

20 May 2004

**National Grid Transco plc**  
**Results for the year ended 31 March 2004**

**Strong growth – underlying earnings per share up 23%**

- underlying profit before tax up 14% to £1,416 million
- delivery of substantial cost savings
- strong underlying cashflow from operations of £3.1 billion
- net debt down to £12.6 billion
- recommended dividend for year up 15%; 7% pa growth targeted until March 2008

Financial highlights	Years ended 31 March		
	2004	2003	% Change
£ million			
<b>Business results *</b>			
Underlying operating profit	2,238	2,185	2
Underlying pre-tax profit	1,416	1,246	14
Underlying earnings	1,064	870	22
Underlying earnings per share	34.7p	28.3p	23
Statutory results			
Operating profit	1,862	1,736	7
Pre-tax profit	1,362	667	104
Earnings	1,099	391	181
Earnings per share	35.8p	12.7p	182
<b>Dividend per share</b>	19.78p	17.20p	15
<b>Net debt (at 31 March)</b>	12,632	13,878	(9)

\* "Business results" represent the primary measures used by management and are presented before goodwill amortisation and exceptional items. Management believes that exclusion of these items provides a better comparison of results. Unless otherwise stated, all financial commentaries in this Announcement are on a "business results basis" and are preceded by the prefix "underlying". Reconciliations of these measures to statutory measures are provided in the Group Profit & Loss Account, notes 5a and 5b and the Group Cash Flow Statement. Further detail is provided on our website ([www.ngtgroup.com](http://www.ngtgroup.com)).

Expenditure on the replacement of UK gas mains ("repex") of £388m in the year (£405m last year) is fully expensed for accounting purposes and is tax deductible. However, for regulatory purposes, half the costs are recovered in current revenues and half are added to the regulatory asset base. The effect of removing half of the repex, net of tax, from earnings is equivalent to increasing earnings per share by 4.4p and 4.6p for each of the annual results shown above, respectively.

# National Grid Transco

## 2003/04 Full Year Results

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### Sir John Parker, Chairman, said:

“These excellent results demonstrate the successful delivery of our strategy and the quality of our operational performance in both the UK and US. We are delighted to deliver over £1 billion in earnings for the first time.

“Our strong financial performance has been matched by our endeavours to operate our business in a responsible manner and we were pleased to be ranked 1<sup>st</sup> in Business in the Community’s 2003 Corporate Responsibility Index.

“Safety and network reliability are, as always, top priorities, and we have invested over £1.8 billion this year in our networks. We have achieved further reductions in safety incidents across the Group, whilst maintaining high standards of service. The power cuts in London and the West Midlands last summer, which we very much regret, are isolated exceptions to an excellent performance, and we are continuing to work with Ofgem on their investigation. Despite these events, our UK electricity reliability performance remains at world class levels – delivering 99.9997% of the energy demanded during the year.

“The sales process for five of our gas distribution networks is proceeding well and we expect final bids this summer. As we made clear from the outset, we will sell no more than four networks and will only proceed if those sales maximise value.

“Our financial strength, as demonstrated by these results, combined with our confidence in the future prospects of our businesses enable the Board to recommend a 15% increase in the dividend this year and to target 7% per annum dividend growth for each of the next four years to March 2008.”

### **NATIONAL GRID TRANSCO plc**

Turnover from continuing activities was broadly unchanged at £8.9 billion.

Underlying operating profits rose by 2% from £2,185m to £2,238m, equivalent to 4% at constant USD/GBP exchange rates. We have delivered significant reductions in controllable costs, improved the performance of Gridcom, and benefited from exiting a number of non-core businesses. A particularly strong operating performance and increased revenues in UK gas distribution more than offset the adverse impact of year to year weather patterns in the US, increased UK pensions costs, and lower profits from the recovery of US stranded costs.

Underlying net interest expense was £822m, down from £939m last year.

Underlying operating profit interest cover was 2.7 times, compared to 2.3 times last year. Interest cover, based on our statutory results was 2.7 times, compared to 1.7 times last year.

Underlying profit before tax was up 14% from £1,246m to £1,416m.

The tax charge on underlying profit for the year was £350m, representing an effective tax rate of 25%.

Underlying earnings were £1,064m, up from £870m last year. Underlying earnings per share were up 23% to 34.7p from 28.3p last year.

Expenditure on the replacement of old metallic gas mains in the UK (“repex”) totalled £388m in the year (£405m last year). For regulatory purposes, half the costs are recovered in current revenues and half are added to the regulatory asset base upon which we earn an allowed return. However, for accounting purposes repex is fully expensed and is tax deductible. In 2004, the effect of removing half of the repex, net of tax, from earnings is equivalent to increasing earnings per share by 4.4p.

## National Grid Transco 2003/04 Full Year Results

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Our businesses remain strongly cash generative, with underlying cashflow from operations for the year broadly unchanged at £3.1 billion.

Capital expenditure on continuing operations, including capitalised interest, was maintained at £1.5 billion and included £136m for investments in our Isle of Grain LNG and Basslink projects.

There were net exceptional gains (including both operating and non-operating exceptional items) totalling £45m before tax, comprising:

- A credit of £226m (before and after tax) representing the realisation of a deferred gain on Energis shares held to redeem the EPIC bond;
- Gains on sales of property and other tangible fixed assets of £96m (before and after tax);
- Restructuring costs of £249m (£170m after tax), including £100m for US distribution and transmission, £101m for UK distribution, £14m for UK transmission, and £34m for other businesses; and
- Recognition of additional UK environmental costs of £28m (before and after tax).

After exceptional gains and goodwill amortisation, basic earnings per share were 35.8p, up from 12.7p last year.

Group net debt was £12.6 billion at 31 March 2004, down £1.2 billion from last year, with the weaker US dollar and EPIC bond redemption contributing £0.7 billion and £0.2 billion respectively to the overall decrease.

### REVIEW OF OPERATIONS

We have delivered our previously promised merger savings and each of our businesses has delivered improvements in operating efficiency, together resulting in substantial cost savings across the Group compared to last year.

The quality of our earnings is underpinned by the length and stability of regulatory frameworks in the US and the UK. In the UK, there have been a number of recent positive developments. Ofgem has confirmed that where additional capital expenditure is demonstrated to be efficiently incurred during the course of a price control period, this will be added to the regulatory asset base and be considered for a retroactive return allowance. In addition, Ofgem is moving to a rolling 5-year cost savings mechanism, aligning the gas and electricity transmission price control reviews in 2007, and moving the gas distribution review to 2008.

### UK GAS DISTRIBUTION

Underlying operating profits from UK gas distribution increased from £554m to £729m, primarily as a result of a £103m reduction in controllable costs and an £84m increase in revenues, somewhat offset by a £23m increase in pension deficit accounting charges.

Over the past two years, the level of controllable costs within the business has been reduced by 20% in real terms, more than half way to our targeted reduction.

The sales process for five of our gas distribution networks is proceeding well and we expect final bids this summer. As we made clear from the outset, we will sell no more than four of our networks and will only proceed if those sales maximise value.

# National Grid Transco

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### **ELECTRICITY AND GAS TRANSMISSION**

Underlying operating profit from UK electricity and gas transmission was £769m compared to £820m last year.

We had strong performance from the UK transmission business during the year and reduced controllable costs by 4% in real terms in line with our targets. The strength of our performance, however, was masked by the implementation of a charging reform (known as "Plugs") which reduced underlying operating profit by £22m. This charge will be more than offset by increased operating profits arising from Plugs in future years. In addition, we incurred an increased depreciation charge of £27m. Despite tougher regulatory targets in both the electricity and the gas system operator (SO) incentive schemes, we delivered operating profits of £52m (down £8m from last year) from these.

In the US, our transmission business delivered underlying operating profits of £133m compared to £128m last year, with one-off benefits more than offsetting the impact of a weaker US dollar.

GridAmerica, the first multi-system independent transmission company in the US, added the operations of Ameren on 1 May 2004 to those already managed for FirstEnergy and Northern Indiana Public Service Company, having received regulatory approvals in March. Together, these assets comprise over 14,000 miles of transmission lines, serving an area almost as large as England and Wales. In addition, the FERC continues to take steps to encourage participation in Regional Transmission Organisations (RTOs) and has recently approved key elements of the New England RTO filing that we made last autumn.

### **US ELECTRICITY AND GAS DISTRIBUTION**

Underlying operating profit from US electricity and gas distribution (excluding stranded cost recovery) was £363m this year, down from £401m last year.

Weather adjusted electricity distribution volumes were up 0.8% (including a 4.6% increase in the important domestic sales), contributing £22m to underlying operating profit, and controllable costs were reduced by a further £12m. Offsetting these benefits were the continued weakness of the dollar (£20m), a return to more normal weather (£27m) and the adverse impact of bad debt (£9m) and other one off items (£16m).

Savings from the integration of our operations in New York and New England continue to be delivered in line with our targets. Over the past two years, we have reduced controllable costs by 10% in real terms. Monthly costs as at March 2004 were running at an annualised reduction of 15%.

As expected, underlying operating profit from US stranded cost recovery declined from £170m to £134m, including a £8m decrease due to the weaker dollar.

### **OTHER BUSINESSES**

Across our other businesses, underlying operating profit for the year was £110m as compared to £112m last year.

Gridcom has cut its costs in the UK while growing revenues in both the UK and US allowing it to deliver underlying operating profits of £6m, a £29m improvement on last year. The continued rapid expansion of the mobile telecoms industry should create significant opportunities for growth.

Our metering business delivered underlying operating profits of £81m, down £24m from last year. The key variances were an increase in the depreciation charge and start-up losses relating to our competitive metering business. Looking ahead, we have successfully secured long-term contracts

## **National Grid Transco 2003/04 Full Year Results**

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including a new pricing structure with gas suppliers, covering substantially all of Transco's domestic meters, to secure a long-term revenue stream.

Last year, we had the benefit of the £10m pension credit and an £8m greater contribution from our electricity joint ventures. Losses at Fulcrum connections were £13m greater than in the previous year. Discontinued businesses, including discontinued joint ventures, had no impact on underlying operating profits, after a loss of £46m in the previous year.

We continue to make good progress on construction of our LNG import terminal at the Isle of Grain and the Basslink project in Australia. As at 31 March 2004, we had invested almost half of our £410m investment programme for these projects which provide us with new growth opportunities in the area of infrastructure development. We expect to complete these projects during 2005.

### **PENSIONS**

As announced at our half-year results, the actuarial valuation of the Lattice Group Pension Scheme as at 31 March 2003, covering current and former UK gas employees and other former Lattice businesses (the "Lattice Scheme"), has been completed. This valuation resulted in an actuarial deficit of £879m before tax (£615m after tax). Going forward, annual assessments of this scheme will be carried out. It has been agreed that funding of this deficit will be deferred until the results of the 2007 actuarial valuation are known. Meanwhile, the Company's cash contributions for the ongoing cost of the Lattice Scheme are being made at a rate of some 22% of pensionable payroll.

A new SSAP 24 actuarial valuation for the Lattice Scheme resulted in a SSAP 24 charge of £144m, compared to £70m last year.

FRS 17 has not yet been implemented and the 2004 accounts have been prepared under SSAP 24. At 31 March 2004, the FRS 17 deficit (net of deferred tax) in respect of all our Group pension schemes was £1,563m, down from £2,262m at 31 March 2003.

### **MANAGEMENT CHANGES**

As previously announced, Rick Sergel will retire as Group Director, US Distribution at our Annual General Meeting on 26 July 2004. Michael Jesanis, currently Chief Operating Officer of our US distribution business, will then join the NGT Board and assume Rick's responsibilities.

### **OUTLOOK AND DIVIDEND POLICY**

With our businesses performing well, we are confident of the future prospects for the Group.

This confidence and the Group's solid financial position reflected in these results allows the Board to recommend a 15% increase in the full year dividend to 19.78p per ordinary share and to target an increase in dividends per ordinary share expressed in sterling of 7% in each financial year to 31 March 2008. A final dividend of 11.87p per ordinary share (\$1.0500 per American Depositary Share (ADS)) will be paid on 23 August 2004 to shareholders on the register on 4 June 2004.

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## CONTACT DETAILS

### National Grid Transco:

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An analyst presentation will be held at Cazenove, 20 Moorgate, London EC2R 6DA at 8:45 am (UK time) today.

### Live telephone coverage of analyst presentation - password National Grid Transco

Dial in number	<b>+44 (0)20 7081 9429</b>
US call in number	<b>+1 800 897 3158</b>

### Telephone replay of the analyst presentation (available until 3 June 2004)

Dial in number	+44 (0)20 7081 9440
Account number	869448
Recording number	6542831

### Live webcast of presentation will also be available at [www.ngtgroup.com](http://www.ngtgroup.com)

Photographs are available on [www.newscast.co.uk](http://www.newscast.co.uk)

#### Cautionary statement

This announcement contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Because these forward-looking statements are subject to assumptions, risks and uncertainties, actual future results may differ materially from those expressed in or implied by such statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond National Grid Transco's ability to control or estimate precisely, such as delays in obtaining or adverse conditions contained in regulatory approvals, competition and industry restructuring, changes in economic conditions, currency fluctuations, changes in interest and tax rates, changes in energy market prices, changes in historical weather patterns, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, technological developments, the failure to retain key management, the availability of new acquisition opportunities or the timing and success of future acquisition opportunities. Other factors that could cause actual results to differ materially from those described in this announcement include the ability to integrate the US and UK businesses acquired by or merged with National Grid Transco or to continue to realise the expected synergies from such integrations, the failure for any reason to achieve reductions in costs or to achieve operational efficiencies, unseasonable weather impacting on demand for electricity and gas, the behaviour of UK electricity market participants on system balancing, the timing of amendments in prices to shippers in the UK gas market, the performance of National Grid Transco's pension schemes and the regulatory treatment of pension costs, the impact of any potential separation and disposal by National Grid Transco of any UK gas distribution network(s) and any adverse consequences arising from outages on or otherwise affecting energy networks owned and/or operated by National Grid Transco. For a more detailed description of these assumptions, risks and uncertainties, together with any other risk factors, please see National Grid Transco's filings with the United States Securities and Exchange Commission (and in particular the "Risk Factors" and "Operating and Financial Review" sections in its most recent annual report on Form 20-F). Recipients are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this announcement. National Grid Transco does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this announcement.

# National Grid Transco

## 2003/04 Full Year Results

<b>GROUP PROFIT AND LOSS ACCOUNT FOR THE YEARS ENDED 31 MARCH</b>		<b>2004</b>	<b>2003</b>
	Notes	<b>£m</b>	<b>£m</b>
Group turnover – continuing operations	2a	<b>8,875</b>	8,833
Group turnover – discontinued operations	2a	<b>158</b>	567
<b>Group turnover</b>		<b>9,033</b>	9,400
Operating costs		<b>(7,178)</b>	(7,788)
Operating profit of Group undertakings – continuing operations	2c	<b>1,855</b>	1,806
Operating loss of Group undertakings – discontinued operations	2c	-	(194)
		<b>1,855</b>	1,612
Share of joint ventures' operating profit – continuing operations	2c	<b>7</b>	15
Share of joint ventures' and associate's operating profit – discontinued operations	2c	-	109
		<b>7</b>	124
<b>Operating profit</b>			
- Before exceptional items and goodwill amortisation	2b	<b>2,238</b>	2,185
- Exceptional items	3a	<b>(277)</b>	(347)
- Goodwill amortisation		<b>(99)</b>	(102)
<b>Total operating profit</b>		<b>1,862</b>	1,736
Non-operating exceptional items	3b	<b>322</b>	(99)
Net interest			
- Excluding exceptional items	4	<b>(822)</b>	(939)
- Exceptional items	4	-	(31)
		<b>(822)</b>	(970)
<b>Profit on ordinary activities before taxation</b>			
- Before exceptional items and goodwill amortisation		<b>1,416</b>	1,246
- Exceptional items and goodwill amortisation		<b>(54)</b>	(579)
		<b>1,362</b>	667
Taxation			
- Excluding exceptional items		<b>(350)</b>	(373)
- Exceptional items	3d	<b>89</b>	128
		<b>(261)</b>	(245)
<b>Profit on ordinary activities after taxation</b>		<b>1,101</b>	422
Minority interests			
- Excluding exceptional items		<b>(2)</b>	(3)
- Exceptional items	3e	-	(28)
		<b>(2)</b>	(31)
<b>Profit for the year</b>			
- Before exceptional items and goodwill amortisation		<b>1,064</b>	870
- Exceptional items and goodwill amortisation		<b>35</b>	(479)
		<b>1,099</b>	391
Dividends	6	<b>(609)</b>	(530)
Profit/(loss) transferred to/(from) profit and loss account reserve		<b>490</b>	(139)

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## EARNINGS AND DIVIDENDS PER ORDINARY SHARE FOR THE YEAR ENDED 31 MARCH

		2004	2003
	Notes	Pence =====	Pence =====
Basic (including exceptional items and goodwill amortisation)	5a	35.8	12.7
Adjusted basic (excluding exceptional items and goodwill amortisation)	5a	34.7	28.3
Dividends per ordinary share	6	19.78	17.20

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEARS ENDED 31 MARCH

	2004	2003
	£m =====	£m =====
<b>Profit for the year</b>	<b>1,099</b>	391
Exchange adjustments	(417)	(322)
Tax on exchange adjustments	(12)	12
Unrealised gain on transfer of fixed assets to a joint venture (net of tax)	-	6
<b>Total recognised gains and losses</b>	<b>670</b> =====	87 =====

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## 2003/04 Full Year Results

### GROUP BALANCE SHEET AT 31 MARCH

	2004	2003 (restated)
	£m	£m
	=====	=====
<b>Fixed assets</b>		
Intangible assets	1,537	1,893
Tangible assets	16,706	16,847
Investments in joint ventures	19	44
Other investments	132	170
	<u>18,394</u>	<u>18,954</u>
<b>Current assets</b>		
Stocks	91	126
Debtors (amounts falling due within one year)	1,588	1,811
Debtors (amounts falling due after more than one year)	2,708	3,395
Assets held for exchange	-	17
Cash and investments	616	601
	<u>5,003</u>	<u>5,950</u>
<b>Creditors (amounts falling due within one year)</b>	<u>(4,513)</u>	<u>(5,046)</u>
<b>Net current assets</b>	<u>490</u>	<u>904</u>
<b>Total assets less current liabilities</b>	<u>18,884</u>	<u>19,858</u>
<b>Creditors (amounts falling due after more than one year)</b>	<u>(13,464)</u>	<u>(14,255)</u>
<b>Provisions for liabilities and charges</b>	<u>(4,157)</u>	<u>(4,406)</u>
<b>Net assets employed</b>	<u>1,263</u>	<u>1,197</u>
	=====	=====
<b>Capital and reserves</b>		
Called up share capital	309	308
Share premium account	1,280	1,247
Other reserves	(5,131)	(5,131)
Profit and loss account	4,755	4,689
	<u>1,213</u>	<u>1,113</u>
<b>Equity shareholders' funds</b>	<u>1,213</u>	<u>1,113</u>
Minority interests	50	84
	<u>1,263</u>	<u>1,197</u>
<b>Total shareholders' funds</b>	<u>1,263</u>	<u>1,197</u>
	=====	=====
Net debt included above	<u>12,632</u>	<u>13,878</u>

# National Grid Transco

## 2003/04 Full Year Results

<b>GROUP CASH FLOW STATEMENT FOR THE YEARS ENDED 31 MARCH</b>		<b>2004</b>	<b>2003</b>
	Notes	<b>£m</b>	<b>£m</b>
		=====	=====
<b>Net cash inflow from operating activities before exceptional items</b>	7	<b>3,058</b>	3,154
Expenditure relating to exceptional items		<b>(248)</b>	(328)
<b>Net cash inflow from operating activities</b>		<b>2,810</b>	2,826
<b>Dividends from joint ventures</b>		<b>8</b>	11
<b>Net cash outflow for returns on investments and servicing of finance</b>		<b>(692)</b>	(912)
<b>Taxation</b>			
Net corporate tax paid		<b>(18)</b>	(112)
<b>Capital expenditure and financial investment</b>			
Net payments to acquire intangible and tangible fixed assets		<b>(1,400)</b>	(1,518)
Receipts from disposals of tangible fixed assets		<b>146</b>	111
<b>Net cash outflow for capital expenditure and financial investment</b>		<b>(1,254)</b>	(1,407)
<b>Acquisitions and disposals</b>			
Payments to acquire investments		<b>(26)</b>	(165)
Receipts from disposals of investments		<b>33</b>	328
<b>Net cash inflow from acquisitions and disposals</b>		<b>7</b>	163
<b>Equity dividends paid</b>		<b>(560)</b>	(571)
<b>Net cash inflow/(outflow) before the management of liquid resources and financing</b>		<b>301</b>	(2)
<b>Management of liquid resources</b>			
Decrease in short-term deposits	8	<b>(48)</b>	(138)
<b>Net cash outflow for the management of liquid resources</b>		<b>(48)</b>	(138)
<b>Financing</b>			
Issue of ordinary shares		<b>38</b>	4
Payments to repurchase ordinary shares		<b>-</b>	(97)
Termination of cross-currency swaps	8	<b>148</b>	-
(Decrease)/increase in borrowings	8	<b>(426)</b>	267
<b>Net cash (outflow)/inflow (for)/from financing</b>		<b>(240)</b>	174
<b>Movement in cash and overdrafts</b>	8	<b>13</b>	34
		=====	=====

# National Grid Transco

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### NOTES TO THE ACCOUNTS

#### 1. Basis of preparation

The financial information contained in this announcement, which does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985, has been derived from the statutory accounts for the year ended 31 March 2004, which will be filed with the Registrar of Companies in due course. The auditors' report on these accounts is unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

#### New accounting standards

During the year the company has adopted UITF 38 "Accounting for ESOP trusts". The adoption of the standard constitutes a change in accounting policy and therefore the impact has been reflected as a prior year adjustment in accordance with FRS 3. The effect of the adoption of the standard is as follows:

#### Adoption of UITF 38

At 31 March 2003, the Group reported £39m of own shares within fixed asset investments. On adoption of UITF 38, the own shares have been moved out of fixed asset investments and into the profit and loss reserve. The adoption has therefore resulted in a decrease in net assets of £34m at 31 March 2004 and £39m at 31 March 2003.

#### Change in composition of segments

The segmental disclosures for the year ended 31 March 2003 have been restated to reflect the current management responsibilities. The change in segment composition is described in note 2.

This preliminary results announcement was approved by the Board of Directors on 19 May 2004.

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### 2. Segmental analysis

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

#### a) Group turnover

Years ended 31 March	2004 £m	2003 (restated) £m
	=====	=====
<i>Continuing operations</i>		
UK gas distribution	2,245	2,089
UK electricity and gas transmission	1,867	1,893
US electricity transmission	318	407
US electricity distribution	3,537	3,446
US gas distribution	464	446
Other activities	906	922
Sales between businesses	(462)	(370)
	<u>8,875</u>	<u>8,833</u>
<i>Discontinued operations</i>	158	586
Sales between businesses	-	(19)
	<u>158</u>	<u>567</u>
	<u>9,033</u>	<u>9,400</u>
	=====	=====
UK	4,736	5,096
US	4,297	4,304
	<u>9,033</u>	<u>9,400</u>
	=====	=====

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## 2. Segmental analysis (continued)

### b) Operating profit – before exceptional items and goodwill amortisation

Years ended 31 March	2004	2003 (restated)
	£m	£m
	=====	=====
<i>Group undertakings – continuing operations</i>		
UK gas distribution	729	554
UK electricity and gas transmission	769	820
US electricity transmission	133	128
US electricity distribution	449	513
US gas distribution	48	58
Other activities	103	143
	<hr/>	<hr/>
	2,231	2,216
<i>Discontinued operations</i>	-	(26)
	<hr/>	<hr/>
Operating profit of Group undertakings	2,231	2,190
	<hr/>	<hr/>
<i>Joint ventures -</i>		
<i>Continuing operations</i>	7	15
<i>Discontinued operations</i>	-	(20)
	<hr/>	<hr/>
Operating profit/(loss) of joint ventures	7	(5)
	<hr/>	<hr/>
	2,238	2,185
	=====	=====
UK	1,600	1,481
US	632	704
Latin America	-	(7)
Rest of the World	6	7
	<hr/>	<hr/>
	2,238	2,185
	=====	=====

# National Grid Transco 2003/04 Full Year Results

## 2. Segmental analysis (continued)

### c) Operating profit – after exceptional items and goodwill amortisation

Years ended 31 March

	2004	2003 (restated)
	£m	£m
	=====	=====
<i>Group undertakings – continuing operations</i>		
UK gas distribution	640	443
UK electricity and gas transmission	755	774
US electricity transmission	105	103
US electricity distribution	294	413
US gas distribution	37	49
Other activities	24	24
	<hr/>	<hr/>
	1,855	1,806
<i>Discontinued operations</i>	-	(194)
	<hr/>	<hr/>
Operating profit of Group undertakings	1,855	1,612
	<hr/>	<hr/>
<i>Joint ventures -</i>		
<i>Continuing operations</i>	7	15
<i>Discontinued operations</i>	-	109
	<hr/>	<hr/>
Operating profit of joint ventures	7	124
	<hr/>	<hr/>
	1,862	1,736
	=====	=====
UK	1,440	1,051
US	416	549
Latin America	-	128
Rest of the World	6	8
	<hr/>	<hr/>
	1,862	1,736
	=====	=====

# National Grid Transco 2003/04 Full Year Results

## 3. Exceptional items

### a) Operating

Years ended 31 March	2004 £m	2003 £m
	=====	=====
<i>Continuing operations</i>		
Restructuring costs (i)	249	203
Environmental provision (ii)	28	-
Merger costs (iii)	-	105
	<u>277</u>	<u>308</u>
<i>Discontinued operations</i>		
Restructuring costs (i)	-	6
Impairment of investments in joint ventures and associate (iv)	-	(135)
Impairment of business (v)	-	168
	<u>-</u>	<u>39</u>
Total operating exceptional items	<u>277</u>	<u>347</u>
	=====	=====

- i) The 2004 restructuring costs consist of £24m of costs associated with the proposed disposal of UK-based distribution networks and other charges of £225m. The other charges primarily relate to planned cost reduction programmes in the UK and US businesses. The 2003 charges primarily relate to costs incurred in reorganisations in the UK and US businesses (2004: £170m after tax; 2003: £165m after tax).
- ii) Following completion of site investigations in the UK, the environmental obligations in respect of those sites have been adjusted resulting in the recognition of an additional charge of £28m (£28m after tax).
- iii) Represents employee and property costs associated with the Merger in 2003 of National Grid and Lattice (£76m after tax).
- iv) The 2003 credits relate to Intelig and other telecoms joint ventures (£155m after tax). The exceptional credits arising in 2003 substantially represent the reversal of the Group's share of retained losses incurred by these joint ventures during the period from 1 April 2002 to the date of disposal or the date that equity accounting ceased. £129m of the pre-tax exceptional credits have been reflected in "Share of joint ventures' and associate's operating profit/(loss) - discontinued operations".
- v) In 2003, following a review of the carrying value of certain of the Group's telecoms assets, the Group incurred impairment charges that resulted in the write-down of those assets to their estimated recoverable amounts and the recognition of other related costs (£143m after tax).

### b) Non-operating

Years ended 31 March	2004 £m	2003 £m
	=====	=====
<i>Continuing operations</i>		
Profit on disposal of tangible fixed assets (vi)	(96)	(48)
Merger costs (vii)	-	79
	<u>(96)</u>	<u>31</u>
<i>Discontinued operations</i>		
Gain on assets held for exchange (viii)	(226)	-
Loss on sale or termination of operations (ix)	-	68
	<u>(226)</u>	<u>68</u>
Total non-operating exceptional items	<u>(322)</u>	<u>99</u>
	=====	=====

- vi) The after tax profit on disposal of tangible fixed assets was £96m (2003: £50m).
- vii) The after tax transaction cost of the Merger between National Grid and Lattice in 2003 was £71m.
- viii) The gain on assets held for exchange relates to the profit recognised on Energis shares delivered to Equity Plus Income Convertible Securities (EPICs) bondholders on 6 May 2003 in settlement of all EPICs outstanding at that date that had a carrying value of £243m. This transaction represents the culmination of a deferred sale arrangement entered into in February 1999. The after tax gain on assets held for exchange was £226m.
- ix) The charges for 2003 relate to losses on the sale of The Leasing Group £45m and loss on closure of 186k of £23m. The after tax loss relating to the 2003 sale and closure amounted to £68m.

# National Grid Transco 2003/04 Full Year Results

## 3. Exceptional items (continued)

### c) Financing costs

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

### d) Taxation

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

### e) Minority interests

The 2003 exceptional minority interest charge of £28m related to the Group's share of the minority interest in the after taxation exceptional items of Citelec, a joint venture, and primarily reflected the minority interest's share of the gain on net monetary liabilities referred to in note 3(c).

## 4. Net interest

### Years ended 31 March

	2004 £m	2003 £m
	=====	=====
Interest payable and similar charges	920	981
Unwinding of discount on provisions	11	13
Interest capitalised	(55)	(28)
	-----	-----
Interest payable and similar charges net of interest capitalised	876	966
Interest receivable and similar income	(58)	(55)
	-----	-----
	818	911
Joint ventures (2003 includes exceptional net interest of £31m net of interest capitalised £1m)	4	59
	-----	-----
	822	970
	=====	=====
Comprising:		
Net interest, excluding exceptional net interest	822	939
Exceptional net interest (note 3(c))	-	31
	-----	-----
Net interest, including exceptional net interest	822	970
	=====	=====

# National Grid Transco 2003/04 Full Year Results

## 5. Earnings per share and adjusted profit on ordinary activities before taxation

### a) Earnings per share

	Year ended 31 March 2004		
	Earnings per share pence	Profit for the year £m	Weighted average number of shares million
<b>Basic, including exceptional items and goodwill amortisation</b>	<b>35.8</b>	<b>1,099</b>	<b>3,070</b>
Exceptional operating items (note 3(a))	9.0	277	-
Exceptional non-operating items (note 3(b))	(10.4)	(322)	-
Exceptional tax credit (note 3(d))	(2.9)	(89)	-
Goodwill amortisation	3.2	99	-
<b>Adjusted basic, excluding exceptional items and goodwill amortisation</b>	<b>34.7</b>	<b>1,064</b>	<b>3,070</b>
Dilutive impact of employee share options	(0.1)	-	7
<b>Adjusted diluted, excluding exceptional items and goodwill amortisation</b>	<b>34.6</b>	<b>1,064</b>	<b>3,077</b>
Exceptional operating items (note 3(a))	(9.0)	(277)	-
Exceptional non-operating items (note 3(b))	10.4	322	-
Exceptional tax credit (note 3(d))	2.9	89	-
Goodwill amortisation	(3.2)	(99)	-
<b>Diluted, including exceptional items and goodwill amortisation</b>	<b>35.7</b>	<b>1,099</b>	<b>3,077</b>

	Year ended 31 March 2003		
	Earnings per share pence	Profit for the year £m	Weighted average number of shares million
<b>Basic, including exceptional items and goodwill amortisation</b>	<b>12.7</b>	<b>391</b>	<b>3,078</b>
Exceptional operating items (note 3(a))	11.3	347	-
Exceptional non-operating items (note 3(b))	3.2	99	-
Exceptional financing charge (note 3(c))	1.0	31	-
Exceptional tax credit (note 3(d))	(4.1)	(128)	-
Exceptional minority interest (note 3(e))	0.9	28	-
Goodwill amortisation	3.3	102	-
<b>Adjusted basic, excluding exceptional items and goodwill amortisation</b>	<b>28.3</b>	<b>870</b>	<b>3,078</b>
Dilutive impact of employee share options	(0.1)	-	10
Dilutive impact of 4.25% Exchangeable Bonds	(0.3)	22	110
<b>Adjusted diluted, excluding exceptional items and goodwill amortisation</b>	<b>27.9</b>	<b>892</b>	<b>3,198</b>
Exceptional operating items (note 3(a))	(10.9)	(347)	-
Exceptional non-operating items (note 3(b))	(3.1)	(99)	-
Exceptional financing charge (note 3(c))	(1.0)	(31)	-
Exceptional tax credit (note 3(d))	4.0	128	-
Exceptional minority interest (note 3(e))	(0.9)	(28)	-
Goodwill amortisation	(3.2)	(102)	-
<b>Diluted, including exceptional items and goodwill amortisation</b>	<b>12.8</b>	<b>413</b>	<b>3,198</b>

In respect of the year ended 31 March 2003, the potential ordinary shares related to the 4.25% Exchangeable Bonds are dilutive, as they would decrease earnings from continuing operations. Consequently, the diluted earnings per share are higher than basic earnings per share because of the effect of losses arising from discontinued operations.

# National Grid Transco

## 2003/04 Full Year Results

### 5. Earnings per share and adjusted profit on ordinary activities before taxation (continued)

#### b) Reconciliation of adjusted profit on ordinary activities before taxation to basic profit on ordinary activities before taxation

Years ended 31 March	2004 £m	2003 £m
	=====	=====
Profit on ordinary activities before taxation	1,362	667
Exceptional operating items (note 3(a))	277	347
Exceptional non-operating items (note 3(b))	(322)	99
Exceptional financing charge (note 3(c))	-	31
Goodwill amortisation	99	102
	-----	-----
Adjusted profit on ordinary activities before taxation	1,416	1,246
	=====	=====

### 6. Dividends

The National Grid Transco plc dividends for the year ended 31 March 2004 of £609m (2003: £530m) have been calculated on the basis of the number of National Grid Transco plc ordinary shares in issue and eligible for dividend, based on an ordinary interim dividend per share of 7.91p (2003: 6.86p) and the proposed final 2004 dividend per share of 11.87p (2003: 10.34p). Total dividend per share for the year ended 31 March 2004 was 19.78p (2003: 17.20p).

### 7. Reconciliation of operating profit to net cash inflow from operating activities before exceptional items

Years ended 31 March	2004 £m	2003 £m
	=====	=====
Operating profit of Group undertakings	1,855	1,612
Group exceptional operating items	277	476
Depreciation and amortisation	1,117	1,088
Increase in working capital	(96)	(6)
Decrease in provisions	(95)	(16)
	-----	-----
Net cash inflow from operating activities before exceptional items	3,058	3,154
	=====	=====

# National Grid Transco

## 2003/04 Full Year Results

### 8. Reconciliation of net cash flow to movement in net debt

Years ended 31 March	2004 £m	2003 £m
	=====	=====
Movement in cash and overdrafts	13	34
Net cash outflow from the management of liquid resources	48	138
Decrease/(increase) in borrowings	426	(267)
	-----	-----
Change in net debt resulting from cash flows	487	(95)
Disposal of Group undertaking	-	(62)
Exchange adjustments	534	593
Settlement of EPICs (note 3(b))	243	-
Other non-cash movements	(18)	(15)
	-----	-----
Movement in net debt in the year	1,246	421
Net debt at start of year	(13,878)	(14,299)
	-----	-----
Net debt at end of year	(12,632)	(13,878)
	=====	=====

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

### 9. Cash flows from discontinued operations

Included in the Cash Flow Statement are cash flows from discontinued operations as set out below:

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

### 10. Net debt

At 31 March	2004 £m	2003 £m
	=====	=====
Cash and investments	616	601
Short-term debt including bank overdrafts	(1,706)	(2,246)
Long-term debt	(11,542)	(12,233)
	-----	-----
	(12,632)	(13,878)
	=====	=====

# National Grid Transco 2003/04 Full Year Results

## 11. Exchange rates

The Group's results are affected by the exchange rates used to translate the results of its US operations and US dollar transactions. The US dollar to sterling exchange rates applied were:

	2004	2003
	=====	=====
Closing rate applied at year end	1.83	1.58
Average rate applied for the year	1.68	1.59
	=====	=====

## 12. Differences between UK and US Generally Accepted Accounting Principles ("GAAP")

Summarised financial statements on a US GAAP basis will be set out in the Annual Report and Accounts, and details of the principal differences between UK and US GAAP are shown below.

### a) Reconciliation of net income to US GAAP

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

Years ended 31 March	2004	2003
	£m	£m
	=====	=====
Net income under UK GAAP	1,099	391
<i>Adjustments to conform with US GAAP</i>		
Elimination of Lattice pre-acquisition results, measured under UK GAAP	-	293
Merger costs	-	32
Deferred taxation	(24)	7
Pensions	7	35
Share option schemes	(25)	(29)
Fixed assets – purchase of Lattice	(364)	(169)
Impairment of Advantica - goodwill and other intangible assets	(31)	-
Replacement expenditure (net of depreciation)	383	166
Financial instruments	82	40
Carrying value of EPICs liability	(226)	2
Severance and integration costs	-	(110)
Recognition of income	(9)	2
Goodwill	99	70
Restructuring – purchase of Lattice	2	46
Share of joint ventures' adjustments	-	(27)
Other	5	2
	-----	-----
Total US GAAP adjustments	(101)	360
	-----	-----
<b>Net income under US GAAP</b>	<b>998</b>	<b>751</b>
	=====	=====
Basic earnings per share – US GAAP	32.5p	31.9p
Diluted earnings per share – US GAAP	32.4p	31.3p
	=====	=====

# National Grid Transco

## 2003/04 Full Year Results

### 12. Differences between UK and US Generally Accepted Accounting Principles ("GAAP") (continued)

#### (b) Reconciliation of equity shareholders' funds to US GAAP

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

<b>At 31 March</b>	<b>2004</b>	2003
	<b>£m</b>	(restated) £m
	=====	=====
Equity shareholders' funds under UK GAAP	<b>1,213</b>	1,113
<i>Adjustments to conform with US GAAP</i>		
Deferred taxation	<b>(1,868)</b>	(1,593)
Pensions	<b>(1,069)</b>	(1,800)
Ordinary dividends	<b>366</b>	317
Tangible fixed assets – reversal of partial release of impairment provision	<b>(32)</b>	(35)
Fixed assets – impact of Lattice purchase accounting and replacement expenditure	<b>7,318</b>	7,243
Financial instruments	<b>(285)</b>	(253)
Carrying value of EPICs liability	<b>-</b>	243
Severance liabilities	<b>3</b>	3
Recognition of income	<b>(35)</b>	(27)
Regulatory assets	<b>128</b>	241
Goodwill – purchase of Lattice	<b>3,820</b>	3,829
Goodwill – other acquisitions	<b>245</b>	179
Restructuring – purchase of Lattice	<b>(4)</b>	(6)
Share of joint ventures' adjustments	<b>-</b>	(17)
Other	<b>21</b>	(11)
	-----	-----
Total US GAAP adjustments	<b>8,608</b>	8,313
	-----	-----
<b>Equity shareholders' funds under US GAAP</b>	<b>9,821</b>	9,426
	=====	=====