

2001 HALF YEAR RESULTS

**LATTICE GROUP PLC**  
**2001 HALF YEAR RESULTS**

The Lattice Group was formed on 23 October 2000 through its demerger from BG Group. It has a portfolio of businesses including Transco, 186k and SpectraSite Transco joint venture (Telecoms), Advantica, The Leasing Group and Lattice Property. Comparative figures have been prepared on a merger accounting basis, as if the Group had been in existence throughout the whole of 2000.

	Six months ended 30 June			2000 £m
	2001 £m Before additional entry capacity turnover	2001 £m Additional entry capacity turnover (see below)	2001 £m Including additional entry capacity turnover	
<b>MODIFIED HISTORICAL COST BEFORE EXCEPTIONAL ITEMS (i)</b>				
Turnover	<b>1,649</b>	<b>148</b>	<b>1,797</b>	1,660
Total operating profit before exceptional items (i)	<b>590</b>	<b>148</b>	<b>738</b>	672
Profit before taxation and exceptional items (i)	<b>398</b>	<b>148</b>	<b>546</b>	447
Earnings before exceptional items (i)	<b>269</b>	<b>107</b>	<b>376</b>	306
Earnings per ordinary share before exceptional items (i)	<b>7.7p</b>	<b>3.1p</b>	<b>10.8p</b>	8.6p
Dividend per ordinary share (ii)			<b>3.6p</b>	3.5p
Cash inflow before financing and management of liquid resources	<b>171</b>	<b>174</b>	<b>345</b>	569

Transco's National Transmission System (NTS) entry capacity auctions in February 2001 resulted in bids which were higher than the target auction prices. To comply with licence requirements, Transco has agreed to implement price reductions from 1 June 2001. The net position was that an additional £148m of turnover has been generated in the six months ended 30 June 2001.

- i) *Exceptional items comprise an exceptional operating charge in respect of the write-off of an investment in a French tower construction company held by the SpectraSite Transco (SST) telecoms joint venture (£(16)m; 2000 £nil), profit/(loss) on sale of fixed assets (£7m; 2000 £(8)m) and the gain on sale of shares by an employee share plan (£50m; 2000 £nil). Earnings after exceptional items were £417m (2000 £298m) and basic earnings per ordinary share were 12.0p (2000 8.4p).*
- ii) *The 2000 interim dividend per ordinary share represents the Lattice Group contribution to the BG Group plc 2000 interim dividend.*

“Regulatory price cuts and the start-up costs of our telecoms operations were offset by solid operational performance”

Sir John Parker, Chairman, Lattice Group plc

### MAIN DEVELOPMENTS TO DATE

- Total operating profit before exceptional items rose by £66m to £738m. This included an estimated £148m of Transco turnover, arising from the auctioning of entry capacity to the National Transmission System (NTS) in excess of that allowed by our regulator, Ofgem. A price cut has already been implemented to return this to customers over the period ending March 2002.
- This turnover obscures the underlying performance of the Group and has largely been excluded from our discussion of these results. Operating profits and earnings per ordinary share have been calculated both including and excluding this revenue.
- Excluding exceptional items and the £148m of turnover from the auctioning of entry capacity to the NTS, total operating profit fell by £82m to £590m.
- Again excluding excess NTS auction capacity turnover, Transco's turnover was much the same as that for the first half of 2000, lower prices offsetting the benefits of this year's colder weather. Underlying performance measures and service standards improved, but on a comparable basis Transco's operating costs rose by £33m mainly due to higher own-use gas costs and the impact of colder weather on system maintenance. Transco's operating profit fell by £55m to £561m, also reflecting increased replacement expenditure.
- Being in the early stages of development, the Group's new Telecoms sector made an operating loss of £32m, excluding an exceptional charge of £16m for SpectraSite Transco's (SST's) investment in a French tower construction company. 186k's backbone fibre optic network is on target to be completed and fully commissioned by the end of the year. A substantial contract with a major UK 3G operator has confirmed the quality, reliability and competitiveness of the services now being marketed.
- Earnings per ordinary share before exceptional items rose by 2.2p to 10.8p. Excluding exceptional items and excess NTS auction turnover, earnings per ordinary share fell from 8.6p to 7.7p.
- The Board has decided to pay an interim dividend of 3.6p per ordinary share, increased by 2.9%, broadly in line with inflation.
- In conjunction with its Draft Proposals for Transco's 5-year price control beginning in April 2002, Ofgem announced the once-and-for-all resolution of the initial valuation of Transco's assets, leaving the current Regulatory Asset Base unchanged at some £13bn. Ofgem's Final Proposals are due to be published on 26 September.
- The Health and Safety Executive is reviewing its policy for the replacement of cast iron mains, which is likely to result in a significant increase in replacement expenditure. Ofgem has undertaken to fund the efficient execution of the programme through Transco's next price control.

## CHAIRMAN'S STATEMENT

*The information presented below is on a modified historical cost basis and relates to the first half of the 2000 and 2001 financial years, unless otherwise stated.*

### REVIEW OF GROUP PERFORMANCE

#### Group Results

Total operating profit before exceptional items rose by £66m to £738m. This included £148m of additional turnover received by Transco from National Transmission System (NTS) entry capacity auctions held in February 2001. In accounting terms this is not an exceptional item, but the regulatory regime under which Transco operates requires that the benefit be handed back to customers in price cuts. We believe that excluding this turnover, which flows straight through to profit, gives a more meaningful picture of underlying progress in the business. On this basis, total operating profit before exceptional items fell by £82m to £590m.

Transco increased its spending on mains replacement significantly, and also faced increased costs in a number of other areas, including paying higher prices for the gas it uses to operate the network. The continuing drive for efficiency contained the impact of these factors, and colder weather also helped, but could not match the reduction in turnover resulting from regulatory price cuts and operating profit fell by £55m to £561m.

The Group's telecoms activities are still at an early stage of development and incurred operating losses before exceptional items of £32m. SpectraSite Transco Communications, a joint venture supplying infrastructure for mobile telecoms, withdrew from France causing an exceptional operating loss of £16m.

Operating profit from other activities rose by £4m to £19m and there was a pension credit of £40m.

Group debt was lower at the beginning of the period than it had been in the previous year and this, together with the cash flow benefit of the additional revenue from capacity auctions, caused net interest to fall by £33m to £192m. This was despite an increase in capital expenditure of £356m to £617m, which resulted from higher spending in Transco and network construction in 186k. Group cash flow from operating activities before exceptional items rose from £1,114m to £1,158m and net borrowings fell to £5,668m compared with £5,882m at 30 June 2000. Within this, the Transco Holdings sub-group had net borrowings of £6,397m, up from £6,133m at 30 June 2000.

Earnings increased by £119m to £417m. Earnings before exceptional items and the additional NTS auction revenue fell by £37m to £269m, giving earnings per share of 7.7p, compared with 8.6p in 2000.

Lattice Group shareholders' funds at 30 June 2001 were £6,644m, compared with £5,940m at 30 June 2000. Gearing was 46% (30 June 2000 50%) and the debt/equity ratio 85% (30 June 2000 99%).

#### Dividend

The Board has decided to increase the interim dividend in line with inflation to 3.6p per ordinary share.

## REVIEW OF BUSINESS PERFORMANCE

### TRANSCO

#### Results

	Six months ended 30 June	
	2001	2000
<b>Operating profit, £m</b>	<b>709</b>	616
- excluding additional NTS entry capacity turnover	<b>561</b>	616
<b>Turnover, excluding additional NTS entry capacity turnover, £m</b>		
- At actual temperatures	<b>1,586</b>	1,596
- At SNT	<b>1,567</b>	1,634
<b>Total throughput, TWh:</b>		
- At actual temperatures	<b>610</b>	597
- At SNT	<b>605</b>	615
<b>Replacement expenditure, £m</b>	<b>144</b>	95
<b>Capital expenditure, £m</b>	<b>355</b>	218
<b>Manpower at end of period</b>		
- direct (headcount)	<b>14,366</b>	14,129
- agency staff	<b>2,175</b>	2,389
	<b>16,541</b>	16,518

Operating profit increased by £93m to £709m, including an additional £148m of turnover from the NTS entry capacity auctions held in February 2001. Excluding this additional turnover, operating profit fell by £55m to £561m.

Turnover fell by £10m to £1,586m. Gains from colder weather (£57m) were offset by the effect in 2001 of lower prices implemented in May 2000 (£41m) and price changes to offset additional turnover from previous NTS entry capacity auctions (£15m). Actual turnover was £19m higher than it would have been at seasonal normal temperatures (SNT – see Note below).

The actual volume of gas transported was 610 TWh, 2% higher than in 2000. Total volume at SNT would have been 605 TWh, 2% lower than in 2000. The reduction at SNT was all in the large user market sector, principally exports to continental Europe through the Interconnector, which generates low marginal revenue.

Operating costs, other than replacement expenditure and depreciation, were £17m lower than 2000. However, excluding the £50m one-off charge for potential liabilities arising under the Network Code and other shipper issues incurred in the first half of 2000, they were £33m higher than 2000. This was primarily due to increases in the price of gas consumed in operating the system (£22m) and system maintenance costs as a result of colder weather (£10m).

Replacement expenditure rose by £49m to £144m, due to the accelerated programme to replace certain ductile iron mains that commenced in the middle of 2000. Depreciation increased by £13m to £243m.

Capital expenditure of £355m was £137m higher than in 2000, principally due to increased investment in the high pressure transmission system.

Transco's direct manpower (headcount basis) at the end of June 2001 was 14,366, up 113 in the half-year due to recruitment for projects to enable unbundling of Transco's constituent businesses. Agency staff levels fell by 9 to 2,175 in the half-year.

*Note: Transco has revised the way it estimates SNT to take account of the recent warming experienced in the UK. Transco now uses a 35 year trend, rather than a 10 year average, of temperatures. Estimates of throughput and turnover for 2000 at SNT have been recalculated to the new basis, as follows: Total volume at SNT would have been 1,118 TWh for the full year; Turnover at SNT would have been £1,634m for the first half of 2000 and £3,010m for the full year.*

### **Operational and Organisational Developments**

Gas transportation charges were reduced by an average 15% from 1 June, in response to the additional turnover from the NTS entry capacity auctions held in February. A new round of NTS entry capacity auctions, covering the winter months, has just ended. The revenue generated again exceeds that allowed under the regulatory formula. However timing differences of the size seen in the current review period are not expected to recur.

On 1 July, Transco transferred its gas connections business and its 1,250 staff to Transco Connections Ltd, a new wholly owned subsidiary undertaking of Transco plc. The transfer of Transco Connections forms an integral part of the Lattice unbundling strategy.

### **Regulatory and Public Policy Developments**

There has been considerable activity in relation to the review of Transco's price control for the 5 years commencing April 2002. Ofgem published its Initial Thoughts document at the end of February and its Draft Proposals at the end of June. In addition to high-level and detailed responses to both documents, Transco has submitted its Strategic Business Plan setting out in detail the forward-looking programmes of work and resource requirements needed to deliver the foreseen outputs and service standards. Since the publication of Ofgem's Draft Proposals – formulated as a base case, or floor – both sides have engaged constructively in a series of meetings to understand and address the gap between these Proposals and Transco's Business Plan. Ofgem's Final Proposals are due to be published on 26 September.

In conjunction with its Draft Proposals, Ofgem announced the once-and-for-all resolution of the issue of the treatment of the discount to book value at the flotation of British Gas in the valuation of Transco's asset base. Consistent with the two previous MMC judgements, Ofgem concluded in favour of the so-called "unfocused" approach, leaving Transco's Regulatory Asset Base unchanged at nearly £13bn.

In June, the Government announced a far-reaching review of energy policy. Among the factors prompting this review were Britain's growing dependence on gas imports, the fact that gas is now providing more than 40% of the country's primary energy, and the threat of climate change. More specifically, the energy review is addressing the adequacy of Britain's gas transportation infrastructure in the light of the tighter supply outlook and the growing need for gas imports. This in turn has an important bearing on the investment programme for Transco's National Transmission System, another aspect of the price control review.

Also bearing on Transco's next price control, the Health and Safety Executive is reviewing its policy on the replacement of Transco's large inventory of cast iron mains within 30 metres of buildings. This

## 2001 HALF YEAR RESULTS

is likely to result in a more rapid rate of replacement in the future. Ofgem has undertaken to ensure that the efficient delivery of this programme is funded through the next price control.

### Other Developments

Transco plc has been released from all the guarantees that it provided for BG Group with respect to the Karachaganak field in Kazakhstan (contingent liabilities in respect of these were estimated to be £883m at 31 December 2000).

### TELECOMS

#### Results

	Six months ended 30 June	
	£m	
<b>Lattice Group</b>	<b>2001</b>	<b>2000</b>
<b>186k</b>		
Operating losses	(20)	(6)
<b>Joint ventures and associates</b>		
<b>SpectraSite Transco Communications Limited (SST)</b>		
Operating losses before exceptional items	(12)	-
Exceptional operating losses (investment write down)	(16)	-
Total operating losses SST	(28)	-
Total telecoms operating losses	(48)	(6)
186k Capital expenditure	168	-
186k Total cash outflow before financing and management of liquid resources	(140)	-

Total operating losses from Lattice's telecoms activities were £48m (2000 £6m loss). This includes the Group's share of operating losses in SST and the write down of SST's investment in a French tower construction company.

Operating losses in 186k amounted to £20m in the first half and reflect start up costs and the early stage of development of the business.

The Group's share of operating losses in SST amounted to £12m before the write down of investments. This loss reflects the startup phase of the business and includes the impact of one-off restructuring costs following earlier acquisitions.

SST has written off its investment in Sofrer, a French tower construction company (Group share £16m) following a sudden and almost total collapse in the French market. The French tower construction company has been placed in judicial administration by the French courts and we do not expect to recover much of the original investment. No additional liabilities arising from the administration process are expected.

#### Progress of network build by 186k

The key focus in 2001 has been to build and deliver the fibre optic backbone network on time and within budget. The build to date has been achieved against the background of the terrible winter

weather and the continuing impact of foot and mouth in limiting or denying access to agricultural land.

All 579 kilometres of the southern ring have had ducting and cabling installed and dark fibre availability was delivered by 31 July. We are on target to complete both the Central and the Northern loops by the end of the year and within the budgeted figure of £450m presented in February this year.

### **Initial sale**

186k has signed a substantial long-term contract with a major UK 3G operator. Further details are expected to be announced shortly.

## **OTHER ACTIVITIES**

### **Results**

Operating profit from Other activities rose by £4m to £19m. Increased operating profit from Advantica, Lattice Property and The Leasing Group was offset by lower operating profit from Lattice Insurance.

Disposal proceeds from property sales were £34m, compared to £10m in 2000. Profits on disposal of property were £25m, compared to £4m in 2000.

### **Business Developments**

In May, Advantica purchased the US-based company, Stoner Associates Inc for £18m. The company specialises in the development and marketing of commercial, off-the-shelf network simulation-based solutions for the gas, electricity, petroleum and water industries. It is recognised as a market leader in North America. The acquisition will allow Advantica to market its products and services to Stoner's extensive utilities contacts in America and other countries.

## **OUTLOOK**

The single most important influence on the Lattice Group's prospects will be the outcome of Ofgem's review of Transco's price control for the 5 years starting in April 2002. In considering Ofgem's Final Proposals, the Board's task will be to ensure that Transco has sufficient resources to fund and deliver its 5-year regulatory contract without exposing shareholders to unacceptable risks. The key judgement will be our future ability to obtain an acceptable return on shareholders' equity and to service Transco's debt securely, whilst maintaining an investment grade credit rating.

Going forward, our newly strengthened executive team will continue to give top priority to Transco's drive for improving performance in the safe, reliable and efficient transportation of gas through its network, and to establishing a portfolio of competitive service businesses based on our skills in infrastructure management and technology.

We remain committed to our UK telecoms operations and in the current uncertain telecoms markets we will continue to focus on their delivery, performance and on the control of their costs.

**Sir John Parker, Chairman**  
13 September 2001

## 2001 HALF YEAR RESULTS

		<b>Six months ended 30 June</b>	
	Notes	<b>2001</b>	2000
		<b>£m</b>	<b>£m</b>
<b>CONSOLIDATED MODIFIED HISTORICAL COST PROFIT AND LOSS ACCOUNT</b>			
TURNOVER – EXCLUDING SHARE OF JOINT VENTURES (i)	2	<b>1,797</b>	1,660
Operating costs		<b>(1,047)</b>	(988)
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GROUP OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS	2	<b>750</b>	672
Exceptional operating charge	3	<b>(16)</b>	-
Share of operating losses in joint ventures		<b>(12)</b>	-
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TOTAL OPERATING PROFIT	2	<b>722</b>	672
Profit/(loss) on disposal of fixed assets		<b>7</b>	(8)
Gain on sale of shares by employee share plan		<b>50</b>	-
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PROFIT ON ORDINARY ACTIVITIES	2	<b>779</b>	664
Net interest	4	<b>(192)</b>	(225)
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PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<b>587</b>	439
Tax on profit on ordinary activities	5	<b>(170)</b>	(141)
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PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL PERIOD		<b>417</b>	298
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Profit for the financial period before exceptional items		<b>376</b>	306
Profit for the financial period before exceptional items and additional entry capacity turnover		<b>269</b>	306
Earnings per ordinary share – basic (ii)	6	<b>12.0p</b>	8.4p
Earnings per ordinary share before exceptional items (ii)	6	<b>10.8p</b>	8.6p
Earnings per ordinary share before exceptional items and additional entry capacity turnover (ii)	6	<b>7.7p</b>	8.6p
Interim dividend per ordinary share (iii)		<b>3.6p</b>	3.5p

- i) Turnover includes £148m in respect of additional NTS entry capacity turnover received by Transco. This will be offset by reduced prices in the period to 31 March 2002.
- ii) Earnings per ordinary share on a diluted basis are the same as the figures quoted above, as the number of dilutive potential ordinary shares in issue is not material.
- iii) The 2000 interim dividend per ordinary share represents the Lattice Group contribution to the BG Group plc 2000 interim dividend.

## 2001 HALF YEAR RESULTS

	<b>Six months ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>£m</b>	<b>£m</b>
<b>CONSOLIDATED STATEMENT OF TOTAL MODIFIED HISTORICAL COST RECOGNISED GAINS AND LOSSES</b>		
PROFIT FOR THE FINANCIAL PERIOD	<b>417</b>	298
Unrealised surplus on revaluation of tangible fixed assets (i)	<b>81</b>	102
Unrealised gain on transfer of assets to a joint venture	<b>5</b>	-
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<b>TOTAL RECOGNISED GAINS AND LOSSES FOR THE FINANCIAL PERIOD</b>	<b>503</b>	400
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i) *Modified historical cost regulatory fixed assets in Great Britain are stated under Financial Reporting Standard 11 ("Impairment of Fixed Assets and Goodwill") at an estimate of the net present value of future cash flows. The revaluation surplus represents the excess of modified historical cost over historical cost net book value and the movement in this revaluation surplus is recorded in the Statement of Total Recognised Gains and Losses.*

### RECONCILIATION OF CONSOLIDATED MODIFIED HISTORICAL COST AND HISTORICAL COST PROFITS AND LOSSES

MODIFIED HISTORICAL COST PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	<b>587</b>	439
Modified historical cost adjustments:		
Depreciation in excess of historical cost depreciation (i)	<b>70</b>	63
Disposal of tangible fixed assets adjustment (ii)	<b>21</b>	1
	<b>91</b>	64
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<b>HISTORICAL COST PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>678</b>	503
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i) *Represents the additional depreciation necessary to bring historical cost depreciation up to a full modified historical cost depreciation charge, which is based on the modified historical cost of fixed assets.*

ii) *This adjustment recognises the difference between the modified historical cost and historical cost profit or loss on disposal.*

### HISTORICAL COST INFORMATION

Historical cost earnings	<b>508</b>	362
Historical cost earnings before exceptional items	<b>446</b>	369
Historical cost earnings before exceptional items and additional entry capacity turnover	<b>339</b>	369

2001 HALF YEAR RESULTS

	Notes	As at 30 June		As at 31
		2001	2000	December
		£m	£m	2000
				£m
<b>SUMMARY CONSOLIDATED MODIFIED HISTORICAL COST</b>				
<b>BALANCE SHEET</b>				
<b>FIXED ASSETS</b>				
Intangible assets		18	-	-
Tangible assets		14,418	13,616	14,057
Investments in joint ventures and associates	3	39	-	62
Other investments		10	6	10
		<b>14,485</b>	<b>13,622</b>	<b>14,129</b>
<b>CURRENT ASSETS</b>				
Stocks		52	38	41
Debtors: amounts falling due within one year		522	486	638
Debtors: amounts falling due after one year		46	62	54
Current asset investments		321	251	223
Cash at bank and in hand		16	1	7
		<b>957</b>	<b>838</b>	<b>963</b>
CREDITORS (amounts falling due within one year)		<b>(1,716)</b>	<b>(1,670)</b>	<b>(2,398)</b>
<b>NET CURRENT LIABILITIES</b>		<b>(759)</b>	<b>(832)</b>	<b>(1,435)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>13,726</b>	<b>12,790</b>	<b>12,694</b>
CREDITORS (amounts falling due after more than one year)		<b>(6,428)</b>	<b>(6,088)</b>	<b>(5,735)</b>
PROVISIONS FOR LIABILITIES AND CHARGES		<b>(654)</b>	<b>(762)</b>	<b>(692)</b>
		<b>6,644</b>	<b>5,940</b>	<b>6,267</b>
<b>CAPITAL AND RESERVES (i)</b>				
Called up equity share capital		353	353	353
Other reserves		(5,724)	(5,771)	(5,731)
Revaluation reserve		6,647	6,467	6,659
Profit and loss account		5,402	4,894	4,992
Joint ventures and associated undertakings		(34)	(3)	(6)
<b>LATTICE GROUP SHAREHOLDERS' FUNDS</b>		<b>6,644</b>	<b>5,940</b>	<b>6,267</b>
<i>i) Lattice Group plc was listed on 23 October 2000. Capital and reserves for 30 June 2000 are therefore stated on a pro-forma basis.</i>				
<b>RECONCILIATION OF CONSOLIDATED MODIFIED HISTORICAL COST</b>				
<b>AND HISTORICAL COST NET ASSETS/(LIABILITIES)</b>				
MODIFIED HISTORICAL COST NET ASSETS		6,644	5,940	6,267
Revaluation reserve		(6,647)	(6,467)	(6,659)
<b>HISTORICAL COST NET LIABILITIES</b>		<b>(3)</b>	<b>(527)</b>	<b>(392)</b>

## 2001 HALF YEAR RESULTS

	<b>Six months ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>£m</b>	<b>£m</b>
<b>MOVEMENT IN CONSOLIDATED MODIFIED HISTORICAL COST</b>		
<b>LATTICE GROUP SHAREHOLDERS' FUNDS</b>		
Profit for the financial period	<b>417</b>	298
Dividends (i)	<b>(126)</b>	(123)
Other recognised gains and losses for the financial period	<b>86</b>	102
Funding movements with BG Group	<b>-</b>	(10)
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Net movement in Lattice Group shareholders' funds for the financial period	<b>377</b>	267
Lattice Group shareholders' funds as at start of year	<b>6,267</b>	5,673
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<b>LATTICE GROUP SHAREHOLDERS' FUNDS AT END OF PERIOD</b>	<b>6,644</b>	5,940
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*i) The 2000 interim dividend represents the Lattice Group contribution to the BG Group plc 2000 interim dividend.*

2001 HALF YEAR RESULTS

Six months ended 30 June  
2001 2000  
£m £m

**CONSOLIDATED CASH FLOW STATEMENT**

Modified historical cost Group operating profit before exceptional items	750	672
Modified historical cost depreciation	265	244
Provisions for liabilities and charges	(28)	(41)
Decrease in working capital	171	239
Net cash inflow from operating activities before exceptional items	1,158	1,114
Cash outflow relating to provisions for exceptional items	(19)	(9)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>1,139</b>	<b>1,105</b>
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>	<b>(161)</b>	<b>(234)</b>
<b>NET CASH OUTFLOW FROM TAXATION</b>	<b>(82)</b>	<b>(45)</b>
Payments to acquire tangible fixed assets	(543)	(288)
Receipts from disposal of tangible fixed assets	57	24
Net investment in finance leases	2	5
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE</b>	<b>(484)</b>	<b>(259)</b>
Purchases of subsidiary undertakings and fixed asset investments	(23)	-
Proceeds from disposal of fixed asset investments	1	2
Proceeds from sale of shares by employee share plan	78	-
Equity dividends paid	(123)	-
<b>NET CASH INFLOW BEFORE FINANCING AND THE MANAGEMENT OF LIQUID RESOURCES</b>	<b>345</b>	<b>569</b>
<b>NET CASH (OUTFLOW)/INFLOW FROM THE MANAGEMENT OF LIQUID RESOURCES</b>	<b>(96)</b>	<b>171</b>
<b>NET CASH INFLOW BEFORE FINANCING ACTIVITIES</b>	<b>249</b>	<b>740</b>
Funding movements with BG Group (i)	-	142
Net decrease in borrowings	(227)	(911)
Repayment of finance leases	(5)	(4)
<b>NET CASH OUTFLOW FROM FINANCING ACTIVITIES</b>	<b>(232)</b>	<b>(773)</b>
<b>NET INCREASE/(DECREASE) IN CASH IN THE PERIOD</b>	<b>17</b>	<b>(33)</b>
Opening cash balance	(1)	(1)
Exchange adjustments	-	3
<b>CLOSING CASH BALANCE (ii)</b>	<b>16</b>	<b>(31)</b>

i) Represents movement in intercompany balances with BG Group companies.

ii) Closing cash represents cash at bank and in hand of £16m (2000 £1m) offset by bank overdrafts of £nil (2000 £32m).

## 2001 HALF YEAR RESULTS

### Six months ended 30 June

	2001 £m	2000 £m
<b>RECONCILIATION OF NET BORROWINGS</b>		
Net borrowings as at 1 January	(6,002)	(6,570)
Net increase/(decrease) in cash for the period	17	(33)
Cash outflow/(inflow) from the management of liquid resources	96	(171)
Decrease in short-term borrowings	897	993
Increase in long-term borrowings	(670)	(82)
Net decrease in borrowings	227	911
Repayment of finance leases	5	4
Funding movement with BG Group	-	(19)
Debt issue expenses	(2)	-
Accretions and other adjustments	(9)	(4)
<hr/>		
NET BORROWINGS AS AT 30 JUNE (i)	(5,668)	(5,882)

i) *Net borrowings comprise:*

	As at 30 June	
	2001 £m	2000 £m
Cash at bank and in hand	16	1
Current asset investments	321	251
Short-term borrowings	(479)	(891)
Long-term borrowings	(5,526)	(5,243)
NET BORROWINGS	(5,668)	(5,882)

### Group analysis of net borrowings

	As at 30 June	
	2001 £m	2000 £m
Transco plc (ring-fenced)	(4,954)	(4,627)
Transco Holdings plc	(1,443)	(1,506)
TOTAL UTILITY	(6,397)	(6,133)
Lattice Group Holdings	598	229
Lattice Group plc and consolidation adjustments	131	22
TOTAL NON-UTILITY (i)	729	251
NET BORROWINGS	(5,668)	(5,882)

i) *Increase in non-utility net resource, as compared with 30 June 2000, arises primarily as a result of settlement of balances with BG Group companies on demerger.*

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2001, the Group's gearing ratio (net borrowings as a percentage of debt plus equity) was 46.0% and the modified historical cost debt/equity ratio (net borrowings as a percentage of equity) was 85.3%.

Capital expenditure in the six months amounted to £617m.

The Group's financing facilities attach specifically to either Transco plc or Lattice Group Holdings Ltd.

### Transco plc

Transco had unused uncommitted multi-currency borrowing facilities of £1.583 billion as at 30 June 2001. It also had undrawn committed facilities of US\$0.896 billion 364 day and US\$1.046 billion long-term.

Transco has a US\$1.25 billion Euro Commercial Paper Programme of which US\$1.1 billion was unutilised and a US\$2.5 billion US Dollar Commercial Paper Programme of which US\$2.1 billion was unutilised. A US\$0.5 billion Extendible Commercial Note Programme also exists which was unutilised. There is also a EUR5 billion Euro Medium Term Note Programme of which EUR0.51 billion was unutilised at 30 June 2001.

### Lattice Group Holdings Ltd

Lattice Group Holdings Ltd had unused uncommitted multi-currency borrowing facilities of £20m at 30 June 2001. It also had undrawn 364 day committed facilities of £320m.

## **Independent review report to Lattice Group plc on the interim financial information for the six months ended 30 June 2001**

### **Introduction**

We have been instructed by the company to review the interim financial information which comprises summarised profit and loss account, statement of total recognised gains and losses, summarised balance sheet information as at 30 June 2001, summarised cash flow statement, comparative figures and associated notes for the six months ended 30 June 2001. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2001.

PricewaterhouseCoopers  
Chartered Accountants  
London

13 September 2001

## NOTES

### 1. Basis of preparation

The financial information contained in this report is unaudited and does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. This report contains the results and balance sheet for the six months ended 30 June 2001.

The unaudited results for the six months ended 30 June 2001 for Lattice Group plc have been prepared under modified historical cost principles. A reconciliation between modified historical cost profit and historical cost profit is given on page 9 and a reconciliation between modified historical cost net assets and historical cost net liabilities is given on page 10.

Transco's National Transmission System (NTS) entry capacity auctions in February 2001 resulted in bids, which were higher than the target auction prices. However, Transco is required by its licence to set prices so as not to over-recover formula revenue within a formula year. Therefore, following consultation with Ofgem and the shipper community, Transco agreed to implement price reductions from 1 June 2001 that would offset this additional entry capacity turnover by 31 March 2002. In accordance with standard accounting principles, Lattice does not make provision for future price reductions where revenues exceed the regulated maximum allowable amount. Consequently, an additional £148m of turnover has been generated in the six months ended 30 June 2001.

Lattice Group plc was formed on 23 October 2000, when BG Group demerged certain businesses. Comparative figures have been prepared on a merger accounting basis, as if the Group had been in existence throughout the whole of 2000. Financial Reporting Standard (FRS) 18 'Accounting policies' has been implemented in 2001. The implementation of FRS 18 has no impact on the results or net assets of the Group. FRS 17 'Retirement Benefits' (implementation required by 2003) and FRS 19 'Deferred Tax' (implementation required in 2002) have not been adopted.

## 2001 HALF YEAR RESULTS

### 2. Segmental analysis

The Telecoms business, reported as part of Other activities in the 2000 Annual Report and Accounts, is now reported as a separate segment.

	Turnover excluding share of joint ventures		Modified historical cost profit/(loss) on ordinary activities	
	2001 £m	2000 £m	2001 £m	2000 £m
<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>				
Transco	1,734	1,596	696	606
Telecoms:				
186k	-	-	(20)	-
Other subsidiaries	-	-	-	(6)
Exceptional operating charge	-	-	(16)	-
Share of operating losses in joint venture	-	-	(12)	-
	-	-	(48)	(6)
Other activities (i)	111	104	95	17
Pension credit	-	-	40	47
Less: intra-group items	(48)	(40)	(4)	-
	<b>1,797</b>	<b>1,660</b>	<b>779</b>	<b>664</b>

i) Profit on ordinary activities in 2001 includes a gain on sale of shares by an employee share plan of £50m.

	Modified historical cost operating profit/(loss)		Earnings before interest, tax, depreciation and amortisation	
	2001 £m	2000 £m	2001 £m	2000 £m
<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>				
Transco	709	616	952	846
Telecoms	(20)	(6)	(20)	(6)
Other activities	19	15	41	29
Pension credit	40	47	40	47
Intra-group items	2	-	2	-
	<b>750</b>	<b>672</b>	<b>1,015</b>	<b>916</b>
Group				
Telecoms:				
Exceptional operating charge	(16)	-		
Share of operating losses in joint venture	(12)	-		
<b>Total</b>	<b>722</b>	<b>672</b>		

The share of turnover in joint ventures for the six months ended 30 June 2001 was £6m (2000 £nil).

The modified historical cost depreciation adjustment relates to Transco only. Transco's total historical cost operating profit for the six months ended 30 June 2001 was £779m (2000 £679m).

Historical cost profit on ordinary activities for the six months ended 30 June 2001 was £870m (2000 £728m), comprising Transco £790m (2000 £670m); Telecoms £(48)m (2000 £(6)m); Other activities £97m (2000 £17m); Pension credit £40m (2000 £47m) and intra-group items £(9)m (2000 £nil).

## 2. Segmental analysis (continued)

Segmental net assets figures below include intercompany balances between segments.

AS AT 30 JUNE	Net assets	
	2001 £m	2000 £m
Transco	12,694	12,128
Net borrowings, net interest, tax and dividends	(6,681)	(6,283)
	<b>6,013</b>	<b>5,845</b>
Telecoms	282	70
Net borrowings, net interest, tax and dividends	47	1
	<b>329</b>	<b>71</b>
Other activities	(140)	4
Net borrowings, net interest, tax and dividends	698	345
	<b>558</b>	<b>349</b>
Pension credit	(256)	(325)
	<b>6,644</b>	<b>5,940</b>

## 3. Exceptional operating charge

The exceptional operating charge of £16m (2000 £nil) represents a write-down of Lattice's share of SST's investment in a French tower construction company.

The movement on investments in joint ventures and associates in the period is:

	£m
Balance at 1 January 2001	62
Additions	5
Share of losses in SST	(12)
Exceptional operating charge	(16)
Balance at 30 June 2001	39

In 2000, in return for a 50% interest in SST, the Group committed to transfer fixed asset sites at fair value of £130m but at historical cost of £nil. UK accounting standards do not permit recognition of the fair value of the sites transferred to SST. Therefore our investment is shown in our accounts some £65m lower than it would be were recognition made of the fair value of sites transferred.

#### 4. Net interest

	2001 £m	2000 £m
<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>		
Net interest payable on net debt	(175)	(210)
Interest payable on transportation prepayment	(12)	(7)
Finance lease income	-	1
	<b>(187)</b>	<b>(216)</b>
Less: interest capitalised	4	-
Add: unwinding of discount on environmental provision	(9)	(9)
Net interest: Group	<b>(192)</b>	<b>(225)</b>
Joint venture	-	-
Total net interest	<b>(192)</b>	<b>(225)</b>

#### 5. Taxation

The Group taxation charge for the six months ended 30 June 2001 was £170m (2000 £141 million). The effective tax rate for the six months ended 30 June 2001 was 26.4% (2000 28.0%) based on historical cost profit excluding the exceptional operating charge and the gain on sale of shares by an employee share plan.

#### 6. Earnings per ordinary share

Modified historical cost earnings per ordinary share for the six months ended 30 June 2001 have been calculated by dividing the modified historical cost earnings (defined as profit for the financial period) of £417m (2000 £298m) by 3,473m being the weighted average number of Lattice ordinary shares outstanding in the period (2000 3,529m, being the expected maximum number of shares outstanding upon demerger). Adjusted earnings per ordinary share have been calculated in order to reflect the underlying performance of Lattice Group.

The reconciliation of basic and adjusted earnings per ordinary share for the Group is given in the table below:

	2001		2000	
	£m	Pence per ordinary share	£m	Pence per ordinary share
<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>				
<b>Modified historical cost</b>				
Earnings – basic	417	12.0	298	8.4
(Profit)/loss on disposals	(7)	(0.2)	8	0.2
Gain on sale of shares by employee share plan	(50)	(1.4)	-	-
Exceptional operating charge	16	0.4	-	-
Earnings before exceptional items	<b>376</b>	<b>10.8</b>	306	8.6
Additional entry capacity turnover (i)	(148)	(4.3)	-	-
Tax impact of additional entry capacity turnover	41	1.2	-	-
Earnings before exceptional items and additional entry capacity turnover	<b>269</b>	<b>7.7</b>	306	8.6

i) Additional NTS entry capacity turnover received by Transco in the period, which will be offset by reduced transportation prices in the period to 31 March 2002.

## 7. Supplementary information - Transco results for 2000/2001 Formula Year

Transco is subject to a price control formula which was set by Ofgem after taking into account, amongst other factors, operating costs, capital expenditure, cost of capital and transportation volumes for the formula period April 1997 to March 2002 (including the deadbands for which the formula allows no additional revenue).

This formula was disaggregated from 1 April 2000 into Metering, Meter Reading and residual Transportation activities, each with separate revenue drivers. Operating costs and investment targets from the MMC outcome have not been formally disaggregated. Allowed revenue under the three separate formulae is not significantly different from the bundled formula at current volumes. The presentation below aggregates the three formulae and has been retained for consistency.

Actual volumes of gas transported were approximately 4% above the top of the deadband in the business and domestic market and 25% above the top of the deadband in the large user market.

At the end of March 2000, accumulated over-recovered formula revenue (the 'K-factor') was £78m. At the end of March 2001, accumulated over-recovered formula revenue is estimated to be around £8m.

Transco's regulatory operating costs were £1,314m, against our interpretation of the MMC's projected level of £1,403m.

Transco's overall regulatory cashflow was £716m, £18m below our interpretation of the MMC's projected level of £734m. The reduction in regulatory cash flow in 2000/01 is principally due to increased investment expenditure and, to a lesser extent, to increases in operating expenditure.

Transco's regulatory value was £12,705m at the end of March 2001 against our interpretation of the MMC's assumption of £13,081m, with lower investment in the formula period to date being the principal reason for the difference. Transco has now agreed a capital monitoring framework with Ofgem covering 19 output measures. Actual data for the three calendar years 1997 to 1999 indicates that 18 of these 19 outputs have been met or exceeded. Transco expects to meet or exceed all 19 outputs over the course of the full formula period.

The regulatory return for 2000/01 is estimated to be 8.8%, compared to our interpretation of the MMC's projection of 6.8%. Excluding the recovery of K-factor from the previous formula period, Transco's regulatory real rate of return for the four formula years to date is estimated to be 8.5% compared to our interpretation of the MMC's projections of 7.1%.

		<b>Actual cumulative (i)</b>	<b>MMC cumulative (i)</b>	<b>Actual 2000/01</b>	<b>MMC 2000/01</b>
Volumes:					
Business and domestic	TWh	2,617	2,572	692	650
Large user	TWh	1,229	994	409	318
Regulatory operating costs (ii)	£m	5,259	5,638	1,314	1,403
Regulatory cash flow	£m	3,865	2,668	716	734
Regulatory value as at 31 March 2001	£m	12,705	13,081	12,705	13,081
Regulatory value excluding K from the previous formula	%	8.5	7.1	8.8	6.8

*i) 1997/98, 1998/99, 1999/2000 and 2000/01 prices (i.e. money of the day).*

*ii) 2000/01 regulatory operating costs exclude £41m demerger costs not considered to be a deduction from regulatory return.*

## ENQUIRIES

Enquiries relating to Lattice's results, business and financial position should be made to:

Investor Relations Department  
Lattice Group plc  
130 Jermyn Street  
London  
SW1Y 4UR

Tel: 020 7389 3219

General enquiries about shareholder matters should be made to:

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6DA

Tel: 0870 241 3937

## Financial Calendar 2001

Ex-dividend date for 2001 interim dividend	14 November 2001
Record date for 2001 interim dividend	16 November 2001
Payment of 2001 interim dividend	14 December 2001
Announcement of 2001 final results	February 2002

Dividend Reinvestment Plan (DRIP) Mandate Forms must be received by the Registrars by Friday 16 November 2001 to apply to the 2001 interim dividend.

## Supplementary information

Supplementary information regarding the split of these Lattice Group plc results is given on pages 22 to 24 inclusive.

## Certain forward looking statements

This interim results announcement includes 'forward looking information' within the meaning of Section 27A of the Securities Act 1933, as amended, and Section 21E of the Securities Exchange Act 1934, as amended. Certain statements in this interim results announcement, including without limitation, those concerning (i) Transco's strategies, outlook, and future growth; (ii) regulation, including the impact of regulatory developments in connection with Transco's next price control and the policy of the Health and Safety Executive on iron mains replacement; (iii) the future capacity of the National Transmission System; (iv) Transco's positioning to deliver its plans, including the unbundling of certain of its businesses to elsewhere in the Lattice Group; (v) expectations regarding prices; (vi) Transco's liquidity and capital resources and expenditure; and (vii) quantitative and qualitative disclosures about market risk, including the UK Government's review of energy policy, contain certain forward looking statements concerning our operations, economic performance and financial condition. Although we believe that the expectations reflected in such forward looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward looking statements as a result of, among other factors, (i) changes in economic, market and competitive conditions; (ii) success of business and operating initiatives; (iii) changes in the regulatory environment and other government actions; (iv) fluctuations in exchange rates and (v) business risk management.

2001 HALF YEAR RESULTS

SUPPLEMENTARY INFORMATION

**ANALYSIS OF LATTICE GROUP CONSOLIDATED MODIFIED HISTORICAL COST PROFIT AND LOSS ACCOUNT**

The information presented below represents the split of the consolidated results between the Transco Holdings sub-group, the Telecoms business, the Lattice Group Holdings sub-group excluding Telecoms, and the parent company, Lattice Group plc, including consolidation adjustments.

	Six months ended 30 June 2001				
	Transco Holdings sub-group	Telecoms	Lattice Group Holdings sub-group excluding Telecoms	Lattice Group plc and Consolidation adjustments	Lattice Group consolidated
	£m	£m	£m	£m	£m
<b>CONSOLIDATED MODIFIED HISTORICAL COST PROFIT AND LOSS ACCOUNT</b>					
TURNOVER – EXCLUDING SHARE OF JOINT VENTURES	1,734	-	111	(48)	1,797
Operating costs	(1,025)	(20)	(92)	90	(1,047)
<b>GROUP OPERATING PROFIT/(LOSS)</b>	<b>709</b>	<b>(20)</b>	<b>19</b>	<b>42</b>	<b>750</b>
Exceptional operating charge	-	(16)	-	-	(16)
Share of operating losses in joint ventures	-	(12)	-	-	(12)
<b>TOTAL OPERATING PROFIT/(LOSS)</b>	<b>709</b>	<b>(48)</b>	<b>19</b>	<b>42</b>	<b>722</b>
(Loss)/profit on disposal of fixed assets	(13)	-	26	(6)	7
Gain on sale of shares by employee share plan	-	-	-	50	50
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES</b>	<b>696</b>	<b>(48)</b>	<b>45</b>	<b>86</b>	<b>779</b>
Net interest (payable)/receivable	(215)	7	15	1	(192)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>481</b>	<b>(41)</b>	<b>60</b>	<b>87</b>	<b>587</b>
Tax on profit/(loss) on ordinary activities	(150)	8	(16)	(12)	(170)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL PERIOD</b>	<b>331</b>	<b>(33)</b>	<b>44</b>	<b>75</b>	<b>417</b>
<b>EARNINGS/(LOSS) BEFORE EXCEPTIONAL ITEMS</b>	<b>344</b>	<b>(17)</b>	<b>18</b>	<b>31</b>	<b>376</b>
<b>EARNINGS/(LOSS) BEFORE EXCEPTIONAL ITEMS AND ADDITIONAL ENTRY CAPACITY TURNOVER</b>	<b>237</b>	<b>(17)</b>	<b>18</b>	<b>31</b>	<b>269</b>

2001 HALF YEAR RESULTS

SUPPLEMENTARY INFORMATION (CONTINUED)

**ANALYSIS OF LATTICE GROUP CONSOLIDATED MODIFIED HISTORICAL COST NET ASSETS**

The information presented below represents the split of the consolidated net assets between the Transco Holdings sub-group, the Telecoms business, the Lattice Group Holdings sub-group excluding Telecoms and the parent company, Lattice Group plc, including consolidation adjustments.

	As at 30 June 2001				
	Transco Holdings sub-group	Telecoms	Lattice Group Holdings sub-group excluding Telecoms	Lattice Group plc and Consolidation adjustments	Lattice Group Consolidated
	£m	£m	£m	£m	£m
<b>FIXED ASSETS</b>					
Intangible assets	-	-	18	-	18
Tangible assets	13,901	195	322	-	14,418
Investments in joint ventures and associates	-	69	-	(30)	39
Other investments	-	4	6	-	10
	13,901	268	346	(30)	14,485
<b>CURRENT ASSETS</b>					
Stocks	35	-	17	-	52
Debtors: amounts falling due within one year	401	145	49	(73)	522
Debtors: amounts falling due after one year	-	-	44	2	46
Current asset investments	76	45	553	(353)	321
Cash at bank and in hand	1	2	13	-	16
	513	192	676	(424)	957
<b>CREDITORS (amounts falling due within one year)</b>	(1,796)	(131)	(730)	941	(1,716)
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	(1,283)	61	(54)	517	(759)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	12,618	329	292	487	13,726
<b>CREDITORS (amounts falling due after more than one year)</b>	(6,453)	-	(4)	29	(6,428)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	(152)	-	(290)	(212)	(654)
<b>NET ASSETS</b>	6,013	329	(2)	304	6,644
<b>NET BORROWINGS</b>	(6,397)	47	551	131	(5,668)

Lattice Group Holdings sub-group net assets (excluding Telecoms) comprise Advantica £40m, The Leasing Group £129m, Lattice Property £172m, Insurance £135m and other businesses (primarily group holding companies) and consolidation adjustments of £(478)m.

**Reconciliation of net assets**

	Six months ended 30 June 2001				
	£m	£m	£m	£m	£m
Opening net assets	5,686	355	(41)	267	6,267
Profit for the financial period	331	(33)	44	75	417
Dividends	(88)	-	-	(38)	(126)
Other recognised gains and losses	84	2	-	-	86
Issue of shares	-	5	(5)	-	-
<b>CLOSING NET ASSETS</b>	6,013	329	(2)	304	6,644

2001 HALF YEAR RESULTS

SUPPLEMENTARY INFORMATION (CONTINUED)

**ANALYSIS OF LATTICE GROUP CONSOLIDATED CASH FLOW STATEMENT**

The information presented below represents the split of the consolidated cash flow statement between the Transco Holdings sub-group, the Telecoms business, the Lattice Group Holdings sub-group excluding Telecoms and the parent company, Lattice Group plc, including consolidation adjustments.

	Six months ended 30 June 2001				
	Transco Holdings sub-group	Telecoms	Lattice Group Holdings sub-group excluding Telecoms	Lattice Group plc and Consolidation adjustments	Lattice Group Consolidated
	£m	£m	£m	£m	£m
Modified historical cost Group operating profit/(loss)	709	(20)	19	42	750
Modified historical cost depreciation	243	-	22	-	265
Provisions for liabilities and charges	-	-	-	(28)	(28)
Decrease/(increase) in working capital	172	(1)	-	-	171
Net cash inflow/(outflow) from operating activities before exceptional items	1,124	(21)	41	14	1,158
Cash outflow relating to provisions for exceptional items	(2)	-	(17)	-	(19)
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>1,122</b>	<b>(21)</b>	<b>24</b>	<b>14</b>	<b>1,139</b>
<b>NET CASH (OUTFLOW)/INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>	<b>(175)</b>	<b>2</b>	<b>11</b>	<b>1</b>	<b>(161)</b>
<b>NET CASH OUTFLOW FROM TAXATION</b>	<b>(71)</b>	<b>(2)</b>	<b>(8)</b>	<b>(1)</b>	<b>(82)</b>
Payments to acquire tangible fixed assets	(349)	(114)	(73)	(7)	(543)
Receipts from disposal of tangible fixed assets	12	-	57	(12)	57
Net investment in finance leases	-	-	6	(4)	2
Net cash outflow from capital expenditure	(337)	(114)	(10)	(23)	(484)
Purchases of subsidiary undertakings and fixed asset investments	-	(5)	(18)	-	(23)
Proceeds from disposal of fixed asset investment	-	-	1	-	1
Proceeds from sale of shares by employee share plan	-	-	-	78	78
Equity dividends paid	(72)	-	-	(51)	(123)
Net cash inflow/(outflow) before financing and the management of liquid resources	467	(140)	-	18	345
Net cash (outflow)/inflow from the management of liquid resources	(16)	13	(43)	(50)	(96)
<b>NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES</b>	<b>451</b>	<b>(127)</b>	<b>(43)</b>	<b>(32)</b>	<b>249</b>
Net cash (outflow)/inflow from financing activities	(444)	127	53	32	(232)
<b>NET INCREASE IN CASH IN THE PERIOD</b>	<b>7</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>17</b>