

Operating Responsibly 2002/03

As one of the world's largest utilities, we believe that a responsible approach to doing business is fundamental to what we do. We strive to act sustainably as a business, in our social role, and in how we interact with the environment.



Our business

National Grid Transco is one of the world's largest utilities, and the largest investor-owned utility in the UK. We are focused on delivering energy safely, reliably and efficiently.

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.

In 2002/03 we had a turnover of £9.4 billion and recorded a profit of over £2 billion before exceptional items.

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
- Record peak demand: 54.4 GW

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
- Record peak demand: 450 million cubic metres

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

Chief Executive's introduction

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, demonstrating that these issues are taking on greater importance for the investment community.

This publication provides considerable information on what we are doing every day to ensure we retain the trust of our stakeholders and maintain our reputation as a responsible business.

I firmly believe this demonstrates National Grid Transco is exceptionally well placed to deliver long-term value for our shareholders.

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, environment, society, our shareholders and the millions of customers served by our networks.



Roger Urwin
Chief Executive



Corporate responsibility governance and policies

Our reputation as a company that manages its business in a responsible manner is very important to us. Corporate governance has increasingly focused on the effective management of non-financial risks and the way corporate responsibility is integrated into day-to-day decision making.

The Board has overall responsibility for matters of corporate responsibility and has established the Risk and Responsibility Committee. The Risk and Responsibility 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, in the following areas:

- Occupational and public safety
- Occupational health
- Environment
- Equality and diversity
- Human rights
- Business ethics
- Role of the Group in society

The Committee works closely with the Audit Committee to enable the latter to provide assurance to the Board that all risks to the Group have been thoroughly assessed and managed through sound systems of internal control.

The Committee has two external specialist advisers on safety and environmental affairs to provide a further level of assurance that these important areas are being managed appropriately.

In line with good standards of corporate governance, National Grid Transco has put in place Group-wide policies, public position statements and internal procedures to ensure the most important issues are managed appropriately. These policies and position statements also provide further details on how elements of our Framework for Responsible Business are being put into practice.

Our progress in implementing these policies will be assessed through the Group's audit programme, as well as the compliance framework.



In the 'Premier League' of 7th BiE environmental index

Our 'Framework for Responsible Business'

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 for Responsible Business and underpinned by a suite of Group-wide policies.

Our Framework for Responsible Business was developed with the help of more than 4,000 stakeholders from a variety of backgrounds in the UK and the US including employees, government, pressure groups, media, investors, customers and regulators.

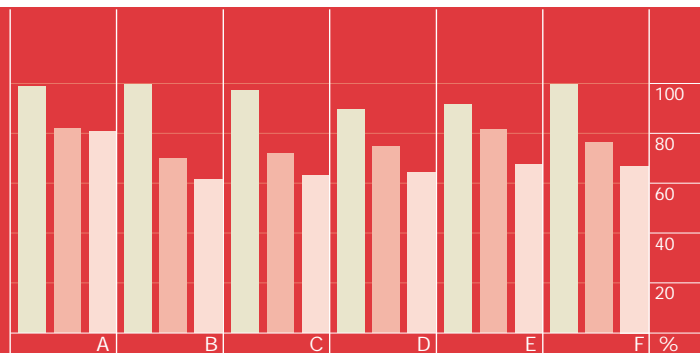
Our Framework is based on three business goals:

- Sustainable Growth
- Profits with Responsibility
- Investing in the Future

We believe this framework is important, because:

- by focusing our efforts on delivering sustainable growth and profits with responsibility, while investing in the future, we will be here for the long-term
- by staying ahead in all these areas, we can make the most of the opportunities for growth, and will maintain our reputation as a responsible business

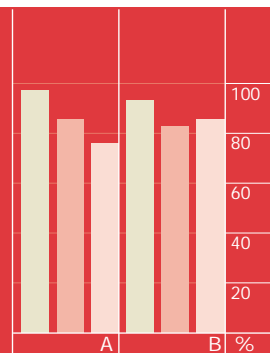
- we cannot afford to focus our efforts in just one area. So, for example, generating profits has to go hand-in-hand with a safe working environment. Our priority is striking a balance across all these areas
- we all have a part to play in our future success by maintaining National Grid Transco's reputation as a responsible business
- it provides the context for the activities that are already underway, and for the things we have to do in the future



Business in the Community CR index

Key
 A – Corporate strategy D – Social performance Company
 B – Integration E – Environmental performance Sector
 C – Management F – Assurance Overall index

© Business in the Community



Business in the Environment environmental index

Key
 A – Management
 B – Performance
 National Grid Transco
 Electricity sector
 All participants

© Business in the Community

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 both to our shareholders and to others.

So we must:

- contribute to the economic growth of the countries in which we operate through the way in which we manage and invest in our business
- act with honesty and integrity as we undertake and develop our business

- protect the future of our business by proactively managing existing and future non-financial and environmental risks
- employ and develop a talented and diverse workforce
- employ the right number of people with the right skills for the work we have to do
- treat our employees fairly
- act in accordance with all laws and regulations
- respect human rights

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.

So we must:

- improve our efficiency without compromising the reliability and integrity of our operations
- maintain a sound system of internal financial control
- be efficient in our use of natural resources
- keep our waste to a minimum and increase the economic value of any waste we produce



Helped our customers save
2 billion kWh of electricity
in the US

Investing in the Future

- help protect the environment for future generations, including making our contribution to minimising climate change
- safeguard each other and those who work with us by operating an injury-free and healthy workplace and protect the safety of the public through the integrity of our operations
- help our employees balance work with their other commitments
- respect our customers and suppliers by conducting our business in a professional manner
- be open and constructive in the dialogue we have with our stakeholders

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.

So we:

- seek to deliver progressively increasing returns for our shareholders
- enable others to contribute to economic growth by providing high-quality dependable services
- improve, where we can, the environmental status of the land on which we operate

- contribute to the development of new laws and initiatives aimed at improving the environment and the quality of life
- develop our employees so that they can add value to the company, to themselves and to society
- recognise and reward our employees for the contribution they make
- encourage and support investment in the community through both the activities of our employees and our financial contributions, with an emphasis on developing partnerships



Significant reduction in
rate of Lost Time Incidents
compared with 2001/02

Economic development

We have an important role in supporting economic development of the countries, regions and communities in which we operate.

Our performance during 2002/03 included:

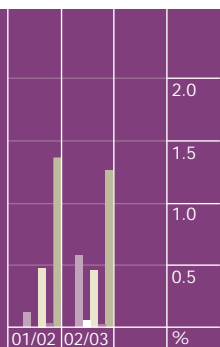
- completing the merger between National Grid and Lattice
- increasing Group turnover for 2002/03 to £9.4 billion
- increasing the underlying operating profit for the year by 23% to £2.2 billion
- increasing our dividend to shareholders by 7.2% to 17.20 pence
- spending some £1.5 billion on new plant and equipment
- being elected as a constituent of FTSE4Good and Dow Jones Sustainability Indices

Environment

As a responsible business we proactively manage existing and future environmental risks and impacts.

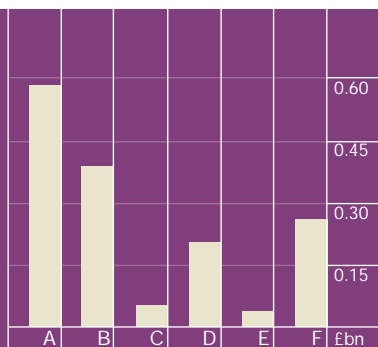
Our performance during 2002/03 included:

- being placed in the 'Premier League' of the 7th Business in the Environment Index of Corporate Environmental Engagement
- implementing a Group-wide environmental audit programme
- achieving zero prosecutions during the year by any environmental regulatory body
- greenhouse gas emissions estimated at some 11.9 million tonnes CO₂ equivalent. Over 53% of this is associated with methane emissions due to leakage and venting for our UK and US gas networks
- waste produced estimated at some 4.3 million tonnes. Of this, over 60% is associated with spoil to landfill from our construction and remediation activities
- fleet mileage for the year estimated at some 211 million miles
- Sulphur hexafluoride losses estimated at some 21.6 tonnes
- nearly 85% of our employees around the world operating within environmental management systems certified to, or conforming with, ISO14001



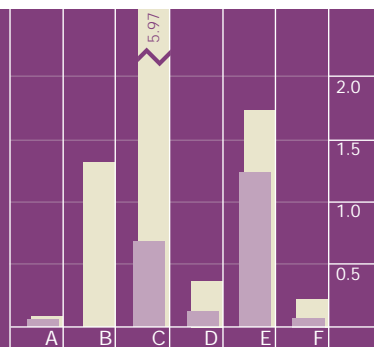
Turnover as % of GDP 2001/02 – 2002/03 %

Key
 ■ UK
 ■ US (Total)
 ■ US (New England/ New York state)
 ■ Argentina
 ■ Zambia



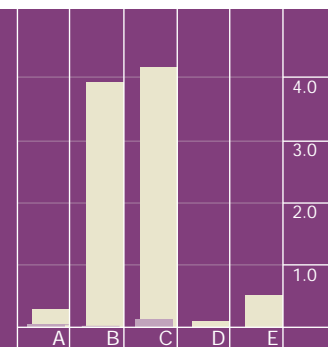
Capital expenditure by segment 2002/03 £bn

Key
 A – UK electricity and gas transmission
 B – UK gas distribution
 C – US electricity transmission
 D – US electricity distribution
 E – US gas distribution
 F – Other



GHG emissions 2002/03 Tonnes (million) CO₂ equivalent

Key
 A – Transport
 B – Gas transmission
 C – Methane
 D – Sulphur hexafluoride
 E – Electricity transmission
 F – Energy use
 ■ UK (Total: 9,756,973 tonnes CO₂)
 ■ US (Total: 2,144,774 tonnes CO₂)



Waste 2002/03 Tonnes (million)

Key
 A – Recycled
 B – Landfill
 C – Solid
 D – Liquid
 E – Special/hazardous
 ■ UK (Total: 4,243,200 tonnes)
 ■ US (Total: 18,146 tonnes)

Indicative breakdown based on a combination of calendar and financial year data. Source data collated and verified by AEA Technology plc. Electricity transmission losses exclude New York operations

Employees

Our achievements would not have been possible without the skills, dedication and enthusiasm of our people.

Our performance during 2002/03 included:

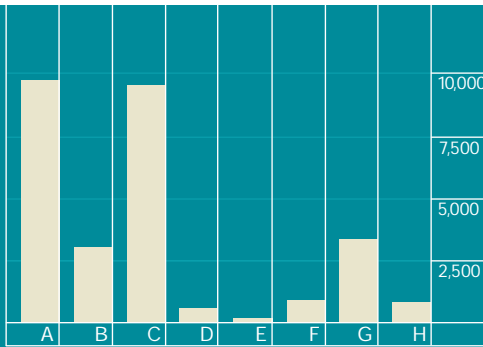
- implementing Group-wide Human Resources and Whistleblowing policy and arrangements
- reducing the Group headcount from approximately 31,000 to 27,308, mainly through the disposal of non-core businesses, people deciding to leave or choosing to take voluntary severance
- merging the National Grid and Lattice corporate offices on the day of the Merger and commencing the merger of the National Grid UK and Transco offices in the UK Midlands
- establishing a Group Intranet site
- negotiating a new working agreement with unions in the US

Health and safety

We believe that safety is paramount and we aim to safeguard our employees, our contractors and the public in everything we do.

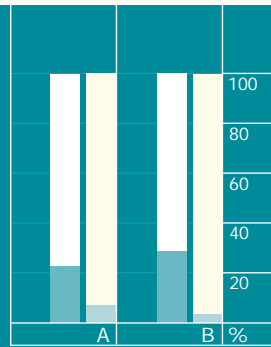
Our performance during 2002/03 included:

- implementing a Group-wide Safety and Occupational Health policy
- no fatalities among our employees and contractors
- achieving significant reductions (up to 46%) in rate of Lost Time Incidents across the Group compared with 2001/02. However, there were still 269 employees that had time off work due to incidents at work
- completing an independent review of safety management in all major operations
- 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



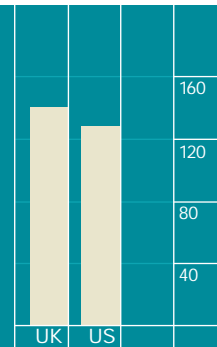
Total headcount 2002/03
People

Key
 A – National Grid USA
 B – Transmission UK
 C – Distribution UK
 D – Gridcom
 E – SecondSite Property
 F – Fulcrum Connections
 G – Other corporate activities and UK services
 H – Businesses for sale
 Total: 27,308

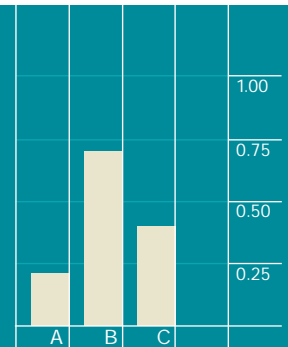


Equality and diversity 2002/03

Key
 A – Total workforce
 B – Leadership team
 ■ Male
 ■ Female
 ■ White
 ■ People of colour



Incidents resulting in lost time 2002/03



Incident frequency rate 2002/03
Per 100,000 hours

Key
 A – National Grid UK
 B – National Grid USA
 C – Transco

The 'Businesses for sale' category includes Advantica and The Leasing Group

Society

Productive relationships with our stakeholders in the wider society are very important for us.

Our performance during 2002/03 included:

- creating the National Grid Transco Foundation, responsible for managing our community investment activity in the UK
- implementing Group-wide policy on prevention of corrupt payments to public officials
- publishing our public position statement on Human rights
- helping our US customers save over 2 billion KWh of electricity
- accommodating over 74,000 visitors to our environmental education centres in the UK

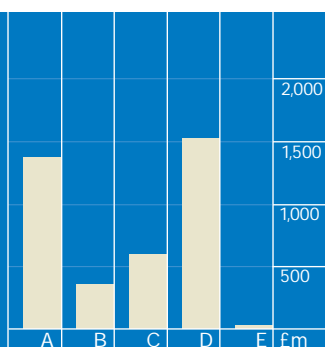
Benchmarking our performance

Benchmarking our performance is an important part of understanding the impact we have on society and identifying improvements we can make in the future.

Our performance in 2002/03 included:

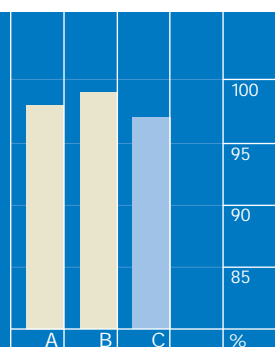
- being placed in top quintile in Business in the Community's 1st Corporate Responsibility Index with a score of over 97%
- being placed in the 'Premier League' of the 7th Business in the Environment Index of Corporate Environmental Engagement
- listed in the Dow Jones STOXX Sustainability Index
- listed in FTSE4Good
- named as 'Best in Class' by Storebrand for our environmental and social performance

- received award from the Environmental Council of New England for corporate environmental leadership
- received award from American Council for an Energy-Efficient Economy for helping customers increase efficiency in their homes and offices



Investing in the future 2002/03

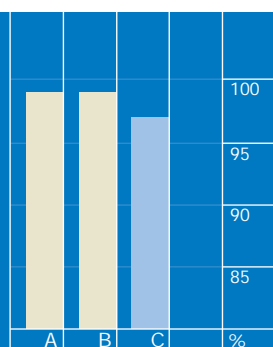
Key
 A – Payroll costs
 B – Government taxes*
 C – Dividends and interest
 D – Investing in our networks
 E – The community
 * excludes exceptional items



Response to uncontrolled gas escapes UK within 1 hour

Key
 A – 2001/02
 B – 2002/03
 C – Target

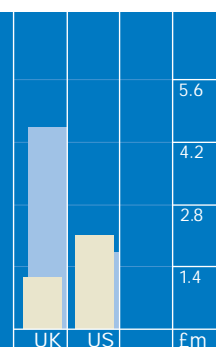
An uncontrolled gas escape is one where the gas leak cannot be controlled by turning the gas supply off at the meter. Target for attending this type of incident is 1 hour



Response to controlled gas escapes UK within 2 hours

Key
 A – 2001/02
 B – 2002/03
 C – Target

A controlled gas escape is one where the gas leak can be controlled by turning the gas supply off at the meter. The target for attending this type of incident is 2 hours



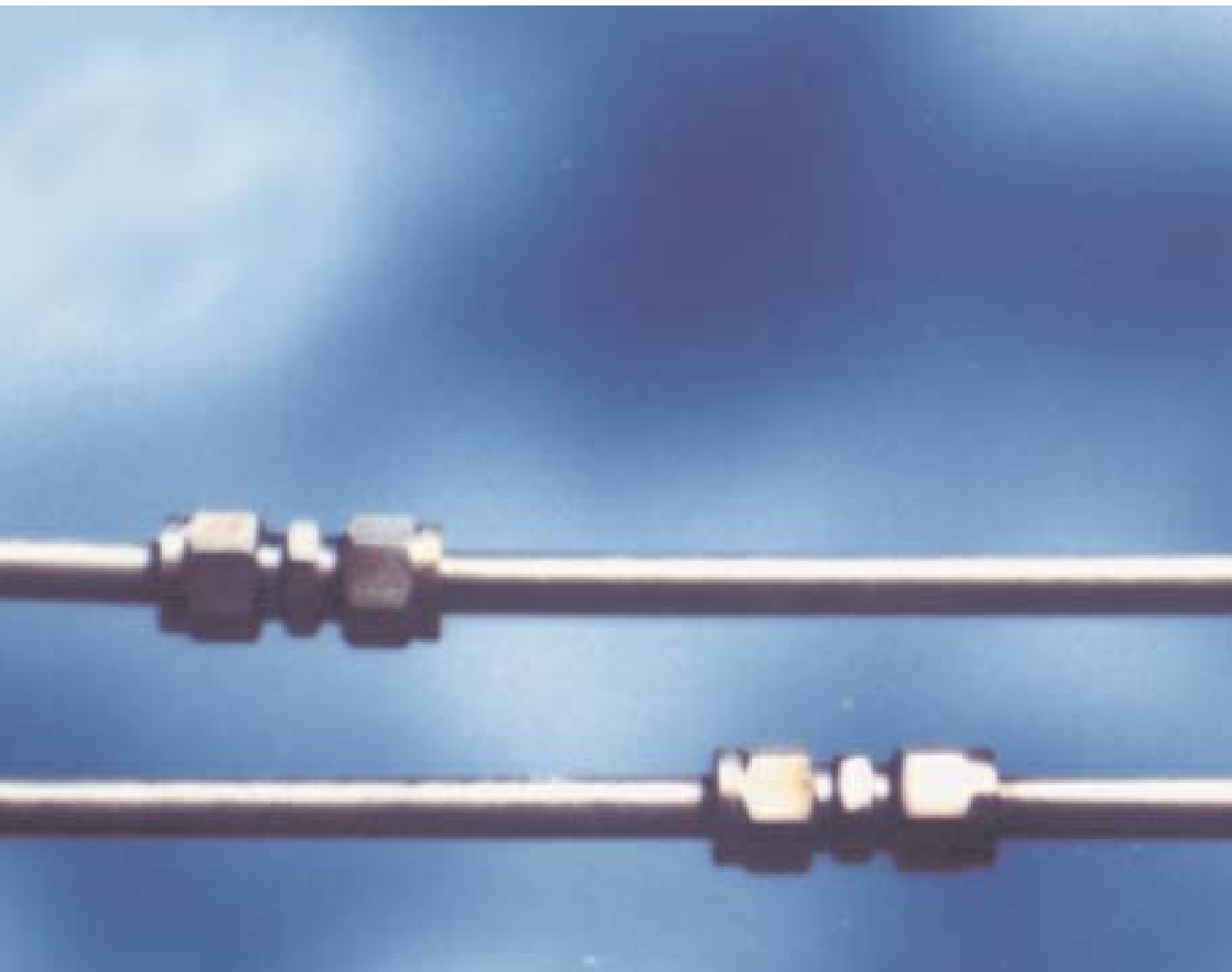
Community investment 2002/03

Key
 ■ Charitable donations
 ■ Community investment

More information on our commitment and approach to responsible business, including case studies and additional performance measures, can be found on the National Grid Transco Internet site, www.ngtgroup.com/responsibility.

If you have any questions on the information contained in this publication, would like further information or have comments or ideas regarding what you would like to see included in future, please e-mail csrinfo@ngtgroup.com or write to:

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National Grid Transco has helped to fund the planting and long-term management of trees within the Future Forests programme. This initiative offsets the carbon dioxide emissions generated by the production of this document. These activities are therefore CarbonNeutral®.

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