

The Company is proposing to introduce new 'Plain English' articles at the Annual General Meeting on 25 July 2005.

#### **Material contracts**

As described in Item 6, each of our Executive Directors has a Service Agreement and each Non-executive Director has a Letter of Appointment. Apart from these, no contract (other than contracts entered into in the ordinary course of business) has been entered into by the Group within the two years immediately preceding the date of this report which is, or may be material; or which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this report.

#### **Exchange controls**

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non-UK resident holders of ordinary shares except as otherwise set out in 'Taxation' below and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

#### **Taxation**

The following summary describes the principal US Federal income and UK tax consequences for a beneficial owner of ADSs or ordinary shares who is (i) a citizen or resident of the United States, (ii) a corporation or other entity taxable as a corporation, created or organised under the laws of the United States or any state thereof or (iii) a trust or an estate the income of which is subject to US federal income tax without regard to its source and that holds such shares or ADSs as capital assets.

The summary is not a complete analysis or listing of all the possible tax consequences of ownership, in particular the return of £2 billion to shareholders as discussed below under 'Taxation of dividends' and under 'Taxation of capital gains and losses'. It does not discuss special tax rules that may be applicable to certain classes of investors including traders, collective investment schemes, banks, insurance companies, securities dealers, investors with a 'functional currency' other than the US dollar and any corporation which directly or indirectly controls 10% or more of the voting share capital of National Grid Transco.

The US and UK signed a new convention (the 'Income Tax Convention') for the avoidance of double taxation with respect to income and capital gains on 24 July 2001. The Income Tax Convention entered into force following the exchange of instruments of ratification on 31 March 2003 and was effective for withholding taxes beginning 1 May 2003. This summary describes the rules of taxation under the new convention.

The statements regarding US Federal tax laws set out below are based (i) on the US Internal Revenue Code of 1986, as amended (the 'Code') and regulations issued thereunder, all of which are subject to change, possibly with retroactive effect and (ii) in part on representation of The Bank of New York as depositary (the 'Depositary') and assume that each obligation provided for in or otherwise contemplated by the deposit agreement entered into by and among National Grid Transco, the Depositary and the registered holders of ADRs pursuant to which ADRs have been issued dated as of 21 November 1995 and amended and restated as of 31 January 2002 (the 'Deposit Agreement') and any related agreement will be performed in accordance with its terms. Beneficial owners of ADSs who are residents or citizens of the United States will be treated as the owners of the underlying ordinary shares for the purposes of the Code.

For the purposes of this discussion, the term "US Holder" refers to a beneficial owner of ADSs or ordinary shares who is a resident of the United States for US Federal income tax purposes and, as to the description under "Taxation of dividends" and "Taxation of capital gains" below, is also a resident of the United States for the purposes of the Income Tax Convention.

The statements regarding UK tax set out below are based on UK law and what is understood to be the practice of HM Revenue and Customs in the United Kingdom as at the date of this document and are subject to any change therein (including any change having retroactive effect).

#### Taxation of dividends:

Under the Income Tax Convention the United Kingdom is allowed to impose a 15% withholding tax on dividends paid to US shareholders controlling less than 10% of the voting capital of National Grid Transco. The United Kingdom does not, however, currently impose a withholding tax on such dividends. If it were to impose such a tax, the treaty provides for an exemption from withholding taxes for dividends paid on shares held through a tax exempt pension fund, 401(k) plan or similar "pension scheme" as defined in the Income Tax Convention. The Income Tax Convention does not provide for refunds to be paid in respect of tax credits arising on dividends paid by UK resident companies. To obtain benefits under the Income Tax Convention, a US holder must otherwise satisfy the requirements of the limitations on benefits article of the Income Tax Convention.

Dividends paid by National Grid Transco to US shareholders are subject to tax in the United States. Such dividends may qualify for the reduced tax rate of 15% if the US shareholder has held the National Grid Transco ADSs or ordinary shares for the requisite holding period, to the extent paid out of earnings and profits. As discussed in more detail in Item 4, the Company has announced the return of £2 billion to shareholders following the sales of four of the UK gas distribution networks on 1 June 2005 by way of a B share scheme, followed by a share consolidation. The distribution, to the extent paid out of earnings and profits, should generally be taxable to a US Holder as foreign source dividend income and will not be eligible for the dividends received deduction allowed to corporations. A distribution in excess of earnings and profits should be treated as a non-taxable return of cash to the extent of the US Holder's basis in the existing ordinary shares or ADSs, and thereafter as capital gain. National Grid Transco is currently unable to determine the extent to which the distribution will be paid out of earnings and profits for purposes of these rules. The rules provide, for information reporting and backup withholding purposes, that if the payor of a distribution is unable to determine whether the distribution is paid out of earnings and profits, the entire distribution must be treated and reported as a dividend under applicable information reporting requirements. If National Grid Transco is able to reasonably determine in a timely manner the extent to which the distribution is paid out of earnings and profits and the extent to which it is a return of capital, such determination will be reflected in any information returns that may be required to be sent to US Holders. This discussion is based on current law and previous guidance issued by the IRS which could be changed. Any dividends paid that do not qualify for the special reduced rate will be taxable to a US Holder at the higher rate normally applicable to ordinary income.

#### Taxation of capital gains:

Subject to the provisions set out in the next paragraph in relation to temporary non-residents, a US Holder who is not resident in the UK for UK tax purposes is not liable for UK taxation on capital gains realized or accrued on the sale or other disposal of ADSs or ordinary shares. A US Holder is, however, liable for US Federal income tax on such gains to the same extent as on any other gains from sales of stock. The gain, if any, is generally US source.

The following taxpayers may be subject to tax in both jurisdictions for any capital gain realized on the sale or other disposition of ADSs or ordinary shares:

- a US citizen who is resident or ordinarily resident in the UK

- a US corporation which is resident in the UK by reason of its business being managed and controlled in the UK
- a US citizen who is trading or carrying on a profession or vocation in the UK and used, held or acquired ADSs or ordinary shares for the purpose of such trade, profession or vocation
- a US corporation which is otherwise carrying on business through a permanent establishment in the U.K. and used, held or acquired ADSs or ordinary shares for the purpose of such permanent establishment.

Such holder, however, is generally entitled to foreign tax credit, subject to certain limitations, against any US Federal tax liability for the amount of any UK tax (namely capital gains tax in the case of an individual and corporation tax on chargeable gains in the case of a corporation) which has been paid in respect of such gain.

A US Holder who becomes resident in the UK after a period of temporary non-residence (of up to five years) following an earlier period of residence in the UK is also potentially liable to UK capital gains tax on gains made in the period of temporary non-residence.

A US Holder must also comply with the limitation on benefits article in the Income Tax Convention in order to obtain treaty benefits.

In addition, a tax loss on future sales of shares may be characterised as long-term capital loss if some or all of a US Holder's dividends are characterised as an "extraordinary dividend". This characterisation may result depending on the proportionate amount of the dividend compared with the cost basis in the shares.

UK stamp duty and stamp duty reserve tax ('SDRT'):

Transfers of ordinary shares—Generally speaking SDRT at the rate of 0.5% of the amount or value of the consideration paid is payable where an agreement to transfer ordinary shares is not completed by a duly stamped transfer to the transferee. Where an instrument of transfer is executed and duly stamped before the expiry of the period of six years beginning with such date, the SDRT liability will be cancelled, and any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer of such chargeable securities is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident. Purchases of ordinary shares completed by execution of a stock transfer form will generally give rise to a liability to UK stamp duty at the rate of 0.5% (rounded up to the nearest £5) of the actual consideration paid. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. The transfer of ordinary shares where there is no change of beneficial ownership will generally attract fixed rate stamp duty of £5 per transfer. SDRT is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser or transferee.

Transfers of ADSs—No UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK. An agreement for the transfer of ADSs in the form of ADRs will not give rise to a liability for SDRT. On a transfer of ordinary shares from the London, England office of The Bank of New York as agent of the Depositary (the "Custodian") to a holder of ADSs upon cancellation of the ADSs, only a fixed stamp duty fee of £5 per instrument of transfer will be payable. Any transfer for value of the underlying ordinary shares represented by ADSs may give rise to a liability on the transferee to UK stamp duty or SDRT. A charge to stamp duty or SDRT may arise on the issue or transfer of ordinary shares to the Depositary or the Custodian. The rate of stamp duty or SDRT will generally be 1.5% of either (i) in the case of an issue of ordinary shares, the issue price of the ordinary shares concerned, or (ii) in the case of a transfer of ordinary shares, the value of the consideration or, in some circumstances, the value of the