

NATIONAL GRID OVERSEAS LIMITED

REPORT OF THE DIRECTORS

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2003



REGISTERED NUMBER: 2444202

NATIONAL GRID OVERSEAS LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MARCH 2003

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2003.

PRINCIPAL ACTIVITY

The Company is an investment company.

RESULTS AND DIVIDENDS

The loss after taxation for the year was £665,345,000 (2002: £5,447,000).

The Company made appropriations in respect of preference dividends of £28,753,000 during the year (2002: £21,824,000).

FUTURE DEVELOPMENTS

The Company will continue as an investment company for the foreseeable future.

DIRECTORS

The directors of the Company during the year and subsequently were:

SJ Box	(Resigned 30 November 2002)
CRA Carter	(Resigned 29 November 2002)
MD O'Donovan	(Resigned 20 December 2002)
PN Phillips	(Resigned 20 December 2002)
AB Chapman	(Appointed 20 December 2002)
MC Cooper	(Appointed 20 December 2002)
SF Noonan	(Appointed 20 December 2002)
RF Pettifer	(Appointed 20 December 2002)

NATIONAL GRID OVERSEAS LIMITED

REPORT OF THE DIRECTORS (continued)

FOR THE YEAR ENDED 31 MARCH 2003

DIRECTORS' INTERESTS IN SHARES

The interests of the directors, shown in the register as maintained by the Company in accordance with Section 325 of the Companies Act 1985, were as follows:

Ordinary shares in National Grid Transco plc (which from 31 October 2001 to 21 October 2002 was National Grid Group plc)

Employee ShareSave options

	On appointment and at 31 March 2003
AB Chapman	5,007
MC Cooper	5,362
SF Noonan	5,110
RF Pettifer	3,991

Executive Share options

	On appointment and at 31 March 2003
AB Chapman	86,413
MC Cooper	17,501
SF Noonan	34,201
RF Pettifer	8,119

Beneficial interests in shares*

	On appointment and at 31 March 2003
AB Chapman	10,859
MC Cooper	49,032
SF Noonan	1,745
RF Pettifer	14,917

*Note: Includes shares acquired under the Share Matching scheme. Subject to retention of the shares acquired in accordance with the rules of the scheme, matching awards of National Grid Transco plc Ordinary shares were exercisable by AB Chapman (on appointment and at 31 March 2003: 2,925 shares) in addition to the above.

All the above interests at 31 March 2003 relate to Ordinary shares of 10p each in National Grid Transco plc, which the directors consider to be the ultimate holding company.

TRANSACTIONS WITH DIRECTORS

None of the directors had a material interest in any contract of significance to which the Company was a party or made any transaction, arrangement or agreement within the provisions of Schedule 6 to the Companies Act 1985, during the year.

NATIONAL GRID OVERSEAS LIMITED
REPORT OF THE DIRECTORS (continued)
FOR THE YEAR ENDED 31 MARCH 2003

DIRECTORS' RESPONSIBILITIES

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

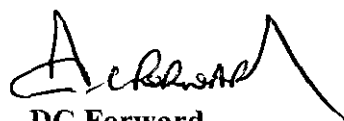
The directors are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They also have general responsibility for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

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

AUDITORS

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 11 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. The company had previously taken advantage of the provisions of Section 379A of the Companies Act 1985 that enable a private company to dispense with the requirement to appoint auditors annually. Accordingly, PricewaterhouseCoopers LLP will be deemed to remain in office until further notice.


FOR THE BOARD



DC Forward

Secretary

6 November 2003



REGISTERED OFFICE

1-3 THE STRAND
LONDON
WC2N 5EH

NATIONAL GRID OVERSEAS LIMITED
INDEPENDENT AUDITORS REPORT TO
THE MEMBERS OF NATIONAL GRID OVERSEAS LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

NATIONAL GRID OVERSEAS LIMITED

INDEPENDENT AUDITORS REPORT TO

THE MEMBERS OF NATIONAL GRID OVERSEAS LIMITED (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, reading "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
6 November 2003

NATIONAL GRID OVERSEAS LIMITED

PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2003

	Notes	2003 £'000	2002 £'000
Operating costs	3	(666,559)	(10,886)
Operating loss		(666,559)	(10,886)
Interest receivable from Group undertakings		1,735	3,053
Interest payable to a Group undertaking		-	(188)
Profit/(loss) on ordinary activities before taxation		(664,824)	(8,021)
Taxation	4	(521)	2,574
Profit/(loss) on ordinary activities after taxation		(665,345)	(5,447)
Dividends and appropriations	5	(28,753)	(21,824)
Loss for the year transferred from reserves	8	(694,098)	(27,271)

The results reported above relate to continuing operations.

The Company has no recognised gains and losses other than the loss for the year stated above and therefore no separate statement of total recognised gains and losses has been presented.

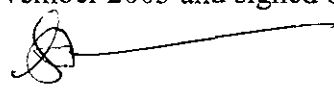
NATIONAL GRID OVERSEAS LIMITED

BALANCE SHEET

AT 31 MARCH 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Investments	6	-	-
Current assets			
Amounts owed by Group undertakings		1,533	681,210
Creditors: amounts falling due within one year			
Amounts owed to Group undertakings		(81,180)	(95,512)
Net current (liabilities)/assets		(79,647)	585,698
Net (liabilities)/assets employed		<u>(79,647)</u>	<u>585,698</u>
Capital and reserves			
Called up share capital	7	222,072	201,985
Share premium account	8	280,034	280,034
Profit and loss account	8	(581,753)	103,679
Equity shareholders' funds		(283,346)	410,752
Non-equity shareholders' funds	10	203,699	174,946
Shareholders' funds	9	<u>(79,647)</u>	<u>585,698</u>

The financial statements on pages 6 to 15 were approved by the board of directors on 6 November 2003 and signed on its behalf by:


SF Noonan
 Director

NATIONAL GRID OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared under the historical cost convention and the accounting policies set out below and in accordance with applicable accounting and financial reporting standards.

b) Basis of preparation

In accordance with Section 228 of the Companies Act 1985, the Company is exempt from preparing consolidated financial statements, as it is a wholly owned subsidiary of National Grid International Ltd and is included within the consolidated accounts of National Grid Holdings Limited.

As permitted by Financial Reporting Standard 1 (Revised 1996), no cash flow statement has been presented as the cash flows of the Company have been included in the consolidated cash flow statement of National Grid Transco plc.

c) Fixed asset investments

Investments held as fixed assets are stated at cost less any provision for impairment. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value in use.

d) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These exchange differences are dealt with in the profit and loss account.

Exchange gains and losses arising on the retranslation of unhedged foreign currency denominated preference shares to the exchange rate ruling at the balance sheet date have been taken to the profit and loss account as an appropriation of profit.

NATIONAL GRID OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

e) Financial instruments

Cross currency swaps were entered into by the Company with other group companies to hedge the foreign currency exposure associated with its redeemable preference shares.

Gains and losses arising on the cancellation of the cross currency swaps and amounts payable or receivable in respect of cross currency swaps are recognised in the profit and loss account as finance costs of the non-equity shares to the extent that the cross currency swaps are held as hedges of the non-equity shares.

Changes in the fair values of financial instruments are not recognised in the profit and loss account or balance sheet.

f) Deferred taxation

Deferred taxation is calculated on a full provision basis, using the approach set out in Financial Reporting Standard 19 "Deferred Tax", in respect of timing differences on a non-discounted basis. Deferred tax assets are recognised to the extent that they are regarded as recoverable.

2 Directors' emoluments

The emoluments of the directors are paid by a Group undertaking and are deemed by them to be wholly attributable to their services to that undertaking. Accordingly, no details in respect of their emoluments have been included in these financial statements.

3 Operating costs

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Exchange losses on loans from Group undertakings	-	101
Losses arising on cross currency swaps	-	7,176
Impairment of loans owed by Group undertakings	666,559	3,609
	<u>-</u>	<u>10,886</u>

Audit fees for the current and prior year are borne by the ultimate parent undertaking.

NATIONAL GRID OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Taxation

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Charge for year	521	-
Group relief receivable	-	(11,809)
Adjustment in respect of prior years	-	(317)
Deferred Tax on timing differences in respect of derivative financial instruments		
- charge for the year	-	9,552
	<u>521</u>	<u>(2,574)</u>

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

	%	%
UK corporate tax rate	30	30
Increase/(decrease) resulting from:		
Foreign exchange gains and losses	-	85
Finance costs in respect of non-equity shares	-	46
Amounts written off investments and loans	(30)	(14)
	<u>-</u>	<u>147</u>

The effective tax rate of (0.08%) (2002: 32%) is different from the UK statutory rate of 30% because the provision against amount due from Group undertakings as shown in the profit and loss account is not taxable.

The corporation tax payable has been reduced by £521,000 because of group relief receivable from Group undertakings for which a payment of £521,000 will be made. During the year ended 31 March 2002 the Company surrendered the benefit of tax losses of £39,363,000 to fellow Group undertakings for consideration of £11,809,000.

NATIONAL GRID OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Dividends and appropriations

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Dividends in respect of non-equity shares:		
Paid	-	7,574
Payable	8,666	2,336
Appropriations in respect of exchange adjustments of non-equity shares	20,087	(301)
Finance costs in respect of instruments hedging non-equity shares	-	12,215
	<u>28,753</u>	<u>21,824</u>

6 Fixed asset investment

	Shares in Group undertaking £'000
Cost	
At 1 April 2002 and 31 March 2003	451,976
Provision	
At 1 April 2002 and 31 March 2003	(451,976)
Net book value	
At 31 March 2003 and 31 March 2002	-

The fixed asset investment at 31 March 2003 comprises the whole of the ordinary share capital of National Grid Overseas Two Limited, an investment company incorporated in Great Britain.

NATIONAL GRID OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Share capital

	At 31 March 2003		At 31 March 2002	
	Number	£'000	Number	£'000
Authorised				
Ordinary shares of £1 each	1,000	1	1,000	1
B ordinary shares of £1 each	30,000,000	30,000	30,000,000	30,000
Redeemable A preference shares of £1 each	168,368,400	168,368	168,368,400	168,368
	<u>198,369,400</u>	<u>198,369</u>	<u>198,369,400</u>	<u>198,369</u>
Allotted, called up and fully paid up				
Ordinary shares of £1 each	200	-	200	-
B ordinary shares of £1 each	30,000,000	27,039	30,000,000	27,039
Redeemable A preference shares of £1 each	168,368,400	195,033	168,368,400	174,946
	<u>198,368,600</u>	<u>222,072</u>	<u>198,368,600</u>	<u>201,985</u>

Redeemable A Preference shares

The redeemable A preference shares represent cumulative redeemable preference shares. They were issued on 27 June 2000 at nominal value. The total amount payable on redemption is CHF 417,351,590 ("Swiss Franc Equivalent Amount"). There is no premium payable on redemption. The Company has the option to redeem the shares by giving prior notice at any time on or after 10 June 2001 but not later than 9 December 2004, or without notice on 10 December 2004.

Shareholders are entitled to receive dividends at a fixed rate of 4.33% per annum on the Swiss Franc Equivalent Amount.

On winding up, the holders of redeemable A preference shares rank above ordinary shareholders and are entitled to receive the Swiss Franc Equivalent Amount and any dividends accrued but unpaid in respect of their shares. Shareholders may attend and speak at General Meetings, but may vote only on matters affecting their rights as holders of the redeemable preference shares.

NATIONAL GRID OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Share capital (continued)

Redeemable A Preference shares (continued)

Because of the Swiss Franc exposure associated with the final amount payable on redemption of the preference shares, the Company had entered into a cross-currency swap contract to hedge this exposure. The existing swap was closed out on 10 December 2001 and no new contract was entered into. The consideration payable to shareholders in respect of the redemption amount and the preferential dividends is determined by the Swiss Franc exchange rate. The substance of the shares is effectively that of Swiss Franc preference shares and they have therefore been accounted for as a financial liability denominated in Swiss Francs as at the year end.

B ordinary shares

The 30,000,000 £1 B shares have economic rights equivalent to that of 0.0000126115 ordinary shares.

8 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 April 2002	280,034	103,679
Loss for the year transferred from reserves	-	(694,098)
Dividend on redeemable preference shares not yet declared	-	8,666
At 31 March 2003	280,034	(581,753)

Included within the profit and loss account reserve is £90,022,000 of unrealised reserves, which arose on the inter company sale of National Grid Holdings BV to National Grid Overseas 2 Limited which resulted in an unrealised profit.

The accumulated unpaid dividend payable on the redeemable preference shares is £8,666,000 which has not been paid as there are insufficient reserves.

NATIONAL GRID OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Reconciliation of movement in shareholders' funds

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Loss on ordinary activities after taxation	(665,345)	(5,447)
Dividends and appropriations	(28,753)	(21,824)
	<u>(694,098)</u>	<u>(27,271)</u>
Cumulative dividend not yet declared	8,666	-
Exchange adjustment in respect of non-equity shares	20,087	6,577
Revaluation of non-equity shares	-	(29,613)
Net decrease in shareholders' funds	(665,345)	(50,307)
Opening shareholders' funds	585,698	636,005
Closing shareholders' funds	<u>(79,647)</u>	<u>585,698</u>

10 Non-equity shareholders' funds

Non-equity shareholders' funds are analysed by class of share as follows:

	At 31 March 2003 £'000	At 31 March 2002 £'000
Redeemable A Preference shares	<u>203,699</u>	<u>174,946</u>

NATIONAL GRID OVERSEAS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Related party transactions and ultimate parent company

The company is exempt from disclosing transactions with those companies within the National Grid Transco group of companies where all of the voting rights are held within the group. There were no transactions with companies where not all of the voting rights are held within the National Grid Transco group of companies.

The ultimate parent and controlling company is National Grid Transco plc and the immediate parent company is National Grid International Limited. The smallest controlling company for which consolidated financial statements are prepared is National Grid Holdings Limited. All of these companies are incorporated in Great Britain.

Copies of their consolidated financial statements can be obtained from the Assistant Company Secretary, National Grid Transco, 1-3 The Strand, London WC2N 5EH.