

Transco

**Transco plc
Regulatory Accounting Statements 2003/2004
for the Transco business**

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Important information

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

The financial information contained in these statements does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for Transco plc for the year ended 31 March 2004, to which the financial information relates, have been delivered to the Registrar of Companies. The Auditors have made a report under Section 235 of the Companies Act 1985 on those statutory accounts which was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985. The statutory accounts of Transco plc can be obtained from the Company Secretary's Office, National Grid Transco plc, 1-3 The Strand, London WC2N 5EH.

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

The obligation to produce regulatory accounting statements

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

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

Audit of regulatory accounting statements

The Condition requires Transco to procure a report by its auditors and addressed to the Authority stating, amongst other matters, whether these regulatory accounting statements give a true and fair view of the revenues, costs, assets, liabilities, reserves and provisions of or reasonable attributable to each of the businesses. Following the publication in November 2003 of 'Audit 05/03: Reporting to Regulators of Regulated Entities' by the Institute of Chartered Accountants in England and Wales, the auditors are no longer permitted to provide a 'true and fair' opinion on these regulatory accounting statements, but may instead provide 'a fairly presents in accordance with' opinion.

Developments

Price control formula

With effect from 1 April 2004, Transco's distribution price control formula was split into eight separate price control formulae: one for each of Transco's regional networks. Ofgem also recently announced plans to extend these new price control formulae by an additional year so that the next price control will now start in April 2008.

Sale of regional networks

Transco's plans for the possible sale of up to four of its eight regional distribution networks have progressed steadily over the past year and the results of this process are expected to be announced this summer with any sales due for completion in early 2005. Any sales of networks can only take place with Ofgem's consent.

Businesses and price controls

These regulatory accounting statements include the following regulatory businesses of Transco:

Transportation business

The Transportation business comprises the development, administration, maintenance and operation of Transco's transportation system and the supply of transportation services. During the period reported on within these regulatory accounting statements, the Transportation business was covered by three separate price controls: the transmission owner price control in respect of the National Transmission System (NTS) assets; the NTS system operator price control in respect of the operation of the NTS; and the distribution price control in respect of Transco's eight regional distribution networks.

Metering business

The Metering business comprises the provision of metering services, which includes the provision, installation and maintenance of gas metering equipment. It is subject to price control in respect of the provision of domestic metering services.

Meter Reading business

The Meter Reading business comprises the reading of consumers' gas meters and the provision of meter reads, both to third parties and to Transco's Transportation business. It is subject to price control only in respect of the provision of daily meter reading services.

LNG Storage business

The LNG Storage business comprises the development, administration, maintenance and operation of Transco's five LNG storage facilities and the supply of LNG storage services, both to third parties and to Transco's Transportation business.

The other activities of Transco are not subject to price control, but must be carried on within the terms of the Licence. These terms include restrictions on the level of those activities with respect to the overall level of the regulated businesses, unless Ofgem has otherwise consented.

Regulatory ring-fence

Transco's Licence contains special 'ring-fence conditions', which include requirements on Transco:

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

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

Treasury policy

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

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

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

Details of the maturity, currency and interest rate profile of Transco's borrowings as at 31 March 2004 are shown in note 16 to the regulatory accounting statements on pages 26 to 28.

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

Transco places surplus funds on the money markets usually in the form of short term fixed deposits, which are invested with approved banks and counterparties. Details of Transco's short term investments as at 31 March 2004 are shown in note 16 to the regulatory accounting statements on pages 26 to 28.

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

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

Refinancing risk management

The Board of National Grid Transco mainly controls refinancing risk by limiting the amount of financing obligations (both principal and interest) arising on borrowings in any 12-month and 36-month period. This policy restricts Transco from having an excessively large amount of debt to refinance in a given time-frame. During the year, a mixture of short term debt and long term debt was issued.

Interest rate risk management

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

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

Foreign exchange risk management

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

Counterparty risk management

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

Derivative financial instruments held for purposes other than trading

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

Transco enters into interest rate swaps to manage the composition of floating and fixed rate debt, and so hedge the exposure of borrowings to interest rate movements. In addition, Transco enters into bought and written option contracts on interest rate swaps. These transactions are known as swaptions. Transco also enters into foreign currency swaps to manage the currency composition of

borrowings and so hedge the exposure to exchange rate movements. Certain agreements are combined foreign currency and interest rate swap transactions. Such agreements are known as cross-currency swaps.

Transco enters into forward rate agreements to hedge interest rate risk on short-term debt and money market investments. Forward rate agreements are commitments to fix an interest rate that is to be paid or received on a notional deposit of specified maturity, commencing at a future specified date.

Valuation and sensitivity analysis

Transco calculates the fair value of debt and derivative instruments by discounting all future cash flows by the market yield curve at the balance sheet date. The market yield curve for each currency is obtained from the Reuters or Bloomberg screen notes for interest and foreign exchange rates. In the case of instruments with optionality, the Black's variation of the Black-Scholes model is used to calculate fair value.

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

Commodity price hedging

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

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

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

Directors' responsibilities for preparing separate regulatory accounting statements

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

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

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

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

The Directors have responsibility to ensure that, so far as is reasonably practicable, the regulatory accounting statements have the same content and

format in respect of the businesses to which they relate as the annual accounts of Transco plc; that they conform to best commercial accounting practices including all relevant accounting standards issued or adopted by the Accounting Standards Board currently in force and that the accounting policies used are stated.

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

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

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

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

We have audited the regulatory accounting statements of Transco plc (the Company) for the year ended 31 March 2004 on pages 8 to 40 which comprise the consolidated profit and loss accounts, the consolidated statement of total recognised gains and losses, the balance sheets, the reconciliation of change in net assets, the cash flow statements, the reconciliation to the annual report and accounts of Transco plc and the related notes to the regulatory accounting statements.

This report is made solely to the Company and the Gas and Electricity Markets Authority ('the Authority') in accordance with Amended Standard Condition 30 of Transco plc's Gas Transporter Licence granted under the Utilities Act 2000 ('the Condition'). Our audit work has been undertaken so that we might state to the Company and the Authority those matters we have agreed to state to them in our report, in order to assist the Company to meet its obligations under the Regulatory Licence to procure such a report and to facilitate the carrying out by the Authority of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we will not accept any responsibility or liability in respect of this report or our work to anyone other than those parties whom we have agreed may have the benefit of our work, whom have accepted our engagement terms and to whom we have assumed a duty of care under written arrangements entered into with such parties.

Basis of preparation

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

Pages 34 to 40 include disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Authority, but allows the Company to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

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

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

The nature, form and content of regulatory accounting statements are determined by the Authority. It is not appropriate for the auditors or the directors to assess

whether the nature of the information being reported upon is suitable or appropriate for the Authority purposes. Accordingly we make no such assessment.

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

Our responsibility is to audit the regulatory accounting statements in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below and having regard to the guidance contained in Audit 05/03 "Reporting to Regulators of Regulated Entities".

We report to you our opinion as to whether the regulatory accounting statements have been properly prepared in accordance with the Condition and, in respect of the Transco business, the Transportation business, the Metering business, the Meter Reading business and the LNG Storage business whether they fairly present the revenues, costs, assets, liabilities, reserves and provisions of or reasonably attributable to those businesses. We also report to you if, in our opinion, the other information presented (as defined below) is not consistent with the regulatory accounting statements, if the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

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

Basis of opinion

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

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

Our opinion on the regulatory accounting statements is separate from our opinion on the statutory accounts of the Company on which we reported on 26 May 2004, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The Condition requires for the regulatory accounting statements to be drawn up on the basis set out therein including the separate disclosure of amounts charged to or from other businesses of National Grid Transco plc or determined by apportionment. The Directors of Transco plc are responsible for determining the bases of charges and apportionments, which requires a number of judgements and assumptions to be made. We do not give an opinion on the appropriateness of the bases of charges and apportionments.

Opinion

In our opinion, on the basis set out above, the regulatory accounting statements fairly present in accordance with the Condition and the accounting policies set out on pages 8 and 9, the assets, liabilities, reserves and provisions of Transco (including, where applicable, those of its Transportation, Metering, Meter Reading and LNG Storage businesses) at 31 March 2004 and of its revenues and costs, (including those of its Transportation, Metering, Meter Reading and LNG Storage businesses) for the year then ended and have been properly prepared in accordance with the Condition and the accounting policies.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

24 June 2004

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

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

Accounting policies

a) Basis of preparation of accounts

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

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

b) Basis of consolidation

The regulatory accounting statements comprise a consolidation of the accounts of Transco's Transportation business, Transco's Metering business, Transco's Meter Reading business, Transco's LNG Storage business, and Transco's de-minimis activities including such businesses and activities undertaken by Transco's subsidiary undertakings on behalf of Transco.

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

Income, costs, assets and liabilities of Transco, which are not directly attributable to specific businesses or activities, are apportioned to those businesses or activities in accordance with the activities giving rise to the income, costs, assets or liabilities. Interest, taxation, borrowings and capital liabilities that are not directly attributable to specific businesses are not apportioned. Further details are set out in note 26, page 33, and note 27, page 34.

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

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

c) Amendments to licence conditions

Where the licence conditions, under which the regulatory accounting statements are produced, are amended, prior year information is only restated to the new

basis when either specifically required by the licence, or when it is reasonably practicable to do so. Otherwise, prior year information is presented on the basis of the licence conditions under which it was first prepared.

d) Foreign currencies

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

e) Tangible fixed assets

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

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

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

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

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

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

f) Impairment of fixed assets

Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of income generating units, including where appropriate,

investments, and their recoverable amounts. Recoverable amount is defined as the higher of net realisable value or estimated value in use at the date the impairment review is undertaken. Net realisable value represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the income generating unit.

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

g) Replacement expenditure

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

h) Deferred taxation

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

Deferred tax balances have not been discounted.

i) Stocks

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

j) Environmental costs

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

k) Turnover

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

l) Pensions

The substantial majority of Transco's employees are members of the Lattice Group Pension Scheme. Transco recognises pension costs in its profit and loss account as they are charged to Transco by Lattice. The charge from Lattice comprises the regular pension cost of Transco's employees and variations from the regular pension cost in respect of the effect of any surplus or deficit attributable to Transco. The interest element of any surplus or deficit attributable to Transco is included within the profit and loss account as a financing charge.

m) Leases

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

n) Financial instruments

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

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

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

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

o) Restructuring costs

Costs arising from Transco's restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the profit and loss account in the period in which Transco becomes irrevocably committed to incurring the costs and the main features of the restructuring plan have been announced to affected employees. Redundancy costs are classified as part of other operating charges as these costs do not relate to services provided by the employees for the year.

Consolidated profit and loss accounts

For the year ended 31 March	Notes	Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
		2004 £m	2004 £m	Reading 2004 £m	Storage 2004 £m	2004 £m	2004 £m	2003 £m	2003 £m	Reading 2003 £m	Storage 2003 £m	2003 £m	2003 £m
Turnover	1	2,686	369	19	31	17	3,122	2,609	367	21	33	7	3,037
Operating costs	2	(1,736)	(281)	(15)	(26)	(17)	(2,075)	(1,914)	(280)	(20)	(28)	(5)	(2,247)
Operating profit													
– Before exceptional items		1,025	89	4	6	-	1,124	826	99	4	5	2	936
– Exceptional items	3	(75)	(1)	-	(1)	-	(77)	(131)	(12)	(3)	-	-	(146)
Total operating profit		950	88	4	5	-	1,047	695	87	1	5	2	790
Merger costs	3	-	-	-	-	-	-	(8)	-	-	-	-	(8)
Profit on disposal of fixed asset investments	3	-	-	-	-	-	-	-	-	-	-	1	1
Profit/(loss) on disposal of tangible fixed assets	3	-	-	-	-	-	-	4	(10)	-	-	-	(6)
Net interest	7	(32)	(3)	-	-	(271)	(306)	(19)	(2)	-	-	(301)	(322)
Profit on ordinary activities before taxation		918	85	4	5	(271)	741	672	75	1	5	(298)	455
Taxation													
– Excluding exceptional items	8	-	-	-	-	(207)	(207)	-	-	-	-	(189)	(189)
– Exceptional items	8	-	-	-	-	24	24	-	-	-	-	41	41
		-	-	-	-	(183)	(183)	-	-	-	-	(148)	(148)
Profit for the year		918	85	4	5	(454)	558	672	75	1	5	(446)	307
Dividends	9	-	-	-	-	(70)	(70)	-	-	-	-	(244)	(244)
Transfer to/(from) reserves	19	918	85	4	5	(524)	488	672	75	1	5	(690)	63

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

All operations are continuing operations

Consolidated statement of total recognised gains and losses

For the year ended 31 March	Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
	2004 £m	2004 £m	Reading 2004 £m	Storage 2004 £m	2004 £m	2004 £m	2003 £m	2003 £m	Reading 2003 £m	Storage 2003 £m	2003 £m	2003 £m
Profit for the year	918	85	4	5	(454)	558	672	75	1	5	(446)	307
Transfer of balances arising from unregulated activities in prior periods (note 20)	-	-	-	-	-	-	-	-	-	-	6	6
Total recognised gains and losses for the year	918	85	4	5	(454)	558	672	75	1	5	(440)	313

Balance sheets

At 31 March		Transportation 2004	Metering 2004	Meter Reading 2004	LNG Storage 2004	Other 2004	Transco 2004	Transportation 2003	Metering 2003	Meter Reading 2003	LNG Storage 2003	Other 2003	Transco 2003
	Notes	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fixed assets													
Tangible assets	10	6,875	950	1	50	-	7,876	6,693	1,019	1	70	-	7,783
Current assets													
Stocks	11	25	4	-	3	-	32	27	2	-	2	-	31
Debtors (amounts falling due within one year)	12	218	40	3	3	30	294	193	23	1	3	85	305
Debtors (amounts falling due after more than one year)	12	-	-	-	-	2,544	2,544	-	-	-	-	2,241	2,241
Current asset investments		-	-	-	-	75	75	-	-	-	-	7	7
		243	44	3	6	2,649	2,945	220	25	1	5	2,333	2,584
Creditors (amounts falling due within one year)													
Borrowings	15	(24)	-	-	-	(1,281)	(1,305)	(16)	-	-	-	(1,073)	(1,089)
Other creditors	13	(790)	(78)	(8)	(17)	(467)	(1,360)	(732)	(62)	(6)	(8)	(312)	(1,120)
		(814)	(78)	(8)	(17)	(1,748)	(2,665)	(748)	(62)	(6)	(8)	(1,385)	(2,209)
Net current assets/(liabilities)		(571)	(34)	(5)	(11)	901	280	(528)	(37)	(5)	(3)	948	375
Total assets less current liabilities		6,304	916	(4)	39	901	8,156	6,165	982	(4)	67	948	8,158
Creditors (amounts falling due after more than one year)													
Borrowings	15	(20)	-	-	-	(3,616)	(3,636)	(52)	-	-	-	(4,030)	(4,082)
Other creditors	14	(994)	(33)	-	-	-	(1,027)	(949)	(28)	-	-	-	(977)
		(1,014)	(33)	-	-	(3,616)	(4,663)	(1,001)	(28)	-	-	(4,030)	(5,059)
Provisions for liabilities and charges	17	(120)	(1)	-	-	(1,235)	(1,356)	(172)	(2)	-	-	(1,276)	(1,450)
Net assets employed		5,170	882	(4)	39	(3,950)	2,137	4,992	952	(4)	67	(4,358)	1,649
Capital and reserves													
Called up share capital	18						45						45
Share premium account	19						204						204
Capital redemption reserve	19						1,332						1,332
Profit and loss account	19						556						68
Equity shareholders' funds							2,137						1,649

Commitments and contingencies are shown in note 23, page 32.

The regulatory accounting statements on pages 8 to 40 inclusive, which are based on the Annual Report and Accounts 2003/04 of Transco plc, as approved by its Board on 26 May 2004, were signed on 24 June 2004 by:

Steve Holliday, Chief Executive

Colin Buck, Finance Director

Reconciliation of change in net assets

For the year ended 31 March	Notes	Transco 2004 £m	Transco 2003 £m
Net assets at the beginning of the year		1,649	1,580
Profit for the year		558	307
Dividends		(70)	(244)
Transfer of balances arising from unregulated activities in prior periods	20	-	6
Net assets at the end of the year		2,137	1,649

Cash flow statements

For the year ended 31 March		2004						2003					
	Notes	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m	Transportation 2003 £m	Metering 2003 £m	Meter Reading 2003 £m	LNG Storage 2003 £m	Other 2003 £m	Transco 2003 £m
Net cash inflow from operating activities before exceptional items	21(a)	1,385	237	4	7	(10)	1,623	1,191	231	10	16	6	1,454
Expenditure relating to exceptional items		(133)	(2)	-	(1)	-	(136)	(122)	(10)	(3)	-	-	(135)
Net cash inflow from operating activities		1,252	235	4	6	(10)	1,487	1,069	221	7	16	6	1,319
Returns on investments and servicing of finance													
Interest received and similar income		-	-	-	-	55	55	-	-	-	-	17	17
Interest paid and similar charges		(40)	(3)	-	-	(270)	(313)	(13)	(2)	-	-	(311)	(326)
Net cash outflow for returns on investments and servicing of finance		(40)	(3)	-	-	(215)	(258)	(13)	(2)	-	-	(294)	(309)
Taxation													
Corporation tax paid		-	-	-	-	(59)	(59)	-	-	-	-	(62)	(62)
Capital expenditure													
Payments to acquire tangible fixed assets		(434)	(77)	-	(2)	-	(513)	(531)	(81)	(1)	(4)	-	(617)
Net receipts from disposal of tangible fixed assets		(1)	-	-	21	-	20	12	-	-	-	-	12
Net cash outflow for capital expenditure		(435)	(77)	-	19	-	(493)	(519)	(81)	(1)	(4)	-	(605)
Acquisitions and disposals													
Receipts from disposal of investments		-	-	-	-	-	-	-	-	-	-	1	1
Equity dividends paid		-	-	-	-	(70)	(70)	-	-	-	-	(337)	(337)
Net cash inflow/(outflow) before management of liquid resources and financing		777	155	4	25	(354)	607	537	138	6	12	(686)	7
Management of liquid resources													
Increase in short-term deposits	21(b)(c)	-	-	-	-	(68)	(68)	-	-	-	-	(4)	(4)
Net cash outflow from management of liquid resources		-	-	-	-	(68)	(68)	-	-	-	-	(4)	(4)
Financing													
(Decrease) / increase in borrowings	21(b)(c)	(20)	-	-	-	(209)	(229)	(25)	-	-	-	17	(8)
Pooling of funding in the Transco business		(753)	(155)	(4)	(25)	937	-	(487)	(138)	(6)	(12)	643	-
Loan to parent undertaking		-	-	-	-	(303)	(303)	-	-	-	-	(165)	(165)
Funding of special pension contribution		-	-	-	-	-	-	-	-	-	-	193	193
Net cash inflow from financing		(773)	(155)	(4)	(25)	425	(532)	(512)	(138)	(6)	(12)	688	20
Net increase/(decrease) in cash and overdrafts	21(b)(c)	4	-	-	-	3	7	25	-	-	-	(2)	23

Reconciliation to the Annual Report and Accounts of Transco plc

A reconciliation is not provided between these regulatory accounting statements and the Annual Report and Accounts of Transco plc, as the amounts reported therein for the Transco business in respect of net assets and liabilities at 31 March 2004 and the profit and cash flows for the year then ended, are the same.

Notes to the regulatory accounting statements

1. Turnover

For the year ended 31 March	Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
	2004	2004	Reading	Storage	2004	2004	2003	2003	Reading	Storage	2003	2003
	£m	£m	2004	2004	£m	£m	£m	£m	£m	£m	£m	£m
Transportation, metering, meter reading and LNG storage services	2,670	369	19	12	-	3,070	2,587	367	18	15	-	2,987
LNG storage services to the Transportation Business	-	-	-	19	(19)	-	-	-	-	18	(18)	-
Other income	16	-	-	-	36	52	22	-	3	-	25	50
Total turnover	2,686	369	19	31	17	3,122	2,609	367	21	33	7	3,037

2. Operating costs

For the year ended 31 March	Transportation	Metering	Meter	LNG	Other	Transco	Transportation	Metering	Meter	LNG	Other	Transco
	2004	2004	Reading	Storage	2004	2004	2003	2003	Reading	Storage	2003	2003
	£m	£m	2004	2004	£m	£m	£m	£m	£m	£m	£m	£m
Depreciation	271	149	-	3	-	423	255	126	-	4	-	385
Payroll costs (note 4(a))	374	6	2	8	5	395	414	8	2	7	8	439
Other operating charge:												
– Purchases of gas	86	-	-	-	-	86	108	-	-	-	-	108
– Rates	209	29	-	2	-	240	206	26	-	3	-	235
– Replacement expenditure	388	-	-	-	-	388	405	-	-	-	-	405
– Exceptional operating items (note 3)	75	1	-	1	-	77	131	12	3	-	-	146
– Other non-exceptional operating charges	333	96	13	12	12	466	395	108	15	14	(3)	529
	1,091	126	13	15	12	1,257	1,245	146	18	17	(3)	1,423
	1,736	281	15	26	17	2,075	1,914	280	20	28	5	2,247

Operating costs include (i):

Research and development costs

Operating lease rentals:

– Plant and machinery

– Other

Auditors' remuneration:

Statutory audit services

– Annual audit

– Regulatory reporting

Further audit related services

Other non-audit services (ii)

	4	8
	11	15
	15	14
	0.4	0.4
	0.2	0.2
	0.3	-
	-	3.1

Details of operating charges determined by apportionment are provided in note 26, page 33.

- (i) The statutory disclosure of items included in operating costs is not analysed by business, as it is not possible to identify the business that bears the costs after taking account of allocations and apportionments.
(ii) Other non-audit services in 2002/03 includes £2.2m paid to the former consulting business of PricewaterhouseCoopers which was sold to IBM United Kingdom Limited on 30 September 2002.

3. Exceptional items

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

Paragraph 20 of Financial Reporting Standard (FRS) 3 'Reporting Financial Performance', requires that certain items be disclosed after operating profit and these 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 of the Merger; and b) profit on disposal of fixed assets (including the gain on sale of other fixed asset investments).

Other exceptional items are shown below as 'operating exceptional items' and the Directors believe require separate disclosure, as permitted by FRS 3, within operating profit to show a true and fair view. These items include: Restructuring costs; Merger costs arising from the recognition of employee and property costs arising as a direct result of the Merger; and environmental provision which are all disclosed by virtue of their size.

a) Operating

For the year ended 31 March	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco
	2004 £m	2004 £m	2004 £m	2004 £m	2004 £m	2004 £m	2003 £m	2003 £m	2003 £m	2003 £m	2003 £m	2003 £m
Restructuring costs (i)	88	1	-	1	-	90	90	8	2	-	-	100
Merger costs (ii)	-	-	-	-	-	-	41	4	1	-	-	46
Environmental provision (iii)	(13)	-	-	-	-	(13)	-	-	-	-	-	-
	75	1	-	1	-	77	131	12	3	-	-	146

(i) The Restructuring costs for the year ended 31 March 2004 consist of £11m costs associated with the proposed disposal of distribution networks, all of which is attributable to the Transportation business, and other charges of £79m. The other charges and the charges for the year ended 31 March 2003 primarily relate to planned cost reduction programmes. (Year ended 31 March 2004: £66m after tax for Transco, year ended 31 March 2003: £70m after tax for Transco).

(ii) The Merger costs for the year ended 31 March 2003 represents employee and property costs associated with the Merger of National Grid and Lattice (£39m after tax for Transco).

(iii) Following the completion of site investigations the environmental obligations in respect of those sites have been reduced by £13m (£13m after tax for Transco).

Details of exceptional operating costs determined by apportionment are provided in note 26, page 33.

b) Non-operating

For the year ended 31 March	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco
	2004 £m	2004 £m	2004 £m	2004 £m	2004 £m	2004 £m	2003 £m	2003 £m	2003 £m	2003 £m	2003 £m	2003 £m
Merger costs (iv)	-	-	-	-	-	-	8	-	-	-	-	8
Profit on disposal of investments (v)	-	-	-	-	-	-	-	-	-	-	(1)	(1)
(Profit)/loss on disposal of tangible fixed assets (vi)	-	-	-	-	-	-	(4)	10	-	-	-	6
	-	-	-	-	-	-	4	10	-	-	(1)	13

(iv) The after tax cost of the Merger for Transco in the year ended 31 March 2003 was £6m.

(v) The after tax profit on disposal of fixed asset investments for Transco in the year ended 31 March 2003 was £1m.

(vi) The after tax loss on disposal of tangible fixed assets for Transco in the year ended 31 March 2003 was £4m.

4. Payroll costs and employees

a) Payroll costs

For the year ended 31 March	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco
	2004	2004	2004	2004	2004	2004	2003	2003	2003	2003	2003	2003
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wages and salaries	332	5	2	6	5	350	380	6	2	6	8	402
Social security costs	30	-	-	1	-	31	30	1	-	-	-	31
Pension costs	91	1	-	1	-	93	69	1	-	1	-	71
	453	6	2	8	5	474	479	8	2	7	8	504
Less:												
Amounts capitalised	(14)	-	-	-	-	(14)	(9)	-	-	-	-	(9)
Payroll costs included in replacement expenditure	(59)	-	-	-	-	(59)	(56)	-	-	-	-	(56)
Payroll costs included in exceptional operating items	(6)	-	-	-	-	(6)	-	-	-	-	-	-
	374	6	2	8	5	395	414	8	2	7	8	439

b) Average number of employees

For the year ended 31 March	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco	Transportation	Metering	Meter Reading	LNG Storage	Transco
	2004	2004	2004	2004	2004	2004	2003	2003	2003	2003	2003
	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number
Continuing operations											
United Kingdom	11,240	150	49	188	165	11,792	13,101	195	46	147	13,489

Transco average employee numbers are based on average monthly headcount. Transco employee numbers have been apportioned between the different businesses relative to salaries and wages.

5. Directors' emoluments

The aggregate amount of emoluments paid to Directors in respect of qualifying services for the year ended 31 March 2004 was £2,040,131 (year ended 31 March 2003: £2,015,408). The amount paid in respect of compensation for loss of office in the year ended 31 March 2004 was £599,011 (year ended 31 March 2003: £nil). Directors' emoluments include amounts in respect of accrued bonus which had not yet been approved at the date of these regulatory accounting statements.

A number of current Directors are also directors and employees of National Grid Transco plc or a subsidiary undertaking of that company and are paid by these companies.

As at 31 March 2004, retirement benefits were accruing to 6 Directors under a defined benefit scheme and one Director under a defined contribution scheme. The aggregate emoluments for the highest paid Director were £492,004 for the year ended 31 March 2004 (year ended 31 March 2003: £332,241) and total accrued annual pension at 31 March 2004 for the highest paid Director was £188,600 (31 March 2003: £91,700). The amount of contributions paid in respect of defined contribution pension schemes was £19,800 (year ended 31 March 2003: £12,960).

6. Pensions

Pension cost

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

For the year ended 31 March	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m	Transportation 2003 £m	Metering 2003 £m	Meter Reading 2003 £m	LNG Storage 2003 £m	Other 2003 £m	Transco 2003 £m
Charged against operating profit	91	1	-	1	-	93	69	1	-	1	-	71
Charged within net interest	25	1	-	-	-	26	1	-	-	-	-	1
Total cost	116	2	-	1	-	119	70	1	-	1	-	72

There were no outstanding or prepaid pension contributions at 31 March 2004 (31 March 2003: £nil).

Pension scheme

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

The Scheme is funded with assets held in a separate trustee administered fund. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer's contributions which, together with the specified contributions payable by the employees and proceeds from the Scheme's assets, are expected to be sufficient to fund the benefits payable under the Scheme.

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

The results of the actuarial valuation carried out at 31 March 2003 showed that based on long-term financial assumptions the contribution rate required to meet the future benefit accrual was 23.7% of pensionable earnings (20.7% employer's and 3% employees'). Employer's contributions were increased from 8.5% to 20.7% with effect from 1 April 2003. This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be no later than 31 March 2006. The ongoing contribution rate does not include an allowance for administration expenses. These contributions are reviewed annually. From 1 April 2003 the rate used for the recovery of administration costs was 1.4% of salary, from 1 April 2004 the rate was 1.6% of salary. Employers are currently, therefore, paying a total contribution rate of 22.3%. The actuarial valuation revealed a deficit of £879m gross (£615m net of tax) in the defined benefit section on the basis of the assumptions adopted by the actuary. It has been agreed that no funding of the deficit identified in the 2003 actuarial valuation will need to be provided to the scheme until the outcome of the actuarial valuation at 31 March 2007 is known. At that point, the National Grid Transco group will pay the gross amount of any deficit up to a maximum amount of £520 million (£364 million net of tax) into the scheme. Transco's share of these payments is £468 million (£328 million net of tax). For the period prior to these lump sum deficiency contributions being paid, the National Grid Transco group has arranged for banks to provide the trustees of the Scheme with letters of credit. The main conditions under which these letters of credit could be drawn relate to events which would imperil the interests of the scheme, such as Transco plc becoming insolvent or the National Grid Transco group failing to make agreed payments into the fund.

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

FRS 17, Retirement Benefits

In November 2000, the Accounting Standards Board introduced a new accounting standard FRS 17 'Retirement Benefits', replacing SSAP 24 'Accounting for Pension Costs'. FRS 17 is fully effective for periods beginning on or after 1 January 2005, though disclosures are required in the financial years prior to its full implementation. As Transco's share of the underlying assets and liabilities of the Scheme cannot be identified separately, Transco would account for pensions under FRS 17 as if the Scheme were a defined contributions scheme and is not required to make the full disclosures under FRS 17. The pension charge, which Transco would have incurred in the 12 months ended 31 March 2004, amounted to £161m (12 months ended 31 March 2003: £115m) of which £42m (12 months ended 31 March 2003: £43m) related to redundancies. Lattice has not yet determined the methodology that it would use to charge pensions costs to its subsidiary undertakings following the full adoption of FRS 17.

7. Net Interest

For the year ended 31 March	Transportation	Metering	Other	Transco	Transportation	Metering	Other	Transco
	2004 £m	2004 £m	2004 £m	2004 £m	2003 £m	2003 £m	2003 £m	2003 £m
Bank loans and overdrafts	-	-	9	9	-	-	5	5
Other	38	3	264	305	13	2	316	331
	38	3	273	314	13	2	321	336
Unwinding of discount on provisions	6	-	-	6	6	-	-	6
Interest capitalised	(12)	-	-	(12)	-	-	-	-
Interest payable and similar charges net of interest capitalised	32	3	273	308	19	2	321	342
Interest receivable and similar income	-	-	(2)	(2)	-	-	(20)	(20)
	32	3	271	306	19	2	301	322

Loss incurred on the repurchase of debt during the year ended 31 March 2004 included in interest payable and similar charges was £nil (year ended 31 March 2003: £7m).

Interest on the funding attributable to assets in the course of construction was capitalised at a rate of 5.7%.

No interest was capitalised in prior years as the amounts were not material.

8. Taxation

For the year ended 31 March	Transco 2004 £m	Transco 2003 £m
United Kingdom current tax		
– Corporation tax at 30%	238	135
– Adjustment in respect of prior years	(14)	(5)
Deferred tax		
– Current period	(14)	18
– Adjustment in respect of prior years	(27)	-
Taxation	183	148
Comprising:		
Taxation – excluding exceptional items	207	189
Taxation – exceptional items	(24)	(41)
	183	148

8. Taxation continued

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

	% of profit before taxation	
	Transco 2004	Transco 2003
For the year ended 31 March		
UK corporation tax rate	30.0	30.0
Effect on tax charge of:		
Origination and reversal of timing differences	1.7	(3.1)
Permanent differences	0.3	1.6
Current tax charge	32.0	28.5
Deferred taxation	(1.7)	3.1
Effective tax rate before tax adjustments in respect of prior years and exceptional items	30.3	31.6
Tax adjustments in respect of prior years	(5.0)	(0.8)
Effective tax rate before exceptional items	25.3	30.8
Exceptional items	(0.6)	1.7
Effective tax rate after exceptional items	24.7	32.5

Factors that may affect future tax charges

Transco has brought forward non-trading debits of £75m (31 March 2003 £75m) which may reduce tax payments in future years.

No provision has been made for deferred tax on gains recognised on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the replacement asset were sold without it being possible to claim roll-over relief. The total amount not provided for is £46m (31 March 2003 £46m). At present, it is not envisaged that any tax will become payable in the foreseeable future.

9. Dividends

	Transco 2004 £m	Transco 2003 £m
For the year ended 31 March		
Ordinary shares:		
Interim dividend	70	244

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

10. Tangible fixed assets

Transportation

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2003	74	8,694	237	620	9,625
Additions	2	244	132	75	453
Disposals	(1)	(8)	(1)	(88)	(98)
Reclassifications	-	121	(209)	88	-
Cost at 31 March 2004	75	9,051	159	695	9,980
Depreciation at 1 April 2003	(20)	(2,487)	-	(425)	(2,932)
Charge for the year	(3)	(186)	-	(82)	(271)
Disposals	-	13	-	85	98
Depreciation at 31 March 2004	(23)	(2,660)	-	(422)	(3,105)
Net book value at 31 March 2004	52	6,391	159	273	6,875
Net book value at 31 March 2003	54	6,207	237	195	6,693

Metering

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2003	-	1,591	-	-	1,591
Additions	-	80	-	-	80
Disposals	-	(32)	-	-	(32)
Cost at 31 March 2004	-	1,639	-	-	1,639
Depreciation at 1 April 2003	-	(572)	-	-	(572)
Charge for the year	-	(149)	-	-	(149)
Disposals	-	32	-	-	32
Depreciation at 31 March 2004	-	(689)	-	-	(689)
Net book value at 31 March 2004	-	950	-	-	950
Net book value at 31 March 2003	-	1,019	-	-	1,019

10. Tangible fixed assets continued

Meter Reading

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2003	-	-	-	1	1
Additions	-	-	-	-	-
Cost at 31 March 2004	-	-	-	1	1
Depreciation at 1 April 2003	-	-	-	-	-
Charge for the year	-	-	-	-	-
Depreciation at 31 March 2004	-	-	-	-	-
Net book value at 31 March 2004	-	-	-	1	1
Net book value at 31 March 2003	-	-	-	1	1

LNG Storage

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2003	1	218	-	3	222
Additions	-	2	-	-	2
Disposals	-	(62)	-	(1)	(63)
Cost at 31 March 2004	1	158	-	2	161
Depreciation at 1 April 2003	-	(150)	-	(2)	(152)
Charge for the year	-	(3)	-	-	(3)
Disposals	-	44	-	-	44
Depreciation at 31 March 2004	-	(109)	-	(2)	(111)
Net book value at 31 March 2004	1	49	-	-	50
Net book value at 31 March 2003	1	68	-	1	70

10. Tangible fixed assets continued

Transco

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2003	75	10,503	237	624	11,439
Additions	2	326	132	75	535
Disposals	(1)	(102)	(1)	(89)	(193)
Reclassifications	-	121	(209)	88	-
Cost at 31 March 2004	76	10,848	159	698	11,781
Depreciation at 1 April 2003	(20)	(3,209)	-	(427)	(3,656)
Charge for the year	(3)	(338)	-	(82)	(423)
Disposals	-	89	-	85	174
Depreciation at 31 March 2004	(23)	(3,458)	-	(424)	(3,905)
Net book value at 31 March 2004	53	7,390	159	274	7,876
Net book value at 31 March 2003	55	7,294	237	197	7,783

The net book value of land and buildings comprises:

At 31 March	Transco 2004 £m	Transco 2003 £m
Freehold	48	51
Long leasehold	1	2
Short leasehold	4	2
	53	55

The cost of tangible fixed assets at 31 March 2004 includes £12m (2003: £nil) relating to interest capitalised.

Included in creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £34m (2003: £32m) and £1,000m (2003: £956m) respectively.

11. Stocks

At 31 March	Transportation 2004 £m	Metering 2004 £m	LNG Storage 2004 £m	Transco 2004 £m	Transportation 2003 £m	Metering 2003 £m	LNG Storage 2003 £m	Transco 2003 £m
Raw materials and consumables	25	4	3	32	27	2	2	31

12. Debtors

At 31 March	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m	Transportation 2003 £m	Metering 2003 £m	Meter Reading 2003 £m	LNG Storage 2003 £m	Other 2003 £m	Transco 2003 £m
Amounts falling due within one year												
Trade debtors	14	1	-	1	-	16	25	1	-	1	-	27
Amounts owed by fellow subsidiary undertakings	19	-	1	-	3	23	1	7	-	-	3	11
Amounts owed by Transportation to LNG Storage	-	-	-	2	(2)	-	-	-	-	2	(2)	-
Other debtors	13	-	-	-	18	31	4	-	1	-	19	24
Prepayments and accrued income	172	39	2	-	11	224	163	15	-	-	65	243
	218	40	3	3	30	294	193	23	1	3	85	305
Amounts falling due after more than one year												
Amounts owed by parent undertaking (i)	-	-	-	-	2,544	2,544	-	-	-	-	2,241	2,241
Total debtors	218	40	3	3	2,574	2,838	193	23	1	3	2,326	2,546

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

	2004 £m	2003 £m
At start of the period	2,241	2,076
Transfer of certain LNG Storage assets located at the Isle of Grain to Transco Holdings	23	-
Loan to Transco Holdings to fund dividends payable by Transco Holdings plc to Lattice Group plc	280	165
	2,544	2,241

Details of debtors apportioned between the different businesses of Transco are provided in note 26, page 33.

13. Creditors (amounts falling due within one year)

At 31 March	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m	Transportation 2003 £m	Metering 2003 £m	Meter Reading 2003 £m	LNG Storage 2003 £m	Other 2003 £m	Transco 2003 £m
Borrowings (note 15)	24	-	-	-	1,281	1,305	16	-	-	-	1,073	1,089
Trade creditors and accruals	317	37	3	5	-	362	281	21	2	6	-	310
Amounts owed to fellow subsidiary undertakings	92	1	-	12	185	290	44	1	-	2	205	252
Amounts owed by Transportation to LNG Storage	2	-	-	-	(2)	-	2	-	-	-	(2)	-
Corporation tax	-	-	-	-	173	173	-	-	-	-	-	-
Social security and other taxes	151	13	-	-	-	164	149	15	1	-	-	165
Other creditors	49	7	5	-	111	172	77	4	3	-	109	193
Deferred income	179	20	-	-	-	199	179	21	-	-	-	200
	814	78	8	17	1,748	2,665	748	62	6	8	1,385	2,209

Other creditors include interest payable of £113m (2003: £118m).

Details of creditors apportioned between the different businesses of Transco are provided in note 26, page 33.

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

At 31 March	Transportation 2004 £m	Metering 2004 £m	Other 2004 £m	Transco 2004 £m	Transportation 2003 £m	Metering 2003 £m	Other 2003 £m	Transco 2003 £m
Borrowings (note 15)	20	-	3,616	3,636	52	-	4,030	4,082
Deferred income	994	33	-	1,027	949	28	-	977
	1,014	33	3,616	4,663	1,001	28	4,030	5,059

Deferred income mainly comprises contributions to capital projects.

15. Borrowings

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

At 31 March	Transportation 2004 £m	Other 2004 £m	Transco 2004 £m	Transportation 2003 £m	Other 2003 £m	Transco 2003 £m
Amounts falling due within one year:						
Bank loans and overdrafts		6	94	10	179	189
Commercial paper		-	202	-	-	-
Bonds		-	494	-	515	515
Borrowings from fellow subsidiary undertakings		-	490	-	349	349
Other loans		18	1	6	30	36
		24	1,281	16	1,073	1,089
Amounts falling due after more than one year:						
Bonds		-	3,616	-	4,030	4,030
Other loans		20	-	52	-	52
		20	3,616	52	4,030	4,082
Total borrowings		44	4,897	68	5,103	5,171

Total borrowings are repayable as follows:

	Transco 2004 £m	Transco 2003 £m
In one year or less	1,305	1,089
More than one year, but not more than two years	257	643
More than two years, but not more than three years	887	199
More than three years, but not more than four years	293	888
More than four years, but not more than five years	457	236
More than five years	1,742	2,116
	4,941	5,171

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

Bonds falling due after more than one year also include the amount of £73m (2003 £65m), including accretion of interest to 31 March 2004, in respect of a zero coupon bond due 2021, which had a market value of £287m (2003 £290m).

16. Financial Instruments

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

Transco's counterparty exposure under foreign currency swaps and foreign exchange contracts was £146m (31 March 2003: £320m) and interest rate swaps £25m (31 March 2003: £71m).

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

Short-term debtors and creditors, where permitted by the financial reporting standard on derivatives and other financial instruments (FRS 13), have been excluded from the following disclosures. It is assumed that because of short maturities, the fair value of short-term debtors and creditors approximates to their book values.

Currency and interest rate composition of financial liabilities

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

	Total £m	Variable rate £m	Fixed rate liabilities		Weighted average period for which rate is fixed Years
			Fixed rate £m	Weighted average interest rate %	
At 31 March 2004					
Sterling					
Borrowings	4,941	2,854	2,087	6.1	6
Other financial liabilities	3	3	-	-	-
	4,944	2,857	2,087	6.1	6
At 31 March 2003					
Sterling					
Borrowings	5,171	2,488	2,683	6.1	5
Other financial liabilities	20	20	-	-	-
	5,191	2,508	2,683	6.1	5

At 31 March 2004 the weighted average interest rate on short-term borrowings of £1,305m (2003: £1,089m) was 4.6% (2003: 7.4%).

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

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

16. Financial Instruments continued

Currency and interest rate composition of financial assets

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

	Fixed rate assets				Weighted average period for which rate is fixed
	Total £m	Non-interest bearing £m	Fixed rate £m	Weighted average interest rate %	Years
At 31 March 2004					
Sterling	72	-	72	3.7	0
US dollars	2	-	2	1.1	0
Other currencies	1	-	1	2.0	0
Cash and investments	75	-	75	-	-
Other financial assets (sterling)	2,544	2,544	-	-	-
	2,619	2,544	75	-	-
At 31 March 2003					
Sterling	3	-	3	4.0	0
US dollars	2	-	2	1.1	0
Other currencies	2	-	2	2.5	0
Cash and investments	7	-	7	-	-
Other financial assets (sterling)	2,241	2,241	-	-	-
	2,248	2,241	7	-	-

Other financial assets comprise amounts owed by Transco's immediate parent company, Transco Holdings plc.

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

	2004 £m	2003 £m
Maturity of financial liabilities at 31 March		
In one year or less	1,305	1,093
More than one year, but not more than two years	260	647
More than two years, but not more than three years	887	203
More than three years, but not more than four years	293	892
More than four years, but not more than five years	457	240
More than five years	1,742	2,116
	4,944	5,191
Maturity of financial assets at 31 March		
In one year or less	75	7
No maturity date	2,544	2,241
	2,619	2,248

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

16. Financial Instruments continued

Fair values of financial instruments at 31 March

	2004		2003	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial instruments held or issued to finance Transco's operations:				
Short-term borrowings	(1,305)	(1,267)	(1,089)	(1,093)
Long-term borrowings	(3,578)	(4,079)	(4,174)	(4,677)
Financial assets	2,619	2,619	2,248	2,248
Financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps	-	14	-	62
Forward foreign currency contracts and cross currency swaps	(58)	90	92	313

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

The notional principal amounts relating to financial instruments held to manage interest rate and currency profile for interest rate swaps and forward rate agreements, foreign currency contracts and cross-currency swaps, amounted to £6,282m (2003: £3,846m) and £3,028m (2003: £3,428m) respectively.

Gains and losses on hedges

	Unrecognised gains £m	Unrecognised losses £m	Unrecognised net gain £m	Deferred gains £m	Deferred losses £m	Deferred net gain £m
Gains and (losses) on hedges at 1 April 2003	346	(63)	283	34	(84)	(50)
(Gains)/losses arising in previous years recognised in the year	(62)	6	(56)	(7)	12	5
Gains/(losses) arising in previous years not recognised in the year	284	(57)	227	27	(72)	(45)
Gains/(losses) arising in the year	(31)	(34)	(65)	61	(8)	53
Gains and (losses) on hedges at 31 March 2004	253	(91)	162	88	(80)	8
Of which:						
Gains and (losses) expected to be recognised within one year	3	(6)	(3)	11	(12)	(1)
Gains and (losses) expected to be recognised after one year	250	(85)	165	77	(68)	9

Borrowing facilities

At 31 March 2004, Transco had undrawn committed borrowing facilities as shown below:

	2004 £m	2003 £m
In one year or less	758	622
More than one year, but not more than two years	575	-
More than two years, but not more than three years	-	600
	1,333	1,222

17. Provisions for liabilities and charges

	Transportation			Metering		Transco		Total	
	Environmental	Restructuring	Total	Restructuring	Deferred taxation	Environmental	Restructuring	Deferred taxation	Total
	£m	£m		£m	£m	£m	£m	£m	£m
At 31 March 2003	98	74	172	2	1,276	98	76	1,276	1,450
Charge / (release) to profit and loss account	(13)	78	65	1	(41)	(13)	79	(41)	25
Utilised	(6)	(117)	(123)	(2)	-	(6)	(119)	-	(125)
Unwinding of discount	6	-	6	-	-	6	-	-	6
At 31 March 2004	85	35	120	1	1,235	85	36	1,235	1,356

At 31 March 2004, the environmental provision represented the net present value of the estimated statutory decontamination costs of old gas manufacturing sites (discounted using a nominal rate of 5.25%). The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but they are expected to be incurred over the period 2005 to 2057. During the year ended 31 March 2004, a project to survey all contaminated old gas manufacturing sites was completed. This resulted in a re-evaluation of the provision and a reduction in the amount of provision made, reflected as an exceptional credit of £13m in the profit and loss account – see note 3(a).

There are a number of uncertainties that affect the calculation of the provision for 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. Transco has made its best estimate of the financial effect of these uncertainties in the calculation of the provision, but future material changes in any of the assumptions could materially impact on the calculation of the provision and hence the profit and loss account.

The undiscounted amount of the provision at 31 March 2004 relating to gas site decontamination was £127m, being the undiscounted best estimate of the liability having regard to the uncertainties referred to above (excluding the impact of changes in discount rate). Transco believes that the best estimate of this liability lies in a range of between £100m and £160m.

At 31 March 2004, £3m of the total restructuring provision (2003: £20m) consisted of provisions for costs in respect of surplus leasehold properties. The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision relates to business reorganisation costs.

Deferred taxation comprises:

At 31 March	Provided	
	2004 £m	2003 £m
Accelerated capital allowances	1,248	1,277
Other timing differences	(13)	(1)
	1,235	1,276

18. Share capital

At 31 March	Number of shares		2004 £m	2003 £m
	2004 millions	2003 millions		
Authorised				
Ordinary shares of 1 ² / ₁₅ p each	6,052	6,052	69	69
Allotted and fully paid				
Ordinary shares of 1 ² / ₁₅ p each	3,944	3,944	45	45

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

19. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account reserve £m
At 31 March 2003			
Retained profit for the year	204	1,332	68
At 31 March 2004	204	1,332	556

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

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

20. Reconciliation of movement in equity shareholders' funds

At 31 March	2004 £m	2003 £m
Profit for the period	558	307
Transfer of balances arising from unregulated activities in prior periods (i)	-	6
Dividends	(70)	(244)
Net movement in equity shareholders' funds	488	69
Equity shareholders' funds at the start of the period	1,649	1,580
Equity shareholders' funds at the end of the period	2,137	1,649

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

21. Cash flow statement

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

For the year ended 31 March	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco	Transportation	Metering	Meter Reading	LNG Storage	Other	Transco
	2004 £m	2004 £m	2004 £m	2004 £m	2004 £m	2004 £m	2003 £m	2003 £m	2003 £m	2003 £m	2003 £m	2003 £m
Total operating profit	950	88	4	5	-	1,047	695	87	1	5	2	790
Exceptional operating items	75	1	-	1	-	77	131	12	3	-	-	146
Depreciation	271	149	-	3	-	423	255	126	-	4	-	385
Decrease / (increase) in stocks	2	(2)	-	(1)	-	(1)	1	1	-	1	-	3
(Increase) / decrease in debtors	(25)	(17)	(2)	-	(16)	(60)	(19)	(6)	3	2	(11)	(31)
Increase / (decrease) in creditors	112	18	2	(1)	6	137	128	11	3	4	15	161
Cash inflow from operating activities before exceptional items	1,385	237	4	7	(10)	1,623	1,191	231	10	16	6	1,454

21. Cash flow statement continued

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

For the year ended 31 March	Transportation	Other	Transco	Transportation	Other	Transco
	2004	2004	2004	2003	2003	2003
	£m	£m	£m	£m	£m	£m
Movement in cash and overdrafts	4	3	7	25	(2)	23
Net cash inflow from the management of liquid resources	-	68	68	-	4	4
Decrease / (increase) in borrowings	20	209	229	25	(17)	8
Change in net debt resulting from cash flows	24	280	304	50	(15)	35
Other non-cash movements	-	(6)	(6)	(15)	(7)	(22)
Movement in net debt in the period	24	274	298	35	(22)	13
Net debt at the start of the period	(68)	(5,096)	(5,164)	(103)	(5,074)	(5,177)
Net debt at the end of the period	(44)	(4,822)	(4,866)	(68)	(5,096)	(5,164)

c) Analysis of changes in net debt

	At 1 Apr 2002	Cash flow	Non-cash	Other	At 31 Mar
	£m				£m
Cash at bank and in hand	-	-	-	-	-
Bank overdrafts	(36)	23	-	-	(13)
		23			
Current asset investments	3	4	-	-	7
Borrowings due within one year	(916)	395	(543)	(12)	(1,076)
Borrowings due after one year	(4,228)	(387)	543	(10)	(4,082)
		8			
	(5,177)	35	-	(22)	(5,164)

	At 1 Apr	Cash flow	Non-cash	Other	At 31 Mar
	2003				£m
	£m	£m	£m	£m	£m
Cash at bank and in hand	-	-	-	-	-
Bank overdrafts	(13)	7	-	-	(6)
		7			
Current asset investments	7	68	-	-	75
Borrowings due within one year	(1,076)	365	(588)	-	(1,299)
Borrowings due after one year	(4,082)	(136)	588	(6)	(3,636)
		229			
	(5,164)	304	-	(6)	(4,866)

22. Related party transactions

Transco is a wholly owned subsidiary undertaking of National Grid Transco, which consolidates Transco within its publicly available financial statements. Transco is therefore exempt from disclosing transactions with other members of National Grid Transco group. There were no other material related party transactions (12 months ended 2003: £nil).

Amounts owed by other National Grid Transco group undertakings are shown in note 12 and amounts owed to other National Grid Transco group undertakings are shown in notes 13 and 15.

23. Commitments and contingencies

a) Future capital expenditure

As at 31 March 2004, Transco had placed contracts for capital expenditure (tangible fixed assets) amounting to £76m (2003: £148m).

b) Lease commitments

At 31 March 2004, Transco's operating lease commitments for the financial year ending 31 March 2005 amounted to £21m (2003 commitments for 2004: £27m) and are analysed by lease expiry date as follows:

At 31 March	Land and buildings		Other		Total	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Expiring:						
In one year or less	1	2	2	5	3	7
In more than one year, but not more than five years	2	-	4	7	6	7
In more than five years	12	13	-	-	12	13
	15	15	6	12	21	27

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

At 31 March	2004 £m	2003 £m
Amounts:		
In one year or less	21	27
In more than one year, but not more than two years	17	20
In more than two years, but not more than three years	15	14
In more than three years, but not more than four years	12	13
In more than four years, but not more than five years	12	13
In more than five years	72	87
	149	174

c) Third party contingencies

Transco has outstanding BG Group related commitments and contingencies amounting to £13m, at 31 March 2004 (2003: £13m), arising from the restructuring of BG Group in 1999. BG Group has been working with Transco since early 1999 to remove all the relevant guarantees or to find an alternative guarantor which is not part of Transco. For any guarantees that have not been replaced, Transco will continue to provide such guarantees on an arm's length basis until they are removed or replaced.

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

d) Other commitments and contingencies

The value of other commitments and contingencies at 31 March 2004 amounted to £69m (2003: £73m), including a performance guarantee of £24m (2003: £24m) relating to certain property obligations of a National Grid Transco group undertaking.

e) Parent company loan guarantees on behalf of subsidiary undertakings

Transco plc has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its financial subsidiary undertakings to third parties. At 31 March 2004, the sterling equivalent amounted to £1,222m (2003: £1,816m).

f) Larkhall prosecution

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

24. Ultimate parent company

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

25. Principal subsidiary undertakings

The principal Group undertakings included in the Group accounts at 31 March 2004 are listed below. These undertakings are wholly owned.

At 31 March 2004	Country of operation and incorporation	Activity
Transco Metering Services Limited	UK	Gas Metering Services
British Transco International Finance B.V.	The Netherlands	Financing
British Transco Finance Inc.	USA	Financing
British Transco Capital Inc.	USA	Financing

A full list of all Group and associated undertakings will be attached to Transco plc's Annual Return to be filed with the Registrar of Companies.

26. Amounts determined by apportionment

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

For the year ended 31 March	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	Other 2004 £m	Transco 2004 £m	Transportation 2003 £m	Metering 2003 £m	Meter Reading 2003 £m	Other 2003 £m	Transco 2003 £m
Operating costs (i)										
Rates	(27)	27	-	-	-	(26)	26	-	-	-
Metering and Meter Reading operating costs	(20)	24	(4)	-	-	(101)	102	(1)	-	-
Metering and Meter Reading exceptional operating costs	-	-	-	-	-	(15)	12	3	-	-
Other activities operating costs	(14)	-	-	14	-	(13)	-	-	13	-
Total apportioned operating costs	(61)	51	(4)	14	-	(155)	140	2	13	-
Net interest	(3)	3	-	-	-	(2)	2	-	-	-

At 31 March	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	Other 2004 £m	Transco 2004 £m	Transportation 2003 £m	Metering 2003 £m	Meter Reading 2003 £m	Other 2003 £m	Transco 2003 £m
Debtors – amounts due within one year (ii)										
Trade debtors	(1)	1	-	-	-	(1)	1	-	-	-
Prepayments and accrued income	(5)	4	1	-	-	(3)	3	-	-	-
	(6)	5	1	-	-	(4)	4	-	-	-
Other creditors – amounts due within one year (ii)										
Trade creditors and accruals	40	(37)	(3)	-	-	23	(21)	(2)	-	-
Social security and other taxes	13	(13)	-	-	-	16	(15)	(1)	-	-
Other creditors	5	-	(5)	-	-	7	(4)	(3)	-	-
Deferred income	17	(17)	-	-	-	19	(19)	-	-	-
	75	(67)	(8)	-	-	65	(59)	(6)	-	-

(i) Operating costs apportioned from the Transportation business to the Metering, and Meter Reading businesses, and to other activities and from the Meter Reading business to the Transportation business. The apportionments were made using an activity based costing methodology.

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

27. Charges and apportionments

Note 27 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

27. Charges and apportionments continued

Note 27 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

Notes to the regulatory accounting statements *continued*

27. Charges and apportionments continued

Note 27 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

27. Charges and apportionments continued

Note 27 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

Notes to the regulatory accounting statements *continued*

27. Charges and apportionments continued

Note 27 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

27. Charges and apportionments continued

Note 27 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

Notes to the regulatory accounting statements *continued*

27. Charges and apportionments continued

Note 27 includes disclosure of amounts charged to or from other businesses of National Grid Transco plc or amounts determined by apportionment. The Condition requires this disclosure to be made to the Gas and Electricity Markets Authority, but allows Transco plc to remove this disclosure from the information made available to the public as per paragraph 5(c) of the Condition.

28. Subsequent events

On 24 June 2004, Transco plc declared an interim dividend of £500m for the year ending 31 March 2005, payable to its immediate parent company, Transco Holdings plc. On the same date, Transco plc agreed to make a loan of £100m to Transco Holdings plc. Both amounts are payable on 25 June 2004.

Corporate history

Transco plc is a company incorporated in England and Wales on 1 April 1986 under the Companies Act of 1985, with its registered office at 1-3 Strand, London WC2N 5EH (telephone +44 (0) 20 7004 3000). It is a wholly owned subsidiary of Transco Holdings plc, which is itself a wholly owned subsidiary of Lattice Group plc and which in turn is a wholly owned subsidiary of National Grid Transco plc, a public company listed on the London Stock Exchange.

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

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

In December 1999, BG completed a financial and restructuring programme resulting in the creation of a new parent company, BG Group, and which involved separating its UK regulated business, Transco, from its other businesses. This created a 'ring-fence' around Transco designed to ensure its financial, organisational and managerial independence.

In October 2000, Lattice Group was demerged from BG Group and comprised Transco, together with start-up telecommunications and non-regulated infrastructure services businesses.

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

Definitions

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

Transco

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Registered in England and Wales No. 2006000