

Group Profit and Loss Account for the years ended 31 March

	Notes	2005 £m	2004 (restated) (i) £m	2003 (restated) (i) £m
Turnover, including share of joint ventures'		8,583	9,104	9,566
Less: share of joint ventures' turnover – continuing operations		(49)	(48)	(73)
Less: share of joint ventures' turnover – discontinued operations		(13)	(23)	(93)
Group turnover – continuing operations before acquisition		8,373	8,875	8,833
Group turnover – acquisition		148	–	–
Group turnover – continuing operations		8,521	8,875	8,833
Group turnover – discontinued operations		–	158	567
Group turnover	2(a)	8,521	9,033	9,400
Operating costs	3	(6,676)	(7,203)	(7,828)
Operating profit of Group undertakings – continuing operations before acquisition		1,829	1,830	1,766
Operating profit of Group undertakings – acquisition		16	–	–
Operating profit of Group undertakings – continuing operations	2(b)	1,845	1,830	1,766
Operating loss of Group undertakings – discontinued operations	2(b)	–	–	(194)
		1,845	1,830	1,572
Share of joint ventures' operating profit – continuing operations	2(b)	6	7	9
Share of joint ventures' operating profit – discontinued operations	2(b)	1	–	115
		7	7	124
Operating profit				
– Before exceptional items and goodwill amortisation	2(b)	2,212	2,213	2,148
– Exceptional items – continuing operations	4(a)	(251)	(277)	(311)
– Exceptional items – discontinued operations	4(a)	–	–	(39)
– Goodwill amortisation		(109)	(99)	(102)
Total operating profit	2(b)	1,852	1,837	1,696
Profit on disposal of tangible fixed assets – continuing operations	4(b)	70	96	48
Profit/(loss) on sale or termination of operations – discontinued operations	4(b)	13	–	(68)
Gain on assets held for exchange – discontinued operations	4(b)	–	226	–
Merger costs – continuing operations	4(b)	–	–	(79)
Net interest				
– Excluding exceptional items	8	(783)	(822)	(939)
– Exceptional items	4(c),8	–	–	(31)
Total interest	8	(783)	(822)	(970)
Profit on ordinary activities before taxation		1,152	1,337	627
Taxation				
– Excluding exceptional items	9	(324)	(350)	(373)
– Exceptional items	4(d),9	79	89	128
Total taxation	9	(245)	(261)	(245)
Profit on ordinary activities after taxation		907	1,076	382
Minority interests				
– Excluding exceptional items		1	(2)	(3)
– Exceptional items	4(e)	–	–	(28)
Total minority interests		1	(2)	(31)
Profit for the year				
– Before exceptional items and goodwill amortisation		1,106	1,039	833
– Exceptional items – operating	4(a)	(251)	(277)	(350)
– Exceptional items – non-operating	4(b)	83	322	(99)
– Exceptional items – financing	4(c)	–	–	(31)
– Exceptional items – taxation	4(d)	79	89	128
– Exceptional items – minority interests	4(e)	–	–	(28)
– Goodwill amortisation		(109)	(99)	(102)
Profit for the year		908	1,074	351
Dividends	10	(731)	(609)	(530)
Profit/(loss) transferred to/(from) profit and loss account reserve	24	177	465	(179)
Earnings per ordinary share				
– Basic, including exceptional items and goodwill amortisation	11	29.5p	35.0p	11.4p
– Adjusted basic, excluding exceptional items and goodwill amortisation	11	35.9p	33.9p	27.1p
– Diluted, including exceptional items and goodwill amortisation	11	29.3p	34.9p	11.6p
– Adjusted diluted, excluding exceptional items and goodwill amortisation	11	35.7p	33.8p	26.7p

(i) During the year ended 31 March 2005, the Group adopted Financial Reporting Standard (FRS) 20 'Share-based Payment' – see note 1 to the Accounts.

The continuing operations of the Group include the results of the four UK gas distribution networks that the Group has agreed to sell. Additional information regarding these networks is shown in note 2 to the Accounts.

The notes on pages 91 to 143 form part of the Accounts.

Balance Sheets at 31 March

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Balance Sheets

	Notes	Group		Company	
		2005 £m	2004 (restated) (i) £m	2005 £m	2004 (restated) (i) £m
Fixed assets					
Intangible assets	12	2,003	1,537	-	-
Tangible assets	13	17,746	16,706	-	-
Investments in joint ventures					
– Share of gross assets		194	395	-	-
– Share of gross liabilities		(177)	(376)	-	-
– Share of net assets		17	19	-	-
Other investments		131	132	2,428	2,275
Total investments	14	148	151	2,428	2,275
		19,897	18,394	2,428	2,275
Current assets					
Stocks	16	101	91	-	-
Debtors (amounts falling due within one year)	17	1,545	1,588	10,697	3,884
Debtors (amounts falling due after more than one year)	17	2,498	2,708	-	-
Current asset investments		570	520	118	6
Cash at bank and in hand		100	96	-	-
		4,814	5,003	10,815	3,890
Creditors (amounts falling due within one year)					
Borrowings		(3,256)	(1,706)	(781)	(388)
Other creditors		(2,892)	(2,807)	(2,233)	(2,056)
	18	(6,148)	(4,513)	(3,014)	(2,444)
Net current (liabilities)/assets					
		(1,334)	490	7,801	1,446
Total assets less current liabilities					
		18,563	18,884	10,229	3,721
Creditors (amounts falling due after more than one year)					
Borrowings		(10,963)	(11,542)	(1,020)	(746)
Other creditors		(1,837)	(1,922)	(8)	(13)
	19	(12,800)	(13,464)	(1,028)	(759)
Provisions for liabilities and charges					
Deferred taxation		(3,036)	(2,944)	-	-
Other provisions		(1,336)	(1,205)	-	-
	22	(4,372)	(4,149)	-	-
Net assets employed					
		1,391	1,271	9,201	2,962
Capital and reserves					
Called up share capital	23	309	309	309	309
Share premium account	24	1,289	1,280	1,289	1,280
Other reserves	24	(5,131)	(5,131)	68	52
Profit and loss account	24	4,892	4,763	7,535	1,321
Equity shareholders' funds					
Minority interests	26	1,359	1,221	9,201	2,962
Equity		10	12	-	-
Non-equity	25	22	38	-	-
		32	50	-	-
		1,391	1,271	9,201	2,962

(i) During the year ended 31 March 2005, the Group adopted FRS 20 'Share-based Payment' – see note 1.

Commitments and contingencies are shown in note 29.

The notes on pages 91 to 143 form part of the Accounts which were approved by the Board of Directors on 18 May 2005 and were signed on its behalf by:

Sir John Parker Chairman

Steve Lucas Group Finance Director

Group Cash Flow Statement for the years ended 31 March

	Notes	2005 £m	2004 £m	2003 £m
Net cash inflow from operating activities before exceptional items	27(a)	3,103	3,058	3,154
Expenditure relating to exceptional items		(194)	(248)	(328)
Net cash inflow from operating activities		2,909	2,810	2,826
Dividends from joint ventures		5	8	11
Returns on investments and servicing of finance				
Interest received and similar income		75	137	56
Interest paid and similar charges		(830)	(823)	(957)
Dividends paid to minority interests		(3)	(6)	(11)
Net cash outflow for returns on investments and servicing of finance		(758)	(692)	(912)
Taxation				
Net corporate tax paid		(150)	(18)	(112)
Capital expenditure and financial investment				
Net payments to acquire intangible and tangible fixed assets		(1,354)	(1,400)	(1,518)
Receipts from disposals of tangible fixed assets		92	146	111
Net cash outflow for capital expenditure and financial investment		(1,262)	(1,254)	(1,407)
Acquisitions and disposals				
Payments to acquire Group undertakings		(1,151)	–	–
Less: Cash acquired with Group undertaking		29	–	–
		(1,122)	–	–
Payments to acquire investments	27(c)	(16)	(26)	(165)
Receipts from disposals of investments	27(b)	8	33	328
Net cash (outflow)/inflow for acquisitions and disposals		(1,130)	7	163
Equity dividends paid		(628)	(560)	(571)
Net cash (outflow)/inflow before the management of liquid resources and financing		(1,014)	301	(2)
Management of liquid resources				
Increase in short-term deposits		(54)	(48)	(138)
Net cash outflow from the management of liquid resources	27(d),(e)	(54)	(48)	(138)
Financing				
Issue of ordinary shares		13	38	4
Payments to repurchase ordinary shares		–	–	(97)
Termination of cross currency swaps	27(d)	–	148	–
Increase/(decrease) in borrowings	27(d),(e)	1,068	(426)	267
Net cash inflow/(outflow) from financing		1,081	(240)	174
Movement in cash and overdrafts	27(d),(e)	13	13	34

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

	2005 £m	2004 £m	2003 £m
Net cash inflow/(outflow) from operating activities	–	5	(70)
Net cash outflow for returns on investments and servicing of finance	–	(2)	(14)
Net cash (outflow)/inflow 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)

Liquid resources comprise money market deposits, equities and gilts.

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

	2005 £m	2004 (restated) (i) £m	2003 (restated) (i) £m
Profit for the year	908	1,074	351
Exchange adjustments	(73)	(417)	(322)
Tax on exchange adjustments	–	(12)	12
Unrealised gain on transfer of fixed assets to a joint venture (net of tax)	–	–	6
Total recognised gains and losses relating to the year	835	645	47
Prior year adjustment (i)	(140)	–	–
Total recognised gains and losses since last annual report	695	–	–

(i) During the year ended 31 March 2005, the Group adopted FRS 20 'Share-based Payment' – see note 1.

The notes on pages 91 to 143 form part of the Accounts.

Notes to the Accounts

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Notes to the Accounts: Notes 1 and 2

1. Adoption of Financial Reporting Standard (FRS) 20

During the year, the Group adopted FRS 20 'Share-based Payment'. The adoption of this standard constitutes a change in accounting policy. Therefore, the impact has been reflected as a prior year adjustment in accordance with Financial Reporting Standard 3.

The standard requires that where shares or rights to shares are granted to third parties, including employees, a charge should be recognised in the profit and loss account based on the fair value of the shares at the date the grant of shares or right to shares is made.

For the year ended 31 March 2005, the adoption of FRS 20 has reduced both basic and adjusted operating profit by £16m, reduced basic and adjusted profit for the year by £9m, reduced basic and adjusted earnings per share by 2.9p, and increased net assets employed by £19m.

The effect of the adoption of FRS 20 on prior year comparatives is as follows:

	Year ended 31 March 2004			Year ended 31 March 2003		
	As previously reported £m	Impact of FRS 20 £m	As restated £m	As previously reported £m	Impact of FRS 20 £m	As restated £m
Operating profit						
– Before exceptional items and goodwill amortisation	2,238	(25)	2,213	2,185	(37)	2,148
– After exceptional items and goodwill amortisation	1,862	(25)	1,837	1,736	(40)	1,696
Profit for the year						
– Before exceptional items and goodwill amortisation	1,064	(25)	1,039	870	(37)	833
– After exceptional items and goodwill amortisation	1,099	(25)	1,074	391	(40)	351
Net assets employed	1,263	8	1,271	1,197	8	1,205
Basic earnings per share (pence)						
– Before exceptional items and goodwill amortisation	34.7p	(0.8)p	33.9p	28.3p	(1.2)p	27.1p
– After exceptional items and goodwill amortisation	35.8p	(0.8)p	35.0p	12.7p	(1.3)p	11.4p

The prior year adjustment recorded in the Group Statement of Total Recognised Gains and Losses reflects the cumulative profit and loss impact of FRS 20 at 31 March 2004 of £140m after deferred tax (£148m before deferred tax). The corresponding entry to the pre-tax FRS 20 charge is recorded through the profit and loss account reserve. Therefore, the impact of restatements for FRS 20 on the profit and loss account reserve at 31 March 2004 represents only the deferred tax credit of £8m.

For National Grid Transco plc (the parent company), the adoption of FRS 20 has increased the carrying value of fixed asset investments and net assets at 31 March 2004 by £50m (2003: £27m). The adoption of FRS 20 has had no impact on the profit and loss account of the parent company.

2. Segmental analysis

Segmental information is presented in accordance with the management responsibilities and economic characteristics of the Group's business activities.

As a result of the acquisition of the UK operations of Crown Castle International Corp. (Crown Castle UK) as described in note 15, a new business segment has been presented. The results of Crown Castle UK have been combined with similar activities of the existing operations of the Group and presented as a new segment shown as 'Wireless infrastructure' below. The comparative numbers relating to this segment were previously reported within 'Other activities'.

We have changed the segments in our US operations, combining our US electricity distribution and US gas distribution activities to form a new segment: 'US electricity and gas distribution'. The Directors believe that their economic characteristics are similar as they receive revenues under similar regulatory schemes. We have also created a new 'US stranded cost recoveries' segment in order to enhance the visibility of this activity.

The following table describes the main activities for each business segment:

UK electricity and gas transmission	High-voltage electricity transmission networks and the gas National Transmission System in the UK
US electricity transmission	High-voltage electricity transmission networks and management of electricity transmission operations for other utilities in the US
UK gas distribution	The majority of Britain's gas distribution system
US electricity and gas distribution	Electricity and gas distribution in New York and electricity distribution in New England
US stranded cost recoveries	The recovery of stranded costs from US customers as permitted by regulatory agreements
Wireless infrastructure	Broadcast and mobile telephony infrastructure in the UK and US

'Continuing operations – Other activities' primarily relates to: UK based gas metering activities; our UK liquefied natural gas storage activities; the electricity interconnectors business; and Advantica, the energy technology and systems solutions business.

Included within the continuing operations of the UK gas distribution activity are amounts relating to four gas distribution networks that the Group has agreed to sell. These amounts have been disclosed in the analyses of continuing operations of Group undertakings below as 'Existing businesses – businesses to be disposed'.

Discontinued operations include: the results of Citelec, an Argentinian joint venture, for all years presented and telecom joint ventures in 2003 which are included within the result of joint ventures; and the results of EnMO for 2004 and 2003 together with The Leasing Group and 186k Limited for 2003 which are included within the results of Group undertakings.

The Group assesses the performance of its businesses principally on the basis of operating profit before exceptional items and goodwill amortisation.

2. Segmental analysis (continued)**a) Turnover**

	Total sales 2005	Sales between businesses 2005	Sales to third parties 2005	Total sales 2004 (restated) £m	Sales between businesses 2004 (restated) £m	Sales to third parties 2004 (restated) £m	Total sales 2003 (restated) £m	Sales between businesses 2003 (restated) £m	Sales to third parties 2003 (restated) £m
Turnover, including share of joint ventures'									
– continuing operations	9,063	493	8,570	9,385	462	8,923	9,276	370	8,906
– discontinued operations	13	–	13	181	–	181	679	19	660
Less: share of joint ventures' turnover									
– continuing operations	(49)	–	(49)	(48)	–	(48)	(73)	–	(73)
– discontinued operations	(13)	–	(13)	(23)	–	(23)	(93)	–	(93)
Group turnover	9,014	493	8,521	9,495	462	9,033	9,789	389	9,400
Continuing operations									
UK electricity and gas transmission	1,930	37	1,893	1,867	35	1,832	1,893	29	1,864
US electricity transmission	283	45	238	318	48	270	407	5	402
UK gas distribution	2,215	135	2,080	2,245	120	2,125	2,089	47	2,042
US electricity and gas distribution	3,114	2	3,112	3,494	1	3,493	3,306	1	3,305
US stranded cost recoveries	420	–	420	507	–	507	586	–	586
Wireless infrastructure	208	–	208	72	–	72	61	–	61
Other activities	844	274	570	834	258	576	861	288	573
	9,014	493	8,521	9,337	462	8,875	9,203	370	8,833
Discontinued operations	–	–	–	158	–	158	586	19	567
Group turnover	9,014	493	8,521	9,495	462	9,033	9,789	389	9,400
UK			4,723			4,736			5,096
US			3,798			4,297			4,304
			8,521			9,033			9,400
Continuing operations of Group undertakings comprise:									
Existing businesses									
– businesses to be disposed	1,102	73	1,029	1,115	63	1,052	1,031	24	1,007
– other	7,764	420	7,344	8,222	399	7,823	8,172	346	7,826
Acquisition (Crown Castle UK)	148	–	148	–	–	–	–	–	–
	9,014	493	8,521	9,337	462	8,875	9,203	370	8,833

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

Approximately 14% (2004: 15%) of the Group's turnover for the year ended 31 March 2005 amounting to approximately £1.2bn (2004: £1.4bn) derives from a single customer, the Centrica Group. The majority of this turnover is in the UK gas distribution segment with lesser amounts in other activities and the UK electricity and gas transmission segment.

b) Operating profit

	Operating profit					
	Before exceptional items and goodwill amortisation			After exceptional items and goodwill amortisation		
	2005 £m	2004 (restated) £m	2003 (restated) £m	2005 £m	2004 (restated) £m	2003 (restated) £m
Group undertakings – continuing operations						
UK electricity and gas transmission	809	759	809	807	745	763
US electricity transmission	123	133	128	102	105	103
UK gas distribution	570	716	547	390	627	436
US electricity and gas distribution	374	362	401	286	194	290
US stranded cost recoveries	121	134	170	121	136	172
Wireless infrastructure	46	6	(23)	10	(6)	(50)
Other activities	162	96	147	129	29	52
	2,205	2,206	2,179	1,845	1,830	1,766
Group undertakings – discontinued operations	–	–	(26)	–	–	(194)
Operating profit of Group undertakings	2,205	2,206	2,153	1,845	1,830	1,572
Joint ventures – continuing operations (electricity activities)	6	7	9	6	7	9
Joint ventures – discontinued operations	1	–	(14)	1	–	115
Operating profit/(loss) of joint ventures	7	7	(5)	7	7	124
Total operating profit	2,212	2,213	2,148	1,852	1,837	1,696
UK	1,583	1,576	1,444	1,336	1,416	1,011
US	623	631	704	510	415	549
Latin America	1	–	(7)	1	–	128
Rest of the World	5	6	7	5	6	8
	2,212	2,213	2,148	1,852	1,837	1,696

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

	Operating profit					
	Before exceptional items and goodwill amortisation			After exceptional items and goodwill amortisation		
	2005 £m	2004 (restated) £m	2003 (restated) £m	2005 £m	2004 (restated) £m	2003 (restated) £m
Continuing operations of Group undertakings comprise:						
Existing businesses						
– businesses to be disposed	345	407	326	271	351	269
– other	1,821	1,799	1,853	1,558	1,479	1,497
Acquisition (Crown Castle UK)	39	–	–	16	–	–
	2,205	2,206	2,179	1,845	1,830	1,766

c) Information relating to businesses to be disposed

Included within the continuing operations of the UK gas distribution activity are the following amounts relating to four gas distribution networks that the Group has agreed to sell:

	2005 £m	2004 £m	2003 £m
Turnover	1,102	1,115	1,031
Depreciation	(97)	(98)	(90)
Payroll costs	(132)	(133)	(152)
Other operating charges			
– Purchases of gas	(28)	(20)	(25)
– Rates and property taxes	(84)	(82)	(89)
– Replacement expenditure	(235)	(201)	(199)
– Exceptional operating items	(74)	(56)	(57)
– Other non-exceptional operating charges	(181)	(174)	(150)
	(602)	(533)	(520)
Operating profit	271	351	269

The above results include shared service centre expenditure in 2005 of £27m (2004: £27m; 2003: £28m) that will continue to be recharged for a period of 18 months following completion of the sales.

d) Total and net assets

	Total assets		Net assets	
	2005 £m	2004 (restated) £m	2005 £m	2004 (restated) £m
Group undertakings – continuing operations				
UK electricity and gas transmission	6,448	6,284	5,735	5,472
US electricity transmission	1,469	1,539	1,439	1,465
UK gas distribution	5,167	4,928	3,559	3,403
US electricity and gas distribution	5,311	5,423	4,245	4,448
US stranded cost recoveries	2,311	2,598	1,693	1,834
Wireless infrastructure	1,462	156	1,215	103
Other activities	1,818	1,734	898	837
	23,986	22,662	18,784	17,562
Group undertakings – discontinued operations	–	–	–	(7)
Group undertakings	23,986	22,662	18,784	17,555
Joint ventures – continuing operations (electricity activities)	17	19	17	19
Unallocated	708	716	(17,410)	(16,303)
	24,711	23,397	1,391	1,271
UK	14,494	12,846	11,053	9,565
US	9,229	9,679	7,499	7,854
Rest of the World	280	156	249	155
Unallocated	708	716	(17,410)	(16,303)
	24,711	23,397	1,391	1,271
Continuing operations of Group undertakings comprise:				
Existing businesses				
– businesses to be disposed	2,888	2,707	2,075	1,903
– other	19,799	19,955	15,611	15,659
Acquisition (Crown Castle UK)	1,299	–	1,098	–
	23,986	22,662	18,784	17,562

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

2. Segmental analysis (continued)
e) Other segmental information

	Capital expenditure			Depreciation and amortisation		
	2005 £m	2004 (restated) £m	2003 (restated) £m	2005 £m	2004 (restated) £m	2003 (restated) £m
Group undertakings – continuing operations						
UK electricity and gas transmission	522	584	567	279	276	243
US electricity transmission	74	53	49	61	67	71
UK gas distribution	272	293	380	191	195	185
US electricity and gas distribution	234	277	249	254	279	290
US stranded costs recoveries	–	–	–	136	118	103
Wireless infrastructure	19	2	7	54	9	18
Other activities	310	272	173	157	173	152
	1,431	1,481	1,425	1,132	1,117	1,062
Group undertakings – discontinued operations	–	–	95	–	–	26
Group undertakings	1,431	1,481	1,520	1,132	1,117	1,088
UK	981	1,071	1,172	675	644	613
US	312	332	298	457	473	475
Rest of the World	138	78	50	–	–	–
	1,431	1,481	1,520	1,132	1,117	1,088
Continuing operations of Group undertakings comprise:						
Existing businesses						
– businesses to be disposed	152	168	211	97	98	90
– others	1,265	1,313	1,214	989	1,019	972
Acquisition (Crown Castle UK)	14	–	–	46	–	–
	1,431	1,481	1,425	1,132	1,117	1,062

Capital expenditure comprises additions to tangible and intangible fixed assets (excluding goodwill) amounting to £1,431m (2004: £1,479m; 2003: £1,519m) and £nil (2004: £2m; 2003: £1m) respectively.

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

Depreciation and amortisation includes amortisation of goodwill of £109m (2004: £99m; 2003: £102m). Amortisation of goodwill has arisen in the following segments: US electricity transmission £18m (2004: £19m; 2003: £21m); US electricity and gas distribution £68m (2004: £75m; 2003: £81m); Wireless infrastructure £23m (2004: £4m; 2003: £nil); and Other activities £nil (2004: £1m; 2003: £nil).

3. Operating costs

	Continuing operations			Discontinued operations			Total		
	2005 £m	2004 (restated) £m	2003 (restated) £m	2005 £m	2004 £m	2003 £m	2005 £m	2004 (restated) £m	2003 (restated) £m
Total operating costs	6,676	7,045	7,067	-	158	780	6,676	7,203	7,847
Charged from discontinued operations	-	-	(19)	-	-	-	-	-	(19)
External operating costs	6,676	7,045	7,048	-	158	780	6,676	7,203	7,828
Depreciation	860	866	825	-	-	26	860	866	851
Payroll costs (note 5(a))	941	1,045	1,130	-	-	14	941	1,045	1,144
Other operating charges:									
- Purchases of electricity	1,678	1,998	1,901	-	-	-	1,678	1,998	1,901
- Purchases of gas	385	371	357	-	-	-	385	371	357
- Rates and property taxes	490	516	537	-	-	-	490	516	537
- Electricity transmission services scheme direct costs	301	277	252	-	-	-	301	277	252
- EnMO direct costs	-	-	-	-	158	530	-	158	530
- Replacement expenditure	474	388	405	-	-	-	474	388	405
- Exceptional operating items (note 4)	251	277	311	-	-	168	251	277	479
- Other non-exceptional operating charges	1,296	1,307	1,330	-	-	42	1,296	1,307	1,372
	4,875	5,134	5,093	-	158	740	4,875	5,292	5,833
	6,676	7,045	7,048	-	158	780	6,676	7,203	7,828
Operating costs (except where otherwise noted) include:									
Research and development costs							9	10	18
Operating lease rentals									
- Plant and machinery							23	27	16
- Other							69	45	52
Amortisation of intangible fixed assets (i)							109	101	105
Amortisation of regulatory assets (ii)							163	150	132
Auditors' remuneration:									
Statutory audit services									
- Annual audit (audit fee for the Company was £9,100 (2004: £8,700; 2003: £8,500))							5	4	3
- Regulatory reporting							1	1	1
Further audit related services (iii)							1	2	3
Tax compliance and advisory services							1	1	3
Other non-audit services (iv)							-	2	3

- (i) Includes the amortisation of goodwill amounting to £109m (2004: £99m; 2003: £102m) and amortisation of negative goodwill amounting to £nil (2004: £nil; 2003: £4m).
- (ii) Excludes the amortisation of regulatory assets relating to purchased power contracts which are included within 'Purchases of electricity' amounting to £56m (2004: £64m; 2003: £88m).
- (iii) £0.1m (2004: £1.5m) of assurance services were provided in respect of the separation of UK-based distribution networks. Also included are £nil (2004: £nil; 2003: £2m) of fees related to the Merger which were reflected within non-operating exceptional items.
- (iv) For the year ended 31 March 2004 other non-audit services of £2m related to vendor due-diligence work associated with the gas distribution network sales. For the year ended 31 March 2003, other non-audit services included £2m in relation to services provided by the consulting business unit of PricewaterhouseCoopers which was sold to IBM United Kingdom Limited on 30 September 2002.

For the year ended 31 March 2005, operating costs from continuing operations include £132m relating to an acquired business (Crown Castle UK). These costs comprise depreciation (£26m), payroll costs (£16m), purchases of electricity (£7m), rates and property taxes (£1m), exceptional operating items (£3m) and other non-exceptional operating charges (£79m).

4. Exceptional items

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

a) Operating

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

4. Exceptional items (continued)**a) Operating (continued)**

	2005 £m	2004 £m	2003 (restated) £m
Continuing operations			
Restructuring costs (i)	210	249	203
Environmental provision (ii)	41	28	–
Merger costs (iii)	–	–	108
	251	277	311
Discontinued operations			
Restructuring costs (i)	–	–	6
Impairment of investments in joint ventures (iv)	–	–	(135)
Impairment of business (v)	–	–	168
	–	–	39
Total operating exceptional items	251	277	350

- (i) The 2005 restructuring costs consist of £62m (2004: £24m; 2003: £nil) of costs associated with the proposed disposal of UK-based distribution networks and other charges of £148m (2004: £225m; 2003: £209m). The other charges primarily related to costs incurred in reorganisations in the UK and US businesses, primarily due to cost reduction programmes. The post-tax restructuring costs amounted to £158m (2004: £170m; 2003: £165m).
- (ii) During the year ended 31 March 2005, a review of the environmental provision was undertaken to take into account the impact of recent changes to UK regulations on waste disposal. This review, together with related revisions to the expected expenditure profile, has resulted in a charge in 2005 of £41m (£26m after tax). The 2004 charge of £28m resulted from an adjustment to the carrying value of liabilities following the completion of UK site investigations in that year (£28m after tax).
- (iii) Represented employee and property costs associated with the Merger (£79m after tax).
- (iv) The 2003 credits related to Intelig and other telecoms joint ventures (£155m after tax). The exceptional credits arising in 2003 substantially represented the reversal of the Group's share of retained losses incurred by these joint ventures during the period from 1 April 2002 to the date of disposal or the date that equity accounting ceased. £129m of the pre-tax exceptional credits were reflected in 'Share of joint ventures' 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 (2003: £143m after tax).

b) Non-operating

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

	2005 £m	2004 £m	2003 £m
Continuing operations			
Profit on disposal of tangible fixed assets (vi)	(70)	(96)	(48)
Merger costs (vii)	–	–	79
	(70)	(96)	31
Discontinued operations			
Gain on assets held for exchange (viii)	–	(226)	–
(Profit)/loss on sale or termination of operations (ix)	(13)	–	68
	(13)	(226)	68
Total non-operating exceptional items	(83)	(322)	99

- (vi) The after tax profit on disposal of tangible fixed assets was £69m (2004: £96m; 2003: £50m).
- (vii) The 2003 after tax transaction cost of the Merger was £71m.
- (viii) The gain on assets held for exchange related to the profit recognised on Energis shares delivered to Equity Plus Income Convertible Securities (EPICs) bondholders on 6 May 2003 in settlement of all EPICs outstanding at that date that had a carrying value of £243m. This transaction represented the culmination of a deferred sale arrangement entered into in February 1999. The after tax gain on assets held for exchange was £226m.
- (ix) The credit in 2005 reflects the before and after tax profit on sale of the joint venture investment in Compañía Inversora En Transmision Electrica S.A. (Citelec) of £13m. The charges for 2003 related to losses on the sale of The Leasing Group of £45m and loss on closure of 186k Limited of £23m. The after tax loss relating to the 2003 sale and closure amounted to £68m.

c) Financing costs

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

d) Taxation

The exceptional tax credit of £79m in 2005 includes a credit of £22m associated with the prior period disposal of Energis, a former associate company; a £3m credit associated with the prior period write-down of investments; and a £12m charge relating to the settlement of the liabilities arising from operating the Group's Qualifying Employee Share Ownership Trust. The exceptional tax credit for 2004 of £89m included a net credit amounting to £10m relating to investments disposed of in prior periods.

e) Minority interests

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

5. Payroll costs and employees**a) Payroll costs**

	2005 £m	2004 (restated) £m	2003 (restated) £m
Wages and salaries	990	1,050	1,161
Social security costs	70	79	84
Other pension costs	142	150	117
	1,202	1,279	1,362
Less: Amounts capitalised	(192)	(175)	(158)
Payroll costs included in replacement expenditure	(69)	(59)	(60)
	941	1,045	1,144

b) Number of employees

	31 March 2005 Number	Average 2005 Number	Average 2004 Number	Average 2003 Number
UK	15,841	15,931	16,241	18,399
US	8,554	8,663	9,402	10,120
Rest of the World	11	13	10	14
Continuing operations	24,406	24,607	25,653	28,533
Discontinued operations	–	–	5	407
	24,406	24,607	25,658	28,940

The vast majority of employees in:

- the US are either directly or indirectly employed in the transmission and distribution of electricity or the distribution of gas.
- the UK are either directly or indirectly employed in the transmission and distribution of gas or the transmission of electricity. At 31 March 2005, 2,540 employees were employed in other businesses, of which 733 were in the Wireless infrastructure segment.

In addition to the payroll costs shown above, there were restructuring costs of £210m (2004: £249m; 2003: £209m), primarily in respect of severance costs, which have been included as part of restructuring costs within other operating charges – exceptional items.

6. Directors' emoluments

Details of Directors' emoluments are contained in the auditable part of the Directors' Remuneration Report on pages 74 to 78, which form part of these accounts.

7. Pensions and other post-retirement benefits

Substantially all the Group's employees are members of defined benefit pension schemes. In the UK, the principal schemes are the Lattice Group Pension Scheme, the Electricity Supply Pension Scheme and the Crown Castle UK Pension Scheme.

Lattice Group Pension Scheme

The Lattice Group Pension Scheme provides final salary defined benefits for employees who joined Lattice Group plc prior to 31 March 2002.

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

The latest full actuarial valuation was carried out by Watson Wyatt LLP at 31 March 2003. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.5% and that future real increases in pensionable earnings would be 1.5%. Investments held in respect of pensions before they become payable would average 5.05% real annual rate of return and investments held in respect of pensions after they become payable would average 2.7% real annual rate of return and that pensions would increase at a real annual rate of 0.05%. The aggregate market value of the scheme's assets was £10,141m and the value of the assets represented approximately 92% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2003 on an ongoing basis and allowing for projected increases in pensionable earnings. The actuarial valuation carried out at 31 March 2003 showed that based on long-term financial assumptions the contribution rate required to meet future benefit accrual was 23.7% of pensionable earnings (20.7% employers and 3% employees). This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be no later than 31 March 2006. The ongoing contribution rate does not include an allowance for administration expenses. These contributions are reviewed annually. From 1 April 2004 the rate used for the recovery of administration costs was 1.6% of salary. From 1 April 2005 the rate was 2.6% of salary. Employers are currently, therefore, paying a total contribution rate of 23.3%. The actuarial valuation revealed that the pre-tax deficit was £879m (£615m net of tax) in the defined benefit section on the basis of the funding assumptions adopted by the actuary. An interim annual assessment of the Lattice Scheme was conducted at 31 March 2004. This assessment showed that the deficit has decreased in the defined benefit section on the basis of the funding assumptions adopted by the actuary.

It has been agreed that no funding of the deficit identified in the 2003 actuarial valuation will need to be provided to the scheme until the outcome of an interim actuarial assessment at 31 March 2007 is known. At this point, the Group will pay the gross amount of any deficit up to a maximum amount of £520m (£364m net of tax) into the scheme. Until the 31 March 2007 actuarial valuation has been completed, the Group has arranged for banks to provide the trustees of the Lattice Scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which would imperil the interests of the scheme, such as Transco plc, a Group undertaking, becoming insolvent or the Group failing to make agreed payments into the fund.

Electricity Supply Pension Scheme

The Electricity Supply Pension Scheme provides final salary defined benefits on a funded basis. The assets of the scheme are held in a separate trustee administered fund. The scheme is divided into sections, one of which is the Group's section. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

7. Pensions and other post-retirement benefits (continued)

The latest full actuarial valuation was carried out by Hewitt Bacon Woodrow at 31 March 2004. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.9% and that future real increases in pensionable earnings would be 1.0%. Investments held in respect of pensions before they become payable would average 3.8% real annual rate of return and investments held in respect of pensions after they become payable would average 2.8% real annual rate of return and that pensions would increase at a real annual rate of 0.1%. The aggregate market value of the scheme's assets was £1,110m and the value of the assets represented approximately 80.4% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2004 on an ongoing basis and allowing for projected increases in pensionable earnings. The results of the actuarial valuation carried out at 31 March 2004 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 19.1% of pensionable earnings (13.1% employers and 6% employees). This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be no later than 31 March 2007. The actuarial valuation revealed a pre-tax deficit of £272m (£190m net of tax) on the basis of the funding assumptions adopted by the actuary.

It has been agreed that no funding of the deficit identified in the 2004 actuarial valuation will need to be provided to the scheme until the outcome of the actuarial valuation at 31 March 2007 is known. At this point, the Group will pay the gross amount of any deficit up to a maximum amount of £68m (£48m net of tax) into the scheme. Until the 31 March 2007 actuarial valuation has been completed, the Group has arranged for banks to provide the trustees of the National Grid Scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which would imperil the interests of the scheme, such as National Grid Company plc, a Group undertaking, becoming insolvent or the Group failing to make agreed payments into the fund.

Crown Castle UK Pension Scheme

The Crown Castle UK Pension Scheme provides final salary defined benefits for service up to and including 30 June 2003 and a career averaged pension for service after 1 July 2003 on a funded basis. The scheme was closed to new entrants on 1 August 1997. The assets of the scheme are held in a separate trustee administered fund. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by 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 Deloitte Total Reward and Benefits Limited at 31 December 2002. This valuation has been used to calculate the charge in accordance with SSAP 24. The attained age method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.5% and that future real increases in pensionable earnings would be 1.5%. Investments held in respect of pensions before and after they become payable would average 4.25% real annual rate of return and pensions would increase in line with inflation. The aggregate market value of the scheme's assets was £15m and the value of the assets represented approximately 84% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 December 2002 on an ongoing basis and allowing for projected increases in pensionable earnings.

The results of the actuarial valuation carried out at 31 December 2002 showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 25.9% of pensionable earnings (18.4% employers and 7.5% employees). This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be no later than 31 December 2005.

US defined benefit pension schemes

Substantially all the Group's US employees are members of defined benefit plans. The assets of the plans are held in separate trustee administered funds. The latest full actuarial valuations of these plans were carried out by Hewitt Associates LLC at 1 April 2004. The aggregate market value of the assets relating to the Group's US defined plans at 31 March 2004 totalled US\$1,945m and the actuarial value of the assets represented approximately 87% of the actuarial value of the benefits that had accrued to members, after allowing for future salary increases. These valuations were used to calculate the pension cost for the year ended 31 March 2005 (in compliance with SSAP 24). The valuations have been updated using assumptions and market values at 31 March 2005. The projected unit method was used for the updated valuations and the principal actuarial assumptions adopted were: that the real annual rate of return on investments would average 4.25%; that real annual increases in salary would average nil for New York schemes and 1.5% for other US schemes; that inflation would average 3.25%; and that nominal increases in pensions would be nil. There are no formally agreed contribution rates for the US plans.

SSAP 24 valuation assumptions

Further valuations of the Lattice Group Pension Scheme, using the attained age method, and the Group's section of the Electricity Supply Pension Scheme, using the projected unit method, were carried out at 31 March 2004 to calculate the charge in accordance with SSAP 24. The results of these valuations were that the regular cost, as a percentage of salary, was 24.5% for the Lattice Group Pension Scheme and 10.7% for the Electricity Supply Pension Scheme. The scheme deficits were £220m and £225m respectively.

Pension cost, prepayment and provisions for liabilities and charges

The costs recorded relating to the Group's pension plans were as follows:

	2005 £m	2004 £m	2003 £m
Defined contribution scheme costs	2	2	1
Defined benefit regular pension costs	114	106	136
Charge/(credit) related to variation from regular pension cost, of which a £2m credit related to the partial release of a pension provision in 2005 (2004: £2m; 2003: £2m)	26	42	(20)
Pension costs charged to operating profit	142	150	117
Notional interest charged/(credited) to net interest	37	56	(3)
Total pension costs for the year	179	206	114

Included in debtors at 31 March 2005 was a pension prepayment of £38m (2004: £19m).

Included within provisions for liabilities and charges at 31 March 2005 was a pension and other post-retirement benefits provision of £512m (2004: £464m) – see note 22.

7. Pensions and other post-retirement benefits (continued)**US healthcare and life insurance – retirees**

In the US, the Group provides healthcare and life insurance to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in some cases retirees must contribute to the cost of their coverage. The latest full actuarial valuations were carried out at 1 April 2003. These valuations have been updated using assumptions and market values at 31 March 2005. The principal assumptions adopted were a discount rate of 5.75% and that medical costs would increase by 10.0% per annum, decreasing to 5.0% by 2010 and remain at this rate thereafter. The cost of providing healthcare and life insurance to retired US employees for the year ended 31 March 2005 amounted to £14m net of amounts capitalised and amounts deferred as regulatory assets (2004: £31m; 2003: £37m).

FRS 17 Retirement Benefits

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

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

	2005			2004			2003		
	UK Pensions %	US Pensions %	US Other post-retirement benefits %	UK Pensions %	US Pensions %	US Other post-retirement benefits %	UK Pensions %	US Pensions %	US Other post-retirement benefits %
Rate of increase in salaries (i)	3.9	4.1	–	3.9	3.8	–	3.5	4.0	–
Rate of increase in pensions in payment and deferred pensions	3.0	–	–	3.0	–	–	2.6	–	–
Discount rate for liabilities	5.4	5.8	5.8	5.5	5.8	5.8	5.4	6.3	6.3
Rate of increase in Retail Price Index or equivalent	2.9	–	–	2.9	–	–	2.5	–	–
Initial healthcare cost trend rate	–	–	10.0	–	–	10.0	–	–	10.0
Ultimate healthcare cost trend rate	–	–	5.0	–	–	5.0	–	–	5.0

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

An analysis of the assets held in the various pension and other post-retirement benefit schemes and the expected rates of return at 31 March 2005, 31 March 2004 and 31 March 2003 were as follows:

	UK Pensions			US Pensions			US Other post-retirement benefits		
	Long-term rate of return expected at 31 March 2005 %	Value at 31 March 2005 %	Value at 31 March 2005 £m	Long-term rate of return expected at 31 March 2005 %	Value at 31 March 2005 %	Value at 31 March 2005 £m	Long-term rate of return expected at 31 March 2005 %	Value at 31 March 2005 %	Value at 31 March 2005 £m
Equities	7.8	41.5	5,414	10.0	64.5	669	10.0	65.0	317
Bonds	4.8	49.1	6,412	5.0	34.0	353	4.6	33.8	165
Property	6.5	8.1	1,049	7.1	0.3	3	–	–	–
Other	4.0	1.3	175	8.1	1.2	12	2.5	1.2	6
Total market value of assets			13,050			1,037			488
Present value of scheme liabilities			(14,154)			(1,486)			(1,017)
Deficit in schemes			(1,104)			(449)			(529)
Related deferred tax asset			331			178			210
Net liability			(773)			(271)			(319)

	UK Pensions			US Pensions			US Other post-retirement benefits		
	Long-term rate of return expected at 31 March 2004 %	Value at 31 March 2004 %	Value at 31 March 2004 £m	Long-term rate of return expected at 31 March 2004 %	Value at 31 March 2004 %	Value at 31 March 2004 £m	Long-term rate of return expected at 31 March 2004 %	Value at 31 March 2004 %	Value at 31 March 2004 £m
Equities	8.0	42.5	5,260	10.8	64.4	685	10.8	62.3	309
Bonds	4.9	47.7	5,896	4.0	33.9	360	4.0	36.3	180
Property	6.5	7.4	913	8.0	0.6	6	–	–	–
Other	4.0	2.4	300	12.0	1.1	12	0.9	1.4	7
Total market value of assets			12,369			1,063			496
Present value of scheme liabilities			(13,790)			(1,488)			(1,002)
Deficit in schemes			(1,421)			(425)			(506)
Related deferred tax asset			426			166			197
Net liability			(995)			(259)			(309)

7. Pensions and other post-retirement benefits (continued)

FRS 17 Retirement Benefits (continued)

	UK Pensions			US Pensions			US Other post-retirement benefits		
	Long-term rate of return expected at 31 March 2003 %	Value at 31 March 2003 %	Value at 31 March 2003 £m	Long-term rate of return expected at 31 March 2003 %	Value at 31 March 2003 %	Value at 31 March 2003 £m	Long-term rate of return expected at 31 March 2003 %	Value at 31 March 2003 %	Value at 31 March 2003 £m
Equities	8.5	41.4	4,590	11.0	57.6	586	11.0	42.4	158
Bonds	4.6	49.0	5,436	5.1	38.8	395	5.0	42.1	157
Property	6.5	8.1	901	9.0	0.8	8	—	—	—
Other	4.0	1.5	171	6.8	2.8	28	3.5	15.5	58
Total market value of assets			11,098			1,017			373
Present value of scheme liabilities			(13,269)			(1,617)			(1,003)
Deficit in schemes			(2,171)			(600)			(630)
Related deferred tax asset			651			238			250
Net liability			(1,520)			(362)			(380)

The net liability for UK Pensions comprises net pension liabilities relating to funded schemes in deficit of £752m (2004: £976m) and net pension liabilities relating to unfunded schemes of £21m (2004: £19m).

The net liability for US Pensions comprises net pension liabilities relating to funded schemes in deficit of £235m (2004: £221m) and net pension liabilities relating to unfunded schemes of £36m (2004: £38m).

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

At 31 March 2005, an increase of 0.1% in the discount rate would decrease the present value of liabilities for all schemes by around £247m and decrease the liability net of deferred tax by £170m and vice versa.

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

	2005 £m	2004 (restated) £m
Net assets employed excluding net SSAP 24 liabilities and related impact on regulatory assets	1,647	1,490
Net FRS 17 liabilities	(1,363)	(1,563)
Net assets/(liabilities) including net FRS 17 liabilities	284	(73)

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

The pension and other post-retirement benefits deficit has moved during the year ended 31 March 2004 and 31 March 2005 as set out below:

	2005 £m	2004 £m
At 1 April	(2,352)	(3,401)
Acquisition of Group undertaking	(10)	—
Current service cost	(150)	(146)
Past service cost	(44)	(3)
Net loss on settlements or curtailments	(17)	(130)
Contributions	219	393
Other financial income/(costs)	2	(43)
Actuarial gains	240	822
Exchange adjustments	30	156
At 31 March	(2,082)	(2,352)

If FRS 17 had been implemented for the years ended 31 March 2003, 31 March 2004 or 31 March 2005, the following amounts would have been charged to the profit and loss account in respect of pensions and other post-retirement benefits for the year:

	2005 £m	2004 £m	2003 £m
Operating charge			
Current service cost	150	146	171
Past service cost	44	3	8
Net loss on settlements or curtailments	17	130	118
Total charge to operating profit	211	279	297
Other financial (income)/costs			
Expected return on scheme assets (i)	(881)	(806)	(977)
Interest on scheme liabilities	879	849	888
Impact on financial income	(2)	43	(89)
Net profit and loss charge before taxation	209	322	208

(i) Expected return on scheme assets for the year ended 31 March 2005 is reported after charging scheme administration expenses of £7m.

As the Lattice Group Pension Scheme is a closed scheme, the current service cost under the projected unit method of valuation is expected to increase as the members of the scheme approach retirement.

7. Pensions and other post-retirement benefits (continued)**FRS 17 Retirement Benefits** (continued)

If the Group were to prepare its accounts under FRS 17, the net loss on settlements or curtailments and past service costs in 2005 above (2004 and 2003: net loss on settlements or curtailments) would be reported as part of exceptional items. The net FRS 17 profit and loss account impact before tax excluding these exceptional items amounted to £148m (2004: £192m; 2003: £90m) and compares with the current UK GAAP gross charge, before amounts capitalised and amounts deferred as regulatory assets, in respect of pensions and other post-retirement benefits of £231m (2004: £264m; 2003: £151m). The FRS 17 pre-exceptional profit and loss account charge (pre-tax) would therefore be £83m lower (2004: £72m lower; 2003: £61m lower) than the SSAP 24 charge.

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

	2005 £m	2004 £m	2003 £m
Difference between actual and expected return on scheme assets	390	1,310	(2,529)
Experience gains arising on scheme liabilities	117	51	11
Changes in assumptions	(267)	(539)	(690)
Actuarial gains/(losses)	240	822	(3,208)
Exchange adjustments	30	156	64
Net credit/(charge) to the statement of total recognised gains and losses	270	978	(3,144)

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

	2005	2004	2003
Difference between actual and expected return on scheme assets (£m)	390	1,310	(2,529)
– percentage of scheme assets	3%	9%	(20)%
Experience gains arising on scheme liabilities (£m)	117	51	11
– percentage of present value of scheme liabilities	1%	–	–
Actuarial gains/(losses) (£m)	240	822	(3,208)
– percentage of present value of scheme liabilities	1%	5%	(20)%

8. Net interest

	2005 £m	2004 £m	2003 £m
Bank loans and overdrafts	45	51	36
Other	846	869	945
Interest payable and similar charges	891	920	981
Unwinding of discount on provisions	7	11	13
Interest capitalised	(63)	(55)	(28)
Interest payable and similar charges net of interest capitalised	835	876	966
Interest receivable and similar income	(62)	(58)	(55)
	773	818	911
Joint ventures (including exceptional net interest of £nil (2004: £nil; 2003: £31m), net of interest capitalised £nil (2004: £nil; 2003: £1m))	10	4	59
Net interest	783	822	970
Comprising:			
Net interest, excluding exceptional net interest	783	822	939
Exceptional net interest (note 4(c))	–	–	31
Net interest, including exceptional net interest	783	822	970

Interest on the funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.6% (2004: 5.7%; 2003: 5.9%).

Interest payable and similar charges includes £12m (2004: £4m; 2003: £12m) relating to losses incurred on the repurchase of debt during the year.

9. Taxation

	2005 £m	2004 £m	2003 £m
United Kingdom			
Corporation tax at 30%	123	193	12
Adjustment in respect of prior years (i)	(19)	(35)	–
Deferred tax	4	(15)	107
	108	143	119
Overseas			
Corporate tax	33	16	27
Adjustment in respect of prior years	(21)	–	–
Deferred tax	123	99	94
	135	115	121
	243	258	240
Joint ventures	2	3	5
Taxation	245	261	245
Comprising:			
Taxation – excluding exceptional items	324	350	373
Taxation – exceptional items (note 4(d))	(79)	(89)	(128)
	245	261	245

(i) The UK corporation tax adjustment in respect of prior years includes £10m (2004: £29m; 2003: £nil) that relates to exceptional items.

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

	2005	% of profit before taxation 2004 (restated)	2003 (restated)
UK corporation tax rate	30.0	30.0	30.0
Effect on tax charge of:			
– Origination and reversal of timing differences	(11.2)	(9.6)	(12.7)
– Permanent differences	(3.9)	(7.0)	3.1
– Overseas income taxed at other than UK statutory rate	–	3.3	(2.5)
– Other	(0.1)	(0.1)	0.3
Current tax charge	14.8	16.6	18.2
Deferred taxation	10.0	9.0	12.7
Effective tax rate before goodwill amortisation, prior year adjustments in respect of current tax and exceptional items	24.8	25.6	30.9
Effect of goodwill amortisation	2.0	2.0	2.8
Effective tax rate before prior year adjustments in respect of current tax and exceptional items	26.8	27.6	33.7
Current tax adjustment in respect of prior years	(2.3)	(0.5)	–
Effective tax rate after adjustments in respect of prior years and before exceptional items	24.5	27.1	33.7
Exceptional items	(3.2)	(7.5)	5.3
Effective tax rate after exceptional items	21.3	19.6	39.0

Factors that may affect future tax charges

The Group has brought forward non-trading debits of £39m (2004: £75m; 2003: £75m), which may reduce taxable profits in future years.

No provision has been made for deferred tax arising on gains recognised in respect of the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the replacement assets were sold without it being possible to claim roll-over relief. The total amount unprovided for at 31 March 2005 was £73m (2004: £58m; 2003: £58m). At present, it is not envisaged that any tax on amounts rolled over will become payable in the foreseeable future.

10. Dividends

The following table shows the dividends paid or proposed:

	2005 pence (per ordinary share)	2005 £m	2004 pence (per ordinary share)	2004 £m	2003 pence (per ordinary share)	2003 £m
Ordinary dividends						
Interim	8.5	262	7.91	243	6.86	213
Proposed final	15.2	469	11.87	366	10.34	317
	23.7	731	19.78	609	17.20	530

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

	Earnings per share 2005	Profit for the year 2005	Weighted average number shares 2005	Earnings per share 2004 (restated) pence	Profit for the year 2004 (restated) £m	Weighted average number shares 2004	Earnings per share 2003 (restated) pence	Profit for the year 2003 (restated) £m	Weighted average number shares 2003
	pence	£m	million	pence	£m	million	pence	£m	million
Basic, including exceptional items and goodwill amortisation	29.5	908	3,082	35.0	1,074	3,070	11.4	351	3,078
Exceptional operating items (note 4(a))	8.1	251	–	9.0	277	–	11.4	350	–
Exceptional non-operating items (note 4(b))	(2.7)	(83)	–	(10.4)	(322)	–	3.2	99	–
Exceptional financing charge (note 4(c))	–	–	–	–	–	–	1.0	31	–
Exceptional tax credit (note 4(d))	(2.5)	(79)	–	(2.9)	(89)	–	(4.1)	(128)	–
Exceptional minority interests (note 4(e))	–	–	–	–	–	–	0.9	28	–
Goodwill amortisation	3.5	109	–	3.2	99	–	3.3	102	–
Adjusted basic, excluding exceptional items and goodwill amortisation	35.9	1,106	3,082	33.9	1,039	3,070	27.1	833	3,078
Dilutive impact of employee share options	(0.2)	–	14	(0.1)	–	7	(0.1)	–	10
Dilutive impact of 4.25% Exchangeable Bonds	n/a	n/a	n/a	n/a	n/a	n/a	(0.3)	22	110
Adjusted diluted, excluding exceptional items and goodwill amortisation	35.7	1,106	3,096	33.8	1,039	3,077	26.7	855	3,198
Exceptional operating items (note 4(a))	(8.1)	(251)	–	(9.0)	(277)	–	(10.9)	(350)	–
Exceptional non-operating items (note 4(b))	2.7	83	–	10.4	322	–	(3.1)	(99)	–
Exceptional financing charge (note 4(c))	–	–	–	–	–	–	(1.0)	(31)	–
Exceptional tax credit (note 4(d))	2.5	79	–	2.9	89	–	4.0	128	–
Exceptional minority interests (note 4(e))	–	–	–	–	–	–	(0.9)	(28)	–
Goodwill amortisation	(3.5)	(109)	–	(3.2)	(99)	–	(3.2)	(102)	–
Diluted, including exceptional items and goodwill amortisation	29.3	908	3,096	34.9	1,074	3,077	11.6	373	3,198

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

As at 31 March 2005, there were 7,108,201 outstanding share options in respect of the executive share schemes that were anti-dilutive instruments.

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

b) Adjusted profit on ordinary activities before taxation

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

	2005 £m	2004 (restated) £m	2003 (restated) £m
Profit on ordinary activities before taxation	1,152	1,337	627
Exceptional operating items (note 4(a))	251	277	350
Exceptional non-operating items (note 4(b))	(83)	(322)	99
Exceptional financing charge (note 4(c))	–	–	31
Goodwill amortisation	109	99	102
Adjusted profit on ordinary activities before taxation	1,429	1,391	1,209

12. Intangible fixed assets

Group	£m
Cost at 1 April 2003	2,146
Exchange adjustments	(292)
Additions	3
Cost at 31 March 2004	1,857
Exchange adjustments	(59)
Acquisition of Group undertakings	625
Cost at 31 March 2005	2,423
Amortisation at 1 April 2003	253
Exchange adjustments	(46)
Amortisation charge for the year	101
Impairment charge	12
Amortisation at 31 March 2004	320
Exchange adjustments	(11)
Amortisation charge for the year	109
Impairment charge	2
Amortisation at 31 March 2005	420
Net book value at 31 March 2005	2,003
Net book value at 31 March 2004	1,537

The net book value of intangible fixed assets at 31 March 2005 included £nil (2004: £1m) relating to telecoms licences. The remaining net book value of intangible fixed assets related entirely to goodwill. The charge for the year relating to goodwill amortisation amounted to £109m (2004: £99m).

13. Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2003	1,037	22,665	1,035	870	25,607
Exchange adjustments	(67)	(965)	(17)	(6)	(1,055)
Additions	13	345	1,020	101	1,479
Disposals	(128)	(144)	(2)	(124)	(398)
Reclassifications	3	760	(907)	144	-
Cost at 31 March 2004	858	22,661	1,129	985	25,633
Exchange adjustments	(13)	(202)	(2)	(1)	(218)
Acquisition of Group undertakings	29	592	-	11	632
Additions	32	334	980	85	1,431
Disposals	(34)	(117)	-	(31)	(182)
Reclassifications	39	776	(838)	23	-
Cost at 31 March 2005	911	24,044	1,269	1,072	27,296
Depreciation at 1 April 2003	343	7,818	-	599	8,760
Exchange adjustments	(12)	(358)	-	(4)	(374)
Depreciation charge for the year	19	732	-	115	866
Impairment charge	-	5	-	3	8
Disposals	(74)	(140)	-	(119)	(333)
Depreciation at 31 March 2004	276	8,057	-	594	8,927
Exchange adjustments	(3)	(75)	-	(1)	(79)
Depreciation charge for the year	19	718	-	123	860
Impairment charge	2	-	-	-	2
Disposals	(12)	(121)	-	(27)	(160)
Depreciation at 31 March 2005	282	8,579	-	689	9,550
Net book value at 31 March 2005	629	15,465	1,269	383	17,746
Net book value at 31 March 2004	582	14,604	1,129	391	16,706

13. Tangible fixed assets (continued)

The net book value of land and buildings comprised:

	2005 £m	2004 £m
Freehold	590	564
Long leasehold (over 50 years)	12	4
Short leasehold (under 50 years)	27	14
	629	582

The cost of tangible fixed assets at 31 March 2005 included £449m (2004: £402m) relating to interest capitalised.

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) at 31 March 2005 are contributions to the cost of tangible fixed assets amounting to £53m (2004: £46m) and £1,150m (2004: £1,130m) respectively.

14. Fixed asset investments

	Group			Company
	Unlisted joint ventures share of net assets £m	Other investments £m	Total £m	Group undertakings £m
At 1 April 2003 (as previously reported)	44	170	214	2,225
Prior year adjustment (note 1)	–	–	–	27
At 1 April 2003 (restated)	44	170	214	2,252
Exchange adjustments	(5)	(21)	(26)	–
Additions	1	5	6	23
Disposals	(17)	(22)	(39)	–
Share of retained loss	(4)	–	(4)	–
At 31 March 2004 (restated)	19	132	151	2,275
Exchange adjustments	–	(4)	(4)	–
Additions	–	9	9	296
Disposals	5	(6)	(1)	(143)
Share of retained loss	(7)	–	(7)	–
At 31 March 2005	17	131	148	2,428

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

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

15. Acquisitions

On 31 August 2004, the Group acquired the UK operations of Crown Castle International Corp. for a total consideration of £1,138m, including acquisition costs of £14m. This transaction has been recorded using the acquisition method of accounting.

Goodwill arising on this acquisition, being the difference between the purchase consideration and the fair value of the assets and liabilities acquired, amounted to £622m and is being amortised over a period of 20 years from the date of the acquisition, being its estimated useful economic life.

The other acquisition that was carried out during the year ended 31 March 2005 was that of a telecommunications tower operation in the US. The book and fair value of assets acquired was £10m compared with total cash consideration of £13m, giving rise to goodwill of £3m, which is being amortised over a period of 20 years.

The acquired businesses are presented within the Wireless infrastructure segment.

	Crown Castle acquisition			Other acquisition		Total fair value £m
	Book value at acquisition £m	Accounting policy adjustments £m	Fair value adjustments £m	Final fair value £m	Book and fair value £m	
Tangible fixed assets	519	(4)	111	626	6	632
Stocks	3	–	–	3	–	3
Debtors	43	–	–	43	4	47
Cash and deposits	29	–	–	29	–	29
Creditors	(152)	–	–	(152)	–	(152)
Provisions for liabilities and charges	(34)	1	–	(33)	–	(33)
Net assets acquired	408	(3)	111	516	10	526
Goodwill arising on acquisition				622	3	625
Total consideration				1,138	13	1,151

The adjustments recorded to book value reflect accounting alignments to bring the accounting policies of the acquired businesses into line with those of the Group, which resulted in a reduction of £4m to tangible fixed assets relating to the accounting for leasehold properties; and an increase of £1m to provisions for liabilities and charges relating to decommissioning provisions, offset by associated decreases in the provision for deferred tax of £2m.

Fair value adjustments primarily related to the revaluation of tangible fixed assets to their fair value at the date of acquisition.

15. Acquisitions (continued)

The profit after tax of the UK operations of Crown Castle International Corp. for the period from 1 January 2004 to 31 August 2004 was £3m, reflecting turnover of £160m, operating profit of £22m, profit before tax of £15m and taxation of £12m. This compared with the reported profit after tax for the year ended 31 December 2003 of £2m.

The following unaudited pro forma summary information is provided for illustrative purposes and presents the effect of the acquisition of the UK operations of Crown Castle International Corp. on the continuing operations of the Group as if the acquisition had occurred on 1 April 2003. The pro forma summary reflects estimates of the effect of adopting the fair value adjustments for the acquisition and the increased net interest costs, together with the associated tax effects, that would have resulted if the acquisition had taken place at that earlier date. The pro forma summary does not necessarily reflect the results of operations as they would have been if the acquired business had been part of the Group during the years presented.

	2005 Pro forma (unaudited) £m	2004 Pro forma (unaudited) £m
Continuing operations – pro forma		
Turnover	8,624	9,111
Profit for the financial year	881	1,013
	pence	pence
Earnings per share	28.6	33.0

The accounting policy adjustments made did not affect the profit for the year.

16. Stocks

	Group	
	2005 £m	2004 £m
Raw materials and consumables	60	53
Work in progress	27	21
Fuel stocks	14	17
	101	91

17. Debtors

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Amounts falling due within one year:				
Trade debtors	553	496	–	–
Amounts owed by Group undertakings	–	–	10,695	3,883
Regulatory assets	369	472	–	–
Other debtors	79	158	–	–
Prepayments and accrued income	544	462	2	1
	1,545	1,588	10,697	3,884
Amounts falling due after more than one year:				
Regulatory assets	2,402	2,639	–	–
Other debtors	96	69	–	–
	2,498	2,708	–	–
	4,043	4,296	10,697	3,884

Provision for doubtful debts

	Group £m
At 1 April 2003	116
Exchange adjustments	(13)
Reinstatement of amounts previously written off	14
Charge for the year	50
Uncollectable amounts written off net of recoveries	(39)
At 31 March 2004	128
Exchange adjustments	(3)
Charge for the year	42
Uncollectable amounts written off net of recoveries	(34)
At 31 March 2005	133

18. Creditors (amounts falling due within one year)

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Borrowings (note 20)	3,256	1,706	781	388
Trade creditors and accruals	1,111	1,031	–	–
Amounts owed to Group undertakings	–	–	1,752	1,680
Purchased power obligations	54	57	–	–
Corporate tax	103	122	–	–
Social security and other taxes	219	191	–	–
Proposed dividend	469	366	469	366
Liability for index-linked swap contracts	99	100	–	–
Other creditors	512	606	8	6
Deferred income	325	334	4	4
	6,148	4,513	3,014	2,444

Other creditors include interest payable of £255m (2004: £286m).

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Borrowings (note 20)	10,963	11,542	1,020	746
Purchased power obligations	90	149	–	–
Liability for index-linked swap contracts	228	291	–	–
Other creditors	282	289	–	–
Deferred income	1,237	1,193	8	13
	12,800	13,464	1,028	759

Other creditors include £nil (2004: £9m) of corporate tax.

Purchased power obligations

As part of the sale of substantially all its non-nuclear generating business, National Grid USA entered into purchased power transfer agreements with the purchasers whereby the purchasers took over a number of long-term contracts between National Grid USA and owners of various generating units. In exchange, National Grid USA committed to make fixed monthly payments to the purchasers towards the above-market cost of the contracts. The creditor relating to purchased power obligations, which is also reflected in regulatory assets (note 17), represents the net present value of these monthly payments discounted at 4.5%. At 31 March 2005, amounts falling due after more than five years totalled £nil (2004: £1m).

Liability for index-linked swap contracts

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

20. Borrowings

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Amounts falling due within one year:				
Bank loans and overdrafts	420	314	89	33
Commercial paper	1,469	557	158	355
Other bonds	1,348	832	534	–
Other loans	19	3	–	–
	3,256	1,706	781	388
Amounts falling due after more than one year:				
Bank loans	910	823	–	–
Other bonds	10,043	10,587	1,020	746
Other loans	10	132	–	–
	10,963	11,542	1,020	746
Total borrowings	14,219	13,248	1,801	1,134

20. Borrowings (continued)

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Total borrowings are repayable as follows:				
In one year or less	3,256	1,706	781	388
In more than one year, but not more than two years	2,004	877	–	52
In more than two years, but not more than three years	467	2,043	–	–
In more than three years, but not more than four years	1,213	458	298	–
In more than four years, but not more than five years	1,293	1,575	–	308
In more than five years				
– by instalments	35	35	–	–
– other than by instalments	5,951	6,554	722	386
	14,219	13,248	1,801	1,134

Charges over property, plant and other assets of the Group were provided as collateral over borrowings totalling £729m at 31 March 2005 (2004: £925m).

The notional amount outstanding of the Group's debt portfolio at 31 March 2005 was £14,564m (2004: £14,164m).

The principal items included within Other bonds are listed below. Unless otherwise indicated, these instruments were outstanding at both 31 March 2005 and 31 March 2004.

Issuer	Description of instrument (notional amount)
British Transco Finance (No5) Limited	GBP 115 million Floating Rate Instruments due 2006
British Transco Finance Inc.	USD 300 million 6.625% Fixed Rate Instruments due 2018
British Transco International Finance BV (i)	USD 300 million 6.0% Fixed Rate Instruments due 2004
British Transco International Finance BV (i)	USD 350 million 6.625% Fixed Rate Instruments due 2004
British Transco International Finance BV (i)	ITL 250,000 million 5.25% Fixed Rate Instruments due 2005
British Transco International Finance BV	USD 350 million 7.0% Fixed Rate Instruments due 2006
British Transco International Finance BV	FRF 2,000 million 5.125% Fixed Rate Instruments due 2009
British Transco International Finance BV	USD 1,500 million Zero Coupon Bond due 2021
National Grid Company plc	GBP 240 million 8.0% Fixed Rate Instruments due 2006
National Grid Company plc	EUR 600 million 4.125% Fixed Rate Instruments due 2008
National Grid Company plc	GBP 250 million 4.75% Fixed Rate Instruments due 2010
National Grid Company plc	GBP 300 million 2.983% Guaranteed Retail Price Index-Linked Instruments due 2018
National Grid Company plc	GBP 220 million 3.806% Retail Price Index-Linked Instruments due 2020
National Grid Company plc	GBP 450 million 5.875% Fixed Rate Instruments due 2024
National Grid Company plc	GBP 360 million 6.5% Fixed Rate Instruments due 2028
National Grid Company plc	GBP 70 million 3.589% Limited Retail Price Index-Linked Instruments due 2030
National Grid Company plc	GBP 50 million 2.817% Guaranteed Limited Retail Price Index-Linked Instruments due 2032
National Grid Company plc (ii)	GBP 75 million 5.0% Fixed Rate Instruments due 2035
National Grid Transco plc (ii)	EUR 200 million Floating Rate Instruments due 2005
National Grid Transco plc (ii)	EUR 500 million Floating Rate Instruments due 2006
National Grid Transco plc	EUR 500 million 3.75% Fixed Rate Instruments due 2008
National Grid Transco plc	EUR 600 million 5.0% Fixed Rate Instruments due 2018
National Grid Transco plc (ii)	EUR 500 million 4.375% Fixed Rate Instruments due 2020
New England Power Company	USD 135.85 million Tax-Exempt Pollution Control Revenue Bonds, Variable Rate due 2020
New England Power Company	USD 106.15 million Tax-Exempt Pollution Control Revenue Bonds, Variable Rate due 2022
NGG Finance plc	EUR 1,250 million 5.25% Fixed Rate Instruments due 2006
NGG Finance plc	EUR 750 million 6.125% Fixed Rate Instruments due 2011
Niagara Mohawk Power Corporation (i)	USD 300 million 8.0% Taxable First Mortgage Bonds due 2004
Niagara Mohawk Power Corporation (i)	USD 300 million 5.375% Senior Notes due 2004
Niagara Mohawk Power Corporation	USD 110 million 6.625% Taxable First Mortgage Bonds due 2005
Niagara Mohawk Power Corporation	USD 400 million 7.625% Senior Notes due 2005
Niagara Mohawk Power Corporation	USD 150 million 9.75% Taxable First Mortgage Bonds due 2005
Niagara Mohawk Power Corporation	USD 275 million 7.75% Taxable First Mortgage Bonds due 2006
Niagara Mohawk Power Corporation	USD 200 million 8.875% Senior Notes due 2007
Niagara Mohawk Power Corporation	USD 600 million 7.75% Senior Notes due 2008
Niagara Mohawk Power Corporation	USD 115.71 million 7.2% Tax-Exempt First Mortgage Bonds due 2029*
Transco Holdings plc	GBP 503.078 million Floating Rate Instruments due 2009
Transco Holdings plc	GBP 503.078 million 4.1875% Index-Linked Instruments due 2022
Transco Holdings plc	GBP 503.078 million 7.0% Fixed Rate Instruments due 2024
Transco plc	EUR 650 million 5.25% Fixed Rate Instruments due 2006
Transco plc	GBP 250 million 6.125% Fixed Rate Instruments due 2006
Transco plc (iii)	GBP 300 million 5.625% Fixed Rate Instruments due 2007
Transco plc	GBP 250 million 8.875% Fixed Rate Instruments due 2008
Transco plc	AUD 500 million 7.0% Fixed Rate Instruments due 2008
Transco plc	GBP 300 million 5.375% Fixed Rate Instruments due 2009
Transco plc	GBP 300 million 6.0% Fixed Rate Instruments due 2017
Transco plc	GBP 275 million 8.75% Fixed Rate Instruments due 2025
Transco plc	GBP 50 million 6.2% Fixed Rate Instruments due 2028

(i) Matured during the year ended 31 March 2005

(ii) Issued during the year ended 31 March 2005

(iii) Issue tapped during the year ended 31 March 2005

*Refinanced and initially issued in auction rate mode during year ended 31 March 2005

21. Financial instruments

The Group's treasury policy, described on pages 50 to 52, includes details of the objectives, policies and strategies of the Group associated with financial instruments with off-balance sheet risk.

The Group's counterparty exposure under foreign currency swaps and foreign exchange contracts at 31 March 2005 was £576m (2004: £442m) and under interest rate swaps and forward rate agreements was £95m (2004: £115m).

The Group had no significant exposure to either individual counterparties or geographical groups of counterparties at 31 March 2005.

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

Currency and interest rate composition of financial liabilities

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

	Total £m	Variable rate £m	Fixed rate liabilities		
			Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed years
At 31 March 2005					
Sterling	9,639	6,656	2,983	6.31	9.4
US dollars	4,580	1,814	2,766	6.11	5.3
Borrowings	14,219	8,470	5,749	6.21	7.4
Other financial liabilities (sterling)	61	61	-	-	-
Other financial liabilities (US dollars)	501	479	22	4.11	-(i)
	14,781	9,010	5,771	6.20	7.4
At 31 March 2004					
Sterling	8,988	5,231	3,757	6.09	8.7
US dollars	4,260	1,376	2,884	7.03	4.9
Borrowings	13,248	6,607	6,641	6.50	7.1
Other financial liabilities (sterling)	40	40	-	-	-
Other financial liabilities (US dollars)	602	564	38	5.07	-(i)
	13,890	7,211	6,679	6.49	7.1

(i) Excludes non-equity minority interests of £22m (2004: £38m) with no final repayment date.

At 31 March 2005 the weighted average interest rate on short-term borrowings of £3,256m (2004: £1,706m) was 4.6% (2004: 4.0%).

Foreign exchange forward deals held to manage the currency mix of the Group's borrowings portfolio comprising a £463m (2004: £141m) forward sale of US dollars have not been adjusted in the table above.

Other sterling financial liabilities comprised onerous leases of £61m (2004: £40m).

Other US dollar financial liabilities comprised index-linked energy swap contracts of £327m (2004: £391m), purchased power obligations of £144m (2004: £149m), non-equity minority interests of £22m (2004: £38m), onerous leases of £6m (2004: £nil), forward currency contracts of £2m (2004: £nil), and interest rate swaps of £nil (2004: £24m) which are shown at fair value as they are no longer considered a hedge.

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

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

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

Maturity of financial liabilities at 31 March	2005 £m	2004 £m
In one year or less	3,328	1,848
In more than one year, but not more than two years	2,171	1,029
In more than two years, but not more than three years	618	2,189
In more than three years, but not more than four years	1,316	589
In more than four years, but not more than five years	1,316	1,598
In more than five years	6,032	6,637
	14,781	13,890

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

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

	Total £m	Non- interest bearing £m	Variable rate £m	Fixed rate assets		
				Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed years
At 31 March 2005						
Sterling	455	–	455	–	–	–
US dollars	189	–	189	–	–	–
Other currencies	26	–	26	–	–	–
Cash and investments	670	–	670	–	–	–
Other financial assets (sterling)	41	–	–	41	11.50	4.1
Other financial assets (US dollars)	72	27	9	36	5.18	13.2
	783	27	679	77	8.54	8.4
At 31 March 2004						
Sterling	428	–	428	–	–	–
US dollars	165	–	165	–	–	–
Other currencies	23	–	23	–	–	–
Cash and investments	616	–	616	–	–	–
Other financial assets (sterling)	45	–	–	45	11.50	5.1
Other financial assets (US dollars)	34	–	–	34	5.08	13.8
	695	–	616	79	8.74	8.8

Cash and investments earned interest at local prevailing rates for maturity periods generally not exceeding 12 months, and included listed investments with a cost of £242m (2004: £241m) and market value of £245m (2004: £241m). Other financial assets at 31 March 2005 related to a net investment in a finance lease of £41m (2004: £45m), fixed asset investments of £36m (2004: £34m), forward foreign currency contracts of £9m (2004: £nil), equities of £16m (2004: £nil) and mutual funds of £11m (2004: £nil).

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

Maturity of financial assets at 31 March	2005 £m	2004 £m
In one year or less	687	625
In more than one year, but not more than two years	12	11
In more than two years, but not more than three years	11	10
In more than three years, but not more than four years	12	11
In more than four years, but not more than five years	4	10
In more than five years	57	28
	783	695

Fair values of financial instruments at 31 March

	2005		2004	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Short-term debt	(3,264)	(3,284)	(1,666)	(1,678)
Long-term debt	(11,308)	(12,291)	(11,767)	(12,800)
Cash and investments	670	670	616	616
Other financial liabilities	(560)	(560)	(642)	(641)
Net investment in finance lease	41	41	45	45
Other financial assets	63	73	34	36
Financial instruments held to manage interest rate and currency profiles:				
Interest rate swaps	–	(46)	–	(42)
Forward foreign currency contracts and cross-currency swaps	360	480	185	331

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

The notional principal amounts relating to financial instruments held to manage interest rate and currency profiles for interest rate swaps and forward rate agreements, foreign currency contracts and cross-currency swaps at 31 March 2005 amounted to £7,420m (2004: £14,301m) and £8,017m (2004: £7,898m) respectively.

21. Financial instruments (continued)**Gains and losses on hedges**

	Unrecognised gains £m	Unrecognised losses £m	Unrecognised net gain £m	Deferred gains £m	Deferred losses £m	Deferred net (loss)/gain £m
Gains/(losses) on hedges at 1 April 2003	458	(229)	229	39	(88)	(49)
(Gains)/losses arising in previous years recognised in the year	(50)	18	(32)	(12)	12	–
Gains/(losses) arising in previous years not recognised in the year	408	(211)	197	27	(76)	(49)
Gains/(losses) arising in the year	22	(115)	(93)	104	(6)	98
Gains/(losses) on hedges at 31 March 2004	430	(326)	104	131	(82)	49
(Gains)/losses arising in previous years recognised in the year	(25)	23	(2)	(19)	10	(9)
Gains/(losses) arising in previous years not recognised in the year	405	(303)	102	112	(72)	40
Gains/(losses) arising in the year	(64)	36	(28)	36	(8)	28
Gains/(losses) on hedges at 31 March 2005	341	(267)	74	148	(80)	68
Of which:						
Gains/(losses) expected to be recognised within one year	12	(7)	5	25	(14)	11
Gains/(losses) expected to be recognised after one year	329	(260)	69	123	(66)	57

Borrowing facilities

At 31 March 2005, the Group had bilateral committed credit facilities of £1,985m (2004: £1,823m), of which £1,985m (2004: £1,808m) were undrawn. The Group also had committed credit facilities from syndicates of banks of £1,437m at 31 March 2005 (2004: £1,313m), £1,237m (2004: £1,201m) of which were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

Undrawn committed borrowing facilities

	2005 £m	2004 £m
Expiring:		
In one year or less	3,165	2,269
In more than one year, but not more than two years	57	575
In more than two years	–	165
	3,222	3,009

Of the unused facilities at 31 March 2005 £2,805m (2004: £2,604m) was held as back-up to commercial paper and similar borrowings. The remainder was available as additional back-up to commercial paper and for other general corporate purposes.

22. Provisions for liabilities and charges

	Group						Total provisions £m
	Decommissioning £m	Post-retirement benefits £m	Environmental £m	Deferred taxation £m	Restructuring £m	Other £m	
At 1 April 2003 (restated)	143	551	442	3,023	156	83	4,398
Exchange adjustments	(21)	(59)	(25)	(148)	–	–	(253)
Additions	24	260	35	84	87	13	503
Unwinding of discount	7	–	22	–	–	–	29
Unused amounts reversed	–	–	(10)	–	–	–	(10)
Utilised	(22)	(288)	(36)	–	(154)	(3)	(503)
Other	–	–	–	(15)	–	–	(15)
At 31 March 2004 (restated)	131	464	428	2,944	89	93	4,149
Exchange adjustments	(4)	(11)	(6)	(31)	–	–	(52)
Acquisition of Group undertaking	1	–	–	32	–	–	33
Additions	(2)	229	107	127	175	11	647
Unwinding of discount	5	–	9	–	–	–	14
Unused amounts reversed	–	–	–	–	–	(4)	(4)
Utilised	(26)	(164)	(47)	–	(133)	(3)	(373)
Other	–	(6)	–	(36)	–	–	(42)
At 31 March 2005	105	512	491	3,036	131	97	4,372

The decommissioning provision of £105m at 31 March 2005 represented the net present value of the estimated expenditure (discounted at a nominal rate of 4.90%) expected to be incurred in respect of the decommissioning of certain nuclear generating units. Related regulatory assets were also recognised (note 17). Expenditure is expected to be incurred between 2006 and 2010. Additions in the year included £2m in respect of a change in a discount rate.

The post-retirement benefits provision was in respect of pensions £342m (2004: £273m) and other post-retirement benefits (health care and life insurance) £170m (2004: £191m).

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

22. Provisions for liabilities and charges (continued)

At 31 March 2005, £262m (2004: £252m) of the environmental provision represented the net present value of the estimated statutory decontamination costs of old gas manufacturing sites in the UK (discounted using a nominal rate of 5.25%). The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but it is expected to be incurred over the period 2006 to 2057 with some 64% of the spend projected to be spent over the next five years. During the year ended 31 March 2005, a review of the provision was undertaken to take into account the impact of recent changes to the regulations on waste disposal. This review together with related revisions to the expected expenditure profile has resulted in an additional provision being made as an exceptional charge of £41m in the profit and loss account – see note 4(a).

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

The undiscounted amount of the provision at 31 March 2005 relating to UK gas site decontamination was £340m (2004: £341m), being the undiscounted best estimate of the liability having regard to the uncertainties referred to above (excluding the impact of changes in discount rate).

The environmental provision at 31 March 2005 also included £219m (2004: £165m) which represented the net present value of estimated remediation expenditure in the US which has been discounted at a nominal rate of 5.75%. This expenditure is expected to be incurred between 2006 and 2044. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK gas decontamination. However, unlike the UK, with the exception of immaterial amounts of such costs, this expenditure is recoverable from rate payers under the terms of the Group's various rate agreements in the US. As a consequence, any movement in the calculation of the best estimate of the Group's liability is matched by a corresponding movement in the value of regulatory assets (note 17). Therefore, there is no material impact on the Group's profit and loss account arising from changes in the calculation of this liability.

The undiscounted amount of environmental provision relating to the Group's US-based sites amounted to £324m at 31 March 2005. The Group does not have sufficient information to calculate a range of outcomes, but it is expected that any outcome of the liability would be recovered from rate payers.

The remainder of the environmental provision of £10m related to the expected cost of remediation of certain other sites in the UK, is calculated on an undiscounted basis and is expected to be utilised within the next five years.

The undiscounted amount of the total Group environmental provision at 31 March 2005 was £674m.

At 31 March 2005, £36m of the total restructuring provision (2004: £42m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs in the UK.

Other provisions at 31 March 2005 included £59m (2004: £54m) of estimated liabilities in respect of past events incurred by the Group's insurance undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates were based on experience from previous years and there was, therefore, no identifiable payment date. Other provisions at 31 March 2005 also included £11m (2004: £12m) in respect of obligations associated with the impairment of investments in joint ventures.

Deferred taxation comprised:

	Provided	
	2005	2004
	£m	(restated) £m
Accelerated capital allowances	2,770	2,748
Other timing differences	266	196
	3,036	2,944

A deferred tax asset in respect of substantial capital losses and non-trading debits has not been recognised because their future recovery is uncertain. Final agreement of these losses is outstanding. As at 31 March 2005, the Group has capital losses in excess of £300m which have been agreed with the relevant tax authorities.

23. Share capital

Group	Allotted, called up and fully paid	
	millions	£m
At 1 April 2002 (i)	3,100	310
Issued during the year	1	–
Redeemed during the year	(24)	(2)
At 31 March 2003	3,077	308
Issued during the year	11	1
At 31 March 2004	3,088	309
Issued during the year	2	–
At 31 March 2005	3,090	309

Nil £1 special rights non-voting redeemable preference share (2004: one; 2003: one).

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

The total consideration received by the Group and Company in respect of ordinary shares issued during the year ended 31 March 2005 was £9m.

23. Share capital (continued)

Company	Allotted and issued		Called up and partly paid		Called up and fully paid	
	number	£	number	£	millions	£m
At 1 April 2002	1,776,932,870	177,693,287	23,450(i)	2,345	1,777	178
Issued during the year	1,324,195,509	132,419,551	–	–	1,324	132
Fully paid up during the year	–	–	(23,450)	(2,345)	–	–
Repurchased and cancelled during the year	(24,225,000)	(2,422,500)	–	–	(24)	(2)
At 31 March 2003	3,076,903,379	307,690,338	–	–	3,077	308
Issued during the year	10,700,377	1,070,038	–	–	11	1
At 31 March 2004	3,087,603,756	308,760,376	–	–	3,088	309
Issued during the year	2,599,199	259,920	–	–	2	–
At 31 March 2005	3,090,202,955	309,020,296	–	–	3,090	309

Nil £1 special rights non-voting redeemable preference share (2004: one; 2003: one).

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

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

On 21 October 2002, the authorised share capital of the Company was increased to £500m (5,000m ordinary shares of 10 pence each and one £1 special rights non-voting redeemable preference share). This remained unchanged at 31 March 2003 and 31 March 2004. During the year ended 31 March 2005 the one £1 special rights non-voting redeemable preference share was removed from the authorised share capital of the Company.

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

The special rights non-voting redeemable preference share of £1 in National Grid Transco plc ('the Special Share'), held on behalf of the Crown, was issued by National Grid to the Secretary of State for Trade and Industry on 31 January 2002 as part of a scheme of arrangement. It was redeemed at par on 5 May 2004 and on 26 July 2004, an ordinary resolution was passed cancelling this share from being included in the authorised share capital of the Company. The Special Share did not carry any rights to vote at general meetings but entitled the holder to receive notice of and to attend and speak at such meetings. Certain matters, in particular the alteration of certain Articles of Association of the Company, required the prior written consent of the holder of the Special Share. The Special Share conferred no right to participate in the capital or profits of the Company, except that on a winding-up the holder of the Special Share was entitled to repayment of £1 in priority to other shareholders. Prior to 31 January 2002, the Secretary of State for Trade and Industry held a Special Share with equivalent rights in National Grid Holdings One plc. A similar special share in Lattice was held at 31 March 2002 by the Crown. This share was redeemed on 21 October 2002 as part of the Merger arrangements.

Share option and award schemes

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

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

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

The Executive Plan applies to senior executives, including Executive Directors. Options granted for the 1999/2000 financial year are subject to the achievement of performance targets related to earnings per share growth over a three-year period and have now vested. Options granted for the 2000/01 financial year and thereafter are subject to the achievement of performance targets related to total shareholder returns over a three-year period. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

The Company also operates a number of share award schemes including a Performance Share Plan (PSP), a Share Matching Plan and a Transitional Share Award and Special Share Award in relation to former Crown Castle UK employees.

Under the PSP, awards have been made to Executive Directors and approximately 350 senior employees who have significant influence over the Group's ability to meet its strategic objectives. Under the PSP, awards are conditional on the Group's total shareholder return over a three-year period. Awards are delivered in National Grid Transco plc shares. At 31 March 2005 the number of conditional awards of ordinary share equivalents outstanding under the PSP was 5,864,904 (2004: 3,458,055) of which nil (2004: nil) were exercisable. The number of conditional awards during the year ended 31 March 2005 was 2,846,546 (2004: 3,458,055) with lapses/forfeits during the year of 436,700 (2004: nil) and exercises of 2,997 (2004: nil).

The Share Matching Plan applies to Executive Directors whereby a predetermined part of each Director's bonus entitlement is automatically deferred into National Grid Transco plc shares and a matching award may be made under the Plan after a three-year period provided the Director is still employed by the Group. At 31 March 2005 the number of conditional awards of ordinary share equivalents outstanding under the Share Matching Plan was 341,482 (2004: 212,185) of which 28,534 (2004: nil) were exercisable. The number of conditional awards during the year ended 31 March 2005 was 171,460 (2004: 88,455) with exercises during the year of 42,163 (2004: 11,245).

The Transitional Share Awards and Special Share Awards were made during the year ended 31 March 2005 to former Crown Castle UK employees and have a vesting period of four and two years respectively, provided the employee is still employed by the Group. The number of awards made during the year were 188,650 and 45,700 respectively.

23. Share capital (continued)

Movement in options to subscribe for ordinary shares under the Group's various options schemes for the three years ended 31 March 2005 are shown below and include those options related to shares issued to employee benefit trusts:

	Sharesave scheme options		Executive Plan options		Total options
	Weighted average price £	millions	Weighted average price £	millions	millions
At 1 April 2002	3.33	9.8	4.81	8.5	18.3
Converted from Lattice Sharesave scheme	3.18	26.7	–	–	26.7
Granted	3.62	9.9	4.78	5.1	15.0
Lapsed – forfeited	4.14	(3.7)	5.10	–	(3.7)
Lapsed – expired	3.68	(1.0)	2.85	(0.1)	(1.1)
Exercised	2.39	(3.7)	2.84	(0.4)	(4.1)
At 31 March 2003	3.31	38.0	4.86	13.1	51.1
Granted	3.17	10.4	4.05	0.1	10.5
Lapsed – expired	3.52	(5.1)	5.24	(0.9)	(6.0)
Exercised	3.16	(11.6)	2.90	(0.3)	(11.9)
At 31 March 2004	3.32	31.7	4.84	12.0	43.7
Granted	3.83	4.8	–	–	4.8
Lapsed – expired	3.36	(1.5)	5.02	(1.1)	(2.6)
Exercised	3.37	(3.8)	3.90	(0.5)	(4.3)
At 31 March 2005	3.35	31.2	4.86	10.4	41.6

Included within options outstanding at 31 March 2005 and 31 March 2004 were the following options which were exercisable:

	3.25	0.3	4.99	6.3	6.6
At 31 March 2005					
At 31 March 2004	3.32	0.8	3.78	2.4	3.2
At 31 March 2003	3.34	1.7	3.72	2.4	4.1

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2005 was 2 years and 1 month. These options have exercise prices between £3.12 and £4.57.

The weighted average share price at the exercise dates were as follows:

	2005	2004	2003
Sharesave scheme options	4.49	3.97	4.38
Executive Plan options	4.65	3.99	4.48

Lattice Sharesave scheme

	Weighted average price £	Sharesave scheme millions
At 1 April 2002	1.19	79.2
Lapsed – forfeited	1.21	(1.4)
Lapsed – expired	1.20	(3.4)
Exercised	1.19	(1.9)
Converted to National Grid Transco options	1.19	(71.2)
At 31 March 2003	1.20	1.3
Lapsed – expired	1.20	(1.3)
At 31 March 2004 and 31 March 2005	–	–

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

Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2005 are as follows:

	Weighted average exercise price of exercisable options £	Number exercisable millions	Weighted average exercise price of outstanding options £	Number outstanding millions	Exercise price per share pence	Normal dates of exercise years
Executive Plan	2.81	0.6	2.81	0.6	258.0 – 280.5	2001 – 2008
	3.79	0.6	3.79	0.6	375.8 – 490.0	2002 – 2009
	5.41	1.6	5.41	1.6	424.0 – 566.5	2003 – 2010
	5.32	1.1	5.32	1.1	526.0 – 623.0	2004 – 2011
	5.49	2.1	5.49	2.1	479.5 – 563.0	2005 – 2012
	4.71	0.3	4.68	4.3	434.3 – 481.5	2006 – 2013
	4.05	–	4.05	0.1	405.0	2007 – 2014
	4.99	6.3	4.86	10.4		

23. Share capital (continued)**Share-based payment charges**

Under UK GAAP, a charge is made to the profit and loss account based on the fair value of grants in accordance with FRS 20 'Share-based Payment'. All share awards are equity settled.

The charge to the profit and loss account for the year ended 31 March 2005 was £16m (2004: £25m; 2003: £40m, of which £3m was included within exceptional merger costs).

Awards under share option plans

The average share prices at the date of options being granted during each of the three financial years ended 31 March were as follows:

	2005	2004	2003
Where the exercise price is less than the market price at the date of grant	496.0p	400.0p	429.9p
Where the exercise price is equal to the market price at the date of grant	–	408.0p	464.0p

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

	2005	2004	2003
Where the exercise price is less than the market price at the date of grant	383.0p	317.0p	362.0p
Where the exercise price is equal to the market price at the date of grant	–	405.0p	478.0p

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

	2005	2004	2003
Where the exercise price is less than the market price at the date of grant	90.4p	67.4p	123.0p
Where the exercise price is equal to the market price at the date of grant	–	73.6p	50.0p

The fair values of the options granted were estimated using the following principal assumptions:

	2005	2004	2003
Dividend yield (%)	5.5-5.8	7.0	3.5
Volatility (%)	15.4	20.4	35.0
Risk-free investment rate (%)	4.5	4.6	4.4
Average life (years)	4.0	3.4	4.0

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes model. This is considered appropriate given the short exercise window of sharesave options.

Volatility has been derived based on the following:

- implied volatility in traded options over the Group's shares;
- historical volatility of the Group's shares from October 2002 (the date of the merger of National Grid Group plc and Lattice Group plc); and
- implied volatility of comparator companies where options in their shares are traded.

Volatility is assumed to revert from its current implied level to its long run mean, based on historical volatility under (ii) above.

Awards under other share scheme plans

The average share prices and fair values at the date share awards were granted during each of the three financial years ended 31 March were as follows:

	2005	2004	2003
Average share price	431.7p	407.8p	477.5p
Average fair value	210.6p	390.3p	477.5p

The fair values of the awards granted were estimated using the following principal assumptions:

	2005	2004	2003
Dividend yield (%)	5.3-5.7	7.0	3.5
Volatility (%)	15.4	20.4	35.0
Risk-free investment rate (%)	4.5-5.2	4.6	4.4

In 2003 the fair value of awards under the PSP were estimated using the Black-Scholes model. In 2004 the awards were estimated using the share price at the date of grant less an adjustment for dividends not payable in the vesting period. In 2005 fair values have been calculated using a Monte Carlo simulation model, which better reflects the total shareholder return performance conditions of the plan.

For other share scheme awards, where the primary vesting condition is that employees complete a specified number of years service, the fair value has been calculated as the share price at date of grant, adjusted to recognise the extent to which participants do not receive dividends over the vesting period.

Volatility for share awards has been calculated on the same basis as used for share options, as described above.

24. Reserves

	Group			Company		
	Share premium account £m	Other reserves £m	Profit and loss account £m	Share premium account £m	Other reserve £m	Profit and loss account £m
At 1 April 2002 (restated)	1,243	(5,139)	5,231	1,243	3	498
Exchange adjustments	-	-	(322)	-	-	-
Tax on exchange adjustments	-	-	12	-	-	-
Ordinary shares issued during the year	2	-	-	4	-	-
Repurchase and cancellation of ordinary shares	-	2	(97)	-	2	(97)
Transfer on issue of certain shares under share option schemes	2	-	(2)	-	-	-
Unrealised gain on transfer of assets to a joint venture (net of tax)	-	6	-	-	-	-
Movement in shares held by employee share trusts	-	-	14	-	-	-
Employee option scheme issues	-	-	40	-	24	-
Retained (loss)/profit for the year (restated)	-	-	(179)	-	-	734
At 31 March 2003 (restated)	1,247	(5,131)	4,697	1,247	29	1,135
Exchange adjustments	-	-	(417)	-	-	-
Tax on exchange adjustments	-	-	(12)	-	-	-
Ordinary shares issued during the year	33	-	-	33	-	-
Movement in shares held by employee share trusts	-	-	5	-	-	-
Employee option scheme issues	-	-	25	-	23	-
Retained profit for the year (restated)	-	-	465	-	-	186
At 31 March 2004 (restated)	1,280	(5,131)	4,763	1,280	52	1,321
Exchange adjustments	-	-	(73)	-	-	-
Ordinary shares issued during the year	9	-	-	9	-	-
Movement in shares held by employee share trusts	-	-	5	-	-	-
Employee option scheme issues	-	-	16	-	16	-
Deferred tax on employee option schemes	-	-	4	-	-	-
Retained profit for the year	-	-	177	-	-	1,921
Unrealised gain on sale of investment to a Group undertaking	-	-	-	-	-	4,293
At 31 March 2005	1,289	(5,131)	4,892	1,289	68	7,535

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's profit after taxation was £2,652m (2004: £795m; 2003: £1,264m). Of the Company's profit and loss account reserve of £7,535m at 31 March 2005, £4,567m relating to gains on intra-group transactions was not distributable to shareholders.

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

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

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

Own shares are included in the profit and loss account reserve at 31 March 2005 and related to 7 million 10p ordinary shares in National Grid Transco plc, held by employee share trusts for the purpose of satisfying certain obligations under various share option schemes operated by the Group. The carrying value of £29m (market value £33m) at 31 March 2005 represented the exercise amounts receivable in respect of those which were issued at market value by the Company and the cost in respect of those shares purchased in the open market.

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

Own shares at 31 March 2004 related to 9 million 10p ordinary shares in National Grid Transco plc (book value £34m, market value £43m).

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

25. Non-equity minority interests

The non-equity minority interests of £22m (2004: £38m) comprised cumulative preference stock issued by Group undertakings.

26. Reconciliation of movement in equity shareholders' funds

	2005 £m	2004 (restated) £m	2003 (restated) £m
Profit for the year	908	1,074	351
Dividends	(731)	(609)	(530)
	177	465	(179)
Issue of ordinary shares	9	34	2
Repurchase and cancellation of ordinary shares	-	-	(97)
Exchange adjustments	(73)	(417)	(322)
Tax on exchange adjustments	-	(12)	12
Movement in shares held by employee share trusts	5	5	14
Employee option scheme issues	16	25	40
Deferred tax on employee option schemes	4	-	-
Unrealised gain on transfer of assets to a joint venture (net of tax)	-	-	6
Net increase/(decrease) in equity shareholders' funds	138	100	(524)
Equity shareholders' funds at start of year	1,221	1,121	1,645
Equity shareholders' funds at end of year	1,359	1,221	1,121

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

	2005 £m	2004 (restated) £m	2003 (restated) £m
Operating profit of Group undertakings	1,845	1,830	1,572
Group exceptional operating items	251	277	479
Depreciation and amortisation	1,132	1,117	1,088
(Increase)/decrease in stocks	(10)	31	(16)
Decrease/(increase) in debtors	15	(121)	(149)
(Decrease)/increase in creditors	(111)	(6)	159
Decrease in provisions	(35)	(95)	(16)
Share-based payment charges	16	25	37
Net cash inflow from operating activities before exceptional items	3,103	3,058	3,154

b) Disposal of investments

	2005 £m	2004 £m	2003 £m
Cash consideration received	8	33	328
Comprises:			
Disposal of Group undertakings	-	-	92
Disposal of joint venture	8	-	-
Disposal of other investments	-	33	236
	8	33	328

c) Acquisition of Group undertakings

	2005 £m	2004 £m	2003 £m
Payments to acquire Group undertakings	(1,151)	-	-
Cash at bank of Group undertakings acquired	29	-	-
	(1,122)	-	-

28. Related party transactions

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

	2005 £m	2004 £m	2003 £m
Sales:			
Services supplied	4	6	10
Finance lease rentals	-	-	11
Purchases:			
Services received	24	25	59
Finance lease rentals	-	-	1
Tangible fixed assets	-	-	12

At 31 March 2005, the Group had amounts receivable and payable amounting to £1m (2004: £1m) and £1m (2004: £1m) respectively with related parties.

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

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

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

	2005 £m	2004 £m
Contracted for but not provided	927	448

b) Lease commitments

At 31 March 2005, the Group's operating lease commitments for the financial year ending 31 March 2006 amounted to £99m (2004: £59m) and are analysed by lease expiry date as follows:

	Land and buildings		Other		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Within one year	1	2	3	4	4	6
Between two and five years	10	5	18	15	28	20
After five years	57	21	10	12	67	33
	68	28	31	31	99	59

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

	2005 £m	2004 £m
In one year or less	99	59
In more than one year, but not more than two years	91	45
In more than two years, but not more than three years	83	40
In more than three years, but not more than four years	79	32
In more than four years, but not more than five years	77	31
In more than five years	501	271
	930	478

c) Power commitments

At 31 March 2005, the Group had obligations to purchase energy under long-term contracts. The following table analyses these commitments, excluding those purchased power obligations, the net present value of which is already reflected in creditors (notes 18 and 19):

	2005 £m	2004 £m
In one year or less	1,058	1,065
In more than one year, but not more than two years	623	629
In more than two years, but not more than three years	583	592
In more than three years, but not more than four years	567	575
In more than four years, but not more than five years	462	559
In more than five years	1,622	2,135
	4,915	5,555

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

The value of other Group commitments, contingencies and guarantees at 31 March 2005 amounted to £349m (2004: £263m), including guarantees amounting to £189m (2004: £168m).

Details of the guarantees entered into by the Group at 31 March 2005 are shown below:

- i) performance guarantees of £45m relating to certain property obligations of Group undertakings. The bulk of these expire by December 2025;
- ii) a guarantee of £50m of the obligations of a Group undertaking to make payments in respect of any liabilities under a meter operating contract that runs until May 2008;
- iii) a performance guarantee relating to the construction of the Victoria to Tasmania interconnector that commenced at 840 million Australian Dollars, reducing at construction milestones. The maximum potential payout is now estimated as £11m. The guarantee expires at commissioning, currently anticipated in April 2006;
- iv) a further performance guarantee relating to the construction of the Victoria to Tasmania interconnector of 48 million Australian Dollars (£20m). This halves on commissioning, currently anticipated in April 2006 and expires in November 2006;
- v) a guarantee of the payment obligations of a Group undertaking in respect of a Power Connection Agreement amounting to an annual maximum of 6 million Australian Dollars, reducing over the term of the contract. This runs until June 2049, but the maximum potential payout is estimated as £5m;
- vi) a guarantee of the payment obligations of a Group undertaking in respect of a Nitrogen Supply Agreement amounting to a maximum potential payout of £15m subject to a cap of £1m per annum. This runs until November 2019;
- vii) a guarantee of the payment obligations of a Group undertaking in respect of a Power Connection Agreement amounting to a maximum potential payout of £14m subject to a cap of £7m per annum. This runs until December 2024;
- viii) guarantees in respect of a former associate amounting to £14m, the bulk of which relates to its obligations to supply telecommunications services. This is open-ended; and
- ix) other guarantees amounting to £15m arising in the normal course of business and entered into on normal commercial terms. These guarantees run for varying lengths of time.

The Company has also guaranteed the lease obligations of a former associate to a Group undertaking, amounting to £37m (2004: £45m).

e) Parent Company loan guarantees on behalf of Group undertakings

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from certain Group undertakings to third parties. At 31 March 2005, the sterling equivalent amounted to £2,019m (2004: £1,892m). The guarantees are for varying terms between four and ten years.

f) Larkhall prosecution

Following a fatal accident at Larkhall, Lanarkshire in December 1999 in which four people died, our subsidiary Transco plc faces charges alleging breaches of sections 3 and 33 of the Health and Safety at Work Act 1974. The case is currently being tried in Edinburgh. The maximum penalty for breach of either of the above sections is an unlimited fine.

g) Cavendish Mill prosecution

Following a fatal accident at Cavendish Mill, Lancashire in November 2001 in which one person died, our subsidiary Transco plc has been charged with a breach of section 3 of the Health and Safety at Work Act 1974. The prosecution is ongoing. The maximum penalty for breach of this section is an unlimited fine.

30. Group undertakings and joint ventures**Principal Group undertakings**

The principal Group undertakings included in the Group accounts at 31 March 2005 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in Great Britain.

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

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

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

Principal joint ventures

(at 31 March 2005)

	Group holding	Country of incorporation and operation	Principal activity
Copperbelt Energy Corporation Plc (i)	38.5% ordinary shares	Zambia	Transmission, distribution and supply of electricity

(i) 31 December year end.

The investments in joint ventures are held by Group undertakings.

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

31. Subsequent events

Subsequent to 31 March 2005, we have made further substantial progress in respect of the planned sales of four of our regional gas networks, currently scheduled for 1 June 2005. This has included the adoption of a new regulatory regime by Ofgem, the transfer of the networks into four new subsidiary companies on 1 May 2005 and obtaining separate licences for each network.

32. Differences between UK and US accounting principles

The Group prepares its consolidated accounts in accordance with generally accepted accounting principles in the United Kingdom (UK GAAP), which differ in certain respects from generally accepted accounting principles in the United States (US GAAP).

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

Condensed income statements, statements of comprehensive income and changes in shareholders' equity, balance sheets and segmental information in a US GAAP format are presented in note 33. The balance sheets at 31 March 2004 and 31 March 2005 include the impact of the fair value of the acquired assets and liabilities of Lattice Group plc prepared under US GAAP at the date of acquisition. The effect of the US GAAP adjustments to profit for the financial year and equity shareholders' funds is set out below.

32. Differences between UK and US accounting principles (continued)**Reconciliation of net income from UK to US GAAP**

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

	Notes	2005 £m	2004 (restated) (i) £m	2003 (restated) (i) £m
Net income under UK GAAP		908	1,074	351
Adjustments to conform with US GAAP				
Elimination of Lattice pre-acquisition losses, measured under UK GAAP	(a)	–	–	304
Merger costs	(a)	–	–	32
Fixed assets – purchase of Lattice	(a)	(356)	(364)	(169)
Replacement expenditure (net of depreciation)	(a)	459	383	166
Pensions and other post-retirement benefits	(b)	59	7	35
Impairment of goodwill and other intangible assets	(c)	–	(31)	–
Financial instruments	(d)	254	82	40
Carrying value of EPICs liability	(e)	–	(226)	2
Severance and integration costs	(f)	62	–	(110)
Recognition of income	(g)	13	(9)	2
Goodwill amortisation	(h)	109	99	70
Intangibles amortisation	(i)	(8)	–	–
Restructuring – purchase of Lattice	(j)	2	2	46
Share of joint ventures' and associate's adjustments	(k)	–	–	(27)
Deferred taxation	(o)	(188)	(24)	7
Other	(p)	(10)	5	2
		396	(76)	400
Net income under US GAAP		1,304	998	751

Reconciliation of equity shareholders' funds from UK to US GAAP

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

	Notes	2005 £m	2004 (restated) (i) £m
Equity shareholders' funds under UK GAAP		1,359	1,221
Adjustments to conform with US GAAP			
Fixed assets – impact of Lattice Group plc purchase accounting and replacement expenditure – gross	(a)	8,202	7,776
Fixed assets – impact of Lattice Group plc purchase accounting and replacement expenditure – accumulated depreciation	(a)	(781)	(458)
Goodwill – purchase of Lattice	(a)	3,820	3,820
Pensions and other post-retirement benefits	(b)	(1,001)	(1,069)
Financial instruments	(d)	117	(285)
Severance and integration liabilities	(f)	65	3
Recognition of income	(g)	(21)	(35)
Goodwill – other acquisitions	(h)	233	245
Intangibles – other acquisitions	(i)	212	–
Restructuring – purchase of Lattice	(j)	(2)	(4)
Ordinary dividends	(l)	469	366
Tangible fixed assets – reversal of partial release of impairment provision	(m)	(29)	(32)
Regulatory assets	(n)	162	128
Deferred taxation	(o)	(2,224)	(1,876)
Other	(p)	10	21
		9,232	8,600
Equity shareholders' funds under US GAAP		10,591	9,821

(i) During the year ended 31 March 2005, the Group adopted Financial Reporting Standard (FRS) 20 'Share-based Payment', and as a result, prior year UK GAAP comparatives have been restated. For a reconciliation of prior year UK GAAP comparatives and the impact of changes in accounting policy, see note 1 to the Accounts on page 91.

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

a) Business combination with Lattice Group plc

Under UK GAAP the business combination with Lattice Group plc was accounted for using merger accounting which combines the results of both companies for the entire year. Under US GAAP, the business combination was accounted for using purchase accounting. As a consequence, the results of Lattice Group plc and its group undertakings are included in the Group accounts only from the date of combination.

Under UK GAAP merger costs are expensed. Under US GAAP merger costs are part of the consideration paid in connection with the acquisition. Consequently, merger costs have been excluded from net income under US GAAP.

32. Differences between UK and US accounting principles (continued)**Fixed assets – impact of Lattice Group plc purchase accounting and replacement expenditure**

Under US GAAP the tangible fixed assets of Lattice Group plc and its group undertakings were recorded at their fair value at the date of the business combination, and depreciation subsequent to that date has been calculated based on that fair value.

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

Goodwill – business combination with Lattice Group plc

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

b) Pensions and other post-retirement benefits

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

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

Under UK GAAP, as explained in note 7, net interest includes a charge of £37m (2004: £56m charge; 2003: £3m credit) in respect of the notional interest element of the variation from the regular pension cost. Under US GAAP, this cost is not recognised.

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

	Pensions			Other post-retirement benefits		
	2005 £m	2004 £m	2003 £m	2005 £m	2004 £m	2003 £m
Service cost	135	143	78	12	10	8
Interest cost	828	799	456	56	59	59
Settlements	–	14	19	–	10	–
Expected return on assets	(860)	(814)	(490)	(40)	(36)	(32)
Amortisation of prior service cost	6	5	5	3	–	–
Amortisation of previously unrecognised losses	45	39	4	20	21	2
Amortisation of transitional asset	–	(11)	(11)	–	–	–
	154	175	61	51	64	37
Release of pension provision	(2)	(2)	(2)	–	–	–
	152	173	59	51	64	37

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

	2005 £m	2004 £m	2003 £m
Cost of termination benefits and curtailments	30	129	119

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

	US			UK		
	2005 %	2004 %	2003 %	2005 %	2004 %	2003 %
Discount rate	5.8	6.3	7.5	5.5	5.4	6.0
Return on assets	8.3	8.5	8.5	6.2-6.7	6.3-6.9	6.3-7.1
General salary increases	3.3-5.3	3.3-5.3	3.3-4.5	3.9	3.5	3.8
Pension increases	nil	nil	nil	3.0	2.6	2.9

In respect of US schemes, the estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward-looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of our long-term assumptions. A small premium is added for active management of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with our target asset allocation, and the resulting long-term return on asset rate is then applied to the market-related value of assets. The long-term target asset allocation for the US pension schemes is 60% equities, 35% bonds and 5% property and other. The long-term target asset allocation for other post-retirement benefit schemes is 65% equities and 35% bonds.

In respect of UK schemes, the expected long-term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long-term asset allocation strategy adopted for each plan. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the schemes' actuaries. The long-term target asset allocation for the Lattice Group Pension Scheme is 40% equities, 52% bonds and 8% property and other. The long-term asset allocation for the Group's section of the Electricity Supply Pension Scheme is 63% equities, 30% bonds and 7% property and other.

The assumptions used for other post-retirement costs relate solely to US schemes. These assumptions were that the discount rate used would be 5.75% (2004: 5.75%; 2003: 6.25%) and that medical costs would increase by 10% (2004: 10%; 2003: 10%), decreasing to 5% (2004: 5%; 2003: 5%) by 2010 and remain at 5% (2004: 5%; 2003: 5%) thereafter.

32. Differences between UK and US accounting principles (continued)**b) Pensions and other post-retirement benefits** (continued)

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

	Pensions		Other post-retirement benefits	
	2005 £m	2004 £m	2005 £m	2004 £m
Projected benefit obligation	(15,758)	(15,394)	(1,068)	(1,002)
Fair value of plan assets	14,086	13,432	488	496
Excess of projected benefit obligation over plan assets	(1,672)	(1,962)	(580)	(506)
Unrecognised net loss	1,180	1,493	316	328
Unrecognised prior service cost/(credit)	60	48	70	(5)
Net accrued benefit liability – before minimum liability adjustment	(432)	(421)	(194)	(183)
Additional minimum liability adjustment	(811)	(840)	–	–
Net accrued benefit liability	(1,243)	(1,261)	(194)	(183)

At 31 March 2005, as required under SFAS 87, an intangible asset of £60m (2004: £48m) was recognised in relation to the additional minimum liability, being equal to the unrecognised prior service cost. A regulatory asset of £133m (2004: £120m) was also created. The remaining additional minimum liability of £618m (2004: £672m) has been included in other comprehensive income.

The net accrued benefit liability above is shown net of a prepaid cost of £181m in respect of one Group scheme.

The principal financial assumptions used for the SFAS 87 calculations of the projected benefit obligation, based on a measurement date of 31 March 2005, in respect of the US and UK defined benefit schemes are shown below:

	US			UK		
	2005 %	2004 %	2003 %	2005 %	2004 %	2003 %
Discount rate	5.8	5.8	6.3	5.4	5.5	5.4
General salary increases	3.9-4.3	3.3-5.3	3.3-5.3	3.9	3.9	3.5
Pension increases	nil	nil	nil	3.0	3.0	2.6

All pension schemes had an additional minimum liability adjustment except the Lattice Group Pension Scheme and the Crown Castle Pension Scheme. The accumulated benefit obligation for pensions was £14,825m at 31 March 2005 (2004: £14,507m). The Group has followed approach two of Emerging Issues Task Force (EITF) Abstract 88-1 in calculating the accumulated benefit obligation. Changes in the projected benefit obligation and changes in the fair value of plan assets are shown below:

	Pensions		Other post-retirement benefits	
	2005 £m	2004 £m	2005 £m	2004 £m
Projected benefit obligation at start of year	15,394	15,030	1,002	1,004
Service cost	135	143	12	10
Interest cost	828	799	56	59
Plan participants' contributions	17	18	–	–
Plan amendment – prior service cost	17	–	79	(5)
Terminations	30	129	–	5
Curtailments	–	(2)	–	10
Settlements	(1)	(80)	–	–
Actuarial loss	136	322	5	119
Benefits paid	(783)	(736)	(52)	(51)
Acquisition of Group undertakings	31	–	–	–
Transfers	1	–	–	–
Exchange adjustments	(47)	(229)	(34)	(149)
Projected benefit obligation at end of year	15,758	15,394	1,068	1,002
Fair value of plan assets at start of year	13,432	12,115	496	373
Actual return on assets	1,248	2,023	26	92
Employer contributions	184	244	32	123
Plan participants' contributions	17	18	–	–
Benefits paid	(783)	(736)	(52)	(24)
Acquisition of Group undertakings	21	–	–	–
Settlements	(1)	(80)	–	–
Exchange adjustments	(32)	(152)	(14)	(68)
Fair value of plan assets at end of year	14,086	13,432	488	496

32. Differences between UK and US accounting principles (continued)**b) Pensions and other post-retirement benefits** (continued)

It is estimated that a 1% change in the assumed healthcare cost trends would have increased or decreased the accumulated post-retirement benefit obligation at 31 March 2005 by £104m (2004: £106m; 2003: £106m) and £90m (2004: £96m; 2003: £96m) respectively. The net periodic cost for the year ended 31 March 2005 would have increased or decreased by £7m and £6m respectively (2004: £7m and £8m respectively).

Estimated contributions for all pensions and other post-retirement plans for the year ending 31 March 2006 are £214m.

As at 31 March 2005 the following benefit payments, which reflect future service as appropriate, are expected to be paid:

Year ended 31 March	Pensions £m	Other post- retirement benefits £m
2006	747	53
2007	755	56
2008	759	57
2009	767	58
2010	784	59
2011–2015	4,300	295

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

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

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

c) Impairment of goodwill and other intangible assets

The Group reviews all long-lived assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Under UK GAAP, recognition and measurement of impairment is determined on the basis of discounted cash flows attributable to income generating units. Under US GAAP, impairments on long-lived assets are determined in accordance with SFAS 144 'Accounting for the Impairment or Disposal of Long-Lived Assets' and are recognised on the basis of undiscounted future cash flows and measured on the basis of discounted future cash flows.

An impairment assessment was carried out during 2004 which resulted in an impairment of goodwill being recorded in respect of Advantica, which was acquired by the Group as part of the Lattice Group plc acquisition.

d) Financial instruments

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

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

The Group has elected not to adopt hedge accounting for the purposes of SFAS 133 except for certain hedges of net investments in foreign operations. Excluding the certain hedges of net investments that have been designated and qualify as hedges under SFAS 133, the reconciliation to net income fully reflects the changes in fair value of derivative financial instruments. There is no reconciling adjustment for the hedges of net investments for which the Group has adopted hedge accounting under SFAS 133, as realised and unrealised gains and losses are taken to reserves under both US GAAP and UK GAAP.

Contracts that qualify as normal purchases and normal sales are excluded from the requirements of SFAS 133. The realised gains and losses on these contracts are reflected in the income statement at the contract settlement date.

e) Equity Plus Income Convertible Securities (EPICs)

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

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

f) Severance and integration costs

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

32. Differences between UK and US accounting principles (continued)**f) Severance and integration costs** (continued)

Similarly, under UK GAAP future costs related to property leases have been accrued for in connection with vacating certain premises. Under US GAAP a liability would not be recognised until the 'cease use' date is reached, which is expected some time in the near future. This represents a timing difference between UK and US GAAP on the recognition of such costs.

g) Recognition of income

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

h) Goodwill – other

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

Under UK GAAP, goodwill is amortised over its expected useful economic life, principally 20 years. Under US GAAP, goodwill is not amortised but is reviewed periodically for impairment.

i) Intangible assets

Under US GAAP, in a business combination, intangible assets that meet certain criteria are recognised as assets, separate from goodwill, at fair value. The criteria for separate recognition are met if the intangible asset arises from contractual or legal rights or if it is separable; that is, capable of being separated and sold, transferred or exchanged.

In the acquisition of the UK operations of Crown Castle International Corp., £220m of intangible assets relating to customer contracts and relationships were recognised and are being amortised on a straight-line basis over periods ranging from 10 to 25 years, being the expected life of these intangible assets.

j) Restructuring – purchase of Lattice Group plc

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

k) Share of joint ventures' and associate's adjustments

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

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

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

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

l) Ordinary dividends

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

m) Tangible fixed assets – reversal of partial release of impairment provision

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

n) Regulatory assets

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

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

32. Differences between UK and US accounting principles (continued)**o) Deferred taxation**

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

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

The corporate tax charge on continuing operations under US GAAP is analysed between current taxes and deferred taxes as follows:

	2005 £m	2004 £m	2003 £m
Current taxes	118	177	44
Deferred taxes	313	105	214
Tax charge	431	282	258

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

	2005 £m	2004 £m
Deferred taxation liabilities:		
Excess of book value over taxation value of fixed assets	5,029	4,943
Other temporary differences	1,162	1,169
	6,191	6,112
Deferred taxation assets:		
Other temporary differences (i)	(900)	(1,245)
	5,291	4,867
Analysed as follows:		
Current	(184)	63
Non-current	5,475	4,804
	5,291	4,867

(i) Deferred taxation assets at 31 March 2005 were stated net of a £91m valuation allowance adjustment associated with certain capital losses (31 March 2004: £210m).

p) Other

Other differences between UK GAAP and US GAAP are not individually material and relate to non-discounting of environmental provisions under US GAAP (discounted under UK GAAP), differences arising from the recognition of amortisation expense on certain assets and other interest income.

Other US GAAP disclosures**Group cash flow statement**

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

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

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

	2005 £m	2004 £m	2003 £m
Net cash provided by operating activities (i)	2,483	2,500	2,000
Investing activities			
Payments to acquire tangible fixed assets	(1,828)	(1,788)	(1,170)
Acquisition of Group undertakings (net of cash acquired)	(1,122)	–	338
Payments to acquire investments	(16)	–	(163)
Receipts from disposal of tangible fixed assets	89	146	53
Receipts from disposal of investments	11	7	328
Net movement in investments with an original maturity date of more than three months	(59)	(65)	–
Other	–	–	(22)
Net cash used in investing activities (ii)	(2,925)	(1,700)	(636)
Net cash provided by/(used in) financing activities (iii)	440	(828)	(962)
Net (decrease)/increase in cash and cash equivalents	(2)	(28)	402
Cash and cash equivalents at beginning of year	528	570	178
Exchange adjustments	(1)	(14)	(10)
Cash and cash equivalents at end of year	525	528	570

32. Differences between UK and US accounting principles (continued)**Other US GAAP disclosures** (continued)**Group cash flow statement** (continued)

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

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

Businesses to be disposed

On 31 August 2004, the Group announced that it had reached agreement on the sales of four of its regional gas distribution networks. The sales are subject to certain conditions to prepare the assets for sale and regulatory consents and approvals. The Group determined that it had substantially met the required conditions on 1 May 2005. The sales are expected to complete, subject to final regulatory approval, on or around 1 June 2005.

With effect from 1 May 2005, the Group has classified the assets, liabilities and results of operations for the four gas networks as discontinued operations under US GAAP. The following table reflects the US GAAP carrying values of the primary components of the networks to be disposed of as at 31 March 2005.

	2005 £m
Property, plant and equipment	5,752
Other assets	96
Total assets	5,848
Accounts payable	(765)
Other liabilities	(50)
Net assets	5,033

Certain other assets and liabilities may be part of the disposed group dependent upon continued trading and operations up until the date of completion of the sales. The above table does not include any deferred taxation.

Non-GAAP measures

In preparing the accounts in accordance with the Companies Act 1985 and UK GAAP, certain information is presented that would be viewed as 'non-GAAP' under regulations issued by the SEC. The Group has described such items and provided disclosure of the effects and reasons for presentation along with a condensed US GAAP income statement using the format prescribed by the SEC. The disclosure of each of the exceptional items would be prohibited within the Form 20-F if such exceptional items were not expressly permitted by FRS 3.

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

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

Exceptional items, which are adjusted for in the adjusted measures referred to above, are defined as material items that derive from events that fall within the ordinary activities of the Group, but that require separate disclosure on the grounds of size or incidence for the accounts to give a true and fair view. Such exceptional items include, for example, material restructuring costs and impairments. Note 4 on pages 95 and 96 contains a discussion of the nature of these exceptional items for each year.

Other differences between UK and US GAAP

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

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

Under UK GAAP, assets in the balance sheet are presented in ascending order of liquidity and the balance sheet is analysed between net assets and shareholders' funds. Under US GAAP, assets are presented in descending order of liquidity and the balance sheet is analysed between total assets and liabilities and shareholders' funds as used in the presentation in note 33.

32. Differences between UK and US accounting principles (continued)**New US Accounting Standards adopted during 2004/05****FIN 46(R)**

FIN 46(R) requires the primary beneficiary of a variable interest entity for which control is achieved through means other than through voting rights to consolidate the variable interest entity concerned. The Group adopted FIN 46(R) for the financial year beginning 1 April 2004 and has considered the impact of this standard. Following this assessment, the Group has determined that the adoption of FIN 46(R) did not have a material impact on the Group's accounts.

FSP 106-2

In May 2004, the Financial Accounting Standards Board (FASB) issued the FASB Staff Position No. FAS 106-2 'Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003' (FSP 106-2), which supersedes FSP 106-1 of the same title issued in January 2004. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) introduces a federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Group has concluded that, if provisions are finalised in their current form, benefits provided under the Group's plan meet the 'actuarially equivalent' standard set forth in the Medicare Act. As permitted, the Group prospectively adopted FSP 106-2 in the year ended 31 March 2005, thereby reducing accumulated benefit obligation by £43m and realising a related £4m tax benefit. Any decrease in future net periodic post-retirement benefit expense that results from the Act will be deferred and will be credited to customers.

EITF 03-1

In March 2004, the EITF reached a consensus on EITF Issue 03-1 'The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments'. EITF 03-1 provides new guidance on assessing impairment loss, prescribing a three-step impairment model. In September 2004, the FASB issued FASB Staff Position EITF 03-1-1 'Effective Date of Paragraphs 10-20 of EITF Issue 03-1' which delays the effective date for the measurement and recognition guidance in paragraphs 10-20 of EITF 03-1. The disclosure requirements of EITF 03-1 remained effective. The impact of adopting the disclosure requirements of EITF 03-1 did not impact on the Group's consolidated financial statements.

Recent US pronouncements not yet adopted**SFAS 123(R)**

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004) 'Share-Based Payment' (SFAS 123(R)), which is a revision of FASB Statement No. 123 'Accounting for Stock-Based Compensation' (SFAS 123). SFAS 123(R) supersedes APB Opinion No. 25 'Accounting for Stock Issued to Employees', and amends FASB Statement No. 95 'Statement of Cash Flows'. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognised in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Group expects to adopt SFAS 123(R) as of 1 April 2006.

SFAS 123(R) permits adoption of the requirements using one of two methods: a 'modified prospective' method where the requirements are applied to all share-based payments granted after the effective date of the pronouncement; or a 'modified retrospective' method which allows entities to restate prior periods based on the amounts previously recognised under SFAS 123 for the purposes of pro forma disclosures. The Group plans to adopt SFAS 123(R) using the modified prospective method.

The Group adopted the fair-value based method of accounting for share-based payments using the 'retroactive restatement method' described in FASB Statement No. 148 'Accounting for Stock-Based Compensation – Transition and Disclosure'. Currently, the Group uses the Black-Scholes European option pricing model to estimate the value of stock options granted to employees and expects to continue to use this acceptable option valuation model upon the required adoption of SFAS 123(R) on 1 April 2006. The Group does not anticipate that adoption of SFAS 123(R) will have a material impact on its results of operations or its financial position. However, SFAS 123(R) also requires that the benefits of tax deductions in excess of recognised compensation cost be reported as a financing cash flow, rather than as an operating cash flow as currently required. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date.

SFAS 153

In December 2004, as part of the FASB's short-term convergence project with the International Accounting Standards Board, the FASB issued FASB Statement No. 153 'Exchanges of Non-Monetary Assets' (SFAS 153), which is an amendment to APB Opinion No. 29 'Accounting for Non-Monetary Transactions' (APB 29). APB 29 provided an exemption to its general principle of measuring such transactions at fair value where the exchange related to similar productive assets. The exemption permitted the exchange to be valued at the recorded amount of the assets relinquished. SFAS 153 removes this exemption so that all non-monetary transactions (apart from those without commercial substance) are recorded at fair value. The Group expects to adopt SFAS 153 prospectively for all transactions taking place after 1 April 2006. The impact of the adoption of SFAS 153 cannot be predicted at this time because it will depend on whether applicable non-monetary transactions take place after the effective date.

FIN 47

FASB Interpretation No. 47 'Accounting for Conditional Asset Retirement Obligations' (FIN 47) clarifies that the term 'conditional asset retirement obligation', as used in SFAS No. 143 'Accounting for Asset Retirement Obligation' (SFAS 143), refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Group. FIN 47 is effective for financial years ending after 15 December 2005. The Group does not believe the adoption of FIN 47 will have a material impact on its accounts.

33. Condensed US GAAP financial information

As described in note 32, the October 2002 business combination of National Grid Group plc and Lattice Group plc was accounted for as a merger (pooling of interests) under UK GAAP and as an acquisition (purchase accounting) under US GAAP. The different treatments result in the UK GAAP financial statements being fundamentally different compared to the amounts presented under US GAAP. Due to these differences, condensed US GAAP financial information is presented to more clearly show the operating and financial position that would have been reported under US GAAP.

Condensed US GAAP income statement

	2005 National Grid Transco (UK GAAP) £m	2005 US GAAP adjustments £m	2005 National Grid Transco (US GAAP) £m
Turnover	8,521	13	8,534
Operating costs			
Depreciation	(860)	(319)	(1,179)
Payroll and severance costs	(941)	(56)	(997)
Purchases of electricity	(1,678)	–	(1,678)
Purchases of gas	(385)	–	(385)
Rates and property taxes	(490)	–	(490)
Electricity transmission services scheme direct costs	(301)	–	(301)
EnMO direct costs	–	–	–
Replacement expenditure	(474)	474	–
Provision for doubtful debts	(42)	–	(42)
Other operating charges	(1,505)	205	(1,300)
	(6,676)	304	(6,372)
Operating profit	1,845	317	2,162
Share of joint ventures' operating profit	7	(7)	–
Non-operating items	83	(46)	37
Profit before interest and taxation	1,935	264	2,199
Net interest	(783)	323	(460)
Profit on ordinary activities before taxation	1,152	587	1,739
Taxation	(245)	(186)	(431)
Profit on ordinary activities after taxation	907	401	1,308
Minority interests	1	(3)	(2)
Interest in equity accounted affiliates (net of tax of £2m)		(2)	(2)
Net income from continuing operations	908	396	1,304
Net loss from discontinued operations (net of tax of £nil)		–	–
Net income for the year	908	396	1,304
Basic earnings per share under US GAAP (pence) – continuing operations			42.3p
Diluted earnings per share under US GAAP (pence) – continuing operations			42.1p
Basic earnings per ADS under US GAAP (pence) – continuing operations			211.5p
Diluted earnings per ADS under US GAAP (pence) – continuing operations			210.5p
Basic earnings per share under US GAAP (pence) – total Group			42.3p
Diluted earnings per share under US GAAP (pence) – total Group			42.1p
Basic earnings per ADS under US GAAP (pence) – total Group			211.5p
Diluted earnings per ADS under US GAAP (pence) – total Group			210.5p
Weighted average number of shares in issue (million) – for basic EPS			3,082
Weighted average number of shares in issue (million) – for diluted EPS			3,096

33. Condensed US GAAP financial information (continued)
Condensed US GAAP income statement (continued)

	2004 National Grid Transco (UK GAAP) (restated) £m	2004 US GAAP adjustments (restated) £m	2004 National Grid Transco (US GAAP) £m
Turnover	9,033	(167)	8,866
Operating costs			
Depreciation	(866)	(298)	(1,164)
Payroll and severance costs	(1,045)	(252)	(1,297)
Purchases of electricity	(1,998)	–	(1,998)
Purchases of gas	(371)	–	(371)
Rates and property taxes	(516)	–	(516)
Electricity transmission services scheme direct costs	(277)	–	(277)
EnMO direct costs	(158)	158	–
Replacement expenditure	(388)	388	–
Provision for doubtful debts	(50)	–	(50)
Other operating charges	(1,534)	263	(1,271)
	(7,203)	259	(6,944)
Operating profit	1,830	92	1,922
Share of joint ventures' operating profit	7	(7)	–
Non-operating items	322	(290)	32
Profit before interest and taxation	2,159	(205)	1,954
Net interest	(822)	150	(672)
Profit on ordinary activities before taxation	1,337	(55)	1,282
Taxation	(261)	(21)	(282)
Profit on ordinary activities after taxation	1,076	(76)	1,000
Minority interests	(2)	–	(2)
Interest in equity accounted affiliates (net of tax of £nil)		–	–
Net income from continuing operations	1,074	(76)	998
Net loss from discontinued operations (net of tax of £nil)		–	–
Net income for the year	1,074	(76)	998
Basic earnings per share under US GAAP (pence) – continuing operations			32.5p
Diluted earnings per share under US GAAP (pence) – continuing operations			32.4p
Basic earnings per ADS under US GAAP (pence) – continuing operations			162.5p
Diluted earnings per ADS under US GAAP (pence) – continuing operations			162.0p
Basic earnings per share under US GAAP (pence) – total Group			32.5p
Diluted earnings per share under US GAAP (pence) – total Group			32.4p
Basic earnings per ADS under US GAAP (pence) – total Group			162.5p
Diluted earnings per ADS under US GAAP (pence) – total Group			162.0p
Weighted average number of shares in issue (million) – for basic EPS			3,070
Weighted average number of shares in issue (million) – for diluted EPS			3,077

33. Condensed US GAAP financial information (continued)
Condensed US GAAP income statement (continued)

	2003 National Grid Transco (UK GAAP) (restated) £m	US GAAP adjustments		2003 National Grid Transco (US GAAP) £m
		2003 Lattice pre- acquisition (UK GAAP) (restated) £m	2003 Other US GAAP adjustments (restated) £m	
Turnover	9,400	(1,470)	(529)	7,401
Operating costs				
Depreciation	(851)	249	(129)	(731)
Payroll and severance costs	(1,144)	316	(276)	(1,104)
Purchases of electricity	(1,901)	–	–	(1,901)
Purchases of gas	(357)	53	–	(304)
Rates and property taxes	(537)	130	–	(407)
Electricity transmission services scheme direct costs	(252)	–	–	(252)
EnMO direct costs	(530)	–	530	–
Replacement expenditure	(405)	239	166	–
Provision for doubtful debts	(24)	1	–	(23)
Other operating charges	(1,827)	545	320	(962)
	(7,828)	1,533	611	(5,684)
Operating profit	1,572	63	82	1,717
Share of joint ventures' operating profit	124	1	(125)	–
Non-operating expenses	(99)	67	27	(5)
Profit before interest and taxation	1,597	131	(16)	1,712
Net interest	(970)	203	103	(664)
Profit on ordinary activities before taxation	627	334	87	1,048
Taxation	(245)	(29)	16	(258)
Profit on ordinary activities after taxation	382	305	103	790
Minority interests	(31)	(1)	29	(3)
Interest in equity accounted affiliates (net of tax of £5m)			3	3
Net income from continuing operations	351	304	135	790
Net loss from discontinued operations (net of tax of £nil)			(39)	(39)
Net income for the year	351	304	96	751
Basic earnings per share under US GAAP (pence) – continuing operations				33.6p
Diluted earnings per share under US GAAP (pence) – continuing operations				32.9p
Basic earnings per ADS under US GAAP (pence) – continuing operations				168.0p
Diluted earnings per ADS under US GAAP (pence) – continuing operations				164.5p
Basic earnings per share under US GAAP (pence) – total Group				31.9p
Diluted earnings per share under US GAAP (pence) – total Group				31.3p
Basic earnings per ADS under US GAAP (pence) – total Group				159.5p
Diluted earnings per ADS under US GAAP (pence) – total Group				156.5p
				£m
Net income under US GAAP after £22m dilutive impact of 4.25% Exchangeable Bonds 2008				773
Weighted average number of shares in issue (million) – for basic EPS				2,348
Weighted average number of shares in issue (million) – for diluted EPS				2,468

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

Under UK GAAP, the weighted average number of shares in issue for basic EPS for the year ended 31 March 2003 was 3,078m compared with 2,348m under US GAAP. The difference related to shares issued on the business combination of National Grid Group plc and Lattice Group plc. As this transaction was accounted for as a merger (pooling of interests) under UK GAAP, shares issued were included in the weighted average share capital as if they were in issue throughout the year. Under US GAAP, they are included from the date of issue (21 October 2002). This difference impacted 2003 and earlier periods but did not affect 2004 and 2005 and will not affect future accounting periods.

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

	2005 £m	2004 £m	2003 £m
Net income	1,304	998	751
Additional minimum pension liability (net of tax of £16m charge, £188m charge and £417m credit)	33	415	(886)
Exchange adjustments (net of tax of £nil, £12m charge and £12m credit)	(80)	(438)	(322)
Mark to market of financial instruments (net of tax of £43m charge, £26m credit and £nil)	111	(84)	–
Share of joint ventures' other comprehensive loss	–	–	(10)
Other	–	–	9
Comprehensive income/(loss)	1,368	891	(458)
Dividends	(628)	(560)	(382)
Shares issued to purchase Lattice	–	–	6,566
Other shares issued	9	34	2
Share options granted	16	25	29
Repurchase of shares	–	–	(97)
Movement in treasury stock	5	5	7
Shareholders' equity at 1 April	9,821	9,426	3,759
Shareholders' equity at 31 March	10,591	9,821	9,426

33. Condensed US GAAP financial information (continued)
Condensed US GAAP balance sheet

	2005 £m	2004 £m
Assets		
Current assets		
Cash and cash equivalents	525	528
Marketable securities	156	102
Accounts and notes receivable	553	496
Inventories	101	91
Regulatory assets	443	512
Prepaid expenses and other current assets	599	596
Total current assets	2,377	2,325
Property, plant and equipment cost	34,282	32,216
Property, plant and equipment accumulated depreciation	(10,022)	(9,091)
	24,260	23,125
Goodwill cost	6,156	5,698
Goodwill accumulated amortisation and impairments	(97)	(93)
	6,059	5,605
Intangible assets	272	50
Investments	152	155
Regulatory assets	2,907	3,136
Other debtors	1,247	951
Total assets	37,274	35,347
Liabilities and shareholders' equity		
Current liabilities		
Bank overdrafts	18	26
Accounts payable	1,111	1,036
Short-term borrowings	3,229	1,644
Accrued income taxes	79	122
Purchased power obligations	54	57
Liability for index-linked swap contracts	99	100
Other accrued liabilities	1,263	1,402
Total current liabilities	5,853	4,387
Long-term borrowings	11,475	12,256
Purchased power obligations	90	149
Liability for index-linked swap contracts	228	291
Post-retirement benefits	1,515	1,681
Deferred income taxes	5,475	4,867
Other liabilities	2,009	1,841
Total liabilities	26,645	25,472
Minority interest – equity	10	12
Cumulative preference stock issued by Group undertakings	28	42
Shareholders' equity		
Common stock (par value £0.10 per share; shares authorised 5,000m; shares issued 2005: 3,090m; 2004: 3,088m)	309	309
Additional paid in capital	7,793	7,768
Other reserves	359	359
Retained earnings	3,377	2,701
Other comprehensive loss	(1,218)	(1,282)
Treasury stock	(29)	(34)
Equity shareholders' funds	10,591	9,821
Total liabilities and shareholders' equity	37,274	35,347

Other comprehensive loss can be analysed as follows:

	2005 £m	2004 £m
Foreign exchange losses	(901)	(821)
Additional minimum pension liability	(623)	(672)
Mark to market of financial instruments	66	(88)
Taxation	236	295
Other	4	4
	(1,218)	(1,282)

33. Condensed US GAAP financial information (continued)

Segmental information under US GAAP

Segments have been determined in accordance with SFAS 131 and segmented financial information has been presented in accordance with US GAAP.

	2005 £m	2004 (i) £m	2003 (i) £m
Turnover by business segment			
Continuing operations			
UK electricity and gas transmission	1,937	1,875	1,615
US electricity transmission	283	318	400
UK gas distribution	2,223	2,229	1,239
US electricity and gas distribution	3,112	3,495	3,306
US stranded cost recoveries	420	505	586
Wireless infrastructure	208	72	61
Other activities	844	834	401
Sales between businesses	(493)	(462)	(207)
Group turnover – continuing operations	8,534	8,866	7,401
Operating profit by business segment			
Continuing operations			
UK electricity and gas transmission	711	676	573
US electricity transmission	121	124	116
UK gas distribution	712	758	567
US electricity and gas distribution	356	237	350
US stranded cost recoveries	121	135	148
Wireless infrastructure	4	6	(23)
Other activities	137	(14)	(14)
Operating profit – continuing operations	2,162	1,922	1,717

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

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

	2005 £m	2004 (i) £m
		Property, plant and equipment
Analysis by business segment		
Continuing operations		
UK electricity and gas transmission	6,642	6,442
US electricity transmission	1,176	1,174
UK gas distribution	10,479	10,233
US electricity and gas distribution	3,401	3,428
US stranded cost recoveries	7	6
Wireless infrastructure	681	65
Other activities	1,874	1,777
	24,260	23,125
Analysis by geographical region		
UK	19,350	18,335
US	4,633	4,652
Rest of the World	277	138
	24,260	23,125

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

33. Condensed US GAAP financial information (continued)

Goodwill

	UK electricity and gas transmission £m	US electricity transmission £m	UK gas distribution £m	US electricity and gas distribution £m	US stranded cost recoveries £m	Wireless infrastructure £m	Other activities £m	Total £m
1 April 2003	753	403	3,040	1,568	–	86	50	5,900
Exchange adjustments	–	(55)	–	(214)	–	(3)	(15)	(287)
Additions	–	–	–	–	–	–	1	1
Impairment	–	–	–	–	–	–	(20)	(20)
Adjustments to provisional fair value	3	–	(50)	–	–	–	58	11
1 April 2004	756	348	2,990	1,354	–	83	74	5,605
Exchange adjustments	–	(11)	–	(44)	–	(3)	–	(58)
Additions	–	–	–	–	–	512	–	512
31 March 2005	756	337	2,990	1,310	–	592	74	6,059

34. Transco plc additional US GAAP disclosures

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

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

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2005. Summary income statements of National Grid Transco plc and Transco plc are presented under UK and US GAAP measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

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

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

Transco plc and British Transco Finance Inc. were treated as acquired (as part of the business combination with Lattice Group plc) under US GAAP. As a consequence, under US GAAP, their results only feature in the following tables for the period after acquisition on 21 October 2002.

34. Transco plc additional US GAAP disclosures (continued)**Summary income statement for the twelve months to 31 March 2005 – UK GAAP**

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor			National Grid Transco Group
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	£m
Turnover	1	–	3,135	5,899	(514)	8,521
Operating costs						
Depreciation	–	–	(404)	(456)	–	(860)
Payroll costs	(2)	–	(389)	(550)	–	(941)
Purchases of electricity	–	–	–	(1,678)	–	(1,678)
Purchases of gas	–	–	(113)	(272)	–	(385)
Rates and property taxes	–	–	(244)	(246)	–	(490)
Electricity transmission services scheme direct costs	–	–	–	(301)	–	(301)
EnMO direct costs	–	–	–	–	–	–
Replacement expenditure	–	–	(474)	–	–	(474)
Provision for doubtful debts	–	–	3	(45)	–	(42)
Other operating charges (including exceptional items)	(29)	–	(3,616)	(1,210)	3,350	(1,505)
	(31)	–	(5,237)	(4,758)	3,350	(6,676)
Operating profit	(30)	–	(2,102)	1,141	2,836	1,845
Share of joint ventures' operating profit	–	–	–	7	–	7
Non-operating exceptional items	–	–	–	83	–	83
Profit before interest and taxation	(30)	–	(2,102)	1,231	2,836	1,935
Net interest	(20)	–	(427)	(336)	–	(783)
Dividends receivable	–	–	–	500	(500)	–
Profit on ordinary activities before taxation	(50)	–	(2,529)	1,395	2,336	1,152
Taxation	23	–	(86)	(182)	–	(245)
Profit on ordinary activities after taxation	(27)	–	(2,615)	1,213	2,336	907
Minority interests	–	–	–	1	–	1
Interest in Group undertakings on an equity accounted basis	935	–	2,918	–	(3,853)	–
Net income for the year	908	– (i)	303	1,214	(1,517)	908

Summary income statement for the twelve months to 31 March 2005 – US GAAP

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor			National Grid Transco Group
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	£m
Turnover	1	–	3,151	5,896	(514)	8,534
Operating costs						
Depreciation	–	–	(711)	(468)	–	(1,179)
Payroll and severance costs	(2)	–	(408)	(587)	–	(997)
Purchases of electricity	–	–	–	(1,678)	–	(1,678)
Purchases of gas	–	–	(113)	(272)	–	(385)
Rates and property taxes	–	–	(244)	(246)	–	(490)
Electricity transmission services scheme direct costs	–	–	–	(301)	–	(301)
Provision for doubtful debts	–	–	3	(45)	–	(42)
Other operating charges	(29)	–	(3,530)	(1,091)	3,350	(1,300)
	(31)	–	(5,003)	(4,688)	3,350	(6,372)
Operating profit	(30)	–	(1,852)	1,208	2,836	2,162
Non-operating expenses	–	–	–	37	–	37
Profit before interest and taxation	(30)	–	(1,852)	1,245	2,836	2,199
Net interest	123	–	(443)	(146)	6	(460)
Dividends receivable	–	–	–	500	(500)	–
Profit on ordinary activities before taxation	93	–	(2,295)	1,599	2,342	1,739
Taxation	(20)	–	(160)	(249)	(2)	(431)
Profit on ordinary activities after taxation	73	–	(2,455)	1,350	2,340	1,308
Minority interests	–	–	–	(2)	–	(2)
Interest in equity accounted affiliates	1,231	–	2,930	(2)	(4,161)	(2)
Net income from continuing operations	1,304	–	475	1,346	(1,821)	1,304
Net loss from discontinued operations	–	–	–	–	–	–
Net income for the year	1,304	– (i)	475	1,346	(1,821)	1,304

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

34. Transco plc additional US GAAP disclosures (continued)**Summary income statement for the twelve months to 31 March 2004 – UK GAAP**

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor			
	National Grid Transco plc (restated) £m	British Transco Finance Inc. £m	Transco plc (restated) £m	Other subsidiaries (restated) £m	Consolidation adjustments (restated) £m	National Grid Transco Group (restated) £m
Turnover	-	-	3,194	6,310	(471)	9,033
Operating costs						
Depreciation	-	-	(423)	(443)	-	(866)
Payroll costs	-	-	(407)	(638)	-	(1,045)
Purchases of electricity	-	-	-	(1,998)	-	(1,998)
Purchases of gas	-	-	(86)	(285)	-	(371)
Rates and property taxes	-	-	(238)	(278)	-	(516)
Electricity transmission services scheme direct costs	-	-	-	(277)	-	(277)
EnMO direct costs	-	-	-	(158)	-	(158)
Replacement expenditure	-	-	(388)	-	-	(388)
Provision for doubtful debts	-	-	2	(64)	-	(62)
Other operating charges (including exceptional items)	(13)	-	(634)	(1,343)	468	(1,522)
	(13)	-	(2,174)	(5,484)	468	(7,203)
Operating profit	(13)	-	1,020	826	(3)	1,830
Share of joint ventures' operating profit	-	-	-	7	-	7
Non-operating exceptional items	-	-	-	322	-	322
Profit before interest and taxation	(13)	-	1,020	1,155	(3)	2,159
Net interest	(17)	-	(304)	(501)	-	(822)
Dividends receivable	-	-	-	70	(70)	-
Profit on ordinary activities before taxation	(30)	-	716	724	(73)	1,337
Taxation	13	-	(184)	(90)	-	(261)
Profit on ordinary activities after taxation	(17)	-	532	634	(73)	1,076
Minority interests	-	-	-	(2)	-	(2)
Interest in Group undertakings on an equity accounted basis	1,091	-	11	-	(1,102)	-
Net income for the year	1,074	-(i)	543	632	(1,175)	1,074

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

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

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

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

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor			
	National Grid Transco plc (restated) £m	British Transco Finance Inc. £m	Transco plc (restated) £m	Other subsidiaries (restated) £m	Consolidation adjustments (restated) £m	National Grid Transco Group (restated) £m
Turnover	–	–	3,083	6,764	(447)	9,400
Operating costs						
Depreciation	–	–	(385)	(466)	–	(851)
Payroll costs	–	–	(440)	(704)	–	(1,144)
Purchases of electricity	–	–	–	(1,901)	–	(1,901)
Purchases of gas	–	–	(108)	(249)	–	(357)
Rates and property taxes	–	–	(235)	(302)	–	(537)
Electricity transmission services scheme direct costs	–	–	–	(252)	–	(252)
EnMO direct costs	–	–	–	(530)	–	(530)
Replacement expenditure	–	–	(405)	–	–	(405)
Provision for doubtful debts	–	–	(4)	(20)	–	(24)
Other operating charges (including exceptional items)	(21)	–	(735)	(1,521)	450	(1,827)
	(21)	–	(2,312)	(5,945)	450	(7,828)
Operating profit	(21)	–	771	819	3	1,572
Share of joint ventures' operating profit	–	–	–	124	–	124
Non-operating exceptional items	(32)	–	(12)	(51)	(4)	(99)
Profit before interest and taxation	(53)	–	759	892	(1)	1,597
Net interest	21	–	(343)	(648)	–	(970)
Dividends receivable	–	–	–	244	(244)	–
Profit on ordinary activities before taxation	(32)	–	416	488	(245)	627
Taxation	(5)	–	(140)	(100)	–	(245)
Profit on ordinary activities after taxation	(37)	–	276	388	(245)	382
Minority interests	–	–	–	(31)	–	(31)
Interest in Group undertakings on an equity accounted basis	388	–	23	–	(411)	–
Net income for the year	351	– (i)	299	357	(656)	351

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

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

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

34. Transco plc additional US GAAP disclosures (continued)
Balance sheet as at 31 March 2005 – UK GAAP

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor			
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
Fixed assets						
Intangible assets	-	-	-	2,003	-	2,003
Tangible assets	-	-	7,942	9,811	(7)	17,746
Investments	-	-	-	13,732	(13,584)	148
Net (liabilities)/assets of subsidiaries (equity accounted)	(5,414)	-	1,708	-	3,706	-
	(5,414)	-	9,650	25,546	(9,885)	19,897
Current assets						
Stocks	-	-	30	71	-	101
Debtors (amounts falling due within one year)	10,697	-	373	6,166	(15,691)	1,545
Debtors (amounts falling due after one year)	-	194	2,648	3,334	(3,678)	2,498
Current asset investments	118	-	201	451	(200)	570
Cash at bank and in hand	-	-	3	97	-	100
	10,815	194	3,255	10,119	(19,569)	4,814
Creditors (amounts falling due within one year)						
Borrowings	(781)	-	(1,212)	(1,662)	399	(3,256)
Other creditors	(2,233)	-	(3,601)	(12,278)	15,220	(2,892)
	(3,014)	-	(4,813)	(13,940)	15,619	(6,148)
Net current assets/(liabilities)	7,801	194	(1,558)	(3,821)	(3,950)	(1,334)
Total assets less current liabilities	2,387	194	8,092	21,725	(13,835)	18,563
Creditors (amounts falling due after more than one year)						
Borrowings	(1,020)	(194)	(2,757)	(7,264)	272	(10,963)
Other creditors	(8)	-	(1,941)	(3,566)	3,678	(1,837)
	(1,028)	(194)	(4,698)	(10,830)	3,950	(12,800)
Provisions for liabilities and charges	-	-	(1,448)	(2,924)	-	(4,372)
Net assets employed	1,359	-	1,946	7,971	(9,885)	1,391
Capital and reserves						
Called up share capital	309	-	45	2,191	(2,236)	309
Share premium account	1,289	-	204	1,830	(2,034)	1,289
Other reserves	(5,131)	-	1,332	(181)	(1,151)	(5,131)
Profit and loss account	4,892	-	365	4,099	(4,464)	4,892
Equity shareholders' funds	1,359	-	1,946	7,939	(9,885)	1,359
Minority interests						
Equity	-	-	-	10	-	10
Non-equity	-	-	-	22	-	22
	-	-	-	32	-	32
	1,359	-	1,946	7,971	(9,885)	1,391

34. Transco plc additional US GAAP disclosures (continued)
Balance sheet as at 31 March 2005 – US GAAP

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor			
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
Assets						
Current assets						
Cash and cash equivalents	118	–	204	403	(200)	525
Marketable securities	–	–	–	156	–	156
Accounts and notes receivable	–	–	37	516	–	553
Inventories	–	–	30	71	–	101
Amounts owed by Group undertakings	10,695	–	72	4,529	(15,296)	–
Regulatory assets	–	–	–	443	–	443
Prepaid expenses and other current assets	2	–	264	333	–	599
Total current assets	10,815	–	607	6,451	(15,496)	2,377
Property, plant and equipment	–	–	13,950	10,317	(7)	24,260
Goodwill	–	–	3,746	2,313	–	6,059
Intangible assets	–	–	–	272	–	272
Investments	3,332	–	1,605	16,314	(21,099)	152
Amounts owed by Group undertakings	9	178	2,644	840	(3,671)	–
Regulatory assets	–	–	–	2,907	–	2,907
Other debtors	226	–	151	870	–	1,247
Total assets	14,382	178	22,703	40,284	(40,273)	37,274
Liabilities and shareholders' equity						
Current liabilities						
Bank overdrafts	–	–	–	18	–	18
Accounts payable	–	–	342	769	–	1,111
Short-term borrowings	792	–	1,233	1,204	–	3,229
Accrued income taxes	–	–	22	57	–	79
Purchased power obligations	–	–	–	54	–	54
Liability for index-linked swap contracts	–	–	–	99	–	99
Amounts owed to Group undertakings	1,752	–	2,777	10,695	(15,224)	–
Other accrued liabilities	63	–	552	725	(77)	1,263
Total current liabilities	2,607	–	4,926	13,621	(15,301)	5,853
Long-term borrowings	1,168	178	2,811	7,591	(273)	11,475
Amounts owed to Group undertakings	–	–	840	2,831	(3,671)	–
Purchased power obligations	–	–	–	90	–	90
Liability for index-linked swap contracts	–	–	–	228	–	228
Post-retirement benefits	–	–	–	1,515	–	1,515
Deferred income taxes	8	–	3,421	2,046	–	5,475
Other liabilities	8	–	158	1,843	–	2,009
Total liabilities	3,791	178	12,156	29,765	(19,245)	26,645
Minority interest – equity	–	–	–	10	–	10
Cumulative preference stock issued by Group undertakings	–	–	–	28	–	28
Shareholders' equity						
Common stock	309	–	45	2,191	(2,236)	309
Additional paid in capital	7,793	–	9,680	8,072	(17,752)	7,793
Other reserves	359	–	–	–	–	359
Retained earnings	3,377	–	822	1,357	(2,179)	3,377
Other comprehensive loss	(1,218)	–	–	(1,110)	1,110	(1,218)
Treasury stock	(29)	–	–	(29)	29	(29)
Equity shareholders' funds	10,591	–	10,547	10,481	(21,028)	10,591
Total liabilities and shareholders' equity	14,382	178	22,703	40,284	(40,273)	37,274

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

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor			
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
Fixed assets						
Intangible assets	-	-	-	1,537	-	1,537
Tangible assets	-	-	7,880	8,829	(3)	16,706
Investments	-	-	-	7,303	(7,152)	151
Net assets of subsidiaries (equity accounted)	534	-	22	-	(556)	-
	534	-	7,902	17,669	(7,711)	18,394
Current assets						
Stocks	-	-	32	59	-	91
Debtors (amounts falling due within one year)	3,884	-	292	4,291	(6,879)	1,588
Debtors (amounts falling due after one year)	-	168	2,544	3,792	(3,796)	2,708
Current asset investments	6	-	264	440	(190)	520
Cash at bank and in hand	-	1	-	95	-	96
	3,890	169	3,132	8,677	(10,865)	5,003
Creditors (amounts falling due within one year)						
Borrowings	(388)	-	(861)	(947)	490	(1,706)
Other creditors	(2,056)	(4)	(1,801)	(5,286)	6,340	(2,807)
	(2,444)	(4)	(2,662)	(6,233)	6,830	(4,513)
Net current assets/(liabilities)	1,446	165	470	2,444	(4,035)	490
Total assets less current liabilities	1,980	165	8,372	20,113	(11,746)	18,884
Creditors (amounts falling due after more than one year)						
Borrowings	(746)	(165)	(2,768)	(8,103)	240	(11,542)
Other creditors	(13)	-	(2,111)	(3,593)	3,795	(1,922)
	(759)	(165)	(4,879)	(11,696)	4,035	(13,464)
Provisions for liabilities and charges	-	-	(1,352)	(2,797)	-	(4,149)
Net assets employed	1,221	-	2,141	5,620	(7,711)	1,271
Capital and reserves						
Called up share capital	309	-	45	540	(585)	309
Share premium account	1,280	-	204	1,557	(1,761)	1,280
Other reserves	(5,131)	-	1,332	(181)	(1,151)	(5,131)
Profit and loss account	4,763	-	560	3,654	(4,214)	4,763
Equity shareholders' funds	1,221	-	2,141	5,570	(7,711)	1,221
Minority interests						
Equity	-	-	-	12	-	12
Non-equity	-	-	-	38	-	38
	-	-	-	50	-	50
	1,221	-	2,141	5,620	(7,711)	1,271

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

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

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

	Parent Guarantor	Issuer of notes	Subsidiary Guarantor			
	National Grid Transco plc £m	British Transco Finance Inc. £m	Transco plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid Transco Group £m
UK GAAP cash flow statements						
Twelve months to 31 March 2005						
Cash flow from operating activities	-	-	1,153	1,756	-	2,909
Dividends from subsidiary undertakings and joint ventures	1,139	-	2,883	505	(4,522)	5
Returns on investments and servicing of finance	(31)	-	(372)	(355)	-	(758)
Taxation	-	-	(95)	(55)	-	(150)
Capital expenditure and financial investment	-	-	(474)	(788)	-	(1,262)
Acquisitions and disposals	(273)	-	(4,490)	(1,130)	4,763	(1,130)
Equity dividends paid	(628)	-	(500)	(4,022)	4,522	(628)
Net cash inflow/(outflow) before management of liquid resources	207	-	(1,895)	(4,089)	4,763	(1,014)
Management of liquid resources	(112)	-	62	(4)	-	(54)
Financing	(95)	-	1,836	4,103	(4,763)	1,081
Increase in cash in the year	-	-	3	10	-	13
Twelve months to 31 March 2004						
Cash flow from operating activities	(7)	-	1,397	1,420	-	2,810
Dividends from subsidiary undertakings and joint ventures	352	-	2	78	(424)	8
Returns on investments and servicing of finance	8	-	(243)	(457)	-	(692)
Taxation	-	-	(61)	43	-	(18)
Capital expenditure and financial investment	-	-	(497)	(757)	-	(1,254)
Acquisitions and disposals	-	-	-	7	-	7
Equity dividends paid	(560)	-	(70)	(354)	424	(560)
Net cash (outflow)/inflow before management of liquid resources	(207)	-	528	(20)	-	301
Management of liquid resources	117	-	(56)	(109)	-	(48)
Financing	90	-	(465)	135	-	(240)
Increase in cash in the year	-	-	7	6	-	13
Twelve months to 31 March 2003						
Cash flow from operating activities	(53)	-	1,291	1,588	-	2,826
Dividends from subsidiary undertakings and joint ventures	1,301	-	28	348	(1,666)	11
Returns on investments and servicing of finance	14	-	(335)	(591)	-	(912)
Taxation	-	-	(50)	(62)	-	(112)
Capital expenditure and financial investment	-	-	(605)	(802)	-	(1,407)
Acquisitions and disposals	(90)	-	860	240	(847)	163
Equity dividends paid	(382)	-	(337)	(2,365)	2,513	(571)
Net cash inflow/(outflow) before management of liquid resources	790	-	852	(1,644)	-	(2)
Management of liquid resources	(123)	-	2	(17)	-	(138)
Financing	(670)	-	(833)	1,677	-	174
(Decrease)/increase in cash in the year	(3)	-	21	16	-	34
US GAAP cash flow statements						
Twelve months to 31 March 2005						
Net cash provided by operating activities	1,108	-	4,043	1,854	(4,522)	2,483
Net cash used in investing activities	(385)	-	(5,376)	(1,927)	4,763	(2,925)
Net cash (used in)/provided by financing activities	(723)	-	1,336	68	(241)	440
Net increase/(decrease) in cash and cash equivalents	-	-	3	(5)	-	(2)
Twelve months to 31 March 2004						
Net cash provided by operating activities	353	-	1,463	1,106	(422)	2,500
Net cash used in investing activities	117	-	(921)	(896)	-	(1,700)
Net cash (used in)/provided by financing activities	(470)	-	(535)	(245)	422	(828)
Net increase/(decrease) in cash and cash equivalents	-	-	7	(35)	-	(28)
Twelve months to 31 March 2003						
Net cash provided by operating activities	1,262	-	1,060	979	(1,301)	2,000
Net cash used in investing activities	(90)	-	(438)	(108)	-	(636)
Net cash (used in)/provided by financing activities	(1,175)	-	(601)	(487)	1,301	(962)
Net (decrease)/increase in cash and cash equivalents	(3)	-	21	384	-	402