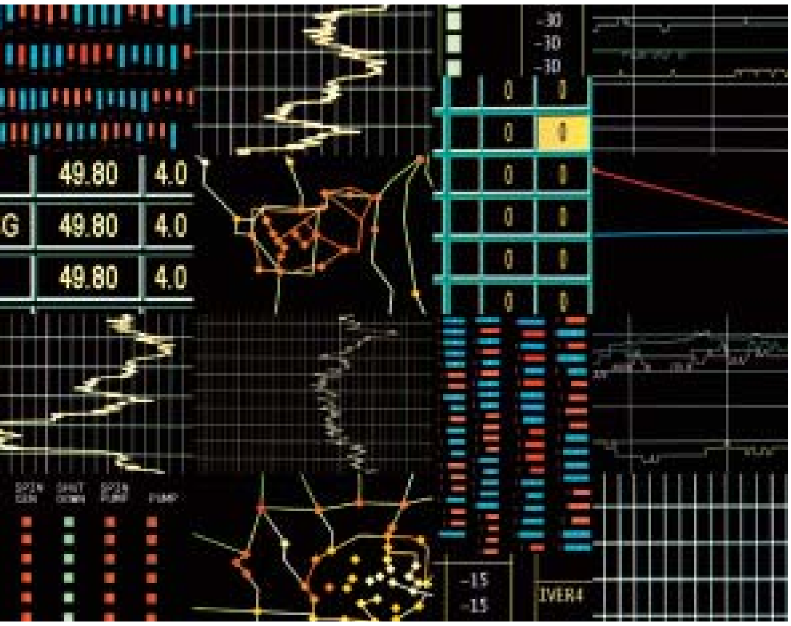
There's an art to delivering energy



National Grid Transco

Annual Review 2003/04

Group Summary

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

We own and operate the high-voltage electricity system in England and Wales and the high pressure gas transmission system in Britain. We also have electricity transmission systems in the northeastern US and manage a range of electricity transmission operations for utilities in the US Midwest.

Our local distribution networks deliver gas to some 21 million homes, offices and factories in Britain. We distribute electricity in the northeastern US to approximately 3.3 million customers and gas in upstate New York to around 560,000 customers.

We also have a number of businesses operating in related areas such as communications infrastructure, metering and interconnectors.

Contents

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 2004 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 2003/04 and request any future full Annual Report and Accounts by contacting Lloyds TSB Registrars, whose details are on page 29.

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 Securities Act of 1933, as amended, and Section 21E of the 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 failure to retain key management, 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 continue to integrate the US and UK businesses acquired by or merged with the Group or to realise expected synergies from such integrations, the failure for any reason to achieve reductions in costs or to achieve operational efficiencies, unseasonable 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 National Grid Transco's pension schemes and the regulatory treatment of pension costs, the impact of any potential separation and disposal by National Grid Transco of any of its UK gas distribution networks and any adverse consequences arising from outages on or otherwise affecting energy networks owned and/or operated by National Grid Transco. 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 'Directors' Report and Operating and Financial Review' section filed with its latest Annual Report on Form 20-F). Recipients 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 publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document.

Financial Highlights

The strength of our results demonstrates the successful delivery of our strategy and the quality of our overall operational performance in both the UK and US.

Ordinary dividends
19.78p
+15% On last year

Group turnover	Operating profit	Net cash inflow from operating activities	Earnings per share
£9,033m	£2,238m Adjusted*	£3,058m Adjusted†	34.7p Adjusted*
	£1,862m Basic	£2,810m Basic	35.8p Basic
	* Excludes impact of exceptional items and goodwill amortisation	† Excludes impact of exceptional items	* Excludes impact of exceptional items and goodwill amortisation

Chairman's Statement

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

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

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

Strong earnings growth

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

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

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

Increased dividend

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

* Excludes the impact of exceptional items and goodwill amortisation.

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

Governance

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

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

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

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

Safety

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

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

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

Reliability of supply

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

Investing in the community

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

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

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

National Grid Transco people

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

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

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

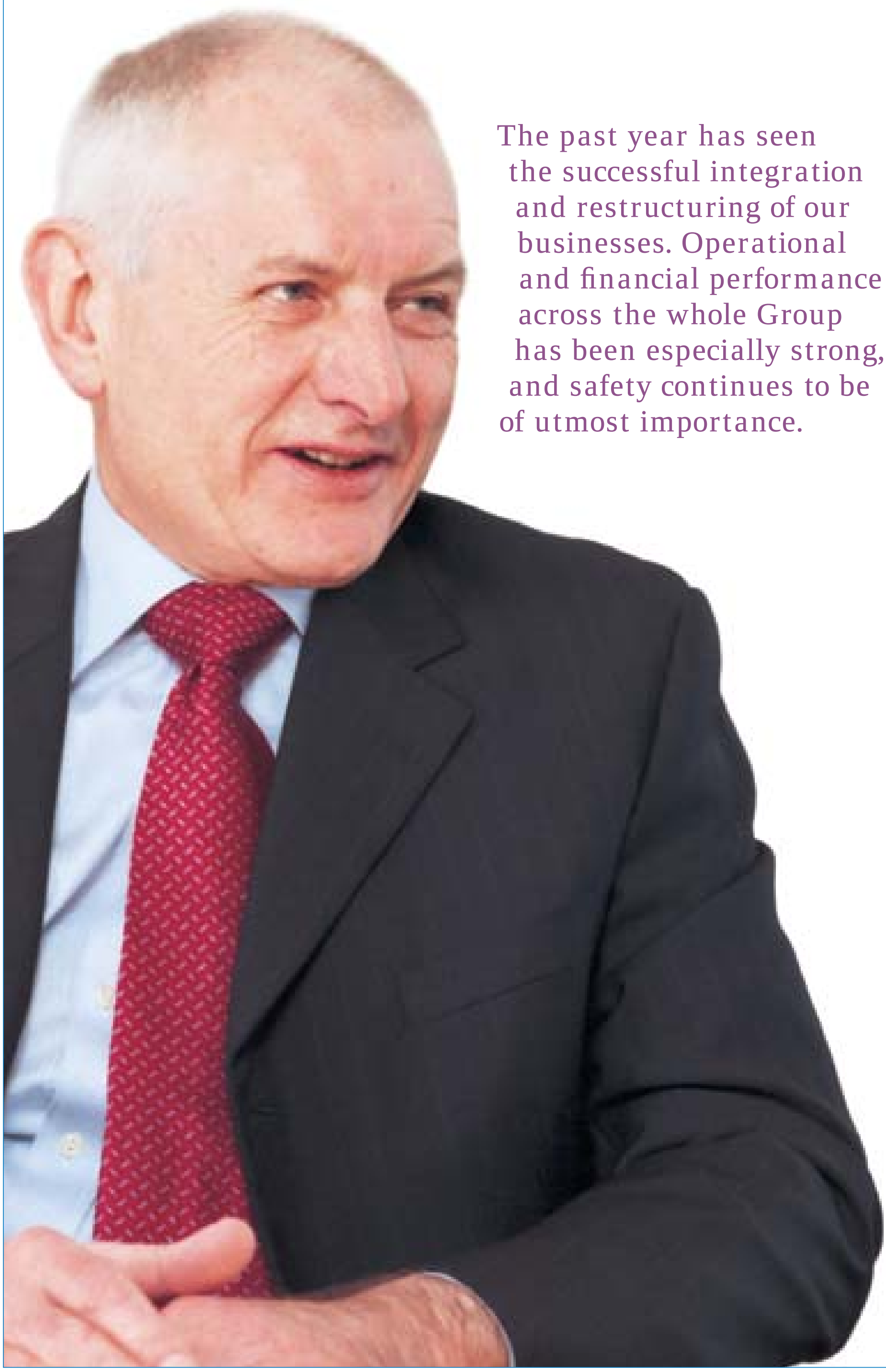
Outlook

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

Sir John Parker Chairman

Chief Executive's Review

Our core skills lie in the design, development, operation and maintenance of complex networks. We manage these networks to the highest standards of safety, reliability and customer service.



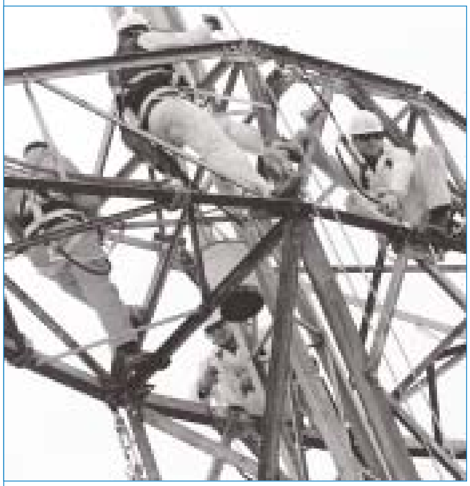
The past year has seen the successful integration and restructuring of our businesses. Operational and financial performance across the whole Group has been especially strong, and safety continues to be of utmost importance.

Our aims

We aim to deliver world-class operating and financial performance in order to provide superior shareholder returns. To achieve this we:

- seek continuous improvements in safety, operating and financial efficiency, customer service, and reliability;
- continue the productive and professional conduct of regulatory relationships to deliver innovative, performance-based agreements which benefit investors and consumers alike;
- continue to develop our unique experience and expertise in providing the infrastructure, commercial arrangements and related systems that provide the essential basis for competitive energy markets;
- share best practices across businesses and functions;
- exploit our core skills, assets and scale by investing in value-creating energy network assets and developing selected non-regulated businesses; and
- behave as responsible, long-term stewards of vital regional and national infrastructure – in line with our 'Framework for Responsible Business'.

Our Transmission business includes National Grid Transco's high-voltage electricity networks in the UK and US, the high pressure gas network in the UK and, through GridAmerica in the US, we manage a range of electricity transmission operations for other utilities.



Above First-year apprentices training in tower erection on a full size mock-up of a 400 kV overhead line span at our UK Learning & Development Centre at Eakring, Nottinghamshire. Advance Modern Apprenticeships are the first step towards professional accreditation with the Institute of Incorporated Engineers. Apprentices spend the first year of their three-year courses at Eakring and most of their second and third years based in the field, returning to Eakring for certain modules.

Business performance

We continue to exploit new opportunities to improve safety, efficiency and reliability across our businesses, to streamline our operations, and to share best practice between gas, electricity and our other operations, and between the UK and the US.

Transmission

In the UK, we own and operate the electricity transmission system in England and Wales which consists of approximately 4,500 miles of overhead line, 410 miles of underground cables, and 341 substations; and the gas National Transmission System consisting of approximately 4,200 miles of underground high pressure gas pipelines and 24 compressor stations.

In the US, we operate an electricity transmission network of approximately 14,000 miles including, at 69 kV and above, approximately 9,000 miles of overhead lines, underground cables, a 139 mile direct current transmission line and 526 substations. We are the largest electricity transmission service provider in the northeastern US by reference to the length of these high-voltage transmission lines. Through GridAmerica we manage a range of electricity transmission operations for three utilities across five states.

Financial performance

Our Transmission business contributed £902 million to the Group's adjusted operating profit*, which was a decline of £46 million compared to 2002/03.

We continue to invest extensively in our UK and US Transmission businesses. Some £584 million was invested in our UK electricity and gas transmission business in 2003/04. We continue to see a sustained level of investment in US electricity transmission, with £53 million invested in 2003/04.

Safety

Safety performance in UK Transmission has been especially encouraging this year with a 50% reduction in Lost Time Injuries for its employees, from 20 in 2002/03 to 10 in 2003/04. US Transmission had only one Lost Time Injury for its employees during the year. However, it is very regrettable that two contractors died while working for our US operations when a steel crossarm that they were moving came into contact with a high-voltage line. We continue, with the help of DuPont Safety Resources, to emphasise a safety culture focused on world-class safety performance and eliminating workplace injuries.

Reliability

During 2003, there were separate incidents that created widespread disruption to power supplies in parts of the US and Europe, affecting over 100 million people in total. As a result, public scrutiny has been firmly focused on system security and reliability. It is important to understand these events and learn any lessons.

There were some similarities between the major blackouts in the US and Italy last year, where inadequate regional coordination of system control and backlogs of tree trimming were identified as common causes of these incidents. In addition, in the US, a lack of investment in infrastructure may also have been a contributory factor.

The blackout in the northeastern US and Canada on 14 August 2003, which started in the Midwest and cascaded into our service area, caused a loss of power to more than 800,000 of our Niagara Mohawk customers in upstate New York. Our staff and systems performed well and our customers were among the first to have their power restored after only seven hours.

* Excludes the impact of exceptional items and goodwill amortisation.

Above In the US, we recently began a programme of network asset management to help us better meet our customers' needs and expectations, both now and in the future. The programme is ongoing and aims for continuous improvement of the network.

In testimony before the US Congress about the blackout, Nick Winser, our Director of UK and US Transmission, highlighted the need to encourage the formation of independent transmission companies, to require the establishment of streamlined regional planning processes, to establish pricing policies that promote and reward investments in necessary grid upgrades, and to eliminate barriers to the siting of new transmission facilities.

In the UK, at the end of last summer, we had two high-profile failures that caused power cuts in parts of South London, where there was disruption to rail services, and the West Midlands. We very much regret these incidents. Such events are extremely rare. It has been 11 years since we had a power cut that was of a similar extent to that experienced in London. Our system in England and Wales operates to demanding standards for network security, as stringent or higher than most European standards. Even allowing for these incidents, our UK electricity transmission performance remained excellent by international comparison, delivering 99.9997% of the electricity demanded over the year.

Following its investigation, the Department of Trade and Industry's Engineering Inspectorate considered prosecution was not appropriate, but made a number of recommendations which we have accepted and actions are well advanced to implement them.

Ofgem is also investigating the incidents to determine whether there was a breach of statutory or licence obligations by National Grid Company. We expect the outcome during the summer.

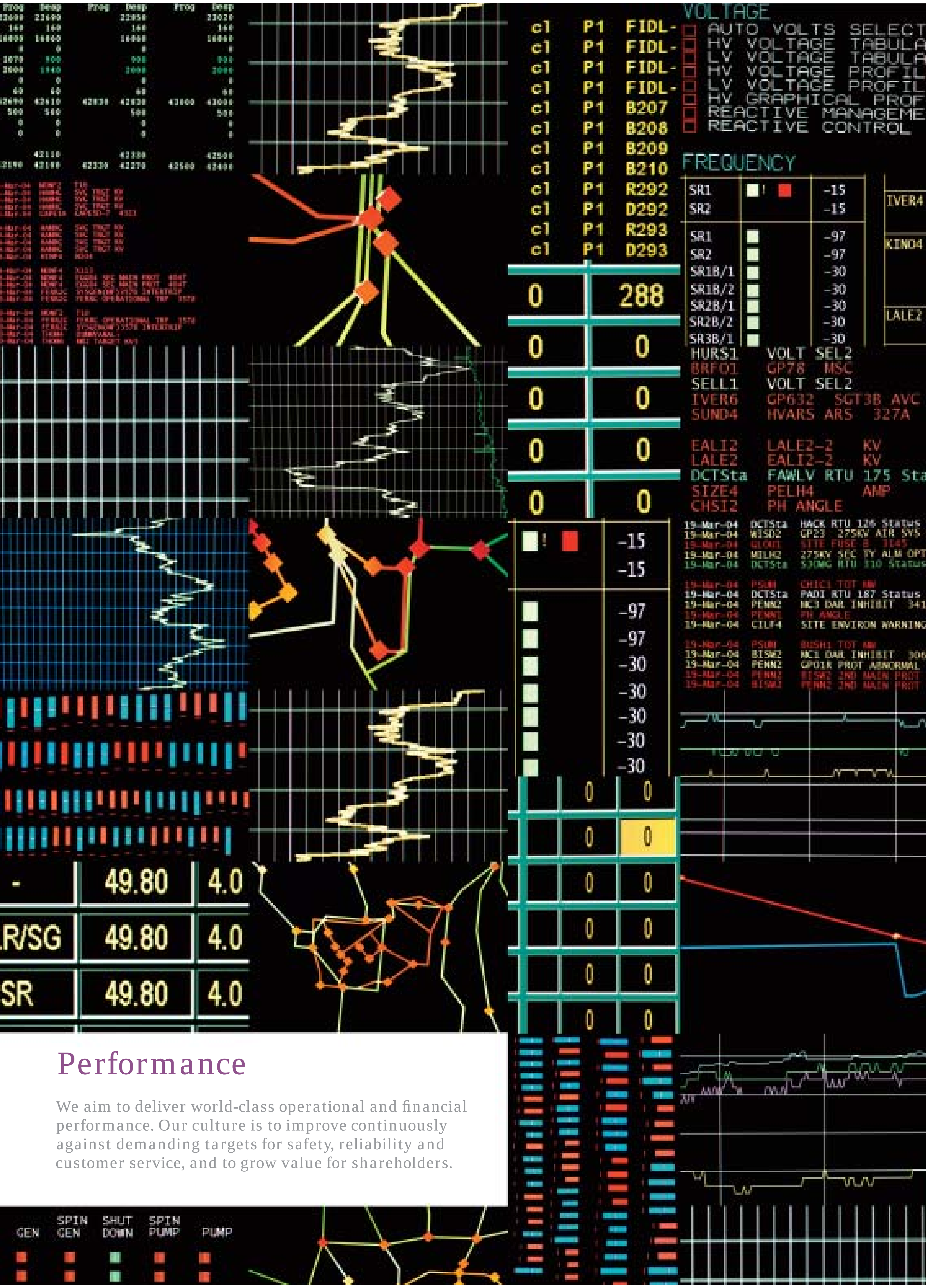
British Electricity Trading and Transmission Arrangements

Changes to harmonise electricity trading across Great Britain are making progress. We were pleased to have been designated Great Britain System Operator and work is under way with the Scottish transmission companies for the scheduled introduction of the new arrangements in April 2005. From that date, we will operate the two Scottish transmission systems and our own as one system, balancing electricity supply and demand across Great Britain.

UK energy supply

The UK is entering a period of changing supply patterns for both gas and electricity. With decreasing UK continental shelf gas reserves, the UK will become a net importer of gas and we have seen increasing activity in providing the necessary import capability. This involves interconnectors and liquefied natural gas importation facilities, such as the one on the Isle of Grain we are developing, which will come onstream in 2005.

We continue to see a trend towards greater use of gas in power generation as the UK moves towards a low carbon economy. Alongside this, the Government is providing strong encouragement for renewable energy, particularly offshore wind farms. We are working with the Government and Ofgem to make possible the necessary investments in the electricity transmission network to support the development of such renewable energy projects.



Performance

We aim to deliver world-class operational and financial performance. Our culture is to improve continuously against demanding targets for safety, reliability and customer service, and to grow value for shareholders.

Integration

Operating complex networks to the highest standards of safety, reliability and efficiency requires a unique set of skills. We have successfully integrated our UK and US operations.

Our US Distribution business serves approximately 3.3 million electricity customers over a network of 62,000 circuit miles and around 560,000 gas customers over a network of 8,000 miles.

US Distribution
We serve approximately 3.3 million electricity customers making us the eighth largest US utility. We do this over a network of 62,000 circuit miles. We also serve around 560,000 gas distribution customers over a network of 8,000 miles.

Financial performance
Our US Distribution business contributed £497 million to the Group's adjusted operating profit*, which was a decline of £74 million. The weaker US dollar, a return to more normal weather and the anticipated decline in contributions from stranded cost returns more than offset higher residential delivery volumes and lower operating costs. In terms of earnings, reduced interest expense through debt refinancing contributed strongly to the bottom line.

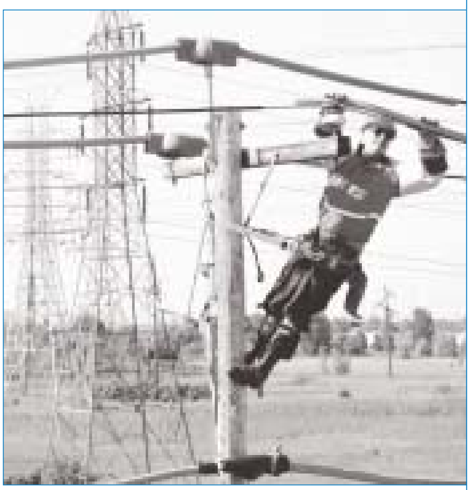
Service quality standards
US Distribution met or exceeded almost all of its service quality standards. These standards define the expected performance levels for reliability, customer service and safety. We improved our overall reliability in 2003/04, most notably in terms of reducing the frequency and duration of outages in most areas, and our customer service team had an outstanding year in 2003.

Safety
The safety performance in our US Distribution business lags behind other parts of the Group. The number of Lost Time Injuries increased by 14% in 2003/04.

We continue to focus on identifying and addressing near misses as we believe this is an important investment in improving our long-term safety performance.

Integration
As a platform for introducing advanced work processes, we implemented an Enterprise Resource Planning (ERP) system across the US in May 2004. ERP will address finance and accounting, supply chain and work management. The system will greatly improve our ability to collect and manage data on our operations and performance, telling us where we are performing well and where we can improve. In the coming year, we will merge the remainder of the information technology systems across the New York and New England regions.

One of our most important goals is to provide responsive and efficient service to our customers. In helping to achieve this, we have introduced automated meter reading (AMR) devices. AMR allows a specially equipped vehicle to capture meter readings, eliminating the need for customers to provide access to their homes and ultimately reducing the number of customer calls, customer appointments and estimated bills. During the year, we completed installation in New England and made substantial progress in New York, with 1.8 million out of a total of 2.1 million meters now installed and the remainder to be completed in 2004/05.



Top A Niagara Mohawk line crew in Cazenovia, upstate New York, prepares to replace a distribution transformer to increase system capacity in the area.

Bottom A safety specialist in Batavia, upstate New York, demonstrates the use of rubber cover-ups for worker protection when working near energised lines.

* Excludes the impact of exceptional items and goodwill amortisation.

Reliability

Our society depends on the reliable transmission and distribution of electricity and gas. National Grid Transco is focused on the highest levels of reliability – developing our networks to meet changing patterns of supply and demand.

UK Gas Distribution
Our UK Gas Distribution business comprises almost all of Britain's gas distribution system. It consists of around 170,000 miles of distribution pipelines and is the largest gas distribution system in Europe.

Gas is transported on behalf of gas shippers from the National Transmission System through the distribution networks to around 21 million homes and businesses, and also to a small number of third party pipeline systems.

Financial performance
Our UK Gas Distribution business contributed £729 million to the Group's adjusted operating profit* which was an increase of £175 million. Controllable costs were £103 million lower than in the previous year.

Replacement expenditure on the UK gas distribution network was £388 million in the year and we earned an estimated £10 million of additional profit during the second year of operation of the incentive mechanism for mains replacement.

Standards of service
Over the past few months we have been working with Ofgem and the wider industry to implement plans to improve the standards of service provided by Transco in relation to its connections activities. While Ofgem has recognised that the performance of the connections service provided by Transco has improved, in May 2004 it confirmed a financial penalty of £1 million in relation to earlier performance problems. While we continue to work to improve our connections performance, we are pleased that we again exceeded our targets on our safety-related standards of service – more than 98% of 'uncontrolled' gas escapes (where the gas leak cannot be controlled by turning the gas supply off at the meter) were attended within one hour and more than 99% of 'controlled' gas escapes (where the gas leak can be controlled at the meter) were attended within two hours.

Safety
With approximately 1,600 miles of iron mains decommissioned, we achieved our 2003/04 target, making our network safer.

Using DuPont Safety Resources, we have been working to improve our overall safety, health and environmental performance, through the implementation of best practice in UK Gas Distribution. Over the last 12 months, we have demonstrated a continued improvement, with a 22% reduction in Lost Time Injuries. By working closely with our supply chain partners to share best practice, we have also made significant steps in improving their performance resulting in a 43% reduction in their Lost Time Injuries. We have initiated new training, which we believe will educate and change behaviours to drive improved safety performance further towards our goal of zero injuries.

Potential distribution network sales
Our plans for the possible sale of up to four of our regional distribution networks have progressed steadily over the past year. Although we may sell up to four networks, if this maximises value, we remain committed to a substantial gas distribution business in Britain and we will continue to be the largest operator of gas distribution assets in the country.

We expect to announce the results of this process this summer with any sales due for completion in early 2005.

The 'Way Ahead' for our retained distribution networks
We have begun our 'Way Ahead' restructuring programme in the networks that we will retain. This involves a move to a more centralised structure that will enable us to place increased emphasis on safety and efficiency, and the deployment of best practice across the organisation, and facilitate our aim to be the best in the world at balancing cost, performance and risk. Any network that is currently part of the sale process, but is not subsequently sold, will be incorporated into the Way Ahead programme later this year.

This should enable us to deliver major reductions in controllable operating expenditure.

Our UK Gas Distribution business comprises almost all of Britain's gas distribution system. It consists of around 170,000 miles of distribution pipelines and is the largest gas distribution system in Europe.

Above UK gas mains replacement work at Hatham, Leicestershire, which is part of our ongoing national mains replacement programme to make the network safer.

* Excludes the impact of exceptional items.

Far left Internal inspection of a liquefied natural gas tank as part of the development of the Isle of Grain import facility.

Left The Pirelli underwater cable being tested near Naples, Italy prior to being shipped to Australia for installation of the Basslink interconnector.

Other businesses
As a result of our continued refocusing, our other businesses are mainly concerned with infrastructure provision and related services where we can exploit our core skills and assets to create value. During the year, these businesses have continued to deliver improved safety performance and we are now better positioned to deliver value in the future.

Gridcom in the UK and Fulcrum Connections reduced the number of employee Lost Time Injuries by 76% and 88% respectively.

Developments
The Gridcom business provides communications infrastructure and related services to fibre and wireless network operators in the UK and northeastern US. It has demonstrated significant improvements in operational and safety performance in the UK, and there is now a profitable foundation for growth in both the UK and US.

The Transco metering business has successfully secured long-term usage contracts, including a new pricing structure, with gas suppliers, covering substantially all of its domestic meters, to secure a long-term revenue stream. Transco owns approximately 20 million installed domestic gas meters.

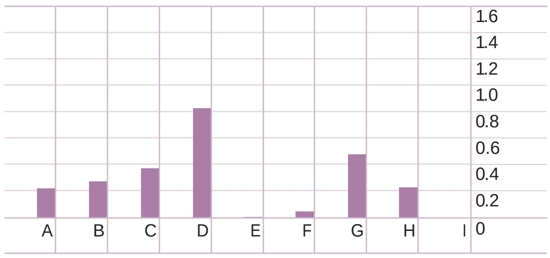
Work has commenced on a £130 million project to provide a liquefied natural gas import facility on the Isle of Grain, 20 miles east of London. We have signed a contract to sell the capacity of this facility to BP and Sonatrach once it is completed in 2005.

The £300 million Basslink interconnector project has continued on schedule and on budget, and is due for completion in late 2005. The 600 MW interconnector will link the electricity network on the island state of Tasmania to the transmission network in the state of Victoria on the Australian mainland.

Our withdrawal from non-core investments has continued. During the year, we completed the sale of Lattice Energy Services, and also sold our interests in EnMO and Bulldog Communications. We have also agreed the sale of our interests in Citelec and viavera, the former subject to appropriate regulatory and government approvals.

As a result of our continued refocusing, our other businesses are mainly concerned with infrastructure provision and related services where we can exploit our core skills and assets to create value.

Rate of employee Lost Time Injuries 2003/04 (per 100,000 hours)



A UK Transmission 0.21
B US Transmission 0.27
C UK Gas Distribution 0.39
D US Distribution 0.81
E Advantica 0.00
F Fulcrum Connections 0.04
G Gridcom UK 0.49
H Metering 0.23
I SecondSite Property 0.00

UK Transmission includes LNG and Interconnectors.
Gridcom US and Basslink performance will be included for the first time in the Annual Report and Accounts 2004/05.

Far Left Learning about habitats at one of National Grid Transco's 12 'Environmental Centres'. Our network of centres, based on electricity substation sites around the UK, provides opportunities for some 80,000 children and adults each year to learn about the relationship between learning, environment, energy and sustainable development.

As one of the world's largest utilities, what we do is essential to the economies of the countries and regions in which we operate and the well-being of the millions of citizens who depend on our services. These are long-term responsibilities that must be fulfilled in conjunction with our duty to create value for our shareholders.

Operating responsibly

Our 'Framework for Responsible Business' defines the principles by which we manage the business, sets the context for corporate governance, and helps us take account of economic, environmental and social factors in our decisions. A measure of our success in achieving a balance between these factors is our listing in the Dow Jones Sustainability World, STOXX and FTSE4Good indices. This demonstrates that non-financial performance is rightly taking on a greater importance for the investment community.

Our approach to responsible business has also gained external recognition through our 1st place listing in Business in the Community's 2003 Corporate Responsibility Index. The index measures important non-financial attributes including our relationship with the wider community and how we maintain high standards of business practice within a working environment where personal and employment rights are upheld.

Performance metrics for several of our principal corporate responsibility issues can be found on page 132 of the Annual Report and Accounts. The Responsibility section of our website (www.ngtgroup.com/responsibility) sets out our approach to corporate responsibility and provides greater detail of our performance over the past year.

The corporate responsibility material in this report has been independently verified by an external consultant and a verification statement is published on page 133 of the Annual Report and Accounts.

Governance and corporate responsibility

Corporate governance is increasingly focusing on the effective management of non-financial risks and the way corporate responsibility is integrated into day-to-day operations. Our Board Risk & Responsibility Committee plays a key role in this area. Over the past year, it has considered matters such as safety management, remediation of contaminated land, electric and magnetic field research, human rights, diversity in the workplace and business ethics. These are covered in more detail in the following sections.

In each of our businesses, senior managers review safety, health and environmental performance every month and have established teams, led by an Executive Director, to improve our performance where necessary.

Delivering energy safely

We believe that safety is paramount and that all work-related injuries and illnesses are preventable. The Board and Executive Committee receive a monthly report on the safety performance of the businesses in the Group. This report also highlights any emerging issues or trends where executive action may be required.

We believe a healthy workforce is an important factor in being a productive and competitive business. We have reviewed our approaches to occupational health with a view to ensuring support is available to employees on a local basis. Every six months, the Board Risk & Responsibility Committee reviews our performance in reducing work-related illnesses.

During 2003/04, we completed safety leadership training for our Executive Directors, a number of Non-executive Directors and our senior management team. This training is now being cascaded throughout the Group. We have published a Group-wide safety vision, reinforcing our commitments to deliver our goal of zero injuries and create a culture where everyone is able to challenge constructively unsafe behaviours wherever they occur. We have continued the review of safety management systems across our operations through Group-level audits of Gridcom, Fulcrum Connections, Metering and the Isle of Grain liquefied natural gas operations.

Over the last year, the rate of injuries resulting in lost time has decreased across the majority of the Group's businesses, the exception being an increase in our US Distribution operations.

While the number of lost time injuries reduced by 13% compared with 2002/03, 254 of our employees were involved in work-related incidents which led to them taking time off work. We have continued to work towards our goal of zero work-related injuries and illnesses wherever we operate in the world. We investigate all safety-related incidents and we have held a number of 'stand-downs' allowing employees to discuss safety issues and learning points from incidents.

In the UK, we have implemented initiatives aimed at sharing best practice between Transmission and Distribution. In the US, we have delivered new safety training programmes and have developed and implemented new safety procedures on topics including incident analysis, hazard communication and personal protective equipment.

While there has been a significant decrease in contractor Lost Time Injuries in UK Gas Distribution, we continue our efforts to improve safety performance across the Group. We have held workshops with major contractors to engage them in our overall safety improvement strategy.

Regrettably during 2003/04, two contractors died while working for our US operations. The contractors were replacing a crossarm on a transmission tower. As they manoeuvred the new crossarm into place, it came into contact with an adjacent energised line.

In January 2004, three employees of Konkola Copper Mines (KCM) and one employee from our Zambian joint venture, Copperbelt Energy Corporation (CEC), attended a fault at Avenue Substation. As the CEC employee was restoring power to the substation, a further unknown fault developed leading to an explosion. The three KCM employees were fatally injured in the incident.

Three members of the public died as a result of incidents directly associated with our operations.

On 19 June 2003, a partially sighted elderly lady tripped over a toolbox belonging to a National Grid Transco employee working in her house. The lady was taken to hospital where she later died.

On 18 August 2003, a member of the public entered National Grid Transco's site at Croydon and climbed the gas holder. He subsequently fell from the gas holder and later died. Although no action was taken against the Group, we have since reviewed site security to ensure the public cannot access the site.

On 28 November 2003, the cellar doors in the pavement adjacent to a public house had been opened to enable gas to be vented safely. An elderly gentleman tripped on one of the doors and fell. He was taken to hospital where he later died.

All of the above incidents have been reviewed by the relevant Board Committees and plans put in place to seek to ensure such regrettable incidents do not happen again.

Protecting the environment

Our environmental management systems continue to help us manage our activities in a manner that protects and, where appropriate, improves the environment. During the past year, our US distribution companies achieved certification to the ISO 14001 environmental management system, bringing the percentage of employees across the Group working to certified ISO 14001 systems to over 80%.

In March 2004, we were once again placed in the 'Premier League' of companies in Business in the Environment's Index of Corporate Environmental Engagement, scoring over 99%.

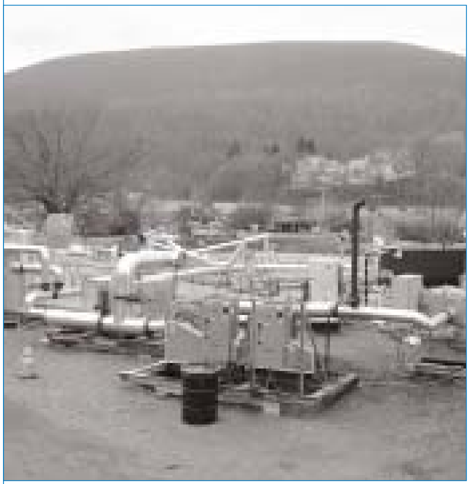
Significant environmental incidents arising directly from the Group's activities increased from 32 in 2002/03 to 46 in 2003/04. Incidents resulting from third party activities, such as damage to gas pipes, also increased from 12 to 26. We believe most of the increase is due to improved categorisation and reporting by UK Gas Distribution.

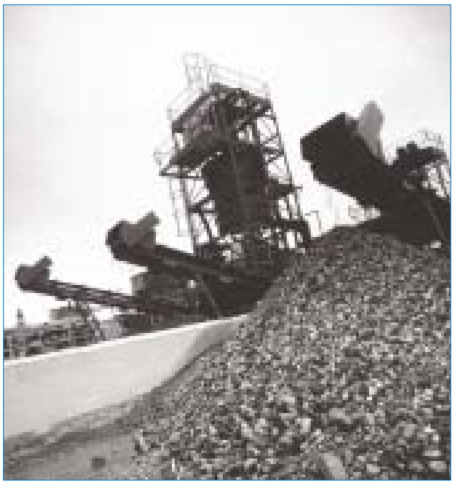
None of these incidents has led to environmental damage that resulted in prosecution by enforcement bodies. However, in the US, we received fines totalling $7,850 for inadequate labelling of waste containers in Rhode Island and a breach of hazardous waste manifest regulations in New York state. These were procedural breaches and in neither case was the environment damaged.

As with safety, we investigate all environmental incidents and lessons learnt are communicated throughout the Group, where appropriate.

Safety

Nothing we do is more important than the safety of our employees, customers and the general public. A sustainable business must operate to the highest safety standards.





We employ a range of techniques to remediate contaminated land. For example:

Far left In-situ removal of coal tar from a former manufactured gas plant in the US. The introduction of new technology, such as thermal desorption, enables us to clean up sites with limited disruption to local communities.

Left On site soil washing at a former gas works in the UK. This technique is suitable for extracting contaminants from some former gas work sites and helps to maximise the re-use of materials on site as well as minimise the amount of materials that have to be consigned to landfill.

Contaminated land

We continue to manage our portfolio of potentially contaminated land. This contamination has mainly arisen from the previous 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. Sites can sometimes have a complex mix of contamination dating back to the 19th century.

In the US, we have responsibility for 167 contaminated sites. Risk assessments have been carried out at all these sites and we have completed remediation projects at 34 during 2003/04. In the UK, we operate one of the country's largest clean up programmes. SecondSite Property, the Group business that manages, cleans up and disposes of surplus, non-operational properties, manages 497 potentially contaminated sites and has completed remediation work at 33 locations.

Climate change

We support international efforts to reduce climate change and continue to make progress in reducing our emissions of greenhouse gases.

During 2003/04, our total greenhouse gas emissions amounted to some 10.6 million tonnes CO_2 equivalent. Our largest source of greenhouse gas emissions continues to be methane leakage and venting from the UK and US gas networks, accounting for approximately 49.5% of our total emissions. In the UK, most of this leakage is associated with the joints on older cast iron pipes. We have a long-term programme to replace this type of pipe. Last year alone, approximately 1,600 miles of iron pipe were decommissioned.

An analysis of our greenhouse gas emissions, including those associated with sulphur hexafluoride, compressors on our gas network, energy use and transport, is available on our website, www.ngtgroup.com/responsibility.

In the US, our energy efficiency programmes have continued to deliver savings to our customers and have also contributed to reducing greenhouse gas emissions. Over the last year, our customers have saved nearly 2.25 billion kilowatt hours of electricity, equating to over 1.4 million tonnes of carbon dioxide.

Electric and magnetic fields

Electric and magnetic fields (EMFs) are generated from a wide variety of sources, including our power lines and telecommunications infrastructure. The balance of scientific evidence is against EMFs resulting in adverse health effects and, in our view, the benefits vastly outweigh any potential risk. However, the perception that EMFs may do so is evident in parts of society, and we take this very seriously.

We look to government and regulators to identify any precautionary measures that may be necessary, as they can evaluate the science and weigh costs and benefits on behalf of society as a whole.

We continue to facilitate constructive dialogue between parties that have an interest in EMFs. We also support high quality research and development in this area and seek to ensure the results are published wherever possible.

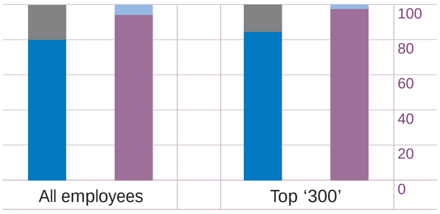
Our people

The skills and dedication of our employees underpin the successes we as a Group have achieved during the past year. In turn, we are equally committed to ensuring that the environment within which they work fosters development and growth, recognises and rewards individual efforts, and enables all employees to reach their full potential.

We have established, through e-mails, intranet, cascade briefings and in-house magazines, effective methods for communicating with employees on matters concerning them. Regular consultation with employees and their trade unions takes place using both formal and informal mechanisms.

As stated in our 'Framework for Responsible Business', we wish to ensure that we have the right number of people to deliver our business in the long term. We have continued the merger and integration programmes and restructuring of our transmission and distribution businesses. Throughout this process we have consulted with trade union representatives and our

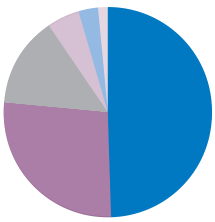
Workforce diversity 2003/04



- Male 80%
- Female 20%
- White 94%
- People of colour 6%

- Male 85%
- Female 15%
- White 98%
- People of colour 2%

Sources of greenhouse gas emissions 2003/04



- Methane 49.5%
- Electricity transmission losses 27.0%
- Gas transmission losses (excluding methane) 14.0%
- Sulphur hexafluoride 5.0%
- Energy use 3.0%
- Transport (including air travel) 1.5%

Total: 10.6 million tonnes CO_2 equivalent

Indicative breakdown based on combination of calendar and financial year data, for example US contribution to methane loss is based on a 12-month period ending August 2003. Business data collated and verified by AEA Technology plc. Electricity transmission losses exclude New York operations. Losses from US electricity distribution are also excluded.

employees and aim wherever possible to achieve headcount reductions either through early retirement or voluntary redundancy.

Our policies and procedures are designed to reflect the shape of the Group, and whilst achieving the standards set in Group-wide frameworks, they reflect local cultures and practices.

Delivering sustainable value depends on the trust and confidence of our stakeholders and this can only be earned by conducting our business in a responsible manner. Our US employees are expected to adhere to our Standards of Conduct that set out our expectations of responsible business practice. Our UK Code of Business Conduct was published in April 2004 and we established an ethics committee, a business conduct office and a 24-hour ethics advice line for our UK employees, complementing those already in place in the US.

Our family friendly policies aim to open up wider opportunities to working parents and create greater flexibility in the way we operate. Our new performance management frameworks have created greater focus on an individual's contribution to the overall business goals.

We are committed to a culture that encourages the inclusion and diversity of all our employees through respecting and appreciating their differences and supporting all employees in reaching their full potential. To reinforce this commitment, we have set up an Inclusion and Diversity Steering Group, chaired by Steve Holliday, our Director of UK Gas Distribution and Business Services, with senior representation from across the Group, and have established champions across all our businesses to promote and progress work in this area.

During the year, National Grid Transco accepted an invitation by Mary Robinson (former United Nations High Commissioner for Human Rights) to participate in a business-led initiative to help develop practical guidelines for business on human rights issues. Our efforts on safety, health, environmental and employee matters are in line with the Universal Declaration on Human Rights, and we are pleased to have been invited to share our experience in these areas.

Delivering sustainable value depends on the trust and confidence of stakeholders, and this can only be earned by conducting our business in a responsible manner.

Board of Directors

The effectiveness of the Board, its Committees and each of the Directors is vital to the operation of the Group.

01 **Sir John Parker**
Chairman
(appointed October 2002) (Age 62)

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 Carnival plc and Carnival Corporation, Inc. It has been announced that Sir John will be appointed as senior Non-executive Director designate of the Court of the Bank of England on 1 June 2004. Sir John is a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC and a former Non-executive Director of Brambles Industries plc, GKN plc and British Coal Corporation. He is a Fellow of the Royal Academy of Engineering.

02 **James Ross**
Deputy Chairman and
Senior Independent Director
(appointed March 1999) (Age 65)

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 was appointed as a Non-executive Director of Prudential plc on 6 May 2004 and is Chairman of the Leadership Foundation for Higher Education. He is also 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 a 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.

03 **Roger Urwin**
Group Chief Executive
(appointed November 1995) (Age 58)

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.

04 **Steve Lucas**
Group Finance Director
(appointed October 2002) (Age 50)

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.

05 **Steve Holliday**
Group Director
(appointed March 2001) (Age 47)

Steve Holliday joined National Grid as Group Director, UK and Europe at the end of March 2001. Following the Merger, he was responsible for the Group's electricity and gas 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 China, Australia, Japan, Brazil and the former Soviet Union.

06 **Nick Winser**
Group Director
(appointed April 2003) (Age 43)

Nick Winser 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 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.

07 **Edward Astle**
Group Director
(appointed September 2001) (Age 50)

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. He was Regional Director Europe, CEO of its global networks and marine divisions, and in 1995 joined the Cable and Wireless Board as Executive Director Global Businesses. Edward was previously a Non-executive Director of Intec Telecom Systems plc.

08 **Rick Sergel**
Group Director
(appointed March 2000) (Age 54)

Rick Sergel was appointed as a Director of National Grid following the acquisition of New England Electric System (NEES) in March 2000. Following the Merger, Rick had Board responsibility for US Gas and Electricity Distribution. He was President, Chief Executive Officer and a Director of National Grid USA until October 2003, following which he remained Chief Executive Officer and a Director. 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. Rick will retire from the Board at the 2004 Annual General Meeting.

09 **Mike Jesanis**
Group Director
(to be appointed July 2004) (Age 47)

Mike Jesanis will be appointed as Group Director effective from 26 July 2004. Following Rick Sergel's retirement, he will be Group Director responsible for US Gas and Electricity Distribution. He became President of National Grid USA in November 2003, having been its Chief Operating Officer and responsible for the day-to-day operations since January 2001. He was Chief Financial Officer of National Grid USA and New England Electric System (NEES) between March 1998 and January 2001, having first joined NEES in July 1983.

10 **John Grant**
Non-executive Director
(appointed November 1995) (Age 58)

John Grant was appointed a Director of National Grid in November 1995. He is Chairman of Hasgo Group Limited, Peter Stubs Limited and Royal Automobile Club Motor Sports Association Limited and a Non-executive Director of Torotrak plc, Corac Group Plc and Cordex Plc. On 12 May 2004 John was appointed as a Non-executive Director of The Royal Automobile Club Limited. 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.

11 **Ken Harvey**
Non-executive Director
(appointed October 2002) (Age 63)

Ken 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) and is also Non-executive Chairman of Beaufort Group plc. A Chartered Engineer, he is a former Chairman of Norweb plc, Comax Holdings Ltd and The Intercare Group plc.

12 **Paul Joskow**
Non-executive Director
(appointed March 2000) (Age 56)

Paul Joskow was appointed a Director of National Grid in March 2000 following the acquisition of New England Electric System (NEES). 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. He is also an independent Trustee of the Putnam Mutual Funds. Paul joined TransCanada as an independent Non-executive Director on 23 April 2004.

13 **Stephen Pettit**
Non-executive Director
(appointed October 2002) (Age 53)

Stephen Pettit was appointed to the Board following the Merger, having been appointed to the Lattice Group Board in 2001. He is a Non-executive Director of National Air Traffic Services, Halma plc, KBC Advanced Technologies plc and Norwood Systems. He is a former Executive Director of Cable and Wireless plc. Before joining Cable and Wireless, he was Chief Executive, Petrochemicals at British Petroleum.

14 **Maria Richter**
Non-executive Director
(appointed October 2003) (Age 49)

Maria Richter was appointed to the Board on 1 October 2003. Maria had worked for Morgan Stanley between 1993 and 2002, most recently as Managing Director of its Corporate Finance Retail Group. Prior to this, she was Managing Director of Investment Banking in the Southern Cone of Latin America, and Executive Director and Head of Independent Power and Structured Finance Business. Previous appointments include Vice-President of Independent Power Group for Salomon Brothers, and Vice-President of Prudential Capital Corporation and Power Funding Associates. Maria is also a Director of the Western Electricity Co-ordinating Council, one of 10 Councils in North America responsible for promoting electricity system reliability.

15 **George Rose**
Non-executive Director
(appointed October 2002) (Age 52)

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 a member of the shareholder committee of Airbus SAS and 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.

Helen Mahy
Group Company Secretary and General Counsel
(appointed October 2002) (Age 43)

Helen Mahy was appointed as Group Company Secretary following the Merger, having been Company Secretary at Lattice Group since March 2002. She was additionally appointed as General Counsel from October 2003. Previously, she was Group General Counsel and Company Secretary at Babcock International Group PLC. Helen 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.

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.

The Directors believe that the use of the adjusted measures described above better indicates the underlying business performance of the Group than the unadjusted measures because the exclusion of these items provides a clearer comparison of results for the years presented. This is because the presentation removes the distorting impact of exceptional items and removes the impact of goodwill amortisation in order to enhance comparability with the reporting practices of other UK companies.

Results and dividend

Group turnover

Group turnover decreased from £9,400 million in 2002/03 to £9,033 million in 2003/04, a fall of £367 million, primarily reflecting a reduction in turnover relating to discontinued operations which dropped from £567 million in 2002/03 to £158 million in 2003/04.

Group operating profit

Group total operating profit rose by £126 million to £1,862 million in 2003/04. This reflected an increase in adjusted operating profit of £53 million and a reduction in net operating exceptional charges of £70 million compared with 2002/03. The main reason for the increase in adjusted operating profit is the strong performance of UK gas distribution. Net operating exceptional charges included within total operating profit that related to both continuing and discontinued operations, moved from a net charge of £347 million in 2002/03 to a net charge of £277 million in 2003/04.

Exceptional items – 2003/04

The results for the year ended 31 March 2004 included total net exceptional pre-tax credits of £45 million. Pre-tax credits are made up of pre-tax net charges of £277 million of operating exceptional items relating to continuing operations offset by £322 million of non-operating exceptional credits.

Interest

Net interest fell from £970 million in 2002/03 to £822 million in 2003/04. In 2002/03, exceptional financing costs amounting to £31 million were incurred, relating to a joint venture.

Net interest, excluding exceptional items, fell from £939 million in 2002/03 to £822 million for 2003/04. This reduction is primarily explained by: the refinancing of debt in the UK and US; lower short-term interest rates; the weaker US dollar; and a lower level of Group net debt. In addition, there was a higher level of capitalised interest and a reduction in interest cost from former joint ventures. These impacts more than offset a net increase of £55 million in pension interest costs (net of capitalised interest) principally arising from the recognition of additional net interest from the actuarial valuation of the Lattice pension scheme undertaken at 31 March 2003.

Taxation

The net tax charge for 2003/04 of £261 million included exceptional tax credits amounting to £89 million. Excluding the exceptional tax items and adjustments to prior years' current tax from the tax charge, the effective tax rate for 2003/04 based on adjusted profit before taxation was 25.1% compared with the standard corporation tax rate in the UK of 30%. The effective tax rate for 2003/04 based on profit before taxation after exceptional items was 19.1%.

Earnings per share

Adjusted basic earnings per share for 2003/04 were 34.7 pence compared with 28.3 pence for 2002/03. Basic earnings per share for 2003/04 rose from 12.7 pence in 2002/03 to earnings of 35.8 pence per share, reflecting a movement from net exceptional charges in 2002/03 to net exceptional credits in 2003/04 and an increase in adjusted operating profit.

The reconciliation of basic earnings per share of 35.8 pence (2002/03: 12.7 pence) to adjusted earnings per share of 34.7 pence (2002/03: 28.3 pence) involves adjusting for goodwill amortisation of 3.2 pence (2002/03: 3.3 pence) and net exceptional credits, including the effect of tax, amounting to 4.3 pence (2002/03: 12.3 pence (net exceptional charges)).

Ordinary dividends

The total ordinary dividend for 2003/04 (£609 million) amounted to 19.78 pence per ordinary share. This represented an increase of 15% over the previous year's ordinary dividend per share. The total ordinary dividend per share is covered 1.8 times by both adjusted and basic earnings per ordinary share.

Dividend policy

As announced on 20 November 2003, the Board will recommend a 15% increase in its dividend per share for the year ended 31 March 2004. Going forward, the Board has declared its dividend policy is to aim to increase dividends per ordinary share, expressed in sterling, by 7% nominal in each financial year to 31 March 2008.

Liquidity, resources and capital expenditure

Cash flow

Net cash inflow from operations in 2003/04 was £2,810 million compared with £2,826 million in 2002/03. Included within net cash inflow from operations were exceptional cash outflows of £248 million and £328 million in 2003/04 and 2002/03 respectively.

Net cash inflow from operations before exceptional items was £3,058 million in 2003/04 compared with £3,154 million in 2002/03.

Exceptional cash flows in 2003/04 related principally to cash flows that arose from restructuring initiatives and environmental expenditure while those relating to 2002/03 also included Merger-related costs.

Payments to the providers of finance, in the form of dividends and interest, totalled £1,252 million (net) in 2003/04 compared with £1,483 million in 2002/03. Net interest cash outflows fell from £901 million in 2002/03 to £686 million in 2003/04. The reduction in 2003/04 reflected the beneficial impact of refinancing of debt, lower short-term interest rates and the weaker US dollar.

Net corporate tax payments amounted to £18 million in 2003/04 compared with £112 million in 2002/03. Net corporate tax payments in 2003/04 were lower than in 2002/03, primarily as a result of:

- the cessation of trade of 186k, a subsidiary that was disposed of during 2002/03, giving rise to balancing allowances which have reduced corporation tax payments; and

- a repayment of corporate tax arising from the settlement of tax liabilities of around £44 million.

Purchases of tangible and intangible fixed assets net of disposal proceeds absorbed cash of £1,254 million compared with £1,407 million in 2002/03. This reduction is explained by reduced fixed asset purchases amounting to £118 million and increased disposal proceeds of £35 million.

Cash outflow in 2003/04 relating to the acquisition of Group undertakings and other investments amounted to £26 million compared with £165 million in 2002/03. Cash outflow in 2002/03 included £153 million related to the expected contractual funding obligations for joint ventures.

Cash inflow from the disposal of investments in 2003/04 amounted to £33 million compared with 2002/03 of £328 million. The 2002/03 inflow related 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 from the sale of The Leasing Group.

During 2003/04, the Group terminated some cross currency swaps, resulting in a cash inflow of £148 million. As a result of this transaction, the underlying borrowing which had been hedged by these swaps was translated to sterling at the prevailing spot rate, resulting in an increase in net sterling borrowing of £140 million. Consequently, the impact of the termination of cross currency swaps on net debt was insignificant.

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 rose from £1,113 million (adjusted) at 31 March 2003 to £1,213 million at 31 March 2004. This increase is mainly explained by the retained profit for the year of £490 million, partially offset by net foreign exchange adjustments amounting to £417 million, primarily related to the retranslation of US dollar denominated net assets and associated hedges.

Capital expenditure
Capital expenditure in 2003/04 was £1,481 million compared with £1,520 million in 2002/03. Capital expenditure for 2002/03 included £95 million relating to discontinued operations. Capital expenditure for 2003/04 of £1,481 million related to continuing operations and compared with £1,425 million for 2002/03. The net increase from 2002/03 to 2003/04 in capital expenditure was explained by increased expenditure in: the construction of the Basslink interconnector and Isle of Grain LNG; within US electricity distribution; and within UK electricity and gas transmission. The higher capital expenditure was partially offset by a fall in capital expenditure within UK gas distribution.

Net debt and gearing
Net debt fell from £13,878 million at 31 March 2003 to £12,632 million at 31 March 2004, primarily as a result of: the impact of the depreciation of the US dollar against sterling on US dollar denominated debt; cash flows; and the settlement of the EPICs bond during 2003/04.

Gearing at 31 March 2004, calculated as net debt at that date expressed as a percentage of net debt plus net assets shown by the balance sheet, amounted to 91%, compared with 92% at 31 March 2003. By comparison, the gearing ratio, adjusted for the inclusion of UK businesses at their estimated regulatory asset values ('adjusted gearing ratio'), amounted to 55% at 31 March 2004 compared with 59% at 31 March 2003.

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 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. The Finance Committee of the Board and the Finance Committee of the appropriate Group undertaking approve all funding programmes.

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

UK GAAP merger accounting principles have been adopted in accounting for the business combination of National Grid and Lattice, which was completed last year on 21 October 2002. Under US GAAP, acquisition accounting principles have been applied to this business combination, which is a fundamentally different method of accounting from merger accounting.

Net income from continuing operations for 2003/04 under US GAAP was £998 million (2002/03: £790 million). The US GAAP results for 2003/04 and 2002/03 include losses relating to discontinued operations amounting to £nil and £39 million respectively. Consequently, net income for 2003/04 under US GAAP was £998 million (2002/03: £751 million). This compared with the net income under UK GAAP for 2003/04 and 2002/03 of £1,099 million and £391 million respectively.

Equity shareholders' funds under US GAAP at 31 March 2004 were £9,821 million (31 March 2003: £9,426 million) compared with £1,213 million (31 March 2003: £1,113 million (restated)) under UK GAAP.

Summary Directors' Report

Incorporation

National Grid Transco plc is incorporated in England and Wales (No 4031152) with its registered office at 1-3 Strand, London WC2N 5EH (telephone +44 (0)20 7004 3000). The Company was first incorporated on 11 July 2000.

Group activities

An outline of the Group's businesses, their activities during the year, possible future developments and Group results are contained in the Chief Executive's Review on pages 4 to 17 and in the Summary Operating and Financial Review on pages 20 to 21.

The Board

The Board currently consists of 14 Directors comprising the Chairman, six Executive Directors (including the Group Chief Executive) and seven Non-executive Directors (including the Deputy Chairman and Senior Independent Director). Short biographical details of each of the Directors are included on pages 18 and 19.

It has been announced that Rick Sergel will retire at the Annual General Meeting, being replaced on the Board by Mike Jesanis.

In order to ensure effective control of the Group the Board restricts certain decisions to itself. These matters reserved to the Board include:

- establishing Board Committees, setting terms of reference, reviewing activities and where appropriate ratifying decisions;
- internal control arrangements;
- results announcements to stock exchanges where National Grid Transco shares are traded and the approval of the Annual Report and Accounts (in conjunction with the Audit Committee);
- approval of the Group's business plan;
- overall Group business strategy;
- approval of Group financial policy; and
- matters of strategic importance likely to impact the Group.

The Board manages these matters at its regular Board meetings and strategy days. It also receives reports and presentations from each of the operating divisions, key central functions and minutes and/or oral reports of Board Committee meetings. This ensures that all Directors are aware of, and are in a position to monitor effectively, Group operations and current issues.

The Board is also ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. National Grid Transco's system of internal control helps to safeguard the Group's assets and is designed to manage, rather than eliminate, material risks to the achievement of the Group's business objectives. The review of internal control recognises that any such system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Board Committees

To ensure that the broad range of responsibilities that fall to the Board are managed effectively and in an appropriate manner, it has established a number of Committees. These are the Audit, Executive, Finance, Nominations, Remuneration, and Risk & Responsibility Committees.

Each Committee has established terms of reference, agreed by both the Committee and the Board. The terms of reference for each of these Committees are published on the Group website at www.ngtgroup.com/about/mn_corp_govern.html. Other governance information, including a comparison with the governance rules of the New York Stock Exchange, can also be found on this page of the website.

Board Committee membership

The Board Committees are constituted as follows:

Audit
George Rose (Chairman)
John Grant
Ken Harvey
Paul Joskow

Executive
All Executive Directors (Roger Urwin as Chairman)
Group Company Secretary and General Counsel
Chief Operating Officer, National Grid USA

Finance
Paul Joskow (Chairman)
Roger Urwin
Steve Lucas
Stephen Pettit
Maria Richter

Nominations
Sir John Parker (Chairman)
James Ross
John Grant
Ken Harvey
George Rose

Remuneration
John Grant (Chairman)
Ken Harvey
Stephen Pettit
George Rose

Risk & Responsibility
James Ross (Chairman)
Stephen Pettit
Maria Richter

Dividends

An interim dividend of 7.91 pence per share (US$0.6690 per ADS) was paid on 21 January 2004.

The Directors are recommending a final dividend of 11.87 pence per share (US$1.0500 per ADS) be paid on 23 August 2004. The payment of the final dividend is subject to shareholder approval at the Annual General Meeting. This would bring the total dividend for 2003/04 to 19.78 pence per share (US$1.7190 per ADS).

Annual General Meeting

National Grid Transco's Annual General Meeting will be held on Monday 26 July 2004. Details are set out in a separate Notice of Annual General Meeting.

Summary Directors' Remuneration Report

Role of the Remuneration Committee and its Terms of Reference

The Remuneration Committee, which consists solely of independent Non-executive Directors, is responsible for developing Group policy on executive remuneration, and for determining the remuneration of Executive Directors and the executives below Board level who report directly to the Group Chief Executive. It also monitors the remuneration of other senior employees of the Group and has oversight of the operation of all the Group's share and share option plans. The Committee operates within terms of reference agreed by the Board, which are available on the Group's website or on request from the Group.

Remuneration policy

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 performance. It is intended that remuneration policies and practices should conform to best practice standards in the markets in which the Group operates. Remuneration policy is framed around the following key principles:

- total rewards should be set at levels that are competitive in the relevant market;
- a significant proportion of the Executive Directors' total rewards will be performance-based. These will 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 (available on the website);
- for higher levels of performance, rewards should be substantial but not excessive; 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 salary, annual bonus and Share Matching Plan, Performance Share Plan, all-employee share plans, pension contributions and non-cash benefits.

Excluding pensions and non-cash benefits, the remuneration package is structured such that for Executive Directors achieving 'target performance', performance-related remuneration represents an average of 51% of the total package, while at 'stretch performance', these elements represent approximately 69% of the total.

The policies relating to each element of remuneration are summarised below.

Salary

Salaries are reviewed annually and targeted at the median position against the relevant market. In determining the relevant market, the Remuneration Committee takes account of the regulated nature of the majority of the Group's operating activities, along with the size, complexity and international scope of the business. For UK-based Executive Directors a UK market is used, while for US-based Executive Directors a US market is used. In setting individual salary levels the Committee takes into account business performance, the individual's experience in the role and the employment and salary practices prevailing for other employees in the Group.

Annual bonus and Share Matching Plan

Annual bonuses are based on achievement of a combination of demanding Group, individual and, where applicable, divisional targets. The measures of Group performance are based on earnings per share (EPS) and cash flow; the main divisional measures are based on divisional operating profit and divisional cash flow. Individual targets are set in relation to key operating and strategic objectives and include overriding measures of safety and customer service performance. For the financial year 2004/05, the target and maximum bonus levels for UK-based Executive Directors are 50% and 75% of salary respectively. US-based Executive Directors have lower target and maximum bonus levels of 41.7% and 62.5% respectively. US-based Executive Directors also participate in the USA Goals Program, an all-employee bonus plan that can pay up to 4.5% of salary on the achievement of certain earnings and performance targets.

Currently, UK-based Executive Directors are required to defer one third of any cash bonus (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-based Executive Directors do not participate in this plan. However, each year an award, calculated as a proportion (currently 60%) of their annual bonus, is paid in National Grid Transco shares or American Depositary Shares (ADSs) and is subject to a minimum three-year vesting period. The total target and maximum values of the annual bonus plan, including deferral and share matching, are therefore 67% and 100% of salary respectively for all Executive Directors.

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, while ensuring that Executive Directors hold a significant proportion of their remuneration in shares. Requiring Executive Directors to invest in the Group increases the proportion of rewards linked to both short-term performance and longer-term total shareholder returns. The bonus deferral and share match also acts as a retention tool and ensures that Executive Directors share a significant level of personal risk with the Group's shareholders.

Long-term incentives

The long-term incentive plans currently approved by shareholders, in addition to the Share Matching Plan described above, are the National Grid Transco Performance Share Plan (PSP) and the National Grid Executive Share Option Plan (ESOP). National Grid Transco has made a commitment to shareholders to make grants under no more than two discretionary share incentive plans to any one Director in any year. For the year to 31 March 2005, the Remuneration Committee has decided to make grants under the PSP and the Share Matching Plan, as in the previous year.

Under the PSP, Executive Directors receive notional allocations of shares worth up to a maximum of 125% of salary. Shares vest after three years, subject to the satisfaction of the relevant performance criterion, which is set by the Committee at the date of grant. Shares must then be held for a further year, after which they are released, subject to the Executive's continuing employment with the Group or at the Committee's discretion.

The performance criterion for grants in the year to 31 March 2005 is based on the Group's Total Shareholder Return (TSR) performance over a three-year period, relative to the TSR performances of a group of comparator companies. This comparator group, which is unchanged from the year to 31 March 2004, has been selected to include companies in the energy distribution sector, against which National Grid Transco benchmarks its performance for business purposes, and other UK and international utilities. The Committee believes that this comparator group represents a relevant target for the long-term performance of the Group.

TSR has been chosen as the performance criterion as it provides a direct measure of shareholder value creation. In calculating TSR, it is assumed that all dividends are reinvested. In assessing whether this performance condition has been met, data purchased from Alithos Limited is used. No shares will be released if the Group's TSR over the three-year performance period, when ranked against that of each of the comparator companies, falls below the median. For TSR at the median, 30% of the shares awarded will be released. 100% of the shares awarded will be released for TSR ranking at the upper quartile or above. For performance between median and upper quartile against the comparator group, the number of shares released is calculated on a straight-line basis. No retesting of performance is permitted for any shares that do not vest after the initial three-year performance period and any such shares will lapse. The Committee believes that these criteria represent stretching performance targets for the release of shares.

There are no plans to make grants under the ESOP in 2004/05, unless required for recruitment purposes.

All-employee share plans

- Sharesave: UK-based Executive Directors are eligible to participate in UK Inland Revenue approved all-employee Sharesave schemes (subject to eligibility based on service).
- US Incentive Thrift Plan: US-based Executive Directors 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 companies.
- Share Incentive Plan (SIP): The Group implemented a UK Inland Revenue approved SIP during the year to 31 March 2004. UK-based Executive Directors are eligible to participate in this plan (subject to eligibility based on service).

Pensions

Post-Merger, legacy pension arrangements have remained in place for Executive Directors. Pension policy for UK-based Executive Directors is being reviewed following the recently announced UK Government reform of pensions.

UK-based Executive Directors are members of either the National Grid Company Group of the Electricity Supply Pension Scheme (NGC scheme) or the defined benefit section of the Lattice Group Pension Scheme (Lattice scheme), which are both tax-approved pension schemes. Benefits on salary above the earnings cap are provided on either a partially-funded basis by the Group (NGC scheme) or through the unfunded Lattice Group Supplementary Benefits Scheme. Only base salary is pensionable. The provisions for participating Executive Directors under the NGC scheme are designed to give a pension at normal retirement age (60) of two thirds of final salary subject to completion of 20 years' service. The provisions under the Lattice scheme are designed to give two thirds of final salary (which may be restricted by remuneration averaged over three years) at normal retirement age (65), inclusive of any pension rights earned in previous employment.

US-based Executive Directors participate in a qualified pension plan and an executive supplemental retirement plan provided through National Grid USA. These plans are non-contributory defined benefit arrangements. Participating Executive Directors' benefits are calculated using a formula based on years of service and highest average compensation over five consecutive years. In line with many US plans, the calculation of benefits under the arrangements takes into account salary, bonuses and incentive share awards but not share options. Normal retirement age is 65.

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

Non-cash benefits

The Group provides competitive benefits to Executive Directors, such as a fully expensed car or cash alternative in lieu of car and fuel, use of a driver when required, private medical insurance, life assurance and long-term ill health insurance. Business expenses incurred are reimbursed in such a way as to give rise to no material benefit to the Director.

Share ownership guidelines

Executive Directors are encouraged to build up and retain a shareholding of at least 100% of annual salary. As a minimum, this should be achieved by retaining 50% of the after-tax gain on any options exercised or shares received through the long-term incentive or all-employee share plans.

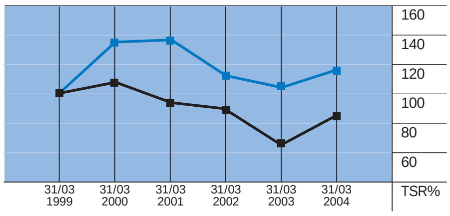
Non-executive Directors' remuneration

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 comprises an annual fee and a fee for each Board meeting attended (with a higher fee for meetings held outside the Director's country of residence), with an additional fee payable for chairmanship of a Board Committee.

Executive Directors' service contracts

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. The Committee has introduced a policy on mitigation of losses in the event of an Executive Director's employment being terminated by the Company. If this occurs, the departing Executive would be expected to mitigate any losses incurred as a result of the termination. Therefore, entitlement to the payment of 12 months' remuneration on early termination will no longer be automatic but will instead be based on the circumstances of the termination.

National Grid Transco/National Grid TSR vs FTSE 100



■ National Grid Transco/National Grid ■ FTSE 100
Produced by Ernst & Young LLP 16 April 2004

Non-executive Directors' letters of appointment

The Chairman's letter of appointment provides for a period of six months' notice in order to give the Group reasonable security with regard to his service. The terms of engagement of Non-executive Directors other than the Chairman are also set out in letters of appointment; their initial appointment and any subsequent reappointment is subject to election or re-election by shareholders. The letters of appointment do not contain provision for termination payments.

Performance graph

The graph above represents the comparative TSR performance of the Group from 31 March 1999 to 31 March 2004. For the period before the Merger of National Grid Group and Lattice, the TSR shown is that of National Grid Group.

This graph shows the Group's performance against the performance of the FTSE 100 index, which is considered suitable for this purpose 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 Schedule 7A to the Companies Act 1985.

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 aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services in the year to 31 March 2004 was £5,377,000.

Executive Directors

	Year ended 31 March 2004					Year ended 31 March 2003
	Salary £000s	Annual bonus £000s	Expense allowances £000s	Benefits in kind (i) £000s	Total £000s	Total £000s
Roger Urwin (ii), (iii)	635	395	–	21	1,051	924
Steve Lucas (ii), (iii), (iv)	375	217	–	19	611	497
Edward Astle (ii), (v)	350	202	12	4	568	606
Steve Holliday (ii), (iii)	375	240	–	18	633	517
Rick Sergel (ii), (vi)	488	228	–	19	735	755
Nick Winser (ii), (iii), (vii)	275	172	27	128	602	–
John Wybrew (viii)	278	123	–	11	412	564

(i) Benefits in kind comprise benefits such as a fully expensed car, chauffeur, private medical insurance and life assurance.
(ii) Each of these six Directors is accruing retirement benefits under a defined benefit pension arrangement. No Executive Director except Rick Sergel participates in any money purchase pension arrangement through the Group (see (vi) below) and no Non-executive Director participates in any Group pension arrangement.
(iii) The bonus of each of these Directors has been reduced by an amount equal to 7.5% of salary (10% of salary including matching awards under the Share Matching Plan) to reflect the UK power outages described elsewhere in this report.
(iv) Steve Lucas made a gain of £129,105 on 20 November 2003 on the exercise of his rolled-over 1999 Lattice Long Term Incentive Scheme award.
(v) Edward Astle's expense allowances relate to cash received in lieu of car and fuel benefit entitlements.
(vi) The Group made contributions in the US worth £6,101 to a money purchase pension arrangement in respect of Rick Sergel's Thrift Plan participation. Rick's bonus includes payments in the US worth £14,643 in respect of his participation in the USA Goals Program (described on page 23).
(vii) Nick Winser was appointed to the Board on 28 April 2003. Had he served on the Board for the whole of the year ended 31 March 2004, his salary and annual bonus would have been 12/11 of the reported figures. Nick was on assignment in the US when he was appointed to the Board. His benefits include expatriate benefits provided to Nick while he remained in the US, in line with the Group's standard expatriate assignment policy, and relocation benefits provided on his return to the UK. The expense allowances shown relate to relocation allowances paid to Nick on his repatriation back to the UK from the US and relocation in the UK.
(viii) John Wybrew retired on 30 November 2003.

Non-executive Directors

	Year ended 31 March 2004			Year ended 31 March 2003
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s
Sir John Parker	300	26 (i)	326	412
James Ross	115	–	115	175 (ii)
John Grant	59	–	59	38
Ken Harvey	44	–	44	30
Paul Joskow	67	–	67	50
Stephen Pettit	47	–	47	25
Maria Richter (iii)	29	–	29	–
George Rose	59	–	59	30
Bonnie Hill (iv)	19	–	19	32

(i) Sir John Parker's other emoluments comprise benefits in kind such as a fully expensed car and private medical insurance.
(ii) In the previous year's Directors' Remuneration Report, the reported emoluments for James Ross included 'Other emoluments' of £22,000. This figure was overstated and should have been reported as £nil. The comparative figure provided above reflects the amended total for the year ended 31 March 2003.
(iii) Maria Richter was appointed to the Board on 1 October 2003.
(iv) Bonnie Hill resigned from the Board with effect from 21 July 2003.

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

	2004 £m	2003 £m
Turnover, including share of joint ventures'	**9,104**	9,566
Less: share of joint ventures' turnover – continuing operations	**(71)**	(99)
Less: share of joint ventures' turnover – discontinued operations	**–**	(67)
Group turnover – continuing operations	**8,875**	8,833
Group turnover – discontinued operations	**158**	567
Group turnover	**9,033**	9,400
Operating costs	**(7,178)**	(7,788)
Operating profit of Group undertakings – continuing operations	**1,855**	1,806
Operating loss of Group undertakings – discontinued operations	**–**	(194)
	1,855	1,612
Share of joint ventures' operating profit – continuing operations	**7**	15
Share of joint ventures' operating profit – discontinued operations	**–**	109
	7	124
Operating profit		
– Before exceptional items and goodwill amortisation	**2,238**	2,185
– Exceptional items – continuing operations	**(277)**	(308)
– Exceptional items – discontinued operations	**–**	(39)
– Goodwill amortisation	**(99)**	(102)
Total operating profit	**1,862**	1,736
Gain on assets held for exchange – discontinued operations	**226**	–
Profit on disposal of tangible fixed assets – continuing operations	**96**	48
Loss on sale or termination of operations – discontinued operations	**–**	(68)
Merger costs – continuing operations	**–**	(79)
Net interest		
– Excluding exceptional items	**(822)**	(939)
– Exceptional items	**–**	(31)
Total interest	**(822)**	(970)
Profit on ordinary activities before taxation	**1,362**	667
Taxation		
– Excluding exceptional items	**(350)**	(373)
– Exceptional items	**89**	128
Total taxation	**(261)**	(245)
Profit on ordinary activities after taxation	**1,101**	422
Minority interests		
– Excluding exceptional items	**(2)**	(3)
– Exceptional items	**–**	(28)
Total minority interests	**(2)**	(31)
Profit for the year		
– Before exceptional items and goodwill amortisation	**1,064**	870
– Exceptional items – operating	**(277)**	(347)
– Exceptional items – non-operating	**322**	(99)
– Exceptional items – financing	**–**	(31)
– Exceptional items – taxation	**89**	128
– Exceptional items – minority interests	**–**	(28)
– Goodwill amortisation	**(99)**	(102)
Profit for the year	**1,099**	391
Dividends	**(609)**	(530)
Profit/(loss) transferred to/(from) profit and loss account reserve	**490**	(139)
Earnings per ordinary share		
– Basic, including exceptional items and goodwill amortisation	**35.8p**	12.7p
– Adjusted basic, excluding exceptional items and goodwill amortisation	**34.7p**	28.3p
– Diluted, including exceptional items and goodwill amortisation	**35.7p**	12.8p
– Adjusted diluted, excluding exceptional items and goodwill amortisation	**34.6p**	27.9p
Dividends per ordinary share	**19.78p**	17.20p

Summary Group Balance Sheets at 31 March

	2004 £m	2003 (restated) £m
Fixed assets		
Intangible assets	**1,537**	1,893
Tangible assets	**16,706**	16,847
Investments	**151**	214
	18,394	18,954
Current assets	**5,003**	5,950
Creditors (amounts falling due within one year)	**(4,513)**	(5,046)
Net current assets	**490**	904
Total assets less current liabilities	**18,884**	19,858
Creditors (amounts falling due after more than one year)	**(13,464)**	(14,255)
Provisions for liabilities and charges	**(4,157)**	(4,406)
Net assets employed	**1,263**	1,197
Capital and reserves		
Called up share capital	**309**	308
Share premium account	**1,280**	1,247
Other reserves	**(5,131)**	(5,131)
Profit and loss account	**4,755**	4,689
Equity shareholders' funds	**1,213**	1,113
Minority interests	**50**	84
	1,263	1,197

Current assets include £2,708m (2002: £3,395m) of debtors that fall due after more than one year.

This Summary Financial Statement was approved by the Board of Directors on 19 May 2004 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 and equity shareholders' funds in accordance with US GAAP are set out below:

Net income

	2004 £m	2003 £m
Net income under UK GAAP	**1,099**	391
Adjustments to conform with US GAAP		
Elimination of Lattice pre-acquisition results, measured under UK GAAP	**–**	293
Merger costs	**–**	32
Deferred taxation	**(24)**	7
Pensions	**7**	35
Share option schemes	**(25)**	(29)
Fixed assets – purchase of Lattice	**(364)**	(169)
Impairment of Advantica assets	**(31)**	–
Replacement expenditure (net of depreciation)	**383**	166
Financial instruments	**82**	40
Carrying value of Equity Plus Income Convertible Securities (EPICs) liability	**(226)**	2
Severance and integration costs	**–**	(110)
Recognition of income	**(9)**	2
Goodwill	**99**	70
Restructuring – purchase of Lattice	**2**	46
Share of joint ventures' adjustments	**–**	(27)
Other	**5**	2
Total US GAAP adjustments	**(101)**	360
Net income under US GAAP	**998**	751
Basic earnings per share	**32.5p**	31.9p
Diluted earnings per share	**32.4p**	31.3p

Equity shareholders' funds

	2004 £m	2003 (restated) £m
Equity shareholders' funds under UK GAAP	**1,213**	1,113
Adjustments to conform with US GAAP		
Deferred taxation	**(1,868)**	(1,593)
Pensions	**(1,069)**	(1,800)
Ordinary dividends	**366**	317
Tangible fixed assets – reversal of partial release of impairment provision	**(32)**	(35)
Fixed assets – purchase of Lattice and replacement expenditure	**7,318**	7,243
Financial instruments	**(285)**	(253)
Carrying value of EPICs liability	**–**	243
Severance liabilities	**3**	3
Recognition of income	**(35)**	(27)
Regulatory assets	**128**	241
Goodwill – purchase of Lattice	**3,820**	3,829
Goodwill – other acquisitions	**245**	179
Restructuring – purchase of Lattice	**(4)**	(6)
Share of joint ventures' adjustments	**–**	(17)
Other	**21**	(11)
Total US GAAP adjustments	**8,608**	8,313
Equity shareholders' funds under US GAAP	**9,821**	9,426

Basis of Preparation and Accounting Policies

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 Group plc and Lattice Group plc met the merger accounting criteria under UK GAAP and the transaction was accounted for as a merger. The Summary Financial Statement has been prepared on the basis as if Lattice Group plc and National Grid Group plc 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 Group plc as the acquirer of Lattice Group plc.

During the year, the Group adopted Urgent Issues Task Force (UITF) 38 'Accounting for ESOP trusts'. The adoption of this standard constitutes a change in accounting policy. Therefore, the impact has been reflected as a prior year adjustment in accordance with Financial Reporting Standard 3. At 31 March 2003, the Group reported £39 million of own shares within fixed asset investments. On adoption of UITF 38, the own shares were reclassified from fixed asset investments and are now reflected within the profit and loss account reserve. The adoption of UITF 38 has resulted in a decrease in net assets of £34 million at 31 March 2004 and £39 million at 31 March 2003.

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 financial statements, 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 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 financial statements, the Directors' Report and the Directors' Remuneration Report of National Grid Transco plc for the year ended 31 March 2004 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
19 May 2004

Independent Verifiers' Statement on Operating Responsibly

National Grid Transco has asked URS Verification Ltd (URSVL) to undertake third party verification of the Operating Responsibly elements of the Annual Report and Accounts 2003/04 and Review 2003/04. Information on the scope of URSVL's verification activities and their opinion may be found on page 133 of the Annual Report and Accounts 2003/04, in the Group's Operating Responsibly 2003/04 booklet and on the Group's website, www.ngtgroup.com/responsibility.

David Westwood, Director
For and on behalf of URS Verification Ltd
London
May 2004

Shareholder Information

Financial calendar

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

2 June 2004	Ordinary shares go ex-dividend
4 June 2004	Record date for 2003/04 final dividend
26 July 2004	Annual General Meeting (AGM)
23 August 2004	2003/04 final dividend paid to qualifying shareholders
18 November 2004	2003/04 interim results
1 December 2004	Ordinary shares go ex-dividend
3 December 2004	Record date for 2004/05 interim dividend
24 January 2005	2004/05 interim dividend paid to qualifying shareholders

Queries

Queries from ordinary 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 +1-610-382-7836, e-mail shareowners@bankofny.com, www.adrbny.com).

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.

Electronic communication

Shareholders may elect to receive all shareholder communications, such as the Annual Review and Notice of AGM, by electronic means. To take advantage of this opportunity shareholders need to register on the Registrar's website www.shareview.co.uk. Registration is free. Once registered, shareholders will receive notification by e-mail when documentation is available, together with instructions on how to view it. There are no particular software requirements to view the documents, other than those described and available on the National Grid Transco website www.ngtgroup.com.

Shareholders who register to receive electronic notification of documents but decide at any time in the future that they would prefer to receive paper copies may register this preference on the website www.shareview.co.uk or by contacting the Registrar, Lloyds TSB Registrars.

Holders of ADSs may elect to receive some documents electronically by checking the appropriate box on the reverse side of their voting instruction card. Alternatively, they should call The Bank of New York at 1-800-466-7215. Prior to general meetings of National Grid Transco, ADS holders will be mailed a notice of meeting with instructions on how to access the Annual Review and/or other documents electronically.

Shareholders or ADS holders who wish to continue to receive all communications in paper form need take no action.

Consolidated tax voucher

Ordinary 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 prior to, or around, the tax year end.

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 www.ngtgroup.com.

Should you not wish to use this service, you may find details of a broker in your local telephone directory, on the internet, or you may enquire about share dealing at any high street bank or building society.

The Directors of National Grid Transco are not in any way seeking to encourage shareholders either to buy or sell shares. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice from an independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000 or other appropriately authorised independent financial adviser.

ISA investors & PEP transfers

Individual Savings Accounts and existing Personal Equity Plan transfers for National Grid Transco shares are available. Further information may be obtained from the Account Manager: Stocktrade, 10 George Street, Edinburgh EH2 0BR (telephone 0131 240 0443, www.stocktrade.co.uk/NGT_Sharedealing/sharedealing_main.htm).

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.

Additional information

Additional information about National Grid Transco is available on our website at www.ngtgroup.com. Share price information, previous Annual Reports and Accounts (and other documents) and shareholder information can be found in the Investors section of that site. Information relating to capital gains tax base prices for the Group and its predecessors can also be found on the website or is available from the Registrar, Lloyds TSB Registrars.

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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 2003/04, Annual Review 2003/04, Operating Responsibly 2003/04 booklet and the Annual General Meeting. These activities are therefore CarbonNeutral®. The trees are being planted in Donkley Wood in Northumberland and with the Pacific Forest Trust in California.

Designed and produced by Fishburn Hedges
Original artwork by Sharon Elphick
Artist management by This is Real Art
Board photography by Patrick Harrison
Printed by St Ives Westerham Press

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Registered in England and Wales No. 4031152