

NATIONAL GRID (US) INVESTMENTS 3

REPORT OF THE DIRECTORS

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2003



REGISTERED NUMBER: 3867114

NATIONAL GRID (US) INVESTMENTS 3

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MARCH 2003

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2003.

PRINCIPAL ACTIVITY

The Company carries out its business as an unlimited liability investment company.

RESULTS AND DIVIDENDS

The profit after taxation was £nil (2002: £69,652,000). No dividends were paid during the year (2002: £69,652,000) and the Directors do not recommend payment of a final dividend (2002: £nil).

FUTURE DEVELOPMENTS

The Company will continue as an investment company.

DIRECTORS

The Directors of the Company during the year were:

| | |
|--------------|------------------------------|
| SJ Box | (Resigned 30 November 2002) |
| CRA Carter | (Resigned 29 November 2002) |
| MD O'Donovan | (Resigned 20 December 2002) |
| FB Smith | (Resigned 31 December 2002) |
| RJ Urwin | (Resigned 31 January 2003) |
| DC Forward | (Appointed 20 December 2002) |
| SF Noonan | (Appointed 20 December 2002) |
| RF Pettifer | (Appointed 20 December 2002) |

NATIONAL GRID (US) INVESTMENTS 3
REPORT OF THE DIRECTORS (continued)
FOR THE YEAR ENDED 31 MARCH 2003

DIRECTORS' INTERESTS IN SHARES

The interests of the 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 Transco plc ("NGT") (which from 1 April 2002 to 21 October 2002 was National Grid Group plc)

Employee sharesave options

| | 1 April 2002 or later date of appointment | Granted | Exercised | Lapsed | 31 March 2003 |
|-------------|--|----------------|------------------|---------------|--------------------------|
| DC Forward | 5,607 | - | - | 2,907 | 2,700 |
| SF Noonan | 5,110 | - | - | - | 5,110 |
| RF Pettifer | 3,991 | - | - | - | 3,991 |

Executive share options

| | 1 April 2002 or later date of appointment | Granted | Exercised | 31 March 2003 |
|-------------|--|----------------|------------------|----------------------|
| DC Forward | - | - | - | - |
| SF Noonan | 34,201 | - | - | 34,201 |
| RF Pettifer | 8,119 | - | - | 8,119 |

Beneficial interests in shares

| | 1 April 2002 or later date of appointment | 31 March 2003 |
|-------------|--|----------------------|
| DC Forward | 6,975 | 7,135 |
| SF Noonan | 1,745 | 1,745 |
| RF Pettifer | 14,917 | 14,917 |

All the above interests at 31 March 2003 relate to Ordinary shares of 10p each in NGT, which the Directors consider to be the ultimate holding company.

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REPORT OF THE DIRECTORS (continued)
FOR THE YEAR ENDED 31 MARCH 2003

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 year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit or loss of the Company for the 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.

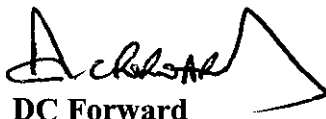
The Directors consider that in preparing the financial statements, suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that applicable accounting and financial reporting standards have been followed. The Directors also confirm that the going concern basis is appropriate.

NATIONAL GRID (US) INVESTMENTS 3
REPORT OF THE DIRECTORS (continued)
FOR THE YEAR ENDED 31 MARCH 2003

AUDITORS

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 11 March 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. The company had 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.

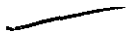
FOR THE BOARD



DC Forward

Director

16 October 2003



REGISTERED OFFICE

1-3 THE STRAND
LONDON
WC2N 5EH

NATIONAL GRID (US) INVESTMENTS 3

INDEPENDENT AUDITORS' REPORT TO

THE MEMBERS OF NATIONAL GRID (US) INVESTMENTS 3

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 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.

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.

NATIONAL GRID (US) INVESTMENTS 3

INDEPENDENT AUDITORS' REPORT TO

THE MEMBERS OF NATIONAL GRID (US) INVESTMENTS 3 (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2003 and of its result 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

16 October 2003

NATIONAL GRID (US) INVESTMENTS 3

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2003

| | Notes | 2003 £'000 | 11 May 2001 to 31 March 2002 £'000 |
|--|-------|---------------|--|
| Income from shares in a Group undertaking | | - | 69,652 |
| Profit on ordinary activities before and after taxation | 3,4 | - | 69,652 |
| Ordinary dividends paid | | - | (69,652) |
| Result for the year | | - | - |

The results reported above relate to continuing activities.

The Company has no other recognised gains and losses 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 2003

| | Notes | 2003 £ | 2002 £ |
|-------------------------------------|-------|-----------|-----------|
| Current assets | | | |
| Amounts owed by a Group undertaking | | 2 | 2 |
| Net assets | | <u>2</u> | <u>2</u> |
| Capital & reserves | | | |
| Called up share capital | 5 | 2 | 2 |
| Equity shareholders' funds | 6 | <u>2</u> | <u>2</u> |

The financial statements on pages 7 to 11 were approved by the board of Directors on 16 October 2003 and signed on its behalf by:



SF Noonan
Director

NATIONAL GRID (US) INVESTMENTS 3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

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.

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.

NATIONAL GRID (US) INVESTMENTS 3
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2003

5 Share capital and share premium

Ordinary shares of £1 each

| | 2003 and 2002 | |
|--|----------------------|----------|
| | Number | £ |
| Authorised, 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.

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.

6 Reconciliation of movement in equity shareholders' funds

| | 2003 | 2002 |
|--|-----------------|-----------------|
| | £ | £ |
| Issue of ordinary shares | - | 2,100,000,000 |
| Reduction of share capital and share premium | - | (2,100,000,000) |
| Net increase in equity shareholders' funds | - | - |
| Opening equity shareholders' funds | <u>2</u> | <u>2</u> |
| Closing equity shareholders' funds | <u>2</u> | <u>2</u> |

NATIONAL GRID (US) INVESTMENTS 3

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2003

7 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 National Grid Holdings Limited for which consolidated financial statements are prepared. Both of these companies are incorporated in Great Britain.

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