nationalgrid

Incentive Thrift Plan I

Summary Plan Description
for Non-union Employees

July 2011

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933.

SUMMARY PLAN DESCRIPTION

Notice

This section summarizes the Incentive Thrift Plan I (referred to as the “Incentive Thrift (401k) Plan” or the “Thrift Plan”) as of July 2, 2010, and replaces all prior Plan descriptions. It is intended to provide an easy-to-understand explanation of your benefits. It does not include all Plan provisions, especially those relating to situations that are unlikely to occur or that could affect only a few participants. If any conflict arises between this summary and official Plan documents, the Plan documents will always govern.

The “Company” means your National Grid USA company employer (National Grid), including all companies affiliated with National Grid that participate in the Thrift Plan. The Company reserves the right to amend, modify, revoke, or terminate the Incentive Thrift (401k) Plan I, in whole or in part, at any time. The authority to make any such changes to the Plan rests with the Boards of Directors of National Grid plc, except to the extent delegated to the Board of Directors of National Grid USA Service Company, Inc. The decision to change or end the Plan may be due to changes in laws governing the Plan, the requirements of the Internal Revenue Code or ERISA, or any other reason.

This document is referred to as a Summary Plan Description (SPD). The benefit provisions described in this summary are based on a formal Plan document. If there is a conflict between this summary and official Plan documents, the Plan document always govern. You are not entitled to retirement plans benefits due to a misstatement in or omission from this summary.

Plan Highlights

The Company helps you save for your future with the Incentive Thrift (401k) Plan. When you enroll in the plan, you save for retirement with pre-tax and/or after-tax dollars and enjoy the benefit of Company Matching Contributions. If you are hired or rehired on or after January 1, 2011, you will also receive a Company Core Contribution.

The Thrift Plan is a 401(k) plan, which provides tax-deferred savings for retirement. This means that all pre-tax contributions you or the Company make on your behalf accumulate on a tax-deferred basis; any earnings on after tax contributions also accumulate on a tax-deferred basis. The Thrift Plans National Grid ADR Fund is an employee share ownership plan that is governed by section 404(k) of the Internal Revenue Code.

Here are a few of the Thrift Plan's advantages.

Advantages

- Your pre-tax contributions and earnings on all contributions — your own and the Company's Matching Contributions and Core Contributions (if you are eligible) — accumulate on a tax-deferred basis. That is, you do not pay federal or state income taxes on this money until you take it out of the plan.
- You may make pre-tax contributions from 1% to 50% of your pay (up to federal limits), through convenient payroll deductions beginning on your hire date or as soon as administratively feasible.
- If you will be age 50 or older by the end of the calendar year, you may also make additional pre-tax contributions (catch-up contributions) up to federal limits.
- You may make after-tax contributions from 1% to 15% of your pay through payroll deductions. Your total contributions (pre-tax and after-tax) may not exceed 50% of your pay.
- Your pre-tax and after-tax contributions are subject to Social Security tax.
- If you make after-tax contributions, any earnings on these contributions accumulate on a tax-deferred basis.
- The Company will match a portion of your contributions (pre-tax and/or after-tax) each payroll after the 1st of the month following 3 months of service.
- If you are hired or rehired on or after January 1, 2011, the Company will also provide you with a Core Contribution that is a percentage of your pay based on your age plus years of service with the Company. "Core Contribution" is defined in the "Contributions" section of this Summary Plan Description.
- You may direct how your contributions are invested among the plan's professionally managed investment funds, with access to those investment options through Vanguard. You may get information about your account balance or fund performance by contacting Vanguard at 1-800-523-1188 or www.vanguard.com.
- Through Financial Engines®, you have access to free internet based investment advice. This is explained more fully under the title "Investment Advice Services".

- You are always vested in — that is, you own — the value of your pre-tax and after-tax contributions in your account, including the earnings on those contributions.
- You shall be 100% vested in the Company matching and Core Contributions on the earlier of the date on which you:
  - complete three (3) Years of Service;
  - reach age 65, which is your Normal Retirement Age;
  - become disabled according to the terms of the Plan; or
  - die while employed by National Grid or one of its affiliated companies.

  Note - If you are an employee of National Grid or one of its affiliated companies (other than the KeySpan division) **hired prior to 07/02/2010** you will always be 100% vested in the value of the Matching Contributions (and earnings) credited to your account. While you are an active employee, subject to certain IRS limitations, you may borrow a portion of your own account for any reason, or, if you have an approved financial hardship, you may withdraw some of your savings.
- You may elect to receive dividends paid on National Grid ADRs in cash or have them reinvested under the plan. If you do not make an election to receive cash, the dividends allocated to your Account will be re-invested in National Grid ADRs.

The following pages provide more information about the plan, including details about eligibility, enrollment, savings, and investment choices.

If you have questions about your account balances or the investment funds, call Vanguard at 1-800-523-1188 between 8:30 a.m. and 9:00 p.m. Eastern Time, any business day, to speak with Participant Services. In addition, you may obtain on-line access through the Vanguard Web site at www.vanguard.com.

Participation in the Incentive Thrift (401k) Plan I

Eligibility

Non-union employees whose National Grid employer has adopted the Thrift Plan are eligible to participate in the plan upon becoming employed. Certain individuals are not eligible to participate in the plan, including but not limited to leased employees, temporary employees, interns, co-op students, summer students, and independent contractors or individuals paid by an agency or party other than a National Grid company, or any employee covered under a collective bargaining agreement.

Automatic Enrollment

Upon Hire:

If you are a newly hired or rehired eligible non-union employee, you will be automatically enrolled in the Plan and 6% of your "All Pay" will be contributed to the

Plan on a pre-tax basis (see section "Basis for Your Contribution – Your Pay", for more information).

Vanguard will notify you by mail if automatic enrollment applies to you. You will have approximately 45 days after your hire date to opt-out of the program. Unless elected otherwise, contributions made under the program will be automatically invested in the Vanguard Target Retirement Fund closest to the year in which you attain age 65. Once enrolled, you may change your investment allocation at any time. You can obtain more information about the Target Retirement Funds from Vanguard by calling 1-800-523-1188 or by visiting its Web site at www.vanguard.com.

You may elect to contribute prior to the 45-day grace period, change your contribution percentage, change the deferral compensation type to "Base Pay", opt-out of the Target Retirement Fund by selecting specific investment options you would prefer to have your contributions invested in, or opt-out of the auto enrollment program entirely, by calling Vanguard or by accessing your on-line account.

If you do not opt-out of the program, payroll contributions will begin as soon as administratively feasible following the end of the 45 day grace period. You will become a plan participant as of the first day of the payroll period in which contributions are deducted from your pay and forwarded to Vanguard for investment. You will not, however, be eligible to receive Company Matching Contributions until the 1st of the month following 3 months of service. (See "If You Leave the Company and Are Later Rehired" for how the Company Matching Contribution eligibility rule applies to rehired employees.)

If you opt-out of Automatic Enrollment, you may elect to participate in the plan at any time by calling Vanguard or logging into www.vanguard.com and submitting enrollment information, such as the amount of your contributions and investment choices. Your participation will begin within one or two payroll periods following the date that you contact Vanguard.

If you decide you do not want to participate in the Plan after you are automatically enrolled, you can elect to withdraw all contributions (adjusted for any gains or losses) within 90 days of the date your first contribution is posted to your account. This permissible withdrawal is not subject to any early withdrawal penalty. The amount will be included in your gross income for the tax year in which the withdrawal occurs. You will forfeit any Matching Contributions (if applicable) associated with the withdrawn payroll contributions. To request a permissible withdrawal, contact Vanguard. Once 90 days have passed after your first contribution, you are limited to those withdrawals specifically permitted under the terms of the plan. However, you may cease future contributions.

When Your "Active" Participation Ends

Your contributions and Company Matching Contributions will end with your last paycheck after you leave the Company for any reason.

If You Leave the Company and Are Later Rehired

If you terminate employment with the Company and are later rehired, you will be eligible to rejoin the plan immediately and will be automatically enrolled in the Thrift Plan, as described above. In addition, if you had been eligible to receive Company Matching Contributions prior to leaving the Company, you will be eligible to receive Company Matching Contributions immediately upon your making salary deferrals after rehire.

If you are rehired on or after January 1, 2011, you will not be eligible to participate in a pension plan offered by National Grid. However, you will be eligible to receive Company Core Contributions under Thrift Plan I as described below.

Your Beneficiary

Your beneficiary(ies) will receive the value of your Thrift Plan account balances when you die.

The full value of your account balance is payable to your spouse or designated beneficiary(ies) at your death. If you do not have a surviving beneficiary, your account balance will be payable to your estate. Your beneficiary(ies) will be the person(s) (or trust) named on your Beneficiary Designation Form on file with Vanguard subject to your spouse's consent if applicable, as discussed below.

If you are married, federal law requires that your spouse be your sole beneficiary, unless your spouse agrees in writing to another beneficiary. If you wish to name someone other than your spouse or someone in addition to your spouse, or if your beneficiary is a trust (even if your spouse is the beneficiary of that trust), your spouse must consent in writing to that designation, and the consent must be witnessed by a notary public. If the Company does not have this written consent, the law requires that your spouse be considered your beneficiary when you die, regardless of the name you designated.

You may change your beneficiary at any time by completing a Beneficiary Designation Form authorized by the Company, and returning it to Vanguard or by using on-line access. If you designate anyone other than your spouse as the beneficiary, the designation must be in writing. You can obtain a Beneficiary Designation Form from Vanguard.

Incentive Thrift (401k) Plan I Contributions

When you participate in the Thrift Plan, you and the Company may contribute to your account. Company contributions begin the 1st of the month following 3 months of service. Your contributions can be made on the basis of your Base Pay or All Pay (see section "Basis for Your Contribution – Your Pay", for more information).

Salary Reduction Contributions

You may choose a whole percentage from 1% to 50% of your pay that you want to contribute to the plan on a pre-tax basis, subject to the IRS limits adjusted periodically by law ($16,500 for 2010 and 2011).

If you are age 50 or above by the end of the calendar year and contribute to the plan the maximum amount allowed, you may elect to make additional contributions ("catch-up contributions") to the plan on a pre-tax basis, subject to the IRS limits adjusted periodically by law ($5,500 for 2010 and 2011).

If you reach the pre-tax IRS maximum contribution limit before the end of the calendar year, your pre-tax contribution will stop. Your pre-tax contribution will automatically restart in January of the following year.

In any given plan year, if you made contributions to another Employer's 401(k) Plan, you are responsible for ensuring that those contributions combined with your National Grid Inventive Thrift Plan contributions do not exceed the IRS limits.

Your pre-tax contributions are credited to your plan accounts before federal and state income taxes are withheld. (Social Security taxes are deducted from your pre-tax contributions.) This means that your taxable income is reduced by the amount you save in the plan.

After-tax Contributions

You may elect to contribute up to 15% of your pay on an after-tax basis. Your after-tax contributions are credited to your plan accounts after income taxes and Social Security taxes are withheld. The total amount of your contributions (pre-tax and after-tax) may not exceed 50% of your pay (further subject to the combined IRS annual contribution limit, adjusted periodically by law, which is $49,000 for 2010 and 2011).

Pre-tax and after-tax contributions are separate deferral elections and may be deducted from your pay simultaneously. To have after-tax dollars deducted from your pay, you must actively select an after-tax deferral.

The IRS restricts the total annual amount participants can contribute to their defined contribution (401k) account. For the 2010 and 2011 plan years, the annual additions limit for participants is the lesser of $49,000 or 100% of total compensation. The annual additions limit includes participant elective deferral contributions (not including age 50 catch-up contributions), employer Matching Contributions, Company Core contributions and any after-tax contributions.

Basis for Your Contributions — Your Pay

Once you decide that you want to contribute a percentage of your pay to the plan, you will need to decide whether that contribution will be calculated on your Base Pay or All Pay.

Base Pay means your regular pay, including the amount of any salary reduction contribution you make to the Thrift Plan, and any salary reductions you make under the Health Care Spending Account Plan, Family Day Care Assistance Plan or for Company health care coverage.

Base pay excludes all other forms of compensation, including supplemental disability income, amounts you defer under other plans, reimbursements of expenses, bonuses, incentive pay, commissions, options, payments made in lieu of vacation days or under short- or long-term disability provisions, awards, overtime, premiums, and any other additional forms of earnings (including Company contributions to or under any other employee benefit plan, such as health insurance, pension, or severance pay).

All Pay means your base pay, as defined above, plus overtime, commissions, premium pay, and any bonus or incentive pay.

Automatic Increase of Salary Reduction Contributions

The automatic increase service makes it easy for you to add savings to your account over time by automatically increasing your contribution percent on an annual basis. If you elect the automatic increase service, Vanguard will automatically increase your pre-tax contribution by a percentage of from 1% to 3% annually, in any month that you choose. Automatic increases will continue annually, to a maximum of 50% of your compensation, unless you elect otherwise. The service is flexible; you can change the default parameters or cancel at any time.

The automatic increase service is not available for after-tax contributions.

Company Matching Contributions

Eligibility for Company Matching Contributions begins the 1st of the month following 3 months of service. National Grid will calculate your Matching contribution each payroll period. The match is calculated by taking your contribution dollar amount as a percentage of your pay per pay period. The Matching Contribution formulas are shown below.

Effective January 1, 2011, National Grid will match 50% of the first 8% you contribute (pre-tax and after-tax contributions) to the Plan. Matching Contributions are provided to you in each pay period in which you make a contribution to the Thrift Plan. Match is calculated based on All Pay, as a ratio of your employee contribution dollar amount and your All Pay.

By contributing 8% of your eligible compensation to your Thrift Plan account during a given calendar year, you are able to maximize employer contributions.

Prior to January 1, 2011, the following formulas are used to determine your Matching Contributions**:**

For KeySpan Energy employees:
50% of the first 6% of All Pay

For participants who are covered by the Niagara Mohawk Pension Plan: 50% of the first 6% of Base Pay

For participants who are covered by the cash balance provisions under the National Grid USA Companies' Final Average Pay Pension Plan:
50% of the first 6% of Base Pay

For National Grid USA Companies' Final Average Pay Pension Plan participants who are NOT covered by the cash balance provisions of the plan:
100% of the first 2% of Base Pay, plus
75% of the next 4% of Base Pay

If you are a rehired Employee who is eligible to participate in the Thrift I Plan and you had previously been eligible for Matching Contributions prior to termination from employment, you will be immediately eligible to receive Matching Contributions as of the date of rehire.

Please note that National Grid reserves the right to suspend Company Matching Contributions at any time.

"True-Up" Matching Contribution

Matching Contributions are made for each payroll period in which you make a contribution to the plan. The Company will perform a "true-up" calculation following the end of each year to determine the amount of Company Matching Contributions based on contributions you made over the entire year. If you are due additional Matching Contributions based on this calculation, the Company will contribute the additional amounts to your account. These contributions will be invested in the same manner as your Company Matching Contributions and will be made as soon as practicable following the end of the Plan Year.

To receive a true-up contribution for a year, you must be an active employee on the last day of the year. You are not eligible for a true-up contribution in any Plan Year during which you are suspended from the Plan for taking a hardship withdrawal.

Employer Stock Discount Contribution

Prior to January 1, 2011 National Grid may make an additional contribution called an "Employer Stock Discount Contribution" for certain legacy KeySpan employees. This contribution is discretionary, and if made, will be equal to a percentage (currently 11.11%) of the fair market value of a common stock unit purchased with Matching Contributions, Pre-Tax or After Tax Contributions, and/or reinvested dividends paid on National Grid ADRs. Such Discount Employer Stock Contributions will be invested in the National Grid ADR Fund. National Grid has sole discretion to change the discount at any time. **Again, please note that effective January 1, 2011, the Discount Employer Stock Contribution will be eliminated.**

Company Core Contributions

If you are hired or rehired on January 1, 2011 or later, you are eligible for Company Core Contributions, which begin the 1st of the month following 3 months of service. National Grid will calculate your Core Contribution each payroll period, based on your actual compensation for that payroll period. The contribution is a percentage of pay based on your total points (age plus years of service) as of January 1 of the plan year.

The contribution to be made to your account is listed in the table below.

Points (Age + Service)	Core Contribution (% of Pay)
< 45	4%
45 – 54	5%
55 – 64	6%
65 – 74	7%
75 +	8%

You receive points as follows:

For Each	**You receive**
Full year of your age on January 1	1 point per year, plus 1 point
Full year of your service on January 1	1 point per year, plus 1 point

The point system is based on full years. Fractional portions of a year will not be considered. This means that if you are 36 ¾ years old at the beginning of a calendar year, you will receive 37 points – 36 full years of age, plus one extra point.

For example, if you are 46.25 years old with 20.75 years of service on January 1, you will have 68 points for the plan year (46 years old + 1 point plus 20 years of service + 1 point) for a contribution of 7%.

Core Contributions are based on All Pay. You will be automatically enrolled in the Core Contribution and these contributions will continue even if you do not contribute to the Plan.

Unless elected otherwise, Core Contributions will be automatically invested in the Vanguard Target Retirement Fund closest to the year in which you will attain age 65. Once enrolled, you may change your investment allocation at any time. You can obtain more information about the Target Retirement Funds from Vanguard.

If you are a rehired Employee who is eligible to participate in the Thrift I Plan and you had previously been eligible for Matching or Core Contributions prior to termination from employment, you will be immediately eligible to receive Core Contributions as of the date of rehire.

Rollover Contributions from Other Plans

Eligible employees (and spousal beneficiaries) may immediately contribute approved rollover distributions from another employer's retirement plan or a traditional Individual Retirement Account (IRA) to the Thrift Plan. Distributions from plans qualified under Section 401(a) of the Internal Revenue Code (such as 401(k), profit sharing, defined benefit, stock bonus or money purchase plans), annuity plans qualified under Section 403(a) of the Internal Revenue Code, tax sheltered annuity accounts under Section 403(b) of the Internal Revenue Code, or a governmental 457 plan, may be rolled over into the Thrift Plan.

If you are an eligible employee who meets the requirements for normal or early retirement, as defined in the National Grid Pension Plan, you may rollover a lump sum distribution from the National Grid Pension Plan to this Plan. If you want to elect this rollover, you must complete your request for the rollover prior to your retirement date.

Rollovers from an IRA or governmental 457 plan may not contain after-tax monies. Rollovers from other retirement plans (as described in the preceding paragraph) may contain after-tax monies, but only if the distributing plan makes payment directly to the Thrift Plan.

To complete a rollover, you will need to complete a Rollover Contribution Form. Contact Vanguard at 1-800-523-1188 or visit its Web site at www.vanguard.com to obtain the required forms. You may invest your rollover contributions in any of the available investment funds.

Changing Your Contribution Amount

You may increase or decrease your plan contributions or stop your contributions at any time by calling Vanguard or using on-line access. Your revised election will be effective within the next two payrolls, depending upon the timing of your call. If you do stop contributing, the Company's Matching Contributions will also stop. The money in your accounts, however, will continue to be credited with investment earnings or losses. If you later wish to resume contributing, you may do so by calling Vanguard and electing to make contributions once again.

Saving With Pre-tax Contributions

The value of pre-tax savings is an important consideration when thinking about how much you will contribute to the Thrift Plan. When you make pre-tax contributions to the Thrift Plan, you are setting money aside for your future. By deciding to postpone receiving that income now, you postpone paying federal and state income taxes on that amount (and on the Company's Matching Contributions), plus any earnings on those amounts until you actually receive the cash through a distribution.

The amount you contribute directly to the plan on a pre-tax basis will not be reported as taxable income on your W-2 statement since you will not pay federal or state income taxes (except Pennsylvania) on it until it is distributed from the plan.

Effect on Federal and State Income and Social Security Taxes

When you make pre-tax contributions to the plan, you reduce your salary by the amount you contribute for federal and state income tax purposes (except Pennsylvania).

Your Social Security taxes are based on your regular pay, therefore, your Social Security benefits will not be affected by your participation in the Thrift Plan.

Effect on Other Employee Benefits

Although your pay is reduced for federal and state income tax purposes when you make pre-tax contributions, the full amount of your annual pay will still generally be used to determine your other pay-related benefits. For instance, your employee life insurance benefit will still be calculated based on your regular annual Base Pay.

Saving With After-tax Contributions

After-tax contributions are made from your pay that has already been subject to federal and state taxes. When you withdraw money from your account, you will not owe taxes on the amount you contributed. Any earnings on these contributions, however, will be taxable upon withdrawal.

Your election of either Base Pay or All Pay for your pre-tax contributions will also apply to your after-tax contributions. So, for example, if you elect your pre-tax contributions based on All Pay, your after-tax contributions will also be made on the basis of All Pay.

Incentive Thrift Plan I Accounts

There are different types of Thrift Plan accounts, one each to hold the specific forms of contributions, as well as any corresponding investment gains or losses on those amounts. The plan operates with these different accounts because the IRS treats each kind of money differently for withdrawal purposes, depending on its source. When you participate in the Thrift Plan, you may have up to thirteen different accounts, including:

- Pre-Tax Contributions Account — contains your pre-tax contributions to the Plan (includes pre-tax catch-up contributions, if applicable).
- After-Tax Contributions Account — contains your after-tax contributions to the Plan, if any, and earnings on those contributions.
- Company Match Contributions Account — contains any Company Matching Contributions made on your behalf.
- Core Contributions Account – contains any Company Core Contributions made on your behalf.
- Employer Stock Dividend Account – contains any reinvested dividends related to your holdings in National Grid ADRs.
- Pre-Tax Rollover Account — contains the pre-tax portion of your rollover contributions (i.e. amounts you roll over from a previous employer's plan, traditional IRA, or any prior Employer pre-tax Company programs).
- After-tax Rollover Account — contains the after-tax portion of your rollover contributions.
- ER QNEC Account — contains any Qualified Nonelective Contributions- representing *employer* contributions - made by the Company on your behalf. The Company may make Qualified Nonelective Contributions under certain very limited circumstances; however, it is not required to do so.
- EE QNEC Account -- contains any Qualified Nonelective Contributions- representing *employee* contributions - made by the Company on your behalf. The Company may make Qualified Nonelective Contributions under certain very limited circumstances; however, it is not required to do so.
- ADR Discount Contributions Account – contains any employer stock discount contributions made to your account prior to 1/1/2011 (applies only to certain legacy KeySpan employees).
- Reclaimed Asset Contributions Account – contains assets that were or are being repaid to your account by you on an after-tax basis as a result of a prior distribution from the plan that was deemed "ineligible" under federal law and regulations.
- Employer Stock Discretionary – contains certain employer contributions related to the liquidation of the legacy KeySpan "Preferred Stock" and "Sub-Stock" accounts (applies only to certain legacy KeySpan employees).
- After-Tax Transfer (Pre-87) – contains after-tax contributions that you contributed the plan prior to 01/01/1987.

You will receive quarterly statements from Vanguard showing the value of each separate account, as well as your total Thrift Plan balance.

Vesting

If you are employed by National Grid or one of its affiliated companies, you will be 100% vested in your Company Matching Contributions and Company Core Contributions, if eligible, upon your completion of three (3) Years of Service; your attainment of your Normal Retirement Age (age 65); if you incur a disability under the terms of the Plan; or die while employed by National Grid.

Year of Service is a twelve (12) consecutive month period starting on your date of hire in which you are employed with National Grid or one of its affiliated companies.

Vesting means that you have a right to receive the full value of your accounts (less taxes, if applicable) when you qualify for a distribution.

If you are an employee of National Grid or one of its affiliated companies (other than the KeySpan division) **hired prior to 07/02/2010** you will always be 100% vested in the value of the Matching Contributions (and earnings) credited to your account. While you are an active employee, subject to certain IRS limitations, you may borrow a portion of your own account for any reason, or, if you have an approved financial hardship, you may withdraw some of your savings.

Investment Choices

You may invest your contributions among any of the Thrift Plan investment options in any full percentage increments, as long as they total 100%. You may exchange amounts already invested in the plan among funds on a cash or percent basis.

The plan's investment choices allow you to diversify your investments to meet your personal retirement income goals. Refer to Appendices I and II, Investment Funds Description, as a reference when you read about your investment choices.

Investment Funds

The Thrift Plan is intended to constitute a plan described in Section 404(c) of the Employee Retirement Income Security Act of 1974 (ERISA) and applicable regulations. The Thrift Plan offers you the opportunity to exercise control over your account by allowing you to choose the manner in which these assets will be invested among the available investment options and by providing the rights of ownership that arise from these investments. The fiduciaries of the plan are obligated (with certain limited exceptions) to comply with your investment instructions. As a result, the fiduciaries of the plan will generally be relieved of liability for any losses which are the direct and necessary result of investment instructions given by you. The fiduciaries of the Thrift Plan include but are not limited to the Board of Directors of National Grid USA Service Company, Inc., the Benefits Committee of National Grid USA Service Company, Inc. (hereafter the "Benefits Committee"), the Investment Committee of National Grid USA Service Company, Inc. (hereafter the "Investment Committee"), and the trustee/recordkeeper, to whom the Company has delegated certain operational responsibilities regarding your investment elections.

Each of the investment funds available through the Thrift Plan as of the date of this document is described in Appendices I and II. Also discussed in Appendix I is the importance of maintaining a well-balanced and diversified investment portfolio. For more detailed and up to date investment fund information, including administrative and management fees, or to obtain a fund prospectus or trust description, contact Vanguard. Appendix II contains a prospectus describing National Grid ADRs.

Other Important Investment Choice Information

Depending on your retirement savings goals or investment objectives, any or all of the fund choices may be right for you.

The fund information in Appendix I is designed to inform rather than to advise you about particular investment possibilities. Remember, your investment decisions are your responsibility.

You may request from Vanguard the following information for the publicly traded mutual funds that are offered as investments by the Plan (not for the Galliard Stable Value Fund and the Wellington Trust Target Portfolios), to the extent received by the plan:

- A prospectus for each fund or institutional trust, which contains information on fund assets and investments; and
- An annual report listing the assets comprising the portfolio of the fund and the value of each asset as of a given date in the report.

Investment alternatives may be added or deleted at any time. In addition, the investment objectives, procedures, and restrictions summarized in this section are subject to change at any time.

Fund Performance

You may get current and historical fund performance by calling Vanguard at 1-800-523-1188 or logging on to Vanguard's Web site at www.vanguard.com.

No representative of a National Grid company (or parent/affiliate of a National Grid company), the Benefits Committee, the Investment Committee or the Trustee/recordkeeper is authorized to make any recommendation to any participant concerning which investment options available under the plan best suit the participant's particular circumstances.

You should recognize that the Company cannot assure you of a profit or protect you against a loss on the investments credited to you under the plan. In addition, you should be aware that the plan's benefits are not insured by the Pension Benefit Guaranty Corporation.

Changing Your Investment Elections

While you are a plan participant, there is generally no limit to the number of times or frequency with which you may change, in whole percentage increments, how your future contributions will be invested. You may change the way your future contributions are invested by calling Vanguard at 1-800-523-1188 or through on-line access. You will receive written confirmation of your change within about a week.

To transfer among the investment funds, select the amount to be conveyed and the specific fund from which you would like to transfer. You must also select the fund(s) into which you wish to transfer. On any day the New York Stock Exchange (NYSE) is open, requests you make before 4:00 p.m. Eastern Time will be processed that day*. Requests you make after 4:00 p.m. Eastern Time on any day the NYSE is open or requests made on any day the NYSE is not open will be processed beginning the next following business day.

*Any requests involving the purchase or sale of National Grid ADRs must be received prior to 8 a.m. Eastern Time; otherwise, the request will be processed on the following trading day on which the New York Stock Exchange is open for business.

Frequent Trading Policy

A frequent trading policy applies to all funds in the Plan, with the exception of the Galliard Stable Value Fund and, effective November 1, 2010, the National Grid ADR Fund. Under this policy, if you exchange money out of a fund, you will not be able to exchange money back into the same fund within 60 calendar days. The term “exchange” refers to a transaction in which proceeds from redemption of fund shares in a plan are used to purchase another investment offered within the Plan.

Please note that the 60-day restriction only applies to exchanges *into* a fund and does not apply to transactions such as contributions, distributions and loans. You may always exchange money *out* of any fund at any time. In addition, the 60-day restriction described above will not apply to any change that you make to the investment of *future* contributions. The prospectus for each fund gives a more detailed description of restrictions on fund exchanges, including any changes made to this policy. You can request a copy of the prospectus by calling Vanguard at **1-800-523-1188** or online at www.vanguard.com.

This policy will *not* apply to the following:

- Galliard Stable Value Fund
- Purchases of shares with participant payroll or employer contributions or loan repayments
- Purchases of shares with dividends or capital gains distributions
- Distributions, loans and in-service withdrawals from the Plan
- Redemptions of shares as part of a plan termination or at the direction of the Plan
- Redemptions of shares by Vanguard to pay fund or account fees
- Share or asset transfers or rollovers

- Re-registration of shares
- Exchange requests submitted in writing via first class U.S. mail to Vanguard. (Exchange requests submitted by telephone, via the internet or by fax, if otherwise permitted, are not mail requests and *are* subject to the policy
- Conversions of shares from one share class to another in the same fund

Exchanges that include investment into or out of the National Grid ADR Fund may take additional time to process, depending upon market conditions.

To make an exchange of existing fund balances, contact Vanguard at 1-800-523-1188 or use on-line access. You will receive a written acknowledgment of your transfer within about a week of your request.

Investment Advice Services

Making investment decisions for your Thrift Plan account is an important one. Financial Engines®, an independent investment advisor, is available to help you make investment decisions through Personal Online Advisor (a free internet based investment advice service).

Personal Online Advisor is an easy-to-use internet based service that offers specific investment advice on your Thrift Plan account at no fee to you. The service will recommend specific funds to help improve your chances of reaching your retirement goals. You can sign up for periodic reminder notices to help you stay on track. You can also request advice on investments outside of your Thrift Plan account if you select this service. You are responsible for implementing any recommended changes by contacting Vanguard.

Vanguard also offers a free online investment questionnaire in order to help plan participants determine their investment approach and asset mix as it relates to their retirement goals. The investment questionnaire can be taken as many times as you like, with a different goal in mind each time.

Monitoring and Accessing Your Account

You may reach Vanguard 24 hours a day, seven days a week, at 1-800-523-1188. Representatives are available business days between 8:30 a.m. and 9:00 p.m. Eastern Standard Time. All telephone conversations are recorded. You may call Vanguard to access important information about your account such as:

- Account balances;
- Current savings election percentage;
- Investment elections for future contributions; and
- In-service loan and withdrawal amounts available.

You may also call Vanguard to:

- Transfer existing balances from one investment fund to another;

- Initiate a loan transaction;
- Speak with a Vanguard Representative;
- Change savings election percentages;
- Request in-service withdrawals;
- Request a distribution following termination;
- Order forms and information;
- Request fund prospectuses; Elect Automatic Increase service; and
- Sign up for On-Line Advice Service.

Transaction Confirmation Statement

You will receive a Transaction Confirmation Statement each time you make any change to your accounts.

Valuing Your Accounts

How Funds Are Valued

All of the funds are valued daily. National Grid ADRs are valued at the current market price, based on the 4:00 p.m. Eastern Time closing price on the New York Stock Exchange. The value of your investment in National Grid ADRs is accounted for on a per ADR basis. The value of the other investments is determined in units. These units have a dollar value that is calculated separately for each investment fund on each valuation date. The value of each unit is determined by dividing the market value of the fund, less any administrative expenses, by the number of units in that fund.

For example, if on a particular date, the current market value of the Vanguard 2025 Target Retirement Fund is $200,000 and there are 100,000 units in it, each unit would have a value of $2 ($200,000 divided by 100,000). If you had invested $100 in that fund as of that date, your account would be credited with 50 units ($100 divided by $2).

If the current market value of the fund increases by 10%, the market value of each unit would be $2.20. Thus, your first 50 units would have a value of $110 (50 times $2.20). Also, if you invested an additional $100 in the fund when the market value was $2.20, 45.45 more units would be added to your account ($100 divided by $2.20).

Quarterly Account Statements

You will receive a participant statement detailing the value of your accounts generally within 10 to 15 business days following the end of a quarter. This will keep you up-to-date on your investment and fund performance. It will also help you determine if your investment strategy is working for you.

Your quarterly statements will show account and fund values in dollars. They will also show you your own contributions and the Company's Matching and Core Contributions (if eligible) during the quarter, how much investment gain or loss each fund contributed to your accounts' values and applicable fund fees. Loans, withdrawals, rollover contributions, and transfers between funds are also reported to you on your quarterly statements.

You may view a current or past statement of your account on Vanguard's Web site at www.vanguard.com. You may also request a current or past statement by calling Vanguard Participant Services at 1-800-523-1188.

Qualified Withdrawals and Loans

While you are working and under age 59½, access to your accounts is limited. The following chart summarizes the availability of the various accounts for in-service withdrawals and loans. When you reach age 59 ½, these restrictions may not apply to you.

Account	**In-Service Withdrawal Options (before age 59½)**
Pre-Tax Contributions	"Hardship Withdrawal" and loans
After-Tax Contributions	"After-Tax Withdrawal" in any amount at any time; loans
Company Match Contributions	"Company Match Withdrawal" of all or a portion of balance other than contributions held less than two years; loans
Company Core Contributions	No withdrawals or loans may be taken from this account
Employer Stock Dividend	No withdrawals or loans may be taken from this account
Pre-Tax Rollover	"Rollover Account Withdrawal" in any amount at any time; loans
After-Tax Rollover	"Rollover Account Withdrawal" in any amount at any time; loans
Employer QNEC	Loans
Employee QNEC	Loans
ADR Discount Contributions	No withdrawals or loans may be taken from this account
Reclaimed Asset Contributions	No withdrawals or loans may be taken from this account
Employer Stock Discretionary	"Company Match Withdrawal" of all or a portion of balance other than contributions held less than two years; loans

After-Tax Transfer (pre-87)	"After-Tax Withdrawal" in any amount at any time; loans

Qualified Reservist Distributions – If you are a military reservist who meets certain active duty criteria (including being on active duty for at least 179 days) you may request to receive distributions from your salary reduction account while on leave with the Company and avoid the 10% tax that typically applies to early distributions. Contact Vanguard for further details if you are interested in knowing whether you qualify for a distribution under this provision.

Your account withdrawal or loan is based on the market price received from the transactions necessary to complete your request. The proceeds will be sent out as soon as practicable.

Taxes on Withdrawals

Your withdrawal will be treated as ordinary income for tax purposes, except to the extent your withdrawal contains after-tax contributions. In addition, you may incur a 10% early distribution tax if your withdrawal occurs before you reach age 59½. The early withdrawal penalty is waived if you are totally and permanently disabled, if you die, if the distribution is pursuant to a Qualified Domestic Relations Order, or if you separate from service with the Company during or after the year you attain age 55.

Your withdrawal may also be subject to a mandatory 20% federal income tax withholding provision, unless you direct Vanguard to rollover your distribution directly to an eligible employer plan or to an IRA. Other taxes may also apply, including state income tax. (You may, however, increase the amount of your withdrawal to cover the withholding amount and any tax penalties, if the funds are available in your accounts.)

Call Vanguard at 1-800-523-1188 for more information on withdrawals. See Appendix III and Appendix IV for tax and rollover information relative to the distribution of National Grid ADRs. You should also consult with a tax expert about your federal, state, and local tax liability before you receive a distribution from the Thrift Plan.

Net Unrealized Appreciation Tax Treatment

There are some special tax rules that you should be aware of, that may affect the taxation of the National Grid ADRs that you hold in your account. The tax rules are complex and you are cautioned to be extremely careful in your elections and to consult a tax adviser to be sure you obtain the tax results you are expecting.

The following special net unrealized appreciation (NUA) rule applies to a lump-sum distribution for which you elect to receive *in kind* ADRs of National Grid ADRs:

When you take a distribution from the Plan that includes an *in kind* distribution of National Grid ADRs – that is, the actual ADRs, rather than the cash value of the ADRs - the total net unrealized appreciation in the value of the ADRs is excludable from your income tax for the distribution year *only* if your distribution qualifies as a lump-sum distribution. A lump-sum distribution is a payment, within one year, of your entire balance under the Plan that is payable to you after you have reached age 59½, because you have separated from service with National Grid or one of its affiliates, or on account of your death or disability. The "taxable amount" for a lump-sum distribution from the Plan will not include any net unrealized appreciation – you will pay federal income tax at ordinary tax rates only on the "cost basis" of the ADRs. Upon subsequent sale of the ADRs, any taxable gain will be based on the difference in value between the cost basis and the fair market value of the ADRs. This amount will be taxed at the "capital gains" rate of federal income tax. Net unrealized appreciation is the amount by which the fair market value of the ADRs of National Grid ADRs you receive exceeds the amount that the Plan paid for the ADRs.

A separate rule applies for the *in-kind* distribution of National Grid ADRs acquired with your employee after-tax contributions. You can receive net unrealized appreciation treatment on the value of National Grid ADRs acquired with employee after-tax contributions, even if the distribution is not in the form of a lump sum payment. If a partial distribution includes any *in kind* National Grid ADRs acquired with employee after-tax contributions, then a *portion* of the NUA on the National Grid ADRs you receive in the payment will be excludable, based on the *in kind* ADRs which were purchased with employee after-tax contributions.

The tax rules associated with Net Unrealized Appreciation treatment are complicated. You are encouraged to consult with a tax advisor to determine the tax effect of various distribution options available under the Plan.

Applying for a Withdrawal

To apply for a withdrawal you can contact Vanguard at 1-800-523-1188 or access your account online at Vanguard.com

Timing of Payments

Withdrawals will generally be paid out within two to three business days after Vanguard receives the request in good order. If, however, the request requires the sale of National Grid ADRs, an additional day may be necessary due to the 8am Eastern Time trade deadline.*

*Any requests involving the purchase or sale of National Grid ADRs must be received prior to 8 a.m. Eastern Time; otherwise, the request will be processed on the following business day.

Form of Payments

If you elect an "in-kind" distribution from the National Grid ADR Fund, it will be made in full ADRs; any fractional ADRs will be paid in cash. You may elect, however, to receive a withdrawal from the National Grid ADR Fund entirely in cash. Depending on whether you receive your withdrawal in ADRs or in cash, the tax consequences of your distribution will vary. (See Appendix III and Appendix IV.) Withdrawals from all other funds will be made in cash.

Hardship Withdrawals

You are allowed, under certain limited circumstances (defined by the Internal Revenue Code as financial hardships – see the six reasons specified below), to make withdrawals from your Salary Reduction Account while you are employed and under age 59½. Only your pre-tax and catch-up contributions, and the pre-1989 earnings on them, are available for hardship withdrawal.

Provided you have no other resources reasonably available, you may request a hardship withdrawal from the plan for any of the following "Safe Harbor" reasons:

1. Purchase of a primary residence for yourself.
2. Meet tuition and related educational expenses for you, your spouse, a qualifying dependent, and/or primary Plan beneficiary for the current or future school term (up to 12 months in advance) at a post-secondary school.
3. Pay extraordinary tax-deductible medical expenses for you, your spouse, a qualifying dependent, and/or a primary Plan beneficiary that are not covered by public or private insurance, subject to IRS requirements.
4 Prevent immediate foreclosure or eviction from your primary residence.
5. Pay funeral expenses for your parents, spouse, children, a qualifying dependent and/or primary Plan beneficiary.
6. Pay certain expenses for the repair of damage to your principal residence due to a catastrophic event (major flood, fire, hurricane, etc.), subject to IRS requirements.

To qualify for a hardship withdrawal, the IRS requires that you must first have obtained all other amounts currently available under the Plan, including all available participant loans.

To apply for a hardship withdrawal, call Vanguard to request hardship withdrawal forms. Requests that fall within the "safe harbor categories" may be approved within one week of receipt, if appropriately documented. A check will generally be mailed within two business days from the date that it is approved by Vanguard.

The amount you receive as a hardship withdrawal will be subject to both federal and state income taxes and optional tax withholding. In addition, the federal government imposes a 10% early withdrawal penalty (except for withdrawals for medical expenses) on the amount of your withdrawal for the tax year in which it is paid to you. (You may increase your hardship withdrawal amount to cover estimated taxes and penalties if the funds are available in your account.)

Your hardship withdrawal will be taken from each of the funds in which your Pre-Tax Contributions Account is invested on a pro rata basis.

Contribution Penalty

For six months after receipt of your hardship withdrawal, you will not be able to make pre-tax or after-tax contributions to the Thrift Plan or to any other elective deferral plan. Since you will not be allowed to contribute to the plan during the suspension period, Company Matching Contributions during this time will also be suspended.

Once the suspension period has ended, your contribution will automatically resume. Please note that you will not receive true-up Matching Contributions for any Plan Year for which you were suspended from contributions as a result of a hardship withdrawal.

Denied Withdrawal or Hardship Withdrawal Requests

If you are denied a withdrawal in whole or in part, you may request the Benefits Committee to review the denial. If you make a formal request to the Benefits Committee and any portion of the request is denied, you will be notified in writing. The notice will state the specific reasons for the denial, as well as a description of any additional information or material necessary to complete your request, together with appropriate information on the steps to take if you wish to resubmit the request for review.

For more information about appealing a denied claim, see “Your Rights as a Plan Participant” section of this document.

Dividends on National Grid ADRs

You may elect to have the dividends that are paid on your investment in the National Grid ADRs reinvested in your account, or you may choose to receive them in cash.

- Reinvesting the dividends increases your long-term savings potential and maximizes the tax-deferred compounding in your account.
- Receiving cash for the dividends gives you extra spending power; however, you will pay income taxes on the amount you receive.

If you make no election, dividends will automatically be reinvested in your account in the form of additional National Grid ADRs. Your election (or default election) will remain in effect until you make a change. Any dividends paid to you in cash are subject to federal and state income taxes in the year in which the payment is made.

Loans

The loan feature allows only you to borrow funds from your own account while you continue to defer taxes on them, provided you repay the loan plus interest back into your account. As long as you are a plan participant who maintains an account as an active participant employed by National Grid you may borrow money for any purpose. You may have up to two outstanding loans at a time. Previously defaulted or deemed loans will not count toward this two outstanding loan limit. However, the outstanding amounts of previously-defaulted loans plus the interest that continues to accrue on them will reduce the maximum amount of future loans that you may take (See the next section entitled "The Loan Amount").

To request a loan or to find out more details about taking a loan, contact Vanguard at 1-800-523-1188 or visit its Web site at www.vanguard.com.

The Loan Amount

The minimum amount available for a loan is $1,000. The maximum amount available for a loan is the lesser of (1) 50% of the market value of your account, or (2) $50,000 reduced by the amount of the highest outstanding loan balance(s) during the preceding 12-month period.

Source of Loans

Loan proceeds will be taken first from your Pre-Tax Contributions Account. If that account is insufficient to cover the loan, proceeds will be taken from the following accounts in the order below:

1. Pre-tax Rollover Account;
2. After-tax Contributions Account;
3. After-tax Rollover Account and After-tax Transfer (Pre-87) Account;
4. Company Match Contributions Account and ER Stock Discretionary Account;
5. ER QNEC Account and EE QNEC Account.

Loan amounts will be withdrawn in order against the following accounts: Elective Contribution, Rollover, Employee After-Tax Contribution, Post-Tax Rollover, After-Tax Transfer (Pre-87), Matching Contribution, Employer Stock Discretionary Account, Employer Qualified Non-elective Contribution and Employee Non-elective Contribution. Loans may not be made from Core Contributions. Loan amounts will be taken pro rata across all available funds within your account. Please see the National Grid Thrift Plan I Loan Policy for further details.

Loan Repayments

The term of your loan cannot be less than 12 months and cannot exceed repayment beyond 60 months. If the loan is for the purchase of your primary residence, you may request a repayment period of up to 15 years (180 months). Repayment is made with after-tax dollars through payroll deduction. Loan repayment will begin no later than the second payroll period following the date on which you receive the loan. It is your responsibility to ensure that your loan repayments are being made when due. In the event that timely payroll deduction loan repayments are not being processed for your loan, you must notify Vanguard at 1-800-523-1188 as soon as possible to resolve the delinquency.

You may pre-pay some or all of your loan (plus outstanding interest) at any time by sending a certified check or money order made payable to Vanguard Fiduciary Trust Company, or you may log onto www.vanguard.com to pay off your loan directly from your bank account.

Loan repayments are credited to the plan accounts from which your loan proceeds were taken. Repayments will be invested in the investment funds according to your most recent contribution investment allocation.

Except in the event of a leave of absence (see below), all loan payments must be made on the due date. If you miss a loan payment, you must make it up along with the next scheduled payment to avoid being taxed on the full value of the loan. If you do not make a loan payment by the end of the quarter following the quarter in which the missed payment was due, or fail to repay the loan in full within 60 months of the date that the loan was made, your loan will be in default and will be treated as a deemed distribution for tax purposes in that year.

Leave of Absence: If you are out on an approved leave of absence, your payments may be suspended up to one year from the date that your unpaid leave of absence begins (longer if the leave is attributable to military service). Further, the term of the loan will be extended by the period of the suspension and re-amortized accordingly, although the extended period may never result in a maximum total term of 5 years (15 years if a primary residence loan), unless on account of military service (in which event the maximum limits do not apply). So, for instance, if you had a 36 month repayment schedule, left on a 6 month approved leave, and did not make any loan payments during the leave, upon return your loan would be extended by 6 months (resulting in a total term of 42 months), and the loan would be re-amortized to reflect the longer repayment period (which re-amortization, however, may not result in lower periodic payments).

If you are still on leave at the end of 12 months, you must resume loan repayments at that time, or the outstanding loan balance plus accrued interest may become taxable to you at the end of the Plan’s cure period.

The loan interest rate is set when you apply for a loan based on the rate established by the Benefits Committee. The interest rate remains fixed for the life of the loan.

Since the interest you pay on the loan is credited to your own Thrift Plan account, it is similar to investment earnings on funds held in your accounts and will be taxable upon final distribution.

Vanguard can provide you with the maximum loan amount you may borrow and the applicable interest rate at the time you apply for a loan.

No Contribution Penalty

Borrowing from your accounts will not affect your eligibility for participation in the Thrift Plan. Thus, you may have a loan while you continue to save through the Plan.

Taxes on Loans

Amounts borrowed from the Thrift Plan are not included as income. Failure to repay a plan loan in accordance with its terms, however, will result in taxable income equal to the unpaid balance (including accrued interest) of the loan. Even after this event, the loan will continue to be treated as being in default. Interest will continue to accrue for purposes of determining the maximum amount of a future loan until the first date you are entitled to a distribution due to separation from service, death, total and permanent disability, or reaching age 59½. Any unpaid loan balance already reported as taxable income will not be taxable again at the later distribution event.

You may pay the total outstanding balance of a loan following a deemed loan through payroll deductions or by sending a check directly to Vanguard. No partial payments, however, will be accepted. You should send these payments directly to Vanguard. The repayments will not affect the taxability of the loan, but they will be taken into account for purposes of determining the maximum amount of a future loan.

Applying for a Loan

As long as you are an active employee plan participant, you may apply for a loan at any time. You may use the Vanguard website (on-line access) prior to requesting a loan to model a number of loans using different loan principal amounts and repayment schedules. You may request a loan by calling Vanguard at 1-800-523-1188. You may also apply for a loan through on-line access.

Depending upon the type of loan you request, you will receive either a check (in the case of an Express general purpose loan) or a loan application (in the case of a primary residence loan). You will also receive a promissory note in which you authorize automatic payroll deductions to pay off your loan and pledge your accounts under the Plan as security for the loan. Once your loan has been approved and you receive the loan check your endorsement of the check indicates your acceptance of the loan provisions. All Plan loans are administered on a uniform and nondiscriminatory basis with respect to all participants.

A **general purpose loan** is a loan with a repayment period of 60 months (5 yrs) or less. General purpose loans qualify for Vanguard's paperless loan service which allows for the loan to be processed the same day without paperwork. The loan check will be mailed to your address of record within three to five business days. Your endorsement of the check indicates your acceptance of the loan provisions.

The maximum repayment period for a **primary residence loan** is 15 years. In order to take a primary residence loan you will be asked to demonstrate proof that the loan will be used for the purchase of a primary residence. You will receive a loan application within three to five business days of your request to Vanguard. You must then complete and return all documents to Vanguard within 30 days of your request. The loan check will be mailed to your address of record within three to five business days of the date it receives your completed forms.

If You Leave the Company with a Loan Outstanding

If you have a loan outstanding and leave the Company, you must repay your loan in full within 90 days of your termination date or you may continue to repay it by making payments directly to Vanguard. These payments are made only through an "automatic clearing house" (ACH) process whereby your bank account is reduced by the monthly repayment amount of the loan. Your payments will be due monthly, regardless of the frequency of the payments you made while you were employed. If you fail to make timely payments, the outstanding loan balance (and accrued interest) will be considered a distribution, and, in most cases, will result in a tax liability for you in that year.

To sign up for the ACH monthly deduction from your bank account, you must fill out a Loan Continuation Election form and return it to Vanguard within 90 days of your separation of service date. This form can be obtained from a Vanguard Participant Services Representative or at www.vanguard.com.

NOTE: If you do not repay your loan as described above, the outstanding balance of your loan will be subtracted from the total account balance in determining the amount of your actual distribution and will be included as part of your taxable distribution from the Plan.
If you choose to defer and leave your assets in the Plan, your loan will be defaulted unless you elect to continue making monthly payments from your bank account or you repay your loan in full within 90 days from your separation of service date.

How Benefits Are Paid to You

You qualify for a distribution of the entire balance of your Thrift Plan accounts when you:

- End employment (including at retirement);
- Become totally and permanently disabled; or
- Reach age 59½ (except for Core Contributions).

If you meet one of these conditions, you will be entitled to receive all or a portion of your plan accounts.

If you qualify for a distribution (such as at termination or retirement), you may receive an immediate lump sum, defer payment, or receive the value of your account in cash installments. If you defer receipt of benefits, your funds will remain invested in the investment funds of your choice and you may make investment transfers in the same manner as any active participant. Distribution of your account must begin no later than the April 1 of the year following the year in which you reach age 70½.

Account Balances of $1,000 or Less

If your account balances total $1,000 or less at any time after you leave the Company, a lump sum will automatically be paid to you, if you don't otherwise make an election to take a distribution from the Plan within approximately 90 days from your date of termination.

If You Leave the Company

Unless you choose otherwise, your account balance will remain in the plan until you attain age 70½. You will be required to receive minimum required distributions beginning on April 1 of the following year.

In the meantime, you may elect a total or partial distribution from your account(s) at any time.

In addition, you may:

1. Receive your account balances in annual, semi-annual, quarterly or monthly installments, to be paid over a period not to exceed your life expectancy. Once installments start, the amount of each payment is determined by dividing your account balance at the time of payment by the number of installments remaining to be paid;
2. Receive your account balance in a series of substantially equal periodic payments (paid at least annually) for your life (or life expectancy); or
3. Elect to receive distributions in any amount you wish, beginning and ending at your discretion.

You may not contribute to the plan after you leave the Company.

If You Reach Age 70½ While Still Employed

Federal tax laws generally require that benefit payments begin by April 1 of the year following the year in which you reach age 70½. If you remain employed past age 70½, minimum required distributions will be required to begin April 1 of the year following your termination of employment.

If You Die

If you die with a plan account balance, your beneficiary(ies) will receive a lump-sum payment of the full value of your account balances. Subject to certain restrictions, non-spouse beneficiaries may leave the account balance in the plan for a period of up to five years from the participant's date of death; elect a series of substantially equal periodic payments over the beneficiary's life expectancy; or rollover the account balance into an inherited IRA. However, if you had begun receiving distributions from the Plan, your beneficiary must continue to receive distributions from the Plan at least as rapidly as you were receiving distributions, unless the beneficiary elects to receive distribution in cash in a single lump sum within five years of your date of death. A spouse beneficiary may maintain his or her balance in the plan, but he or she must begin to receive payments by the end of the calendar year in which the participant would have reached age 70½ or, if later, the calendar year following the date of the participant's death.

Other Information

Non-assignability of Benefits

Except as expressly provided by applicable law, you may not borrow against, or assign your interest in, your Thrift Plan account balances or pledge or use any part of them as security for a loan or otherwise transfer your rights. You may, however, designate a beneficiary to receive amounts allocated to your accounts in the event of your death.

No part of your benefits may be claimed by a creditor for the payment of a debt, or subject to judicial or administrative decree. Part or all of your benefits may be claimed, however, to pay child support, alimony, or as part of a marital property settlement as ordered by a Qualified Domestic Relations Order (QDRO).

A QDRO is a court decree, made under a state domestic relations law, regarding the provision of child support, alimony payments, or marital property rights to an alternate payee (that is, a spouse, former spouse, child, or other dependent of a participant), which: (1) creates or recognizes the existence of the alternative payee's right to, or assigns to the alternative payee the right to receive, all or a portion of the benefits payable to a participant under the plan; and (2) satisfies the requirements of section 414(p) of the Internal Revenue Code and section 206(d) of ERISA.

Contact the Vanguard QDRO Determination Unit at 1-888-809-8104 to obtain a copy of the Benefits Committee's QDRO procedures. The fee for reviewing a draft domestic relations order is $400, regardless of whether the order is ultimately qualified or is submitted to a court. Once an order is qualified and the accounts are split between the participant and the alternate payee, the $400 dollar fee is equally divided between the participant and the alternate payee.

Information regarding domestic relations orders and QDROs should be sent to the following address:

Vanguard
QDRO Determination Unit
L-25
P.O. Box 2900
Valley Forge, PA 19482-2900

Top-heavy Requirements

Under certain circumstances, plans like the Thrift Plan must provide additional minimum benefits if the plan is found to benefit a certain group of Company officers and/or owners disproportionately. Such a plan is considered top heavy. It is unlikely that the plan will become top heavy, but you will be notified of any changes if it does.

Maximum Benefits

The Internal Revenue Code imposes limits on the amounts that can be contributed to tax qualified savings plans, which is periodically adjusted by law. For example, in 2010 and 2011, the annual maximum salary reduction contribution is $16,500. A participant who will be age 50 or over by the end of the calendar year may also contribute an additional $5,500 in 2010 and 2011. The Internal Revenue Code also imposes limits on annual compensation based on section code IRC 415(c). In 2010 and 2011, the annual limit on compensation is $245,000.

The IRS restricts the total annual amount participants can contribute to their defined contribution (401k) account. For the 2010 and 2011 plan year, the annual additions limit for participants is the lesser of $49,000 or 100% of total compensation. The annual additions limit includes participant elective deferral contributions (not including age 50 catch-up contributions), Employer Matching Contributions, Employer Core Contributions and any after-tax contributions.

Effective January 1, 2011, the maximum Company Matching Contribution, based on the $245,000 compensation limit described above, is $9,800 ($245,000 x 8% x 50% = $9,800). The maximum Company Matching Contribution for each Plan Year will be based on the annual limit on compensation as adjusted pursuant to IRS requirements.

Participation Requirement

The IRS requires that plans with tax-deferred savings opportunities pass a test that is designed to ensure a fair mix of savings among employees at all income levels. For the Thrift Plan to pass this test, it may be necessary to adjust the tax-deferred savings rate for certain highly compensated employees (for 2010 and 2011, this means anyone who earned more than $110,000 in the previous year - 2009 or 2010. This amount may be adjusted each year). You will be notified if you are affected by this requirement.

No Right to Employment

The plan, or your participation in it, does not guarantee your employment with the Company.

Change in Job Status

A participant who changes job status within participating employers' companies will become eligible for immediate participation in the applicable plan (this plan or the Incentive Thrift Plan II), in accordance with applicable plan provisions. Subsequent to a change in participation between the plans, the participant's interest in the previous plan will be transferred to the new plan.

If you transfer from Incentive Thrift Plan II to Incentive Thrift Plan I (a union to management transfer) on or after January 1, 2011, your eligibility for Company Core Contributions will be based on your hire date as follows:

- If your hire date is prior to 1/1/2011, you will remain in the pension plan in which you are currently enrolled, however, effective 1/1/2011 you will follow the rules for management employees under that pension plan. You will not be eligible for Company Core Contributions under Thrift Plan I.
- If your hire date is on or after 1/1/2011, your participation in any pension plan will end as of your transfer date. You will be eligible to start receiving Company Core Contributions under Thrift Plan I once eligibility requirements are satisfied as described above.

Plan Amendment or Termination

The Company reserves the right to amend, modify, revoke, or terminate the Thrift Plan, in whole or in part, at any time. The authority to make such changes rests with the Board of Directors of National Grid plc, except to the extent delegated to the Board of Directors of National Grid USA Service Company, Inc. The decision to change or end the plan may be due to changes in laws governing retirement benefits, the requirements of the Internal Revenue Code or ERISA, or any other reason.

No amendment of the plan may be made which will (1) deprive any participant or beneficiary of any part of an account existing on the date of such amendment; (2) result in the reversion to an employer of any part of the funds contrary to the provisions of the plan; or (3) increase the duties or liabilities of the Trustee without its written consent.

Any participating National Grid company may terminate the plan with respect to its employees at any time. The plan has no definite termination date.

The plan is not an IRA. Participation in the plan may affect the establishment of or contribution to an IRA. Speak with your tax advisor about IRA rules.

If the Thrift Plan is terminated, or if there is a complete discontinuance of contributions, you will continue to be fully vested in your account balances. Distributions will be made upon plan termination consistent with the Internal Revenue Code of 1986, as amended.

The Code places restrictions on plan termination distributions in the case of a plan such as the Thrift Plan, if the employer continues to maintain another similar plan. Because your benefit depends solely on the amount in your accounts, the Thrift Plan is not insured by the Pension Benefit Guaranty Corporation (PBGC) under Title IV of ERISA.

Please note that National Grid reserves the right to suspend Company Matching Contributions and/or Company Core Contributions at any time.

Plan Expenses

The Benefits Committee may direct the Plan trustee to pay from Plan assets (including administrative fee credits, forfeitures and similar amounts) any or all expenses of administering the Thrift Plan, to the extent such expenses are reasonable. Any such expenses not paid out of the Plan assets (or reimbursed from Plan assets) will be incurred by the participating employers. Participating employers do not, however, pay broker fees on National Grid ADRs, fees associated with investment advice services, nor the expenses of investment funds/trusts. Expenses of these funds/trusts are netted from fund performance by the fund/trust manager or directly charged to participant accounts, as applicable. The Benefits Committee may direct the Plan trustee to allocate any administrative credits, forfeitures and similar amounts not used for expenses of administering the Plan to participant accounts on a pro-rata basis from time to time, subject to the limits or requirements of the Code and/or ERISA.

Continuation of Participation

If You Are on an Authorized Leave of Absence

You may continue your payroll contributions to the plan during an authorized paid leave of absence, unless you elect to suspend your contributions. During an unpaid leave of absence, however, your contributions, corresponding Company Matching contributions as well as Company Core contributions will be suspended. When you return from an unpaid leave, your contributions will resume immediately, based upon your most recent contribution election.

Employees returning from military leaves of absence may be entitled to make up missed payroll contributions and receive related Matching Contributions and Company Core Contributions, if eligible. Contact Vanguard if you have more questions about qualifying for make-up treatment.

If You Are Disabled

If you become totally and permanently disabled such that you are unable to work for an indefinite period of time as determined by the Social Security Administration, your Thrift Plan contributions will end with your last paycheck from the Company. In such cases, you may furnish evidence of your disability determination from the Social Security Administration to Vanguard, which would both make your account balance available for distribution and relieve you from the 10% penalty tax applicable to early distributions. For more information about requesting total and permanent disability status contact Vanguard.

How to Request a Withdrawal, Loan or Distribution

Contact Vanguard at 1-800-523-1188 (or use Vanguard's on-line access) to request a loan or forms necessary for obtaining a withdrawal (including a hardship withdrawal) or distribution from your Thrift Plan accounts. Vanguard will provide you with any necessary forms and answer any questions you may have. Your request will be processed as soon as administratively possible after fully completed forms are received by Vanguard.

Incentive Thrift Plan I Administration

The Thrift Plan is administered by the Benefits Committee, which is empowered to decide questions of eligibility and make other interpretations under the Plan at its discretion, and in general to administer the operations of the Plan.

The Investment Committee has responsibility for the investment matters, including the selection and monitoring of investment options, any investment managers, any qualified default investment alternatives, and investment advice providers and services.

Any determination made by the Benefits Committee and/or the Investment Committee is final and conclusive on all persons, in the absence of clear and convincing evidence that the decision was made arbitrarily and capriciously.

Vanguard Fiduciary Trust Company has the power and authority that are provided in the Plan's Trust Agreement, including the custodianship of the Trust assets and participant recordkeeping.

The Trustee (or the investment manager or investment vehicle, if applicable) may keep such amounts of cash and short-term investments as is necessary or advisable to maintain as a part of any investment fund, all within the limitations specified in the Trust Agreement. You may contact the Plan Trustee at:

Vanguard Fiduciary Trust Company
P.O. Box 2900
Valley Forge, PA 19482-2900

Street Address:
100 Vanguard Blvd.
Malvern, PA 19355

The Benefits Committee is the named administrative fiduciary which has authority to control and manage the operation and administration of the Plan and the Investment Committee is the named investment fiduciary which has authority and responsibility over investment matters.

Benefits Committee and Investment Committee members are appointed by the National Grid USA Service Company, Inc. Board of Directors. Neither the Benefits Committee members nor Investment Committee members receive any additional compensation for serving on the committees.

The Plan is on file with the U.S. Department of Labor and has been assigned the following identification numbers:

Employer Identification Number: 04-1663150
Plan Identification Number: 005

Unless otherwise directed by the Investment Committee, brokers will be selected by the Trustee, the investment manager, or the investment vehicle, as applicable.

The Thrift Plan is subject to determination of its tax-qualified status by the Internal Revenue Service. You will be notified if the qualified status of the Plan changes.

You can write the Benefits Committee and/or the Investment Committee at the following address:

Benefits Committee (or Investment Committee) of National Grid
C/O Vice President of Compensation and Benefits, US
National Grid
One MetroTech Center
Brooklyn, NY 11201
National Grid Employee Services: 1-888-4TDC123

Your Rights as a Plan Participant

As a participant in the Thrift Plan, you are protected by the Employee Retirement Income Security Act of 1974 (ERISA). The "Company" means your National Grid company employer. ERISA provides that all Plan participants are entitled to:

- Examine free of charge, at the plan administrator's office and at other specified locations (such as Employee Services), all of the documents governing the Plan (including insurance contracts and copies of all documents filed by the Plan with the U.S. Department of Labor, such as the latest annual reports).

- Obtain copies of all documents governing the Plan, , the latest annual reports (Form 5500 Series) filed with the U.S. Department of Labor and an updated summary plan description, upon written request to the plan administrator. The plan administrator may charge a reasonable fee for copies.
- Receive a summary of the Plans' annual financial reports. The plan administrator is required by law to furnish each participant with a copy of these summary annual reports for applicable plans.

You may file suit in Federal court if any materials requested are not received within 30 days of your request, unless the materials were not sent for reasons beyond the control of the plan administrator. The court may require the plan administrator to pay up to $110 for each day's delay until the materials are received.

In addition to establishing participants' rights, ERISA imposes duties upon the people responsible for the operation of a plan. These persons are called fiduciaries. Plan fiduciaries must operate a plan prudently and in the interest of participants and beneficiaries. Fiduciaries who violate ERISA may be removed and required to make good any losses they have caused a plan.

No one, including the Company, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a plan benefit or exercising your rights under ERISA.

As set forth in more detail below, if your claim for a plan benefit is denied in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the plan fiduciary review and reconsider your claim. If, after such review, you believe you are improperly denied a plan benefit in full or in part, you have the right to file suit in a Federal or state court. If plan fiduciaries misuse a plan's money or you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a Federal court.

If you are successful in your suit, the court may order the person you have sued to pay court costs and legal fees. If you lose, the court may order you to pay the costs and fees – if, for example, it finds your claim is frivolous.

If you have any questions about the Thrift Plan, contact Vanguard or the plan administrator. If you have any questions about this statement or about your rights under ERISA, contact the nearest area office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory, or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue, N.W., Washington, D.C. 20210.

How to File a Claim

To make a claim for benefits under the Thrift Plan that has been otherwise refused by the

Company or the applicable plan's trustee, you must provide the Benefits Committee (or its designee) with a written request (at the below address) explaining the reasons you believe you are entitled to the benefits. You or your authorized representative may request any pertinent plan documents related to your claim. The Benefits Committee (or its designee) will notify you of its decision within 90 days (within 180 days if you are so notified of the extended period before expiration of the initial 90 day period) of receiving your claim. The notice of denial will indicate the specific reasons for the denial, and will include references to applicable plan documents. If the Benefits Committee (or its designee) fails to provide you with a notice of its decision within 90 days (or 180 days if applicable) of receipt of your claim, your claim will be considered denied.

Benefits Committee
C/O Vice President of Compensation and Benefits, US
National Grid
Thrift Plan I
One MetroTech Center
Brooklyn, NY 11201

To appeal any claim denied by the Benefits Committee (or its designee) under the Thrift Plan, you (or your beneficiary) must submit a written statement outlining and explaining the reasons you think the claim should not be denied to the Benefits Committee at the above address. The Benefits Committee must act on your claim appeal within 60 days of receiving it (or 120 days if you are so notified within the initial 60 day period). You will be notified if such an extension is necessary. The final decision will be sent to you in writing with an explanation of the reasons for the decision, including references to plan provisions on which the decision is based.

Determinations made by the Benefits Committee (and its designee) are final and conclusive on all persons, in the absence of clear and convincing evidence that the decision was made arbitrarily and capriciously.

You may file suit in Federal Court following a disallowance of your claim by the Benefits Committee on appeal.

Agent for Service of Legal Process
If for any reason you wish to seek legal action, you may serve legal process upon the Benefits Committee (see address above), or you may also serve legal process upon the plan Trustee.

Keep Us Informed
It is very important to keep your personnel records up to date. If you move, marry, have or adopt a child, or divorce, let Employee Services know immediately by calling them at 1-888-4TDC-123. They can help you fill out any new forms that may be required for plan benefits.

Appendix I: Investment Funds Description

This Appendix contains a summary of certain provisions of the Thrift Plan and the fund choices offered as investments in the Plan. You may obtain a copy of the "Fund Fact Sheets" or prospectuses (if available) from Vanguard.

It is important to note, however, that the Company cannot assure a profit or protect against loss on securities credited under the plans. In addition, no representative of the National Grid plc (National Grid) companies, the Benefits Committee, Investment Committee, the Trustee, or Vanguard is authorized to give you investment advice concerning which of the various investment options under the plans is best suited for your particular circumstances. You should seek professional investment advice when making investment decisions.

For information about general plan provisions, see the summary plan description section preceding this Appendix I. For information about the types of securities offered in fund options, including the National Grid ADR Fund, see the particular fund's prospectus, if available, or the Fund Fact Sheet. Prospectuses for the Vanguard and PIMCO Funds are available by calling Vanguard at 1-800-523-1188. The National Grid ADR Fund prospectus is attached as Appendix II.

Importance of Diversification: To help achieve long-term retirement security, you should give careful consideration to the benefits of a well-balanced and diversified investment portfolio. Spreading your assets among different types of investments can help you achieve a favorable rate of return, while minimizing your overall risk of losing money. This is because market or other economic conditions that cause one category of assets, or one particular security, to perform very well often causes another asset category, or another particular security, to perform poorly. If you invest more than 20% of your retirement savings in any one company or industry, your savings may not be properly diversified. Although diversification is not a guarantee against loss, it is an effective strategy to help you manage investment risk. In deciding how to invest your retirement savings, you should take into account all of your assets, including any retirement savings outside of the Thrift Plan. No single approach is right for everyone because, among other factors, individuals have different financial goals, different time horizons for meeting their goals, and different tolerances for risk. It is also important to periodically review your investment portfolio, your investment objectives, and the investment options under the Plan to help ensure that your retirement savings will meet your retirement goals. For more information on individual investing and diversification, visit the Department of Labor website: http://www.dol.gov/ebsa/investing.html.

Please note that the expense ratios provided for the investment funds described below were based on the most recent information available at the time this summary plan description was produced. Current information about an investment fund's expense ratio may be obtained from the fund's prospectus or from the Fund Fact Sheet for the particular investment. You can obtain a copy of a current prospectus or Fund Fact Sheet by calling Vanguard at 1-800-523-1188 or logging on to Vanguard's Web site at www.vanguard.com.

STOCKS

VANGUARD INSTITUTIONAL INDEX FUND - (VINIX)

The Vanguard Institutional Index Fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the S&P 500 over the long term. The fund employs a "passive management"—or indexing—investment approach designed to track the performance of the Standard & Poor's 500 Index, which is dominated by the stocks of large U.S. companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index. *As of 09/30/2010 the expense ratio for this fund was 0.05%.*

VANGUARD EXTENDED MARKET INDEX FUND – INSTITUTIONAL (VIEIX)

Vanguard Extended Market Index Fund seeks to track the performance of a benchmark index that measures the investment return of small- and mid-capitalization stocks. The fund employs a "passive management"—or indexing—investment approach designed to track the performance of the Standard & Poor's Completion Index, a broadly diversified index of stocks of small and medium-size U.S. companies. The Standard & Poor's completion Index contains all of the U.S. common stocks regularly traded on the New York and American Stock Exchanges, and the Nasdaq over-the-counter market, except those stocks included in the Standard & Poor's 500 Index. The fund invests all, or substantially all, of its assets in stocks of its target index, with nearly 80% of its assets invested in the 1,200 largest stocks in its target index (covering nearly 80% of the index's total market capitalization), and the rest of its assets in a representative sample of the remaining stocks. The fund holds a broadly diversified collection of securities that, in the aggregate, approximates the full index in terms of key characteristics. These key characteristics include industry weightings and market capitalization, as well as certain financial measures such as price/earnings ratio and dividend yield. *As of 09/30/2010 the expense ratio for this fund was 0.09%.*

VANGUARD FTSE ALL-WORLD EX-US FUND – INSTITUTIONAL (VFWSX)

Vanguard FTSE All-World ex-US Index Fund seeks to track the performance of a benchmark index that measures the investment return of stocks of companies located in developed and emerging markets around the world. The fund employs a "passive management"—or indexing—investment approach designed to track the performance of the FTSE All-World ex US Index. The index includes approximately 2,200 stocks of companies in 46 countries, from both developed and emerging markets around the world. The fund invests in a broadly diversified sampling of stocks in the index that approximates the index's key risk factors and characteristics. *As of 09/30/2010 the expense ratio for this fund was 0.15%. Please be advised that the fund charges a 2.0% redemption fee on shares held 60 days or less.*

BONDS

PIMCO TOTAL RETURN INSTL (PTTRX)
PIMCO Total Return Fund seeks maximum total return, consistent with preservation of capital and prudent investment management. The fund invests in bonds maintaining an average duration ranging between three and six years. The total return sought by the fund comes from the income generated by the bonds as well as the gains from changes in interest rates. The bonds that the fund invests in include U.S. government and corporate debt securities; mortgage and other asset-backed securities; U.S. dollar- and foreign currency-denominated securities of foreign issuers; and money market instruments
As of 09/30/2010 the expense ratio for this fund was 0.47%.

STABLE VALUE

GALLIARD STABLE VALUE FUND
The Galliard Stable Value fund is a conservative investment option that seeks to provide safety of principal and a stable credited rate of interest, while generating competitive returns over time compared to other conservative investments, such as money market funds. The fund, managed by Galliard Capital Management, is primarily comprised of investment contracts issued by financial institutions and other eligible stable value investments. All contract issuers and securities utilized in the portfolio are rated investment grade by one of the Nationally Recognized Statistical Rating Organizations (NRSRO) at time of purchase. The types of investment contracts in which the Fund invests include Security Backed Investment Contracts (book value wrappers). These types of contracts seek to provide participants with safety of principal and accrued interest as well as a stable crediting rate. *As of 09/30/2010 the expense ratio for this fund was 0.13%*.

BALANCED FUNDS/TARGET DATE FUNDS

If you want help taking the guesswork out of investing, you may want to consider investing in just one target date fund. Depending on your needs, a single target date fund could give you the diversification you want and is designed to keep your assets invested appropriately for someone in your stage of life, up to and including your retirement years.

Investments in target date funds are subject to the risks of their underlying funds.
The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments (stocks) to more conservative ones (bonds and short-term reserves) based on its target date. This gradual shift in asset allocation is referred to as the target date fund's "glide path." An investment in a target date fund is not guaranteed at any time, including on or after the target date.

You may want to consider choosing the fund with the date that's closest to the year when you expect to retire. If you are already retired, consider choosing a target date income fund. This fund maintains a fixed allocation with the objective of providing retirees with income while preserving the original investment.

If you wish to take on less or more risk, you can choose a fund with a target date earlier or later than your expected retirement year.

Types of Target Date Funds

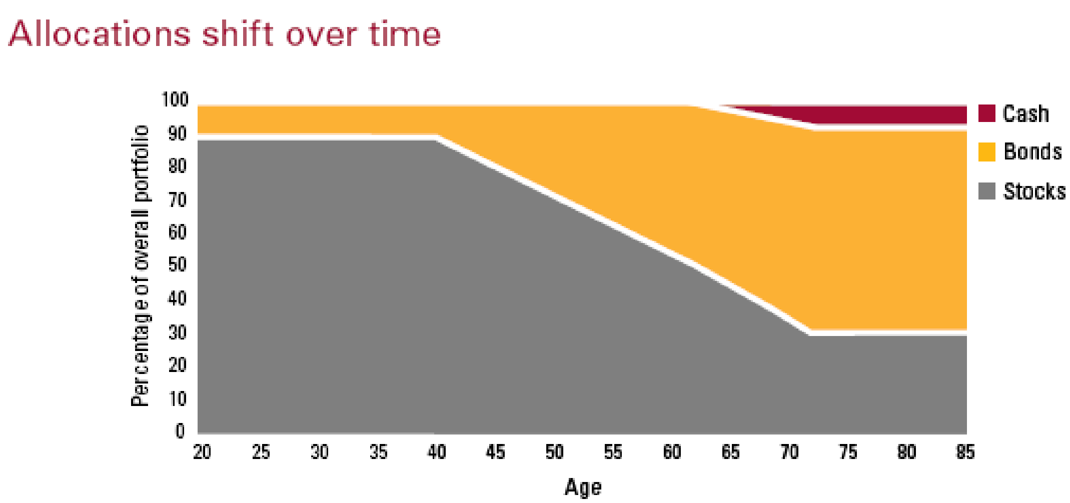
The Plan offers two families of target date funds, Vanguard Target Retirement Funds and Wellington Trust Target Series Portfolios. Both types of funds make it possible to create a diversified investment portfolio by investing in a single fund. Moreover, as you approach retirement, the underlying investments of both types of funds become more conservative.

So what's the difference?

Vanguard Target Retirement Funds—An index-fund-based approach
Vanguard Target Retirement Funds invest in broadly diversified Vanguard funds, most of which are index funds. Indexing is based on the dual premises that it is difficult to outperform the market over the long term and that it typically costs less to operate an index fund than an actively managed fund.

Note: Each Target Retirement Fund is subject to the risks associated with its underlying funds.

As of July 2, 2010, the following chart shows the glide paths of the Vanguard Target Retirement Funds.



Each Target Retirement Fund invests in Vanguard mutual funds using an asset allocation strategy designed for investors planning to retire in or around its target year. A Target Retirement Fund's asset allocation will become more conservative over time.

Within seven years after its target year, the fund's asset allocation should resemble that of Vanguard Target Retirement Income Fund.

Selecting a Vanguard Target Retirement Fund

Fund Name	For investors… Retiring…	Born…	Expense Ratio* (as of 9/30/2010)
Vanguard Target Retirement 2055 Fund	2053 or later	1989 or later	0.19%
Vanguard Target Retirement 2050 Fund	2048 to 2053	1983 to 1988	0.20%
Vanguard Target Retirement 2045 Fund	2043 to 2047	1978 to 1982	0.20%
Vanguard Target Retirement 2040 Fund	2038 to 2042	1973 to 1977	0.20%
Vanguard Target Retirement 2035 Fund	2033 to 2037	1968 to 1972	0.20%
Vanguard Target Retirement 2030 Fund	2028 to 2032	1963 to 1967	0.19%
Vanguard Target Retirement 2025 Fund	2023 to 2027	1958 to 1962	0.19%
Vanguard Target Retirement 2020 Fund	2018 to 2022	1953 to 1957	0.18%
Vanguard Target Retirement 2015 Fund	2013 to 2017	1948 to 1952	0.17%
Vanguard Target Retirement 2010 Fund	2008 to 2012	1943 to 1947	0.17%
Vanguard Target Retirement 2005 Fund	2003 to 2007	1938 to 1942	0.18%
Vanguard Target Retirement Income Fund	Before 2003	Before 1938	0.18%

*The cost of running the fund, expressed as a percentage of the fund's assets, as of the most recent fiscal year. For Target Retirement Funds, the expense ratio has been restated to reflect expenses currently being deducted from fund assets. This figure is an average weighted expense ratio, based on expenses incurred by the Vanguard funds that make up each Target Retirement Fund. This data is as of the most recent prospectus for the funds, dated January 26, 2010. Source: Morningstar, Inc.

You may want to consider investing all your Plan contributions in a Vanguard Target Retirement Fund if:

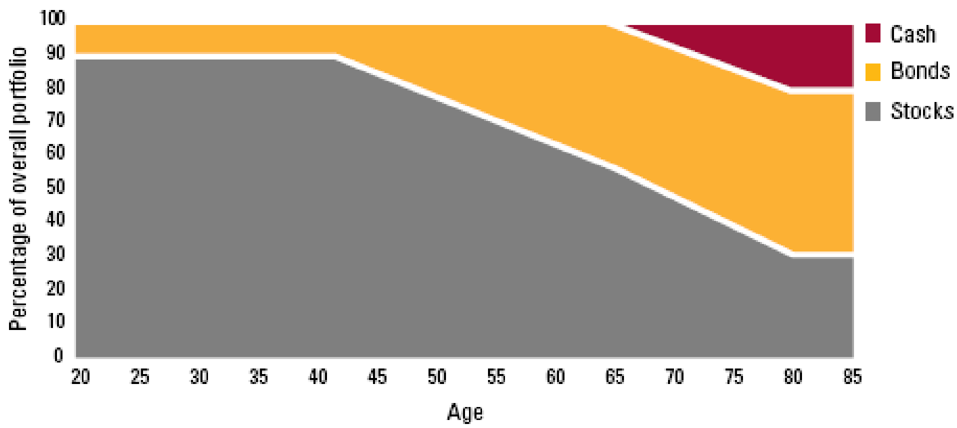
- An all-in-one investment • suits your needs
- You like the fund's glide path (above).
- The investing approach and cost of a balanced fund invested primarily in Vanguard index funds appeal to you.

Wellington Trust Target Series Portfolios—An active management approach

Wellington Trust Target Series Portfolios utilize an investment approach that balances risk and reward, seeking to outperform their respective investment indexes. Through a blend of stocks, bonds, cash, and other institutional investments, these portfolios are designed for participants seeking an actively managed asset allocation solution. Wellington Trust Target Series Portfolio managers rely on proprietary research and experience in buying and selling global securities to mitigate risks such as short-term loss of principal, inflation and the risk of outliving your retirement savings.

As of July 2, 2010, the following chart shows the glide paths of the Wellington Trust Target Series Portfolios.

Allocations shift over time



The portfolio allocation mix becomes more conservative over time until 15 years after the target retirement date is reached, at which point assets roll into the Target Retirement Income Portfolio. The asset allocation mix assumes a retirement age of 65, and that contributions will stop and the gradual withdrawal of income will begin at retirement. The allocations are subject to change at any time.

Selecting a Wellington Trust Target Series Portfolio

Fund Name	For investors…		Expense Ratios*
	Retiring…	Born…	
Wellington Trust Target 2050 Portfolio	2046 or later	1981 or later	0.65%
Wellington Trust Target 2040 Portfolio	2036 to 2045	1971 to 1980	0.65%
Wellington Trust Target 2030 Portfolio	2026 to 2035	1961 to 1970	0.65%
Wellington Trust Target 2020 Portfolio	2016 to 2025	1951 to 1960	0.65%
Wellington Trust Target 2010 Portfolio	2006 to 2015	1941 to 1950	0.60%
Wellington Trust Target 2000 Portfolio	1996 to 2005	1931 to 1940	0.60%
Wellington Trust Target Retirement Income Portfolio	Before 1996	Before 1931	0.50%

*The cost of running the fund, expressed as a percentage of the fund's assets, as of the most recent fiscal year. This data is as of December 31, 2009. Wellington Trust Target Series Portfolios, net expense ratios are 0.50% to 0.65%. The average net expense ratio of the 30 largest actively-managed target date mutual funds is 1.06%. Source: Morningstar, Inc. Wellington Trust Target Series Portfolios are not mutual funds.

You may want to consider investing all your Plan contributions in a Wellington Trust Target Series Portfolio if:

- An all-in-one investment • suits your needs.
- You like the portfolio's glide path (see above).
- The investing approach of a global, actively managed, multi-asset portfolio appeals to you.

COMPANY STOCK

NATIONAL GRID ADR'S (NGG)
The objective of the National Grid ADR Fund as an investment option in the Thrift Plan is to provide income and long-term growth. It invests only in National Grid ADRs and may be subject to price volatility as well as currency risk.

The National Grid ADR Fund

Participants in the Thrift (401k) Plan may invest in National Grid plc Ordinary Shares in the form of American Depositary Shares (ADS).

In effect, one ADS (which is the equivalent to an American depositary receipt, and may be used interchangeably) represents five National Grid plc ordinary shares, so the price of a National Grid ADS in this country is in large part reflective of the price as reported for National Grid shares on the London Stock Exchange times the exchange rate for English pounds into U.S. dollars times five. For a more complete description of National Grid ADRs as a facility for purchasing National Grid shares, see Description of The National Grid plc Ordinary Shares and ADSs contained in the prospectus (Appendix II).

The fact that ADSs require a conversion from pounds to dollars introduces an important variable – currency risk. Because the price of a National Grid ADS is in large part based upon the ordinary share price on the London Exchange times the currency exchange rate at the time of the trade, and because it is likely that the exchange rate will be different at the time an investor chooses to sell National Grid ADSs from the exchange rate in effect at the time of purchase, the exchange rate difference will have an impact on the investment return.

Sources of National Grid ADSs

There are three potential sources of National Grid ADSs for plan purposes: ADSs being sold by participants in the Thrift Plans; original issue National Grid shares converted into ADSs; and the open market. As of the date of this document, the Trustee was under instructions from the Company to purchase National Grid ADSs needed for plan purposes on the open market. In addition, when practical to do so, the Trustee was under instructions to net shares between participants in the Thrift Plans.

National Grid ADSs will only be purchased for cash. There is no specified minimum or maximum amount of National Grid ADSs that the Trustee may purchase.

If the Trustee purchases ADSs from participants in the Thrift Plans, or on the open market, contributions will generally be invested on the business day following receipt of the contributions by Vanguard from the Company. Depending upon market conditions, purchases may take a number of days to complete.

For ADSs representing shares issued by National Grid, investments will be made as of the date the Trustee notifies National Grid of a need for ADSs, but for administrative reasons, need not be completed until up to 10 business days after that date.

Price of National Grid ADSs

The price of ADSs representing shares purchased from National Grid will be based on the market value of the underlying securities (converted from pounds to dollars) at the closing of the London Stock Exchange on the business day prior to the transaction.

National Grid ADSs purchased on the open market (New York Stock Exchange) will be priced for each participant's account at the average purchase price of all ADSs purchased during that day or period, as applicable.

The price of National Grid ADSs netted among participants in the Thrift Plans will be computed at the average price of all ADSs netted, determined based upon the prior business days closing price of National Grid ordinary shares on the London Stock Exchange converted to National Grid ADS equivalents. The computation of National Grid ADS equivalents will be based upon the currency exchange rate at 12:00 noon on the computation date.

To the extent National Grid ADSs are purchased for a particular set of transactions from more than one source during any given day or period, the price will reflect the average price of National Grid ADSs netted and/or purchased from all sources for that day or period.

The value of National Grid ADSs will fluctuate with changing market conditions; therefore, your investment may be worth more or less than your original cost when you redeem your investment in the National Grid ADR Fund. You should not rely on the fund as a complete investment program, nor use it to play short-term swings in the market.

Your Control of Your National Grid ADSs

You may not resell the National Grid ADSs credited to your account outside of the plans until they are distributed to you (or your beneficiary) under the plans. Upon such distribution, there are no restrictions, under present laws, on the resale of such ADSs unless your (or your beneficiary) are an affiliate of National Grid. For this purpose, an affiliate of National Grid is a person who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or under common control with, National Grid. A participant who is such an affiliate may not resell such ADSs except pursuant to an effective registration statement covering such ADSs or in compliance with Rule 144 of the Securities Act of 1933 or pursuant to any other available exemption.

Interests in the plans, including National Grid ADSs, are prohibited from being used as collateral while held in plans, other than for a loan from your own account.

Any new National Grid ADSs that result from an underlying security dividend or share split will be credited to your account and will remain in the National Grid ADR Fund.

Voting and Tender Rights on National Grid ADSs and Other Shares Held in Funds

In the event of a solicitation relative to a stockholder of the National Grid, the ADR Depositary Bank of New York as of 3/2008) has the right to vote National Grid shares represented by ADSs. The Depositary will endeavor to vote the shares evidenced by the Thrift Plan ADSs in accordance with instructions received from the Thrift Plan Trustee. Unless a poll (a tabulated stockholder vote) is demanded in accordance with the National Grid governing articles, stockholder meeting votes are taken by a show of hands, which means the Depositary has a single vote exercisable only if the Depositary is present at the meeting. If there is a poll, the Depositary will endeavor to vote Thrift Plan ADSs in accordance with the instructions received by the Thrift Plan Trustee.

In any event, the Trustee will request instructions from holders of ADSs under the Thrift Plans. If you do not provide the Trustee with instructions, the Trustee will direct the Depositary in your place. The Trustee will direct the Depositary relative to National Grid ADSs for which it does not receive instructions in the same proportions as it receives instructions for the National Grid ADSs in the plans. For more information relative to voting, see the American Depositary Shares and American Depositary Receipts sections contained in the prospectus (Appendix II).

Notwithstanding the above, Participants shall be informed that if the relevant voting rights relate to corporate matters including but not limited to a potential merger or acquisition of the Company, all shares (and fractional shares) of Company Stock in the Company Stock Fund for which the Trustee has not received timely voting or exercise directions shall be voted or exercised by the Trustee at its discretion.

In the event of a tender offer for Company Stock, the Trustee shall not tender any shares (or fractional shares) of Company Stock in the Company Stock Fund for which it does not receive timely directions to tender such shares (or fractional shares) from Participants, except in the case where to do so would be inconsistent with the provisions of Title I of ERISA.

The plans provide that any instructions you give to the Trustee relative to voting, tender offers, or exchange offers will be kept confidential.

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Appendix II: NGG ADR Prospectus

NATIONAL GRID PLC

AMERICAN DEPOSITARY SHARES

EVIDENCED BY AMERICAN DEPOSITARY RECEIPTS
And

INTERESTS IN THE PLAN

Offered as set forth herein pursuant to

NATIONAL GRID USA COMPANIES'
INCENTIVE THRIFT PLAN I

NATIONAL GRID USA COMPANIES'
INCENTIVE THRIFT PLAN II

Participation in the National Grid USA Companies' Incentive Thrift Plan I and National Grid USA Companies' Incentive Thrift Plan II is offered as set forth herein to eligible employees of subsidiary companies of National Grid plc

The American Depositary Shares are traded on the New York Stock Exchange under the symbol "NGG"

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is December 3, 2007

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

There are hereby incorporated by reference in this prospectus the following documents heretofore filed with the SEC pursuant to the 1934 Act:

National Grid plc Filings (File No. 001-14958)	Period
Annual Reports on Form 20-F	Fiscal Year ended March 31, 2007
Reports of Foreign Private Issuer on Form 6-K	Furnished on April 3, 2007, May 4, 2007, May 17, 2007, June 1, 2007, June 19, 2007, July 6, 2007, July 9, 2007, July 12, 2007, July 30, 2007, July 31, 2007, August 15, 2007, August 23, 2007, August 24, 2007, October 9, 2007, November 8, 2007, November 14, 2007, and November 15, 2007.

All documents subsequently filed by National Grid plc ("National Grid") and the National Grid USA Companies' Incentive Thrift Plan I and National Grid USA Companies' Incentive Thrift Plan II (each a "Thrift Plan" and collectively the "Thrift Plans") pursuant to Sections 13, 14, or 15(d) of the 1934 Act after the date of this prospectus and prior to the termination of the offering of National Grid American Depositary Shares (ADSs) evidenced by American Depositary Receipts (ADRs) under the Thrift Plans shall be deemed also to be incorporated by reference herein and a part hereof from their respective dates of filing.

National Grid hereby undertakes to cause to be delivered to all employees participating in the Thrift Plans copies of all reports, proxy statements, and other communications distributed to its security holders generally.

National Grid hereby undertakes to provide without charge to each person to whom a copy of this prospectus has been delivered, upon the written or oral request of such person, a copy of any or all other documents referred to above which have been or may be incorporated in this prospectus by reference, other than exhibits to such documents. Written or oral requests for such copies should be directed to: Treasurer, National Grid USA, 25 Research Drive, Westborough, Massachusetts 01582, (508) 389-2000.

In addition to the documents described above, any document which is entitled with the name of the Thrift Plan(s) and which contains the legend, "This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933" is incorporated in this prospectus by reference.

DESCRIPTION OF THE NATIONAL GRID PLC SHARES, ADSs, AND ADRs

Introduction

Participants in the Thrift Plans may invest in National Grid Ordinary Shares through an American Depositary Receipt program. However, participants should be aware of the mechanics of an ADR program and the differences between some of the rights and powers of holders of shares in an American corporation (such as Niagara Mohawk), holders of National Grid shares, and holders of National Grid ADRs.

What follows is a summary of the material terms of the National Grid's share capital, as well as information about the material provisions of the Memorandum and Articles of Association of National Grid (the Articles) and applicable English law. It uses terms defined in the documents and statutes. This summary is not necessarily complete and participants in the Thrift Plans should also refer to the Articles which are filed as an exhibit to the registration statement for the Thrift Plans.

The term "Ordinary Shares" refers to the National Grid Ordinary Shares of 11 17/43 pence each. Each ADS represents the right to receive five Ordinary Shares and are evidenced by an ADR.

The National Grid's authorized share capital is 4,388,000,000 Ordinary Shares.

The Ordinary Shares are listed on the London Stock Exchange. The ADSs evidenced by ADRs are listed on the New York Stock Exchange.

ORDINARY SHARES

Voting Rights
Subject to any rights or restrictions attached to any shares and to any other provision of the Articles, at any general meeting on a show of hands, every shareholder who is present in person will have one vote. On a poll, every shareholder will have one vote for every share which he holds, and votes may be cast either personally or by proxy and a proxy need not be a shareholder.

In the case of joint holders of a share, the vote of the most senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names of the holders appear in the register of shareholders.

Unless the board of directors otherwise determines, no shareholders, or person to whom any of that shareholder's holdings are transferred other than by a transfer approved under the Articles (see below), can vote at any general meeting either in person or by proxy in respect of any share in National Grid held by him or her:

- If all monies presently payable by him or her in respect of that share have not been paid;

- If he or she or any other person appearing to be interested in the share has been given a notice under Section 212 of the Companies Act (see Thrift Plan I (4th draft – March 26, 2008) 41Disclosure of Interests) and has failed to provide the information required by the notice within 14 days from the date of service of the notice (or in the case of shares representing less than 0.25% of their class, within 28 days of service of the notice); or

- In the circumstances referred to under General Limitations on Shareholdings and Shareholding Restrictions on Pool Members or License Holders, below.

Dividends and Other Distributions
National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act and the other applicable provisions of English law. In addition, as a public company, National Grid may make a distribution only if and to the extent that, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called-up share capital and non-distributable reserves (as such terms are
defined in the Companies Act). Subject to the foregoing, National Grid may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders but not exceeding the amount recommended by the board of directors. The board of directors may pay interim dividends if the board of directors determines that National Grid's financial position justifies the payment.

Except insofar as the rights attaching to any share otherwise provide, all dividends will be apportioned and paid proportionately to the amounts paid up (otherwise than in advance of calls) on the shares.

A general shareholder meeting declaring a dividend may, upon the recommendation of the board of directors, direct that the dividend be satisfied wholly or partly by the distribution of assets and may be declared or paid in any currency. The board of directors may, if authorized by the shareholders' ordinary resolution, offer the holders of Ordinary Shares the right to elect to receive new Ordinary Shares credited as fully paid, instead of cash for all or part of the dividend specified by that ordinary resolution.

In a winding up, a liquidator may, with the sanction of a special resolution of National Grid and any other sanction required by applicable provisions of English law,

(a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not) and may for this purpose value any assets and determine how the division should be carried out as between different shareholders or different classes of shareholders or otherwise as the resolution may provide, or

(b) vest the whole or any part of the assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the sanction of a special resolution, determines, but in neither case will a shareholder be compelled to accept any assets upon which there is a liability.

Unless the board of directors determines otherwise, no shareholder holding shares representing 0.25% or more of any class of National Grid's shares will be entitled to receive payment of any dividend or other distribution if he or she or any person appearing to be interested in those shares has been given a notice under Section 212 of the Companies Act and has failed to give National Grid the information required by the notice within 14 days from the date of service of the notice.

The United States/United Kingdom taxation convention relating to income and capital gains provides for repayment to U.S. shareholders of certain tax payments above a certain rate. However, as the current United Kingdom applicable tax is below that rate, no payments would be made at present.

Variation of Rights

Subject to applicable provisions of English law and the rights attached to any specific class of shares, the rights attached to any class of shares of National Grid may be varied with the written consent of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class. The applicable provisions of English law and the Articles relating to general meetings will generally apply to any such separate meeting except that:

- the necessary quorum will be two persons between them holding or representing by proxy not less than one-third in nominal amount of the issued shares of that class or, at any adjourned meeting of holders of shares of that class at which that quorum is not present, will be any holder of shares of that class who is present in person or by proxy whatever the number of shares held by him or her;

- any holder of shares of that class present in person or by proxy may demand a poll; and

- every holder of shares of that class will, on a poll, have one vote in respect of every share of that class held by him or her.

Preemptive Rights

In accordance with the provisions of the Companies Act, National Grid's shareholders have granted its directors authority to allot new shares from National Grid's pool of authorized, unissued shares. The Companies Act contains certain statutory preemption rights in favor of existing shareholders. Therefore, if the directors wish to use this general authority to allot new shares for cash, they must be offered first to existing shareholders in proportion to their existing holdings (a rights issue), unless the preemption rights are waived by the shareholders.

The directors have been granted authority by the shareholders first to make any arrangements which may be necessary to deal with any legal, regulatory, or practical problems arising from a rights issue (for example, by excluding certain shareholders from the rights issue), and second to issue new shares up to a maximum aggregate nominal value of £10,000,000 (approximately 5% of National Grid's share capital) on a non-preemptive basis without further reference to shareholders.

Other Matters

There are provisions in the Articles relating to the liabilities of and restrictions on voting by shareholders holding Ordinary Shares on which there are unpaid amounts due National Grid. All ADRs offered through the Thrift Plans will be backed by Ordinary Shares which are fully paid and non-assessable.

Alteration of Capital

National Grid may by ordinary resolution increase, consolidate and divide and sub-divide its share capital. Subject to applicable provisions of English law, National Grid may by special resolution reduce its share capital, any capital redemption reserve and any share premium account or other non-distributable reserve in any manner. Subject to applicable provisions of English law and to any rights conferred on the holder of any class of shares, National Grid may purchase all or any of its shares of any class (including any redeemable shares).

Disclosure of Interests

(a) A shareholder may lose the right to vote his shares if he o she or any other person appearing to be interested in those shares fails to comply within a prescribed period of time with a request by National Grid under the Companies Act to give the required information with respect to past or present ownership or interests in those shares. In the case of holders of more than 0.25% in nominal amount of the share capital of National Grid (or any class of the share capital), the sanctions that may be applied by National Grid, in addition to disenfranchisement, include withholding of the right to receive payment of dividends and other monies payable on shares, and restrictions on transfers of the shares.

(b) The Disclosure and Transparency Rules provide that a person (including a company and other legal entities) that acquires an interest in voting rights of 3% or more in any class of shares constituting an English public company's "relevant share capital" (i.e., National Grid's issued share capital carrying the right to vote in all circumstances at a general meeting of National Grid) is required to notify the company of its interest within two business days following the day on which the obligation arises. After the 3% level is exceeded, similar notifications must be made in respect of increases or decreases of 1% of more.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

Introduction
The following is a summary of the material provisions of the deposit agreement (the Deposit Agreement) by and among National Grid, the Bank of New York, as depositary (the Depositary), and the registered holders of ADRs and the owners of a beneficial interest in ADSs, pursuant to which the ADRs are issued. Because the Depositary will actually hold the Ordinary Shares, holders of ADRs must rely on it to exercise their rights as shareholders of National Grid. Because this is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire Deposit Agreement which is filed as an exhibit to the registration statement for the Thrift Plans.

Copies of the Deposit Agreement and the Articles will be available for inspection at:

Bank of New York
Corporate Trust Office
101 Barclay Street
New York, New York 10286

And

the London, England office of the Bank of New York
(the custodian),
1 Canada Square
London E14 5AL

Participants in the Thrift Plans may inspect copies of the documents at:

National Grid USA Service Company, Inc.
Human Resources Department
25 Research Drive
Westborough, Massachusetts 01582

And

KeySpan Corporation
Human Resources Department
One Metro Tech Center
Brooklyn, New York 11201

The Depositary's principal executive office is located at:

Bank of New York
48 Wall Street
New York, NY 10286

The Deposit Agreement and the ADRs are generally governed by New York law. The Depositary, pursuant to the Deposit Agreement, may own and deal in any class of securities of National Grid and its affiliates and in ADRs.

AMERICAN DEPOSITARY RECEIPTS AND AMERICAN DEPOSITARY SHARES

ADRs evidencing ADSs are issuable by the Depositary pursuant to the Deposit Agreement. Each ADS represents the right to receive five Ordinary Shares (together with any additional Ordinary Shares at any time deposited or deemed deposited under the Deposit Agreement and any and all other securities, cash and property received by the Depositary or the custodian in respect thereof and at such time held under the Deposit Agreement, the Deposited Securities). An ADR may represent any number of ADSs. Only persons in whose names ADRs are registered on the books of the Depositary will be treated by the Depositary and National Grid as registered holders.

Deposit, Transfer and Withdrawal
The Depositary has agreed, subject to the terms and conditions of the Deposit Agreement, that upon delivery to the custodian of Ordinary Shares (or evidence of rights to receive Ordinary Share(s)) and pursuant to appropriate instruments of transfer in a form satisfactory to the custodian, the Depositary will, as promptly as practicable, upon payment of the fees, charges and taxes as provided for in the Deposit Agreement, execute and deliver at its corporate trust office to, or upon the written order of, the person or persons named in the notice of the custodian delivered to the Depositary or requested by the person depositing such with the Depositary, an ADR or ADRs, registered in the name or names of such person or persons, and evidencing any authorized number of ADSs requested by such person or persons.

Upon surrender at the Corporate Trust Office of the Depositary of an ADR for the purpose of withdrawal of the Deposited Securities represented by the ADSs evidenced by such ADR, and upon payment of the fees of the Depositary for the surrender of ADRs, governmental charges and taxes provided in the Deposit Agreement, and subject to the terms and conditions of the Deposit Agreement, the registered holder of such ADR will be entitled to delivery, to him or her or upon his or her order, as promptly as practicable, of the amount of deposited securities at the time represented by the ADSs evidenced by such ADR. The forwarding of share certificates, other securities, property, cash and other documents of title for such delivery will be at the risk and expense of the registered holder.

Share Dividends and Other Distributions
The Depositary has agreed to pay to the registered holders of the ADRs the cash dividends or other distributions it or the custodian receives on Ordinary Shares or other deposited securities after deducting its fees and expenses. The payments will be in proportion to the number of Ordinary Shares represented by the ADRs.

Cash
The Depositary will convert any cash dividend or other cash distribution National Grid pays on the Ordinary Shares into US dollars, if it can do so on a reasonable basis and can transfer the US dollars to the united States. If that is not possible or if any approval from the government of the United Kingdom is needed and cannot be obtained, the Deposit Agreement allows the Depositary to distribute the pounds sterling only to those ADS

holders to whom it is possible to do so. It will hold the pounds sterling it cannot convert for the account of the ADS holders who have not been paid. It will not invest the pounds sterling and it will not be liable for any interest.

Before making a distribution, any United Kingdom withholding taxes that must be paid will be deducted. The Depositary will distribute only whole US dollars and cents and will round fractional cents to the nearest whole cent. IF THE EXCHANGE RATES FLUCTUATE DURING A TIME WHEN THE DEPOSITARY CANNOT CONVERT THE FOREIGN CURRENCY, HOLDERS OF ADRs MAY LOSE SOME OR ALL OF THE VALUE OF THE DISTRIBUTION.

Shares
The Depositary may distribute new ADSs representing any Ordinary Shares National Grid may distribute as a dividend or free distribution, if National Grid furnishes it with satisfactory evidence that it is legal to do so. The Depositary will only distribute whole ADSs. It will sell Ordinary Shares which would require it to use a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the Depositary does not distribute additional ADSs, each ADS will also represent the new Ordinary Shares.
Rights to Receive Additional Shares

If National Grid offers holders of its Ordinary Shares any rights to subscribe for additional Ordinary Shares or any other rights, the Depositary may make these rights available to holders of the ADRs. National Grid must first instruct the Depositary to do so and furnish it with satisfactory evidence that it is legal to do so. If National Grid does not furnish this evidence and/or give these instructions, and the Depositary decides it is practical to sell the rights, the Depositary will sell the rights and distribute the proceeds, in the same way as it does with cash. The Depositary may allow rights that are not distributed or sold to lapse. In that case, the holders of the ADRs will receive no value for them.

If the Depositary makes rights available to all or certain registered holders, upon instruction from such holders, it will exercise the rights and purchase the Ordinary Shares on their behalf. The Depositary will then deposit the Ordinary Shares ad issue ADSs to such holders. It will only exercise rights upon payment to it of the exercise price and any other charges the rights require.

U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights.

Other Distributions
The Depositary will send to registered holders anything else National Grid distributes on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the Depositary may either sell what National Grid distributed and distribute the net proceeds in the same way as it does with cash or hold what National Grid distributed, in which case the ADSs will also represent the newly distributed property.

The Depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. National Grid has no obligation to register ADSs, Ordinary Shares, rights or other securities under the Securities Act. National Grid also has no obligation to take any other action to permit the distribution of ADSs, Ordinary Shares, rights or anything else to ADS holders. This means that registered holders may not receive the distribution National Grid makes on its Ordinary Shares or any value for them if it is illegal or impractical for National Grid to make them available to such holders.

Voting Rights

If the Ordinary Shares are held by the Depositary, it is the Depositary as the holder of record, not the ADR holder, who has the right to vote the Ordinary Shares upon instruction from the ADR holder.

Holders of ADRs may instruct the Depositary to vote the Ordinary Shares represented by their ADSs but only if National Grid asks the Depositary to ask for such instructions. Otherwise, holders of ADRs will not be able to exercise their rights to vote unless they withdraw the Ordinary Shares. However, they may not know about the meeting enough in advance to withdraw the Ordinary Shares.

If National Grid asks for such instructions, the Depositary will notify all registered holders of the upcoming vote and arrange to deliver National Grid's voting materials to them. The materials will (1) describe the matters to be voted upon and (2) explain how the registered holders, on a certain date, may instruct the Depositary to vote the Ordinary Shares or other deposited securities underlying their ADSs as they direct. For instructions to be valid, the Depositary must receive them on or before the date specified. The Depositary will try, as far as practical, subject to English law and the provisions of the Articles, to vote or to have its agents vote the Ordinary Shares or other deposited securities as the registered holders instruct. The Depositary will only vote or attempt to vote as the registered holders instruct. HOWEVER, IF THE DEPOSITARY DOES NOT RECEIVE SUCH VOTING INSTRUCTIONS, IT WILL GIVE A PROXY TO VOTE THE RELATED ORDINARY SHARES TO A DESIGNATED REPRESENTATIVE OF NATIONAL GRID.

National Grid cannot assure the registered holders that they will receive the voting materials in time to ensure that the registered holders can instruct the Depositary to vote their Ordinary Shares. In addition, the Depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that the registered holders may not be able to exercise their right to vote and there may be nothing such holders can do if their Ordinary Shares are not voted as requested.

Under English company law, only holders of record are permitted to attend a general meeting and vote by a show of hands. The Depositary (or the custodian), as holder of record of the Ordinary Shares represented by the ADSs, would attend the meeting. In order to participate in a show of hands vote, holders of ADRs must withdraw Ordinary Shares in order to attend the meeting in person.

Reports and Other Communications
The Depositary will make available to registered holders for inspection at its corporate trust office any reports and communications, including any proxy soliciting material, received from National Grid, which are both (1) received by the Depositary as the holder of the deposited securities and (2) made generally available to the holders of the deposited securities by National Grid. The Depositary will also, upon written request, send to registered holders copies of such reports when furnished by National Grid pursuant to the Deposit Agreement.

Fees and Expenses
A participant in the Thrift Plan may not convert his or her ADRs into Ordinary Shares in the Plan. In the event an ADR holder outside of the Plan (including a Thrift Plan participant who has withdrawn his or her ADRs from the Plan) wishes to convert his or her ADRs into Ordinary Shares, he or she should be aware of the following charges incurred by any party depositing or withdrawing Ordinary Shares with the Depositary or by any party surrendering ADRs for ADSs or for whom ADRs are issued:

Each issuance of an ADS, including as a result of a distribution of shares or rights or other property	US$5.00 (or less) per 100 ADSs
Each cancellation of an ADS, including if the Deposit Agreement terminates	US$5.00 (or less) per 100 ADSs
Any cash distribution except cash dividends made pursuant to the Deposit Agreement	US$0.02 (or less) per ADS
Transfer and registration of Ordinary Shares on National Grid's share register from registered holder name to the name of the Depositary or its agent when such holder deposits or withdraws shares Registration or transfer fees	Registration or transfer fees
Conversion of foreign currencies, including pounds sterling to US dollars	Expenses of the Depositary
Cable, telex and facsimile transmission expenses, if expressly provided in the Deposit Agreement	Expenses of the Depositary
As necessary	Certain taxes and governmental charges which the Depositary or the custodian has to pay on any ADS or Ordinary Share underlying an ADS, for example,

share transfer taxes, stamp duty reserve tax or withholding taxes

Payment of Taxes

The registered holders of ADSs will be responsible for any taxes or other governmental charges payable on those ADSs or on the deposited securities represented by those ADSs. The Depositary may refuse to transfer those ADSs or allow any withdrawal of the deposited securities represented by the ADSs until such taxes or other charges are paid. It may apply payments owed or sell deposited securities represented by the ADSs to pay any taxes owed and the registered holders will remain liable for any deficiency. If it sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to the registered holders any proceeds, or send to the registered holders any property remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If National Grid:	Then:
Changes the nominal or par value of its Ordinary Shares, or Reclassifies, splits up or consolidates any of the deposited securities	The cash, Ordinary Shares or other securities received by the Depositary will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities.
Distributes securities on the Ordinary Shares that are not distributed to registered holders of ADRs, or Recapitalizes, reorganizes, merges, Liquidates, sells all or substantially all of its assets, or takes any similar action	The Depositary may, and will if National Grid asks it to, distribute some or all of the cash, Ordinary Shares or other securities it received. It may also issue new ADSs or ask registered holders to surrender their outstanding ADSs, identifying the new deposited securities.

Disclosure of Interests

Notwithstanding any other provision of the Deposit Agreement, Articles and applicable English law, each registered holder and beneficial owner will agree to be bound by and subject to applicable provisions of the Companies Act and Articles to the same extent as if the ADSs evidenced by such ADRs were Ordinary Shares. In particular, the obligation of a holder of Ordinary Shares (or other persons with an interest in those Ordinary Shares) to disclose certain information to National Grid under certain circumstances, as described under Ordinary Shares –Disclosure of Interests also is applicable to a holder of ADSs (and other persons with an interest in them). the consequences to a registered holder or beneficial owner of ADSs (or other interested person) for failing to comply with the disclosure requirements are the same as those for a holder of Ordinary Shares (or other interested person) described under “Ordinary Shares – Disclosure of Interests.”

The Depositary will use reasonable efforts to forward at the request and at the expense of National Grid, any request by National Grid for information and to comply with any instructions of National Grid, to the extent reasonably practicable, given in connection with the foregoing. If National Grid requests information from the Depositary or the custodian, as the registered holders of Ordinary Shares, pursuant to the Articles or the Companies Act, the obligations of the Depositary or the custodian will be limited to disclosing to National Grid the information relating to the Ordinary Shares in question that they have recorded pursuant to the terms of the Deposit Agreement.

Amendment and Termination
National Grid may agree with the Depositary to amend the Deposit Agreement and the ADRs without the consent of holders of ADRs for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses, or prejudices an important right of ADS holders, it will only become effective 30 days after the Depositary notifies registered holders of the amendment. At the time an amendment becomes effective, every registered holder is considered by continuing to hold the ADSs, to agree to the amendment and to be bound by the ADSs and the Deposit Agreement as amended.

The Depositary will terminate the Deposit Agreement if National Grid asks it to do so. The Depositary may also terminate the Deposit Agreement if the Depositary has told National Grid that it would like to resign and National Grid has not appointed a new depositary bank within 90 days. In both cases, the Depositary must notify the registered holders at least 30 days before termination.

After termination, the Depositary and its agents will be required to do only the following under the Deposit Agreement: (1) advise the registered holders that the Deposit Agreement is terminated, and (2) collect distributions on the deposited securities and deliver Ordinary Shares and other deposited securities upon cancellation of ADSs. After the expiration of one year from the date of termination, the Depositary will, if practical, sell any remaining deposited securities by public or private sale. After the expiration of one year from the date of termination, the Depositary will hold the proceeds of the sale, as well as any other cash it is holding under the Deposit Agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and will have no liability for interest. The Depositary's only obligations sill be to account for the proceeds of the sale and other cash. After termination, National Grid's only obligations will be with respect to indemnification and to pay certain amounts to the Depositary.

Limitations on Obligations and Liability to Holders of American Depositary Shares
The Deposit Agreement expressly limits National Grid's obligations and the obligations of the Depositary, and it limits National Grid's liability and the liability of the Depositary. National Grid and the Depositary:

- are only obligated to take the actions specifically set forth in the Deposit Agreement without negligence or bad faith;

- are not liable if either of them is prevented or delayed by law or circumstances beyond their control from performing their obligations under the Deposit Agreement;

- are not liable if either of them exercises discretion permitted under the Deposit Agreement;

- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the Deposit Agreement on behalf of a holder of ADSs or on behalf of any other party; and

- May rely upon any documents they believe in good faith to be genuine and to have been signed or presented by the proper party.

In the Deposit Agreement, National Grid and the Depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions
Before the Depositary will issue or register a transfer of an ADS, make a distribution on an ADS, or make a withdrawal of Ordinary Shares, the Depositary may require:

- Payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any Ordinary Shares or other deposited securities;

- Production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and

- Compliance with regulations it may establish, from time to time, consistent with the Deposit Agreement, including presentation of transfer documents.

The Depositary may refuse to deliver, transfer, or register transfers of ADSs generally when the books of the Depositary or National Grid are closed, or at any time if the Depositary or National Grid thinks it advisable to do so.

Registered holders have the right to cancel ADSs and withdraw the underlying shares at any time except:

- when temporary delays arise because: (1) the Depositary or National Grid has closed its transfer books; (2) the transfer of Ordinary Shares is blocked to permit voting at a shareholders' meeting; or (3) National Grid is paying a dividend on the Ordinary Shares;

- when ADS holders seeking to withdraw Ordinary Shares owe money to pay fees, taxes and similar charges; or

- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of Ordinary Shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the Deposit Agreement.

Pre-Release of American Depositary Shares
In certain circumstances, subject to the provisions of the Deposit Agreement, the Depositary may issue ADSs before deposit of the underlying Ordinary Shares. This is called a pre-release of the ADS. The Depositary may also deliver shares upon cancellation of pre-released ADSs (even if the ADSs are cancelled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying Ordinary Shares are delivered to the Depositary. The Depositary may receive ADSs instead of Ordinary Shares to close out a pre-release. The Depositary may pre-release ADSs only under the following conditions:

- Before or at the time of the pre-release, the person to whom the pre-release is being made must represent to the Depositary in writing that it or its customer owns the Ordinary Shares or ADSs to be deposited;

- The pre-release must be fully collateralized with cash or other collateral that the 7Depositary considers appropriate; and

- The Depositary must be able to close out the pre-release on not more than five business days' notice. In addition, the Depositary will limit the number of ADSs that may be outstanding at any time as a result of prerelease to 30% of the Ordinary Shares deposited, although the Depositary may disregard the limit from time to time, if it thinks it is appropriate to do so.

Appendix III: Important Federal Tax Information

The information below is provided in order to help you identify federal income tax issues that may result from the distribution of employer securities under the Thrift Plan in which you participate. Consult with your tax advisor regarding the tax consequences of distributions under your individual circumstances, particularly if you are a UK citizen or residing outside of the U.S. Please also refer to Appendix IV, Special Tax Notice Regarding Plan Payments, for additional information relative to withholding taxes and rollovers.

General

1. What are the federal income tax consequences of participation in the Thrift Plan?

The amended Thrift Plan is intended to remain qualified under section 401(a) of the Internal Revenue Code. Under the tax law in effect at the writing of this document, the federal income tax consequences of participation in a qualified plan are, in general, as set forth below.

This summary of federal income tax consequences should not be regarded as tax advice to participants or any other person, nor does the summary describe state, local, or estate tax consequences, if any. All participants are urged to consult their own tax advisors to determine the particular tax consequences — federal, state, and local — which may result from their participation in or actions with respect to the Thrift Plan. In addition, participants are urged to consult their tax advisors for the most current tax law information.

2. Do I have to pay income taxes on pre-tax salary reduction contributions and/or other Employer contributions to my account?

Any contributions made pursuant to pre-tax salary reduction agreements will not be included in your gross income. Therefore, neither those contributions nor other Employer contributions to the Thrift Plan are taxable to you as income when made or credited to your account. However, they will be taxable to you in the year of distribution or withdrawal, as discussed below. Also, salary reduction contributions (both pre-tax and after-tax) are subject to Social Security tax.

3. What contributions are not subject to taxation upon distribution?

Participant contributions made before January 1, 1983, represented after-tax earnings. That portion of your account attributable to participant contributions, if any, made before January 1, 1983, are maintained by the Trustee in a separate account (the Participant Account). Distributions from the Participant Account will be taxed in the manner discussed below. In addition, certain ESOP amounts that were merged into the Plan in 1993 were made on an after-tax basis and are accounted for separately as discussed further below. Any after-tax contributions you have made under applicable plan provisions are not taxed upon distribution, although any dividends, interest or other income or gains attributable to after-tax contributions are subject to taxation upon distribution.

4. Do I pay taxes on the dividends, interest, and other income or gains that are reinvested in my accounts?

Dividends, interest, and other income or gains are not taxed to the Trustee and are not taxed to the participant when they are reinvested in the accounts. Such income will be taxable to the participant upon distribution or withdrawal by the participant, as discussed below.

Taxation of Distributions

5. What is the tax definition of a lump-sum distribution?

A lump-sum distribution is a distribution, made within one tax year, of the full balance credited to a participant's account(s) in the Thrift Plan and is either (a) made as a result of the participant's separation from service or death, or (b) made after age 59½. Additionally, for purposes of the special forward-averaging provisions, the employee must have participated in the Thrift Plan for at least five full years before the year of distribution.

6. How will I be taxed on my lump-sum distribution?

Unless you elect to roll over your distribution as explained below, you will be taxed on the distribution in the year it is received. You may be eligible to elect to be taxed on the distribution using the ten-year forward-averaging method.

7. What is the special ten-year forward-averaging provision?

The ten-year forward-averaging method, which is available to individuals who were age 50 or older on January 1, 1986, may result in a lower tax on plan distributions than the regular tax table or tax rate schedule methods. The 1986 tax rates apply in computing the tax under the ten-year forward-averaging method. Only distributions that constitute lump-sum distributions made after five full years of Thrift Plan participation are eligible for the ten-year forward-averaging method. An election must be filed with the IRS to use this method. The election can be made only once, regardless of the number of plans from which a participant receives a lump-sum distribution. All distributions received in the same year from this and other qualified plans must be aggregated when computing the tax under the ten-year forward-averaging method.

8. What is a "rollover"?

In general, the Internal Revenue Code permits a participant to avoid current taxation on any portion of the taxable amount of an eligible rollover distribution by rolling over that portion into an "eligible retirement plan" that accepts rollover contributions. An eligible retirement plan includes a plan qualified under section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; an eligible section 457(b) plan maintained by a governmental employer; and a traditional IRA. Rollovers may be made to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (an education IRA).

A rollover is accomplished either by transferring the amount being rolled over directly from the Thrift Plan to the new plan or IRA not later than 60 days after the participant receives the distribution from the Thrift Plan, or by having the payment distributed to you, and you must then transfer the amount to the new plan or IRA. (See Question 9 for tax withholding consequences of direct vs. non-direct transfers.)

The rollover rules make most, but not all, Plan withdrawals and distributions eligible for rollover. The following types of withdrawals and distributions are not eligible for rollover treatment:

(1) a series of substantially equal periodic payments which are made either (a) for a specified period of ten years or more, (b) for the life (or life expectancy) of the participant, or (c) for the participant's lifetime and his/her beneficiary's lifetime;
(2) mandatory distributions resulting from the participant having attained age 70½, or, if later, having retired;
(3) hardship distributions;
(4) cash dividends that are paid on employer stock held in an ESOP;
(5) distributions made due to certain legal limits being exceeded, or;
(6) Plan loans that become taxable deemed distributions because of a default.
(7) Contributions made under special automatic enrollment rules that are withdrawn pursuant to your request within 90 days of enrollment.
(8) Cost of life insurance paid by the Plan.

There are specific and technical qualifications and requirements that must be satisfied in order for a Thrift Plan distribution or withdrawal to be eligible to be rolled over. For more information on the specific requirements, see Appendix IV, Special Tax Notice Regarding Plan Payments, and contact Vanguard at 1-800-523-1188 for updated information.

9. Will distributions from the Thrift Plan be subject to withholding?

Yes. In general, all taxable withdrawals and distributions eligible to be rolled over are subject to a 20% withholding requirement unless they are rolled over directly to an eligible employer plan or an IRA. This requirement does not, however, prevent a participant from rolling over eligible amounts into an eligible employer plan or traditional IRA within 60 days of the distribution even if it is not a direct rollover.

Any portion of a taxable distribution that is not rolled over is subject to ordinary income taxes (plus a 10% tax penalty under certain circumstances). Consequently, if a distribution is made other than directly to a qualified plan or an IRA, the participant would have to supplement the rollover from her/his own funds by an amount equal to the 20% withholding in order to avoid a tax liability on that amount for that year.

For more information on how direct transfers will be processed, see Appendix IV, Special Tax Notice Regarding Plan Payments, or contact Vanguard.

Distributions in Cash

10. In general, how are distributions made in cash taxed?

Distributions made in cash are taxed as ordinary income to the extent that they exceed the participant's post-tax contributions, if any. If the distribution qualifies as a lump-sum distribution, however, that income may be eligible for the special ten-year forward-averaging provision. In addition, all or a portion of the distribution may be eligible for rollover treatment.

Distributions of National Grid ADRs

11. In general, how are distributions of National Grid ADRs (other than distributions from my post-tax contributions) from the Thrift Plan taxed?

Generally, if a participant receives a lump-sum distribution (other than a distribution of post-tax employee contributions) of securities from the National Grid ADR Fund, the participant will have taxable income in an amount equal to the lesser of the original average cost of the securities to the respective fund or the securities' fair market value at distribution. Such income will be ordinary income, and may be eligible for rollover treatment or the special ten-year forward-averaging provision. Further, any excess of fair market value over the ordinary income amount would not be treated as income at the time of distribution.

Example: Thirty shares of National Grid ADRs and $2,000 in cash are distributed as part of a total lump-sum distribution from an employee's Thrift Plan account upon retirement. The employee rolls over the $2,000 into an IRA, but takes the National Grid ADRs in her name. At the time of the distribution of National Grid ADRs, the 30 ADRs are traded at $50 making the fair market value of the distribution of ADRs $1,500. Fifteen of these ADRs had been acquired by the trust with employee contributions totaling $540, and the other 15 ADRs were acquired with employer Matching Contributions in the amount of $610, making a total cost of $1,150 for the 30 ADRs. The distribution results in ordinary income in the amount of $1,150. The $350 in appreciation (fair market value at the time, $1,500, minus $1,150, the tax basis) is not includible in the employee's income upon distribution, but will instead be treated as income at the later sale of the ADRs, assuming they are sold at a gain, and will be afforded special long-term capital gains treatment (see continuing example following Question 15).

12. What constitutes a "lump-sum" distribution for purposes of the special tax treatment relative to National Grid ADRs?

A “lump-sum” distribution for purposes of special tax treatment relative to distributions of employer securities from qualifying plans such as the Thrift Plans means the distribution or payment within one tax year to the recipient of the balance to the credit of an employee which becomes payable to the recipient: (1) on account of the employee’s death; (2) after the employee attains age 59½; or (3) on account of the employee’s separation from service.

13. In general, how are distributions of National Grid ADRs from the Thrift Plan attributable to my post-tax contributions treated?

Distributions of National Grid ADRs consisting of post-tax contributions are taxed only to the extent that they exceed the applicable post-tax contributions. Generally, if a participant receives a lump-sum distribution of securities from the National Grid ADR Fund (plus cash in lieu of fractions of securities), the participant will have taxable income in an amount equal to (i) the lesser of the original cost of the securities to the respective fund or the securities’ fair market value at distribution, plus (ii) the amount of cash distributed, minus (iii) the amount of the participant’s applicable post-tax contributions. Such income will be ordinary income, and may be eligible for rollover treatment or the special ten-year forward-averaging provision.

14. Is the tax treatment for distributions of National Grid ADRs, other than lump-sum distributions, different?

Yes. Basically, for other than lump-sum distributions, at the time of distribution any appreciation in value of National Grid ADRs purchased with employer contributions, reinvested earnings, and salary reduction contributions is recognized as ordinary income. (Any appreciation in the value of securities purchased with post-tax contributions is not recognized and is deferred until subsequent sale of the securities.) Also, the special ten year forward-averaging provision will not apply if the distribution is not a lump-sum distribution. Rollover treatment, however, may be available.

Sale of Shares After Distribution

15. What are the tax consequences when National Grid ADRs received in a lump-sum distribution are subsequently sold?

When National Grid ADRs distributed are subsequently sold by the participant, the gain or loss (measured by the difference between the selling price and the tax basis of the securities sold) must be recognized. Such tax basis is equal to the lesser of the original average cost of the securities under the Thrift Plan or the securities’ fair market value at distribution. All or a portion of any further gain may be subject to preferential long-term capital gains taxation.

Example: Continuing with facts under the example above (Question 11), an employee received a distribution of 30 ADRs resulting in an ordinary income obligation of $1,150 and $350 in unrealized appreciation. At the time the ADRs are later sold, assuming that they are sold at a gain, up to $350 would be subject to taxation as long-term capital gains. Any remaining appreciation would be treated in accordance with then applicable capital gains rules. For instance, if one month after receiving the ADRs, the former employee were to sell the 30 ADRs at a market price of $55, $350 would be taxable as long-term capital gains and the remaining appreciation, $150 (determined as follows: total value received upon sale, $1,650, minus tax basis, $1,150, minus capital gains appreciation value, $350), would be subject to then-existing long-term and short-term capital gains rules.

16. What are the tax consequences when National Grid ADRs received in a distribution not qualifying as a lump-sum distribution are subsequently sold?

When shares received in a distribution not qualifying as a lump-sum distribution are subsequently sold by the participant, the capital gain or loss (measured by the difference between the selling price and the tax basis of the securities sold) must be recognized. In the case of securities purchased with Employer contributions, reinvested earnings and salary reduction contributions, such tax basis is equal to the amount of ordinary income reported as a result of the distribution. In the case of shares purchased with employee post-tax contributions, such tax basis is equal to the lesser of the original cost of the securities under the Thrift Plan or the securities' fair market value at distribution.

Tax Penalties

17. Is there a tax penalty for early withdrawals and distributions from the Thrift Plan?

Yes. In addition to income taxes on withdrawals and distributions as described, the Internal Revenue Code provides for a penalty tax on withdrawals and distributions made before the participant attains age 59½. The penalty tax is 10% of the distributed amount, excluding post-tax employee contributions (but including any earnings thereon).

18. Are there any exceptions to the penalty tax on early withdrawals and distributions?

Yes. In addition to in-service withdrawals made after the participant attains age 59½, there is no penalty tax on distributions that are:

- eligible amounts rolled over in a timely manner to an IRA or eligible employer plan;
- made to a beneficiary after the death of a participant;
- attributable to the participant's permanent disability;
- made to a participant who has separated from service during or after the year in which the participant attained age 55;

- used to pay reimbursed medical expenses that exceed 7.5% of adjusted gross income;
- paid to alternate payees under a Qualified Domestic Relations Order; or
- a qualifying distribution made to a military reservist.

Appendix IV: Special Tax Notice Regarding Plan Payments

This notice contains important information you will need before you decide how to receive your benefits. Please read this notice carefully before you decide how you would like to receive your benefits. You may receive an updated notice by contacting Vanguard at 800-523-1188.

SUMMARY

There are two ways you may be able to receive a Plan payment that is eligible for rollover:

(1) Certain payments can be made directly to a traditional IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit ("DIRECT ROLLOVER"); or

(2) The payment can be PAID TO YOU.

If you choose a DIRECT ROLLOVER:

- Your payment will not be taxed in the current year and no income tax will be withheld.

- You choose whether your payment will be made directly to your traditional IRA or to an eligible employer plan that accepts your rollover. Your payment can be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account because these are not traditional IRAs.

- The taxable portion of your payment will be taxed later when you take it out of the traditional IRA or the eligible employer plan. Depending on the type of plan, the later distribution may be subject to different tax treatment than it would be if you received a taxable distribution from this Plan.

If you choose to have a Plan payment that is eligible for rollover PAID TO YOU:

- You will receive only 80% of the taxable amount of the payment, because the Plan Administrator is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.

- The taxable amount of your payment will be taxed in the current year unless you roll it over. Under limited circumstances, you may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59½, you may have to pay an additional 10% tax.

- You can roll over all or part of the payment by paying it to your traditional IRA or to an eligible employer plan that accepts your rollover within 60 days after you receive the payment. The amount rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.

If you want to roll over 100% of the payment to a traditional IRA or an eligible employer plan, you must find other money to replace the 20% of the taxable portion that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

Your Right to Waive the 30-Day Notice Period.

Generally, neither a direct rollover nor a payment can be made from the plan until at least 30 days after your receipt of this notice. Thus, after receiving this notice, you have at least 30 days to consider whether or not to have your withdrawal directly rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your withdrawal will then be processed in accordance with your election as soon as practical after it is received by the

Plan Administrator.

MORE INFORMATION

I. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER

II. DIRECT ROLLOVER

III. PAYMENT PAID TO YOU

IV. SURVIVING SPOUSES, ALTERNATE PAYEES, AND OTHER BENEFICIARIES

I. PAYMENTS THAT CAN AND CANNOT BE ROLLED OVER

Payments from the Plan may be "eligible rollover distributions." This means that they can be rolled over to a traditional IRA or to an eligible employer plan that accepts rollovers. Payments from a plan can be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account. Your Plan administrator should be able to tell you what portion of your payment is an eligible rollover distribution.

After-tax Contributions. If you made after-tax contributions to the Plan, these contributions may be rolled into either a traditional IRA or to certain employer plans that accept rollovers of the after-tax contributions. The following rules apply:

a. Rollover into a Traditional IRA. You can roll over your after-tax contributions to a traditional IRA either directly or indirectly. Your plan administrator should be able to tell you how much of your payment is the taxable portion and how much is the after-tax portion.

If you roll over after-tax contributions to a traditional IRA, it is your responsibility to keep track of, and report to the Service on the applicable forms, the amount of these after-tax contributions. This will enable the nontaxable amount of any future distributions from the traditional IRA to be determined.

Once you roll over your after-tax contributions to a traditional IRA, those amounts CANNOT later be rolled over to an employer plan.

b. Rollover into an Employer Plan. You can roll over after-tax contributions from an employer plan that is qualified under Code section 401(a) or a section 403(a) annuity plan to another such plan using a direct rollover if the other plan provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You can also roll over after-tax contributions to a section 403(b) tax-sheltered annuity using a direct rollover if the other tax-sheltered annuity provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You CANNOT roll over after-tax contributions to a governmental 457 plan. If you want to roll over your after-tax contributions to an employer plan that accepts these rollovers, you cannot have the after-tax contributions paid to you first. You must instruct the Plan Administrator of this Plan to make a direct rollover on your behalf. Also, you cannot first roll over after-tax contributions to a traditional IRA and then roll over that amount into an employer plan.

The following types of payments cannot be rolled over:

Payments Spread over Long Periods. You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for:

- your lifetime (or a period measured by your life expectancy), or
- your lifetime and your beneficiary's lifetime (or a period measured by your joint
- life expectancies), or
- a period of 10 years or more.

Required Minimum Payments. Beginning when you reach age 70 ½ or retire, whichever is later, a certain portion of your payment cannot be rolled over because it is a "required minimum payment" that must be paid to you. Special rules apply if you own more than 5% of your employer.

Hardship Distributions. A hardship distribution cannot be rolled over.

ESOP Dividends. Cash dividends paid to you on employer stock held in an employee stock ownership plan cannot be rolled over.

Corrective Distributions. A distribution that is made to correct a failed nondiscrimination test or because legal limits on certain contributions were exceeded cannot be rolled over.

Loans Treated as Distributions. The amount of a plan loan that becomes a taxable deemed distribution because of a default cannot be rolled over. However, a loan offset amount is eligible for rollover, as discussed in Part III below. Ask the Plan Administrator of this Plan if distribution of your loan qualifies for rollover treatment.

The Plan Administrator of this Plan should be able to tell you if your payment includes amounts which cannot be rolled over.

II. DIRECT ROLLOVER

A DIRECT ROLLOVER is a direct payment of the amount of your Plan benefits to a traditional IRA or an eligible employer plan that will accept it. You can choose a DIRECT ROLLOVER of all or any portion of your payment that is an eligible rollover distribution, as described in Part I above. You are not taxed on any taxable portion of your payment for which you choose a DIRECT ROLLOVER until you later take it out of the traditional IRA or eligible employer plan. In addition, no income tax withholding is required for any taxable portion of your Plan benefits for which you choose a DIRECT ROLLOVER. This Plan might not let you choose a DIRECT ROLLOVER if your distributions for the year are less than $200.

DIRECT ROLLOVER to a Traditional IRA. You can open a traditional IRA to receive the direct rollover. If you choose to have your payment made directly to a traditional IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to a traditional IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish a traditional IRA to receive the payment. However, in choosing a traditional IRA, you may wish to make sure that the traditional IRA you choose will allow you to move all or a part of your payment to another traditional IRA at a later date, without penalties or other limitations. See IRS Publication 590, Individual Retirement Arrangements, for more information on traditional IRAs (including limits on how often you can roll over between IRAs).

If you roll over your payment to a Roth IRA - You can roll over a payment from the Plan made before January 1, 2010 to a Roth IRA only if your modified adjusted gross income is not more than $100,000 for the year the payment is made to you and, if married, you file a joint return. These limitations do not apply to payments made to you from the Plan after 2009. If you wish to roll over the payment to a Roth IRA, but you are not eligible to elect a rollover to a Roth IRA until after 2009, you can elect a rollover to a traditional IRA and then, after 2009, elect to convert the traditional IRA into a Roth IRA.

If you roll over the payment to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. However, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within 5 years, counting from January 1 of the year of the rollover). For payments from the Plan during 2010 that are rolled over to a Roth IRA, the taxable amount can be spread over a 2-year period starting in 2011.

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59 1/2 (or after your death or disability, or as a qualified first-time homebuyer distribution of up to $10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

You cannot roll over a payment from the Plan to a designated Roth account in an employer plan

DIRECT ROLLOVER to a Plan. If you are employed by a new employer that has an eligible employer plan, and you want a direct rollover to that plan, ask the plan administrator of that plan whether it will accept your rollover. An eligible employer plan is not legally required to accept a rollover. Even if your new employer's plan does not accept a rollover, you can choose a DIRECT ROLLOVER to a traditional IRA. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount or may require spousal consent to any subsequent distribution. Check with the plan administrator of that plan before making your decision.

DIRECT ROLLOVER of a Series of Payments. If you receive a payment that can be rolled over to a traditional IRA or an eligible employer plan that will accept it, and it is paid in a series of payments for less than 10 years, your choice to make or not make a DIRECT ROLLOVER for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

Change in Tax Treatment Resulting from a DIRECT ROLLOVER. The tax treatment of any payment from the eligible employer plan or traditional IRA receiving your DIRECT ROLLOVER might be different than if you received your benefit in a taxable distribution directly from the Plan. For example, if you were born before January 1, 1936, you might be entitled to ten-year averaging or capital gain treatment, as explained below. However, if you have your benefit rolled over to a section 403(b) tax-sheltered annuity, a governmental 457 plan, or a traditional IRA in a DIRECT ROLLOVER, your benefit will no longer be eligible for that special treatment. See the sections below entitled "Additional 10% Tax if You Are under Age 59 ½" and "Special Tax Treatment if You Were Born before January 1, 1936."

III. PAYMENT PAID TO YOU

If your payment can be rolled over (see Part I above) and the payment is made to you in cash, it is subject to 20% federal income tax withholding on the taxable portion (state tax withholding may also apply). The payment is taxed in the year you receive it unless, within 60 days, you roll it over to a traditional IRA or an eligible employer plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

Income Tax Withholding:

Mandatory Withholding. If any portion of your payment can be rolled over under Part I above and you do not elect to make a DIRECT ROLLOVER, the Plan is required by law to withhold 20% of the taxable amount. This amount is sent to the IRS as federal income tax withholding. For example, if you can roll over a taxable payment of $10,000, only $8,000 will be paid to you because the Plan must withhold $2,000 as income tax. However, when you prepare your income tax return for the year, unless you make a rollover within 60 days (see "Sixty-Day Rollover Option" below), you must report the full $10,000 as a taxable payment from the Plan. You must report the $2,000 as tax withheld, and it will be credited against any income tax you owe for the year. There will be no income tax withholding if your payments for the year are less than $200.

Voluntary Withholding. If any portion of your payment is taxable but cannot be rolled over under Part I above, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, an amount will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, ask the Plan Administrator for the election form and related information.

Sixty-Day Rollover Option. If you receive a payment that can be rolled over under Part I above, you can still decide to roll over all or part of it to a traditional IRA or to an eligible employer plan that accepts rollovers. If you decide to roll over, you must contribute the amount of the payment you received to a traditional IRA or eligible employer plan within 60 days after you receive the payment. The portion of your payment that is rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.

You can roll over up to 100% of your payment that can be rolled over under Part I above, including an amount equal to the 20% of the taxable portion that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the traditional IRA or the eligible employer plan, to replace the 20% that was withheld. On the other hand, if you roll over only the 80% of the taxable portion that you received, you will be taxed on the 20% that was withheld.

> Example: The taxable portion of your payment that can be rolled over under Part I above is $10,000, and you choose to have it paid to you. You will receive $8,000, and $2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the $8,000, you may roll over

> the entire $10,000 to a traditional IRA or an eligible employer plan. To do this, you roll over the $8,000 you received from the Plan, and you will have to find $2,000 from other sources (your savings, a loan, etc.). In this case, the entire $10,000 is not taxed until you take it out of the traditional IRA or an eligible employer plan. If you roll over the entire $10,000, when you file your income tax return you may get a refund of part or all of the $2,000 withheld.
>
> If, on the other hand, you roll over only $8,000, the $2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the $2,000 withheld. (However, any refund is likely to be larger if you roll over the entire $10,000.)

If you miss the 60-day rollover deadline. Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. To apply for a waiver, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590, Individual Retirement Arrangements (IRAs).

Additional 10% Tax If You Are under Age 59½. If you receive a payment before you reach age 59 ½ and you do not roll it over, then, in addition to the regular income tax, you may have to pay an extra tax equal to 10% of the taxable portion of the payment. The additional 10% tax generally does not apply to (1) payments that are paid after you separate from service with your employer during or after the year you reach age 55, (2) payments that are paid because you retire due to disability, (3) payments that are paid as equal (or almost equal) payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies), (4) dividends paid with respect to stock by an employee stock ownership plan (ESOP) as described in Code section 404(k), (5) payments that are paid directly to the government to satisfy a federal tax levy, (6) payments that are paid to an alternate payee under a Qualified Domestic Relations Order, or (7) payments that do not exceed the amount of your deductible medical expenses, (8) payments are paid for corrective distribution of contributions that exceed tax law limitations, (9) payments are for the cost of life insurance paid by the Plan, (10) payments for certain automatic enrollment contributions requested to be withdrawn within 90 days of the first contribution See IRS Form 5329 for more information about the additional 10% tax.

The additional 10% tax will not apply to distributions from a governmental 457 plan, except to the extent the distribution is attributable to an amount you rolled over to that plan (adjusted for investment returns) from another type of eligible employer plan or IRA. Any amount rolled over from a governmental 457 plan to another type of eligible employer plan or to a traditional IRA will become subject to the additional 10% tax if it is distributed to you before you reach age 59½, unless one of the exceptions applies.

Special Tax Treatment If You Were Born before January 1, 1936. If you receive a payment from a plan qualified under section 401(a) or a section 403(a) annuity plan that can be rolled over under Part I and you do not roll it over to a traditional IRA or an eligible employer plan, the payment will be taxed in the year you receive it. However, if the payment qualifies as a "lump sum distribution," it may be eligible for special tax treatment. (See also "Employer Stock or Securities", below.) A lump sum distribution is a payment, within one year, of your entire balance under the Plan (and certain other similar plans of the employer) that is payable to you after you have reached age 59 ½ or because you have separated from service with your employer (or, in the case of a self-employed individual, after you have reached age 59 ½ or have become disabled). For a payment to be treated as a lump sum distribution, you must have been a participant in the plan for at least five years before the year in which you received the distribution. The special tax treatment for lump sum distributions that may be available to you is described below.

Ten-Year Averaging. If you receive a lump sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using "10-year averaging" (using 1986 tax rates). Ten-year averaging often reduces the tax you owe.

Capital Gain Treatment. If you receive a lump sum distribution and you were born before January 1, 1936, and you were a participant in the Plan before 1974, you may elect to have the part of your payment that is attributable to your pre- 1974 participation in the Plan taxed as long-term capital gain at a rate of 20%.

There are other limits on the special tax treatment for lump sum distributions. For example, you can generally elect this special tax treatment only once in your lifetime, and the election applies to all lump sum distributions that you receive in that same year. You may not elect this special tax treatment if you rolled amounts into this Plan from a 403(b) tax-sheltered annuity contract, a governmental 457 plan, or from an IRA not originally attributable to a qualified employer plan. If you have previously rolled over a distribution from this Plan (or certain other similar plans of the employer), you cannot use this special averaging treatment for later payments from the Plan. If you roll over your payment to a traditional IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, you will not be able to use special tax treatment for later payments from that IRA, plan, or annuity. Also, if you roll over only a portion of your payment to a traditional IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, this special tax treatment is not available for the rest of the payment. See IRS Form 4972 for additional information on lump sum distributions and how you elect the special tax treatment.

Employer Stock or Securities. There is a special rule for a payment from the Plan that includes employer stock (or other employer securities). To use this special rule, 1) the payment must qualify as a lump sum distribution, as described above, except that you do not need five years of plan participation, or 2) the employer stock included in the payment must be attributable to "after- tax" employee contributions, if any. Under this special rule, you may have the option of not paying tax on the "net unrealized appreciation" of the stock until you sell the stock. Net unrealized appreciation generally is the increase in the value of the employer stock while it was held by the Plan. For example, if employer stock was contributed to your Plan account when the stock was worth $1,000 but the stock was worth $1,200 when you received it, you would not have to pay tax on the $200 increase in value until you later sold the stock.

You may instead elect not to have the special rule apply to the net unrealized appreciation. In this case, your net unrealized appreciation will be taxed in the year you receive the stock, unless you roll over the stock. The stock can be rolled over to a traditional IRA or another eligible employer plan, either in a direct rollover or a rollover that you make yourself. Generally, you will no longer be able to use the special rule for net unrealized appreciation if you roll the stock over to a traditional IRA or another eligible employer plan.

If you receive only employer stock in a payment that can be rolled over, no amount will be withheld from the payment. If you receive cash or property other than employer stock, as well as employer stock, in a payment that can be rolled over, the 20% withholding amount will be based on the entire taxable amount paid to you (including the value of the employer stock determined by excluding the net unrealized appreciation). However, the amount withheld will be limited to the cash or property (excluding employer stock) paid to you.

If you receive employer stock in a payment that qualifies as a lump sum distribution, the special tax treatment for lump sum distributions described above (such as 10-year averaging) also may apply. See IRS Form 4972 for additional information on these rules.

Repayment of Plan Loans. If your employment ends and you have an outstanding loan from your Plan, your employer may reduce (or "offset") your balance in the Plan by the amount of the loan you have not repaid. The amount of your loan offset is treated as a distribution to you at the time of the offset and will be taxed unless you roll over an amount equal to the amount of your loan offset to another qualified employer plan or a traditional IRA within 60 days of the date of the offset. If the amount of your loan offset is the only amount you receive or are treated as having received, no amount will be withheld from it. If you receive other payments of cash or property from the Plan, the 20% withholding amount will be based on the entire amount paid to you, including the amount of the loan offset. The amount withheld will be limited to the amount of other cash or property paid to you (other than any employer securities). The amount of a defaulted plan loan that is a taxable deemed distribution cannot be rolled over.

IV. SURVIVING SPOUSES, ALTERNATE PAYEES, AND OTHER BENEFICIARIES

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees and to spouses or former spouses who are "alternate payees." You are an alternate payee if your interest in the Plan results from a "Qualified Domestic Relations Order," which is an order issued by a court, usually in connection with a divorce or legal separation.

If you are a surviving spouse or an alternate payee, you may choose to have a payment that can be rolled over, as described in Part I above, paid in a DIRECT ROLLOVER to a traditional IRA or to an eligible employer plan or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to a traditional IRA or to an eligible employer plan. Thus, you have the same choices as the employee.

A spouse beneficiary or an alternate payment may choose to directly rollover their account balance to an IRA.

If you are a non-spouse beneficiary, you may transfer all or a portion of amounts you hold under the Plan to an established Inherited IRA. The transfer must be a direct rollover from the Plan to the Inherited IRA. The Inherited IRA must be titled in a manner that reflects the decedent and beneficiary. No taxes will be withheld at the time of the direct rollover distribution.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is generally not subject to the additional 10% tax described in Part III above, even if you are younger than age 59½.

If you are a surviving spouse, an alternate payee, or another beneficiary, you may be able to use the special tax treatment for lump sum distributions and the special rule for payments that include employer stock, as described in Part III above. If you receive a payment because of the employee's death, you may be able to treat the payment as a lump sum distribution if the employee met the appropriate age requirements, whether or not the employee had 5 years of participation in the Plan.

If you are a non resident alien - If you are a nonresident alien and you do not elect a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the Plan is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you elect a 60-day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities

HOW TO OBTAIN ADDITIONAL INFORMATION

This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with the Plan Administrator or a professional tax advisor before you take a payment of your benefits from your Plan. Also, you can find more specific information on the tax treatment of payments from qualified employer plans in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements. These publications are available from your local IRS office, on the IRS's Internet Web Site at www.irs.gov, or by calling 1-800-TAX-FORMS. For an updated Special Tax Notice, call Vanguard at 1-800-523-1188.

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