

**NATIONAL GRID OVERSEAS LIMITED**

**REPORT OF THE DIRECTORS**

**AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2002**



**REGISTERED NUMBER: 2444202**

**NATIONAL GRID OVERSEAS LIMITED**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 MARCH 2002**

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2002.

**PRINCIPAL ACTIVITY**

The Company is an investment company.

**RESULTS AND DIVIDENDS**

The loss after taxation for the year was £8,021,000,000 (2001(restated): £106,532,000).

The Company made appropriations in respect of preference dividends of £21,824,000 during the year (2001: £25,513,000).

**FUTURE DEVELOPMENTS**

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

**DIRECTORS**

The directors of the Company during the year were:

S J Box  
CRA Carter  
MD O'Donovan  
PN Phillips

**NATIONAL GRID OVERSEAS LIMITED**  
**REPORT OF THE DIRECTORS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2002**

**DIRECTORS' INTERESTS IN SHARES**

The interests of SJ Box in Group companies are disclosed in the accounts of the ultimate parent company, National Grid Group plc. The interests of the other 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 Group plc ("New NGG")**

**Employee sharesave options**

	<b>1 April 2001</b>	<b>Granted</b>	<b>Exercised</b>	<b>31 March 2002</b>
CRA Carter	11,815	3,692	11,815	3,692
MD O'Donovan	7,039	-	-	7,039
PN Phillips	2,328	-	-	2,328

**Executive share options**

	<b>1 April 2001</b>	<b>Granted</b>	<b>Exercised</b>	<b>31 March 2002</b>
CRA Carter	55,010	21,314	-	76,324
MD O'Donovan	47,514	4,743	-	52,257
PN Phillips	6,080	-	-	6,080

**NATIONAL GRID OVERSEAS LIMITED**  
**REPORT OF THE DIRECTORS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2002**

**DIRECTORS' INTERESTS IN SHARES (continued)**

**Beneficial interests in shares**

	<b>1 April 2001</b>	<b>31 March 2002</b>
CRA Carter	12,343*	23,058*
MD O'Donovan	33,370	28,414
PN Phillips	2,911	410

\* Includes shares acquired under the NGG share matching scheme. Subject to retention of the shares acquired in accordance with the rules of the scheme, a matching award of new NGG Ordinary shares would be exercisable by CRA Carter (905 shares (2001: 662 shares)) in addition to the above.

All the above interests at 31 March 2002 relate to Ordinary shares of 10p each in New NGG, which the Directors consider to be the ultimate holding company. On 31 January 2002 all existing interests held in National Grid Group plc ("Old NGG") relating to Ordinary shares of 11 and 13/17p each were replaced by interests in the same number of shares in New NGG on transfer of the listing to New NGG. On the same date Old NGG changed its name to National Grid Holdings One plc.

**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.

**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.

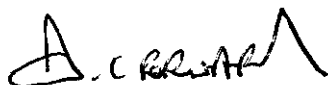
The directors consider that in preparing the financial statements, suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that applicable accounting and financial reporting standards have been followed. The directors also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

**NATIONAL GRID OVERSEAS LIMITED**  
**REPORT OF THE DIRECTORS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2002**

**AUDITORS**

The Company has 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 will be deemed to remain in office until further notice.

**FOR THE BOARD**



**DC Forward**  
Secretary

16 October 2002

**REGISTERED OFFICE**

15 MARYLEBONE ROAD  
LONDON  
NW1 5JD

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

We have audited the financial statements on pages 6 to 17.

**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 on page 3.

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.

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.

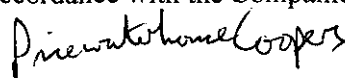
**Basis of audit opinion**

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.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
London  
16 October 2002

**NATIONAL GRID OVERSEAS LIMITED**

**PROFIT & LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 MARCH 2002**

	Notes	2002 £'000	2001 (restated) £'000
Operating costs	4	(10,886)	(280,951)
<b>Operating loss</b>		(10,886)	(280,951)
Exceptional profit on sale of fixed asset investment		-	818,186
Interest receivable from Group undertakings		3,053	7,331
Impairment of investment in a Group undertaking		-	(451,976)
Interest payable to a Group undertaking		(188)	-
<b>(Loss)/profit on ordinary activities before taxation</b>		(8,021)	92,590
Taxation	5	2,574	13,942
<b>(Loss)/profit on ordinary activities after taxation</b>		(5,447)	106,532
Dividends and appropriations	6	(21,824)	(25,513)
<b>(Loss)/retained profit for the year</b>	11	<b>(27,271)</b>	<b>81,019</b>

The results reported above relate to continuing operations.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

**YEAR ENDED 31 MARCH 2002**

	2002 £'000	2001 (restated) £'000
(Loss)/profit on ordinary activities after taxation, being total recognised gains and losses relating to the year	(5,447)	106,534
Prior year adjustment (see note 2)	9,552	-
<b>Total recognised gains and losses recognised since last report</b>	<b>4,105</b>	<b>106,534</b>

**NATIONAL GRID OVERSEAS LIMITED**

**BALANCE SHEET**

**AT 31 MARCH 2002**

	Notes	2002 £'000	2001 restated £'000
<b>Fixed asset</b>			
Investment	7	-	-
<b>Current assets</b>			
Debtors	8	681,210	682,548
<b>Creditors: amounts falling due within one year</b>	9	(95,512)	(46,543)
<b>Net current assets</b>		585,698	636,005
<b>Net assets employed</b>		<u>585,698</u>	<u>636,005</u>
<b>Capital and reserves</b>			
Called up share capital	10	201,985	198,369
Share premium account	11	280,034	306,686
Profit and loss account	11	103,679	130,950
Equity shareholders' funds		410,752	167,636
Non-equity shareholders' funds	13	174,946	468,369
<b>Shareholders' funds</b>	12	<u>585,698</u>	<u>636,005</u>

The financial statements on pages 6 to 17 were approved by the board of directors on 16 October 2002 and signed on its behalf by:

**MD O'Donovan**  
Director

*M. O'Donovan*



**NATIONAL GRID OVERSEAS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2002**

**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. During the year the company has adopted Financial Reporting Standard (FRS) 18 "Accounting policies" and Financial Reporting Standard (FRS) 19 "Deferred Tax". There has been no material impact to the Company of adopting FRS 18. The impact of adopting FRS 19 is shown in note 2.

**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 Group 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 compared with 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 or, if hedged forward, at the rates of exchange under the related contract. 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)**

#### **FOR THE YEAR ENDED 31 MARCH 2002**

##### **e) Financial instruments**

Cross currency swaps have been 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. Previously deferred taxation was accounted for on the partial provisioning basis required by Statement of Standard Accounting Practice (SSAP) 15. The effect of this change in accounting policy on the results and net assets of the current and previous financial years is shown in Note 2.

#### **2. Prior year adjustment**

The adoption of Financial Reporting Standard 19 "Deferred Tax" (FRS 19) has resulted in a change in the method of accounting for deferred tax, from a partial to a full provision basis. This change in accounting policy has been reflected in the accounts as a prior year adjustment in accordance with Financial Reporting Standard 3. As a result, equity shareholders' funds at 31 March 2001 have been increased by £9,552,000 and the comparative amounts of taxation and profit after taxation for the nine months ended 31 March 2001 have been reduced and increased respectively by £9,552,000.

#### **3 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.

**NATIONAL GRID OVERSEAS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 MARCH 2002**

**4 Operating costs**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Audit fees	-	3
Exchange losses on loans from Group undertakings	101	4760
Losses arising on cross currency swaps	7,176	-
Impairment of loans owed by Group undertakings	3,609	276,188
	<u>10,886</u>	<u>280,951</u>

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

**5 Taxation**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>(restated) £'000</b>
Group relief receivable	11,809	4,390
Adjustment in respect of prior years	317	-
Deferred Tax on timing differences in respect of derivative financial instruments		
- prior year adjustment	-	9,552
- charge for the year	(9,552)	-
	<u>2,574</u>	<u>13,942</u>

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

	<b>%</b>	<b>%</b>
UK corporate tax rate	30	30
Increase/(decrease) resulting from:		
Non taxable profits	-	(265)
Foreign exchange gains and losses	85	-
Finance costs in respect of non-equity shares	46	(16)
Amounts written off investments and loans	(14)	236
	<u>147</u>	<u>(15)</u>

The Company has surrendered the benefit of tax losses of £39,363,000 (2001: £14,633,000) to fellow Group undertakings for consideration of £11,809,000 (2001: £4,390,000).

**NATIONAL GRID OVERSEAS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2002**

**6 Dividends and appropriations**

	2002 £'000	2001 £'000
Dividends in respect of non-equity shares:		
Paid	7,574	-
Payable	2,336	8,315
Appropriations in respect of non-equity shares	(301)	-
Finance costs in respect of non-equity shares	12,215	17,198
	<u>21,824</u>	<u>25,513</u>

In accordance with the provisions of FRS 4, the Company has appropriated through the profit and loss account preference share dividends for the year on the Company's redeemable preference shares.

**7 Fixed asset investment**

	Shares in Group undertakings £'000
<b>Cost</b>	
At 1 April 2001 and 31 March 2002	451,976
<b>Provision</b>	
At 1 April 2001 and 31 March 2002	(451,976)
<b>Net book value</b>	
At 31 March 2002	-
At 31 March 2001	-

The fixed asset investment at 31 March 2002 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)**  
**FOR THE YEAR ENDED 31 MARCH 2002**

**8 Debtors**

	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b> <b>(restated)</b>
Amounts owed by Group undertakings	681,210	672,996
Deferred taxation asset due in less than one year	-	9,552
	<u>681,210</u>	<u>682,548</u>
Deferred taxation assets represent the following:		
Timing differences in respect of derivative financial instruments	-	9,552
At 1 April 2001 (restated)		9,552
Charge to profit and loss account		(9,552)
At 31 March 2002		<u>-</u>

**9 Creditors: amounts falling due within one year**

	<b>2002</b> <b>£'000</b>	<b>2001</b> <b>£'000</b>
Amounts owed to Group undertakings	95,512	46,115
Corporation tax	-	428
	<u>95,512</u>	<u>46,543</u>

**NATIONAL GRID OVERSEAS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 MARCH 2002**

**10 Share capital**

	<b>2002</b>		<b>2001</b>	
	<b>Number</b>	<b>£'000</b>	<b>Number</b>	<b>£'000</b>
<b>Authorised</b>				
Ordinary shares of £1 each	1,000	1	1,000	1
B ordinary shares of £1 each	30,000,000	30,000	-	-
Redeemable A preference shares of £1 each	168,368,400	168,368	168,368,400	168,368
Redeemable B preference shares of £1 each	-	-	30,000,000	30,000
	<u>198,369,400</u>	<u>198,369</u>	<u>198,369,400</u>	<u>198,369</u>
<b>Allotted, called up and fully paid up</b>				
Ordinary shares of £1 each	200	-	200	-
B ordinary shares of £1 each	30,000,000	27,039	-	-
Redeemable A preference shares of £1 each	168,368,400	174,946	168,368,400	168,369
Redeemable B preference shares of £1 each	-	-	30,000,000	30,000
	<u>198,368,600</u>	<u>201,985</u>	<u>198,368,600</u>	<u>198,369</u>

**NATIONAL GRID OVERSEAS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 MARCH 2002**

**10 Share capital (continued)**

***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.

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.

***Redeemable B Preference shares***

These preference shares, which were re-designated as B £1 ordinary shares on 6 December 2001, represented cumulative redeemable preference shares. The total amount payable on redemption was JPY 47,493,420,000 ("Yen Equivalent Amount") with no premium payable on redemption. The Company had 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 were entitled to receive dividends at a fixed rate of 1.195% per annum on the Yen Equivalent Amount.

# NATIONAL GRID OVERSEAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2002

#### 10 Share capital (continued)

##### *Redeemable B Preference shares (continued)*

Because of the Yen exposure associated with the final amount payable on redemption of the preference shares, the Company entered into cross-currency swaps to hedge this exposure. The existing swap was closed out on 20 April 2001 and a new contract entered into. The share capital was therefore revalued at that date at the exchange rate of £1:Y175.65 set by the new cross currency swap giving rise to an exchange movement of £29,613,000 on share capital and share premium which has been taken to the profit and loss account.

##### *B ordinary shares*

On 6 December 2001, the Company re-designated the authorised and issued Redeemable B Preference shares of £1 each as 30,000,000 B shares of £1 each with economic rights equivalent to that of 0.0000126115 ordinary shares.

#### 11 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 April 2001(as previously reported)	306,686	121,398
Prior year adjustment (see note 2)	-	9,552
At 1 April 2001 (as restated)	306,686	130,950
Revaluation of non-equity shares (see note 10)	(26,652)	-
Retained loss for the year	-	(27,271)
<b>At 31 March 2002</b>	<b>280,034</b>	<b>103,679</b>

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.



**NATIONAL GRID OVERSEAS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2002**

**12 Reconciliation of movement in shareholders' funds**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>(restated)</b>
		<b>£'000</b>
(Loss)/Profit on ordinary activities after taxation	(5,447)	106,532
Dividends and appropriations	(21,824)	(25,513)
	<u>(27,271)</u>	<u>81,019</u>
Issue of non-equity shares	-	468,369
Exchange adjustment in respect of non-equity shares	6,577	-
Revaluation of non-equity shares	(29,613)	-
Capital contribution	-	40,000
Net (decrease)/increase in shareholders' funds	<u>(50,307)</u>	<u>589,388</u>
Opening shareholders' funds	636,005	46,617
<b>Closing shareholders' funds</b>	<b><u>585,698</u></b>	<b><u>636,005</u></b>

Opening equity shareholders' funds were originally £626,453,000 before deducting the prior year adjustment of £9,552,000 (see note 2).

**13 Non-equity shareholders' funds**

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

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
Redeemable A Preference shares	174,946	168,369
Redeemable B Preference shares	-	300,000
	<u>174,946</u>	<u>468,369</u>

**NATIONAL GRID OVERSEAS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 MARCH 2002**

**14 Related party transactions and ultimate parent company**

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

The ultimate parent and controlling company is National Grid Group 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 of National Grid Group plc can be obtained from the Assistant Company Secretary, National Grid Group plc, 15 Marylebone Road, London, NW1 5JD.