

NATIONAL GRID (US) INVESTMENTS 3
REPORT OF THE DIRECTORS
AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2001



REGISTERED NUMBER: 3867114

NATIONAL GRID (US) INVESTMENTS 3
REPORT OF THE DIRECTORS
FOR THE PERIOD ENDED 31 MARCH 2001

The directors present their report and the audited financial statements of the Company for the period from 22 October 1999 to 31 March 2001.

PRINCIPAL ACTIVITY

The Company was dormant throughout the period.

FUTURE DEVELOPMENTS

The Company will commence trading as an investment company during the next financial year.

REVIEW OF THE PERIOD

The Company was incorporated on 22 October 1999 when it issued two ordinary shares at par. The Company did not trade during the period and consequently no profit and loss account or statement of total recognised gains and losses has been presented. The directors do not recommend payment of a dividend.

Post Balance Sheet events

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 the same day, 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, which was met by assigning the promissory note received above to National Grid (US) Investments 4.

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REPORT OF THE DIRECTORS (continued)
FOR THE PERIOD ENDED 31 MARCH 2001

DIRECTORS

The directors of the Company during the period were:

MD O'Donovan	(appointed 22 October 1999)
RJ Urwin	(appointed 10 November 1999)
DH Jones	(appointed 10 November 1999, resigned 31 March 2001)
FB Smith	(appointed 10 November 1999)
SJ Box	(appointed 10 November 1999)
W Gerretsen	(appointed 26 November 1999, deceased 19 October 2000)
CRA Carter	(appointed 18 April 2001)

DIRECTORS' INTERESTS IN SHARES

The interests of SJ Box and RJ Urwin at 31 March 2001 in Group companies are disclosed in the financial statements of the ultimate parent undertaking, National Grid Group plc. The interests 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 appointment	Granted	Exercised	31 March 2001
MD O'Donovan	7,039	-	-	7,039
FB Smith	5,110	-	-	5,110

Executive Share options

	On appointment	Granted	Exercised	31 March 2001
MD O'Donovan	27,114	20,400	-	47,514
FB Smith	129,187	14,110	15,424	127,873

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Beneficial interests in shares

	On appointment	31 March 2001
MD O'Donovan	34,000	33,370
FB Smith	17,776	30,277*

* 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 (4547 shares) in addition to the above.

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.

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REPORT OF THE DIRECTORS (continued)

FOR THE PERIOD ENDED 31 MARCH 2001

AUDITORS

PricewaterhouseCoopers were appointed as the first auditors of the Company and were re-appointed by the shareholders on 20 April 2001. 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



D Forward
Secretary
14 August 2001

REGISTERED OFFICE

15 MARYLEBONE ROAD
LONDON
NW1 5JD

NATIONAL GRID (US) INVESTMENTS 3

REPORT OF THE AUDITORS TO

THE MEMBERS OF NATIONAL GRID (US) INVESTMENTS 3

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 2001 and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
London
14 August 2001

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BALANCE SHEET

AT 31 MARCH 2001

	Notes	2001 £
Current assets		
Amounts due from group undertakings		<u>2</u>
Net assets employed		<u>2</u>
 Capital & reserves		
Called up share capital	4	<u>2</u>
 Equity shareholders' funds	5	<u>2</u>

The financial statements on pages 6 to 8 were approved by the board of directors on 14 August 2001 and signed on its behalf by:



MD O'Donovan
Director

NATIONAL GRID (US) INVESTMENTS 3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2001

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with 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 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 Audit fees

Audit fees are borne by the ultimate parent undertaking.

4 Share capital

Ordinary shares of £1 each

	2001	
	Number	£
Authorised	<u>100</u>	<u>100</u>
Allotted, called up and fully paid	<u>2</u>	<u>2</u>

On 22 October 1999, the Company issued 2 ordinary shares at par fully paid.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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5 Reconciliation of movement in equity shareholders' funds

	2001 £
Issue of ordinary shares	2
Net increase in equity shareholders' funds	2
Opening equity shareholders' funds	-
Closing equity shareholders' funds	2

6 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 and the intermediate parent company for which consolidated financial statements are prepared is National Grid Holdings Limited. Both companies are incorporated in Great Britain.

Copies of their consolidated financial statements can be obtained from the Assistant Company Secretary, National Grid Group plc, 15 Marylebone Road, London, NW1 5JD.

7 Post Balance Sheet events

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