Transco

Transco plc
Regulatory Accounting Statements 2004/2005
for the Transco business

Contents

Important information

Transco is the regulated gas transportation, metering and storage business of Transco plc, which is a part of National Grid. At 31 March 2005, Transco operated 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 2005, to which the financial information relates, will be 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 auditors' opinion on the Transco plc statutory accounts is addressed to, and for the benefit of, the members of Transco plc and not for any other person or purpose. The auditors have clarified, in giving their opinion on those statutory accounts, that it has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. In giving their opinion, they do not accept or assume responsibility for any other purpose or to any other person to whom their audit report on the statutory accounts is shown or into whose hands it may come save where expressly agreed by their prior consent in writing. The statutory accounts of Transco plc can be obtained from the Company Secretary's Office, National Grid plc, 1-3 The Strand, London WC2N 5EH.

The full Chairman's Statement and the Directors' Report, incorporating the Operating Review and the 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 to 4.

The obligation to produce regulatory accounting statements

The obligation to prepare and publish regulatory accounting statements for Transco is placed on Transco plc by Standard Special Condition A30 (the Condition) of its Gas Transporter Licences (the Licences) granted under the Utilities Act 2000 (the Utilities Act). The principal requirements of the Condition, in respect of the financial year ended 31 March 2005, are that for each of the Transco, Transportation, Metering, Meter Reading and Liquefied Natural Gas (LNG) Storage businesses, the regulatory accounting statements must:

- fairly present the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, that business. Taxation, capital liabilities and interest thereon are only attributable to individual businesses to the extent that they relate principally to those businesses.;
- 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 the National Grid group, or which have been determined by apportionment ('charges and apportionments');
- be subject to audit by Transco plc's statutory auditors; and
- be published, except for the information on charges and apportionments.

Developments

Sale of regional distribution networks

On 1 June 2005, having received regulatory consents from Ofgem and the Health and Safety Executive, Transco completed the sale of four of its eight regional distribution networks (DNs) for cash proceeds of £5.8 billion. The DNs sold were Scotland, North of England, Wales and the West and South of England. Further details of the sales are provided in the annual report and accounts of Transco plc for the year ended 31 March 2005. Transco has retained its gas national transmission system (NTS), four DNs (North West, West Midlands, East of England and London), its regulated metering businesses and its LNG storage business.

The results of the four sold DNs are reported as discontinued operations within these regulatory accounting statements.

As part of the sale of the DNs, Transco's single gas transporter licence was replaced by six separate gas transporter licences from 1 May 2005: one for the NTS (including LNG storage), one for the retained distribution business (including metering) and one each for the four sold DNs. The regulatory accounting condition, Amended Standard Condition 30, was replaced by Standard Special Condition A30. The principal differences between the new and old conditions are:

- a requirement to produce separate regulatory accounts for the NTS, and distribution businesses and for each of the four sold DNs;
- removal of the exemption which meant that taxation and financial items were not allocated to regulatory businesses; and
- alignment of the form of audit report with auditing guidelines issued by the Auditing Practices Board.

Ofgem has consented that the first two items listed above will not apply in respect of regulatory accounting statements for the financial year ended 31 March 2005, but that those regulatory accounting statements will be prepared using the equivalent requirements of Amended Standard Condition 30.

On 1 May 2005, Transco transferred the assets and businesses of the four sold DNs to wholly owned subsidiary undertakings of Transco plc.

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. It includes the NTS, the four retained DNs and the four sold DNs. During the period reported on within these regulatory accounting statements, the Transportation business was covered by ten separate price controls: the transmission owner price control in respect of the NTS assets; the NTS system operator price control in respect of the operation of the NTS; and eight separate distribution price control in respect of Transco's eight DNs.

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 Licences. 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 Licences contain 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 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. The Finance Committee, a committee of the Board of National Grid, 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 group has a Treasury function that raises all of the funding for the National Grid 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 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. 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 2005 are shown in note 17 to the regulatory accounting statements on pages 29 to 31.

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 2005 are shown in note 17 to the regulatory accounting statements on pages 29 to 31.

Transco plc has a credit rating of A2/A/A provided by Moody's, Standard & Poor's and Fitch respectively. 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 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 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 a minimum of 75% of such transactions expected to occur up to six months in advance and of 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 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 (both short and long-term), 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, as amended by consents received from Ofgem, to prepare regulatory accounting statements for each financial period. These regulatory accounting statements must fairly present 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, 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 regulatory accounting 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 2005 on pages 8 to 43 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, on terms that have been agreed, solely to the Company and the Gas and Electricity Markets Authority ('the Authority') in accordance with Standard Special Condition A30 of the Regulatory Licences granted to the Company, being the Gas Transporter Licence in respect of the National Distribution System dated 28 September 2001 (as amended) and the Gas Transporter Licence in respect of the Retained Distribution Networks dated 5 November 2004 (as amended), (together the 'Conditions'). 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: (a) assist the Company to meet its obligations under the Regulatory Licences to procure such a report; and (b) 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 do not accept or assume any responsibility or liability in respect of our work to anyone other than those parties whom we have agreed in writing 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 Conditions and the accounting policies set out on pages 8 and 9.

Pages 37 to 43 include disclosure of amounts charged to or from other businesses of National Grid plc or amounts determined by apportionment. The Conditions require this disclosure to be made to the Authority, but allow the Company to remove this disclosure from the information made available to the public as per paragraph 10 of the Conditions.

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, on which we do not express an audit opinion, 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 pages 1 to 4: the obligation to produce regulatory accounting statements; developments; businesses and price controls; regulatory ring-fence; and treasury policy.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Auditing Practices Board except as noted below. 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 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. However, as the nature, form and content of the regulatory accounting statements are determined by the Authority, we did not evaluate the overall adequacy of the presentation of information, which would have been required if we were to express an audit opinion under Auditing Standards.

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 2005, 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 Conditions require 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 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 Conditions 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 2005 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 Conditions and the accounting policies.

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

26 July 2005

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.

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.

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.

Transco has adopted Financial Reporting Standard 20, 'Share-based Payment', during the year. The impact of adoption is shown in note 1.

These regulatory accounting statements differ from the Transco annual report accounts 2004/05 in that the four distribution networks, sold after the approval of those accounts, are treated as discontinued operations.

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 have been disposed of or otherwise cease to be covered by the accounting requirements of the Condition, are included in the regulatory accounting statements up to the date that Transco relinquishes control or 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 notes 27 and 28.

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 plc, does not have publicly traded equity.

c) 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.

d) 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, apart from certain meters, which are depreciated on a sum-of-the-digits basis, 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 18
Motor vehicles and office equipment	3 to 10

e) 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.

f) 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.

g) 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.

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

i) 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.

j) 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.

k) 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.

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

m) 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.

n) 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.

o) Share-based payments
Equity-settled share-based payments are made to employees of Transco. These are measured at fair value at date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on Transco's estimate of shares that will eventually vest.

Consolidated profit and loss accounts

For the years ended 31 March	Notes	Transportation 2005 £m	Metering 2005 £m	Meter Reading 2005 £m	LNG Storage 2005 £m	Other (i) 2005 £m	Transco 2005 £m	Transportation 2004 (restated)(ii) £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other (i) 2004 £m	Transco 2004 (restated)(ii) £m
Turnover – continuing operations	2	1,608	339	15	37	(3)	1,996	1,630	369	19	31	4	2,053
Turnover – discontinued operations	2	1,032	-	-	-	17	1,049	1,056	-	-	-	13	1,069
Total turnover		2,640	339	15	37	14	3,045	2,686	369	19	31	17	3,122
Operating costs	3	(1,980)	(263)	(10)	(31)	(14)	(2,298)	(1,751)	(281)	(15)	(26)	(17)	(2,090)
Operating profit – continuing operations		389	76	5	6	-	476	571	88	4	5	-	668
Operating profit – discontinued operations		271	-	-	-	-	271	364	-	-	-	-	364
Operating profit													
– Before exceptional items		843	76	5	6	-	930	1,010	89	4	6	-	1,109
– Exceptional items – continuing operations	4	(109)	-	-	-	-	(109)	(32)	(1)	-	(1)	-	(34)
– Exceptional items – discontinued operations	4	(74)	-	-	-	-	(74)	(43)	-	-	-	-	(43)
Total operating profit		660	76	5	6	-	747	935	88	4	5	-	1,032
Net interest	8	(21)	-	-	-	(304)	(325)	(32)	(3)	-	-	(271)	(306)
Profit on ordinary activities before taxation		639	76	5	6	(304)	422	903	85	4	5	(271)	726
Taxation													
– Excluding exceptional items	9	-	-	-	-	(163)	(163)	-	-	-	-	(207)	(207)
– Exceptional items	9	-	-	-	-	44	44	-	-	-	-	24	24
		-	-	-	-	(119)	(119)	-	-	-	-	(183)	(183)
Profit for the year													
– Before exceptional items		822	76	5	6	(467)	442	978	86	4	6	(478)	596
– Exceptional items – operating		(183)	-	-	-	44	(139)	(75)	(1)	-	(1)	24	(53)
Profit for the year		639	76	5	6	(423)	303	903	85	4	5	(454)	543
Dividends	10	-	-	-	-	(500)	(500)	-	-	-	-	(70)	(70)
Transfer to/(from) reserves	20	639	76	5	6	(923)	(197)	903	85	4	5	(524)	473

(i) 'Other' comprises: (a) those incomes, costs and distributions which relate to the Transco business as a whole; and (b) the elimination of income and costs arising from trading between the Transportation and LNG Storage businesses.
(ii) During the year ended 31 March 2005, the Group adopted Financial Reporting Standard (FRS) 20 'Share-based Payment' – see note 1.

Balance sheets

At 31 March	Notes	Transportation 2005 £m	Metering 2005 £m	Meter Reading 2005 £m	LNG Storage 2005 £m	Other (i) 2005 £m	Transco 2005 £m	Transportation 2004 (restated)(ii) £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other (i) 2004 £m	Transco 2004 (restated)(ii) £m
Fixed assets													
Tangible assets	11	**6,989**	**896**	**-**	**50**	**-**	**7,935**	6,875	950	1	50	-	7,876
Current assets													
Stocks	12	**25**	**2**	**-**	**3**	**-**	**30**	25	4	-	3	-	32
Debtors (amounts falling due within one year)	13	**241**	**40**	**1**	**4**	**77**	**363**	218	40	3	3	30	294
Debtors (amounts falling due after more than one year)	13	**-**	**-**	**-**	**-**	**2,648**	**2,648**	-	-	-	-	2,544	2,544
Current asset investments		**-**	**-**	**-**	**-**	**13**	**13**	-	-	-	-	75	75
Cash at bank and in-hand		**-**	**-**	**-**	**-**	**3**	**3**	-	-	-	-	-	-
		266	**42**	**1**	**7**	**2,741**	**3,057**	243	44	3	6	2,649	2,945
Creditors (amounts falling due within one year)													
Borrowings		**(18)**	**-**	**-**	**(1)**	**(1,861)**	**(1,880)**	(24)	-	-	-	(1,281)	(1,305)
Other creditors		**(727)**	**(55)**	**(5)**	**(8)**	**(426)**	**(1,221)**	(790)	(78)	(8)	(17)	(467)	(1,360)
	14	**(745)**	**(55)**	**(5)**	**(9)**	**(2,287)**	**(3,101)**	(814)	(78)	(8)	(17)	(1,748)	(2,665)
Net current (liabilities) / assets		**(479)**	**(13)**	**(4)**	**(2)**	**454**	**(44)**	(571)	(34)	(5)	(11)	901	280
Total assets less current liabilities		**6,510**	**883**	**(4)**	**48**	**454**	**7,891**	6,304	916	(4)	39	901	8,156
Creditors (amounts falling due after more than one year)													
Borrowings		**(8)**	**-**	**-**	**-**	**(3,388)**	**(3,396)**	(20)	-	-	-	(3,616)	(3,636)
Other creditors		**(1,060)**	**(41)**	**-**	**-**	**-**	**(1,101)**	(994)	(33)	-	-	-	(1,027)
	15	**(1,068)**	**(41)**	**-**	**-**	**(3,388)**	**(4,497)**	(1,014)	(33)	-	-	(3,616)	(4,663)
Provisions for liabilities and charges	18	**(184)**	**(1)**	**-**	**-**	**(1,263)**	**(1,448)**	(120)	(1)	-	-	(1,231)	(1,352)
Net assets employed / (liabilities)		**5,258**	**841**	**(4)**	**48**	**(4,197)**	**1,946**	5,170	882	(4)	39	(3,946)	2,141
Capital and reserves													
Called up share capital	19						**45**						45
Share premium account	20						**204**						204
Capital redemption reserve	20						**1,332**						1,332
Profit and loss account	20						**365**						560
Equity shareholders' funds							**1,946**						2,141

(i) 'Other' comprises: (a) those assets, liabilities, capital and reserves which relate to the Transco business as a whole; and (b) the elimination of assets and liabilities arising from trading between the Transportation and LNG Storage businesses.
(ii) During the year ended 31 March 2005, the Group adopted Financial Reporting Standard (FRS) 20 'Share-based Payment' – see note 1.

Commitments and contingencies are shown in note 24.

The regulatory accounting statements on pages 8 to 43 inclusive, which are based on the Annual Report and Accounts 2004/05 of Transco plc, as approved by its Board on 26 May 2005, were signed on 26 July 2005 by:

Mark Fairbairn Chief Operating Officer

Colin Buck Finance Director

Reconciliation of change in net assets

For the year ended 31 March	**Transco 2005 £m**	Transco 2004 (restated)(i) £m
Net assets at the beginning of the year (restated)	**2,141**	1,653
Profit for the year	**303**	543
Employee share options	**-**	15
Deferred tax on employee share options	**2**	-
Dividends	**(500)**	(70)
Net assets at the end of the year	**1,946**	2,141

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

Consolidated statement of recognised gains and losses

For the year ended 31 March	Transportation **2005 £m**	Metering **2005 £m**	Meter Reading **2005 £m**	LNG Storage **2005 £m**	Other **2005 £m**	Transco **2005 £m**	Transportation 2004 (restated)(i) £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 (restated)(i) £m
Profit for the year	**639**	**76**	**5**	**6**	**(423)**	**303**	903	85	4	5	(454)	543
Total recognised gains and losses relating to the year	**639**	**76**	**5**	**6**	**(423)**	**303**	903	85	4	5	(454)	543
Prior year adjustment (i)	**-**	**-**	**-**	**-**	**4**	**4**						
Total recognised gains and losses since last regulatory accounting statements	**639**	**76**	**5**	**6**	**(419)**	**307**						

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

Cash flow statements

For the year ended 31 March	Notes	Transportation 2005 £m	Metering 2005 £m	Meter Reading 2005 £m	LNG Storage 2005 £m	Other 2005 £m	Transco 2005 £m	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m
Net cash inflow from operating activities before exceptional items	22(a)	**1,087**	**194**	**5**	**13**	**2**	**1,301**	1,385	237	4	7	(10)	1,623
Expenditure relating to exceptional items		**(126)**	**-**	**-**	**-**	**-**	**(126)**	(133)	(2)	-	(1)	-	(136)
Net cash inflow from operating activities		**961**	**194**	**5**	**13**	**2**	**1,175**	1,252	235	4	6	(10)	1,487
Returns on investments and servicing of finance													
Interest received and similar income		**-**	**-**	**-**	**-**	**32**	**32**	-	-	-	-	55	55
Interest paid and similar charges		**(30)**	**(1)**	**-**	**-**	**(287)**	**(318)**	(40)	(3)	-	-	(270)	(313)
Net cash outflow for returns on investments and servicing of finance		**(30)**	**(1)**	**-**	**-**	**(255)**	**(286)**	(40)	(3)	-	-	(215)	(258)
Taxation													
Corporation tax paid		**-**	**-**	**-**	**-**	**(202)**	**(202)**	-	-	-	-	(59)	(59)
Capital expenditure													
Payments to acquire tangible fixed assets		**(399)**	**(67)**	**-**	**(6)**	**-**	**(472)**	(434)	(77)	-	(2)	-	(513)
Net receipts from disposal of tangible fixed assets		**-**	**-**	**-**	**-**	**-**	**-**	(1)	-	-	21	-	20
Net cash outflow for capital expenditure		**(399)**	**(67)**	**-**	**(6)**	**-**	**(472)**	(435)	(77)	-	19	-	(493)
Equity dividends paid		**-**	**-**	**-**	**-**	**(500)**	**(500)**	-	-	-	-	(70)	(70)
Net cash inflow / (outflow) before management of liquid resources and financing		**532**	**126**	**5**	**7**	**(955)**	**(285)**	777	155	4	25	(354)	607
Management of liquid resources													
Decrease / (increase) in short-term deposits	22(b)(c)	**-**	**-**	**-**	**-**	**62**	**62**	-	-	-	-	(68)	(68)
Net cash outflow from management of liquid resources		**-**	**-**	**-**	**-**	**62**	**62**	-	-	-	-	(68)	(68)
Financing													
(Decrease) / increase in borrowings	22(b)(c)	**(15)**	**-**	**-**	**-**	**347**	**332**	(20)	-	-	-	(209)	(229)
Pooling of funding in the Transco business		**(514)**	**(126)**	**(5)**	**(8)**	**653**	**-**	(753)	(155)	(4)	(25)	937	-
Loan to parent undertaking		**-**	**-**	**-**	**-**	**(100)**	**(100)**	-	-	-	-	(303)	(303)
Net cash (outflow) / inflow from financing		**(529)**	**(126)**	**(5)**	**(8)**	**900**	**232**	(773)	(155)	(4)	(25)	425	(532)
Net increase / (decrease) in cash and overdrafts	22(b)(c)	**3**	**-**	**-**	**(1)**	**7**	**9**	4	-	-	-	3	7

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 2004/05 of Transco plc (Annual Accounts), as the amounts reported therein for the Transco business in respect of net assets and liabilities at 31 March 2005 and the profit and cash flows for the year then ended, are the same.

These regulatory accounting statements differ from the Annual Accounts in respect of the treatment of the results of the four distribution networks sold on 1 June 2005. As the sale was completed after the approval date of the Annual Accounts, but before the approval date of these regulatory accounting statements, in accordance with FRS 3, Reporting Financial Performance, the results of those four distribution networks are treated as part of continuing operations in the Annual Accounts, but as discontinued operations in these regulatory accounting statements.

Notes to the regulatory accounting statements

1. Adoption of Financial Reporting Standard (FRS) 20

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

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

For the year ended 31 March 2005, the adoption of FRS 20 has had the following impacts on the results and net assets employed of the transportation business and the Transco business: it has reduced operating profit before exceptional items and operating profit for the year by £7m and reduced profit for the year by £3m. It has increased net assets employed by the Transco business by £10m.

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

	Year ended 31 March 2004					
	Transportation			Transco		
	As previously reported	Impact of FRS 20	As restated	As previously reported	Impact of FRS 20	As restated
	£m	£m	£m	£m	£m	£m
Operating profit						
– Before exceptional items	1,025	(15)	1,010	1,124	(15)	1,109
– After exceptional items	950	(15)	935	1,047	(15)	1,032
Profit for the year						
– Before exceptional items	993	(15)	978	611	(15)	596
– After exceptional items	918	(15)	903	558	(15)	543
Net assets employed						
– At 31 March 2004	5,170	-	5,170	2,137	4	2,141
– At 1 March 2003	4,992	-	4,992	1,649	4	1,653

The corresponding entry to the pre-tax FRS 20 charge for the year ended 31 March 2004 was recorded through the profit and loss account reserve. Therefore, the impact of restatements for FRS 20 on the profit and loss account reserve at 31 March 2004 represents only the deferred tax credit of £4m.

2. Turnover

	Transportation **2005** **£m**	Metering **2005** **£m**	Meter Reading **2005** **£m**	LNG Storage **2005** **£m**	Other **2005** **£m**	Transco **2005** **£m**	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m
Continuing operations												
Transportation, metering, meter reading and LNG storage services	**1,599**	**339**	**15**	**17**	**-**	**1,970**	1,621	369	19	12	-	2,021
LNG storage services to the Transportation Business	**-**	**-**	**-**	**20**	**(20)**	**-**	-	-	-	19	(19)	-
Other income	**9**	**-**	**-**	**-**	**17**	**26**	9	-	-	-	23	32
	1,608	**339**	**15**	**37**	**(3)**	**1,996**	1,630	369	19	31	4	2,053
Discontinued operations												
Transportation	**1,021**	**-**	**-**	**-**	**-**	**1,021**	1,049	-	-	-	-	1,049
Other income	**11**	**-**	**-**	**-**	**17**	**28**	7	-	-	-	13	20
	1,032	**-**	**-**	**-**	**17**	**1,049**	1,056	-	-	-	13	1,069
Total turnover	**2,640**	**339**	**15**	**37**	**14**	**3,045**	2,686	369	19	31	17	3,122

3. Operating costs

	Transportation 2005 £m	Metering 2005 £m	Meter Reading 2005 £m	LNG Storage 2005 £m	Other 2005 £m	Transco 2005 £m	Transportation 2004 (Restated) £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 (Restated) £m
Continuing operations												
Depreciation	**169**	**130**	**1**	**7**	**-**	**307**	173	149	-	3	-	325
Payroll costs (note 5(a))	**248**	**11**	**1**	**7**	**2**	**269**	259	6	2	8	2	277
Other operating charge:												
– Purchases of gas	**85**	**-**	**-**	**-**	**-**	**85**	66	-	-	-	-	66
– Rates	**129**	**28**	**-**	**2**	**-**	**159**	127	29	-	2	-	158
– Replacement expenditure	**239**	**-**	**-**	**-**	**-**	**239**	187	-	-	-	-	187
– Exceptional operating items (note 4(a))	**109**	**-**	**-**	**-**	**-**	**109**	32	1	-	1	-	34
– Other non-exceptional operating charges	**240**	**94**	**8**	**15**	**(5)**	**352**	215	96	13	12	2	338
	802	**122**	**8**	**17**	**(5)**	**944**	627	126	13	15	2	783
	1,219	**263**	**10**	**31**	**(3)**	**1,520**	1,059	281	15	26	4	1,385
Discontinued operations												
Depreciation	**97**	**-**	**-**	**-**	**-**	**97**	98	-	-	-	-	98
Payroll costs (note 5(a))	**128**	**-**	**-**	**-**	**4**	**132**	130	-	-	-	3	133
Other operating charge:												
– Purchases of gas	**28**	**-**	**-**	**-**	**-**	**28**	20	-	-	-	-	20
– Rates	**84**	**-**	**-**	**-**	**-**	**84**	82	-	-	-	-	82
– Replacement expenditure	**235**	**-**	**-**	**-**	**-**	**235**	201	-	-	-	-	201
– Exceptional operating items (note 4(a))	**74**	**-**	**-**	**-**	**-**	**74**	43	-	-	-	-	43
– Other non-exceptional operating charges	**115**	**-**	**-**	**-**	**13**	**128**	118	-	-	-	10	128
	536	**-**	**-**	**-**	**13**	**549**	464	-	-	-	10	474
	761	**-**	**-**	**-**	**17**	**778**	692	-	-	-	13	705
Total operating costs	**1,980**	**263**	**10**	**31**	**14**	**2,298**	1,751	281	15	26	17	2,090
Operating costs include (i):												
Research and development costs						**4**						4
Operating lease rentals:												
– Plant and machinery						**11**						11
– Other						**18**						15
Auditors' remuneration:												
Statutory audit services												
– Annual audit						**0.4**						0.4
– Regulatory reporting						**0.2**						0.2
Further audit related services						**0.3**						0.3

Details of operating charges determined by apportionment are provided in note 27.

(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.

4. 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.

a) Operating exceptional items

	Transportation **2005** **£m**	Metering **2005** **£m**	LNG Storage **2005** **£m**	Transco **2005** **£m**	Transportation 2004 £m	Metering 2004 £m	LNG Storage 2004 £m	Transco 2004 £m
Continuing operations								
Restructuring costs (i)	**105**	**-**	**-**	**105**	38	1	1	40
Environmental provision (iii)	**4**	**-**	**-**	**4**	(6)	-	-	(6)
	109	**-**	**-**	**109**	32	1	1	34
Discontinued operations								
Restructuring costs (ii)	**69**	**-**	**-**	**69**	50	-	-	50
Environmental provision (iii)	**5**	**-**	**-**	**5**	(7)	-	-	(7)
	74	**-**	**-**	**74**	43	-	-	43
Total exceptional items	**183**	**-**	**-**	**183**	75	1	1	77

(i) The restructuring costs in respect of continuing operations primarily relate to planned cost reduction programmes. The post tax restructuring costs of continuing operations amounted to £72m (2004: £28m).

(ii) The restructuring costs in respect of discontinued operations for 2005 consist of £62m (2004: £11m) of costs associated with the disposal of distribution networks, all of which is attributable to the Transportation business, and other charges of £7m (2004: £39m). The other charges primarily relate to planned cost reduction programmes. The post tax restructuring costs of discontinued operations amounted to £56m (2004: £38m).

(iii) During the year ended 31 March 2005, a review of the environmental provision was undertaken to take into account the impact of recent changes to the regulations on waste disposal. This review, together with related revisions to the expected expenditure profile, has resulted in a total charge in 2005 of £9m (£6m after tax). The total credit of £13m in 2004 arises from an adjustment to carrying values following the completion of site investigations (£13m after tax).

b) Taxation

The exceptional tax credit of £44m in 2005 is net of a £5m charge relating to the settlement of the liabilities arising from the operation of Transco's Qualifying Employee Share Ownership Trust. The remainder of the exceptional tax credit for 2005 and all of the exceptional tax credit for 2004 relates to exceptional operating items.

5. Payroll costs and employees

a) Payroll costs

	Transportation **2005** **£m**	Metering **2005** **£m**	Meter Reading **2005** **£m**	LNG Storage **2005** **£m**	Other **2005** **£m**	Transco **2005** **£m**	Transportation 2004 (restated) £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 (restated) £m
Wages and salaries	**354**	**8**	**1**	**5**	**6**	**374**	347	5	2	6	5	365
Social security costs	**30**	**1**	**-**	**1**	**-**	**32**	30	-	-	1	-	31
Pension costs (note 7)	**79**	**2**	**-**	**1**	**-**	**82**	91	1	-	1	-	93
	463	**11**	**1**	**7**	**6**	**488**	468	6	2	8	5	489
Less:												
Amounts capitalised	**(10)**	**-**	**-**	**-**	**-**	**(10)**	(14)	-	-	-	-	(14)
Payroll costs included in replacement expenditure	**(69)**	**-**	**-**	**-**	**-**	**(69)**	(59)	-	-	-	-	(59)
Payroll costs included in exceptional operating items	**(8)**	**-**	**-**	**-**	**-**	**(8)**	(6)	-	-	-	-	(6)
	376	**11**	**1**	**7**	**6**	**401**	389	6	2	8	5	410

In addition to the payroll costs above, there were severance costs of £70m (2004: £62m) included within other operating charges – exceptional items.

5. Payroll costs and employees continued

b) Average number of employees

	Transportation 2005 Number	Metering 2005 Number	Meter Reading 2005 Number	LNG Storage 2005 Number	Other 2005 Number	Transco 2005 Number	Transportation 2004 Number	Metering 2004 Number	Meter Reading 2004 Number	LNG Storage 2004 Number	Other 2004 Number	Transco 2004 Number
United Kingdom	**10,601**	**167**	**26**	**168**	**197**	**11,159**	11,240	150	49	188	165	11,792

Information is not available on the number of employees by regulatory business, as the regulatory businesses do not wholly correspond with the organisation of Transco. Therefore, Transco employee numbers have been apportioned between the different regulatory businesses relative to salaries and wages.

c) Share option and award schemes

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

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

The sharesave scheme is savings related where, under normal circumstances, share options are exercisable on completion of a three or a five-year save-as-you-earn contract. The exercise price of options granted represents 80% of the market price at the date the option was granted. The Executive Scheme applies to senior executives, including Executive Directors. Options granted for the 1999/2000 financial year are subject to the achievement of performance targets related to earnings per share growth over a three-year period and have now vested. Options granted for the 2000/01 financial year and thereafter are subject to the achievement of performance targets related to total shareholder returns over a three-year period. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

National Grid also operates a number of share award schemes under which shares have been awarded to employees or Directors of Transco including a Performance Share Plan (PSP) and a Share Matching Plan.

Under the PSP, awards have been made to Executive Directors and approximately 150 senior employees who have significant influence over Transco's ability to meet its strategic objectives. Under the PSP awards are conditional on National Grid's total shareholder return over a three-year period. Awards are delivered in National Grid plc ordinary shares. At 31 March 2005 the number of conditional awards of ordinary share equivalents outstanding under the PSP was 1,012,000 (2004: 513,000). The number of conditional awards during the year ended 31 March 2005 was 558,000 (2004: 513,000) with lapses/forfeits during the year of 58,000 (2004: nil) and exercises of 1,000 (2004: nil).

The Share Matching Plan applies to Executive Directors whereby a predetermined part of each Director's bonus entitlement is automatically deferred into National Grid plc shares and a matching award may be made under the Plan after a three year period, provided the Director is still employed by National Grid. At 31 March 2005, the number of conditional awards of ordinary share equivalents outstanding under the Share Matching Plan was 33,000 (2004: 8,000) of which 2,000 (2004: nil) were exercisable. The number of conditional awards during the year ended 31 March 2005 was 25,000 (2004: 4,000) with exercises during the year of nil (2004: nil).

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

	Sharesave scheme options		Executive share scheme options		Total options
	Weighted average price £	millions	Weighted average price £	millions	millions
At 1 April 2003	3.31	27.0	4.54	0.5	27.5
Granted	3.17	7.1	-		7.1
Lapsed – expired	3.52	(3.6)	-		(3.6)
Exercised	3.16	(8.2)	-		(8.2)
At 31 March 2004	3.23	22.3	4.54	0.5	22.8
Granted	3.83	2.4	-		2.4
Lapsed – expired	3.25	(0.9)	4.34	(0.1)	(1.0)
Exercised	3.34	(2.0)	-	-	(2.0)
At 31 March 2005	**3.28**	**21.8**	**4.56**	**0.4**	**22.2**

5. Payroll costs and employees continued

c) Share option and award schemes continued

The number of exercisable options included in the previous table is less than 100,000.

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

	2005	2004
Sharesave scheme options	**4.49**	3.97
Executive share scheme options	**4.65**	3.99

The weighted average remaining contractual life of options in the employee sharesave scheme at 31 March 2005 was 2 years and 1 month. These options have exercise prices between £3.15 and £3.83.

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

	Weighted average exercise price of exercisable options £	Number exercisable	Weighted average exercise price of outstanding options £	Number outstanding	Exercise price per share pence	Normal dates of exercise years
Executive scheme	3.76	14,000	3.76	14,000	375.8	2002 – 2009
	4.55	12,000	4.55	12,000	455.2	2003 – 2010
	5.32	39,000	5.32	39,000	531.5	2004 – 2011
	-	-	5.63	34,000	563.0	2005 – 2012
	4.34	24,000	4.40	349,000	434.3 – 481.5	2006 – 2013
	4.35	89,000	4.54	448,000		

Share based payment charges

Under UK GAAP, a charge is made to the profit and loss account based on the fair value of grants in accordance with FRS 20 ‘Share-based Payment’. All share awards are equity settled. The charge to the profit and loss account for the year ended 31 March 2005 was £7m (2004: £15m).

Awards under share option plans

Average share prices, exercise prices and fair values at the date of options being granted are as follows:

	2005	2004
Where the exercise price is less than the market price at the date of grant:		
Average share price at date of grant	**496.0p**	400.0p
Average exercise price at date of grant	**334.8p**	317.0p
Average fair value at date of grant	**92.1p**	67.6p

The fair value of the options granted are estimated using the following principal assumptions:

	2005	2004
Dividend yield (%)	**5.5-5.8**	7.0
Volatility (%)	**15.4**	20.4
Risk-free investment rate (%)	**4.5**	4.6
Average fair value at date of grant	**4.0**	3.4

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

Volatility has been derived based on the following:
(i) implied volatility in traded options over National Grid’s shares;
(ii) historical volatility of National Grid’s shares from October 2002 (the date of the merger of National Grid and Lattice); and
(iii) implied volatility of comparator companies where options in their shares are traded.

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

5. Payroll costs and employees continued

c) Share option and award schemes continued

Awards under other share scheme plans

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

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

The fair value of the options granted are estimated using the following principal assumptions:

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

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

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

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

6. Directors' emoluments

The aggregate amount of emoluments paid to Directors in respect of qualifying services for 2005 was £2,372,748 (2004: £2,040,131). The amount paid in respect of compensation for loss of office in 2005 was £nil (2004: £599,011). Directors' emoluments include amounts in respect of accrued bonus which had not yet been approved at the date of the annual report and accounts of Transco plc on which these regulatory accounting statements are based.

Three Directors exercised share options during 2005 (2004: two Directors).

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

As at 31 March 2005, 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 £543,389 for 2005 (2004: £492,004) and total accrued annual pension at 31 March 2005 for the highest paid Director was £220,731 (2004: £188,600). The amount of contributions paid in respect of defined contribution pension schemes was £20,400 (2004: £19,800).

7. Pensions

Pension cost

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

	Transportation 2005 £m	Metering 2005 £m	LNG Storage 2005 £m	Transco 2005 £m	Transportation 2004 £m	Metering 2004 £m	LNG Storage 2004 £m	Transco 2004 £m
Charged against operating profit (note 5(a))	**79**	**2**	**1**	**82**	91	1	1	93
Charged within net interest	**11**	**-**	**-**	**11**	25	1	-	26
Total cost	**90**	**2**	**1**	**93**	116	2	1	119

There were no outstanding or prepaid pension contributions at 31 March 2005 (31 March 2004: £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%; future real increases in pensionable earnings would be 1.5%; investments held in respect of pensions before they become payable would average 5.05% real annual rate of return; investments held in respect of pensions after they become payable would average 2.7% real 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 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'). This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be no later than 31 March 2006. The ongoing contribution rate does not include an allowance for administration expenses. These contributions are reviewed annually. From 1 April 2004 the rate used for the recovery of administration costs was 1.6% of salary, from 1 April 2005 the rate was 2.6% of salary. Employers are currently, therefore, paying a total contribution rate of 23.3%.

The actuarial valuation revealed that the pre-tax deficit was £879m gross (£615m net of tax) in the defined benefit section on the basis of the assumptions adopted by the actuary. An interim annual assessment of the Scheme was conducted at 31 March 2004. This assessment showed that the deficit has decreased in the defined benefit section on the basis of the funding assumptions adopted by the actuary.

It has been agreed that no funding of the deficit identified in the 2003 actuarial valuation will need to be provided to the Scheme until the outcome of the actuarial valuation at 31 March 2007 is known. At that point, the National Grid 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). Until the 31 March 2007 actuarial valuation has been completed, the National Grid 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 Lattice Group failing to make agreed payments into the fund.

SSAP 24 valuation assumptions

A further valuation was carried out at 31 March 2004, using the attained age method, to calculate the charge in accordance with SSAP 24. The result of this valuation was that the regular cost, as a percentage of salary was 24.5%. The Scheme deficit was £220m.

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 reported in the 12 months ended 31 March 2005, amounted to £139m (2004: £161m) of which £46m (2004: £42m) related to redundancies. Lattice has not yet determined the methodology which it would use to charge pensions costs to its subsidiary undertakings following the full adoption of FRS 17.

8. Net Interest

	Transportation 2005 £m	Metering 2005 £m	Other 2005 £m	Transco 2005 £m	Transportation 2004 £m	Metering 2004 £m	Other 2004 £m	Transco 2004 £m
Bank loans and overdrafts	**-**	**-**	**18**	**18**	-	-	9	9
Other	**28**	**-**	**306**	**334**	38	3	264	305
	28	**-**	**324**	**352**	38	3	273	314
Unwinding of discount on provisions	**2**	**-**	**-**	**2**	6	-	-	6
Interest capitalised	**(9)**	**-**	**-**	**(9)**	(12)	-	-	(12)
Interest payable and similar charges net of interest capitalised	**21**		**324**	**345**	32	3	273	308
Interest receivable and similar income	**-**	**-**	**(20)**	**(20)**	-	-	(2)	(2)
	21	**-**	**304**	**325**	32	3	271	306

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

9. Taxation

	Transco 2005 £m	Transco 2004 £m
United Kingdom current tax		
– Corporation tax at 30%	**131**	238
– Adjustment in respect of prior years (i)	**(47)**	(14)
Deferred tax		
– Current period	**7**	(14)
– Adjustment in respect of prior years	**27**	(27)
	118	183
Overseas tax	**1**	-
Taxation	**119**	183
Comprising:		
Taxation – excluding exceptional items	**163**	207
Taxation – exceptional items	**(44)**	(24)
	119	183

(i) The UK Corporation tax adjustment in respect of prior years includes a £5m (2004: £nil) charge that relates to exceptional items.

9. 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 2005	Transco 2004 (restated)
UK corporation tax rate	**30.0**	30.0
Effect on tax charge of:		
Origination and reversal of timing differences	**(2.2)**	1.7
Permanent differences	**1.5**	0.9
Current tax charge	**29.3**	32.6
Deferred taxation	**1.6**	(1.7)
Effective tax rate before tax adjustments in respect of prior years and exceptional items	**30.9**	30.9
Tax adjustments in respect of prior years	**(4.1)**	(5.1)
Effective tax rate before exceptional items	**26.8**	25.8
Exceptional items	**1.3**	(0.6)
Effective tax rate after exceptional items	**28.1**	25.2

Factors that may affect future tax charges

Transco has brought forward non-trading debits of £39m (31 March 2004: £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 £58m (2004 £46m). At present, it is not envisaged that any tax will become payable in the foreseeable future.

10. Dividends

	Transco 2005 £m	Transco 2004 £m
Ordinary shares:		
Interim dividend	**500**	70

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

11. Tangible fixed assets

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 2004	75	9,051	159	695	9,980
Additions	6	243	98	42	389
Disposals	-	-	-	(4)	(4)
Reclassifications	3	127	(97)	(33)	-
Inter-business transfers (i)	-	(20)	-	-	(20)
Cost at 31 March 2005	84	9,401	160	700	10,345
Depreciation at 1 April 2005	(23)	(2,660)	-	(422)	(3,105)
Charge for the year	(4)	(184)	-	(78)	(266)
Disposals	-	-	-	4	4
Inter-business transfers (i)	-	11	-	-	11
Depreciation at 31 March 2005	(27)	(2,833)	-	(496)	(3,356)
Net book value at 31 March 2005	**57**	**6,568**	**160**	**204**	**6,989**
Net book value at 31 March 2004	52	6,391	159	273	6,875

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 2004	-	1,639	-	-	1,639
Additions	-	66	-	1	67
Disposals	-	(9)	-	-	(9)
Inter-business transfers (i)	-	20	-	-	20
Cost at 31 March 2005	-	1,716	-	1	1,717
Depreciation at 1 April 2004	-	(689)	-	-	(689)
Charge for the year	-	(130)	-	-	(130)
Disposals	-	9	-	-	9
Inter-business transfers (i)	-	(11)	-	-	(11)
Depreciation at 31 March 2005	-	(821)	-	-	(821)
Net book value at 31 March 2005	**-**	**895**	**-**	**1**	**896**
Net book value at 31 March 2004	-	950	-	-	950

(i) At 31 March 2005 and following discussions with Ofgem, certain pressure regulating equipment associated with industrial and commercial meter installations was transferred from the Transportation business to the Metering business.

11. Tangible fixed assets continued

Meter Reading

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and office equipment	Total
	£m	£m	£m	£m	**£m**
Cost at 1 April 2004 and at 31 March 2005	-	-	-	1	1
Depreciation at 1 April 2004	-	-	-	-	-
Charge for the year	-	-	-	(1)	(1)
Depreciation at 31 March 2005	-	-	-	(1)	(1)
Net book value at 31 March 2005	**-**	**-**	**-**	**-**	**-**
Net book value at 31 March 2004	-	-	-	1	1

LNG Storage

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and office equipment	Total
	£m	£m	£m	£m	**£m**
Cost at 1 April 2004	1	158	-	2	161
Additions	-	3	4	-	7
Disposals	-	(11)	-	-	(11)
Cost at 31 March 2005	1	150	4	2	157
Depreciation at 1 April 2004	-	(109)	-	(2)	(111)
Charge for the year	-	(7)	-	-	(7)
Disposals	-	11	-	-	11
Depreciation at 31 March 2005	-	(105)	-	(2)	(107)
Net book value at 31 March 2005	**1**	**45**	**4**	**-**	**50**
Net book value at 31 March 2004	1	**49**	**-**	**-**	**50**

11. 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 2004	76	10,848	159	698	11,781
Additions	6	312	102	43	463
Disposals	-	(20)	-	(4)	(24)
Reclassifications	3	127	(97)	(33)	-
Cost at 31 March 2005	85	11,267	164	704	12,220
Depreciation at 1 April 2004	(23)	(3,458)	-	(424)	(3,905)
Charge for the year	(4)	(321)	-	(79)	(404)
Disposals	-	20	-	4	24
Depreciation at 31 March 2005	(27)	(3,759)	-	(499)	(4,285)
Net book value at 31 March 2005	**58**	**7,508**	**164**	**205**	**7,935**
Net book value at 31 March 2004	53	7,390	159	274	7,876

The net book value of land and buildings comprises:

At 31 March	Transportation **2005** **£m**	LNG Storage **2005** **£m**	Transco **2005** **£m**	Transportation 2005 £m	LNG Storage 2005 £m	Transco 2004 £m
Freehold	**52**	**1**	**53**	47	1	48
Long leasehold	**1**	**-**	**1**	1	-	1
Short leasehold	**4**	**-**	**4**	4	-	4
	57	**1**	**58**	52	1	53

The cost of tangible fixed assets at 31 March 2005 includes £21m (2004: £12m) 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 £33m (2004: £34m) and £1,065m (2004: £1,000m) respectively.

12. Stocks

At 31 March	Transportation **2005**	Metering **2005**	LNG Storage **2005**	Transco **2005**	Transportation 2004 £m	Metering 2004 £m	LNG Storage 2004 £m	Transco 2004 £m
Raw materials and consumables	**25**	**2**	**3**	**30**	25	4	3	32

13. Debtors

At 31 March	Transportation 2005 £m	Metering 2005 £m	Meter Reading 2005 £m	LNG Storage 2005 £m	Other 2005 £m	Transco 2005 £m	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m
Amounts falling due within one year												
Trade debtors	33	2	-	2		37	14	1	-	1	-	16
Amounts owed by fellow subsidiary undertakings	6	1	-	-	54	61	19	-	1	-	3	23
Amounts owed by Transportation to LNG Storage	-	-	-	1	(1)	-	-	-	-	2	(2)	-
Other debtors	18	-	-	-	24	42	13	-	-	-	18	31
Prepayments and accrued income	184	37	1	1	-	223	172	39	2	-	11	224
	241	40	1	4	77	363	218	40	3	3	30	294
Amounts falling due after more than one year												
Other debtors	-	-	-	-	4	4	-	-	-	-	-	-
Amounts owed by parent undertaking (i)	-	-	-	-	2,644	2,644	-	-	-	-	2,544	2,544
	-	-	-	-	2,648	2,648	-	-	-	-	2,544	2,544
Total debtors	241	40	1	4	2,725	3,011	218	40	3	3	2,574	2,838

(i) Ofgem has 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	2005 £m	2004 £m
At start of the period	2,544	2,241
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	100	280
	2,644	2,544

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

14. Creditors (amounts falling due within one year)

At 31 March	Transportation 2005 £m	Metering 2005 £m	Meter Reading 2005 £m	LNG Storage 2005 £m	Other 2005 £m	Transco 2005 £m	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m
Borrowings (note 16)	18	-	-	1	1,861	1,880	24	-	-	-	1,281	1,305
Trade creditors and accruals	303	33	5	7	-	348	317	37	3	5	-	362
Amounts owed to fellow subsidiary undertakings	107	-	-	-	261	368	92	1	-	12	185	290
Amounts owed by Transportation to LNG Storage	1	-	-	-	(1)	-	2	-	-	-	(2)	-
Corporation tax	-	-	-	-	27	27	-	-	-	-	173	173
Social security and other taxes	148	18	-	1	-	167	151	13	-	-	-	164
Other creditors	24	-	-	-	139	163	49	7	5	-	111	172
Deferred income	144	4	-	-	-	148	179	20	-	-	-	199
	745	55	5	9	2,287	3,101	814	78	8	17	1,748	2,665

Other creditors include interest payable of £139m (2004: £113m).

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

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

At 31 March	Transportation **2005** **£m**	Metering **2005** **£m**	Other **2005** **£m**	Transco **2005** **£m**	Transportation 2004 £m	Metering 2004 £m	Other 2004 £m	Transco 2004 £m
Borrowings (note 16)	**8**	**-**	**3,388**	**3,396**	20	-	3,616	3,636
Deferred income	**1,060**	**41**	**-**	**1,101**	994	33	-	1,027
	1,068	**41**	**3,388**	**4,497**	1,014	33	3,616	4,663

Deferred income mainly comprises contributions to capital projects.

16. Borrowings

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

At 31 March	Transportation **2005** **£m**	**LNG Storage** **2005** **£m**	Other **2005** **£m**	Transco **2005** **£m**	Transportation 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m
Amounts falling due within one year:								
Bank loans and overdrafts	**3**	**1**	**113**	**117**	6	-	94	100
Commercial paper	**-**	**-**	**1,103**	**1,103**	-	-	202	202
Bonds	**-**	**-**	**242**	**242**	-	-	494	494
Borrowings from fellow subsidiary undertakings	-	**-**	**403**	**403**	-	-	490	490
Other loans	**15**	**-**	**-**	**15**	18	-	1	19
	18	**1**	**1,861**	**1,880**	24	-	1,281	1,305
Amounts falling due after more than one year:								
Bank loans	**-**	**-**	**239**	**239**	-	-	-	-
Bonds	**-**	**-**	**3,147**	**3,147**	-	-	3,616	3,616
Other loans	**8**	**-**	**2**	**10**	20	-	-	20
	8	**-**	**3,388**	**3,396**	20	-	3,616	3,636
Total borrowings	**26**	**1**	**5,249**	**5,276**	44	-	4,897	4,941

Total borrowings are repayable as follows:

	Transco **2005** **£m**	Transco 2004 £m
In one year or less	**1,880**	1,305
More than one year, but not more than two years	**843**	257
More than two years, but not more than three years	**343**	887
More than three years, but not more than four years	**458**	293
More than four years, but not more than five years	**497**	457
More than five years	**1,255**	1,742
	5,276	4,941

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 £83m (2004 £73m), including accretion of interest to 31 March 2005, in respect of a zero coupon bond due 2021, which had a market value of £299m (2004 £287m).

17. Financial Instruments

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

Transco's counterparty exposure under foreign currency swaps and foreign exchange contracts was £114m (2004: £146m) and interest rate swaps £5m (2004: £25m).

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

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

Currency and interest rate composition of financial liabilities

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

			Fixed rate liabilities		
	Total	Variable rate	Fixed rate	Weighted average interest rate	Weighted average period for which rate is fixed
At 31 March 2005	£m	£m	£m	%	Years
Sterling					
Borrowings	**5,276**	**3,686**	**1,590**	**6.5**	**8**
Other financial liabilities	**16**	**16**	**-**	**-**	**-**
	5,292	**3,702**	**1,590**	**6.5**	**8**
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 2005 the weighted average interest rate on short-term borrowings of £1,880m (2004: £1,305m) was 4.3% (2004: 4.6%).

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

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

17. Financial Instruments continued

Currency and interest rate composition of financial assets

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

			Fixed rate assets		
	Total	Non-interest bearing	Fixed rate	Weighted average interest rate	Weighted average period for which rate is fixed
At 31 March 2005	£m	£m	£m	%	Years
Sterling	**12**	**12**	**-**	**-**	**-**
US dollars	**3**	**-**	**3**	**2.8**	**-**
Other currencies	**1**	**-**	**1**	**2.0**	**-**
Cash and investments	**16**	**12**	**4**	**-**	**-**
Other financial assets (sterling)	**2,644**	**2,644**	**-**	**-**	**-**
	2,660	**2,656**	**4**	**-**	**-**
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	-	-

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.

	2005	2004
Maturity of financial liabilities at 31 March	**£m**	£m
In one year or less	**1,887**	1,305
More than one year, but not more than two years	**846**	260
More than two years, but not more than three years	**345**	887
More than three years, but not more than four years	**459**	293
More than four years, but not more than five years	**498**	457
More than five years	**1,257**	1,742
	5,292	4,944

	2005	2004
Maturity of financial assets at 31 March	**£m**	£m
In one year or less	**16**	75
No maturity date	**2,644**	2,544
	2,660	2,619

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

17. Financial Instruments continued

Fair values of financial instruments at 31 March

	2005 Book value £m	**2005** Fair value £m	2004 Book value £m	2004 Fair value £m
Financial instruments held or issued to finance Transco's operations:				
Short-term borrowings	**(1,878)**	**(1,885)**	(1,305)	(1,267)
Long-term borrowings	**(3,394)**	**(3,818)**	(3,578)	(4,079)
Financial assets	**2,660**	**2,660**	2,619	2,619
Financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps	**-**	**(59)**	-	14
Forward foreign currency contracts and cross currency swaps	**(4)**	**78**	(58)	90

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 £2,050m (2004: £6,282m) and £1,788m (2004: £3,028m) 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 2004	253	(91)	162	88	(80)	8
(Gains)/losses arising in previous years recognised in the year	(20)	9	(11)	(10)	12	2
Gains /(losses) arising in previous years not recognised in the year	233	(82)	151	78	(68)	10
Gains/(losses) arising in the year	(138)	10	(128)	18	(5)	13
Gains and (losses) on hedges at 31 March 2005	**95**	**(72)**	**23**	**96**	**(73)**	**23**
Of which:						
Gains and (losses) expected to be recognised within one year	1	-	1	11	(12)	(1)
Gains and (losses) expected to be recognised after one year	94	(72)	22	85	(61)	24

Borrowing facilities

At 31 March 2005, Transco had undrawn committed borrowing facilities as shown below:

	2005 £m	2004 £m
In one year or less	**2,320**	758
More than one year, but not more than two years	**-**	575
	2,320	1,333

18. Provisions for liabilities and charges

	Transportation				Metering	Other	Transco				
	Environmental £m	Restructuring £m	Other £m	Total £m	Restructuring £m	Deferred taxation £m	Environmental £m	Restructuring £m	Deferred taxation £m	Other £m	Total £m
At 31 March 2004 (restated)	85	35	-	120	1	1,231	85	36	1,231	-	1,352
Charge to profit and loss account	9	174	5	188	-	34	9	174	34	5	222
Transferred to reserves	-	-	-	-	-	(2)	-	-	(2)	-	(2)
Utilised	(7)	(119)	-	(126)	-	-	(7)	(119)	-	-	(126)
Unwinding of discount	2	-	-	2	-	-	2	-	-	-	2
At 31 March 2005	**89**	**90**	**5**	**184**	**1**	**1,263**	**89**	**91**	**1,263**	**5**	**1,448**

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

At 31 March 2005, 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, with some 33% of the spend projected to be spent over the next five years. During the year ended 31 March 2005, a review of the provision was undertaken to take into account the impact of recent changes to the regulations on waste disposal. This review together with related revisions to the expected expenditure profile has resulted in an additional provision being made as an exceptional charge of £9m in the profit and loss account – see note 4.

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 2005 relating to gas site decontamination was £127m (2004: £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).

At 31 March 2005, £16m of the total restructuring provision (2004: £3m) 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 **2005** **£m**	Provided 2004 (restated) £m
Accelerated capital allowances	**1,239**	1,248
Other timing differences	**24**	(17)
	1,263	1,231

19. Share capital

At 31 March	**Number of shares 2005 millions**	Number of shares 2004 millions	**2005 £m**	2004 £m
Authorised				
Ordinary shares of $1^{2}/_{15}$p each	**6,052**	6,052	**69**	69
Allotted and fully paid				
Ordinary shares of $1^{2}/_{15}$p each	**3,944**	3,944	**45**	45

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

20. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account reserve £m
At 31 March 2004 (restated)	204	1,332	560
Employee share options	-	-	2
Retained loss for the year	-	-	(197)
At 31 March 2005	**204**	**1,332**	**365**

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

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

21. Reconciliation of movement in equity shareholders' funds

At 31 March	**2005 £m**	2004 (restated) £m
Profit for the year	**303**	543
Dividends	**(500)**	(70)
	(197)	473
Employee share options	**-**	15
Deferred tax on employee share options	**2**	-
Net movement in equity shareholders' funds	**(195)**	488
Equity shareholders' funds at the start of the year (restated)	**2,141**	1,653
Equity shareholders' funds at the end of the year	**1,946**	2,141

22. Cash flow statement

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

	Transportation **2005 £m**	Metering **2005 £m**	Meter Reading **2005 £m**	LNG Storage **2005 £m**	Other **2005 £m**	Transco **2005 £m**	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m
Total operating profit	**660**	**76**	**5**	**6**	**-**	**747**	935	88	4	5	-	1,032
Exceptional operating items	**183**	**-**	**-**	**-**	**-**	**183**	75	1	-	1	-	77
Depreciation	**266**	**130**	**1**	**7**	**-**	**404**	271	149	-	3	-	423
Decrease / (increase) in stocks	**-**	**2**	**-**	**-**	**-**	**2**	2	(2)	-	(1)	-	(1)
(Increase) / decrease in debtors	**(38)**	**-**	**2**	**(1)**	**(11)**	**(48)**	(25)	(17)	(2)	-	(16)	(60)
Increase / (decrease) in creditors	**11**	**(14)**	**(3)**	**1**	**13**	**8**	112	18	2	(1)	6	137
Increase in provisions	**5**	**-**	**-**	**-**	**-**	**5**	-	-	-	-	-	-
Share-based payment charges	**-**	**-**	**-**	**-**	**-**	**-**	15	-	-	-	-	15
Cash inflow from operating activities before exceptional items	**1,087**	**194**	**5**	**13**	**2**	**1,301**	1,385	237	4	7	(10)	1,623

22. Cash flow statement continued

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

For the year ended 31 March	Transportation **2005** **£m**	LNG Storage **2005** **£m**	Other **2005** **£m**	Transco **2005** **£m**	Transportation 2004 £m	LNG Storage 2004 £m	Other 2004 £m	Transco 2004 £m
Movement in cash and overdrafts	**3**	**(1)**	**7**	**9**	4	-	3	7
Net cash inflow from the management of liquid resources	**-**	**-**	**(62)**	**(62)**	-	-	68	68
Decrease / (increase) in borrowings	**15**	**-**	**(347)**	**(332)**	20	-	209	229
Change in net debt resulting from cash flows	**18**	**(1)**	**(402)**	**(385)**	24	-	280	304
Other non-cash movements	**-**	**-**	**(9)**	**(9)**	-	-	(6)	(6)
Movement in net debt in the period	**18**	**(1)**	**(411)**	**(394)**	24	-	274	298
Net debt at the start of the period	**(44)**	**-**	**(4,822)**	**(4,866)**	(68)	-	(5,096)	(5,164)
Net debt at the end of the period	**(26)**	**(1)**	**(5,233)**	**(5,260)**	(44)	-	(4,822)	(4,866)

c) Analysis of changes in net debt

	At 1 Apr 2003 £m	Cash flow £m	Other non-cash movements £m	At 31 Mar 2004 £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)	582	(3,636)
		229		
	(5,164)	304	(6)	(4,866)

	At 1 Apr 2004 £m	Cash flow £m	Other non-cash movements £m	**At 31 Mar 2005** **£m**
Cash at bank and in hand	-	3	-	**3**
Bank overdrafts	(6)	6	-	**-**
		9		
Current asset investments	75	(62)	-	**13**
Borrowings due within one year	(1,299)	(339)	(242)	**(1,880)**
Borrowings due after one year	(3,636)	7	233	**(3,396)**
		(332)		
	(4,866)	(385)	(9)	**(5,260)**

23. Related party transactions

Transco is a wholly owned subsidiary undertaking of National Grid, which consolidates Transco within its publicly available financial statements. In accordance with paragraph 3 of FRS 8, Related party Disclosures, Transco is therefore exempt from disclosing transactions with other members of National Grid group. There were no other material related party transactions (2004: £nil).

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

24. Commitments and contingencies

a) Future capital expenditure

As at 31 March 2005, Transco had placed contracts for capital expenditure (tangible fixed assets) amounting to £313m (2004: £76m).

b) Lease commitments

At 31 March 2005, Transco's total operating lease commitments for the financial year ending 31 March 2006 amounted to £17m (2004 commitments for 2005: £21m) and are analysed by lease expiry date as follows:

	Land and buildings		Other		Total	
At 31 March	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Expiring:						
In one year or less	**-**	1	**-**	2	**-**	3
In more than one year, but not more than five years	**2**	2	**8**	4	**10**	6
In more than five years	**7**	12	**-**	-	**7**	12
	9	15	**8**	6	**17**	21

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

At 31 March	**2005 £m**	2004 £m
Amounts:		
In one year or less	**17**	21
In more than one year, but not more than two years	**15**	17
In more than two years, but not more than three years	**11**	15
In more than three years, but not more than four years	**9**	12
In more than four years, but not more than five years	**8**	12
In more than five years	**50**	72
	110	149

Transco is working with the buyers of the four distribution networks sold on 1 June 2005 and with the relevant lessors to transfer the lease commitments relating to those businesses. Until such time as those transfers are agreed the lease commitments shown above remain a commitment of Transco.

c) Third party contingencies

Transco has outstanding BG Group related commitments and contingencies amounting to £13m, at 31 March 2005 (2004: £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.

d) Other commitments and contingencies

The value of other commitments and contingencies at 31 March 2005 amounted to £127m (2004: £69m), including a performance guarantee of £5m (2004: £24m) relating to certain property obligations of a National Grid 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 2005, the sterling equivalent amounted to £961m (2004: £1,222m).

f) Larkhall prosecution

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

g) Cavendish Mill prosecution

Following a fatal accident at Cavendish Mill, Lancashire in November 2001, in which one person died, Transco plc has been charged with a breach of section 3 of the Health and Safety at Work Act 1974. This matter is expected to go to trial in October 2005. The maximum penalty for breach of this section is an unlimited fine.

25. Ultimate parent company

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

26. Principal subsidiary undertakings

The principal Group undertakings included in the Group accounts at 31 March 2005 are listed below. These undertakings are wholly owned.

At 31 March 2005	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
Blackwater SC A Limited	UK	Transportation services
Blackwater F Limited	UK	Transportation services
Blackwater G Limited	UK	Transportation services
Blackwater 2 Limited	UK	Transportation services

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.

27. Amounts determined by apportionment

The following table provides an analysis of those amounts included in the profit and loss accounts which are not directly attributable to specific businesses and which have been determined by apportionment:

	Transportation **2005** **£m**	Metering **2005** **£m**	Meter Reading **2005** **£m**	Other **2005** **£m**	Transco **2005** **£m**	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	Other 2004 £m	Transco 2004 £m
Operating costs (i)										
Rates	**(28)**	**28**	**-**	**-**	**-**	(27)	27	-	-	-
Metering and Meter Reading operating costs	**-**	**(1)**	**1**	**-**	**-**	(20)	24	(4)	-	-
Other activities operating costs	**(13)**	**-**	**-**	**13**	**-**	(14)	-	-	14	-
Total apportioned operating costs	**(41)**	**27**	**1**	**13**	**-**	(61)	51	(4)	14	-
Net interest	**-**	**-**	**-**	**-**	**-**	(3)	3	-	-	-

(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 used an activity based costing methodology.

27. Amounts determined by apportionment continued

The following table provides an analysis of those amounts included in the balance sheets which are not directly attributable to specific businesses and which have been determined by apportionment:

At 31 March	Transportation 2005 £m	Metering 2005 £m	Meter Reading 2005 £m	Transco 2005 £m	Transportation 2004 £m	Metering 2004 £m	Meter Reading 2004 £m	Transco 2004 £m
Debtors – amounts due within one year (i)								
Trade debtors	**(2)**	**2**	**-**	**-**	(1)	1	-	-
Prepayments and accrued income	**(6)**	**5**	**1**	**-**	(5)	4	1	-
	(8)	**7**	**1**	**-**	(6)	5	1	-
Other creditors – amounts due within one year (i)								
Trade creditors and accruals	**32**	**(27)**	**(5)**	**-**	40	(37)	(3)	-
Social security and other taxes	**18**	**(18)**	**-**	**-**	13	(13)	-	-
Other creditors	**-**	**-**	**-**	**-**	5	-	(5)	-
Deferred income	**-**	**-**	**-**	**-**	17	(17)	-	-
	50	**(45)**	**(5)**	**-**	75	(67)	(8)	-

(i) 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.

28. Charges and apportionments

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid 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 10 of the Condition.

28. Charges and apportionments continued

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid 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 10 of the Condition.

28. Charges and apportionments continued

Note 28 includes disclosure of amounts charged to or from other businesses of National Grid 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 10 of the Condition.

28. Charges and apportionments continued

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28. Charges and apportionments continued

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29. Subsequent events

On 1 June 2005, Transco completed the sale of four of its regional gas distribution networks for £5.8 billion cash. The sales process has included the adoption of a new regulatory regime from Ofgem, the transfer of the networks into four new subsidiary companies on 1 May 2005 and obtaining separate gas transporter licences for each network. Ofgem gave unconditional approval to the sales on 25 May 2005 and the sales completed on 1 June 2005. With the completion of the sale prior to the approval date of these regulatory accounting statements, the results of the four sold networks are disclosed as discontinued operations.

On 25 May 2005, Blackwater SC A Limited, Blackwater F Limited, Blackwater G Limited and Blackwater 2 Limited declared dividends totalling £22 million payable to Transco plc.

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 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.

In July 2005, National Grid Transco plc was renamed National Grid plc.

Definitions

'£m'	Million pounds sterling.
'affiliate'	National Grid plc or any subsidiary undertaking of National Grid plc other than Transco plc.
'Authority, the'	The Gas and Electricity Markets Authority, a role undertaken by Ofgem.
'BG or BG Group'	BG Group plc and/or its subsidiary undertakings or any of them as the context requires.
'Condition, the'	Standard Special Condition A30 of Transco plc's Public Gas Transporter's Licences.
'Demerger'	The demerger of Lattice Group plc from BG Group plc which became effective on 23 October 2000.
'de-minimis activities'	Those activities, other than the regulated Transportation, LNG Storage, Metering and Meter Reading businesses, which Transco is permitted to undertake by the Licences.
'Gas Act'	The Gas Act 1986, as amended by the Gas Act 1995.
'Group'	Transco plc and its subsidiary undertakings.
'Lattice or Lattice Group'	Lattice Group plc and/or its subsidiary undertakings or any of them as the context requires.
'Licences, the'	Transco plc's Gas Transporter's Licences issued under the Utilities Act 2000.
'LNG'	Liquefied natural gas.
'Merger'	The merger of National Grid and Lattice which became effective on 21 October 2002.
'Metering'	The regulated gas metering business of Transco plc.
'Meter Reading'	The regulated gas meter reading business of Transco plc.
'National Grid'	National Grid plc and/or its subsidiary undertakings or any of them as the context requires.
'National Grid Electricity Transmission'	National Grid Electricity Transmission plc and/or its subsidiary undertakings or any of them as the context requires.
'non-Transco business'	Any business of National Grid that is not being undertaken by Transco or a subsidiary undertaking of Transco.
'Ofgem'	The Office of Gas and Electricity Markets.
'Restructuring and Refinancing'	The corporate restructuring and refinancing of BG plc which became effective on 13 December 1999.
'LNG Storage'	The regulated LNG storage business of Transco plc.
'Transco'	The consolidation of the regulated gas transportation, LNG storage, metering and meter reading businesses and the de-minimis activities of Transco plc.
'Transco Holdings'	Transco Holdings plc and/or its subsidiary undertakings or any of them as the context requires.
'Transportation'	The regulated gas transportation business of Transco plc.
'Utilities Act'	The Utilities Act 2000.

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Registered in England and Wales No. 2006000