nationalgrid

Scrip Dividend Scheme – Terms and Conditions

1. The Scrip Dividend Scheme

The optional Scrip Dividend Scheme enables shareholders to receive new fully paid ordinary shares in National Grid plc instead of cash dividends. This makes it possible for shareholders to increase their shareholdings in National Grid without incurring dealing costs or stamp duty. Please see paragraph 17 below for taxation information.

2. Joining the Scheme

All UK shareholders can if they so wish join the Scheme by completing a Scrip Dividend Mandate Form (which may be amended from time to time) and sending it to the Company's Registrar, Capita Registrars. No acknowledgment of receipt of Mandate Forms will be issued. For details regarding overseas shareholders please see paragraph 12 below. Further copies of the Mandate Form may be obtained from the Company's Registrar whose contact details are set out overleaf. All elections will be subject to fulfilment of the conditions specified in the Mandate Form. The right to elect to receive new shares is non-transferable.

A Mandate Form must be received by the Company's Registrar at least 20 business days (excluding weekends and bank holidays) before the dividend payment date (such date is referred to as the scrip election date) in order to be eligible to receive shares instead of cash for that dividend and subsequent dividends. Completed Mandate Forms must be received by the Company's Registrar before 5pm on the scrip election date of 22 July 2009 to apply to the 2008/09 final dividend to be paid on 19 August 2009. Forms received after that time will apply to subsequent dividends only and the 2008/09 dividend will be paid in cash. A Mandate, once completed and returned to the Company's Registrar, will remain in force for all future dividends until such Mandate is cancelled by the shareholder in writing.

Shareholders who hold their shares in CREST can only elect to receive dividends in the form of new ordinary shares by use of the CREST Dividend Election Input Message. By doing so, such CREST shareholders confirm their election to participate in the Scheme and their acceptance of these Terms and Conditions, as amended from time to time. No paper form of election will be accepted. The Dividend Election Input Message must contain the number of shares on which the election is being made. If the number of elected shares is blank or zero then it will be rejected. If the number of elected shares is greater than the shares held at the relevant record date then the election will be applied to the holding as at the relevant record date. It is our understanding that once an election is made using the CREST Dividend Election Input Message system it cannot be amended. Therefore, if a CREST shareholder wished to change their election, the previous election would have to be cancelled. CREST shareholders must elect for each dividend to receive new shares in respect of such dividend.

3. Number of new shares

The number of new shares that shareholders will receive for each dividend will depend on the amount of the cash dividend, any residual cash balance brought forward from the last scrip dividend, the number of shares held, and the reference share price to be used in calculating shareholders' entitlements. The reference share price will be the average of the middle market quotations for the Company's ordinary shares on the London Stock Exchange Daily Official List for the five dealing days commencing on (and including) the date on which the ordinary shares are first quoted ex-dividend.

The formula used for calculating the maximum number of shares to be received for each dividend will be as follows:

$$\frac{\text{(number of ordinary shares held at the dividend record date} \times \text{cash dividend per share) + any residual cash balance}}{\text{reference share price}}$$

For example:
i) If a shareholder held 1,000 shares and the dividend was 21.3 pence per share and the average share price for the five dealing days after the ex-dividend date was 710 pence then such shareholder would receive 30 additional shares under the Scrip Dividend Scheme.

ii) If a shareholder held 500 shares and the dividend was 23 pence per share and the average share price for the five dealing days after the ex-dividend date was 610 pence then such shareholder would receive 18 additional shares under the Scrip Dividend Scheme.

The ex-dividend date for the 2008/09 final dividend is 3 June 2009. The reference share price in respect of the 2008/09 final dividend, announced on 10 June 2009, is available on the Company's website at www.nationalgrid.com. The record date, ex-dividend date and reference share price in respect of any future scrip dividends will also be announced and made available on the Company's website.

Once shareholders' new shares have been issued, a statement will be sent to such shareholders, along with a new share certificate, showing the number of new ordinary shares allotted, the reference share price, and the total cash equivalent of the new ordinary shares for tax purposes. If on any occasion the cash dividend entitlement, together with any cash balance brought forward, is insufficient to acquire at least one new share, shareholders will receive a statement explaining that no shares have been issued and showing how much cash has been carried forward to the next dividend.

4. Fractions and cash balances

No fraction of a new ordinary share will be allotted and calculation of entitlement to new shares will always be rounded down to the nearest whole new share. Any residual cash balance will be carried forward to be included in the calculation for the next dividend. No interest will be paid on this cash balance.

5. Future dividends

Once a shareholder has completed and returned a valid Mandate, this will apply for all successive dividends unless and until it is revoked in writing by the shareholder. Shareholders holding their shares in CREST must elect for each dividend. The Mandate is always subject to the Directors' decision to offer a scrip dividend. The Directors may decide not to offer a scrip alternative in respect of any future dividend. Please see paragraphs 14 and 15 below for further details.

All new ordinary shares issued under the Scheme will automatically increase shareholders' shareholdings on which the next entitlement to a scrip dividend will be calculated (unless an election has been made on part of a shareholding only in respect of nominee shareholdings). Where shareholders hold fewer than the minimum number of ordinary shares required for exercise of the scrip dividend, funds representing shareholders' fractional entitlements will be accumulated for their benefit. These funds will be added to the cash amount of the next dividend (in respect continued

of which a scrip dividend alternative is offered) and applied in calculating shareholders' entitlement under that offer.

Accumulated fractional entitlements will be paid to shareholders in cash as soon as reasonably practicable in the event of cancellation of Mandates by such shareholders or disposals of such shareholders' entire shareholdings, or in the event of cancellation or termination of the Scheme. In the event of death, insolvency or mental incapacity of a shareholder, any cash balance for that shareholder will be paid to his/her estate or trustee as applicable. Where a shareholder cancels their Mandate or sells their shares, amounts less than £3 standing to their benefit in such account will, unless instructed otherwise in writing in advance by the shareholder, be paid to a charity of the Company's choice.

6. The DRIP scheme
Upon shareholder approval of the Scrip Dividend Scheme, the Company's current Dividend Re-investment Plan will be suspended indefinitely. Shareholders participating in the DRIP will need to complete a Scrip Dividend Mandate Form if they wish to move to the Scrip Dividend Scheme. Please note that if as a CREST nominee you have previously submitted an evergreen CREST Dividend Election Input message for the DRIP, you will need to delete this before submitting your CREST dividend election input message in respect of the Scrip dividend. If a Mandate for a shareholder (whether or not a DRIP participant) is not received by the Company's Registrar by the close of business on the first scrip election date of 22 July 2009, being the latest date for receipt of a scrip Mandate, such shareholder will receive a cash dividend in respect of the 2008/09 final dividend. Future dividends will also continue to be paid in cash unless a valid Mandate is received by the Company's Registrar. Any residual amounts standing to the credit of a shareholder who is a participant in the DRIP at the time of introduction of the Scrip Dividend Scheme will be paid to such shareholder in cash (by cheque) on or as soon as practicable after the payment date of the first scrip dividend.

7. Listing and ranking of the new shares
Application will be made to the London Stock Exchange and the UK Listing Authority for admission of the new shares to trading and to the official list of the UKLA. The new shares will be credited as fully paid and will rank equally in all respects with the existing ordinary shares (including the same voting rights) except for participation in the relevant final dividend. In the unlikely event that the new shares are not admitted to listing, or if any other condition is not fulfilled, the Company will pay the dividend in cash in the usual way as soon as reasonably practicable.

8. Share certificates and dealings
Subject to the new shares being admitted to the official list of the UKLA and to trading on the London Stock Exchange, new share certificates for participants in the Scrip Dividend Scheme will be posted to non-CREST shareholders at their risk, on or about the same date as the dividend warrants are posted to those shareholders who are not participating in the Scheme (see the National Grid website for current dates). CREST members will have their CREST accounts credited directly with the new shares on or as soon as is practicable after the same day that the cash dividend is paid. Dealings in the new ordinary shares are expected to begin on the dividend payment date.

9. Multiple holdings
If for any reason a shareholder's shares are registered in more than one holding, then unless such multiple shareholdings are consolidated before the scrip election date, they will be treated as separate. As a result, separate Mandates will need to be completed for each such holding if shareholders wish to receive new shares under the Scheme in respect of each holding.

10. Shareholdings in joint names
In respect of shareholdings held in joint names, to be effective, all joint shareholders must sign the Scrip Dividend Mandate Form.

11. Partial elections
Mandate Forms will only be accepted in relation to the whole shareholding. The Directors may, at their discretion, allow a shareholder to elect in respect of a lesser number of shares where they are acting on behalf of more than one beneficial holder, that is, through a nominee shareholding held in CREST. The Dividend Election Input Message submitted to CREST must contain the number of shares for which the election is being made. Such mandate must be renewed for each dividend. A cash dividend will be paid on any remaining shares not included in the Dividend Election Input Message.

12. Overseas shareholders
Shareholders who are resident outside the UK may treat this document as an invitation to receive new ordinary shares unless such an invitation could not lawfully be made to such shareholders without compliance with any registration or other legal or regulatory requirements. It is the responsibility of any person resident outside the UK wishing to elect to receive new ordinary shares under the Scheme to be satisfied that such an election can validly be made without any further obligation on the part of the Company, and to be satisfied as to full observance of the laws of the relevant territory, including obtaining any governmental, regulatory or other consents which may be required and observing any other formalities in such territories and any resale restrictions which may apply to the new shares. Unless this condition is satisfied, such shareholders may not participate in the Scheme or sign a Mandate Form.

13. Recent sale or purchase of ordinary shares
If shareholders have sold some of their ordinary shares before a record date, the scrip dividend will apply in respect of the remainder of such shareholders' shares. If shareholders have bought any additional ordinary shares after a record date, the additional shares will not be eligible for the next dividend, but will be eligible for future dividends, without the need to complete a further Mandate in respect of the additional shares.

14. Cancellation of Mandates
Shareholders may cancel their Scrip Dividend Mandates at any time. Notice of cancellation must be given in writing to the Company's Registrar, Capita Registrars, at least 20 business days (excluding weekends and bank holidays) before the relevant dividend payment date. CREST shareholders can only cancel their mandates through the CREST system. A notice of cancellation will take effect on its receipt and processed by the Registrar in respect of all dividends payable after the date of receipt of such notice. If a notice of cancellation is received within 20 business days of a dividend payment date, the shareholder will receive additional shares under the Scheme for the next dividend and the cancellation will take effect for subsequent dividends. A shareholder's Mandate will be deemed to be cancelled if such shareholder sells or otherwise transfers their ordinary shares to another person but only with effect from the registration of the relevant transfer. If you hold your shares in certificated form and you sell or transfer your entire shareholding before the last date for the receipt of scrip elections for a particular dividend, you will be withdrawn from the Scrip Dividend Scheme for that dividend.

A shareholder's Mandate will also terminate immediately on receipt of notice of such shareholder's death. However, if a joint shareholder dies, the Mandate will continue in favour of the surviving joint shareholder(s) (unless and until cancelled by the surviving joint shareholder(s)). Any residual amounts over £3 standing to the credit of a shareholder will be paid to such shareholder in cash (by cheque) on or as soon as practicable after the cancellation. Where such residual amount is under £3, such sums will, unless the shareholder instruct otherwise in writing in advance, be paid to a charity of the Company's choice.

15. Changes to or cancellation of the Scheme

At any time the Directors, at their discretion and without notice to shareholders individually, may modify, suspend, terminate or cancel the Scheme. In the case of any modification, existing Mandates (unless otherwise specified by the Directors) will be deemed to remain valid under the modified arrangements unless and until the Company's Registrar receives a cancellation in writing from such shareholders pursuant to paragraph 14 above. If the Scheme is terminated or cancelled by the Directors, all Mandates then in force will be deemed to have been cancelled as at the date of such termination or cancellation.

The operation of the Scrip Dividend Scheme is always subject to the Directors' decision to make an offer of new shares in respect of any particular dividend. The Directors also have the power, after such an offer is made, to revoke the offer generally at any time prior to the allotment of new ordinary shares under the Scheme. If the Directors revoke an offer (or otherwise suspend, terminate or cancel the Scheme), shareholders will receive their dividend in cash on or as soon as reasonably practicable after the dividend payment date.

16. Governing law

The Scheme (including the Mandate Form and any related circular) is subject to the Company's Articles of Association and these terms and conditions, as amended from time to time, and is governed by, and its terms and conditions are to be construed in accordance with, English law.

17. Taxation

The tax consequences of electing to receive new ordinary shares in place of a cash dividend will depend on shareholders' individual circumstances. If shareholders are not sure how they will be affected from a tax perspective, they should consult their solicitor, accountant or other professional adviser before taking any action.

The Company understands that (as at 30 April 2009), under United Kingdom legislation and HM Revenue & Customs practice (which are subject to change, possibly with retrospective effect), the taxation consequences for shareholders electing to receive new ordinary shares instead of a cash dividend will, broadly, be as follows. This summary relates only to the position of shareholders resident only in the United Kingdom for taxation purposes who hold their shares beneficially as an investment, otherwise than under a personal equity plan or an individual savings account and who have not (and are not deemed to have) acquired their shares by reason of any office or employment. The precise taxation consequences for a particular shareholder will depend on that shareholder's individual circumstances. Shareholders who may be subject to taxation in a jurisdiction other than the United Kingdom or who may be unsure as to their taxation position should seek their own professional advice. This summary of the taxation treatment is not exhaustive. The Company will use its reasonable endeavours to keep this summary up to date on its website (www.nationalgrid.com). However, if shareholders are in any doubt as to their tax position, they should consult their solicitor, accountant or other professional adviser before taking any action.

17.1 UK resident individual shareholders

Income Tax

Very broadly, a UK resident individual shareholder who receives new ordinary shares pursuant to the Scheme will have the same liability to income tax as he would have had had he received a cash dividend of an amount equal to the 'cash equivalent of the new ordinary shares'. The cash equivalent of the new ordinary shares will be the amount of the cash dividend which the shareholder would have received had they not elected to take new shares, unless the market value of the new shares on the first day of dealings on the London Stock Exchange differs substantially from the cash dividend foregone (i.e. differs by 15% or more of such market value) in which case the market value will be treated as the cash equivalent of the new ordinary shares for taxation purposes.

Where individual shareholders elect to receive new ordinary shares in place of a cash dividend, they will be treated as having received gross income of an amount which, when reduced by income tax at the rate of 10%, is equal to the 'cash equivalent of the new ordinary shares'. Income tax at the rate of 10% is treated as having been paid on this gross income.

Generally, individuals who currently pay income tax at the basic rate, will have no further liability to income tax in respect of the new shares received. Individuals who are subject to income tax at the rate of 40% will be liable to pay income tax at the dividend upper rate of 32.5% on the gross income which they are treated as having received. The 10% income tax deemed to have been paid can be set off against part of that liability, thereby reducing the liability to 22.5% of the amount of the gross income treated as having been received (which is equal to 25% of the cash equivalent of the new ordinary shares). Subject to what is said above in relation to the determination of the cash equivalent of the new ordinary shares, this treatment is similar to that for cash dividends. No tax repayment claim may be made on either a cash dividend or in respect of new shares taken by non taxpaying individuals.

The Government has announced proposals to introduce, with effect from 6 April 2010, a new tax rate of 50% for taxable non-savings and savings income above £150,000 per annum. Dividends (whether paid to shareholders as cash or as new ordinary shares under the Scheme) which would otherwise be taxable at the new 50% rate would, however, be subject to income tax at a new rate of 42.5%.

Capital Gains Tax

For capital gains tax purposes, if an election to receive new shares instead of a cash dividend is made, then the 'cash equivalent of the new ordinary shares' (as described above) will be treated as being the base cost of the new shares.

17.2 UK resident trustees

Income Tax

Where trustees of discretionary trusts, who are liable to income tax on dividend income at the dividend trust rate (currently 32.5%), elect to receive new shares, they will be liable to additional income tax. For the purposes of charging this additional income tax, the trustees will be treated as having received gross income which, when reduced by income tax at the rate of 10%, is the same as the cash equivalent (as defined above) and as having paid income tax of 10% on the amount of this gross income. The 10% income continued

tax deemed to have been paid can be set off against part of that liability, thereby reducing the liability to 22.5% of the amount of the gross income treated as having been received (which is equal to 25% of the cash equivalent amount).

Where trustees of an interest in possession trust (where the beneficiary with an interest in possession is entitled to the trust income) elect to receive new shares and treat such shares as income, the trustees will be treated as having paid income tax of 10% on the gross income (as described above) that they have received and will have no further income tax liability. The tax position of a beneficiary entitled to the trust income who is a UK tax resident individual will be as set out in the paragraph headed 'UK resident individual shareholders' above.

Where such trustees elect to receive new shares and treat such shares as capital, the trustees will not have any further income tax to pay. The beneficiary will not be entitled to the shares (and will have no income tax to pay).

If the new shares are held in a bare trust or in the name of a nominee, the trustee or nominee will be disregarded for the purposes of income tax and the tax position of the beneficiary entitled to the shares will be as set out in the paragraph headed 'UK resident individual shareholders'.

The Government has announced proposals to introduce, with effect from 6 April 2010, a new dividend trust rate of 42.5%.

Capital Gains Tax

Where trustees of discretionary trusts, where no beneficiary is entitled to the trust income, elect to receive new shares, such shares will constitute a new holding of shares in the Company acquired for the cash equivalent in the manner described in the paragraph headed 'UK resident individual shareholders' above.

Where trustees of an interest in possession trust (where the beneficiary with an interest in possession is entitled to the trust income) elect to receive new shares and treat such shares as income, a beneficiary entitled to the trust income who is a UK tax resident individual, is treated for capital gains tax purposes as having acquired the new shares for the cash equivalent, in the manner described in the paragraph headed 'UK resident individual shareholders' above.

Where trustees of an interest in possession trust (where the beneficiary with an interest in possession is entitled to the trust income) elect to receive new shares and treat such shares as capital, the shares will be added to the trustees' existing holding of shares in the Company and treated as though they had been acquired when the existing holding was acquired. However, the trustees will not be considered to have made any payment for the new shares, so there will be no increase in base cost.

If the new shares are held in a bare trust or in the name of a nominee, the trustee or nominee will be disregarded and the beneficiary will be treated as having acquired the new shares for the cash equivalent.

17.3 UK resident companies

A corporate shareholder is not generally liable to corporation tax on cash dividends and will not be charged corporation tax on new shares received under the Scheme instead of a cash dividend. For the purposes of corporation tax on chargeable gains, no consideration will be treated as having been given for the new shares. These new shares will be added to the corporate shareholder's existing holding of shares in the Company and treated as having been acquired when the existing holding was acquired.

17.4 UK pension funds

Where pension funds elect to receive new ordinary shares under the Scheme, no tax credit will attach to the new shares and no tax repayment claim can be made in respect of them; nor could such a claim be made in respect of the cash dividend.

17.5 Stamp duty/stamp duty reserve tax

No stamp duty or stamp duty reserve tax will be payable on the receipt of new shares under the Scheme provided they are not issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts.

Contacts

For general enquiries about the Scheme please contact Capita Registrars at Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA, by telephone on 0871 664 0500 or by email at nationalgrid@capitaregistrars.com.

Glossary

CREST the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI/3755)) in respect of which Euroclear UK and Ireland Limited is the operator

Current Articles the exisiting Articles of Association of the Company

National Grid or **Company**, National Grid plc

Directors the directors of National Grid plc

London Stock Exchange the London Stock Exchange plc

Mandate Form a mandate in a form provided by the Company from a shareholder to the Directors to allot new shares under the terms of the Scheme in lieu of a cash dividend to which they may become entitled from time to time

New Articles the Articles of Association of the Company proposed to apply as from 1 October 2009

new shares new ordinary shares issued under the Scheme

ordinary shares ordinary shares of $11^{17}/_{43}$ pence each in the capital of the Company

Pre-October Articles the Articles of Association of the Company proposed to apply as from the date of the 2009 AGM up to but excluding 1 October 2009

Scrip Dividend Mandate or **Mandate** the instructions of a shareholder as set out in a valid Mandate Form

Scrip Dividend Scheme or **Scheme** the National Grid plc Scrip Dividend Scheme as comprised under and subject to the terms and conditions contained in this document as amended from time to time

shareholder a holder of ordinary shares in the capital of the Company