

NATIONAL GRID (US) INVESTMENTS 3

REPORT OF THE DIRECTORS

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2002



REGISTERED NUMBER: 3867114

NATIONAL GRID (US) INVESTMENTS 3

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 (2001: period from 22 October 1999 to 31 March 2001).

PRINCIPAL ACTIVITY

The Company commenced business as an unlimited liability investment company on 11 May 2001 when it acquired shares in National Grid (US) Investments 4.

RESULTS AND DIVIDENDS

The profit after taxation was £69,652,000 (2001: £nil). A dividend amounting to £69,652,000 was paid during the year. The directors do not recommend payment of a further dividend (2001: £nil).

FUTURE DEVELOPMENTS

The Company is not expected to recommence trading in the foreseeable future.

REVIEW OF THE PERIOD

On 11 May 2001, the Company acquired 2 £1 shares in National Grid (US) Investments 4 at par from National Grid (US) Holdings Limited.

On 23 May 2001, the Company issued 98 Ordinary shares by way of rights issue at a premium. The shares were issued for a total consideration amounting to £2,100,000,000, met by a promissory note for the same amount. This note is interest bearing and repayable on demand.

On 20 December 2001, the company reduced its share capital and share premium by £2,100,000,000 settling the liability by the assignment of various Group loans.

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REPORT OF THE DIRECTORS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

DIRECTORS

The directors of the Company during the year were:

SJ Box
MD O'Donovan
RJ Urwin
FB Smith
CRA Carter (appointed 18 April 2001)

DIRECTORS' INTERESTS IN SHARES

The interests of SJ Box and RJ Urwin at 31 March 2002 in Group companies are disclosed in the financial statements of the ultimate parent undertaking, National Grid Group plc. The interests of the of the other directors 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 Group plc ("NGG")

Employee ShareSave options

	On 1 April 2001 or later date of appointment	Granted	Exercised	31 March 2002
MD O'Donovan	7,039	-	-	7,039
FB Smith	5,110	-	-	5,110
CRA Carter	11,815	3,692	11,815	3,692

Executive Share options

	On 1 April 2001 or later date of appointment	Granted	Exercised	31 March 2002
MD O'Donovan	47,514	4,743	-	52,257
FB Smith	127,873	23,978	-	151,851
CRA Carter	55,010	21,314	-	76,324

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REPORT OF THE DIRECTORS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

Beneficial interests in shares

	On 1 April 2001 or later date of appointment	31 March 2002
MD O'Donovan	33,370	28,414
FB Smith	30,277*	29,483*
CRA Carter	12,343*	23,058*

* Includes shares acquired under the NGG share matching scheme. Subject to retention of the shares acquired in accordance with the rules of the scheme, matching awards of new NGG Ordinary shares would be exercisable by FB Smith (1,815 shares (2001: 4,547 shares)) and CRA Carter (905 shares (appointment: 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 period.

DIRECTORS' RESPONSIBILITIES

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

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 (US) INVESTMENTS 3
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

REGISTERED OFFICE

15 MARYLEBONE ROAD
LONDON
NW1 5JD



D Forward
Secretary
16 October 2002

NATIONAL GRID (US) INVESTMENTS 3

INDEPENDENT AUDITORS REPORT TO

THE MEMBERS OF NATIONAL GRID (US) INVESTMENTS 3

We have audited the financial statements on pages 6 to 10.

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 profit 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 (US) INVESTMENTS 3
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2002

	Note	2002 £'000	22 October 1999 to 31 March 2001 £'000
Income from shares in a Group undertaking		69,652	-
Profit on ordinary activities before and after taxation	3	69,652	-
Ordinary dividends paid		(69,652)	-
Retained profit for the year		-	-

The results reported above relate to continuing activities.

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

NATIONAL GRID (US) INVESTMENTS 3

BALANCE SHEET

AT 31 MARCH 2002

	Notes	2002 £	2001 £
Fixed asset			
Investment	5	-	-
Current assets			
Amounts owed by a Group undertaking		2	2
Net current assets		2	2
Net assets		2	2
Capital & reserves			
Called up share capital	6	2	2
Equity shareholders' funds	7	2	2

The financial statements on pages 6 to 10 were approved by the board of directors on 16 October 2002 and signed on its behalf by:

MD O'Donovan
Director



NATIONAL GRID (US) INVESTMENTS 3
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 adopted Financial Reporting Standard (FRS) 18 "Accounting policies". There has been no material impact to the Company of adopting FRS 18.

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 Group plc.

c) 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.

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 Audit fees

Audit fees are borne by the ultimate parent undertaking.

4 Taxation

The Company has not incurred a tax charge because income from shares in group undertakings as shown in the profit and loss account is not taxable.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

5 Fixed asset investment

	Shares in Group undertakings £
Cost and net book value	
At 1 April 2001	-
Addition	2,100,000,000
Disposal	(2,100,000,000)
At 31 March 2002	<u>-</u>

On 11 May 2001, the Company acquired 2 £1 ordinary shares in National Grid (US) Investments 4 at par. On 23 May 2001, the Company subscribed for a further 98 ordinary shares by way of a rights issue in National Grid (US) Investments 4 at a premium. The total consideration was £2,100,000,000. The company subsequently disposed of the investment to a fellow subsidiary at book value.

6 Share capital and share premium

Ordinary shares of £1 each

	2002 and 2001	
	Number	£
Authorised	<u>2</u>	<u>2</u>
Allotted, called up and fully paid	<u>2</u>	<u>2</u>

On 23 May 2001, the Company issued 98 Ordinary shares by way of rights issue at a premium. The shares were issued for a total consideration amounting to £2,100,000,000, met by a promissory note for the same amount, which was used to acquire the shares in National Grid (US) Investments 4 as detailed in note 5 above.

On 20 December 2001, the Company reduced its share premium account from £2,099,999,902 to £nil and share capital from £100 to £2.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

7 Reconciliation of movement in equity shareholders' funds

	2002	22 October 1999 to 31 March 2001
	£	£
Issue of ordinary shares	2,100,000,000	2
Reduction of share capital and share premium	(2,100,000,000)	-
Net increase in equity shareholders' funds	-	2
Opening equity shareholders' funds	2	-
Closing equity shareholders' funds	2	2

8 Related party transactions and ultimate parent company

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

The ultimate parent and controlling company is National Grid Group plc. The immediate parent company is National Grid Holdings Limited which is the smallest controlling company for which consolidated financial statements are prepared.

Both companies are incorporated in Great Britain and copies of their financial statements can be obtained from the Assistant Company Secretary, National Grid Group plc, 15 Marylebone Road, London, NW1 5JD.