

NATIONAL GRID (US) INVESTMENTS 2

REPORT OF THE DIRECTORS

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2002



REGISTERED NUMBER: 3784528

NATIONAL GRID (US) INVESTMENTS 2
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 company did not have any transactions during the year (2001: profit of £12). The directors do not recommend payment of a dividend (2001: £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:

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

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

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 other directors in office at 31 March 2002 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 Group plc ("New NGG")

Employee ShareSave options

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

Executive Share options

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

Beneficial interests in shares

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

* 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 (appointment: 662 shares)) and FB Smith (1,815 shares (2001: 4,547 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.

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

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.

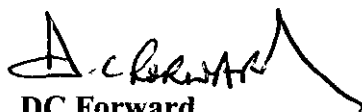
The directors are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They also have general responsibility for 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.

AUDITORS

The Company has taken advantage of the provision 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 (US) INVESTMENTS 2

INDEPENDENT AUDITORS REPORT TO

THE MEMBERS OF NATIONAL GRID (US) INVESTMENTS 2

We have audited the financial statements on pages 5 to 9.

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 required 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 2
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2002

	Note	2002 £	2001 £
Operating income, being profit on ordinary activities before and after taxation, retained for the year	5	- <hr/>	12 <hr/>

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 recognised gains and losses has been presented.

NATIONAL GRID (US) INVESTMENTS 2

BALANCE SHEET

AT 31 MARCH 2002

	Notes	2002 £	2001 £
Current assets			
Amount owed by a Group undertaking		111	111
Net assets employed		<u>111</u>	<u>111</u>
Capital & reserves			
Called up share capital	4	100	100
Profit and loss account	5	<u>11</u>	<u>11</u>
Equity shareholders' funds	6	<u>111</u>	<u>111</u>

The financial statements on pages 5 to 9 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 2
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) 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.

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.

NATIONAL GRID (US) INVESTMENTS 2
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

4 Share capital

Authorised, allotted, called up and fully paid	Number	£
Ordinary shares of £1 each		
At 31 March 2001 and 31 March 2002	<u>100</u>	<u>100</u>

5 Reserves

	Profit and loss account £
At 1 April 2001	11
Profit retained for the year	<u>-</u>
At 31 March 2002	<u>11</u>

6 Reconciliation of movement in equity shareholders' funds

	2002 £	2001 £
Profit after taxation	-	12
Net increase in equity shareholders' funds	<u>-</u>	<u>12</u>
Opening equity shareholders' funds	111	99
Closing equity shareholders' funds	<u>111</u>	<u>111</u>

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

7 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 immediate parent company is National Grid (US) Holdings Limited. The smallest controlling company for which consolidated financial statements are prepared is also National Grid Group plc.

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.