

## Directors' Report

### Incorporation

National Grid Transco plc was first incorporated on 11 July 2000. The Company is registered in England and Wales with its registered office at 1-3 Strand, London WC2N 5EH (telephone +44 (0)20 7004 3000) and company number 4031152.

### Activities

The Company's principal activity is as the ultimate holding company of a group of companies involved in the transmission and distribution of energy, the provision of wireless infrastructure and other businesses in related markets.

More detailed information about the Group's businesses, activities and the financial performance of the Group can be found in the Operating and Financial Review on pages 21 to 59.

The Responsibility section of our website provides more detailed information on the non-financial performance of the Group ([www.ngtgroup.com/responsibility](http://www.ngtgroup.com/responsibility)).

### Directors

Biographical details of those Directors currently serving on the Board are on pages 18 and 19. Details of Directors who served during the year and of their interests in shares and share options can be found in the Directors' Remuneration Report on pages 69 to 79.

The Company arranges Directors' and Officers' liability insurance cover, which the Board regards as appropriate and adequate.

### Material interests

At no time during the year did any Director have any material interest in a contract within the Group, being a contract of any significance in relation to the Group's business.

### Post balance sheet events

There have been no material events between 31 March 2005 and the date of this report which are required to be brought to the attention of shareholders.

### Dividends

An interim dividend of 8.5 pence per share (US\$0.7865 per ADS) was paid on 24 January 2005.

The Directors are recommending that a final dividend of 15.2 pence per share (US\$1.3869 per ADS) be paid on 24 August 2005. The payment of the final dividend is subject to shareholder approval at the Annual General Meeting. This would bring the total dividend for 2004/05 to 23.7 pence per share (US\$2.1734 per ADS).

### Research and development

Expenditure on research and development in 2004/05 was £9 million, compared with £10 million in 2003/04 and £18 million in 2002/03.

### Share buy-back

National Grid Transco has authority from shareholders to repurchase up to 10% of its own ordinary shares. This authority was not used during 2004/05, nor in the period to 18 May 2005.

The Board intends to seek shareholder approval to renew this authority at the Extraordinary General Meeting which immediately follows the Annual General Meeting.

Companies are now permitted to hold repurchased shares as treasury shares rather than cancelling them. The Board has no current intention to hold repurchased shares as treasury shares, other than as required for share schemes.

### Political donations

The Group made no political donations in the UK or European Union during the year (including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000).

Our US businesses contributed a total of US\$20,000 (£10,695) in connection with the Democratic and Republican national conventions held in the summer of 2004 in Massachusetts and New York, in addition to the US\$50,000 (£29,762) reported in last year's Directors' Report. No money was donated to either political party, and all of these contributions were compliant with US state and federal law.

### Charitable donations

During 2004/05 approximately £7,296,000 was spent in support of community initiatives and relationships across Group operations. Within this figure direct donations to charitable organisations amounted to approximately £1,352,000 in the UK (2003/04 £1,228,000) and £1,847,000 (\$3,454,000) in the US (2003/04 £1,868,000 (\$3,139,000)).

We used the London Benchmarking Group model to assess our total community contributions. Our application of the model has been independently assured by the Corporate Citizenship Company. In addition to our charitable donations substantial financial support was provided for our Affordable Warmth Programme, Environmental Centres, Young Offender training programme and university research.

To support employees' fundraising activities the Group operates a matched giving scheme. In the UK this scheme matches every pound donated or raised for charities and local community groups up to £400 per employee per year. In the US the programme assists voluntary support of eligible non-profit organisations by employees. Qualifying gifts of up to \$3,500 per employee may be matched in any one year.

### Policy on payment of creditors

National Grid Transco is a signatory to the Better Payment Practice Code, details of which can be found at [www.payontime.co.uk](http://www.payontime.co.uk).

The average creditor payment period at 31 March 2005 for the Group's principal operations in the UK was 28 days (26 days at 31 March 2004).

### Substantial shareholders

As at 18 May 2005, the Group had been notified of the following beneficial interests in 3% or more of its issued share capital:

	% of issued share capital
The Capital Group Companies, Inc.	7.98
Legal & General Investment Management Ltd	3.88
Barclays plc	3.47
Credit Suisse First Boston group	3.24

No further notifications have been received.

### Employment policy

Information on the Group's employee policies is included on pages 13 and 14 under the heading 'Investing in our People' and on pages 41 and 42 under the headings 'Valuing people through inclusion', 'Business ethics', 'Leadership development' and 'Employee engagement'.

The Group uses multiple channels to communicate with its staff. These include email, Group intranets, cascade briefings, employee telephone information lines and in-house magazines. Additionally, regular consultation with employees and their trade unions takes place using both formal and informal mechanisms.

### Employee share ownership

The Group facilitates share ownership amongst its employees by the operation of both sharesave and share incentive plans in the UK. In the US, employees are able to invest in the Group through employee incentive thrift plans.

In the UK, approximately 10,300 employees participate in sharesave schemes, representing about 64% of employees at the year-end. There are also 3,775 participants in the current share incentive plan, holding shares purchased on a monthly basis. In the US, 6,773 employees held ADSs in the employee incentive thrift plans at 31 March 2005, representing approximately 82% of employees.

### Annual General Meeting

National Grid Transco's 2005 Annual General Meeting will be held on Monday 25 July 2005. Details are set out in a separate Notice of Annual General Meeting.

### Extraordinary General Meeting

National Grid Transco will be holding an Extraordinary General Meeting immediately after its 2005 Annual General Meeting. The Extraordinary General Meeting seeks approvals principally in respect of the proposed return of cash to shareholders following the sales of four of our UK Gas Distribution networks.

On behalf of the Board

### Helen Mahy

Group Company Secretary and General Counsel  
18 May 2005

National Grid Transco plc  
Registered office:  
1-3 Strand, London WC2N 5EH

Registered in England and Wales: No. 4031152

## Corporate Governance and Risk and Compliance Management

### Corporate Governance

#### The Combined Code on Corporate Governance

National Grid Transco is subject to the Combined Code on Corporate Governance, updated in 2003. The Combined Code sets out principles and provisions relating to the good governance of companies. The aim is to provide guidance on how companies should be directed and controlled.

The Company fully complied with the provisions set out in Section 1 of the Combined Code throughout the year. The following statements explain how the Company has applied the principles set out in Section 1 of the Combined Code.

#### 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 Senior Independent Director). Short biographical details of each of the Directors are included on page 19.

Mike Jesanis joined the Board as Group Director responsible for US Distribution in July 2004, following the retirement of Rick Sergel. John Allan was appointed as a Non-executive Director by the Board on 1 May 2005, following his recommendation by the Nominations Committee.

All Directors are required to be re-elected by shareholders at the Annual General Meeting following their appointment by the Board and then at least once every three years. This ensures regular approval of Director appointments by shareholders.

The Board, based on proposals from the Nominations Committee, assesses the independence of each of the Non-executive Directors using the guidelines set out in the Combined Code and considering the main question of whether the Director is independent in character and judgement. This opinion is based on current participation and performance on both the Board and Board Committees including consideration of the length of service at National Grid Transco together with that at either Lattice Group plc or National Grid Group plc prior to their merger. Based on this assessment the Board has determined that each of the Non-executive Directors is independent.

Whilst John Grant has now served on the Board since November 1995, exceeding the nominal nine year guideline, his continued participation is valued. His extensive business experience allows useful input as an independently minded Non-executive Director. The Board has also agreed that he remain as chairman of the Remuneration Committee where continuity for at least a further year post-merger is desirable. In line with guidelines he will seek annual reappointment by shareholders.

Professor Paul Joskow has now served on the Board for five years under the criteria set out above. He is considered by the Board to be an independent Director as his period as a director of New England Electric System is not considered to impact his independence given it now represents a minority part of the total operations of the Group. In addition, Professor Joskow is considered by the Board to be a world authority on utility regulation and to have a broad knowledge of the US utility scene.

#### Role of Chairman and Chief Executive

The respective roles of the Chairman and Chief Executive are set out and approved by the Board. The Chairman's priority is the management of the Board and its governance while the primary role of the Chief Executive is the management of the Company.

The main duties outside the Group of the Chairman, Sir John Parker, are included in his biography on page 19. During the year, the Chairman stepped down as Non-executive Chairman of RMC Group plc following its sale to Cemex of Mexico. In February 2005 he took up his post as Senior Non-executive Director of the Court of the Bank of England, and that of Chairman of Peninsular & Oriental Steam Navigation Company in May 2005. The Chairman continues to comply with the Combined Code requirement that no individual act as chairman for more than one FTSE 100 company. His contractual commitment to the Company is two days per week, but in practice this is often exceeded.

#### Role of Senior Independent Director

A key responsibility for the Senior Independent Director is to be available to shareholders in the event that they may feel it inappropriate to relay views through the Chairman or Chief Executive. In addition the Senior Independent Director takes the lead when the Non-executive Directors assess the Chairman's performance and when the appointment of a new chairman is considered.

Ken Harvey assumed the role of Senior Independent Director following the retirement of James Ross in October 2004.

#### Management of the Board

In order to ensure effective control of the Group, the Board restricts a range of decisions to itself. The principal matters reserved to the Board include:

- approval of the Group's business plan;
- overall Group business strategy;
- approval of Group financial policy;
- matters of strategic importance likely to impact the Group;
- approval of matters reserved to the Board and the delegations framework;
- establishing Board Committees, setting their terms of reference, reviewing their activities and, where appropriate, ratifying their decisions;
- internal control and risk management arrangements; and
- 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).

The Board manages these matters at its regular meetings and strategy days. It receives reports and presentations from each of the Executive Directors responsible for the Group's operating businesses and key central functions. It also receives 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, the overall performance of the Group, its development and implementation of strategy and its management of risk.

To enable Directors to carry out their duties, they are able, where necessary, to seek outside independent legal advice at the Company's cost.

The Chairman met separately with the Non-executive Directors twice during the year in formal session (once with the Group Chief Executive present) and three meetings are scheduled for 2005/06. These meetings and other regular informal discussions create the opportunity for valuable input from the Non-executive Directors.

### Internal control and risk management

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness along with the review of risk management processes. National Grid Transco's system of internal control and embedded risk management, which has been in place throughout 2004/05, 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. These reviews recognise that any such system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board, together with the Executive, Audit and Risk & Responsibility Committees, is central to the internal control process. Throughout the year the Board receives reports from each of these Committees and as part of the year-end process receives the Group Chief Executive's Letter of Assurance. This process seeks to confirm compliance with all major internal and external requirements along with the existence of appropriate controls and processes to manage risks and to provide details of material risks and control weaknesses. The Board additionally conducts a formal review of the effectiveness of internal controls based on the information and assurances provided to it directly and via the Committees mentioned.

The Board has adopted a Code of Ethics for senior financial professionals. This code is available on the Group website at [www.ngtgroup.com](http://www.ngtgroup.com) (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics in 2004/05.

### Board member training and development

Upon appointment each Director receives material and presentations to provide an induction to the Company and its businesses and is provided with detailed information relating to the operation and management of the Board. Site visits and meetings with senior and middle managers and the Company's advisors are also arranged. Major shareholders are also invited to meet new Directors.

The Group Company Secretary and General Counsel monitors Director attendance at meetings and the presentations that they receive to ensure that the Company is aware whether or not all Directors are in receipt of up-to-date information about the Group. Directors are also encouraged to attend relevant external courses to ensure that they are fully equipped to serve as effective Directors. For example, external courses attended during the year by Non-executive Directors included: 'Continuing Professional Development for Non-executive Directors' (including attendance at a Remuneration Committee Workshop) and 'The Non-executive Directors Seminar'.

Significant attention has also been given to the development programme for each of the Executive Directors, established following in-depth personal appraisals with the assistance of external specialists. Development programmes include external and internal mentoring support, attendance at relevant business schools and experience of other boardrooms through serving as Non-executive Directors.

### Board effectiveness

The effectiveness of the Board, its Committees and individual Directors is vital to the overall success of the Group. A formal Board and Committee evaluation process in the form of a confidential questionnaire to each Director from the Group Company Secretary and General Counsel is used as the basis to assess the effectiveness of the Board, the Chairman and each of the

Committees. The questionnaire is supplemented by one-to-one meetings between the Chairman and each of the Directors where individual performance is openly discussed along with any particular knowledge gap or the need for external training. Based on an analysis of the output of the questionnaire and the one-to-one meetings, an action plan is drawn up. This is discussed by the Nominations Committee before being recommended to the Board for action in the forthcoming year. During the last year actions included greater exposure of the Board to the next layer of management, improving the balance of strategic versus operational debate and improving the linkages between Board Committees. The aim is to ensure continuous improvement in Board processes and procedures. The Non-executive Directors also meet separately, under the chairmanship of the Senior Independent Director, to discuss the performance of the Chairman and provide him with collective feedback.

### Board Committees

The Board Committees comprise the Audit, Executive, Finance, Nominations, Remuneration and Risk & Responsibility Committees. The developing roles of Board Committees have led to them carrying out increasingly important work. This ensures that issues of policy and oversight are given time for detailed debate outside the main Board, where the time available is required to embrace a wide range of issues. To ensure the whole Board is updated, the Committee chairmen provide a summary of key issues debated and recommendations formulated at each Board meeting.

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](http://www.ngtgroup.com).

#### Audit Committee

The current members of the Audit Committee are John Allan, John Grant, Maria Richter and George Rose, who is the chairman of the Committee. John Allan and Maria Richter were appointed to the Committee with effect from 1 May 2005, replacing Ken Harvey and Paul Joskow.

Each of these Non-executive Directors is regarded by the Board as independent. The Board has determined that George Rose is an 'audit committee financial expert' as required by the Audit Committee terms of reference (for his biographical details see page 19).

The Chairman, Group Chief Executive, Group Finance Director, external auditors, Group Head of Audit, and Group Company Secretary and General Counsel are invited to attend most meetings.

The Audit Committee's main responsibilities are:

- reviewing and reporting to the Board on the effectiveness of the Group's financial reporting and internal control policies (including risk and compliance management);
- approving the terms of reference of the internal audit function and ensuring its resource requirements are adequate for effective performance;
- subject to necessary shareholder approval: approving, appointing, setting the compensation for and the oversight of the Group's external auditors;
- reviewing the integrity of the Group's financial statements; and
- reviewing the Annual Report and Accounts, Annual Review, Annual Report on Form 20-F and other reports filed with the SEC containing financial statements and reviewing reports of, and discussing issues raised by, the National Grid Transco Disclosure Committee in connection with these disclosures.

During the year ended 31 March 2005 the Committee met on five occasions. At meetings during the year the Committee reviewed the Company's pre-close trading statements and results before publication and received regular reports from the internal audit function and external auditors. The Committee also received reports on risk and compliance management within the Company and, since the introduction to UK employees of the Code of Business Conduct in April 2004, regular updates on the implementation of the Code. It also considered the actions being taken by the Company to address compliance with Section 404 of the Sarbanes-Oxley Act 2002 and the introduction of International Financial Reporting Standards.

With effect from 1 May 2005, the Audit Committee has undertaken a new role in relation to securing adequate separation between Transco plc's transmission and distribution businesses. The aims are to ensure that the governance arrangements required by the business separation licence conditions in Transco plc's licences are observed and to oversee the activities of Transco plc's Business Separation Compliance Officer.

During the year, the Audit Committee met separately with the external auditors, without management being present, on a number of occasions.

The Committee is responsible for overseeing the relationship with the external auditors which includes (but is not limited to):

- ensuring the independence and objectivity of the external auditors and the adequacy of the audit procedures;
- consideration of the audit fees paid and the approval in advance of all non-audit fees paid to the external auditors; and
- discussions with the external auditors concerning compliance with accounting standards.

At its meeting in May 2005, the Committee reviewed the independence and objectivity of the Company's external auditors, PricewaterhouseCoopers, including the policy on the employment by the Company of PricewaterhouseCoopers staff for senior positions. At this meeting, the Committee also evaluated the external audit process and considered the re-appointment of the external auditors.

All non-audit work is subject to pre-approval and total non-audit fees are reviewed by the Committee on a quarterly basis. Details of both the audit and non-audit fees paid to the auditors during the year are set out in note 3 to the accounts on page 95.

#### **Executive Committee**

The Board has essentially delegated the day-to-day running of the Group to the Executive Committee which is made up of each of the Executive Directors and the Group Company Secretary and General Counsel. The Executive Committee is chaired by the Group Chief Executive.

The Executive Committee manages and safeguards the interests of the Group. Its responsibilities include Group strategy, the annual business plan, capital allocation programme, annual operational budgets and other targets established by the Board.

The Executive Committee's key tasks also include keeping under review the adequacy of reporting arrangements and the effectiveness of internal control and risk management. At its regular meetings it considers safety and environmental performance reports and operational business performance reports.

On behalf of the Board the Executive Committee receives and considers half yearly certifications and due diligence reports from the operating businesses and corporate centre functions in connection with the completeness and accuracy of financial statements and associated disclosures. The Committee also receives regular reports on the results of internal audits (allowing appropriate and timely management follow-up) and, on an exception basis, reviews safety and environmental audits and occupational health reviews.

#### **Finance Committee**

The Finance Committee is chaired by Paul Joskow, the other members being Roger Urwin, Steve Lucas, Stephen Pettit and Maria Richter.

The Finance Committee is responsible for:

- setting policy and granting authority for investment and financing decisions, bank accounts, credit exposure, hedging and foreign exchange transactions, guarantees, indemnities and parent company support;
- setting and reviewing treasury management parameters; and
- considering and making recommendations to the Board on tax, pensions and insurance strategy.

#### **Nominations Committee**

The members of the Nominations Committee are John Grant, Ken Harvey, Paul Joskow and George Rose, each of whom is regarded by the Board as independent. Sir John Parker chairs the Committee. Each of these Directors was a member of the Committee throughout the year, other than Paul Joskow who was appointed with effect from 1 May 2005.

The main responsibility of the Nominations Committee is to keep under review the size, structure and composition of the Board. When necessary it is the responsibility of the Committee to identify and nominate to the Board for appointment Board Directors and direct reports to the Group Chief Executive. The Nominations Committee must also consider the annual reappointment of Directors, proposing Directors for reappointment by shareholders, having first considered the effectiveness and independence of any Non-executive Directors.

Clearly defined processes for the appointment of a Chairman, Chief Executive, Executive Director, Non-executive Director and Company Secretary are detailed and reviewed annually by the Committee. In addition the Committee has oversight of Boardroom succession planning and the development programme for each Executive Director.

As an on-going process the Nominations Committee considers succession planning for the Board over both the short and long term. The Nominations Committee also receives regular reports from the Group Chief Executive and Group Human Resources Director on succession planning for senior positions within the Group. The Nominations Committee has overall responsibility for reviewing the leadership needs of the Group and co-ordinates the review of the Board and Board Committees' effectiveness. The Nominations Committee also assesses the independence of each Non-executive Director annually prior to making recommendations to the Board.

### Remuneration Committee

The Remuneration Committee members are John Allan, Ken Harvey, Stephen Pettit and George Rose. The Committee chairman is John Grant. Each of these Non-executive Directors is regarded by the Board as independent and they all served throughout the year, other than John Allan who was appointed with effect from 1 May 2005.

The Group Human Resources Director provides advice on remuneration policies and practices and is usually invited to attend meetings along with the Chairman and the Group Chief Executive. No Director or other attendee participates in any discussion on his or her own remuneration.

The Remuneration Committee is responsible for developing Group policy on executive remuneration, and for determining the remuneration of the 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 Board has accepted all the recommendations made by the Committee during the year.

The Remuneration Committee has authority to obtain the advice of outside independent remuneration consultants and is solely responsible for their

appointment, retention and termination and for approval of their fees and other terms. The Committee retained Ernst & Young LLP as independent remuneration advisors throughout the year. The Group, with the agreement of the Committee, retained Linklaters to provide advice to the Committee on Directors' service contracts and Alithos Limited was retained to provide calculations relating to performance criteria of various share schemes.

Further details of the Group's remuneration policy and details of Director remuneration can be found in the Directors' Remuneration Report on pages 69 to 79, which the Committee compiles and recommends to the Board for approval.

### Risk & Responsibility Committee

Stephen Pettit chairs the Risk & Responsibility Committee. Its other members are Ken Harvey and Maria Richter. Ken Harvey was appointed to the Committee with effect from 1 May 2005.

The Group Chief Executive, two external specialists (advisors on safety and environmental affairs), the Group Corporate Responsibility Director and the Group Company Secretary and General Counsel are expected to attend meetings.

### Board and Board Committee attendance

The following table indicates the number of meetings of the Board and each of its Committees held during 2004/05 and the number of those meetings that each of the Directors attended as a member:

	Board meetings (i)	Board Committees					Risk & Responsibility
		Audit	Executive	Finance	Nominations	Remuneration	
<b>Total held</b>	<b>14</b>	<b>5</b>	<b>12</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>5</b>
Sir John Parker	14	–	–	–	7	–	–
Roger Urwin	14	–	12	6	–	–	–
Edward Astle	14	–	12	–	–	–	–
Steve Holliday	13	–	12	–	–	–	–
Mike Jesanis (ii)	9	–	11	–	–	–	–
Steve Lucas	14	–	12	6	–	–	–
Rick Sergel (iii)	4	–	3	–	–	–	–
Nick Winser	13	–	11	–	–	–	–
James Ross (iv)	9	–	–	–	3	–	3
Kenneth Harvey	14	5	–	–	7	7	–
John Grant	14	5	–	–	7	7	–
Paul Joskow	13	4	–	7	–	–	–
Stephen Pettit	14	–	–	5	–	7	5
Maria Richter	14	–	–	7	–	–	5
George Rose	11	5	–	–	6	6	–

(i) During the year there were 10 scheduled and four ad-hoc Board meetings.

(ii) Mike Jesanis was appointed to the Board on 26 July 2004. There were nine Board meetings to the end of the financial year following his appointment. He was a member of the Executive Committee for the full financial year, initially in his capacity as Chief Operating Officer of National Grid USA and then as an Executive Director.

(iii) Rick Sergel retired from the Board on 26 July 2004. There were five Board meetings and four Executive Committee meetings in the period to his retirement.

(iv) James Ross retired from the Board on 21 October 2004. There were nine Board meetings, three Nominations Committee meetings and three Risk & Responsibility Committee meetings in the period to his retirement.

The responsibility of the Committee is to review the strategies, policies, management, initiatives, targets and performance of the Group and, where appropriate, its suppliers and contractors in the following areas:

- occupational and public safety;
- environment;
- occupational health;
- equality and diversity;
- human rights;
- business ethics; and
- the role of the Group in society.

The Risk & Responsibility Committee is involved in the internal control process as it considers and provides reports to the Audit Committee on the non-financial risks identified above and any reputational risks.

#### Communication with shareholders

During the year, the Group Chief Executive and Group Finance Director hold regular meetings with institutional investors, fund managers and analysts to discuss information made public by the Group. In addition, the Chairman reminds major shareholders, in writing, of his availability (along with that of the Senior Independent Director or Non-executive Directors where required) should there be issues which shareholders may wish to raise.

To ensure that the Board is effectively informed of shareholder views, it receives feedback from the Company's brokers supplemented by the Group Head of Investor Relations. This ensures that all Board members, including the Non-executive Directors, are aware of the views of major shareholders and of any outstanding issues that they may have.

The principal method of communicating with the majority of shareholders is through the Annual Review. All shareholders can attend the Company's Annual General Meeting where they have the opportunity to question Directors on any issues relating to the management of the Company. The Group also has in place a Shareholder Networking Programme, which allows a small number of shareholders to visit operational sites and meet senior managers and Directors. More details of the Shareholder Networking Programme are on page 147.

#### Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

The corporate governance practices of the Group substantially conform to those required of US companies listed on the NYSE. The principal differences between the Group's governance practices pursuant to the Combined Code/UK governance practices and the Section 303A Corporate Governance Rules of the New York Stock Exchange are:

- the definition of independence set out under the Combined Code and applied by the Company is broader in scope than that required under SEC standards relating to audit committees;
- there is no requirement for a separate corporate governance committee in the UK, all Non-executive Directors on the Board decide on governance issues; and
- while the Group, as a matter of best practice, reports compliance with the Combined Code in each Annual Report and Accounts there is no requirement to adopt and disclose separate corporate governance guidelines.

#### Disclosure committees

National Grid Transco has constituted several disclosure committees across the Group that undertake various duties relating to the material disclosures made by the Company and relevant subsidiaries within the Group.

The Group Finance Director chairs the National Grid Transco Disclosure Committee. This Committee assists the Group Chief Executive and Group Finance Director in fulfilling their responsibility under US securities laws to oversee the accuracy and timeliness of the disclosures made by the Company. This includes the design and implementation of controls and other procedures that are intended to ensure that information required by the Company to be disclosed is recorded, processed, summarised and reported accurately and on a timely basis. The Committee also monitors the effectiveness of the Company's disclosure controls and reviews and considers the preparation of material public disclosures. It undertakes an evaluation of the effectiveness of the Company's disclosure controls at the end of the Company's financial year and considers other matters as necessary.

#### Information assurance

Information is an important asset to the business and, like any other asset, it must be fit for purpose.

Critical to demonstrating information integrity is a process of assurance from the business that clearly demonstrates that information is being sourced and managed effectively. The Group recognises that these behaviours are important to achieving necessary standards. The key objective of having accurate and reliable information is supported by a risk-based, holistic approach that deals with information assurance as a business critical function. This approach ensures that accurate and reliable information is available to those who need it in a timely fashion, thus enabling informed decisions that support and further our Group objectives.

We manage a broad range of risks to our information. Key elements in managing these risks are education, training and awareness. These initiatives emphasise the importance of information security, the quality of data collection, and the affirmation process that supports our business transactions, evidencing our decisions and actions.

The Group continues to work collaboratively with a variety of organisations and professional bodies to develop and implement best practice.

## Risk and Compliance Management

### Risk management

We believe that risk management is an essential discipline in our business operations. As an integral part of this, we have established a Group-wide risk management process to ensure a consistent approach to the assessment, recording, consolidation and reporting of our key risks in a visible, structured and continuous manner. This process complies with the Turnbull working party guidance (published September 1999) and the ABI Disclosure Guidelines on Socially Responsible Investment (published October 2001) which focus on social, ethical and environmental risks. In addition, the process supports the Group's compliance with our obligations under the Sarbanes-Oxley Act.

The risk management process continues to be based on both bottom-up and top-down assessments of operational, financial and other business risks. From the bottom up, business units and corporate centre functions must prepare and maintain risk registers that capture their key risks and the actions that are being taken to manage them. These risk registers are primarily management tools for use at an operational level, but are also intended to ensure that risk data is reported on a consistent basis throughout the Group. The key element in the top-down assessment of our risk profile is the involvement of the Executive Directors and other senior management across the Group at critical stages in the review process. Their review of the bottom-up assessment produces an overall evaluation of the risks that are faced by the Group. Graphics that set out the Group's risk profile and the significant changes to this between reporting periods are considered by the Executive Committee, the Risk & Responsibility Committee and the Audit Committee twice a year. The Audit Committee also reviews the risk management process at least once during each year and reports on this to the Board.

In May 2004, we were awarded 'best enterprise-wide risk management programme' by Strategic Risk Magazine. However, we recognise that risk management is a dynamic process and, as a result, risk reporting at Board level was refined during the year to ensure greater visibility and understanding of business specific risks. Similarly, an internal assessment on the extent to which risk management is embedded in the Group was carried out during the latter part of 2004 and further work will be undertaken to drive the embedding of risk management throughout National Grid Transco. An external benchmarking exercise has also begun with other FTSE 100 companies and similar organisations to measure the effectiveness of our own approach and exchange best practice.

The Group's risk management process has identified the risk factors set out on pages 67 to 68.

### Compliance management

Last year, we reported that we had begun to introduce a compliance management process that seeks to raise awareness of the increasing number of compliance obligations to which the Group is subject. The compliance management procedure is consistent with, and complimentary to, the Group's risk management procedure and is intended to ensure that we take all reasonable steps to comply with our principal legal and regulatory obligations. We are also using the process to ensure compliance with our Group policies and procedures.

Twice during each year the Executive Committee, the Risk & Responsibility Committee and the Audit Committee receive a report setting out the significant obligations across the Group, any material non-compliance with those, together with control opinions and action plans to improve controls where necessary.

Going forward, we aim to implement a procedure to provide assurance that robust compliance programmes are in place or are being developed for all significant obligations.

### Risk factors

Our risk management process has identified the following risk factors that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities. Not all of these factors are within our control. In addition, other factors besides those listed below may have an adverse effect on the Group. Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the inside front cover.

#### Changes in law or regulation in the geographies in which we operate could have an adverse effect on our results of operations.

Many of our businesses are utilities or networks that are subject to regulation by governments and regulatory authorities. Consequently, changes in law or regulation in the countries or states in which we operate could adversely affect the Group. Regulatory decisions concerning, for example, whether licences or approvals to operate are renewed, whether market developments have been satisfactorily implemented, whether there has been any breach of the terms of a licence or approval, the level of permitted revenues for our businesses and proposed business development activities, could have an adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future. For further information about this, please see the relevant sections of the Operating Review and Financial Review and, in particular, the 'Regulatory environment' and 'Regulatory developments' sections on pages 21 and 22.

#### Breaches of environmental or health and safety laws or regulations could expose us to claims for financial compensation and adverse regulatory consequences and could damage our reputation.

Aspects of our activities are inherently dangerous, such as the operation and maintenance of electricity lines and the transmission and distribution of natural gas. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, for example, the effects of electric and magnetic fields. We are subject to laws and regulations relating to pollution, the protection of the environment, and how we use and dispose of hazardous substances and waste materials. We are also subject to laws and regulations governing health and safety matters, protecting both the public and our employees. Any breach of these obligations, or even incidents relating to the environment or health and safety that do not amount to a breach, could adversely affect the results of operations and our reputation. For further information about environmental and health and safety matters relating to our businesses, please see the Responsibility section of our website at [www.ngtgroup.com/responsibility](http://www.ngtgroup.com/responsibility).

**Network failure or the inability to carry out critical non-network operations may have significant adverse impacts on both our financial position and our reputation.**

We may suffer a major network failure or may not be able to carry out critical non-network operations. Risks to operational performance could arise from a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping. Any failure could cause us to be in breach of a licence or approval, and even incidents that do not amount to a breach could result in adverse regulatory action and financial consequences, as well as harming our reputation. In addition to these risks, we are subject to other risks that are largely outside of our control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance, particularly in the US, and severe weather that causes outages or damages infrastructure will adversely affect operational and, potentially, business performance. Terrorist attack, sabotage or other intentional acts may also physically damage our businesses or otherwise significantly affect corporate activities and as a consequence affect the results of operations.

**Our results of operations depend on a number of factors relating to business performance including the ability to outperform regulatory targets and to deliver anticipated cost and efficiency savings.**

Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or better regulatory efficiency targets set by Ofgem and other regulators. From time to time, we also publish cost and efficiency savings targets for our businesses in the UK and the US. To meet these targets, we must continue to improve management and operational performance. In the US, under our state rate plans, earnings from our regulated businesses will be affected by our ability to deliver integration and efficiency savings. Earnings from our regulated businesses in both the UK and the US also depend on meeting service quality standards set by regulators. To meet these standards, we must improve service reliability and customer service. If we do not meet these targets and standards, both our results of operations and our reputation may be adversely affected.

**Changes to the regulatory treatment of commodity costs may have an adverse effect on the results of operations.**

Changes in commodity prices could potentially impact our energy delivery businesses. For example, the costs incurred by our electricity businesses in purchasing electricity are subject to movements in the prices of oil and gas. Current regulatory arrangements in the UK and US provide the ability to pass through virtually all of the increased costs related to commodity prices to consumers. If regulators in the UK or the US were to restrict this ability, it could have an adverse effect on our operating results.

**Our reputation may be harmed if consumers of energy suffer a disruption to their supply even if this disruption is outside of our control.**

Our energy delivery businesses are responsible for transporting available electricity and gas. We consult with and provide information to regulators, governments and industry participants about future demand and the availability of supply. However, where there is insufficient supply, our role is to manage the relevant system safely, which in extreme circumstances may require us to disconnect consumers.

**We are subject to the risk that business development activity, such as significant acquisitions or disposals, will be based on incorrect assumptions or conclusions or that significant liabilities will be overlooked or there may be other unanticipated adverse impacts.**

In any acquisition or disposal process we evaluate the projected financial impact of the transaction and conduct due diligence; however, unforeseen circumstances or erroneous assumptions may adversely affect the anticipated financial consequences of that project.

**Fluctuations in the value of the US dollar could have a significant impact on our results of operations because we have substantial business interests in the US and because of the proportion of our total debt that is denominated in US dollars.**

We have significant operations in the US. These businesses are subject to the risks normally associated with foreign businesses, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency. Our results of operations may be similarly impacted because we hold a significant proportion of our borrowings in US dollars. For further information about this see 'Foreign exchange risk management' on page 51.

**The nature and extent of our borrowings means that an increase in interest rates could have an adverse impact on our financial position and business results.**

A significant proportion of our borrowings are subject to variable interest rates that may fluctuate with changes to prevailing interest rates. Increases in these interest rates could therefore increase our costs and diminish our profits. For further information about this see 'Interest rate risk management' on page 51.

**Our overall financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings and effective tax rates.**

We are subject to certain covenants and restrictions in relation to our listed debt securities and our bank lending facilities. We are also subject to restrictions on financing that have been imposed by regulators. These restrictions may hinder us in servicing the financial requirements of our current businesses or the financing of newly acquired or developing businesses. The debt issued by the Company and certain of its subsidiaries is rated by credit rating agencies and changes to these ratings may affect both the borrowing capacity of the Group as a whole and the cost of those borrowings. The effective rate of tax paid by the Group may be influenced by a number of factors including changes in law and accounting standards and the Group's overall approach to such matters, the results of which could increase or decrease that rate.

**New or revised accounting standards, rules and interpretations by the UK, US or international accounting standard setting boards and other relevant bodies could have an adverse effect on the Group's reported financial results.**

With the adoption of International Financial Reporting Standards (IFRS), changes in the accounting treatment of replacement expenditure, regulatory assets and pension and post-retirement benefits will significantly affect the way we report our financial position and results of operations. New standards, rules or interpretations may be issued that could also have significant effects. In addition, as a body of practice develops, the application of accounting principles to our particular circumstances may change.

## Directors' Remuneration Report

I am pleased to present the Directors' Remuneration Report for 2004/05. Our policy of relating pay to the performance of the Group continues to be a strong principle underlying the Remuneration Committee's consideration of executive remuneration.

This year we have thoroughly reviewed the remuneration policies established following the merger between National Grid Group plc and Lattice Group plc in 2002, to ensure they continue to reflect best practice and align as closely as possible with the Group's strategic objectives and our shareholders' interests. We have concluded that salary levels and the mix between fixed and variable compensation is appropriate but that a number of refinements should be made to both short term and long term incentives over the coming year.

The maximum levels of annual bonus will remain unchanged but, instead of the share matching arrangement used previously, our Executive Directors, as well as their direct reports, will be paid a proportion of that bonus in shares, which must be retained for three years. As a result, we will not be using the Share Matching Plan from 2005/06. This complements our shareholding policy for Executive Directors, which requires them to hold shares worth at least one year's salary.

Long term incentives are now delivered solely through the Performance Share Plan, with the maximum level of grant remaining unchanged from last year at 125% of salary. Over the coming year, we expect to amend the performance measure under this plan to align it more closely with shareholders' interests and management's ability to influence performance. We are consulting with our major shareholders on this. No further awards will be made under the Executive Share Option Plan.

Our other main focus in 2005/06 will be to adjust (with the aim not to enhance) pension arrangements, to take account of changes in pension legislation, to be introduced from April 2006.

I am confident that our approach continues to align Executive Directors' remuneration with the interests of shareholders whilst maintaining the motivation and engagement of the strong team leading the Group.

### John Grant

Chairman, Remuneration Committee

### Remuneration Committee

The Remuneration Committee members are Ken Harvey, Stephen Pettit, George Rose and John Allan. The Committee chairman is John Grant. Each of these Non-executive Directors is regarded by the Board as independent and served throughout the year, except John Allan, who was appointed with effect from 1 May 2005.

The Group Human Resources Director provides advice on remuneration policies and practices and is usually invited to attend meetings along with the Chairman and the Group Chief Executive. No Director or other attendee participates in any discussion on his or her own remuneration.

The Remuneration Committee is responsible for developing Group policy on executive remuneration, and for determining the remuneration of the 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 Board has accepted all the recommendations made by the Committee during the year.

The Remuneration Committee has authority to obtain the advice of outside independent remuneration consultants and is solely responsible for their appointment, retention and termination and for approval of their fees and other terms.

In the year to 31 March 2005, the following advisors provided services to the Committee:

- Ernst & Young LLP, independent remuneration advisors;
- Alithos Limited, provision of Total Shareholder Return calculations for Performance Share Plan and Executive Share Option Plan; and
- Linklaters, advice relating to Directors' Service Contracts.

### Remuneration policy

The Remuneration Committee determines remuneration policies and practices with the aim of attracting, motivating and retaining high calibre Executive Directors and other senior employees who will deliver value for shareholders and high levels of customer service, safety and environmental performance. The Committee sets remuneration policies and practices in line with best practice in the markets in which the Group operates. Remuneration policies continue to be 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 should be performance based. Performance based incentives will be earned through the achievement of demanding targets for short-term business and personal 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 aligned as closely as possible with shareholders' interests.

The policies that will apply in 2005/06 are similar to last year, except that a number of refinements will be made to both short-term and long-term interests. It is currently intended to continue these policies in subsequent years.

### Executive Directors' remuneration

Remuneration packages for Executive Directors consist of the following elements:

- salary;
- annual bonus and Share Matching Plan (the latter to be replaced from 2005/06);
- Performance Share Plan;
- all-employee share plans;
- pension contributions; and
- non-cash benefits.

### Salary

Salaries are reviewed annually and targeted at the median position in 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 Plan

Annual bonuses are based on achievement of a combination of demanding Group, individual and, where applicable, divisional targets. The principal measures of Group performance are earnings per share (EPS) and cash flow; the main divisional measures are 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. The Remuneration Committee sets targets at the start of the year and at the end of the year reviews performance against those targets to determine bonus levels. The Committee may use its discretion to reduce payments to take account of significant safety or service standard incidents, or to increase them in the event of exceptional value creation.

Performance against Group and divisional financial targets for this year is shown in the table below:

Financial measures	Level of performance achieved in 2004/05 as determined by the Committee	
	Group targets	Divisional targets
EPS	between target and stretch	
Cash flow	between target and stretch	
Operating profit		between target and stretch (i)
Cash flow		between target and stretch or stretch performance (ii)

(i) Except UK Gas Distribution where threshold was not achieved.

(ii) Except US Distribution where between threshold and target was achieved and UK Gas Distribution where threshold was not achieved.

In 2004/05, UK-based Executive Directors participated in the annual bonus scheme with a maximum bonus opportunity of 75% of base salary. One third of any bonus earned was automatically deferred into National Grid Transco shares. Through the Share Matching Plan, these shares are matched on a 1:1 gross basis after three years, providing the Director is still employed by the Group, resulting in a maximum potential bonus of 100% of base salary. The Remuneration Committee can at the time of exercise use its discretion to pay a cash amount equivalent to the value of the dividends that would have accumulated on the Matching Shares.

US-based Executive Directors were provided in 2004/05 with a maximum bonus opportunity of 62.5%. Each year an additional award, calculated as a proportion (currently 60%) of annual bonus, is paid in National Grid Transco shares or American Depositary Shares (ADSs); these are subject to a minimum three-year holding period. The total maximum value of the annual bonus plan, including deferral, is therefore 100% of base salary. In line with US market practice, US-based Executive Directors' cash bonuses are pensionable.

For 2005/06 the maximum bonus levels for all Executive Directors will be retained at 100% of base salary, but UK and US policies will be brought into alignment. All Executive Directors will be required to defer one half of any cash bonus into National Grid Transco shares (or ADSs for US-based Executive Directors) for a period of three years.

The Remuneration Committee believes that requiring Directors to invest a substantial amount of their bonus in National Grid Transco shares increases the proportion of rewards linked to both short-term performance and longer-term total shareholder returns. This practice also acts as a retention tool and ensures that Executive Directors share a significant level of personal risk with the Group's shareholders.

US-based Executive Directors also participate in the USA Goals Program, a bonus plan covering a large number of US-based employees that can pay up to 5.7% of salary on the achievement of certain earnings and performance targets.

### Long-term incentives

#### Performance Share Plan (PSP)

Executive Directors and approximately 350 other senior employees who have significant influence over the Group's ability to meet its strategic objectives, receive notional allocations of shares. The value of shares constituting an award (as a percentage of salary) may vary by grade and seniority, subject to a maximum, for Executive Directors, of 125% of salary. Shares vest after three years, subject to the satisfaction of the relevant performance criteria, which are set by the Remuneration Committee at the date of grant. Shares must then be held for a further year, the retention period, after which they are released, subject to the Executive Director's continuing employment with the Group or at the Committee's discretion.

The performance criteria for this Plan, for the year 2005/06 is currently under review. Grants in the year to 31 March 2005 were based on the Group's Total Shareholder Return (TSR) performance over a three-year period, relative to the TSR performance of the following group of comparator companies:

Ameren Corporation	Iberdrola SA
AWG plc	International Power plc
Centrica plc	Kelda Group plc
Consolidated Edison, Inc.	Pennon Group plc
Dominion Resources, Inc.	RWE AG
E.ON AG	Scottish Power plc
Electrabel SA	Scottish & Southern Energy plc
Endesa SA	Severn Trent plc
Enel SpA	The Southern Company, Inc.
Exelon Corporation	Suez SA
FirstEnergy Corporation	United Utilities plc
FPL Group, Inc.	Viridian Group plc
Gas Natural SDG SA	

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 may amend the list of comparator companies if circumstances make this necessary. Under the terms of the PSP, the Committee may allow shares to vest early to departing Executive Directors to the extent that the performance condition has been met, in which event the number of shares that vest will be prorated to reflect the proportion of the performance period that has elapsed at the Executive's date of departure.

In calculating TSR, it is assumed that all dividends are reinvested. 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 three-year performance period and any such shares will lapse.

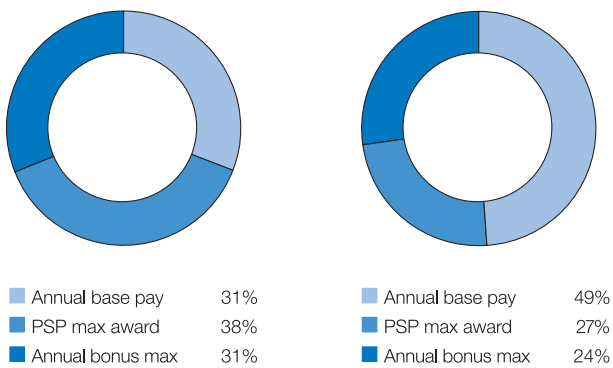
#### Executive Share Option Plan

The Remuneration Committee has decided that no further awards will be made under the Executive Share Option Plan (details about this Plan are contained on page 77).

#### Executive Directors' remuneration package

Illustrated below is the remuneration package of Executive Directors (excluding pensions, all-employee share plans and non-cash benefits) for both the 'maximum stretch' performance and assuming 'on target' performance of 50% for the bonus plan and relative TSR performance such that 45% of PSP awards are released to participants at the end of the performance period and subsequent retention period.

**Executive Directors' remuneration package**  
2004/05  
Maximum stretch                      On target performance



Note: Excludes Mike Jesanis' participation in the USA Goals Program.

#### All-employee share plans

■ Sharesave: Employees resident in the UK, including Executive Directors, are eligible to participate in UK Inland Revenue approved all-employee Sharesave schemes (subject to eligibility based on service). Under these schemes, participants may contribute between £5 and £250 in total each month for a fixed period of three years, five years or both. Contributions are taken from net salary. At the end of the savings period, these contributions can be used to purchase ordinary shares in National Grid Transco at a discount, capped at 20% of the market price, set at the launch of the scheme.

- Share Incentive Plan (SIP): Employees resident in the UK, including Executive Directors, are eligible to participate in the SIP (subject to eligibility based on service). Under the SIP, contributions of up to £125 are taken from participants' gross salary and used to purchase ordinary shares in National Grid Transco each month. The shares are placed in trust and if they are left in trust for at least five years they can be removed free of UK Income Tax and National Insurance contributions.
- US Incentive Thrift Plan: Employees resident in the US, including Executive Directors, are eligible to participate in the Thrift Plan, a tax-advantaged savings plan (commonly referred to as a 401(k) plan) provided for employees of National Grid USA companies. This is a defined contribution pension plan that gives participants the opportunity to invest a maximum of 50% of salary (pre-tax) and/or up to 15% of salary (post-tax) up to applicable Federal salary limits (\$205,000 for calendar year 2004 and \$210,000 for 2005). The Company then matches 100% of the first 2% and 75% of the next 4% of salary contributed, resulting in a maximum matching contribution of 5% of salary up to the Federal salary cap. The employee may invest their own and Company contributions in Group shares or various mutual fund options.

#### Pensions

UK-based Executive Directors, with the exception of Steve Lucas, are members of the National Grid Company Group of the Electricity Supply Pension Scheme. Steve Lucas is a member of the defined benefit section of the Lattice Group Pension Scheme. Both of the pension schemes are tax-approved.

Within the National Grid Company Group of the Electricity Supply Pension Scheme (ESPS) only base salary is pensionable. The contractual retirement age for Executive Directors is 63, however, the provisions for participating Executive Directors in the Scheme are designed to give a pension of two thirds of final salary at age 60, subject to completion of 20 years' service and including any pension rights earned in previous employments. On the death in service of a participating Executive Director, a spouse's pension is payable equal to two thirds of the potential value of the pension had service been continued to normal retirement age. On death in retirement, a spouse's pension is payable equal to two thirds of the participating Executive Director's pension prior to any exchange for a cash lump sum at retirement. Once payments from the pension have begun, pensions are increased annually in line with price inflation up to a maximum of 5%. For participating Executive Directors affected by the 'earnings cap' there is a restriction on the benefits that can be provided from the tax-approved pension scheme and the Company provides any excess of benefits on salary above the earnings cap on an unfunded basis.

Within the Lattice Group Pension Scheme only base salary is pensionable. It is designed to give two thirds of final salary (which may be restricted by remuneration averaged over three years) at normal retirement age of 65, inclusive of any pension rights earned in previous employment. On early retirement after age 60, the accrued pension can be paid with no actuarial reduction in benefit. A dependant's pension is payable on death in service of a participating Executive Director equal to two thirds of the potential value of the pension had service been continued to normal retirement age. On death in retirement, a dependant's pension is payable equal to two thirds of the participating Executive Director's pension prior to any exchange for a cash lump sum at retirement. Once payments from the pension have begun, pensions are increased annually in line with price inflation. Steve Lucas is subject to the earnings cap and therefore also participates in the Lattice Group Supplementary Benefits Scheme; an unfunded unapproved arrangement that increases retirement benefits to the level which would otherwise have been provided in the Lattice Group Pension Scheme, had they not been subject to the earnings cap.

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

Mike Jesanis participates in a qualified pension plan and an executive supplemental retirement plan provided through National Grid USA. These plans are non-contributory defined benefit arrangements. The qualified plan is directly funded, while the supplemental plan is indirectly funded through a 'rabbi trust'. 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. The normal retirement age under the qualified pension plan is 65. The executive supplemental plan, however, provides unreduced pension benefits from age 55. On the death of the participating Executive Director, the plans also provide for a spouse's pension of at least 50% of that accrued by the participating Executive Director. Benefits under these arrangements do not increase once in payment.

#### 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 and life assurance. UK-based Executive Directors with less than five years continuous service, who were previously directors of National Grid Group plc, are provided with long-term ill health insurance. Business expenses incurred are reimbursed in such a way as to give rise to no 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.

#### Share dilution through the operation of share-based incentive plans

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive incentives will not exceed 5% in any 10-year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10-year period. The Remuneration Committee reviews dilution against these limits regularly and under these limits, the Company has headroom of over 4% and 6% respectively.

#### Executive Directors' service contracts

Service contracts for all Executive Directors are set at one year's notice by either party. The Committee operates a policy on mitigation of losses in the event of an Executive Director's employment being terminated by the Group. 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. Steve Lucas' contract provides for a liquidated damages payment of one year's salary plus a credit of one year's pensionable service if the contract is terminated within one year of a change of control of the Group.

The Committee, in determining any other such payments, will give due regard to the comments and recommendations of the UK Listing Authority's Listing Rules (including the Combined Code) and associated guidance and other requirements of legislation, regulation and good governance.

	Date of contract	Notice period
<b>Executive Directors</b>		
Roger Urwin	17 November 1995	12 months
Steve Lucas	13 June 2002	12 months
Edward Astle	27 July 2001	12 months
Steve Holliday	6 March 2001	12 months
Nick Winsor	28 April 2003	12 months
Mike Jesanis (i)	8 July 2004	12 months
Rick Sergel	(retired 26 July 2004)	

(i) Mike Jesanis' appointment as a Director commenced with effect from 26 July 2004.

#### External appointments and retention of fees

With the approval of the Board in each case, Executive Directors may normally accept an external appointment as a Non-executive Director of another company and retain any fees received. The table below details the Executive Directors who served as Non-executive Directors in other companies during the year ended 31 March 2005.

	Company	Retained fees (£)
<b>Executive Directors</b>		
Roger Urwin	Utilico Investment Trust plc	15,000
Steve Lucas (i)	Compass Group PLC	35,615
Steve Holliday (ii)	Marks and Spencer Group plc	35,641

(i) Appointed on 7 July 2004.

(ii) Appointed on 15 July 2004.

### Non-executive Directors' remuneration

Non-executive Directors' fees are determined by the Executive Directors 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. The Chairman participates in the Company's personal accident and private medical insurance schemes and the Company provides him with life assurance cover, a car (with driver when appropriate) and fuel expenses. Non-executive Directors do not participate in the annual bonus plan or in any long-term incentive scheme, nor do they receive any pension benefits from the Group.

### 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 re-appointment is subject to election by shareholders. The letters of appointment do not contain provision for termination payments.

	Date of letter of appointment	End of period of appointment
<b>Non-executive Directors</b>		
Sir John Parker (Chairman)	12 January 2004	2006 AGM
James Ross (Deputy Chairman)	(retired 21 October 2004)	
John Grant	5 June 2003	2005 AGM
Ken Harvey (i)	5 June 2003	2006 AGM
Paul Joskow	5 June 2003	2005 AGM
Stephen Pettit	5 June 2003	2006 AGM
Maria Richter	30 September 2003	2007 AGM
George Rose	5 June 2003	2006 AGM
John Allan (ii)	1 May 2005	2005 AGM

(i) Ken Harvey was appointed as the Senior Independent Director on 21 October 2004.

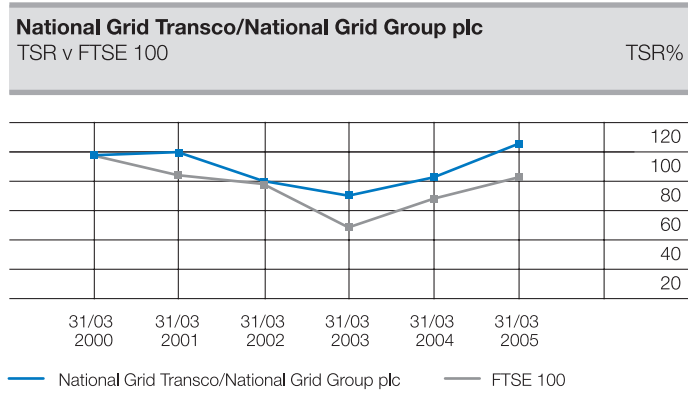
(ii) John Allan was appointed to the Board on 1 May 2005. Subject to re-appointment at the 2005 AGM, his period of appointment will run until the 2008 AGM.

### Performance graph

The graph below represents the comparative TSR performance of the Group from 31 March 2000 to 31 March 2005. For the period before the merger of National Grid Group plc and Lattice Group plc the TSR shown is that of National Grid Group plc.

This graph represents 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 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.



## Remuneration outcomes during the year ended 31 March 2005

Tables 1A, 1B, 2, 3, 4 and 5 comprise the 'auditable' part of the Directors' Remuneration Report, being the information required by Part 3 of Schedule 7A to the Companies Act 1985.

### 1. Directors' emoluments

The following tables set out an analysis of the pre-tax emoluments during the years ended 31 March 2005 and 2004, including bonuses but excluding pensions, for individual Directors who held office in National Grid Transco during the year ended 31 March 2005.

	Year ended 31 March 2005			Year ended 31 March 2004	
	Salary £000s	Annual bonus £000s	Benefits in kind (i) £000s	Total £000s	Total £000s
<b>Executive Directors</b>					
Roger Urwin	701	404	20	1,125	1,051
Steve Lucas	395	234	19	648	611
Edward Astle	375	231	16	622	568
Steve Holliday (ii)	400	158	22	580	633
Nick Winsor (iii)	335	183	13	531	593
Mike Jesanis (iv)	292	145	9	446	–
Rick Sergel (v) (vi)	153	76	13	242	735
<b>Totals</b>	<b>2,651</b>	<b>1,431</b>	<b>112</b>	<b>4,194</b>	<b>4,191</b>

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

(ii) Steve Holliday will also receive, subject to the completion of the sales of four of the UK gas distribution networks, an additional ex gratia bonus of £80,000 to recognise his leadership of the sales process and the crystallisation of shareholder value at a significant premium to the regulatory value of these assets.

(iii) In the previous year's Directors' Remuneration Report the reported emoluments of Nick Winsor included 'Benefits in kind' of £128,000. This figure was overstated and should have been reported as £119,000. The comparative figures provided above reflect the amended total for the year ended 31 March 2004.

(iv) Mike Jesanis' bonus includes payments worth £4,524 in respect of his participation in the USA Goals Program (described on page 70).

(v) Rick Sergel received £5,800 for accrued and unused vacation, in addition to the details above.

(vi) Rick Sergel's bonus includes payments worth £2,376 in respect of his participation in the USA Goals Program (described on page 70). Rick Sergel did not receive an additional pension value or severance on his retirement.

	Year ended 31 March 2005			Year ended 31 March 2004	
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s	Total £000s
<b>Non-executive Directors</b>					
Sir John Parker (i)	375	31	406	326	326
James Ross	64	–	64	115	115
John Grant	65	–	65	59	59
Ken Harvey	58	–	58	44	44
Paul Joskow	73	–	73	67	67
Stephen Pettit	58	–	58	47	47
Maria Richter	66	–	66	29	29
George Rose	61	–	61	59	59
John Allan (ii)	–	–	–	–	–
<b>Totals</b>	<b>820</b>	<b>31</b>	<b>851</b>	<b>851</b>	<b>746</b>

(i) Sir John Parker's other emoluments comprise benefits in kind such as a fully expensed car, private medical insurance and life assurance.

(ii) John Allan was appointed to the Board on 1 May 2005.

## 2. Directors' pensions

The table below gives details of the Executive Directors' pension benefits in accordance with both Schedule 7A of the Companies Act 1985 and the UK Listing Authority's Listing Rules.

	Additional benefit earned during the year ended 31 March 2005 £000s	Accrued entitlement as at 31 March 2005 £000s	Transfer value of accrued benefits as at 31 March (i)		Increase in transfer value less Director's contributions £000s	Additional benefit earned during the year ended 31 March 2005 (excluding inflation) £000s	Transfer value of increase in accrued benefit in the year ended 31 March 2005 (excluding Director's contributions and inflation) £000s
			2005 £000s	2004 £000s			
			<b>Table 2</b>				
Roger Urwin	54	457	9,016	7,353	1,621	42	778
Steve Lucas	15	141	2,261	1,566	683	12	179
Edward Astle	15	45	639	366	250	14	173
Steve Holliday	15	53	679	404	251	15	163
Nick Winsor (ii)	27	108	1,281	821	440	24	260
Mike Jesanis (iii)	39	197	1,687	1,278	409	39	375
Rick Sergel (iv)	5	377	5,025	4,576	449	5	272

- (i) The transfer values shown at 31 March 2004 and 2005 represent the value of each Executive Director's accrued benefits based on total service completed to the relevant date. The transfer values for the UK Executive Directors have been calculated in accordance with guidance note 'GN11' issued by the Institute of Actuaries and the Faculty of Actuaries. The transfer values for the US Directors have been calculated using discount rates based on high yield US corporate bonds and associated yields at the relevant dates.
- (ii) The above information allows for the accrual of a pension benefit of two thirds of salary at age 60 taking into account standard benefits earned prior to 1 September 1998. This means that, as well as the pension stated above, Nick Winsor has an accrued lump sum entitlement of £188,000 as at 31 March 2005. The increase to the accumulated lump sum including inflation was £37,000 and excluding inflation was £33,000 in the year to 31 March 2005. The transfer value information above includes the value of the pension equivalent of the lump sum.
- (iii) Mike Jesanis was appointed to the Board with effect from 26 July 2004. The above information allows for the accrual of pension benefit for the full financial year. Through his participation in the Thrift Plan in the US, the Group also made contributions worth £2,874 to a defined contribution pension arrangement in respect of Mike.
- (iv) Rick Sergel retired on 1 August 2004. No enhancements were made to his pension benefits. He opted to receive his total single life annuity at retirement of \$711,618 (£380,544) p.a. as \$525,252 (£280,883) lump sum plus a 100% joint and survivor annuity of \$53,641 (£28,685) p.a. from the Qualified Plan plus a lump sum that was used to pay FICA taxes of \$135,383 (£72,397) plus a 100% joint and survivor annuity of \$533,407 (£285,244) p.a. from the Non-Qualified Plan. The transfer value calculated as at 31 March 2005 represents the value of the 100% joint and survivor annuities calculated at the age at date of retirement and market conditions at 31 March 2005, plus the lump sums that were paid. For Rick Sergel, the accrued pension shown in the 2003/04 Annual Report and Accounts of £31,000 was mis-stated as the monthly amount and was equivalent to an annual accrued pension of £372,000 p.a. The transfer value shown in the 2003/04 Annual Report and Accounts as at 31 March 2004 of £2,527,000 was mis-stated as it assumed an earliest right to unreduced pension at age 62 rather than 55. The amended figure is £4,576,000.

## 3. Directors' interests in share options

The table below gives details of the Executive Directors' holdings of share options awarded under the ESOP, the Share Matching Plan and Sharesave schemes.

Table 3	Options held at 1 April 2004 or, if later, on appointment*	Options exercised or lapsed during the year	Market price at date of exercise (pence)	Options granted during the year	Options held at 31 March 2005 or, if earlier, on retirement †	Exercise price per share (pence)	Normal exercise period	
<b>Roger Urwin</b>								
ESOP	169,340	–	–	–	169,340	280.50	Sep 2000	Sep 2007
	91,656	–	–	–	91,656	375.75	June 2001	June 2008
	22,098	–	–	–	22,098	455.25	June 2002	June 2009
	33,867	–	–	–	33,867	531.50	June 2003	June 2010
	133,214	–	–	–	133,214	563.00	June 2004	June 2011
	186,915	–	–	–	186,915	481.50	June 2005	June 2012
Share Match	4,047	–	–	–	4,047	100 in total	June 2001	June 2005
	3,884	–	–	–	3,884	100 in total	Jan 2002	June 2006
	3,859	–	–	–	3,859	100 in total	Jan 2002	June 2007
	5,635	–	–	–	5,635	100 in total	June 2004	June 2008
	18,644	–	–	–	18,644	100 in total	June 2005	June 2012
	25,000	–	–	–	25,000	100 in total	June 2006	June 2013
	–	–	–	30,762	30,762	nil (i)	May 2007	May 2014
Sharesave	2,910	–	–	–	2,910	317.00	Apr 2007	Sep 2007
<b>Total</b>	<b>701,069</b>	<b>–</b>	<b>–</b>	<b>30,762</b>	<b>731,831</b>			
<b>Steve Lucas</b>								
ESOP	54,404	–	–	–	54,404	434.25	Dec 2005	Dec 2012
Share Match	–	–	–	16,909	16,909	nil (i)	May 2007	May 2014
Sharesave	2,700	–	–	–	2,700	350.00	Mar 2006	Aug 2006
<b>Total</b>	<b>57,104</b>	<b>–</b>	<b>–</b>	<b>16,909</b>	<b>74,013</b>			

**3. Directors' interests in share options** (continued)

<b>Table 3</b> (continued)	Options held at 1 April 2004 or, if later, on appointment *	Options exercised or lapsed during the year	Market price at date of exercise (pence)	Options granted during the year	Options held at 31 March 2005 or, if earlier, on retirement †	Exercise price per share (pence)	Normal exercise period	
<b>Edward Astle</b>								
ESOP	193,952	–	–	–	193,952	479.50	Sep 2004	Sep 2011
	101,246	–	–	–	101,246	481.50	June 2005	June 2012
	112,262	–	–	–	112,262	434.25	Dec 2005	Dec 2012
	131,086	–	–	–	131,086	400.50	June 2006	June 2013
Share Match	6,553	–	–	–	6,553	100 in total	June 2005	June 2012
	13,812	–	–	–	13,812	100 in total	June 2006	June 2013
	–	–	–	15,716	15,716	nil (i)	May 2007	May 2014
Sharesave	2,392	–	–	–	2,392	397.00	Sep 2005	Feb 2006
<b>Total</b>	<b>561,303</b>	<b>–</b>	<b>–</b>	<b>15,716</b>	<b>577,019</b>			
<b>Steve Holliday</b>								
ESOP	150,000	–	–	–	150,000	540.00	Mar 2004	Mar 2011
	71,936	–	–	–	71,936	563.00	June 2004	June 2011
	101,246	–	–	–	101,246	481.50	June 2005	June 2012
Share Match	10,350	–	–	–	10,350	100 in total	June 2005	June 2012
	14,083	–	–	–	14,083	100 in total	June 2006	June 2013
	–	–	–	18,713	18,713	nil (i)	May 2007	May 2014
Sharesave	4,692	–	–	–	4,692	350.00	Mar 2008	Aug 2008
<b>Total</b>	<b>352,307</b>	<b>–</b>	<b>–</b>	<b>18,713</b>	<b>371,020</b>			
<b>Nick Winsor</b>								
ESOP	10,633	–	–	–	10,633	375.75	June 2001	June 2008
	47,236	–	–	–	47,236	455.25	June 2002	June 2009
	19,755	–	–	–	19,755	531.50	June 2003	June 2010
	24,156	–	–	–	24,156	563.00	June 2004	June 2011
	37,383	–	–	–	37,383	481.50	June 2005	June 2012
Share Match	872	872	465 (iv)	–	–	100 in total	Jan 2002	June 2006
	980	980	465 (iv)	–	–	100 in total	Jan 2002	June 2007
	1,694	1,694	465 (iv)	–	–	100 in total	June 2004	June 2008
	2,509	–	–	–	2,509	100 in total	June 2005	June 2012
	3,937	–	–	–	3,937	100 in total	June 2006	June 2013
	–	–	–	14,059	14,059	nil (i)	May 2007	May 2014
Sharesave	5,007	5,007	464.75	–	–	337.00	Sep 2004	Feb 2005
<b>Total</b>	<b>154,162</b>	<b>8,553</b>	<b>–</b>	<b>14,059</b>	<b>159,668</b>			
<b>Mike Jesanis</b> (appointed to the Board on 26 July 2004)								
ESOP	77,861*	–	–	–	77,861	566.50	Mar 2003	Mar 2010
	51,169*	–	–	–	51,169	563.00	June 2004	June 2011
	66,099*	–	–	–	66,099	481.50	June 2005	June 2012
<b>Total (shares)</b>	<b>195,129</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>195,129</b>			
Phantom ADSs (ii)	639*	–	–	27	666	\$39.590	–	–
	2,740*	–	–	117	2,857	\$34.270	–	–
	3,154*	–	–	134	3,288	\$32.320	–	–
	2,777*	–	–	118	2,895	\$39.376	–	–
<b>Total (Phantom ADSs)</b>	<b>9,310</b>	<b>–</b>	<b>–</b>	<b>396</b>	<b>9,706</b>			

**3. Directors' interests in share options** (continued)

<b>Table 3</b> (continued)	Options held at 1 April 2004 or, if later, on appointment *	Options exercised or lapsed during the year	Market price at date of exercise (pence)	Options granted during the year	Options held at 31 March 2005 or, if earlier, on retirement †	Exercise price per share (pence)	Normal exercise period	
<b>Rick Sergel</b>								
(retired from the Board on 26 July 2004)								
ESOP	201,845	–	–	–	201,845 †	566.50	July 2004	July 2005
	134,321	–	–	–	134,321 †	563.00	July 2004	July 2005
	172,836	–	–	–	172,836 †	481.50	July 2004	July 2005
<b>Total (shares)</b>	<b>509,002</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>509,002</b>			
Phantom ADSs (iii)	4,782 (v)	–	–	–	4,782 †	\$39.590	–	–
	5,658 (v)	–	–	–	5,658 †	\$34.270	–	–
	6,144 (v)	–	–	–	6,144 †	\$32.320	–	–
	–	–	–	5,455	5,455 †	\$39.376	–	–
<b>Total (Phantom ADSs)</b>	<b>16,584</b>	<b>–</b>	<b>–</b>	<b>5,455</b>	<b>22,039</b>			

(i) Nil cost Share Match options were awarded in May 2004, previously the exercise price was 100 pence per award.

(ii) In place of participation in the Share Matching Plan, Mike Jesanis elected to defer the ADS component of his bonus into a deferred compensation plan. For a Phantom award under a deferred compensation plan the ADS market value is tracked, additional value is accrued for dividends and the value is delivered, net of normal US deductions, depending on the participants' election ie in 10 years, on a specified age date from 55 to 75, or on leaving, including retirement. The market price of ADSs at 31 March 2005 was \$46.750.

(iii) In place of participation in the Share Matching Plan, Rick Sergel elected to defer the ADS component of his bonus into a deferred compensation plan. The July 2004 award was in respect of the period from 1 April 2004 to his retirement on 26 July 2004. All Phantom ADS awards vested immediately on retirement from the Board.

(iv) Nick Winsor received £2,500 in respect of a cash payment in lieu of dividends, on the exercise of three Share Match awards.

(v) In the previous year's Directors' Remuneration Report, the Phantom ADS awards were disclosed in error as being 4,347, 5,332 and 5,938 ADSs respectively. These awards were under-reported as they did not reflect additional awards due to dividend reinvestment.

**Executive Share Option Plan (ESOP)**

No further awards will be made under this plan but there are outstanding options granted in previous years. Such options will normally be exercisable between the third and tenth anniversaries of the date of grant, subject to performance conditions. The performance conditions attaching to outstanding ESOP options are set out below. If the performance condition is not satisfied after the first three years then it will be re-tested as indicated.

For options granted in June 2000, options worth up to 100% of an optionholder's base salary will become exercisable in full if Total Shareholder Return (TSR), measured over the period of three years beginning with the financial year in which the option is granted, is at least median compared with a comparator group of companies. Grants in excess of 100% of salary, vest on a sliding scale, becoming fully exercisable if the Group's TSR is in the top quartile. The performance condition attaching to options granted in June 2000 is tested annually throughout the lifetime of the option. These options remain unvested. For options granted from March 2001, the same TSR test is used but the performance condition may only be re-tested in years four and five. These options remain unvested and a final re-test will be undertaken in March 2006.

The comparator group was revised in June 2002 and used for options granted in June and December 2002 and is set out below:

Allegheny Energy, Inc.	Energy East Corporation	NSTAR Corporation	Scottish Power plc
BG Group plc	Exelon Corporation	Potomac Electric Power Company	The Southern Company, Inc.
British Energy plc	FirstEnergy Corporation	Powergen plc	TXU, Inc.
Centrica plc	FPL Group, Inc.	Progress Energy, Inc.	United Utilities plc
Consolidated Edison, Inc.	International Power plc	Public Service Enterprise Group, Inc.	Xcel Energy, Inc.
Duke Energy Corporation	Northeast Utilities Corporation	Scottish & Southern Energy plc	

These options have now vested having reached median performance, such that 100% of salary has vested. Details of the exercise periods are shown in table 3.

Details of the closing price of National Grid Transco shares as at 31 March 2005 and the high and low prices during the year are shown below table 6.

#### 4. Directors' interests in the Performance Share Plan

The table below gives details of the Executive Directors' holdings of conditional shares awarded under the National Grid Transco Performance Share Plan (PSP). Under this Plan Executive Directors receive a conditional award of shares, up to a maximum of 125% of salary, which is subject to a TSR performance condition over a three-year performance period. Shares are then released following a further one-year retention period.

<b>Table 4</b>	Conditional shares at 31 March 2004 or, if later, on appointment*	Awards exercised/lapsed during year	Awards granted during year	Market price at award (pence)	Date of award	Vested in year	Lapsed without vesting in year	Conditional shares at 31 March 2005 or, if earlier, on retirement †	Release date
Roger Urwin	195,866	–	–	405.25	June 2003	–	–	195,866	June 2007
	–	–	198,587	424.875	June 2004	–	–	198,587	June 2008
<b>Total</b>	<b>195,866</b>	<b>–</b>	<b>198,587</b>			<b>–</b>	<b>–</b>	<b>394,453</b>	
Steve Lucas	115,669	–	–	405.25	June 2003	–	–	115,669	June 2007
	–	–	116,210	424.875	June 2004	–	–	116,210	June 2008
<b>Total</b>	<b>115,669</b>	<b>–</b>	<b>116,210</b>			<b>–</b>	<b>–</b>	<b>231,879</b>	
Edward Astle	107,958	–	–	405.25	June 2003	–	–	107,958	June 2007
	–	–	110,326	424.875	June 2004	–	–	110,326	June 2008
<b>Total</b>	<b>107,958</b>	<b>–</b>	<b>110,326</b>			<b>–</b>	<b>–</b>	<b>218,284</b>	
Steve Holliday	115,669	–	–	405.25	June 2003	–	–	115,669	June 2007
	–	–	117,681	424.875	June 2004	–	–	117,681	June 2008
<b>Total</b>	<b>115,669</b>	<b>–</b>	<b>117,681</b>			<b>–</b>	<b>–</b>	<b>233,350</b>	
Nick Winser	92,535	–	–	405.25	June 2003	–	–	92,535	June 2007
	–	–	98,558	424.875	June 2004	–	–	98,558	June 2008
<b>Total</b>	<b>92,535</b>	<b>–</b>	<b>98,558</b>			<b>–</b>	<b>–</b>	<b>191,093</b>	
Mike Jesanis (i)	41,871*	–	–	405.25	June 2003	–	–	41,871	June 2007
	ADSs 19,987*	–	–	\$39.40	June 2004	–	–	ADSs 19,987	June 2008
<b>Total</b>	<b>41,871*</b>	<b>–</b>	<b>–</b>			<b>–</b>	<b>–</b>	<b>41,871</b>	
	<b>ADSs 19,987*</b>	<b>–</b>	<b>–</b>			<b>–</b>	<b>–</b>	<b>ADSs 19,987</b>	
Rick Sergel	152,063	–	–	405.25	June 2003	–	152,063	–†	June 2007
<b>Total</b>	<b>152,063</b>	<b>–</b>	<b>–</b>			<b>–</b>	<b>152,063</b>	<b>–†</b>	

(i) Mike Jesanis received an award over ADSs in June 2004, based on a market price of \$39.40 per ADS. Each ADS represents 5 ordinary shares.

#### 5. Directors' interests under the Lattice Long Term Incentive Scheme

The following table shows awards under the Lattice Long Term Incentive Scheme (LTIS) that were rolled over at the time of the merger between National Grid Group plc and Lattice Group plc by Steve Lucas and that were still held at 31 March 2005.

	Original award date	Award held at 1 April 2004 including dividend reinvestment shares	Adjusted market price for award at rollover	Shares resulting from dividend reinvestment in year	Award released during year	Market price at date of release (pence)	Award held at 31 March 2005 or on retirement †	Date award released
<b>Steve Lucas</b>	Nov 2000	81,492	350.43	2,122	83,614	461.80	–	Nov 2004
	Nov 2001	96,589	388.24	1,612	–	–	98,201	Nov 2005
<b>Total</b>		<b>178,081</b>		<b>3,734</b>	<b>83,614</b>	<b>–</b>	<b>98,201</b>	

#### Lattice LTIS

No awards have been made under this Plan since November 2001. Under the terms of the Lattice LTIS, notional allocations of shares were made to key individuals. The allocations were subject to a performance condition over three years as set out below and a further retention period of one year. The number of shares actually released to participants depended on the Group's TSR compared with that of other regulated utility companies operating in a similar environment.

The 2000 and 2001 LTIS awards held by Steve Lucas continued over a number of National Grid Transco shares shown above and remain subject to the rules of the LTIS except that (i) since 21 October 2002, the performance target measures the Group's TSR against the original comparator group of each award; and (ii) the awards will not be forfeited on ceasing employment unless the Remuneration Committee decides otherwise.

The comparator group used for the 2000 and 2001 LTIS awards is set out below:

Powergen plc	Pennon Group plc	Centrica plc	British Energy plc
Kelda Group plc	United Utilities plc	Scottish Power plc	BT Group plc
Scottish & Southern Energy plc	Severn Trent plc	Viridian Group plc	Railtrack plc (2000 only)
BAA plc	AWG plc	International Power plc	Thames Water plc (2000 only)

No awards vested if the Group's TSR over the performance period, when compared with that of the other companies in the comparator group, fell below median. For TSR between that of the median and upper quartile of comparator group constituent companies the proportion of shares that vested was calculated on a straight-line basis between 40% and 100%, and for TSR performance at or above upper quartile the awards vested in full.

During 2004/05, the 2000 award was released to Steve Lucas following the end of the retention period. The 2001 award vested when the Group's TSR was measured against the comparator group at the end of the performance period such that 100% of the award vested. Shares under this award will be held for a further year, the retention period, and will be released in November 2005.

## 6. Directors' beneficial interests

The Directors' beneficial interests (which include those of their families) in the ordinary shares of National Grid Transco of 10p each are shown below.

	Ordinary shares at 31 March 2005 (i) or, if earlier, on retirement †	Ordinary shares at 1 April 2004 or, if later, on appointment *	Options/awards over ordinary shares at 31 March 2005 or, if earlier, on resignation † (iii)	Options/awards over ordinary shares at 1 April 2004 or, if later, on appointment *
Roger Urwin (ii) (iv)	249,517	231,292	1,126,284	896,935
Steve Lucas (ii) (v) (vi) (vii)	102,063	42,961	404,093	350,854
Edward Astle (ii)	21,118	11,973	795,303	669,261
Steve Holliday (ii) (iv)	25,843	14,629	604,370	467,976
Nick Winser (ii)	36,515	19,781	350,761	246,697
Mike Jesanis (ii)	3,557	3,412*	336,935	336,935*
Rick Sergel (ii)	3,058 †	3,058	509,002 †	661,065
Sir John Parker	52,229	40,229	–	–
James Ross	19,000 †	19,000	–	–
John Grant	10,000	10,000	–	–
Ken Harvey	3,874	1,874	–	–
Paul Joskow	5,000	5,000	–	–
Stephen Pettit	3,000	1,875	–	–
Maria Richter	2,000	–	–	–
George Rose	5,025	5,025	–	–
John Allan (viii)	–	–	–	–

(i) There has been no other change in the beneficial interests of the Directors in the ordinary shares of National Grid Transco between 1 April 2005 and 18 May 2005 except in respect of routine monthly purchases under the SIP (see note (iv) below).

(ii) Each of the Executive Directors, with the exception of Rick Sergel and Mike Jesanis, was for Companies Act purposes, deemed to be a potential beneficiary under the National Grid Qualifying Employee Share Ownership Trust (QUEST) and in the National Grid Transco 1996 Employee Benefit Trust and thereby to have an interest in the 6,364,355 National Grid Transco shares held by the QUEST and the 100,000 National Grid Transco shares held by the 1996 Employee Benefit Trust as at 31 March 2005.

(iii) Including the PSP awards detailed in table 4 above.

(iv) Beneficial interest includes shares purchased under the monthly operation of the SIP in the year to 31 March 2005. Further shares were purchased in April and May 2005 on behalf of Steve Holliday (49 shares) and Roger Urwin (49 shares).

(v) Steve Lucas was, for Companies Act purposes, deemed to be a potential beneficiary in the 103,732 National Grid Transco shares held by Mourant and Co. Trustees, as trustee of the Lattice Group Employee Shares Trust operated in conjunction with the Lattice LTIS and the 6,981 National Grid Transco shares held by Lattice Group Trustees Limited as trustee of the Lattice Group Employee Share Ownership Trust, as at 31 March 2005.

(vi) Beneficial interest includes shares acquired pursuant to the Lattice All Employee Share Ownership Plan.

(vii) Including the Lattice LTIS awards detailed in table 5 above.

(viii) John Allan was appointed to the Board on 1 May 2005.

The closing price of a National Grid Transco share on 31 March 2005 was 490.25p. The range during the year was 549.50p (high) and 421.25p (low). Please note that the Register of Directors' Interests contains full details of shareholdings and options/awards held by Directors as at 31 March 2005.

On behalf of the Board

### Helen Mahy

Group Company Secretary and General Counsel  
18 May 2005