Group Profit and Loss Account for the years ended 31 March

	Notes	2003 £m	2002 £m	2001 £m
Turnover, including share of joint ventures		**9,566**	7,821	7,103
Less: share of joint ventures' turnover – continuing operations		**(99)**	(141)	(114)
Less: share of joint ventures' and associate's turnover – discontinued operations		**(67)**	(126)	(98)
Group turnover – continuing operations		**9,363**	7,471	6,845
Group turnover – discontinued operations		**37**	83	46
Group turnover	2(a)	**9,400**	7,554	6,891
Operating costs	3	**(7,788)**	(6,494)	(5,179)
Operating profit of Group undertakings – continuing operations	2(b)	**1,806**	1,556	1,751
Operating loss of Group undertakings – discontinued operations	2(b)	**(194)**	(496)	(39)
		1,612	1,060	1,712
Share of joint ventures' operating profit/(loss) – continuing operations	2(b)	**15**	(29)	26
Share of joint ventures' and associate's operating profit/(loss) – discontinued operations	2(b)	**109**	(672)	(131)
		124	(701)	(105)
Operating profit				
– Before exceptional items and goodwill amortisation	2(b)	**2,185**	1,783	1,780
– Exceptional items – continuing operations	4(a)	**(308)**	(285)	(88)
– Exceptional items – discontinued operations	4(a)	**(39)**	(1,042)	–
– Goodwill amortisation		**(102)**	(97)	(85)
Total operating profit	2(b)	**1,736**	359	1,607
Merger costs – continuing operations	4(b)	**(79)**	–	–
Profit on disposal of tangible fixed assets – continuing operations	4(b)	**48**	94	24
Gain on sale of shares by employee share plan – continuing operations	4(b)	**–**	31	19
Loss on sale or termination of operations – discontinued operations	4(b)	**(68)**	–	–
Profit on disposal of investments – discontinued operations	4(b)	**–**	31	263
Net interest				
– Excluding exceptional items	8	**(939)**	(657)	(635)
– Exceptional items	4(c),8	**(31)**	(142)	–
	8	**(970)**	(799)	(635)
Profit/(loss) on ordinary activities before taxation		**667**	(284)	1,278
Taxation				
– Excluding exceptional items	9	**(373)**	(251)	(390)
– Exceptional items	4(d),9	**128**	166	243
	9	**(245)**	(85)	(147)
Profit/(loss) on ordinary activities after taxation		**422**	(369)	1,131
Minority interests				
– Excluding exceptional items		**(3)**	(2)	(7)
– Exceptional items	4(e)	**(28)**	50	–
		(31)	48	(7)
Profit/(loss) for the year		**391**	(321)	1,124
Dividends	10	**(530)**	(580)	(469)
(Loss)/profit transferred (from)/to profit and loss account reserve	24	**(139)**	(901)	655
Earnings/(loss) per ordinary share				
– Basic, including exceptional items and goodwill amortisation	11	**12.7p**	(11.3)p	40.5p
– Adjusted basic, excluding exceptional items and goodwill amortisation	11	**28.3p**	30.8p	26.9p
– Diluted, including exceptional items and goodwill amortisation	11	**12.8p**	(10.1)p	39.4p
– Adjusted diluted, excluding exceptional items and goodwill amortisation	11	**27.9p**	30.2p	26.4p

Group Statement of Total Recognised Gains and Losses for the years ended 31 March

	2003 £m	2002 £m	2001 £m
Profit/(loss) for the year	**391**	(321)	1,124
Exchange adjustments	**(322)**	(58)	(15)
Tax on exchange adjustments	**12**	21	32
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**	7	19
Total recognised gains and losses	**87**	(401)	1,160

Balance Sheets at 31 March

	Notes	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Intangible assets	12	**1,893**	2,107	**–**	–
Tangible assets	13	**16,847**	17,210	**–**	–
Investments in joint ventures					
– Share of gross assets		**542**	882	**–**	–
– Share of gross liabilities		**(498)**	(678)	**–**	–
– Share of net assets		**44**	204	**–**	–
– Loans to joint ventures		**–**	87	**–**	–
– Impairment of investments in joint ventures		**–**	(230)	**–**	–
Investments in joint ventures (net of impairment)		**44**	61	**–**	–
Other investments		**209**	257	**2,225**	2,080
Total investments	14	**253**	318	**2,225**	2,080
		18,993	19,635	**2,225**	2,080
Current assets					
Stocks	15	**126**	125	**–**	–
Debtors (amounts falling due within one year)	16	**1,811**	1,889	**2,664**	2,029
Debtors (amounts falling due after more than one year)	16	**3,395**	4,058	**–**	–
Assets held for exchange	17	**17**	17	**–**	–
Investment held for resale	28	**–**	15	**–**	–
Current asset investments		**482**	354	**123**	–
Cash at bank and in hand		**119**	110	**1**	4
		5,950	6,568	**2,788**	2,033
Creditors (amounts falling due within one year)					
Borrowings		**(2,246)**	(2,050)	**(557)**	(604)
Other creditors		**(2,800)**	(2,838)	**(1,764)**	(1,513)
	18	**(5,046)**	(4,888)	**(2,321)**	(2,117)
Net current assets/(liabilities)		**904**	1,680	**467**	(84)
Total assets less current liabilities		**19,897**	21,315	**2,692**	1,996
Creditors (amounts falling due after more than one year)					
Convertible bonds		**(502)**	(491)	**–**	–
Other borrowings		**(11,731)**	(12,222)	**–**	–
Other creditors		**(2,022)**	(2,155)	**–**	–
	19	**(14,255)**	(14,868)	**–**	–
Provisions for liabilities and charges					
Joint ventures					
– Share of gross assets		**–**	296	**–**	–
– Share of gross liabilities		**–**	(333)	**–**	–
Share of net liabilities		**–**	(37)	**–**	–
Other provisions		**(4,406)**	(4,626)	**–**	(77)
	22	**(4,406)**	(4,663)	**–**	(77)
Net assets employed		**1,236**	1,784	**2,692**	1,919
Capital and reserves					
Called up share capital	23	**308**	310	**308**	178
Share premium account	24	**1,247**	1,243	**1,247**	1,243
Other reserves	24	**(5,131)**	(5,139)	**2**	–
Profit and loss account	24	**4,728**	5,276	**1,135**	498
Equity shareholders' funds		**1,152**	1,690	**2,692**	1,919
Minority interests					
Equity		**15**	15	**–**	–
Non-equity	25	**69**	79	**–**	–
		84	94	**–**	–
		1,236	1,784	**2,692**	1,919

Commitments and contingencies are shown in note 31.

The accounts on pages 57 to 106 inclusive were approved by the Board of Directors on 20 May 2003 and were signed on its behalf by:

Sir John Parker Chairman

Steve Lucas Group Finance Director

Group Cash Flow Statement for the years ended 31 March

	Notes	2003 £m	2002 £m	2001 £m
Net cash inflow from operating activities before exceptional items	27(a)	**3,154**	2,394	2,482
Expenditure relating to exceptional items		**(328)**	(103)	(129)
Net cash inflow from operating activities		**2,826**	2,291	2,353
Dividends from joint ventures		**11**	13	20
Returns on investments and servicing of finance				
Interest received and similar income		**56**	88	112
Interest paid and similar charges		**(957)**	(784)	(799)
Dividends paid to minority interests		**(11)**	(9)	(4)
Net cash outflow for returns on investments and servicing of finance		**(912)**	(705)	(691)
Taxation				
Corporate tax paid		**(112)**	(212)	(350)
Capital expenditure and financial investment				
Net payments to acquire intangible and tangible fixed assets		**(1,518)**	(1,734)	(1,343)
Receipts from disposals of tangible fixed assets		**111**	191	137
Receipts from disposals of shares by an employee share plan		**–**	50	28
Other		**–**	10	(1)
Net cash outflow for capital expenditure and financial investment		**(1,407)**	(1,483)	(1,179)
Acquisitions and disposals				
Payments to acquire investments		**(165)**	(56)	(342)
Receipts from disposals of investments	27(b)	**328**	37	196
Acquisition of Group undertaking	27(c)	**–**	(950)	(441)
Net cash inflow/(outflow) for acquisitions and disposals		**163**	(969)	(587)
Equity dividends paid		**(571)**	(478)	(336)
Net cash outflow before the management of liquid resources and financing		**(2)**	(1,543)	(770)
Management of liquid resources				
(Increase)/decrease in short-term deposits		**(138)**	347	696
Net cash (outflow)/inflow from the management of liquid resources	27(d),(e)	**(138)**	347	696
Financing				
Issue of ordinary shares		**4**	12	7
Payments to repurchase ordinary shares		**(97)**	–	–
Increase/(decrease) in borrowings	27(d),(e)	**267**	1,206	(208)
Funding movement on Demerger of Lattice from BG Group plc		**–**	–	260
Net cash inflow from financing		**174**	1,218	59
Movement in cash and overdrafts	27(d),(e)	**34**	22	(15)

Included in the cash flows above are cash flows for discontinued operations as set out below:

	2003 £m	2002 £m	2001 £m
Net cash (outflow)/inflow from operating activities	**(71)**	52	(4)
Net cash (outflow)/inflow for returns on investments and servicing of finance	**(14)**	(3)	5
Net cash (outflow)/inflow for taxation	**(1)**	13	(2)
Net cash outflow for capital expenditure and financial investment	**(123)**	(342)	(145)
Net cash outflow for acquisitions and disposals	**(3)**	(12)	(9)
Net cash outflow before the management of liquid resources and financing	**(212)**	(292)	(155)

Liquid resources comprise money market deposits, equities and gilts.

Notes to the Accounts

1. Merger of National Grid and Lattice

The business combination of National Grid and Lattice meets the merger accounting criteria under UK GAAP and the Companies Act 1985 and therefore the transaction has been accounted for as a merger. The consolidated accounts have been presented as if National Grid and Lattice had always comprised the Group. The combined accounts have been adjusted for the issue on Merger of 1,323m shares with a nominal value of £132m and for the elimination of balances between the former groups.

An adjustment to other reserves of £221m has been made for all years presented (note 24). The adjustment represents the difference between the £132m nominal value of the shares issued on Merger by National Grid and the called up share capital of Lattice at 21 October 2002.

Further details relating to the Merger are shown in note 29.

2. Segmental analysis

The basis for the preparation of segmental information is set out on page 29.

The US electricity distribution segment shown below includes the recovery of stranded costs.

Continuing operations – 'Other activities' primarily relates to gas metering activities; EnMo which provides the on-the-day commodity market for gas trading in Great Britain; 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 and the US.

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 electricity and gas transmission segment.

a) Turnover

	Total sales 2003 £m	**Sales between businesses 2003 £m**	**Sales to third parties 2003 £m**	Total sales 2002 £m	Sales between businesses 2002 £m	Sales to third parties 2002 £m	Total sales 2001 £m	Sales between businesses 2001 £m	Sales to third parties 2001 £m
Turnover, including share of joint ventures									
– continuing operations	**9,793**	**331**	**9,462**	7,857	245	7,612	7,044	85	6,959
– discontinued operations	**123**	**19**	**104**	246	37	209	185	41	144
Less: share of joint ventures' turnover									
– continuing operations	**(99)**	**–**	**(99)**	(141)	–	(141)	(114)	–	(114)
– discontinued operations	**(67)**	**–**	**(67)**	(126)	–	(126)	(98)	–	(98)
Group turnover	**9,750**	**350**	**9,400**	7,836	282	7,554	7,017	126	6,891
Continuing operations									
UK gas distribution	**2,089**	**47**	**2,042**	2,013	–	2,013	2,070	–	2,070
UK electricity and gas transmission	**1,948**	**8**	**1,940**	1,850	21	1,829	1,948	5	1,943
US electricity transmission	**407**	**5**	**402**	278	1	277	243	3	240
US electricity distribution	**3,446**	**1**	**3,445**	2,282	5	2,277	1,854	1	1,853
US gas	**446**	**–**	**446**	104	–	104	–	–	–
Other activities	**1,358**	**270**	**1,088**	1,189	218	971	815	76	739
	9,694	**331**	**9,363**	7,716	245	7,471	6,930	85	6,845
Discontinued operations	**56**	**19**	**37**	120	37	83	87	41	46
Group turnover	**9,750**	**350**	**9,400**	7,836	282	7,554	7,017	126	6,891
Europe			**5,096**			4,865			4,786
North America			**4,304**			2,689			2,105
			9,400			7,554			6,891

The analysis of turnover by geographical area is on the basis of origin. Turnover on a destination basis would not be materially different.

Approximately 16% 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 electricity and gas transmission segment.

2. Segmental analysis (continued)
b) Operating profit

	Operating profit					
	Before exceptional items and goodwill amortisation			After exceptional items and goodwill amortisation		
	2003 £m	2002 £m	2001 £m	**2003 £m**	2002 £m	2001 £m
Group undertakings – continuing operations						
UK gas distribution	**554**	548	663	**443**	504	631
UK electricity and gas transmission	**846**	781	756	**800**	688	750
US electricity transmission	**128**	87	72	**103**	64	60
US electricity distribution	**513**	266	215	**413**	149	118
US gas	**58**	17	–	**49**	8	–
Other activities	**117**	179	203	**(2)**	143	192
	2,216	1,878	1,909	**1,806**	1,556	1,751
Discontinued operations	**(26)**	(60)	(39)	**(194)**	(496)	(39)
Operating profit of Group undertakings	**2,190**	1,818	1,870	**1,612**	1,060	1,712
Joint ventures and associate – continuing operations						
Electricity activities	**15**	36	35	**15**	36	35
Other activities	**–**	(17)	(9)	**–**	(65)	(9)
	15	19	26	**15**	(29)	26
Discontinued operations	**(20)**	(54)	(116)	**109**	(672)	(131)
Operating (loss)/profit of joint ventures and associate	**(5)**	(35)	(90)	**124**	(701)	(105)
Total operating profit	**2,185**	1,783	1,780	**1,736**	359	1,607
Europe	**1,481**	1,420	1,588	**1,051**	440	1,530
North America	**704**	377	286	**549**	224	171
Latin America	**(7)**	(19)	(98)	**128**	(310)	(98)
Rest of the World	**7**	5	4	**8**	5	4
	2,185	1,783	1,780	**1,736**	359	1,607

c) Total and net assets

	Total assets		Net assets	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Group undertakings – continuing operations				
UK gas distribution	**4,998**	4,736	**3,480**	3,394
UK electricity and gas transmission	**5,951**	5,694	**5,200**	4,871
US electricity transmission	**1,736**	1,914	**1,656**	1,805
US electricity distribution	**8,507**	9,986	**6,405**	7,292
US gas	**930**	972	**778**	845
Other activities	**2,075**	1,776	**1,154**	1,240
	24,197	25,078	**18,673**	19,447
Discontinued operations	**9**	320	**(3)**	190
Group undertakings	**24,206**	25,398	**18,670**	19,637
Joint ventures and associate – continuing operations				
Electricity activities	**42**	57	**42**	20
Other activities	**2**	4	**2**	4
Joint ventures and associate	**44**	61	**44**	24
Unallocated	**693**	744	**(17,478)**	(17,877)
	24,943	26,203	**1,236**	1,784
Europe	**12,974**	12,370	**9,774**	9,183
North America	**11,209**	13,057	**8,873**	10,484
Latin America	**–**	–	**–**	(37)
Rest of the World	**67**	32	**67**	31
Unallocated	**693**	744	**(17,478)**	(17,877)
	24,943	26,203	**1,236**	1,784

The analysis of total assets and net assets by business segment includes all attributable goodwill and excludes inter-business balances. Unallocated total assets include investment in own shares, assets held for exchange, current asset investments, cash and taxation related regulatory assets. Unallocated net liabilities include net borrowings, taxation, interest, dividends, investment in own shares, assets held for exchange and taxation related regulatory assets.

2. Segmental analysis (continued)

d) Other segmental information

	Capital expenditure			Depreciation and amortisation		
	2003 £m	2002 £m	2001 £m	**2003 £m**	2002 £m	2001 £m
Group undertakings – continuing operations						
UK gas distribution	**380**	455	360	**185**	176	179
UK electricity and gas transmission	**573**	620	592	**261**	252	225
US electricity transmission	**49**	38	30	**71**	46	39
US electricity distribution	**209**	141	94	**359**	192	170
US gas	**40**	3	–	**34**	6	–
Other activities	**174**	199	228	**152**	153	123
	1,425	1,456	1,304	**1,062**	825	736
Discontinued operations	**95**	391	200	**26**	51	33
Group undertakings	**1,520**	1,847	1,504	**1,088**	876	769
Europe	**1,172**	1,638	1,347	**613**	619	552
North America	**298**	203	154	**475**	257	217
Rest of the World	**50**	6	3	**–**	–	–
	1,520	1,847	1,504	**1,088**	876	769

Capital expenditure comprises additions to tangible and intangible fixed assets (excluding goodwill) amounting to £1,519m (2002: £1,840m; 2001: £1,504m) and £1m (2002: £7m; 2001: £nil) respectively.

3. Operating costs

	Continuing operations			Discontinued operations			Total		
	2003 £m	2002 £m	2001 £m	**2003 £m**	2002 £m	2001 £m	**2003 £m**	2002 £m	2001 £m
Total operating costs	**7,557**	5,916	5,094	**250**	616	126	**7,807**	6,532	5,220
Charged from:									
– continuing operations	**–**	–	–	**–**	(1)	–	**–**	(1)	–
– discontinued operations	**(19)**	(37)	(41)	**–**	–	–	**(19)**	(37)	(41)
External operating costs	**7,538**	5,879	5,053	**250**	615	126	**7,788**	6,494	5,179
Depreciation	**825**	700	630	**26**	50	35	**851**	750	665
Payroll costs (note 5(a))	**1,093**	907	723	**14**	39	13	**1,107**	946	736
Purchases of electricity	**1,901**	1,410	1,248	**–**	–	–	**1,901**	1,410	1,248
Purchases of gas	**357**	171	98	**–**	–	–	**357**	171	98
Rates and property taxes	**537**	422	389	**–**	2	1	**537**	424	390
Electricity transmission services scheme direct costs	**252**	204	220	**–**	–	–	**252**	204	220
EnMo direct costs	**530**	395	201	**–**	–	–	**530**	395	201
Replacement expenditure	**405**	368	276	**–**	–	–	**405**	368	276
Exceptional operating items	**308**	237	88	**168**	436	–	**476**	673	88
Other non-exceptional operating charges	**1,330**	1,065	1,180	**42**	88	77	**1,372**	1,153	1,257
	7,538	5,879	5,053	**250**	615	126	**7,788**	6,494	5,179

	2003 £m	2002 £m	2001 £m
Operating costs include:			
Research and development costs	**18**	16	26
Operating lease rentals			
– Plant and machinery	**16**	8	4
– Other	**52**	22	27
Amortisation of goodwill (i)	**102**	85	70
Amortisation of regulatory assets	**132**	35	33
Other amortisation	**3**	6	1
Auditors' remuneration (ii)			
Statutory audit services			
– Annual audit (audit fee for the Company was £8,500 (2002: £8,000))	**3**	4	3
– Regulatory reporting	**1**	1	1
Further audit related services (iii)	**3**	2	–
Tax advisory services	**3**	1	1
Other non-audit services (iv)	**3**	6	4

(i) Includes the amortisation of negative goodwill of £4m (2002 and 2001: £nil) and excludes the amortisation of goodwill of £nil (2002: £12m; 2001: £15m) relating to joint ventures and associate.

(ii) In addition to the fees included above, fees of: a) £nil (2002: £2m; 2001: £2m) incurred in respect of acquisitions have been capitalised; and b) £nil (2002: £nil; 2001: £1m) incurred in respect of disposals have been charged at arriving at profit on disposal on investments.

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

(iv) For the year ended 31 March 2003, other non-audit services include £2m (2002: £6m; 2001: £3m) 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

	2003 £m	2002 £m	2001 £m
Continuing operations			
Restructuring costs (i)	**203**	187	45
Merger costs (ii)	**105**	–	–
Impairment of assets (iii)	**–**	50	–
Demerger costs (iv)	**–**	–	43
Share of exceptional operating items of joint venture (v)	**–**	48	–
	308	285	88
Discontinued operations			
Restructuring costs (i)	**6**	–	–
Impairment of business (vi)	**168**	250	–
Impairment of investments in joint ventures and associate (vii)	**(135)**	792	–
	39	1,042	–
Total operating exceptional items	**347**	1,327	88

(i) Relates to costs incurred in business reorganisations in the UK and US businesses (2003: £165m after tax; 2002: £130m after tax; 2001: £39m after tax).
(ii) Represents employee and property costs associated with the Merger (£76m 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) 2001 results include £43m (£36m after tax) of costs that arose as a direct result of the Demerger of Lattice from BG Group plc.
(v) 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.
(vi) 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; 2001: £nil after tax).
(vii) The 2003 credits relate to Intelig and other telecom joint ventures (£155m after tax). The exceptional credits arising in 2003 substantially represent the reversal of the Group's share of retained losses incurred by these joint ventures during the period from 1 April 2002 to the date of disposal or the date that equity accounting ceased. £129m of the pre-tax exceptional credits have been reflected in 'Share of joint ventures' and associate's operating profit/(loss) – discontinued operations'. The 2002 exceptional charge of £792m (£775m after tax) relates to the write-down of the Group's investment in its joint ventures and associate. This charge comprised a write-down of the carrying value of the investments of £606m (£589m after tax) to their estimated recoverable amounts, and the recognition of related liabilities of £186m (£186m after tax).

b) Non-operating

	2003 £m	2002 £m	2001 £m
Continuing operations			
Merger costs (viii)	**79**	–	–
Profit on disposal of tangible fixed assets (ix)	**(48)**	(94)	(24)
Gain on sale of shares by an employee share plan (x)	**–**	(31)	(19)
	31	(125)	(43)
Discontinued operations			
Loss on sale or termination of operations (xi)	**68**	–	–
Profit on disposal of investments (xii)	**–**	(31)	(263)
	68	(31)	(263)
Total non-operating exceptional items	**99**	(156)	(306)

(viii) The after tax transaction cost of the Merger was £71m.
(ix) The after tax profit on disposal of tangible fixed assets was £50m (2002: £96m; 2001: £24m).
(x) The after tax gain on sale of shares by an employee share plan was £nil (2002: £31m; 2001: £19m).
(xi) 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.
(xii) The after tax profit on disposal of investments was £nil (2002: £31m; 2001: £263m).

4. Exceptional items (continued)

c) Financing costs

The exceptional net interest cost of £31m (2002: £142m; 2001: £nil) (2003: £31m after tax; 2002: £142m after tax; 2001: £nil after tax) relates to the Group's share of foreign exchange losses incurred on foreign currency borrowings by joint ventures amounting to £98m (2002: £142m; 2001: £nil), partially offset by the Group's share of a gain on net monetary liabilities of £67m (2002 and 2001: £nil). The gain on the net monetary liabilities relates to Citelec, a joint venture operating in Argentina, and reflects the net gain arising on net monetary liabilities that are financing the operation in a hyper-inflationary economy.

d) Tax credit

Included in the 2001 net exceptional tax credit of £243m is a tax credit of £230m (note 9), which represents the reversal of a 2000 exceptional tax charge relating to an exceptional profit on the disposal of investments, arising from the realisation of capital losses for tax purposes as a result of Group restructurings.

e) Minority interests

The 2003 exceptional minority interest charge of £28m relates to the Group's share of the minority interest in the after taxation exceptional items of Citelec, a joint venture, and primarily reflects the minority interest's share of the gain on net monetary liabilities referred to above (note 4(c)).

The 2002 exceptional minority interest credit of £50m relates to the Group's share of the minority interest in the after taxation exceptional items of Citelec, a joint venture, and primarily relates to foreign exchange losses incurred on foreign currency borrowings.

5. Payroll costs and employees

	2003 £m	2002 £m	2001 £m
a) Payroll costs			
Wages and salaries	**1,124**	940	836
Social security costs	**84**	73	67
Other pension costs/(credits)	**117**	90	(17)
	1,325	1,103	886
Less: Amounts capitalised	**(158)**	(129)	(116)
Payroll costs included in replacement and research and development expenditure	**(60)**	(28)	(14)
Payroll costs included in exceptional items	**–**	–	(20)
	1,107	946	736

	31 March 2003 Number	**Average 2003 Number**	Average 2002 Number	Average 2001 Number
b) Number of employees				
Europe	**17,333**	**18,399**	19,227	19,015
North America	**9,939**	**10,120**	5,094	3,839
Rest of the World	**15**	**14**	25	25
Continuing operations	**27,287**	**28,533**	24,346	22,879
Discontinued operations	**21**	**407**	768	318
	27,308	**28,940**	25,114	23,197

The vast majority of employees in:
– Europe are either directly or indirectly employed in the transmission and distribution of gas and the transmission of electricity in the UK.
– North America are either directly or indirectly employed in the transmission and distribution of electricity and the distribution of gas in the US.

6. Directors' emoluments

Details of Directors' emoluments are contained in the auditable part of the Directors' Remuneration Report on pages 48 to 52.

7. Pensions and post-retirement benefits

UK post-retirement schemes

Substantially all of the Group's UK employees are members of either the Electricity Supply Pension Scheme or the Lattice Group Pension Scheme.

Electricity Supply Pension Scheme

The Electricity Supply Pension Scheme provides final salary defined benefits on a funded basis. The assets of the scheme are held in a separate trustee administered fund. The scheme is divided into sections, one of which is the Group's section. 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 Group's section of the scheme was carried out by Bacon & Woodrow, Consulting Actuaries (now Hewitt, Bacon and Woodrow), at 31 March 2001.

The projected unit method was used for the last valuation and the principal actuarial assumptions adopted were that the real annual rates of return on investments held in respect of pre-retirement members would average 4.5% and on investments held in respect of post-retirement members would average 3.5%; that the annual rate of inflation would average 2.3%; that the real annual increase in salary would average 1.0%; and that pensions would increase at a real annual rate of 0.2%. The market value of the assets relating to the Group's section of the scheme at 31 March 2001 was £1,336m and the actuarial value of the assets represented approximately 118.3% of the actuarial value of the benefits that had accrued to members measured on a past service basis. The agreed employers' and employees' contribution rates for the forthcoming year are 12% and 6% respectively. These contribution rates will be reviewed when the next independent actuarial valuation is carried out, which will be at 31 March 2004.

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 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.

US post-retirement schemes

Pension

Substantially all of the Group's US employees are members of defined benefit plans. The assets of the plans are held in separate trustee administered funds. The latest full actuarial valuations were carried out by Hewitt Associates LLC at 31 March 2002 and were used to calculate the pension cost for the year ended 31 March 2003. These valuations have been updated using assumptions and market values at 31 March 2003. The projected unit method was used for the updated valuations and the principal actuarial assumptions adopted were that the real annual rate of return on investments would average 5.5% for New York schemes and 4.5% for other US schemes; that real annual increases in salary would average 0.25% for New York schemes and 0.5% for other US schemes; that inflation would average 3.0% for New York schemes and 3.5% for other US schemes; and that nominal increases in pensions would be nil. The market value of the assets relating to the Group's US defined benefit plans at 31 March 2003 totalled US$1,607m and the actuarial value of the assets represented 67% of the actuarial value of the benefits that had accrued to members, after allowing for future salary increases. There are no formally agreed contribution rates for the US plans.

Healthcare and life insurance – retirees

In the US, the Group provides healthcare and life insurance to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in some cases retirees must contribute to the cost of their coverage. The latest full actuarial valuations were carried out at 31 March 2002. These valuations have been updated using assumptions and market values at 31 March 2003. The principal assumptions adopted were a discount rate of 6.25% and that medical costs would increase by 10.0% per annum, decreasing to 5.0% by 2008 and remain at this rate thereafter.

The cost of providing healthcare and life insurance to retired US employees for the year ended 31 March 2003 amounted to £37m (2002: £9m; 2001: £7m).

Pension cost, prepayment and provisions for liabilities and charges

The pension cost charged to operating profit for the year ended 31 March 2003 was £117m (2002: £90m; 2001: £17m credit). This represents defined contribution scheme costs of £1m (2002 and 2001: £nil), and defined benefit regular pension costs of £136m (2002: £127m; 2001: £88m) less a variation from the regular pension cost totalling £20m (2002: £37m; 2001: £105m), of which £2m (2002: £2m; 2001: £2m) relates to the partial release of a pension provision. In addition, net interest includes a credit of £3m (2002: £30m; 2001: £63m) 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 UK 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 £21m and £10m respectively compared with the ongoing recognition of such a surplus.

Included in debtors at 31 March 2003 is a pension prepayment of £37m (2002: £35m).

Included within provisions for liabilities and charges at 31 March 2003 is a pension and other post-retirement benefits provision of £551m (2002: £681m) – see note 22.

7. Pensions and post-retirement benefits (continued)

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		
	UK Pensions	**US Pensions**	**US Other post-retirement benefits**	UK Pensions	US Pension	US Other post-retirement benefits
Rate of increase in salaries[i]	**3.5**	**4.0**	**–**	4.7	4.0	–
Rate of increase in pensions in payment and deferred pensions	**2.6**	**–**	**–**	2.8	–	–
Discount rate for liabilities	**5.4**	**6.3**	**6.3**	5.8	7.5	7.5
Rate of increase in Retail Price Index or equivalent	**2.5**	**3.2**	**–**	2.8	3.5	–
Initial healthcare cost trend rate	**–**	**–**	**10.0**	–	–	10.0
Ultimate healthcare cost trend rate	**–**	**–**	**5.0**	–	–	5.0

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

An analysis of the assets held in the various pension and other post-retirement benefit schemes and the expected rates of return at 31 March 2003 and 31 March 2002 were as follows:

	UK – Pensions		**US – Pensions**		**US – Other post-retirement benefits**	
	Long-term rate of return expected at 31 March 2003 %	**Value at 31 March 2003 £m**	**Long-term rate of return expected at 31 March 2003 %**	**Value at 31 March 2003 £m**	**Long-term rate of return expected at 31 March 2003 %**	**Value at 31 March 2003 £m**
Equities	**8.5**	**4,590**	**11.0**	**586**	**11.0**	**158**
Bonds	**4.6**	**5,436**	**5.1**	**395**	**5.0**	**157**
Property	**6.5**	**901**	**9.0**	**8**	**–**	**–**
Other	**4.0**	**171**	**6.8**	**28**	**3.5**	**58**
Total market value of assets		**11,098**		**1,017**		**373**
Present value of scheme liabilities		**(13,269)**		**(1,617)**		**(1,003)**
Deficit in schemes		**(2,171)**		**(600)**		**(630)**
Related deferred tax asset		**651**		**238**		**250**
Net liability		**(1,520)**		**(362)**		**(380)**

	UK – Pensions		US – Pensions		US – Other post-retirement benefits	
	Long-term rate of return expected at 31 March 2002 %	Value at 31 March 2002 £m	Long-term rate of return expected at 31 March 2002 %	Value at 31 March 2002 £m	Long-term rate of return expected at 31 March 2002 %	Value at 31 March 2002 £m
Equities	7.5	7,462	10.2	902	10.3	236
Bonds	5.4	4,115	6.4	476	5.9	160
Property	6.5	852	8.0	11	–	–
Other	4.4	520	5.6	48	5.9	1
Total market value of assets		12,949		1,437		397
Present value of scheme liabilities		(12,642)		(1,623)		(884)
Surplus/(deficit) in the schemes		307		(186)		(487)
Related deferred tax (liability)/asset		(93)		74		193
Net asset/(liability)		214		(112)		(294)

The net liability/asset for UK – Pensions comprises net pension liabilities relating to funded schemes in deficit of £1,503m (2002: £36m), net pension assets relating to funded schemes in surplus of £nil (2002: £261m) and net pension liabilities relating to unfunded schemes of £17m (2002: £11m).

The net liability for US – Pensions comprises net pension liabilities relating to funded schemes in deficit of £319m (2002: £98m), net pension assets relating to funded schemes in surplus of £nil (2002: £31m) and net pension liabilities relating to unfunded schemes of £43m (2002: £45m).

The net liability for US – Other post-retirement benefits relates to funded schemes for both years presented.

An increase of 0.1% in the discount rate would decrease the present value of liabilities for all schemes by around £235m and decrease the liability net of deferred tax by £161m 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:

	2003 £m	2002 £m
Net assets employed excluding net SSAP 24 liabilities and related impact on regulatory assets	**1,481**	2,097
Net FRS 17 liabilities	**(2,262)**	(192)
Net (liabilities)/assets including net FRS 17 liabilities	**(781)**	1,905

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

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

	£m
At 1 April 2002	(366)
Current service cost	(171)
Past service cost	(8)
Net loss on settlements or curtailments	(118)
Contributions	317
Other financial income	89
Actuarial losses	(3,208)
Exchange adjustments	64
At 31 March 2003	**(3,401)**

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	171
Past service cost	8
Net loss on settlements or curtailments	118
Total charge to operating profit	297
Other financial (income)/costs	
Expected return on scheme assets	(977)
Interest on scheme liabilities	888
Impact on financial income	(89)
Net profit and loss charge before taxation	208

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 £90m and would compare to the current UK GAAP charge in respect of pensions and other post-retirement benefits amounting to £151m. The pre-exceptional profit and loss account charge (pre-tax) would therefore decrease by £61m.

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	(2,529)
Experience gains arising on scheme liabilities	11
Changes in assumptions	(690)
Actuarial losses	(3,208)
Exchange adjustments	64
Net charge to the statement of total recognised gains and losses	(3,144)

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)	(2,529)
– percentage of scheme assets	(20%)
Experience gains arising on scheme liabilities (£m)	11
– percentage of present value of scheme liabilities	–
Actuarial losses (£m)	(3,208)
– percentage of present value of scheme liabilities	(20%)

8. Net interest

	2003 £m	2002 £m	2001 £m
Bank loans and overdrafts	**257**	143	142
Other	**724**	612	649
Interest payable and similar charges	**981**	755	791
Unwinding of discount on provisions	**13**	17	19
Interest capitalised	**(28)**	(38)	(21)
Interest payable and similar charges net of interest capitalised	**966**	734	789
Interest receivable and similar income	**(55)**	(123)	(192)
	911	611	597
Joint ventures (including exceptional net interest of £31m (2002: £142m; 2001: £nil), net of interest capitalised £1m (2002: £10m; 2001: £19m))	**59**	172	12
Associate	**–**	16	26
	59	188	38
	970	799	635
Comprising:			
Net interest, excluding exceptional net interest	**939**	657	635
Exceptional net interest (note 4(c))	**31**	142	–
Net interest, including exceptional net interest	**970**	799	635

Interest on the funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.9% (2002: 6.2% to 7.0%; 2001: 6.7%).

Interest payable and similar charges for 2001 includes £21m of losses arising from the valuation at maturity of US dollar interest rate swaptions that provided an economic hedge against dollar borrowings, but which did not qualify as hedges for accounting purposes. Interest receivable and similar income for 2001 includes a £17m gain on closing out sterling fixed interest rate swaps that were originally entered into as hedges for sterling borrowings.

Interest payable and similar charges includes £12m (2002: £3m; 2001: £nil) relating to the loss incurred on the repurchase of debt during the year.

9. Taxation

	2003 £m	2002 £m	2001 £m
United Kingdom			
– Corporation tax at 30%	**12**	153	(2)
– Adjustment in respect of prior years	**–**	(78)	(20)
– Deferred tax: timing differences	**107**	(26)	68
– Adjustment in respect of prior years	**–**	4	18
	119	53	64
Overseas			
– Corporate tax	**27**	73	27
– Adjustment in respect of prior years	**–**	1	–
– Deferred tax: timing differences	**94**	(48)	44
	121	26	71
	240	79	135
Joint ventures	**5**	6	4
Associate	**–**	–	8
	245	85	147
Comprising:			
Taxation – excluding exceptional items	**373**	251	390
Taxation – exceptional tax credit (note 4(d))	**–**	–	(230)
Taxation – exceptional items	**(128)**	(166)	(13)
	(128)	(166)	(243)
	245	85	147

9. Taxation (continued)

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	2001
UK corporation tax rate	**30.0**	30.0	30.0
Effect on tax charge of:			
Origination and reversal of timing differences	**(12.3)**	(4.6)	(10.6)
Permanent differences	**2.1**	1.2	1.8
Overseas income taxed at other than UK statutory rate	**(2.5)**	(5.2)	(2.8)
Other	**0.3**	2.6	5.6
Current tax charge	**17.6**	24.0	24.0
Deferred taxation: origination and reversal of timing differences	**12.3**	4.6	10.6
Effective tax rate before goodwill amortisation, prior year adjustments and exceptional items	**29.9**	28.6	34.6
Effect of goodwill amortisation	**2.7**	2.8	2.4
Effective tax rate before prior year adjustments and exceptional items	**32.6**	31.4	37.0
Adjustment in respect of prior years	**–**	(7.0)	(0.2)
Effective tax rate after adjustments in respect of prior years and before exceptional items	**32.6**	24.4	36.8
Exceptional items	**4.1**	(54.3)	(25.3)
Effective tax rate after exceptional items	**36.7**	(29.9)	11.5

Factors that may affect future tax charges

The Group has brought forward non-trading debits of £75m (2002: £75m; 2001: £78m), 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; 2001: £52m). At present, it is not envisaged that any tax will become payable in the foreseeable future.

10. Dividends

The following table shows the dividends paid or proposed by National Grid Transco for the year ended 31 March 2003:

	2003 pence (per ordinary share)	**2003 £m**
National Grid Transco		
Ordinary dividends		
– Interim	**6.86**	**213**
– Proposed final	**10.34**	**317**
	17.20	**530**

The following disclosures relate to National Grid and Lattice prior to the Merger:

	2002 pence (per ordinary share)	2001 pence (per ordinary share)	2002 £m	2001 £m
National Grid				
Ordinary dividends				
– Interim	6.46	6.05	96	89
– Final	9.58	9.03	169	134
	16.04	15.08	265	223
Lattice				
Ordinary dividends				
– Interim	3.60	3.50	126	123
– Second interim	5.40	–	189	–
– Final	–	3.50	–	123
	9.00	7.00	315	246
Total pre-Merger dividends	n/a	n/a	580	469

11. Earnings per share and adjusted profit on ordinary activities before taxation

a) Earnings per share

	Earnings per share 2003 pence	**Profit for the year 2003 £m**	**Weighted average number shares 2003 million**	(Loss)/ earnings per share 2002 pence	(Loss)/profit for the year 2002 £m	Weighted average number shares 2002 million	Earnings per share 2001 pence	Profit for the year 2001 £m	Weighted average number shares 2001 million
Basic, including exceptional items and goodwill amortisation	**12.7**	**391**	**3,078**	(11.3)	(321)	2,832	40.5	1,124	2,777
Exceptional operating items (note 4(a))	**11.3**	**347**	**–**	46.9	1,327	–	3.2	88	–
Exceptional non-operating items (note 4(b))	**3.2**	**99**	**–**	(5.5)	(156)	–	(11.0)	(306)	–
Exceptional financing charge (note 4(c))	**1.0**	**31**	**–**	5.0	142	–	–	–	–
Exceptional tax credit (note 4(d))	**(4.1)**	**(128)**	**–**	(5.9)	(166)	–	(8.8)	(243)	–
Exceptional minority interest (note 4(e))	**0.9**	**28**	**–**	(1.8)	(50)	–	–	–	–
Goodwill amortisation	**3.3**	**102**	**–**	3.4	97	–	3.0	85	–
Adjusted basic, excluding exceptional items and goodwill amortisation	**28.3**	**870**	**3,078**	30.8	873	2,832	26.9	748	2,777
Dilutive impact of employee share options	**(0.1)**	**–**	**10**	(0.2)	–	21	(0.2)	–	18
Dilutive impact of 4.25% Exchangeable Bonds	**(0.3)**	**22**	**110**	(0.4)	22	110	(0.3)	21	110
Adjusted diluted, excluding exceptional items and goodwill amortisation	**27.9**	**892**	**3,198**	30.2	895	2,963	26.4	769	2,905
Exceptional operating items (note 4(a))	**(10.9)**	**(347)**	**–**	(44.8)	(1,327)	–	(3.0)	(88)	–
Exceptional non-operating items (note 4(b))	**(3.1)**	**(99)**	**–**	5.3	156	–	10.5	306	–
Exceptional financing charge (note 4(c))	**(1.0)**	**(31)**	**–**	(4.8)	(142)	–	–	–	–
Exceptional tax credit (note 4(d))	**4.0**	**128**	**–**	5.6	166	–	8.4	243	–
Exceptional minority interest (note 4(e))	**(0.9)**	**(28)**	**–**	1.7	50	–	–	–	–
Goodwill amortisation	**(3.2)**	**(102)**	**–**	(3.3)	(97)	–	(2.9)	(85)	–
Diluted, including exceptional items and goodwill amortisation	**12.8**	**413**	**3,198**	(10.1)	(299)	2,963	39.4	1,145	2,905

Earnings per ordinary share, excluding exceptional items and goodwill amortisation, are provided in order to reflect the underlying performance of the Group.

In respect of the years ended 31 March 2003 and 31 March 2002, the potential ordinary shares related to the 4.25% Exchangeable Bonds are dilutive, as they would decrease earnings from continuing operations. Consequently, the diluted earnings per share are higher than basic earnings per share because of the effect of losses arising from discontinued operations.

b) Adjusted profit on ordinary activities before taxation

The following table reconciles profit before taxation on ordinary activities to adjusted profit on ordinary activities before taxation. Adjusted profit on ordinary activities before taxation excludes exceptional items and goodwill amortisation and is provided to reflect the underlying pre-tax performance of the Group.

	2003 £m	2002 £m	2001 £m
Profit/(loss) on ordinary activities before taxation	**667**	(284)	1,278
Exceptional operating items (note 4(a))	**347**	1,327	88
Exceptional non-operating items (note 4(b))	**99**	(156)	(306)
Exceptional financing charge (note 4(c))	**31**	142	–
Goodwill amortisation	**102**	97	85
Adjusted profit on ordinary activities before taxation	**1,246**	1,126	1,145

12. Intangible fixed assets

Group	Goodwill £m	Negative goodwill £m	Other £m	Total £m
Cost at 1 April 2002	2,295	(37)	11	2,269
Exchange adjustments	(238)	–	(1)	(239)
Adjustment to provisional fair value at acquisition (note 28)	82	–	–	82
Additions	–	–	1	1
Disposals	(4)	–	–	(4)
Cost at 31 March 2003	2,135	(37)	11	2,109
Amortisation at 1 April 2002	160	–	2	162
Exchange adjustments	(14)	–	–	(14)
Charge/(credit) for the year	106	(4)	3	105
Release relating to asset impairment (note 13)	–	(33)	–	(33)
Disposals	(4)	–	–	(4)
Amortisation at 31 March 2003	248	(37)	5	216
Net book value at 31 March 2003	**1,887**	**–**	**6**	**1,893**
Net book value at 31 March 2002	2,135	(37)	9	2,107

13. 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	1,240	22,918	881	1,190	26,229
Exchange adjustments	(63)	(774)	(15)	(5)	(857)
Adjustment to provisional fair value at acquisition (note 28)	–	(14)	–	–	(14)
Additions	62	292	1,016	149	1,519
Disposal of Group undertakings	(82)	(193)	(2)	(246)	(523)
Other disposals	(123)	(390)	–	(234)	(747)
Reclassifications	3	826	(845)	16	–
Cost at 31 March 2003	1,037	22,665	1,035	870	25,607
Depreciation at 1 April 2002	386	7,953	–	680	9,019
Exchange adjustments	(17)	(289)	–	(2)	(308)
Charge for the year	20	691	–	140	851
Impairment write-down	108	19	–	41	168
Disposal of Group undertakings	(75)	(184)	–	(65)	(324)
Other disposals	(79)	(372)	–	(195)	(646)
Depreciation at 31 March 2003	343	7,818	–	599	8,760
Net book value at 31 March 2003	**694**	**14,847**	**1,035**	**271**	**16,847**
Net book value at 31 March 2002	854	14,965	881	510	17,210

The net book value of land and buildings comprises:

	2003 £m	2002 £m
Freehold	**653**	763
Long leasehold (over 50 years)	**32**	33
Short leasehold (under 50 years)	**9**	58
	694	854

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 12.

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: £33m) and £1,079m (2002: £1,117m) respectively.

14. Fixed asset investments

	Group						Company
	Unlisted joint ventures		Associate				
	Share of net assets £m	Loans £m	Share of net assets £m	Own shares £m	Other investments £m	Total £m	Group undertakings £m
At 1 April 2002	204	87	392	53	204	940	2,080
Exchange adjustments	(24)	(8)	–	–	(20)	(52)	–
Additions	2	–	–	–	8	10	188
Disposals	(60)	–	–	(14)	(18)	(92)	(43)
Share of retained loss	(112)	–	–	–	–	(112)	–
Reclassification	70	(70)	–	–	–	–	–
Write-off	(9)	(9)	(392)	–	(4)	(414)	–
Transfer from provisions	(27)	–	–	–	–	(27)	–
At 31 March 2003	44	–	–	39	170	253	2,225
Impairment at 1 April 2002	143	87	392	–	–	622	–
Exchange adjustments	(17)	(8)	–	–	–	(25)	–
Charge for the year	2	–	–	–	–	2	–
Utilised	(129)	–	–	–	–	(129)	–
Disposals	(60)	–	–	–	–	(60)	–
Write-off	(9)	(9)	(392)	–	–	(410)	–
Reclassification	70	(70)	–	–	–	–	–
Impairment at 31 March 2003	–	–	–	–	–	–	–
Net book value at 31 March 2003	**44**	**–**	**–**	**39**	**170**	**253**	**2,225**
Net book value at 31 March 2002	61	–	–	53	204	318	2,080

At 31 March 2002, the associate (Energis plc) was a listed company and the Group's investment had a market value of £16m at that date. The associate's shares are no longer listed.

Own shares at 31 March 2003 related to 10m 10p ordinary shares in National Grid Transco plc, held by employee share trusts for the purpose of satisfying certain obligations under the various share option schemes operated by the Group. The carrying value of £39m (market value £37m at 31 March 2003) represented the exercise amounts receivable in respect of those shares which were issued at market value by the Company and the cost in respect of those shares purchased in the open market.

Funding is provided to the trusts by Group undertakings. The trusts have waived their rights to dividends on these shares.

Own shares at 31 March 2002 related to 13m 10p ordinary shares in National Grid (book value £46m) and 33m 10p ordinary shares in Lattice (book value £7m), prior to the Merger.

At 31 March 2002, the 13m 10p ordinary shares in National Grid were held by employee share trusts for the purpose of satisfying certain obligations under the various share option schemes operated by National Grid. The carrying value of £46m (market value £61m at 31 March 2002) represented the exercise amounts receivable in respect of those shares which were issued at market value by National Grid and the cost in respect of those shares purchased in the open market.

At 31 March 2002, the 33m 10p ordinary shares in Lattice were held by an All Employee Share Ownership Plan (AESOP) for future employee share schemes which were dependent on performance targets. The carrying value of the shares at 31 March 2002 was £7m (market value £57m at 31 March 2002).

The names of the principal Group undertakings and joint ventures are included in note 32.

15. Stocks

	Group	
	2003 £m	2002 £m
Raw materials and consumables	**60**	78
Work in progress	**53**	34
Fuel stocks	**13**	13
	126	125

16. Debtors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due within one year:				
Trade debtors	**628**	668	**–**	–
Amounts owed by Group undertakings	**–**	–	**2,652**	2,023
Amounts owed by a former associate (i)	**6**	22	**–**	–
Regulatory assets	**406**	444	**–**	–
Prepayments and accrued income	**396**	395	**–**	–
Other debtors	**375**	360	**12**	6
	1,811	1,889	**2,664**	2,029
Amounts falling due after more than one year:				
Amounts owed by a former associate (i)	**44**	40	**–**	–
Regulatory assets	**3,337**	3,970	**–**	–
Other debtors	**14**	48	**–**	–
	3,395	4,058	**–**	–
Total debtors	**5,206**	5,947	**2,664**	2,029

Provision for doubtful debts	Group £m
At 1 April 2002	72
Adjustments to provisional fair value at acquisition (note 28)	42
Charge for the year	24
Uncollectable amounts written off net of recoveries	(22)
At 31 March 2003	**116**

(i) Comparative figures reflect status as an associate.

Other debtors include tax recoverable of £62m (2002: £6m) and debtors arising on the sale of nuclear plant of £nil (2002: £176m).

The amounts owed by a former associate (2002: associate) include a net investment in a finance lease amounting to £50m (2002: £45m) comprising total rentals receivable of £71m (2002: £65m) less unearned income of £21m (2002: £20m), of which £6m (2002: £5m) falls due within one year and £44m (2002: £40m) falls due after more than one year. Rentals received and receivable in the year amounted to £11m (2002: £9m). At 31 March 2003, the minimum lease payments for each of the five years ending 31 March 2008 are £11m.

17. Assets held for exchange

The assets held for exchange of £17m (2002: £17m) represent the carrying value of 74m (2002: 74m) shares in Energis plc which are held to satisfy obligations under the 6% Mandatorily Exchangeable Bonds 2003, as explained in note 20. The voting rights in respect of 61m (2002: 61m) of these shares are vested in the bondholders.

18. Creditors (amounts falling due within one year)

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Borrowings (note 20)	**2,246**	2,050	**557**	604
Trade creditors and accruals	**1,249**	1,133	**–**	–
Amounts owed to Group undertakings	**–**	–	**1,439**	1,340
Amounts owed to a former associate (i)	**–**	5	**–**	–
Purchased power obligations	**68**	102	**–**	–
Corporate tax	**–**	30	**–**	–
Social security and other taxes	**203**	194	**–**	–
Proposed dividend	**317**	358	**317**	169
Liability for index-linked swap contracts	**121**	53	**–**	–
Other creditors	**589**	687	**8**	4
Deferred income	**253**	276	**–**	–
	5,046	4,888	**2,321**	2,117

(i) Comparative figures reflect status as an associate.

Other creditors include interest payable of £269m (2002: £310m).

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

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Borrowings (note 20)	**12,233**	12,713	**–**	–
Purchased power obligations	**253**	362	**–**	–
Liability for index-linked swap contracts	**381**	408	**–**	–
Other creditors	**309**	268	**–**	–
Deferred income	**1,079**	1,117	**–**	–
	14,255	14,868	**–**	–

Purchased power obligations
As part of the sale of substantially all of its non-nuclear generating business, National Grid USA entered into purchased power transfer agreements with the purchasers whereby the purchasers took over a number of long-term contracts between National Grid USA and owners of various generating units. In exchange, National Grid USA committed to make fixed monthly payments to the purchasers towards the above-market cost of the contracts. The creditor relating to purchased power obligations, which is also reflected in regulatory assets (note 16), represents the net present value of these monthly payments discounted at 2.78%. At 31 March 2003, amounts falling due after more than five years totalled £15m (2002: £65m).

Liability for index-linked swap contracts
National Grid USA has entered into indexed swap contracts that expire in 2008 and a further three swap contracts that expire in June and September 2003. National Grid USA has recorded a liability in respect of these contractual obligations and recorded a corresponding regulatory asset as losses on these instruments will be recovered from customers. The amount of the liability and regulatory asset will fluctuate over the remaining terms of the swaps as nominal energy quantities are settled and may be adjusted as periodic assessments are made of energy prices.

20. Borrowings

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

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due within one year:				
Bank loans and overdrafts	**484**	180	**–**	–
Commercial paper	**557**	642	**557**	604
6% Mandatorily Exchangeable Bonds 2003	**243**	243	**–**	–
Other bonds	**730**	889	**–**	–
Other loans	**232**	96	**–**	–
	2,246	2,050	**557**	604
Amounts falling due after more than one year:				
Bank loans	**613**	318	**–**	–
4.25% Exchangeable Bonds 2008	**502**	491	**–**	–
Other bonds	**10,881**	11,627	**–**	–
Other loans	**237**	277	**–**	–
	12,233	12,713	**–**	–
Total borrowings	**14,479**	14,763	**557**	604

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Total borrowings are repayable as follows:				
In one year or less	**2,246**	2,050	**557**	604
In more than one year, but not more than two years	**1,031**	1,212	**–**	–
In more than two years, but not more than three years	**834**	954	**–**	–
In more than three years, but not more than four years	**1,924**	742	**–**	–
In more than four years, but not more than five years	**882**	2,005	**–**	–
In more than five years				
– by instalments	**46**	56	**–**	–
– other than by instalments	**7,516**	7,744	**–**	–
	14,479	14,763	**557**	604

At 31 March 2003, borrowings totalling £1,415m (2002: £1,889m) were secured by charges over property, plant and other assets of the Group.

In February 1999, National Grid Holdings One plc issued 14.7m Equity Plus Income Convertible Securities ('EPICs') in the form of 6% Mandatorily Exchangeable Bonds 2003 ('exchangeable bonds') in the aggregate principal amount of US$401m. The EPICs were exchangeable, subject to certain exceptions, on or prior to 26 April 2003 at the option of the holder of the bonds ('bondholders') into ordinary shares of Energis plc, a company which prior to 16 July 2002 was an associated undertaking. On 16 July 2002, trading in the shares of Energis plc were suspended and on 6 May 2003, five Energis shares for each EPICs were delivered by the Group to bondholders in satisfaction of the bonds outstanding at 31 March 2003.

The notional amount at maturity of the Group's debt portfolio is £15,621m (2002: £15,954m).

20. Borrowings (continued)

The 4.25% Exchangeable Bonds 2008 ('the Bonds') are exchangeable on or prior to 8 February 2008 at the option of the holder into 110,302,907 ordinary shares of the Company at the exchange price of 417p per ordinary share. After 17 February 2003, the Group has the right to redeem the Bonds at any time in whole (but not in part) at the principal amount outstanding, including any redemption premium. Unless earlier redeemed, exchanged or purchased, the Bonds will be redeemed on 17 February 2008 at their principal amount plus a premium (together the Redemption Price, being £1,209.31 per £1,000 principal amount of Bonds). When a bondholder elects to exchange Bonds for ordinary shares, the Group has the option to pay an amount equal to the cash value of the ordinary shares that would otherwise have been issued by the Company. For the purposes of the maturity analysis of borrowings shown above, early exchange of the Bonds has not been anticipated and the Bonds have been classified as repayable in more than four years but not more than five years.

The principal items included within Other bonds are listed below. Unless otherwise indicated, these instruments were outstanding as at both 31 March 2003 and 31 March 2002.

Issuer	Description of instrument (notional amount)
British Transco Finance (No5) Limited	GBP 115 million Floating Rate Instruments due 2006
British Transco Finance Inc.	USD 300 million 6.625% Fixed Rate Instruments due 2018
British Transco International Finance BV	USD 500 million 6.125% Fixed Rate Instruments due 2003
British Transco International Finance BV	ITL 150,000 million 10.75% Fixed Rate Instruments due 2003
British Transco International Finance BV	USD 250 million 6.25% Fixed Rate Instruments due 2003
British Transco International Finance BV	USD 300 million 6.0% Fixed Rate Instruments due 2004
British Transco International Finance BV	USD 350 million 6.625% Fixed Rate Instruments due 2004
British Transco International Finance BV	ITL 250,000 million 5.25% Fixed Rate Instruments due 2005
British Transco International Finance BV	USD 350 million 7.0% Fixed Rate Instruments due 2006
British Transco International Finance BV	FRF 2,000 million 5.125% Fixed Rate Instruments due 2009
British Transco International Finance BV	USD 1,500 million Zero Coupon Bond due 2021
National Grid Company plc (i)	GBP 26.2 million Zero Coupon Bond due 2002
National Grid Company plc	GBP 240 million 8.0% Fixed Rate Instruments due 2006
National Grid Company plc (ii)	GBP 250 million 4.75% Fixed Rate Instruments due 2010
National Grid Company plc (ii)	GBP 300 million 2.983% Guaranteed Retail Price Index-Linked Instruments due 2018
National Grid Company plc (iii)	GBP 220 million 3.806% Retail Price Index-Linked Instruments due 2020
National Grid Company plc	GBP 450 million 5.875% Fixed Rate Instruments due 2024
National Grid Company plc	GBP 360 million 6.5% Fixed Rate Instruments due 2028
National Grid Company plc (iii)	GBP 70 million 3.589% Limited Retail Price Index-Linked Instruments due 2030
National Grid Company plc (ii)	GBP 50 million 2.817% Guaranteed Limited Retail Price Index-Linked Instruments due 2032
NGG Finance plc	EUR 1,250 million 5.25% Fixed Rate Instruments due 2006
NGG Finance plc	EUR 750 million 6.125% Fixed Rate Instruments due 2011
Niagara Mohawk Power Corporation (i)	USD 230 million 5.875% Taxable First Mortgage Bonds due 2002
Niagara Mohawk Power Corporation (i)	USD 400 million 7.25% Senior Notes due 2002
Niagara Mohawk Power Corporation	USD 400 million 7.375% Senior Notes due 2003
Niagara Mohawk Power Corporation	USD 220 million 7.375% Taxable First Mortgage Bonds due 2003
Niagara Mohawk Power Corporation	USD 300 million 8.0% Taxable First Mortgage Bonds due 2004
Niagara Mohawk Power Corporation	USD 300 million 5.375% Senior Notes due 2004
Niagara Mohawk Power Corporation	USD 110 million 6.625% Taxable First Mortgage Bonds due 2005
Niagara Mohawk Power Corporation	USD 400 million 7.625% Senior Notes due 2005
Niagara Mohawk Power Corporation	USD 150 million 9.75% Taxable First Mortgage Bonds due 2005
Niagara Mohawk Power Corporation	USD 275 million 7.75% Taxable First Mortgage Bonds due 2006
Niagara Mohawk Power Corporation	USD 200 million 8.875% Senior Notes due 2007
Niagara Mohawk Power Corporation	USD 600 million 7.75% Senior Notes due 2008
Niagara Mohawk Power Corporation	USD 500 million 8.5% Senior Notes due 2010
Niagara Mohawk Power Corporation (iv)	USD 165 million 8.5% Taxable First Mortgage Bonds due 2023
Niagara Mohawk Power Corporation	USD 210 million 7.875% Taxable First Mortgage Bonds due 2024
Niagara Mohawk Power Corporation	USD 115.71 million 7.2% Tax-Exempt First Mortgage Bonds due 2029
Transco Holdings plc	GBP 503.078 million Floating Rate Instruments due 2009
Transco Holdings plc	GBP 503.078 million 4.1875% Index-Linked Instruments due 2022
Transco Holdings plc	GBP 503.078 million 7.0% Fixed Rate Instruments due 2024
Transco plc (i)	JPY 55,000 million Floating Rate Instruments due 2002
Transco plc (i)	GBP 200 million 8.125% Fixed Rate Instruments due 2003
Transco plc	EUR 650 million 5.25% Fixed Rate Instruments due 2006
Transco plc	GBP 250 million 6.125% Fixed Rate Instruments due 2006
Transco plc	GBP 200 million 5.625% Fixed Rate Instruments due 2007
Transco plc	GBP 250 million 8.875% Fixed Rate Instruments due 2008
Transco plc	AUD 500 million 7.0% Fixed Rate Instruments due 2008
Transco plc	GBP 300 million 5.375% Fixed Rate Instruments due 2009
Transco plc	GBP 250 million 6.0% Fixed Rate Instruments due 2017
Transco plc	GBP 275 million 8.75% Fixed Rate Instruments due 2025
Transco plc	GBP 50 million 6.2% Fixed Rate Instruments due 2028

(i) Matured during the year ended 31 March 2003.
(ii) Issued during the year ended 31 March 2003.
(iii) Issue tapped during the year ended 31 March 2003.
(iv) Redeemed during the year ended 31 March 2003.

21. Financial instruments

The Group's treasury policy, described on pages 34 to 36, 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 £443m (2002: £235m) and under interest rate swaps was £170m (2002: £40m).

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.

Currency and interest rate composition of financial liabilities

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

			Fixed rate liabilities		
At 31 March 2003	**Total £m**	**Variable rate £m**	**Fixed rate £m**	**Weighted average interest rate %**	**Weighted average period for which rate is fixed years**
Sterling	**9,655**	**4,157**	**5,498**	**6.29**	**8.3**
US dollars	**4,824**	**965**	**3,859**	**7.09**	**5.9**
Borrowings	**14,479**	**5,122**	**9,357**	**6.62**	**7.3**
Other financial liabilities (sterling)	**76**	**60**	**16**	**5.34**	**2.7**
Other financial liabilities (US dollars)	**824**	**755**	**69**	**5.77**	**–(i)**
	15,379	**5,937**	**9,442**	**6.61**	**7.2**
At 31 March 2002					
Sterling	8,840	4,065	4,775	6.30	9.6
US dollars	5,923	1,081	4,842	7.33	6.1
Borrowings	14,763	5,146	9,617	6.71	7.5
Other financial liabilities (sterling)	28	5	23	5.34	3.6
Other financial liabilities (US dollars)	947	868	79	5.80	– (i)
	15,738	6,019	9,719	6.70	7.4

(i) Excludes non-equity minority interests of £69m (2002: £79m) with no final repayment date.

At 31 March 2003, the weighted average interest rate on short-term borrowings of £2,246m (2002: £2,050m) was 5.8% (2002: 4.5%).

Foreign exchange forward deals held to manage the currency mix of the Group's borrowings portfolios comprising £165m (2002: £190m) forward sale of US dollars, have not been adjusted in the table above.

Other US dollar financial liabilities predominantly relate to indexed-linked energy swap contracts of £502m (2002: £461m), purchased power obligations due after more than one year of £253m (2002: £362m), exchange translation of cross-currency swaps of £nil (2002: £45m) and non-equity minority interests of £69m (2002: £79m).

Substantially all of the variable rate borrowings are subject to interest rates which fluctuate with LIBOR for the appropriate currency at differing premiums or, in the case of certain US companies, are based on the market rate for tax exempt commercial paper.

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

21. Financial instruments (continued)

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 assets: Fixed rate £m	Fixed rate assets: Weighted average interest rate %	Fixed rate assets: Weighted average period for which rate is fixed years
Sterling	**423**	**–**	**423**	**–**	**–**	**–**
US dollars	**147**	**–**	**147**	**–**	**–**	**–**
Other currencies	**31**	**–**	**31**	**–**	**–**	**–**
Cash and investments	**601**	**–**	**601**	**–**	**–**	**–**
Other financial assets (sterling)	**67**	**17**	**–**	**50**	**11.5**	**4.5**
Other financial assets (US dollars)	**34**	**–**	**1**	**33**	**4.77**	**10.8**
	702	**17**	**602**	**83**	**8.85**	**7.0**
At 31 March 2002						
Sterling	340	–	198	142	–	–
US dollars	122	–	120	2	–	–
Other currencies	2	–	2	–	–	–
Cash and investments	464	–	320	144	–	–
Other financial assets (sterling)	62	17	–	45	11.5	4.1
Other financial assets (US dollars)	59	17	14	28	4.72	9.2
	585	34	334	217	8.87	6.1

Other financial assets at 31 March 2003 predominantly relate to assets held for exchange of £17m (2002: £17m), a net investment in a finance lease of £50m (2002: £45m), fixed asset investments of £33m (2002: £40m) and investment held for resale of £nil (2002: £15m). Cash and investments earn interest at local prevailing rates for maturity periods generally not exceeding 12 months, and include listed investments with a cost and market value of £226m (2002: £228m). The non-interest bearing assets held for exchange were realised in May 2003, on redemption of the 6% Mandatorily Exchangeable Bonds 2003, as described in note 20.

The maturity profile of the Group's financial liabilities and assets are shown in the tables below after taking into account currency and interest rate swaps:

Maturity of financial liabilities at 31 March	2003 £m	2002 £m
In one year or less	**2,380**	2,153
In more than one year, but not more than two years	**1,192**	1,379
In more than two years, but not more than three years	**1,005**	1,115
In more than three years, but not more than four years	**2,090**	901
In more than four years, but not more than five years	**1,040**	2,151
In more than five years	**7,672**	8,039
	15,379	15,738

Maturity of financial assets at 31 March	2003 £m	2002 £m
In one year or less	**611**	511
In more than one year, but not more than two years	**8**	6
In more than two years, but not more than three years	**25**	22
In more than three years, but not more than four years	**10**	7
In more than four years, but not more than five years	**11**	7
In more than five years	**37**	32
	702	585

21. Financial instruments (continued)

Fair values of financial instruments at 31 March

	2003 Book value £m	2003 Fair value £m	2002 Book value £m	2002 Fair value £m
6% Mandatorily Exchangeable Bonds 2003	**(243)**	**(17)**	(243)	(18)
Other short-term debt	**(1,965)**	**(1,973)**	(1,807)	(1,830)
4.25% Exchangeable Bonds 2008	**(502)**	**(510)**	(491)	(543)
Other long-term debt	**(12,081)**	**(13,042)**	(12,347)	(12,987)
Cash and investments	**601**	**601**	464	464
Other financial liabilities	**(900)**	**(871)**	(975)	(971)
Net investment in finance lease	**50**	**50**	45	46
Assets held for exchange	**17**	**17**	17	17
Other financial assets	**34**	**50**	59	57
Financial instruments held to manage interest rate and currency profiles:				
Interest rate swaps	**–**	**8**	–	(38)
Forward foreign currency contracts and cross-currency swaps	**312**	**533**	125	189

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 swaps and forward rate agreements, foreign currency contracts and cross-currency swaps, amounted to £6,363m (2002: £10,042m) and £5,017m (2002: £5,958m) 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	180	(154)	26	29	(89)	(60)
(Gains)/losses arising in previous years recognised in the year	(27)	7	(20)	(7)	14	7
Gains/(losses) arising in previous years not recognised in the year	153	(147)	6	22	(75)	(53)
Gains/(losses) arising in the year	305	(82)	223	17	(13)	4
Gains/(losses) on hedges at 31 March 2003	**458**	**(229)**	**229**	**39**	**(88)**	**(49)**
Of which:						
Gains/(losses) expected to be recognised within one year	2	(12)	(10)	11	(12)	(1)
Gains/(losses) expected to be recognised after one year	456	(217)	239	28	(76)	(48)

Borrowing facilities

At 31 March 2003, the Group had bilateral committed credit facilities of £1,221m (2002: £1,641m) all of which were undrawn. The Group also had committed credit facilities from syndicates of banks of £1,880m at 31 March 2003 (2002: £2,688m) all of which were undrawn, and an analysis of the maturity of these undrawn committed facilities is shown below:

Undrawn committed borrowing facilities

	2003 £m	2002 £m
Expiring:		
In one year or less	**1,155**	1,562
In more than one year, but not more than two years	**966**	323
In more than two years	**980**	2,444
	3,101	4,329

Of the unused facilities £2,135m (2002: £2,321m) 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.

22. Provisions for liabilities and charges

	Group							Company
	Decommissioning £m	Post-retirement benefits £m	Environmental £m	Deferred taxation £m	Restructuring £m	Other £m	Total provisions £m	Other £m
At 1 April 2002	121	681	470	2,996	107	288	4,663	77
Exchange adjustments	(12)	(67)	(19)	(102)	–	(12)	(212)	–
Adjustment to provisional fair values at acquisition (note 28)	–	2	–	(54)	–	–	(52)	–
Additions	68	108	–	201	186	17	580	–
Unwinding of discount	9	–	24	–	–	–	33	–
Unused amounts reversed	(30)	(2)	(4)	–	–	(97)	(133)	(77)
Utilised	(13)	(171)	(29)	–	(137)	(86)	(436)	–
Disposal of Group undertaking	–	–	–	(14)	–	–	(14)	–
Transfer to fixed asset investments	–	–	–	–	–	(27)	(27)	–
Other	–	–	–	4	–	–	4	–
At 31 March 2003	**143**	**551**	**442**	**3,031**	**156**	**83**	**4,406**	**–**

The decommissioning provision of £143m at 31 March 2003 represented the net present value of the estimated expenditure (discounted at rates between 4.25% and 5.00%) expected to be incurred in respect of the decommissioning of certain nuclear generating units and other related provisions. Related regulatory assets were also recognised (note 16). Expenditure is expected to be incurred between 2003 and 2010. Additions in the year included £9m in respect of the change in the discount rate.

The post-retirement benefits provision was in respect of pensions £253m (2002: £285m) and other post-retirement benefits (health care and life insurance) £298m (2002: £396m).

The environmental provision represented the estimated environmental restoration and remediation costs relating to a number of sites. At 31 March 2003, £244m (2002: £266m) of this 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 provision at 31 March 2003 also included £186m (2002: £189m) which represented the net present value of estimated expenditure in the United States which had been discounted at a rate of 6.25%. This expenditure is expected to be incurred between 2003 and 2042. Substantially all of the remainder of the environmental provision is expected to be utilised within the next five years. The undiscounted amount of the provision was £561m.

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 £12m (2002: £223m) in respect of obligations associated with the impairment of investments in joint ventures and associate and, in respect of the position at 31 March 2002, included the recognition of the net liabilities of a joint venture amounting to £37m. Other provisions also included £49m (2002: £58m) 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:

	Provided	
	2003 £m	2002 £m
Accelerated capital allowances	**2,997**	2,915
Other timing differences	**34**	81
	3,031	2,996

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.

23. Share capital

Group	Allotted, called up and fully paid	
	millions	£m
At 31 March 2000 (i)	2,808	281
At 31 March 2001	2,808	281
Issued during the year	292	29
At 31 March 2002	3,100	310
Issued during the year	1	–
Redeemed during the year	(24)	(2)
At 31 March 2003	**3,077**	**308**

One £1 special rights non-voting redeemable preference share (2002 and 2001: one).

(i) In accordance with merger accounting principles, the shares issued in connection with the Merger have been treated as if those shares were in issue throughout the year and comparative periods.

23. Share capital (continued)

The total consideration received by the Group in respect of shares issued during the year ended 31 March 2003 was £4m, all of which was received from employee share trusts, which represented contributions from Group undertakings.

During the course of the year, the Group purchased for cancellation 24,225,000 of its ordinary shares at an average price per ordinary share of 401.59p.

Company	Allotted and issued		Called up and partly paid		Called up and fully paid	
	number	£	number	£	millions	£m
On incorporation at 11 July 2000 – ordinary shares of £1	1	1	1	–	–	–
10:1 share split	9	–	9	–	–	–
At 28 November 2000 – ordinary shares of 10 pence	10	1	10	–	–	–
Issued during the year	499,990	49,999	499,990	12,500	–	–
At 31 March 2001	500,000	50,000	500,000	12,500	–	–
Cancelled during the year	(500,000)	(50,000)	(500,000)	(12,500)	–	–
Issued during the year	1,776,932,870	177,693,287	23,450 (i)	2,345	1,777	178
At 31 March 2002	1,776,932,870	177,693,287	23,450	2,345	1,777	178
Issued during the year	1,324,195,509	132,419,551	–	–	1,324	132
Fully paid up during the year	–	–	(23,450)	(2,345)	–	–
Repurchased and cancelled during the year	(24,225,000)	(2,422,500)	–	–	(24)	(2)
At 31 March 2003	**3,076,903,379**	**307,690,338**	**–**	**–**	**3,077**	**308**

One £1 special rights non-voting redeemable preference share (2002: one; 2001: nil).

(i) These shares were nil paid at 31 March 2002. They represented shares issued to financial institutions in order to purchase Niagara Mohawk which were not required to form part of the final consideration and were sold on the open market during the year ended 31 March 2003.

The Company was incorporated on 11 July 2000 with authorised share capital of 100 ordinary shares of £1 each. On 28 November 2000, the ordinary shares of £1 each were subdivided into ordinary shares of 10 pence each in a 10:1 share split and the authorised share capital was increased to 2,500m ordinary shares of 10 pence each. At 31 March 2001, the authorised share capital of the Company was £250m and the allotted and issued share capital of the Company was £50,000 (500,000 ordinary shares of 10 pence each), of which £12,500 had been called up and paid.

At 31 March 2002, the authorised share capital of the Company was £250m (2,500m ordinary shares of 10 pence each and one £1 special rights non-voting redeemable preference share).

On 21 October 2002, the authorised share capital of the Company was increased to £500m (5,000m ordinary shares of 10 pence each and one £1 special rights non-voting redeemable preference share). This remained unchanged at 31 March 2003.

The total consideration received by the Company in respect of ordinary shares issued during the year ended 31 March 2003 was £136m, of which £4m was received from employee share trusts, which represented contributions from Group undertakings. The remaining ordinary shares were issued on the merger with Lattice as explained in notes 1 and 29.

The special rights non-voting redeemable preference share of £1 in National Grid Transco plc ('the Special Share'), held on behalf of the Crown, was issued by National Grid to the Secretary of State for Trade and Industry on 31 January 2002 as part of a scheme of arrangement. It is redeemable at any time at par at the option of the holder, after consulting the Company. The Special Share does not carry any rights to vote at general meetings but entitles the holder to receive notice of and to attend and speak at such meetings. Certain matters, in particular the alteration of certain Articles of Association of the Company, require the prior written consent of the holder of the Special Share. The Special Share confers no right to participate in the capital or profits of the Company, except that on a winding-up the holder of the Special Share is entitled to repayment of £1 in priority to other shareholders. Prior to 31 January 2002, the Secretary of State for Trade and Industry held a Special Share with equivalent rights in National Grid Holdings One plc.

A similar special share in Lattice was held at 31 March 2002 by the Crown. This share was redeemed on 21 October 2002 as part of the Merger arrangements.

Share option schemes

The Group operates two principal forms of share option schemes. They are an employee sharesave scheme and an Executive Share Option Scheme ('the Executive Scheme'). The details given below relate to the schemes operated by National Grid and Lattice, which became schemes of National Grid Transco plc as of the date of the Merger. Each Lattice scheme option was converted into 0.375 National Grid Transco plc options.

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

23. Share capital (continued)

National Grid share option schemes

The sharesave scheme is savings related where, under normal circumstances, share options are exercisable on completion of a three or a five-year save-as-you-earn contract. The exercise price of options granted represents 80% of the market price at the date the option was granted.

The Executive Scheme applies to senior executives, including Executive Directors. Options granted for the 1999/2000 financial year are subject to the achievement of performance targets related to earnings per share growth over a three-year period. Options granted for 2000/01 financial year and thereafter are subject to the achievement of performance targets related to total shareholder returns over a three-year period. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

Movement in options to subscribe for ordinary shares under the Group's various options schemes for the three years ended 31 March 2003 are shown below and include those options related to shares issued to employee benefit trusts:

	Weighted average price £	Sharesave scheme millions	Weighted average price £	Executive share scheme millions	Total millions
At 31 March 2000	2.16	16.2	3.75	6.0	22.2
Granted	4.16	1.4	5.31	1.6	3.0
Lapsed – forfeited	2.89	(0.4)	–	–	(0.4)
Exercised	1.68	(4.1)	2.15	(0.7)	(4.8)
At 31 March 2001	2.54	13.1	4.31	6.9	20.0
Granted	4.57	2.4	5.50	2.6	5.0
Lapsed – forfeited	3.74	(0.7)	–	–	(0.7)
Lapsed – expired	–	–	4.17	(0.1)	(0.1)
Exercised	1.76	(5.0)	3.05	(0.9)	(5.9)
At 31 March 2002	3.33	9.8	4.81	8.5	18.3
Converted from Lattice sharesave scheme	3.18	26.7	–	–	26.7
Granted	3.62	9.9	4.78	5.1	15.0
Lapsed – forfeited	4.14	(3.7)	5.10	–	(3.7)
Lapsed – expired	3.68	(1.0)	2.85	(0.1)	(1.1)
Exercised	2.39	(3.7)	2.84	(0.4)	(4.1)
At 31 March 2003	**3.31**	**38.0**	**4.86**	**13.1**	**51.1**

Included within options outstanding at 31 March 2003 were the following options which were exercisable:

At 31 March 2003	3.34	1.7	3.72	2.4	4.1

Lattice sharesave scheme

	Weighted average price £	Sharesave scheme millions
At 31 March 2000	–	–
Granted	1.18	71.0
At 31 March 2001	1.18	71.0
Granted	1.29	11.0
Lapsed – forfeited	1.18	(2.8)
At 31 March 2002	1.19	79.2
Lapsed – forfeited	1.21	(1.4)
Lapsed – expired	1.20	(3.4)
Exercised	1.19	(1.9)
Converted to National Grid Transco options	1.19	(71.2)
At 31 March 2003	**1.20**	**1.3**

Included within options outstanding at 31 March 2003 were the following options which were exercisable:

At 31 March 2003	1.19	0.7

23. **Share capital** (continued)

Options outstanding at 31 March 2003 and 31 March 2002, together with their exercise prices and dates were as follows:

	2003 millions	2002 millions	Exercise price per share pence	Normal dates of exercise Years
Employee sharesave schemes	**–**	2.2	171.0	2002
	–	0.9	337.0	2002
	1.1	1.3	312.0	2003
	0.4	0.5	416.0	2003
	1.6	1.9	337.0	2004
	0.2	0.7	457.0	2004
	22.7(i)	–	314.7	2004 – 2005
	0.4	0.7	416.0	2005
	0.4	–	397.0	2005
	3.3 (i)	–	344.0	2005 – 2007
	7.2	–	350.0	2005 – 2007
	0.3	1.6	457.0	2006
	0.4	–	397.0	2007
	38.0	9.8		

(i) These amounts represent former Lattice sharesave options converted to National Grid options.

Following the merger of Lattice and National Grid a number of employees did not convert their Lattice options into National Grid Transco options. These options remain options over shares in Lattice but are converted to shares in National Grid Transco upon exercise, details are disclosed below.

	2003 millions	2002 millions	Exercise price per share pence	Normal dates of exercise Years
Lattice sharesave options	**1.1**	69.1	118.0	2004 – 2006
	0.2	10.1	129.0	2005 – 2007
	1.3 (ii)	79.2		

(ii) On 29 April 2003, 20,383 of the Lattice sharesave scheme options were exercised and immediately converted into National Grid Transco shares. The remaining sharesave scheme options lapsed without being exercised.

The National Grid Transco employee sharesave scheme and the Lattice sharesave scheme are Inland Revenue approved and hence, as permitted by Urgent Issues Task Force (UITF) abstract 17 (revised 2000), no charge has been made to the profit and loss account.

	2003 millions	2002 millions	Exercise price per share pence	Normal dates of exercise Years
Executive scheme	**0.9**	1.1	205.5 – 280.0	2001 – 2007
	0.8	1.0	375.8	2001 – 2008
	0.6	0.7	424.0 – 455.3	2002 – 2009
	1.5	2.9	526.5 – 566.5	2003 – 2010
	4.2	2.8	479.5 – 623.0	2004 – 2011
	5.1	–	460.3 – 481.5	2005 – 2012
	13.1	8.5		

24. Reserves

	Group				Company		
	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Share premium account £m	Other reserve £m	Profit and loss account £m
At 31 March 2000	–	50	(5,243)	5,509	–	–	–
Exchange adjustments	–	–	–	(15)	–	–	–
Tax on exchange adjustments	–	–	–	32	–	–	–
Ordinary shares issued during the year	1	–	–	–	–	–	–
Transfer on issue of certain shares under share option schemes	1	–	–	(1)	–	–	–
Contribution to sharesave trust	–	–	–	45	–	–	–
Unrealised gain on transfer of assets to a joint venture (net of tax)	–	–	19	–	–	–	–
Funding movements with BG Group	–	–	20	–	–	–	–
Retained profit for the year	–	–	–	655	–	–	–
Transfer	(2)	–	2	–	–	–	–
At 31 March 2001	–	50	(5,202)	6,225	–	–	–
Exchange adjustments	–	–	–	(58)	–	–	–
Tax on exchange adjustments	–	–	–	21	–	–	–
Ordinary shares issued during the year							
– Share option scheme	46	–	–	–	1	–	–
– Acquisition	1,242	–	–	–	1,242	–	–
Transfer on issue of certain shares under share option schemes	11	–	–	(11)	–	–	–
Unrealised gain on transfer of assets to a joint venture (net of tax)	–	–	7	–	–	–	–
Reduction in revaluation reserve	–	(50)	–	–	–	–	–
Retained (loss)/profit for the year	–	–	–	(901)	–	–	498
Transfer	(56)	–	56	–	–	–	–
At 31 March 2002	1,243	–	(5,139)	5,276	1,243	–	498
Exchange adjustments	–	–	–	(322)	–	–	–
Tax on exchange adjustments	–	–	–	12	–	–	–
Ordinary shares issued during the year	2	–	–	–	4	–	–
Repurchase and cancellation of ordinary shares	–	–	2	(97)	–	2	(97)
Transfer on issue of certain shares under share option schemes	2	–	–	(2)	–	–	–
Unrealised gain on transfer of assets to a joint venture (net of tax)	–	–	6	–	–	–	–
Retained (loss)/profit for the year	–	–	–	(139)	–	–	734
At 31 March 2003	**1,247**	**–**	**(5,131)**	**4,728**	**1,247**	**2**	**1,135**

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 £1,264m (2002: £667m; 2001: £nil).

Other reserves are non-distributable reserves. They included merger accounting differences but, primarily represented the difference between the carrying value of Group undertakings, investments and their respective capital structures following the Lattice Demerger from BG Group plc and the 1999 Lattice Refinancing of £(5,745)m. Also included in the reserve were the merger differences described below of £221m and £359m together with unrealised gains of £32m on transfer of fixed assets to a former joint venture which subsequently became a Group undertaking.

The revaluation reserve brought forward as at 1 April 2000 related to investment properties. These properties were reclassified as other land and buildings in 2001 and are now reported at historical cost.

During the year ended 31 March 2003, the application of merger accounting principles to the Merger gave rise to a difference of £221m. It was accounted for as a merger difference and included within other reserves. The difference represented the excess of nominal share capital in issue by Lattice at the date of the Merger over the National Grid Transco plc share capital issued to Lattice shareholders. In accordance with merger accounting principles, the shares issued in connection with the Merger were treated as if issued throughout the year ended 31 March 2003 and comparative periods.

During the year ended 31 March 2002, the application of merger accounting principles to a group reconstruction which involved the creation of a new holding company gave rise to a difference of £359m. It was accounted for as a merger difference and included within other reserves. In accordance with merger accounting principles, the shares issued in connection with the scheme of arrangement to acquire the former holding company of the Group (National Grid Holdings One plc), as adjusted to reflect the issue of options were treated as if issued throughout the year ended 31 March 2002 and comparative period.

25. Non-equity minority interests

The non-equity minority interests of £69m (2002: £79m) comprised cumulative preference stock issued by Group undertakings.

26. Reconciliation of movement in equity shareholders' funds

	2003 £m	2002 £m	2001 £m
Profit/(loss) for the year	**391**	(321)	1,124
Dividends	**(530)**	(580)	(469)
	(139)	(901)	655
Issue of ordinary shares	**2**	1,317	1
Repurchase and cancellation of ordinary shares	**(97)**	–	–
Exchange adjustments	**(322)**	(58)	(15)
Tax on exchange adjustments	**12**	21	32
Unrealised gain on transfer of assets to a joint venture (net of tax)	**6**	7	19
Reduction in revaluation reserve on reclassification of investment properties	**–**	(50)	–
Contribution to sharesave trust	**–**	–	45
Funding movement with BG Group	**–**	–	20
Net (decrease)/increase in equity shareholders' funds	**(538)**	336	757
Equity shareholders' funds at start of year	**1,690**	1,354	597
Equity shareholders' funds at end of year	**1,152**	1,690	1,354

27. Group cash flow statement

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

	2003 £m	2002 £m	2001 £m
Operating profit of Group undertakings	**1,612**	1,060	1,712
Group exceptional operating items	**476**	673	88
Depreciation and amortisation	**1,088**	876	769
(Increase)/decrease in stocks	**(16)**	3	(19)
(Increase)/decrease in debtors	**(149)**	222	(168)
Increase/(decrease) in creditors	**159**	(180)	147
Decrease in provisions	**(16)**	(260)	(37)
Other	**–**	–	(10)
Net cash inflow from operating activities before exceptional items	**3,154**	2,394	2,482

b) Disposal of investments

	2003 £m	2002 £m	2001 £m
Cash consideration received	**328**	37	205
Cash balances of businesses disposed	**–**	–	(9)
	328	37	196
Comprises:			
Disposal of Group undertakings	**92**	37	54
Disposal of other investments	**236**	–	142
	328	37	196

c) Acquisition of Group undertakings

	2003 £m	2002 £m	2001 £m
Payments to acquire Group undertakings	**–**	(943)	(443)
(Overdraft)/cash balances of Group undertakings acquired	**–**	(7)	2
	–	(950)	(441)

27. Group cash flow statement (continued)

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

	2003 £m	2002 £m	2001 £m
Movement in cash and overdrafts	**34**	22	(15)
Net cash outflow/(inflow) from the management of liquid resources	**138**	(347)	(696)
(Increase)/decrease in borrowings	**(267)**	(1,206)	208
Change in net debt resulting from cash flows	**(95)**	(1,531)	(503)
Acquisition of Group undertakings	**–**	(3,678)	(162)
Disposal of Group undertaking	**(62)**	–	–
Certificates of tax deposit surrendered	**–**	–	(4)
Exchange adjustments	**593**	20	(218)
Other non-cash movements	**(15)**	(5)	(51)
Movement in net debt in the year	**421**	(5,194)	(938)
Net debt at start of year	**(14,299)**	(9,105)	(8,167)
Net debt at end of year	**(13,878)**	(14,299)	(9,105)

e) Analysis of changes in net debt

	At 1 April 2000 £m	Cash flow £m	Acquisition of Group undertakings £m	Exchange adjustments £m	Other non-cash movements £m	At 31 March 2001 £m
Cash at bank and in hand	23	5	–	–	–	28
Bank overdrafts	(4)	(20)	–	–	–	(24)
		(15)				
Current asset investments	1,170	(696)	–	21	(4)	491
Borrowings due after one year	(8,214)	(310)	(50)	(205)	525	(8,254)
Borrowings due within one year	(1,142)	518	(112)	(34)	(576)	(1,346)
		208				
	(8,167)	(503)	(162)	(218)	(55)	(9,105)

	At 1 April 2001 £m	Cash flow £m	Acquisition of Group undertakings £m	Exchange adjustments £m	Other non-cash movements £m	At 31 March 2002 £m
Cash at bank and in hand	28	82	–	–	–	110
Bank overdrafts	(24)	(60)	–	–	–	(84)
		22				
Current asset investments	491	(347)	215	(5)	–	354
Borrowings due after one year	(8,254)	(1,830)	(3,189)	11	549	(12,713)
Borrowings due within one year	(1,346)	624	(704)	14	(554)	(1,966)
		(1,206)				
	(9,105)	(1,531)	(3,678)	20	(5)	(14,299)

	At 1 April 2002 £m	Cash flow £m	Disposal of Group undertaking £m	Exchange adjustments £m	Other non-cash movements £m	**At 31 March 2003 £m**
Cash at bank and in hand	110	12	–	(3)	–	**119**
Bank overdrafts	(84)	22	–	–	–	**(62)**
		34				
Current asset investments	354	138	–	(10)	–	**482**
Borrowings due after one year	(12,713)	(1,226)	(55)	497	1,264	**(12,233)**
Borrowings due within one year	(1,966)	959	(7)	109	(1,279)	**(2,184)**
		(267)				
	(14,299)	(95)	(62)	593	(15)	**(13,878)**

28. Acquisitions

The acquisition of Niagara Mohawk was completed on 31 January 2002 at a total cost of £2,186m. The net assets acquired were ascribed a provisional fair value of £1,376m resulting in goodwill of £810m. During the year ended 31 March 2003, the provisional fair values applied were reviewed and a number of adjustments were made to those provisional values as a result of better information being available, as shown below:

	Provisional fair value at acquisition £m	Fair value adjustments £m	**Final fair value £m**
Tangible fixed assets	3,265	(14)(i)	**3,251**
Fixed asset investments	64	–	**64**
Stocks	36	–	**36**
Debtors	3,955	(115)(ii)(iii)	**3,840**
Investment held for resale	15	1	**16**
Cash and deposits	215	–	**215**
Creditors excluding borrowings	(939)	(6)(iv)	**(945)**
Borrowings	(3,852)	–	**(3,852)**
Provisions for liabilities and charges	(1,317)	52(v)	**(1,265)**
Minority interests	(66)	–	**(66)**
Net assets acquired	1,376	(82)	**1,294**

Fair value adjustments primarily comprise revaluation adjustments relating to:

(i) Write-off of construction work in progress (£13m);
(ii) Increase in bad debt provision (£42m);
(iii) Reduction in regulatory assets (£64m);
(iv) Adjustment to accruals (£6m); and
(v) Deferred tax on certain fair value adjustments (£54m).

The following unaudited pro forma summary gives effect to the acquisition of Niagara Mohawk, as if the acquisition had taken place on 1 April 2000 and on 1 April 2001. The pro forma summary combines the actual consolidated results of the Group (excluding the effect of the acquisition in the actual period that it took place) and the results of Niagara Mohawk after giving effect to certain adjustments. These adjustments include estimates of the effect of adopting the final fair value adjustments and the increased net interest expense, together with the associated tax effects, as a result of financing the acquisition. In addition, the earnings per share calculation has been adjusted as if the shares issued to acquire Niagara Mohawk were issued on the assumed date of acquisition for the purposes of preparing the pro forma summary. The pro forma summary does not necessarily reflect the results of operations as they would have been if the Group (excluding the acquisition) and the acquisition had constituted a single entity during the periods presented.

The unaudited pro forma summary is prepared on the basis of UK GAAP and includes the business combination of Lattice and National Grid on a merger accounting basis. As stated in note 33, under US GAAP, this business combination is accounted for as an acquisition of Lattice by National Grid. Therefore in note 34, additional disclosure is provided that presents pro forma financial information to reflect the business combination of National Grid and Lattice on the basis of acquisition accounting under US GAAP.

	2002 £m	2001 £m
Turnover	10,126	10,209
(Loss)/profit for the year – including exceptional items and goodwill amortisation	(352)	1,045
Profit for the year – excluding exceptional items and goodwill amortisation	846	626
Earnings per ordinary share		
Basic, including exceptional items and goodwill amortisation	(12.4)p	37.6p
Adjusted basic, excluding exceptional items and goodwill amortisation	33.6p	22.8p

29. Merger accounting

a) Alignment of accounting policies and fair value of shares issued on Merger

Lattice made changes to its accounting policies with effect from 1 April 2002. These changes were reported in its interim results for the six months ended 30 September 2002 and therefore have not been included as alignments of accounting policies at the time of the Merger. The changes made were as follows:

i) Lattice changed its accounting policy in respect of deferred tax, with the effect that Lattice no longer discounted deferred tax balances, resulting in an increase in the 2002 tax charge of £4m (£26m on pre-exceptional profits) and an increase in the deferred tax liability of £605m;
ii) A pension interest credit of £22m that was included within the net pension charge in operating profit is now reported within net interest; and
iii) Own shares of £7m in 2002 were recorded in other debtors but are now included within fixed asset investments.

In addition to the above changes, National Grid changed its policy in respect of the capitalisation of capital contributions. An adjustment has been made to the 31 March 2002 balances to reclassify £90m of capital contributions from tangible fixed assets to creditors (amounts due within one year) of £3m and to creditors (amounts due after more than one year) of £87m.

The fair value of the shares issued to effect the Merger was £6.6 billion. In addition, costs directly related to the Merger transaction itself of £79m were incurred.

b) Analysis of Group profit and loss account for the years ended 31 March 2002 and 2003

	National Grid 1 April to 20 October 2002 £m	**Lattice 1 April to 20 October 2002 £m**	**National Grid Transco 21 Oct 2002 to 31 March 2003 £m**	**Total year ended 31 March 2003 £m**	National Grid year ended 31 March 2002 £m	Lattice year ended 31 March 2002 £m	National Grid Transco year ended 31 March 2002 £m
Turnover, including share of joint ventures	**3,475**	**1,470**	**4,621**	**9,566**	4,660	3,161	7,821
Less: share of joint ventures' turnover – continuing operations	**(72)**	**–**	**(27)**	**(99)**	(133)	(8)	(141)
Less: share of joint ventures' turnover – discontinued operations	**(65)**	**–**	**(2)**	**(67)**	(126)	–	(126)
Group turnover							
– continuing operations	**3,338**	**1,434**	**4,591**	**9,363**	4,401	3,070	7,471
– discontinued operations	**–**	**36**	**1**	**37**	–	83	83
	3,338	**1,470**	**4,592**	**9,400**	4,401	3,153	7,554
Operating profit/(loss)							
Adjusted operating profit(i) of Group undertakings – continuing operations	**708**	**243**	**1,265**	**2,216**	893	985	1,878
Adjusted operating loss(i) of Group undertakings – discontinued operations	**–**	**(18)**	**(8)**	**(26)**	–	(60)	(60)
	708	**225**	**1,257**	**2,190**	893	925	1,818
Share of joint ventures' and associate's adjusted operating profit/(loss)(i) – continuing operations	**8**	**(1)**	**8**	**15**	36	(17)	19
Share of joint ventures' and associate's adjusted operating (loss)/profit(i) – discontinued operations	**(22)**	**–**	**2**	**(20)**	(54)	–	(54)
	(14)	**(1)**	**10**	**(5)**	(18)	(17)	(35)
Exceptional items – continuing operations	**(22)**	**(104)**	**(182)**	**(308)**	(122)	(163)	(285)
Exceptional items – discontinued operations	**127**	**(172)**	**6**	**(39)**	(792)	(250)	(1,042)
Goodwill amortisation – continuing operations	**(60)**	**(1)**	**(41)**	**(102)**	(78)	(7)	(85)
Goodwill amortisation – discontinued operations	**–**	**–**	**–**	**–**	(12)	–	(12)
Total operating profit/(loss)	**739**	**(53)**	**1,050**	**1,736**	(129)	488	359
Non-operating exceptional items – continuing operations	**(32)**	**(35)**	**36**	**(31)**	22	103	125
Non-operating exceptional items – discontinued operations	**–**	**(32)**	**(36)**	**(68)**	30	1	31
Profit/(loss) on ordinary activities before interest and taxation	**707**	**(120)**	**1,050**	**1,637**	(77)	592	515
Net interest – excluding exceptional items	**(306)**	**(203)**	**(430)**	**(939)**	(293)	(364)	(657)
Net interest – exceptional items	**(55)**	**–**	**24**	**(31)**	(142)	–	(142)
	(361)	**(203)**	**(406)**	**(970)**	(435)	(364)	(799)
Profit/(loss) on ordinary activities before taxation	**346**	**(323)**	**644**	**667**	(512)	228	(284)
Taxation – excluding exceptional items	**(107)**	**(5)**	**(261)**	**(373)**	(85)	(166)	(251)
Taxation – exceptional items	**25**	**34**	**69**	**128**	60	106	166
	(82)	**29**	**(192)**	**(245)**	(25)	(60)	(85)
Profit/(loss) on ordinary activities after taxation	**264**	**(294)**	**452**	**422**	(537)	168	(369)
Minority interests – excluding exceptional items	**(4)**	**1**	**–**	**(3)**	(6)	4	(2)
Minority interests – exceptional items	**(12)**	**–**	**(16)**	**(28)**	50	–	50
	(16)	**1**	**(16)**	**(31)**	44	4	48
Profit/(loss) for the period	**248**	**(293)**	**436**	**391**	(493)	172	(321)

(i) Adjusted operating profit/(loss) is presented before exceptional items and goodwill amortisation.

There was no intercompany trading between National Grid and Lattice.

29. Merger accounting (continued)

c) Analysis of statement of total recognised gains and losses

	1 April 2002 to 20 Oct 2002		21 Oct 2002 to 31 March 2003	2003	2002		
	National Grid £m	**Lattice £m**	**NGT £m**	**Total £m**	National Grid £m	Lattice £m	Total £m
Profit/(loss) for the period	**248**	**(293)**	**436**	**391**	(493)	172	(321)
Exchange adjustments	**(281)**	**–**	**(41)**	**(322)**	(58)	–	(58)
Tax on adjustments	**–**	**–**	**12**	**12**	21	–	21
Other recognised gains and losses	**–**	**(2)**	**8**	**6**	–	(43)	(43)
Total recognised gains and losses	**(33)**	**(295)**	**415**	**87**	(530)	129	(401)

d) Book value of net assets at date of Merger

	£m
Book value of National Grid net assets at date of Merger	**3,039**
Book value of Lattice net liabilities at date of Merger	**(1,806)**
Total net assets at date of Merger	**1,233**

30. Related party transactions

Transactions with related parties were in the normal course of business and are summarised below. 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	2002 £m	2001 £m
Sales:			
Services supplied	**10**	33	47
Finance lease rentals	**11**	9	11
Tangible fixed assets	**–**	28	47
Purchases:			
Services received	**59**	55	26
Finance lease rentals	**1**	–	–
Tangible fixed assets	**12**	3	–

Amounts owed from and to a former associate are given in note 16 and note 18 respectively.

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.

During the year, amounts were paid to or in respect of joint ventures, arising from the Group's obligations from its decision to exit from these investments. The payments made during the year amounted to £153m, all of which had been provided for at 31 March 2002.

31. Commitments and contingencies

a) Future capital expenditure

	Group		Joint ventures	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Contracted for but not provided	**664**	550	**1**	26

b) Lease commitments

At 31 March 2003, the Group's operating lease commitments for the financial year ending 31 March 2004 amounted to £74m (2002: £39m) 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**	1	**7**	2	**8**	3
Between two and five years	**4**	3	**20**	12	**24**	15
After five years	**26**	12	**16**	9	**42**	21
	31	16	**43**	23	**74**	39

31. Commitments and contingencies (continued)

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

	2003 £m	2002 £m
In one year or less	**74**	39
In more than one year, but not more than two years	**52**	35
In more than two years, but not more than three years	**41**	32
In more than three years, but not more than four years	**32**	30
In more than four years, but not more than five years	**30**	24
In more than five years	**247**	227
	476	387

c) Power commitments

At 31 March 2003, the Group had obligations to purchase energy under long-term contracts. The following table analyses these commitments, excluding those purchased power obligations, the net present value of which is already reflected in creditors (notes 18 and 19):

	2003 £m	2002 £m
In one year or less	**1,252**	1,340
In more than one year, but not more than two years	**948**	1,189
In more than two years, but not more than three years	**610**	1,057
In more than three years, but not more than four years	**592**	684
In more than four years, but not more than five years	**565**	692
In more than five years	**2,362**	2,350
	6,329	7,312

d) 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. The Group has issued guarantees in respect of a former associate amounting to £14m (2002: £14m (associate)). 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.

e) Other commitments and contingencies

The value of other Group commitments and contingencies at 31 March 2003 amounted to £194m (2002: £202m), including guarantees of £120m (2002: £133m), of which £nil (2002: £11m) was in respect of a joint venture.

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 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) A four-year guarantee relating to an interconnector construction project amounting to £18m provided by the Company; and
iv) Other guarantees amounting to £28m arising in the normal course of business and entered into on normal commercial terms.

The Company has guaranteed the lease obligations of a former associate to a Group undertaking, amounting to £50m (2002: £45m).

f) Parent Company loan guarantees on behalf of Group undertakings

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from certain Group undertakings to third parties. At 31 March 2003, the sterling equivalent amounted to £1,845m (2002: £1,426m). The guarantees are for varying terms between four and ten years.

g) Larkhall prosecution

As a result of a fatal accident in Larkhall, Lanarkshire in December 1999 in which four people died, the Crown Office in Scotland served an indictment on Transco on 5 February 2003. This charged the company with culpable homicide, with an alternative charge of a contravention of Sections 3 and 33 of the Health and Safety at Work Act 1974. Charging the company with culpable homicide is unprecedented under Scots law and therefore before a full trial can proceed, a number of fundamental legal issues associated with the indictment are required to be resolved. At a preliminary hearing in March 2003 to determine issues as to the competency and relevancy and other associated matters in relation to the charges, judgement was issued in favour of the Crown. Transco has appealed against this decision and the appeal hearing commenced on 20 May 2003. On indictment, the maximum penalties for both culpable homicide and contravention of Sections 3 and 33 are unlimited fines.

h) Sale of Millstone 3

In November 1999, New England Power (NEP), a subsidiary of National Grid USA, entered into an agreement with Northeast Utilities (NU) to settle claims made by NEP in relation to the operation of the Millstone 3 nuclear unit. As part of this agreement, NU agreed to include NEP's 16.2% share in an auction of NU's share in that unit, at a guaranteed price, irrespective of the price actually received at auction. On 31 March 2001, the Millstone 3 sale was completed and proceeds of US$28m (£20m) were received by NEP. Millstone 3 was subsequently sold to Dominion Resources Inc. for a total of approximately US$855m (£602m).

Regulatory authorities from Rhode Island, New Hampshire and Massachusetts have expressed an intent to challenge the reasonableness of the settlement agreement as NEP would have received approximately US$140m of sale proceeds without the agreement. Any dispute will be resolved by the Federal Energy Regulatory Commission (FERC). The Group believes it has a strong argument that it acted prudently since the amount received under the settlement agreement was the highest sale price for a nuclear unit at the time the agreement was reached.

31. Commitments and contingencies (continued)

i) Environmental related litigation

On 10 January 2002, New York State filed a civil action against Niagara Mohawk in federal district court in Buffalo, New York, for alleged violations of the federal Clean Air Act and related state environmental laws, at the Huntley and Dunkirk power plants, which Niagara Mohawk sold in 1999 to NRG Energy Inc. and its affiliates (collectively, NRG). The State alleged, among other things, that between 1982 and 1999 Niagara Mohawk modified the two plants 55 times without obtaining proper preconstruction permits and implementing proper pollution equipment controls.

Niagara Mohawk and NRG moved to dismiss the complaint on statute of limitations and other grounds in 2002, and on 27 March 2003, the court granted the motions in part, holding that the violations of the Clean Air Act prior to November 1996 were barred by the federal five-year statute of limitations, and that related state statutory violations prior to November 1999 were barred by the state three-year statute of limitations. At the same time, the court preserved the State's non-regulatory claims against Niagara Mohawk and dismissed NRG from the suit. On 25 April, the State filed a motion for leave to amend the complaint to assert new claims against both Niagara Mohawk and NRG.

Prior to the commencement of the enforcement action, on 13 July 2001, Niagara Mohawk filed a declaratory judgement action in New York State court in Syracuse against NRG seeking a ruling that NRG is responsible for the costs of pollution controls and mitigation that might result from the State's enforcement action. As a result of NRG's voluntary bankruptcy petition, filed in New York federal court for bankruptcy on 14 May 2003, Niagara Mohawk's declaratory judgement action is stayed.

32. Group undertakings and joint ventures

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
National Grid Company plc (i)	Transmission of electricity in England and Wales
New England Power Company (Incorporated in the US) (i)	Transmission and generation of electricity
Massachusetts Electric Company (Incorporated in the US) (i)	Distribution of electricity
The Narragansett Electric Company (Incorporated in the US) (i)	Distribution of electricity
Niagara Mohawk Power Corporation (Incorporated in the US) (i)	Distribution and transmission of electricity and gas
NGG Finance plc (ii)	Financing
British Transco International Finance B.V. (Incorporated in The Netherlands) (i)	Financing
SecondSite Property Portfolio Limited (i)	Property
National Grid Holdings One plc (ii)	Holding company
Lattice Group plc (ii)	Holding company
National Grid USA (Incorporated in the US) (i)	Holding company
Niagara Mohawk Holdings Inc. (Incorporated in the US) (i)	Holding company
Lattice Group Holdings Limited (i)	Holding company
Transco Holdings plc (i)	Holding company
National Grid (US) Holdings Limited (ii)	Holding company
National Grid Holdings Limited (i)	Holding company

(i) Issued ordinary share capital held by Group undertakings.
(ii) Issued ordinary share capital held by National Grid Transco plc.

Principal joint ventures
(at 31 March 2003)

	Group holding	Country of incorporation and operation	Principal activity
Compañia Inversora En Transmicion Electrica CITELEC S.A.(i)	42.5% ordinary shares	Argentina	Transmission of electricity
Copperbelt Energy Corporation Plc.(i)	38.5% ordinary shares	Zambia	Transmission, distribution and supply of electricity

(i) 31 December year end.

The investments in joint ventures are held by Group undertakings.

A full list of all Group and associated undertakings is available from the Group Company Secretary.

33. Summary US GAAP income statement, balance sheet, notes and associated reconciliations

The Group prepares its consolidated accounts in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP), which differ in certain respects from United States Generally Accepted Accounting Principles (US GAAP).

The most significant difference between UK and US GAAP is that, under UK GAAP, the combination of National Grid and Lattice has been accounted for as a merger (pooling of interests), while under US GAAP this transaction is accounted for as an acquisition (purchase accounting) of Lattice by National Grid. Consequently, under UK GAAP, the accounts represent the combined accounts of National Grid and Lattice on an historical cost basis for all periods presented. Under US GAAP, the accounts presented prior to the Merger are those of National Grid only.

The income statement and balance sheet shown on the following pages are presented in a US GAAP format. The balance sheet at 31 March 2003 includes the impact of the fair value of the acquired assets and liabilities of Lattice prepared under US GAAP at the date of acquisition. A summary of the principal differences between UK and US GAAP is shown in note 34.

33. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)

Summary US GAAP income statement

	2003 National Grid Transco (UK GAAP) £m	US GAAP adjustments 2003 Lattice pre-acquisition (UK GAAP) £m	2003 Other US GAAP adjustments £m	2003 National Grid Transco (US GAAP) £m
Turnover	9,400	(1,470)	1	7,931
Operating costs				
Depreciation	(851)	249	(129)	(731)
Payroll costs	(1,107)	308	(305)	(1,104)
Purchases of electricity	(1,901)	–	–	(1,901)
Purchases of gas	(357)	53	–	(304)
Rates and property taxes	(537)	130	–	(407)
Electricity transmission services scheme direct costs	(252)	–	–	(252)
EnMo direct costs	(530)	–	–	(530)
Replacement expenditure	(405)	239	166	–
Other operating charges	(1,848)	543	320	(985)
	(7,788)	1,522	52	(6,214)
Operating profit	1,612	52	53	1,717
Share of operating profits/(losses) of joint ventures and associate	124	1	(125)	–
Non-operating expenses	(99)	67	27	(5)
Profit before interest and taxation	1,637	120	(45)	1,712
Net interest expense	(970)	203	103	(664)
Profit on ordinary activities before taxation	667	323	58	1,048
Taxation	(245)	(29)	16	(258)
Profit on ordinary activities after taxation	422	294	74	790
Minority interests	(31)	(1)	29	(3)
Interest in equity accounted affiliates			3	3
Net income from continuing operations	391	293	106	790
Net loss from discontinued operations			(39)	(39)
Net income for the year	391	293	67	751
Basic earnings per share under US GAAP (pence) – continuing operations				33.6
Diluted earnings per share under US GAAP (pence) – continuing operations				32.9
Basic earnings per ADS under US GAAP (pence) – continuing operations				168.0
Diluted earnings per ADS under US GAAP (pence) – continuing operations				164.5
Basic earnings per share under US GAAP (pence) – discontinued operations				(1.7)
Diluted earnings per share under US GAAP (pence) – discontinued operations				(1.6)
Basic earnings per ADS under US GAAP (pence) – discontinued operations				(8.5)
Diluted earnings per ADS under US GAAP (pence) – discontinued operations				(8.0)
Net income under US GAAP after £22m dilutive impact of 4.25% Exchangeable Bonds 2008				773
Weighted average number of shares in issue (million) – for basic EPS				2,348
Weighted average number of shares in issue (million) – for diluted EPS				2,468

Consolidated statement of comprehensive income and changes in shareholders' equity under US GAAP

	2003 £m
Net income	751
Additional minimum pension liability (net of tax credit of £417m)	(886)
Exchange adjustments (net of tax credit of £12m)	(322)
Share of joint ventures' other comprehensive income	(10)
Other	9
Comprehensive loss	(458)
Dividends	(382)
Shares issued to purchase Lattice	6,566
Other shares issued	2
Share options granted	29
Repurchase of shares	(97)
Movement in treasury stock	7
Shareholders' equity at 1 April 2002	3,759
Shareholders' equity at 31 March 2003	9,426

Cumulative foreign exchange losses recognised in other comprehensive income at 31 March 2003 under US GAAP were £365m (2002: £31m; 2001: £22m).

33. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)

Summary US GAAP income statement (continued)

	2002 National Grid Transco (UK GAAP) £m	US GAAP adjustments 2002 Lattice pre-acquisition (UK GAAP) £m	US GAAP adjustments 2002 Other US GAAP adjustments £m	2002 National Grid Transco (US GAAP) £m
Turnover	7,554	(3,153)	(4)	4,397
Operating costs				
Depreciation	(750)	431	3	(316)
Payroll costs	(946)	581	(52)	(417)
Purchases of electricity	(1,410)	–	–	(1,410)
Purchases of gas	(171)	113	–	(58)
Rates and property taxes	(424)	227	–	(197)
Electricity transmission services scheme direct costs	(204)	–	–	(204)
EnMo direct costs	(395)	–	–	(395)
Replacement expenditure	(368)	368	–	–
Other operating charges	(1,826)	880	411	(535)
	(6,494)	2,600	362	(3,532)
Operating profit	1,060	(553)	358	865
Share of operating profits/(losses) of joint ventures and associate	(701)	65	636	–
Non-operating income	156	(104)	(30)	22
Profit before interest and taxation	515	(592)	964	887
Net interest expense	(799)	364	295	(140)
Profit on ordinary activities before taxation	(284)	(228)	1,259	747
Taxation	(85)	60	13	(12)
Profit on ordinary activities after taxation	(369)	(168)	1,272	735
Minority interests	48	(4)	(46)	(2)
Interest in equity accounted affiliates			(43)	(43)
Net income from continuing operations	(321)	(172)	1,183	690
Net loss from discontinued operations			(857)	(857)
Net loss for the year	(321)	(172)	326	(167)
Basic earnings per share under US GAAP (pence) – continuing operations				45.2
Diluted earnings per share under US GAAP (pence) – continuing operations				43.3
Basic earnings per ADS under US GAAP (pence) – continuing operations				226.0
Diluted earnings per ADS under US GAAP (pence) – continuing operations				216.5
Basic earnings per share under US GAAP (pence) – discontinued operations				(56.1)
Diluted earnings per share under US GAAP (pence) – discontinued operations				(52.1)
Basic earnings per ADS under US GAAP (pence) – discontinued operations				(280.5)
Diluted earnings per ADS under US GAAP (pence) – discontinued operations				(260.5)
				£m
Net loss under US GAAP				(167)
Dilutive impact of 4.25% Exchangeable Bonds 2008				22
Net loss after dilution				(145)
Weighted average number of shares in issue (million) – for basic EPS				1,527
Weighted average number of shares in issue (million) – for diluted EPS				1,644

Consolidated statement of comprehensive income and changes in shareholders' equity under US GAAP (continued)

	2002 £m
Net loss	(167)
Exchange adjustments (net of tax credit of £7m)	(2)
Share of associate's other comprehensive loss	(5)
Other	(4)
Comprehensive loss	(178)
Dividends	(229)
Other shares issued	1,305
Share options granted	5
Movement in treasury stock	(36)
Share of associate's capital transactions	(33)
Other	5
Shareholders' equity at 1 April 2001	2,920
Shareholders' equity at 31 March 2002	3,759

33. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)

Summary US GAAP income statement (continued)

	2001 National Grid Transco (UK GAAP) £m	US GAAP adjustments 2001 Lattice pre-acquisition (UK GAAP) £m	2001 Other US GAAP adjustments £m	2001 National Grid Transco (US GAAP) £m
Turnover	6,891	(3,091)	(17)	3,783
Operating costs				
Depreciation	(665)	388	3	(274)
Payroll costs	(736)	433	(8)	(311)
Purchases of electricity	(1,248)	–	–	(1,248)
Purchases of gas	(98)	98	–	–
Rates and property taxes	(390)	214	–	(176)
Electricity transmission services scheme direct costs	(220)	–	–	(220)
EnMo direct costs	(201)	–	–	(201)
Replacement expenditure	(276)	276	–	–
Other operating charges	(1,345)	676	60	(609)
	(5,179)	2,085	55	(3,039)
Operating profit	1,712	(1,006)	38	744
Share of operating profits/(losses) of joint ventures and associate	(105)	9	96	–
Non-operating income	306	(43)	(263)	–
Profit before interest and taxation	1,913	(1,040)	(129)	744
Net interest expense	(635)	380	118	(137)
Profit on ordinary activities before taxation	1,278	(660)	(11)	607
Taxation	(147)	200	(245)	(192)
Profit on ordinary activities after taxation	1,131	(460)	(256)	415
Minority interests	(7)	–	2	(5)
Interest in equity accounted affiliates			13	13
Net income from continuing operations	1,124	(460)	(241)	423
Net income from discontinued operations			387	387
Net income for the year	1,124	(460)	146	810
Basic earnings per share under US GAAP (pence) – continuing operations				28.7
Diluted earnings per share under US GAAP (pence) – continuing operations				27.8
Basic earnings per ADS under US GAAP (pence) – continuing operations				143.5
Diluted earnings per ADS under US GAAP (pence) – continuing operations				139.0
Basic earnings per share under US GAAP (pence) – discontinued operations				26.2
Diluted earnings per share under US GAAP (pence) – discontinued operations				24.2
Basic earnings per ADS under US GAAP (pence) – discontinued operations				131.0
Diluted earnings per ADS under US GAAP (pence) – discontinued operations				121.0

	£m
Net income under US GAAP	810
Dilutive impact of 4.25% Exchangeable Bonds 2008	21
Net income after dilution	831
Weighted average number of shares in issue (million) – for basic EPS	1,476
Weighted average number of shares in issue (million) – for diluted EPS	1,596

Consolidated statement of comprehensive income and changes in shareholders' equity under US GAAP (continued)

	2001 £m
Net income	810
Exchange adjustments (net of tax credit of £32m)	29
Share of associate's other comprehensive income	(47)
Other	3
Comprehensive income	795
Dividends	(213)
Other shares issued	1
Share options granted	5
Movement in treasury stock	6
Share of associate's capital transactions	(15)
Other	(5)
Shareholders' equity at 1 April 2000	2,346
Shareholders' equity at 31 March 2001	2,920

33. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)

Summary US GAAP balance sheet

	2003 £m	2002 £m
Assets		
Current assets		
Cash and cash equivalents	**570**	178
Marketable securities	**48**	65
Accounts and notes receivable	**628**	725
Inventories	**126**	56
Regulatory assets	**407**	424
Prepaid expenses and other current assets	**705**	373
Total current assets	**2,484**	1,821
Property, plant and equipment	**23,087**	9,089
Goodwill	**5,900**	2,223
Intangible assets	**74**	–
Investments	**210**	252
Regulatory assets	**3,491**	3,848
Other debtors	**843**	494
Total assets	**36,089**	17,727
Liabilities and shareholders' equity		
Current liabilities		
Bank overdrafts	**62**	37
Accounts payable	**1,266**	770
Short-term borrowings	**1,973**	1,136
Accrued income taxes	**–**	30
Purchased power obligations	**68**	102
Liability for index-linked swap contracts	**121**	53
Other accrued liabilities	**1,067**	421
Total current liabilities	**4,557**	2,549
Long-term borrowings	**13,058**	6,954
Purchased power obligations	**253**	362
Liability for index-linked swap contracts	**381**	408
Other liabilities	**3,638**	1,663
Deferred income taxes	**4,687**	1,929
Total liabilities	**26,574**	13,865
Minority interest – equity	**15**	19
Cumulative preference stock issued by Group undertakings	**74**	84
Shareholders' equity		
Common stock	**308**	178
Additional paid in capital	**7,710**	1,253
Other reserves	**359**	359
Retained earnings	**2,263**	1,982
Other comprehensive (loss)/income	**(1,175)**	33
Treasury stock	**(39)**	(46)
Equity shareholders' funds	**9,426**	3,759
Total liabilities and shareholders' equity	**36,089**	17,727

33. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)

Segmental information under US GAAP

	2003 £m	2002 £m	2001 £m
Turnover by business segment			
Continuing operations			
UK gas distribution	**1,239**	–	–
UK electricity and gas transmission	**1,662**	1,322	1,430
US electricity transmission	**400**	278	243
US electricity distribution	**3,446**	2,278	1,854
US gas	**446**	104	–
Other	**915**	443	281
Sales between businesses	**(177)**	(28)	(25)
Group turnover – continuing operations	**7,931**	4,397	3,783
Operating profit by business segment			
Continuing operations			
UK gas distribution	**567**	–	–
UK electricity and gas transmission	**596**	540	521
US electricity transmission	**116**	95	62
US electricity distribution	**446**	240	162
US gas	**52**	17	–
Other	**(60)**	(27)	(1)
Group undertakings – continuing operations	**1,717**	865	744

Turnover and operating profit in the other segment relates primarily to Europe.

	Tangible fixed assets		Goodwill	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Analysis by business segment				
Continuing operations				
UK gas distribution	**10,153**	–	**3,040**	–
UK electricity and gas transmission	**6,338**	3,570	**753**	–
US electricity transmission	**1,286**	1,431	**403**	438
US electricity distribution	**2,971**	3,253	**1,433**	1,558
US gas	**641**	694	**135**	141
Other	**1,698**	141	**136**	86
	23,087	9,089	**5,900**	2,223
Analysis by location of customer and group undertaking				
Europe	**18,131**	3,624	**3,848**	–
North America	**4,897**	5,456	**2,052**	2,223
Rest of the World	**59**	9	**–**	–
	23,087	9,089	**5,900**	2,223

33. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)

Reconciliation of net income from UK to US GAAP

The following is a summary of the material adjustments to net income which would have been required if US GAAP had been applied instead of UK GAAP:

	2003 £m	2002 £m	2001 £m
Net income/(loss) under UK GAAP	**391**	(321)	1,124
Adjustments to conform with US GAAP			
Elimination of Lattice pre-acquisition results, measured under UK GAAP	**293**	(172)	(460)
Merger costs	**32**	–	–
Deferred taxation	**7**	7	(27)
Pensions	**35**	29	19
Share option schemes	**(29)**	(5)	(5)
Fixed assets – purchase of Lattice	**(169)**	–	–
Replacement expenditure	**166**	–	–
Financial instruments	**40**	(83)	(55)
Carrying value of EPICs liability	**2**	203	153
Severance and integration costs	**(110)**	67	23
Recognition of income	**2**	(4)	(17)
Goodwill	**70**	78	(2)
Restructuring – purchase of Lattice	**46**	–	–
Share of joint ventures' and associate's adjustments	**(27)**	37	56
Other	**2**	(3)	1
	360	154	(314)
Net income/(loss) under US GAAP	**751**	(167)	810

Reconciliation of equity shareholders' funds from UK to US GAAP

The following is a summary of the material adjustments to equity shareholders' funds which would have been required if US GAAP had been applied instead of UK GAAP:

	2003 £m	2002 £m
Equity shareholders' funds under UK GAAP	**1,152**	1,690
Adjustments to conform with US GAAP		
Elimination of Lattice shareholders' funds	**–**	1,506
Deferred taxation	**(1,593)**	(52)
Pensions	**(1,800)**	217
Shares held by employee share trusts	**(39)**	(46)
Ordinary dividends	**317**	169
Tangible fixed assets – reversal of partial release of impairment provision	**(35)**	(38)
Fixed assets – impact of Lattice purchase accounting and replacement expenditure	**7,243**	–
Financial instruments	**(253)**	(81)
Issue costs associated with EPICs	**–**	2
Carrying value of EPICs liability	**243**	241
Severance liabilities	**3**	15
Recognition of income	**(27)**	(22)
Regulatory assets	**241**	34
Goodwill – purchase of Lattice	**3,829**	–
Goodwill – other acquisitions	**179**	105
Restructuring – purchase of Lattice	**(6)**	–
Share of joint ventures' and associate's adjustments	**(17)**	21
Other	**(11)**	(2)
	8,274	2,069
Equity shareholders' funds under US GAAP	**9,426**	3,759

33. Summary US GAAP income statement, balance sheet, notes and associated reconciliations (continued)

Group cash flow statement

The Group accounts include a cash flow statement prepared in accordance with UK Financial Reporting Standard 1 (Revised 1996) 'Cash Flow Statements' ('FRS 1 (revised)'), the objectives and principles of which are substantially the same as US Statement of Financial Accounting Standard 95 'Statement of Cash Flows' ('SFAS 95') under US GAAP. The principal differences between FRS 1 (revised) and SFAS 95 relate to the classification of items within the cash flow statement and the definition of cash and cash equivalents. Under UK GAAP, cash flows are classified under nine standard headings whereas US GAAP only requires presentation of cash flows from three activities, being operating activities, investing activities and financing activities.

Under US GAAP, in contrast to UK GAAP, cash and cash equivalents do not include bank overdrafts but do include investments with original maturities of three months or less.

Set out below is a summary of the Group cash flow statement under US GAAP:

	2003 £m	2002 £m	2001 £m
Net cash provided by operating activities (i)	**1,834**	902	425
Investing activities			
Payments to acquire tangible fixed assets	**(1,004)**	(500)	(472)
Acquisition of Group undertakings (net of cash acquired)	**338**	(934)	(441)
Payments to acquire investments	**(163)**	(50)	(337)
Receipts from disposal of investments	**328**	37	196
Net movement in investments with an original maturity date of more than three months	**–**	193	19
Other	**31**	54	(25)
Net cash used in investing activities (ii)	**(470)**	(1,200)	(1,060)
Net cash (used in)/provided by financing activities (iii)	**(962)**	222	(104)
Net increase/(decrease) in cash and cash equivalents	**402**	(76)	(739)
Cash and cash equivalents at beginning of year	**178**	259	977
Exchange adjustments	**(10)**	(5)	21
Cash and cash equivalents at end of year	**570**	178	259

Set out below is an explanation of the reconciliation from US GAAP to UK GAAP cash flow headings:

(i) Net cash provided by operating activities comprises net cash inflow from operating activities, dividends from joint ventures, returns on investments and servicing of finance, excluding costs relating to the issue of debt, and taxation.

(ii) Net cash used in investing activities comprises capital expenditure, acquisitions and disposals and the component of the management of liquid resources which comprises deposits with an original maturity of more than three months.

(iii) Net cash (used in)/provided by financing activities comprises equity dividends paid, financing, including costs relating to the issue of debt and movements in bank overdrafts.

34. Principal differences between UK and US accounting principles

The principal differences between UK and US GAAP, as applied in preparing the Group accounts under US GAAP, are set out below:

Acquisition (purchase) accounting adjustments (including elimination of merger costs)

In order to determine the allocation of purchase price relating to the acquired assets and liabilities of Lattice under US GAAP purchase accounting, the cost of acquisition has been calculated using the market value of the shares issued, the fair value of vested options exchanged and direct external acquisition costs and then allocated to the fair value of net assets acquired. As a result of the fair value exercise, increases in the value of Lattice's tangible fixed assets, financial instruments, pension obligations and restructuring provisions were recognised and market values attributed to its intangible fixed assets, mainly product licences, patents and trademarks, together with the recognition of appropriate deferred taxation effects. The difference between the cost of acquisition and the fair value of the separable assets and liabilities of Lattice has been recorded as goodwill. Additional depreciation in respect of the fair value of tangible fixed assets will be recorded over their respective economic useful lives.

The adjustments to the assets and liabilities of Lattice to reflect the fair values and allocation of the excess purchase consideration over the fair values of net assets acquired, based on management's best estimates of fair value, are discussed below. The fair value adjustments to UK gas transmission and distribution fixed assets, pensions, restructuring provision and the related deferred tax thereon are provisional and may be subject to revision during the year ending 31 March 2004.

a) The total purchase consideration was calculated by multiplying the number of National Grid shares issued to Lattice shareholders for all outstanding Lattice shares by the average fair value of National Grid shares. The average fair value of National Grid shares was calculated over a period of five business days, including two days prior to and two days subsequent to the announcement of the Merger on 22 April 2002.

The total purchase consideration, which included merger costs of £32m that were expensed under UK GAAP, also included the fair value of Lattice vested options exchanged for vested options in National Grid Transco.

The total number of Lattice vested options was multiplied by the respective fair value of each of the ordinary shares determined at 22 April 2002.

b) The increase in the fair value of tangible fixed assets primarily relates to UK gas transmission and distribution. It was determined by calculating the value in use of these businesses. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital. Future cash flows are based on a five-year plan, projected out to perpetuity. The fair value of other fixed assets, largely gas metering assets, was determined using their depreciated replacement costs, based on current costs of replacing meters and expected remaining useful economic lives.

c) The fair value attributed to pension obligations reflects the recognition of previously unrecognised actuarial gains and losses, prior service costs and transition amounts. The amounts recognised are based on actuarial assessments at the acquisition date.

34. Principal differences between UK and US accounting principles (continued)

Acquisition (purchase) accounting adjustments (including elimination of merger costs) (continued)

d) The fair value attributed to intangible fixed assets relates to licences, patents and trade marks and has been determined based on discounted future cash flows.

e) Restructuring costs (£60m) represent the costs being incurred in respect of the integration of activities within the newly merged Group and relate primarily to redundancy and property relocation costs.

f) Deferred taxes have been computed on the excess of the fair value over book value, other than for goodwill, using the applicable statutory UK tax rate.

g) Goodwill represents the remainder of unallocated purchase consideration.

The fair value of consideration, assets and liabilities and the resulting goodwill is set out in the table below:

Assets	**£m**
Total current assets	**1,336**
Property, plant and equipment	**14,148**
Intangible assets	**20**
Other assets	**6**
Total assets	**15,510**
Liabilities	
Total current liabilities	**2,656**
Long-term borrowings	**5,935**
Pensions	**535**
Other liabilities	**470**
Deferred income taxes	**3,129**
Total liabilities	**12,725**
Net assets	**2,785**
Consideration	**6,598**
Goodwill	**3,813**

Acquisitions – pro forma results

The following unaudited pro forma summary gives effect to the acquisitions of Lattice and Niagara Mohawk, as if the acquisitions had taken place on 1 April 2001. The pro forma summary combines the actual consolidated results of the Group (excluding the effect of the acquisitions in the actual period that they took place) and the results of Lattice and Niagara Mohawk after giving effect to certain adjustments. These adjustments include estimates of the effect of adopting the final fair value adjustments, and the increased net interest expense, together with the associated tax effects, as a result of financing the acquisition of Niagara Mohawk. In addition, the earnings per share calculation has been adjusted as if the shares issued to acquire Lattice and Niagara Mohawk were issued on the assumed date of acquisition for the purposes of preparing the pro forma summary. The pro forma summary does not necessarily reflect the results of operations as they would have been if the Group (excluding the acquisitions) and the acquisitions had constituted a single entity during the periods presented.

Continuing operations	**2003 £m**	2002 £m
Turnover	**9,332**	7,879
Net income	**580**	957
	pence	pence
Earnings per share	**18.9**	31.2
Diluted earnings per share	**18.8**	30.1
	pence	pence
Earnings per ADS	**94.5**	156.0
Diluted earnings per ADS	**94.0**	150.5

Deferred taxation

Under UK GAAP, deferred taxation is provided in full on all material timing differences with certain exceptions, as outlined in Accounting Policies – Deferred taxation and investment tax credits. Under US GAAP, deferred tax is provided in full, using the liability method, and requires the recognition of deferred taxation on all timing differences except for non tax deductible goodwill.

34. Principal differences between UK and US accounting principles (continued)

Deferred taxation (continued)

The deferred tax liability under US GAAP is analysed as follows:

	2003 £m	2002 £m
Deferred taxation liabilities:		
Excess of book value over taxation value of fixed assets	**4,955**	1,714
Other temporary differences	**1,229**	1,376
	6,184	3,090
Deferred taxation assets:		
Other temporary differences	**(1,497)**	(1,161)
	4,687	1,929
Analysed as follows:		
Current	**31**	12
Non-current	**4,656**	1,917
	4,687	1,929

Pensions

Under UK GAAP, pension costs have been accounted for in accordance with UK Statement of Standard Accounting Practice (SSAP) 24 and disclosures have been provided in accordance with SSAP 24 and FRS 17.

Under US GAAP, pension costs are determined in accordance with the requirements of US Statements of Financial Accounting Standards (SFAS) 87 and 88 and pension disclosures are presented in accordance with SFAS 132. Differences between UK GAAP and US GAAP figures arise from the requirement to use different actuarial methods and assumptions and a different method of amortising certain surpluses and deficits. Under US GAAP, the Company has estimated the effect on net income and shareholders' equity assuming the adoption and application of SFAS 87 'Employers' Accounting for Pensions' as of 1 April 1996, as the adoption of SFAS 87 on the actual effective date of 1 April 1989 was not feasible. The unrecognised transition asset at 1 April 1989, using the financial assumptions at 1 April 1996, amounted to £172m and is being amortised over 15 years commencing 1 April 1989.

Under UK GAAP, as explained in note 7, net interest includes a credit of £3m (2002: £30m; 2001: £63m) in respect of the notional interest element of the variation from the regular pension cost. Under US GAAP, this credit is not recognised.

The net periodic charge/(credit) for pensions and other post-retirement benefits is as follows:

	Pensions			Other post-retirement benefits		
	2003 £m	2002 £m	2001 £m	**2003 £m**	2002 £m	2001 £m
Service cost	**78**	30	25	**8**	5	3
Interest cost	**456**	125	111	**59**	29	21
Settlements	**19**	(12)	–	**–**	–	–
Expected return on assets	**(490)**	(160)	(142)	**(32)**	(21)	(17)
Amortisation of prior service cost	**5**	4	3	**–**	–	–
Amortisation of previously unrecognised losses	**4**	–	–	**2**	–	–
Amortisation of transitional asset	**(11)**	(11)	(11)	**–**	–	–
	61	(24)	(14)	**37**	13	7
Release of pension provision	**(2)**	(2)	(2)	**–**	–	–
	59	(26)	(16)	**37**	13	7

The additional cost incurred in respect of severance cases computed in accordance with SFAS 88 'Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits' is as follows:

	2003 £m	2002 £m	2001 £m
Cost of termination benefits and curtailments	**119**	46	4

The principal financial assumptions used for the SFAS 87 calculations in respect of the US and UK defined benefit schemes are shown below:

	US			UK		
	2003 %	2002 %	2001 %	**2003 %**	2002 %	2001 %
Discount rate	**6.3**	7.5	7.3	**5.4**	6.0	5.5
Return on assets	**8.5**	7.5 – 9.0	8.8	**6.3 – 7.1**	7.0	5.8
General salary increases	**3.25 – 5.25**	3.25 – 4.5	4.0	**3.5**	3.8	3.3
Pension increases	**nil**	nil	nil	**2.6**	2.9	2.5

The assumptions used for other post-retirement costs relate solely to US schemes. These assumptions were that the discount rate used would be 6.25% and that medical costs would increase by 10%, decreasing to 5% by 2008 and remain at 5% thereafter.

34. Principal differences between UK and US accounting principles (continued)

Pensions (continued)

A reconciliation of the funded status of the Group pension and other post-retirement schemes to the (accrued benefit liability)/prepaid cost that would appear in the Group's balance sheet if prepared under US GAAP is as follows:

	Pensions		Other post-retirement benefits	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Projected benefit obligation	**(15,030)**	(2,953)	**(1,004)**	(884)
Fair value of plan assets	**12,115**	2,698	**373**	397
Excess of projected benefit obligation over plan assets	**(2,915)**	(255)	**(631)**	(487)
Unrecognised transition asset	**(11)**	(23)	**–**	–
Unrecognised net loss	**2,508**	417	**336**	83
Unrecognised prior service cost/(credit)	**57**	65	**(1)**	(2)
(Accrued benefit liability)/prepaid cost – before minimum liability adjustment	**(361)**	204	**(296)**	(406)
Additional minimum liability adjustment	**(1,583)**	–	**–**	–
(Accrued benefit liability)/prepaid cost	**(1,944)**	204	**(296)**	(406)

In 2003, as required under SFAS 87, an intangible asset of £57m has been recognised in relation to the additional minimum liability, being equal to the unrecognised prior service cost. A regulatory asset of £221m has also been created. The remaining additional minimum liability of £1,303m (before exchange adjustment of £2m) has been charged to other comprehensive income. All pension schemes have an additional minimum liability adjustment. The accumulated benefit obligation for pensions is £14,059m. The Group has followed approach two of Emerging Issues Task Force (EITF) Abstract 88-1 in calculating the accumulated benefit obligation. Changes in the projected benefit obligation and changes in the fair value of plan assets are shown below:

	Pensions		Other post-retirement benefits	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Projected benefit obligation at start of year	**2,953**	1,906	**884**	316
Service cost	**78**	30	**8**	5
Interest cost	**456**	125	**59**	29
Plan participants' contributions	**10**	5	**–**	–
Plan amendment – prior service cost	**8**	23	**–**	(2)
Terminations and curtailments	**100**	40	**–**	7
Settlements	**(109)**	–	**–**	–
Actuarial loss	**1,212**	118	**195**	25
Benefits paid	**(423)**	(140)	**(54)**	(26)
Acquisition of Group undertakings	**10,908**	901	**–**	532
Transfers	**(1)**	(50)	**–**	–
Exchange adjustments	**(162)**	(5)	**(88)**	(2)
Projected benefit obligation at end of year	**15,030**	2,953	**1,004**	884
Fair value of plan assets at start of year	**2,698**	2,096	**397**	203
Actual return on assets	**(437)**	19	**(35)**	10
Employer contributions	**150**	23	**68**	16
Plan participants' contributions	**10**	5	**–**	–
Benefits paid	**(423)**	(140)	**(18)**	(20)
Acquisition of Group undertakings	**10,373**	739	**–**	189
Transfers	**–**	(40)	**–**	–
Settlements	**(109)**	–	**–**	–
Exchange adjustments	**(147)**	(4)	**(39)**	(1)
Fair value of plan assets at end of year	**12,115**	2,698	**373**	397

It is estimated that a 1% change in the assumed healthcare cost trends would increase or decrease the accumulated post-retirement benefit obligation at 31 March 2003 by £106m (2002: £91m) and £96m (2002: £82m) respectively. The net periodic cost for the year ended 31 March 2003 would increase or decrease by £8m and £7m respectively (2002: immaterial).

Share compensation plans

Under UK GAAP, shares in the Company held by employee share trusts are recorded as fixed asset investments at cost less amounts written off. Under US GAAP, those shares not fully vested are regarded as treasury stock and recorded as a deduction from shareholders' equity.

Share option schemes

As permitted under UK GAAP, no cost is accrued for share options awarded under the sharesave scheme where the exercise price of the options is below the market value at the date of grant. In respect of the grant of options under the Executive scheme, no cost is accrued under UK GAAP as the exercise price is equivalent to the market value at the date of grant.

34. Principal differences between UK and US accounting principles (continued)

Share option schemes (continued)

Under US GAAP, a charge is made against net income based on the fair value of grants in accordance with SFAS 123 'Accounting for Stock Based Compensation'. Disclosures are provided in accordance with SFAS 123 and SFAS 148 'Accounting for Stock Based Compensation – Transition and Disclosure – an amendment of FAS No. 123'.

The average fair value of the options granted during each of the three financial years ended 31 March 2003 are estimated as follows:

	2003	2002	2001
Where the exercise price is less than the market price at the date of grant	**123.0p**	158.0p	155.0p
Where the exercise price is equal to the market price at the date of grant	**50.0p**	62.0p	68.0p
Where the exercise price is greater than the market price at the date of grant	**–**	–	65.0p

The fair value of the options granted are estimated using the Black-Scholes European option pricing model using the following principal assumptions:

	2003	2002	2001
Dividend yield (%)	**3.5**	3.5	2.7
Volatility (%)	**35.0**	30.0	30.0
Risk-free investment rate (%)	**4.4**	5.4	5.9
Average life (years)	**4.0**	4.2	4.0

The compensation cost charged is £29m for the year ended 31 March 2003 (2002: £5m; 2001: £5m).

Further details of the Group's share based plans are given in note 23, pages 82 to 85.

Ordinary dividends

Under UK GAAP, final ordinary dividends are provided for in the year in respect of which they are proposed by the Board of Directors for approval by the shareholders. Under US GAAP, dividends are not provided until declared.

Tangible fixed assets – reversal of partial release of impairment provision

During the financial year ended 31 March 1990, an impairment provision was recorded in respect of certain tangible fixed assets. Part of this impairment provision was subsequently released and shareholders' equity credited. Under US GAAP this partial release would not be permitted.

Fixed assets – impact of Lattice purchase accounting and replacement expenditure

Under UK GAAP, the combination of National Grid and Lattice has been accounted for as a merger (pooling of interests) while under US GAAP this transaction is accounted for as an acquisition (purchase accounting) of Lattice by National Grid. Consequently, under US GAAP the tangible fixed assets of Lattice have been recorded at their fair value at the date of purchase and depreciation subsequent to acquisition is calculated on that fair value.

In addition, under UK GAAP the Group charges to the profit and loss account replacement expenditure on certain components of plant and equipment, which is principally undertaken to repair and to maintain the safety of the pipeline system. Under US GAAP such expenditure is capitalised and depreciated over the assets' useful lives.

Financial instruments

Under UK GAAP, derivative financial instruments that qualify for hedge accounting are recorded at their historical cost, if any, and are not re-measured. Any related monetary assets or liabilities, including foreign currency borrowings, are translated at the hedged rate. In addition, under UK GAAP, it is permissible to hedge account for the net assets of overseas operations with hedging instruments denominated in currencies other than the functional currencies of the overseas operations.

Under US GAAP, as required by SFAS 133 'Accounting for Derivative Instruments and Hedging Activities', all derivative financial instruments, including derivatives embedded within other contracts, are required to be recognised in the balance sheet as either assets or liabilities and measured at fair value. SFAS 133 only permits hedge accounting in specific circumstances, where the hedge is identified as one of three types: fair value; cash flow; or foreign currency exposures of net investments in foreign operations. Provided that it can be demonstrated that the hedge is highly effective and the relevant hedging criteria have been met, then in respect of fair value hedges, both the change in fair value of the derivative and hedged item are reflected in net income in the period of the change. For cash flow hedges and hedges of foreign currency exposures of net investments in foreign operations, changes in fair value are reflected through other comprehensive income. In the event that the conditions for hedge accounting are not met, changes in the fair value of derivatives are reflected in net income.

The primary differences that arise between UK GAAP and US GAAP result from the different criteria that are applied under UK GAAP and US GAAP to permit the use of hedge accounting, and the application of different measurement criteria.

Equity Plus Income Convertible Securities (EPICs)

Under UK GAAP, EPICs are carried in the balance sheet at the gross proceeds of the issue. The related issue costs were written off in the year of issue. Under US GAAP, the issue costs were deferred and written off over the period to the date of redemption of the EPICs on 6 May 2003.

US GAAP requires the carrying value of the EPICs to be adjusted to the settlement amount of the debt, which is linked to the Energis plc share price as described in note 20.

34. Principal differences between UK and US accounting principles (continued)

Regulatory assets

SFAS 71 'Accounting for Certain Types of Regulation' establishes US GAAP for utilities whose regulators have the power to approve and/or regulate rates that may be charged to customers. Provided that through the regulatory process the utility is substantially assured of recovering its allowable costs by the collection of revenue from its customers, such costs not yet recovered are deferred as regulatory assets. Due to the different regulatory environment, no equivalent accounting standard applies in the United Kingdom.

Under UK GAAP, regulatory assets established in accordance with the principles of SFAS 71 are recognised where they comprise rights or other access to future economic benefits which arise as a result of past transactions or events which have created an obligation to transfer economic benefit to a third party. Measurement of the past transaction or event and hence of the regulatory asset is determined in accordance with UK GAAP. Where the application of UK GAAP results in the non or partial recognition of an obligation compared with US GAAP, any related regulatory asset is either not or partially recognised. In certain circumstances, regulatory assets may be reported net of related regulatory liabilities.

Recognition of income

Under US GAAP, income is recognised in the period that the service is provided up to the maximum revenue allowed under the terms of the relevant regulatory regime. Under UK GAAP, any income received or receivable in excess of the maximum revenue allowed for the period, under the terms of the relevant regulatory regime, is recognised as income, where prices would be reduced in a future period.

Severance and integration costs

Under UK GAAP, severance costs are provided for in the accounts if it is determined that a constructive or legal obligation has arisen from a restructuring programme where it is probable that it will result in the outflow of economic benefits and the costs involved can be estimated with reasonable accuracy. Under US GAAP, severance costs are recognised when the employees accept the severance offer. In addition, where the number of employees leaving results in a significant reduction in the accrual of pension benefits for employees' future service (a curtailment under US GAAP), the effects are reflected as part of the cost of such termination benefits. Accordingly, timing differences between UK and US GAAP arise on the recognition of such costs.

Goodwill – purchase of Lattice

Under UK GAAP the combination of National Grid and Lattice has been accounted for as a merger (pooling of interests) while under US GAAP this transaction is accounted for as an acquisition (purchase accounting) of Lattice by National Grid. In accordance with US GAAP, goodwill arising on the purchase has been capitalised, but is not amortised.

Goodwill – other acquisitions

Under US GAAP, the fair value of net assets acquired is calculated in accordance with US GAAP principles which differ in certain respects from UK GAAP principles. As a result, the US GAAP fair value of net assets of Group undertakings acquired differs from the fair value of net assets as determined under UK GAAP principles.

Under UK GAAP, goodwill is amortised over its expected useful economic life, principally 20 years. Under US GAAP, goodwill is not amortised, but is reviewed periodically for impairment.

Restructuring – purchase of Lattice

Under US GAAP certain reorganisation costs relating to an acquired entity are included in liabilities in determining the fair value of net assets acquired. Under UK GAAP such costs are not recognised as liabilities of the acquired entity at the date of acquisition and are treated as post-acquisition costs.

Share of joint ventures' and associate's adjustments

The Group's share of the associated undertaking's results and net assets, which also impact on the exceptional profit on disposal of investments and assets held for exchange, have been adjusted to conform with US GAAP.

Other differences between UK and US GAAP

UK GAAP requires the investors' share of operating profit or loss, interest and taxation relating to associates and joint ventures to be accounted for and disclosed separately from those of Group undertakings. Under US GAAP, the investors' share of the after tax profits and losses of joint ventures and associate is included within the income statement as a single line item. UK GAAP requires the investors' share of gross assets and gross liabilities of joint ventures to be shown on the face of the balance sheet. Under US GAAP, the net investment in joint ventures is shown as a single line item.

Under UK GAAP, the impact of discontinued operations on turnover, operating costs and operating profit is required to be accounted for and disclosed separately from continuing operations. Under US GAAP, the net income/(loss) from discontinued operations is required to be separately accounted for and disclosed as a single line item.

The Group reviews all long-lived assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Under UK GAAP, recognition and measurement of impairment is determined on the basis of discounted cash flows attributable to income generating units. Under US GAAP, impairments on long-lived assets are determined in accordance with SFAS 144 'Accounting for the Impairment or Disposal of Long-Lived Assets' and are recognised on the basis of undiscounted future cash flows and measured on the basis of discounted future cash flows. This difference has no effect on the Group accounts for the three years ended 31 March 2003.

Under UK GAAP, assets in the balance sheet are presented in ascending order of liquidity and the balance sheet is analysed between net assets and shareholders' funds. Under US GAAP, assets are presented in descending order of liquidity and the balance sheet is analysed between total assets and liabilities and shareholders' funds – see note 33.

34. Principal differences between UK and US accounting principles (continued)

New US Accounting Standards adopted during 2002/03

National Grid Transco has adopted either in whole or in part the following US GAAP Statements of Financial Accounting Standards (SFAS) which were issued by the Financial Accounting Standards Board (FASB) during the year:

SFAS 144 'Accounting for the Impairment or Disposal of Long-Lived Assets';
SFAS 145 'Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections';
SFAS 146 'Accounting for Costs Associated with Exit or Disposal Activities';
SFAS 148 'Accounting for Stock-Based Compensation – Transition and Disclosure – An amendment of FASB Statement No. 123'; and
FASB Interpretation No. 45 (FIN 45) 'Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others'.

SFAS 144 replaces SFAS 121, but does not fundamentally alter the required accounting for either the recognition and measurement of the impairment of long-lived assets to be held and used or for the measurement of long-lived assets to be disposed of by sale. As a consequence, in this regard the application of this accounting standard has had no impact on the Group. SFAS 144 also supersedes the accounting and reporting provisions of Accounting Principles Board No. 30 (APB 30), principally with regard to the reporting of discontinued operations. The Group accounts have been prepared in accordance with SFAS 144, and the associated accounting and disclosures obligations complied with accordingly.

SFAS 145 amends a number of accounting standards. The principal impact of compliance with this standard on the Group has been the recording of £12m of pre-tax losses relating to the extinguishment of debt as part of ordinary activities. Prior to the implementation of SFAS 145, such losses would have been reported as extraordinary items net of the related tax effect.

SFAS 146 has addressed significant issues relating to the recognition, measurement and reporting of costs associated with exit and disposal activities, including restructuring activities. These provisions have been complied with in the preparation of the Group accounts and have not had any material impact on the results or financial condition of the Group.

SFAS 148 provides additional transition guidance for those entities that elect to voluntarily adopt the accounting provisions of SFAS 123 'Accounting for Stock-Based Compensation'. Prior to the adoption by the Group of SFAS 148, the Group had continued to account for stock compensation costs in accordance with APB 25. The Group adopted the retroactive restatement method of accounting, resulting in the restatement of the income statement and balance sheet under US GAAP for each period presented.

FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued, and also requires the recording of liabilities at fair value associated with the issuance of any guarantees since 31 December 2002. The disclosure provisions of FIN 45 have been considered in the identification and reporting of obligations in the Group accounts and the measurement provisions have similarly been considered in respect of any guarantees issued since 31 December 2002.

New US Accounting Standards and pronouncements not yet effective

SFAS 143 'Accounting for Asset Retirement Obligations' requires entities to record the fair value of an 'asset retirement obligation' arising in the period from legal obligations associated with the disposal of tangible fixed assets. This standard is applicable to the Group with effect from 1 April 2003. The application of this standard is not expected to have any material impact on the results or financial condition of the Group.

On 17 January 2003, the FASB issued Interpretation No. 46, (FIN 46) 'Consolidation of Variable Interest Entities' (VIE). Under FIN 46, certain entities labelled 'Variable Interest Entities', must be consolidated by the 'primary beneficiary' of the entity. The primary beneficiary is generally defined as the party exposed to the majority of the risks and rewards arising from the VIE. For VIEs in which a significant variable interest is held that is not a majority interest, certain disclosures are required. Full implementation of this interpretation to pre-existing entities is required from 1 July 2003; FIN 46 is applicable to any new VIEs with effect from 1 February 2003, but the Company has not entered into any arrangements that meet the definition of a VIE since this date.

SFAS 149 'Amendment of Statement 133 on Derivative Instruments and Hedging Activities' clarifies the circumstances in which a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component. In addition, the statement amends the definition of an underlying to conform to language used in FIN 45 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others', and certain other existing pronouncements. The statement is effective prospectively for contracts entered into or modified, and for hedging relationships designated, after 30 June 2003. The application of this standard is not expected to have a material impact on the results or the financial condition of the Group.