

National Grid Transco is one of the world's largest utilities, focused on delivering energy safely, reliably and efficiently.

Annual Review 2002/03



Financial Highlights

Group turnover

£9,400m

Operating profit

£2,185m

Adjusted*

£1,736m

Basic

Net cash inflow from operating activities

£3,154m

Adjusted†

£2,826m

Basic

Earnings per share

28.3p

Adjusted*

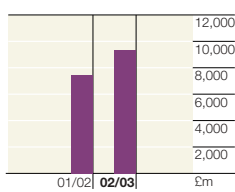
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Basic

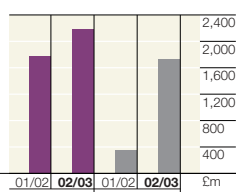
Ordinary dividends

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Group turnover

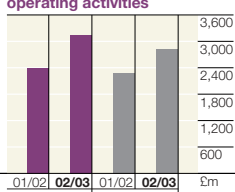


Operating profit



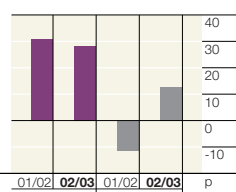
* Excludes impact of exceptional items and goodwill amortisation

Net cash inflow from operating activities



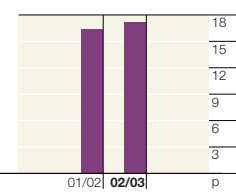
† Excludes impact of exceptional items

Earnings per share



* Excludes impact of exceptional items and goodwill amortisation

Ordinary dividends[§]



§ 2001/02 dividend is that of National Grid

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Important notice

This Summary Financial Statement, as extracted from the full Annual Report and Accounts, does not contain sufficient information to allow for a full understanding of the results of the Group and the state of affairs of the Company or the Group as would be provided by the full Annual Report and Accounts.

The Auditors' Report on the full financial statements for the year ended 31 March 2003 was unqualified and did not contain a statement concerning accounting records or failure to obtain necessary information and explanations.

Shareholders who would like more detailed information may obtain a copy of the full Annual Report and Accounts 2002/03 and request any future full Annual Report and Accounts by contacting Lloyd's TSB Registrars, whose details are on the inside back cover.

Cautionary statement

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Because these forward-looking statements are subject to assumptions, risks and uncertainties, actual future results may differ materially from those expressed in or implied by such statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond National Grid Transco's ability to control or estimate precisely, such as delays in obtaining or adverse conditions contained in regulatory approvals, competition and industry restructuring, changes in economic conditions, currency fluctuations,

changes in interest and tax rates, changes in energy market prices, changes in historical weather patterns, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, technological developments, the availability of new acquisition opportunities or the timing and success of future acquisition opportunities. Other factors that could cause actual results to differ materially from those described in this document include the ability to integrate Niagara Mohawk and Lattice Group plc successfully within National Grid Transco or to realise synergies from such integration or the failure to retain key management, unseasonal weather impacting on demand for electricity and gas, the behaviour of UK electricity market participants on system balancing, the timing of amendments in prices to shippers in the UK gas market, the performance of the Group's pension

schemes and the regulatory treatment of pension costs, and the impact of any potential separation and disposal by the Group of any UK gas distribution network(s). For a more detailed description of these assumptions, risks and uncertainties, together with any other risk factors, please see National Grid Transco's filings with the United States Securities and Exchange Commission (and in particular the 'Risk Factors' and 'Operating and Financial Review' sections of its most recently filed Annual Report on 20-F). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. National Grid Transco does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of publication of this document.

Group Summary

National Grid Transco is an international energy delivery business. We are the UK's largest investor-owned utility and one of the largest worldwide.

We own and operate the gas transmission and distribution systems in Britain, which deliver gas to some 21 million homes, offices and factories, and the high-voltage electricity transmission system in England and Wales.

In the US, we are a major electricity delivery company, with one of the largest electricity transmission and distribution systems in the Northeast. In addition, we operate a gas distribution system in upstate New York.

Our Businesses

UK Distribution

Gas

- 172,000 miles of distribution pipelines
- Distributes gas on behalf of gas shippers and suppliers to around 21 million consumers
- Operates the free national gas emergency number: 0800 111 999
- Around six million calls dealt with in 2002/03

UK Transmission

Electricity

- 4,500 miles of high-voltage overhead line and 400 miles of underground cable
- 60 entry points to the network
- 200 supply points to distribution companies and large users
- 340 substations at around 230 separate sites

Gas

- 4,100 miles of high pressure pipeline
- Gas comes ashore at six beach terminals
- 150 offtake points for the eight distribution Networks
- Gas pumped around the system by 24 compressors

US Transmission and Distribution

Electricity

- 14,000 miles of electricity transmission network
- 3.2 million electricity customers over a distribution network of 72,000 miles in New York and New England

Gas

- Approximately 550,000 gas customers over a distribution network of 8,000 miles in upstate New York

Other businesses

- Non-regulated businesses provide:
- Metering and meter reading services
 - Communications infrastructure solutions
 - Interconnectors between national electricity networks

Chairman's Statement

National Grid Transco, created from the merger of National Grid and Lattice, brought together two groups with world-leading reputations for operating complex energy networks. Combined, we are the UK's largest investor-owned utility and one of the largest worldwide.

As your Chairman, may I welcome you to this, our first Annual Review for National Grid Transco which was created last October through the merger of National Grid and Lattice (the 'Merger'). It brought together two groups, both of which already had world-leading reputations for operating complex energy networks. Combined, we are the UK's largest investor-owned utility and one of the largest worldwide.

Uniquely, our skills and strategy are focused on energy delivery and infrastructure. We own and operate the major part of Britain's gas transmission and distribution systems and the electricity transmission system in England and Wales. We are one of the top ten electricity delivery companies in the US and operate a gas distribution network in upstate New York.

Our vision is to develop a modern, progressive, forward-looking company that benefits all our stakeholders. This means continuing to operate and grow a safe and reliable electricity and gas transmission and distribution business. We do so with the conviction that ever greater levels of safety and efficiency, coupled with high service standards, can be achieved through the application of technology and innovation. In addition, under well-designed regulatory incentives, such gains benefit shareholders and consumers alike. Delivering this vision provides a safely-managed and stimulating environment for all our employees. We will also, very selectively, transfer our network skills to other similar markets when long-term value creation opportunities arise.

Group results and dividend

In our first year as National Grid Transco, we have been keenly focused on delivering against our published targets. We have made excellent progress across the Group in meeting our key operational goals. In both the UK and the US, our core businesses are meeting or outperforming against targets for reducing costs. At the same time, we are maintaining our solid record of delivering energy safely, reliably and with high standards of customer

service as well as effectively implementing our integration plans.

Group turnover increased during the year by 24%, from £7.6 billion to £9.4 billion, largely due to the contribution from the New York operation (Niagara Mohawk) of National Grid USA, which joined the Group on 31 January 2002.

Total operating profit before exceptional items and goodwill amortisation for the year increased 23%, representing strong performance from all our regulated operations in the UK and US and the first full-year contribution from the New York operation.

Adjusted earnings per share was 28.3 pence, down from 30.8 pence in 2001/02, the fall reflecting the benefit of releasing tax provisions last year.

The Board is recommending a final dividend of 10.34 pence per ordinary share. This brings the total dividend for the year to 17.20 pence per ordinary share, a 7.2% increase compared with last year's National Grid payment, in line with our aim to increase dividends per ordinary share by 5% in real terms in each financial year to 31 March 2006.

The final dividend per American Depositary Share (ADS) proposed by the Board is \$0.8396, bringing the total dividend for the year to \$1.3748 per ADS.

Sound governance

On both sides of the Atlantic, corporate governance practice has recently been the subject of considerable review, public debate and new legislation. From the outset of the Merger, the Board has been determined to ensure that the Group has in place the highest standards of corporate governance. We have also taken particular care to ensure that all procedures, policies and authorities, as well as the Board and committee structure, match these objectives.

In the UK, the recent 'Review of the role and effectiveness of non-executive directors' by Derek Higgs proposed a number of changes. It is expected that later this year the Financial Reporting Council will confirm the final modifications to the Combined Code. I am confident that, following a modest number of appropriate adjustments, we will be well placed to comply with the majority of the recommendations contained in the Higgs Review.

In the US, the passage of the Sarbanes-Oxley Act has increased the corporate governance requirements for the Group. Significant work has already been undertaken and will continue to ensure we fully meet our obligations.

We are committed to operating our business and building shareholder value in a sustainable manner. As a responsible business, we work to ensure that high standards of financial performance are matched by social and environmental responsibility. On behalf of the Board, responsibility for oversight of health, safety, environment and social involvement rests with the Risk and Responsibility Committee which is chaired by James Ross, our Deputy Chairman. The Committee works closely with the Audit Committee to provide assurance to the Board that all significant risks within the Group have been thoroughly assessed and are managed through sound systems of internal control.

Above all, safety is our paramount concern. In the UK, we continue to undertake major investment in maintaining the gas distribution infrastructure, spending over £400 million in the year on replacing metallic pipes to ensure we deliver gas safely. It is against this background that we deeply regret that three members of the public died as a result of gas explosions associated with Transco's operations in the UK during the year. Whenever such events occur it is important to understand the reasons and therefore we cooperate fully with the relevant authorities in their investigations and apply any lessons to be learned as soon as possible.

Energy policy

Energy policy continues to be high on the agenda in the UK, Europe and US, especially over issues regarding security and diversity of supply. In February 2003, the UK Government published a White Paper outlining its proposals for future energy policy.

The White Paper rightly recognises the importance of robust and flexible infrastructure for the transmission and distribution of both gas and electricity to realise the Government's policy objectives. In the case of gas, Transco's National Transmission System will need to adapt to the growing proportion of gas and Liquefied Natural Gas (LNG) imports from a variety of landing points.

For electricity, the regulatory arrangements for National Grid Company's essential role in connecting the new sources of renewable energy to the market, and balancing their intermittency, will be crucial to delivery of the White Paper's objectives. We are working closely with the Government to meet these new challenges.

In the US, although deliberations are far from complete, Congress is currently considering comprehensive energy legislation which includes a number of

provisions that are important to National Grid USA's ongoing operations and business development efforts. Among other things, Congress is considering the repeal of the Public Utility Holding Company Act, which would streamline regulation in the US, and the enactment of several provisions that would promote electricity transmission infrastructure development.

National Grid Transco people

None of this year's achievements would have been possible without the skills, dedication and enthusiasm of National Grid Transco people. I would therefore like to extend my thanks to all our employees for their commitment to delivering our success and willingness to embrace change.

The Merger saw a number of changes to the Board and I am grateful to all the Directors who have served on the Boards of National Grid and Lattice throughout the year. National Grid Transco is fortunate in having a very strong and committed team of Directors, which was further strengthened by the addition of Nick Winser to the Board in April 2003 as an Executive Director. He has assumed responsibility for our UK and US transmission operations, having previously been Chief Operating Officer of our

transmission operations in the US. Steve Holliday, previously responsible for our transmission operations, has taken over as Executive Director with responsibility for UK gas distribution. Rick Sergel retains responsibility for our US distribution business. Edward Astle, responsible for our non-regulated businesses, is also now responsible for business development.

Outlook

Our Group-wide cost reduction and synergy creation programmes are exceeding our targets. We are confident that 2003/04 will be another strong year for the Group.



Sir John Parker Chairman



Sir John Parker, Chairman (seated) and **Roger Urwin**, Group Chief Executive

Chief Executive's Operational Review

National Grid Transco's success and reputation as a world-class business depend on the safe, reliable and efficient delivery of energy, around the clock, 365 days a year.

Strategy

National Grid Transco is one of the world's leading energy delivery companies. Our core skills lie in the design, development, operation and maintenance of complex energy networks under performance-based regulatory incentives. We manage these networks to the highest standards of safety, reliability and customer service.

We have also transferred our network skills to related markets in the UK and US.

We aim to deliver world-class operating and financial performance in order to provide superior returns and grow value for shareholders. To achieve this we must:

- continue to earn our reputation for innovation and continuous improvement to achieve leading standards of efficiency, safety, reliability and customer service;
- continue the productive and professional conduct of regulatory relationships to deliver innovative, performance-based agreements which provide benefits for investors and consumers;
- continue to develop our unique experience and expertise in providing the infrastructure, commercial arrangements and related systems that provide the essential basis for competitive electricity and gas markets;
- transfer best practices across businesses and functions and realise integration synergies in electricity and gas transmission and distribution;
- exploit our core skills, assets and scale to pursue selected growth opportunities in infrastructure and related services; and
- manage our businesses in accordance with the culture and behavioural values needed for the responsible, long-term stewardship of vital infrastructure assets – our 'Framework for Responsible Business'.

Our businesses

In the UK, through Transco, we own, operate and develop Britain's natural gas transmission and distribution systems, and through National Grid Company, the high-voltage electricity transmission system in England and Wales. In the US, National Grid USA's distribution networks serve electricity customers in the Northeast and gas customers in upstate New York.

Our portfolio of non-regulated businesses which includes metering, communications infrastructure and interconnectors is selectively utilising our core skills and assets.

Business performance

Last year saw excellent progress in delivering our strategy. Each of our businesses maintained aggressive cost-cutting and improved efficiency, and we delivered over £140 million in real savings for the year ended 31 March 2003 alone. We continue to deliver significant outperformance in the UK electricity business and to date we have achieved real reductions of 22%. In our UK gas business, we met the first-year target to reduce operating costs by 6.3% in real terms. In the US, we are progressing well in integrating the New England and New York operations. We have already achieved a reduction of 6.5%.

The Group has made good progress in securing the savings related to the National Grid and Lattice merger. The two previous London headquarters were brought together on the day we completed the Merger, and we are in the process of moving to our new operational centre in Warwick.

The combined UK gas and electricity transmission businesses have identified savings and efficiencies above our original targets. We are now confident of achieving at least £135 million annualised synergy savings, the great majority of which will be achieved by March 2004.

Right Construction of a new 43-mile, 48-inch high pressure pipeline between St Fergus Terminal and Aberdeen Compressor Station in Scotland is part of our investment programme to meet increased gas demand.

Far right National Grid Company's control room for England and Wales, where supply and demand are balanced on a second-by-second basis in what is perhaps the most sophisticated and liberalised wholesale electricity market in the world.



UK gas distribution

Our gas distribution business in the UK is organised into eight regional Networks and consists of some 172,000 miles of distribution pipeline. It is the largest integrated gas system in the EU. Gas is transported on behalf of approximately 70 active gas shippers from the National Transmission System to around 21 million consumers and also to third party pipeline systems. Transco is responsible for the safety, development and maintenance of the transportation system and also operates the national gas emergency service.

Adjusted operating profit from Transco's eight gas distribution Networks rose by £6 million to £554 million and controllable costs were £26 million lower than in the previous year. The replacement expenditure ('repex') on UK gas mains totalled £405 million in the year. Our performance under the new repex incentive mechanism has been encouraging, and we earned an estimated £15 million in the first year.

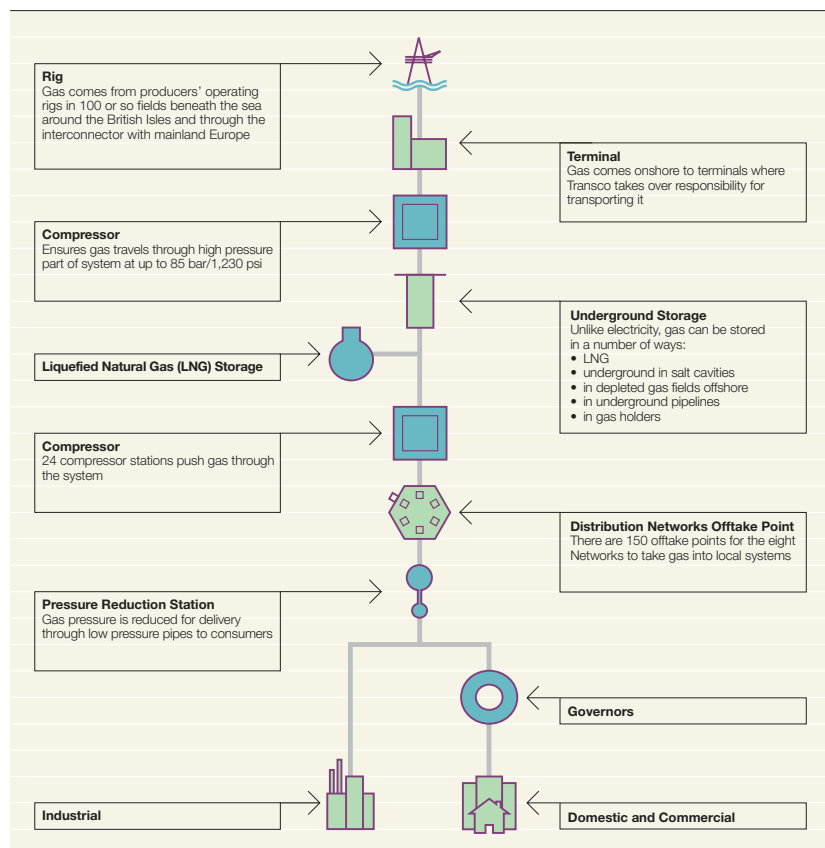
Separation of Transco's distribution price control into eight regional price controls is well advanced, and Ofgem is due to publish its final proposals shortly. We are also in detailed discussions with Ofgem on the many regulatory issues associated with the separation and potential sale of individual Networks. We expect Ofgem to publish a consultation document on these issues later this summer. However, the process will require extensive consultations across the gas industry, including detailed discussions with the Health and Safety Executive, which are likely to take many months to complete. We are committed to retaining a major presence in the UK gas distribution business but will consider the sale of one or more individual Networks if this were to maximise shareholder value.

UK electricity and gas transmission

The UK electricity and gas transmission business comprises National Grid Company's high-voltage electricity transmission network in England and

UK gas

Transco transports gas for around 70 active shippers from coastal terminals to consumers' meters, delivering gas to around 21 million consumers. Transco also operates the 24-hour 365 days a year national gas emergency service.



Wales as well as Transco's gas transmission network in Britain. It consists of approximately 4,500 miles of overhead line, approximately 400 miles of underground cable and some 340 substations at around 230 separate sites. Day-to-day operation of the transmission system involves the continuous matching of generation output with demand for electricity, ensuring the stability and security of the power system and the maintenance of satisfactory voltage and frequency. The gas transmission system in Britain comprises approximately

4,100 miles of high pressure pipe, six beach terminals and 24 compressor stations, connecting to Transco's distribution Networks.

The business continued to deliver strong performance, achieving adjusted operating profits of £846 million, an increase of £65 million over the previous year. Operating highlights included further significant reductions in controllable costs and strong performance under the electricity System Operator incentive scheme.

Right National Grid USA deals with weather extremes during both the summer and winter. In some areas last year, temperatures ranged from a high of over 37°C during the summer to a low of -24°C during the winter.

Far right Transco is responsible for the safety of Britain's national gas pipeline system 24 hours a day, 365 days a year. Around six million telephone calls were made throughout the year to the three national call centres that operate the free national gas emergency number - 0800 111 999.*



US electricity and gas networks

National Grid USA delivers electricity and gas in the northeastern US. Electricity distribution serves approximately 3.2 million electricity customers over a network of 72,000 miles. Electricity transmission maintains a network of 14,000 miles. In addition, we serve approximately 550,000 gas customers over a distribution network of 8,000 miles.

The business delivered good results, with cost-cutting and favourable weather conditions offsetting the impact of the sluggish economy, a weakened US dollar and increased pension costs. The US businesses contributed £699 million to adjusted operating profit, compared

with £370 million for the previous year, reflecting a full-year contribution from our New York operations. Adjusted operating profit for electricity distribution amounted to £513 million in 2002/03, compared with £266 million in 2001/02; electricity transmission amounted to £128 million in 2002/03, compared with £87 million in 2001/02; and gas distribution amounted to £58 million in 2002/03, compared with £17 million in 2001/02. Operating profit for 2001/02 included two months of results for Niagara Mohawk, which was acquired on 31 January 2002.

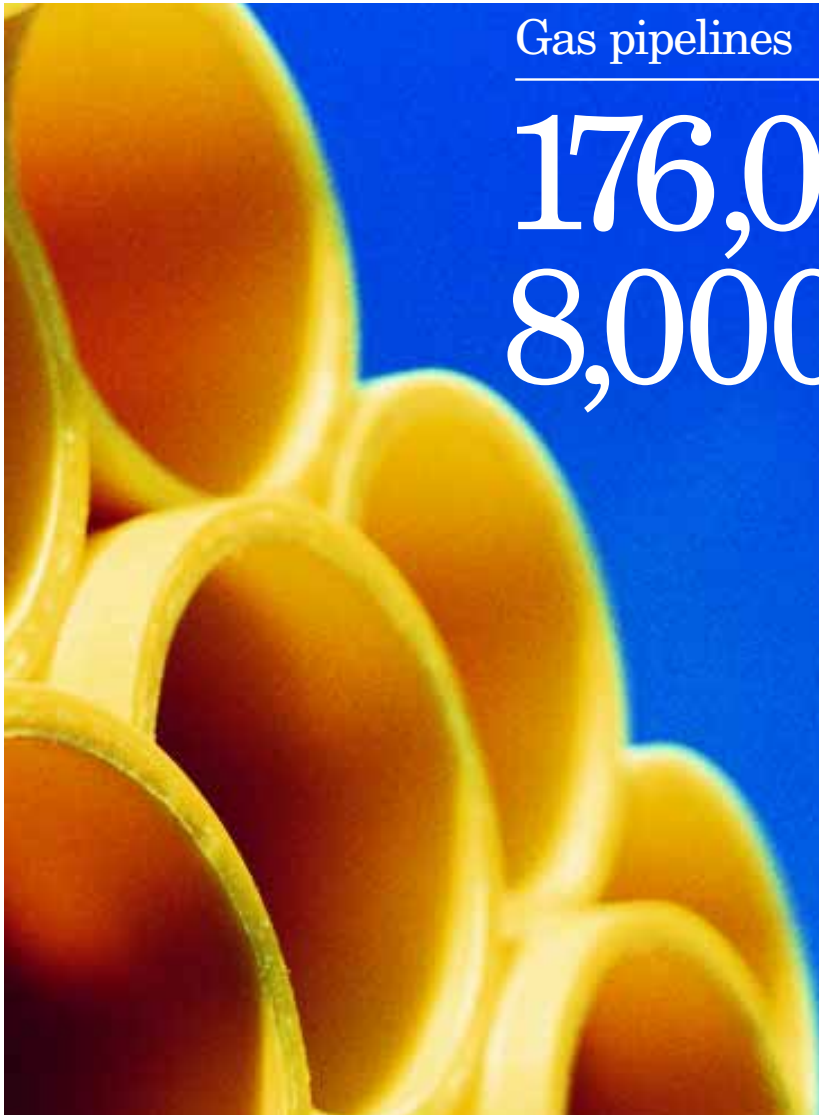
The development of regional electricity markets and the associated electricity transmission restructuring in the US

* All calls are recorded and may be monitored.

Gas pipelines

176,000 miles in Britain

8,000 miles in northeastern US





Far left National Grid USA performs regular maintenance on a 72,000-mile distribution network in order to maintain reliable electricity services to 3.2 million customers in the northeastern US.

Left Gridcom's towers can accommodate multiple telecommunications operators by site sharing. It actively promotes such site sharing to UK mobile operators to prevent a proliferation of masts and lessen the impact on the environment.

continues to make progress. In June 2002, we announced the establishment of GridAmerica, an independent transmission company. Following receipt of the remaining regulatory approvals, we expect it to begin operations in autumn 2003, managing the transmission assets of three midwestern utilities: Ameren, First Energy and Northern Indiana Public Service Company. These assets span over 14,000 miles of transmission lines.

Non-regulated businesses

Our portfolio of non-regulated businesses in the field of infrastructure provision and related services is selectively utilising our core skills and assets in areas such as metering, communications infrastructure,

interconnectors, gas connections and property. During the year, we have made real progress in refocusing our non-regulated businesses and improving their safety and operational performance.

Our competitive metering business, OnStream, was awarded four contracts by British Gas Trading (Centrica) to provide metering services for around 11 million domestic gas and electricity customers in Britain.

We continue to make progress in developing Gridcom which provides communications infrastructure and related services to fibre and wireless network operators in the UK and northeastern US.

We are adding to our successful interconnector business the £300 million Basslink project to build, own and operate an interconnector between the Australian mainland and Tasmania. Final approval for the project from federal and state Government in Australia was received during the year and it is due for completion in late 2005.

Our withdrawal from altnet (alternative telecoms network) investments is nearly complete. During the year, we sold our stakes in Manquehue net and Silica Networks and restructured our shareholding in Energis Polska. We also sold the assets of 186k, our fibre optic network business.

US electricity networks

3.2 million customers

86,000 miles of overhead line and underground cable

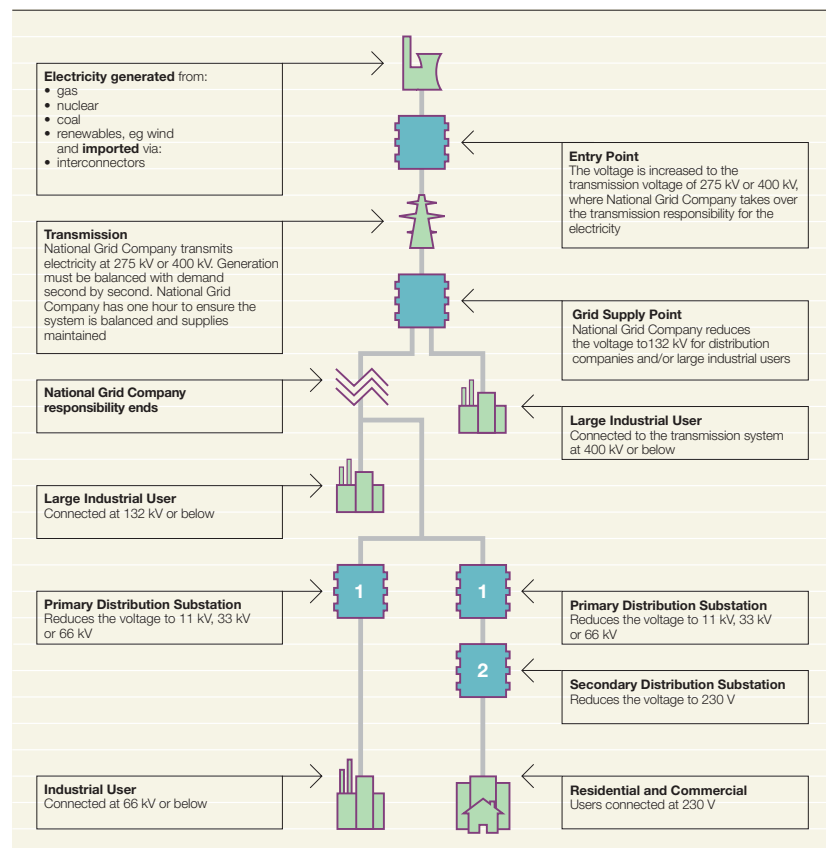


Far left National Grid USA's training centre in Massachusetts houses more than a dozen classrooms, conference rooms and hands-on skills training areas. The centre includes outdoor 'laboratories' where students train on overhead and underground electricity distribution equipment such as transformers, poles and a working substation.

Left Niagara Mohawk, which serves 550,000 gas customers in upstate New York, has a programme under way to replace older bare steel and cast iron mains that may be at risk of corrosion.

UK electricity

National Grid Company transports electricity and balances the system on a second-by-second basis, delivering electricity from generators and interconnectors to 12 regional electricity companies for local distribution to over 24 million consumers and directly to a small number of large industrial users.



Delivering energy – safely...

The electricity and gas we deliver is essential to the countries and regions in which we operate. It is of paramount importance to us that we do so safely and we work to safeguard the public in all that we do.

Across the Group, we have a goal of zero injuries to employees and, for the year ended 31 March 2003, the rate of injuries resulting in lost time decreased by up to 46% across our major operations compared with 2001/02. In our drive for continuous improvement, we investigate

all incidents to ensure that the lessons are learned and communicated. Last year, we also audited the progress made in safety management since the assessment of National Grid's operations in the UK and US by DuPont in 2001. In January 2003, we invited DuPont to carry out a safety assessment of Transco.

In the UK, Transco has successfully completed its demanding programme to replace 1,500 miles of medium pressure mains made of ductile iron. We have also commenced a long-term programme to replace all metallic mains within 30 metres



Far left At Transco's national control centre, gas pressures and flows are monitored to ensure the continuous balancing of supply and demand.

Left National Grid USA has introduced Automated Meter Reading (AMR), which allows customers' meters to be read using radio signals transmitted to a computer in a company van. This enables up to 15,000 meters to be read compared with 400 meters per day by a meter reader.

of buildings with modern polyethylene pipes that should reduce further the risk of gas leaks from the system.

In the US, we have a programme under way to replace older bare steel and cast iron gas mains that may be at risk of deteriorating.

...with year-round reliability...

We must also deliver energy reliably, especially during extremes of weather. The winter of 2002/03 saw the highest demands for electricity and gas ever recorded in the UK. The electricity transmission network in England and Wales carried a record 54.4 GW on 10 December 2002 – up more than 5% from the previous peak and the largest percentage increase in demand since 1995.

The record maximum daily demand for gas in Britain of 450 million cubic metres was met on 7 January 2003. This also represented an increase of over 5% on the previous peak.

In the US, there were extremes of both hot and cold weather, with temperatures that ranged from a high of over 37°C during the summer to a low of -24°C during the winter. The need for summer air conditioning and winter heating increased the demand for energy. In the New England region, all-time peak electricity demand records were set in both the summer and winter.

The weather in the US, however, also included a significant number of ice and snow storms that caused outages, including a very severe ice storm in New York in early April 2003 that cut off power to more than a quarter of a million of our customers. It is a credit to the dedication and professionalism of our employees that we were able to restore power quickly with many tributes received from the customers affected.

...and with high service standards

We operate the national gas emergency service. During the year, staff in three national call centres dealt with around six million telephone calls from the public. Safety-related targets continued to be exceeded, with 99% of 'uncontrolled' gas escapes (where the gas leak cannot be controlled by turning the gas supply off at the meter) attended within one hour. 99% of 'controlled' gas escapes (where the gas leak can be controlled at the meter) were attended within two hours.

In the US, we also work towards service quality standards set by the state regulators. During the year, we had mixed results in the area of reliability, which measures the frequency and duration of outages. While in New York and Rhode Island we met our targets, we fell short in Massachusetts. As a result, major construction efforts are under way to improve reliability in the distribution infrastructure through the upgrade of low-voltage power supply lines (feeders) in New England and the completion of four new substations.

Customer satisfaction is higher and billing accuracy and efficiency have been improved in the US through our Automated Meter Reading (AMR) project. AMR enables us to read up to 15,000 meters a day using a specially equipped van, compared with approximately 400 meters per day by a meter reader. AMR provides accurate reads, which means fewer customer calls about bills and fewer regulatory complaints.

We also work closely with our customers in the US and UK to improve their energy efficiency. Five of the programmes offered in New England were among the 31 nominations selected as the nation's best by the American Council for an Energy-Efficient Economy. In Britain, our Affordable Warmth programme is a leading contributor to the eradication of fuel poverty – a prime Government objective.

Operating responsibly

The past year has seen an increasing emphasis on the way in which companies manage their affairs and the arrangements they have put in place to ensure effective corporate governance.

Our Framework for Responsible Business, developed with the help of our employees and external stakeholders, sets out the principles by which we will manage our business to deliver long-term value. It provides the context for our approach to corporate governance and is supported by Group-wide policies addressing issues such as safety, environment and business ethics.

We are proud of our achievements in this area. This year we have been listed in the top 20% of the UK Business in the Community's Corporate Responsibility Index and the 'Premier League' of the associated environmental index. We have also been rated by certain fund managers as an 'industry leader', for our management of environmental and social issues.

This financial year has also seen us enter the FTSE4Good and Dow Jones Sustainability Indices, at a time when these issues are taking on greater importance for the investment community.

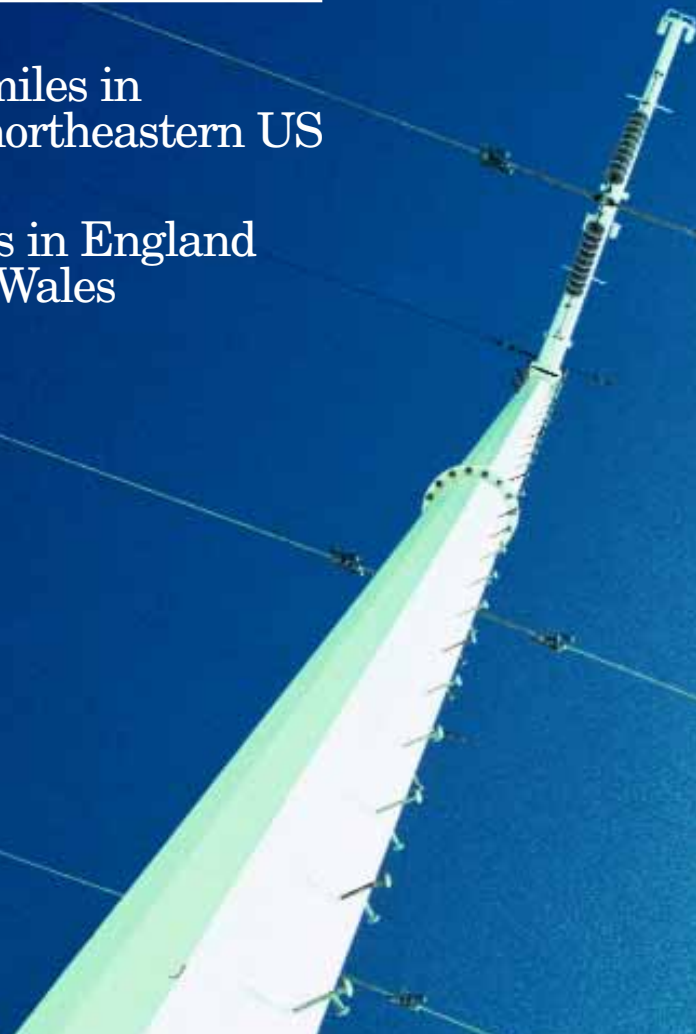
We place great emphasis on the relationships we have with the local communities we serve. We have established the National Grid Transco Foundation to bring our business expertise, knowledge and resources to bear on social and environmental issues faced by communities. It is also the means through which our UK employees can become actively involved in community activities.

In recent years there has been a shortage of skilled engineers and technicians across the UK. The Foundation has been involved in developing a pilot scheme to address this shortage. We have trained young offenders in gas distribution and streetworks and they have found jobs with National Grid Transco and our engineering contractors.

Electricity transmission networks

14,000 miles in
northeastern US

4,500 miles in England
and Wales



Most encouragingly, experience shows that there is a dramatically reduced inclination to re-offend among these young people. The UK Government is therefore considering how this scheme might be applied nationwide, under the leadership of Sir John Parker.

Last year we gave some £3.4 million (US \$5.4 million) to charitable causes in the US. This included support for needy populations through a fuel-assistance programme similar to our Affordable Warmth programme in Britain. It also included an educational services programme that distributed more than 200,000 instructional booklets on various energy topics to students and held more than 2,000 classroom safety presentations reaching more than 50,000 children.

A foundation for the future

We have successfully established National Grid Transco as the world's foremost company specialising in the ownership and operation of the advanced networks that provide the essential basis for competitive electricity and gas markets. Our challenge is to build on this achievement to the benefit of our employees, our shareholders and the millions of customers served by our networks.

Community investment

£5.5m

invested in UK, including award-winning schemes for young offenders

\$5.4m

invested in northeastern US



Operating Responsibly

In merging National Grid and Lattice we recognised that it was essential to build upon the approach to corporate responsibility that both companies had been developing in recent years.

We recognise that as one of the world's largest utilities we have long-term responsibilities that form an important part of our wish to create value for our shareholders. Full details of our approach to operating responsibly can be accessed via our website, www.ngtgroup.com.

Our Framework for Responsible Business

Our Framework for Responsible Business (the 'Framework') defines the sort of business we are, sets the context in which we operate, and helps us achieve the right balance between economic, environmental and social factors. We have built our Framework around three goals that clearly define our desire to be a company with a long-term future:

Sustainable growth

We are constantly looking to expand and grow our business by transferring our skills to new markets. Growth needs to be sustainable if we are to bring long-term value to our shareholders and others.

Profits with responsibility

For our business to be sustainable, we must be profitable. However, increasing our profitability at any cost is neither sustainable nor acceptable. We therefore have to be responsible in the way in which we generate our profits.

Investing in the future

As a responsible business, our commercial success enables us to invest in the future in a way that benefits our shareholders, our employees, the environment and society. This investment is a reflection of our desire to be a long-term business.

Driving our governance

In a climate where the governance arrangements in large companies are increasingly under scrutiny, the Board has implemented a transparent approach, driven by our Framework and underpinned by a suite of policies.

Overall responsibility for matters of corporate responsibility rests with the Board

which has established the Risk and Responsibility Committee chaired by James Ross, Deputy Chairman, to ensure that these areas are reviewed in appropriate depth. The Committee has responsibility for reviewing the non-financial risks, strategies, policies, management, targets and performance of the Group, and where appropriate, our suppliers and contractors.

A safe way of working

We believe that safety is paramount and that all work-related injuries and illnesses are preventable. A new Group-wide Safety and Occupational Health policy was approved by the Board in December 2002. The policy establishes our strategic aims and each of our businesses will be audited to ensure it is transferring the policy into practice.

During 2002/03, our operations have not resulted in any fatalities to our employees or contractors, and the rate of injuries resulting in lost time has decreased by up to 46% across our major operations compared with 2001/02. However 269 of our employees were involved in accidents which led to their taking time off work. As with all our incidents, these are being investigated to ensure that lessons are learned and communicated throughout the Group. We monitor our Lost Time Incidents across the Group and report them monthly to the Executive Committee and Board.

Protecting the public

We aim to safeguard the public in everything we do. Despite our best efforts, regrettably three members of the public died as a result of gas explosions associated with Transco's operations in the UK during the year. As a result of a fatal accident in Larkhall, Lanarkshire in December 1999 in which four people died, the Crown Office in Scotland served an indictment on Transco in February 2003. This charges that company with culpable homicide with an alternative charge of a contravention of Sections 3 and 33 of the Health and Safety at Work Act 1974. Charging that company with culpable homicide is unprecedented under Scots law and therefore before a full trial can proceed,

a number of fundamental legal issues associated with the indictment are required to be resolved.

Working with contractors

Contractors are selected from an approved vendor list that requires submission to a safety and environmental review.

For the purpose of safety management, contractors are treated like, and receive safety briefings alongside, direct employees. Our contractors recognise that we have high safety standards and, especially for large projects, safety is at the forefront from tender to project completion.

We have, during the financial year, removed contractors from jobs because of our concerns over their ability to operate safely.

Environment

We were not prosecuted by any environmental regulatory body for an environmental offence during this financial year.

The operation of environmental management systems (EMSs) in our businesses provides the Executive Directors with direct assurance that our approach is robust and properly focused on significant environmental risks and liabilities. In the US, our New England electricity transmission system is certified to ISO 14001 and our New York electricity transmission system conforms to ISO 14001 and will receive a registration audit in June 2003. Our US electricity and gas distribution businesses have developed EMSs that conform to ISO 14001. We are evaluating the merits of seeking ISO 14001 registration for our US distribution businesses. The majority of our UK operations are certified to ISO 14001. Over 80% of our employees operate with ISO 14001 certified or compatible systems.

In March 2003, we were one of 18 companies (out of over 200) placed in the premier league of Business in the Community's 7th BiE Index of Corporate Environmental Engagement.



Far left Paper-making at National Grid Company's Pelham Centre for the Environment, Hertfordshire, UK. In addition to term-time visits, schoolchildren can attend holiday play schemes where activities boost their awareness of the natural world.

Left In a pilot project with the children's charity NCH, National Grid Transco Foundation aims to raise the educational achievements of young people in care. At an NCH Family Centre in London, the Foundation has installed self-contained learning workstations for cared for children.

Electric and magnetic fields

In December 2002, we published our position statement on electric and magnetic fields (EMFs) making a clear commitment to playing a constructive and proactive role on this issue. The balance of scientific evidence indicates that EMFs do not lead to adverse health effects. However, we recognise that some people still have concerns about EMFs and we make information and advice available whenever requested. We comply with the standards, guidelines and regulations in force on EMFs in the countries and states in which we operate.

Contaminated land

We continue to manage our inherited portfolio of potentially contaminated land. This contamination has mainly arisen from the historic manufacture of gas from coal and oil, and from older electrical substations where there is a risk that the ground may have been contaminated with oil in the past through accidental spillage or leakage from equipment. The sites of former manufactured gas plants can sometimes have a complex mix of contamination dating back to the 19th century.

Climate change

Across our operations the largest source of greenhouse gas emissions is methane leakage from the Transco distribution network. Most leakage is associated with the joints on older cast iron parts of the low pressure gas network. Cast iron makes up 37% of the distribution system and, as this pipe is replaced by polyethylene, the level of methane emissions will be gradually reduced. A detailed analysis of our greenhouse gas emissions is available on our website.

Our people

We have reviewed our Human Resources policies and condensed them into a high-level Group-wide policy. We aim to foster a learning environment where all our employees can realise their full potential. Each business is updating procedures to cover the areas of Diversity, Learning & Development, Performance Management,

Reward Framework, Recruitment & Selection and Flexible Working. Whilst achieving the standards set in the Group-wide policy, these procedures will reflect local cultures and practices.

Across the Group we are realigning the profile of our workforce with the challenges that we will be facing in the coming years. Throughout this process, we have consulted with trade union representatives and our employees and we aim wherever possible to achieve redundancies either through early retirement or voluntarily.

We are committed to being an equal opportunity employer, encouraging diversity and avoiding any discrimination on the grounds of race, colour, religion, political opinion, nationality, gender, disability, sexual orientation, age, social status and origin, indigenous status or other status unrelated to the individual's ability to perform his or her work.

Working with others

We have a diverse range of external stakeholders from customers, consumers, suppliers, contractors, Government, non-governmental organisations, regulators, grantors and action groups. In our dealings with external audiences we strive to be open and constructive.

Our customers

In the US, we work closely with our customers to improve their energy efficiency and five of the programmes offered by our New England electricity distribution companies were among the 31 nominations selected as the nation's best by the American Council for an Energy-Efficient Economy.

In the UK, Transco has continued to focus on service delivery to the 21 million gas consumers. Throughout 2002, Transco has surveyed and measured consumer views on its key consumer products and services. This indicates that consumers are generally satisfied with the quality of service being provided.

Our suppliers

As a Group with a capital programme of over £1.5 billion we recognise the positive impact that good procurement practices and standards can have on the quality of our supply chain. We aim to create strategic supplier relationships. These provide the opportunity to work with suppliers to improve their performance and provide key suppliers with an appreciation of our business needs, while maintaining or improving safety standards. The safety, health, environmental and quality performance of suppliers is considered as part of the tendering process.

Local communities

We believe it is possible to create both shareholder value and social value – these aims need not be in conflict. We place great emphasis on the relationships we have with the local communities we serve and the wider social needs of the societies in which we operate. The principal focus of our investment is on three themes:

- Regenerating local communities
- Improving the environment
- Education and skills

During 2002/03, we invested about £5.5 million and £3.4 million respectively in the UK and US in our community investment programmes.

Grantors

The continued safe and reliable operation of a national infrastructure, such as the electricity transmission network in England and Wales, involves maintaining good working relationships with the owners and occupiers of land on which our assets are installed and over, or under, whose land our lines cross. We have more than 19,000 different land owners and occupiers throughout the UK – whom we call 'grantors'. We provide a point of contact for all grantors and our quarterly grantors newsletter 'Gridline' provides them with timely and relevant information.

Board of Directors

01_02



01 Sir John Parker

Chairman
(appointed October 2002) (N*)
Sir John Parker became Chairman of the Group following the Merger, having been Chairman of Lattice Group since its Demerger from BG Group in 2000. He had previously been a Non-executive Director of BG from 1997. Sir John's career has encompassed the engineering, shipbuilding and defence industries. He is Chairman of RMC Group plc and a Non-executive Director of Brambles Industries plc and Carnival plc. Sir John is a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC. He is a Fellow of the Royal Academy of Engineering. (Age 61)

02 James Ross

Deputy Chairman and Senior Independent Director
(first appointed March 1999) (R&F*)
James Ross was appointed as Non-executive Director and Deputy Chairman of National Grid in March 1999, becoming Chairman in July 1999. Following the Merger, he became Deputy Chairman and Senior Independent Director. He is a Non-executive Director of McGraw Hill and of Datacard, both based in the US, and of Schneider Electric based in France. He was Chairman of Littlewoods plc from 1996 to April 2002 and was Chief Executive of Cable and Wireless plc from 1992 to 1995. Previously, he was Managing Director of the British Petroleum Company plc and Chairman and CEO of BP America. At BP he had responsibility for its activities in North and South America and Africa as well as the company's environmental policies. (Age 64)

03_04



05_06_07



03 Roger Urwin

Group Chief Executive
(first appointed November 1995) (E*, F)
Roger Urwin was appointed as a Director of National Grid in November 1995, becoming Group Chief Executive in April 2001. He was previously Chief Executive of London Electricity plc. Earlier, he held a number of appointments within the Central Electricity Generating Board before joining the Midlands Electricity Board as Director of Engineering. He is a Non-executive Director of The Special Utilities Investment Trust PLC and is a Fellow of the Royal Academy of Engineering. (Age 57)

04 Steve Lucas

Group Finance Director
(appointed October 2002) (E, F)
Steve Lucas joined the Board following the Merger in October 2002. He had been Executive Director, Finance of Lattice Group since its Demerger from BG Group in 2000. Previously, he was Treasurer of BG Group having joined British Gas plc in 1994. A Chartered Accountant, he worked in private practice in the City of London until 1983. He then joined Shell International Petroleum Company, occupying a number of finance management positions and treasury roles, including seven years in Africa and the Far East. (Age 49)

05 Steve Holliday

Group Director
(appointed March 2001) (E)
Steve Holliday joined National Grid as Group Director, UK and Europe at the end of March 2001. Following the Merger, he was principally responsible for the Group's transmission businesses and is now Group Director responsible for UK Gas Distribution and Business Services. He was formerly an Executive Director of British Borneo Oil and Gas. Previously, he spent 19 years with the Exxon Group, where he held senior positions in the international gas business and operational areas such as refining and shipping. His international experience includes a four-year spell in the US. He also worked developing business opportunities in countries as diverse as Russia, Australia, Japan, Brazil and China. (Age 46)

06 Edward Astle

Group Director
(appointed September 2001) (E)
Edward Astle joined National Grid as Group Director, Telecommunications in September 2001 and is now Group Director responsible for Unregulated Business and leads the Group's Business Development and Strategy. He was Managing Director of BICC Communications from 1997 to 1999 and between 1989 and 1997 he held a variety of positions with Cable and Wireless (C&W). He was Regional Director Europe, CEO of its global networks and marine divisions, and in 1995 joined the C&W Board as Executive Director – Global Businesses. He is a Non-executive Director of Intec Telecom Systems plc. (Age 49)

07 Rick Sergel

Group Director
(appointed March 2000) (E)
Rick Sergel was appointed as a Director of National Grid following the acquisition of New England Electric System (NEES) in March 2000. He is President, Chief Executive Officer and a Director of National Grid USA and has Board responsibility for US Gas and Electricity Distribution. Between February 1998 and March 2000 he served as President and Chief Executive Officer of NEES. His previous positions with NEES included Senior Vice President in charge of retail operations and unregulated ventures, Vice President and Treasurer. He is a Non-executive Director of State Street Corporation. (Age 53)

Board Committees:

A Audit **E** Executive **F** Finance **N** Nominations
R Remuneration **R&R** Risk and Responsibility
(* denotes chairman of the committee)

08_09



10_11



08 Nick Winsor

Group Director (appointed April 2003) (E)
Nick Winsor joined the Board in April 2003 as Group Director responsible for UK and US Transmission operations. He was previously Chief Operating Officer of US Transmission for National Grid Transco. He had joined National Grid Company in 1993, becoming Director of Engineering in 2001. Prior to this he had been with PowerGen since 1991 as principal negotiator on commercial matters having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles. (Age 42)

09 John Wybrew

Group Corporate Affairs Director (appointed October 2002) (E)
John Wybrew joined the Board following the Merger in October 2002. At Lattice Group he was Executive Director responsible for corporate affairs, human resources and health, safety, security and environment. He had joined the Board of British Gas in 1996 and then served as an Executive Director of BG Group. He previously had a career with the Royal Dutch/Shell Group spanning more than 30 years and was Corporate Affairs Director for Shell UK Ltd before joining BG. In the mid 1980s he was seconded to the Prime Minister's Policy Unit, advising Mrs Thatcher on energy and transport policies. (Age 61)

10 Bonnie Hill

Non-executive Director (appointed February 2002) (R, R&R)
Bonnie Hill was appointed a Director of National Grid in February 2002 following the acquisition of Niagara Mohawk, where she had been a Director. She is President of B.Hill Enterprises, LLC, a consulting firm, and Chief Operating Officer of Icon Blue, a brand marketing company. She is also involved in a variety of civic, educational and community bodies and serves on the boards of AK Steel Corporation, Hershey Foods Corporation and The Home Depot, Inc. Before 2001, she was President and Chief Executive Officer of The Time Mirror Foundation and was also Senior Vice President of the Los Angeles Times newspaper. (Age 61)

11 Paul Joskow

Non-executive Director (appointed March 2000) (A, F*)
Paul Joskow was appointed a Director of National Grid in March 2000 following the acquisition of New England Electric System (NEES) where he had been a Director. He is a Professor of Economics and Management at the Massachusetts Institute of Technology (MIT), Director of MIT Centre for Energy and Environmental Policy Research, Research Associate of the US National Bureau of Economic Research and a Fellow of the Econometric Society and of the American Academy of Arts and Sciences. (Age 55)

12_13



14_15



12 Kenneth Harvey

Non-executive Director (appointed October 2002) (A, N, R)
Kenneth Harvey joined the Board following the Merger in October 2002, having been appointed to the Lattice Group Board in September 2000. He is Chairman of Pennon Group plc (which includes South West Water). He is also Non-executive Chairman of The Intercare Group plc and of Beaufort Group plc. A Chartered Engineer, he is a former Chairman of Norweb plc and of Comax Holdings Ltd. (Age 62)

13 Stephen Pettit

Non-executive Director (appointed October 2002) (F, R&R)
Stephen Pettit was appointed to the Board following the Merger, having been appointed to the Lattice Group Board in 2001. He is Chairman of Damovo, the privately owned network integration company and Chairman of Norwood Systems. He is also a Non-executive Director of National Air Traffic Services and KBC Advanced Technologies plc. He is a former Executive Director of Cable and Wireless plc. Before joining Cable and Wireless, he was Chief Executive, Petrochemicals at British Petroleum. (Age 52)

14 George Rose

Non-executive Director (appointed October 2002) (A*, N, R)
George Rose was appointed to the Board following the Merger, having been appointed to the Lattice Group Board in September 2000. He has been Finance Director of BAe Systems plc (formerly British Aerospace plc) since 1998, having joined the company in 1992. He is also a Non-executive Director of SAAB AB, a Member of the Financial Reporting Review Panel and a former Non-executive Director of Orange plc. (Age 51)

15 John Grant

Non-executive Director (appointed November 1995) (A, N, R*)
John Grant was appointed a Director of National Grid in November 1995. He is Executive Chairman of Hasgo Group Limited and of Peter Stubs Limited. He is Chairman of the Royal Automobile Club Motor Sports Association Limited and a Non-executive Director of Torotrak plc, Corac Group Plc and Cordex Plc. He was Chief Executive of Ascot Plc from 1997 to 2000 and Finance Director of Lucas Industries plc from 1992 to 1996. He previously held a number of senior executive positions during 25 years with Ford Motor Company. (Age 57)

Helen Mahy

Group Company Secretary (appointed October 2002)
Helen Mahy was appointed as Group Company Secretary following the Merger, having been Company Secretary at Lattice Group since March 2002. She was appointed a Non-executive Director of Aga Foodservice Group plc in March 2003. She is a Barrister and an Associate of the Chartered Insurance Institute. Previously, she was Group General Counsel and Company Secretary at Babcock International Group PLC. (Age 42)

Summary Operating and Financial Review

References to adjusted operating profit, adjusted profit before taxation, adjusted earnings (profit/(loss) for the year) and adjusted earnings per share are stated before exceptional items and goodwill amortisation. This is considered a better indication of the underlying business performance of the Group.

Merger of National Grid and Lattice

On 21 October 2002, the merger of National Grid and Lattice was completed and National Grid was renamed National Grid Transco. In accordance with UK Generally Accepted Accounting Principles (GAAP), the Merger has been accounted for using merger accounting principles. As a consequence, the results of the merged entity together with the financial review associated with the UK GAAP results are presented as if the Group had been in existence for all of the financial years presented. The results for all years are presented on the basis of uniform accounting policies.

Under US GAAP, the business combination of National Grid and Lattice must be accounted for as an acquisition in accordance with acquisition accounting principles ('purchase accounting').

Results and dividend Group turnover

Group turnover for 2002/03 increased by £1,846 million over 2001/02 to £9,400 million, reflecting a full year's turnover being recorded in respect of Niagara Mohawk, which was acquired by the Group on 31 January 2002.

Group operating profit

Group total operating profit rose by £1,377 million to £1,736 million in 2002/03, primarily reflecting a movement in the total operating exceptional net charges relating to both continuing and discontinued operations, which fell from £1,327 million in 2001/02 to £347 million in 2002/03.

Group total adjusted operating profit rose by £402 million to £2,185 million, primarily reflecting increased adjusted operating profit from US electricity transmission and US electricity distribution which have reported a full year's contribution from the acquisition of Niagara Mohawk in January 2002. As a result, the contribution of US electricity transmission and US electricity distribution rose from £353 million in 2001/02 to £641 million in 2002/03, an increase of £288 million, accounting for 72% of the total increase.

Total operating profit from Group undertakings included losses of £194 million

relating to discontinued operations compared with £496 million for 2001/02, as a result of the sale of, or exit by the Group from, certain business activities during the year. The principal businesses included The Leasing Group and 186k, a UK-based fibre optic telecommunications company.

Group operating profit also included a profit of £109 million compared with losses of £672 million in 2001/02 relating to the discontinued activities of joint ventures and the associate.

Associate and joint ventures

Total operating profit for 2002/03 of joint ventures (discontinued operations) included an exceptional pre-tax credit amounting to £129 million. The £129 million credit represents the partial release of impairment provisions charged in the year ended 31 March 2002 to match the recognition of retained losses arising from these joint ventures, and is recorded within the net £109 million credit relating to the Group's 'share of joint ventures' and associate's operating profit/(loss) – discontinued operations'.

Operating losses of £672 million recorded in 2001/02 in respect of the discontinued activities of joint ventures and associate reflect the very significant level of impairment charges incurred during that year.

Exceptional items

The results for the year ended 31 March 2003 included total net exceptional pre-tax charges of £477 million (£349 million post-tax). Pre-tax charges are made up of pre-tax net charges of £308 million and £39 million of operating exceptional items relating to continuing and discontinued operations respectively; £99 million of non-operating exceptional items; and £31 million of financing-related exceptional charges. In addition, the Group reflected £28 million of exceptional minority interest charge.

Interest

Net interest rose from £799 million in 2001/02 to £970 million in 2002/03. Both years included exceptional financing costs amounting to £142 million and £31 million in 2001/02 and 2002/03 respectively.

Net interest, excluding exceptional items, rose from £657 million in 2001/02 to £939 million for 2002/03. This increase is explained by a full year's interest charge in respect of the acquisition of Niagara Mohawk and foreign exchange movements.

Taxation

The net tax charge for 2002/03 of £245

million included an exceptional tax credit on pre-tax exceptional items of £128 million. Excluding the exceptional tax items from the tax charge, the effective tax rate for 2002/03 based on adjusted profit before taxation was 29.9% compared with the standard corporation tax rate in the UK of 30%.

Earnings per share

Adjusted basic earnings per share for 2002/03 were 28.3 pence compared with 30.8 pence for 2001/02. Basic earnings per share for 2002/03 rose from a loss per share of 11.3 pence in 2001/02 to earnings of 12.7 pence per share, reflecting a reduction in net exceptional charges between the two years.

Ordinary dividends

The total ordinary dividend for 2002/03 (£530 million) amounted to 17.20 pence per ordinary share. This represents an increase of 7.2% (5% in real terms) over the previous year's National Grid ordinary dividend per share, as this is the most appropriate dividend comparison for the reason explained in 'Dividend policy' below. The total ordinary dividend per share is covered 1.6 times by adjusted earnings per ordinary share and 0.7 times by basic earnings per ordinary share.

Dividend policy

As announced on 22 April 2002, on completion of the Merger, National Grid Transco adopted National Grid's dividend policy and, as a consequence, any historical comparison of dividends paid or payable by National Grid Transco in 2002/03 and beyond should be made by reference to National Grid's dividends.

National Grid Transco's dividend policy is to aim to increase dividends per share (as expressed in pounds sterling) by a real rate of 5% in each of the financial years to March 2006.

Liquidity and capital resources

Cash flow

Net cash inflow from operations in 2002/03 was £2,826 million compared with £2,291 million in 2001/02. Included within net cash inflow from operations were exceptional cash outflows of £328 million and £103 million in 2002/03 and 2001/02 respectively.

Net cash inflow from operations before exceptional items was £3,154 million in 2002/03 compared with £2,394 million in 2001/02. The 2002/03 increase in net cash flow from operations before exceptional items reflects the first full year contribution from Niagara Mohawk.

Exceptional cash flows in 2002/03 principally relate to cash flows arising from restructuring initiatives, Merger related costs and environmental expenditure. In respect of 2001/02, exceptional cash outflows related to environmental and restructuring costs.

Payments to the providers of finance, in the form of dividends and interest, totalled £1,483 million (net) in 2002/03, compared with £1,183 million in 2001/02. Net interest cash outflows increased from £696 million in 2001/02 to £901 million in 2002/03. This increase primarily reflects the additional net interest expense incurred for a full year following the acquisition of Niagara Mohawk on 31 January 2002.

Net corporate tax payments amounted to £112 million in 2002/03 compared with £212 million in 2001/02. Net corporate tax payments in 2002/03 were lower than in 2001/02, mainly as a result of:

- the cessation of trade in 186k creating balancing allowances that reduced UK corporation tax payable in 2002/03 by around £60 million; and
- the interaction of the timing of UK corporation tax payment on account and the Lattice Group post-tax exceptional charge in 2002/03 resulting in a reduction of around £40 million as compared with 2001/02.

Net purchases of tangible and intangible fixed assets absorbed cash of £1,407 million in 2002/03, compared with £1,543 million in 2001/02. The reduction in net cash outflow in 2002/03 primarily reflects reductions in UK gas distribution; UK electricity and gas transmission; the disposal of The Leasing Group which purchased commercial vehicles and other assets for the Group; reduced expenditure on 186k assets; partially offset by increased capital expenditure arising from the acquisition of Niagara Mohawk.

Cash outflow in 2002/03 relating to the acquisition of Group undertakings and other investments amounted to £165 million, of which £153 million related to expected contractual funding obligations in respect of joint ventures. Cash outflow in 2001/02 relating to the acquisition of Group undertakings and other investments amounted to £1,006 million, of which £932 million (including overdrafts acquired) related to the acquisition of Niagara Mohawk.

Cash inflow from the disposal of investments in 2002/03 amounted to £328 million. This relates primarily to the

receipt of £157 million in respect of the full settlement of deferred payment arrangements arising from the sale of nuclear plant conducted before the completion of the acquisition of Niagara Mohawk, £53 million from the sale of other nuclear assets and £92 million for the sale of The Leasing Group.

During 2002/03, the Group purchased for cancellation, 24.2 million shares resulting in a cash outflow of £97 million.

Equity shareholders' funds

Equity shareholders' funds fell from £1,690 million at 31 March 2002 to £1,152 million at 31 March 2003. This reduction is primarily explained by net foreign exchange adjustments amounting to £322 million; share buy-backs amounting to £97 million; and retained losses for the year amounting to £139 million.

Net debt and gearing

Net debt fell from £14,299 million at 31 March 2002 to £13,878 million at 31 March 2003, primarily as a result of exchange adjustments. Gearing at 31 March 2003, calculated as net debt at that date expressed as a percentage of net debt plus net assets shown by the balance sheet amounted to 92% up from 89% at the start of the year. By comparison, the gearing ratio, adjusted for the inclusion of UK businesses at their estimated regulatory asset values ('adjusted gearing ratio'), amounted to 59%, at both 31 March 2003 and 31 March 2002.

Treasury policy

The funding and treasury risk management of the Group is carried out by a central department operating under policies and guidelines approved by the Board. The Finance Committee, a committee of the Board, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions, the authority for which may be delegated. The Group has a Treasury function that raises all of the funding for the Group and manages interest rate and foreign exchange rate risk.

The Group has separate financing programmes for each of the main Group companies. All funding programmes are approved by the Finance Committee of the Board and the Finance Committee of the appropriate Group undertaking.

The Treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement.

The use of derivative financial instruments is controlled by policy guidelines set by the Board. Derivatives entered into in respect of gas and electricity commodities are used in support of business' operational requirements.

Going concern

Having made enquiries, the Directors consider that the Company and the Group have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the accounts.

US GAAP

The accounts have been prepared in accordance with UK GAAP which differs in certain significant respects from US GAAP.

As referred to earlier, UK GAAP merger accounting principles have been adopted in accounting for the business combination of National Grid and Lattice. Under US GAAP, acquisition accounting principles have been applied to the business combination, which is a fundamentally different method of accounting from merger accounting. Under US GAAP, National Grid is viewed as the acquirer of Lattice.

A further consequence of acquisition accounting, in contrast to merger accounting, is that the results of the Group under US GAAP only include the results of Lattice with effect from the date of acquisition. Therefore, under US GAAP, in respect of the Group results for the two years ended 31 March 2003, Lattice results only feature in the period 21 October 2002 to 31 March 2003. In addition, because fair values have been attributed to Lattice's separately identifiable net assets rather than the book values as used in merger accounting, goodwill is recognised.

Net income from continuing operations for 2002/03 under US GAAP was £790 million (2001/02: £690 million). The US GAAP results for 2002/03 and 2001/02 include losses relating to discontinued operations amounting to £39 million and £857 million respectively. Consequently, net income for 2002/03 under US GAAP was £751 million (2001/02: £167 million (net loss)). This compares with the net income (loss) under UK GAAP for 2002/03 and 2001/02 of £391 million and £321 million (loss) respectively. Equity shareholders' funds under US GAAP at 31 March 2003 were £9,426 million (31 March 2002: £3,759 million) compared with £1,152 million (31 March 2002: £1,690 million) under UK GAAP.

Summary Directors' Report

Corporate Governance

Compliance

Corporate Governance is essentially the way companies are directed and controlled. Shareholders are responsible for appointing the directors and the directors are then responsible for the governance of the company.

As part of the Merger process, the Board carried out a thorough governance review. It considered all procedures, policies and authorities as well as board and committee structures to ensure that these were appropriate for the newly merged Group. The aim of the Board is that the Company has in place the highest standards of corporate governance.

Shareholders may be aware of the recent 'Review of the role and effectiveness of non-executive directors' by Derek Higgs. National Grid Transco considers that, following a modest number of appropriate changes, it will be well placed to comply with the majority of the recommendations contained in the Higgs Review.

Relations with shareholders

The Annual General Meeting (AGM) is the principal meeting at which National Grid Transco communicates directly with its many individual shareholders. This meeting is used to present the year's results to shareholders and allows any shareholder to ask questions of the Directors, all of whom will normally attend the AGM.

National Grid Transco will also continue the programme offered by National Grid that allowed shareholders to visit the Company, see operations at first hand and speak to senior members of staff and Directors about the business. For more information on this programme see page 25.

Directors

The Board of Directors is responsible for managing the Company's business and for establishing and overseeing its governance framework. This is based on National Grid Transco's Framework for Responsible Business, which contains statements on sustainable growth, profits with responsibility, investing in the future and behavioural values. This statement ties together elements of National Grid Transco's governance framework which includes Board Committee Terms of Reference, Delegations of Authority and the Share Dealing Code.

National Grid Transco's Board consists of the Chairman, the Group Chief Executive, six Executive Directors and seven Non-executive Directors (including the Deputy Chairman). The biographies of each of the Directors, setting out their current roles and previous experience, are on pages 14 and 15.

The Board considers that each of the Non-executive Directors is independent. This means that in the view of the Board they have no links to the Executive Directors and other managers and no business or other relationship with the Company that could interfere with their judgement.

During the year, the Board met formally 15 times, excluding separate strategy meetings. For each scheduled meeting the Company Secretary, on behalf of the Chairman, collates the relevant papers and circulates them to all Directors, aiming to provide papers a minimum of four working days in advance of any meeting. All papers are considered at a senior level, often being considered first by the Group Executive Committee, and must receive support from a relevant Director.

To ensure that all issues are discussed fully, the Board has set up committees to consider separate issues. These committees are: Audit, Executive, Finance, Nominations, Remuneration, Risk and Responsibility.

Internal Control

National Grid Transco's system of internal control helps to safeguard shareholders' investment and the Group's assets and is designed to manage, rather than eliminate, material risks to the achievement of business objectives. The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, recognising that any such system can provide only reasonable, and not absolute, assurance against material misstatement or loss. Following the Merger, the Board of National Grid Transco has approved a new governance framework for the new organisation recognising that this is a key element of internal control.

Dividends

An interim dividend of 6.86 pence per ordinary share (US\$0.5352 per ADS) was paid on 21 January 2003. The Directors are recommending a final dividend of 10.34 pence per ordinary share (US\$0.8396 per ADS). Subject to approval by shareholders at the AGM, the final dividend will be paid on 20 August 2003 and will bring the total dividend for the year to 17.20 pence per ordinary share (US\$1.3748 per ADS).

Future developments

An outline of future developments is included in the Chief Executive's Operational Review.

Annual General Meeting

National Grid Transco's AGM will be held on Monday 21 July 2003. Details are set out in the separate Notice of AGM.

Summary Directors' Remuneration Report

Remuneration policy

The Company has a Remuneration Committee consisting solely of Non-executive Directors. The Remuneration Committee reviewed the Company's executive remuneration policy and practice following the Merger in order to ensure close alignment with the strategy of the new organisation. The Remuneration Committee determines remuneration policies and practices with the aim of attracting, motivating and retaining high-calibre Directors who will deliver success for shareholders and high levels of customer service, safety and environmental standards. It is intended that this policy should conform to best practice standards in the markets in which the Group operates. The policy which will be applied in 2003/04 and is currently intended to be applied in subsequent years, is framed around the following key principles:

- total rewards should be set at levels that are competitive within the relevant market;
- a significant proportion of the Executive Directors' total rewards should be performance-based. Performance-based rewards should be earned through the achievement of demanding targets for short-term business performance and long-term shareholder value creation, consistent with the Group's Framework for Responsible Business; and
- incentive plans, performance measures and targets should be structured to operate soundly throughout the business cycle. They should be prudent and not expose shareholders to unreasonable risk.

Executive Directors' remuneration

Remuneration packages for Executive Directors consist of the following elements:

- base salary;
- annual bonus with Share Matching Plan;
- long-term incentives;
- all-employee share plans;
- pensions; and
- non-cash benefits.

The policy relating to each component of remuneration is summarised below.

Base salary

Base salaries are reviewed annually and targeted at the median position against the relevant market. In setting individual base salary levels, the Remuneration Committee takes into account business and personal performance and the employment and salary practices prevailing for other employees in the Group.

Annual bonus and Share Matching Plan

Annual bonuses are based on a combination of demanding corporate, individual and, where applicable, divisional targets. For the financial year 2003/04, the target and maximum bonus levels for UK-based Executive Directors are 50% and 75% of salary respectively (41.7% and 62.5% respectively for Rick Sergel). Currently one third of any cash annual bonus is automatically deferred (net of tax) into National Grid Transco shares, and a matching award may be made under the Share Matching Plan. At the end of three years, provided the Director is still employed by the Group, additional matching shares equal in value at the date of deferral to the pre-tax value of the amount of bonus deferred are released to the individual.

US executives, including Rick Sergel, participate in this plan on a slightly different basis, in that an award calculated as a proportion of their cash annual bonus (currently 60% for Rick Sergel) is paid under this plan in National Grid Transco shares or American Depositary Shares (ADSs) subject to a minimum three-year vesting period.

The total target and maximum values of the annual bonus plan, including deferred and matching shares, are therefore 67% and 100% of salary respectively.

The Remuneration Committee believes that operation of the Share Matching Plan as part of the annual bonus plan allows National Grid Transco to maintain competitiveness in annual bonus levels, whilst ensuring that Executive Directors hold a significant proportion of their remuneration in shares.

Long-term incentives

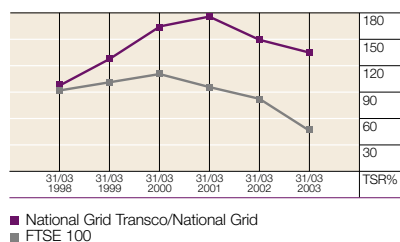
The Executive Directors are eligible for grants under the National Grid Transco Performance Share Plan ('PSP'), under which they receive notional allocations of shares worth up to a maximum of 125% of base salary. Shares vest after three years, subject to the satisfaction of the relevant performance criteria. Shares must then be held for a further year, after which they are released, subject to the Executive Director's continuing employment with the Group.

The performance criterion for grants in the year to 31 March 2004 is Total Shareholder Return ('TSR') relative to a comparator group selected to include companies in the UK, European and US energy distribution sector and other UK and international utilities. The Remuneration Committee believes that this comparator group sets a stretching target for the long-term performance of the Group, and TSR has been chosen for the performance criterion as a direct measure of shareholder value creation. No shares will be released if the Group's TSR over the performance period, when ranked against that of each of the comparator companies, falls below the median. 100% of the awarded shares will be released for TSR ranking at the upper quartile or above.

All-employee share plans

- **Sharesave:** Executive Directors resident in the UK are eligible to participate in all-employee Sharesave schemes (subject to eligibility based on service).
- **US Incentive Thrift Plan:** Executive Directors resident in the US are eligible to participate in a tax-advantaged savings plan (commonly referred to as a 401(k) plan) provided for employees of National Grid USA.

National Grid Transco/National Grid TSR vs FTSE 100



This graph shows the Group's performance against the performance of the FTSE 100 index, which is considered appropriate as it is a broad equity market index of which National Grid Transco is a constituent. This graph has been produced in accordance with the requirements of the Directors' Remuneration Report Regulations 2002.

- Share Incentive Plan ('SIP'):** The Remuneration Committee intends to implement a SIP during the year to 31 March 2004. Employees resident in the UK, including Executive Directors, will be encouraged to participate in the SIP (subject to eligibility).

Pensions

UK-based Executive Directors who were previously directors of National Grid are members of the National Grid Company Group of the Electricity Supply Pension Scheme, which is a tax-approved pension scheme where base salary only is pensionable. The provisions for participating Executive Directors are designed to give a pension at normal retirement age (60) of two thirds final salary subject to completion of 20 years' service. For participating Executive Directors affected by the 'earnings cap', which is a restriction on the amount of pay which can be used to calculate pensions due from a tax-approved pension scheme, the Company provides benefits on salary above the cap on a partially funded basis.

US-based former National Grid Executive Directors participate in a qualified pension plan and an executive supplemental retirement plan provided through National Grid USA. In line with many US plans, the calculation of benefits takes into account base salary, bonuses and incentive share awards but not share options. Normal retirement age is 65. These plans are non-contributory defined benefit arrangements.

Executive Directors who were formerly directors of Lattice participate in the defined benefit section of the Lattice Group Pension Scheme which is a tax-approved pension scheme. Base salary only is

pensionable. All participating Executive Directors are subject to the earnings cap. They also participate in the Lattice Group Supplementary Benefits Scheme, an unfunded unapproved arrangement which increases retirement benefits to at least the level which would otherwise have been provided in the Lattice Group Pension Scheme had they not been subject to the earnings cap. The provisions for participating Executive Directors are designed to give two thirds of salary (which may be restricted by remuneration averaged over three years) at retirement age, inclusive of any pension rights earned in previous employment. Normal retirement age is 65.

Provision has been made in the accounts in respect of the unfunded obligations for post-retirement benefits.

The policy for newly appointed Directors is being reviewed following the recently announced Government proposals on pensions.

Non-cash benefits

The Company provides competitive benefits to the Executive Directors, such as a fully expensed car or cash alternative in lieu of car, chauffeur, financial advice, private medical insurance and life assurance. UK-based Executive Directors with less than five years' continuous service who were previously directors of National Grid, are provided with long-term ill health insurance. Business expenses are reimbursed in such a way as to give rise to no material benefit to the Director.

Non-executive Directors' remuneration

Non-executive Directors' fees are determined by the Executive Directors, or

by a Committee authorised by the Board, subject to the limits applied by National Grid Transco's Articles of Association. Non-executive Directors' remuneration is built up from an annual fee, a fee for each Board meeting attended (with a higher fee for meetings held outside their country of residence) and an additional fee payable for Committee chairmanship.

Service contracts for Executive Directors

Service contracts for Executive Directors are set at one year's notice. The application of longer contract periods at appointment, reducing after an initial period, may be used in exceptional circumstances if considered appropriate by the Remuneration Committee to recruit certain key executives.

Performance graph

The graph above represents the comparative TSR performance of the Group from 31 March 1998 to 31 March 2003. For the period before the merger of National Grid and Lattice, the TSR shown is that of National Grid.

This graph shows the Group's performance against the performance of the FTSE 100 index, which is considered appropriate as it is a broad equity market index of which National Grid Transco is a constituent. This graph has been produced in accordance with the requirements of the Directors' Remuneration Report Regulations 2002.

In drawing this graph it has been assumed that all dividends paid have been reinvested. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30 day period up to and including that date.

Directors' emoluments

The following tables set out an analysis of the pre-tax remuneration during the years ended 31 March 2003 and 2002, including bonuses but excluding pensions, for individual Directors who held office in National Grid Transco and National Grid during the year ended 31 March 2003.

Executive Directors

	Year ended 31 March 2003				Year ended 31 March 2002	
	Base salary £000s	Annual bonus £000s	Termination payments £000s	Benefits in kind ⁽ⁱ⁾ £000s	Total £000s	Total ⁽ⁱⁱ⁾ £000s
Roger Urwin	600	300	–	24	924	794
Steve Lucas	315	164	–	18	497	423
Edward Astle ⁽ⁱⁱⁱ⁾	325	266	–	15	606	284
Steve Holliday	325	169	–	23	517	444
Rick Sergel	519	219	–	17	755	728
John Wybrow	360	176	–	28	564	500
Stephen Box (resigned 21/10/2002) ^(iv)	233	111	4	13	361	532
William Davis (resigned 21/10/2002)	301	10	–	5	316	139
Totals	2,978	1,415	4	143	4,540	3,844

(i) Benefits in kind comprise benefits such as a fully expensed car or cash alternative in lieu of a car, chauffeur, private medical insurance and life assurance.

(ii) Totals for the year ended 31 March 2002 for Steve Lucas and John Wybrow include bonus payments in respect of the 15-month period 1 January 2001 to 31 March 2002.

(iii) Edward Astle's annual bonus figure includes a payment of £50,000 in June 2002 and a further payment of £50,000 in August 2002 in respect of special bonus arrangements agreed at the time of his original contract. He was appointed to the Board of National Grid on 1 September 2001.

(iv) Stephen Box resigned from the Board with effect from 21 October 2002 but remained an employee until 30 November 2002 when he retired on health grounds. He received his salary to 30 November 2002 and his bonus was pro-rated for eight months of the year. An ex-gratia payment of £3,957 will be made to Stephen Box equal to the dividends which would have been earned on those shares subject to his matching options under the Share Matching Plan.

Non-executive Directors

	Year ended 31 March 2003		Year ended 31 March 2002	
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s
Sir John Parker ⁽ⁱ⁾	386	26	412	343
James Ross	175	22	197	165
John Grant	38	–	38	35
Kenneth Harvey	30	–	30	30
Bonnie Hill ⁽ⁱⁱ⁾	32	–	32	4
Paul Joskow ⁽ⁱⁱⁱ⁾	50	–	50	57
Stephen Pettit	25	–	25	10
George Rose	30	–	30	30
Bob Faircloth (resigned 21/10/2002)	21	–	21	42
Richard Reynolds (resigned 21/10/2002) ^(iv)	32	–	32	55
Totals	819	48	867	771

(i) Sir John Parker's fees include a supplement of £23,000 per month from 22 November 2001 to the date of the Merger while temporarily acting as Chief Executive of Lattice Group plc. This supplement totalled £161,000 (2001/02: £98,000).

(ii) Appointed to the Board of National Grid on 11 February 2002.

(iii) Paul Joskow's fees include US\$22,500 (2001/02: US\$30,000) paid in respect of strategic advice provided on regulatory issues to National Grid USA.

(iv) Richard Reynolds' fees include a fee at the rate of £25,000 p.a. (2001/02: £25,000 p.a.) in respect of additional duties as a member of the Supervisory Board of Intelig.

Summary Group Profit and Loss Account for the years ended 31 March

	2003 £m	2002 £m
Turnover, including share of joint ventures	9,566	7,821
Less: share of joint ventures' turnover – continuing operations	(99)	(141)
Less: share of joint ventures' and associate's turnover – discontinued operations	(67)	(126)
Group turnover – continuing operations	9,363	7,471
Group turnover – discontinued operations	37	83
Group turnover	9,400	7,554
Operating costs	(7,788)	(6,494)
Operating profit of Group undertakings – continuing operations	1,806	1,556
Operating loss of Group undertakings – discontinued operations	(194)	(496)
	1,612	1,060
Share of joint ventures' operating profit/(loss) – continuing operations	15	(29)
Share of joint ventures' and associate's operating profit/(loss) – discontinued operations	109	(672)
	124	(701)
Operating profit		
– Before exceptional items and goodwill amortisation	2,185	1,783
– Exceptional items – continuing operations	(308)	(285)
– Exceptional items – discontinued operations	(39)	(1,042)
– Goodwill amortisation	(102)	(97)
Total operating profit	1,736	359
Merger costs – continuing operations	(79)	–
Profit on disposal of tangible fixed assets – continuing operations	48	94
Gain on sale of shares by employee share plan – continuing operations	–	31
Loss on sale or termination of operations – discontinued operations	(68)	–
Profit on disposal of investments – discontinued operations	–	31
Net interest		
– Excluding exceptional items	(939)	(657)
– Exceptional items	(31)	(142)
	(970)	(799)
Profit/(loss) on ordinary activities before taxation	667	(284)
Taxation		
– Excluding exceptional items	(373)	(251)
– Exceptional items	128	166
	(245)	(85)
Profit/(loss) on ordinary activities after taxation	422	(369)
Minority interests		
– Excluding exceptional items	(3)	(2)
– Exceptional items	(28)	50
	(31)	48
Profit/(loss) for the year	391	(321)
Dividends	(530)	(580)
Loss transferred from profit and loss account reserve	(139)	(901)
Earnings/(loss) per ordinary share		
– Basic, including exceptional items and goodwill amortisation	12.7p	(11.3)p
– Adjusted basic, excluding exceptional items and goodwill amortisation	28.3p	30.8p
– Diluted, including exceptional items and goodwill amortisation	12.8p	(10.1)p
– Adjusted diluted, excluding exceptional items and goodwill amortisation	27.9p	30.2p
Dividends per ordinary share ⁽ⁱ⁾	17.20p	16.04p

The emoluments of the Directors, excluding pension contributions and any gains on the exercise of share options, were £5.4m (2002: £4.6m) – see page 21.

(i) The comparative dividends per ordinary share for 2002 are for National Grid Group plc, as National Grid Transco plc has adopted National Grid Group's dividend policy.

Summary Group Balance Sheet at 31 March

	2003 £m	2002 £m
Fixed assets		
Intangible assets	1,893	2,107
Tangible assets	16,847	17,210
Investments	253	318
	18,993	19,635
Current assets	5,950	6,568
Creditors (amounts falling due within one year)	(5,046)	(4,888)
Net current assets	904	1,680
Total assets less current liabilities	19,897	21,315
Creditors (amounts falling due after more than one year)	(14,255)	(14,868)
Provisions for liabilities and charges	(4,406)	(4,663)
Net assets employed	1,236	1,784
Capital and reserves		
Called up share capital	308	310
Share premium account	1,247	1,243
Other reserves	(5,131)	(5,139)
Profit and loss account	4,728	5,276
Equity shareholders' funds	1,152	1,690
Minority interests	84	94
	1,236	1,784

Current assets include £3,395m (2002: £4,058m) of debtors that fall due after more than one year.

This Summary Financial Statement was approved by the Board of Directors on 20 May 2003 and was signed on its behalf by:

Sir John Parker Chairman

Steve Lucas Group Finance Director

Note to Summary Financial Statement

Difference between UK and US accounting principles

The Group prepares its consolidated accounts in accordance with UK GAAP, which differs in certain respects from US GAAP. The significant adjustments necessary to restate net income/(loss) and equity shareholders' funds in accordance with US GAAP are set out below:

Net income/(loss)	2003 £m	2002 £m	Equity shareholders' funds	2003 £m	2002 £m
Net income/(loss) under UK GAAP	391	(321)	Equity shareholders' funds under UK GAAP	1,152	1,690
Adjustments to conform with US GAAP			Adjustments to conform with US GAAP		
Elimination of Lattice pre-acquisition results, measured under UK GAAP	293	(172)	Elimination of Lattice shareholders' funds	-	1,506
Merger costs	32	-	Deferred taxation	(1,593)	(52)
Deferred taxation	7	7	Pensions	(1,800)	217
Pensions	35	29	Shares held by employee share trusts	(39)	(46)
Share option schemes	(29)	(5)	Ordinary dividends	317	169
Fixed assets – purchase of Lattice	(169)	-	Tangible fixed assets		
Replacement expenditure	166	-	– reversal of partial release of impairment provision	(35)	(38)
Financial instruments	40	(83)	Fixed assets		
Carrying value of Equity Plus Income Convertible Securities (EPICs) liability	2	203	– purchase of Lattice and replacement expenditure	7,243	-
Severance and integration costs	(110)	67	Financial instruments	(253)	(81)
Recognition of income	2	(4)	Issue costs associated with EPICs	-	2
Goodwill	70	78	Carrying value of EPICs liability	243	241
Restructuring – purchase of Lattice	46	-	Severance liabilities	3	15
Share of joint ventures' and associate's adjustments	(27)	37	Recognition of income	(27)	(22)
Other	2	(3)	Regulatory assets	241	34
			Goodwill – purchase of Lattice	3,829	-
Total US GAAP adjustments	360	154	Goodwill – other acquisitions	179	105
Net income/(loss) under US GAAP	751	(167)	Restructuring – purchase of Lattice	(6)	-
			Share of joint ventures' and associate's adjustments	(17)	21
			Other	(11)	(2)
			Total US GAAP adjustments	8,274	2,069
Basic earnings/(loss) per share	31.9p	(10.9)p	Equity shareholders' funds under US GAAP	9,426	3,759
Diluted earnings/(loss) per share	31.3p	(8.8)p			

Basis of Preparation and Accounting Principles

The Summary Financial Statement is prepared under the historical cost convention and in accordance with UK GAAP, which differs in certain respects to US GAAP. A reconciliation of net income and equity shareholders' funds from UK GAAP to US GAAP is shown in the note to the Summary Financial Statement.

The combination of National Grid and Lattice meets the merger accounting criteria under UK GAAP and the transaction has therefore been accounted for as a merger. The Summary Financial Statement has been prepared on the basis as if Lattice and National Grid had always been part of the Group.

Merger accounting is not permitted under US GAAP. The US GAAP reconciliation is prepared on the basis of acquisition accounting principles, with National Grid as the acquirer of Lattice.

Auditors' Statement

Independent auditors' statement to the members of National Grid Transco plc

We have examined the Summary Financial Statement of National Grid Transco plc, which comprises the Summary Group Profit and Loss Account, the Summary Group Balance Sheet, the Summary Directors' Report and the Summary Directors' Remuneration Report.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the summarised annual review in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the summarised annual review with the annual accounts, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the summarised annual review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

This statement, including the opinion, has been prepared for, and only for, the Company's members as a body in accordance with section 251 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 statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement', issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the Summary Financial Statement is consistent with the annual accounts, the Directors' Report and the Directors' Remuneration Report of National Grid Transco plc for the year ended 31 March 2003 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
20 May 2003

Shareholder Information

Financial calendar

The following dates have been announced or are indicative of future dates:

28 May 2003	Ordinary shares go ex-dividend
30 May 2003	Record date for 2002/03 final dividend
21 July 2003	Annual General Meeting
20 August 2003	2002/03 final dividend paid to qualifying shareholders
20 November 2003	2003/04 interim results
26 November 2003	Ordinary shares go ex-dividend
28 November 2003	Record date for 2003/04 interim dividend
21 January 2004	2003/04 interim dividend paid to qualifying shareholders

Queries

Queries from shareholders should be addressed to the Registrar: Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA (telephone 0870 600 3969, fax 0870 600 3980, e-mail ngtshareenq@lloydstsb-registrars.co.uk, www.shareview.co.uk, textphone for the hard of hearing 0870 600 3950).

Queries from holders of American Depositary Shares (ADSs) should be addressed to the Depositary: The Bank of New York, Shareholders Correspondence, PO Box 11258, New York, NY 10286-1258 (for calls inside the US, telephone 1-800-466-7215, for international calls telephone +1-610-312-5315, e-mail shareowners@bankofny.com, www.adrbny.com).

Additional information

Additional information about National Grid Transco is available on our website at www.ngtgroup.com. Share price information, previous Annual Reports and Reviews and shareholder information can be found in the Investors section of that site.

Documentation

A copy of National Grid Transco's Annual Review is sent to all shareholders each year.

For the assistance of visually impaired shareholders, an audio tape version of the Annual Review is produced and may be obtained free of charge by contacting the Registrar, Lloyds TSB Registrars. A large type version of the Annual Review is also available on request.

Shareholders may opt to receive copies of National Grid Transco's Annual Report and Accounts that contain the full accounts and additional information required by the US Securities and Exchange Commission. To request this document please contact either the Registrar, Lloyds TSB Registrars or the Depositary, The Bank of New York.

If you currently receive the Annual Report and would like in future years to receive only the Annual Review, please contact either the Registrar, Lloyds TSB Registrars or the Depositary, The Bank of New York.

Consolidated tax voucher

Shareholders who receive their dividends directly into their bank or building society accounts will receive a consolidated tax voucher once each year, rather than a tax voucher with each payment.

This consolidated tax voucher will be sent out in January/February each year.

Should shareholders wish to receive a separate voucher with each dividend they should contact the Registrar, Lloyds TSB Registrars.

Share dealing

Information on a range of low cost share dealing services is available from the Registrar, Lloyds TSB Registrars, or from the National Grid Transco website.

ISA investors

Individual Savings Accounts for National Grid Transco shares are available. Further information may be obtained from the Account Manager: Stocktrade, PO Box 1076, 10 George Street, Edinburgh EH2 2PZ (telephone 0131 240 0443, www.stocktrade.co.uk/NGT_Sharedealing/sharedealing_main.htm).

CGT information

The following is for information purposes only. It does not constitute financial, investment or tax advice. If in doubt, shareholders should obtain independent financial advice.

The base cost for National Grid shareholders would depend on either the purchase price or the date their shares

were distributed by the Regional Electricity Companies. For shares distributed on 8 December 1995 (by East Midlands, Midlands Electricity, SEEBOARD, London Electricity, Northern Electric, South Wales and Yorkshire Electricity), the acquisition base cost is 207 pence per share. For shares distributed on 23 January 1996 by Southern Electric, the acquisition base cost is 192.5 pence per share.

The split of the capital gains tax base cost of shares held in BG Group immediately prior to the Demerger has been calculated as:

BG Group plc shares	65.6212%
Lattice Group plc shares	34.3788%

Under the terms of the Merger, Lattice Group shareholders received 37.5 National Grid Transco shares for every 100 Lattice Group shares.

The first market value of National Grid Transco ordinary 10 pence shares following the merger of National Grid and Lattice, as calculated in accordance with Section 272(3) of the Taxation of Chargeable Gains Act 1992, and as derived from the London Stock Exchange Daily Official List on 21 October 2002, was 459.625 pence.

All calculations are in accordance with the methodology set out in the Inland Revenue guidelines.

Shareholder networking

National Grid Transco will continue its innovative programme allowing shareholders to meet staff and visit operational sites. These visits allow us to explain National Grid Transco's business to you in person. If you would like to take part in a visit please write to: Shareholder networking organiser, NGT House, Warwick Technology Park, Gallows Hill, Warwick CV34 6DA.

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National Grid Transco has helped to fund the planting and long-term management of 680 trees with the Future Forests programme, in order to reabsorb 500 tonnes of carbon dioxide emissions. This figure is considered to be more than sufficient to offset the carbon dioxide emissions generated by the production of the Annual Report and Accounts 2002/03, the Annual Review 2002/03 and the Annual General Meeting. These activities are therefore CarbonNeutral®. The trees are being planted in Orbost on the Isle of Skye and with the Pacific Forest Trust in California.

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