

THE NATIONAL GRID INVESTMENTS COMPANY

REPORT OF THE DIRECTORS

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 15 MARCH 1998



Registered number: 2579065

THE NATIONAL GRID INVESTMENTS COMPANY

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 15 MARCH 1998

The directors present their report and the audited financial statements of the company for the year ended 15 March 1998.

PRINCIPAL ACTIVITY

The company is an investment company.

The company did not trade during the year and therefore no profit and loss account nor statement of total recognised gains and losses has been presented.

The company is a wholly owned subsidiary undertaking of NGC Two Limited, and the ultimate holding company is The National Grid Group plc, both of which are companies incorporated in Great Britain.

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

RESULTS AND DIVIDENDS

There was no profit or loss for the year after taxation (1997: £nil).

The directors do not recommend payment of a dividend (1997: £nil).

DIRECTORS

The directors of the company during the year were:

J R Uttley (resigned 30 June 1997)

D H Elsey

A E Marks

M O'Donovan.

THE NATIONAL GRID INVESTMENTS COMPANY

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 15 MARCH 1998 (continued)

DIRECTORS' INTERESTS IN SHARES

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

Ordinary shares in The National Grid Group plc ("NGG")

Employee ShareSave options

	1 April 1997	Granted	Exercised	31 March 1998
D H Elsey	-	2,850	-	2,850
A E Marks	19,429	-	10,050	9,379
M O' Donovan	4,006	4,035	-	8,041

Executive Share options

	1 April 1997	Granted	Exercised	31 March 1998
D H Elsey	146,471	68,643	146,471	68,643
A E Marks	14,598	-	-	14,598
M O' Donovan	14,598	-	-	14,598

Beneficial interests in shares

	1 April 1997	31 March 1998*
D H Elsey	37,916	128,597**
A E Marks	685	7,108
M O'Donovan	23,308	29,276

* Adjusted following NGG's capital restructuring in February 1998 (17 New NGG Ordinary shares of 11 13/17 p for every 20 Ordinary shares of 10p each held previously).

** 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 D H Elsey (5,274 shares) in addition to the above.

THE NATIONAL GRID INVESTMENTS COMPANY

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 15 MARCH 1998 (continued)

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.

TAXATION STATUS

The company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

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 and that the statements have been prepared on the going concern basis.

YEAR 2000

We are aware that there is potential risk to computer systems, logic processors and external interfaces arising from the year 2000 date change and take seriously our responsibility for ensuring that there is no material disruption to our operations. A programme is in hand to check all computer-dependent systems by the end of 1998 and, where necessary, to take action to ensure that they will continue to operate. The company's computer dependent systems are maintained by The National Grid Company plc. The total costs of modifying or replacing hardware and systems are disclosed in the financial statements of The National Grid Group plc. Links have been established within and beyond the electricity industry, including the active participation in the Y2K Utilities Group, the main body dealing with millennium issues on behalf of the electricity, gas, water, telecommunications, transport and oil industries.

THE NATIONAL GRID INVESTMENTS COMPANY

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 15 MARCH 1998 (continued)

PROPOSED INTRODUCTION OF THE EURO

The single European currency (the euro) will come into existence on 1 January 1999, although the UK Government has indicated that the UK will not participate at that date. A working party has been established to analyse the impact upon our business, which is not expected to be significant.

AUDITORS

A resolution to re-appoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

FOR THE BOARD



D C Forward
Secretary

2 June 1998



REGISTERED OFFICE

185 PARK STREET
LONDON
SE1 9DY

THE NATIONAL GRID INVESTMENTS COMPANY
REPORT OF THE AUDITORS TO
THE MEMBERS OF THE NATIONAL GRID INVESTMENTS COMPANY

We have audited the financial statements on pages 6 to 8.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

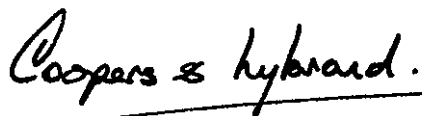
Basis of opinion

We have 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 affairs of the company as at 15 March 1998 and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and
Registered Auditors
London

2 June 1998

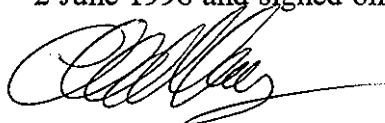
THE NATIONAL GRID INVESTMENTS COMPANY

BALANCE SHEET

AT 15 MARCH 1998

	Note	1998 £'000	1997 £'000
Current Assets			
Amounts owed by group undertaking		168,368.4	168,368.4
Current liabilities			
Creditors: amounts falling due within one year	3	(214.4)	(214.4)
Net assets employed		<u>168,154.0</u>	<u>168,154.0</u>
Capital and reserves			
Called up share capital	4	160,000.0	160,000.0
Profit and loss account		8,154.0	8,154.0
Equity shareholders' funds		<u>168,154.0</u>	<u>168,154.0</u>

The financial statements on pages 6 to 8 were approved by the board of directors on 2 June 1998 and signed on its behalf by:



A E Marks
Director

THE NATIONAL GRID INVESTMENTS COMPANY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 15 MARCH 1998

1 Accounting policies

a) Accounting convention

The financial statements have been prepared under the historical cost convention.

b) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting and financial reporting standards in the United Kingdom.

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 The National Grid Group plc.

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 Creditors: Amounts falling due within one year

	1998	1997
	£'000	£'000
Corporation tax	199.8	199.8
Accruals	14.6	14.6
	—	—
	214.4	214.4
	=====	=====

THE NATIONAL GRID INVESTMENTS COMPANY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 15 MARCH 1998

4 Share capital

Authorised share capital 160,000,000 (1997:160,000,000) ordinary shares of £1 each.

Allotted, called up and fully paid	1998	1997
	£'000	£'000
At 15 March	160,000.0	160,000.0
	<hr/>	<hr/>
	Number	Number
	000's	000's
At 15 March	160,000.0	160,000.0
	<hr/>	<hr/>

5 Related party transactions and ultimate holding company

The company is exempt from disclosing transactions with other companies within the National Grid Group of companies as the voting rights of all companies are held within the group.

The ultimate holding and controlling company is The National Grid Group plc, and the intermediate holding company for which consolidated financial statements are prepared is The National Grid Company plc. Both companies are incorporated in Great Britain.

Copies of their consolidated financial statements can be obtained from the Assistant Company Secretary, The National Grid Group plc, 185 Park Street, London, SE1 9DY.