LATTICE GROUP PLC

Annual Report and Accounts

31 March 2004

Registered number 3900804

Directors' report

For the year ended 31 March 2004

Lattice Group plc ("the Company") directors present their report and the audited accounts for the year ended 31 March 2004.

Principal activities

The Company acts as a holding company and will continue to do so for the foreseeable future. The principal activities of its group of companies (the Group) are the operation, through Transco plc, of the gas transmission and distribution system and the provision of metering services in Great Britain. Other Group activities include the provision of advanced technology and systems solutions for energy and utility companies worldwide; and the provision of telecommunications infrastructure to operators in Great Britain.

Results and dividends

Group turnover from continuing operations increased to £3,229m from £3,150m and total operating profit was £914m, compared with £545m in 2003.

The results for the year ended 31 March 2004 included net exceptional charges of £68m. This included business reorganisation costs of £138m (£103m after tax) and provision for environmental obligations of £28m (£28m after tax), offset by a £98m gain on sales of property and other tangible fixed assets (£98m after tax). Net exceptional charges for the year ended 31 March 2003 totalled £451m and included £133m of business reorganisation costs (£89m after tax); employee and property costs associated with the merger of £80m (£70m after tax); impairment of certain telecom assets amounting to £168m (£143m after tax); merger transaction costs of £47m (£41m after tax); loss on sale of The Leasing Group and on closure of 186k amounting to £68m (£68m after tax) and gains on sale of property and other tangible fixed assets of £45m (£47m after tax).

Total adjusted operating profit (excluding exceptional items and goodwill amortisation) was £1,082m, compared with £922m.

Adjusted operating profit from UK gas distribution was £729m in 2004, compared with £554m in 2003. This increase was mainly as a result of an £84 million increase in formula income, £103 million reduction in controllable operating costs and a £17 million reduction in replacement expenditure. This was offset by a net increase in depreciation and amortisation of capital contributions of £11 million and a £23 million charge for UK gas distribution's share of the pension deficit.

Adjusted operating profit from UK gas transmission was £283m in 2004, compared with £269m in 2003. This increase was mainly as a result of the following:

- a £9 million one-off benefit in shrinkage costs; and
- a 9% reduction in TO controllable costs.

Adjusted operating profit from other activities was £70m in 2004, compared with £127m in 2003. This reduction arises primarily in the Group's metering business and Fulcrum Connections. 2003 results also included a £10 million pension credit.

Net interest was £374m in 2004, compared with £399m in 2003.

The tax charge for the year totalled £147m (2003 £83m). A reconciliation of the UK corporation tax rate to the effective tax rate of the Group is shown in note 8 to the accounts.

Interim dividends paid by the Company during the year amounted to £490m. A final dividend is not proposed to be paid.

Directors

The following directors served throughout the year and subsequently :-

Steve Lucas
Edward Astle (appointed 1 June 2003)
Steve Holliday (appointed 1 June 2003)
Andy Chapman (appointed 6 September 2004)
Malcolm Cooper (appointed 6 September 2004)
Sir John Parker (resigned 1 June 2003)
John Wybrew (resigned 30 November 2003)

Directors' report continued

Directors' responsibilities in respect of the preparation of the accounts

The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for the financial year.

The directors are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985. They also have general responsibility for taking reasonable steps to safeguard the assets of the Group and for taking reasonable steps to prevent and detect fraud and other irregularities.

The directors consider that, in preparing the accounts, suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that applicable accounting and financial reporting standards have been followed. The directors also confirm that the going concern basis is appropriate.

Directors' interests

No director had any beneficial interest in the shares of the Company or any other company within the National Grid Transco Group except for their beneficial interests in the shares of the ultimate parent company, National Grid Transco plc. The details of their interests in the shares of National Grid Transco plc are shown in the report and accounts of that company.

Interest in contracts

At no time during the year under review did any director of the Company have any material interest in any contract of significance to the business of the Company or any of its subsidiary undertakings.

Employment Policies

We have established, through emails, intranets, cascade briefings and in-house magazines, effective methods of communicating with employees on matters of concern to them. Regular consultation with staff and their trade union representatives takes place using both formal and informal mechanisms.

The Group is committed to fair treatment of people with disabilities in relation to job applications, training, promotion and career development. Every effort is made to find appropriate alternative jobs for those who are unable to continue in their existing job due to disability.

The Group takes a positive approach to equality and diversity. We promote equality in the application of reward policies, employment and development opportunities, and aim to support employees in balancing work and personal lifestyles.

Group employees are encouraged to become shareholders in National Grid Transco plc and we operate a Sharesave Scheme.

Research and Development

Expenditure on research and development in the year ended 31 March 2004 was £4m (2003: £9m).

Payment to suppliers

National Grid Transco, the Company's parent, is a signatory to the CBI Code of Prompt Payment and has procedures to ensure the payment of bills in accordance with contract terms. Copies of the CBI Code of Prompt Payment may be obtained from the CBI, Centre Point, 183 New Oxford Street, London WC1A 1DU.

The average creditor payment period as at 31 March 2004 for Transco plc, the principal operating company within the Group, was 32 days.

Charitable and other donations

During the year, charitable donations of £1m (2003: £1m) were made.

No donations were made in the UK or EU for the purposes of the Political Parties Elections and Referendums Act 2000.

Treasury and Financing

Credit facilities and unutilised Commercial Paper and Medium Term Note Programmes

At 31 March 2004, Transco had a US$1.25 billion Euro Commercial Paper Programme (US$0.90 billion unutilised); a US$2.5 billion US Commercial Paper Programme (unutilised) and Transco plc and Transco Holdings plc had a joint Euro Medium Term Note Programme of €7.0 billion (€2.6 billion unissued).

At 31 March 2004, Transco had £0.76 billion of short term (364 day) committed facilities (undrawn); £0.58 billion of long term committed facilities (undrawn) and £0.9 billion (undrawn) of uncommitted borrowing facilities.

Treasury policy

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

Directors' report continued

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

Details of the maturity, currency and interest rate profile of the Group's borrowings as at 31 March 2004 are shown in note 18 to the accounts on pages 22 and 23.

The Group'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.

The Group 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 the Group's short term investments as at 31 March 2004 are shown in note 18 to the accounts on page 22.

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

Refinancing risk management

The Board of National Grid Transco mainly controls refinancing risk by limiting the amount of financing obligations (both principal and interest) arising on borrowings in any 12-month and 36-month period. This policy restricts the Group 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 the Group 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. The Group'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

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

Counterparty risk management

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

Derivative financial instruments held for purposes other than trading

As part of its business operations, the Group is exposed to risks arising from fluctuations in interest rates and exchange rates. The Group 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. The Group's policy is not to use derivatives for trading purposes. Derivative transactions can, to varying degrees, carry both counterparty and market risk.

The Group 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 the Group enters into bought and written option contracts on interest rate swaps. These transactions are known as swaptions. The Group 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.

The Group 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

The Group 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, the Group 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.

Directors' report continued

Commodity price hedging

In the normal course of business the Group 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 the Group's UK gas transporter licence and Network Code obligations.

These financial exposures are monitored and managed as an integral part of the Group's financial risk-management policy. At the core of this policy is a condition that the Group 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. The Group 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.

UK gas transmission 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, UK gas transmission 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.

Going concern

The Directors consider that the Company and the Group have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the accounts.

Auditors

A resolution for the re-appointment of PricewaterhouseCoopers LLP will be proposed at the Annual General Meeting of the Company.

On behalf of the Board

Richard A Eves
Company Secretary
Registered Office:
1-3 Strand
London WC2N 5EH
Registered number 3900804

Independent auditors' report to the members of Lattice Group plc

We have audited the accounts of Lattice Group plc for the year ended 31 March 2004 which comprise the Group Profit and Loss Account, the Balance Sheets, the Group Statement of Total Recognised Gains and Losses and the related notes.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 235 of the UK Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the UK Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations *we require for our audit, or if information specified by law is not disclosed.*

We read the other information contained in the Directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 March 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
27 October 2004

Accounting Policies

a) Basis of preparation of accounts

The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting and financial reporting standards. No cash flow statement is included, as the company is a wholly owned subsidiary of National Grid Transco plc.

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

The Group is following the transitional arrangements of FRS 17 'Retirement Benefits'. The required disclosures are shown in note 6.

b) Basis of consolidation

The Group accounts include the accounts of the Company and all its subsidiary undertakings ('Group undertakings'), together with the Group's share of the results and net assets of its associates and joint ventures ('associated undertakings'), less any provision for impairment. An associated undertaking is an entity in which the Group has a participating interest and over which it exercises a significant influence.

Except as described in the paragraph below, the results of newly acquired Group and associated undertakings are included in the Group accounts from the date the Group acquires control or, in respect of associated undertakings, an equity interest which enables it to exercise a significant influence. The results of Group and associated undertakings are included in the Group accounts up to the date that control or the exercise of significant influence, as appropriate, is relinquished.

On transfer of group undertakings from fellow group undertakings, merger accounting principles are adopted where the transfer meets the merger accounting criteria under the Companies Act 1985. Under these principles the consolidated accounts are prepared as if these undertakings had always been part of the Group and comparative periods are restated accordingly.

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 assets and liabilities that are matched by an exact and directly related foreign exchange derivative, the relevant asset or liability is translated at the rate of exchange under the related derivative.

d) Goodwill

Goodwill, representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised on a straight-line basis, through the profit and loss account over its estimated useful economic life, principally 15 years.

e) Tangible fixed assets and depreciation

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

Tangible fixed assets include assets in which the Group'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 estimated economic lives of the assets.

No depreciation is provided on freehold land and assets in the course of construction. Other tangible fixed assets are depreciated, principally 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:

Depreciation periods for categories of tangible fixed assets	
Plant and machinery	
Mains and services	55 to 65
Regulating equipment	30 to 50
Gas storage	40
Gas meters	10 to 15
Freehold and leasehold buildings	up to 50
Motor vehicles and office equipment	up to 10

Accounting policies continued

f) Impairment of fixed assets

Impairments of fixed assets are calculated as the difference between the carrying values of the net assets of income generating units, including, where appropriate, investments and goodwill 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 net amount that can be generated through sale of the 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 incoming generating unit.

Impairment reviews are carried out if there is some indication that an impairment may have occurred, or, where otherwise required, to ensure that fixed assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the profit and loss account, and where material are disclosed as exceptional.

g) Replacement expenditure

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

h) Deferred taxation

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

i) Stocks

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

j) Decommissioning and environmental costs

Decommissioning and environmental costs, based on discounted future estimated expenditures expected to be incurred, are provided for in full and where appropriate a corresponding tangible fixed asset is also recognised. The unwinding of the discount is included within the profit and loss account as a financing charge.

k) Turnover

Turnover primarily represents the amounts derived from the transmission and distribution of gas and the provision of related services. Turnover includes an assessment of transportation and distribution 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 cost of providing pensions is charged to the profit and loss account on a systematic basis over the service lives of the employees in the schemes. Variations from the regular pension cost are allocated over the estimated average remaining service lives of current employees, with the interest component of any variation being reflected in net interest and the other component reflected through staff costs.

l) Leases

Finance lease income is allocated to accounting periods so as to give a constant rate of return on the net investment in the lease. The net investment in a finance lease is included in debtors and represents the total rentals receivable, net of finance charges, relating to future periods. 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 the Group 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 rates swaptions.

All transactions are undertaken or maintained to provide a commercial hedge of the interest or currency risks associated with the Group'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 being 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 Group restructuring programmes primarily relate to redundancy costs. Redundancy costs are charged to the profit and loss account in the period in which the Group becomes irrecoverably committed to incurring the costs and the main features of the restructuring plan have been announced to affected employees. Redundancy costs are classified as other operating charges as these costs do not relate to services provided by employees for the year.

Group Profit and Loss Account

For the year ended 31 March

	Notes	2004 £m	2003 £m
Group turnover – continuing operations		**3,229**	3,150
Group turnover – discontinued operations		-	37
Group turnover	1(a)	**3,229**	3,187
Operating costs	2	**(2,315)**	(2,640)
Operating profit of Group undertakings – continuing operations	1(b)	**914**	747
Operating loss of Group undertakings – discontinued operations	1(b)	-	(200)
		914	547
Share of joint ventures' and associate's operating loss – discontinued operations	1(b)	-	(2)
Operating profit			
- Before exceptional items and goodwill amortisation	1(b)	**1,082**	922
- Exceptional items – continuing operations	3(a)	**(166)**	(207)
- Exceptional items – discontinued operations	3(a)	-	(174)
- Goodwill amortisation		**(1)**	4
Total operating profit	1(b)	**914**	545
Merger costs – continuing operations	3(b)	-	(47)
Profit on disposal of tangible fixed assets – continuing operations	3(b)	**98**	45
Loss on sale or termination of operations – discontinued operations	3(b)	-	(68)
Net interest	7	**(374)**	(399)
Profit on ordinary activities before taxation		**638**	76
Taxation			
- Excluding exceptional items		**(182)**	(164)
- Exceptional items		**35**	81
	8	**(147)**	(83)
Profit/(loss) on ordinary activities after taxation		**491**	(7)
Minority interests		-	1
Profit/(loss) for the year		**491**	(6)
Dividends	9	**(490)**	(500)
Profit/(loss) transferred to/(from) profit and loss account reserve	21	**1**	(506)

Group Statement of Total Recognised Gains and Losses

	2004 £m	2003 £m
Profit/(loss) for the year	**491**	(6)
Exchange adjustments	**(2)**	(2)
Unrealised gain on transfer of fixed assets to a joint venture (net of tax)	-	6
Total recognised gains and losses for the financial year	**489**	(2)

Balance Sheets at 31 March

		Group		Company	
		2004	2003	**2004**	2003
	Notes	**£m**	£m	**£m**	£m
Fixed assets					
Intangible assets	10	**13**	27	-	-
Tangible assets	11	**8,103**	7,988	-	-
Investments in joint ventures					
- Share of gross assets		**-**	2	-	-
- Share of gross liabilities		**-**	-	-	-
- Share of net assets		**-**	2	-	-
Other investments		**2**	2	**636**	619
Total investments	12	**2**	4	**636**	619
		8,118	8,019	**636**	619
Current assets					
Stocks	13	**53**	82	-	-
Debtors	14	**690**	533	**695**	449
Current asset investments		**319**	233	-	105
Cash at bank and in hand		**23**	25	-	1
		1,085	873	**695**	555
Creditors (amounts falling due within one year)					
Borrowings	15	**(815)**	(742)	-	-
Other creditors		**(2,528)**	(1,854)	**(823)**	(330)
	15	**(3,343)**	(2,596)	**(823)**	(330)
Net current (liabilities)/assets		**(2,258)**	(1,723)	**(128)**	225
Total assets less current liabilities		**5,860**	6,296	**508**	844
Creditors (amounts falling due after more than one year)					
Borrowings	17	**(5,125)**	(5,552)	-	-
Other creditors		**(1,029)**	(981)	-	-
	16	**(6,154)**	(6,533)	-	-
Provisions for liabilities and charges	19	**(1,712)**	(1,768)	**(120)**	(356)
Net (liabilities)/assets employed		**(2,006)**	(2,005)	**388**	488
Capital and reserves					
Called up share capital	20	**361**	361	**361**	361
Share premium account	21	**3**	3	**3**	3
Other reserves	21	**(5,718)**	(5,718)	-	-
Profit and loss account	21	**3,348**	3,349	**24**	124
Equity shareholders' funds		**(2,006)**	(2,005)	**388**	488

Commitments and contingencies are shown in note 24.

The accounts on pages 6 to 26 inclusive were approved by the Board of Directors on 27 October 2004 and were signed on its behalf by:

M. Cooper

M Cooper

Director

Notes to the Accounts

1. Segmental analysis

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

Continuing operations – 'Other activities' primarily relates to gas metering activities; LNG Storage; Advantica, which provides advanced technology and systems solutions for energy and utility companies worldwide; and Gridcom which provides telecommunications infrastructure to operators in Great Britain.

Discontinued operations comprise The Leasing Group, sold in October 2002, and 186k, a UK-based fibre optic telecommunications company.

a) Turnover

	2004			2003		
	Total sales £m	**Sales between businesses £m**	**Sales to third parties £m**	Total sales £m	Sales between businesses £m	Sales to third parties £m
Continuing operations						
UK gas distribution	**2,245**	**117**	**2,128**	2,089	47	2,042
UK gas transmission	**560**	**2**	**558**	552	-	552
Other activities	**776**	**233**	**543**	806	250	556
	3,581	**352**	**3,229**	3,447	297	3,150
Discontinued operations	**-**	**-**	**-**	56	19	37
Group turnover	**3,581**	**352**	**3,229**	3,503	316	3,187

b) Operating profit

	Before exceptional items and goodwill amortisation		After exceptional items and goodwill amortisation	
	2004 £m	2003 (restated) £m	**2004 £m**	2003 (restated) £m
Group undertakings – continuing operations				
UK gas distribution	**729**	554	**640**	443
UK gas transmission	**283**	269	**277**	250
Other activities	**70**	127	**(3)**	54
	1,082	950	**914**	747
Discontinued operations	**-**	(26)	**-**	(200)
Group undertakings	**1,082**	924	**914**	547
Joint ventures – discontinued operations	**-**	(2)	**-**	(2)
Total	**1,082**	922	**914**	545

1. Segmental analysis (continued)

c) Total and net assets

	Total assets		Net assets	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Group undertakings – continuing operations				
UK gas distribution	**4,928**	4,998	**3,403**	3,480
UK gas transmission	**2,166**	1,883	**1,889**	1,571
Other activities	**1,444**	1,575	**634**	888
	8,538	8,456	**5,926**	5,939
Discontinued operations	**-**	9	**(7)**	(3)
Group undertakings	**8,538**	8,465	**5,919**	5,936
Joint ventures – continuing operations	**-**	2	**-**	2
Unallocated	**665**	425	**(7,925)**	(7,943)
Total	**9,203**	8,892	**(2,006)**	(2,005)

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

d) Other segmental information

	Capital expenditure		Depreciation and Amortisation	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Group undertakings – continuing operations				
UK gas distribution	**293**	380	**195**	185
UK gas transmission	**159**	177	**75**	64
Other activities	**169**	123	**172**	151
	621	680	**442**	400
Discontinued operations	**-**	95	**-**	26
Group undertakings	**621**	775	**442**	426

Capital expenditure comprises additions to tangible and intangible fixed assets (excluding goodwill) amounting to £620m (2003: £774m) and £1m (2003: £1m) respectively.

2. Operating costs

	Continuing operations		Discontinued operations		Total	
	2004	2003	**2004**	2003	**2004**	2003
	£m	£m	**£m**	£m	**£m**	£m
Total operating costs	**2,315**	2,403	-	256	**2,315**	2,659
Charged from:						
- continuing operations	-	-	-	-	-	-
- discontinued operations	-	(19)	-	-	-	(19)
External operating costs	**2,315**	2,384	-	256	**2,315**	2,640
Depreciation	**440**	400	-	26	**440**	426
Payroll costs	**518**	534	-	14	**518**	548
Purchases of gas	**86**	108	-	-	**86**	108
Rates	**244**	233	-	-	**244**	233
Replacement expenditure	**388**	405	-	-	**388**	405
Exceptional operating items	**166**	207	-	174	**166**	381
Other non-exceptional operating charges	**473**	497	-	42	**473**	539
	2,315	2,384	-	256	**2,315**	2,640
Operating costs include:						
Research and development costs					**4**	9
Operating lease rentals						
- Plant and machinery					**13**	-
- Other					**18**	17
Amortisation of goodwill (i)					**1**	(4)
Other amortisation					**1**	3
Auditors' remuneration						
Statutory audit services					**0.9**	0.7
Regulatory reporting					**0.2**	0.3
Further audit- related services (ii)					**1.5**	0.9
Other non-audit services (iii)					**1.8**	1.4

(i) Includes the amortisation of negative goodwill of £nil (2003: £4m)

(ii) £1.5m of assurance services were provided in respect of the separation of UK based distribution networks. For the year ended 31 March 2003 £0.9m of fees relate to the Merger which have been included within non-operating exceptional items;

(iii) Other non-audit services, in the current year, related to vendor due diligence work associated with the gas distribution network sales. For the year ended 31 March 2003, other non-audit services included £1.4m in relation to services provided by the consulting business unit of PricewaterhouseCoopers which was sold to IBM United Kingdom Limited on 30 September 2002.

3. Exceptional items

a) Operating

	2004 £m	2003 £m
Continuing operations		
Restructuring costs (i)	**138**	127
Merger costs (ii)	**-**	80
Environmental provision (iii)	**28**	-
	166	207
Discontinued operations		
Restructuring costs (i)	**-**	6
Impairment of business (iv)	**-**	168
	-	174
Total operating exceptional items	**166**	381

(i) Relates to costs incurred in business reorganisations (2004: £103m after tax; 2003: £89m after tax).
(ii) Represents employee and property costs associated with the Merger (£70m after tax).
(iii) Following completion of site investigations, the environmental obligations in respect of those sites was adjusted resulting in the recognition of an additional charge of £28m (£28m after tax).
(iv) In 2003, following a review of the carrying value of certain of the Group's telecom assets, the Group has incurred impairment charges resulting in the write down of those assets to their estimated recoverable amounts and the recognition of other related costs (£143m after tax).

b) Non-operating

	2004 £m	2003 £m
Continuing operations		
Profit on disposal of tangible fixed assets (v)	**(98)**	(45)
Merger costs (vi)	**-**	47
	(98)	2
Discontinued operations		
Loss on sale or termination of operations (vii)	**-**	68
	-	68
Total non-operating exceptional items	**(98)**	70

(v) The after tax profit on disposal of tangible fixed assets was £98m (2003: £47m).
(vi) The after tax transaction cost of the Merger in 2002 was £41m.
(vii) Relates to the loss on sale of The Leasing Group of £45m and loss on closure of 186k of £23m. The after tax loss relating to the sale and closure amounted to £68m.

4. Payroll costs and employees

	2004 £m	2003 £m
a) Payroll costs		
Wages and salaries	**445**	504
Social security costs	**39**	41
Other pension costs	**113**	78
	597	623
Less: Amounts capitalised	**(14)**	(15)
Payroll costs included in replacement expenditure	**(59)**	(60)
Payroll costs included in exceptional operating items	**(6)**	-
	518	548

	31 March 2004	2004	2003
b) Number of employees	**Number**	**Average Number**	Average Number
Continuing operations	**11,251**	**14,146**	15,722
Discontinued operations	**-**	**-**	407
	11,251	**14,146**	16,129

The vast majority of employees in continuing operations are employed either directly or indirectly in the transmission and distribution of gas in the UK.

5. Directors' emoluments

The total emoluments of the directors of the Company for the year ended 31 March 2004 were as follows:

	2004 £000	2003 £000
Salaries and benefits	**756**	1,364
Performance related bonus	**410**	340
	1,166	1,704

The aggregate emoluments for the highest paid director were £504,014 (2003: £434,284).

The amount paid in compensation for loss of office was £nil (2003: £507,691).

All the directors were also directors of National Grid Transco plc and are paid by that company. The amounts disclosed above include amounts recharged by National Grid Transco plc for these Directors.

The amount of accrued pension for the highest paid director was £36,328 (2003: £105,000).

One director exercised options in respect of shares in National Grid Transco plc during the year (2003: none).

Retirement benefits at 31 March 2004 are accruing in respect of four directors under a defined benefit scheme.

6. Pensions and post-retirement benefits

Substantially all of the Group's employees are members of the Lattice Group Pension Scheme

The Lattice Group Pension Scheme provides final salary defined benefits for employees who joined the Lattice Group prior to 31 March 2002. A defined contribution section was added to the scheme from 1 April 2002 for employees joining 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 employers' contributions which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The latest full actuarial valuation of the scheme was carried out by Watson Wyatt LLP at 31 March 2003. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation would be 2.5% and that future real increases in pensionable earnings would be 1.5%. Investments held in respect of pensions before they become payable would average 4.9% real rate of return and investments held in respect of pensions after they become payable would average 2.6% real annual rate of return and that pensions would increase at a real annual rate of 0.05%. The aggregate market value of the scheme's assets was £10,141m and the value of the assets represented approximately 92% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2003 on an ongoing basis and allowing for projected increases in pensionable earnings and pensions.

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

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

Pension cost and provisions for liabilities and charges

The pension cost charged to operating profit for the year ended 31 March 2004 was £113m (2003: £78m). This represents defined contribution scheme costs of £2m (2003: £1m), and defined benefit regular pension costs of £78m (2003: £96m) and a variation from the regular pension cost totalling £33m (2003: £19m credit). In addition, net interest includes a charge of £31m (2003: £8m credit) in respect of the notional interest element of the variation from the regular pension cost.

Included within provisions for liabilities and charges at 31 March 2003 is a pension provision of £120m (2003: £56m) – see note 19.

FRS 17 Retirement benefits

On 20 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. Disclosures showing the impact on the Group's profit and loss account and balance sheet, together with other disclosures required by FRS 17, are set out below.

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

	2004	2003	2002
Rate of increase in salaries [(i)]	**3.9**	3.5	4.8
Rate of increase in pensions in payment and deferred pensions	**3.0**	2.6	2.8
Discount rate for liabilities	**5.5**	5.4	5.8
Rate of increase in Retail Price Index or equivalent	**2.9**	2.5	2.8

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

6. Pensions and post-retirement benefits (continued)

An analysis of the assets held in the scheme and the expected rates of return at 31 March 2003 and 31 March 2002 were as follows:

	Long-term rate of return expected at 31 March 2004	**Value at 31 March 2004**	Long-term rate of return expected at 31 March 2003	Value at 31 March 2003
	%	**£m**	%	£m
Equities	**8.0**	**4,595**	8.5	4,007
Bonds	**4.9**	**5,560**	4.6	5,150
Property	**6.5**	**823**	6.5	816
Other	**4.0**	**285**	4.0	158
Total market value of assets		**11,263**		10,131
Present value of scheme liabilities		**(12,253)**		(11,869)
Deficit in the scheme		**(990)**		(1,738)
Related deferred tax asset		**297**		521
Net liability		**(693)**		(1,217)

	Long-term rate of return expected at 31 March 2002	Value at 31 March 2002
	%	£m
Equities	7.5	6,613
Bonds	5.4	3,825
Property	6.5	769
Other	4.4	481
Total market value of assets		11,688
Present value of scheme liabilities		(11,330)
Surplus in the scheme		358
Related deferred tax liability		(108)
Net asset		250

The net liability/asset includes net pension liabilities relating to an unfunded scheme of £12m (2003: £12m).

An increase of 0.1% in the discount rate would decrease the present value of liabilities for the scheme by around £191m and decrease the liability net of deferred tax by £134m and vice versa.

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

	2004	2003
	£m	£m
Net liabilities excluding net SSAP 24 liabilities	**(1,902)**	(1,939)
Net FRS 17 liabilities	**(693)**	(1,217)
Net liabilities including net FRS 17 liabilities	**(2,595)**	(3,156)

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

6. Pensions and post-retirement benefits (continued)

The pension and other post-retirement asset/(deficit) has moved during the year ended 31 March 2004 as set out below:

	2004 £m	2003 £m
At 1 April	**(1,738)**	358
Current service cost	**(102)**	(121)
Net loss on settlements or curtailments	**(52)**	(101)
Contributions	**129**	132
Other financial income	**(2)**	108
Actuarial gains/ (losses)	**775**	(2,114)
At 31 March	**(990)**	(1,738)

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

	2004 £m	2003 £m
Operating charge		
Current service cost	**102**	121
Net loss on settlements or curtailments	**52**	101
Total charge to operating profit	**154**	222
Other financial (income)/costs		
Expected return on scheme assets	**(625)**	(757)
Interest on scheme liabilities	**627**	649
Impact on financial income	**2**	(108)
Net profit and loss charge before taxation	**156**	114

As the Lattice scheme is a closed scheme, under the projected unit method of valuation, the current service cost will increase as the members of the scheme approach retirement.

If the Group was to prepare its accounts under FRS 17, the net loss on settlements or curtailments above would be reported as part of exceptional items. The net FRS 17 profit and loss account impact before tax excluding these exceptional items amounts to £104m and would compare to the current UK GAAP charge in respect of pensions and other post-retirement benefits amounting to £144m. The pre-exceptional profit and loss account charge (pre-tax) would therefore decrease by £40m.

In addition, the following pre-tax amounts would have been recognised in the statement of total recognised gains and losses.

	2004 £m	2003 £m
Difference between actual and expected return on scheme assets	**931**	(1,897)
Experience gains arising on scheme liabilities	**71**	36
Changes in assumptions	**(227)**	(253)
Net credit/ (charge) to the statement of total recognised gains and losses	**775**	(2,114)

Difference between actual and expected return on scheme assets (£m)	**931**	(1,897)
- percentage of scheme assets	**8%**	(19)%
Experience gains arising on scheme liabilities (£m)	**71**	36
- percentage of present value of scheme liabilities	**-**	-
Actuarial gains/(losses) (£m)	**775**	(2,114)
- percentage of present value of scheme liabilities	**6%**	(18)%

7. Net interest

	2004 £m	2003 £m
Bank loans and overdrafts	**9**	14
Other	**402**	403
Interest payable and similar charges	**411**	417
Unwinding of discount on provisions	**11**	13
Interest capitalised	**(13)**	-
Interest payable and similar charges net of interest capitalised	**409**	430
Interest receivable and similar income	**(35)**	(31)
	374	399

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

8. Taxation

	2004 £m	2003 £m
United Kingdom		
- Corporation tax at 30%	**211**	(4)
- Adjustment in respect of prior years	**5**	-
- Deferred tax	**(36)**	87
- Adjustment in respect of prior years	**(33)**	-
	147	83

	2004 £m	2003 £m
Comprising:		
Taxation – excluding exceptional items	**182**	164
Taxation – exceptional items	**(35)**	(81)
Tax charge	**147**	83

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

	% of profit before taxation	
	2004	2003
UK corporation tax rate	**30**	30
Effect on tax charge of:		
Origination and reversal of timing differences	**3**	(5)
Permanent differences	**-**	1
Current tax charge	**33**	26
Deferred taxation	**(3)**	5
Effective tax rate before prior year adjustments in respect of current tax and exceptional items	**30**	31
Current tax adjustment in respect of prior years	**(4)**	-
Effective rate after adjustments in respect of prior years and before exceptionals	**26**	31
Exceptional items	**(3)**	78
Effective tax rate after exceptional items	**23**	109

Factors that may affect future tax charges
The Group has brought forward non-trading debits of £75m (2003: £75m), which may reduce taxable profits 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 assets were sold without it being possible to claim roll-over relief. The total amount unprovided for is £58m (2003: £58m). At present, it is not envisaged that any tax will become payable in the foreseeable future.

9. Dividends

	2004 £m	2003 £m
Ordinary dividends		
- Interim	**280**	500
- Second interim	**210**	-
	490	500

10. Intangible fixed assets

Group	Goodwill £m	Negative Goodwill £m	Other £m	Total £m
Cost at 1 April 2003	24	(37)	11	(2)
Exchange adjustments	-	-	(2)	(2)
Amounts written off in year	-	37	-	37
Additions	-	-	1	1
Cost at 31 March 2004	24	-	10	34
Amortisation at 1 April 2003	3	(37)	5	(29)
Charge for the year	1	-	-	1
Impairment charge	8	-	4	12
Amounts written off in year	-	37	-	37
Amortisation at 31 March 2004	12	-	9	21
Net book value at 31 March 2004	**12**	**-**	**1**	**13**
Net book value at 31 March 2003	21	-	6	27

11. Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2003	454	10,421	237	781	11,893
Additions	9	329	188	94	620
Disposals	(110)	(25)	-	(93)	(228)
Reclassifications	-	209	(209)	-	-
Cost at 31 March 2004	353	10,934	216	782	12,285
Depreciation at 1 April 2003	227	3,209	-	469	3,905
Charge for the year	9	343	-	88	440
Impairment charge	10	-	-	3	13
Disposals	(63)	(24)	-	(89)	(176)
Depreciation at 31 March 2004	183	3,528	-	471	4,182
Net book value at 31 March 2004	**170**	**7,406**	**216**	**311**	**8,103**
Net book value at 31 March 2003	227	7,212	237	312	7,988

The net book value of land and buildings comprises:

	2004 £m	2003 £m
Freehold	**162**	193
Long leasehold (over 50 years)	**3**	4
Short leasehold (under 50 years)	**5**	30
	170	227

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

12. Fixed asset investments

	Group			Company
	Joint ventures Share of net assets £m	Other Investments £m	Total £m	Group Undertaking £m
Gross cost at 1 April 2003	2	8	10	619
Additions	-	-	-	21
Disposals	(2)	-	(2)	-
Gross cost at 31 March 2004	-	8	8	640
Provision at 1 April 2003	-	6	6	-
Amounts written off	-	-	-	4
Provision at 31 March 2004	-	6	6	4
Net book value at 31 March 2004	**-**	**2**	**2**	**636**
Net book value at 31 March 2003	2	2	4	619

During the year the Company purchased the entire issued share capital of Grain LNG Ltd. LNG assets held by the Group were transferred into this company.
The names of the principal Group undertakings are shown in note 25.
With the exception of investments in joint ventures, which are carried in the balance sheet at the Group's share of net assets, all the investments are carried at cost less any provision for impairment.

13. Stock

	Group	
	2004 £m	2003 £m
Raw materials and consumables	**23**	21
Work in progress	**19**	51
Fuel stocks	**11**	10
	53	82

14. Debtors

	Group		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Amounts falling due within one year:				
Trade debtors	**39**	57	**-**	-
Amounts owed by Group undertakings	**26**	-	**640**	396
Prepayments and accrued income	**229**	195	**-**	-
Other debtors	**94**	281	**6**	38
	388	533	**646**	434
Amounts falling due after more than one year:				
Deferred tax	**-**	-	**49**	15
Amounts owed by Group undertakings	**300**	-	**-**	-
Other debtors	**2**	-	**-**	-
	302	-	**49**	15
Total debtors	**690**	533	**695**	449

Other debtors include tax recoverable of £nil (2003: £97m)

15 Creditors (amounts falling due within one year)

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Borrowings (note 17)	**815**	742	**-**	-
Trade creditors and accruals	**540**	445	**8**	9
Amounts owed to fellow subsidiary undertakings	**744**	355	**256**	-
Amounts owed to parent undertaking	**557**	319	**557**	319
Corporation tax	**42**	-	**-**	-
Social security and other taxes	**172**	175	**-**	-
Other creditors	**251**	332	**2**	2
Deferred income	**222**	228	**-**	-
	3,343	2,596	**823**	330

Other creditors include interest payable of £139m (2003; £143m).

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

	Group		Company	
	2004	2003	**2004**	2003
	£m	£m	**£m**	£m
Borrowings (note 17)	**5,125**	5,552	**-**	-
Deferred income	**1,026**	981	**-**	-
Other creditors	**3**	-	**-**	-
	6,154	6,533	**-**	-

17. Borrowings

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

	Group	
	2004	2003
	£m	£m
Amounts falling due within one year:		
Bank loans and overdrafts	**100**	191
Commercial paper	**202**	-
Bonds	**494**	515
Other loans	**19**	36
	815	742
Amounts falling due after more than one year:		
Bank loans	**358**	413
Bonds	**4,747**	4,971
Other loans	**20**	168
	5,125	5,552
Total borrowings	**5,940**	6,294
Total borrowings are repayable as follows:		
In one year or less	**815**	742
In more than one year, but not more than two years	**257**	643
In more than two years, but not more than three years	**935**	199
In more than three years, but not more than four years	**293**	947
In more than four years, but not more than five years	**457**	236
In more than five years- other than by instalments	**3183**	3,527
	5,940	6,294

18. Financial instruments

The Group's treasury policy, described on pages 2 to 5 includes details of the nature, terms and credit risk associated with financial instruments with off-balance sheet risk.

The Group's counterparty exposure under foreign currency swaps and foreign exchange contracts was £146m (2003: £174m) and under interest rate swaps was £32m (2003: £86m).

The Group had no significant exposure to either individual counterparties or geographical groups of counterparties at 31 March 2004.

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

Currency and interest rate composition of financial liabilities

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

			Fixed rate liabilities		
At 31 March 2004	Total £m	Variable rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed years
Sterling					
Borrowings	**5,940**	**3,338**	**2,602**	**6.22**	**8.1**
Other financial liabilities	**3**	**3**	**-**	**-**	**-**
	5,943	**3,341**	**2,602**	**6.22**	**8.1**
At 31 March 2003					
Sterling					
Borrowings	6,294	3,178	3,116	6.16	7.1
Other financial liabilities	20	20	-	-	-
	6,314	3,198	3,116	6.16	7.1

Substantially all of the variable rate borrowings are subject to interest rates which fluctuate with LIBOR for the appropriate currency at differing premiums.

Currency and interest rate composition of financial assets

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

At 31 March 2004	Total £m	Non interest bearing £m	Variable rate £m
Sterling	**335**	**-**	**335**
US dollars	**4**	**-**	**4**
Other currencies	**2**	**-**	**2**
Current asset investments	**341**	**-**	**341**
At 31 March 2003			
Sterling	229	-	229
US dollar	2	-	2
Other currencies	2	-	2
Current asset investments	233	-	233

At 31 March 2004 and 31 March 2003, all financial assets are contracted to mature within one year of the balance sheet date.

Maturity of financial liabilities at 31 March

	2004 £m	2003 £m
In one year or less	**815**	746
In more than one year, but not more than two years	**260**	647
In more than two years, but not more than three years	**935**	203
In more than three years, but not more than four years	**293**	951
In more than four years, but not more than five years	**457**	240
In more than five years	**3,183**	3,527
	5,943	6,314

18. Financial instruments (continued)

Fair values of financial instruments at 31 March

	2004		2003	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Short-term debt	**(815)**	**(777)**	(742)	(745)
Long-term debt	**(5,067)**	**(5,719)**	(5,552)	(6,252)
Cash and investments	**341**	**340**	258	258
Financial instruments held to manage interest rate and currency profiles				
Interest rate swaps	**-**	**23**	-	77
Forward foreign currency contracts and cross-currency swaps	**(58)**	**90**	92	313

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

The notional principal amounts relating to financial instruments held to manage interest rate and currency profiles for interest rate swap and forward rate agreements, foreign currency contracts and cross-currency swaps, amounted to £6,595m (2003: £4,011m) and £3,028m (2003: £3,428m) respectively.

Gains and losses on hedges

	Unrecognised Gains £m	Unrecognised Losses £m	Unrecognised Net gain £m	Deferred Gains £m	Deferred Losses £m	Deferred Net loss £m
Gains/(losses) on hedges at 1 April 2003	364	(66)	298	34	(88)	(54)
(Gains)/losses arising in previous years recognised in the year	(65)	6	(59)	(7)	12	5
Gains/(losses) arising in previous years not recognised in the year	299	(60)	239	27	(76)	(49)
Gains/(losses) arising in the year	(35)	(33)	(68)	61	(4)	57
Gains/(losses) on hedges at 31 March 2004	264	(93)	171	88	(80)	8
Of which						
Gains/(losses) expected to be recognised:						
-within one year	3	(6)	(3)	10	(12)	(2)
-after one year	261	(87)	174	78	(68)	10

Borrowing facilities

At 31 March 2004, the Group had bilateral committed credit facilities of £1,333m (2003: £1,222m) all of which were undrawn, and an analysis of the maturity of these undrawn facilities is shown below:

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

Of the unused facilities £1,333m (2003: £1,222m) were being held as backup to commercial paper and similar borrowings. The remainder was available as additional backup to commercial paper and for other general corporate purposes.

19. Provisions for liabilities and charges

	Group					
	Pensions £m	Environmental £m	Deferred Taxation £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2003	56	244	1,257	156	55	1,768
Additions	142	28	(69)	87	8	196
Unwinding of discount	-	11	-	-	-	11
Utilised	(78)	(31)	-	(154)	-	(263)
At 31 March 2004	**120**	**252**	**1,188**	**89**	**63**	**1,712**

19. Provisions for liabilities and charges (continued)

	Company		
	Pensions £m	Other £m	Total provisions £m
At 1 April 2003	56	300	356
Additions	142	-	142
Unused amounts reversed	(78)	(300)	(378)
At 31 March 2004	**120**	**-**	**120**

The environmental provision represented the net present value of statutory decontamination costs of old gas manufacturing sites (discounted using a nominal rate of 5.25%). The anticipated timing of the cashflows for statutory decontamination cannot be predicted with certainty, but it is expected to be incurred over the period 2005 to 2057 with some 60% of the spend projected to be spent over the next 5 years. During the year ended 31 March 2004, a project to survey all old gas work contaminated sites was completed. With this new information, a re-evaluation of the provision was made which also took into account the impact of the recent changes to the regulations on waste disposal and resulted in an additional provision being made as an exceptional charge of £28 million in the profit and loss account – see note 3a.

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

The undiscounted amount of the provision at 31 March 2004 relating to UK gas site decontamination was £341m, being the undiscounted best estimate of the liability having regard to the uncertainties referred to above (excluding the impact of changes in discount rates). The Group believes that the best estimate of this liability lies in a range of between £260m and £420m.

At 31 March 2004, £42m of the total restructuring provision (2003: £50m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The expected payment dates for property restructuring costs remain uncertain. The remainder of the restructuring provision related to business reorganisation costs.

Other Group provisions included £54m (2003: £49m) of estimated liabilities in respect of past events incurred by the Group's insurance undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates were based on experience from previous years and there was, therefore, no identifiable payment date.

The Group deferred taxation provision comprised:

	2004 £m	2003 £m
Accelerated capital allowances	**1,244**	1,275
Other timing differences	**(56)**	(18)
	1,188	1,257

A deferred tax asset in respect of substantial capital losses had not been recognised because their future recovery was uncertain. The exact amount of these losses not recognised at 31 March 2004 was not yet quantified pending agreement of the amount with relevant tax authorities.

20. Share capital

Group and Company

	Authorised		Allotted, called up and fully paid	
	Millions	£m	Millions	£m
Ordinary shares of 10p each				
At 31 March 2004 and 31 March 2003	**5,000**	**500**	**3,613**	**361**

21. Reserves

	Group			Company	
	Share Premium account £m	Other reserves £m	Profit and loss account £m	Share Premium Account £m	Profit and loss account £m
At 1 April 2003	3	(5,718)	3,349	3	124
Exchange differences	-	-	(2)	-	-
Transfer to/(from) reserves for the year	-	-	1	-	(100)
At 31 March 2004	**3**	**(5,718)**	**3,348**	**3**	**24**

21. Reserves (continued)

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's profit after taxation was £390m (2003: £92m).

Other reserves are non-distributable reserves. They primarily represented the difference between the carrying value of Group undertakings, investments and their respective capital structures following the demerger from BG Group plc and the 1999 refinancing of £(5,745)m.

22. Reconciliation of movement in Equity Shareholders' Funds

	Group	
	2004	2003
	£m	£m
Profit/(loss) for the year	**491**	(6)
Dividends	**(490)**	(500)
	1	(506)
Issue of ordinary shares	**-**	3
Issue of shares under employee share schemes	**-**	(1)
Exchange differences	**(2)**	(2)
Unrealised gain on transfer of assets to a joint venture (net of tax)	**-**	6
Net decrease in equity shareholders' funds	**(1)**	(500)
Equity shareholders' funds at start of year	**(2,005)**	(1,505)
Equity shareholders' funds at end of year	**(2,006)**	(2,005)

23. Related party transactions

The Company is exempt from disclosing transactions with National Grid Transco Plc and other subsidiaries of that company by virtue of the fact that the voting rights of all these companies are held within the National Grid Transco Group.

Under FRS8 paragraph 3 (c), the Company is exempt from disclosing transactions with entities that are part of the Group qualifiying as related parties by virtue of the fact that the transactions are disclosed in the ultimate parent company's consolidated accounts. The entities which might otherwise have been disclosed in 2004 was EnMO and in 2003 was The Leasing Group.

24. Commitments and contingencies

a) Future capital expenditure

	Group	
	2004	2003
	£m	£m
Contracted for but not provided	**79**	149

b) Lease commitments

At 31 March 2004, the Group's operating lease commitments for the financial year ending 31 March 2005 amounted to £28m (2003: £44m) and are analysed by lease expiry date as follows:

	Land and Buildings		Other		Total	
	2004	2003	**2004**	2003	**2004**	2003
	£m	£m	**£m**	£m	**£m**	£m
Within one year	**-**	1	**3**	6	**3**	7
Between two and five years	**4**	2	**4**	9	**8**	11
After five years	**16**	18	**1**	8	**17**	26
	20	21	**8**	23	**28**	44