

Annual General Meeting

Notice of the one hundred and fourth Annual General Meeting of the Company, to be held at the registered office of Grainger plc, Citygate, St. James' Boulevard, Newcastle upon Tyne NE1 4JE on 8 February 2017 at 12:30pm, is set out in this document.

Registered in England and Wales with registered number 125575

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised pursuant to the Financial Services and Markets Act 2000 immediately.

If you have sold or transferred all your ordinary shares in Grainger plc, please forward this document, together with the accompanying documents, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

CONTENTS

2	Definitions and Directors
3	Letter from the Chairman
7	Notice of Annual General Meeting
10	General notes
13	Appendix 1
16	Appendix 2

Definitions

The following definitions apply throughout this document, unless the context requires otherwise:

'Act'	the Companies Act 2006 as amended;
'Annual General Meeting'	the Annual General Meeting of the Company to be held on 8 February 2017 at 12:30pm at the registered office of the Company;
'Annual Report and Accounts'	the 2016 Annual Report and Accounts of the Company prepared in accordance the Act;
'Board' or 'Directors'	the Board of Directors of the Company (or a duly appointed committee thereof);
'Company'	Grainger plc;
'Directors' remuneration report'	the Directors' remuneration report for the year ended 30 September 2016 circulated to shareholders with this notice of the Annual General Meeting;
'FSMA'	the Financial Services and Markets Act 2000;
'ITEPA'	Income Tax (Earnings and Pensions) Act 2003;
'London Stock Exchange'	London Stock Exchange plc;
'Official List'	the list maintained by the UKLA pursuant to Part VI of FSMA;
'PEG Principles'	the Pre-Emption Group's revised Statement of Principles, published on 12 March 2015;
'Shares'	ordinary shares in the capital of the Company;
'UK Corporate Governance Code'	the UK Corporate Governance Code (September 2014 edition) published by the Financial Reporting Council; and
'UKLA' or 'UK Listing Authority'	the Financial Conduct Authority, acting in its capacity as the competent authority or the purposes of Part VI of FSMA.

Directors

Baroness Margaret Ford* (Chairman)
Helen Gordon (Chief Executive)
Nick Jopling
Vanessa Simms
Belinda Richards*
Tony Wray*
Andrew Carr-Locke*
Rob Wilkinson*

* Non-Executive

Registered and Head Office

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Letter from the Chairman

6 January 2017

Dear shareholder

The next Annual General Meeting of the Company is to be held at the registered office of Grainger plc, Citygate, St. James' Boulevard, Newcastle upon Tyne NE1 4JE, on 8 February 2017. You will see from the Notice of Annual General Meeting, which is set out on page 7 of this document, that there are 21 resolutions which are proposed for approval, 10 of which relate to the ordinary business of the Annual General Meeting and 11 of which relate to special business.

Details of these resolutions are set out below and in the Notice of Annual General Meeting. Resolutions 1 to 16 and 21 will be proposed as ordinary resolutions. Resolutions 17 to 20 will be proposed as special resolutions.

Ordinary business

Resolution 1 seeks approval of the Directors' report and the audited financial statements for the year ended 30 September 2016 which have been circulated to shareholders at the same time as this letter.

Resolution 2 seeks approval (on an advisory basis) of the Remuneration Committee Chairman's introductory letter (set out on pages 62 to 64 of the Annual Report and Accounts) and the annual report on remuneration (set out on pages 73 to 85 of the Annual Report and Accounts).

Resolution 3 relates to the proposed payment of a dividend of 3.05p per share to be paid on 10 February 2017 to all holders of 5p Shares on the register of members of the Company at the close of business on 30 December 2016 in respect of all Shares then registered in their names.

Resolutions 4 to 10 relate to the election and re-election of the Directors of the Company.

Vanessa Simms joined the Board as Finance Director after the Annual General Meeting in February 2016 and will offer herself for election by shareholders at this Annual General Meeting in accordance with the Articles of Association of the Company.

I am retiring at this Annual General Meeting and will not therefore offer myself for re-election.

In accordance with the UK Corporate Governance Code, all of the other Directors are also offering themselves for re-election at this Annual General Meeting.

It is considered by the Board that all of the Directors bring valuable skills and experience to the Board. Formal performance evaluations have taken place for the continuing Directors and, following those evaluations, the Board considers that the performance of each of these Directors continues to be effective and that each demonstrates commitment to his role. Details of the Directors' skills, competence and experience are set out on pages 44 and 45 of the Annual Report and Accounts.

Special business

Resolution 11

Following a review of the Directors' Remuneration Policy approved at the 2014 Annual General Meeting, a new Remuneration Policy is being proposed to be applied for the current financial year onwards and is being put to a binding shareholder vote. The policy is described on pages 65 to 72 of the Annual Report and Accounts and has been developed taking into account the principles of the UK Corporate Governance Code and the views of our major shareholders. If approved, the policy will take formal effect from the date of the Annual General Meeting.

Resolution 12

The Company's existing long-term incentive arrangement for the Company's Executive Directors and other selected senior management is the Grainger 2007 Long-Term Incentive Plan (the "2007 Plan").

Since its approval by shareholders in February 2007, the 2007 Plan has provided for annual share-based awards ordinarily vesting three years from grant, subject to the participant's continued service and to the extent to which objective performance criteria are met over a three year measurement period. The 2007 Plan reaches the end of its 10 year life on 27 February 2017.

The Remuneration Committee of the Board (the "Committee") has recently undertaken a review of the 2007 Plan and concluded that through Resolution 12 shareholder authority should be sought for a replacement arrangement, the Grainger 2017 Long-Term Incentive Plan (the "2017 Plan").

The terms of the 2017 Plan have been designed to materially continue with the main features of the 2007 Plan but with appropriate changes to bring the policy in line with prevailing best practice expectations and the new Directors' Remuneration Policy proposed for approval under Resolution 11 as referred to above.

A summary of the principal terms of the 2017 Plan is set out in Appendix 1 to this Notice of Annual General Meeting.

Letter from the Chairman

continued

Resolution 13

Resolution 13, which will be proposed as an ordinary resolution, seeks shareholder approval for the Directors to be authorised to adopt the Grainger plc Save As You Earn Scheme (the **“2017 Scheme”**), the principal terms of which are summarised in Appendix 2 to this Notice of Annual General Meeting.

The Company currently operates the Grainger plc SAYE Share Option Scheme 2007 (the **“Current Scheme”**) as an “all employee share scheme”. Under the Current Scheme employees are able to make regular savings (within specified statutory limits) which can then be applied to acquire Shares in the Company pursuant to the exercise of an option granted to each participating employee. Provided that the statutory conditions applying to the Current Scheme are met, the employee should be able to acquire the Shares, on exercise of the option, without suffering any income tax or employee’s national insurance. The Current Scheme therefore affords the Company a tax efficient method of both incentivising and retaining employees. The Current Scheme expires on 28 February 2017, after which no further options under the Current Scheme may be granted.

Accordingly, the Company proposes to adopt the 2017 Scheme, to replace the Current Scheme so that the Company may continue to incentivise employees by offering them the opportunity to acquire Shares in the capital of the Company in a tax efficient manner.

Subject to Resolution 13 being passed by the shareholders of the Company, it is intended that the 2017 Scheme shall be adopted by the Company.

A summary of the principal terms of the 2017 Scheme is set out in Appendix 2 to this Notice of Annual General Meeting.

Resolutions 14 and 15

Resolutions 14 and 15 relate to the auditors of the Company. Ordinary resolutions are being proposed at this Annual General Meeting for their re-appointment as auditors and to authorise the Directors to approve their remuneration.

Resolution 16

This resolution, which will be proposed as an ordinary resolution, seeks shareholder approval for the Directors to be authorised to allot Shares.

Under the provisions of section 551 of the Act, the Directors are not permitted to allot shares unless authorised to do so by the shareholders. The Act provides for such authority to be granted either by the Company in general meeting or by the Articles of Association and, in both cases, such authority can only last for five years. Notwithstanding the statutory provisions, institutional best practice indicates that this authority should be renewed annually. Accordingly, all unexercised previous authorities (including that obtained at the Company’s previous Annual General Meeting) are revoked by this new authority and this authority will expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of the resolution except insofar as commitments to allot Shares have been entered into before that date.

In accordance with institutional guidelines, the Board considers it appropriate that the Directors be granted authority to allot Shares in the capital of the Company up to a maximum nominal amount of £13,890,000 representing the guideline limit of approximately two-thirds of the Company’s issued ordinary share capital (excluding treasury shares) as at 22 December 2016 (being the latest practicable date prior to publication of this circular). Of this amount, £6,945,000 (representing approximately one-third of the Company’s issued ordinary share capital (excluding treasury shares)) can only be allotted pursuant to a fully pre-emptive rights issue. The Board has no present intention of exercising this authority.

The Company holds 1,506,300 treasury shares, being approximately 0.36% of the issued share capital of the Company (excluding treasury shares) as at 22 December 2016.

Resolutions 17 and 18

These resolutions, which will be proposed as special resolutions, supplement the Directors' authority to allot Shares in the Company proposed by resolution 16, and will dis-apply statutory pre-emption rights in relation to allotment of a limited number of Shares in the Company.

Section 561 of the Act requires a company proposing to allot equity securities to offer them first to existing shareholders in proportion to their existing shareholdings. The allotment of equity securities includes Shares (the only class of share capital the Company has at present) and selling Shares held in treasury but the requirement does not apply to Shares issued under employee share schemes. If these resolutions are passed, the requirement imposed by section 561 will not apply to allotments by the Directors in two cases:

1. in connection with a rights (or similar) issue, where application of the principle in section 561 could (for example) either result in fractional entitlements to Shares arising or require the issue of Shares where this would be impractical because of legal or regulatory requirements in any given overseas jurisdiction; and
2. allotments of Shares for cash up to a total nominal value of £2,080,000 (representing approximately 10% of the Company's issued share capital (excluding treasury shares) as at 22 December 2016 (being the latest practicable date prior to publication of this circular). This gives the Directors flexibility to take advantage of business opportunities as they arise, whilst the 10% limit ensures that existing shareholders' interests are protected in accordance with guidelines issued by institutional investors' bodies.

The authority to issue up to 10% of the Company's issued share capital (excluding treasury shares) is in accordance with the PEG Principles. These provide greater flexibility to undertake non-pre-emptive issuances in connection with acquisitions and specified capital investments. The Board confirms that it will not allot Shares with a nominal value of over £1,040,000 (representing 5% of its issued share capital (excluding treasury shares)) for cash unless such allotment is in connection with an acquisition or specified capital investment, in line with the PEG Principles, which will be announced at the same time as the allotment or will have taken place in the preceding six-month period and will be disclosed in the announcement of the allotment.

The Board also confirms its intention that equity securities equivalent to no more than 7.5% of the issued share capital of the Company will be allotted for cash on a non-pre-emptive basis during any rolling three-year period unless in connection with an acquisition or specified capital investment, again in line with institutional investor guidelines.

In the eight years since the 2008 Annual General Meeting, the Company has not issued any Shares on a non-pre-emptive basis (excluding Shares issued under employee share schemes).

As in recent years, this authority will expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months after the passing of the resolutions except in so far as commitments to allot Shares have been entered into before that date and resolutions to renew the authority will be produced at each future Annual General Meeting.

Resolution 19

This resolution, which will be proposed as a special resolution, seeks to renew the authority for the Company to purchase its own Shares in the market up to a maximum of 41,690,000 Shares (being approximately 10% of the Company's issued ordinary share capital as at 22 December 2016 (excluding treasury shares), being the last practicable date prior to the publication of this circular).

The proposed resolution sets out the maximum and minimum prices which the Company may pay for its Shares. This authority will expire at the conclusion of next year's Annual General Meeting or, if earlier, 15 months after the passing of the resolution.

This authority gives the Company greater flexibility in managing its capital resources. The Board does not currently intend to exercise this authority during the year ahead. However, should it do so, it will only be following careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels, the overall position of the Company, the effects on earnings per share and the benefits for shareholders. Any purchase of Shares would be by means of market purchases. Any Shares purchased under the authority may be cancelled (and the number of the Shares in issue will be reduced accordingly) or may be held in treasury so as to be available to be sold at a later date, subject to the restrictions set out in resolution 16 or its equivalent in force at the time.

Letter from the Chairman

continued

The extent of the authority sought is calculated in accordance with current governance practice.

In the 12 months prior to 22 December 2016, being the last practicable date prior to the publication of this circular, the Company had not exercised its right under its existing authority.

The total number of Shares covered by options or warrants as at 22 December 2016, being the latest practicable date prior to publication of this circular, is 1,183,319, representing 0.28% of the issued ordinary share capital of the Company excluding treasury shares (0.35% of the issued share capital of the Company if the Company's full authority to purchase Shares, both existing and being sought, is used).

Resolution 20

The Companies (Shareholders' Rights) Regulations 2009 increased the notice period for all general meetings (including Annual General Meetings) of the Company, subject to any restrictions in its Articles of Association, to 21 days' notice. For general meetings other than Annual General Meetings, a company quoted on the Official List is allowed to hold such general meetings (but not Annual General Meetings) on 14 days' notice provided that two conditions are met. The first condition is that the company offers facilities for shareholders to vote by electronic means. This condition is met if there is a facility offered by the company and accessible to all members to appoint a proxy by means of a website. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days. The Board is therefore proposing this resolution as a special resolution to approve 14 days as the minimum notice period for all general meetings of the Company other than Annual General Meetings. The approval will be effective until the Company's next Annual General Meeting, when it is intended that permission for the approval to be renewed will be sought.

Resolution 21

The Company has a policy that it does not make donations or incur expenditure on behalf of political parties. However, the Act contains restrictions on companies making political donations or incurring political expenditure and it defines these terms very widely, such that activities that form part of the normal relationship between the Company and bodies concerned with policy review may be included.

Such activities are not designed to support a particular political party.

The Company believes that the authority proposed under this resolution, which will be proposed as an ordinary resolution, is necessary to ensure that it does not commit any technical or inadvertent breach of the Act when carrying out activities in furtherance of its legitimate business interests.

The authority will lapse on the conclusion of the Company's next Annual General Meeting or, if earlier, 15 months after the passing of the resolution and will be limited to an aggregate amount of £50,000.

The Company neither made political donations nor incurred political expenditure in the financial year ended 30 September 2016.

RECOMMENDATION

The Directors believe that all the proposals referred to above are in the best interests of the Company and its shareholders as a whole and are most likely to promote the success of the Company for the benefit of its shareholders as a whole. The Directors unanimously recommend that you vote in favour of all the proposed resolutions, as they intend to do in respect of their own beneficial shareholdings.

Yours sincerely



Baroness Margaret Ford

Chairman

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of the Company will be held at the registered office of Grainger plc, Citygate, St. James' Boulevard, Newcastle upon Tyne NE1 4JE on 8 February 2017 at 12:30pm for the following purposes:

As ordinary business, to consider and, if thought fit, pass the following resolutions 1 to 10, as ordinary resolutions of the Company:

1. That the Directors' report and the audited financial statements for the year ended 30 September 2016 be approved and adopted.
2. That the Directors' remuneration report included within the Annual Report and Accounts (other than that part of the report containing the Directors' remuneration policy) be approved.
3. That a dividend of 3.05p per share be paid on 10 February 2017 to all holders of 5p Shares on the register of members of the Company at the close of business on 30 December 2016 in respect of all Shares then registered in their names.
4. That Nick Jopling be re-elected as a Director.
5. That Belinda Richards be re-elected as a Director.
6. That Tony Wray be re-elected as a Director.
7. That Andrew Carr-Locke be re-elected as a Director.
8. That Helen Gordon be re-elected as a Director.
9. That Rob Wilkinson be re-elected as a Director.
10. That Vanessa Simms be elected as a Director.

To transact any other ordinary business of the Company.

As special business, to consider and, if thought fit, pass the following resolutions which in the case of resolutions 11 to 16 and 21 shall be proposed as ordinary resolutions of the Company, and in the case of resolutions 17 to 20 shall be proposed as special resolutions of the Company:

11. That the Directors' remuneration policy set out on pages 65 to 72 of the Annual Report and Accounts and which takes effect immediately after the end of this Annual General Meeting, be approved.

12. That the rules of the Grainger 2017 Long-Term Incentive Plan (the **"2017 Plan"**), the principal terms of which are summarised in Appendix 1 to this Notice of Annual General Meeting, and produced in draft to this meeting and, for the purposes of identification, are initialled by the Chairman of the meeting, be and are hereby approved and the Directors be authorised to:

- a) make such modifications to the 2017 Plan as they may consider appropriate to take account of the requirements of best practice and for the implementation of the 2017 Plan and to adopt the 2017 Plan as so modified and to do all such other acts and things as they may consider appropriate to implement the 2017 Plan; and
- b) establish further plans based on the 2017 Plan but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any Shares made available under such further plans are treated as counting against the limits on individual or overall participation in the 2017 Plan.

13. That the Directors be, and are hereby authorised to:

- a) adopt and establish the Grainger plc Save As You Earn Scheme (the **"2017 Scheme"**), the principal terms of which are summarised in Appendix 2 to this Notice of Annual General Meeting, and the rules of which are produced to this meeting and, for the purpose of identification only, are initialled by the Chairman of the meeting, and to do all such acts and things which they may consider necessary or desirable to establish and carry it into effect (including making any amendments to the rules of the 2017 Scheme to meet the requirements of, and/or maintain the requirements of, Schedule 3 of ITEPA; and
- b) establish further plans based on the 2017 Scheme but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any Shares made available under such further plans are treated as counting against any limits on individual or overall participation contained within the 2017 Scheme.

14. That KPMG LLP be re-appointed as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

Notice of Annual General Meeting

continued

15. That the remuneration of KPMG LLP be fixed by the Directors.

16. That the Directors be generally and unconditionally authorised for the purpose of section 551 of the Act to exercise all the powers of the Company to:

- a) allot or grant rights to subscribe for or to convert any security into Shares in the Company up to an aggregate nominal amount of £6,945,000; and
- b) allot equity securities (within the meaning of section 560 of the Act) up to a further aggregate nominal amount of £6,945,000 provided that they are offered by way of a rights issue to holders of Shares on the register of members at such record date(s) as the Directors may determine, where the Shares or equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be practicable) to the respective number of Shares held or deemed to be held by them on any such record date(s), subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of Shares being represented by depositary receipts or any other matter,

provided that in both cases:

- i) (except as provided in paragraph (ii) below) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution; and
- ii) the Company may before such expiry make an offer or agreement which would or might require Shares or equity securities, as the case may be, to be allotted or such rights granted after such expiry and the Directors may allot Shares or equity securities or grant such rights, as the case may be, in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

All unexercised authorities previously granted to the Directors to allot Shares or equity securities or to grant rights to subscribe for or to convert any security into Shares be and are hereby revoked.

17. That, subject to the passing of resolution 16 above, the Directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash, either pursuant to the authority conferred by resolution 16 or by way of a sale of treasury shares (within the meaning of section 724(5) of the Act), as if section 561 of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:

- a) made in connection with an offer of securities, open for acceptance for a fixed period, by the Directors to ordinary shareholders of the Company on the register on a fixed record date in proportion (as nearly as may be) to their then holdings of such Shares (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares or any legal or practical problems under the laws or requirements of any recognised regulatory body or any stock exchange in any overseas territory or in connection with fractional entitlements) or by virtue of Shares being represented by depositary receipts or any other matter whatsoever; and
- b) (otherwise than pursuant to paragraph (a) above) up to an aggregate nominal value of £1,040,000 of the Company's issued ordinary share capital as at 22 December 2016 (excluding treasury shares),

provided that in both cases:

- i) (except as provided in paragraph (ii) below) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution; and
- ii) the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

18. That, subject to the passing of resolution 16 above, the Directors be empowered, in addition to any authority granted under resolution 17, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash, either pursuant to the authority conferred by resolution 16 or by way of a sale of treasury shares (within the meaning of section 724(5) of the Act), as if section 561 of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:

- a) up to an aggregate nominal value of 5% of the Company's issued ordinary share capital as at 22 December 2016 (excluding treasury shares); and
- b) used only for the purposes of financing (or refinancing, if the power is used within six months of the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the PEG Principles,

provided that:

- i) (except as provided in paragraph (ii) below) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this resolution; and
- ii) the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

All unexercised authorities previously granted to the Directors to allot equity securities as if section 561 of the Act did not apply be and are hereby revoked.

19. That in accordance with the Act the Company be generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of Shares of 5p each in the capital of the Company provided that:

- a) the maximum aggregate number of Shares hereby authorised to be purchased is 41,690,000;
- b) the minimum price which may be paid for such Shares is 5p per Share (exclusive of expenses);
- c) the maximum price (exclusive of expenses) which may be paid for such Shares shall not be more than 5% above the average of the market values for a share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the date on which the Shares are purchased;

- d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or 15 months from the date of this resolution (whichever is earlier); and
- e) the Company may make a contract or contracts to purchase Shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Shares in pursuance of any such contract or contracts.

20. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

21. That the Company and all companies that are its subsidiaries at any time during the period for which this resolution is effective are hereby authorised to:

- a) make political donations to political parties and/or to independent election candidates;
- b) make political donations to political organisations other than political parties; and
- c) incur political expenditure,

in each case, not exceeding £50,000 in aggregate during the period ending on the date of the Company's next Annual General Meeting.

For the purposes of this resolution, the terms 'political donations', 'political parties', 'independent election candidates', 'political organisation' and 'political expenditure' have the meanings set out in sections 363 to 365 of the Act.

By order of the Board



Adam McGhin

Company Secretary
6 January 2017

CRN: 125575

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

General notes

Entitlement to attend and vote

The Company specifies that only those shareholders registered in the register of members of the Company as at close of business on 6 February 2017 (or, if the meeting is adjourned, close of business on the day two days prior to the adjourned meeting) shall be entitled to attend or vote at the Annual General Meeting in respect of the number of Shares registered in their name at that time. Changes to entries on the relevant register of members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. A member can appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attaching to different Shares held by him. In order to be valid, an appointment of proxy (together with any authority under which it is executed or a duly certified copy of the authority) must be returned by one of the following methods and in each case must be received by the Company's registrars not less than 48 hours before the time of the meeting:

- a) in hard copy form by post, by courier or by hand to the Company's registrars, Capita Asset Services at PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU;
- b) via www.capitashareportal.com. If you have not previously registered for electronic communications you will first be asked to register as a new user for which you will require your investor code (which can be found on your share certificate or dividend tax voucher), family name and postcode to log in. Once registered, a proxy voting link will be provided. You do not need to wait for an activation code; or
- c) in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

Completion and return of the form of proxy, or completion of the online voting process, will not preclude shareholders from attending and voting at the meeting. The form of proxy includes a vote withheld option. Please note that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against any particular resolution.

Each shareholder entitled to attend the Annual General Meeting as above, and each proxy appointed in accordance with the above, has one vote for each resolution voted on by a show of hands. If a proxy has been appointed by more than one member entitled to vote, and one of those members has instructed the proxy to vote for the resolution and one or more other of those members has instructed the proxy to vote against it, the proxy has one vote for and one vote against the resolution on a show of hands. In the event of a poll the proxy can exercise the respective voting rights of each appointing member.

Under section 324A of the Act, a proxy must vote in accordance with any instructions given by the member by whom they are appointed.

A copy of this Notice has been sent for information only to persons who have been nominated by a member to enjoy information rights under section 146 of the Act (each a **"Nominated Person"**). The rights to appoint a proxy cannot be exercised by a Nominated Person; they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.

Shareholders entitled to attend and vote as above, have a right to ask questions related to the business put to the meeting as set out in this document. The Directors will endeavour to answer all such questions as fully as possible, however, they are not required to answer if:

- i) to do so would interfere unduly with the preparation for the meeting;
- ii) to answer would involve the disclosure of confidential information;
- iii) the answer has already been given on a website in the form of an answer to a question; or
- iv) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Corporate representatives

A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

CREST members

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a **“CREST Proxy Instruction”**) must be properly authenticated in accordance with Euroclear UK & Ireland Limited’s (**“EUI”**) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer’s agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Documents available for inspection

Copies of the contracts of service of the Directors employed by the Company and the letters of appointment of the Non-Executive Directors are available for inspection by members of the Company at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this Notice until the close of the Annual General Meeting.

A copy of the draft form of the of the rules of the 2017 Scheme will also be available for inspection at the registered office of the Company and at the offices of Eversheds LLP, One Wood Street, London EC2V 7WS during normal business hours on any weekday (Saturdays, Sundays and English public holidays excepted) from the date of this Notice until the close of the Annual General Meeting.

A copy of the draft rules of the 2017 Plan will be available for inspection at the offices of New Bridge Street (an Aon Hewitt Ltd company), 10 Devonshire Square, London EC2M 4YP during normal business hours on any weekday (Saturdays and English public holidays excepted) from the date of this Notice until the close of the Annual General Meeting.

The documents mentioned above will also be available for inspection at the place of the Annual General Meeting where they will be made available from at least 15 minutes prior to the Annual General Meeting until the close of the Annual General Meeting.

Share capital

As at 22 December 2016 (being the latest practicable date prior to publication of this circular), the Company’s issued share capital comprised 418,410,225 Shares of 5p each. Each Share carries the right to one vote at a general meeting of the Company. The Company holds 1,506,300 Shares in treasury and is not permitted to exercise voting rights in respect of these Shares. Therefore the total number of voting rights in the Company as at 22 December 2016 is 416,903,925.

General notes

continued

Audit concerns

Pursuant to Chapter 5 of Part 16 of the Act, where requested by either a member or members having a right to vote at the Annual General Meeting and holding at least 5% of total voting rights of the Company or at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid up share capital, the Company must publish on its website a statement setting out any matter that such members propose to raise at the meeting relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting. Where the Company is required to publish such a statement on its website, it may not require the members making the request to pay any expenses incurred by the Company in complying with the request, it must forward the statement to the Company's auditors and the statement may be dealt with as part of the business of the meeting. A member wishing to request publication of such a statement on the Company's website must send the request to the Company either in hard copy form to the Company's registered office marked for the attention of the Company Secretary (and sign the request), by email to amcghin@graingerplc.co.uk or by fax to 0191 269 5901 marked for the attention of the Company Secretary. Whichever form of communication is chosen, the request must either set out the statement in full or, if supporting a statement sent by another member, clearly identify the statement which is being supported, be received by the Company at least one week before the Annual General Meeting and be appropriately authenticated in accordance with section 527(4)(c) of the Act.

Members' further rights

Members of the Company have the right, under section 338 of the Act, to require, subject to certain conditions, the Company to give its members notice of a resolution which the shareholders wish to be moved at the Annual General Meeting of the Company. Additionally, members of the Company have the right under section 338A of the Act to require, subject to certain conditions (including that the matter is not defamatory of any person, frivolous or vexatious) the Company to include a matter (other than a proposed resolution) in the business to be dealt with at the Annual General Meeting. The Company is required to give such notice of a resolution or include such matter once it has received requests from members representing at least 5% of the total voting rights of all the members who have a right to vote at the Annual General Meeting or from at least 100 members with the same right to vote who hold Shares in the Company on which there has been paid up an average sum, per member, of at least £100. This request must (1) be received by the Company not later than six weeks before the Annual General Meeting or, if later, the time at which notice is given of the Annual General Meeting, (2) identify the resolution of which notice is to be given or the matter of business by either setting it out in full or, if supporting a resolution or statement sent by another member, clearly identify the resolution or matter of business which is being supported, (3) be authenticated by the

person or persons making it, and (4) be sent either in hard copy form to the Company's registered office marked for the attention of the Company Secretary (and signed), by email to amcghin@graingerplc.co.uk or by fax to 0191 269 5901 marked for the attention of the Company Secretary. In the case of a request relating to section 338A of the Act, the request must be accompanied by a statement setting out the grounds for the request.

Website

A copy of this Notice and other information required by section 311A of the Act can be found at www.graingerplc.co.uk

Communication

Except as provided above, members who have general queries about the Annual General Meeting should contact the Company Secretary at Grainger plc, Citygate, St. James' Boulevard, Newcastle upon Tyne NE1 4JE or on 0191 269 5934 (no other methods of communication will be accepted).

You may not use any electronic address provided either in this notice of Annual General Meeting or any related documents (including the Chairman's letter and proxy form), to communicate with the Company for any purposes other than those expressly stated.

Appendix 1

SUMMARY OF THE PRINCIPAL TERMS OF THE GRAINGER 2017 LONG-TERM INCENTIVE PLAN (THE “2017 PLAN”)

Operation

The Remuneration Committee of the Board (the “Committee”) will supervise the operation of the 2017 Plan (hereinafter the “Plan”).

Eligibility

Any employee (including an executive director) of the Company and its subsidiaries will be eligible to participate in the Plan at the discretion of the Committee.

It is currently anticipated that participation in the Plan will be limited to the Company’s Executive Directors and selected senior management.

Grant of awards

The Committee may grant awards to acquire Shares within six weeks following the Company’s announcement of its results for any period. The Committee may also grant awards within six weeks of shareholder approval of the Plan or at any other time when the Committee considers there are sufficiently exceptional circumstances which justify the granting of awards.

The Committee may grant awards as conditional share awards or nil (or nominal) cost options.

The Committee may also grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

An award may not be granted more than 10 years after shareholder approval of the Plan.

No payment is required for the grant of an award. Awards are not transferable, except on death. Awards are not pensionable.

The first awards under the Plan would be made within six weeks following shareholder approval of the Plan or as soon as reasonably practicable thereafter.

Individual limit

An employee may not receive awards in any financial year over Shares having a market value in excess of 175% of their annual base salary in that financial year save in exceptional circumstances in which case this limit increases to 200% of their annual base salary.

Market value for the purposes of the above limit shall be based on the market value of Shares on the dealing day immediately preceding the grant of an award or by reference to a short averaging period.

Performance conditions

The extent of vesting of awards granted to the Company’s Executive Directors will be subject to performance conditions set by the Committee and may be so in the case awards to others.

For the first awards granted under the Plan to the Company’s Executive Directors and other senior management, the vesting of such awards will be subject to the satisfaction of performance conditions comprising equally weighted measures of total shareholder return and total property return performance over a performance period comprising three financial years of the Company starting with the current financial year. Such performance conditions shall also include an override measure under which the Committee will retain discretion to reduce vesting outcomes if the Committee determines that the level of vesting by reference to the performance conditions alone would be inconsistent with (i) the Company’s underlying financial performance and/or (ii) the Company’s health and safety record.

Fuller details of such performance conditions are explained in the Directors’ remuneration report within the Company’s Annual Report and Accounts.

The terms of the performance conditions for awards to the Company’s Executive Directors shall be set in line with the applicable Directors’ Remuneration Policy from time to time.

The Committee may vary the performance conditions applying to any award if an event occurs which causes the Committee to consider that it would be appropriate to amend the performance conditions, provided the Committee considers the varied conditions are fair and reasonable and not materially more or less challenging than the original conditions would have been but for the event in question.

Vesting of awards

Awards normally vest on the third anniversary of grant or, if later, when the Committee determines the extent to which any performance conditions have been satisfied.

Where awards are granted in the form of options, once vested, such options will then be exercisable up until the tenth anniversary of grant (or such shorter period specified by the Committee at the time of grant) unless they lapse earlier. Shorter exercise periods shall apply in the case of “good leavers” and/or vesting of awards in connection with corporate events.

General notes

continued

Holding Period

The terms of the Plan require that executive director participants (and such others if any as the Committee requires) will ordinarily be required to retain any vested Shares (on an after-tax basis) acquired under the Plan (or, where relevant, the full number of the vested Shares whilst held under an unexercised but vested award) until at least the secondary anniversary of the vesting of the relevant award.

Exceptionally, the Committee may, in its discretion, allow such participants to sell, transfer, assign or dispose of some or all of these Shares before the end of the holding period, subject to such additional terms and conditions that the Committee may specify.

Dividend equivalents

The Committee may decide that participants will receive a payment (in cash and/or Shares) of an amount equivalent to the dividends that would have been payable on an award's vested Shares between the date of grant and the vesting of the award (or if later, and only whilst the award remains unexercised in respect of vested Shares, the expiry of any holding period). This amount may assume the reinvestment of dividends and shall be paid at the same time as the delivery of the related vested Shares (or cash payment as relevant).

Leaving employment

As a general rule, an award will lapse upon a participant ceasing to hold employment or be a director within the Company's group. However, if a participant ceases to be an employee or a director because of death, injury, disability, redundancy, retirement with the agreement of their employer, their employing company or the business for which they work being sold out of the Company's group or in other circumstances at the discretion of the Committee, then their award will normally vest on the date when it would have vested if he had not ceased such employment or office. The extent to which an award will vest in these situations will depend upon two factors: (i) the extent to which the performance conditions (if any) have, in the opinion of the Committee, been satisfied over the original performance measurement period, and (ii) pro rating of the award to reflect the reduced period of time between its grant and vesting, although the Committee can decide to pro-rate an award to a lesser extent (including as to nil) if it regards it as appropriate to do so in the particular circumstances.

Alternatively, if a participant ceases to be an employee or director in the Company's group for one of the "good leaver" reasons specified above (including in the case of a discretionary good leaver), the Committee can decide that their award will vest when they leave, subject to: (i) the performance conditions measured at that time; and (ii) pro-rating by reference to the time of cessation as described above (including as above discretion will be retained for the Committee in respect of pro-ratio).

Corporate events

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation) all awards will vest early subject to: (i) the extent that the performance conditions (if any) have been satisfied at that time; and (ii) the pro-rating of the awards to reflect the reduced period of time between their grant and vesting, although the Committee can decide not to pro-rate an award (or pro-rate to a lesser extent) if it regards it as appropriate to do so in the particular circumstances.

In the event of an internal corporate reorganisation awards will be replaced by equivalent new awards over shares in a new holding company unless the Committee decides that awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that awards will vest on such basis as it decides.

Participants' rights

Awards settled in Shares will not confer any shareholder rights until the awards have vested or the options have been exercised as relevant and the participants have received their Shares.

Rights attaching to Shares

Any Shares allotted when an award vests or is exercised will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Variation of capital

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Shares, the Committee may make such adjustment as it considers appropriate to the number of Shares subject to an award and/or the exercise price payable (if any).

Overall Plan limits

The Plan may operate over new issue Shares, treasury shares or Shares purchased in the market.

In any 10 calendar year period, the Company may not issue (or grant rights to issue) more than:

- (i) 10% of the issued ordinary share capital of the Company under the Plan and any other employee share plan adopted by the Company; and
- (ii) 5% of the issued ordinary share capital of the Company under the Plan and any other executive share plan adopted by the Company.

Treasury shares will count as new issue Shares for the purposes of these limits unless institutional investor guidelines provide that they need not count.

Alterations to the Plan

The Committee may, at any time, amend the Plan in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury shares, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be acquired and the adjustment of awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group. Shareholder approval will also not be required for any amendments to any performance condition applying to an award varied on its terms.

Recovery and withholding

The Committee may apply the Plan's recovery and withholding provisions if, within three years of the vesting of an award, it is discovered that there has been a material misstatement of the Company's financial results, an error of calculation (including on account of inaccurate or misleading information) or in the event of serious misconduct.

The recovery and withholding may be satisfied by way of a reduction in the amount of any future bonus, subsisting award or future share awards and/or a requirement to make a cash payment.

The discovery period may be extended by the Committee for an additional period of two years in the event of ongoing investigation as at the expiry of the normal three year discovery period.

Overseas plans

The shareholder resolution to approve the Plan will allow the Board to establish further plans for overseas territories, any such plan to be similar to the Plan, but modified to take account of local tax, exchange control or securities laws, provided that any Shares made available under such further plans are treated as counting against the limits on individual and overall participation in the Plan.

General notes

continued

Appendix 2 THE GRAINGER PLC SAVE AS YOU EARN SCHEME ("SAYE SCHEME")

Status of the SAYE Scheme

The SAYE Scheme is designed to meet the requirements of Schedule 3 of ITEPA, so as to permit the grant of tax advantaged options to participants.

Eligibility

Participation in the SAYE Scheme will be offered to all employees, (including full-time Executive Directors) of the Company and its participating subsidiaries who satisfy certain criteria. The criteria are that:

- the employee must have been employed for a continuous period to be determined by the Board (not exceeding five years ending on the date of grant of the relevant option); and
- the employee's earnings from employment are general earnings (or would be if there were any) for a tax year in which the employee is resident in the United Kingdom.

In addition, certain other employees of the Company or any subsidiary of the Company nominated by the Board may be permitted to participate in the SAYE Scheme.

Issue of Invitations

Invitations to apply for an option may be issued to eligible employees during the period of 42 days commencing on: (a) the date the SAYE Scheme is adopted by the Board; (b) the dealing day immediately following the date of the preliminary announcement of the Company's annual results or the announcement of its half-yearly results in any year (provided that if Shares are admitted to the Official List at the time in question, no invitations shall be issued during the first three dealing days of the period referred to in this paragraph (b)); (c) any day on which a change to the legislation affecting Schedule 3 Save As You Earn Schemes is proposed or takes effect; or (d) any day on which a new savings contract prospectus is announced or takes effect.

If the issue of an invitation during any of the above periods would be prohibited by virtue of any statute, order or regulation, any share dealing code adopted by the Company, or any governmental directive then such invitation may be issued during the period of thirty-nine days commencing immediately after the third dealing day following the time that such prohibition shall cease to have effect.

Each eligible employee who receives an invitation may, within 21 days from the date of the invitation (or such shorter period not being less than 14 days as the Board may determine), apply for an option.

"Save-As-You-Earn" Contract and Grant of Options

An eligible employee who wishes to be granted an option must enter into a save-as-you-earn contract ("**SAYE contract**") with an approved savings body selected by the Board. Under the SAYE contract, the eligible employee will save a regular sum each month for three or five years (such period to be selected at the discretion of the Board on or prior to issuing the invitations or where the Board allows, by the eligible employee) of not less than £5 nor more than £500 per month (or such greater amount as may from time to time be permitted by ITEPA). Employees who complete an SAYE contract will be entitled to a bonus from the savings body provided that such a bonus is payable in respect of the SAYE contract concerned. The bonus is fixed at the inception of the SAYE contract.

An option to acquire Shares will be granted to each eligible employee who enters into an SAYE contract. The number of Shares subject to such an option will be the number of Shares which have an aggregate option price as near to, but not exceeding, the projected proceeds of the SAYE contract concerned (including the bonus, if available, subject to any scaling back as described below).

No consideration is payable for the grant of an option.

Scaling Back

If there are insufficient Shares available to fully satisfy all applications received for an option from eligible employees, the Board may scale down the applications by taking one or more prescribed steps set out in the rules of the SAYE Scheme to reduce the amount of savings made under each SAYE contract or otherwise reduce the proceeds derived from each SAYE contract so as to ensure that the options are granted over such number of Shares as does not exceed the number of Shares available to satisfy those options.

Exercise Price

Subject to the constraints set out below, the option price per Share subject to an option will be selected by the Board.

The option price must not be less than 80% (or such other percentage as may from time to time be permitted by Schedule 3 of ITEPA) of the market value of a Share on the day on which the invitations to apply for options are issued provided that, in the case of an option to subscribe for Shares, the option price per Share subject to an option selected by the Board shall not be less than the greater of: (i) the nominal value of a Share; and (ii) an amount equal to 80% (or such other percentage as may from time to time be permitted by Schedule 3 of ITEPA) of the market value of a Share on the day on which the invitations to apply for options are issued.

The option price (as well as the number of Shares under option and their description) may be adjusted by the Board in the event of any capitalisation issue or rights issue (other than an issue of Shares pursuant to the exercise of an option given to the shareholders of the Company to receive Shares in lieu of a dividend) or open offer or any other variation in the share capital of the Company, including (without limitation) any consolidation, subdivision or reduction of capital. Any such adjustments may not be made if they would result in the requirements of Schedule 3 of ITEPA not being met in relation to the option and any adjustments made must secure that the total market value of the Shares which may be acquired by the exercise of the option and the total price at which those Shares may be acquired are immediately after such adjustments substantially the same as what they were immediately before the adjustments.

Scheme Limits

On any date, no option may be granted under the SAYE Scheme if as a result the aggregate nominal value of Shares issued or issuable pursuant to options or other rights granted during the previous 10 years under the SAYE Scheme or any other employees' share scheme adopted by the Company would exceed 10% of the nominal value of the ordinary share capital of the Company in issue at that date.

For the purpose of the limit set out above:

- any Shares which were subject to an option or other right (whether granted under the SAYE Scheme or any other employees' share scheme adopted by the Company) which has lapsed or been surrendered will not count towards the limit set out above;
- where an option (or other right granted under any other employees' share scheme operated by the Company) takes the form of a right to acquire Shares from an employee benefit trust established by the Company or from any other person, such Shares will only be counted as "issued or issuable" to the extent to which they have been issued (or there is an intention for them to be issued) by the Company to the trust or such other person for the purposes of the SAYE Scheme or any other employees' share scheme operated by the Company; and
- Shares held in treasury which are used to satisfy awards or other rights (whether under the SAYE Scheme or any other employees' share scheme adopted by the Company) shall be taken into account unless and until treasury shares are no longer required by the Investment Association to be so included for the purposes of such limit.

Exercise and Lapse of Options

Options are not transferable and (except in the circumstances described below) an option may normally only be exercised within a period of six months following the maturity of the relevant SAYE contract by a person who remains a director or employee.

Where an option holder dies before the maturity of his SAYE contract, his personal representatives may exercise his option within a period of twelve months from the date of his death. Where an option holder dies within a period of six months following the maturity of his SAYE contract without having exercised his option, his personal representatives may exercise his option within a period of twelve months following the date of maturity of the SAYE contract.

An option holder may exercise his option early within a period of six months following the date that he is no longer an employee of the Company or any "associated company" of the Company (as defined in Schedule 3 of ITEPA) where the cessation occurs as a result of:

- injury, disability, redundancy (within the meaning of the Employment Rights Act 1996), retirement or a transfer of the option holder's employment within the meaning of the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("**TUPE Transfer**");
- his employing company ceasing to be under the control of the Company; or
- his office or employment being transferred to a company which is not under the control of the Company where such transfer does not amount to a TUPE Transfer.

Options will lapse upon cessation of employment of the option holder in any other circumstances not referred to above.

An option holder may also exercise his option early within a limited period following a takeover of the Company, a scheme of arrangement under Part 26 of the Act which affects, or is applicable to, the Shares being sanctioned by the court, a non-UK company reorganisation or the passing of a resolution for the voluntary winding up of the Company.

Where there is a change of control of the Company, in certain circumstances option holders may release their rights under options in consideration of the grant to them of equivalent rights over shares in the acquiring company which gains control of the Company.

Where an option is exercised early the number of Shares acquired on exercise will in any event be limited by reference to the proceeds accrued under the relevant SAYE contract up to the date of exercise.

General notes

continued

Other Option Terms and issue of Shares

The SAYE Scheme provides the facility for the exercise of options to be satisfied by either the issue of Shares, the transfer of Shares held by an existing shareholder who has agreed to satisfy the exercise of the option or by the transfer of Shares held in treasury.

Options are not capable of transfer or assignment.

Until options are exercised, option holders have no voting or other rights in relation to the Shares subject to those options.

Shares allotted pursuant to the exercise of an option will rank pari passu in all respects with the Shares already in issue but shall not rank for any dividends or other distribution payable by reference to a record date preceding the date of allotment. Shares transferred on the exercise of an option shall be transferred without the benefit of any rights attaching to the Shares by reference to a record date preceding the date of that exercise. For so long as the Shares are listed on the Official List, the Company will use its best endeavours to procure that the Shares issued following exercise of any options are admitted to the Official List as soon as practicable after allotment.

Benefits obtained under the SAYE Scheme are not pensionable.

Amendments

The SAYE Scheme is administered by the Board. The Board may amend the provisions of the SAYE Scheme. However, no amendment to a key feature of the SAYE Scheme may be made which would result in the requirements of Schedule 3 of ITEPA not being met in relation to the SAYE Scheme.

Furthermore, the rules of the SAYE Scheme which relate to:

- the persons to whom options may be granted;
- the limits on the number of Shares which may be issued under the SAYE Scheme;
- the maximum entitlement of any option holder;
- the basis for determining an option holder's entitlement to Shares or options; and
- the basis for determining the adjustment of any option granted under the SAYE Scheme in the event of a capitalisation issue, rights issue or open offer, sub-division or consolidation of Shares or reduction of capital or any other variation of capital of the Company,

cannot be amended to the advantage of any option holder or potential option holder without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the SAYE Scheme, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for any option holder, the Company or any subsidiary undertaking of the Company from time to time.

In addition no amendment may be made to subsisting options which will have an adverse effect on such options except with the written consent of the option holders who hold options over at least 75% of the total number of Shares subject to all such affected subsisting options under the SAYE Scheme or unless the amendment is a minor amendment to benefit the administration of the SAYE Scheme, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for any option holder, the Company or any subsidiary undertaking of the Company from time to time.

Overseas employees

The Board may adopt supplemental rules to the SAYE Scheme to facilitate the granting of options to individuals not resident in the UK provided that such supplemental rules will, so far as the Board in its discretion considers reasonably practicable, follow the rules of the SAYE Scheme.

Termination

The SAYE Scheme may be terminated at any time by resolution of the Board and shall in any event terminate on the tenth anniversary of its adoption by the Company so that no further options can be granted under the SAYE Scheme after such termination. Termination shall not affect the outstanding rights of existing option holders.