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LATTICE GROUP PLC

Annual Report and Accounts

31 March 2003

Registered number 3900804

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COMPANIES HOUSE 31/10/03

Directors' report

For the year ended 31 March 2003

Lattice Group plc ("the Company") directors present their report and the audited accounts for the year ended 31 March 2003.

Merger

On 21 October 2002 the merger of Lattice Group plc and National Grid Group plc ("the Merger") was completed. Shareholders received 0.375 shares in National Grid Group plc for every Lattice Group plc share held. National Grid Group plc was renamed National Grid Transco plc.

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

In 2002 the Group changed its accounting reference date from 31 December to 31 March. Consequently all comparative figures are for the 15 months ended 31 March 2002.

References in the Directors' report to "adjusted" refer to figures before goodwill amortisation and exceptional items.

Group turnover from continuing operations decreased to £3,150m from £4,035m and total adjusted operating profit was £922m, compared with £1,353m. The decrease reflects the longer accounting period in 2002.

Adjusted operating profit from UK gas distribution was £554m in 2003, compared with £911m in the 15 months ended 31 March 2002. A decrease of £363m arises from the longer accounting period in 2002.

Adjusted operating profit from UK gas transmission was £274m in 2003, compared with £308m in the 15 months ended 31 March 2002. £70m of this decrease arises from the longer accounting period in 2002, which has been partially offset by higher income from system capacity auctions.

Adjusted operating profit from other activities was £122m in 2003, compared with £237m in the 15 months ended 31 March 2002. This reduction arises primarily from reduced prices in the Group's metering business and the suspension of the spreading of pension surpluses with effect from 1 October 2002.

Net interest was £399m in 2003, compared with £447m in the 15 months ended 31 March 2002. This reflects the longer accounting period in 2002, offset by the suspension of recognising notional interest on pension surpluses with effect from 1 October 2002.

Profit on ordinary activities before tax is stated after net exceptional charges of £451m, comprising £381m of operating exceptionals and £70m of non-operating exceptionals. The operating exceptional charges relate to costs arising from the Merger; restructuring costs principally arising from business efficiency programmes; and an impairment charge relating to the Group's telecoms assets held by 186k. Non-operating exceptionals include a loss on sale of the Group's leasing business; loss on termination of 186k's business; and transaction costs of the Merger, partially offset by profits on sale of tangible fixed assets.

The tax charge for the year totalled £83m (15 months ended 31 March 2002 £173m). A reconciliation of the UK corporation tax rate to the effective tax rate of the Group is shown in note 9 to the accounts.

Interim dividends paid by the Company during the year amounted to £500m. No final dividend is proposed.

Directors

The following directors served throughout the year:-

Sir John Parker
Steve Lucas
John Wybrew

Additionally Christopher Hampson served as a director of the Company until his resignation on 15 July 2002 and Sir David Davies, Kenneth Harvey, Colin Matthews, Stephen Pettit, George Rose, Baroness Warwick and Nick Woollacott served as directors of the Company until their resignation on 21 October 2002.

On 1 June 2003 Sir John Parker resigned as a director of the Company and Edward Astle and Steve Holliday were appointed as directors.

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

The interests of directors in the shares of the Company and in the shares of National Grid Transco plc, (the ultimate parent undertaking of the Company) are as shown below. Interests shown as at 1 April 2002 are in shares and options over shares in the Company and as at 31 March 2003, interests are in shares and options over shares in National Grid Transco plc. Any holdings of interests in Lattice shares were converted into National Grid Transco shares at the rate of 0.375 National Grid Transco shares for each Lattice share, at 21 October 2002, the date of the Merger.

Directors beneficial interests

	Beneficial interests in ordinary shares		Lattice Long Term Incentive Scheme Notional allocation of shares			
	At 1 April 2002	At 31 March 2003	At 1 April 2002	Allocated	Converted to National Grid Transco shares on Merger	At 31 March 2003
Sir John Parker	12,244	17,429	-	-	-	-
Steve Lucas	62,592	23,789	553,945	1,309	555,254	208,219
John Wybrew	164,489	62,344	860,443	4,797	865,240	324,463

(a) The beneficial interests in shares in the Company include interests acquired pursuant to the Lattice Group All Employee Share Ownership Plan.
(b) Details of awards under the Lattice Group Long Term Incentive Scheme for Steve Lucas and John Wybrew are given in the report and accounts for National Grid Transco plc.

Directors interests in share options

	Beneficial holding at 1 April 2002 or on appointment	Lapsed	Granted	Exercised	Beneficial holding at 31 March 2003
Sir John Parker	-	-	-	-	-
Steve Lucas	-	-	57,104	-	57,104
John Wybrew	8,209	8,209	65,340	-	65,340

Interest in contracts

At no time during the period 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.

Directors' report continued

Sharesave Scheme

Under the Lattice Sharesave Scheme, options had been granted to eligible employees in March 2001 and January 2002 (with maturity dates of either 3 or 5 years from the date of grant in each case). Pursuant to the Scheme of Arrangement approved by the shareholders of the Company in relation to the merger of National Grid and Lattice in October 2002, the options over shares granted under the Lattice Sharesave Scheme were converted to options over shares in National Grid Transco plc. As at the date of this report there were options over some 25 million shares in National Grid Transco plc still outstanding and it is reported that no further options are expected to be granted under the terms the scheme.

Research and Development

Expenditure on research and development in the year ended 31 March 2003 was £9m (15 months ended 31 March 2002: £14m).

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 2003 for Transco plc, the principal operating company within the Group, was 28 days.

Charitable and other donations

During the year, charitable donations of £1m (15 months ended 31 March 2002: £2m) 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 2003, Transco had a US$1.25 billion Euro Commercial Paper Programme (unutilised); a US$2.5 billion US Commercial Paper Programme (unutilised); a US$0.5 Extendible Commercial Note Programme (unutilised) and a Euro Medium Term Note Programme of €7.0 billion (€2.3 billion unissued).

At 31 March 2003, Transco had £0.62 billion of short term (364 day) committed facilities (undrawn); £0.6 billion of long term committed facilities (undrawn) and £1.1 billion (£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. The Finance Committee, a committee of the National Grid Transco Board, 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.

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 National Grid Transco Board. 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 2003 are shown in note 19 to the accounts on page 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 2003 are shown in note 19 to the accounts on page 23.

The main risks arising from the Group's financing activities are set out below. The 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 National Grid Transco Board 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 National Grid Transco Board 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
Directors report continued

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. The Group 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. 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.

As at 31 March 2003, the potential change in the fair value of the aggregation of long-term debt and derivative instruments was £56 million (2002: £66 million) assuming a 10% change in the level of interest rates and exchange rates. The Group has no material exposure to changes in foreign currency rates.

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.

Transco is obliged to sell through a series of auctions, a pre-determined quantity of transmission system entry capacity for every day in the year. 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.

Interest rates

A proportion of the Group's borrowings is subject to interest rates that may fluctuate with changes to prevailing interest rates. Increases in these interest rates will result in increased costs for the Group. For information on the interest rate composition of financial liabilities see page 23.

Foreign currency exchange/foreign operations

The Group raises finance in a number of countries and in a number of currencies. These financing operations are subject to the risks normally associated with international businesses, including the need to translate foreign currency denominated liabilities and costs into the Group's reporting currency. Other risks of international operations include exchange controls and required compliance with foreign tax laws. For further information on the currency composition of financial liabilities see page 23.

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

During the year, the Company's auditors, PricewaterhouseCoopers, converted to a Limited Liability Partnership (LLP). PricewaterhouseCoopers therefore resigned on 31 March 2003 and the Board appointed PricewaterhouseCoopers LLP to fill the vacancy. Special notice having been given, a resolution for their appointment will be proposed at the Annual General *Meeting of the Company.*

On behalf of the Board

Helen Mahy

Helen Mahy
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 2003 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes, and have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

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 only 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.

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 as at 31 March 2003 and of the loss 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
31 October **2003**

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 7. Full adoption of the standard is required by the year ended 31 March 2006.

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 the undertakings had always been part of the Group and comparative periods are restated accordingly.

c) 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.

d) 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

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 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.

f) 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.

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 carried at cost less provision for deterioration and obsolescence.

i) 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.

j) 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

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.

o) Research and development

All research and development expenditure is written off as incurred except for laboratory buildings, equipment used for research and development and capitalised software. These are capitalised and depreciated in accordance with the depreciation policies set out above.

Group Profit and Loss Account

	Notes	12 months ended 31 March 2003 £m	15 months ended 31 March 2002 (restated) £m
Turnover, including share of joint ventures		**3,187**	4,132
Less: share of joint ventures' turnover – continuing operations		**-**	(11)
Group turnover – continuing operations		**3,150**	4,024
Group turnover – discontinued operations		**37**	97
Group turnover	2(a)	**3,187**	4,121
Operating costs	3	**(2,640)**	(3,118)
Operating profit of Group undertakings – continuing operations	2(b)	**747**	1,334
Operating loss of Group undertakings – discontinued operations	2(b)	**(200)**	(331)
		547	1,003
Share of joint ventures' operating loss – continuing operations	2(b)	**-**	(70)
Share of joint ventures' and associate's operating loss – discontinued operations	2(b)	**(2)**	-
Operating profit			
- Before exceptional items and goodwill amortisation	2(b)	**922**	1,353
- Exceptional items – continuing operations	4(a)	**(207)**	(163)
- Exceptional items – discontinued operations	4(a)	**(174)**	(250)
- Goodwill amortisation		**4**	(7)
Total operating profit	2(b)	**545**	933
Merger costs – continuing operations	4(b)	**(47)**	-
Profit on disposal of tangible fixed assets – continuing operations	4(b)	**45**	73
Gain on sale of shares by employee share plan – continuing operations	4(b)	**-**	50
Loss on sale or termination of operations – discontinued operations	4(b)	**(68)**	-
Net interest	8	**(399)**	(447)
Profit on ordinary activities before taxation		**76**	609
Taxation			
- Excluding exceptional items		**(164)**	(279)
- Exceptional items		**81**	106
	9	**(83)**	(173)
(Loss)/profit on ordinary activities after taxation		**(7)**	436
Minority interests		**1**	4
(Loss)/profit for the period		**(6)**	440
Dividends	10	**(500)**	(315)
(Loss)/profit transferred (from)/to profit and loss account reserve	22	**(506)**	125

Group Statement of Total Recognised Gains and Losses

	12 months ended 31 March 2003 £m	15 months ended 31 March 2002 (restated) £m
(Loss)/profit for the period	**(6)**	440
Exchange adjustments	**(2)**	-
Reduction in revaluation reserve on reclassification of investment properties	**-**	(50)
Unrealised gain on transfer of fixed assets to a joint venture (net of tax)	**6**	12
Total recognised gains and losses for the financial period	**(2)**	402
Prior year adjustments (note 1)	**(605)**	
Total recognised gains and losses	**(607)**	

Details of the restatement of the results for the 15 months ended 31 March 2002 are provided in note 1 to the accounts on page 11.

Balance Sheets at 31 March

	Notes	Group 2003 £m	Group 2002 (restated) £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets	11				
- Goodwill and other		**27**	31	-	-
- Negative goodwill		-	(37)	-	-
- Negative goodwill and other		**27**	(6)	-	-
Tangible assets	12	**7,988**	7,998	-	-
Investments in joint ventures					
- Share of gross assets		**2**	6	-	-
- Share of gross liabilities		-	(2)	-	-
- Share of net assets		**2**	4	-	-
Other investments		**2**	16	**619**	576
Total investments	13	**4**	20	**619**	576
		8,019	8,012	**619**	576
Current assets					
Stocks	14	**82**	77	-	-
Debtors	15	**533**	379	**449**	485
Current asset investments		**233**	234	**105**	80
Cash at bank and in hand		**25**	16	**1**	-
		873	706	**555**	565
Creditors (amounts falling due within one year)					
Borrowings	18	**(742)**	(598)	-	-
Other creditors		**(1,854)**	(1,338)	**(330)**	(231)
	16	**(2,596)**	(1,936)	**(330)**	(231)
Net current (liabilities)/assets		**(1,723)**	(1,230)	**225**	334
Total assets less current liabilities		**6,296**	6,782	**844**	910
Creditors (amounts falling due after more than one year)					
Borrowings	18	**(5,552)**	(5,712)	-	-
Other creditors		**(981)**	(951)	-	-
	17	**(6,533)**	(6,663)	-	-
Provisions for liabilities and charges	20	**(1,768)**	(1,628)	**(356)**	(25)
Net assets employed		**(2,005)**	(1,509)	**488**	885
Capital and reserves					
Called up share capital	21	**361**	361	**361**	353
Share premium account	22	**3**	-	**3**	-
Other reserves	22	**(5,718)**	(5,724)	-	-
Profit and loss account	22	**3,349**	3,858	**124**	532
Equity shareholders' funds		**(2,005)**	(1,505)	**488**	885
Minority interests					
Equity		-	(4)	-	-
		(2,005)	(1,509)	**488**	885

Commitments and contingencies are shown in note 25

The accounts on pages 7 to 27 inclusive were approved by the Board of Directors on 31 October 2003 and were signed on its behalf by:

Director

Notes to the Accounts

1. Changes to accounting policies, merger accounting and basis of segmental analysis

Changes to accounting policies

To facilitate consistency of reporting within the National Grid Transco Group, Lattice has adopted revised accounting policies in respect of pension costs, deferred tax and the classification of operating costs, certain assets and certain liabilities. Prior year comparative information has been restated accordingly.

The interest credit related to the amortisation of pension scheme surplus, which was previously included within operating costs, is now included within net interest. Deferred tax, which was previously provided on a discounted basis, is now provided on an undiscounted basis. The effect of these two changes on the prior year is set out below.

	15 months ended 31 Mar 2002 £m
Profit and loss account	
Total operating profit:	
Reclassification of pensions interest	(34)
Net Interest;	
Reclassification of pensions interest	34
Taxation:	
Accounting for deferred tax on undiscounted basis	(22)
Decrease in profit for the period	(22)

At 31 March	2002 £m
Balance Sheet	
Provisions for liabilities and charges:	
Accounting for deferred tax on an undiscounted basis	(605)

The change in treatment of the interest credit related to the amortisation of pension scheme surplus has reduced operating profit and net interest payable for the 12 months to 31 March 2003 both by £8m.

The classifications used for the disclosure of financial information within the following headings have been changed: operating costs (note 3); payroll costs (note 5(a)); tangible fixed assets (note 12); debtors (note 15) and creditors (note 16).

Merger accounting

The acquisition from the Company's parent, National Grid Transco, of Gridcom Ltd has been accounted for under merger accounting principles, as if Gridcom had always been part of the Group. Comparative periods have been restated accordingly and profit for the period in the 15 months ended 31 March 2002 has been reduced by £2m.

Segmental analysis

The Group has adopted a revised segmental analysis which is considered to better reflect the new regulatory price control that commenced on 1 April 2002 and the new Group's managerial structure. Results, which were previously reported under a single segment, are now reported under three segments: UK gas distribution, UK gas transmission; and Other activities, which includes Transco's regulated metering business. Prior year comparatives have been restated on a comparable basis.

Continuing operations – 'Other activities' primarily relates to gas metering activities. 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.

In the 2001/02 segmental analysis of turnover and operating profit, the repayment of £267m of surplus entry capacity auction revenue, that was rebated to shippers through distribution tariffs, has been reported within the UK gas transmission segment.

2. Segmental analysis

a) Turnover

	12 months ended 31 March 2003			15 months ended 31 March 2002		
	Total sales £m	**Sales between businesses £m**	**Sales to third parties £m**	Total sales £m	Sales Between businesses £m	Sales to third parties £m
Turnover, including share of joint ventures						
- continuing operations	**3,447**	**297**	**3,150**	4,237	202	4,035
- discontinued operations	**56**	**19**	**37**	144	47	97
Less: share of joint ventures' turnover						
- continuing operations	**-**	**-**	**-**	(11)	-	(11)
Group turnover	**3,503**	**316**	**3,187**	4,370	249	4,121
Continuing operations						
UK gas distribution	**2,089**	**47**	**2,042**	2,714	-	2,714
UK gas transmission	**567**	**-**	**567**	665	-	665
Other activities	**791**	**250**	**541**	858	202	656
	3,447	**297**	**3,150**	4,237	202	4,035
Discontinued operations	**56**	**19**	**37**	133	47	86
Group turnover	**3,503**	***316***	**3,187**	4,370	249	4,121

Approximately 47% of the Group's turnover for the year ended 31 March 2003 amounting to approximately £1.5bn derives from a single customer, the Centrica Group. The majority of this turnover is in the UK gas distribution segment with lesser amounts in other activities and the UK gas transmission segments.

b) Operating profit

	Before exceptional items and goodwill amortisation		After exceptional items and goodwill amortisation	
	12 months ended 31 March 2003 £m	15 months ended 31 March 2002 (restated) £m	**12 months ended 31 March 2003 £m**	15 months ended 31 March 2002 (restated) £m
Group undertakings – continuing operations				
UK gas distribution	**554**	911	**443**	867
UK gas transmission	**274**	308	**255**	255
Other activities	**122**	237	**49**	212
	950	1,456	**747**	1,334
Discontinued operations	**(26)**	(81)	**(200)**	(331)
Group undertakings	**924**	1,375	**547**	1,003
Joint ventures – Other activities – continuing operations	**-**	(22)	**-**	(70)
- Other activities – discontinued operations	**(2)**	-	**(2)**	-
Total	**922**	1,353	**545**	933

2. Segmental analysis (continued)

c) Total and net assets

At 31 March	Total assets **2003** **£m**	Total assets 2002 £m	Net assets **2003** **£m**	Net assets 2002 (restated) £m
Group undertakings – continuing operations				
UK gas distribution	**4,998**	4,736	**3,480**	3,394
UK gas transmission	**1,957**	1,907	**1,638**	1,578
Other activities	**1,501**	1,419	**821**	639
	8,456	8,062	**5,939**	5,611
Discontinued operations	**9**	320	**(3)**	190
Group undertakings	**8,465**	8,382	**5,936**	5,801
Joint ventures – Other activities –continuing operations	**2**	-	**2**	-
- Other activities -discontinued operations	**-**	4	**-**	4
Unallocated	**425**	332	**(7,943)**	(7,314)
Total	**8,892**	8,718	**(2,005)**	(1,509)

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 **12 months ended 31 March 2003** **£m**	Capital expenditure 15 months ended 31 March 2002 £m	Depreciation and amortisation **12 months ended 31 March 2003** **£m**	Depreciation and amortisation 15 months ended 31 March 2002 £m
Group undertakings – continuing operations				
UK gas distribution	**380**	524	**185**	221
UK gas transmission	**182**	269	**68**	86
Other activities	**118**	215	**147**	173
	680	1,008	**400**	480
Discontinued operations	**95**	490	**26**	60
Group undertakings	**775**	1,498	**426**	540

Capital expenditure comprises additions to tangible and intangible fixed assets (excluding goodwill) amounting to £774m (2002: £1,491m) and £1m (2002: £7m) respectively.

3. Operating costs

	Continuing operations		Discontinued operations		Total	
	12 months ended 31 March 2003	15 months ended 31 March 2002 (restated)	**12 months ended 31 March 2003**	15 months ended 31 March 2002	**12 months ended 31 March 2003**	15 months ended 31 March 2002 (restated)
	£m	£m	**£m**	£m	**£m**	£m
Total operating costs	**2,403**	2,700	**256**	465	**2,659**	3,165
Charged from:						
- continuing operations	**-**	-	**-**	(1)	**-**	(1)
- discontinued operations	**(19)**	(46)	**-**	-	**(19)**	(46)
External operating costs	**2,384**	2,654	**256**	464	**2,640**	3,118
Depreciation	**400**	472	**26**	59	**426**	531
Payroll costs	**534**	664	**14**	44	**548**	708
Purchases of gas	**108**	151	**-**	-	**108**	151
Rates	**233**	284	**-**	2	**233**	286
Exceptional operating items	**207**	115	**174**	250	**381**	365
Other non-exceptional operating charges	**902**	968	**42**	109	**944**	1,077
	2,384	2,654	**256**	464	**2,640**	3,118
Operating costs include:						
Research and development costs					9	14
Operating lease rentals						
- Land and buildings					17	4
Amortisation of goodwill (i)					(4)	7
Other amortisation					3	2
Auditors' remuneration (ii):						
Statutory audit services					0.7	1.8
Regulatory reporting					0.3	0.2
Further audit, related services (iii)					0.9	0.8
Tax advisory services					-	0.1
Other non-audit services (iv)					1.4	4.3

(i) Includes the amortisation of negative goodwill of £4m (2002: £nil)

(ii) Included within further audit related services are £2m of fees relating to the Merger which have been included within non-operating exceptional items;

(iii) For the year ended 31 March 2003, other non-audit services include £1.4m (2002: £nil) in relation to services provided by the consulting business unit of PricewaterhouseCoopers which was sold to IBM United Kingdom Limited on 30 September 2002.

4. Exceptional items

a) Operating

	12 months ended 31 March 2003 £m	15 months ended 31 March 2002 £m
Continuing operations		
Restructuring costs (i)	**127**	65
Merger costs (ii)	**80**	-
Impairment of assets (iii)	**-**	50
Share of exceptional operating items of joint venture (iv)	**-**	48
	207	163
Discontinued operations		
Restructuring costs (i)	**6**	-
Impairment of business (v)	**168**	250
	174	250
Total operating exceptional items	**381**	413

(i) Relates to costs incurred in business reorganisations (2003: £89m after tax; 2002: £51m after tax).
(ii) Represents employee and property costs associated with the Merger (£70m after tax).
(iii) The impairment charge for 2002 relates to a review of the carrying value of LNG storage assets, which resulted in a charge to operating profit amounting to £50m (£35m after tax). In the LNG review, future cash flows were determined based on a five-year business plan projected out to 20 years and discounted at a pre-tax rate of 6.25%.
(iv) Share of exceptional operating items of a joint venture in 2002 represents the Group's share of the write-off of an investment and the write-down of goodwill in a joint venture prior to it becoming a wholly owned subsidiary of the Group (£48m after tax). The write-down of goodwill followed an impairment review which applied a discount rate of 15%. The review used growth rates over a plan period covering nine years. The assumptions of the plan were consistent with management views of the market and the joint venture's performance therein.
(v) 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 (2003: £143m after tax; 2002: £175m after tax).

b) Non-operating

	12 months ended 31 March 2003 £m	15 months ended 31 March 2002 £m
Continuing operations		
Merger costs (vi)	**47**	-
Profit on disposal of tangible fixed assets (vii)	**(45)**	(73)
Gain on sale of shares by an employee share plan (viii)	**-**	(50)
	2	(123)
Discontinued operations		
Loss on sale or termination of operations (ix)	**68**	-
	68	-
Total non-operating exceptional items	**70**	(123)

(vi) The after tax transaction cost of the Merger was £41m.
(vii) The after tax profit on disposal of tangible fixed assets was £47m (2002: £75m).
(viii) The after tax gain on sale of shares by an employee share plan was £nil (2002: £50m).
(ix) 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.

5. Payroll costs and employees

	12 months ended 31 March 2003 £m	15 months ended 31 March 2002 (restated) £m
a) Payroll costs		
Wages and salaries	**504**	671
Social security costs	**41**	55
Other pension costs	**78**	71
	623	797
Less: Amounts capitalised	**(15)**	(56)
Payroll costs included in replacement and research and development expenditure	**(60)**	(33)
	548	708

b) Number of employees	31 March 2003 Number	12 months ended 31 March 2003 Average Number	15 months ended 31 March 2002 Average Number
Continuing operations	**14,956**	**15,722**	15,967
Discontinued operations	**21**	**407**	727
	14,977	**16,129**	16,694

The vast majority of employees in continuing operations are employed in the gas industry in the UK.

6. Directors' emoluments

The total emoluments of the directors of the Company for the year ended 31 March 2003 were as follows:

	12 months ended 31 March 2003 *£000*	15 months ended 31 March 2002 *£000*
Salaries and benefits	**1,364**	2,149
Performance related bonus	**340**	502
	1,704	2,651

The aggregate emoluments for the highest paid director were £434,284 (15 months ended 31 March 2002: £601,517).

The amount paid in compensation for loss of office was £507,691 (15 months ended 31 March 2002: £nil),

A number of the directors were also directors and employees of National Grid Transco plc or a subsidiary undertaking of that company and are paid by these companies. The amounts disclosed above include amounts recharged by National Grid Transco plc or a subsidiary undertaking of National Grid Transco plc for these Directors.

The amount of accrued pension for the highest paid director was £105,000 (31 March 2002: £133,800).

No director exercised any options in respect of shares in National Grid Transco plc during the year (15 months ended 31 March 2002: none).

Retirement benefits at 31 March 2003 are accruing in respect of two directors under a defined benefit scheme.

7. 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 self-administered and funded to cover pension liabilities in respect of service up to the balance sheet date. 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 2001. The projected unit method was used and the principal actuarial assumptions adopted were that the annual rate of inflation and pensions increases would be 2.3%; that future real increases in pensionable earnings would be 1.9%; that the annual real rate of return on existing investments would be 2.9%; and that the real annual rate of return on future contributions would be 3.7%. Excluding assets and liabilities attributable to BG Group

7. Pensions and post-retirement benefits (continued)

members who left the scheme on 4 July 2001, the aggregate market value of the scheme's assets was £11,963m and the value of the assets represented approximately 104% of the actuarial value of benefits due to members calculated on the basis of pensionable earnings and service at 31 March 2001 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 2001 showed that based on long-term financial assumptions the contribution rate required to meet the future benefit accrual was 26.6% of pensionable earnings (23.6% employers and 3% employees) though employers' contributions could have been maintained at the level of 3% until March 2004. Employers' contributions were, however, increased from 3% to 8.5% with effect from 1 January 2002. This contribution rate will be reviewed when the next independent actuarial valuation is carried out, which will be at 31 March 2003.

Pension cost and provisions for liabilities and charges

The pension cost charged to operating profit for the year ended 31 March 2003 was £78m (15 months ended 31 March 2002: £71m). This represents defined contribution scheme costs of £1m (2002: £nil), and defined benefit regular pension costs of £96m (2002: £125m) less a variation from the regular pension cost totalling £19m (2002: £54m). In addition, net interest includes a credit of £8m (2002: £34m) in respect of the notional interest element of the variation from the regular pension cost.

As a result of the deterioration in world stock markets, if formal actuarial valuations of the UK pension funds were carried out, this would in all likelihood reveal deficits. The continuing recognition of a surplus in these circumstances is incompatible with this position. Consequently, the Group has suspended the recognition of any further pension surplus amortisation with effect from 1 October 2002. As a result of this action, operating profit and net interest charge are reduced and increased by £19m and £10m respectively compared with the ongoing recognition of such a surplus.

Included within provisions for liabilities and charges at 31 March 2003 is a pension provision of £56m (2002: £25m) – see note 20.

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.

	2003	2002
Rate of increase in salaries (i)	**3.5**	4.75
Rate of increase in pensions in payment and deferred pensions	**2.6**	2.75
Discount rate for liabilities	**5.4**	5.8
Rate of increase in Retail Price Index or equivalent	**2.5**	2.75

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

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 2003	**Value at 31 March 2003**	Long-term Rate of return Expected at 31 March 2002	Value at 31 March 2002
	%	**£m**	%	£m
Equities	8.5	**4,007**	7.5	6,613
Bonds	4.6	**5,150**	5.4	3,825
Property	6.5	**816**	6.5	769
Other	4.0	**158**	4.4	481
Total market value of assets		**10,131**		11,688
Present value of scheme liabilities		**(11,869)**		(11,330)
(Deficit)/surplus in the scheme		**(1,738)**		358
Related deferred tax asset/(liability)		**521**		(108)
Net (liability)/asset		**(1,217)**		250

The net liability/asset includes net pension liabilities relating to an unfunded scheme of £12m (2002: £11m).

An increase of 0.1% in the discount rate would decrease the present value of liabilities for the scheme by around £186m and decrease the liability net of deferred tax by £130m and vice versa.

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

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:

Liabilities

	2003 **£m**	2002 £m
Net liabilities excluding net SSAP 24 liabilities	**(1,939)**	(888)
Net FRS 17 liabilities	**(1,217)**	250
Net liabilities including net FRS 17 liabilities	**(3,156)**	(638)

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

The pension and other post-retirement asset/(deficit) has moved during the year ended 31 March 2003 as set out below:

	£m
At 1 April 2002	358
Current service cost	(121)
Net loss on settlements or curtailments	(101)
Contributions	132
Other financial income	108
Actuarial losses	(2,114)
At 31 March 2003	(1,738)

If FRS 17 had been implemented for the year ended 31 March 2003, 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.

	£m
Operating charge	
Current service cost	121
Net loss on settlements or curtailments	101
Total charge to operating profit	222
Other financial (income)/costs	
Expected return on scheme assets	(757)
Interest on scheme liabilities	649
Impact on financial income	*(108)*
Net profit and loss charge before taxation	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 £13m and would compare to the current UK GAAP charge in respect of pensions and other post-retirement benefits amounting to £70m. The pre-exceptional profit and loss account charge (pre-tax) would therefore decrease by £57m.

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

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

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

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

8. Net interest

	12 months ended 31 March 2003 £m	15 months ended 31 March 2002 (restated) £m
Bank loans and overdrafts	**14**	4
Other	**403**	477
Interest payable and similar charges	**417**	481
Unwinding of discount on provisions	**13**	21
Interest capitalised	**-**	(13)
Interest payable and similar charges net of interest capitalised	**430**	489
Interest receivable and similar income	**(31)**	(43)
	399	446
Joint ventures	**-**	1
	399	447

Interest payable and similar charges includes £12m (2002: £2m) relating to the loss incurred on the repurchase of debt during the year.

9. Taxation

	2003 £m	2002 (restated) £m
United Kingdom		
- Corporation tax at 30%	**(4)**	198
- Deferred tax; timing differences	**87**	(25)
	83	173
Comprising:		
Taxation – excluding exceptional items	**164**	279
Taxation – exceptional items	**(81)**	(106)
Tax charge	**83**	173

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

	% of profit before taxation	
	2003	2002 (restated)
UK corporation tax rate	**30**	30
Effect on tax charge of:		
Origination and reversal of timing differences	**(5)**	(8)
Permanent differences	**1**	1
Current tax charge	**26**	23
Deferred taxation: origination and reversal of timing differences	**5**	8
Effective tax rate before exceptional items	**31**	31
Exceptional items	**78**	(3)
Effective tax rate after exceptional items	**109**	28

Factors that may affect future tax charges
The Group has brought forward non-trading debits of £75m (2002: £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 (2002: £56m). At present, it is not envisaged that any tax will become payable in the foreseeable future.

10. Dividends

	12 months ended 31 March 2003 £m	15 months ended 31 March 2002 £m
Ordinary dividends		
- Interim	**500**	126
- Second interim	**-**	189
	500	315

11. Intangible fixed assets

Group

	Goodwill £m	Negative Goodwill £m	Other £m	Total £m
Cost at 1 April 2002	29	(37)	11	3
Exchange adjustments	(1)	-	(1)	(2)
Additions	-	-	1	1
Disposals	(4)	-	-	(4)
Cost at 31 March 2003	24	(37)	11	(2)
Amortisation at 1 April 2002	7	-	2	9
Charge/(credit) for the year	-	(4)	3	(1)
Release relating to asset impairment (note 12)	-	(33)	-	(33)
Disposals	(4)	-	-	(4)
Amortisation at 31 March 2003	3	(37)	5	(29)
Net book value at 31 March 2003	**21**	-	**6**	**27**
Net book value at 31 March 2002	22	(37)	9	(6)

12. *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 2002	453	10,165	247	1,052	11,917
Acquisition of Group undertaking	71	-	-	-	71
Additions	54	231	307	182	774
Disposal of group undertakings	(7)	(1)	-	(246)	(254)
Other disposals	(112)	(299)	-	(204)	(615)
Reclassifications	(5)	325	(317)	(3)	-
Cost at 31 March 2003	454	10,421	237	781	11,893
Depreciation at 1 April 2002	192	3,172	-	555	3,919
Charge for the year	9	305	-	112	426
Impairment charge	108	19	-	41	168
Disposal of group undertakings	(1)	-	-	(65)	(66)
Other disposals	(81)	(287)	-	(174)	(542)
Depreciation at 31 March 2003	227	3,209	-	469	3,905
Net book value at 31 March 2003	**227**	**7,212**	**237**	**312**	**7,988**
Net book value at 31 March 2002	261	6,993	247	497	7,998

The classification of tangible fixed assets has been revised in line with that of National Grid Transco and opening balances have been restated accordingly.

The net book value of land and buildings comprises:

	2003 £m	2002 £m
Freehold	193	205
Long leasehold (over 50 years)	4	4
Short leasehold (under 50 years)	30	52
	227	261

Included within the impairment write-down of £168m, is a write-down of tangible fixed assets amounting to £33m, which has been matched by an equivalent release of related negative goodwill – see note 11.

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 £32m (2002: £30m) and £956m (2002: £916m) respectively.

13. Fixed asset investments

	Group				Company
	Joint ventures	Associated undertakings	Other Investments	Total	Group Undertaking
	Share of net assets £m	Share of net assets £m	£m	£m	£m
At 1 April 2002	4	3	17	24	576
Additions	4	-	-	4	51
Share of losses for the year	(2)	-	-	(2)	-
Disposals	-	-	(6)	(6)	(8)
Write off	(4)	(3)	(3)	(10)	-
At 31 March 2003	2	-	8	10	619
Provision at 1 April 2002	-	3	1	4	-
Charge for the year	-	-	5	5	-
Write off	-	(3)	-	(3)	-
Provision at 31 March 2003	-	-	6	6	-
Net book value at 31 March 2003	**2**	**-**	**2**	**4**	**619**
Net book value at 31 March 2002	4	-	16	20	576

The names of the principal Group undertakings in note 26.

14. Stock

	Group	
	2003	2002 (restated)
	£m	£m
Raw materials and consumables	**21**	34
Work in progress	**51**	33
Fuel stocks	**10**	10
	82	77

15. Debtors

	Group		Company	
	2003	2002 (restated)	**2003**	2002
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Trade debtors	**57**	55	**-**	-
Amounts owed by Group undertakings	**-**	-	**396**	463
Prepayments and accrued income	**195**	174	**-**	-
Other debtors	**281**	146	**38**	2
	533	375	**434**	465
Amounts falling due after more than one year:				
Deferred tax	**-**	-	**15**	20
Other debtors	**-**	4	**-**	-
	-	4	**15**	20
Total debtors	**533**	379	**449**	485

Other debtors include tax recoverable of £97m (2002: £6m)

16 Creditors (amounts falling due within one year)

	Group		Company	
	2003	2002 (restated)	**2003**	2002
	£m	£m	**£m**	£m
Borrowings (note 18)	**742**	598	**-**	-
Trade creditors and accruals	**445**	373	**9**	20
Amounts owed to fellow subsidiary undertakings	**355**	8	**-**	-
Amounts owed to parent undertaking	**319**	-	**319**	-
Social security and other taxes	**175**	170	**-**	20
Proposed dividend	**-**	189	**-**	189
Other creditors	**332**	335	**2**	2
Deferred income	**228**	263	**-**	-
	2,596	1,936	**330**	231

Other creditors include interest payable of £143m (2002 £150m).

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

	Group		Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Borrowings (note 18)	**5,552**	5,712	**-**	-
Deferred income	**981**	951	**-**	-
	6,533	6,663	**-**	-

18. Borrowings

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

	Group	
	2003	2002
	£m	£m
Amounts falling due within one year:		
Bank loans and overdrafts	**191**	143
Commercial paper	**-**	8
Bonds	**515**	443
Other loans	**36**	4
	742	598
Amounts falling due after more than one year:		
Bank loans	**413**	73
Bonds	**4,971**	5,584
Other loans	**168**	55
	5,552	5,712
Total borrowings	**6,294**	6,310

Total borrowings are repayable as follows:		
In one year or less	**742**	598
In more than one year, but not more than two years	**643**	492
In more than two years, but not more than three years	**199**	517
In more than three years, but not more than four years	**947**	68
In more than four years, but not more than five years	**236**	*1,000*
In more than five years- other than by instalments	**3,527**	3,635
	6,294	6,310

The notional amount at maturity of the Group's debt portfolio is £7,224m (2002: £7,429m).

19. Financial instruments

The Group's treasury policy, described on pages 3 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 £174m (2002: £297m) and under interest rate swaps was £86m (2002: £37m).

The Group had no significant exposure to either individual counterparties or geographical groups of counterparties at 31 March 2003.

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.

19. *Financial instruments (continued)*

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.

At 31 March 2003	Total £m	Variable rate £m	Fixed rate £m	Fixed rate liabilities: Weighted average interest rate %	Fixed rate liabilities: Weighted average period for which rate is fixed years
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**
At 31 March 2002					
Sterling					
Borrowings	6,310	3,499	2,811	6.08	8.8
	6,310	3,499	2,811	6.08	8.8

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 2003	Total *£m*	Non interest bearing *£m*	Variable rate *£m*	Fixed rate *£m*	Fixed rate assets: Weighted average interest rate %	Fixed rate assets: Weighted average period for which rate is fixed *years*
Sterling	**229**	-	**229**	-	-	-
US dollars	**2**	-	**2**	-	-	-
Other currencies	**2**	-	**2**	-	-	-
Current asset investments	**233**	-	**233**	-	-	-
At 31 March 2002		-				
Sterling	232	-	90	142	-	-
US dollar	2	-	-	2	-	-
Current asset investments	234	-	90	144	-	-

Maturity of financial liabilities at 31 March

	2003 £m	2002 £m
In one year or less	**746**	598
In more than one year, but not more than two years	**647**	492
In more than two years, but not more than three years	**203**	517
In more than three years, but not more than four years	**951**	68
In more than four years, but not more than five years	**240**	1,000
In more than five years	**3,527**	3,635
	6,314	6,310

Maturity of financial assets at 31 March	**2003 £m**	2002 £m
In one year or less	**233**	234
	233	234

19. Financial instruments (continued)

Fair values of financial instruments at 31 March

	2003		2002	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Short-term debt	**(742)**	**(745)**	(598)	(598)
Long-term debt	**(5,552)**	**(6,252)**	(5,712)	(6,410)
Cash and investments	**258**	**258**	250	250
Financial instruments held to manage interest rate and currency profiles				
Interest rate swaps	**-**	**77**	-	(31)
Forward foreign currency contracts and cross-currency swaps	**92**	**313**	175	248

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 £4,011m (2002: £6,694m) and £3,428m (2002: £3,744m) 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 2002	*164*	*(60)*	*104*	*29*	*(89)*	*(60)*
(Gains)/losses arising in previous years recognised in the year	(38)	32	(6)	(7)	14	7
Gains/(losses) arising in previous years not recognised in the year	126	(28)	98	22	(75)	(53)
Gains/(losses) arising in the year	238	(38)	200	12	(13)	(1)
Gains/(losses) on hedges at 31 March 2003	364	(66)	298	34	(88)	(54)
Of which						
Gains/(losses) expected to be recognised:						
-within one year	2	(1)	1	6	(12)	(6)
-after one year	362	(65)	297	28	(76)	(48)

Borrowing facilities

At 31 March 2003, the Group had bilateral committed credit facilities of £1,222m (2002: £1,641m) all of which were undrawn, and an analysis of the maturity of these undrawn facilities is shown below:

	2003 £m	2002 £m
Expiring:		
In one years or less	**622**	863
In more than one year, but not more than two years	**-**	24
In more than two years	**600**	754
	1,222	1,641

Of the unused facilities £1,222m (2002: £1,247m) 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.

20. Provisions for liabilities and charges

	Group					
	Pensions £m	Environmental £m	Deferred taxation £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2002 (restated)	25	266	1,184	92	61	1,628
Additions	31	-	87	186	-	304
Unwinding of discount	-	13	-	-	-	13
Utilised	-	(35)	-	(122)	(6)	(163)
Disposal of Group undertaking	-	-	(14)	-	-	(14)
At 31 March 2003	**56**	**244**	**1,257**	**156**	**55**	**1,768**

20. Provisions for liabilities and charges (continued)

	Company		
	Pensions £m	Other £m	Total provisions £m
At 1 April 2002 (restated)	25	-	25
Additions	31	300	331
At 31 March 2003	**56**	**300**	**356**

The environmental provision represented the net present value of statutory decontamination costs of old gas manufacturing sites (discounted at 4.00%). The anticipated timing of the cashflows for statutory decontamination cannot be predicted with certainty. The undiscounted amount of the provision was £283m.

At 31 March 2003, £50m of the total restructuring provision (2002: £40m) consisted primarily 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.

Other provisions included £49m (2002: £59m) 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.

Deferred taxation comprised:

	2003 £m	2002 £m
Accelerated capital allowances	**1,275**	1,232
Other timing differences	**(18)**	(48)
	1,257	1,184

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 2003 was not yet quantified pending agreement of the amount with relevant tax authorities.

21. Share capital

Group

The accounts are prepared under merger accounting principles. Consequently, Group share capital at 31 March 2002 has been increased from £353m to £361m to reflect the issue of shares on transfer of Gridcom Ltd from National Grid Transco.

Company

	Authorised		Allotted, called up and fully paid	
	Millions	£m	Millions	£m
At 31 March 2002	5,000	500	3,528	353
Issued during the year	-	-	85	8
At 31 March 2003	**5,000**	**500**	**3,613**	**361**

The £1 special rights non-voting redeemable preference share in issue at 1 April 2002 was cancelled at the time of the Merger.

22. 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 2002	-	(5,724)	4,463	-	532
Restatement of opening balance, to account for deferred tax on an undiscounted basis (note 1)	-	-	(605)	-	-
At 1 April 2002 (restated)	-	(5,724)	3,858	-	532
Exchange differences	-	-	(2)		
Ordinary shares issued during the year	3	-	-	3	-
Issue of shares under employee share schemes	-	-	(1)	-	-
Unrealised gain on transfer of assets to a joint venture (net of tax)	-	6	-	-	-
Transfer from reserves for the year	-	-	(506)	-	(408)
At 31 March 2003	**3**	**(5,718)**	**3,349**	**3**	**124**

22. Reserves (continued)

During the year ended 31 March 2003, the application of merger accounting principles to the merger of Gridcom gave rise to a difference of £5m. It was accounted for as a merger difference and included within other reserves. The difference represents the excess of share capital issued by Lattice over the nominal share capital in issue by Gridcom at the date of the merger. In accordance with merger accounting principles, the shares issued in connection with the merger were treated as if issued throughout they year ended 31 March 2003 and comparative periods

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 £92m (2002: £406m).

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.

23. Reconciliation of movement in Equity Shareholders' Funds

	Group	
	12 months ended 31 March 2003	15 months ended 31 March 2002 (restated)
	£m	£m
(Loss)/profit for the period	**(6)**	440
Dividends	**(500)**	(315)
	(506)	125
Issue of ordinary shares	**3**	-
Issue of shares under employee share schemes	**(1)**	-
Exchange differences	**(2)**	-
Reduction in revaluation reserve on reclassification of investment properties	**-**	(50)
Unrealised gain on transfer of assets to a joint venture (net of tax)	**6**	12
Net (dercrease)/increase in equity shareholders' funds	**(500)**	87
Equity shareholders' funds at start of period (restated)	**(1,505)**	(1,592)
Equity shareholders' funds at end of period	**(2,005)**	(1,505)

The 2002 figures have been restated to account for deferred tax on an undiscounted basis (see note 1).

24. Related party transactions

The Leasing Group plc, a former Group undertaking, was sold on 12 October 2002. As a result, its transactions with the Group from the date of disposal were deemed to be related party transactions and are included below:

	2003 £m
Purchaes:	
Services received	**3**
Finance lease rentals	**1**
Tangible fixed assets	**10**

Amounts owed to and from The Leasing Group plc amounted to £73m and £79m respectively at 31 March 2003. In respect of prior years The Leasing Group plc was included within the Group accounts as a Group undertaking.

25. Commitments and contingencies

a) *Future capital expenditure*

	Group	
	2003 £m	2002 £m
Contracted for but not provided	**149**	189

b) Lease commitments

At 31 March 2003, the Group's operating lease commitments for the financial year ending 31 March 2004 amounted to £44m (2002: £6m) and are analysed by lease expiry date as follows:

	Land and Buildings		Other		Total	
	2003 £m	2002 £m	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Within one year	**1**	-	**6**	-	**7**	-
Between two and five years	**2**	1	**9**	-	**11**	1
After five years	**18**	5	**8**	-	**26**	5
	21	6	**23**	-	**44**	6

25. Commitments and contingencies (continued)

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

	2003	2002
	£m	£m
In one year or less	**44**	6
In more than one year, but not more than two years	**22**	6
In more than two years, but not more than three years	**16**	6
In more than three years, but not more than four years	**12**	6
In more than four years, but not more than five years	**12**	6
In more than five years	**90**	68
	196	98

c) Third party contingencies
The Group has outstanding BG Group related commitments and contingencies amounting to £13m (2002: £441m), arising from the restructuring of BG Group in 1999. BG Group has been working with the Group since early 1999 to remove all the relevant guarantees or to find an alternative guarantor which is not part of the Group. For any guarantees that have not been replaced, the Group will continue to provide such guarantees on an arm's length basis until they are removed or replaced. During the year ended 31 March 2003, Transco, a Group undertaking, was released from financial guarantees given as part of the Centrica demerger in 1997 as to the performance by Centrica of certain long-term interruptible gas supply contracts.

d) Other commitments and contingencies
The value of other Group commitments and contingencies at 31 March 2003 amounted to £151m (2002: £171m), including guarantees of £86m (2002: £102m).

Details of the guarantees entered into by the Group at 31 March 2003 are shown below:
i) Performance guarantees of £24m relating to certain property obligations of a Group undertaking;
ii) £50m guarantee by the Company of the obligations of a Group undertaking to pay liabilities under a meter operating contract for a duration expected to be 20-30 years;
iii)Other guarantees amounting to £12m arising in the normal course of business and entered into on normal commercial terms.

e) Parent Company loan guarantees on behalf of Group undertakings
The Company has guaranteed the repayment of the principal sum (£300m), any associated premium and interest on a loan due from Lattice Telecom Finance (No. 1) Ltd, a group undertaking of the Company. The Company has provided in full for obligations under this guarantee during the year ended 31 March 2003. The guarantee is for a period of five years.

f) Larkhall prosecution
As a result of a fatal accident at Larkhall, Lanarkshire in December 1999 in which four people died, Transco, a group undertaking, has been served with proceedings alleging breach of section 3 of the Health and Safety at Work Act 1974. On indictment, the maximum penalty under section 3 is an unlimited fine.

26. Principal Group undertakings
The principal Group undertakings included in the Group accounts at 31 March 2003 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in Great Britain.

	Principal activity
Transco plc (i)	Gas transportation
British Transco international Finance B. V. (Incorporated in The Netherlands) (ii)	Financing
SecondSite Property Portfolio Limited (i)	Property
Lattice Group Holdings Ltd (ii)	Holding company
Transco Holdings plc (ii)	Holding company

(i) Issued ordinary share capital held by Group undertakings
(ii) Issued ordinary share capital held by Lattice Group plc

27. Holding company
With effect from 21 October 2002, the date of the merger with National Grid Group plc, the Company's ultimate parent company is National Grid Transco plc (formerly National Grid Group plc), which is incorporated in Great Britain. Copies of National Grid Transco plc's accounts can be obtained from: The Assistant Secretary, National Grid Transco plc, 1-3 The Strand, London,WC2N 5EH.