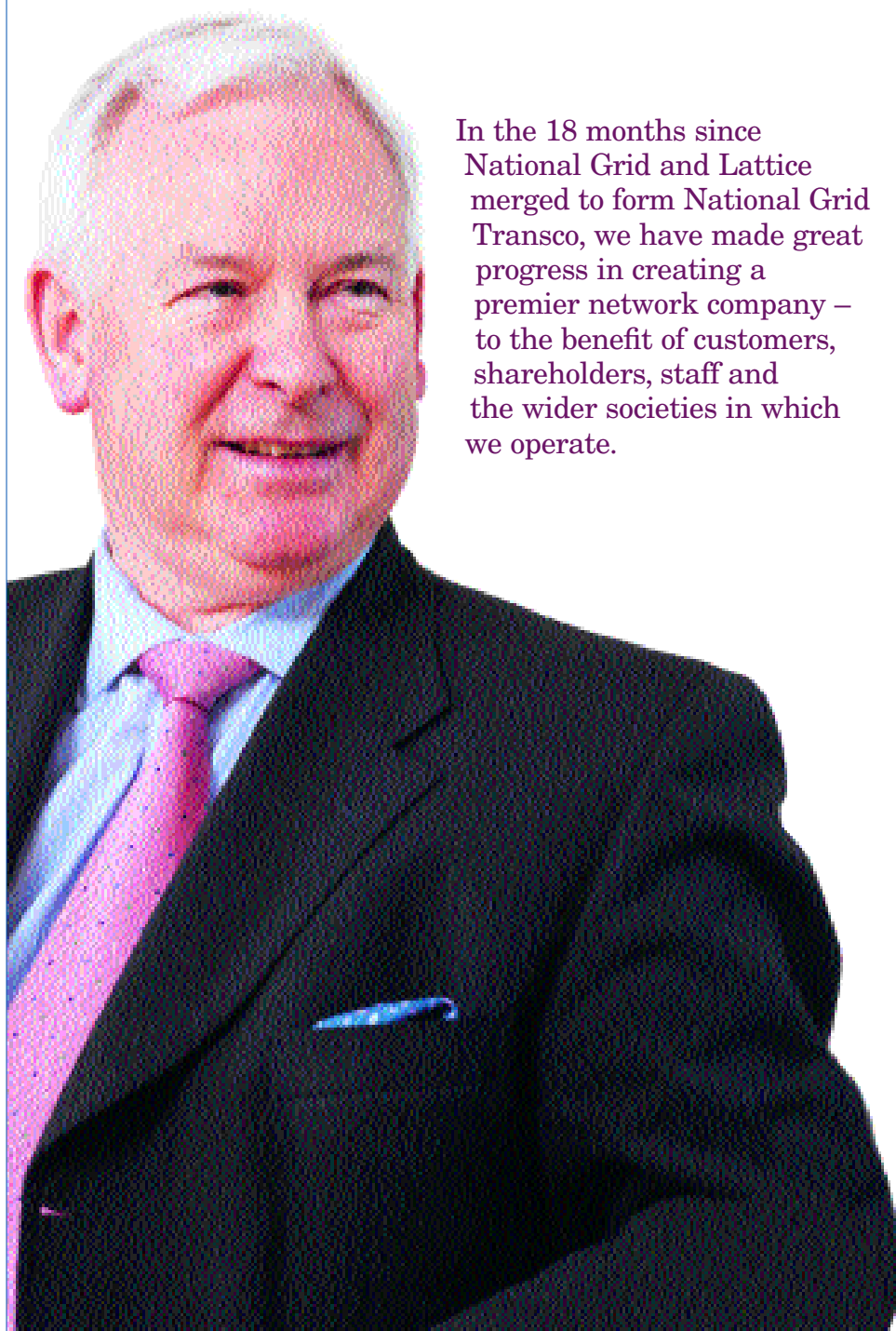


Chairman's Statement

National Grid Transco is dedicated to being the world's premier network utility, primarily focused on energy delivery. We aim to operate our networks to the highest standards of safety, reliability and performance.



In the 18 months since National Grid and Lattice merged to form National Grid Transco, we have made great progress in creating a premier network company – to the benefit of customers, shareholders, staff and the wider societies in which we operate.

The Group's excellent performance has been combined with major progress in the establishment of a culture that seeks continual operational improvements, high service standards and, above all, safety.

Strong earnings growth

The Group's financial performance for the year ended 31 March 2004 was particularly strong, with adjusted earnings per share* increasing by 23% from 28.3 pence to 34.7 pence.

Adjusted operating profit* rose by 2% from £2,185 million to £2,238 million, equivalent to 4% at constant US dollar/pound exchange rates. We have delivered significant reductions in controllable costs, improved the performance of Gridcom, and benefited from exiting from a number of non-core businesses. A particularly strong operating performance and increased revenues in UK Gas Distribution more than offset the adverse impact of year to year weather patterns in the US, increased UK pensions costs, and lower profits from the recovery of US stranded costs.

A combination of lower effective interest rates and a weaker US dollar also contributed to strong growth in adjusted profit before tax*. Net debt at 31 March 2004 was reduced to £12,632 million from £13,878 million with £674 million attributable to the weaker dollar.

Increased dividend

Our financial strength, as demonstrated by these results, combined with our confidence in the future prospects of our businesses enables the Board to recommend a final dividend of 11.87 pence per ordinary share. This brings the total dividend for the year to 19.78 pence per ordinary share, a 15% increase in the dividend this year. We are targeting 7% per annum dividend growth for each of the next four years to March 2008.

* Excludes the impact of exceptional items and goodwill amortisation.

The final dividend per American Depositary Share (ADS) proposed by the Board is \$1.0500, bringing the total dividend for the year to \$1.7190 per ADS.

Governance

Our vision for National Grid Transco is of a modern, progressive, forward-looking company that benefits all our stakeholders. We are committed to the highest standards of corporate governance and to operating our businesses in a sustainable and responsible manner.

The composition of the Board and its committees and the Board's oversight of strategy, financial performance, health, safety, environment and social involvement all fulfil the requirements of the latest amendments to the Combined Code on Corporate Governance and meet best practice.

We believe that all significant risks within the Group are thoroughly assessed and managed through our systems of risk management and strong financial control. As laid out in our 'Framework for Responsible Business', we remain committed to the highest standards of behaviour in the conduct of our day-to-day affairs.

We are proud that our achievements in these important areas were recognised when National Grid Transco was placed 1st in the Business in the Community 2003 Corporate Responsibility Index.

Safety

Safety, in everything we do, remains of paramount importance. During the year, we invested over £396 million as part of programmes in both the UK and US to replace older metallic gas distribution pipes with polyethylene pipes.

We firmly believe that world-class safety performance starts at the top. During the year, the Executive Directors, Deputy Chairman and I received training from DuPont Safety Resources on safety leadership.

During the year, 13% fewer employees were away from work as a result of injuries received at work than in 2002/03.

Reliability of supply

We continue to invest in the maintenance and enhancement of our infrastructure to increase efficiency and ensure operational reliability. 2003 saw an unprecedented series of major blackouts in the US and Continental Europe and, while each of these occurrences involved unique and specific factors, it is clear that all parties in the electricity industry can learn lessons for the reliability of supply in the future. Although on a much smaller scale, we deeply regret the two power cuts that occurred during last summer, affecting parts of South London, causing disruption to rail services, and separately parts of the West Midlands. We continue to work with Ofgem on its investigation which is expected to conclude this summer. Despite these incidents, our UK electricity reliability performance remains at world-class levels – delivering 99.9997% of the energy demanded during the year.

Investing in the community

We place great emphasis on our relationships with the local communities we serve and the wider social needs of the societies in which we operate.

In the US, we are a strong supporter of 'United Way', an organisation that brings local communities together to focus on the most important human needs including helping children and young people succeed, strengthening and supporting families, building vital and safe neighbourhoods, and supporting vulnerable and ageing populations.

In the UK, we have a strong track record of community investment, particularly through the National Grid Transco Foundation. The Training Scheme for Young Offenders and the Creative Education programme (CRED) both achieved national recognition by winning Business in the Community Awards for Excellence.

National Grid Transco people

We have achieved much this year; none of it would have been possible without the skills and dedication of everyone in the Group. I would like to thank all our employees for their enthusiasm, commitment and willingness to embrace change.

During the year, John Wybrew retired from the Board and it was announced that Rick Sergel will be retiring this summer. We thank them both for their contributions to the Board and wish them well for the future. We welcome Mike Jesanis, formerly National Grid USA's Chief Operating Officer, to the Board as Rick's replacement.

Bonnie Hill, a much valued Non-executive Director, also retired during the year and we welcome Maria Richter in her stead. The Board is already benefiting from her extensive knowledge and experience of US financial and energy markets.

Outlook

Our merger synergy and restructuring programmes have been highly successful. We have created a very strong Group, well placed to deliver benefits to all our shareholders. We look forward with confidence to further developments in our businesses on both sides of the Atlantic.



Sir John Parker Chairman