

THE NATIONAL GRID INVESTMENTS COMPANY
REPORT OF THE DIRECTORS
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2004



REGISTERED NUMBER: 2579065

THE NATIONAL GRID INVESTMENTS COMPANY

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MARCH 2004

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2004.

PRINCIPAL ACTIVITY

The Company is an investment company and an unlimited liability company.

RESULTS AND DIVIDENDS

The loss for the year after taxation was £1,002,000 (2003: £20,087,000 profit). The Directors do not recommend the payment of a dividend (2003: £ Nil).

FUTURE DEVELOPMENTS

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

DIRECTORS

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

AB Chapman
MC Cooper
SF Noonan
RF Pettifer

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.

THE NATIONAL GRID INVESTMENTS COMPANY

REPORT OF THE DIRECTORS (continued)

FOR THE YEAR ENDED 31 MARCH 2004

DIRECTORS' INTERESTS IN SHARES

The interests of the Directors at 31 March 2004 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 National Grid Transco plc ('NGT')

Employee ShareSave options

	1 April 2003	Granted	Exercised	31 March 2004
AB Chapman	5,007	-	-	5,007
MC Cooper	5,362	-	-	5,362
SF Noonan	5,110	1,000	1,105	5,005
RF Pettifer	3,991	1,746	1,846	3,891

Executive Share options

	1 April 2003	Granted	Exercised	31 March 2004
AB Chapman	86,413	-	-	86,413
MC Cooper	17,501	-	-	17,501
SF Noonan	34,201	-	-	34,201
RF Pettifer	8,119	-	-	8,119

Performance SharePlan Awards

	1 April 2003	Granted	Exercised	31 March 2004
AB Chapman	-	20,481	-	20,481
MC Cooper	-	29,611	-	29,611
SF Noonan	-	11,844	-	11,844
RF Pettifer	-	6,525	-	6,525

Beneficial interests in shares*

	1 April 2003	31 March 2004
AB Chapman	10,859	12,457
MC Cooper	49,032	49,252
SF Noonan	1,745	1,965
RF Pettifer	14,917	14,822

*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 totalling 5,292 National Grid Transco plc ordinary shares were exercisable by AB Chapman (31 March 2003: 2,925 shares) in addition to the above.

THE NATIONAL GRID INVESTMENTS COMPANY

REPORT OF THE DIRECTORS (continued)

FOR THE YEAR ENDED 31 MARCH 2004

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

The Company has 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

REGISTERED OFFICE



DC Forward

Secretary

20 December 2004

1-3 STRAND

LONDON

WC2N 5EH

THE NATIONAL GRID INVESTMENTS COMPANY
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE NATIONAL GRID INVESTMENTS COMPANY

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 Report of the Directors 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 Report of the Directors.

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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
20 December 2004

THE NATIONAL GRID INVESTMENTS COMPANY

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2004

	Notes	2004 £'000	2003 £'000
Operating (charges)/ income	4	(16,861)	20,087
Operating (loss)/profit		(16,861)	20,087
Income from shares in a Group undertaking		15,473	-
Interest receivable from a Group undertaking		386	-
(Loss)/profit on ordinary activities before and after taxation transferred (from)/to reserves	8	(1,002)	20,087

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.

THE NATIONAL GRID INVESTMENTS COMPANY

BALANCE SHEET

AT 31 MARCH 2004

	Notes	2004 £'000	2003 £'000
Current assets			
Amounts owed by a Group undertaking		25,738	9,879
Investment	6	178,172	195,033
		<u>203,910</u>	<u>204,912</u>
Creditors: amounts falling due within one year			
Amounts owed to a Group undertaking		(20,491)	(20,491)
Net assets employed		<u>183,419</u>	<u>184,421</u>
Capital and reserves			
Called up share capital	7	145,193	145,193
Profit and loss account	8	38,226	39,228
Equity shareholders' funds	9	<u>183,419</u>	<u>184,421</u>

The financial statements on pages 5 to 10 were approved by the Board of Directors on 20 December 2004 and signed on its behalf by:



SF Noonan
Director

THE NATIONAL GRID INVESTMENTS COMPANY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

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 the Companies Act 1985 and applicable accounting and financial reporting standards.

b) Basis of preparation

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) 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

2 Directors' and employees

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.

There were no employees of the Company during the year (2003: Nil).

3 Audit fees

Audit fees are borne by a fellow Group undertaking.

4 Operating (charges)/income

	2004 £'000	2003 £'000
Operating (charges)/income comprises:		
Foreign exchange (losses)/gains	<u>(16,861)</u>	<u>20,087</u>

THE NATIONAL GRID INVESTMENTS COMPANY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2004

5 Taxation

The corporation tax charge for the year ended 31 March 2004 has been reduced to £Nil because tax losses of £386,000 have been surrendered by a fellow subsidiary and no payment for this surrender will be made by the Company.

The UK statutory rate of corporation tax is 30% because the operating charges are non-deductible items, income from shares in a Group undertaking is not taxable income and as a result of the surrender of group relief for no payment for the year ended 31 March 2004, the effective rate of tax was 0%. For the year ended 31 March 2003 the UK statutory rate of corporation tax was 30% however operating income as shown in the profit and loss account is not a taxable item and therefore there is no tax charge for the year.

6 Current asset investment

The Company's current asset investment consists entirely of an investment in redeemable preference shares of National Grid Overseas Limited, a fellow subsidiary undertaking in the National Grid Transco group of companies. The rights of the preference shares are such that the final proceeds receivable on redemption are equal to 417,351,590 Swiss Francs. The investment is therefore accounted for as a monetary asset and retranslated at the exchange rate ruling at the balance sheet date, with any foreign exchange gains or losses recognised in the profit and loss account.

7 Share capital

Authorised, allotted, called up and fully paid	2004 £'000	2003 £'000
10,000,000 Ordinary shares of £1 each	10,000	10,000
150,000,000 "A" ordinary shares of £1 each	135,193	135,193
	145,193	145,193

A ordinary shares

On 6 December 2001, the Company re-designated authorised and issued Redeemable Preference shares of £1 each as 150,000,000 A shares of £1 each.

The total amount payable on redemption of the preference shares was Yen 23,746,710,000 (the '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.

THE NATIONAL GRID INVESTMENTS COMPANY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2004

7 Share capital (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:¥175.65 set by the new cross currency swap giving rise to an exchange movement taken to the profit and loss account. The value of the preference shares and hence of the A ordinary shares is £135,193,000.

The "A" ordinary shares carry the following rights:

- (a) The right to receive a cash dividend at a rate per share of 0.3420795 times the amount of the cash dividend payable per share to the ordinary shareholders.
- (b) Upon liquidation, the "A" shareholders shall receive a liquidation payment per share in a proportion of 0.3420795 times that of any per share payment to ordinary shareholders.
- (c) "A" shareholders may attend general meetings and vote, their vote per share being weighted at 0.3420795 of a vote of an ordinary shareholder.

8 Profit and loss account

	£'000
At 1 April 2003	39,228
Loss for the year	(1,002)
At 31 March 2004	<u>38,226</u>

9 Reconciliation of movement in equity shareholders' funds

	2004 £'000	2003 £'000
(Loss)/profit after taxation	(1,002)	20,087
Opening equity shareholders' funds	184,421	164,334
Closing equity shareholders' funds	<u>183,419</u>	<u>184,421</u>

THE NATIONAL GRID INVESTMENTS COMPANY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2004

10 Related party transactions and ultimate parent company

The Company is exempt from disclosing transactions with those companies within the National Grid Transco plc 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 plc group of companies.

The ultimate parent and controlling Company is National Grid Transco plc and the immediate parent company is NGC Two Limited. The smallest controlling Company for which consolidated financial statements are prepared is National Grid Holdings Limited. All of these companies are registered in England and Wales.

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