constraints so that even with large movements in interest rates, neither the interest cost nor the total financing cost can exceed pre-set limits.

The performance of the Treasury function in interest rate risk management is measured by comparing the actual total financing costs of its debt with those of a passively-managed benchmark portfolio.

Foreign exchange risk management

Transco has a policy of hedging certain contractually committed foreign exchange transactions over a prescribed minimum size. It covers 75% of such transactions expected to occur up to six months in advance and 50% of transactions in the 6 to 12 month period in advance. Cover generally takes the form of forward sale or purchase of foreign currencies and must always relate to underlying operational cash flows.

Counterparty risk management

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. The Finance Committee of the Board of National Grid Transco has agreed a policy for managing such risk, which is controlled through credit limits, approvals and monitoring procedures.

Derivative financial instruments held for purposes other than trading

As part of its business operations, Transco is exposed to risks arising from fluctuations in interest rates and exchange rates. Transco uses off-balance sheet derivative financial instruments (derivatives) to manage exposures of this type and, as such, they are a useful tool in reducing risk. Transco's policy is not to use derivatives for trading purposes. Derivative transactions can, to varying degrees, carry both counterparty and market risk.

Transco enters into interest rate swaps to manage the composition of floating and fixed rate debt, and so hedge the exposure of borrowings to interest rate movements. Transco enters into foreign currency swaps to manage the currency composition of borrowings and so hedge the exposure to exchange rate movements. Certain agreements are combined foreign currency and interest rate swap transactions. Such agreements are known as cross-currency swaps.

Transco enters into forward rate agreements to hedge interest rate risk on short-term debt and money market investments. Forward rate agreements are commitments to

fix an interest rate that is to be paid or received on a notional deposit of specified maturity, commencing at a future specified date.

Valuation and sensitivity analysis

Transco calculates the fair value of debt and derivative instruments by discounting all future cash flows by the market yield curve at the balance sheet date. In the case of instruments with optionality, the Black's variation of the Black-Scholes model is used to calculate fair value.

For debt and derivative instruments held, Transco utilises a sensitivity analysis technique to evaluate the effect that changes in relevant rates or prices will have on the market value of such instruments.

As at 31 March 2003, the potential change in the fair value of the aggregation of long-term debt and derivative instruments was £56 million (2002: £66 million) assuming a 10% change in the level of interest rates. Transco has no material exposure to changes in foreign currency rates.

Commodity price hedging

In the normal course of business Transco is party to commodity derivatives. These include gas futures, gas options and gas forwards that are used to manage commodity prices and system capacity associated with its natural gas transportation operations. This includes the buying back of capacity rights already sold in accordance with Transco's UK gas transporter licence and Network Code obligations.

These financial exposures are monitored and managed as an integral part of Transco's financial risk-management policy. At the core of this policy is a condition that Transco will engage in activities at risk only to the extent that those activities fall within commodities and financial markets to which it has a physical market exposure in terms and volumes consistent with its core business. Transco does not issue or intend to hold derivative instruments for trading purposes, and only holds such instruments consistent with its licence and regulatory obligations in the UK.

Transco is obliged to sell through a series of auctions, a pre-determined quantity of transmission system entry capacity for every day in the year. Where system constraints on a day reduce available capacity to below the level of gas to be flowed, Transco is required to buy back system entry capacity. Forward and option contracts are used to reduce the risk and exposure to on the day entry capacity prices.

Directors' responsibilities for preparing separate regulatory accounting statements

The Directors of Transco plc are required by the Condition to prepare regulatory accounting statements for each financial period. These regulatory accounting statements must give a true and fair view of the revenues, costs, assets, liabilities, reserves, provisions and cash flows of, or reasonably attributable to, the Transco business, the Transportation business the Metering business, the Meter Reading business and the LNG Storage business.

The Directors consider that, in preparing the regulatory accounting statements, the Transco business has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all applicable accounting standards have been followed.

The Directors have responsibility for ensuring that Transco plc and its related undertakings keep accounting records in such a form that the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, each of the businesses are separately identifiable in the books of Transco and its related undertakings from those of any other business.

The Directors have responsibility for ensuring that the regulatory accounting statements fairly present the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, each business.

The Directors have responsibility to ensure that, so far as is reasonably practicable, the regulatory accounting statements have the same content and format in respect of the businesses to which they relate as the annual accounts of Transco plc; that they conform to best commercial accounting practices including all relevant accounting standards issued or adopted by the Accounting Standards Board currently in force and that the accounting policies used are stated.

The Directors have responsibility to ensure that the regulatory accounting statements show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any non-Transco business of National Grid Transco, or that have been determined by apportionment, where they relate to goods or services received or supplied for the purposes of the Transportation, Metering, Meter Reading or LNG Storage businesses.

The Directors, having prepared the financial statements, have requested the Auditors to take whatever steps and to undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors are responsible for ensuring that the regulatory accounting statements are published and where they are published on the Internet, for the maintenance and integrity of the website. Uncertainty regarding legal requirements is compounded as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

Independent Auditors' report to the Gas and Electricity Markets Authority and the Directors of Transco plc

We have audited the regulatory accounting statements of Transco plc for the year ended 31 March 2003 on pages 8 to 44 which comprise the profit and loss accounts, the statement of total recognised gains and losses, the balance sheets, the reconciliation of change in net assets, the cash flow statements, the reconciliation to the annual report and accounts of Transco plc and the related notes to the regulatory accounting statements.

This report is made solely to the Company and the Gas and Electricity Markets Authority ('the Authority') in accordance with Amended Standard Condition 30 of Transco plc's Gas Transporter's Licence granted under the Utilities Act 2000 ('the Condition'). Our audit work has been undertaken so that we might state to the Company and the Authority those matters we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for our audit work, for our report, or for the opinions we have formed to any other person than those to whom we have agreed in writing to accept responsibility.

Basis of preparation

The regulatory accounting statements have been prepared under the historical cost convention and in accordance with the Condition and the accounting policies set out on pages 8 and 9.

Pages 38 to 44 include disclosure of amounts charged to or from other businesses of National Grid Transco Group plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Authority but allows the Company to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

The regulatory accounting statements are separate from the statutory financial statements of Transco plc and have not been prepared under the basis of Generally Accepted Accounting Practice in the United Kingdom ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the Gas and Electricity Markets Authority, the Directors and Auditors

The nature, form and content of regulatory accounting statements are determined by the Authority. It is not appropriate for the auditors or the directors to assess whether the nature of the information being reported upon is suitable or appropriate for the Authority purposes. Accordingly we make no such assessment.

The directors of Transco plc are responsible for preparing the regulatory accounting statements and for compliance with the Condition, as described on page 5.

Our responsibility is to audit the regulatory accounting statements in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below.

We report to you our opinion as to whether the regulatory accounting statements give a true and fair view and have been properly prepared in accordance with the Condition. We also report to you if, in our opinion, the other information presented (as defined below) is not consistent with the regulatory accounting statements, if Transco plc has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the regulatory accounting statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the regulatory accounting statements. The other information comprises the sections on the obligation to produce regulatory accounting statements, developments, regulatory ring-fence and treasury policy on pages 1 to 4.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory accounting statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the regulatory accounting statements and of whether the accounting policies are appropriate to Transco plc's circumstances, consistently applied and adequately disclosed.

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

Our opinion on the regulatory accounting statements is separate from our opinion on the statutory financial statements of Transco plc, which are prepared for a different purpose. We do not and will not, by virtue of this report assume any responsibility, whether in contract, negligence or otherwise, in relation to our audits of Transco plc's statutory financial statements required by the Companies Act 1985.

The Condition requires for the regulatory accounting statements to be drawn up on the basis set out therein including the separate disclosure of amounts charged to or from other businesses of National Grid Transco plc or determined by apportionment. The Directors of Transco plc are responsible for determining the bases of charges and apportionments which require a number of judgements and assumptions to be

made. We do not give an opinion on the appropriateness of the bases of charges and apportionments.

The Metering business and Meter Reading business were not wholly separate business units for the year ended 31 March 2003. As such, a high proportion of the cost base and/or balance sheet amounts have been determined by apportionment. Details of costs and balance sheet amounts determined by apportionment to the Metering business and Meter Reading business are shown in notes 27 and 28. This is not the case for the Transco business, Transportation business and LNG business which were either wholly separate business units or the level of costs or balance sheet amounts determined by apportionment were not significant.

Opinion

In our opinion, on the basis set out above, the regulatory accounting statements have been prepared in accordance with the Condition, for the various businesses as defined for that purpose in the Condition, and in respect of the:

- Transco business give a true and fair view of the revenues, costs, assets, liabilities, reserves and provisions of this business for the year ended 31 March 2003;
- Transportation business give a true and fair view of the revenues, costs, assets, liabilities and provisions of this business for the year ended 31 March 2003;
- Metering business and Meter Reading business the revenues, costs, assets and liabilities are reasonably attributable to those businesses for the year ended 31 March 2003;
- LNG Storage business give a true and fair view of the revenues, costs, assets and liabilities of that business for the year ended 31 March 2003.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Temple Court
35 Bull Street
Birmingham
B4 6JT

24 June 2003

The maintenance and integrity of the Company web site is the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Authority; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the regulatory accounting statements since they were initially presented on the web sites.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements and regulatory accounting statements may differ from legislation in other jurisdictions.

Accounting policies

a) Basis of preparation of accounts

These regulatory accounting statements are prepared under the historical cost convention and in accordance with applicable UK accounting and financial reporting standards.

The preparation of regulatory accounting statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the regulatory accounting statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

b) Basis of consolidation

The regulatory accounting statements comprise a consolidation of the accounts of the Transportation business, the Metering business, the Meter Reading business, the LNG Storage business and the other activities of Transco plc and its subsidiary undertakings.

The results of newly acquired undertakings covered by the accounting requirements of the Condition are included in the regulatory accounting statements from the date Transco acquires control. The results of undertakings that cease to be covered by the accounting requirements of the Condition are included in the regulatory accounting statements up to the date that those requirements cease to apply.

Income, costs, assets and liabilities of Transco, which are not directly attributable to specific businesses, are apportioned to those businesses in accordance with the activities giving rise to the income, costs, assets or liabilities. Interest, taxation, borrowings and capital liabilities that are not directly attributable to specific businesses are not apportioned. Further details are set out in note 27, page 37, and note 28, page 38.

Transco plc has been ring-fenced for regulatory purposes. The ring-fence requires Transco to meet a number of regulatory conditions (set out in detail on page 2) including restrictions on fund raising, business activities, dividend payments and granting of guarantees.

Earnings per share information has not been presented in these regulatory accounting statements as Transco, being an indirectly held wholly owned subsidiary undertaking of National Grid Transco plc, does not have publicly traded equity.

c) Amendments to licence conditions

Where the licence conditions, under which the regulatory accounting statements are produced, are amended, prior year information is only restated to the new basis when either specifically required by the licence, or when it is reasonably practicable to do so.

d) Foreign currencies

Assets and liabilities in foreign currencies are generally translated at the rates of exchange ruling at the balance sheet date. In respect of certain assets or liabilities that are matched by an exact and directly related forward exchange derivative, then the relevant asset or liability is translated at the rate of exchange under the related derivative.

e) Tangible fixed assets

Tangible fixed assets are included in the balance sheet at their cost less accumulated depreciation. Costs include payroll costs incurred which are directly attributable to the construction of tangible fixed assets.

Tangible fixed assets include assets in which Transco's interest comprises legally protected statutory or contractual rights of use.

Additions represent the purchase or construction of new assets, extensions to, or significant increases in, the capacity of tangible fixed assets.

Contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the life of the assets.

No depreciation is provided on freehold land and assets in the course of construction. Other tangible fixed assets are depreciated on a straight-line basis at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, as shown below:

	Years
Freehold and leasehold properties	up to 50
Plant and machinery:	
Mains and services	55 to 65
Regulating equipment	30 to 50
Gas storage	40
Meters	10 to 15
Motor vehicles and office equipment	3 to 10

f) Impairment of fixed assets

Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of income generating units, including where appropriate, investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present

value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

Impairment reviews are carried out if there is some indication that impairment may have occurred, or where otherwise required to ensure that fixed assets are not carried above their estimated recoverable amounts. Impairments are recognised in the profit and loss account, and where material are disclosed as exceptional.

g) Replacement expenditure

Replacement expenditure represents the cost of planned maintenance of mains and services assets by replacing or lining sections of pipe. This expenditure is principally undertaken to repair and maintain the safety of the network and is written off as incurred. Expenditure that enhances the performance of mains and services assets is treated as an addition to tangible fixed assets.

h) Deferred taxation

Deferred taxation is provided in full on all material timing differences, with certain exceptions. No provision for deferred taxation is made for any timing differences on non-monetary assets arising from fair value adjustments, except where there is a binding agreement to sell the assets concerned. However, no provision is made where it is more likely than not that any taxable gain will be rolled over into replacement assets.

Deferred tax balances have not been discounted.

i) Stocks

Stocks are stated at cost less provision for deterioration and obsolescence.

j) Environmental costs

Environmental costs, based on discounted future estimated expenditures expected to be incurred, are provided for in full. The unwinding of the discount is included within the profit and loss account as a financing charge.

k) Turnover

Turnover primarily represents the amounts derived from the transportation of natural gas and the provision of related services. Turnover includes an assessment of transportation services supplied to customers between the date of the last meter reading and the year end, excludes inter-business and inter-company transactions, and is stated net of value added tax. Where revenues received or receivable exceed the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised.

l) Pensions

The substantial majority of Transco's employees are members of the Lattice Group Pension Scheme (the Scheme). Transco recognises pension costs in its profit and loss account as they are charged to Transco by Lattice. The charge from Lattice comprises the regular pension cost of Transco's employees and variations from

the regular pension cost in respect of the effect of any surplus or deficit attributable to Transco. The interest element of any surplus or deficit attributable to Transco is included within the profit and loss account as a financing charge.

m) Leases

Operating lease payments are charged to the profit and loss account on a straight-line basis over the term of the lease.

n) Financial instruments

Derivative financial instruments ("derivatives") are used by Transco mainly for the management of its interest rate and foreign currency exposures. The principal derivatives used include interest rate swaps, currency swaps, forward foreign currency agreements and interest rate swaptions.

All transactions are undertaken or maintained to provide a commercial hedge of the interest or currency risks associated with Transco's underlying business activities and the financing of those activities. Amounts payable or receivable in respect of interest rate swaps are recognised in the profit and loss account over the economic lives of the agreements or underlying position hedged, either within net interest or disclosed separately where deemed exceptional.

Termination payments made or received in respect of derivatives are spread over the shorter of the life of the original instrument or the life of the underlying exposure in cases where the underlying exposure continues to exist. Where the underlying exposure ceases to exist, any termination payments are taken to the profit and loss account.

Those derivatives, relating both to interest rates and/or currency exchange, that are directly associated with a specific transaction and exactly match the underlying cash flows relating to the transaction are accounted for on the basis of the combined economic result of the transaction including the related derivative.

o) Restructuring costs

Costs arising from Transco's restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the profit and loss account in the period in which Transco becomes irrevocably committed to incurring the costs and the main features of the restructuring plan have been announced to affected employees.

p) Research and development

All research and development expenditure is written off as incurred.

Consolidated profit and loss accounts

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)		Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
		2003	2003	Reading	Storage	2003	2003	2002	2002	Reading	Storage	2002	2002
		£m	£m	£m	£m	£m	£m	restated	restated	restated	restated	restated	restated
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Turnover - continuing operations	2	2,609	367	21	33	7	3,037	3,354	505	32	42	(11)	3,922
Operating costs - continuing operations	3	(1,914)	(280)	(20)	(28)	(5)	(2,247)	(2,196)	(334)	(30)	(83)	12	(2,631)
Operating profit													
- Before exceptional items – continuing operations		826	99	4	5	2	936	1,208	171	2	9	1	1,391
- Exceptional items – continuing operations	4	(131)	(12)	(3)	-	-	(146)	(50)	-	-	(50)	-	(100)
Total operating profit		695	87	1	5	2	790	1,158	171	2	(41)	1	1,291
Merger costs – continuing operations	4	(8)	-	-	-	-	(8)	-	-	-	-	-	-
Profit on disposal of fixed asset investments	4	-	-	-	-	1	1	-	-	-	-	-	-
Profit/(loss) on disposal of tangible fixed assets – continuing operations	4	4	(10)	-	-	-	(6)	26	(16)	-	-	-	10
Net interest	8	(19)	(2)	-	-	(301)	(322)	(27)	(3)	-	-	(388)	(418)
Profit on ordinary activities before taxation		672	75	1	5	(298)	455	1,157	152	2	(41)	(387)	883
Taxation													
- Excluding exceptional items	9	-	-	-	-	(189)	(189)	-	-	-	-	(300)	(300)
- Exceptional items	9	-	-	-	-	41	41	-	-	-	-	32	32
		-	-	-	-	(148)	(148)	-	-	-	-	(268)	(268)
Profit for the period		672	75	1	5	(446)	307	1,157	152	2	(41)	(655)	615
Dividends	10	-	-	-	-	(244)	(244)	-	-	-	-	(454)	(454)
Transfer to/(from) reserves	20	672	75	1	5	(690)	63	1,157	152	2	(41)	(1,109)	161

'Other' comprises: (i) those income and costs which relate to the Transco business as a whole; and (ii) the elimination of income and costs arising from trading between the Transportation and LNG Storage businesses.

Details of the restatement of the results of prior periods are provided in note 1 to the regulatory accounting statements on page 16.

Consolidated statement of total recognised gains and losses

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
	2003	2003	Reading	Storage	2003	2003	2002	2002	Reading	Storage	2002	2002
	£m	£m	2003	2003	£m	£m	Restated	Restated	£m	£m	Restated	Restated
							£m	£m	£m	£m	£m	£m
Profit for the period	672	75	1	5	(446)	307	1,157	152	2	(41)	(655)	615
Transfer of balances arising from unregulated activities in prior periods (note 20)	-	-	-	-	6	6	-	-	-	-	-	-
Total recognised gains and losses for the period	672	75	1	5	(440)	313	1,157	152	2	(41)	(655)	615
Prior year adjustment:												
Accounting for deferred tax on an undiscounted basis	-	-	-	-	(623)	(623)						
Total recognised gains and losses	672	75	1	5	(1,063)	(310)						

Details of the restatement of the results for prior periods are provided in note 1 to the regulatory accounting statements, on page 16.

Balance sheets

At 31 March		Transportation 2003	Metering 2003	Meter Reading 2003	LNG Storage 2003	Other 2003	Transco 2003	Transportation 2002	Metering 2002	Meter Reading 2002	LNG Storage 2002	Other 2002 Restated £m	Transco 2002 Restated £m
	Notes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fixed assets													
Tangible assets	11	6,693	1,019	1	70	-	7,783	6,396	1,074	-	70	-	7,540
Current assets													
Stocks	12	27	2	-	2	-	31	28	3	-	3	-	34
Debtors (amounts falling due within one year)	13	193	23	1	3	85	305	174	17	4	5	265	465
Debtors (amounts falling due after more than one year)	13	-	-	-	-	2,241	2,241	-	-	-	-	2,076	2,076
Current asset investments		-	-	-	-	7	7	-	-	-	-	3	3
		220	25	1	5	2,333	2,584	202	20	4	8	2,344	2,578
Creditors (amounts falling due within one year)													
Borrowings	16	(16)	-	-	-	(1,073)	(1,089)	(52)	-	-	-	(900)	(952)
Other creditors	14	(732)	(62)	(6)	(8)	(312)	(1,120)	(635)	(60)	(3)	(4)	(321)	(1,023)
		(748)	(62)	(6)	(8)	(1,385)	(2,209)	(687)	(60)	(3)	(4)	(1,221)	(1,975)
Net current assets/(liabilities)		(528)	(37)	(5)	(3)	948	375	(485)	(40)	1	4	1,123	603
Total assets less current liabilities		6,165	982	(4)	67	948	8,158	5,911	1,034	1	74	1,123	8,143
Creditors (amounts falling due after more than one year)													
Borrowings	16	(52)	-	-	-	(4,030)	(4,082)	(51)	-	-	-	(4,177)	(4,228)
Other creditors	15	(949)	(28)	-	-	-	(977)	(909)	(19)	-	-	-	(928)
		(1,001)	(28)	-	-	(4,030)	(5,059)	(960)	(19)	-	-	(4,177)	(5,156)
Provisions for liabilities and charges	18	(172)	(2)	-	-	(1,276)	(1,450)	(149)	-	-	-	(1,258)	(1,407)
Net assets employed		4,992	952	(4)	67	(4,358)	1,649	4,802	1,015	1	74	(4,312)	1,580
Capital and reserves													
Called up share capital	19						45						45
Share premium account	20						204						204
Capital redemption reserve	20						1,332						1,332
Profit and loss account	20						68						(1)
Equity shareholders' funds							1,649						1,580

Details of the restatement of the balance sheet at 31 March 2002 are provided in note 1 to the regulatory accounting statements on page 16.

Commitments and contingencies are shown in note 24, page 36.

The regulatory accounting statements on pages 8 to 44 inclusive were approved by the Board on 24 June 2003 and were signed on its behalf by:

Steve Holliday, Chief Executive

Colin Buck, Finance Director

Reconciliation of change in net assets

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)

	Notes	Transco 2003 £m	Transco 2002 Restated £m
Net assets at the beginning of the period		1,580	1,419
Profit for the period		307	615
Dividends		(244)	(454)
Transfer of balances arising from unregulated activities in prior periods	20	6	-
Net assets at the end of the period		1,649	1,580

Cash flow statements

for the 12 months ended 31 March 2003
(2002: 15 months ended 31 March)

	Notes	Transportation 2003 £m	Metering 2003 £m	Meter Reading 2003 £m	LNG Storage 2003 £m	Other 2003 £m	Transco 2003 £m	Transportation 2002 Restated £m	Metering 2002 £m	Meter Reading 2002 £m	LNG Storage 2002 £m	Other 2002 £m	Transco 2002 Restated £m
Net cash inflow from operating activities before exceptional items	22(a)	4,464	224	40	46	6	4,454	4,022	426	4	44	(24)	2,252
Expenditure relating to exceptional items		(122)	(10)	(3)	-	-	(135)	(12)	-	-	-	-	(12)
Net cash inflow from operating activities		1,069	221	7	16	6	1,319	1,921	426	4	14	(24)	2,341
Returns on investments and servicing of finance													
Interest received and similar income		-	-	-	-	17	17	-	-	-	-	5	5
Interest paid and similar charges		(13)	(2)	-	-	(311)	(326)	(13)	(3)	-	-	(353)	(369)
Net cash outflow for returns on investments and servicing of finance		(13)	(2)	-	-	(294)	(309)	(13)	(3)	-	-	(348)	(364)
Taxation													
Corporate tax paid		-	-	-	-	(62)	(62)	-	-	-	-	(240)	(240)
Capital expenditure													
Payments to acquire tangible fixed assets		(531)	(81)	(1)	(4)	-	(617)	(768)	(172)	-	(5)	-	(945)
Receipts from disposal of tangible fixed assets		12	-	-	-	-	12	36	-	-	-	-	36
Net cash outflow for capital expenditure		(519)	(81)	(1)	(4)	-	(605)	(732)	(172)	-	(5)	-	(909)
Acquisitions and disposals													
Receipts from disposal of investments		-	-	-	-	1	1	13	-	-	-	-	13
Equity dividends paid		-	-	-	-	(337)	(337)	-	-	-	-	(432)	(432)
Net cash inflow/(outflow) before management of liquid resources and financing		537	138	6	12	(686)	7	1,189	251	4	9	(1,044)	409
Management of liquid resources													
(Increase) / decrease in short-term deposits		-	-	-	-	(4)	(4)	-	-	-	-	55	55
Net cash (outflow) / inflow from management of liquid resources		-	-	-	-	(4)	(4)	-	-	-	-	55	55
Financing													
(Decrease) / increase in borrowings	22(b)	(25)	-	-	-	17	(8)	(29)	-	-	-	(271)	(300)
Pooling of funding in the Transco business		(487)	(138)	(6)	(12)	643	-	(1,189)	(251)	(4)	(8)	1,452	-
Loan to parent undertaking		-	-	-	-	(165)	(165)	-	-	-	-	-	-
Funding of special pension contribution		-	-	-	-	193	193	-	-	-	-	(193)	(193)
Net cash inflow from financing		(512)	(138)	(6)	(12)	688	20	(1,218)	(251)	(4)	(8)	988	(493)
Net increase/(decrease) in cash and overdrafts		25	-	-	-	(2)	23	(29)	-	-	1	(1)	(29)

Details of the restatement of the cash flows for prior periods are provided in note 1 to the regulatory accounting statements on page 16.

Reconciliation to the Annual Report and Accounts of Transco plc

The net assets and liabilities at 31 March 2003 and the profit and cash flows for the year then ended, reported in these regulatory accounting statements in respect of the Transco business, are the same as those reported in the Transco plc Annual Report and Accounts 2002/03. Therefore a reconciliation is not provided between these regulatory accounting statements and the Annual Report and Accounts of Transco plc.

Notes to the regulatory accounting statements

1. Changes to accounting policies

To facilitate consistency of reporting within the National Grid Transco group, Transco has adopted revised accounting policies in respect of pension costs, deferred tax and the classification of operating costs, certain assets and certain liabilities. Prior year comparative information has been restated accordingly.

The interest credit related to the amortisation of pension scheme surplus, which was previously included within operating costs, is now included within net interest. Deferred tax, which was previously provided on a discounted basis, is now provided on an undiscounted basis. The effect of these two changes is set out below.

15 months ended 31 March	Transportation 2002 £m	Metering 2002 £m	Meter Reading 2002 £m	LNG Storage 2002 £m	Other 2002 £m	Transco 2002 £m
Profit and loss account						
Total operating profit:						
Reclassification of pensions interest	(7)	-	-	-	-	(7)
Net interest:						
Reclassification of pensions interest	7	-	-	-	-	7
Taxation:						
Accounting for deferred tax on an undiscounted basis	-	-	-	-	(40)	(40)
Decrease in profit for the period	-	-	-	-	(40)	(40)
Cash flow statement						
Net cash inflow from operating activities:						
Reclassification of pensions interest	(7)	-	-	-	-	(7)
Returns on investments and servicing of finance:						
Reclassification of pensions interest	7	-	-	-	-	7
Balance sheet						
Provisions for liabilities and charges:						
Accounting for deferred tax on an undiscounted basis					(623)	(623)

At 31 March 2002

The change in treatment of the interest credit related to the amortisation of pension scheme surplus has reduced operating profit and net interest payable for the 12 months to 31 March 2003 both by £1m. It is not practicable to estimate the effect on the results for the year ended 31 March 2003 of ceasing to discount the deferred tax provision.

The classifications used for disclosure of financial information within the following headings have been changed: operating costs (note 3); payroll costs (note 5(a)); tangible fixed assets (note 11); debtors (note 13) and creditors (note 14 and 15).

2. Turnover

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco
	2003	2003	2003	2003	2003	2003	2002	2002	2002	2002	2002	2002
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Transportation, metering, meter reading and LNG storage services	2,587	367	18	15	-	2,987	3,345	505	32	17	-	3,899
LNG storage services to the Transportation Business	-	-	-	18	(18)	-	-	-	-	25	(25)	-
Other income	22	-	3	-	25	50	9	-	-	-	14	23
Total turnover	2,609	367	21	33	7	3,037	3,354	505	32	42	(11)	3,922

3 Operating costs

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco
	2003	2003	2003	2003	2003	2003	2002 Restated	2002 Restated	2002 Restated	2002 Restated	2002 Restated	2002 Restated
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Depreciation	255	126	-	4	-	385	302	155	-	7	-	464
Payroll costs (note 5(a))	414	8	2	7	8	439	580	8	3	8	3	602
Purchases of gas	108	-	-	-	-	108	151	-	-	-	-	151
Rates	206	26	-	3	-	235	252	32	-	3	-	287
Replacement expenditure	405	-	-	-	-	405	432	-	-	-	-	432
Apportioned operating charges (note 27)	(114)	102	(1)	-	13	-	(148)	136	5	-	7	-
Exceptional operating items	131	12	3	-	-	146	50	-	-	50	-	100
Other operating charges	509	6	16	14	(16)	529	577	3	22	15	(22)	595
	1,914	280	20	28	5	2,247	2,196	334	30	83	(12)	2,631
Operating costs include:												
Research and development costs	8	-	-	-	-	8	17	-	-	-	-	17
Operating lease rentals:												
Plant and machinery	15	-	-	-	-	15	22	-	-	-	-	22
Other	14	-	-	-	-	14	20	-	-	-	-	20
Auditors' remuneration:												
Statutory audit services												
Annual audit						0.4						0.7
Regulatory reporting						0.2						0.2
Other non-audit services (i)						3.1						3.9

(i) Other non-audit services includes £2.2m paid to the consulting business unit of PricewaterhouseCoopers which was sold to IBM United Kingdom Limited on 30 September 2002.

4. Exceptional items

a) Operating

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
	2003	2003	Reading	Storage	2003	2003	2002	2002	Reading	Storage	2002	2002
	£m	£m	2003	2003	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations												
Restructuring costs (i)	90	8	2	-	-	100	50	-	-	-	-	50
Merger costs (ii)	41	4	1	-	-	46	-	-	-	-	-	-
Impairment of tangible fixed assets (iii)	-	-	-	-	-	-	-	-	-	50	-	50
	131	12	3	-	-	146	50	-	-	50	-	100

(i) Relates to costs incurred in business reorganisations (£70m after tax, 15 months ended 31 March 2002: £39m after tax).

(ii) Represents employee and property costs associated with the Merger of National Grid and Lattice (£39m after tax).

(iii) The impairment charge for the 15 months ended 31 March 2002 relates to the write-down of LNG storage assets £35m after tax).

b) Non-operating

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
	2003	2003	Reading	Storage	2003	2003	2002	2002	Reading	Storage	2002	2002
	£m	£m	2003	2003	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations												
Merger costs (iv)	8	-	-	-	-	8	-	-	-	-	-	-
Profit on disposal of investments (v)	-	-	-	-	(1)	(1)	-	-	-	-	-	-
(Profit)/loss on disposal of tangible fixed assets (vi)	(5)	10	-	1	-	6	27	(17)	-	-	-	10
	3	10	-	1	(1)	13	27	(17)	-	-	-	10

(iv) The after tax cost of the Merger was £6m.

(v) The after tax profit on disposal of fixed asset investments was £1m.

(vi) The after tax loss or profit on disposal of tangible fixed assets was a £4m loss (15 months ended 31 March 2002: £16m profit).

5 Payroll costs and employees

a) Payroll costs

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
	2003	2003	Reading	Storage	2003	2003	2002	2002	Reading	Storage	2002	2002
	£m	£m	2003	2003	£m	£m	£m	£m	£m	£m	£m	£m
Wages and salaries	380	6	2	6	8	402	533	7	3	6	3	552
Social security costs	30	1	-	-	-	31	45	-	-	1	-	46
Pension costs	69	1	-	1	-	71	77	1	-	1	-	79
	479	8	2	7	8	504	655	8	3	8	3	677
Less:												
Amounts capitalised	(9)	-	-	-	-	(9)	(48)					(48)
Payroll costs included in replacement expenditure	(56)	-	-	-	-	(56)	(27)					(27)
	414	8	2	7	8	439	580	8	3	8	3	602

5 Payroll costs and employees continued

b) Average number of employees

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	Metering	Meter Reading	LNG	Transco	Transportation	Metering	Meter Reading	LNG	Transco
	2003	2003	2003	2003	2003	2002	2002	2002	2002	2002
	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number
Continuing operations										
United Kingdom	13,101	195	46	147	13,489	14,119	190	81	142	14,532

Average employee numbers are based on average monthly headcount. Manpower numbers have been apportioned between the Transportation, Metering and Meter Reading businesses based on salaries and wages.

6. Directors' emoluments

The aggregate amount of emoluments paid to Directors in respect of qualifying services for the 12 months ended 31 March 2003 was £2,015,408 (15 months ended 31 March 2002: £3,311,042). The amount paid in respect of compensation for loss of office in the 12 months ended 31 March 2003 was £nil (15 months ended 31 March 2002: £164,769). Directors' emoluments include amounts in respect of accrued bonus which had not yet been approved at the date of these regulatory accounting statements.

A number of current Directors are also directors and employees of National Grid Transco plc or a subsidiary undertaking of that company and are paid by these companies. Prior to the Demerger, a number of the Directors were also directors and employees of BG Group plc or a subsidiary undertaking of that company and were paid by those companies. The amount disclosed includes an amount recharged by National Grid Transco plc or a subsidiary undertaking of national Grid Transco plc for these Directors and an amount recharged by BG Group plc or a subsidiary undertaking of BG Group plc prior to Demerger.

As at 31 March 2003, retirement benefits were accruing to 11 Directors under a defined benefit scheme. The aggregate emoluments for the highest paid Director were £332,241 for the 12 months ended 31 March 2003 (15 months ended 31 March 2002: £525,490) and total accrued annual pension at 31 March 2003 for the highest paid Director was £91,700 (31 March 2002: £87,800).

7. Pensions

Pension cost

Transco participates in the Lattice Group Pension Scheme (the Scheme). Lattice Group plc charges its subsidiary undertakings with an allocation of the total Scheme cost. The costs in respect of the Scheme are set out below:

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	Metering	Meter Reading	LNG	Other	Transco	Transportation	Metering	Meter Reading	LNG	Other	Transco
	2003	2003	2003	2003	2003	2003	2002	2002	2002	2002	2002	2002
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Charged against operating profit	69	1	-	1	-	71	77	1	-	1	-	79
Charged / (credited) within net interest	1	-	-	-	-	1	(7)	-	-	-	-	(7)
Total cost	70	1	-	1	-	72	70	1	-	1	-	72

The amount charged by Lattice Group plc to Transco includes a credit in respect of the amortisation of a pensions surplus recognised at the last actuarial valuation of the Scheme as at 31 March 2001. As a result of the deterioration in world stock markets, if a formal actuarial valuation of the Scheme were carried out, this would in all likelihood reveal a deficit. The continuing recognition of a surplus in these circumstances is incompatible with this position. Consequently, Lattice Group plc has suspended the recognition of any further pension surplus amortisation with effect from 1 October 2002. As a result of this action operating profit is reduced by £8m and net interest charge increased by £1m compared with the ongoing recognition of such a surplus.

There were no outstanding or prepaid pension contributions at 31 March 2003 (31 March 2002 £nil).

7. Pensions continued

Pension scheme

Substantially all of Transco's employees are members of the Scheme. The Scheme provides final salary defined benefits for employees who joined the Lattice Group up to 31 March 2002. A defined contribution section was added to this Scheme from 1 April 2002 for employees joining the Lattice Group from that date.

The Scheme is self-administered and funded to cover pension liabilities in respect of service up to the balance sheet date. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer's 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 as at 31 March 2001. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation and pension increases would be 2.3%; that future real increases in pensionable earnings would be 1.9%; that the annual real rate of return on existing investments would be 2.9%; and that the real annual rate of return on future contributions would be 3.7%. Excluding assets and liabilities attributable to BG Group members who left the Scheme on 4 July 2001, the aggregate market value of the Lattice Group Pension Scheme's assets was £11,963m and the actuarial value of the assets represented approximately 104% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service as at 31 March 2001 on an ongoing basis and allowing for projected increases in pensionable earnings and pensions.

The results of the actuarial valuation carried out as at 31 March 2001 showed that based on long-term financial assumptions the contribution rate required to meet future benefit accrual was 26.6% of pensionable earnings (23.6% employers and 3% employees) though employers' contributions could have been maintained at the level of 3% until March 2004. Employers' contributions were however increased from 3% to 8.5% with effect from 1 January 2002. This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be as at 31 March 2003.

FRS 17, Retirement Benefits

On 20 November 2002, the Accounting Standards Board introduced a new accounting standard FRS 17 'Retirement Benefits', replacing SSAP 24 'Accounting for Pension Costs'. 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. As Transco's share of the underlying assets and liabilities of the Scheme cannot be identified separately, Transco would account for pensions under FRS 17 as if the Scheme were a defined contributions scheme and is not required to make any further disclosures under FRS 17. The pension charge incurred by Transco in the year ended 31 March 2003 amounted to £115m of which £43m related to redundancies. Lattice has not yet determined the methodology which it would use to charge pensions costs to its subsidiary undertakings following the full adoption of FRS 17.

8 Net Interest

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	Metering	Other	Transco	Transportation	Metering	Other	Transco
	2003	2003	2003	2003	2002	2002	2002	2002
	£m	£m	£m	£m	£m	£m	£m	£m
Bank loans and overdrafts	-	-	5	5	-	-	4	4
Other	13	2	316	331	19	3	390	412
	13	2	321	336	19	3	394	416
Unwinding of discount on provisions	6	-	-	6	8	-	-	8
Interest payable and similar charges	19	2	321	342	27	3	394	424
Interest receivable and similar income	-	-	(20)	(20)	-	-	(6)	(6)
	19	2	301	322	27	3	388	418

Interest payable and similar charges includes £7m (15 months ended 31 March 2002: £3m) relating to the loss incurred on the repurchase of debt during the year.

9. Taxation

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transco 2003 £m	Transco 2002 £m
United Kingdom		
- Corporation tax at 30% on income for the period	135	234
- Adjustment in respect of prior periods	(5)	-
- Deferred tax: timing differences	18	34
	148	268
Comprising:		
Taxation – excluding exceptional items	189	300
Taxation – exceptional items	(41)	(32)
	148	268

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

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	% of profit before taxation	
	Transco 2003	Transco 2002
UK corporation tax rate	30.0	30.0
Effect on tax charge of:		
Origination and reversal of timing differences	(3.1)	(5.7)
Permanent differences	1.6	0.8
Current tax charge	28.5	25.1
Deferred taxation: origination and reversal of timing differences	3.1	5.7
Effective tax rate before prior year adjustments and exceptional items	31.6	30.8
Adjustments in respect of prior years	(0.8)	-
Effective tax rate before exceptional items	30.8	30.8
Exceptional items	1.7	(0.4)
Effective tax rate after exceptional items	32.5	30.4

Factors that may affect future tax charges

Transco has brought forward non-trading debits of £75m (31 March 2002 £75m) which may reduce tax payments in future years.

No provision has been made for deferred tax on gains recognised on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the replacement asset were sold without it being possible to claim rollover relief. The total amount not provided for is £46m (31 March 2002 £46m). At present, it is not envisaged that any tax will become payable in the foreseeable future.

10. Dividends

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transco 2003 £m	Transco 2002 £m
Ordinary shares:		
Interim dividend	244	361
Proposed final dividend	-	93
	244	454

Transco plc is prohibited from declaring a dividend or other distribution unless it has certified to Ofgem that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade rating (see Regulatory ring-fence, page 2).

11. Tangible fixed assets

The classification of tangible fixed assets has been revised in line with that of National Grid Transco (note 1). The classification of balances at 1 April 2002 has been restated accordingly. Previously, tangible fixed assets were classified under the headings: land and buildings; mains and services; gas storage; plant and machinery; meters; and motor vehicles and office equipment.

Transportation

	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 2002 (restated)	72	8,202	247	685	9206
Additions	8	172	307	73	560
Disposals	-	(5)	-	(136)	(141)
Reclassifications	(6)	325	(317)	(2)	-
Cost at 31 March 2003	74	8,694	237	620	9,625
Depreciation at 1 April 2002 (restated)	(16)	(2,314)	-	(480)	(2,810)
Charge for the year	(3)	(174)	-	(78)	(255)
Disposals	-	1	-	132	133
Reclassifications	(1)	-	-	1	-
Depreciation at 31 March 2003	(20)	(2,487)	-	(425)	(2,932)
Net book value at 31 March 2003	54	6,207	237	195	6,693
Net book value at 31 March 2002 (restated)	56	5,888	247	205	6,396

11. Tangible fixed assets continued

Metering

	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 2002 (restated)	-	1,527	-	-	1,527
Additions	-	81	-	-	81
Disposals	-	(17)	-	-	(17)
Cost at 31 March 2003	-	1,591	-	-	1,591
Depreciation at 1 April 2002 (restated)	-	(453)	-	-	(453)
Charge for the year	-	(126)	-	-	(126)
Disposals	-	7	-	-	7
Depreciation at 31 March 2003	-	(572)	-	-	(572)
Net book value at 31 March 2003	-	1,019	-	-	1,019
Net book value at 31 March 2002 (restated)	-	1,074	-	-	1,074

Meter Reading

	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 2002	-	-	-	-	-
Additions	-	-	-	1	1
Cost at 31 March 2003	-	-	-	1	1
Depreciation at 1 April 2002	-	-	-	-	-
Charge for the year	-	-	-	-	-
Depreciation at 31 March 2003	-	-	-	-	-
Net book value at 31 March 2003	-	-	-	1	1
Net book value at 31 March 2002	-	-	-	-	-

11. Tangible fixed assets continued

LNG Storage

	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 2002 (restated)	1	216	-	3	220
Additions	-	4	-	-	4
Disposals	-	(2)	-	-	(2)
Cost at 31 March 2003	1	218	-	3	222
Depreciation at 1 April 2002 (restated)	-	(148)	-	(2)	(150)
Charge for the year	-	(4)	-	-	(4)
Disposals	-	2	-	-	2
Depreciation at 31 March 2003	-	(150)	-	(2)	(152)
Net book value at 31 March 2003	1	68	-	1	70
Net book value at 31 March 2002 (restated)	1	68	-	1	70

Transco

	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 2002 (restated)	73	9,945	247	688	10,953
Additions	8	257	307	74	646
Disposals	-	(24)	-	(136)	(160)
Reclassifications	(6)	325	(317)	(2)	-
Cost at 31 March 2003	75	10,503	237	624	11,439
Depreciation at 1 April 2002 (restated)	(16)	(2,915)	-	(482)	(3,413)
Charge for the year	(3)	(304)	-	(78)	(385)
Disposals	-	10	-	132	142
Reclassifications	(1)	-	-	1	-
Depreciation at 31 March 2003	(20)	(3,209)	-	(427)	(3,656)
Net book value at 31 March 2003	55	7,294	237	197	7,783
Net book value at 31 March 2002 (restated)	57	7,030	247	206	7,540

11. Tangible fixed assets continued

The net book value of land and buildings comprises:

At 31 March	Transco 2003 £m	Transco 2002 £m
Freehold	51	53
Long leasehold	2	2
Short leasehold	2	2
	55	57

12. Stocks

At 31 March	Transportation 2003 £m	Metering 2003 £m	LNG Storage 2003 £m	Transco 2003 £m	Transportation 2002 £m	Metering 2002 £m	LNG Storage 2002 £m	Transco 2002 £m
Raw materials and consumables	27	2	2	31	28	3	3	34

13. Debtors

At 31 March	Transportation 2003 £m	Metering 2003 £m	Meter Reading 2003 £m	LNG Storage 2003 £m	Other 2003 £m	Transco 2003 £m	Transportation 2002 Restated £m	Metering 2002 Restated £m	Meter Reading 2002 Restated £m	LNG Storage 2002 Restated £m	Other 2002 Restated £m	Transco 2002 Restated £m
Amounts falling due within one year												
Trade debtors	25	1	-	1	-	27	18	1	-	1	-	20
Amounts owed by fellow subsidiary undertakings	1	7	-	-	3	11	19	-	-	-	181	200
Amounts owed by Transportation to LNG Storage	-	-	-	2	(2)	-	-	-	-	2	(2)	-
Other debtors	4	-	1	-	19	24	5	-	-	-	19	24
Prepayments and accrued income	163	15	-	-	65	243	132	16	4	2	67	221
	193	23	1	3	85	305	174	17	4	5	265	465
Amounts falling due after more than one year												
Amounts owed by parent undertaking (i)	-	-	-	-	2,241	2,241	-	-	-	-	2,076	2,076
Total debtors	193	23	1	3	2,326	2,546	174	17	4	5	2,341	2,541

The classification of debtors has been revised in line with that of National Grid Transco (note 1). Comparatives have been restated accordingly and £134m of unbilled income at 31 March 2002 previously reported within trade debtors, is now included within prepayments and accrued income.

Debtors are stated net of provisions for doubtful debts of £11m (2002 £9m). Amounts charged for doubtful debts against profit were £4m (15 months ended 31 March 2002 £2m credit).

- (i) Ofgem have consented to Transco maintaining this debtor with its immediate parent company, Transco Holdings plc, subject to Transco not being permitted to earn a return on this asset through the price control formula. The movements in this debtor are analysed below:
as at 31 March

	2003 £m	2002 £m
At start of the period	2,076	2,066
Loan to Transco Holdings to fund dividends payable by Transco Holdings plc to Lattice Group plc	165	-
Transfer of Fulcrum Connections Limited to Transco Holdings plc	-	10
	2,241	2,076

Details of debtors apportioned between the different businesses of Transco are provided in note 27, page 37.

14. Creditors (amounts falling due within one year)

At 31 March	Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
	2003	2003	Reading	Storage	2003	2003	2002	2002	Reading	Storage	2002	2002
	£m	£m	2003	2003	£m	£m	Restated	Restated	2002	2002	Restated	Restated
			£m	£m			£m	£m	£m	£m	£m	£m
Borrowings (note 16)	16	-	-	-	1,073	1,089	52	-	-	-	900	952
Trade creditors and accruals	281	21	2	6	-	310	213	17	2	4	-	236
Amounts owed to fellow subsidiary undertakings	44	1	-	2	205	252	38	-	-	-	57	95
Amounts owed by Transportation to LNG Storage	2	-	-	-	(2)	-	2	-	-	-	(2)	-
Corporation tax	-	-	-	-	-	-	-	-	-	-	50	50
Social security and other taxes	149	15	1	-	-	165	148	19	1	-	-	168
Proposed dividend	-	-	-	-	-	-	-	-	-	-	93	93
Other creditors	77	4	3	-	109	193	61	3	-	-	123	187
Deferred income	179	21	-	-	-	200	173	21	-	-	-	194
	748	62	6	8	1,385	2,209	687	60	3	4	1,221	1,975

The classification of creditors has been revised in line with that of National Grid Transco (note 1). Prior period comparatives have been restated accordingly. The VAT creditor of £147m at 31 March 2002, previously reported under trade creditors, is now included within social security and other taxes and accrued interest of £125m at 31 March 2002, previously reported under accruals and deferred income, is now included within other creditors.

Other creditors include interest payable of £118m (2002 £125m).

Details of creditors apportioned between the different businesses of Transco are provided in note 27, page 37.

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

At 31 March	Transportation	Metering	Other	Transco	Transportation	Metering	Other	Transco
	2003	2003	2003	2003	2002	2002	2002	2002
	£m	£m	£m	£m	£m	£m	£m	£m
Borrowings (note 16)	52	-	4,030	4,082	51	-	4,177	4,228
Deferred income	949	28	-	977	909	19	-	928
	1,001	28	4,030	5,059	960	19	4,177	5,156

Deferred income mainly comprises contributions to capital projects.

16. Borrowings

The following table analyses Transco's gross borrowings after taking account of currency and interest rate swaps.

At 31 March	Transportation 2003 £m	Other 2003 £m	Transco 2003 £m	Transportation 2002 £m	Other 2002 £m	Transco 2002 £m
Amounts falling due within one year:						
Bank loans and overdrafts	10	179	189	35	96	131
Commercial paper	-	-	-	-	8	8
Bonds	-	515	515	-	443	443
Borrowings from fellow subsidiary undertakings	-	349	349	-	353	353
Other loans	6	30	36	17	-	17
	16	1,073	1,089	52	900	952
Amounts falling due after more than one year:						
Bonds	-	4,030	4,030	-	4,177	4,177
Other loans	52	-	52	51	-	51
	52	4,030	4,082	51	4,177	4,228
Total borrowings	68	5,103	5,171	103	5,077	5,180

Total borrowings are repayable as follows:

	Transco 2003 £m	Transco 2002 £m
In one year or less	1,089	952
More than one year, but not more than two years	643	508
More than two years, but not more than three years	199	531
More than three years, but not more than four years	888	80
More than four years, but not more than five years	236	936
More than five years	2,116	2,173
	5,171	5,180

None of Transco's borrowings are secured by charges over the assets of Transco.

Bonds falling due after more than year also include the amount of £65m (2002 £57m), including accretion of interest to 31 March 2003, in respect of a zero coupon bond due 2021, that had a market value of £290m (2002 £243m).

17. Financial Instruments

Transco's treasury policy, including the details of the nature, terms and credit risk associated with financial instruments with off-balance sheet risk is described on pages 3 and 4.

Transco's counterparty exposure under foreign currency swaps and foreign exchange contracts was £320m (31 March 2002: £297m) and interest rate swaps £71m (31 March 2002: £32m).

Transco has no significant exposure to either individual counterparties or geographical groups of counterparties.

Short-term debtors and creditors, where permitted by the financial reporting standard on derivatives and other financial instruments (FRS 13), 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 values.

Currency and interest rate composition of financial liabilities

The currency and interest rate composition of Transco'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 2003					
Sterling					
Borrowings	5,171	2,488	2,683	6.1	5
Other financial liabilities	20	20	-	-	-
	5,191	2,508	2,683	6.1	5
At 31 March 2002					
Sterling - Borrowings	5,180	1,878	3,302	6.1	7

At 31 March 2003 the weighted average interest rate on short-term borrowings of £1,089m (2002: £952m) was 7.4% (2002: 4.4%).

Substantially all of the variable rate borrowings are subject to interest rates which fluctuate with LIBOR (London Interbank Offered Rate).

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 taken to have a life based on the earliest date at which they can be cancelled.

17. Financial Instruments continued

Currency and interest rate composition of financial assets

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

	Fixed rate assets				
	Total £m	Non-interest bearing £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
At 31 March 2003					
Sterling	3	-	3	4.0	0
US dollars	2	-	2	1.1	0
Other currencies	2	-	2	2.5	0
Cash and investments	7	-	7	-	-
Other financial assets (sterling)	2,241	2,241	-	-	-
	2,248	2,241	7	-	-
At 31 March 2002	Restated	Restated			
Sterling	2	-	2	3.4	0
US dollars	1	-	1	1.8	0
Cash and investments	3	-	3	-	-
Other financial assets (sterling)	2,076	2,076	-	-	-
	2,079	2,076	3	-	-

Other financial assets comprise amounts owed by Transco's immediate parent company, Transco Holdings plc. This amount was not previously disclosed as a financial asset, so the amounts for financial assets at 31 March 2002 have been restated accordingly in the table above and the following tables in this note.

The maturity profile of Transco's financial liabilities and assets are shown in the table below after taking into account currency and interest rate swaps.

	2003 £m	2002 £m
Maturity of financial liabilities at 31 March		
In one year or less	1,093	952
More than one year, but not more than two years	647	508
More than two years, but not more than three years	203	531
More than three years, but not more than four years	892	80
More than four years, but not more than five years	240	936
More than five years	2,116	2,173
	5,191	5,180
Maturity of financial assets at 31 March		
In one year or less	7	3
No maturity date	2,241	2,076
	2,248	2,079

Financial assets with no maturity date comprise amounts owed by Transco's immediate parent company, Transco Holdings plc.

17. Financial Instruments continued

Fair values of financial instruments at 31 March

	2003		2002	
	Book value	Fair value	Book value Restated	Fair value Restated
	£m	£m	£m	£m
Financial instruments held or issued to finance Transco's operations:				
Short-term borrowings	(1,089)	(1,093)	(952)	(952)
Long-term borrowings	(4,174)	(4,677)	(4,403)	(4,805)
Financial assets	2,248	2,248	2,079	2,079
Financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps	-	62	-	25
Forward foreign currency contracts and cross currency swaps	92	313	175	248

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

The notional principal amounts relating to financial instruments held to manage interest rate and currency profile for interest rate swaps and forward rate agreements, foreign currency contracts and cross-currency swaps, amounted to £3,846m (2002: £6,553m) and £3,428m (2002: £3,654m) 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) £m
Gains and (losses) on hedges at 1 April 2002	157	(59)	98	29	(85)	(56)
(Gains)/losses arising in previous years recognised in the year	(38)	32	(6)	(7)	14	7
Gains /(losses) arising in previous years not recognised in the year	119	(27)	92	22	(71)	(49)
Gains/(losses) arising in the year	227	(36)	191	12	(13)	(1)
Gains and (losses) on hedges at 31 March 2003	346	(63)	283	34	(84)	(50)
Of which:						
Gains and (losses) expected to be recognised within one year	2	(1)	1	6	(12)	(6)
Gains and (losses) expected to be recognised after one year	344	(62)	282	28	(72)	(44)

Borrowing facilities

At 31 March 2003, Transco had undrawn committed borrowing facilities as shown below:

	2003 £m	2002 £m
In one year or less	622	623
More than one year, but not more than two years	-	24
More than two years, but not more than three years	600	-
More than three years, but not more than four years	-	600
More than five years	-	39
	1,222	1,286

18. Provisions for liabilities and charges

	Transportation Environmental	Transportation Restructuring	Transportation Total	Metering Restructuring	Meter Reading Restructuring	Other Deferred taxation
	£m	£m		£m	£m	£m
At 31 March 2002 (as previously reported)	102	47	149	-	-	635
Restatement of opening balances:						
Accounting for deferred tax on an undiscounted basis (note 1)	-	-	-	-	-	623
At 31 March 2002 (restated)	102	47	149	-	-	1,258
Additions	-	139	139	12	3	18
Utilised	(10)	(112)	(122)	(10)	(3)	-
Unwinding of discount	6	-	6	-	-	-
At 31 March 2003	98	74	172	2	-	1,276

	Transco Environmental	Transco Deferred taxation	Transco Restructuring	Transco Total
	£m	£m	£m	£m
At 31 March 2002 (as previously reported)	102	635	47	784
Restatement of opening balances:				
Accounting for deferred tax on an undiscounted basis (note 1)	-	623	-	623
At 31 March 2002 (restated)	102	1,258	47	1,407
Additions	-	18	154	172
Utilised	(10)	-	(125)	(135)
Unwinding of discount	6	-	-	6
At 31 March 2003	98	1,276	76	1,450

The environmental provision represents the net present value of statutory decontamination costs of old gas manufacturing sites (discounted at 4%). The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty.

At 31 March 2003, £20m of the restructuring provision (2002: £nil) consisted of provisions for costs in respect of surplus leasehold properties. The expected payment dates for property restructuring costs remain uncertain.

Deferred taxation comprises:

	Provided	
At 31 March	2003	2002 Restated
	£m	£m
Accelerated capital allowances	1,277	1,269
Other timing differences	(1)	(11)
	1,276	1,258

19. Share capital

	Number of shares 2003 millions	Number of shares 2002 millions	2003 £m	2002 £m
At 31 March				
Authorised				
Ordinary shares of 1 ² / ₁₅ p each	6,052	6,052	69	69
Allotted and fully paid				
Ordinary shares of 1 ² / ₁₅ p each	3,944	3,944	45	45

Transco plc is a wholly owned subsidiary undertaking of Transco Holdings plc.

20. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account reserve £m
At 31 March 2002 (as previously reported)	204	1,332	622
Restatement of opening balances:			
Accounting for deferred tax on an undiscounted basis (note 1)	-	-	(623)
At 31 March 2002 (restated)	204	1,332	(1)
Retained profit for the year	-	-	63
Transfer of balances arising from unregulated activities in prior periods (i)	-	-	6
At 31 March 2003	204	1,332	68

- (i) Following the Restructuring and Refinancing in 1999, Transco was left with unregulated assets with a carrying value of £4m. These assets were subsequently sold for £6m. As the resulting funds did not arise from the Transco business they have not been included in Transco's regulatory accounting statements. Given the amounts are not material, they have now been included within the regulated Transco business to maintain consistency with the statutory accounts of Transco plc.

As the condition does not require the attribution of taxation, interest or borrowings to the separate businesses of Transco, unless they relate principally to an individual business, capital and reserves cannot be attributed to separate businesses, but can only be determined for Transco in total.

Transco is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade credit rating (see Regulatory ring-fence, page 2).

21. Reconciliation of movement in equity shareholders' funds

At 31 March	2003 £m	2002 £m
Profit for the period	307	615
Transfer of balances arising from unregulated activities in prior periods (note 20)	6	-
Dividends	(244)	(454)
Net movement in equity shareholders' funds	69	161
Equity shareholders' funds at the start of the period	1,580	1,419
Equity shareholders' funds at the end of the period	1,649	1,580

22. Cash flow statement

a) Reconciliation of operating profit to net cash inflow from operating activities before exceptional items

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
	2003	2003	Reading	Storage	2003	2003	2002	2002	Reading	Storage	2002	2002
	£m	£m	2003	2003	£m	£m	Restated	£m	£m	2002	£m	Restated
Total operating profit	695	87	1	5	2	790	1,158	171	2	(41)	1	1,291
Exceptional operating items	131	12	3	-	-	146	50	-	-	50	-	100
Depreciation	255	126	-	4	-	385	302	155	-	7	-	464
Decrease / (increase) in stocks	1	1	-	1	-	3	(16)	3	-	2	-	(11)
(Increase) / decrease in debtors	(19)	(6)	3	2	(11)	(31)	204	48	1	(2)	(18)	233
Increase / (decrease) in creditors	128	11	3	4	15	161	235	49	1	(2)	(7)	276
Cash inflow from operating activities before exceptional items	1,191	231	10	16	6	1,454	1,933	426	4	14	(24)	2,353

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

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation	LNG	Other	Transco	Transportation	LNG	Other	Transco
	2003	Storage	2003	2003	2002	Storage	2002	2002
	£m	2003	£m	£m	£m	2002	£m	£m
Movement in cash and overdrafts	25	-	(2)	23	(29)	1	(1)	(29)
Net cash inflow from the management of liquid resources	-	-	4	4	-	-	(55)	(55)
Decrease / (increase) in borrowings	25	-	(17)	8	29	-	271	300
Change in net debt resulting from cash flows	50	-	(15)	35	-	1	215	216
Other non-cash movements	(15)	-	(7)	(22)	(51)	-	(11)	(62)
Movement in net debt in the period	35	-	(22)	13	(51)	1	204	154
Net debt at the start of the period	(103)	-	(5,074)	(5,177)	(52)	(1)	(5,278)	(5,331)
Net debt at the end of the period	(68)	-	(5,096)	(5,164)	(103)	-	(5,074)	(5,177)

22. Cash flow statement continued

c) Analysis of changes in net debt

	At 1 Jan 2001 £m	Cash flow £m	Non-cash movements £m	Other movements £m	At 31 Mar 2002 £m
Cash at bank and in hand	1	(1)	-	-	-
Bank overdrafts	(8)	(28)	-	-	(36)
		(29)			
Current asset investments	58	(55)	-	-	3
Borrowings due within one year	(2012)	1,576	(476)	(4)	(916)
Borrowings due after one year	(3,370)	(1,276)	476	(58)	(4,228)
		300			
	(5,331)	216	-	(62)	(5,177)
	At 1 Apr 2002 £m	Cash flow £m	Non-cash movements £m	Other movements £m	At 31 Mar 2003 £m
Cash at bank and in hand	-	-	-	-	-
Bank overdrafts	(36)	23	-	-	(13)
		23			
Current asset investments	3	4	-	-	7
Borrowings due within one year	(916)	395	(543)	(12)	(1,076)
Borrowings due after one year	(4,228)	(387)	543	(10)	(4,082)
		8			
	(5,177)	35	-	(22)	(5,164)

23. Related party transactions

Prior to 23 October 2000 Transco was a member of BG Group, between 23 October 2000 and 21 October 2002, Transco was a member of the Lattice Group and from 21 October 2002 a member of the National Grid Transco. As explained in note 24, Transco plc continues to provide certain financial and performance guarantees to BG Group companies on an arm's length basis.

Transactions between Transco and its subsidiary undertakings and other subsidiary undertakings, joint ventures and associated undertakings of National Grid Transco from 21 October 2002, Lattice Group plc between 23 October 2000 and 21 October 2002, and BG Group plc prior to 23 October 2000, were as follows:

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March 2002)	Transco 2003 £m	Transco 2002 £m
Sales:		
Supply of common services and materials	42	6
Investment in subsidiary undertaking	-	10
Tangible fixed assets	1	26
Purchases of services:		
Pension costs other than payments to the Group Pension schemes	42	50
Corporate services	27	47
Insurance premiums and services	14	19
Property rentals and services	27	29
Technical services	37	56
Vehicle leasing and management	32	47
Operational services	22	-
Purchase of tangible fixed assets:		
Motor vehicles and office equipment	24	48
Construction services	169	5

Charges are determined on an arm's length basis or by direct recharge of costs incurred and are ordinarily settled one month in arrears. There were no amounts written-off in the year in respect of debts due to or from related parties (15 months ended 31 March 2002: £nil).

Amounts owed by other National Grid Transco group undertakings are shown in note 13 and amounts owed to other National Grid Transco group undertakings are shown in notes 14 and 16.

24. Commitments and contingencies

a) Future capital expenditure

As at 31 March 2003, Transco had placed contracts for capital expenditure (tangible fixed assets) amounting to £148m (2002: £170m).

b) Lease commitments

At 31 March 2003, Transco's operating lease commitments for the financial year ending 31 March 2004 amounted to £27m (2002: £22m) and are analysed by lease expiry date as follows:

At 31 March	Land and buildings		Other		Total	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Expiring:						
In one year or less	2	-	5	2	7	2
In more than one year, but not more than five years	-	3	7	8	7	11
In more than five years	13	9	-	-	13	9
	15	12	12	10	27	22

Transco's commitments under non-cancellable operating leases were payable as follows:

At 31 March	2003 £m	2002 £m
Amounts:		
In one year or less	27	22
In more than one year, but not more than two years	20	18
In more than two years, but not more than three years	14	11
In more than three years, but not more than four years	13	10
In more than four years, but not more than five years	13	9
In more than five years	87	63
	174	133

c) Third party contingencies

Transco has outstanding BG Group related commitments and contingencies amounting to £13m at 31 March 2003 (2002: £441m), arising from the restructuring of BG Group in 1999. BG Group has been working with Transco since early 1999 to remove all the relevant guarantees or to find an alternative guarantor which is not part of Transco. For any guarantees that have not been replaced, Transco will continue to provide such guarantees on an arm's length basis until they are removed or replaced.

During the year ended 31 March 2003, Transco was released from financial guarantees given as part of the Centrica demerger in 1997 as to the performance by Centrica of certain long-term interruptible gas supply contracts.

d) Other commitments and contingencies

The value of other commitments and contingencies at 31 March 2003 amounted to £73m (2002: £70m), including a performance guarantee of £24m (2002: £26m) relating to certain property obligations of a National Grid Transco group undertaking.

e) Parent company loan guarantees on behalf of subsidiary undertakings

Transco plc has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its financial subsidiary undertakings to third parties. At 31 March 2003, the sterling equivalent amounted to £1,816m (2002: £1,868m).

f) Larkhall prosecution

As a result of a fatal accident in Larkhall, Lanarkshire in December 1999 in which four people died, the Transco plc has been served with proceedings alleging breach of section 3 of the Health and Safety at Work Act 1974. On indictment, the maximum penalty under section 3 is an unlimited fine.

25. Ultimate parent company

Transco plc's immediate parent company is Transco Holdings plc. The ultimate parent company, and controlling party, is National Grid Transco plc, which is registered in England. Both Transco Holdings plc and National Grid Transco plc consolidate the accounts of Transco plc. Copies of the consolidated accounts of Transco Holdings plc and copies of the consolidated accounts of National Grid Transco plc may be obtained from the Company Secretary's Office, National Grid Transco plc, 1-3 Strand, London WC2N 5EH.

26. Principal subsidiary undertakings

The principal Group undertakings included in the Group accounts at 31 March 2003 are listed below. These undertakings are wholly owned.

At 31 March 2003	Country of operation and incorporation	Activity
Transco Metering Services Limited	UK	Gas Metering Services
British Transco International Finance B.V.	The Netherlands	Financing
British Transco Finance Inc.	USA	Financing
British Transco Capital Inc.	USA	Financing

27. Amounts determined by apportionment

The following table provides an analysis of those amounts included in the regulatory accounting statements that are not directly attributable to specific businesses and which have been determined by apportionment.

for the 12 months ended 31 March 2003 (2002: 15 months ended 31 March)	Transportation 2003 £m	Metering 2003 £m	Meter Reading 2003 £m	Other 2003 £m	Transco 2003 £m	Transportation 2002 £m	Metering 2002 £m	Meter Reading 2002 £m	Other 2002 £m	Transco 2002 £m
Turnover										
Metering services to shippers (i)	-	-	-	-	-	(18)	18	-	-	-
Operating costs										
Metering and Meter Reading operating costs (ii)	(127)	128	(1)	-	-	(173)	168	5	-	-
Metering and Meter Reading exceptional operating costs	(15)	12	3	-	-	-	-	-	-	-
Other activities operating costs	(13)	-	-	13	-	(7)	-	-	7	-
Total apportioned operating costs	(155)	140	2	13	-	(180)	168	5	7	-
At 31 March	Transportation 2003 £m	Metering 2003 £m	Meter Reading 2003 £m	Other 2003 £m	Transco 2003 £m	Transportation 2002 Restated £m	Metering 2002 Restated £m	Meter Reading 2002 Restated £m	Other 2002 £m	Transco 2002 £m
Debtors – amounts due within one year (iii)										
Trade debtors	(1)	1	-	-	-	(1)	1	-	-	-
Prepayments and accrued income	(3)	3	-	-	-	(2)	2	-	-	-
	(4)	4	-	-	-	(3)	3	-	-	-
Other creditors – amounts due within one year (iii)										
Trade creditors and accruals	23	(21)	(2)	-	-	19	(17)	(2)	-	-
Taxation and social security	16	(15)	(1)	-	-	20	(19)	(1)	-	-
Other creditors	7	(4)	(3)	-	-	3	(3)	-	-	-
Deferred income	19	(19)	-	-	-	18	(18)	-	-	-
	65	(59)	(6)	-	-	60	(57)	(3)	-	-

(i) Transportation turnover for the 3 months to 31 March 2001 deemed as Metering turnover.

(ii) Operating costs apportioned from the Transportation to the Metering and Meter Reading businesses using an activity based costing methodology. The costs of £126m apportioned to the Metering business (15 months ended 31 March 2002: £168m) include the £26m of rates (15 months ended 31 March 2002: £32m) shown in note 3, page 17.

(iii) Debtors and other creditors apportioned from the Transportation to the Metering and Meter Reading businesses. The apportionments are based on the attribution of the income or costs that gave rise to the balances.

As explained in note 13, page 25, and note 14, page 26, the classification of debtors and creditors has been revised. Accordingly, the analysis of apportioned debtors and creditors at 31 March 2002 has been restated to reflect the revised classification.

28. Charges and apportionments

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

28. Charges and apportionments continued

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

28. Charges and apportionments continued

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

28. Charges and apportionments continued

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

28. Charges and apportionments continued

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

28. Charges and apportionments continued

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

28. Charges and apportionments continued

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

Corporate history

Transco plc is a company incorporated in England and Wales on 1 April 1986 under the Companies Act of 1985. It is of infinite duration.

The UK gas industry was nationalised in 1948 and the British Gas Corporation was established in 1973. British Gas was incorporated as a public limited company in April 1986 and the Government sold substantially all of its shareholding in it to the public in December 1986.

In 1997, Centrica, which was then primarily a supplier of gas to end users, was demerged from British Gas which was renamed BG. BG retained the gas transportation and storage businesses, the majority of the exploration and production as well as the international downstream and a number of smaller businesses.

In December 1999, BG completed a financial and restructuring programme which resulted in the creation of a new parent company, BG Group, and involved separating its UK regulated business, Transco, from its other businesses. This created a 'ring-fence' around Transco designed to ensure its financial, organisational and managerial independence. In October 2000, Lattice was demerged from BG Group and comprised Transco, together with start-up telecommunications and non-regulated infrastructure services businesses.

In October 2002, National Grid Group plc merged with Lattice Group plc and was renamed National Grid Transco plc.

Definitions

'£m'	Million pounds sterling.	'Merger'	The merger of National Grid and Lattice which became effective on 21 October 2002.
'affiliate'	National Grid Transco plc or any subsidiary undertaking of National Grid Transco plc other than Transco plc.	'Metering'	The regulated gas metering business of Transco plc.
'Authority, the'	The Gas and Electricity Markets Authority, a role undertaken by Ofgem.	'Meter Reading'	The regulated gas meter reading business of Transco plc.
'BG or BG Group'	BG Group plc and/or its subsidiary undertakings or any of them as the context requires.	'National Grid'	National Grid Group plc and/or its subsidiary undertakings or any of them as the context requires.
'Condition, the'	Amended Standard Condition 30 of Transco plc's Public Gas Transporter's Licence.	'National Grid Transco'	National Grid Transco plc and/or its subsidiary undertakings or any of them as the context requires.
'Demerger'	The demerger of Lattice Group plc from BG Group plc which became effective on 23 October 2000.	'non-Transco business'	Any business of National Grid Transco that is not being undertaken by Transco or a subsidiary undertaking of Transco.
'de-minimis businesses'	Those businesses, other than the regulated Transportation and Storage businesses, which Transco is permitted to undertake by the Licence.	'Ofgem'	The Office of Gas and Electricity Markets.
'Gas Act'	The Gas Act 1986, as amended by the Gas Act 1995.	'Restructuring and Refinancing'	The corporate restructuring and refinancing of BG plc which became effective on 13 December 1999.
'Group'	Transco plc and its subsidiary undertakings.	'LNG Storage'	The regulated LNG storage business of Transco plc.
'Lattice or Lattice Group'	Lattice Group plc and/or its subsidiary undertakings or any of them as the context requires.	'Transco'	The consolidated regulated gas transportation business, regulated storage business and de-minimis businesses of Transco plc.
'Licence, the'	Transco plc's Gas Transporter's Licence issued under the Utilities Act 2000.	'Transco Holdings'	Transco Holdings plc and/or its subsidiary undertakings or any of them as the context requires.
'LNG'	Liquefied natural gas.	'Transportation'	The regulated gas transportation business of Transco plc.
		'Utilities Act'	The Utilities Act 2000.

Transco

1-3 Strand
London
WC2N 5EH

www.transco.uk.com

Registered in England and Wales No. 2006000