ELIA SYSTEM OPERATOR

Rights Offering of maximum 12,071,043 New Shares with VVPR Strips of Elia System Operator SA/NV (the "Company") EUR 24.80 per New Share in the ratio of 1 New Share for 4 Preferential Rights

This prospectus (the "Prospectus") relates to the public offering to Existing Shareholders and holders of an extra-legal preferential right ("Preferential Right") (the "Rights Offering") to subscribe for newly issued ordinary shares with VVPR strips (the "VVPR Strips") in the Company (the "New Shares") and the Scrips Private Placement (together the "Offering"). The Issue Price for the New Shares with VVPR Strips is EUR 24.80.

Each investor holding shares of the Company will be granted one Preferential Right per Existing Share held in possession at closing of Euronext Brussels on 3 June 2010. The Preferential Rights will be represented by coupon nr. 6, which will be separated from the underlying share on 3 June 2010 after closing of the market. The Preferential Rights are expected to trade on Euronext Brussels from 4 June 2010 up to and including 18 June 2010 and will be listed on Euronext Brussels under the ISIN code BE0970113164 and trading symbol ELI6. The holders of Preferential Rights are entitled to subscribe to the New Shares in the ratio of 1 New Share for 4 Preferential Rights (the "Ratio"). The subscription period for the New Shares shall be from 4 June 2010 up to and including 18 June 2010, at 4 P.M. CET (the "Rights Subscription Period"). Once exercised, the holders of Preferential Rights cannot revoke the exercise of their Preferential Rights, except as set out in section 5.2.5.1. Holders of Preferential Rights who have not exercised their Preferential Rights during the Rights Subscription Period will no longer be able to exercise their Preferential Rights.

Preferential Rights that are not exercised during the Rights Subscription Period will be converted into an equal number of scrips (the "Scrips"). The Scrips will be offered for sale in a private placement to institutional investors that is expected to start on 22 June 2010 and to end on the same date (the "Scrips Private Placement"). The net proceeds of the sale of the Scrips (if any) will be divided proportionally between all holders of Preferential Rights who have not exercised them , unless the net proceeds of the sale of the Scrips divided by the total number of unexercised Preferential Rights is less than EUR 0,05. Purchasers of Scrips in the Scrips Private Placement shall irrevocably undertake to subscribe to the corresponding number of New Shares at the Issue Price and in accordance with the Ratio.

The statutory preferential subscription right of the Existing Shareholders has been cancelled with respect to the Offering, but the Preferential Rights, each representing an extra-legal preferential subscription right, are being granted as described above. The result of the subscription with Preferential Rights will be announced through a press release before market opening on or about 22 June 2010. The results of the Offering, detailing the subscription with Preferential Rights and with Scrips, the results of the sale of Scrips and the amount due to holders of unexercised Preferential Rights (if any) will be published on or about 23 June 2010 via an official advertisement in the Belgian Financial Press.

The Company has applied to have the New Shares admitted to trading on Euronext Brussels under the trading symbol "ELI". The Company has applied to have the VVPR Strips admitted to trading on Euronext Brussels under the trading symbol "ELIS".

For a description of the factors that should be considered before subscribing for the New Shares or trading in the Preferential Rights reference is made to the "Risk factors" beginning on page 1.

Neither the New Shares, the Preferential Rights, nor the Scrips have been and they will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. Persons (as that term is defined in Regulation S under the Securities Act ("Regulation S")) unless the New Shares, the Preferential Rights or the Scrips are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The New Shares, the Preferential Rights and the Scrips are only being offered and sold in offshore transactions outside the United States in accordance with Regulation S.

The New Shares, the Preferential Rights, the Scrips and the VVPR Strips have not and will not be registered under the securities laws of any jurisdiction other than Belgium. The distribution of this document and the offering and delivery of shares in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required to inform themselves about and observe any such restrictions. For a description of these and further restrictions, see section 2.2 and section 5.3.

Delivery of the New Shares and the VVPR Strips is expected to take place through the book-entry facilities of Euroclear Belgium against payment therefore in immediately available funds on or about 25 June 2010.

Joint Global Coordinators and Bookrunners

KBC Securities · ING · BNP PARIBAS FORTIS · DEXIA

Prospectus dated 3 June 2010

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Defined terms are used between brackets or identified by the use of a capital letter.

Numerical expressions in this Prospectus follow the international convention whereby a comma (,) separates the thousands and a full stop (.) separates the decimals.

SUMMARY

The summary information contained in this section is only an introduction to this Prospectus. It contains selected information about the Company and the Offering. Any decision to invest in the New Shares pursuant to the Offering should be based on consideration of this Prospectus as a whole by the investor and not just this summary. Prospective investors should carefully review this entire Prospectus and should reach their own views and decisions on the merits and risks of investing in the New Shares in light of their own personal circumstances. Furthermore, investors should consult their financial, legal and tax advisors to carefully review the risks associated with an investment in the New Shares.

Under the Prospectus Directive (Directive 2003/71/EEC), in each member state of the European Economic Area ("EEA"), no civil liability for this summary, including any translation thereof, will attach to any person, unless it is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus. If any claim is brought before a court of a EEA state relating to the information contained in this Prospectus, the investor who brings such a claim might, under the national legislation of such EEA state, have to bear the costs of translating this Prospectus before the legal proceedings are initiated.

SUMMARY RISK FACTORS

An investment in the New Shares and/or the VVPR Strips involves a certain degree of risk. Section 1 includes a list of risks relating to the regulatory framework, the business of Elia and of 50Hertz Transmission GmbH ("50Hertz"), the financial markets, the acquisition of 50Hertz, the shares and the Offering. Below is a summary of the most relevant risks.

Risks related to the regulatory framework

- Changes of the regulatory framework may have an adverse impact on Elia's or 50Hertz' revenue, prospects and profit and may create regulatory uncertainty. Elia and 50Hertz currently operate, both in Belgium and in Germany, under a multi-annual tariff scheme which could be revised at the end of each regulatory period and impact the results of Elia and 50Hertz.
- Some parameters for the determination of the fair remuneration of Elia and 50Hertz under tariff setting regulations are subject to specific uncertainties which may negatively impact Elia's and 50Hertz' revenue, prospects and profit.
    - In case of deviations between the actually incurred costs and forecasted costs, the Council of Ministers, after opinion of the Belgian federal regulator, takes the final decision whether the incurred costs are not deemed unreasonable. This decision can result in costs not being taken into account for the setting of tariffs for the next regulatory period, which may have an adverse impact on the profitability of Elia.
    - The German regulatory framework differs significantly from the Belgian regulatory framework. The remuneration level allowed in next regulatory periods is uncertain. German regulation provides for a specific remuneration regime for transmission network investments called "investment budgets". 50Hertz needs to apply for the approval of investment budgets in order to ensure the appropriate remuneration of the costs related to the investments during a regulatory period, and the investment budgets for several investment projects contemplated by 50Hertz are still in the approval phase.
- Licences given to transmission system operators may be terminated early or may not be renewed.
- The timely implementation of network development projects and connection projects (including in respect of renewable energy sources) depend on obtaining the necessary approvals or permits. Such approvals or permits may be refused or challenged before the courts. Uncertainties about the timing and size of the investments needed for offshore projects may have an impact on the financing needs of Elia and 50Hertz.
- Compliance with existing or new environmental, soil sanitation, city planning and zoning regulations may impose significant additional costs on Elia or 50Hertz, in particular in respect of soil contamination. While Elia and 50Hertz have set aside provisions and accruals in connection with such obligations, the provisions and accruals made by Elia and 50Hertz may not be sufficient to cover all costs that are potentially required to be made in order to comply with these obligations.
- Tax laws and their interpretation by the tax authorities and courts are subject to changes, potentially with retroactive effect. Such changes can have a negative impact on Elia and/or 50Hertz.
- Inconsistency between different regulatory frameworks applicable in Belgium may create a risk for Elia.

Risks related to Elia's and 50Hertz' business

- Elia's and 50Hertz' turnover is related to the amount of energy transported on the network and is directly impacted by the level of consumption. Elia and 50Hertz may face a turnover decrease in the event of a slowing down of the economic activities of their clients and/or the rationalisation of electricity consumption.
- Transmission disruptions or system breakdowns that affect Elia's or 50Hertz' network may result in liability claims and litigation which could negatively impact the results of operations.
- Increased discrepancy between the location of generation and consumption, together with the increasing share of renewable energy sources in the energy-mix, create new risks for the daily operation of power systems and transmission/distribution networks and an increased risk of transmission disruption.
- A failure of the IT systems and processes used by Elia and 50Hertz or a breach of security measures relating to IT systems and processes may result in losses for customers and reduced revenues and profits for Elia and 50Hertz.
- The outcome of legal proceedings or potential future litigation is uncertain and may adversely affect the business, financial condition and results of operations of Elia or 50Hertz.
- Acts of terrorism or sabotage may result in network failures or system breakdowns, which can have a material adverse effect on Elia's or 50Hertz' business, financial condition and results of operations.
- While at least part of the positive results of non-regulated activities can be included in the profit of the Company and should not be used for tariff reductions, negative results of these activities are entirely born by Elia.

- The lack or loss of highly qualified staff may result in insufficient expertise and knowhow, in unsatisfactory quality levels or the inability to timely complete infrastructure projects.
- Decisions made or actions taken within companies in which Elia or 50Hertz has a minority participation may result in lower revenues or a lower profit margin concerning such companies.
- Elia and 50Hertz operate facilities that may cause significant harm to human beings and in relation to which accidents may have serious consequences on their financial position or results, or harm their reputation.
- While Elia and 50Hertz have subscribed the insurance contracts necessary to operate their business in line with industry standards, it cannot be excluded that Elia or 50Hertz are not (fully) insured against certain risks to which they are exposed (such as material damages to overhead lines, third party losses or damage or blackout claims in excess of insurance coverage and environmental liabilities).

Risks related to the financial markets

- In order to finance investments and to achieve their goals, Elia and 50Hertz need access to capital and debt markets. Financing may not be available at attractive terms or may not be available at all.

Specific risks related to the acquisition of 50Hertz by Elia

- In connection with the acquisition of 50Hertz by Elia and IFM (through Eurogrid International CVBA and Eurogrid GmbH), it cannot be excluded that there is limited or no recourse against Vattenfall in respect of certain risks relating to the activities of 50Hertz or that certain risks are not covered by representations and warranties or indemnities provided by Vattenfall. Elia has undertaken to procure that certain essential investment projects of 50Hertz are carried out by 50Hertz, and Elia's failure to meet these obligations may have negative financial consequences for Elia.
- Elia only has a 60% shareholding in 50Hertz, the other 40% of the shares being held by IFM (in each case through Eurogrid International CVBA and its subsidiary Eurogrid GmbH). Significant matters relating to the business of 50Hertz are jointly controlled by Elia and IFM.
- Should the Offering not be fully subscribed to and the bridge financing be insufficient, Elia may have to seek additional financing for the acquisition of 50Hertz.
- The conditions of the bank debt entered into by Eurogrid GmbH in the context of the acquisition of 50Hertz depend on the quality of the final public rating of Eurogrid GmbH. While Eurogrid GmbH intends to replace the bank debt entered into by Eurogrid GmbH with bonds, the successful refinancing of the bank debt of Eurogrid GmbH will depend on the evolution of the credit market conditions.
- Restrictions on upstream payments under German law may have a material adverse effect on Elia's results.

Risks related to the shares and the Offering

- There is no assurance that a trading market will develop for the Preferential Rights, and if a market does develop, the market price for the Preferential Rights may be subject to greater volatility than the market price for the Shares.
- Existing Shareholders will experience dilution as a result of the Offering if they do not or could not exercise their Preferential Rights in full.
- If the Rights Offering is discontinued or there is a substantial decline in the price of the Shares, the Preferential Rights may become void or worthless.
- The market price of the Company's shares may be volatile and may decline below the Issue Price.
- The capital increase may be lower than the contemplated Issue Amount if the Offering is not fully subscribed.
- The market price of the Company's shares or Preferential Rights could be negatively affected by sales of substantial numbers of shares or Preferential Rights in the public markets.
- There may not be an active public market for the Company's shares (and the Offering may not substantially improve such activity), which may cause the shares to trade at a discount to the Issue Price and/or make it difficult to sell the shares.
- Certain significant shareholders of the Company after the Offering may have interests that differ from those of the Company and may be able to control the Company, including the outcome of shareholder votes.
- Shareholders outside Belgium may not be able to exercise preferential subscription rights (notice for non-Belgian resident investors).

SUMMARY OF ELIA'S AND 50HERTZ' ACTIVITIES

Overview Elia's business

Elia's core business is the operation, maintenance and development of the very high voltage (380 kV, 220 kV and 150 kV) and high voltage (70 kV, 36 kV and 30 kV) networks in such a way that electricity reliably flows from electricity producers, whether located in Belgium or elsewhere in Europe, to distributors and large corporate clients. Elia, through Elia Asset SA/NV ("Elia Asset"), owns 100% of the Belgian very high voltage electricity network and owns (or has the right to use) approximately 94% of the Belgian high voltage electricity network (see also section 16.2.2). Elia's network is situated in a unique position at the crossroads between the South- and Northwestern European electricity market.

The Company has been appointed, at the federal level, as the sole transmission system operator ("TSO") in Belgium for the very high voltage network for a renewable term of 20 years with effect from 17 September 2002 (see section 13.2.1). The Company, as sole operator of the high voltage network in Belgium, has also been granted the required system operating licences by the regional governments (see section 13.2.2).

Among Elia's activities a distinction can be made between asset management, system operation, market facilitation and related activities.

Asset management – This activity consists of the ownership, maintenance and development of the network's overhead lines, underground cables, substations and other equipment necessary to enable the transmission of electricity at the voltages of 380 kV to 30 kV. Elia's network consists of 8,379 km of power links, of which 5,614 km of overhead lines and 2,765 km of underground cables (see section 10.6).

System operation – Elia provides the relevant market participants with access to its electricity network and seeks to ensure the stability of the Belgian power system so that electricity is transmitted in a stable, secure and reliable manner. Elia monitors the electricity flows on its network and seeks to balance in real time the total electricity injected into and taken off its network, taking into account the power exchanges with the neighbouring countries, through the procurement of the appropriate ancillary services. Elia also purchases electricity on the market to compensate in the high voltage networks for energy losses that are a consequence of the transmission of electricity (see section 10.7).

Electricity import / export – market facilitation – In addition to its two core activities described above, Elia aims at improving the functioning of the open electricity market by acting as a market facilitator, both in the context of a single European electricity market as well as in the framework of the integration of renewable energy, in accordance with the national and European policies (see section 10.8). Elia has played an important role in initiatives such as (i) the design and implementation of the Belgian power hub, (ii) the trilateral market coupling between France, the Netherlands and Belgium, (iii) the creation of the first regional technical coordination centre for Central West Europe, Coreso SA/NV ("Coreso") (see section 10.7.5), in cooperation with RTE and National Grid, the French and UK TSOs, (iv) the set-up of a joint services company, CASC-CWE SA ("CASC-CWE"), for the allocation of cross-border capacity within Central West Europe, together with the French, Dutch and German TSOs (see section 10.8.6), and (v) the creation of a pentalateral market coupling between the Benelux countries, France and Germany (yet to be made operational).

Related activities – Elia has also developed a number of activities related to its core business, such as asset valorisation, the activities of Elia Engineering SA/NV ("Elia Engineering"), *etc*. (see section 10.9).

Almost all of the Company's income is derived from the regulated tariffs that are charged for the use of the transmission system (tariff income). These regulated tariffs are approved in advance by the Belgian regulator, the CREG. In December 2007, the CREG approved the regulated tariffs for the period 2008-2011. As such, a tariff regulation mechanism, whereby the approved tariffs apply for a four-year period (barring exceptional circumstances), took effect on 1 January 2008. The tariffs are based on forecasted costs for the regulated activities, and on the estimated volumes of electricity taken from Elia's network. The costs relating to the regulated activities include the forecasted value of the authorised fair remuneration, as well as the budgeted values of various cost categories, divided into, on the one hand, those over which Elia has direct control ("controllable costs") and, on the other hand, those over which Elia has no direct control ("non-controllable costs"). Tariffs are public, apply nationwide and are not subject to negotiation with customers (see section 13.6).

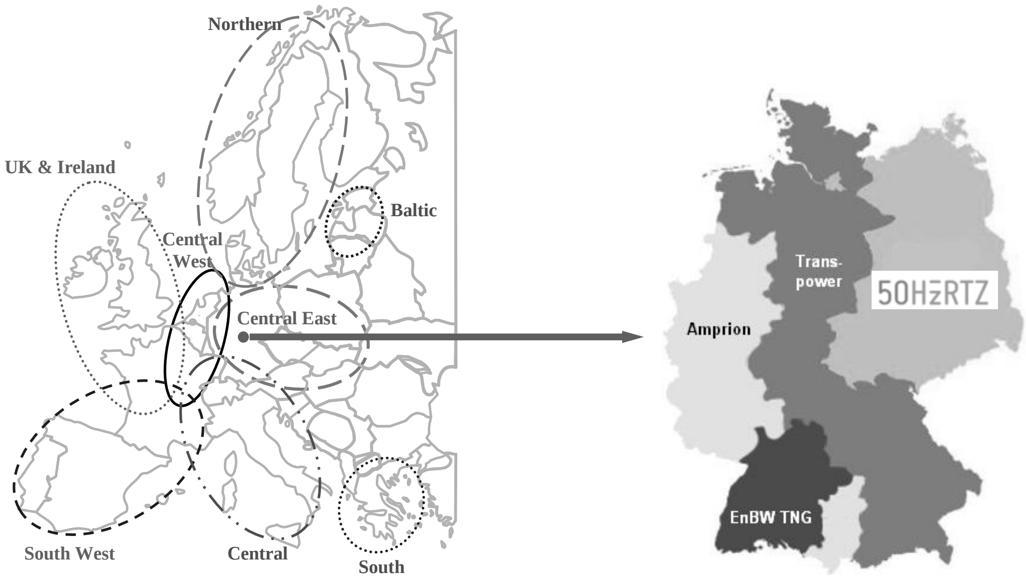
Overview 50Hertz' business

50Hertz (formerly "Vattenfall Europe Transmission", or "VE-T") is one of the four TSOs in Germany. 50Hertz has the same core business as Elia as it owns, operates, maintains and develops a 380 kV - 220 kV transmission network comparable with Elia's very high voltage network.

50Hertz has overall responsibility for the reliability and stability of the power system in the area covering the German federal states of Thuringia, Saxony, Saxony-Anhalt, Brandenburg, Berlin, Mecklenburg-Western Pomerania and Hamburg. 50Hertz' control area covers approximately 109,000 km² with more than 19 million inhabitants and companies contributing approximately 20% of Germany's gross domestic product.

50Hertz's network is situated in a unique position (as illustrated in the figure on the left) at the crossroads between West- and East Northern European electricity markets, as its very high voltage network has a key position between Scandinavia, Poland, the Czech Republic and Central West Europe.

The four TSOs in Germany, with their distinct control areas, are shown in the figure on the right.



50Hertz has three main roles, identical to Elia's roles:

- as *transmission operator*, ensuring the development, maintenance and operation of its network;
- as *system operator*, ensuring the proper operation of its control area (including balancing of supply and demand); and
- as *market facilitator*, ensuring the development of the liberalised electricity market in a sustainable way (*e.g.* implementation of EU and German energy policies, such as facilitating the penetration of renewable energy sources and combined heat and power ("CHP") plants).

Most of the income of 50Hertz is generated from the regulated tariffs charged for use of the transmission system (tariff income). A new tariff regulation mechanism was established by the Ordinance on Incentive Regulation (*Verordnung über die Anreizregulierung der Energieversorgungsnetze* – ARegV) of 29 October 2007, coming into force on 6 November 2007 and last time amended by a Statute of 21 August 2009. According to the ARegV, starting 1 January 2009, revenue caps are determined by the regulatory authority BNetzA for each network operator and for each calendar year in a so-called regulation period. Each regulation period lasts five years; the first regulation period started 1 January 2009 and will end on 31 December 2013. The network operators are not allowed to exceed their individually determined revenue caps with the network tariffs invoiced to their network users in the respective calendar year. The revenue caps are fixed for the entire regulation period, but can nevertheless be adjusted in specific cases provided for in the ARegV. The BNetzA determines the revenue cap on the basis of incurred or budgeted costs for the regulated activities, on the estimated volumes of electricity taken from the network, and by considering the individual efficiency of the specific network operator. Therefore, the revenue caps may vary from year to year. The costs relating to the regulated activities include the allowed return on equity, as well as the predicted values of various cost categories, divided in those over which 50Hertz has an influence (“incentivised costs”) and those over which it has no influence (“non-incentivised costs”). Tariffs are public and are not subject to negotiation with customers.

Until its acquisition by Elia and its equity partner, Industry Funds Management (“IFM”), in May 2010, 50Hertz was owned by Vattenfall Europe AG (“Vattenfall”).

Strategy

Elia’s strategy, including in respect of 50Hertz, is derived from the regulated environment in which Elia and 50Hertz operates, focusing on operational excellence in its core business as well as customer satisfaction within a sustainable development framework, thus contributing to the fair remuneration of Elia’s and 50Hertz’ equity.

Elia also seeks to consolidate its role in the development of the Central West European (“CWE”) market in a context of regional integration, including the integration of wind energy and the development of the future North Sea grid. The acquisition of 50Hertz fits within this strategy, both in terms of strengthening Elia’s role in the construction of the regional CWE market and contributing to the shareholder value, and should enable diversification of the regulatory risk.

Following the acquisition, 50Hertz’ strategy, which was already very similar to Elia’s strategy, is expected to be further aligned with Elia's strategy. Elia intends to take advantage of its unique asset base, in Belgium and through 50Hertz in Germany, and other key strengths to implement this strategy.

- *Operational excellence in the core business* – Elia’s and 50Hertz’ core strategic focus is on the operation, maintenance and development of their very high voltage and high voltage electricity networks. Elia and 50Hertz intend to create shareholder value through continuous improvement of their operational efficiency and effectiveness, while keeping quality and reliability at the current high level, within the framework of a multi-annual regulated tariff system and an integrated structure, composed of transmission activities, network services and engineering activities. The acquisition of 50Hertz is expected to contribute to the improvement of operational excellence through the sharing of best practices, experience and resources, the selection of common standards, the pooling of purchase power and the development of market tools.
- *Focus on the development of Elia’s and 50Hertz’ core electricity transmission network to meet the long-term energy needs of their customers*. Within their development plans, Elia and 50Hertz will focus on, among other things, increasing transmission capacities with neighbouring networks (as this is a pre-requisite for the further integration of national power markets) and connecting the contemplated onshore and offshore renewable energy sources.
- *Improving the functioning of the open electricity market through market facilitation* – As market facilitator, Elia and 50Hertz are working to improve the functioning of CWE electricity markets, which is of major importance for the Belgian and German markets. As part of this strategy, Elia has taken a leading role in a number of initiatives, such as the incorporation of Belpex SA/NV (the Belgian power exchange, “Belpex”) and its subsequent integration (which is still subject to closing conditions) with APX-Endex B.V. (“APX”), the development of an intraday bilateral trading hub in Belgium, the creation of intraday mechanisms (including through the participation in CASC-CWE) and the creation of a regional market in Central West Europe.
- *Building a constructive relationship with regulators and market players* – An important element in Elia’s and 50Hertz’ strategy is to build a constructive relationship with the various regulators and to be permanently involved in the evolution of the regulatory framework at European, Belgian and German levels, taking into account the interests of Elia’s and 50Hertz’ customers and stakeholders. As an example, Elia has established a consultation body in Belgium with representatives of employers’ organisations, large consumers, traders, producers, suppliers and distribution system operators (“DSOs”) to develop a better understanding of their needs within the context of the legal and regulatory constraints.
- *Pursuing a leading role in the construction of a regional market in Central West Europe and the common European electricity market* – The acquisition of 50Hertz aims at strengthening Elia’s role in the construction of the CWE market and at establishing Elia’s position for the future integration of the European network. Elia is a driving force behind the implementation of a pentalateral market coupling mechanism between the Benelux countries, France and Germany, that is due to be launched in the upcoming months. Both Elia and 50Hertz also play a major role in the extension of this mechanism to the Nordic countries that is expected to be implemented shortly thereafter. In addition, Elia and 50Hertz actively contribute to a common European electricity market through cooperation with all TSOs within the European Network of Transmission System Operators for Electricity (“ENTSO-E”).

- *Supporting the energy and climate policies in Belgium, Germany and in Europe* – Elia and 50Hertz contribute to the achievement of European targets in relation to the integration of renewable energy sources and reduction of CO_2 emissions. To this aim, both Elia and 50Hertz intend to continue delivering the planned investment programme and to adequately develop transmission capacity, in particular for renewable energy sources and CHP plants, and in close cooperation with their respective DSOs.
- *Pursuing environmental sustainability* – Elia and 50Hertz actively pursue environmental sustainability and are involved in the development of EU R&D programmes in cooperation with the European Commission. Elia and 50Hertz will continue to promote environmentally friendly activities to minimise the impact of their businesses on the environment.

SUMMARY OF THE ACQUISITION OF 50HERTZ

Elia and Industry Funds Management ("IFM") announced on 12 March 2010 that they had entered into an agreement for the joint acquisition of the German transmission system operator 50Hertz from Vattenfall. IFM has been established in 1995 by four Australian industry pension funds. Since then, IFM has grown to a substantial partnership with thirty-five Australian not for profit superannuation funds (*i.e.* member owned pension funds), the total assets of which exceed EUR 85 billion. IFM has approximately EUR 12.5 billion assets under management (September 2009), including EUR 4.0 billion in infrastructure across Australia, Europe, the United States and South America.

Rationale of the acquisition

The acquisition of 50Hertz and the further consolidation of networks it entails fit one of the corner stones of the Company's long-term strategy given that national power markets in Europe will evolve in an accelerating pace towards European regional power markets. The acquisition of 50Hertz is a significant step in Elia's strategy to reinforce its position in the Central West Europe region, given the fact that 50Hertz is at the crossroads of four regional market areas (Central West Europe, Central East Europe, Central Europe and Northern Europe). The acquisition is expected to offer the following benefits for Elia and its stakeholders:

Consolidate the creation of shareholder value

TSOs are still governed by national laws and regulation, which results in different approaches in terms of tariff regulation. Therefore, the acquisition of 50Hertz is expected to diversify the regulatory risk of the Company. The earnings of 50Hertz - defined by the German regulatory scheme - will contribute to the Company's earnings. In both the Belgian and German tariff regulations, a potential for efficiency outperformance is allowed.

Strengthen Elia's role within the CWE market and the future EU network integration

The acquisition of 50Hertz has the potential to strengthen the Company's role in the future CWE electricity market. By strengthening its presence in this wide geographical area, representing more than 40% of the internal electricity market, the Company will be better positioned to influence and to take part in the major investment decisions in this area. This will in turn contribute to reliable network operation and long-term security of supply for the whole area served by Elia and 50Hertz.

The collaboration between Elia and 50Hertz and their respective strategic geographical positions will facilitate the further extension of market coupling towards Northern and Eastern Europe. The Company is also expected to be better positioned to design and implement common rules for a good functioning of the wholesale electricity markets in the choir of European TSOs. This acquisition is expected to stimulate the creation of a truly European network.

Further improving operational excellence

Following the acquisition, the closer collaboration between both companies should also enhance the selection of common standards and the sharing of experience and resources. In addition, the acquisition offers opportunities for efficiency gains such as the pooling of purchase and the development of market tools for their customers.

Contribute to the integration of renewable energy sources

The acquisition of 50Hertz is expected to enhance Elia's access to a reliable and diversified mix of generation capacity composed of green electricity from offshore and onshore renewables as well as traditional generation units with different technologies and maturity levels. Elia together with 50Hertz intends to further develop its innovative edge in the European electricity market and to actively participate in the integration of large-scale renewable energy sources, such as offshore and onshore wind energy. Due to the presence of Elia at the lower part of the shores of the North Sea and of 50Hertz at the upper part of the shores of the North Sea and Baltic Sea, both TSOs are ideally located at both ends of the future North Sea grid.

Key Terms

The acquisition includes all of the shares of 50Hertz, including its 100% subsidiary 50Hertz Offshore GmbH ("50Hertz Offshore") and its two minority shareholdings, *i.e.* European Market Coupling Company GmbH ("EMCC") (12.5%) and Central Allocation Office GmbH ("CAO") (20%). The acquisition was closed on 19 May 2010.

The shares of 50Hertz were acquired through Eurogrid GmbH, a German limited company (*GmbH*), which was incorporated on 2 March 2010 and which is a 100% subsidiary of Eurogrid International CVBA/SCRL ("Eurogrid International"), a holding company set up in view of the acquisition of 50Hertz. The shares of Eurogrid International are owned for 60% by the Company and Elia Asset (holder of 1 share) and for 40% by IFM Luxembourg No. 2 S.à.r.l., an entity controlled by IFM. Elia and IFM have entered into an investment and shareholders agreement (the "Investors and Shareholders Agreements") providing for the obligations of each of the parties in respect of the set-up of the acquisition structure, the funding of Eurogrid International and the future management and governance of its subsidiaries. Elia and IFM jointly control certain significant matters (such as changes to the business plan, material transactions, disposals of assets, changes to the share capital, material borrowings and important investments outside the business plan) relating to the business of Eurogrid International CVBA, Eurogrid GmbH and its subsidiaries (including 50Hertz) through the requirement of the approval of such matters by Eurogrid International CVBA's shareholders' meeting (shareholder reserved matters) or Eurogrid International CVBA's board of directors (board reserved matters). Shareholder reserved matters require the prior approval of more than 75% of the votes cast. Board reserved matters require the prior approval of more than 75% of the votes of the directors entitled to vote.

The purchase price owed by Eurogrid GmbH to Vattenfall for the acquisition of 50Hertz amounted to EUR 464.6 million. Of the total price, 60% was funded by Elia and 40% was funded by IFM. Elia paid for its 60% stake, through Eurogrid GmbH, EUR 278.8 million to Vattenfall. The amount of EUR 278.8 million is to be financed using the proceeds of the Offering. Elia has secured bridge financing for the period between the closing date of the acquisition and the closing of the Offering by entering into a EUR 153.0 million credit agreement on 22 April 2010 with KBC Bank NV (the balance of the portion of the purchase price being funded by Elia by means of excess cash) ("*bridge to equity*"). The loan can be extended until ultimately 31 December 2011. The proceeds of the Offering would be used to refinance the bridge financing, while the balance of the net proceeds would be used to finance general capital expenditure programmes and to satisfy working capital and general corporate purpose needs.

Eurogrid GmbH also agreed to take over a shareholder loan of EUR 320.0 million between Vattenfall and 50Hertz (subject to an adjustment to take into account the netting of certain intra-group financing agreements and cash pooling arrangements entered into by 50Hertz and 50Hertz Offshore). Eurogrid GmbH has secured a long term credit facility with The Royal Bank of Scotland NV, ING Bank NV, BNP Paribas Fortis and Dexia Bank Belgium SA/NV for an amount of EUR 850.0 million. The credit facility was entered into on 11 March 2010. About EUR 320.0 million has been used immediately to repay the shareholder loan between 50Hertz and Vattenfall. The remaining part of the financing will be used to finance future capex and working capital needs of Eurogrid GmbH and its subsidiaries. Eurogrid GmbH is considering replacing the bank financing with long term Eurobonds ("*bridge to bonds*").

Eurogrid GmbH (as buyer) and Vattenfall (as seller) entered into a share purchase agreement (the "Share Purchase Agreement") with Vattenfall providing for the terms and conditions regarding the acquisition, which also includes certain lock-up provisions and restrictions on the transfer of shares and assets of 50Hertz. Vattenfall, Elia and IFM also entered into a trilateral agreement (the "Trilateral Agreement"), extending the application of the lock-up provisions and transfer restrictions in relation to the shares and assets of 50Hertz agreed upon in the Share Purchase Agreement to Eurogrid International and Eurogrid GmbH. As part of the acquisition Elia and Vattenfall also entered into a bilateral agreement (the "Bilateral Agreement") providing for certain specific commitments of Elia in respect of a number of essential network extension projects which 50Hertz is obliged to prepare, develop and carry out, to the extent possible.

Summary Unaudited Pro Forma Consolidated Financial Information

The key figures below are a summary of the Unaudited Pro Forma Consolidated Financial Information as presented in section 12.7 "Unaudited Pro Forma Consolidated Financial Information". Because of its nature, the Unaudited Pro Forma Consolidated Financial Information addresses a purely hypothetical situation. The Unaudited Pro Forma Consolidated Financial Information has been prepared as if the acquisition had occurred on 1 January 2009 and is based on the historical financial statements of the Company for the year ended 31 December 2009 and of 50Hertz for the year ended 31 December 2009, after giving effect to the acquisition of 50Hertz by Elia and IFM and the assumptions and adjustments described in the accompanying notes to the Unaudited Pro Forma Consolidated Financial Information. For the purpose of the Unaudited Pro Forma Consolidated Financial Information, the capital increase related to the acquisition is assumed to be EUR 300 million, subject to the successful placement of the Offering and to be reduced with management's best estimate of the capital increase transaction costs for a total amount of EUR 6 million.

The Unaudited Pro Forma Consolidated Financial Information is presented for illustrative purposes only and does not necessarily indicate the results of operations or the consolidated financial position that would have resulted had the acquisition been completed at the beginning of the period presented, nor is it indicative of the results of operations in future periods or the future financial position of the combined businesses. The pro forma adjustments are based upon available information and certain assumptions that the Company believes to be reasonable. These adjustments could materially change as a result of an independent valuation of 50Hertz' assets and liabilities.

	Elia (1)	**50Hertz proportionately consolidated (60%)** (2)	**Indicative consolidated figures (Elia+60% of 50Hertz)** (3)		
	[A]	[B]	[C]		([C]-[A])/[A])
	IFRS	**IFRS**	**IFRS**		
Income statement (€ million)	**31 December 2009**	**31 December 2009**	**31 December 2009**		**Change (%)**
Consolidated turnover	771.3	438.9	1,210.2		56.9%
EBITDA	327.9	56.8	634.6	(4)	93.5%
Operating result (EBIT)	225.8	14.7	490.4		117.2%
Gain from bargain price	-	-	255.5		
Operating result before gain on bargain purchase	*225.8*	*14.7*	*234.9*		*4.0%*
Financial result	-120.4	-10.4	-129.3		7.4%
Taxes	-20.0	-3.2	-22.0		10.0%
Consolidated net profit attributable to the equity holders of the Company	84.0	6.5	343.1	(5)	308.5%
Balance sheet (€ million)	**31 December 2009**	**31 December 2009**	**31 December 2009**		**Change (%)**
Total assets	4,420.0	1,257.8	5,690.7		28.7%
Equity attributable to the equity holders of the Company	1,365.4	534.3	1,912.0	(6)	40.0%
Net financial debt	2,444.4	157.8	2,591.2		6.0%

Profit per share (€)					
Profit per share (before acquisition and capital increase)	1.74				
Profit per share (after acquisition and capital increase - excluding bargain price) (7)			1.47		
Profit per share (after acquisition and capital increase (7)			5.76		

Notes

(1) Based on the Company's 2009 consolidated financial statements under IFRS.
(2) 50Hertz 2009 unaudited IFRS accounts compliant to Elia accounting rules.
(3) 2009 unaudited consolidated pro forma income statement and balance sheet of the Company - 50Hertz combined (50Hertz proportionally consolidated for 60 %).
(4) EBITDA = EBIT + depreciation + changes in provisions.
(5) Estimated bargain on purchase price of EUR 255.5 million is included as a one-off net profit.
(6) Taking into account the capital increase of January 2010 and assuming a capital increase of EUR 300 million.
(7) The table is based on the assumption that an amount of EUR 300 million would be raised by means of the capital increase (to be reduced with management's best estimate of the capital increase transaction costs for a total amount of EUR 6 million) at a hypothetical price per share of EUR 26.5, resulting in 11,320,754 shares to be issued. This hypothesis is made only for illustrative purposes and should under no condition be considered as

an indication of the potential issue price of the new shares to be issued in the context of the contemplated capital increase, which has not been determined yet and which may be impacted by various factors beyond the control of the Company, such as market conditions and market appetite for the Company's shares.

SUMMARY OF THE OFFERING

SUMMARY OF THE OFFERING

Issue Amount	The Offering consists of a public offering to existing shareholders and holders of Preferential Rights to subscribe to New Shares for an amount of EUR 299,361,866.4.
Issue Price and Ratio	The Issue Price is equal to EUR 24.80 per New Share. The holders of Preferential Rights can subscribe to the New Shares in the Ratio of 1 New Share for 4 Preferential Rights held in possession. No fractions of New Shares will be issued or can be subscribed to.
Rights Subscription Period	The Rights Subscription Period will be open from 4 June 2010 up to and including 18 June 2010, at 4 P.M. CET.
Rights Offering	The public offering by the Company to subscribe to New Shares with VVPR Strips is organised in accordance with the decision of the extraordinary General Shareholders' Meeting dated 11 May 2010. Subject to restrictions under applicable securities laws (see section 2.2 and section 5.3), the holders of Preferential Rights will have an extra-legal right to subscribe in an irreducible manner to the New Shares in accordance with the Ratio at the Issue Price. The Preferential Rights, represented by coupon nr. 6 of the Existing Shares, will be separated from the underlying Shares on 3 June 2010 after the closing of the regulated market of Euronext Brussels: • **Existing Shareholders whose holding of Shares is registered in the shareholders' register of the Company** will receive, at the address indicated in the shareholders' register, a letter from the Company informing them of the aggregate number of Preferential Rights to which they are entitled and of the procedures they must follow to exercise or trade their Preferential Rights; • **Existing Shareholders** holding **Shares in dematerialised form** (in a securities account) will in principle be informed by their financial institution of the procedure they must follow to exercise or trade their Preferential Rights. These financial institutions will have to comply with the subscription procedure as described in section 5.2.4; • **Existing Shareholders holding bearer Shares** are invited without delay to submit their Shares, coupon nr. 6 and following attached, to ensure that dematerialisation[1] proceedings can be performed to participate in the Rights Offering. When submitting the Shares and/or the coupons, the Existing Shareholders may be requested to open a securities account, and, as the case may be, a cash account.
Rights Subscription procedure	Holders of Preferential Rights can subscribe to the New Shares directly and without costs at the counters of the Joint Global Coordinators and Bookrunners and Selling Agents in Belgium or indirectly through any financial intermediary, other than the Joint Global Coordinators and Bookrunners and Selling Agents. The holders of Preferential Rights should inform themselves about any costs that might be charged by these other financial intermediaries and which they will have to pay. During the Rights Subscription Period, holders of Preferential Rights who do not hold the exact number of Preferential Rights to subscribe to a round number of New

[1] In accordance with the Law of 14 December 2005 on the abolition of bearer shares (*Loi du 14 décembre 2005 portant suppression des titres au porteur* / *Wet van 14 december 2005 houdende afschaffing van de effecten aan toonder*).

Shares, may elect either to purchase the number of missing Preferential Rights on Euronext Brussels in order to subscribe to one additional New Share, to sell their extra Preferential Rights, or to take no action in attendance of the payment of the Net Scrips Proceeds, if any.

Preferential Rights can no longer be exercised or traded after 18 June 2010, the Closing Date of the Rights Offering.

Scrips Private Placement

The unexercised Preferential Rights will be automatically converted into an equal number of Scrips at the Closing Date of the Rights Subscription Period.

The Scrips will be sold in a private placement to Institutional Investors. Through such a procedure, a book of demand will be built to find a single market price for the Scrips. Institutional Investors who acquire Scrips will commit to exercise the Scrips and thus to subscribe to the corresponding number of New Shares at the Issue Price and in accordance with the Ratio.

The Scrips Private Placement is expected to last for one day and is expected to take place on 22 June 2010.

The net proceeds from the sale of the unexercised Preferential Rights, after deducting expenses, charges and all forms of expenditure which the Company has to incur for the sale of the Scrips (the “Net Scrips Proceeds”), will be divided proportionally between all holders of Preferential Rights who have not exercised them (rounded down to a whole Eurocent per unexercised Preferential Right). The Net Scrips Proceeds will be published in the Belgian Financial Press and will be made available to the Existing Shareholders upon presentation of coupon nr. 6.

If the Net Scrips Proceeds divided by the total number of unexercised Preferential Rights is less than EUR 0.05, the holders of unexercised Preferential Rights are not entitled to receive any payment and, instead, the Net Scrips Proceeds will be transferred to the Company.

Rationale of the Offering and use of proceeds

See section 4.

Payment and delivery of the New Shares

The payment of the subscriptions with Preferential Rights will be made by debiting the subscriber’s account on the Payment Date, expected to be 25 June 2010. The payment of the subscriptions in the Scrips Private Placement will be made by delivery against payment.

The New Shares and VVPR Strips will be delivered in the form of dematerialised securities (booked in the securities account of the subscriber), or as registered shares recorded in the Company’s shareholder register, at the option of the subscriber indicated at the time of subscription.

Announcement of the results of the Offering

An announcement of the result of the subscription with Preferential Rights will be made by a press release before market opening on or about 22 June 2010.

The results of the Offering, detailing the subscription with Preferential Rights and with Scrips, the results of the sale of Scrips and the amount due to holders of unexercised Preferential Rights will be published on or about 23 June 2010 via an official advertisement in the Belgian Financial Press.

Admission to trading

The Preferential Rights (coupon nr. 6) will be separated on 3 June 2010 after market close on Euronext Brussels. A request for admission to trading of the Preferential Rights has been made and the Preferential Rights will be negotiable on Euronext Brussels under ISIN code BE0970113164 during the Rights Subscription Period, *i.e.* from 4 June 2010 until and including 18 June 2010.

The Existing Shares will therefore be traded ex-rights as from 4 June 2010.

A request for admission to trading on Euronext Brussels of the New Shares and the VVPR Strips has been submitted. The admission is expected to take place on 25

	June 2010.
Listing place	The New Shares and VVPR Strips will be listed on the regulated market of Euronext Brussels, on the same line as the Existing Shares. The New Shares will be listed and traded under ISIN code BE0003822393 with trading symbol ELI and the VVPR Strips will be listed and traded under ISIN code BE0005597688 with trading symbol ELIS. The Preferential Rights are expected to be listed under ISIN code BE0970113164, trading symbol ELI6.
Dividend entitlement	The New Shares will be entitled to a share in the results of the financial year that ends on 31 December 2010 and of the following years.
Commitment/Intentions of Shareholders	Publi-T has confirmed to the Company that it shall entirely use its Preferential Rights and has undertaken to subscribe to the Offering *pro rata* to the number of Shares held by Publi-T in the Company, in order to avoid any dilution of its current shareholding in the Company. Publipart has confirmed to the Company that it shall entirely use its Preferential Rights and subscribe to the Offering *pro rata* to the number of shares held by Publipart in the Company, in order to avoid any dilution of its current shareholding in the Company. Arco Group (being the companies Arcopar CVBA, Arcoplus CVBA, Arcofin CVBA, Auxipar NV, Arcosyn NV en Interfinance CVBA) has confirmed to the Company that it has the intention to subscribe to the Offering *pro rata* to the number of shares held by Arco Group in the Company. The final decision will be taken by the competent bodies of each of the relevant companies of the Arco Group, once all elements of the transaction and their impact on the financial situation of the relevant companies are known and to the extent that it appears that the subscription is economically and financially justified for the relevant company.
Underwriting agreement	The Company and the Joint Global Coordinators and Bookrunners expect (but have no obligation) to enter into an Underwriting Agreement on or around 22 June 2010. Subject to the terms and conditions to be set forth in the Underwriting Agreement, each of the Underwriters, severally and not jointly, will agree to underwrite the Offering by procuring payment for all New Shares taken up in the Offering, excluding the New Shares that certain Existing Shareholders have committed to take up pursuant to their take-up commitments (as set out in section 5.4). Subject to the terms and conditions to be set forth in the Underwriting Agreement, the Underwriters will severally agree to underwrite the amount of shares taken up in the Offering as follows: • KBC Securities NV: 25 per cent • ING Belgium NV: 25 per cent • BNP Paribas SA: 25 per cent • Dexia Bank België NV: 25 per cent
Lock-up arrangements	Publi-T has agreed, for a period of 90 days, to certain restrictions on sales and other transfers of Shares. See section 5.5.
Standstill	The Company has agreed, for a period of 180 days, to certain restrictions on the issuance, sales and other transfers of Shares or other securities. See section 5.5.
Form of the Shares	The New Shares will be delivered in the form of dematerialised Shares or registered Shares, at the choice of the investor.

Dilution	There is no dilution for the Existing Shareholders of the Company to the extent that they fully exercise their Preferential Rights. The dilution for the Existing Shareholders (in percentage terms) who do not exercise any of their Preferential Rights can be calculated as follows: 20.00 per cent. $\frac{(S-s)}{S}$ S = total amount of Shares after the capital increase, *i.e.* 60.355.217 s = total amount of Shares before the capital increase, *i.e.* 48,284,174.
Proceeds	The Company will receive the proceeds from the subscription to the New Shares in the Offering less certain expenses and the fees associated with the underwriting of the Offering, which are estimated at approximately EUR 3.3 million. The total costs related to the Offering are estimated at approximately EUR 6.0 million.

Expected calendar

Detachment of coupon nr. 6 (representing the extra-legal Preferential Right) after closing of the markets	T	3 June 2010
Availability to the public of the Prospectus	T+1	4 June 2010
Trading of Shares ex-Right	T+1	4 June 2010
Opening Date of the Rights Subscription Period	T+1	4 June 2010
Listing of the Preferential Rights on Euronext Brussels	T+1	4 June 2010
Closing Date of the Rights Subscription Period	T+15	18 June 2010
End of listing of the Preferential Rights on Euronext Brussels	T+15	18 June 2010
Announcement via press release of the result of the subscription with Preferential Rights (before market opening)	T+19	22 June 2010
Accelerated private placement of the Scrips	T+19	22 June 2010
Allocation of the Scrips and the subscription with Scrips	T+19	22 June 2010
Publication of the results of the subscription with Preferential Rights and with Scrips and the Net Scrips Proceeds (if any) due to holders of coupons nr. 6 via an official announcement in the Belgian Financial Press	T+20	23 June 2010
Payment Date of the Issue Price by the subscribers	T+22	25 June 2010
Realisation of the capital increase	T+22	25 June 2010
Delivery of the New Shares with VVPR Strips to the subscribers	T+22	25 June 2010
Listing of the New Shares and of the VVPR Strips on Euronext Brussels	T+22	25 June 2010
Payment to holders of unexercised Preferential Rights	T+25	28 June 2010

The Company may amend the dates and times of the share capital increase and periods indicated in the above timetable and throughout the Prospectus. If the Company decides to amend such dates, times or periods, it will notify Euronext Brussels and inform investors through publication in the Belgian Financial Press. Any material alterations to this Prospectus will be published in a press release and as a supplement to this Prospectus in the Belgian Financial Press and on the website of the Company.

DEFINITIONS OF THE MAIN TERMS USED IN THE PROSPECTUS

Belgian Financial Press: L'Echo and De Tijd.

CBFA: The Belgian Commission for Banking, Finance and Insurance (*Commission bancaire, financière et des assurances / Commissie voor het Bank-, Financie- en Assurantiewezen*).

Closing Date of the Offering: The day on which the capital increase is realised. This date is expected to be 25 June 2010.

Closing Date of the Rights Offering: Last day on which the Existing Shareholders and holders of Preferential Rights can subscribe to the New Shares. This date is expected to be 18 June 2010.

Company: Elia System Operator NV, a public limited liability company (*société anonyme / naamloze vennootschap*) incorporated under Belgian law, having its registered office at Boulevard de l'Empereur 20, B-1000 Brussels and registered with the Belgian register for legal entities under the number 0 476.388.378 (RPR Brussels). The Company qualifies as a listed company (*société cotée / genoteerde vennootschap*) within the meaning of Article 4 of the Belgian Company Code and as a company having made a public call on savings (*société faisant ou ayant fait publiquement appel à l'épargne / vennootschap die een openbaar beroep op het spaarwezen heeft gedaan*) within the meaning of Article 438 of the Belgian Company Code.

Elia: The Company and/or any or all of its subsidiaries, as existing prior to the closing of the acquisition of 50Hertz.

Existing Shareholders: The holders of Existing Shares.

Existing Shares or Shares: The 48,284,174 existing shares without designation of nominal value, with voting right, issued by the Company that represent the capital.

Joint Global Coordinators and Bookrunners: The Joint Global Coordinators and Bookrunners are:

- KBC Securities NV, with registered office located at Havenlaan 12, 1080 Brussels, Belgium;
- ING Belgium NV, with registered office at Marnixlaan 24, 1000 Brussels, Belgium;
- BNP Paribas SA, with registered office at Boulevard des Italiens 16, 75009 Paris, France; and
- Dexia Bank België NV, with registered office at Pachecolaan 44, 1000 Brussels, Belgium.

Net Scrips Proceeds: The net proceeds arising from the sale of the Scrips, after deducting expenses, charges and all forms of expenditure which the Company will have incurred for this, which will be distributed proportionally to all holders of Preferential Rights who have not exercised them.

New Shares: The shares with VVPR Strips to be issued within the framework of the Offering.

Offering: The public offering to existing shareholders and holders of Preferential Rights to subscribe to New Shares and the Scrips Private Placement.

Opening Date of the Rights Offering: The date as from which the holders of Preferential Rights can submit their subscription orders for the New Shares. This date is expected to be 4 June 2010.

Preferential Rights: The extra-legal preferential subscription right to subscribe in an irreducible manner to the New Shares with VVPR Strips represented by coupon nr. 6 of the Existing Shares, which will be detached from the Existing Shares on 3 June 2010 after the closing of Euronext Brussels. Such Preferential Rights will be negotiable on Euronext Brussels under the ISIN code BE0970113164 during the entire Rights Subscription Period. The preferential subscription rights which entitle the holders to subscribe to the New Shares in accordance with the Ratio at the Issue Price. 4

	Preferential Rights give the right to subscribe to 1 New Share as part of the Offering.
Scrips:	The Preferential Rights that are not exercised at the latest on the last day of the Rights Subscription Period will be converted automatically into an equal number of Scrips. Institutional Investors who acquire Scrips irrevocably commit to exercise the Scrips and thus to subscribe to the corresponding number of New Shares at the Issue Price and in accordance with the Ratio.
Selling Agents:	KBC Bank NV, CBC Banque SA, KBC Securities NV, ING Belgium NV, Fortis Bank NV/SA and Dexia Bank België NV, and their affiliated companies.
Underwriters:	The Joint Global Coordinators and Bookrunners.
VVPR Strips:	VVPR Strips give certain holders the right to cash dividends with a reduced withholding tax on dividends of 15 per cent instead of 25 per cent. The VVPR Strips are listed on Euronext Brussels and can be traded separately from the shares.

SUMMARY FINANCIAL INFORMATION

Summary financial information Elia

Set forth below are the condensed consolidated income statement, balance sheet and cash flow statement of the Company as of and for the years ended 31 December 2009, 2008 and 2007, derived from the Company's audited consolidated financial statements, prepared in accordance with IFRS, as endorsed by the EU, which are included or incorporated by reference in this Prospectus.

Investors should read this section together with the information contained in section 19 and the consolidated financial statements of the Company, prepared in accordance with IFRS, as endorsed by the EU, and the related notes thereto.

The consolidated financial statements of the Company as of and for the year ended 31 December 2009, prepared in accordance with IFRS as endorsed by the EU, and the related notes thereto, are included in this Prospectus (see section 20). The consolidated financial statements of the Company as of and for the years ended 31 December 2008 and 31 December 2007, prepared in accordance with IFRS as endorsed by the EU, as well as the statutory financial statements of the Company prepared in accordance with Belgian GAAP, are incorporated in this Prospectus by reference (reference is made to the Company's website: www.elia.be).

The consolidated financial statements for the financial year 2008 include the Company and four subsidiaries, *i.e.* Elia Asset, Elia Engineering, Belpex and Elia RE SA ("Elia RE") and also an associated company, Holding des Gestionnaires de Réseaux de Transport SAS ("HGRT"). HGRT is included in the consolidated financial statements on the basis of the equity method. Stakes in the companies CASC-CWE and Coreso, both of which were established in 2008, are recognised at cost price as financial assets. In 2009, Coreso was transferred to the category of companies accounted for under the equity method.

Key figures

	Year ended 31 December		
Consolidated results (million €)	**2009**	**2008**	**2007**
Operating income	771.3	757.3	731.7
EBITDA [2]	327.9	334.1	308.5
Operating profit (EBIT)	225.8	237.9	214.7
Finance result	(120.5)	(109.3)	(104.0)
Income taxes	(20.0)	(27.2)	(32.9)
Profit attributable to the owners of the Company	84.0	103.1	77.6
Earnings per share (€)	1.74	2.14	1.62
Dividend per share (€)	1.38	1.37	1.30
	As at 31 December		
Balance sheet (million €)	**2009**	**2008**	**2007**
Total assets	4,420.0	4,228.1	3,977.9
Equity attributable to equity holders of the Company	1,365.4	1,348.1	1,338.6
Net financial debt	2,444.4	2,370.5	2,196.7
Equity per share (€) attributable to equity holders of the Company	28.29	28.04	27.88
Number of shares (end of period)	48,270,255	48,076,949	48,061,695

[2] EBITDA represents operating profit before depreciations, amortisations and write-offs, and provisions.

Condensed consolidated balance sheet

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Goodwill	1,707.8	1,707.8	1,707.8
Intangible assets	22.3	19.2	14.9
Property, plant and equipment	2,089.6	2,060.4	1,993.2
Inventories	13.7	13.7	13.2
Trade receivables	218.1	246.9	171.2
Cash and cash equivalents	174.6	27.3	33.5
Other assets	193.9	152.8	44.1
Total assets	**4,420.0**	**4,228.1**	**3,977.9**
Total equity	1,367.1	1,349.7	1,339.9
Interest-bearing loans and borrowings	2,619.0	2,397.8	2,230.2
Trade and other payables	233.9	281.7	204.8
Other liabilities	200.0	198.9	203.0
Total equity and liabilities	**4,420.0**	**4,228.1**	**3,977.9**

Condensed consolidated income statement

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Revenue	**733.7**	**724.4**	**705.7**
Cost of sales	(5.6)	(6.8)	(8.6)
Gross profit	**728.1**	**717.6**	**697.1**
Other operating income	37.6	32.9	26.0
Services and other goods	(303.5)	(281.9)	(281.0)
Personnel expenses	(124.4)	(118.8)	(114.0)
Other operating expenses	(112.0)	(111.9)	(113.4)
Results from operating activities	**225.8**	**237.9**	**214.7**
Net finance cost	(120.5)	(109.3)	(104.0)
Profit before income tax	**105.3**	**128.6**	**110.7**
Income tax expense	(20.0)	(27.2)	(32.9)
Net profit	**85.3**	**101.4**	**77.8**
Share of profit of equity accounted investees (net income tax)	(1.0)	2.0	0.0
Profit for the period	**84.3**	**103.4**	**77.8**

Condensed consolidated cash flow statement

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Profit for the period after income tax	**84.3**	**103.4**	**77.8**
Non cash adjustments to reconcile profit before tax to net cash	100.5	79.1	77.0
Finance cost	124.1	114.7	104.2
Working capital adjustments	(70.5)	(31.2)	(14.0)
Income tax expense	20.0	27.2	32.5
Income tax paid	(15.9)	(118.6)	(27.1)
Interest paid	(102.0)	(116.7)	(103.2)
Net cash flow from (used in) operating activities	**140.5**	**57.9**	**147.2**
Purchase of property, plant and equipment, intangible assets	(133.7)	(170.5)	(150.0)
Interest received	6.1	2.5	2.9
Other cash flow from investing activities	0.2	(0.5)	(7.6)
Net cash flow from (used in) investing activities	**(127.4)**	**(168.5)**	**(154.7)**
Proceeds from/repayment of borrowings	195.9	166.5	69.3
Dividends paid	(66.0)	(62.5)	(61.3)
Other financing activities	4.3	0.4	4.1
Net cash flow from (used in) financing activities	**134.2**	**104.4**	**12.1**
Net increase (decrease) in cash and cash equivalents	147.3	(6.2)	4.6
Cash and cash equivalents at period end	174.6	27.3	33.5

Discussion

Although the Company draws up its consolidated financial statements according to IFRS standards, the major part of its profit (96.9% in 2009) is determined by the regulatory framework in which Elia operates. Within this framework, tariffs are approved by the CREG and are based on Belgian GAAP.

- Consolidated income statement

Revenue (other operating income included) increased from EUR 731.7 million in 2007 to EUR 757.3 million in 2008 and EUR 771.3 million in 2009. The increase of EUR 25.6 million in 2008 is mainly the result of an increase in network use revenue (+ EUR 39.9 million, due to the introduction of the fixed multi-annual tariffs and the lower impact of reversals of surpluses), a higher tariff deficit (+ EUR 8.3 million) and the decrease of ancillary services and international revenues (- EUR 30.4 million). The increase in revenue of EUR 14.0 million in 2009 compared to 2008 is mainly the result of a decrease in ancillary services (- EUR 5.4 million), a higher tariff deficit (+ EUR 13.3 million) and the impact of IFRIC 18 (EUR 2.7 million). The tariff deficits (difference between actual and budgeted revenues/costs/profit) can be recovered in the next tariff period 2012-2015.

Other operating income increased from EUR 26.0 million to EUR 32.9 million in 2008 compared to 2007 due to some exceptional items, the main one being the lower net amount of retirement provisions that can be recovered through future tariffs. The further increase to EUR 37.6 million in 2009 was mainly the result of the first time application of IFRIC 18 (+ EUR 2.7 million), whereby all customer contributions to network connections must be booked as revenue in IFRS (previously these were deducted from investments).

Operating expenses increased from EUR 517.0 million in 2007 to EUR 519.4 million in 2008 and EUR 545.5 million in 2009. In 2008, the higher personnel expenses (high inflation) and services and other goods (extra costs made for European initiatives and works for third parties) were almost completely offset by lower costs of materials and other operating expenses. The increase in operating expenses by EUR 26.1 million in 2009 compared to 2008 is mainly the result of higher costs of purchasing ancillary services (due mainly to the high electricity prices in 2008) and the higher personnel expenses (higher wages).

As a result, the EBITDA rose from EUR 308.5 million in 2007 to EUR 334.1 million in 2008, while the EBITDA dropped in 2009 to EUR 327.9 million. In the period 2007-2009, total depreciations, amortisations and changes in provisions increased from EUR 93.8 million to EUR 102.1 million (higher investments), resulting in an EBIT of EUR 214.7 million in 2007, EUR 237.9 million in 2008 and EUR 225.8 million in 2009.

Net finance costs rose from EUR 104.0 million in 2007 to EUR 109.3 million in 2008 due to rising interest rates (the average cost of debt rose from 5% in 2007 to 5.15% in 2008) and additional short-term loans. In 2008 net financial debt increased with EUR 173.8 million which can be partially explained by the payment on 28 March 2008 of EUR 93.8 million in taxes as a result of a tax assessment on past tariff surpluses. Net finance costs increased from EUR 109.3 million in 2008 to EUR 120.5 million in 2009, primarily as a result of the rising net financial debt (an increase of EUR 73.9 million) and the higher interest expense arising from the pre-financing operation for the issue of the new EUR 1 billion Eurobond issued in April 2009.

Income tax expense fell from EUR 32.9 million in 2007 to EUR 27.2 million as a result of a fiscal ruling obtained in December 2007 (relating to “transfer pricing” between the Company and Elia Asset), resulting in an increase of the notional interest deduction. Income tax expense decreased from EUR 27.2 million in 2008 to EUR 20.0 million in 2009 (or a decrease of 26.5%), mainly due to an 18.1% drop in the pre-tax profit (from EUR 128.6 million to EUR 105.3 million). The lower level of tax in 2008 and in 2009 is expected to be passed on in full in the form of lower tariffs, to the benefit of all consumers.

Consolidated profit after income tax attributable to the shareholders of the Company increased by 32.9% from EUR 77.6 million in 2007 to EUR 103.1 million in 2008, as a result of the implementation of the new tariff mechanism as from 2008. The inclusion of the offsetting in tariffs of the decommissioning of fixed assets (EUR 15.0 million) and the additional savings over and above those imposed by the regulator (+ EUR 4.4 million) are the most important changes compared to 2007. Beside this effect, some exceptional IFRS adjustments had a positive impact in 2008.

Consolidated IFRS profit after income tax attributable to the shareholders of the Company decreased from EUR 103.1 million in 2008 to EUR 84.0 million in 2009, mainly due to the non-recurrent IFRS adjustments in 2008.

- Consolidated balance sheet

The total assets increased from EUR 3,977.9 million in 2007 to EUR 4,228.1 million in 2008. This increase is partially due to the payment of an amount of EUR 93.8 million to the tax authorities, which has been qualified as a long-term receivable. This payment to the tax authorities also impacted the net financial debt, which increased from EUR 2,196.7 million in 2007 to EUR 2,370.5 million in 2008. In 2008, Elia invested EUR 161.3 million (EUR 142.3 million in 2007) to meet the requirements of its customers and the community. The majority of this amount was spent on upgrading high voltage substations, laying cables and installing phase shifters. Phase shifters allow Elia to better spread European energy flows, resulting in increased reliability for the Belgian network and better utilisation of the interconnections with neighbouring countries.

The total assets rose from EUR 4,228.1 million in 2008 to EUR 4,420.0 million in 2009, which is mainly due to an increase in the cash and cash equivalents as a result of the issuance of the Eurobond in 2009. The proceeds of the issuance of this Eurobond were used to repay a shareholders’ loan which expired in September 2009, as well as a number of short-term loans and the commercial programme. As such, the net debt position increased with EUR 73.9 million in 2009 (EUR 2,444.4 million) compared to 2008 (EUR 2,370.5 million).

Summary Unaudited Consolidated Financial Information 50Hertz under IFRS

Set forth below are the unaudited condensed consolidated income statement, balance sheet and cash flow statement of 50Hertz and 50Hertz Offshore as of and for the year ended 31 December 2009, derived from the Unaudited Consolidated Financial Information for 50Hertz for the year ended 31 December 2009, which is included in this Prospectus. These unaudited condensed consolidated income statement, balance sheet and cash flow statement present 50Hertz and 50Hertz Offshore on a consolidated basis and have been prepared as follows:

- the financial statements of 50Hertz and 50Hertz Offshore under German GAAP have been consolidated by the Company (since there is no obligation for 50Hertz to consolidate under German law) and certain assets and liabilities have been reclassified in order to be consistent with the balance sheet presentation of the Company;
- the historical unadjusted balance sheet of 50Hertz and the historical unadjusted balance sheet of 50Hertz Offshore, both prepared in accordance with German GAAP ("HBI") have been converted to IFRS, as endorsed by the EU, as applied by the Company.

Investors should read this section together with (i) the Unaudited Pro Forma Financial Information in section 12.7; (ii) the Unaudited Consolidated Financial Information for 50Hertz for the year ended 31 December 2009, prepared under IFRS, included in this Prospectus in section 20; and (iii) the audited historical financial statements of 50Hertz and 50Hertz Offshore GmbH for the year ended 31 December 2009 prepared in accordance with HBI which have been filed to the appropriate authorities on 12 April 2010 and 8 April 2010, respectively. These audited historical financial statements of 50Hertz and 50Hertz Offshore GmbH for the year ended 31 December 2009 are filed in the German language and can be retrieved on http://www.ebundesanzeiger.de and on the Company's website (www.elia.be) (together with a free translation in English). These audited historical financial statements and their translations are incorporated in this Prospectus by reference.

Condensed Balance sheet

(million €)	**31 December 2009**
Intangible assets	32.8
Property, plant and equipment	1,332.3
Inventories	0.0
Trade receivables	542.9
Cash and cash equivalents	57.0
Other assets	131.4
Total assets	**2,096.4**
Total equity	890.5
Interest-bearing loans and borrowings	320.0
Other liabilities	885.9
Total equity and liabilities	**2,096.4**

Condensed Income statement

(million €)	31 December 2009
Revenue	**673.2**
Cost of sales	0.0
Gross profit	**673.2**
Other operating income	58.3
Services and other goods	(593.3)
Personnel expenses	(49.8)
Other operating expenses	-63.9
Results from operating activities	**24.5**
Net finance cost	(17.3)
Profit before income tax	**7.2**
Income tax expense	(5.4)
Net profit before tax equalisation	**1.8**
Profit transfer	9.0
Profit for the period after income tax	**10.8**

Condensed cash flow statement

(million €)	31 December 2009
Profit for the period after income tax	**10.8**
Non cash adjustments to reconcile profit before tax to net cash	92.0
Finance income	(4.1)
Working capital adjustments	(43.3)
Income tax expense	0.0
Income tax paid	0.0
Interest paid	(0.1)
Net cash flow from operating activities	**55.3**
Purchase of Property, Plant and Equipment, intangible assets	(157.4)
Interest received	0.1
Other cash flow from investing activities	0.5
Net cash flow from investing activities	**(156.8)**
Proceeds from/Repayment of borrowings	0.0
Dividends paid	8.9
Other Financing activities	0.0
Net cash flow used in financing activities	**8.9**
Net increase (decrease) in cash and cash equivalents	(92.6)
Cash and cash equivalents at period end	57.0

Notes:

(1) The amount of EUR 9 million disclosed as "profit transfer" in the income statement results from the unwinding of a tax unity which ended in 2008. As a result, the net income number that has been used in the cash flow statement is EUR 10.8 million.

(2) "*Non cash adjustments to reconcile profit before tax to net cash*" consist of on-cash movements in the income statement consisting of depreciation (EUR 75.4 million); changes in deferred taxes (EUR 8.4 million); changes in fair value (EUR 4.9 million); and changes in provisions (EUR 3.3 million).

SUMMARY ADDITIONAL INFORMATION

Share capital

On the date of this Prospectus, the Company's share capital amounts to EUR 1,206,010,115.13 represented by 48,284,174 ordinary shares without nominal value, each representing 1/48,284,174th of the Company's share capital. The capital is fully paid up.

Articles of Association

At the date of this Prospectus, the restated Articles of Association of the Company are dated 11 May 2010. They provide, amongst other things, for specific rules relating to the management of the Company, its General Shareholders' Meetings (including provisions in respect of the right to attend and to vote at such meetings) and the Company's liquidation. On the Closing Date of the Offering and subject to the completion of the capital increase in connection with the Offering, the Articles of Association will be restated to reflect the increase of the Company's share capital. A copy of the most recently restated Articles of Association and the Company's corporate governance charter is available on the Company's website.

Information available to the public

Documents disclosed in accordance with applicable laws are available for consultation at the Company's registered office, the clerk's office of the commercial court of Brussels, the National Bank of Belgium and/or on www.elia.be.

The Company's accounts for the financial years ended 31 December 2007, 2008 and 2009 are and will continue to be made available on www.elia.be.

1. RISK FACTORS

An investment in the New Shares involves substantial risks. You should carefully consider the following information about certain of these risks, together with the information contained in this Prospectus, before deciding to subscribe for New Shares. If any of the following risks actually occurs, Elia's or 50Hertz' business, results of operations, financial condition and prospects could be materially and adversely affected. In that case, the trading price of the Company's shares could decline and subscribers for the New Shares could lose all or part of their investment. An investment in the New Shares is only suitable for investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result from such investment. A potential investor, who is in any doubt about the action it should take, should consult a professional advisor who specialises in advising on the acquisition of shares and other securities.

The risks and uncertainties that the Company believes are material are described below. However, these risks and uncertainties may not be the only ones faced by the Company and are not intended to be presented in any assumed order of priority. Additional risks and uncertainties, including those currently unknown, or deemed immaterial, could have the effects set forth above.

1.1 RISKS RELATED TO THE REGULATORY FRAMEWORK

Future changes of the regulatory framework may have an adverse impact on Elia's or 50Hertz' revenue, prospects and profit

The activities of Elia and 50Hertz Transmission GmbH ("50Hertz") are subject to extensive European, national and regional legislation and regulation. The current regulatory framework for the activities of Elia and 50Hertz is based upon two European directives, *i.e.* the First and the Second Electricity Directives. These directives will soon be replaced by the Third Energy Package (as described in section 13.1.1), consisting of a set of new directives and regulations relating to the European energy market.

Even though Elia and 50Hertz proactively try to anticipate European legislation, new directives and regulations in preparation at the European level or existing directives awaiting transposition into national law (such as those included in the Third Energy Package) may always cause uncertainty. More specifically, the further evolution of the regulatory framework is likely to be impacted by the Third Energy Package (adopted in 2009 and to be implemented into national law by 2011), which modifies the existing electricity directives and related regulation regarding the liberalisation of the European electricity market.

The vast majority of the revenues and profits of Elia and 50Hertz are generated by the tariffs set pursuant to specific regulations. These tariffs regulations include various parameters (such as *e.g.* a fair remuneration requirement and certain debt/equity ratios) and changes to these parameters could have an impact on the results of Elia and 50Hertz. In addition, Elia and 50Hertz currently operate, both in Belgium and in Germany, under a multi-annual tariff scheme which could be revised at the end of each regulatory period and impact the results of Elia and 50Hertz.

As transmission system operators ("TSO"), the Company and 50Hertz have various public service obligations, particularly in relation to the promotion of the development of renewable energy. These public service obligations, and the treatment of public service obligations in the tariffs, could be affected by the implementation of Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources or further modifications of the current national regulations. This could negatively impact the results of Elia and 50Hertz.

Some parameters for the determination of the fair remuneration of Elia and 50Hertz under tariff setting regulations are subject to specific uncertainties which may negatively impact Elia's and 50Hertz' revenue, prospects and profit

Belgium

The Belgian tariff setting regulation may affect the revenues, profits and financial position of Elia in different ways.

The profit of Elia is based on the computation of a fair remuneration allowed by the regulator (see section 13.6.6). This is determined on the basis of the rates of Belgian 10 year linear bonds and the beta of the Company (for the latter a minimum value of 0.3 is determined by law). The profit of Elia is mainly driven by the level of the OLO rates and the Company's beta of the relevant year, should this beta be higher than the minimum value determined by law (see section 13.6.6.1). The OLO rates are highly dependent on the market conditions and directly impact the allowed level of fair remuneration.

In Belgium, tariffs are set pursuant to forecasts of volumes of electricity transmitted, generating as such a forecasted amount of costs and revenues. The fact that regulated revenues are based on forecasted volumes and associated prices results in a delayed compensation for the actually incurred costs, which, in some circumstances, may have important transitory effects on the cash position of Elia.

In case of deviations between the actually incurred costs and forecasted costs, the Council of Ministers, based upon an opinion of the Belgian federal regulator, the CREG, takes the final decision whether the incurred costs are not deemed unreasonable and analyses any cross-subsidising between "controllable costs" and "non-controllable costs". This decision can result in rejected costs, which will thus not be taken into account for the setting of tariffs for the next period, and therefore will have an overall impact on the profitability of Elia.

Germany

The German regulatory framework in relation to tariffs drives the financial results of 50Hertz' business, as well as its contribution to the Company's consolidated results. The regulatory framework is based on an initial cost assessment and provides for both a revenue cap and efficiency incentives. It defines the network tariffs, which include the regulated remuneration, based on a fixed return on equity for regulatory periods which last five years. The remuneration level for the next regulatory periods is uncertain.

Specific rules apply in relation to the costs and revenues generated in the support schemes for renewable energy (see section 13.7.1) and combined heat and power plants. The net costs relating to these activities incurred by the TSO are expected to be fully compensated through the levy of network tariffs as well as through compensations to be paid by energy utility providers. Therefore, the impact on the net result of 50Hertz is expected to be neutral. However, the time lag in the compensation of these real costs requires TSOs to pre-finance these costs, which may have an impact on the cash position of 50Hertz.

The level of "incentivised costs" accepted by the regulator is mainly based on a past reference year (*e.g.* 2006 for the current regulatory period 2009-2013) and evolves in accordance with an inflation rate reduced by an efficiency and productivity factor. The efficiency factor of 50Hertz is currently close to 100% and creates only a negligible risk for the current regulatory period. However, the required efficiency level for the next regulatory period is unknown. In addition, a sectoral productivity factor (1.25%) may also reduce the yearly revenue cap. This mechanism does not remunerate jumps in cost levels due to an asynchronous expense level either. This is particularly the case for the additional operational expenses linked with investment plans.

German regulation provides for a specific remuneration regime for transmission network investments called "investment budgets" (IB). Under German regulation, investments are remunerated by the inclusion of imputed depreciation, imputed cost of debt, imputed return on equity and imputed trade tax in the revenue cap. As a rule, these costs are part of the incentivised costs unless and to the extent they are incurred in the framework of investment budgets approved by the regulator. If that is the case, these cost items are not incentivised and fall under the so called "permanently non-incentivised costs" (which are fully integrated in the revenue cap and recovered by network charges based on the "pass-through" principle). The aforementioned applies at least for the duration of one regulatory period since the BNetzA limits the duration of such IBs. Such limitation is subject to pending appeal procedures since network operators argue for an unlimited duration. To the extent the investment costs are to be rolled over in the regulated asset base (due to the limitation in time of IBs), the treatment as incentivised costs is unclear and can impact the remuneration of these investments. 50Hertz needs to apply for the approval of investment budgets in order to ensure the appropriate remuneration of the costs related to the investments during a regulatory period. The investment budgets for several investment projects contemplated by 50Hertz are still in the approval phase. Operational expenses linked to investments are not allowed to be considered in investment budgets and are considered as "incentivised costs" in the following revenue cap, which are subject to efficiency and productivity factors.

Potential future capital expenditure not covered by investment budgets approved by the German regulator will need to be financed out of available operational cash flow or through new financial debt. Such costs can then be included in the following revenue cap

The level of cost of debt accepted by the German regulator for the incentivised costs does not reflect the real cost of debt. The cost of debt is capped at the rate of the 10 year German corporate bonds and this cap can result in 50Hertz being only partially remunerated for the real costs of debt, which may negatively impact the net results of 50Hertz. However, for the capital expenditure that is approved as part of the investment budgets, the actual cost of debt is accepted.

The costs related to investments in offshore wind plants developments are to be shared with the other German TSOs and are fully compensated. The inclusion of these investment costs in the network tariff calculation as non-incentivised costs is subject to whether IBs are also approved for such investments. To the extent they are to be rolled over in the regulated asset base (due to the limitation in time of IBs), the treatment as incentivised costs is unclear and can impact the remuneration of these investments.

Since most renewable energy sources are characterised by daily and seasonal variations, the increasing share of these sources in the energy-mix creates an increased cost for the ancillary services (see section 13.7) to mitigate these variations. Unlike the situation in Belgium, where these costs are passed through in the tariffs (to the extent that they are not deemed unreasonable), the German regulator implemented a capped incentive mechanism which implies a financial risk (see section 13.7.7).

Licences given to transmission system operators may be terminated early or may not be renewed

The Company was appointed as the Belgian TSO for a renewable period of 20 years as of 17 September 2002. This appointment may be terminated early or may not be renewed upon expiry of the 20 year period. In addition, the licence can be terminated by the Belgian federal government under certain circumstances, including:

- bankruptcy, winding-up, merger or demerger of the Company;
- serious breach of the Company's obligations; or
- significant changes in the Company's shareholder structure which would jeopardise its independence vis-à-vis electricity producers, suppliers, traders or consumers.

The Belgian Electricity Law (see section 13.2.1) provides that only one system operator can be authorised to manage and operate the transmission system, provided that this TSO owns, on its own or together with third parties, a portion of the network that covers at least three fourths of the national territory and at least two thirds of the territory of each region. This condition is currently only satisfied by Elia.

The early termination of the appointment of the Company as Belgian TSO before the expiry of the licence or the non-renewal of that appointment upon expiry of the licence may have material, negative consequences on Elia’s activities, profits and financial situation. However, any other company would need contractual arrangements with Elia to be able to operate, as a TSO, the network owned by Elia.

50Hertz is authorised as TSO in Germany and, unlike the authorisation of the Company in Belgium, this authorisation is not granted for a definite duration. It can however be withdrawn if 50Hertz does not have the personnel, technical and financial means to guarantee the continuous operation of the network in accordance with the applicable legislation.

The timely implementation of network development and connection projects depends on obtaining the necessary approvals and permits - uncertainties about the timing and size of the investments may have an impact on financing needs

The timely implementation of network development projects and projects relating to the connection of large industrial consumers, distribution networks or power plants to the transmission network (including as a result of specific obligations with respect to renewable energy sources) are, among other things, highly correlated to the timely obtainment of approvals or permits that allow to perform the planned operations. Such approvals or permits may be refused, or if granted, they may be challenged before the competent courts. In addition, uncertainties about the timing and size of the investments needed for offshore projects may have an impact on the financing needs of Elia and 50Hertz.

Elia and 50Hertz may incur significant costs to manage potential environmental and public health risks, or to accommodate city planning constraints

Elia's and 50Hertz' operations and assets are subject to European, national and regional regulations dealing with environmental matters, city planning and zoning, building and environmental permits and rights of way. These regulations are often complex and subject to continuous evolution (resulting in a potentially stricter regulatory framework or enforcement policy). The most significant environmental issues faced by Elia and 50Hertz relate to soil pollution, PCB contamination of equipment, waste and electromagnetic fields ("EMF") (see also section 10.10.3).

Compliance with existing or new environmental, soil sanitation, city planning and zoning regulations may impose significant additional costs on Elia or 50Hertz. Such costs include expenses relating to the implementation of preventive or remedial measures or the adoption of additional preventive or remedial measures to comply with future changes in laws or regulations, in particular in respect of soil contamination. While Elia and 50Hertz have set aside provisions and accruals in connection with such obligations in their financial statements, the provisions and accruals made by Elia and 50Hertz may not be sufficient to cover all costs that are potentially required to be made in order to comply with these obligations, including if the assumptions underlying these provisions prove to be incorrect or if Elia and 50Hertz are held responsible for additional, currently undiscovered contamination. Additional costs may also be incurred by Elia or 50Hertz in respect of actual or potential liability claims, the defence of Elia or 50Hertz in legal or administrative procedures or the settlement of third party claims. Resistance to actions or programmes in connection with environmental, city planning or zoning matters, may require Elia or 50Hertz to incur additional costs relating to public enquiries, publicity measures or legal defense.

Although there are currently no legal requirements with respect to EMFs emanating from underground and overhead lines, it cannot be excluded that the legal environment in this respect becomes more restrictive in the future. This may result in Elia or 50Hertz incurring additional costs in managing environmental and public health risks or city planning constraints and in an increased risk of potential liability claims or administrative proceedings initiated by affected persons, or may have an impact on the way investment projects can be implemented. Furthermore, over the past few years, public concern about EMFs has been growing and residents have increasingly opposed to new projects. Due to continuous actions from pressure groups and local residents, authorities may become more reluctant to deliver the necessary permits.

Possible retroactive changes to, or different interpretations of, tax laws and additional tax assessments may have a negative impact on Elia and/or 50Hertz

Tax laws and their interpretation by the tax authorities and courts are subject to changes, potentially with retroactive effect. Such changes can have a negative impact on Elia and/or 50Hertz. Furthermore, although tax rules are applied with accuracy and precision, it may occur that Elia's and/or 50Hertz' own interpretation does not correspond to that of the relevant authorities at the time of potential controls.

Tax audits may result in a higher taxable income or in a lower amount of tax losses carry forwards being available to Elia and/or 50Hertz. Elia is currently involved in administrative and legal proceedings initiated against the tax authorities in the context of which Elia contests additional tax assessments that have been imposed following a tax audit in relation to the treatment of tariff deviations. Should the outcome of these tax disputes be negative for Elia, additional corporate income tax on excess tariffs may be due, potentially recoverable or neutralised in their entirety through the tariff mechanism (see section 10.13 and section 10.14).

Inconsistency between different regulatory frameworks applicable in Belgium may create a risk for Elia

Contradictions or inconsistencies between the regulatory frameworks applicable in the various regions in Belgium to which Elia is subject may hinder its activities. This is in particular the case for the possibility of diverging rules in relation to matters that are technically interdependent and, therefore, have to be managed as a whole. Elia cannot predict, however, how potential inconsistencies between the rules issued by various competent authorities may affect its business, results and operations. Moreover, future developments of, and changes to, these rules can have an impact on Elia's liability in the event of a power outage on the network, or in an institutional context, the allocation of competences between the various regulatory authorities.

1.2 RISKS RELATED TO ELIA'S AND 50HERTZ' BUSINESS

Slowing down of the economic activities of industrial clients and reduction of the consumption by residential clients may impact Elia's and 50Hertz' turnover

Elia's and 50Hertz' turnover is related to the amount of energy transported on the network and is therefore directly impacted by the level of their clients' consumption. Accordingly, Elia and 50Hertz may face a turnover decrease in the event of a slowing down of the economic activities of their industrial clients and/or the rationalisation of electricity consumption by their residential clients. A potential reduction of revenues (and potential profits) will only have an impact as long as this has not been compensated for through future tariffs. This may result in a short-term liquidity risk for Elia and 50Hertz (as long as this has not been recovered).

Elia and/or 50Hertz may be held liable in case of a transmission disruption or a system breakdown

Transmission disruptions or system breakdowns that affect Elia's or 50Hertz' network may result in a failure by Elia or 50Hertz to deliver electricity to customers or to inject energy from power plants, and may expose Elia or 50Hertz to liability claims and litigation which could negatively impact the results of operations (unless the event qualifies as *force majeure*).

Transmission disruptions on Elia's or 50Hertz' network may be caused by operational hazards or unforeseen events including, but not limited to, an overload of the very high voltage network caused by major unscheduled foreign electricity flows, accidents, breakdowns or failures of equipment or processes, human errors, IT systems and processes failures, intrusions of computer viruses, performance below expected levels of capacity and efficiency, and natural events such as heavy storms, thunderstorms, earthquakes or landslides. The presence of unscheduled electricity flows on Elia's or 50Hertz' network is considered as an emergency situation allowing the TSO to take any emergency measures it deems useful, such as disconnecting all or certain electricity exports, requesting generators to increase or decrease their production or reducing the electricity consumption in the relevant area. The probability of the occurrence of one or more of the abovementioned events may increase if the competent authorities do not approve the necessary operational procedures and/or investments as proposed in Elia's or 50Hertz' development plans.

System breakdowns or blackouts may occur due to a major imbalance between the quantity of electricity injected in the network and that taken off in a given geographical area. Such imbalance may be created by a network failure, an incident at one or more power plants or the lack of sufficient on-line generation capacity at a given time in a given geographical area.

Higher unpredictability of energy flows due to higher share of variable renewable energy sources may increase the risk of transmission disruption

Elia's and 50Hertz' transmission network have been developed over the last decades with generation units relatively closely positioned to the main consumption areas. However, the evolution of the electricity market leads to increasing discrepancy between the location of generation and consumption. For 50Hertz, the majority of the consumption is situated in the southern and western parts of Germany, while the (renewable) energy generation is and will be located more in the northern and eastern part.

Not only the location but also the upward trend in installed capacity of wind farms, cogeneration units and other renewable energy based units (*e.g.* photo-voltaic) result in a higher unpredictability at the level of the operational management of the network and an increased risk of transmission disruption. Since most renewable energy sources are characterised by daily and seasonal variations, the increasing share of these sources in the energy-mix creates new risks for the daily operation of power systems and transmission/distribution networks. Elia will face similar risks as 50Hertz within the next decade since there will be an important amount of wind energy capacity installed in the North Sea with only very limited consumption nearby. Elia and 50Hertz strive to control as much as possible the operational risks related to the increasing opening of the networks to the flow of electricity produced and consumed in the Member States by, among other things, exchanging and harmonising relevant information with other TSOs, and enabling energy flows to be better managed and distributed over the available interconnection capacity.

A failure of the IT systems and processes used by Elia and 50Hertz or a breach of their security measures may result in losses for customers and reduced revenues and profits for Elia and 50Hertz

Elia's and 50Hertz' operations depend, to a large extent, on IT processes, hardware and software, including glass fibre and copper based communication networks. The reliability and continuity thereof are essential for an efficient and reliable operation of the electricity network.

Elia and 50Hertz continuously take important measures to improve their IT processes and hardware, software and network protection (*e.g.* redundancy) but there is no guarantee that important system hardware and software failures, viruses, accidents or security breaches will never occur, which could impair Elia's and 50Hertz' ability to provide all or part of the services required by law or under the contracts to which it is a party.

Certain litigation risks may have adverse effects on Elia's and 50Hertz' results of operations

The outcome of legal proceedings in which Elia and 50Hertz are involved or potential future litigation is uncertain and may thus adversely affect the business, financial condition and results of operations of Elia or 50Hertz.

Acts of terrorism or sabotage may adversely affect Elia's and 50Hertz' results of operations

Elia's and 50Hertz' electricity network and assets are widely spread geographically and are potentially exposed to acts of terrorism or sabotage. Such events could negatively affect Elia's or 50Hertz' networks or operations and may cause network failures or system breakdowns. Network failures or system breakdowns could in turn have a material adverse effect on Elia's or 50Hertz' financial condition and results of operation, particularly if the destruction caused by acts of terrorism or sabotage are of major importance (*e.g.* through the reduction of revenues due to the unavailability of some parts of the network).

Any negative results from certain new activities developed by Elia are entirely born by Elia and represent an additional financial risk

Elia strives to anticipate new business opportunities relating to its core businesses within and beyond the Belgian regulated framework. It recently agreed with the Belgian regulator on a "transfer pricing" framework for both its regulated and non-regulated activities, which also provides for a mechanism to determine whether or not the financial results of these activities can be included in the profit available for distribution to the shareholders or should be used for future tariff reductions. To incentivise Elia to develop its non-regulated activities, it has been agreed with the CREG, that at least part of the positive results of these activities can be included in the profit of the Company and should not be used for tariff reductions (see also section 13.6.7). Negative results of these activities, however, should be entirely born by Elia. The development of new non regulated activities by Elia may therefore represent an additional financial risk for the shareholders.

A lack or loss of highly qualified staff may result in insufficient expertise and knowhow to meet the strategic objectives

Elia and 50Hertz pursue an active HR policy which aims at maintaining an adequate level of expertise and knowhow in a tight labour market in view of the highly specialised nature of their business. They may, however, experience difficulties in the future in finding, attracting and retaining the highly qualified staff that is required to support its operations. Such a lack or loss of highly qualified staff may result in insufficient expertise and knowhow, in unsatisfactory quality levels, in the inability to timely complete infrastructure projects or in the failure to meet strategic objectives.

Any decisions made or actions taken by companies in which Elia or 50Hertz has a minority participation (and thus no control), may result in lower revenues or a lower profit margin concerning such companies

In the course of its business, Elia and 50Hertz engage in economic activities with other companies through collaborations or joint ventures, such as Holding des Gestionnaires de Réseaux de Transport SAS ("HGRT"), European Market Coupling Company GmbH ("EMCC") and Central Allocation Office GmbH ("CAO"). As Elia and 50Hertz do not hold a controlling interest in such joint ventures or collaborations, it cannot be ensured that all decisions and actions of such joint ventures or collaborations are fully in line with their strategy and objectives. Such decisions or actions may have an negative impact on the revenues or the profit margin of these joint ventures or collaborations.

Accidents on the facilities operated by Elia and 50Hertz may have serious consequences

Elia and 50Hertz operate facilities that may cause significant harm to human beings and in relation to which accidents may have serious consequences.

As a result, Elia and 50Hertz may be exposed to potential liabilities that may have a material, negative impact on their financial position, require significant financial and managerial resources or possibly harm their reputation.

Elia and 50Hertz may not have adequate insurance coverage

Elia and 50Hertz have subscribed the insurance contracts necessary to operate their business in line with industry standards. However, it cannot be assured that such insurance will not proof to be insufficient. Although Elia's contracts include certain specific limitation clauses in respect of some of these risks (see section 10.7.3), Elia or 50Hertz may not be (fully) insured against certain risks to which they are exposed (such as material damages to overhead lines, third party losses or damage or blackout claims in excess of insurance coverage and environmental liabilities) because adequate insurance may not be available at all or may not be available at reasonable conditions.

1.3 RISKS RELATED TO THE FINANCIAL MARKETS

Fluctuation of capital market parameters in interest rates may negatively influence the financial situation of Elia and 50Hertz

In order to finance its investments and to achieve its short- and long-term strategic goals, Elia and 50Hertz need access to capital markets. Given the current credit and capital market conditions, in particular the increased credit spread on the domestic and international debt and equity markets generally and the adverse and continued constraints on the availability of funding, such financing may not be available at attractive terms or may not be available at all. This could have an adverse effect on Elia's and 50Hertz' future growth and on the pursuit of its objectives.

Elia is partly financed with floating rate debt. Although a financing policy has been approved that strives to achieve an optimal ratio of fixed and variable interest rates and appropriate financial instruments are used to mitigate the financial risk, a change in interest rates can have an impact on financial charges passed on in a subsequent regulatory tariff period (or in the same period in the event of an exceptional change in charges). Financial charges are also related to the credit rating of the Company. Elia cannot guarantee total protection in the event of significant movements in interest rates or in the event of a downgrading of its rating, or Eurogrid GmbH's rating.

1.4 SPECIFIC RISKS RELATED TO THE ACQUISITION OF 50HERTZ BY ELIA

The acquisition and business integration of 50Hertz, and the agreements entered into by Elia in that context, create specific risks which could have negative financial consequences for Elia

To strengthen its position in the Central West European ("CWE") market, Elia acquired, through Eurogrid International CVBA/SCRL ("Eurogrid International") and Eurogrid GmbH, a 60% stake in 50Hertz from Vattenfall Europe AG ("Vattenfall"). Elia's equity partner, Industry Funds Management ("IFM"), acquired a 40% stake. In accordance with the Share Purchase Agreement entered into with Vattenfall (see section 12.4), 50Hertz is at the expense and risk of Elia and IFM as of 1 January 2010. The acquisition of a 60% shareholding in 50Hertz may expose Elia and 50Hertz to specific risk factors, in particular in relation to the integration of 50Hertz' transmission business.

Under the Share Purchase Agreement between Vattenfall and Eurogrid GmbH in relation to the sale and purchase of the shares of 50Hertz, Vattenfall provided Eurogrid GmbH with certain representations and warranties as well as certain specific indemnities in line with market standards for this kind of transaction (see section 12.5). However, the rights of Eurogrid GmbH under this agreement are subject to certain limitations, including indemnification thresholds and limitations in time on warranty claims. As a result, it cannot be excluded that in certain cases, Eurogrid GmbH has limited or no recourse against Vattenfall in respect of certain risks that may arise in connection with the activities of 50Hertz that are not covered by representations and warranties or indemnities provided by Vattenfall.

As part of the acquisition of 50Hertz, Elia also entered into a Bilateral Agreement with Vattenfall (see section 12.5). Under this Bilateral Agreement, Elia undertakes to carry out certain essential investment projects of 50Hertz by a specified date (provided the necessary approvals and permits are obtained in time). Elia's failure to meet these obligations may result in contractual indemnities being due and could have negative financial consequences for Elia.

Elia and IFM furthermore entered into a Trilateral Agreement with Vattenfall (see section 12.5) according to which Elia and IFM agree to certain lock-up and transfer restrictions in respect of the shares and the assets of 50Hertz, such as undertakings not to sell any interest in 50Hertz to a third party during a period of five years after closing and not to transfer any shares to a company that would not comply with the obligations included in the Third Energy Package (see section 13.1.1). A breach of these obligations may result in contractual indemnities being due and could have negative financial consequences.

In addition to the foregoing, the acquisition may involve certain risks that were not identified during the due diligence investigations. These risks apply to acquisitions in general and may have a material adverse effect on the business operations, the results and the financial position of Elia.

Elia does not have exclusive control over 50Hertz

Elia only has a 60% shareholding in 50Hertz, the other 40% of the shares being held by IFM (in each case through Eurogrid International and Eurogrid GmbH). In accordance with the Investment and Shareholders' Agreement entered into with IFM (see section 12.3), Elia and IFM jointly control significant matters relating to the business of Eurogrid International and its subsidiaries (including 50Hertz) (such as changes to the business plan, material transactions, disposals of assets, changes to the share capital, material borrowings and important investments outside the business plan) through the requirement of the approval by Eurogrid International's shareholders' meeting (shareholder reserved matters) or Eurogrid International's board of directors (board reserved matters). Pursuant to the Investment and Shareholders' Agreement, shareholder reserved matters require the prior approval by Eurogrid International's shareholders' meeting with a majority of 75% of the votes cast. Board reserved matters require prior approval by more than 75% of the votes of the directors entitled to vote. As a result, Elia cannot decide on those matters without the consent of IFM.

Should the Offering not be fully subscribed, the financing of the acquisition may not be available at acceptable terms, or may not be available at all

The acquisition of the 60% interest in 50Hertz by Elia will be financed by means of the proceeds of the Offering. Should the Offering not be fully subscribed and the bridge financing already entered into by Elia in view of the acquisition of 50Hertz be insufficient (either in terms of amount or in terms of duration, although the bridge financing is available until 31 December 2011), Elia will have to search for additional financing. Such financing may not be available at all or not be available at acceptable terms.

The financing of 50Hertz' business depends on unpredictable criteria which could have negative consequences on the financing terms

Eurogrid GmbH, the holding company of 50Hertz, has entered into various financing arrangements to fund 50Hertz' activities (see section 12.6.2). The conditions of these financing arrangements depend on the quality of the final public rating that Eurogrid GmbH expects to receive in the coming months. Elia cannot predict the quality of the final public rating that will be granted to Eurogrid GmbH and the resulting potentially negative consequences on the terms of its financing. While Eurogrid GmbH intends to replace the bank debt entered into by Eurogrid GmbH with bonds, the successful refinancing of the bank debt of Eurogrid GmbH will depend on the evolution of the credit market conditions, which cannot be predicted.

Restrictions on upstream payments under German law may have a material adverse effect on Elia's results

50Hertz is a German company incorporated in the form of a limited liability company (*GmbH*) and governed by the German Limited Liability Companies Act (*GmbHG*). The GmbHG provides for strict capital maintenance rules to preserve the nominal share capital of a GmbH. Under these rules, any financial advantage or assistance provided by a GmbH to its direct or indirect shareholders (including their affiliated companies) can only be granted out of its free net assets. Any such advantage that would cause the company's equity to fall below the nominal share capital or would increase an existing shortfall is strictly forbidden. These rules are interpreted broadly and do not only apply to cash payments but also to all other types of benefits with a financial or commercial value granted by a GmbH.

1.5 RISKS RELATED TO THE SHARES AND THE OFFERING

There is no assurance that a trading market will develop for the Preferential Rights, and if a market does develop, the market price for the Preferential Rights may be subject to greater volatility than the market price for the Shares

The Preferential Rights are expected to be traded on the regulated market on Euronext Brussels from 4 June 2010 to 18 June 2010. There is no assurance that an active trading market in the Preferential Rights will develop during that period or, if a market does develop, there is no assurance regarding the nature of such trading market. The trading price of the Preferential Rights depends on a variety of factors, including but not limited to the performance of the price of the Shares, but may also be subject to significantly greater price fluctuations than the Shares.

Existing Shareholders will experience dilution as a result of the Offering if they do not or could not exercise their Preferential Rights in full

Any Preferential Rights not exercised by the closing of Euronext Brussels on the Closing Date of the Rights Offering will become null and void. To the extent that the Preferential Rights are not exercised, the Existing Shareholder’s proportionate ownership and voting interest in the Company will be reduced, and the percentage that the Shares held prior to the Offering represents of the increased share capital after the Offering will be reduced accordingly. Each holder of a Preferential Right that is not exercised by the last day of the Rights Subscription Period will be entitled to receive a proportional part of the proceeds of the sale of Scrips, if any (as described in section 5.2.4.4). However, there is no assurance that any or all Scrips will be sold during the Scrips Private Placement (as described in section 5.2.4.4) or that there will be any such proceeds.

Within the framework of the planned issue of New Shares, Existing Shareholders who do not exercise their Preferential Rights or who do not transfer them could be exposed to dilution, as set out in section 5.8.

If the Rights Offering is discontinued or there is a substantial decline in the price of the Shares, the Preferential Rights may become void or worthless

If there is a substantial decline in the price of the Shares, including as a result of short selling of the Company’s shares, this may have a material adverse effect on the value of the Preferential Rights. Any volatility in the price of shares will also affect the price of the Preferential Rights, and the Preferential Rights could become void or worthless as a result. Further, the obligations of the Underwriters pursuant to the Underwriting Agreement may be terminated in certain circumstances (see section 5.4). If the Rights Offering is discontinued, the Preferential Rights will become void or worthless. Accordingly, investors who have acquired any such Preferential Rights in the secondary market will suffer a loss, as trades relating to such Preferential Rights will not be unwound once the Rights Offering is terminated.

The market price of the Company’s shares may be volatile and may decline below the Issue Price

There can be no assurance that the Issue Price will correspond to the market price of the shares following the Offering or that the price of the shares available in the public market will reflect the Company’s actual financial performance. A number of factors may affect the market price of the shares, including: the number of shares held by the public, changes in the operating results of the Company, changes in the general conditions in the energy sector and general economic and business conditions in the countries in which Elia and 50Hertz operate. Furthermore, securities markets have experienced significant price and volume fluctuations in recent years. Similar fluctuations in the future could have a material adverse effect on the market price of the shares regardless of the operating results or financial condition of the Company.

The capital increase may be lower than the contemplated Issue Amount if the Offering is not fully subscribed

The Company has the right to proceed with a capital increase for a reduced amount. No minimum amount has been set for the Offering. The actual number of New Shares subscribed to will be confirmed in the Belgian Financial Press. Therefore, (i) only a reduced additional number of the Company's shares could be made available for trading on the market which could increase the free float of the Company's shares to a lesser extent than expected; and (ii) the Company's financial means in view of the uses of the proceeds of the Offering might be reduced. The Company might therefore have to look for further external funding or reduce its level of investments.

The market price of the Company's shares or Preferential Rights could be negatively affected by sales of substantial numbers of shares or Preferential Rights in the public markets

A sale of a significant number of shares or Preferential Rights on the stock market, or the perception that such a sale could occur during the Offering as far as the Preferential Rights are concerned, or while or after the realisation of the Offering as far as the shares are concerned, could adversely affect the share price or the price of the Preferential Rights. The Company cannot predict the effect on the share price or the price of the Preferential Rights if the shareholders were to decide to sell their shares. Furthermore, there is no commitment on the part of any of the Existing Shareholders to remain a shareholder or to retain a minimum interest in the Company after the expiry of the respective lock-up periods that will be provided for in the Underwriting Agreement in relation to the securities held by certain Existing Shareholders.

There may not be an active public market for the Company's shares (and the Offering may not substantially improve such activity), which may cause the shares to trade at a discount to the Issue Price and/or make it difficult to sell the shares

Prior to the Offering, the public market for the Company's shares showed signs of limited liquidity. The Offering will not necessary develop or sustain an active public market for the Company's shares. There can be no assurance that the Issue Price will correspond to the market price of the shares following the Offering or that the market price of the shares will reflect the Company's actual financial performance or that the Offering will result in improved liquidity and/or free float of the Company's shares.

Certain significant shareholders of the Company after the Offering may have interests that differ from those of the Company and may be able to control the Company, including the outcome of shareholder votes

The Company will continue to have a number of significant shareholders. For an overview of the Company's significant shareholders before and after closure of the Offering, reference is made to section 15.1.

Given its current shareholding, Publi-T SCRL/CVBA ("Publi-T") can have a significant influence on the approval of shareholders' resolutions, and can in any event block shareholders' resolutions that require more than 75% of the votes of the shareholders that are present or represented at General Shareholders' Meetings.

To the extent that certain shareholders were to combine their voting rights, they could have the ability to elect or dismiss directors, and, depending on how widely spread the Company's other shares are, take certain other shareholders' decisions that require, or require more than, 50% or 75% of the votes of the shareholders that are present or represented at the General Shareholders' Meetings where such items are submitted to voting by the shareholders. Alternatively, to the extent that these shareholders have insufficient votes to impose certain shareholders' resolutions, they could have the ability to block proposed shareholders' resolutions that require, or require more than, 50% or 75% of the votes of the shareholders that are present or represented at General Shareholders' Meetings where such items are submitted to voting by shareholders. Any such voting by these shareholders may not be in accordance with the interests of the Company or the other shareholders of the Company.

Shareholders outside Belgium may not be able to exercise preferential subscription rights (notice for non-Belgian resident investors)

In the event of an increase of the Company's share capital in cash, shareholders are generally entitled to full preferential subscription rights (*voorkeurrechten/droits de préférence*) unless these rights are cancelled or limited either by a resolution of the General Shareholders' Meeting, or by a resolution of the Board of Directors (provided that the Board of Directors has been authorised by the General Shareholders' Meeting, or by the Articles of Association to increase the share capital in that manner, which is the case at the date of this Prospectus). Certain shareholders outside Belgium may not be able to exercise preferential subscription rights unless local securities laws have been complied with. In particular, U.S. shareholders may not be able to exercise preferential subscription rights unless a registration statement under the Securities Act is declared effective with respect to the shares that may be issued upon the exercise of such preferential subscription rights or an exemption from the registration requirements is available. The Company does not intend to obtain a registration statement in the United States or to fulfil any requirement in other jurisdictions (other than Belgium) in order to allow shareholders in such jurisdictions to exercise their preferential subscription rights (to the extent not excluded or limited). As a result, the Company may in the future sell shares or other securities to persons other than its existing shareholders at a lower price than the New Shares and, as a result, U.S. or other non-Belgian shareholders may experience substantial dilution of their interest in the Company.

2 DISCLAIMERS AND NOTICES

The Offering is conducted as a public offering in Belgium and a private placement to certain Institutional Investors (meaning qualified and/or institutional investors under applicable laws of the relevant jurisdiction and, in respect of Belgium, investors that meet the definition of "qualified investors", as defined in Article 10 of the Law of 16 June 2006 regarding the public offering of investment instruments and the authorisation of investment instruments to trade on a regulated market (*Loi du 16 juin 2006 relative aux offres publiques d'instruments de placement et aux admissions d'instruments de placement à la négociation sur des marchés réglementés / Wet van 16 juni 2006 op de openbare aanbieding van beleggingsinstrumenten en de toelating van beleggingsinstrumenten tot de verhandeling op een gereglementeerde markt*) (the "Prospectus Law"), and as extended by the Belgian Royal Decree of 26 September 2006 regarding the extension of the term qualified investor and the term institutional or professional investor (*Arrêté royal du 26 septembre 2006 portant extension de la notion d'investisseurs qualifiés et de la notion d'investisseurs institutionnels ou professionnels / Koninklijk Besluit van 26 september 2006 tot uitbreiding van het begrip gekwalificeerde belegger en het begrip institutionele of professionele belegger*) outside the United States in reliance on Regulation S under the Securities Act.

The Offering and this Prospectus have not been and will not be submitted for approval to any supervisory authority outside Belgium. Therefore, no steps may be taken that would constitute or result in a public offering of the New Shares, the Preferential Rights or the Scrips outside Belgium. The distribution of this Prospectus, the exercise of the Preferential Rights and the Offering may, in certain jurisdictions, be restricted by law, and this Prospectus may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Accordingly, the New Shares, the Preferential Rights or the Scrips may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other documents related to the Offering may be distributed or published in any jurisdiction, except in circumstances that will result in the compliance with all applicable laws and regulations. Investors must inform themselves about, and observe, any such restrictions and neither the Company nor the Joint Global Coordinators and Bookrunners assume any responsibility in respect thereof.

Investors must comply with all applicable laws and regulations in force in any jurisdiction in which they purchase, offer or sell the New Shares, the Preferential Rights or the Scrips or possess or distribute this Prospectus and must obtain any consent, approval or permission required for the purchase, offer or sale of the New Shares, the Preferential Rights or the Scrips under the laws and regulations in force in any jurisdiction in which any purchase, offer or sale is made. Neither the Company nor the Joint Global Coordinators and Bookrunners are making an offer to sell the New Shares, the Preferential Rights or the Scrips or soliciting an offer to purchase any of the New Shares, the Preferential Rights or the Scrips to any person in any jurisdiction where such an offer or solicitation is not permitted.

The Company and the Joint Global Coordinators and Bookrunners reserve the right to reject any offer to purchase the New Shares, the Preferential Rights and the Scrips which the Company or the Joint Global Coordinators and Bookrunners believe may give rise to a breach of any laws, rules or regulations.

2.1 DECISION TO INVEST

In making an investment decision, investors must rely on their own examination of the Company and the terms of the Offering, including the merits and risks involved as described in this Prospectus. Investors should rely only on the information contained in this Prospectus. Neither the Company nor the Joint Global Coordinators and Bookrunners have authorised any other person to provide investors with different information. If anyone provides different or inconsistent information, it should not be relied upon. The information appearing in this Prospectus should be assumed to be accurate as of the date on the front cover of this Prospectus only. The Company's business, financial condition, results of operations and the information set forth in this Prospectus may have changed since that date. In accordance with Belgian law, if a significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the New Shares and which arises or is noted between the time when this Prospectus is approved and the final closure of the Offering, or as the case may be, prior to the start of the trading of the New Shares on the relevant market, such will be set out in a supplement to this Prospectus. If a supplement to the Prospectus is published on or prior to the Closing Date of the Rights Offering, subscribers in the Rights Offering shall have the right to withdraw their subscriptions made prior to the publication of the supplement. If a supplement to the Prospectus is published during the Scrips Private Placement, subscribers in the Scrips Private Placement shall have the right to withdraw their subscriptions made prior to the publication of the supplement. Such withdrawal must be done within the time limits set forth in the supplement (which shall not be shorter than two business days after publication of the supplement) (see section 5.2.5.1). Any supplement is subject to approval by the Belgian Banking, Finance and Insurance Commission (*Commission bancaire, financière et des assurances / Commissie voor het Bank-, Financie- en Assurantiewezen,* the ''CBFA''), in the same manner as this Prospectus and must be made public, in the same manner as this Prospectus.

The Joint Global Coordinators and Bookrunners and their affiliates are acting exclusively for the Company and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their client or for providing advice in relation to the Offering.

None of the information in this Prospectus should be considered investment, legal or tax advice. Investors should consult their own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the New Shares, Preferential Rights and Scrips. Neither the Company nor the Joint Global Coordinators and Bookrunners make any representation to any offeree or purchaser regarding the legality of an investment in the New Shares, Preferential Rights and Scrips by such offeree or purchaser under applicable investment or similar laws.

2.2 NOTICE FOR NON-BELGIAN RESIDENT INVESTORS

2.2.1 *Notice to investors in the European Economic Area ("EEA")*

This Prospectus has been prepared on the basis that all offers of the New Shares, the Preferential Rights and the Scrips (other than offers contemplated in this Prospectus in Belgium once this Prospectus has been approved by the CBFA and published in accordance with Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (the "Prospectus Directive"), as implemented in Belgium) will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of securities.

Accordingly, any person making or intending to make any offer within the EEA of the New Shares, the Preferential Rights and the Scrips (outside Belgium), should only do so in circumstances in which no obligation arises for the Company or the Joint Global Coordinators and Bookrunners to produce a prospectus for such offer. None of the Company or the Joint Global Coordinators and Bookrunners has authorised or does authorise the making of any offer of the New Shares, the Preferential Rights and the Scrips through any financial intermediary, other than offers made through the Joint Global Coordinators and Bookrunners which constitute the final placement of New Shares contemplated herein.

In relation to each member state of the EEA which has implemented the Prospectus Directive (each, a "Relevant Member State") an offer to the public of the New Shares, the Preferential Rights or the Scrips contemplated by this Prospectus may not be made in that Relevant Member State unless this Prospectus has been approved by the competent authority in such Relevant Member State and published in accordance with the Prospectus Directive as implemented in such Relevant Member State (which approval and publication is only obtained and performed in relation to the Offering in Belgium), unless such offer in such Relevant Member State of any the New Shares, the Preferential Rights and the Scrips is made under the following exemptions under the Prospectus Directive, if and to the extent such exemptions under the Prospectus Directive have been implemented in that Relevant Member State:

- to qualified investors within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators and Bookrunners to any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Shares, Preferential Rights or Scrips shall result in a requirement for the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each person in such Relevant Member State (other than Belgium) to whom an offering is made who receives any communication in respect of, or who acquires any of the New Shares, the Preferential Rights and the Scrips under, the Offering contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with the Joint Global Coordinators and Bookrunners and the Company (unless such investor has been explicitly exempted thereof by the Joint Global Coordinators and Bookrunners and the Company) that:

- it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- in the case of any of the New Shares, the Preferential Rights or the Scrips acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the New Shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Global Coordinators and Bookrunners has been given to the offer or resale; or where New Shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of the New Shares, the Preferential Rights or the Scrips to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an ‘‘offer to the public’’ in relation to any New Shares, Preferential Rights, Scrips and/or VVPR Strips in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and any New Shares, Preferential Rights, Scrips and/or VVPR Strips so as to enable an investor to decide to purchase or subscribe for the New Shares, Preferential Rights, Scrips and/or VVPR Strips, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression ‘‘Prospectus Directive’’ means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading, and includes any relevant implementing measure in each Relevant Member State.

2.2.2 *Notice to investors in the United Kingdom*

For investors in the United Kingdom, this Prospectus is only being distributed to and is only directed at persons who are:

- outside the United Kingdom; or
- authorised persons within the meaning of the Financial Services and Markets Act 2002, as amended, and any order made thereunder;
- investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the ‘‘Order’’)
- high net worth entities falling within Article 49(2)(a) to (d) of the Order; or
- any other persons to whom it might otherwise be lawfully communicated (all such persons together being referred to as ‘‘Relevant Persons’’).

The New Shares, Preferential Rights, Scrips and VVPR Strips are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such New Shares, Preferential Rights, Scrips and VVPR Strips will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Prospectus or any of its contents. The crediting of Preferential Rights to the accounts of shareholders or other persons in the UK does not constitute an offer of New Shares to such persons.

2.2.3 *Notice to investors in the United States*

The New Shares, Preferential Rights, Scrips and VVPR Strips have not been and will not be registered under the Securities Act with the U.S. Securities and Exchange Commission (“SEC”) or with any securities regulatory authority of any state or other jurisdiction in the United States for offer or sale as part of their distribution. Neither the SEC nor any state securities commission nor any non-U.S. securities authority (except the CBFA) have passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States. The New Shares, Preferential Rights, Scrips and VVPR Strips may not be offered or sold in the United States or to, or for the account or benefit of, U.S. Persons (as that term is defined in Regulation S) unless the New Shares, the Preferential Shares and the Scrips are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The New Shares, the Preferential Rights and the Scrips are only being offered and sold in offshore transactions outside the United States in accordance with Regulation S.

2.2.4 *Notice to investors in Japan*

The New Shares, Preferential Rights, Scrips and VVPR Strips have not been and will not be registered under the Financial Instruments and Exchange Law (the ‘‘FIEL’’) and disclosure under the FIEL has not been and will not be made with respect to the New Shares, Preferential Rights, Scrips and VVPR Strips. Neither the New Shares, Preferential Rights, Scrips and VVPR Strips nor any interest therein may be offered, sold, resold or otherwise transferred, directly or indirectly, in Japan to or for the account of any resident of Japan. Accordingly, the New Shares, Preferential Rights, Scrips and VVPR Strips or any interest therein may not be offered or sold, directly or indirectly, in Japan or to, or for the account of, any resident thereof, except pursuant to an exemption from the registration requirements of the FIEL and otherwise in compliance with applicable provisions of Japanese law. As used in this paragraph, a ‘‘resident of Japan’’ means any person residing in Japan, any corporation or other entity organised under the laws of Japan except for its branches or other offices located outside Japan and, with respect to any corporation or other legal entity organised under a law other than Japanese law, its branches and offices located in Japan.

2.2.5 *Notice to investors in Australia*

This Prospectus is not a disclosure document under Chapter 6D of the Corporations Act 2001 (Cth) (the ‘‘Australian Corporations Act’’), has not been and will not be lodged with the Australian Securities and Investments Commission (“ASIC”) as a disclosure document for the purposes of the Australian Corporations Act and does not purport to include the information required of a disclosure document under Chapter 6D of the Australian Corporations Act. The New Shares, Preferential Rights, Scrips and VVPR Strips may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for or buy the New Shares, Preferential Rights, Scrips and VVPR Strips may be issued, and no draft or definitive Prospectus or other Offering related documents may be distributed in Australia except where disclosure to investors is not required under Chapter 6D of the Australian Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations.

2.3 PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Company has prepared two sets of audited financial statements as of and for the years ended 31 December 2009, 2008 and 2007. One set of audited statutory financial statements has been prepared in accordance with Belgian GAAP. The other set of financial statements incorporates the audited consolidated financial statements which have been prepared in accordance with IFRS, as endorsed by the EU (which statements have also been audited by the Company's Statutory Auditors).

The consolidated financial statements of the Company as of and for the year ended 31 December 2009, prepared in accordance with IFRS as endorsed by the EU, are included in this Prospectus. The consolidated financial statements of the Company as of and for the years ended 31 December 2008 and 31 December 2007, prepared in accordance with IFRS as endorsed by the EU, as well as the statutory financial statements of the Company prepared in accordance with Belgian GAAP, are incorporated in this Prospectus by reference (reference is made to the Company’s website: www.elia.be).

The Company’s Statutory Auditors’ report on the Company's consolidated financial statements as of and for the year ended 31 December 2009, prepared under IFRS, as endorsed by the EU, is included in this Prospectus. The Company’s Statutory Auditors’ report on the Company's consolidated financial statements as of and for the years ended 31 December 2008 and 31 December 2007, prepared under IFRS, as endorsed by the EU, and the Company's Statutory Auditors report on the Company's financial statements prepared under Belgian GAAP, are incorporated into this Prospectus by reference (reference is made to the Company’s website: www.elia.be).

The Prospectus includes an unaudited pro forma consolidated balance sheet and income statement of the Company (see section 12.7) (the “Unaudited Pro Forma Consolidated Financial Information”). The Unaudited Pro Forma Consolidated Financial Information has been prepared to illustrate the possible impact on the Company of the acquisition of 50Hertz. The Unaudited Pro Forma Consolidated Financial Information has been prepared in accordance with Annex II of the Commission Regulation (EC) No 809/2004 of 29 April 2004. Because of its nature, the Unaudited Pro Forma Consolidated Financial Information addresses a purely hypothetical situation. The Unaudited Pro Forma Consolidated Financial Information has been prepared as if the acquisition had occurred on 1 January 2009 (except as described elsewhere) and is based on the historical financial statements of the Company prepared under IFRS, for the year ended 31 December 2009, and the historical financial statements of 50Hertz and 50Hertz Offshore prepared under German GAAP for the year ended 31 December 2009 which have been restated to IFRS as applied by the Company, after giving effect to the acquisition of 50Hertz and subject to certain assumptions and adjustments as described in section 12.7.

The audited historical financial statements of 50Hertz and 50Hertz Offshore prepared under German GAAP for the year ended 31 December 2009 are filed in the German language and can be retrieved on http://www.ebundesanzeiger.de. and on the Company's website (www.elia.be) (together with a free translation in English). These audited historical financial statements and their translations are incorporated in this Prospectus by reference.

The Prospectus includes unaudited historical financial information for 50Hertz and 50Hert Offshore (consolidated income statement, balance sheet and cash flow statement) for the year ended 31 December 2009 prepared under IFRS (the "Unaudited Consolidated Financial Information under IFRS for 50Hertz for the year ended 31 December 2009"). These unaudited condensed consolidated income statement, balance sheet and cash flow statement present 50Hertz and 50Hertz Offshore on a consolidated basis and have been prepared as follows:

- the financial statements of 50Hertz and 50Hertz Offshore under German GAAP have been consolidated by the Company (since there is no obligation for 50Hertz to consolidate under German law) and certain assets and liabilities have been reclassified in order to be consistent with the balance sheet presentation of the Company;
- the historical unadjusted balance sheet of 50Hertz and the historical unadjusted balance sheet of 50Hertz Offshore, both prepared in accordance with German GAAP ("HBI") have been converted to IFRS, as endorsed by the EU, as applied by the Company.

Taking into account the range of information in respect of 50Hertz and 50Hertz Offshore that is already included or incorporated by reference in the Prospectus, the Prospectus does not include the audited historical financial statements for 50Hertz and 50Hertz Offshore prepared under German GAAP for the years ended 31 December 2008 and 31 December 2007, nor financial statements for 50Hertz and 50Hertz Offshore under IFRS for the years ended 31 December 2008 and 31 December 2007. Due to an overhaul of the regulatory framework in Germany and the carve-out of 50 Hertz out of the Vattenfall group in 2009, this financial information has limited comparability with the financial information in respect of 50Hertz and 50Hertz Offshore included in the Prospectus. Moreover, 50Hertz and 50 Hertz Offshore were not required to prepare financial statements under IFRS and such information did not exist at the time the Prospectus was prepared. Such information could not be prepared with reasonable efforts either.

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

2.4 FOREIGN CURRENCY INFORMATION

In this Prospectus, references to "EUR" or "€" are to the currency of the member states of the European Union participating in the European Monetary Union and references to "U.S. dollars" or "$" or "U.S.$" are to the currency of the United States.

2.5 THIRD PARTY INFORMATION

Certain information relating to markets and other industry data pertaining to the Company's business contained in this Prospectus has been obtained from industry sources and/or publicly available information. The main sources for industry information were industry publications, and other publicly available sources (such sources being indicated in this Prospectus). The Company accepts responsibility for having correctly reproduced information obtained from publications or public sources, and, so far as the Company is aware and has been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, the Company has not independently verified information obtained from industry and government sources. Certain other information in this Prospectus regarding the industry reflects the Company's best estimates based upon information obtained from trade and business organisations and associations and other contacts within the industry. Information from the Company's internal estimates and surveys has not been verified by any independent sources. When information has been derived from third parties, the Prospectus refers to such third parties.

The information contained in this Prospectus with regard to 50Hertz has been prepared solely through publicly available information and certain information made available by 50Hertz. The information contained in this Prospectus with regard to IFM has been prepared solely through publicly available information and certain information made available by IFM.

2.6 FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the heading "Summary" and sections 1, 10, 11 and 19. From time to time, the Company may make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning the Company's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditure, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, business strategy and the trends the Company anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as "believe", "anticipate", "estimate", "expect", "intend", "predict", "project", "could", "may", "will", "plan" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under section 1, as well as those included elsewhere in this Prospectus. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social, industry and legal environment in which the Company operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, other than as required by applicable laws, rules or regulations. The Company makes no representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

3 GENERAL INFORMATION AND INFORMATION CONCERNING RESPONSIBILITY FOR THE PROSPECTUS AND FOR AUDITING THE ACCOUNTS

3.1 RESPONSIBILITY FOR THE CONTENT OF THE PROSPECTUS

The Company, having its registered offices at Boulevard de l'Empereur 20, B-1000 Brussels, Belgium, represented by its Board of Directors, assumes responsibility for the content of this Prospectus. The Company declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to its knowledge, in accordance with the facts and contains no omission which would affect its import.

Neither of the Joint Global Coordinators and Bookrunners, nor their affiliates, nor any person acting on their behalf, is responsible for, nor are they making any representation or warranty, express or implied, concerning the Company's future performance or the accuracy or completeness of this Prospectus.

This Prospectus is intended to provide information to potential investors in the context of and for the sole purpose of evaluating a possible investment in the New Shares in the Offering. It does not express any commitment or acknowledgement or waiver and does not create any right expressed or implied to anyone other than a potential investor. It cannot be used except in connection with the Offering.

3.2 STATUTORY AUDITORS

Ernst & Young Réviseurs d'Entreprises / Bedrijfsrevisoren, a civil company having the form of a cooperative company with limited liability (*société civile coopérative à responsabilité limitée / burgerlijke coöperatieve vennootschap met beperkte aansprakelijkheid*) organised and existing under the laws of Belgium, with registered office at De Kleetlaan 2, B-1831 Diegem, represented by Jacques Vandernoot and Klynveld Peat Marwick Goerdeler Bedrijfsrevisoren / Réviseurs d'Entreprises, a civil company having the form of a cooperative company with limited liability (*société civile coopérative à responsabilité limitée / burgerlijke coöperatieve vennootschap met beperkte aansprakelijkheid*) organised and existing under the laws of Belgium, with registered office at Bourgetlaan 40, B-1130 Brussels, represented by Alexis Palm, have been re-appointed as Statutory Auditor of the Company on 13 May 2008 for a term of three years ending immediately after the closing of the General Shareholders' Meeting to be held in 2011 that will have deliberated and resolved on the statutory financial statements for the financial year ended on 31 December 2010. Ernst & Young Réviseurs d'Entreprises / Bedrijfsrevisoren BCVBA and Klynveld Peat Marwick Goerdeler Réviseurs d'Entreprises / Bedrijfsrevisoren CVBA are both member of the Belgian Institute of Certified Auditors (*Institut des Réviseurs d'Entreprises / Instituut van de Bedrijfsrevisoren*).

The statutory financial statements of the Company as per 31 December 2009, 31 December 2008 and 31 December 2007, in each case for the financial years then ended, were prepared in accordance with generally accepted accounting principles in Belgium ("Belgian GAAP") and have been audited by the Company's joint statutory auditors, who delivered unqualified opinions, with emphasis of matter.

All of the financial statements prepared in accordance with IFRS, as endorsed by the EU, have been audited by the Company's joint statutory auditors, who delivered unqualified opinions, with emphasis of matter.

3.3 APPROVAL OF THE PROSPECTUS

On 3 June 2010, the CBFA approved the English version of this Prospectus for the purposes of the public offering in Belgium and the listing of the New Shares and VVPR Strips on Euronext Brussels in accordance with Article 23 of the Prospectus Law. The CBFA's approval does not imply any judgement on the merits or the quality of the Offering, the New Shares, the VVPR Strips or the Company.

This Prospectus has been prepared in English, and was translated in Dutch and in French. The Company is responsible for verifying the consistency between the English, Dutch and French versions of this Prospectus. In connection with the public offering in Belgium, both the English, French and Dutch versions of this Prospectus are legally binding. Without prejudice to the foregoing, in connection with the public offering in Belgium, in case of inconsistencies between the various language versions, the English version shall prevail.

The Offering and this Prospectus have not been submitted for approval to any supervisory body or governmental authority outside Belgium.

3.4 AVAILABLE INFORMATION

3.4.1 *Prospectus*

This Prospectus is available in Dutch, French and English. This Prospectus will be made available to investors at no cost at the registered office of the Company, at Boulevard de l'Empereur 20, B-1000 Brussels, Belgium and can be obtained upon request from KBC Telecenter on the phone number +32 (0)3 283 29 70, from the CBC Banque Telecenter on the phone number 0800 92 020, from ING on the phone number +32 (0) 2 464 60 04 (English), +32 (0) 2 464 60 01 (Dutch) or +32 (0) 2 464 60 02 (French), from Dexia on the toll-free phone number 0800 92 478 (in Belgium only) and Fortis Bank on the phone number +32 (0)2 433 40 32 (French) and +32 2 433 40 31 (Dutch). Subject to certain conditions, this Prospectus is also available, on the internet at the following websites: www.elia.be, www.kbc.be, www.kbcsecurities.com, www.bolero.be, www.ing.be, www.dexia.be, www.fortisbanking.be/saveandinvest (English version), www.fortisbanking.be/sparenenbeleggen (Dutch version) and www.fortisbanking.be/epargneretplacer (French version).

Posting this Prospectus and the summary on the internet does not constitute an offer to purchase or a solicitation of an offer to sell, and there shall not be any offer, solicitation or sale of any of the New Shares, Preferential Rights, Scrips or VVPR Strips in the United States or in any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to its registration or qualification under the laws of such jurisdiction or to or for the benefit of any person to whom it is unlawful to make such offer, solicitation or sale. The electronic version may not be copied, made available or printed for distribution. Other information on the website of the Company or any other website does not form part of this Prospectus.

3.4.2 *Company documents and other information*

The Company must file its (amended and restated) Articles of Association and all other deeds that are to be published in the Annexes to the Belgian Official Gazette with the clerk's office of the Commercial Court of Brussels (Belgium), where they are available to the public. A copy of the most recently restated Articles of Association and the Company's corporate governance charter is also available on the Company's website.

In accordance with Belgian law, the Company must prepare annual audited statutory financial statements in accordance with Belgian GAAP and annual audited consolidated financial statements in accordance with IFRS, as endorsed by the EU. The statutory and consolidated financial statements and the reports of the Board of Directors and of the Statutory Auditors relating thereto are filed with the Belgian National Bank, where they are available to the public.

Furthermore, as a listed company, the Company must publish summaries of its annual and semi-annual consolidated financial statements prepared under IFRS, as endorsed by the EU as well as its condensed annual statutory financial statements prepared under Belgian GAAP. The Company in the context of its ongoing reporting requirements after the Offering will continue focusing discussion on the consolidated financial statements prepared in accordance with IFRS, as endorsed by the EU. These summaries will generally be made publicly available in the financial press in Belgium in the form of a press release. Copies thereof will also be available on the Company's website. The Company also has to disclose price sensitive information, information about its shareholders' structure, and certain other information to the public. In accordance with the Belgian Royal Decree of 14 November 2007 relating to the obligations of issuers of financial instruments admitted to trading on a Belgian regulated market (as amended from time to time) (*Arrêté royal du 14 novembre 2007 relatif aux obligations des émetteurs d'instruments financiers admis à la négociation sur un marché réglementé / Koninklijk Besluit van 14 november 2007 betreffende de verplichtingen van emittenten van financiële instrumenten die zijn toegelaten tot de verhandeling op een Belgische gereglementeerde markt*), such information and documentation will be made available through press releases, the financial press in Belgium, the Company's website, the communication channels of Euronext Brussels or a combination of these media.

Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC has been implemented in Belgian law by, *inter alia*, the Belgian Law of 2 May 2007 on the disclosure of large shareholdings in issuers whose securities are admitted to trading on a regulated market (*Loi relative à la publicité des participations importantes dans des émetteurs dont les actions sont admises à la négociation sur un marché réglementé et portant des dispositions diverses / Wet op de openbaarmaking van belangrijke deelnemingen in emittenten waarvan aandelen zijn toegelaten tot de verhandeling op een gereglementeerde markt en houdende diverse bepalingen*) (the "Transparency Law") and the Belgian Royal Decree of 14 February 2008 on the disclosure of large shareholdings (*Arrêté Royal relatif à la publicité des participations importantes / Koninklijk Besluit op de openbaarmaking van belangrijke deelnemingen*) (the "Transparency Royal Decree").

Pursuant to Article 66 of the Prospectus Law, each year, at the latest 20 Business Days after the Company has made public its annual statutory financial statements, it will also make public a document containing all information or referring to all information which the Company has published or otherwise made available to the public in the preceding 12 months in the EEA or in other countries pursuant to supra-national and national legislation relating to the rules governing securities, corporate law, the rules governing issuers and security markets. If such document refers to information which has been made public, it will indicate where such information may be obtained.

The Company's website address is www.elia.be.

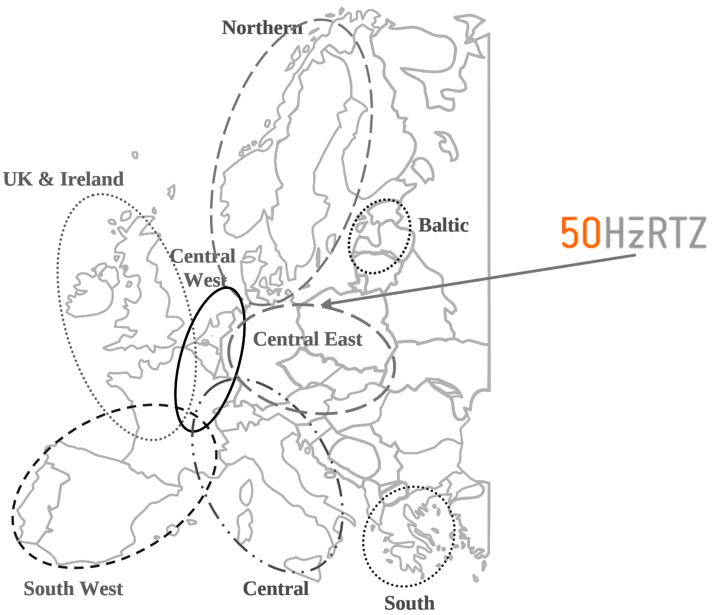
4 RATIONALE OF THE OFFERING AND USE OF PROCEEDS

4.1 THE ACQUISITION OF 50HERTZ AND ITS RATIONALE

The principal purpose of this Offering is to refinance Elia's equity part (60%) in the joint acquisition by Elia and IFM of the shares of the German transmission network operator 50Hertz from Vattenfall, which was announced on 12 March 2010. As a result of this transaction, Elia acquired and controls 60% of the shares of 50Hertz, while IFM acquired and controls the remaining 40%. The acquisition included all of the shares of 50Hertz, including its 100% subsidiary 50Hertz Offshore GmbH ("50Hertz Offshore") and two minority shareholdings, *i.e.* European Market Coupling Company GmbH (12.5%) and Central Allocation Office GmbH (20%). The transaction was closed on 19 May 2010.

The acquisition of 50Hertz and the further consolidation of networks it entails fit one of the corner stones of the Company's long-term strategy given that national power markets in Europe will evolve in an accelerating pace towards European regional power markets. Elia believes that European TSOs will progressively perform most of their 380-220kV network activities on a European regional basis with respect to all time scales involved: from planning and development of new infrastructures through to daily operation. Given this context, Elia has taken several initiatives over the last years to enforce its role within the CWE area. The acquisition of 50Hertz is a significant step in Elia's strategy to reinforce its position in the CWE region.

50Hertz is at the crossroads of four regional market areas: Central West Europe, Central East Europe, Central Europe and Northern Europe.



The acquisition is expected to offer the following benefits for Elia and its stakeholders:

Consolidate the creation of shareholder value

The subsidiarity principle included in the European regulatory framework applies to the setting and/or approval of transmission tariffs. As a result, TSOs are still governed by national laws and regulation, which results in different approaches in terms of tariff regulation. Therefore, the acquisition of 50Hertz is expected to diversify the regulatory risk of the Company. The earnings of 50Hertz - defined by the German regulatory scheme - will contribute to the Company's earnings. In both the Belgian and German tariff regulations, an potential for efficiency outperformance is allowed. Moreover, in the case of 50Hertz, the tariff regulation favours expansion and restructuring network investments, by considering these as pass-through costs under investment budget treatment (provided they are recognised as such by the regulator) .

Strengthen Elia's role within the CWE market and the future EU network integration

The acquisition of 50Hertz has the potential to strengthen the Company's role in the future CWE electricity market. By strengthening its presence in this wide geographical area, representing more than 40% of the internal electricity market, the Company will be better positioned to influence and to take part in the major investment decisions in this area. This will in turn contribute to reliable network operation and long-term security of supply for the whole area served by Elia and 50Hertz.

The collaboration between Elia and 50Hertz and their respective strategic geographical positions will facilitate the further extension of market coupling towards Northern and Eastern Europe. The Company is also expected to be better positioned to design and implement common rules for a good functioning of the wholesale electricity markets in the choir of European TSOs. This acquisition is expected to stimulate the creation of a truly European network.

Further improving operational excellence

Elia and 50Hertz started in 2007 a cooperation agreement to exchange knowledge and best practices recognising the complementary nature of their expertise as well as their commitment towards a regional coordination of their networks so as to improve the overall reliability in Central Europe. Following the acquisition, the closer collaboration between both companies should also enhance the selection of common standards and the sharing of experience and resources. In addition, the acquisition offers opportunities for efficiency gains such as the pooling of purchase and the development of market tools for their customers.

Contribute to the integration of renewable energy sources

Further future integration of the European network should give market players in Belgium and Germany a secure access to a larger and greener energy mix, hence reinforcing security of supply, while simultaneously increasing system security in a context where international electricity flows and variable generation constantly increase. The acquisition of 50Hertz is expected to enhance Elia's access to a reliable and diversified mix of generation capacity composed of green electricity from offshore and onshore renewables as well as traditional generation units with different technologies and maturity levels. Elia together with 50Hertz intends to further develop its innovative edge in the European electricity market and actively participate in the integration of large-scale renewable energy sources, such as offshore and onshore wind energy. Due to the presence of Elia at the lower part of the shores of the North Sea and of 50Hertz at the upper part of the shores of the North Sea and Baltic Sea, both TSOs are ideally located at both ends of the future North Sea grid as well as at one side of the future Baltic Sea grid. While 50Hertz is already operating its high voltage network with a major amount of wind farms onshore, Elia is reinforcing its network towards the seaside for the connection of future large scale offshore generation projects announced by the Belgian government.

4.2 USE OF PROCEEDS

If the Offering is fully subscribed, the gross proceeds from the issue of New Shares are estimated to be approximately EUR 300 million. The principal purpose of this Offering is to refinance Elia's equity part (60%) of EUR 278.8 million in the acquisition of 50Hertz by reimbursing the bridge loan entered into for the purposes of the acquisition (see section 12.6.1).

The Company intends to use the net proceeds from the issue of New Shares (*i.e.* after commissions and offering expenses payable by the Company have been deducted) to (in order of importance):

- Refinance Elia's equity part (60%) in the acquisition of 50Hertz;
- Finance general capital expenditure programmes; and
- Satisfy working capital needs and general corporate purpose needs.

For estimates on the costs and expenses of the Offering, see section 5.7.

As of the date of this Prospectus, the Company cannot predict with certainty all of the particular uses for the balance of proceeds from the issue of New Shares after the reimbursement of the bridge loan, or the amounts that it will actually spend on or allocate to the capital expenditure programmes, working capital and/or general corporate purposes. The amounts and timing of the Company's actual expenditures will depend upon numerous factors. The Company's management will have significant flexibility in applying the balance of net proceeds from the issue of the New Shares and may change the allocation of these proceeds as a result of these and other contingencies.

The Company has the right to proceed with a capital increase in a reduced amount, with no minimum amount set for the Offering. In the case that the Company would proceed with the capital increase in a reduced amount, the Company might have to reduce its level of investment or look for further external funding in order to fund the above proposed uses.

5 INFORMATION ON THE OFFERING

5.1 DECISIONS WITH REGARD TO THE OFFERING

The extraordinary General Shareholders' Meeting of 11 May 2010 decided to increase the capital of the Company with an amount of up to EUR 300 million (including issue premium) against the issue of the New Shares, subject to the closing of the private placement or the public offering of the New Shares. The extraordinary General Shareholders' Meeting also decided to cancel the preferential subscription right of the Existing Shareholders, but decided that the optimal placement of the shares should be reconciled with a priority for the Existing Shareholders, either by using the technique of priority allocation rights or by using extra-legal or synthetic preferential rights or by any other means. The Board of Directors was granted the power to (i) determine the subscription period, (ii) determine the issue price and the number of shares to be issued for the capital increase, (iii) determine the structure of the offering and, as the case may be, the rules for the allocation of the shares, (iv) establish that the conditions precedent of the offering had been satisfied and to have the realisation of the capital increase enacted by notary deed and adapt the Articles of Association accordingly.

In accordance with Article 596 of the Belgian Company Code, the Board of Directors has prepared a report with respect to the cancellation of the statutory preferential subscription right of the Existing Shareholders. In accordance with Article 582 of the Belgian Company Code, the Board of Directors also prepared a report with respect to the potential issue of shares below the fractional value of the Existing Shares. The Statutory Auditors of the Company also prepared a report with respect to the same in accordance with Articles 596 and 582 of the Belgian Company Code.

In accordance with the decision of the extraordinary General Shareholders' Meeting of 11 May 2010 that the optimal placement of the shares should be reconciled with a priority for the Existing Shareholders, the Board of Directors has decided to grant to the shareholders an extra-legal preferential subscription right subject to the terms set forth below in section 5.2.1.1 (the "Preferential Rights"). The extra-legal preferential subscription right is structured in a way that it allows the Existing Shareholders of the Company to exercise or sell their right to preferentially subscribe for the New Shares on substantially the same terms and during the same period of time as if the Offering had been made observing the ordinary preferential subscription right as provided for in Article 592-593 of the Belgian Companies Code. The decision of the Board of Directors to grant an extra-legal preferential right, rather than an ordinary preferential subscription right (as part of a capital increase using the authorised capital), allows the Company to complete the Offering within the first half year of 2010, to reduce the risk of adverse market developments having a negative impact on the Offering and to limit additional costs relating to the bridge financing entered into in the context of the acquisition of 50Hertz.

On 3 June 2010, the Board of Directors, in consultation with the Joint Global Coordinators and Bookrunners, determined the Issue Price, the effective numbers of New Shares to be offered, the Ratio and the Rights Subscription Period as set out in this Prospectus.

5.2 TERMS AND CONDITIONS OF THE OFFERING

5.2.1 *Conditions governing the Offering*

5.2.1.1 Preferential Rights

The Preferential Rights will be represented by coupon nr. 6 of the Existing Shares. The Preferential Rights will be separated from the Existing Shares on 3 June 2010 after market close on Euronext Brussels and will be negotiable during the entire Rights Subscription Period on Euronext Brussels under the ISIN code BE0970113164.

Existing Shareholders and holders of Preferential Rights can in an irreducible way subscribe to the New Shares in the ratio of 1 New Share for 4 Preferential Rights held in their possession.

5.2.1.2 VVPR Strips

Each New Share will be accompanied by one VVPR Strip which enables their holders, subject to certain conditions, to benefit from a reduced Belgian withholding tax rate of 15% instead of 25%. The VVPR Strips are traded on the regulated market of Euronext Brussels separately from the shares.

5.2.1.3 Revocation or suspension of the Offering

The Company has a right to proceed with a capital increase in a reduced amount. The actual number of the New Shares subscribed for will be confirmed in the Belgian Financial Press.

5.2.2 *Amount of the capital increase*

If all New Shares are subscribed to, the total amount of the capital increase (including issue premium) will be EUR 299,361,866.40 million.

5.2.3 *Issue Price and Ratio*

The Issue Price is equal to EUR 24.80 per New Share.

The holders of Preferential Rights can subscribe to the New Shares in the Ratio of 1 New Share for 4 Preferential Rights.

The Issue Price represents a discount to the closing price of 2 June 2010 of 5.5%.

5.2.4 *Subscription periods and procedure*

5.2.4.1 Rights Offering

The Rights Subscription Period shall be from 4 June 2010 up to and including 18 June 2010, 4 P.M. CET.

5.2.4.2 Subscription procedure

The Preferential Rights, represented by coupon nr. 6 of the Existing Shares, will be separated from the underlying Shares on 3 June 2010 after the closing of the regulated market of Euronext Brussels:

(i) Existing Shareholders whose holding of Shares is registered in the share register of the Company, will receive, at the address indicated in the share register, a letter from the Company informing them of the aggregate number of Preferential Rights to which they are entitled and of the procedures that they must follow to exercise or trade their Preferential Rights.
(ii) Existing Shareholders who hold dematerialised Shares (a securities account) will automatically be allocated a corresponding number of Preferential Rights in the securities account they hold with their bank. They will, in principle, be informed by their financial institution of the procedure that they must follow to exercise or trade their Preferential Rights.
(iii) Existing Shareholders holding bearer Shares are invited without delay to submit their Shares, coupon nr. 6 and following attached, to ensure that dematerialisation proceedings can be performed to participate in the Rights Offering. When submitting the Shares and/or the coupons, the Existing Shareholders may be requested to open a securities account, and, as the case may be, a cash account.

Subject to restrictions under applicable securities laws (see section 2.2 and section 5.3) Existing Shareholders and investors holding Preferential Rights can, during the Rights Subscription Period, irreducibly subscribe to the New Shares free of charge directly at the counters of the Joint Global Coordinators and Bookrunners and Selling Agents in Belgium if they have a client account there, or indirectly through any other financial intermediary. Subscribers should inform themselves about any costs that these other financial intermediaries might charge and which they will need to pay themselves. At the time of subscription, the subscribers should remit a corresponding number of Preferential Rights per subscribed share in accordance with the Ratio.

5.2.4.3 Trading of Preferential Rights

During the Rights Subscription Period, the Preferential Rights can be traded on Euronext Brussels. Existing Shareholders and investors who hold Preferential Rights, but who do not hold the exact number of Preferential Rights to subscribe to a round number of New Shares, may elect

(i) to purchase the missing number of Preferential Rights on Euronext Brussels in order to be able to subscribe to one additional New Share; or
(ii) to sell their extra number of Preferential Rights; or
(iii) not to take any action pending the receipt of the Net Scrips Proceeds, (if any).

Preferential Rights can no longer be exercised or traded after 18 June 2010, 4 P.M. CET, the Closing Date of the Rights Offering.

An announcement of the results of the subscription with Preferential Rights will be made by a press release before market opening on or about 22 June 2010. Such press release shall be considered as a supplement to this Prospectus insofar as this Prospectus is to be considered a prospectus for the admission to trading of the New Shares.

5.2.4.4 Scrips Private Placement

At the Closing Date of the Rights Subscription Period, the unexercised Preferential Rights will be automatically converted into an equal number of Scrips and these Scrips will be sold to Institutional Investors by way of a private placement. Through such a procedure, a book of demand will be built to find a single market price for the Scrips. Investors who acquire Scrips irrevocably commit to exercise the Scrips and thus to subscribe to the corresponding number of New Shares at the Issue Price and in accordance with the Ratio.

The Scrips Private Placement is expected to last for one day and is expected to take place on 22 June 2010.

The Scrips Private Placement will only take place if not all of the Preferential Rights have been exercised during the Rights Subscription Period.

The net proceeds from the sale of Scrips (rounded down to a whole Eurocent per unexercised Preferential Right) after deducting expenses, charges and all forms of expenditure which the Company has to incur for the sale of the Scrips (the "Net Scrips Proceeds"), if any, will be distributed proportionally between all holders of Preferential Rights who have not exercised them. The Net Scrips Proceeds will be published in the Belgian Financial Press and made available to the Existing Shareholders upon presentation of coupon nr. 6. There is, however, no assurance that any or all Scrips will be sold during the Scrips Private Placement or that there will be any Net Scrips Proceeds. Neither the Company nor the Underwriters nor any other person procuring a sale of the Scrips will be responsible for any lack of Net Scrips Proceeds arising from the sale of the Scrips in the Scrips Private Placement.

If the Net Scrips Proceeds are less than EUR 0.05 per coupon nr. 6, the holders of Preferential Rights who have not exercised them are not entitled to receive any payment and, instead, the Net Scrips Proceeds will be transferred to the Company. If the Company announces that Net Scrips Proceeds are available for distribution to holders of unexercised Preferential Rights and such holders have not received payment thereof within a reasonable time following the closing of the Scrips offering, such holders should contact their financial intermediary, except for registered shareholders who should contact the Company.

The results of the subscription with Preferential Rights and with Scrips, the results of the sale of Scrips and the amount due to holders of unexercised Preferential Rights will be published on or about 23 June 2010 via an official advertisement in the Belgian Financial Press.

5.2.4.5 Rules for subscription

Subject to the Ratio, there is no minimum or maximum number of New Shares that may be subscribed to pursuant to the Rights Offering.

Investors should be aware that all Shares they have subscribed to will be fully allocated to them. All subscriptions are binding and irrevocable, except as described in section 5.2.5.1.

Subscriptions through the exercise of Preferential Rights cannot be reduced.

5.2.5 *Publications in respect of the Offering*

5.2.5.1 Supplement to the Prospectus

The Company will update the information provided in this Prospectus by means of a supplement hereto if a significant new factor that may affect the evaluation of the Offering by prospective investors occurs prior to the Closing Date of the Offering, or, as the case may be, prior to the start of the trading of the New Shares on Euronext Brussels. Any prospectus supplement will be subject to approval by the CBFA and will be published in the Belgian Financial Press.

If a supplement to the Prospectus is published on or prior to the Closing Date of the Rights Offering, subscribers in the Rights Offering shall have the right to withdraw their subscriptions made prior to the publication of the supplement. If a supplement to the Prospectus is published during the Scrips Private Placement, subscribers in the Scrips Private Placement shall have the right to withdraw their subscriptions made prior to the publication of the supplement. Such withdrawal must be done within the time limits set forth in the supplement (which shall not be shorter than two business days after publication of the supplement). If, however, a supplement to the Prospectus is published in relation to the termination of the Underwriting Agreement, subscriptions in the Rights Offering and subscriptions in the Scrips Private Placement will automatically be withdrawn.

Subscribers withdrawing their subscription after the close of the Scrips Private Placement shall nevertheless be deemed to have exercised their Preferential Rights or Scrips and, accordingly, will not share in the Net Scrips Proceeds and will not be compensated in any other way, including the purchase price (and any related cost) paid in order to acquire any Preferential Rights or Scrips.

5.2.5.2 Results of the Offering

The results of the subscription with Preferential Rights will be made public by a press release before the market opening on or about 22 June 2010.

The results of the subscription with Preferential Rights and with Scrips, the results of the sale of Scrips and the payment of the Net Scrips Proceeds, will be published on or about 23 June 2010 via an official advertisement in the Belgian Financial Press.

5.2.6 *Payment and delivery of the New Shares*

The payment for the New Shares subscribed to with Preferential Rights will be made by debiting the subscriber's account on the Payment Date of 25 June 2010. The payment for the New Shares subscribed to in the Scrips Private Placement will be made by delivery against payment on the Payment Date.

The New Shares and VVPR Strips will be delivered in the form of dematerialised securities (booked in the securities account of the subscriber), or as registered securities recorded in the Company's shareholder register at the choice of the subscriber indicated at the time of subscription.

5.2.7 *Dividend entitlement*

The New Shares will be entitled to a share in the results of the financial year that ends on 31 December 2010 and of the following years.

5.2.8 *Expected timetable of the Offering*

Detachment of coupon nr. 6 (representing the extra-legal Preferential Right) after closing of the markets	T	3 June 2010
Availability to the public of the Prospectus	T+1	4 June 2010
Trading of Shares ex-Right	T+1	4 June 2010
Opening of Rights Subscription Period	T+1	4 June 2010
Listing of the Preferential Rights on Euronext Brussels	T+1	4 June 2010
Closing Date of the Rights Subscription Period	T+15	18 June 2010

End of listing of the Preferential Rights on Euronext Brussels	T+15	18 June 2010
Announcement via press release of the result of the subscription with Preferential Rights	T+19	22 June 2010
Accelerated private placement of the Scrips	T+19	22 June 2010
Allocation of the Scrips and the subscription with Scrips	T+19	22 June 2010
Publication of the results of the subscription with Preferential Rights and with Scrips and the Net Scrip Proceed (if any) due to holders of coupons nr. 6 via an official announcement in the Belgian Financial Press	T+20	23 June 2010
Payment Date for the subscribers	T+22	25 June 2010
Realisation of the capital increase	T+22	25 June 2010
Delivery of the New Shares with VVPR Strips to the subscribers	T+22	25 June 2010
Listing of the New Shares and of the VVPR Strips on Euronext Brussels	T+22	25 June 2010
Payment to holders of non-exercised Preferential Rights	T+25	28 June 2010

The Company may amend the dates and times of the share capital increase and periods indicated in the above timetable and throughout the Prospectus. If the Company decides to amend such dates, times or periods, it will notify Euronext Brussels and inform investors through publication in the Belgian Financial Press. Any material alterations to this Prospectus will be published in a press release and as a supplement to this Prospectus in the Belgian Financial Press and on the website of the Company.

5.3 PLAN OF DISTRIBUTION AND ALLOCATION OF THE SECURITIES

5.3.1 *Categories of potential investors*

The public offering of New Shares in the Rights Offering will only be open to the public in Belgium.

The Rights Offering is made on the basis of extra-legal Preferential Rights that are allocated to all Existing Shareholders of the Company.

Subject to the applicable securities regulations, the following categories of investors are able to subscribe to the New Shares: (i) the initial holders of Preferential Rights; (ii) persons outside the United States who have acquired Preferential Rights on Euronext Brussels during the Rights Subscription Period; and (iii) Institutional Investors who have acquired Scrips in the context of the Scrips Private Placement.

The Preferential Rights are granted to all Existing Shareholders on 3 June 2010, after the closing of Euronext Brussels, and may only be exercised by Shareholders who can lawfully do so under any law applicable to those Shareholders. The New Shares are being offered only to holders of Preferential Rights to whom such offer can be lawfully made under any law applicable to those holders. The Company has taken all necessary actions to ensure that Preferential Rights, and New Shares to be issued upon the exercise of Preferential Rights, may be lawfully exercised and offered to the public (including Existing Shareholders and holders of Preferential Rights) in Belgium. The Company has not taken any action to permit any offering of Preferential Rights or New Shares to be issued upon the exercise of Preferential Rights (including a public offering to Existing Shareholders or holders of Preferential Rights) in any other jurisdiction.

The offer of New Shares to persons resident in, or who are citizens of, jurisdictions other than Belgium (''Non-Belgian Persons'') may be affected by the law of such other jurisdictions. No action has been or will be taken in any jurisdiction other than Belgium, where action for that purpose is required, which would permit a public offering of the Preferential Rights or the New Shares or the possession, circulation or distribution of this Prospectus or any material relating to the Preferential Rights or the New Shares offered hereby. Accordingly, none of the Preferential Rights or the New Shares may be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the New Shares may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction. Receipt of this Prospectus or any other material concerning the Offering does not, and will not, constitute an offer of Preferential Rights or New Shares in the United States or in such other jurisdictions in which it would not be permissible to make an offer of the Preferential Rights or New Shares.

The New Shares may not be directly or indirectly offered or sold, and the Preferential Rights may not be directly or indirectly exercised or otherwise offered or sold, and the Scrips may not be directly or indirectly exercised or otherwise offered or sold in any other jurisdiction outside Belgium unless such offering, sale or exercise is permitted under applicable laws of the relevant jurisdiction, and the Company and the Joint Global Coordinators and Bookrunners may require receipt of satisfactory documentation to that effect. Due to such restrictions under applicable laws, the Company expects that some or all investors residing in the United Kingdom, the United States, Japan, Australia and other jurisdictions outside Belgium may not be able to exercise the Preferential Rights or subscribe for the New Shares.

Non-Belgian Persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any formalities to enable them to exercise their Preferential Rights.

The Scrips Private Placement will only take place by way of an exempt private placement in Belgium, the European Economic Area and Switzerland.

The distribution of this Prospectus, the acceptance, sale, purchase or exercise of Preferential Rights, the purchase and the exercise of Scrips and the subscription for and acquisition of New Shares may, under the laws of certain countries other than Belgium, be governed by specific regulations. Individuals in possession of this Prospectus, or considering the acceptance, sale, purchase or exercise of Preferential Rights, the purchase or exercise of Scrips or the subscription for, or acquisition of, New Shares, must inquire about those regulations and about possible restrictions resulting from them, and comply with those restrictions. Intermediaries cannot permit the acceptance, sale or exercise of Preferential Rights, the purchase or exercise of Scrips or the subscription for, or acquisition of, New Shares, for clients whose addresses are in a country where such restrictions apply.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Preferential Rights, the Scrips and New Shares to which they relate or an offer to sell or the solicitation of an offer to buy Preferential Rights, Scrips or New Shares in any circumstances in which such offer or solicitation is unlawful.

5.3.2 *Intentions of the Existing Shareholders*

Publi-T has confirmed to the Company that it shall entirely use its Preferential Rights and subscribe to the Offering *pro rata* to the number of shares held by Publi-T in the Company, in order to avoid any dilution of its current shareholding in the Company.

Publipart has confirmed to the Company that it shall entirely use its Preferential Rights and subscribe to the Offering *pro rata* to the number of shares held by Publipart in the Company, in order to avoid any dilution of its current shareholding in the Company.

Arco Group (being the companies Arcopar CVBA, Arcoplus CVBA, Arcofin CVBA, Auxipar NV, Arcosyn NV en Interfinance CVBA) has confirmed to the Company that it has the intention to subscribe to the Offering *pro rata* to the number of shares held by Arco Group in the Company. The final decision will be taken by the competent bodies of each of the relevant companies of the Arco Group, once all elements of the transaction and their impact on the financial situation of the relevant companies are known and to the extent that it appears that the subscription is economically and financially justified for the relevant company.

5.4 PLACING AND UNDERWRITING

The Company and the Joint Global Coordinators and Bookrunners expect (but have no obligation) to enter into an Underwriting Agreement, which is expected to take place on or about 22 June 2010.

Subject to the terms and conditions to be set forth in the Underwriting Agreement, each of the Underwriters, severally and not jointly, agree to underwrite the Rights Offering by procuring payment for all New Shares taken up in the Offering, excluding the New Shares that certain Existing Shareholders have committed to take up pursuant to their take-up commitments (as set out in section 5.3.2).

Subject to the terms and conditions to be set forth in the Underwriting Agreement, the Underwriters will severally agree to underwrite the following percentage of underwritten shares:

Underwriter	Underwriting commitment (%)
KBC Securities NV	25%
ING Belgium NV	25%
BNP Paribas SA[3]	25%
Dexia Bank België NV	25%

The Underwriters will be under no obligation to purchase any New Shares prior to the execution of the Underwriting Agreement (and then only on the terms and subject to the conditions set out therein).

The Underwriting Agreement will provide that the Underwriters will have the right to terminate the Underwriting Agreement before the completion of the share capital increase in relation to the Rights Offering and the Scrips Private Placement and the listing and delivery to subscribers of the New Shares subscribed with Rights and with Scrips upon: (i) non satisfaction of the conditions precedent set out in the Underwriting Agreement, (ii) failure of the Company to comply with its material obligations under the Underwriting Agreement, (iii) breach of any of the representations and warranties of the Company in any material respect, (iv) a material adverse change affecting the condition of the Company, (v) other specific circumstances described in the Underwriting Agreement. If the Underwriting Agreement is terminated in accordance with its terms, the Underwriters shall be released from their obligation to subscribe to any underwritten New Shares. If the Underwriting Agreement is terminated, Elia shall publish a prospectus supplement that will be subject to approval by the CBFA in which case subscription to the Rights Offering and subscription to the Scrips Private Placement will automatically be withdrawn in accordance with section 5.2.5.1.

In the Underwriting Agreement, the Company will make certain representations, warranties and undertakings to the Underwriters and the Company will agree to indemnify the Underwriters against certain liabilities in connection with the Rights Offering.

5.5 LOCK-UP AND STANDSTILL AGREEMENTS

In the Underwriting Agreement, the Company will agree that, during a period from the date of the Underwriting Agreement to and including 180 days from the Closing Date, it will not, except with the prior written consent of the Underwriters, (i) issue or sell, or attempt to dispose of, or solicit any offer to buy any Shares, warrants or other securities or grant any options, convertible securities or other rights to subscribe for or purchase Shares or enter into any contract (including derivative transactions) or commitment with like effect or (ii) purchase any of its securities or otherwise reduce its share capital, except within the framework of employee incentive plans in line with past practice.

Publi-T has agreed that, during a period from 1 June 2010 until and including 90 days from the Closing Date, it will not (i) offer, sell, transfer, contract to sell, charge, lend, assign, grant any option to purchase or agree to offer, sell, transfer, contract to sell, charge, assign, grant any option to purchase or otherwise dispose of, directly or indirectly, any Shares (including new shares that Publi-T will subscribe to in the context of the Rights Offering) or any interests in any Shares (or any other securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares), (ii) enter into any transaction (including a derivative transaction) having an effect on the trading of the Shares similar to that of a sale, (iii) publicly announce any intention to do any of such things referred to in subclauses (i) or (ii) above, and (iv) procure that none of its affiliates shall do any of such things referred to in (i), (ii) or (iii) above. However, nothing in the foregoing will prohibit it from (i) accepting a public tender offer made to all or substantially all holders of Shares, or (ii) transferring Shares to a third party, provided that the transferee shall enter into similar lock-up arrangements with the Joint Global Coordinators and Bookrunners, or (iii) pledging any Shares in the context of one or more transactions aimed at financing or re-financing any acquisition or subscription by Publi-T of shares in the Company.

[3] For purposes of the Offering, BNP Paribas SA is using the brand name of Fortis Bank SA/NV being BNP Paribas Fortis.

5.6 ADMISSION TO TRADING AND DEALING ARRANGEMENTS

5.6.1 *Admission to trading and listing*

The coupon nr. 6, representing the Preferential Right, will be separated on 3 June 2010 after market closing on Euronext Brussels and will be negotiable on the regulated market of Euronext Brussels under ISIN code BE0970113164 during the Rights Subscription Period, *i.e.* from 4 June 2010 to 18 June 2010 inclusive.

The Existing Shares will therefore be traded ex-Rights as from 4 June 2010. Any sale of Shares prior to market closing on Euronext Brussels on 3 June 2010 and to be settled after 3 June 2010 will be settled "cum rights". Any Shares sold after the closing of the regulated market of Euronext Brussels on 3 June 2010 will be sold and settled "ex Rights".

A request for admission to trading on the regulated market of Euronext Brussels of the New Shares and the VVPR Strips has been submitted. The admission is expected to take place on 25 June 2010.

The New Shares will be listed and traded under ISIN code BE0003822393 and trading symbol ELI and the VVPR Strips under ISIN code BE0005597688 and trading symbol ELIS.

5.6.2 *Liquidity contract*

The Company has entered into a liquidity contract with KBC Securities NV and Bank Degroof SA.

5.6.3 *Financial service*

The financial services for the Shares of the Company (including the New Shares) are provided in Belgium by Dexia Bank, Fortis Bank, ING en KBC Bank. The costs of these financial services are borne by the Company. If the Company alters its policy in this matter, this will be announced in the Belgian Financial Press.

5.7 COSTS OF THE OFFERING

The costs related to the Offering have been estimated at approximately EUR 6 million and include, among other things, the fees due to the CBFA and Euronext Brussels (2.18%), the remuneration of the financial intermediaries, the costs of printing and translating the Prospectus, legal and administrative costs and publication costs (42.83%). The remuneration of the Underwriters has been determined at approximately EUR 3.3 million (55.00%).

The net proceeds of the Offering may therefore be estimated at a maximum of EUR 293.4 million.

5.8 DILUTION

There will be no dilution in terms of share capital participation and in terms of dividend rights for the Existing Shareholders of the Company as long as they exercise all their Preferential Rights.

The dilution for the Existing Shareholders (in percentage terms) who do not exercise any of their Preferential Rights can be calculated as follows: 20%, *i.e.*

$$\frac{(S - s)}{S}$$

S = total amount of Shares after the capital increase, *i.e.* 60.355.217

s = total amount of Shares before the capital increase, *i.e.* 48,284,174.

5.9 INTEREST OF NATURAL AND LEGAL PERSONS INVOLVED IN THE OFFERING

The Underwriters are expected to enter into an Underwriting Agreement with the Company on or about 22 June 2010.

Furthermore KBC Bank, Fortis Bank, ING Belgium, Dexia België (and their affiliates) have provided, and will in the future provide, various banking services to Elia (including in respect of the financing of the acquisition of 50Hertz and the financing of the activities of Eurogrid GmbH - see also section 12.6).

6 DIVIDENDS AND DIVIDEND POLICY

6.1 DIVIDENDS

As of 31 December 2009, the Company had reserves available for distribution of EUR 32,466,749.99, after payment of the dividend in respect of the fiscal year 2009 as mentioned below.

The Company paid gross dividends in the aggregate amount of EUR 62,480,203.50 (EUR 1.30 per share), EUR 65,865,420.13 (EUR 1.37 per share) and EUR 66,612,951.90 (EUR 1.38 per share) to its shareholders in respect of the fiscal years ended 31 December 2007, 2008 and 2009 respectively, in accordance with the dividend provisions of the Articles of Association (see section 6.2). Historical dividends and any implicit payout ratios are not necessarily indicative of future dividends or payout ratios.

The New Shares rank equally with all of the Company's outstanding ordinary shares for any dividends that may be declared and paid in respect of the fiscal year beginning 1 January 2010 and future fiscal years. Dividends in respect of the fiscal year 2009 have been declared at the annual General Shareholders' Meeting held on 11 May 2010 in a total amount of EUR 66,612,951.90 or EUR 1.38 per share.

Dividends per share	**2009**	**2008**	**2007**
Numbers of shares entitled to dividend	48,270,255	48,076,949	48,061,695
Dividend (EUR) per share	1.38	1.37	1.30
Total dividend	66,612,952	65,865,420	62,480,204

6.2 DIVIDEND POLICY

The calculation of amounts available to be distributed as dividends or otherwise distributed to shareholders must be made on the basis of the Belgian statutory financial statements, taking into account the limits set out by Article 617 of the Belgian Company Code. According to Article 617 of the Belgian Company Code, no dividend may be distributed if, at the date of the closing of the last financial year, the net assets as set forth in the statutory annual accounts are lower than the amount of the paid-up capital or, if this amount is higher, of the called capital, increased with all reserves which may not be distributed according to the law or the Articles of Association, or if the net assets would fall below this threshold as a result of such a distribution.

In accordance with the Belgian Company Code, Article 33 of the Articles of Association requires that the Company allocates, each year, at least 5% of its annual net profits to a legal reserve until this reserve reaches 10% of the Company's share capital. The Company's legal reserve currently amounts to EUR 51,424,043.56. In addition, in accordance with the Tariffs Decree (as defined in section 10.14), the Company is required to use part of the revenues generated by the inclusion in the tariffs of the depreciation resulting from the decommissioning of equipment, to fund future investments, and to book this into a special reserve account.[4] With regard to distributable profits over and above the required allocation to the legal reserve, the Articles of Association provide that 85% of the yearly profits available for distribution, or such higher percentage thereof as may be proposed by the Board of Directors, must be allocated for the payment of dividends, unless the shareholders decide otherwise at the General Shareholders' Meeting (it being understood that the holders of class A shares and class C shares must approve such decision).

Article 33 of the Articles of Association also authorises the Board of Directors to declare interim dividends subject to the terms and conditions of the Belgian Company Code.

Elia intends to maintain its dividend at its current level (subject to changes to the regulatory framework or developments in the market environment).

Future dividends will remain dependent upon the results of the Company, which are affected by a number of factors, including the evolution of long-term interest rates in Belgium, also factors outside the Company's control, and the foregoing does not constitute, nor should be construed as constituting, a commitment or guarantee by the Company as to the actual amount of such dividends.

[4] Reference is also made to footnote 18 in this respect.

7 CAPITALISATION AND INDEBTEDNESS – WORKING CAPITAL STATEMENT

7.1 WORKING CAPITAL STATEMENT

On the date of this Prospectus, the Company is of the opinion that, taking into account the available cash and cash equivalents, Elia has sufficient working capital to meet its present requirements and cover the working capital needs for a period of at least 12 months as of the date of the Prospectus.

7.2 CAPITALISATION AND INDEBTEDNESS

The table below sets forth Elia's cash and cash equivalents and capitalisation at 31 March 2010 (unaudited) and as at 31 December 2009 (audited). The figures for capitalisation and indebtedness have been extracted, without material adjustment, from Elia's unaudited consolidated financial statements prepared in accordance with IFRS, as endorsed by the EU, for the period ended 31 March 2010, and the audited consolidated financial statements prepared in accordance with IFRS, as endorsed by the EU, for the period ended 31 December 2009.

This information should be read in conjunction with the consolidated financial statements and the related notes thereto.

(million €)	31 March 2010 Unaudited	31 December 2009 Audited
Subscribed capital	1,207.6	1,207.3
Share premium account	8.5	8.5
Consolidated reserves	141.8	65.5
Profit of the period	21.6	84.0
Equity attributable to the equity holders of the Company	**1,379.5**	**1,365.4**
Non-controlling interest	1.8	1.7
Equity including non-controlling interest	**1,381.3**	**1,367.1**
Long-term debt		
GUARANTEED	0.0	0.0
Secured	0.0	0.0
Not guaranteed/not secured (1)	2,550.5	2,550.5
Total long term debt	**2,550.5**	**2,550.5**
Short term portion of long term debt		
Guaranteed	0.0	0
Secured	0.0	0
Not guaranteed/not secured (2)	100.1	68.4
Total short term portion of long term debt	**100.1**	**68.4**
Short term debt (without short term portion of long term debt)		
Guaranteed	0.0	0
Secured	0.0	0
Not guaranteed/not secured	0.0	0
Total short term debt (without short term portion of long-term debt)	**0.0**	**0.0**
Total short term debt (3)	**100.1**	**68.4**
Total financial debt	**2,650.6**	**2,618.9**
Cash and cash equivalents	**294.4**	**174.6**
Net current financial debt (4)	**(194.3)**	**(106.1)**
Net non-current financial debt (5)	**2,256.1**	**2,375.9**
Net financial debt (6)	**2,356.2**	**2,444.4**

Notes

Capitalisation and indebtedness as at 31 March 2010 does not reflect the capital increase as a result of the Offering (expected to be EUR 300 million) nor the credit facility in the amount of EUR 153 million entered into by the Company on 22 April 2010 ("bridge-to-equity", see section 12.6.1).

(1) Consists of the loans as mentioned under section 19.3.11.
(2) The accrued interest for the long-term debts has been qualified as financial debt. These amounts are payable within the year 2010.
(3) Total short term debt is equal to total short term portion of long term debt plus total short term debt (without short term portion of long term debt).
(4) Net current financial debt is equal to total short term debt less cash and cash equivalents.
(5) Net non-current financial debt is equal to total long term debt less cash and cash equivalents.
(6) Net financial debt is equal to total financial debt less cash and cash equivalents.

8 SELECTED HISTORICAL FINANCIAL DATA OF THE COMPANY AND 50HERTZ

8.1 SELECTED HISTORICAL FINANCIAL DATA OF THE COMPANY

Set forth below are the condensed consolidated income statement, balance sheet and cash flow statement of the Company as of and for the years ended 31 December 2009, 2008 and 2007, derived from the Company's audited consolidated financial statements, prepared in accordance with IFRS, as endorsed by the EU, which are included or incorporated by reference in this Prospectus.

Investors should read this section together with the information contained in section 19 and the consolidated financial statements of the Company, prepared in accordance with IFRS, as endorsed by the EU, and the related notes thereto. The consolidated financial statements of the Company as of and for the year ended 31 December 2009, prepared in accordance with IFRS as endorsed by the EU, and the related notes thereto, are included in this Prospectus. The consolidated financial statements of the Company as of and for the years ended 31 December 2008 and 31 December 2007, prepared in accordance with IFRS as endorsed by the EU, as well as the statutory financial statements of the Company prepared in accordance with Belgian GAAP, are incorporated in this Prospectus by reference (reference is made to the Company's website: www.elia.be).

The consolidated financial statements for the financial year 2008 include the Company and four subsidiaries, *i.e.* Elia Asset SA/NV ("Elia Asset"), Elia Engineering SA/NV ("Elia Engineering"), Belpex SA/NV (the Belgian power exchange, "Belpex") and Elia RE SA ("Elia RE") and also an associated company, Holding des Gestionnaires de Réseaux de Transport SAS ("HGRT"). HGRT is included in the consolidated financial statements on the basis of the equity method. Stakes in the companies CASC-CWE SA ("CASC-CWE") and Coreso SA/NV ("Coreso"), both of which were established in 2008, are recognised at cost price as financial assets. In 2009, Coreso was transferred to the category of companies accounted for under the equity method.

8.1.1 *Key figures*

		Year ended 31 December	
Consolidated results (million €)	**2009**	**2008**	**2007**
Operating income	771.3	757.3	731.7
EBITDA [5]	327.9	334.1	308.5
Operating profit (EBIT)	225.8	237.9	214.7
Finance result	(120.5)	(109.3)	(104.0)
Income taxes	(20.0)	(27.2)	(32.9)
Profit attributable to the owners of the Company	84.0	103.1	77.6
Earnings per share (€)	1.74	2.14	1.62
Dividend per share (€)	1.38	1.37	1.30
		As at 31 December	
Balance sheet (million €)	**2009**	**2008**	**2007**
Total assets	4,420.0	4,228.1	3,977.9
Equity attributable to equity holders of the Company	1,365.4	1,348.1	1,338.6
Net financial debt	2,444.4	2,370.5	2,196.7
Equity per share (€) attributable to equity holders of the Company	28.29	28.04	27.88
Number of shares (end of period)	48,270,255	48,076,949	48,061,695

[5] EBITDA represents operating profit before depreciations, amortisations and write-offs, and provisions.

8.1.2 *Condensed consolidated balance sheet*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Goodwill	1,707.8	1,707.8	1,707.8
Intangible assets	22.3	19.2	14.9
Property, plant and equipment	2,089.6	2,060.4	1,993.2
Inventories	13.7	13.7	13.2
Trade receivables	218.1	246.9	171.2
Cash and cash equivalents	174.6	27.3	33.5
Other assets	193.9	152.8	44.1
Total assets	**4,420.0**	**4,228.1**	**3,977.9**
Total equity	1,367.1	1,349.7	1,339.9
Interest-bearing loans and borrowings	2,619.0	2,397.8	2,230.2
Trade and other payables	233.9	281.7	204.8
Other liabilities	200.0	198.9	203.0
Total equity and liabilities	**4,420.0**	**4,228.1**	**3,977.9**

8.1.3 *Condensed consolidated income statement*

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Revenue	**733.7**	**724.4**	**705.7**
Cost of sales	(5.6)	(6.8)	(8.6)
Gross profit	**728.1**	**717.6**	**697.1**
Other operating income	37.6	32.9	26.0
Services and other goods	(303.5)	(281.9)	(281.0)
Personnel expenses	(124.4)	(118.8)	(114.0)
Other operating expenses	(112.0)	(111.9)	(113.4)
Results from operating activities	**225.8**	**237.9**	**214.7**
Net finance cost	(120.5)	(109.3)	(104.0)
Profit before income tax	**105.3**	**128.6**	**110.7**
Income tax expense	(20.0)	(27.2)	(32.9)
Net profit	**85.3**	**101.4**	**77.8**
Share of profit of equity accounted investees (net income tax)	(1.0)	2.0	0.0
Profit for the period	**84.3**	**103.4**	**77.8**

8.1.4 *Condensed consolidated cash flow statement*

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Profit for the period after income tax	**84.3**	**103.4**	**77.8**
Non cash adjustments to reconcile profit before tax to net cash	100.5	79.1	77.0
Finance cost	124.1	114.7	104.2
Working capital adjustments	(70.5)	(31.2)	(14.0)
Income tax expense	20.0	27.2	32.5
Income tax paid	(15.9)	(118.6)	(27.1)
Interest paid	(102.0)	(116.7)	(103.2)
Net cash flow from (used in) operating activities	**140.5**	**57.9**	**147.2**
Purchase of property, plant and equipment, intangible assets	(133.7)	(170.5)	(150.0)
Interest received	6.1	2.5	2.9
Other cash flow from investing activities	0.2	(0.5)	(7.6)
Net cash flow from (used in) investing activities	**(127.4)**	**(168.5)**	**(154.7)**
Proceeds from/repayment of borrowings	195.9	166.5	69.3
Dividends paid	(66.0)	(62.5)	(61.3)
Other financing activities	4.3	0.4	4.1
Net cash flow from (used in) financing activities	**134.2**	**104.4**	**12.1**
Net increase (decrease) in cash and cash equivalents	147.3	(6.2)	4.6
Cash and cash equivalents at period end	174.6	27.3	33.5

8.2 SELECTED HISTORICAL FINANCIAL DATA OF 50HERTZ UNDER IFRS

Set forth below are the unaudited condensed consolidated income statement, balance sheet and cash flow statement of 50Hertz and 50Hertz Offshore as of and for the year ended 31 December 2009, derived from the Unaudited Consolidated Financial Information under IFRS for 50Hertz for the year ended 31 December 2009, which is included in this Prospectus. These unaudited condensed consolidated income statement, balance sheet and cash flow statement present 50Hertz and 50Hertz Offshore on a consolidated basis and have been prepared as follows:

- the financial statements of 50Hertz and 50Hertz Offshore under German GAAP have been consolidated by the Company (since there is no obligation for 50Hertz to consolidate under German law) and certain assets and liabilities have been reclassified in order to be consistent with the balance sheet presentation of the Company;
- the historical unadjusted balance sheet of 50Hertz and the historical unadjusted balance sheet of 50Hertz Offshore, both prepared in accordance with German GAAP ("HBI") have been converted to IFRS, as endorsed by the EU, as applied by the Company.

Investors should read this section together with (i) the Unaudited Pro Forma Financial Information in section 12.7; (ii) the Unaudited Consolidated Financial Information under IFRS for 50Hertz for the year ended 31 December 2009, prepared under IFRS, included in this Prospectus in section 20; and (iii) the audited historical financial statements of 50Hertz and 50Hertz Offshore GmbH for the year ended 31 December 2009 prepared in accordance with HBI which have been filed with the appropriate authorities on 12 April 2010 and 8 April 2010, respectively. The audited historical financial statements of 50Hertz and 50Hertz Offshore for the year ended 31 December 2009 are filed in the German language and can be retrieved on http://www.ebundesanzeiger.de. and on the Company's website (www.elia.be) (together with a free translation in English). The audited historical financial statements of 50Hertz and 50Hertz Offshore for the year ended 31 December 2009 and their translations are incorporated in this Prospectus by reference.

8.2.1 *Condensed balance sheet*

(million €)	**31 December 2009**
Intangible assets	32.8
Property, plant and equipment	1,332.3
Inventories	0.0
Trade receivables	542.9
Cash and cash equivalents	57.0
Other assets	131.4
Total assets	**2,096.4**
Total equity	890.5
Interest-bearing loans and borrowings	320.0
Other liabilities	885.9
Total equity and liabilities	**2,096.4**

8.2.2 *Condensed income statement*

(million €)	**31 December 2009**
Revenue	**673.2**
Cost of sales	0.0
Gross profit	**673.2**
Other operating income	58.3
Services and other goods	(593.3)
Personnel expenses	(49.8)
Other operating expenses	(63.9)
Results from operating activities	**24.5**
Net finance cost	(17.3)
Profit before income tax	**7.2**
Income tax expense	(5.4)
Net profit before tax equalisation	**1.8**
Profit transfer	9.0
Profit for the period after income tax	**10.8**

8.2.3 *Condensed cash flow statement*

(million €)	31 December 2009
Profit for the period after income tax	**10.8**
Non cash adjustments to reconcile profit before tax to net cash	92.0
Finance income	(4.1)
Working capital adjustments	(43.3)
Income tax expense	0.0
Income tax paid	0.0
Interest paid	(0.1)
Net cash flow from operating activities	**55.3**
Purchase of Property, Plant and Equipment, intangible assets	(157.4)
Interest received	0.1
Other cash flow from investing activities	0.5
Net cash flow from investing activities	**(156.8)**
Proceeds from/Repayment of borrowings	0.0
Dividends paid	8.9
Other Financing activities	0.0
Net cash flow used in financing activities	**8.9**
Net increase (decrease) in cash and cash equivalents	(92.6)
Cash and cash equivalents at period end	57.0

Notes:

(1) The amount of EUR 9 million disclosed as “profit transfer” in the income statement results from the unwinding of a tax unity which ended in 2008. As a result, the net income number that has been used in the cash flow statement is EUR 10.8 million.

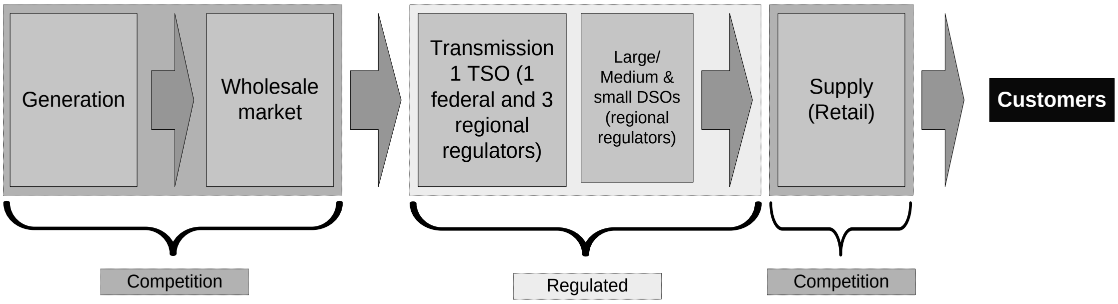
(2) “*Non cash adjustments to reconcile profit before tax to net cash*” consist of on-cash movements in the income statement consisting of depreciation (EUR 75.4 million); changes in deferred taxes (EUR 8.4 million); changes in fair value (EUR 4.9 million); and changes in provisions (EUR 3.3 million).

9 DESCRIPTION OF THE BELGIAN AND GERMAN ELECTRICITY MARKET

9.1 ORGANISATION OF THE BELGIAN ELECTRICITY MARKET

The main participants in the electricity market are the electricity producers, the transmission and distribution system operators ("TSOs" and "DSOs" respectively), the wholesale and retail suppliers, the customers and the regulators. Their roles are briefly described below.

The following chart shows the organisation of the Belgian electricity market.



Note: the federal regulator sets the tariffs for TSOs, as well as for DSOs.

9.1.1 *Generation*

In 2009[6], the Belgian generation mix consisted mainly of nuclear energy (50.9%), fossil fuels energy (39.9%) and hydro pumped storage energy (1.6%). The importance of renewable energy resources has increased during the last years and already reached 7.6%, mainly onshore wind and biomass.

The general policy of the European Union and the Belgian government is to reinforce the share of RES and CHP (combined heat and power) generation. To promote this type of generation, the federal government has introduced measures for offshore wind generation while the regional governments have introduced several mechanisms including minimum levels of energy to be supplied by using renewables and/or CHP through a mechanism of "green certificates" and CHP certificates. To this aim, the green certificates and CHP certificates are provided to producers of electricity from renewable energy sources and/or CHP who can trade these certificates on a *ad hoc* market. As such, suppliers can fulfil their obligations to submit, to the relevant regulators, a number of green certificates and CHP certificates *pro rata* the electricity they supplied to their customers. In 2020, 13% of the Belgian electricity demand should be supplied from renewable energy sources, mainly biomass and onshore / offshore wind[7].

The construction and operation of new generation facilities is open to any electricity producer. For facilities exceeding a capacity of 25 MW, the authorisation of the Minister of Energy is required, based on prior advice by the federal regulator.

In 2003, the Belgian Parliament enacted a statute with a view to phasing out the existing nuclear power plants from 2015 onwards (by limiting their permitted operating life to 40 years) and imposing a moratorium on the construction of any new nuclear power plants. In 2009, the political decision was made by the federal government to extend the operating life of three plants due to close in 2015 (Doel 1, Doel 2 and Tihange) by 10 years. To enter into force, this decision requires an amendment of the 2003 statute.

Generators in Belgium are not charged electricity transport fees, end customers bear these expenses. There is a possibility however that injection fees are charged to generators in Belgium.

[6] Source : ENTSO-E data.
[7] Source: Annex I of the Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC.

9.1.2 *Wholesale supply*

Wholesale suppliers (*e.g.* traders or intermediaries) buy, in Belgium and abroad, energy from electricity producers or other wholesale suppliers and/or sell energy either to other wholesale suppliers or to retail suppliers. Wholesale suppliers do not sell directly to end consumers. Wholesale supply of electricity is a non-regulated activity.

9.1.3 *Transmission system operation*

Transmission system operation refers to the regulated activity relating to the very high voltage and high voltage electricity networks and the management of the electricity flows on these networks. An operator of such a network is called a transmission system operator or a TSO. The main users of these networks are the electricity producers, the traders, the DSOs, the commercial suppliers and the large industries (electricity customers).

TSOs, such as the Company in Belgium and 50Hertz in Germany, operate their electricity network independently of electricity producers and suppliers. TSOs organise an objective, non-discriminatory and transparent access to their electricity network. To fulfil this objective efficiently, TSOs are in charge of the operation, maintenance and development of their network, including the interconnections with other networks, as well as the provision of the required ancillary services such as continuously balancing the electricity sourced to and taken-off from their network given the fact that electricity cannot be stored economically in large quantities. Transmission system operations, as natural monopolies given the nature of their assets, are regulated activities which are usually granted a legal monopoly.

The very high voltage electricity networks, such as the one operated by Elia and 50Hertz, are also used to import and export electricity internationally and for mutual assistance between TSOs according to international standards set by the European Network of Transmission System Operators for Electricity ("ENTSO-E") operation rules. Belgium's very high voltage-electricity network is connected to France, Luxembourg and the Netherlands.

9.1.4 *Distribution system operation*

Distribution refers to the transmission of electricity over medium- and low voltage electricity networks, generally below 30 kV, to the retail public (small and medium-sized enterprises and household customers) for their own use. An operator of such a network is called a distribution system operator or a DSO.

A DSO operates, maintains and develops its medium and low voltage network. As the TSOs, the DSOs are required by law to organise the access to their electricity network for the market participants in an objective, non-discriminatory and transparent way. Distribution system operations are regulated activities which are usually granted a legal monopoly per area.

Customers of the DSOs are wholesale suppliers and retail suppliers.

9.1.5 *Retail supply*

Retail supply of electricity refers to the sale of electricity to end customers.

A licence is required to engage in retail supply which may only be granted to individuals or companies that operate independently from the TSO and DSOs. Elia's activities do therefore not include retail supply (save in very specific circumstances, in the framework of balancing obligations). It also involves customer services, billing and the collection of customer accounts.

9.1.6 *Customers*

Since 1 July 2007, all end customers (household and non households customers) in Belgium are eligible to freely choose their electricity supplier. The chosen supplier must, in turn, be provided with a “right of access” to the relevant electricity network (being very high, high, medium or low voltage) to ensure that electricity is supplied from the producer sourcing the relevant supplier to the relevant customer.

9.2 KEY CHARACTERISTICS BELGIAN ELECTRICITY MARKET

9.2.1 *Growth*

The Belgian electricity demand (ENTSO-E definition[8]) decreased by 6.27% in 2009 compared to 2008 (based on preliminary data). In 2008, the Belgian electricity demand was more affected by the economical crisis than the average of the former UCTE-zone[9].

Current electricity demand in Belgium and neighbouring countries

	2009	**2008**	**2007**	**2006**
Germany	-5.44%	0.00%	0.42%	0.91%
Belgium	-6.27%	0.05%	-0.22%	2.78%
France	-1.71%	2.62%	0.73%	-0.99%
Luxembourg	-7.18%	-1.48%	2.19%	6.32%
The Netherlands	-6.06%	2.90%	0.54%	1.45%
Average former UCTE-zone	**N/A**	**0.13%**	**1.15%**	**1.84%**

Electricity demand in Belgium dropped significantly in 2009 due to the economical crisis. In 2008 there was a status quo given the fact that the crisis only started after the summer. In the preceding years, the rate of increase in demand was lower than in the past due to several factors such as efforts to promote the rational use of energy and an increasing economic emphasis on services rather than on heavy industry.

The Belgian Ministry of Energy and the Federal Planning Bureau (*Bureau fédéral du plan / Federaal Planbureau*) puts forward different possible scenarios for electricity demand growth in their study “The perspectives of the electricity supply 2008-2017”. The first one is called the reference scenario: it predicts an average annual growth rate of 1.5% during the period 2010-2020. The low growth scenario is based on the assumption that demand side measures will be in place and will reduce the average annual growth rate to approximately 0%. The high growth scenario is considering an average growth rate of 1.7%.

9.2.2 *Maximum quarter-hourly demand*

In 2009, the maximum quarter-hourly demand (“peak”) was 13,757 MW, an increase of 1.3 %, compared to 2008. However the peak of 2009 is 2.3% lower than during the pre-crisis year 2007. These demand peaks depend on weather conditions (cold or mild winter) and generally take place in December or January due to higher electricity demand in the winter season.

In 2009, the maximum consumption on the Elia network was 13,530 MW, recorded on 8 January 2009 between 18:00 and 18:15. This is lower than the all-time record observed on 17 December 2007 (14,040 MW) but is nonetheless slightly higher than the maximum value recorded in 2008 (13,479 MW on 9 January 2008). Conversely, the lowest consumption point (5,901 MW) was recorded on 26 July 2009 (between 6:00 and 6:15). It is even lower than the minimum value in December 2008 (6,141 MW), which was recorded on Christmas morning.

9.2.3 *Capacity and generation*

At the end of 2009, the electricity generation capacity in Belgium was 17.6 GW[10]. Nuclear plants had a share of 33.2% in the total installed generation capacity. However, in terms of actual energy generated, their share amounted to 50.9%. The

[8] Source: UCTE; electricity energy supplied to the network.
[9] From 1 July 2009 on, ENTSO-E took over all operational tasks of the 6 existing TSO associations in Europe, including UCTE, the Union for the Coordination of Transmission of Electricity.

remaining electricity generation was primarily made of gas- and coal-fired power plants, or pumped storage hydro (about 1,300 MW). This mix has remained virtually unchanged over the last years (save for electricity generated from wind power or biomass, which still represents a limited although increasing portion) creating a beneficial diversity of electricity sourcing in Belgium.

Capacity and generation in 2009[11]

	Installed generation capacity (Mega Watts)	%	Volume of electricity produced (Giga Watt hours)	%
Nuclear	5,902	33.4%	44,960	50.9%
Fossil fuels (including blast furnace gas)	8,590	48.6%	35,181	39.9%
Hydro: pumped storage	1,308	7.4%	1,421	1.6%
Renewables:				
– Hydro: run-of-river	105	0.6%	327	0.4%
– Wind power	500	2.8%	981	1.1%
– Solar	339	1.9%	164	0.2%
– Other renewables (biomass, biogas, solar and geothermal)	919	5.2%	5,244	5.9%
Total	**17,663**	**100%**	**88,278**	**100%**

9.2.4 *Energy exchange with neighbouring countries*

The exchanges with neighbouring countries (see table below) vary between 20.8 TWh in 2009 and 27.4 TWh in 2006. In 2009, Belgium was an energy exporting country mainly due to the relative low gas prices and the tight supply demand balance in the French market. The ratio between total energy exchange and Belgian energy demand is significantly higher than the EU average and results, among other things, from the high import/export capacity of Elia's interconnections with neighbouring countries.

Energy exchange with neighbouring countries (GWh)[12]

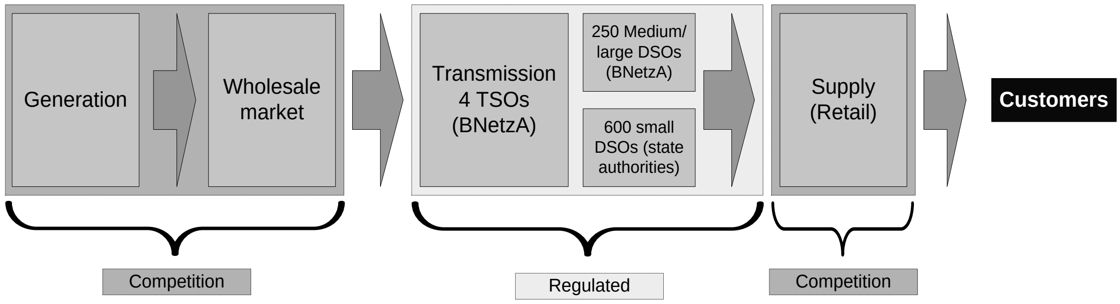
		2009	2008	2007	2006
The Netherlands	Import	5,787	8,119	5,266	5,604
	Export	3,769	3,005	5,084	5,018
France	Import	1,832	7,386	8,332	10,636
	Export	6,642	2,039	2,322	1,981
Luxembourg	Import	1,868	1,629	2,084	2,479
	Export	910	1,518	1,631	1,697
Total energy exchange (Total Import + Total Export)		**20,808**	**23,695**	**24,718**	**27,414**
Ratio total energy exchange and Belgian energy demand		**24.6%**	**26.3%**	**27.5%**	**30.3%**

9.3 ORGANISATION OF THE GERMAN ELECTRICITY MARKET

9.3.1 *Structure of the German electricity sector*

The electricity industry in Germany is divided into six major functions: generation, wholesale supply, transmission, distribution, supply and consumption.

[10] Including mothballed generation capacity.
[11] Source: ENTSO-E data.
[12] Source: ENTSO-E data.



9.3.2 *Generation*

Electricity in Germany is produced from a number of thermal sources, including nuclear, hard coal, lignite, natural gas and fuel oil, and from hydroelectric and other renewable sources, primarily wind. In addition, electricity is imported and exported through the interconnections with Germany's neighbouring countries. Generators in Germany are not charged electricity transport fees, but end customers bear these expenses.

9.3.3 *Wholesale supply*

Similar to the role of the wholesale in the Belgian market, as described in section 9.1.2.

9.3.4 *Transmission*

Transmission networks transfer the electricity from the generators' plants to distribution system entry points or, in certain cases, directly to end-users' premises via a network of very high voltage networks at 380 kV and 220 kV.

As in Belgium, the TSO is responsible for the reliable operation of the overall power system. Within its control area, the TSO balances unexpected load variations, power station failures and technical constraints in the network. Reserves for ancillary services ensure a high quality of supply to customers with regard to frequency and voltage stability. This is maintained through the use of primary control, secondary control and minute reserves.

Germany is split into four control areas operated by four TSOs (see also figure in section 11.1):

- Transpower Stromübertragungs GmbH (currently owned by TenneT Holding B.V., formerly "E.ON Netz GmbH") as a completely independent TSO not being part of a vertically integrated undertaking;
- 50Hertz (formerly "Vattenfall Europe Transmission GmbH"), being a completely independent TSO since its acquisition by Elia and IFM;
- Amprion GmbH (currently owned by RWE Aktiengesellschaft, formerly "RWE Transportnetz Strom GmbH") being part of a vertically integrated undertaking and, as a consequence, being subject to the unbundling provisions set out in Sec. 6 to 10 EnWG; and
- EnBW Transportnetze AG (owned by EnBW Aktiengesellschaft), also part of a vertically integrated undertaking and subject to the unbundling provisions in Sec. 6 to 10 EnWG.

Their activities are supervised by the German federal network regulatory commission BNetzA and the specific regulatory authorities in the respective federal states (see section 13.7.4).

Until recently, these TSOs were subsidiaries of the incumbent energy companies. On 25 February 2010, it was announced that TenneT Holding B.V. and E.ON AG had completed the sale of E.ON's subsidiary Transpower Stromübertragungs GmbH.

9.3.5 *Distribution*

Distribution networks transfer the electricity from the transmission networks to the end user via lower voltage networks of overhead wires (from 110kV down to 230V), underground cables and substations. The distribution networks are connected to the transmission networks via step-down transformers called "network supply points" or "distribution entry points". As the TSOs, the operators of distribution systems are also regulated by the EnWG and are under the supervision of the regulatory authorities. Only under specific conditions, smaller distribution systems are excluded from specific provisions of the EnWG, *e.g.* DSOs being part of a vertically integrated undertaking, but having less than 100,000 customers connected to its network, do not have to fulfil the conditions of the legal unbundling (Sec. 7 para. 2 EnWG).

9.3.6 *Supply*

The retail supply of electricity involves the purchase of electricity in bulk from wholesale suppliers and traders and its onward sale to customers. It also involves customer services, billing and the collection of customer accounts. The supply companies operate in a competitive market and their prices are not regulated. Nevertheless, the supply companies are also subject to the regulation regime of the EnWG. For example, a supply entity, having the most customers in a specific area (*Grundversorger),* (generally) has to supply every household customer in its area for tariff prices and conditions which need to be published on the internet, Sec. 36 EnWG.

9.3.7 *Customers*

All end customers (household and non-household customers) in Germany are eligible to freely choose their electricity supplier. The chosen supplier must, in turn, be provided with a "right of access" to the relevant electricity network to ensure that electricity is supplied from the producer sourcing the relevant supplier to the relevant customer.

9.4 KEY CHARACTERISTICS GERMAN ELECTRICITY MARKET

9.4.1 *Growth*

The electricity industry in Germany has experienced consistent growth throughout the last ten years, with a compound annual growth rate of approximately 1.4% (see also section 9.2.1). Between 2000 and 2009, the compound annual growth rate of per capita electricity consumption was 1.3% in the 15 countries comprising the European Union prior to its expansion in 2004 (the "EU-15") and 1.5% in Germany.[13]

9.4.2 *Generation*

Nuclear and conventional sources currently dominate the electric-power generation mix in Germany. The energy supply system will, however, have to make fundamental changes in order to meet environmental targets set by the government in relation to the reduction of CO_2 emissions, air pollution, nuclear radiation and final storage of nuclear waste.

In Germany, the proportion of electric power generation from renewable energy sources reached 10% in 2004 and continues to increase.[14] Wind power has a significant impact on policy within the industry due to its growth rates and its prospective further development, both onshore and offshore, as well as its export potential.

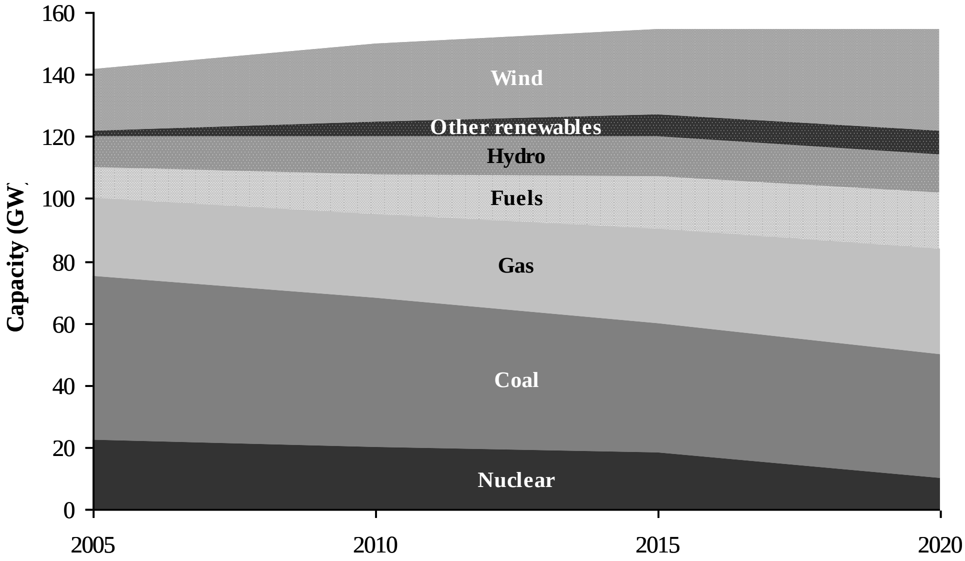
The German federal government fully supports this development, and aims for the further extension of renewable energies. By 2020, the proportion of power generation from renewable energy sources is scheduled to rise to at least 20%. Additional major increases in capacity may be achieved by 2050. Wind is likely to be the largest element, taking into account specifically the strategy of the German federal government for the development of offshore wind power generation in the North and Baltic Seas.

The potential retirement of old conventional plants and the phasing out of nuclear power stations planned for 2017 provides further support for the increase of wind farm installations. Of the 140.1 GW of gross power generation capacity presently installed in Germany, the net reduction to conventional power plants to 2020 is expected to be approximately 10.1 GW.

[13] Source: Eurostat.

[14] Source: Germany Country Report – Innovative Electricity Markets to Incorporate Variable Production to IEA – Renewable Energy Technology Deployment.

Expected evolution of generation mix in Germany[15]



Source: EWI, Energiewirtschafiches Institut

In anticipation of the Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC, the planning of the upcoming investment to replace conventional power stations is affected by the increasing proportion of renewable energy and by the priority given to renewable energy generation under the EEG mechanism (see section 13.7.1). The technical characteristics of the conventional power plants have to be adapted to compensate for the fluctuating feed-in from wind power, which, has to be accepted with priority. With respect to electricity generated from renewable sources, generators benefit from “feed in tariffs” in the framework of the support mechanism of RES, outlined in section 13.7.6 (*AusglMechV*).

[15] Source: Energiewirtschaftliches Institut (EWI).

10 ELIA'S BUSINESS

10.1 OVERVIEW

Elia's core business is the operation, maintenance and development of the very high voltage (380 kV, 220 kV and 150 kV) and high voltage (70 kV, 36 kV and 30 kV) networks in such a way that electricity reliably flows from electricity producers, whether located in Belgium or elsewhere in Europe, to distributors and large corporate clients. Elia, through Elia Asset, owns 100% of the Belgian very high voltage electricity network and owns (or has the right to use) approximately 94% of the Belgian high voltage electricity network (see also section 16.2.2). Elia's network is situated in a unique position at the crossroads between the South- and Northwestern European electricity markets.

The Company has been appointed, at the federal level, as the sole TSO in Belgium for the very high voltage network for a renewable term of 20 years with effect from 17 September 2002 (see section 13.2.1). The Company, as sole operator of the high voltage network in Belgium, has also been granted the required system operating licences by the regional governments (see section 13.2.2).

Among Elia's activities a distinction can be made between asset management, system operation, market facilitation and related activities.

Asset management – This activity consists of the ownership, maintenance and development of the network's overhead lines, underground cables, substations and other equipment necessary to enable the transmission of electricity at the voltages of 380 kV to 30 kV. Elia's network consists of 8,379 km of power links, of which 5,614 km of overhead lines and 2,765 km of underground cables (see section 10.6).

System operation – Elia provides the relevant market participants with access to its electricity network and seeks to ensure the stability of the Belgian power system so that electricity is transmitted in a stable, secure and reliable manner. Elia monitors the electricity flows on its network and seeks to balance in real time the total electricity injected into and taken off its network, taking into account the power exchanges with the neighbouring countries, through the procurement of the appropriate ancillary services. Elia also purchases electricity on the market to compensate in the high voltage networks for energy losses that are a consequence of the transmission of electricity (see section 10.7).

Electricity import / export – market facilitation – In addition to its two core activities described above, Elia aims at improving the functioning of the open electricity market by acting as a market facilitator, both in the context of a single European electricity market as well as in the framework of the integration of renewable energy, in accordance with the national and European policies (see section 10.8). Elia has played an important role in initiatives such as (i) the design and implementation of the Belgian power hub, (ii) the trilateral market coupling between France, the Netherlands and Belgium, (iii) the creation of the first regional technical coordination centre for Central West Europe, Coreso (see section 10.7.5), in cooperation with RTE and National Grid, the French and UK TSOs, (iv) the set-up of a joint services company, CASC-CWE, for the allocation of cross-border capacity within Central West Europe, together with the French, Dutch and German TSOs (see section 10.8.6), and (v) the creation of a pentalateral market coupling between the Benelux countries, France and Germany (yet to be made operational).

Related activities – Elia has also developed a number of activities related to its core business, such as asset valorisation, the activities of Elia Engineering, *etc*. (see section 10.9).

Almost all of the Company's income is derived from the regulated tariffs that are charged for the use of the transmission system (tariff income). These regulated tariffs are approved in advance by the Belgian regulator, the CREG. In December 2007, the CREG approved the regulated tariffs for the period 2008-2011. As such, a tariff regulation mechanism, whereby the approved tariffs apply for a four-year period (barring exceptional circumstances), took effect on 1 January 2008. The tariffs are based on forecasted costs for the regulated activities, and on the estimated volumes of electricity taken from Elia's network. The costs relating to the regulated activities include the forecasted value of the authorised fair remuneration, as well as the budgeted values of various cost categories, divided into, on the one hand, those over which Elia has direct control ("controllable costs") and, on the other hand, those over which Elia has no direct control ("non-controllable costs"). Tariffs are public, apply nationwide and are not subject to negotiation with customers (see section 13.6).

10.2 KEY STRENGTHS

Elia's business relies on a number of strengths, including the following:

- *Factual monopoly and unique resource in Belgium*: Elia currently has a factual monopoly for operating the very high voltage network at the federal level and the high voltage network at the regional levels. In addition, Elia has unique resources as it owns 100% of the very high voltage network at federal level and as it owns (or has the right to use) 94% of the high voltage network at the regional levels. As such, Elia is the sole company that fulfils the conditions provided by law to obtain the federal and regional TSO licences.
- *Highly reliable and resilient network*: Elia not only operates and owns the transmission network as asset manager but also acts as system operator, seeking to balance in real time generation and demand of electricity on its network. The integration of both activities allows Elia to develop synergies, which in turn increase the efficiency of the network. In addition, Elia's network design is a meshed structure, comparable to a spider web, allowing virtually all off-take points to be supplied by two or more routes and using various voltage levels. This meshed configuration is designed to significantly reduce the risk of power interruptions.
- *Increased visibility on results through stable four year-tariff framework*: Elia's risk profile is limited due to the nature of its activity and the regulated environment in which it operates. A new tariff mechanism took effect on 1 January 2008 for a four year period whereby the approved tariffs are fixed for a four-year period, increasing the visibility on Elia's results. In this new mechanism, an incentive mechanism is provided whereby part of the cost reductions on controllable costs can be distributed to the shareholders in case of outperformance.
- *Recognised expertise and leadership in the construction of the regional market of Central West Europe:* Elia is a recognised driving force in the construction of the regional market for electricity in the CWE region comprising the Benelux, France and Germany. The mechanism developed for the trilateral market coupling (Belgium, the Netherlands and France) served as a model for the extension to the pentalateral mechanism within Central West Europe.
- *Creating a top 5 TSO in Europe through the acquisition of 50Hertz:* As a result of the acquisition of a 60% stake in 50Hertz, the Company will become the fourth largest TSO in Europe (in terms of regulated asset base). This top 5 position will give the Company the critical mass to play a leading role in reshaping the electricity market. In addition, 50Hertz offers complementary knowledge and experience in domains awaiting strong development in the future, such as connecting onshore and offshore wind energy generation with the main land as well as with future North Sea and Baltic Sea grids. More details about the expected key benefits of the acquisition for the Company and its stakeholders can be found in section 4.1.
- *Proven and solid financial strength*: Elia's regulatory framework includes a number of elements that contribute to the creation of a solid long-term financial basis for the Company. Firstly, Elia's optimal leverage ratio is set by the regulator and financial expenses are hence included in Elia's tariffs. Secondly, the tariff structure allows all costs (to the extent not deemed unreasonable by the regulator) over which Elia has no direct control ("non-controllable costs") to be recovered through future tariffs. In addition, part of Elia's profit must by law be used to fund future investments (and not be distributed to shareholders). Finally, Elia's future investment plans always have to be approved by the government and the regulators before being launched, which ensures their inclusion in the tariffs.
- *Attractive dividend yield with growth potential*: Since its incorporation, Elia has demonstrated a strong commitment to the distribution of dividends, as evidenced by the historical yearly pay-out ratio. As provided in the Articles of Association, 85% of the yearly profits available for distribution must be allocated for the payment of dividends (unless the shareholders decide otherwise). The General Shareholders' Meeting of 11 May 2010 approved a dividend per share of EUR 1.38 for the financial year 2009 (see section 6). Elia intends to maintain its dividend at its current level (subject to changes to the regulatory framework or development in the market environment).
- *A 70-year old business with experienced employees and management*: Although the Company was only incorporated in 2001, its activities already started in 1937. Together with 50Hertz, Elia will employ around 1,800 people, who have accumulated a wide and strong knowledge and expertise of all aspects of TSO activities.

The specific key strengths of the Company's subsidiary, 50Hertz, are further described under section 11.2.1.

10.3 STRATEGY

Elia’s strategy, including in respect of 50Hertz, is derived from the regulated environment in which Elia and 50Hertz operate, and focuses on operational excellence in its core business as well as customer satisfaction within a sustainable development framework, thus contributing to the fair remuneration of Elia’s and 50Hertz’ equity.

Elia also seeks to consolidate its role in the development of the CWE market in a context of regional integration, including the integration of wind energy and the development of the future North Sea grid. The acquisition of 50Hertz fits within this strategy, both in terms of strengthening Elia’s role in the construction of the regional CWE market and contributing to the shareholder value, and should enable diversification of the regulatory risk.

Following the acquisition, 50Hertz’ strategy, which was already very similar to Elia’s strategy, is expected to be further aligned with Elia's strategy. Elia intends to take advantage of its unique asset base, in Belgium and through 50Hertz in Germany, and other key strengths to implement this strategy.

- *Operational excellence in the core business* – Elia’s and 50Hertz’ core strategic focus is on the operation, maintenance and development of their very high voltage and high voltage electricity networks. Elia and 50Hertz intend to create shareholder value through continuous improvement of their operational efficiency and effectiveness, while keeping quality and reliability at the current high level, within the framework of a multi-annual regulated tariff system and an integrated structure, composed of transmission activities, network services and engineering activities. The acquisition of 50Hertz is expected to contribute to the improvement of operational excellence through the sharing of best practices, experience and resources, the selection of common standards, the pooling of purchase power and the development of market tools.
- *Focus on the development of Elia’s and 50Hertz’ core electricity transmission network to meet the long-term energy needs of their customers* with the development of adequate transmission capacities. Within their development plans, the focus will be on, among other things, increasing transmission capacities with neighbouring networks (as this is a pre-requisite for the further integration of national power markets) and connecting the contemplated onshore and offshore renewable energy sources.
- *Improving the functioning of the open electricity market through market facilitation* – As market facilitator, Elia and 50Hertz are working to improve the functioning of CWE electricity markets, which is of major importance for the Belgian and German markets. As part of this strategy, Elia has taken a leading role in a number of initiatives, such as the incorporation of Belpex and its subsequent integration (subject to closing conditions) in APX-Endex B.V. (“APX”) (see section 10.8.4), the development of an intraday bilateral trading hub in Belgium, the creation of intraday mechanisms including the participation in CASC-CWE and the creation of a regional market in Central West Europe.
- *Building a constructive relationship with regulators and market players* – An important element in Elia’s and 50Hertz’ strategy is to build a constructive relationship with the various regulators and to be permanently involved in the evolution of the regulatory framework at European, Belgian and German levels, taking into account the interests of Elia’s and 50Hertz’ customers and stakeholders. As an example, Elia has established a consultation body in Belgium with representatives of employers’ organisations, large consumers, traders, producers, suppliers and DSOs to develop a better understanding of their needs within the context of the legal and regulatory constraints.
- *Pursuing a leading role in the construction of a regional market in Central West Europe and the common European electricity market* – The acquisition of 50Hertz aims at strengthening Elia’s role in the construction of the CWE market and at establishing Elia’s position for the future integration of the European network. Elia is a driving force behind the implementation of a pentalateral market coupling mechanism between the Benelux countries, France and Germany, that is due to be launched in the upcoming months. Both Elia 50Hertz play also a major role in the extension of this mechanism to the Nordic countries that is expected to be implemented a few months later. In addition, Elia and 50Hertz actively contribute to a common European electricity market through cooperation with all TSOs within the ENTSO-E.
- *Supporting the energy and climate policies in Belgium, Germany and in Europe* – Elia and 50Hertz contribute to the achievement of European targets in relation to the integration of renewable energy sources and reduction of CO_2 emissions. To this aim, both Elia and 50Hertz intend to continue delivering the planned investment programme and to adequately develop transmission capacity, in particular for renewable energy sources and CHP plants in close cooperation with their respective DSOs.
- *Pursuing environmental sustainability* – Elia and 50Hertz actively pursue environmental sustainability and are involved in the development of EU R&D programmes in cooperation with the European Commission. Elia and 50Hertz will continue to promote environmentally friendly activities to minimise the impact of the businesses on the environment.

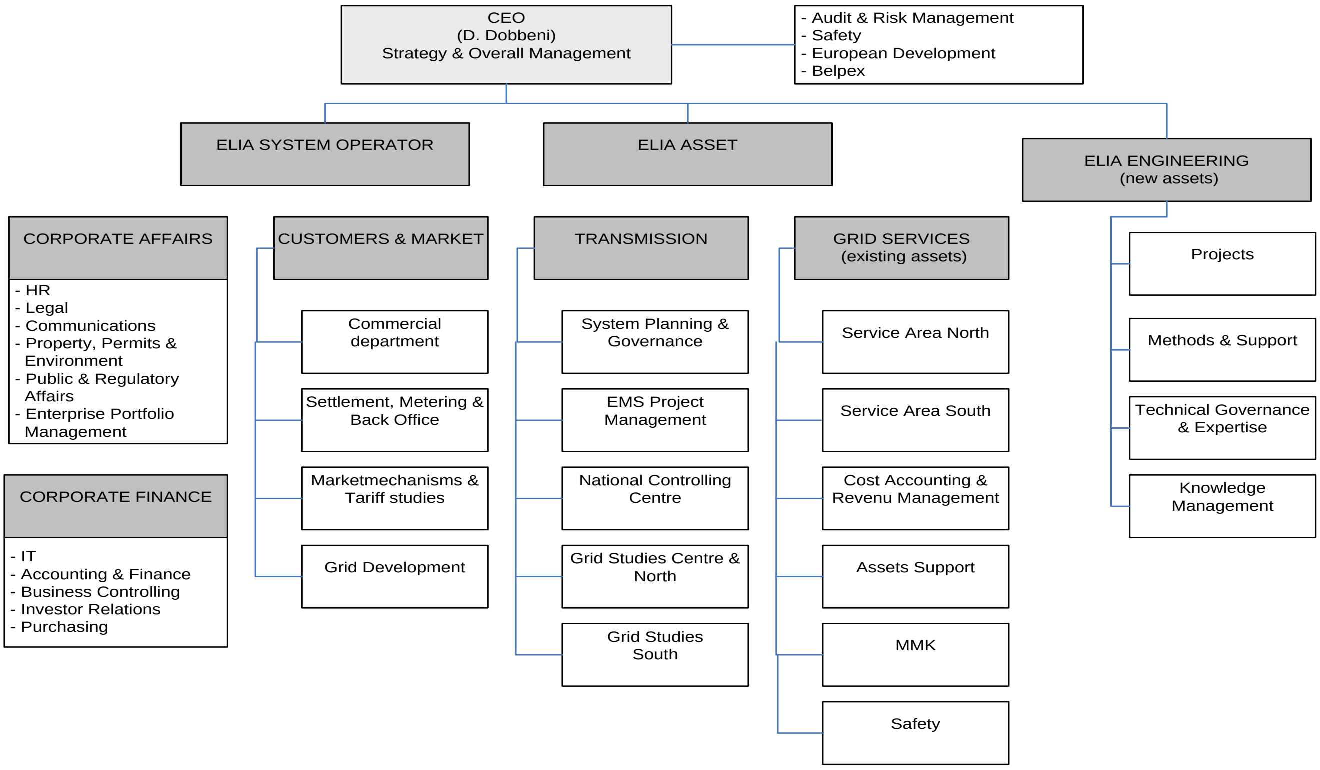
10.4 HISTORY AND MILESTONES

Year	Important events
2010	• *19 May 2010*: closing of the acquisition of 50Hertz. • *18 May 2010*: sale by Electrabel of its remaining shares in the Company (representing 11.74% of the total outstanding shares of the Company at that date) on the market through an accelerated book building procedure. • *10 May 2010*: closing of the sale by Electrabel of 12.5% of the shares of the Company to Publi-T. • *19 April 2010*: announcement by the Company and TenneT of the transfer of their respective 60% and 10% stakes in Belpex to APX. At the same time, the Company announced its acquisition of a 20% stake in the capital of APX (both transactions are subject to closing conditions) (see section 10.8.4). • *30 March 2010*: announcement of an agreement between the Company, Publi-T and GDF SUEZ regarding the exit of Electrabel SA/NV ("Electrabel") out of the capital of the Company. Electrabel sells 12.5% of the shares of the Company to Publi-T, which brings the stake of Publi-T in the Company to 45.37%. Electrabel simultaneously announced its intention to sell its remaining shares in the Company. • *12 March 2010*: announcement by Elia and IFM of the signing of an agreement for the acquisition of the German regional TSO 50Hertz from Vattenfall, Germany's third largest electricity generator (60% by Elia, 40% by IFM).
2009	• *20 November 2009*: official launch of the project Stevin (extension of Elia's 380 kV network from Zomergem to the coast at Zeebrugge). • *16 July 2009*: approval of the standard connection agreement by the CREG. • *22 April 2009*: approval by the European Parliament of the third package of European electricity and gas Directives. • *7 April 2009*: issue of bonds by the Company for an aggregate amount of EUR 1 billion, • *16 February 2009*: opening of Coreso.
2008	• *19 December 2008*: foundation of ENTSO-E by 42 system operators from 34 European countries. Daniel Dobbeni is elected President. • *19 December 2008*: foundation by RTE and the Company of Coreso (Coordination of Electricity System Operators), a coordination centre to enhance power security in Central Western Europe. • *3 October 2008*: foundation of CASC-CWE in Luxembourg by the seven system operators of the CWE region, covering the Benelux countries, Germany and France.
2007	• *21 December 2007*: approval by the CREG of the proposed electricity transmission tariffs submitted by Elia for the period from 2008 to 2011.
2006	• *11 October 2006*: purchase by Elia of the 70 kV infrastructure components from Walloon DSO AIESH for EUR 1 million. • *21 November 2006*: launch of the day-ahead trading on the Belgian power exchange Belpex. • *13 July 2006*: appointment of the Company as regional TSO by the government of the Brussels-Capital Region for a period of 20 years. • *12 April 2006*: entering into by Elia, Inter-energa, WVEM, IVEG and Eandis, of an energy policy agreement with the Flemish Minister for the Environment and Energy, in which they take the engagement to purchase all green power certificates offered to them at the minimum prices specified by decree.

	• *12 January 2006*: approval by the federal government of Belpex's application for a licence to operate the power exchange in Belgium. • *5 January 2006*: announcement of the purchase by Elia of the 70 kV network in and around the city of Antwerp from Intercommunale Maatschappij voor Energievoorziening Antwerpen (IMEA).
2005	• *End of December 2005*: grant by the European Investment Bank (EIB) to the Company of a EUR 125 million loan to upgrade interconnections and finance investments in the Belgian network. • *8 July 2005*: set up by the Company of the power exchange Belpex. • *20 June 2005*: first listing of the Company's shares on Euronext Brussels.
2004	• *May 2004*: issue of 2 bonds by the Company for an aggregate amount of EUR 1 billion (a EUR 500 million 10 year bond and a EUR 500 million 15 year bond).
2003	• *26 December 2003*: acquisition by the Company of all shares in Bel Engineering NV (currently Elia Engineering).
2002	• *13 September 2002*: appointment of the Company as federal TSO with effect as from 17 September 2002. • *31 May 2002*: entering into of a shareholders' agreement by the Company, Elia Asset, Electrabel, SPE, CPTE, Publi-T and the Belgian State (see section 15.2.2). • *31 May 2002*: entering into of a shareholders' loan agreement between CPTE (as lender) and the Company (as borrower).
2001	• *20 December 2001*: incorporation of the Company • *28 June 2001*: As a result of the deregulation of the electricity market, legal unbundling of system operation on the one hand and sales and generation of electricity on the other was introduced. To this end, Electrabel's and CPTE's system operation activities for the 30 to 380 kV network merged into a single organisation Elia (now Elia Asset), in which CPTE held a 70% stake and Publi-T, which represented the municipalities, held 30%.

10.5 INTERNAL ORGANISATION

Elia's internal organisation is based on four operational divisions currently supported by two corporate divisions.



The four operational divisions are:

- Customers and market: responsible for customer relations, market mechanisms (assistance and management of customers' contracts) and network development planning;
- Transmission: responsible for operating the network, monitoring energy flows and seeking to balance the electricity injected into and taken off Elia's network;
- Grid services: responsible for network related assets, including their maintenance; and
- Elia Engineering: in charge of executing the investment programme, also provides engineering services to Elia.

The two corporate divisions are:

- Corporate finance: in charge of all financial related matters (tax, treasury, accounting, controlling, investor relations). It also includes purchasing, Information Technologies and Communication (ITC) and insurance;
- Corporate affairs: responsible for the management of human resources, regulatory affairs, legal affairs, environmental and real estate management and communication. It also includes a programme management department, which monitors the execution of business objectives by coordinating a transversal projects portfolio.

The following departments report directly to the CEO: (i) the audit department (which is also in charge of the implementation of the risk management programme within Elia), (ii) the safety department and (iii) the European development department. In addition, a compliance officer is responsible with respect to Elia's confidentiality and non-discrimination policies.

10.6 ASSET MANAGEMENT

10.6.1 *Main characteristics of Elia's network*

The network is about 8,379 km long with 800 substations providing 270 off-take points and generation/injection points of customers and producers directly connected to the network as well as 508 off-take points of DSOs.

The network consists of overhead lines, underground cables, transformers and substations, with voltages ranging from 380 kV to 30 kV. The very high voltage and high voltage network consists of approximately 5,614 km of overhead lines and 2,765 km of underground cables.

Elia is one of the few TSOs in Europe to own and operate a network with a very high degree of meshing and a wide range of voltages. These features provide Elia with the opportunity to improve the reliability of its network given the fact that Elia has a global overview of the electricity generation, consumption and transmission in Belgium.

Since 2004, the 220 kV to 150 kV network has been extended by 78 km, mainly with underground cables. Moreover, an additional 24 km of underground cables at voltages in the 70 kV – 30 kV range were put in service.

Elia's network is composed of three categories of voltage levels, performing three major tasks:

- The very high voltage network consists of:

    - the 380 kV lines that are part of the backbone of the European network. Only the nuclear power plants and the Coo pump storage power plant inject electricity at this level. Electricity generated at this voltage flows toward the Belgian regions and is also exported to foreign countries. The 380 kV network is interconnected with the French and Dutch networks. No direct interconnection with Germany or the United Kingdom exists yet.
    - the 220 kV and 150 kV lines and underground cables that are strongly interconnected with the 380 kV level. They carry electricity in and between the Belgian electricity areas. Most of the non-nuclear generation capacity is connected at these voltage levels, as well as the largest corporate customers. In the upcoming years there will be a shift of power generation injection from the 150 kV to the 380 kV level. The south of the Grand Duchy Luxembourg is also connected to Elia's network at these voltage levels.

- The high voltage network, consisting of the 70 kV to 30 kV lines and underground cables, carries electricity from the higher voltage levels to the off-take points used by the DSOs and large corporate customers that are directly connected to Elia's network. Some smaller generation units such as co-generation plants also inject electricity at these voltage levels.

The use of different voltage levels is the result of technical and economical optimisation. Very high voltage is required for the optimal transmission over long distances with minimal energy losses while lower voltages are optimal for shorter distances and lower quantities.

Geographic length of the very high and high voltage network (km)	
Voltage level	**01/01/2010**
380 kV	
Overhead lines	891
Underground cables	0
TOTAL	**891**
220-150 kV	
Overhead lines	2,305
Underground cables	415
TOTAL	**2,720**
70 kV	
Overhead lines	2,388
Underground cables	282
TOTAL	**2,670**
36-30 kV	
Overhead lines	30
Underground cables	2,068
TOTAL	**2,098**
Total overhead lines	**5,614**
Total underground cables	**2,765**
TOTAL	**8,379**

10.6.2 *Network reliability and quality indicators*

Elia's network has a highly meshed structure comparable to a spider's web. This meshed configuration, which is the result of over 70 years of network development, allows virtually all off-take points to be supplied by two or more routes and using various voltage levels. This design enhances the resilience and reliability of Elia's network.

Elia has an established tradition of high reliability, as is reflected in the statistical records referred to below.

The three most important quality indicators relating to power reliability are: (i) the average interruption time ("AIT") (expressed in minutes/customer/year), (ii) the frequency of interruption (expressed in interruptions/ customer/year), and (iii) the average duration of interruptions (expressed in minutes per interruption). The evolution of these indicators for Elia is provided in the chart below.

Quality indicators (voltage levels from 380 kV to 30 kV)

	2009	**2008**	**2007**	**2006**	**2005**
Frequency (interruptions/customer/year)	0.09	0.08	0.09	0.13	0.096
Average duration (min per interruption)	17'12"	38'29"	39'07"	41'23"	31'27"
AIT (min/customer/year)	1'34"	3'07"	3'32"	5'14"	3'01"
Availability (%) (1 – AIT/year)	99.9990	99.9994	99.9993	99.9990	99.9994

For example, a frequency of interruption of 0.09 means that, for a specific client, an outage only occurs, on average, once every 11 years and 1 month and a frequency of interruption of 0.08 means that, for a specific client, an outage only occurs on average every 12 years and 6 months.

The comparability of the AIT indicator on a yearly basis is relatively limited due to the fact that, because of the high level of quality achieved, the indicator is based on a very low rate of occurrence of incidents. Therefore, a single incident can have a significant impact on the quality indicator. The yearly evolution of the AIT indicator does not in itself reflect the global quality of the network. A better assessment is obtained with average values over a longer period of time. Furthermore, an assessment of the overall quality level is only meaningful if a comparison with identical quality indicators of other network operators is available over a period of several years.

10.6.3 *Asset replacement investments*

Like most European TSOs, Elia is facing the challenges of an ageing network that was developed in the 1970s. To meet these challenges, Elia developed a number of risk based models that aimed at optimising the asset replacement strategies. In the upcoming years, an increasing part of the capital expenditure plan will be allocated to replacement investments.

10.6.4 *Network maintenance*

Elia's policy with respect to network maintenance is based on a risk assessment approach that takes into account the meshed structure of its network. The main objectives are to reach maximum availability and reliability of the network with the highest efficiency so as to minimise the total cost of ownership. To implement this policy, Elia extensively monitors the network.

Routine preventive inspections are performed at regular intervals (*e.g.*, substation visits take place every two months). Elia's preventive maintenance policy is determined by the function and type of the voltage and the type of equipment. Maintenance policies are reviewed and adapted (if necessary) based on experience feedback and outage analysis. Corrective action is taken if a problem is identified or diagnosed.

A preventive anti-corrosion maintenance programme is run yearly on the towers of overhead lines. Tower painting is condition-based.

For underground cables, by their very nature, all maintenance is corrective.

10.6.5 *Network development*

Elia's network development standards are designed to deliver reliable transmission of electricity with a minimal total cost of ownership while minimising the impacts on land-use and environment. Elia's network development is based on four investment plans: one on the federal level for the very high voltage network and one for each of the three regions' high voltage network. These plans are available on Elia's website (www.elia.be).

The current federal development plan covers the period from 2005 to 2012. In accordance with certain amendments to the federal law of 29 April 1999 on the organisation of the electricity market, as amended (*Loi relative à l'organisation du marché de l'électricité / Wet betreffende de organisatie van de elektriciteitsmarkt*) (the "Electricity Law"), the next development plan will be drawn up for a period of ten years and reviewed every three years. According to the Royal Decree of 20 December 2007 relating to the procedure of elaboration, adoption and publication of the development plan of the electricity transmission network (*Arrêté royal du relatif à la procedure d'élaboration, d'approbation et de publication du plan de développement du réseau de transport d'électricité / Koninklijk Besluit betreffende de procedure voor uitwerking, goedkeuring en bekendmaking van het plan inzake ontwikkeling van het transmissienet voor elektriciteit*), the elaboration of this plan depends on the publication of a prospective study about electricity by the Federal Energy Administration. This prospective study has to be adopted after a prior strategic environmental assessment, as required by the law of 13 February 2006 regarding the environmental assessment of plans or programmes (*Loi relative à l'évaluation des incidences de certains plans et programmes sur l'environnement et à la participation du public dans l'élaboration des plans et des programmes relatifs à l'environnement / Wet betreffende de beoordeling van de gevolgen voor het milieu van bepaalde plannen en programma's en de inspraak van het publiek bij de uitwerking van de plannen en programma's in verband met het milieu*). In view of the foregoing, the next federal development plan is not expected before 2011.

At the regional levels, the investment plans are established on an annual basis for the Flemish and Brussels-Capital Regions and on a biannual basis for the Walloon Region. They cover periods from three years (for the Flemish Region) up to seven years (Brussels-Capital and Walloon Regions). The most recent Flemish Region plan covers the period from 2009 to 2012, the Brussels-Capital Region plan covers the period from 2010 to 2017 and the Walloon Region plan covers the period from 2010 to 2017.

These investment plans identify the reinforcements to the networks that are required in order to cope with the increase of consumption at each off-take point as well as new power plants requirements (conventional or renewable energy sources) or increased import and export capacity with neighbouring countries. For each investment plan, Elia consults with the relevant regulator in order to ensure a coherent approach at both regional and federal levels. Following the recommendation of each relevant regulator, the respective governments approve the investment plan proposed by Elia. In the Flemish Region, the plan is, however, approved solely by the regulator. This process ensures both the short and long-term adequacy of Elia's network with respect to the expected network users' demand and makes certain that the related charges are transferred into future tariffs.

The investment plans also take into account the environmental and land-use constraints as well as applicable health and safety objectives. To the extent technically feasible and taking into account the economical constraints, Elia strives not to increase the total length of overhead lines in the country and to replace existing lines by underground cables as a compensation for new overhead lines (standstill principle). Elia tends to favour underground cables for all voltage levels up to 150kV while maximising the use of existing 220 kV, 150 kV and 70 kV assets. Should overhead lines be necessary, they will as much as possible be built along existing or planned large infrastructures (bundling principle).

Elia decides and prioritises projects by comparing their respective value with their costs, the environmental and land-use constraints, and the health and safety objectives in accordance with the following axis:

- *Developing the European electricity market*: Network development aims at (i) facilitating the opening of the electricity market through an increase of the import/transit capacity of the Belgian network by building new or extending existing interconnections with neighbouring countries; (ii) reducing the dependency of the network on the geographical location of Belgian generation plants; and (iii) developing the network to integrate additional power plants in the network and to implement new production projects of market players.
- *Connect and integrate renewable energy sources to the network*: as a result of the incitements by national governments to increase the installed renewable energy, Elia is extending its network for the connection of new generation units based on renewable energy sources plants.
- *Achieving consistent and reliable transmission*: In the context of the steadily increasing importance of a reliable electricity supply and a potentially increasing growth of electricity demand, Elia's investments aim at enhancing the reliability of its network as much as possible or at least to maintain it at its present level.
- *Environmental and land-use requirements*: The legislation regarding land-use and environmental matters is constantly evolving. Elia's policy aims at adapting its network infrastructure so as to comply with applicable laws and regulations.
- *Other legal constraints*: In accordance with legal stipulations, authorities and third parties may request Elia to relocate some installations of the network (mainly overhead lines or underground cables).
- *Connection of customers*: The connection of customers' installations to Elia's network is charged to the relevant customers.

Reference is also made in this respect to the investment projects of Elia (see section 10.11).

10.7 SYSTEM OPERATION

As a system operator, Elia provides the relevant market participants with access to its network and operates its network, with a view to both maintaining the electricity flows within the operation criteria of the network's infrastructure and balancing, in real time, the injections and off-takes of electricity within the Belgian geographical area.

10.7.1 *Access to the electricity network*

Elia's network is the essential link between the supply and demand of electricity both within Belgium and in the context of the EU's internal electricity market. To inject electricity into Elia's network, generation plants located in Belgium must be physically connected and receive access to (*i.e.* the right to use) the network. Elia's network is operated in such a way as to allow this electricity, as well as the electricity coming from neighbouring countries, to flow to the off-take points to which distributors, large corporate customers and foreign networks are connected. Parties accessing Elia's network are charged regulated tariffs based on their peak quarter-hourly demand and energy consumption.

10.7.2 *Daily operation of the electricity network*

As a system operator, Elia constantly monitors, controls and manages the electricity flows throughout the Belgian very high voltage and high voltage network. The main tasks include:

- monitoring the electricity flows between the injectors and the off-takers on the network, including international exchanges on the interconnections with neighbouring countries; and
- seeking to ensure the reliability, continuity and quality of the transmission by maintaining the frequency and voltage within internationally determined limits.

Elia's network is monitored 24 hours a day, seven days a week by four control centres (one national centre located in Brussels, and three regional centres located in Antwerp, Brussels and Namur), also called dispatching centres. These control centres continuously monitor among other things electricity flows, frequency, voltage at each off-take point, load on each network component and status of each circuit breaker.

When a network component is switched off as a result of a network incident (*e.g.*, a lightning strike or a severed cable) or when maintenance is being carried out, Elia's personnel takes appropriate measures to reinforce the operational reliability of the network and to safeguard the electricity supply to Elia's customers. Elia has the ability to remotely activate or disactivate certain network components. Elia's supervisory control and data acquisition software systems are redundant. If one of its four control centres is out of service, one of the remaining control centres will immediately and automatically take over to allow the delivery of electricity supply to Elia's customers.

Elia has adopted other measures designed to maintain reliability for its customers. These measures consist of both operational measures (such as capacity allocation, load flows forecasts and compliance checks) and emergency procedures. Some of the measures have been adopted in cooperation with neighbouring TSOs (and approved by their respective regulator) and/or with Coreso, the regional coordination service centre (see 10.7.5) so as to promote coordinated action. The standard known as the "N–1" criterion, which is used by all European TSOs, requires that an electricity system must be able to withstand any single contingency of loss of a generation plant or a network component without significant negative influence on the electricity supply to the TSO's customers.

In order to limit the intervention of Elia in balancing generation with demand, every supplier and consumer is required to appoint an access responsible party ("ARP"). An ARP may act for several consumers or suppliers, and is responsible for balancing the injections and off-takes by its portfolio of suppliers and consumers on a quarter-hourly basis.

ARPs are either producers or consumers themselves, but may also be traders or intermediaries (see section 10.7.3). Among other things, their obligations require them to schedule (*i.e.* nominate), on an hourly basis, the volume of electricity that it expects to inject in and/or off-take from Elia's network.

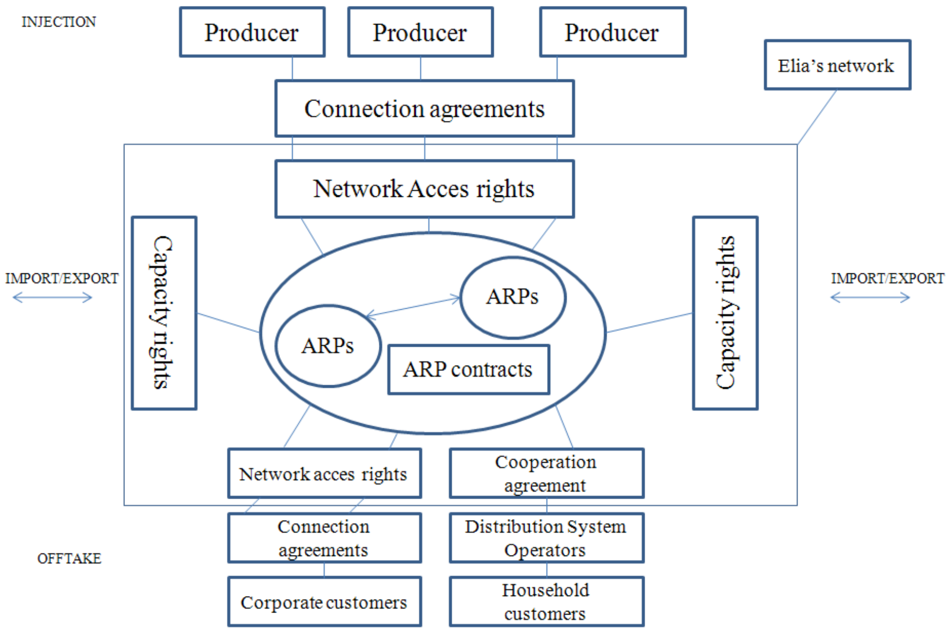
When the balancing achieved by ARPs is insufficient to ensure the match between generation and demand in the Belgian geographical area, Elia purchases generation capacity (*i.e.*, electricity) from local producers as well as load shedding contracts (*i.e.* reduction of electricity off-take) from large industrial electricity customers. These contracted generation and demand capacities, one of the ancillary services, is used to balance, at any time, the total injections and off-takes from the system, taking into account the international exchanges.

Ancillary services contracts are granted in accordance with public procurement rules (see section 13.2.5). The main ancillary services consist of electricity purchases for balancing generation with demand as well as to compensate for electricity losses on the network from 70 to 30kV. These electricity purchases are currently contracted with several generators mainly located in Belgium (see section 15.4.1).

Part of the costs incurred by Elia as a result of the purchase of ancillary services is directly invoiced to the defaulting ARPs while the ancillary services (such as compensation for the electricity losses) are reflected in the network tariffs.

10.7.3 *Commercial organisation of the system operation activities*

General model for contracts



Customers

Elia's customers are producers, DSOs, wholesale and retail suppliers and large corporate customers. Some of the customers are mere access holders with the right to access the network, while others are ARPs.

Some 290 generation and off-take facilities are currently connected to Elia's network, including about 130 industrial users.

Contracts

Based on the federal Grid Code (see section 13.4.1), the relationship between Elia and its customers is mainly governed by three types of contracts: the Connection Contract, the Access Contract, and the Access Responsibility Party Contract, as detailed hereafter.

These three types of contracts represent the largest part of Elia's activities and revenues in Belgium.

The use of standard regulated contracts limits the risk of discrimination among Elia's customers, as well as the administrative workload of Elia in its relationship with its customers.

Connection Contract

Connection Contracts are entered into between the Company and a customer whose facility is to be connected to Elia's network. The contract defines the contractual rights and obligations of the Company and the customer with respect to the realisation, right of use, ownership, technical requirements and management of the installations required for the physical connection to Elia's network.

In exchange for the realisation and management of the connection of the customer's installations, the Company is remunerated by the customer through a regulated connection tariff.

Liability in the Connection Contract is limited to the mere connection while liability for access interruption is dealt with in the access contract. In case of a serious fault, (i) liability for direct material (*i.e.* to physical assets) damage is limited to EUR 2.5 million per case per year, which damage will only be compensated to the extent that such serious fault causes an interruption of the connection of minimum 30 seconds, and (ii) liability for direct immaterial damage is limited to EUR 0.5 million per case and per year, which damage will only be compensated to the extent that such serious fault causes an interruption of the connection of minimum 3 minutes. For normal faults, liability is limited to direct material damage with a cap of EUR 1 million per case and per year, which damage will only be compensated to the extent that such fault causes an interruption of the connection of minimum 3 minutes and with a limit of EUR 300 per MWh that could not be exchanged with the network as a result of the interruption of the connection. Except in cases of fraud or wilful misconduct, the Company's total liability for an accident caused within the framework of the Connection Contract, but also causing damages to other network users, is limited to EUR 5 million for all the concerned Connection Contracts. The foregoing amounts will be indexed yearly on the basis of the consumption price index.

Access Contract

For each connection to Elia's network, an Access Contract determines the amount of power that the customer is allowed to inject and/or to off-take and the regulated tariff conditions of its access to the network. The Access Contract defines the contractual rights and obligations of the Company and the customer or a third party appointed by it, regarding the access to the transmission network at specified injection and/or off-take point(s) of the customer.

DSOs (26 in total) are directly connected to Elia's network and have entered into specific Access and Connection Contracts called cooperation agreements.

In exchange for access to Elia's network, the access holder is charged regulated access tariffs. These are based on the transmission capacity purchased under the Access Contract, the peak load and the actual off-take of electricity from the network. The Access Contract contains specific provisions relating to the respective liability of the parties. These provisions apply to all causes of liability (contractual, extra-contractual or otherwise) and to all rights and remedies a party might be able to claim, to the extent they arise from an interruption of the access to Elia's network or an intervention on Elia's network occurring at the access point.

According to the standard Access Contract, the parties are only liable to one another for damages caused by fraud, wilful misconduct or serious misconduct committed against the other party. The Access Contract contains a double restriction on the Company's liability for damages. The total liability of the Company for all damages arising from serious misconduct is limited to a maximum of EUR 300 for each MWh that could not be injected and/or off-taken at an access point for the duration of the interruption. Without prejudice to the aforementioned maximum amount of EUR 300 for each MWh, and except in cases of fraud or wilful misconduct, the liability of the parties for all damages is limited on a yearly basis to (i) a maximum of EUR 1 million for each case of damage, and (ii) EUR 5 million for all claims by all access parties based entirely or primarily upon the same confirmed or suspected cause. The foregoing amounts will be indexed yearly on the basis of the consumption price index. Except in case of fraud or willful misconduct, parties are not liable for indirect or unpredictable damage or for immaterial damage, including but not limited to loss of profits and/or interruption of business activities.

Access responsible party contract ("ARP Contract")

Any person injecting energy in, or off-taking energy from Elia's network is required to appoint an ARP. ARPs are responsible for keeping a series of identified access points in overall balance on a quarter-hourly basis. As of 1 April 2010, 67 market participants were registered with Elia as ARPs.

The ARP Contract governs the relationship between the Company and the ARP with respect to the balancing of the injections in and off-takes from Elia's network. It provides that ARPs will be charged for the imbalances they are responsible for. This income enables Elia to cover part of the costs associated with energy purchases (ancillary services) that are required to maintain the balance between injections and off-takes from the Belgian electricity system.

The ARP Contract provides that the parties shall be liable vis-à-vis each other for all damage resulting from a contractual breach and/or fault. The defaulting or breaching party is required to indemnify and compensate the other party for any direct damage, including claims by third parties in relation to such direct damage. Except in cases of fraud or intentional fault, the parties will, under no circumstances, have to compensate or indemnify the other party, including for claims by third parties, for indirect damage or consequential loss (*dommages indirects ou consécutifs / onrechtstreekse schade of* *gevolgschade*), including and not restricted to, loss of profits, loss of earnings, loss of use, loss of contracts or loss of goodwill.

10.7.4 *Planning reliable network operation*

The planning of network operations is formulated on an annual basis and is based on the electricity generation forecasts made by the Belgian producers (*e.g.* taking into account the planned shut-down of generation units), the allocated capacity for export and import to and from neighbouring countries and the Company's scheduled maintenance and works on its network. This planning is updated throughout the year on a monthly, weekly and daily (on a day-ahead) basis, taking into account the demand arising from the Company's customers as well as unexpected events that may impact generation, import and export and network maintenance in Belgium and in the neighbouring electricity networks.

10.7.5 *Coreso*

The creation of Coreso by Elia, National Grid and RTE aims at increasing the operational coordination between TSOs, in order to enhance the operational security of the networks and the reliability of power supplies in Central West Europe.

Coreso also contributes to a number of EU objectives, namely the operational safety of the electricity system, the integration of large-scale renewable energy generation (wind energy) and the development of the electricity market in Central West Europe comprising France, Belgium, the Netherlands, Germany and Luxembourg. This geographical area is characterised by major energy exchanges and the co-existence of traditional generation facilities with an increasing share of renewable generation, whose output may fluctuate with changing weather conditions. Optimised management of electricity systems and corresponding network infrastructure, specifically interconnections between power networks, are very important in this context.

10.8 ELECTRICITY IMPORT/EXPORT – MARKET FACILITATION

10.8.1 *Electricity import and export*

Due to the central location of the Belgian network within continental Europe and the intensive cross-border commercial exchanges following the deregulation of the European electricity market, Elia's network is intensively used by market participants for cross-border import and export and for the transit of electricity.

The capacity available for commercial transactions between respectively Belgium and the Netherlands, and Belgium and France, is determined jointly by respectively Elia and TenneT (the Dutch TSO), and Elia and RTE (the French TSO), and takes into account operational safety criteria.

The capacity that is commercially available, is granted to the market participants as follows:

- Long-term capacity rights: an explicit auction is organised by the joint auction office CASC-CWE, a subsidiary of several TSOs (amongst which the Company). The participants can acquire the right to import or export a number of megawatts at any time during a predetermined month or year. CASC-CWE operates these yearly and monthly explicit auctions. It also takes care of the registration of the participants, the secondary market, the programming authorisations, the data publication on internet, the financial guarantee and the settlement process.
- Daily capacity rights: an implicit auction (*i.e.* an allocation of capacity rights together with energy transactions) is organised together with the Belgian (Belpex), French (EPEX SPOT) and Dutch (APX) day-ahead power exchange operators. The implicit allocation mechanism enables market players to optimise their use of the capacity available since the capacity available is always used to transfer energy from the market with the lowest price to the market with the highest price. Continued price differences encourage market players to use the total transmission capacity available between the concerned markets. In the exceptional case of unavailability of the market coupling mechanism, explicit daily auctions will be organised by CASC-CWE.
- Intraday capacity rights: capacity is offered by the network operators for almost immediate use. This is known as "intraday capacity". Capacity is allocated at set times, referred to as 'gates'. If more transmission capacity is requested for a specific hour of the day than available, the excess capacity is distributed amongst the applicants in a series of rounds, using an iterative *pro rata* mechanism. Said capacity is provided free of charge. The systems at the Belgian-Dutch border and at the Belgian-French border are similar. Elia is the operator

responsible for allocating capacity at the Belgian-Dutch border, while RTE performs the same function at the Belgian-French border.

The determination of the interconnection capacity that is available, is subject to international regulations. Regulation (EC) n° 1228/2003 of the European Parliament and Council of 16 June 2003 provides that congestion issues should be resolved through non-discriminatory market-based mechanisms. Under the Third Electricity Package, this Regulation will be replaced by Regulation No 714/2009, entering into force on 3 March 2011. For more details, see section 13.1.

Pursuant to the federal Grid Code, the capacity allocation mechanisms are subject to approval by the CREG.

10.8.2 *Inter-TSO compensation mechanism for EU cross-border trade*

In addition to transmission within Belgium, Elia's very high voltage network is also used for cross-border trade, mainly with neighbouring countries. Because physical flows of electricity follow the path of least impedance (*i.e.*, resistance to electricity flow), actual electricity flows may deviate significantly from the commercial path or scheduled flow. Consequently, the actual metered electricity flows of cross-border trade through Elia's network may significantly differ from the scheduled commercial transactions. Costs incurred as a result of these flows are partially compensated by means of an inter-TSO compensation arrangement developed and monitored by ENTSO-E.

Elia's income from or charge due under the inter-TSO compensation mechanism for EU cross-border trade is returned to the home market participants through a tariff reduction or increase.

10.8.3 *Exchange hub*

To maintain the balance within their perimeter, ARPs can either (i) inject/off-take electric energy, (ii) import or export electricity from or to neighbouring networks (if they have been allocated sufficient capacity) and (iii) buy or sell energy on a bilateral basis on the Belgian hub. In an electricity market, a hub is a market place where market participants, and the ARPs, can exchange electric energy.

Elia established a Belgian hub in October 2001 to facilitate the exchange of electricity between market participants and the ARPs, and to contribute to the overall balance of the network by helping the ARP to remain in balance. The Belgian power hub is not a power exchange given the fact that Elia is not informed of the price of the transaction but only of the identity of the parties who intend to exchange energy and of the amount of energy they exchanged. There is therefore no anonymity of the participants.

In absolute terms, the volume of electricity exchanged on this hub increased in 2008 compared with 2007 and decreased in 2009 due to the economical and financial crisis. In relative terms, however, and compared to off-take, the volume was stable.

The volume exchanged on the day-ahead hub is illustrated in the following table:

	2009	**2008**	**2007**
Volume on the day-ahead Hub (GWh)	51,377	57,454	48,886
% of day-ahead hub in Belgian off-take	60.7 %	63.8 %	54.4 %

In October 2003, the Company also established a power hub working on an intraday basis. The volumes are steadily increasing but remain rather limited.

The volume exchanged on the intraday hub is the following:

	2009	**2008**	**2007**
Volume on the day-ahead Hub (GWh)	928	733	296
% of day-ahead hub in Belgian off-take	1.10 %	0.81%	0.33%

10.8.4 *Belpex, the Belgian power exchange and integration of Belpex in APX*

The Company is one of the founders of the Belgian power exchange Belpex. Belpex allows producers, suppliers, large industrial consumers and traders to optimise their portfolio in the short-term at a transparent and internationally competitive market price. At the end of 2009, a total of 34 market players – producers, suppliers, traders and banks – were registered and active on Belpex.

On 19 April 2010, the Company and TenneT announced that they had entered into an agreement for the sale of their shares in Belpex (jointly representing 70% of the total outstanding share capital of Belpex) to the Dutch power and gas exchange APX. At the same time, the Company announced that it would acquire a 20% shareholding in APX following subscription to a capital increase of APX without preferential subscription right. The Company holds, prior to the integration of Belpex in APX, a 60% stake in Belpex. The remaining 40% are equally divided between TenneT, RTE, APX and Powernext.

The APX group is a leading provider of power and gas exchange services for the wholesale market in Europe, operating transparent platforms for short-term and futures trading in the Netherlands, the United Kingdom and Belgium. Established in 1999, the APX group provides exchange trading, central clearing and settlement and data distribution services. APX has over 300 members in more than 15 countries. APX offers benchmark data and provides industry indices.

The transaction, which is subject to certain closing conditions, comes down to an effective integration of Belpex and APX. This is in line with the strategic objectives of Elia, TenneT, Belpex and APX to enhance the further integration of the European energy markets. The transaction coincides with other core tasks which mainly focus on improving the efficiency, transparency and fluidity of the energy market in North Western Europe. The transaction is subject to certain regulatory approvals (including by the relevant competition authorities) being obtained. It is intended that the transaction is closed by October 2010.

The agreement provides that APX will acquire shares in Belpex representing 60% of the total outstanding share capital of Belpex from the Company and shares representing 10% of the total outstanding share capital of Belpex from TenneT. Prior to this transaction, APX already held 10% of the shares of Belpex. Since the remaining Belpex shareholders RTE (10%) and Powernext (10%) simultaneously decided to sell their participation in Belpex to APX as well, the transaction would bring the total shareholding of APX in Belpex to 100%.

Following the transaction, the Company would have a 20% shareholding in APX, while the remaining shares would be held by TenneT (56.1%), Nederlandse Gasunie (20.9%) and Fluxys NV (3%). The Company would also be represented in the corporate bodies of APX.

The deconsolidation of Belpex is not considered to have significant effects on Elia’s next consolidated financial statements as Belpex contributes less than 1% to Elia’s consolidated balance sheet and profit over the year. Belpex would be deconsolidated as of the date when control is lost, which is expected to be October 2010 (if all closing conditions are satisfied). Elia will account for the 20% shareholding in APX under the equity method.

10.8.5 *HGRT*

HGRT is a French holding company, currently having three shareholders: RTE (51.0%), TenneT (24.5%) and the Company (24.5%). It has a 52.8%[16] shareholding in Powernext S.A., the French electricity exchange. The latter offers, among other things, standard hourly day-ahead electricity contracts for delivery on the French hub.

10.8.6 *CASC-CWE*

CASC-CWE is the Capacity Allocation Service Company for the CWE electricity market. It acts as a single point of contact for the implementation and operation of services relating to the auctioning of power transmission capacity on the common borders between the five countries of the CWE region. The shareholders of CASC CWS are the Company and the TSOs Creos, EnBW Transportnetze AG, Transpower, RTE, Amprion and TenneT.

10.9 RELATED ACTIVITIES

Elia has developed and is in the process of developing a number of activities which are ancillary to its core business.

[16] Source: Powernext website.

Revenues generated by these related activities are non-tariff revenues. However, profits or losses arising out of these activities are reflected in the tariffs as a deduction from the costs (see section 13.6.5).

10.9.1 *Elia Engineering*

Elia Engineering manages all investment projects and major transformation works of Elia's network, as well as the new connection of customers' infrastructure or (electric) asset related projects ordered by industrial clients. Elia Engineering is responsible for the final realisation of these projects and acts as the consulting engineer for Elia's investment plans. In fulfilling this role, Elia Engineering is responsible for the design and the final commissioning of the installations concerned and is involved in the negotiations needed to get the required permits. Throughout this process, Elia Engineering focuses on design and control tasks, while the realisation itself and the related supporting activities (*e.g.* fieldwork or cables stringing or pulling) are outsourced to subcontractors (*e.g.* suppliers or other engineering companies).

In addition to project management activities, Elia Engineering also develops for and offers high-level technical expertise to Elia including the coordination of the research and development activities.

10.9.2 *Elia RE*

Following the events of 11 September 2001 in the US, the Company's insurance policy covering the overhead network was terminated and the insurance premium relating to Elia's network related assets coverage was significantly increased. The Company also faced market rates for insurance against industrial risks which it deemed not acceptable. Within this context, the Company created a captive reinsurance company, Elia RE. Elia RE was incorporated in 2002, under the form of a Luxembourg public limited liability company (*société anonyme*) for the purpose of reinsuring all or part of the risks of Elia , and is held by Elia Asset.

Since its incorporation, Elia has entrusted Elia RE with three of its insurance programmes: the overhead network, electrical installations and buildings, and civil liability. As at 31 December 2009, Elia RE had a capital of EUR 5 million (of which EUR 3.2 million is paid-up) and an excess solvency margin of EUR 2.8 million.

In practice, the Company enters into an insurance agreement with an insurer, which reinsures a portion of the risks with Elia RE. There is thus no direct money transfer from the Company or Elia Asset to Elia RE. The Company's insurance premiums as well as reinsurance premium paid to Elia RE by insurers correspond to standard market rates.

10.9.3 *Asset valorisation*

Besides asset valorisation via electricity tariffs, a supplementary income is generated by certain complementary activities. The most important is currently related to telecom activities:

- *Making high voltage towers available to telecom operators.* Elia owns around 22,000 high voltage towers and makes them available to several telecom operators as supporting structure for their mobile network antennas. The contracts with those operators stipulate that those activities are subordinated to the network operations of Elia and that the activities of the telecom operators cannot in any way and at any time harm Elia's own operations. The relevant telecom operator is exclusively responsible for any potential liability incurred as a result of the use of telecommunication equipment.
- *Making (glass) fibres available.* Elia owns glass fibres in Belgium that are used for its internal communication. If there is demand from the market and if Elia does not use all capacity of its glass fibres for its own needs, this extra capacity (no bandwidth) is made available to third parties in exchange for a fee.
- *Making bandwidth available.* As notified to the IBPT[17] (the Belgian Telecom Regulator), Elia makes data transmission bandwidth capacity available to a closed users' group on an exclusive basis.

10.9.4 *Grand Duchy of Luxembourg*

Elia is co-owner and operator of 220 kV and 150 kV network assets in the southern part of the Grand Duchy of Luxembourg. The ownership of these assets is shared with "Sotel réseau". Elia has agreed that "Sotel réseau" will be the

[17] IBPT = Institut belge des services postaux et des télécommunications.

sole concession holder (under Luxembourg law) for the management of the industrial network and is remunerated for the use of these assets.

10.9.5 *Friends of the Supergrid*

Elia is one of the members of the Friends of the Supergrid, or “FOSG”, a representative body that combines companies that will deliver the high voltage direct current, (“HVDC”) infrastructure and related technology, and companies that will develop, install, own and operate the future network infrastructure in the North Sea and the Baltic Sea.

10.10 SUPPORT SERVICES AND TRANSVERSAL MATTERS

10.10.1 *Information and communication technologies (ICT)*

Organisation

The ICT department is composed of five internal departments being (i) Energy Management Systems, (ii) Corporate Systems, (iii) IT and DataCom exploitation, (iv) IT Governance and (v) Implementation Team.

Energy Management Systems (EMS+)

EMS+ is responsible for the development and maintenance of IT applications that are owned by or licenced to Elia and which support Elia in the operation of (i) the electricity exchanges within Belgium and with neighbouring countries and (ii) the energy management systems installed in each control centre.

The applications that are critical to the business are maintained on a very high availability level. They include, among others, applications relating to the continuous monitoring and control of the electricity network, which are key to the business and must be available more than 99.9% of the time.

Corporate Systems (Corp+)

Corp+ is responsible for the development and the maintenance of IT applications that are owned by or licenced to Elia, and that support Elia in the operation of its business processes related to finance and administration, settlement, network development and maintenance services. The technical solutions are realised with IT software licenced from third parties (*e.g.* SAP) and adapted to Elia’s needs or with tailor made software (*e.g.*, software for network maintenance). Tailor made software and adaptations are organised by Elia and the execution is mostly done by external service providers. Strategic IT functions are performed by Elia’s employees.

IT and DataCom exploitation (IT-DATA Exp)

IT-DATA Exp is mainly in charge of the management of the IT and data network including the security and support of the IT infrastructure. Several measures have been taken to protect Elia’s IT systems: back ups are taken monthly, weekly and daily, and backup tapes are stored at different locations. Critical business data are replicated on-line to another location and/or backed up several times a day. The network is protected through firewalls and anti-malware solutions are implemented on different logical levels.

Elia has five data centres. All data centres are connected through redundant fibre connections and powered by a ‘no-break’ infrastructure with redundant air conditioning systems. Moreover, each site is capable of functioning independently through redundant connections with automatic failover. IT business critical applications have a disaster recovery plan solution on another site.

IT Governance and the Implementation Team

The IT Governance Team and the Implementation Team support the above mentioned teams and projects. The IT Governance Team focuses on governance and security aspects, whereas the Implementation Team takes the responsibility for most new tailor-made applications.

10.10.2 *Real property / city planning*

Description

Elia is one of the largest property owners in Belgium. Most of Elia's rights to these properties are property rights or personal or proprietary use rights (lease, long lease or building lease). Additionally, at regional level, Elia operates some of its lines pursuant to concession agreements with public or semi-public authorities such as the Antwerp Harbour, Brussels Harbour, Antwerp Airport, the SNCB/NMBS (national rail company) and the Liège Harbour.

As per 31 December 2009, Elia owned some 12,914 plots of land in Belgium, representing a total area of 10,709,743 square metres, on, over or under which overhead lines, underground cables, substations, transformers and accessory infrastructure are built.

Elia owns or has the right to use around 800 substations. For further development of its activities, Elia is either acquiring or (long) leasing new property, whilst property of less importance is made available for future sale. Elia owns all its administrative offices except three of them which are located in Brussels (registered office in Boulevard de l'Empereur and office at Avenue Cortenbergh) and in Diegem (Elia Engineering offices in Culliganlaan).

Rights of way

Current legislation entitles Elia to be granted rights of way on the public domain and on private plots of land for the operation of its network. Additionally, agreements are negotiated with private persons, on an individual basis, regarding the use of their property every time it is necessary to go beyond the legal rights granted to Elia. Under these agreements, a compensation is paid to the private owners for the use of their property.

The amount of the fees applicable to rights of way on the public domain is determined by the competent authorities. These fees are included in the regulated tariffs. On various occasions, municipalities have introduced taxes on pylons, the validity of which has been systematically challenged by Elia.

10.10.3 *Environmental matters*

Like any other company, Elia has to comply with environmental obligations in connection with its activities. These obligations relate more specifically to soil decontamination, waste disposal, installation of transformer tanks (to prevent oil discharge), compliance with noise regulations and legislation on greenhouse gas emissions and asbestos.

Elia's activities may create certain environmental risks. Although Elia is not covered by a specific insurance against these environmental risks, Elia's high voltage civil liability insurance provides some coverage against environmental risks which the activities of Elia may entail. Elia is reviewing additional ways to cover any potential environmental risks.

As TSO and regulated company, Elia is also expected to set an example in terms of rational use of energy and nature conservation and protection. It strives to obtain that its facilities and investment projects are accepted by the community, both in terms of their human and environmental impact and their cost-effectiveness (*i.e.* cost to the community at large).

Protecting the environment also includes looking for solutions to potential environmental problems caused by pollution of soil, substrates and water tables due to hydrocarbons. For this reason, Elia is actively following research on methods for biological soil decontamination.

Environmental and building permits

The protection of the environment is governed by the legislation of the three regions: the Flemish Region, the Walloon Region and the Brussels-Capital Region. Each region has adopted a separate body of environmental statutes and regulations, and only very few environmental matters remain governed by federal legislation. Most environmental regulations also include criminal sanctions. These principles are also applicable to city and country planning.

Elia must obtain environmental and building permits for power stations, and building permits for overhead lines and underground cables, which should be delivered in accordance with applicable zoning regulation and urban development plans. Moreover, several projects require environmental assessment studies both at plan and project level.

Noise reduction

Elia makes efforts to reduce the noise nuisance generated by its activities and facilities. For every new, or renovation of existing, power stations, a noise assessment is conducted and appropriate action is taken (*e.g.* using less noisy transformers or placing sound proof walls). Such assessments (and corrective measures) are also conducted for existing installations whenever a complaint is made or large-scale works are performed.

Transformers

Concrete tanks systematically equip new transformers and are added to existing transformers whenever large-scale works are performed on the relevant site. In the Walloon Region, where all transformers have to be adapted by December 2015, an action plan has been adopted so as to ensure that 119 existing power stations are adapted in due time. Similar action plans have been set up in the Flanders and Brussels Capital Regions although no deadline is currently specified for the adaptation.

PCBs

Legal provisions require that by the end of 2005 all items of equipment containing PCBs (for a concentration exceeding 500 ppm) were removed or cleaned. Although allowed to operate until their end of life, Elia voluntarily undertakes action to decontaminate or replace transformers with concentrations below 500 ppm before the end of their service life.

Waste disposals

All waste from projects is being taken care of by the contractor of the project, while personnel of Elia controls that obligations are respected. Waste from operational works on the network is gathered in one of the Service Centers (SC) by Elia's personnel, and is sorted according to regional waste legislation in different containers. When a container is nearly full, Sita, who has the contract of collecting all industrial waste, collects the container on first call, takes care of its elimination (or reutilisation) and sends attestations, so that Elia can report regularly to the concerned regional authorities.

Soil

Elia continues to implement environmental policies, specifically with regard to the prevention of soil and groundwater pollution and its obligation to investigate soil conditions wherever ground works are planned. While Elia has made certain provisions and accruals in connection with such obligations in its financial statements, the provisions and accruals made by Elia may not be sufficient to cover all costs that are potentially required to be made in order to comply with these obligations, including if the assumptions underlying these provisions prove to be incorrect or if the Company is held responsible for additional, currently undiscovered contamination (for more details on provisions in respect of environmental matters, see section 19.3.14).

The Flemish Region. In accordance with the Flemish decree on soil rehabilitation, exploratory soil surveys have been conducted on 171 plots of land in 1997 and on 253 plots in 2001. These surveys were required by law further to the transfer of installations (i) from Electrabel and SPE to CPTE in June 1997 and (ii) from CPTE to Elia in June 2001.

In relation to the 1997 transfer, the Flanders Public Waste Agency (OVAM) requested eight clean-up projects, four of which are still on-going (two merely consist of monitoring some slight left-over pollution, one halted due to the discovery of other serious pollution, and groundwater treatment still on-going in the last site). The other four sites were officially declared sufficiently cleaned up.

In relation to the 2001 transfer, descriptive soil tests are still on-going on two sites (and are complicated by the presence of other active parties). On two other sites (which are part of larger polluted sites that are mainly owned by third parties), OVAM is organising an overall view on potential clean-up. Finally, for three sites, clean-up projects have to be launched and submitted to OVAM this year (one of those already being included in the 1997 sites mentioned above).

For all of these sites provisions were and are booked and are actualised annually.

The Walloon Region. In the Walloon Region, legislation was adopted in 2009 only and is not yet fully in force. Elia has nevertheless taken proactive actions. In 2003-2004 and 2006-2007, a sample of power stations was investigated. Since

2008, each power station for which Elia holds a real property right is systematically visited in view of the evaluation of potential risks of serious pollution. Whenever important pollution is expected, a thorough investigation is conducted and risk evaluation is made. This results in a financial estimate of the decontamination costs of the relevant power stations. At the end of 2009, provisions were booked with respect to 10 sites. Since 2010, Elia has started a similar exercise for the power stations operated by Elia without property right.

The Brussels-Capital Region. The soil legislation was recently amended but has not yet entered into force. Elia has undertaken to visit all power stations and to give special attention to those sites that are located in areas where, according to the Brussels register of potentially contaminated properties, industrial activities with serious risk of soil contamination were previously carried out. This action is still ongoing. At the end of 2009, provisions were booked in respect of power stations with indications of serious pollution for two sites (Midi and New Schaarbeek).

Electromagnetic fields ("EMF")

The Council of the European Union has adopted a recommendation on 12 July 1999 which aims at limiting the exposure of the public to EMF. The recommended limits of exposure are formulated to ensure that exposures are sufficiently below the levels for which biological studies show a reproducible harmful effect. Some countries have established their own standards based on these recommendations.

Belgium enacted the law of 12 July 1985 on the protection of human health and environment against harmful effects and nuisances generated by non-ionising, infrasonic vibration and ultrasonic sounds radiation. However, to date, no implementation decree has been adopted.

A Flemish act relating to the exposure in home interiors to all kind of pollutants includes exposure to EMF, and mentions both an intervention value of 10 µT, and a recommended value of 0,2µT. However, it does not specifically refer to high voltage installations.

In an advisory note to the authorities, the High Health Counsel refers to a maximum long-term exposure of 0,4 µT. Up to now the authorities have not taken any action based on this recommendation.

Despite the lack of constraining regulations, the authorities in charge of authorising installations generating electromagnetic waves apply the precautionary principle, which states that the absence of certainty, taking into account the technical and scientific knowledge of the moment, should not delay the measures designed to prevent a risk of serious and irreversible damage to the environment. In Belgium, this principle was recently recognised both by courts and by environmental regulation.

Moreover, due to continuous actions from pressure groups, authorities are increasingly reluctant to deliver building permits for overhead lines.

Elia is aware of the concerns of the public with respect to EMFs. Elia has developed an EMF policy to respond to these concerns, but the lack of technical and medical knowledge among the public makes it difficult to respond to all potential issues.

Elia has published a brochure entitled "Electromagnetic fields and high voltage", which is designed to explain the concepts surrounding EMF and to provide a simple and intelligible response to questions asked by the public.

Nature

Elia's environmental policy has a proactive approach with regard to nature preservation. For example, new areas are made available for nesting, as well as for feeding different species and protecting them against inclement weather conditions and predators at the foot of high voltage pylons. In Wallonia as well as in Flanders, Elia is pursuing its policy by hanging nesting boxes.

When a line crosses a forest, it is often necessary to cut trees and to create an "empty" corridor under the line. Elia launched the project "ecological corridor", consisting in the development of more attractive corridors for local biodiversity, by planting old orchards, creating ponds, meadows and hedges, *etc*.

Traditional substations include large areas covered by gravel. Those areas have to be maintained with herbicides to avoid any risk of short circuit. When a new substation is constructed, Elia reduces the size of these gravel areas so as to minimise the future use of herbicides. In addition, various large substations have been partly converted to more ecologically areas, including ponds, meadows, natural hedges, *etc.*

Elia also launched the project "creation of green steps" on the basis of which green spots under pylons in large farmlands are created. Those spots are made of meadows and small bushes, and allow small animals to cross those farmlands. So far, 2,300 bushes have been planted in Limburg, and a similar project has been launched in Wallonia.

Energy managing and greenhouse gases reduction

In accordance with EU Regulation 305/2008 a programme was developed for the training and certification of technicians recovering greenhouse gases (SF6) from high voltage switchgear.

An energy audit of 15 substations was performed in 2009, in order to evaluate and reduce their warming and lightning consumption. Measures to significantly reduce the energy consumption of the 800 Elia substations have been identified and will progressively be applied.

Energy audits were conducted for several administrative buildings, and the resulting actions to reduce the energy consumption have already been implemented.

A new office building for the national and regional dispatching has been built in Brussels in 2009 in accordance with sustainable development principles. The best technologies were applied, leading to a reduction of the energy consumption by 45% and the building won the "*Batiment exemplaire*" competition organised by the IBGE/BIM (*Institut Bruxellois pour la Gestion de l'Environnement / Brussels Instituut voor Milieubeheer*).

Although Elia is not yet under any obligation to obtain a carbon footprint, it has done so on a voluntary basis. A short version carbon footprint of Elia was made in 2009, and a full version will be made in 2010.

Asbestos

The problem of asbestos is part of two themes: safety and environment. Elia's safety service takes care of an annually updated inventory, site by site, of the presence of asbestos. Each time a project or a job has to be done in a power station, the inventory is checked to know whether asbestos containing equipment is concerned. If so, the contractor or the personnel of Elia doing the work to that equipment has to respect specific safety rules (no drilling, masks, if possible keeping wet, …). Once removed, asbestos, having become waste, is eliminated according to regional environmental obligations (special bags, specialised external personnel). Elimination of asbestos is regularly reported to the regional authorities.

10.10.4 *Intellectual property*

Elia is the owner of various trademarks, such as "Elia" and the related logo, in the Benelux and European Union, as well as in Switzerland and Norway. Elia also has domain names registered on ".eu", such as "Elia", "Elia group" and "Eurogrid". Elia does not licence trademarks for its business as a whole. The Company and Elia Asset do not own any other registered intellectual property rights.

The Company uses important information and technology on the basis of licences with third parties, including, for network maps, its subsidiary Elia Engineering, which conducts studies and implements projects relating to recent electricity networks. Elia Engineering owns all rights on its current studies. Elia Engineering is also the owner of a European Patent n° 1598911 relating to a method for applying a magnetic shielding along an alternating current power line.

10.11 INVESTMENTS

10.11.1 *Key ongoing projects of Elia*

Investments in transmission systems are driven by various factors, such as the requirements of industrial customers and DSOs, the changing demand in terms of both the location and volume of energy taken from the network, the need to replace facilities at the end of their life cycle or to bring facilities in line with environmental requirements and the contribution to the opening up of the electricity market.

The global budget for the three main projects of Elia (namely the Stevin project, the Horta project and the Brabo project) amounts to approximately EUR 250 million. These projects are financed out of the operational cash flow using Elia's autofinancing capacity as well as the extra debt leverage as a result of the mandatory inclusion into equity of the offsetting in the tariffs of the decommissioning[18] of fixed assets (see section 13.6.6 and 19.5.8).

Elia's key ongoing investment projects are as follows:

Stevin project

The Stevin project aims at expanding the 380 kV network between Zomergem and Zeebrugge and is foreseen to be commissioned in 2015, subject to the necessary permits being obtained. The network upgrade provided by the Stevin project addresses three needs:

- allowing offshore wind energy to be transported to land and into the Belgian domestic market;
- creating the possibility of a further interconnection of the Belgian network via a submarine connection to the United Kingdom (project currently in a study phase). In the longer term, it may also be considered to further expand the interconnection via the North Sea to create access to renewable energy resources in Northern Europe;
- improving the security of the electricity supply in the Western part of Flanders and enabling further economic development in the strategically important growth area around the port of Zeebrugge.

The Stevin project consists of two important projects:

- building a high voltage station in Zeebrugge;
- constructing an overhead 380 kV high voltage line between the new high voltage station which will be built at Zomergem (the Horta project – see below) and the new high voltage station which will be built in Zeebrugge.

The timing of the implantation of the Stevin project depends to a large extent on obtaining the required permits and approvals. In 2009, the procedure to incorporate the new connection and high voltage station into a regional land-use plan (*gewestelijk ruimtelijk uitvoeringsplan*, or "GRUP"), including the environmental impact report plan (*milieueffectenrapport*, or "MER"), was launched. If the procedure goes according to plan, it is anticipated that the actual work can start in early 2013, with completion as from the end of 2014. The southernmost overhead 150 kV line between Eeklo and Bruges can only be broken up after the new 380 kV line has been commissioned. This is anticipated in early 2015.

Horta high voltage station

The Horta high voltage station near Zomergem will be a major new junction in the 380 kV interconnection network. The Horta station will be a crucial junction connecting the new 380 kV line leading to the coast at Zeebrugge (which is planned under the Stevin project – see above) to the interconnection between France, Belgium and the Netherlands, as it will be the link with the 380 kV line that connects Avelin (France), Avelgem, Mercator, Doel, Zandvliet and Geertruidenberg (Netherlands).

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[18] The Tariffs Decree (as defined in section 10.14) provides that the depreciations and the goodwill booked in respect of equipment that is decommissioned in a specific year can be included in the tariffs, to the extent that the amounts received in respect of the goodwill component are booked into a reserve account of the TSO, which can only be used for investments in the network. The CREG monitors the evolution of this reserve taking into account the decommissioning.

This should considerably improve the security of supply in the western part of Flanders and the area of the port of Zeebrugge (see above). The new high voltage station also falls within the scope of the investments needed to upgrade the electricity supply into the port of Ghent in the medium term and to improve the security of supply. The Horta project is foreseen to be commissioned in 2013.

Brabo project

The purpose of the Brabo project is to upgrade power connections in the port of Antwerp. The upgrade consists of three phases, involving amongst other things the construction of new 380 kV and 150 kV overhead lines and a new high voltage substation. The 150 kV connection between the high voltage substations in Kallo and Beveren would be placed underground. In addition to significantly increasing the area’s economic potential, the upgrade should also improve the long-term security of supply. The Brabo project is foreseen to be commissioned in 2019, subject to the necessary permits and authorisations being obtained. Currently, a claim for the annulment of the applicable GRUP has been initiated before the Council of State. The outcome of this legal procedure is uncertain.

Interconnection with neighbouring countries

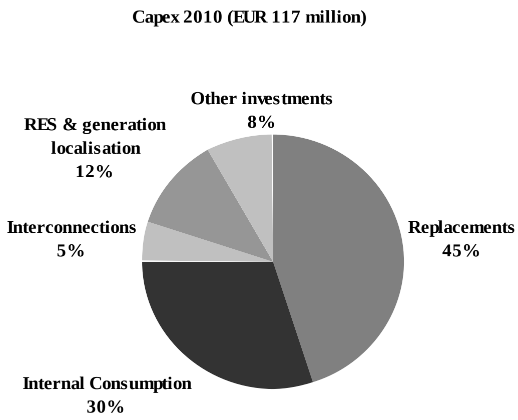
The ability to transport electricity from and to neighbouring countries is a prerequisite for the liberalisation of the electricity market and strengthens security of supply in Belgium. For this reason, Elia is planning or investigating several projects aimed at creating additional interconnection capacity with Belgium’s neighbouring countries.

- To increase the capacity available for exchange between France and Belgium, Elia plans to double the existing 220 kV connection between Aubange and Moulaine. The current high voltage three-phase transmission line is being replaced by a new line with more efficient conductors. In addition, a second three-phase transmission line will be installed on the existing high voltage pylons. This project is foreseen to be commissioned by the first semester of 2010.
- Elia is also investigating a possible connection with Luxembourg. Installing two cables would significantly increase the import capacity by 700 MW. Such a connection would not only enable power to be exchanged with Luxembourg, but would also allow import and export of electricity to and from Germany.
- A third development in interconnection capacity is a potential submarine direct-current connection (from 700 to 1,300 MW) between the United Kingdom and Belgium. This project is foreseen to be commissioned as from 2016. The electricity network in the United Kingdom is only partially linked to the European continent (see also above in respect the Stevin project).
- In addition, Elia and RWE Tranportnetz are studying possible interconnection projects between Belgium and Germany. The initial technical and economic findings of the study highlight the desirability of an HVDC cable connection (1,000 MW) between the two countries. Further research is currently under way.
- Alongside its actual projects, Elia works continually with system operators in surrounding countries to identify potential interconnection or network schemes. At present, studies are being prepared in relation to the strengthening of interconnection capacity with the Netherlands and France. Elia is also involved in a joint research project relating to the creation of a large direct-current network in the North Sea and the Baltic, which would connect various countries and offshore wind farms.

10.11.2 *Important investments in 2010, 2009, 2008 and 2007*

Investments 2010

In accordance with the multi-annual tariffs plan, it is currently expected that Elia will invest a total amount of EUR 615.6 million over the period 2008-2011. The investment plan was adjusted to take into account the sharp fall in volumes since late 2008, due to the weak economy, and delays in projects of customers. Like it was the case in 2009 (reduction of investments from EUR 157.1 million (forecast) for 2009 to EUR 121.5 million (actual)), the investments in 2010 will be reduced to auto-financing capacity, more precisely from EUR 146.6 million (forecast in 2007) to EUR 117 million (expected actual amount). This amount will be mainly invested in upgrading high voltage stations and installing high voltage cables.



Investments 2009

The investment plan was adjusted to take into account the sharp fall in volumes since late 2008. The investments in 2009 were reduced to auto-financing levels, more precisely from EUR 157.1 million (forecast) for 2009 to EUR 121.5 million (actual). This amount was mainly invested in upgrading high voltage stations and installing high voltage cables.

Other major projects in the study phase included Stevin and Brabo (see above).

Investments 2008

In 2008, Elia invested EUR 161.3 million (EUR 142.3 million in 2007). Most of this amount was spent on upgrading high voltage substations, laying cables and installing phase shifters. Phase shifters allow Elia to better spread European energy flows, resulting in increased reliability for the Belgian network and better utilisation of the interconnections with neighbouring countries. In addition, upgrades to the 150 kV network were carried out in Battice, Koksijde, central Brussels and Walgoed, and to the 70/36 kV network in Wingene, Tisselt, Dorine, Zwevegem, Desselgem, Sint-Baafs-Vijve and Monceau-en-Ardennes. With renewable energy production increasing continuously, Elia carried out upgrades at the 70 kV high voltage substations of Angleur, Harmignies and Solre-Saint-Géry and the 150 kV high voltage substation of Gouy/Amercoeur and Nieuwe Vaart to enable electricity generated by renewable energy to be injected in the network. The 36kV high voltage substations of Zelzate and Brugge Zuid were also upgraded. The 150 kV North Sea cable connecting the C-Power wind farm was commissioned in late 2008 at limited voltage.

Other major projects in 2008 included Stevin and Brabo (see above).

Investments 2007

In 2007, Elia invested EUR 142.3 million. Most of this amount was spent on upgrading high voltage substations, laying cables and installing phase shifters.

The 220/150 kV phase shifter at the Monceau high voltage station was commissioned in early January 2007. Accordingly, the work to upgrade the entire interconnection line between Chooz (F) and Monceau to 220 kV has now been completed. This investment means that better use can be made of the cross-border connection and therefore also of the entire interconnection with France.

During 2007, three more phase shifters were delivered: two for the Van Eyck high voltage station at Kinrooi and one for the Zandvliet high voltage station (each 1,400 MVA). These transformers are amongst the largest of their type in the world. The first one was scheduled to come on stream in December 2007, but the date was pushed back to the first half of 2008, due to unforeseen problems inside the transformer. Phase shifters will enable Elia to spread the energy flows over its network more effectively, making the Belgian network more reliable and paving the way for optimal use of the interconnections with Belgium's neighbouring countries.

Other major projects in progress in 2007 were the new 150 kV “Petrol” high voltage station to upgrade supply in the southern part of Antwerp, the expansion of the Scheldelaan high voltage station to create a connection with Exxon's new generating unit in the Port of Antwerp.

In 2007, the 150 kV connection between Trivières and Ville-sur-Haine was upgraded and a new 150/10 kV transformer was installed at Gouy (Hainaut) to accommodate the local increase in power consumption. For the same reason, in Woluwé two new 150/11 kV transformers were commissioned to replace three smaller ones. The Slijkens high voltage substation Slijkens (West Flanders) was also upgraded (a new 150/36 kV transformer was fitted, as was the Romsée (Liège) high voltage substation, where a 220/15 kV transformer came on stream.

Another important project consisted of commissioning the 150 kV connection for the new Google site in Ghlin-Baudour in 2007.

10.12 MATERIAL CONTRACTS

The material contracts to which Elia is a party are the following:

- The Protocol dated 30 May 2001, the Additional Protocol dated 8 October 2001 and the Shareholders’ Agreement dated 31 May 2002 as described in section 15.2;

- The commercial contracts (Connection Contracts, Access Contracts and Access Responsibility Party Contracts), as described in section 10.7.3 and 11.2.5.1;

- The agreements entered into with Electrabel and other electricity generators for certain ancillary services defined by the Federal Grid Code (as described in section 15.4.1);

- The coordination contracts relating to congestion management pursuant to the provisions of the Federal Grid Code (also known as “contracts for the coordination of the injection of production units” or “CIPU” contracts); The purpose of these contracts is to regulate the information exchanges between the Company and power plant operators in order to enable the Company to avoid congestions on its network or intervene in case of congestion and/or plan works on the network by adjusting generation programming;

- The contracts entered into with Electrabel, Fabricom SA/NV, Suez/AIB Vinçotte, Trasys SA/N, Tractebel Engineering SA/NV listed in section 15.4.4;

- The agreements entered into in the context of the acquisition by Elia and IFM of 50Hertz, in particular the Share Purchase Agreement, the Investment and Shareholders’ Agreement, the Bilateral Agreement, the Trilateral Agreement and the credit facility, as described in section 12;

- The agreements entered into in preparation of the Offering, such as the Underwriting Agreement (as described in section 5.4) and the term sheet entered into with Publi-T and Electrabel on 1 April 2010 holding the principal terms of a possible combined offering of shares of the Company by the Company and Electrabel;

- The transfer pricing agreement entered into with the CREG (as described in section 13.6.7); and

- The agreement entered into by the Company and TenneT for the sale of their shares in Belpex to APX (as described in section 10.8.4).

10.13 LITIGATION

On 31 December 2009, Elia was, in the ordinary course of its operations, involved in approximately 102 civil and administrative litigation proceedings, as plaintiff or as defendant. Five of these proceedings related to claims exceeding a value of EUR 1 million.

Elia has a provision for litigation and contingent liabilities which, as at 31 December 2009, amounted to EUR 4,763,166. This provision does not cover claims initiated against Elia but for which damages have not been quantified or in relation to which the plaintiff's prospects are considered by Elia as being remote.

The following discussion, although not an exhaustive list of claims or proceedings in which Elia is involved, describes what Elia believes to be the most significant of those claims and proceedings. Subsequent developments in any pending matter as well as additional claims that may arise from time to time, including additional claims similar to those described below, could become significant.

The Company cannot predict with certainty the ultimate outcome of the pending or threatened proceedings in which Elia is or was, during the previous 12 months, involved and some of which may have significant effects on Elia's financial position or profitability as they could result in monetary payments to the plaintiff and other costs and expenses, or may incur costs for modifying parts of Elia's network or (temporarily or permanently) taking portions of the network out of service. While payments and other costs and expenses that Elia might have to bear as a result of these actions are covered by insurance in some circumstances, other payments may not be covered by the insurance policies in full or at all. Accordingly, each of the legal proceedings described in the following discussion could be significant to Elia, and the payments, costs and expenses above those already incurred or accrued could have a material adverse effect on Elia's results of operations, financial position or cash flows.

The nature of the principal civil and administrative proceedings to which Elia is a party is as follows (by categories of similar proceedings):

Against Elia:

- claims for compensation for the consequences of electrical fall-out or disturbance;
- judicial review of building permits for substations, overhead lines and underground cables, or zoning plans;
- claims, lodged by both public authorities and citizens, aimed at the relocation of overhead lines and underground cables and/or at the compensation for relocation costs; and
- claims by citizens seeking compensation for the nuisance caused by the presence of the transmission lines (for example, due to the perceived potential health risks caused by EMFs, noise, interruptions of telephone and radio connections, aesthetic or other damages).

By Elia:

- judicial review of decisions refusing to issue a building permit or against expropriation decisions;
- judicial review of the Walloon Electricity Decree, which requires the Company to indemnify network users for any damage caused to their equipment as a result of actions or omissions by the network operator (including lack of caution) in the event of frequency disruptions, voltage level variations or power cuts of an excessive duration;
- claims seeking compensation of repair costs due to the damage done to underground cables, towers and overhead lines;
- claims contesting taxes imposed on high voltage pylons by twelve Belgian municipalities; and
- judicial review of decisions by the CREG refusing the approval of the general terms and conditions of the 2003 Access Contract and 2003 ARP Contract (solved).

Elia has also initiated various judicial review proceedings against decisions of the CREG with respect to the approval of the tariffs for the years 2003, 2004, 2005, 2006 and 2007 and against decisions on the bonus/malus for the years 2005 and 2006. With the entry into force of the new Royal Decree of 8 June 2007[19] (the "Tariffs Decree"), all these proceedings have been withdrawn.

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[19] Royal Decree of 8 June 2007 relating to the rules on determining and assessing the total income and the reasonable profit margin, the general tariff structure, the balance between costs and revenue and the basic principles and procedures with regard to tariffs, reporting and cost control by the national transmission system operator (*Arrêté royal relatif aux règles en matière de fixation et de contrôle du revenu total et de la marge bénéficiaire équitable, de la structure tarifaire générale, du solde entre les coûts et les recettes et des principes de base et procédures en matière de proposition et d'approbation des tarifs, du rapport et de la maîtrise des coûts par le gestionnaire du réseau national de transport d'électricité / Koninklijk Besluit betreffende de regels met betrekking tot de vaststelling van en de controle op het totaal inkomen en de billijke winstmarge, de algemene tariefstructuur, het saldo tussen kosten en*

Following a tax audit in relation to the Company's financial year 2004, the Company received in early 2008 a notice of additional corporate tax assessment relating to the excess tariff applied in 2004. The additional tax to be paid amounted to EUR 85.3 million, to be increased by 10%. In consultation with its tax advisor and the CREG, and given that similar excess tariffs have not been taxed with similar companies that are also active in a regulated sector, the Company's management decided to lodge an administrative appeal against this additional tax assessment. This administrative appeal was, however, rejected by the regional tax director. The Company subsequently started a judicial procedure before the court of first instance in Brussels in which it requests the court to annul the contested tax assessment and to order the total reimbursement (and interest) of the additional tax amount that has been effectively paid by the Company. In 2008 and 2009, the tax administration took similar decisions in relation to the excess tariffs applied in 2005 and 2006. The Company received additional tax assessments which amount to EUR 9.8 million for 2005 and to EUR 22.7 million for 2006, both amounts to be increased by 10%. The Company has decided, in the same way as for the 2004 file, to lodge an administrative appeal against these additional tax assessments, which have not yet been paid by the Company.

The excess tariffs on which the additional tax assessments for 2004, 2005 and 2006 are based, have been systematically taken into account for the determination of the tariffs in the following years (restitution to consumers). Accordingly, there is only a timing difference in relation to, on the one hand, the excess tariffs applied in the past, and on the other hand, the restitution of these excess tariffs in the following years.

Should the outcome of this tax dispute be negative for the Company, the company tax paid on the excess tariffs will automatically be compensated by the "taxes to recover" on the restitution made to the customers in 2005, 2006 and 2007 and in the following years. The principal amount of the additional company tax assessments can thus be entirely recovered. Should there be any balance remaining, it can be reasonably expected that this amount may be neutralised through the tariff mechanism.

Several Belgian municipalities have imposed an annual tax on the high voltage pylons, owned by Elia Asset, that are located on their territory. The annual tax per pylon varies from EUR 2,500 to EUR 3,000. The average total amount of annual taxes has varied around EUR 1.3 million in the last years. Elia Asset systematically contests these local taxes before the State Council (*Conseil d'Etat / Raad van State*) as well as before the civil courts. The State Council has rendered a decision in favour of Elia Asset and one against Elia Asset. However, most of these tax disputes are still pending. In case of a negative outcome of these procedures, it can be reasonably expected that the additional cost corresponding to the taxes due will be neutralised through the tariff mechanism.

10.14 TAX ASSESSMENTS

The Company and Elia Asset are subject to Belgian corporate income tax according to the ordinary rules. Their taxable profits are taxed at the general corporate income tax rate, which currently amounts to 33.99%.

Neither the Company nor Elia Asset have tax loss carry-forwards but Elia Asset has a notional interest tax deduction carry forward outstanding as per 31 December 2008 amounting to EUR 92 million. This excess tax deduction can be carried forward for 7 years.

Elia Asset had tax audits relating to assessment years 2005 and 2006, which have resulted in minor corrections.

The Company has been audited relating to assessment years 2005, 2006 and 2007, which has resulted in additional tax assessments, which the Company has formally contested (see section 10.13).

Several Belgian municipalities have imposed an annual tax on the high voltage pylons, owned by Elia Asset, that are located on their territory . Elia Asset systematically contests these local tax assessments (see section 10.13).

On 8 July 2002, a partnership agreement was concluded between the Company and Elia Asset.

As from 1 January 2008, the partnership profits are attributed to Elia Asset according the following fraction:

Profit Margin x (Tangible fixed assets Elia Asset/Regulated Asset Base)

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ontvangsten en de basisprincipes en procedures inzake het voorstel en de goedkeuring van de tarieven, van de rapportering en kostenbeheersing door de beheerder van het nationaal transmissienet).

The Company is entitled to the balance of the partnership profits. The aforementioned method of allocating the partnership profits to Elia Asset and the Company has been approved by the Belgian Ruling Commission (*Service des Décisions Anticipées en matière fiscale / Dienst Voorafgaande Beslissingen in fiscale zaken*) in its decision of 4 December 2007. Since the silent partnership does not have legal personality, it is transparent for Belgian income tax purposes according to Article 29 of the Belgian Income Tax Code of 1992. Consequently, the Company and Elia Asset are taxed directly on their share in the partnership profits and, in the event of a partnership loss, in principle, will be entitled to deduct their share in the loss from their respective taxable income.

The capital of the Company currently amounts to approximately EUR 1,200,000,000. EUR 1,049,491,000 of this capital constitutes tax-free reserves and not fiscal capital, due to a legal fiction introduced by the law of 14 January 2003 amending the Electricity Law (see section 13.2.1), in order to safeguard the fiscal neutrality of the global restructuring (including the transfer of the Elia Asset shares to the Company). The capital increase that will take place as a result of the issuance of the New Shares under the Offering does, however, qualify as fiscal capital.

Consequently, if (part of) the capital that does not qualify as fiscal capital is distributed to the shareholders pursuant to a decision to reduce the capital or, ultimately, to liquidate the Company or is otherwise reduced, such distribution or reduction will result in corporate income tax being levied at the level of the Company, in addition to dividend withholding tax at the level of the shareholders. In case of a redemption of its own shares by the Company, corporate income tax may become due if the Company constitutes the undistributable reserve for its own shares out of the portion of the share capital that is not considered as fiscal capital and the shares are afterwards cancelled, sold with a loss or the Company records a reduction in value on such shares.

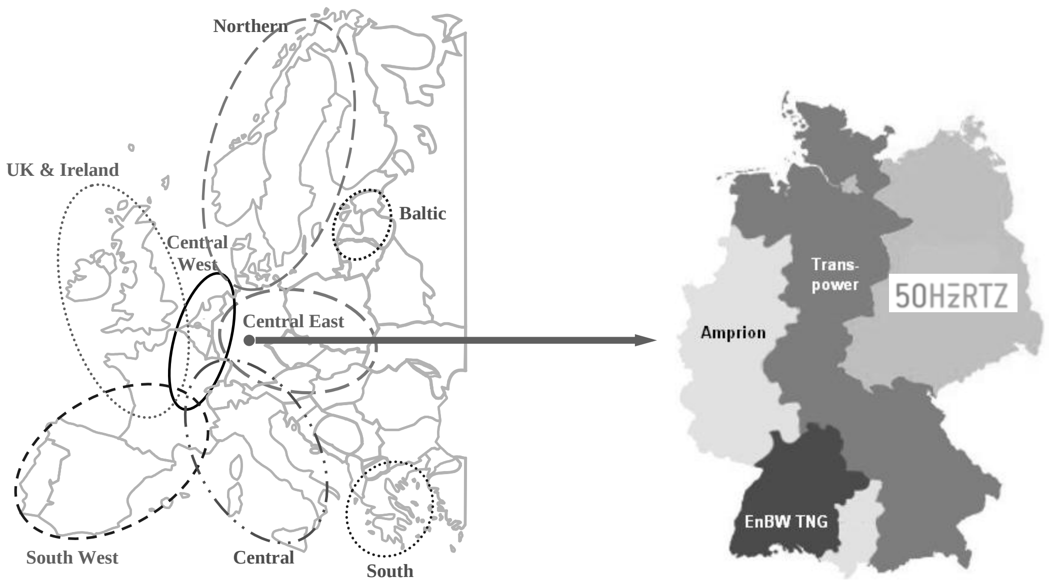
11 BUSINESS OF 50HERTZ

11.1 OVERVIEW

50Hertz is one of the four TSOs in Germany. 50Hertz has the same core business as Elia as it owns, operates, maintains and develops a 380 kV - 220 kV transmission network comparable with Elia's very high voltage network.

50Hertz has overall responsibility for the reliability and stability of the power system in the area covering the German federal states of Thuringia, Saxony, Saxony-Anhalt, Brandenburg, Berlin, Mecklenburg-Western Pomerania and Hamburg. 50Hertz' control area covers approximately 109,000 km² with more than 19 million inhabitants and companies contributing approximately 20% of Germany's gross domestic product.

50Hertz's network is situated in a unique position (as illustrated in the figure on the left) at the crossroads between West- and East Northern European electricity markets as its very high voltage network has a key position between Scandinavia, Poland, the Czech Republic and Central West Europe. The four TSOs in Germany, with their distinct control areas, are shown in the figure on the right.



50Hertz has three main roles, identical to Elia's roles:

- as *transmission operator*, ensuring the development, maintenance and operation of its network;
- as *system operator*, ensuring the proper operation of its control area (including balancing of supply and demand); and
- as *market facilitator*, ensuring the development of the liberalised electricity market in a sustainable way (*e.g.* implementation of EU and German energy policies such as facilitating the penetration of renewable energy sources and combined heath and power plants).

Most of the income of 50Hertz is generated from the regulated tariffs charged for use of the transmission system (tariff income). A new tariff regulation mechanism was established by the Ordinance on Incentive Regulation (*Verordnung über die Anreizregulierung der Energieversorgungsnetze* – ARegV) of 29 October 2007, coming into force on 6 November 2007 and last time amended by Statute of 21 August 2009. According to the ARegV, starting 1 January 2009, revenue caps are determined by the regulatory authority BNetzA for each network operator and for each calendar year in a so-called regulation period. Each regulation period lasts five years, the first regulation period started 1 January 2009 and will end on 31 December 2013. The network operators are not allowed to exceed their individually determined revenue caps with the network tariffs invoiced to their network users in the respective calendar year. The revenue caps are fixed for the entire regulation period, but can nevertheless be adjusted in specific cases provided for in the ARegV.

The BNetzA determines the revenue cap on the basis of incurred or budgeted costs for the regulated activities, on the estimated volumes of electricity taken from the network, and by considering the individual efficiency of the specific network operator. Therefore, the revenue caps may vary from year to year. The costs relating to the regulated activities include the allowed return on equity, as well as the predicted values of various cost categories, divided in those over which 50Hertz has an influence ("incentivised costs"[20]) and those over which it has no influence ("non-incentivised costs"[21]). Tariffs are public and are not subject to negotiation with customers.

Until its acquisition by Elia and its equity partner, IFM, in May 2010, 50Hertz was owned by Vattenfall AB.

11.2 50HERTZ' BUSINESS

11.2.1 *Key strengths*

The key strengths of 50Hertz' business are as follows:

- *Factual monopoly with incentive based regulation* – 50Hertz manages a pure transmission infrastructure business, benefiting from the status as a factual monopoly and its regulatory separation from the competitive retail supply and power generation activities. 50Hertz operates under an incentive based tariff system designed to provide a fair remuneration to 50Hertz' equity (see section 13.7.7).
- *Unique geographical position* – As a TSO, 50Hertz is a fundamental element of German and European infrastructure, ensuring that all industries and households in its control area receive constant and reliable electricity and that generators have non-discriminatory access to the European electricity market. 50Hertz' network is situated in a unique position at the crossroads of the European electricity market, with large flows of energy supply from generation in the East supporting the rapidly growing demand in the South West of Germany. 50Hertz has good relationships with neighbouring TSOs and key European players.
- *Newest network, highly reliable and resilient* – 50Hertz has the youngest asset base (mainly refurbished after the German re-unification in 1989) among the four German TSOs and owns one of the highest quality assets in Europe, reflected in low fault rates per kilometre compared to the German average. 50Hertz has an excellent track record in system operations ensured by a team of highly experienced employees who also have a specific experience in system integration, as a result of the integration of the former VEAG network with the other German networks and the increasing integration of European networks.
- *Top knowhow on renewable energy* – Further to its geographical position along the Baltic Sea, 50Hertz has developed a top knowhow with respect to the connection of large amounts of renewable generation sources (specifically wind energy), more specifically through its activities relating to the connection of the offshore wind parks. As a result, 50Hertz has developed first-class skills and expertise in wind power predictions and related system operation management, such as monitoring these specific electricity flows.
- *Experienced employees and management* – 50Hertz' staff has substantial experience in running electricity transmission safely, reliably and efficiently, and has a long track record of competence in energy management. The last years, 50Hertz developed extensive experience in executing significant capital investment programmes. The majority of the employees have already been with 50Hertz since the system integration of the former VEAG network in 1993-'94.

11.2.2 *Strategy*

In respect of 50Hertz' strategy, reference is made to Elia's strategy, as described in section 10.3.

[20] Named "Temporarily Non-Influenceable" and "Influenceable Costs" (TNIC/IC) under German regulation. It is to note that the notion "temporarily non-influenceable" is misleading in that way that these costs are also costs which the network operator basically can influence (therefore they do not belong to the permanently non-influenceable costs). However, such costs are defined in the efficiency test as costs which correspond to an efficient network operation and, thus, do not need to be decreased over the respective regulatory period. Nevertheless, TNIC can become IC within the efficiency test of the next regulatory period.
[21] Named "Permanently Non-Influenceable Costs" (PNIC) under German regulation.

11.2.3 *Internal organisation*

The internal organisation of 50Hertz can be presented as follows:

- Market facilitation / Energy Management (EM) is responsible for all necessary energy purchases for 50Hertz' own needs, including control and reserve power. EM is also responsible for selling surplus energy (as part of RES) based on contracts 50Hertz has entered into as well as the settlement of all transactions, customer management, portfolio management and network billing.
- Asset and Network Projects ensure the development and the maintenance of the network in order to reach technically flawless operating conditions.
- System Operation and Security of Supply (SoS) is responsible for the technical management of the network, ensuring the safe and reliable operation of its transmission network.

These departments pursue the same activities as Elia's Transmission and Grid Services departments.

11.2.4 *Asset management*

Main characteristics of 50Hertz' network

The table below shows a general comparison between Elia and 50Hertz: companies with not only comparable activities but also of a similar size (situation as of the first quarter of 2010).

	50Hertz	**Elia**
110 till 380kV lines and cables (km)	9,809	3,612
30 till 70kV lines and cables (km)	0	4,800
Number of substations	72	+/- 800
Number of direct connected clients	30	130
Energy consumption in areas (TWh)	95	89
Area covered (km^2)	109,000	33,990
Share total national network (%)	27	100
Residents covered (million)	>18	11
Number of employees (FIE)	592	1,145

50Hertz' network consists mainly of overhead lines, a few underground cables, transformers and substations, with voltage levels mainly ranging from 380 kV to 220 kV. The very high voltage and high voltage network consists of approximately 9,800 km of connections composed of 9,740km of overhead lines (6,870 for 380kV and 2,867 for 220kV) and 72 km of underground cables (55km at 380kV level, 3km at 220kv and 14km 400kV HVDC (Kontek)). As 50Hertz is mainly a very high voltage network, the number of substations is much lower than for Elia (*i.e.*, 72 compared with 800). Given that the network consists mainly of overhead lines and a relatively small number of substations and customers compared to Elia, the commercial and maintenance resources are significantly lower for 50Hertz.

Geographic length of the very high and high voltage network (km)	
Voltage level	**01/01/2010**
380 kV	
Overhead lines	6,870
Underground cables	[55 + 14]
TOTAL	**6,939**
220 kV	
Overhead lines	2,867
Underground cables	3
TOTAL	**2,870**
Total overhead lines	**9,737**
Total underground cables	**72**
TOTAL	**9,809**

Network reliability and quality indicators

Historically, the German transmission network was developed using 220 kV. The 220 kV overhead lines managed by 50Hertz were mainly built between 1950 and 1980 with a typical transmission capacity rating up to 400 MVA per system. The development of the 380 kV network started from the 1970s, in the region of Lubmin to connect a former nuclear power plant, in the region of Berlin and in the southern part of the 50Hertz' network, in order to increase the transport capacity of the network.

The fault rate of the 220kV network (1.68 faults per 100km/year) is slightly higher than the one of the younger 380 kV network (1.58 faults per 100km/year). However, this is low compared to the German 380 kV and 220 kV network average of 1.86 per 100km/year.

Asset replacement investments

Unlike most European TSOs, 50Hertz is not facing the challenges of an ageing network before 2020 at the earliest, peaking around 2040, as a result of the major investments done in the aftermath of the German reunification. In comparison, most European TSOs, including Elia, are currently starting their replacement investments as their network was significantly developed during the 1970s and 1980s. As such, Elia will be able to spread the replacement investments for Elia's and 50Hertz' networks over a long period of time and without significant overlap.

Network development

The current transmission network structure was developed over the last twenty years with generation facilities positioned close to consumption centres: the majority of energy is consumed in the South and West Germany, where heavy industry has developed. However, the majority of the renewable energy generation is located in the north and east of Germany (where the wind is the strongest).

Although a total of 16.1 GW installed capacity was directly connected to the 50Hertz' network at the end of 2008, only a small part of the RES installed capacity is directly connected to 50Hertz' network (780 MW). Most of the installed 10 GW of RES is connected to the distribution network. In that respect, it should be noticed that German TSOs are legally obliged to connect future offshore wind parks to their transmission network and to finance and operate these connections. TSOs are currently only obliged to connect offshore wind parks for which construction work starts prior to 31 December 2015.

The four main drivers of 50Hertz' investment programme are similar to Elia's:

- *Load evolution*: the economical projections do not indicate a load increase in 50Hertz' control area in the medium turn.
- *Network upgrade:* given the age of the 220 kV network and the impact of the Large Plant Combustion Directive (no power plants are connected to the 220 kV network except for pump storage plants and wind farms), 50Hertz' investment strategy privileges the expansion of a 380 kV network that also provides a higher transmission capacity.

- *Existing asset replacements:* the replacement investments of 50Hertz are expected to peak around 2040 as the installed equipments date from 1990s and will reach the end of their lifetime around 2040. As such, the replacement portfolio of 50Hertz is complementary to Elia's, since 50Hertz' replacement is expected to peak 20 years later than Elia's.
- *Integration of new power plants:* as the load in the region is not expected to increase significantly in the medium term, the drivers behind the increasing transmission capacity are related to network connections for new conventional power plants and wind farms (on- and offshore). According to 50Hertz' estimates, the total generation capacity of wind farms is expected to increase by 9 GW over the next 10 years (7 GW onshore and 2 GW offshore). Conventional installed capacity could increase by approximately 15 GW according to the data currently available.

Due to the concentration of the RES-plants in the north of Germany and the concentration of the load in the south of Germany, a large transmission capacity from the north east to the south west is needed. Such a very high voltage backbone is needed all over Europe for the creation of a reliable internal electricity market as it will facilitate the balancing between generation and demand. As in the future approximately one third of the generation is forecasted to be based on renewable energy sources, of which a large part will be of variable nature and depending on weather conditions, major energy flows will be transported all over Europe in function of the location of the generation centres (including offshore).

Network maintenance

The maintenance strategies of 50Hertz are comparable to Elia's, except for the higher level of outsourcing. On-site maintenance is outsourced for 80% to 90% while the remainder is performed by 50Hertz' staff in order to maintain an adequate level of expertise in all parts of the maintenance activities. Since 50Hertz' assets are mostly young, they generally require less maintenance due to newer technologies.

11.2.5 *System operation*

As a system operator, 50Hertz provides access to its network to the relevant market participants and operates its network with a view to both maintaining the electricity flows within the operation criteria of the network's infrastructure and balancing, in real time, the injections and off-takes of electricity within 50Hertz' geographical area.

11.2.5.1 Commercial organisation of the system operation activities

Customers

Currently, 50Hertz has about 30 clients connected to its network: 2 large industrial clients (steel factories), 8 DSOs, 9 power plants, 3 pump storage plants and 6 wind farms.

Contracts

Based on the applicable legislation, the relationship between 50Hertz and its customers is mainly governed by three types of contracts:

- the Connection Contract (based on NAV);
- the Access Contract (based on StromNZV); and
- the ARP Contract.

These three types of contracts represent the largest part of 50Hertz regulated activities and revenues.

Connection Contract

Each operator of a transmission or distribution system is obliged to conclude Connection Contracts with every (legal) person under reasonable, non-discriminatory, transparent and not unfavourable conditions compared to those conditions under which it connects associated companies to its system, Sec. 17 and 18 EnWG. The connection to the network may only be refused under limited conditions.

The connection allows the customer to physically take-off or inject energy into the network.

The Connection Contract covers, *inter alia*, the specific items related to the physical connection of a generator, large industry, DSO or end customer. As in Belgium, the main parts of the connection are the connection bay in the TSOs substation and the link (cable or overhead line) to the customer's site. Specific differences compared to Elia concerning the Connection Contract are:

- Construction is not handled in this contract but in a separate construction contract;
- There is no tariff issue as the whole connection, including connection bay, is paid one-shot by the customer. This one-shot price is fixed in the construction contract;
- Generally, maintenance is not described. It is assumed that maintenance is done by the owner.

Access Contract

Each operator of a transmission or distribution system has to grant access to its system to every eligible (legal) person under conditions which are non-discriminatory and which have to be published on the internet, Sec. 20 para. 1 EnWG. Only under very strict conditions, the network operator can refuse the connection. The connection has to be granted on the basis of a so-called Connection Contract which the operators are obliged to conclude with the requesting person.

Significant differences from the Elia access contract are as follows:

- No subscriptions have to be made by the customer. Maximum load and energy consumption have to be announced yearly in order to determine duration of use as there is a lower tariff for annual usage duration above 2,500h.
- The customer signs the contract. There is no concept of access holder.

ARP Contract

For balancing contracts between each balance group manager (wich is the same concept as ARP for Elia) and 50Hertz, a standardised model contract exists which is not open for individual negotiation. About 450 balancing agreements exist. Additionally, 85 standard pooling agreements were closed which allow balance groups to balance amongst themselves.

Balancing contracts are comparable to Elia's balancing contracts.

11.2.5.2 Planning reliable network operation

The planning process of the network operations is similar to Elia's (see section 10.7.4).

11.2.6 *Market facilitation*

11.2.6.1 Electricity import and export

Due to the central location of 50Hertz' network within Central Europe and the intensive cross-border commercial exchanges following the deregulation of the European electricity market, 50Hertz' network is also used by market participants for cross-border import and export and for the transit of electricity.

11.2.6.2 Inter-TSO compensation (ITC) mechanism for EU cross-border trade

As it is the case for all European TSOs, the costs incurred by 50Hertz as a result of the transit flows are partially compensated by means of an inter-TSO compensation arrangement developed and monitored by ENTSO-E. 50Hertz' costs relating to the Inter-TSO compensation (ITC) mechanism for EU cross-border trade are considered as PNIC under the German tariff regulation scheme (see section 13.7.7.7).

11.2.6.3 European Market Coupling Company GmbH (“EMCC”) and Central Allocation Office GmbH (“CAO”)

See section 11.2.8.

11.2.7 *Investments of 50Hertz*

11.2.7.1 Key ongoing projects of 50Hertz

Historically, the German transmission network has been developed using the 220 kV level. The 220 kV overhead lines managed by 50Hertz were mainly built between 1950 and 1980. The development of the 380 kV network started in the 1970s, in the region of Lubmin to connect a former nuclear power plant, in the region of Berlin and in the southern part of the 50Hertz’ network in order to increase the transport capacity of the network.

Although at the end of 2009 a total of 16.2 GW installed capacity was directly connected to 50Hertz’ network, currently only a small part of the RES installed capacity is directly connected to its network.

The current transmission network structure was mainly further developed over the last twenty years based on the principle that generation facilities should be positioned close to consumption centres. The evolution of the German market has led to the majority of energy being consumed in the southern and western parts of Germany, where heavy industry has developed. However, the majority of the renewable energy generation is located in the northern and eastern parts of Germany (where the wind is the strongest). As a result, the main challenge of network management in 50Hertz’ control area is to evacuate the excess energy to the consumption areas with high load. This is one of the key drivers of 50Hertz’ investment programme.

Other investment drivers of 50Hertz are:

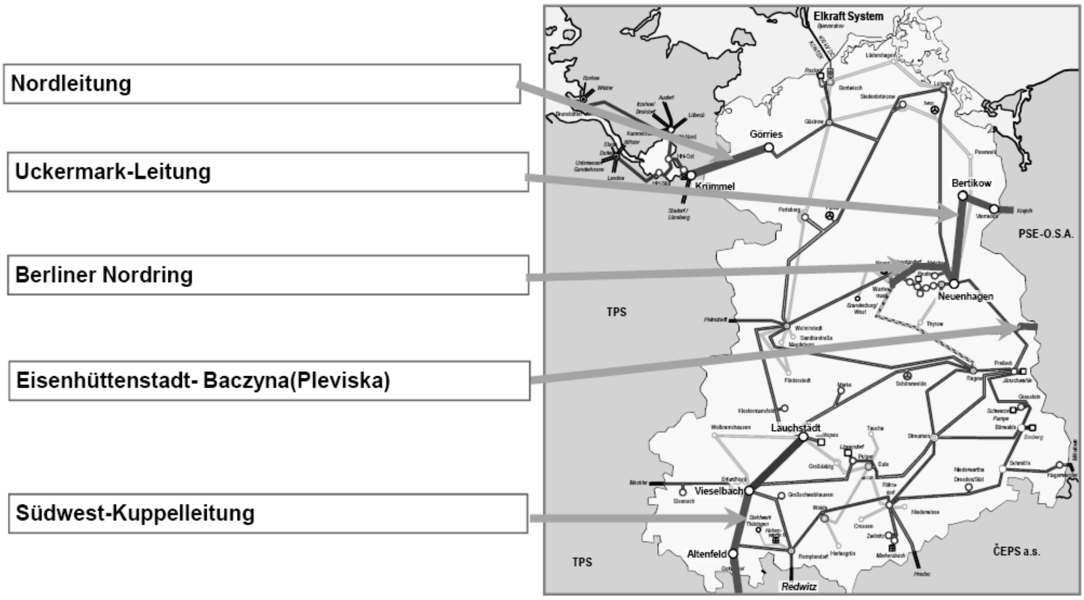
- The integration of new conventional power plants and renewable energy sources, mainly wind farms (on- and offshore).
- The upgrade of the 220 kV level to the 380 kV level: given the age of the 220 kV equipment and the impact of Directive 2001/80/EC of 23 October 2001 on the limitation of emissions of certain pollutants into the air from large combustion plants (no power plant can be connected to the 220 kV network except for pump storage plants and wind farms), 50Hertz launched a strategy privileging the expansion of a 380 kV network.
- The replacement of existing assets.

The ultimate objective of the investment plan is to maintain a high level of security of supply, to support market developments and to integrate the generation capacity from renewable energy sources.

Essential Projects

The so-called six “Essential Projects” deal with the physical distance between generation and off-take of energy and the integration of new generation units. These Essential Projects aim at increasing the installed capacity in 50Hertz’ control area.

The illustration below illustrates these projects.



- *380 kV Halle-Schweinfurt transmission line (Südwest-Kuppelleitung)*: The project plans to establish a transmission network from Halle to Schweinfurt in order to transfer excess renewable energy and conventional power generated in the north of Germany to the south, linking 50Hertz' network to the neighbouring Transpower network. The approval procedure for permits for the third part of this investment has not yet been finished, potentially impacting the expected commissioning date.
- *380 kV Hamburg-Schwerin transmission line (Nordleitung)*: The project aims to connect Hamburg to Schwerin, improving the horizontal transmission capacity in the north-west of the control area.
- *380 kV network conversion Uckermark Süd (Uckermarkleitung)*: A 125 km line is being built between Neuenhagen – Bertilow / Vierraden. The project aims to further increase the transmission capacity in the north-east of the control area.
- *380 kV network conversion Berliner Ring (Berliner Nordring)*: A 380 kV network extension within the northern Berlin ring between Wustermark, Hennigsdorf and Neuenhagen is considered as an Essential Project. The project aims to alleviate the load of the 380 kV underground cables of Berlin.
- *Third interconnector to PSE-O (Eisenhüttenstadt-Bacqzyne (Pleviska))*: Due to the increase in conventional, as well as renewable, energy within 50Hertz' control area, a project for the erection of a new 380 kV interconnector to the Polish TSO PSE-O, between Eisenhüttenstadt and Bazcyna is envisaged.
- *Measures to secure functioning of the Transmission Control Centre (TCC)*: This project aims to ensure the system security at the Neuenhagen location, where the control centre will be located. This includes also changes to the communication technology.

These projects are currently foreseen to be commissioned within the next decade with an overall budget of about EUR 600 million. Except for the TCC-project, they are also included in the "Ten Year Network Development Plan" ("10YNDP") of ENTSO-E, and covered by investment budgets (for more details on the system of investment budgets under the German regulatory framework, see section 13.7.7.5) approved by BNetzA.

The investment level for the coming years is expected to be higher than recent historical numbers. The realisation of the investment plan is subject to the timely completion of the approval process (including the public regional procedure, the planning approval procedure and potential market constraints on the supply side of materials and services). The timing of market development (*e.g.* accommodation of additional (conventional) generation capacity and connection of new large industrial clients) is also a determining factor for the execution of the investment plan of 50Hertz.

Important investment needs for 50Hertz Offshore are triggered by investments to connect offshore wind farms (mainly undersea connection cables and onshore equipments). Although the first investments for offshore projects are already being implemented, many additional offshore projects are foreseen but are still in a study phase. The level of the offshore investment portfolio can fluctuate considerably over the coming years depending on the investment decisions of the wind farm owners.

Other projects

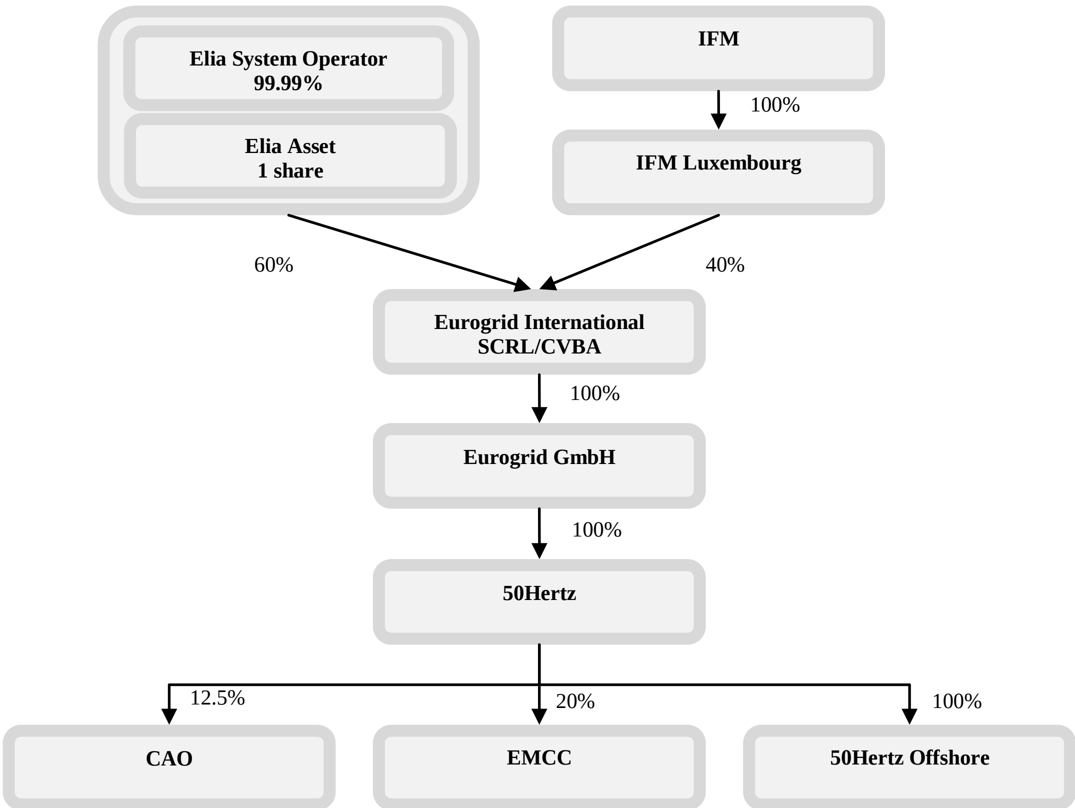
Besides the six Essential Projects, other onshore projects consist of replacement investments, which are rather limited due to the fact that 50Hertz' network is relatively recent. It is expected that 50Hertz will not face the challenges of an ageing network before 2020, peaking in 2040. Otherwise, potential future projects would mainly relate to the integration of new conventional power plants and renewable energy sources.

In addition, an import share of the replacement needs, will be covered by, among others, the above mentioned investment level (*e.g.* upgrade of the 220 kV installations).

11.2.7.2 Investments in 2009, 2008 and 2007

The capital expenditure of 50Hertz amounted to EUR 149 million in 2009, EUR 117 million in 2008, and EUR 55 million in 2007. Potential future capital expenditure not covered by investment budgets approved by the German regulator will need to be financed out of available operational cash flow or through new financial debt.

11.2.8 *Group structure 50Hertz*



50Hertz Offshore

50Hertz Offshore is fully owned by 50Hertz and was founded in 2007 to facilitate the connection of the wind parks in the Baltic Sea and to provide for a transparent accounting of the costs and capital employed. 50Hertz Offshore will incur all the capex and other related costs with regard to these offshore connections. In accordance with the German Infrastructure Planning Acceleration Act of 2006, 50Hertz is entitled to be reimbursed, over time, by the other TSOs for their share of expenses incurred in the construction of the offshore facilities, as the law states that all the German TSOs should share in the costs of supplying the offshore wind farms with network access equally.

50Hertz, through its subsidiary 50Hertz Offshore, is currently working on a demand analysis to ascertain at which locations wind park construction will begin before December 2015 and will therefore need to be connected to the network.

Central Allocation Office GmbH ("CAO")

50Hertz, together with several other TSOs established a joint cross border services company named CAO. The parties own equal shares of 12.5% each in the company. CAO's purpose is the provision of congestion management services for cross border exchanges in electricity on behalf of the participating TSOs. The services will be provided within the Central East European power market. CAO began to operate in November 2008.

European Market Coupling Company GmbH ("EMCC")

50Hertz, together with Energinet.dk (ENDK), the Danish electricity and gas system operator, Transpower (former E.ON Netz), EEX[22] and Nord Pool Spot AS, established a joint cross Danish-German border service company named EMCC. The partners own equal shares of 20%. The strategic and economic rationale is to implement and comply with the requirements of EC Regulation No. 1228 / 2003. EMCC began to operate at the end of September 2008.

11.2.9 *Litigation*

50Hertz faces certain litigation risks in the ordinary course of its business. Taking into account provisions and rights of recourse against third parties, 50Hertz was involved in the following material litigations as of 31 December 2009:

- Claims from DSOs for alleged excessive pricing prior to October 2004 (provided for in the amount of EUR 6.5 million).
- 50Hertz' partners in the construction of an international cable connection between a foreign network and 50Hertz' network have lodged a claim against 50Hertz based on 50Hertz' refusal to pay higher prices. According to 50Hertz, the higher costs which are supposed to justify the higher prices were not sufficiently evidenced. 50Hertz has lodged a counterclaim for capacity charges to be paid back.
- A court case initiated before the BNetzA against 50Hertz and the other three German TSOs relates to alleged abusive behaviour in the context of the purchase of control energy (*Regelenergie*). Allegedly, the costs which the four German TSOs pass on to their network users could significantly be reduced if the TSOs would net their balancing needs before procuring balancing energy in their respective areas, which would accordingly lead to a decrease of network tariffs. In this context, it should be observed that one of the major users of 50Hertz' network has waived any claims against 50Hertz and has ensured that none of its affiliates would reclaim network fees or ask for any other means of compensation or damages from 50Hertz on the basis that allegedly network fees were excessively high. TSOs are currently also looking into ways to reduce the need for balancing power.
- After a complaint regarding the absorption of excessive revenues (*Mehrerlöseabschopfung*) has been rejected in 2009, 50Hertz will have to pay back excessive revenues in the amount of EUR 37.5 million. These will be absorbed over a period of nine years (2010 until 2018). Taking into account the interest rate on that amount, 50Hertz has to reduce its revenue caps in each of these nine years by approximately EUR 5.1 million. A provision of EUR 37.5 million has been accounted for in this respect.

50Hertz has a provision for litigation and contingent liabilities which, as at 31 December 2009, amounted to EUR 9 million.

A separate provision of EUR 62.1 million has been set aside for potential claims from landowners for land used to build the transmission network in the past without compensation. All such claims have been settled without litigation up to now.

In addition, as set out above, a provision has been accounted for in the amount of EUR 37.5 million in respect of the liability to repay excessive revenues

[22] EEX, the European Energy Exchange AG was founded in 2002. EEX has established itself a trading market in European energy trading.

12 ACQUISITION OF 50HERTZ BY ELIA AND IFM

12.1 OVERVIEW

Elia and IFM announced the acquisition of 50Hertz from Vattenfall on 12 March 2010. The acquisition was closed on 19 May 2010.

The acquisition includes all of the shares of 50Hertz, including its 100% subsidiary 50Hertz Offshore and its two minority shareholdings, *i.e.* EMCC (12.5%) and CAO (20%) (see section 11.2.8).

In view of the acquisition, Elia and IFM have set up a holding company, Eurogrid International CVBA, a cooperative company with limited liability incorporated under the laws of Belgium. The shares of Eurogrid International are owned for 60% by the Company and Elia Asset (holder of 1 share) and for 40% by IFM Luxembourg No. 2 S.à.r.l.. IFM Luxembourg No. 2 S.à.r.l. is a private limited liability company incorporated under the laws of the Grand Duchy of Luxembourg and is controlled by IFM.

The shares of 50Hertz were acquired through Eurogrid GmbH, a German limited company (*GmbH*), which was incorporated on 2 March 2010. Eurogrid GmbH is a 100% subsidiary of Eurogrid International (for an overview of the group structure of the Eurogrid International and its subsidiaries, see section 11.2.8).

12.2 EQUITY PARTNER IFM

IFM has been established in 1995 by four Australian industry pension funds. Since then, IFM has grown to a substantial partnership with thirty-five Australian 'not for profit' superannuation funds (*i.e.* member owned pension funds), the total assets of which exceed EUR 85 billion.

IFM has approximately EUR 12.5 billion assets under management (September 2009), including EUR 4.0 billion in infrastructure across Australia, Europe, the United States and South America.

Superannuation is a retirement (including pensions) scheme in Australia. It has a compulsory element whereby employers are required by law to pay an additional amount based on a proportion of an employee's salaries and wages (currently 9%) into a complying superannuation fund, which can be accessed when the employee meets one of the conditions of release contained in the Australian Superannuation Industry Supervision Regulations 1994. Superannuation funds operate as Trusts with Trustees being responsible for the prudential operation of their funds and in formulating and implementing an investment strategy. Superannuation Trustees have, inter alia, an obligation to ensure that superannuation monies are invested prudently with consideration given to diversification and liquidity. Superannuation funds must be registered with the Australian Prudential Regulation Authority ("APRA"). Additionally, under the Australian Corporation Act, Trustees require an Australian Financial Services Licence from the Australian Securities and Investments Commission ("ASIC"), Australia's financial services regulator.

Since the creation of IFM, more than 40 investments in infrastructure have been implemented by IFM totalling AUD 5.9 billion. The portfolio is primarily composed of assets located in the USA, Europe and Australia. The open-end structure of the fund is well-suited to the long-term investment horizon of infrastructure assets and enables to support and manage assets over several decades. IFM's current portfolio is already composed of an electricity transmission and distribution company and several other regulated companies within the utilities business.

The investment strategy of IFM is as follows:

- Focus on core infrastructure assets;
- Non conflicting business model;
- No exit requirements due to open ended fund structure;
- Proactive, long-term asset management;
- Diversified by sector, geography and vintage;
- Manage investments via shareholder boards;
- Avoid distressed assets and excessive leverage.

Given the above, the Company believes that the investment strategy of IFM is aligned with Elia's strategy to find a long term partner for the acquisition of 50Hertz.

12.3 AGREEMENTS WITH IFM – INVESTMENT AND SHAREHOLDERS' AGREEMENT

In view of the acquisition of 50Hertz, Elia and IFM have entered into an investment and shareholders' agreement on 11 March 2010 (the "Investment and Shareholders' Agreement") providing for the obligations of each of the parties in respect of the set-up of the acquisition structure, the funding of Eurogrid International and the future management and governance of its subsidiaries.

The Investment and Shareholders' agreement also provides for certain restrictions on the transfer of shares in Eurogrid International (pre-emption rights, drag-along and tag along rights). In addition, the shares in Eurogrid International cannot be transferred to any third party for a period of five years. After the initial five years' lock-up, no transfer of shares in Eurogrid International can occur for a further period of five years (i) to a power generator or generation undertaking; or (ii) to a party which does not have the same or a similar profile as the investors at that time. Any such transfer should be compatible with the Third Energy Package unbundling requirements. The Investment and Shareholders' Agreement is entered into for a term of 20 years, which term can be renewed, but ceases to apply if a shareholder no longer holds shares.

Additional funding of Eurogrid International requires the consent of Elia and IFM. However, if certain specific events occur which require additional funding (such as defaults under debt facilities, a breach of applicable regulations applying to the operation of the network, a matter which has a material impact on the safety or reliability of the network, a change in any applicable law or regulation affecting the business), any investor holding at least 20% of the voting share capital of Eurogrid International may (subject to certain conditions) propose that Eurogrid International issues additional shares or other securities to meet the amount of the required funding and the other investors shall vote in favour of such decision, without being obliged to participate in such further funding.

Principles on future governance of the Eurogrid group and 50Hertz agreed upon between Elia and IFM

Principles. The corporate governance structure of the Eurogrid group agreed upon between Elia and IFM is designed to achieve the following objectives: (i) Eurogrid International will operate as the sole management company of the consortium created for the investment in 50Hertz and in Eurogrid International's other subsidiaries (if any); (ii) the status of co-determination with a co-determined supervisory board of 50Hertz will be preserved for a period of five years after the closing date of the acquisition 50Hertz; and (iii) the corporate governance structure shall comply with the provisions of the Third Energy Package as implemented in Germany.

Management Eurogrid International and Eurogrid GmbH. Eurogrid International will be managed by a board of directors consisting of five directors. Each investor in Eurogrid International holding 20% or more shall have the right to appoint one director for each share of 20% held by that investor in the capital of Eurogrid International. Based on the current allocation of the shares of Eurogrid International between IFM and Elia, this results in a 60/40 allocation (three directors for Elia, two for IFM). The governance structure of Eurogrid GmbH mirrors the governance structure of Eurogrid International (it being understood that the parties have decided to temporarily restrict the number of directors of Eurogrid GmbH to two directors only, one nominated by IFM, the other one nominated by Elia).

Management 50Hertz. 50Hertz will be controlled and supervised by a co-determined supervisory board (*Aufsichtsrat*) consisting of six members. In accordance with 50Hertz' articles of association, three supervisory board members are employee representatives. The three other members are appointed by the shareholders of 50Hertz. In accordance with the Investment and Shareholders' Agreement, Elia has the right to appoint two members of the supervisory board of 50Hertz, and IFM has the right to appoint one member of the supervisory board of 50Hertz.

50Hertz will be managed and operated by a management team of up to eight managing directors (*Geschäftsführern*), who are appointed and removed by the supervisory board of 50Hertz. Seven managing directors shall be appointed upon the proposal of the shareholder(s) of 50Hertz. For so long as Elia holds more than 50% of the voting share capital of Eurogrid International, it has the right to nominate four managing directors (which includes the Chief Executive Officer, the Chief Technical Officer and the head of regulatory affairs). For so long as IFM holds more than 20% of the voting share capital of Eurogrid International, it has the right to appoint the Chief Financial Officer and the Chief Operating Officer. The remaining managing director (*Arbeitsdirektor*) is an employees' representative.

Special majority requirements for important decisions. In accordance with the Investment and Shareholders' Agreement, Elia and IFM jointly control significant matters relating to the business of Eurogrid International and its subsidiaries (including 50Hertz) (such as changes to the business plan, material transactions, disposals of assets, changes to the share capital, material borrowings and important investments outside the business plan) through the requirement of the approval by Eurogrid International's shareholders' meeting (shareholder reserved matters) or Eurogrid International's board of directors (board reserved matters). Pursuant to the Investment and Shareholders' Agreement, shareholder reserved matters require the prior approval by Eurogrid International's shareholders' meeting with a majority of 75% of the votes cast. Board reserved matters require prior approval of more than 75% of the votes of the directors entitled to vote.

12.4 SHARE PURCHASE AGREEMENT WITH VATTENFALL

On 11 March 2010, Eurogrid GmbH (as buyer) and Vattenfall (as seller) entered into a share purchase agreement (the "Share Purchase Agreement") regarding the acquisition of all of the shares of 50Hertz (the "Transaction"). Between the parties, the Transaction has economic effect as of 1 January 2010, 0.00 a.m. (although 50Hertz would be consolidated as of 1 June 2010 only). The key terms of the Share Purchase Agreement are summarised below.

Financial terms. The purchase price owed by Eurogrid GmbH to Vattenfall for the acquisition of 50Hertz amounted to EUR 464.6 million. Of the total price, 60% was funded by Elia (EUR 278.8 million) and 40% was funded by IFM (EUR 185.8 million). Eurogrid GmbH also took over a shareholder loan of EUR 320 million between Vattenfall and 50Hertz, subject to an adjustment to take into account the netting of certain intra-group financing agreements and cash pooling arrangements entered into by 50Hertz and 50Hertz Offshore. The shareholder loan has been replaced by bank debt (see section 12.6).

Vattenfall has given certain contractual warranties to Eurogrid GmbH in line with market practice and standards, including warranties in relation to corporate matters, the true and fair view of the financial statements of 50Hertz and its wholly owned subsidiary 50Hertz Offshore per year-end 2008 and 2009, the real estate situation and business operations (including in relation to material agreements; the sufficiency of assets and information required for the operation of the business; the fact that 50Hertz holds all public law permits and licences required for the construction and operation of high voltage lines and the ordinary course of business since 31 December 2009).

The liability of Vattenfall in case of a breach of warranties is subject to certain limitations. No claims for damages can be made unless and until all claims reach EUR 10 million (threshold, but not a deductible); the cap on warranty claims equals 30% of the purchase price and liability claims are time-barred 24 months after closing (subject to certain exceptions).

Vattenfall has also given an indemnity for environmental liabilities in accordance to which Vattenfall and Eurogrid GmbH will share certain potential environmental liabilities. Vattenfall bears (i) 50% of the environmental liabilities with regard to real estate up to an amount of EUR 100 million; (ii) 70% of certain environmental liabilities relating to two specific sites (Berlin and Hamburg) up to an amount of EUR 100 million; and (iii) 100% of the environmental liabilities above EUR 100 million up to the amount of the purchase price. Accordingly, Eurogrid GmbH is exclusively responsible for (i) environmental liabilities for which the 2009 annual accounts contain reserves; (ii) certain listed contaminations; (iii) 50% of the environmental liabilities with regard to real estate up to an amount of EUR 100 million; (iv) 30% of certain environmental liabilities relating to two specific sites (Berlin and Hamburg) up to an amount of EUR 100 million and (v) environmental liabilities above the amount of the purchase price. Claims in relation to the indemnity for environmental matters become time barred six years after closing. A provision amounting to EUR 4.2 million is already accounted for in respect of these environmental matters under German GAAP (EUR 3.4 million under IFRS) by 50Hertz.

Closing conditions. The closing of the Transaction was subject to, *inter alia*, merger control consent by the relevant competition authorities and the absence of events which have or may reasonably be expected to have a material adverse effect on, or may result in a material adverse change in, the business of 50Hertz or 50Hertz Offshore or their assets, liabilities, condition, results or prospects. The closing conditions had to be satisfied within four months after 11 March 2010. The Transaction was closed on 19 May 2010.

Lock-up provisions and restrictions on the transfer of shares in 50Hertz. Eurogrid GmbH agreed to a number of lock-up provisions and restrictions on the transfer of shares in 50Hertz.

Until the earlier of (i) completion of the *Nordleitung* and *Südwestkuppelleitung* projects (see "Essential Projects" in section 11.2.7.1) and (ii) the end of 2012, Eurogrid GmbH may not transfer or encumber the 50Hertz shares to a third party or and must ensure that 50Hertz does not transfer significant assets to a third party, nor shall it proceed to measures enabling a power generator to acquire influence over business operations or significant assets (subject to certain exceptions, such as a transfer as security for the financing of the Transaction or the business of 50Hertz and its subsidiaries). In case of breach of some of these undertakings, a contractual penalty in the amount of EUR 100 million may be due, regardless of fault, for each incident of non-compliance, unless such breach is remedied within eight weeks of Vattenfall giving written notice to Eurogrid GmbH of such violation. In addition, Eurogrid GmbH agreed, subject to certain limitations and exceptions, that for a period of five years after the closing date, Eurogrid GmbH or 50Hertz shall not conduct, agree to or participate in a transfer to an undertaking which is active in the power generation sector, which holds a competitively significant influence in a power generator or in which a power generator holds a competitive interest and that Eurogrid GmbH nor 50Hertz shall become a power generator or hold or acquire, directly or indirectly, a competitive interest in a power generator.

Any liability of Eurogrid GmbH in respect of the lock-up provisions and transfer restrictions shall in the aggregate and together with the contractual penalty payable by Elia and/or IFM under the Trilateral Agreement (see section 12.5), not exceed EUR 100 million.

12.5 OTHER AGREEMENTS ENTERED INTO WITH VATTENFALL

12.5.1 *Bilateral Agreement Elia and Vattenfall*

The closing of the Transaction was subject to Elia and Vattenfall entering into a bilateral agreement (the "Bilateral Agreement") providing for certain specific commitments of Elia in respect of a number of essential network extension projects which 50Hertz is obliged to prepare, develop and carry out, to the extent possible (see "Essential Projects" in section 11.2.7.1).

Vattenfall assured to Elia that (i) at the time of the signing of the Share Purchase Agreement, 50Hertz is able to complete the Essential Projects by agreed deadlines/milestones without incurring any costs other than those budgeted and (ii) at the time of the signing of the Share Purchase Agreement, 50Hertz has all personnel, technical and physical resources required for fulfilling the functions of a TSO with regard to current status of Essential Projects and the prevention of congestion.

Under the Bilateral Agreement, Elia ensures that 50Hertz shall take all technically and legally possible and economically reasonable steps to start, carry out and complete the Essential Projects by certain deadlines/milestones (subject to (i) obtaining the necessary permits; (ii) obtaining appropriate private use rights; (iii) compliance with law/regulations;(iv) absence of force majeure events; and (v) objective correctness of certain assurances given by Vattenfall in respect of the Essential Projects). In case of a delay for which neither Elia nor 50Hertz can be held responsible, Elia is to ensure timely completion or completion at the earliest possible date. Elia also undertakes not to use its rights as shareholder in any way that would result in 50Hertz becoming incapable of completing the Essential Projects. In case of violation of these obligations, Vattenfall may claim fulfilment of the respective obligations as well as damages. Claims for damages are subject to a cap on liability of EUR 10 million per calendar year until 2014. No damages or penalties may be claimed after the expiry of five years after the closing date provided for in the Share Purchase Agreement.

Elia also agrees to ensure (to the extent technically and economically reasonable and legally possible), until completion of *Nordleitung* and *Südwestkuppelleitung*, that 50Hertz (i) operates as market facilitator including the maintenance of a single German price zone; (ii) continues to manage congestion with regard to bottlenecks inside Germany, in line with past practice of 50Hertz, best practice of an unbundled TSO and, with regard to cross-border bottlenecks, in line with the practice of ENTSO-E and the past practices of UCTE and/or ENTSO; (iii) uses all congestion-related revenues towards the completion of the *Nordleitung* and the *Südwestkuppelleitung*; (iv) is equipped with all personnel, technical and physical resources required for fulfilment of functions of a TSO with regard to completion of Essential Projects and the prevention of congestion; (v) operates its own control area (*Regelzone*); (vi) continues to maintain its own transmission control centre in the area of Berlin for a period of five year after signing of the Share Purchase Agreement; and (vii) keeps the TCC at least as a regional TCC for at least two years after completion of the *Nordleitung* and *Südwestkuppelleitung*.

In the event of a breach of any of these regulatory duties, a contractual penalty of EUR 10 million may be claimed for each violation of its obligations regarding (i) the management of congestion; and (ii) the operation of its own control area (unless Elia proves that Vattenfall has not suffered any damages or the violation is remedied within eight weeks after Elia has been notified of such violation). The aggregate amount of penalties to be paid in respect of violations of these obligations is limited to EUR 10 million per calendar year until the earlier of (i) completion of *Nordleitung* and *Südwestkuppelleitung* ; and (ii) the end of 2014. No damages or penalties may be claimed after the expiry of five years after the closing date provided for in the Share Purchase Agreement.

12.5.2 *Trilateral Agreement Elia, IFM, Vattenfall*

The closing of the Transaction was also subject to Vattenfall, Elia and IFM entering into a trilateral agreement (the "Trilateral Agreement"). Subject to certain conditions, the Trilateral Agreement particularly extends the application of the lock-up provisions and transfer restrictions in relation to the shares of 50Hertz shares to Eurogrid International and Eurogrid GmbH. The exceptions to the lock-up and transfer restrictions provided for in the Share Purchase Agreement with respect to 50Hertz apply *mutatis mutandis* to Eurogrid International and Eurogrid GmbH. In case of breach of these undertakings, Elia and IFM may be liable to pay to Vattenfall, regardless of fault, for each incident of non-compliance, a contractual penalty in the amount of EUR 100 million, unless such breach is remedied within eight weeks of the earlier of Vattenfall giving written notice to Elia and IFM of such violation and Elia and IFM becoming aware of such violation. Elia and IFM are also jointly and severally liable for the payment of a similar penalty if Eurogrid GmbH or 50Hertz have not complied with the lock-up or share transfer restrictions under the Share Purchase Agreement.

12.6 FINANCING ENTERED INTO IN THE CONTEXT OF THE ACQUISITION OF 50HERTZ

12.6.1 *EUR 153 million credit agreement entered into by the Company on 22 April 2010 with KBC Bank NV ("bridge to equity")*

Elia paid for its 60% stake, through Eurogrid GmbH, EUR 278.8 million to Vattenfall. The amount of EUR 278.8 million is to be financed using the proceeds of the Offering. Elia has secured bridge financing for the period between the closing date of the acquisition and the closing of the Offering (expected end of June) by entering into a EUR 153 million credit agreement on 22 April 2010 with KBC Bank NV (the balance of the portion of the purchase price to be paid by Elia being funded by means of excess cash) ("*bridge to equity*"). The loan can be extended until ultimately 31 December 2011. The proceeds of the Offering would be used to refinance the bridge financing, while the balance of the net proceeds would be used to finance general capital expenditure programmes and to satisfy working capital and general corporate purpose needs.

12.6.2 *EUR 850 million credit facility entered into by Eurogrid GmbH with The Royal Bank of Scotland NV, ING Bank NV, BNP Paribas Fortis and Dexia Bank Belgium SA/NV on 11 March 2010 ("bridge to bonds")*

Eurogrid GmbH has secured a long term credit facility with The Royal Bank of Scotland NV, ING Bank NV, BNP Paribas Fortis and Dexia Bank Belgium SA/NV for an amount of EUR 850 million. The credit facility was entered into on 11 March 2010. About EUR 320 million was to be used immediately to repay an existing shareholder loan between 50Hertz and Vattenfall. The remaining part of the financing will be used to finance future capex and working capital needs of Eurogrid GmbH and its subsidiaries. Eurogrid GmbH is considering replacing the bank financing with long term Eurobonds ("*bridge to bonds*").

The credit facility consists of:

- a term loan facility in the amount of EUR 350 million which could be used for the repayment of an existing EUR 320 million intra-group loan between 50Hertz and Vattenfall (see section 12.4) and for the payment of costs related to the acquisition of 50Hertz ("*Facility A*"),
- a revolving credit facility in the amount of EUR 350 million which can be used to finance capital expenditure of Eurogrid GmbH and its subsidiaries (including 50Hertz) ("*Facility B*"),
- a revolving credit facility in the amount of EUR 50 million which can be used to finance working capital and for general corporate purposes of Eurogrid GmbH and its subsidiaries (including 50Hertz) ("*Facility C*"),
- a revolving credit facility in the amount of EUR 100 million which can be used to fund EEG balancing transactions of 50Hertz and its subsidiaries ("*Facility D*").

The final maturity date of Facility A is the date falling two years after the earlier of the completion of the acquisition of 50Hertz and 31 May 2010. The final maturity date of Facility B, C and D is the date falling three years after the earlier of the completion of the acquisition of 50Hertz and 31 May 2010.

The borrowing conditions and financial covenants of this credit facility depend to a significant extent on the public rating of Eurogrid GmbH. Eurogrid GmbH has undertaken to use its best efforts to obtain a public rating from S&P or Moody's on or before the date falling three months after the completion of the acquisition of 50Hertz. Failure to obtain a public rating within six months constitutes an event of default. Eurogrid GmbH is currently in the process of obtaining a public rating.

The borrowing conditions and more specifically the margins for all facilities will vary between 75bp to 130bp for a public rating of A-/A3 or higher and 175bp to 205bp for a public rating of BBB-/Baa3 or lower.

In case Eurogrid GmbH obtains a public rating of BBB/Baa2 or lower, Eurogrid GmbH will have to observe specific financial ratios. These financial ratios will not be tested as long as Eurogrid GmbH has a public rating of BBB+/Baa1 or higher. The financial ratios will in any case not be tested for any measurement period ending before 31 December 2010.

The credit facility provides for the following restrictions on the payments of dividends:

- as long as Eurogrid GmbH has a rating of BBB+/Baa1 or higher, Eurogrid GmbH is permitted to pay dividends out of the consolidated net profit of Eurogrid GmbH based on German GAAP accounts without specific restrictions;
- if at the time of the declaration and payment of such dividend Eurogrid GmbH has a public rating which is equal to BBB/Baa2 and if all term loans under Facility A have been repaid in full, Eurogrid GmbH is permitted to pay dividends out of the consolidated net profit of Eurogrid GmbH based on German GAAP accounts without specific restrictions;
- if at the time of the declaration and payment of such dividend, Eurogrid GmbH has a rating which is equal to BBB/Baa2, and if any amount is outstanding under the term loans under Facility A, Eurogrid GmbH is permitted to pay out up to a maximum amount of 62.5% of the consolidated net profit of Eurogrid GmbH based on German GAAP accounts;
- if at the time of the declaration and payment of such dividend, Eurogrid GmbH has a rating lower than BBB/Baa2, Eurogrid GmbH is not permitted to pay out dividends as long as any amount is outstanding under the term loans under Facility A;
- if at the time of the declaration and payment of such dividend, Eurogrid GmbH has a rating equal to BBB-/Baa3 or lower or if the public rating of Eurogrid GmbH is withdrawn, Eurogrid is permitted to pay out up to a maximum amount of 50% of the consolidated net profit of Eurogrid GmbH based on German GAAP accounts, provided that all term loans under Facility A have been repaid in full.

The credit facility provides for certain other covenants and restrictions relating to the disposal of assets, the incurring of additional financial indebtedness, acquisitions, mergers and demergers, third party guarantees and lending. The credit facility also provides for a mandatory prepayment of all amounts accrued under the credit facility in the event of a change of control over 50hertz or Eurogrid GmbH (which will also occur if Eurogrid GmbH ceases to control and hold directly or indirectly 100% of the shares and voting rights of 50Hertz or if Elia ceases to hold directly or indirectly at least 50.1% of the shares and voting rights in Eurogrid GmbH).

50Hertz and 50Hertz Offshore have unconditionally and irrevocably guaranteed the performance by Eurogrid GmbH of its obligations under the credit facility. The credit facility is further secured by a pledge over the shares of 50Hertz and an assignment of rights and claims of Eurogrid GmbH against 50Hertz.

Based on currently available information, it is not expected that the acquisition of 50Hertz will have a negative impact on Elia's credit rating, also taking into account that the part of the purchase price for the acquisition to be funded by Elia would be financed through a capital increase and that the credit facilities granted to Eurogrid GmbH in respect of the financing of 50Hertz' activities were entered into on a "non-recourse" basis.

12.7 UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma consolidated balance sheet and income statement (the "Unaudited Pro Forma Consolidated Financial Information") were prepared to illustrate the possible impact on the Company of the acquisition of 50Hertz. The Unaudited Pro Forma Consolidated Financial Information has been prepared in accordance with Annex II of the Commission Regulation (EC) No 809/2004 of 29 April 2004.

Because of its nature, the Unaudited Pro Forma Consolidated Financial Information addresses a purely hypothetical situation. The Unaudited Pro Forma Consolidated Financial Information has been prepared as if the acquisition had occurred on 1 January 2009 and is based on the historical financial statements of the Company for the year ended 31 December 2009 and of 50Hertz for the year ended 31 December 2009, after giving effect to the acquisition of 50Hertz by Elia and IFM and the assumptions and adjustments described in the accompanying notes to the Unaudited Pro Forma Consolidated Financial Information. The capital increase related to the acquisition is assumed to be EUR 300 million subject to the successful placement of the Offering and reduced with the management's best estimate of the capital increase transaction costs for a total amount of EUR 6 million.

The consolidated financial statements of the Company include four subsidiaries, *i.e.* Elia Asset, Elia Engineering, Belpex and Elia RE. Furthermore, the associated companies, HGRT and Coreso, are included in the consolidated statements on the basis of the equity method. Finally, the Company's interest in CASC-CWE is incorporated in the financial assets on the basis of the cost method investment.

Unless otherwise indicated, references in this section 12.7 to "50Hertz" should be read as a reference to 50Hertz Transmission, 50Hertz Offshore and its two minority shareholdings, *i.e.* EMCC and CAO.

The Unaudited Pro Forma Consolidated Financial Information is presented for illustrative purposes only and does not necessarily indicate the results of operations or the consolidated financial position that would have resulted had the acquisition been completed at the beginning of the period presented, nor is it indicative of the results of operations in future periods or the future financial position of the combined businesses. The pro forma adjustments are based upon available information and certain assumptions that the Company believes to be reasonable. These adjustments could materially change as a result of an independent valuation of 50Hertz' assets and liabilities.

The Unaudited Pro Forma Consolidated Financial Information should be read together with:

- the accompanying notes to the Unaudited Pro Forma Consolidated Financial Information;
- the audited historical consolidated financial statements of the Company presented in accordance with IFRS for the year ended 31 December 2009;
- the audited historical financial statements of 50Hertz and 50Hertz Offshore for the year ended 31 December 2009 prepared in accordance with German GAAP ("HBI") which have been filed to the appropriate authorities on 12 April 2010 and 8 April 2010, respectively. These financial statements are filed in the German language and can be retrieved on http://www.ebundesanzeiger.de and on the Company's website (www.elia.be) (together with a free translation in English); and
- the Unaudited Consolidated Financial Information under IFRS for 50Hertz for the year ended 31 December 2009

12.7.1 *Unaudited pro forma consolidated balance sheet 31 December 2009*

	Unadjusted financial information			*Pro forma adjustments*			*Pro forma adjustments*			
	Company - Audited	**50Hertz Transmission GmbH - Audited**	**50Hertz - Offshore GmbH - Audited**	**Consolidation & presentation consistency of 50Hertz Unaudited**	**Adjustments to convert German GAAP to IFRS (Elia) Unaudited**	***Consolidated 50Hertz (Elia accounting rules) Unaudited***	**Other Unaudited**		**Proportionate consolidation unaudited**	**Consolidated pro forma balance sheet**
	IFRS	**German GAAP**	**German GAAP**	**German GAAP**		**IFRS**			**(H)**	**IFRS**
Reference to the notes				**(A)**	**(B)**					
	[1]	[2]	[3]	[4]	[5]	[6] = [2+3+4+5]	[7]		[8]	[1+6+7+8]
(€ million)	**31 December 2009**	**31 December 2009**	**31 December 2009**	**31 December 2009**	**31 December 2009**	**31 December 2009**	**31 December 2009**		**31 December 2009**	**31 December 2009**
Assets										
Non-current assets	3,976.6	1,238.0	49.4	-78.6	157.2	1,366.0	0.0		-546.4	4,796.2
Property. plant and equipment	2,089.6	1,183.3	49.4	-57.6	157.2	1,332.3	0.0		-532.9	2,889.0
Intangible assets	1,730.1	32.8	0.0	0.0	0.0	32.8	0.0		-13.1	1,749.8
Trade and other receivables	105.8	0.0	0.0	0.0	0.0	0.0	0.0		0.0	105.8
Investments in equity accounted investees	9.4	0.0	0.0	0.0	0.0	0.0	0.0		0.0	9.4
Other investments (including derivatives)	16.7	21.9	0.0	-21.0	0.0	0.9	0.0		-0.4	17.2
Deferred tax assets	25.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	25.0
Current assets	**443.4**	**672.8**	**5.2**	**-36.1**	**88.5**	**730.4**	**11.5**		**-290.8**	**894.5**
Inventories	13.7	4.2	0.0	-4.2	0.0	0.0	0.0		0.0	13.7
Trade and other receivables	218.1	660.3	5.2	-118.4	-4.2	542.9	0.0		-217.2	543.8
Income tax receivable	0.7	0.0	0.0	0.0	0.0	0.0	3.0		-1.1	2.5
Cash and cash equivalents	174.6	2.6	0.0	54.4	0.0	57.0	8.5	(C)	-20.3	219.8
Other assets	36.3	5.7	0.0	32.1	92.7	130.5	0.0		-52.2	114.6
Total assets	**4,420.0**	**1,910.8**	**54.6**	**-114.7**	**245.7**	**2,096.4**	**11.5**		**-837.2**	**5,690.7**

	Unadjusted financial information			*Pro forma adjustments*			*Pro forma adjustments*			
	Company - Audited	**50Hertz Transmission GmbH - Audited**	**50Hertz - Offshore GmbH - Audited**	**Consolidation & presentation consistency of 50Hertz Unaudited**	**Adjustments to convert German GAAP to IFRS (Elia) Unaudited**	***Consolidated 50Hertz (Elia accounting rules) Unaudited***	**Other Unaudited**		**Proportionate consolidation unaudited**	**Consolidated pro forma balance sheet**
	IFRS	**German GAAP**	**German GAAP**	**German GAAP**		**IFRS**			**(H)**	**IFRS**
Reference to the notes				**(A)**	**(B)**					
	[1]	[2]	[3]	[4]	[5]	[6] = [2+3+4+5]	[7]		[8]	[1+6+7+8]
(€ million)	**31 December 2009**	**31 December 2009**	**31 December 2009**	**31 December 2009**	**31 December 2009**	**31 December 2009**	**31 December 2009**		**31 December 2009**	**31 December 2009**
Equity and liabilities										
Equity	**1,367.1**	**662.3**	**21.0**	**-21.0**	**228.2**	**890.5**	**10.5**		**-354.4**	**1,913.7**
Equity attributable to equity holders of the company	**1,365.4**	**662.3**	**21.0**	**-21.0**	**228.2**	**890.5**	**-343.9**	**(D)**	**0.0**	**1,912.0**
Share capital	1,207.3	200.0	1.0	-1.0	0.0	200.0	94.0		0.0	1,501.3
Share premium	8.5	0.0	0.0	0.0	0.0	0.0	0.0		0.0	8.5
Capital reserves	0.0	455.8	20.0	-20.0	0.0	455.8	-455.8		0.0	0.0
Reserves	36.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	36.0
Hedging reserve	-18.7	0.0	0.0		0.0	0.0	0.0		0.0	-18.7
Retained earnings	132.2	6.5	0.0	0.0	228.2	234.7	17.9		0.0	384.8
Operating activities	*132.2*	6.5	0.0	0.0	*228.2*	*234.7*	-237.6	(D1)	0.0	129.3
Bargain on purchase price	*0.0*	*0.0*	0.0	0.0	*0.0*	*0.0*	*255.5*		*0.0*	*255.5*
Non-controlling interest	***1.7***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***354.4***		***-354.4***	***1.7***
Non-controlling interest	1.7	0.0	0.0	0.0	0.0	0.0	354.4		-354.4	1.7
Non-current liabilities	**2,804.7**	**384.4**	**0.0**	**100.0**	**96.0**	**580.4**	**0.9**		**-232.5**	**3,153.5**
Loans and borrowings	2,618.9	220.0	0.0	100.0	0.0	320.0	0.0	(E)	-128.0	2,810.9
Employee benefits	142.9	0.0	0.0	0.0	1.2	1.2	0.0		-0.5	143.6
Derivatives	28.2	0.0	0.0	0.0	0.0	0.0	0.0		0.0	28.2
Provisions	4.8	146.4	0.0	0.0	0.0	146.4	0.0		-58.6	92.6
Deferred tax liabilities	6.8	18.0	0.0	0.0	94.8	112.8	0.9	(F)	-45.5	75.0
Other liabilities	3.1	0.0	0.0	0.0	0.0	0.0	0.0		0.0	3.1
Current liabilities	**248.2**	**864.1**	**33.6**	**-193.7**	**-78.5**	**625.5**	**0.0**		**-250.2**	**623.5**
Loans and borrowings	0.1	100.0	0.0	-100.0	0.0	0.0	0.0		0.0	0.1
Provisions	13.9	0.0	0.2	0.0	0.0	0.2	0.0		-0.1	14.0
Trade and other payables	233.9	235.8	33.4	-93.7	187.2	362.7	0.0		-145.1	451.5
Income tax payables	0.2	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.2
Other liabilities	0.0	528.3	0.0	0.0	-265.7	262.6	0.0		-105.0	157.6
Total equity and liabilities	**4,420.0**	**1,910.8**	**54.6**	**-114.7**	**245.7**	**2096.4**	**11.5**		**-837.2**	**5,690.7**

12.7.2 *Unaudited pro forma consolidated income statement 2009*

	Unadjusted financial information			*Pro forma adjustments*			*Pro forma adjustments*			
	Company - Audited	**50Hertz Transmission GmbH - Audited**	**50Hertz - Offshore GmbH - Audited**	**Consolidation & presentation consistency of 50Hertz Unaudited**	**Adjustments to convert German GAAP to IFRS (Elia) Unaudited**	***Consolidated 50Hertz - Unaudited IFRS***	**Other Unaudited**		**Proportionate consolidation unaudited**	**Consolidated pro forma income statement**
	[1]	[2]	[3]	[4]	[5]	[6]= [2+3+4+5]	[7]		[8]	[1+6+7+8]
	IFRS	**German GAAP**	**German GAAP**	**German GAAP**						**IFRS**
(€ million)	**2009**	**2009**	**2009**	**2009**	**2009**		**2009**		**2009**	**2009**
Reference to the notes				**(A)**	**(B)**				**(G)**	
Continuing operations										
Revenue	733.7	4,171.8	1.1	-3,482.0	-17.7	673.2	0.0		-269.3	1,137.6
Cost of sales	-5.6	-3,987.4	0.0	3,987.4	0.0	0.0	0.0		0.0	-5.6
Gross profit	**728.1**	**184.4**	**1.1**	**505.4**	**-17.7**	**673.2**	**0.0**		**-269.3**	**1,132.0**
Other income	37.6	248.0	2.0	-178.4	-13.3	58.3	0.0		-23.3	72.6
Services and other goods	-303.5	0.0	0.0	-593.3	0.0	-593.3	-9.4	(C)	241.1	-665.1
Personnel expenses	-124.4	-50.0	-0.5	1.8	-1.1	-49.8	0.0		19.9	-154.3
Depreciation. amortisation. impairment and changes in provisions	-102.1	-85.3	0.0	6.0	9.1	-70.2	0.0		28.1	-144.2
Other expenses	-9.9	-241.1	-1.0	248.4	0.0	6.3	0.0		-2.5	-6.1
Revenue from acquisitions (Bargain price from acquisition)		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**425.9**	**(D)**	**-170.4**	**255.5**
				0.0						
Results from operating activities	**225.8**	**56.0**	**1.6**	**-10.1**	**-23.0**	**24.5**	**416.5**		**-176.4**	**490.4**
Net finance costs	**-120.4**	**-16.8**	**-0.5**	**0.0**	**0.0**	**-17.3**	**2.8**	**(E)**	**5.7**	**-129.3**
Finance income	12.8	1.1	0.0	0.0	0.0	1.1	0.0		-0.4	13.5
Finance costs	-133.2	-17.9	-0.5	0.0	0.0	-18.4	2.8		6.1	-142.7
Share of profit of equity accounted investees (net income tax)	-1.0			0.0		0.0	0.0		0.0	-1.0
Profit before income tax	**104.3**	**39.2**	**1.1**	**-10.1**	**-23.0**	**7.2**	**419.2**		**-170.7**	**360.1**
Income tax expense	-20.0	-32.8	0.0	0.0	27.4	-5.4	2.0	(F)	1.4	-22.0
Profit from continuing operations	**84.3**	**6.4**	**1.1**	**-10.1**	**4.4**	**1.8**	**421.2**		**-169.3**	**338.1**
Profit transfer		**0.0**	**-1.1**	**10.1**	**0.0**	9.0	**0.0**		**-3.6**	**5.4**
Profit for the period	**84.3**	**6.4**	**0.0**	**0.0**	**4.4**	**10.8**	**421.2**		**-172.9**	**343.4**
Profit attributable to:										
Owners of the company	84.0	6.4	0.0	0.0	4.4	10.8	421.2		-172.9	343.1
Non-controlling interest	0.3			0.0		0.0				0.3
Profit for the period	**84.3**	**6.4**	**0.0**	**0.0**	**4.4**	**10.80**	**421.2**		**-172.9**	**343.4**

Profit for the period (exclusive gain on bargain price)										**87.9**
Profit attributable to:										
Owners of the company	84.0									87.6
Non-controlling interest	0.3									0.3

12.7.3 *Basis of pro forma presentation*

The Unaudited Pro Forma Consolidated Financial Information as of 31 December 2009 is based on the historical financial statements of the Company for the year ended 31 December 2009 after giving effect to the acquisition of 50Hertz and the assumptions and adjustments described in the accompanying notes to the Unaudited Pro Forma Consolidated Financial Information. It is not expected that the recent changes of IAS 27 and IAS 31 will have a material impact on the accounting of the transaction.

The Unaudited Pro Forma Consolidated Financial Information for the Company and 50Hertz as of 31 December 2009 is presented as if the acquisition occurred on 1 January 2009, except as described elsewhere.

The capital increase related to the acquisition is assumed to amount to EUR 300 million subject to the successful placement of the Offering and to be reduced with the Company's best estimate of the capital increase transaction costs for a total amount of EUR 6 million.

Due to certain terms and conditions in the Investment and Shareholders' Agreement, the acquisition will be qualified as a joint control between the Company and IFM. IAS 8 requires that, when an IFRS specifically applies to a transaction, the related accounting policy applied shall be determined by applying the IFRS. As such, the Company has applied IAS 31 "Interest in Joint Venture" and applied the proportionate consolidation method. As the accounting principles of the Company do not include the consolidation method for joint ventures, this accounting policy was adopted with informal agreement of the Board of Directors and that final adoption of this policy will be formalised at the next board meeting, as required by law:

"*Jointly controlled entities*". Joint ventures are those entities over whose activities the company has joint control, established by contractual agreement and requiring consent for strategic financial and operating decisions. Interests in joint ventures are accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expense, restated to account for these consistent with IFRS as applied by Elia, but not including any purchase price allocation, with similar items in the consolidated financial statements on a line-by-line basis. Gains or losses realised upon acquisition are recognised as a goodwill or a gain on bargain purchase. If after its incorporation, the joint venture acquires an entity which is controlled, (having the power to, directly or indirectly, govern the financial and operating policies of this subsidiary so as to obtain benefits from its activities,) the requirements of IFRS 3 (Business combination) should be applied.

The pro forma adjustments below represent the adjustments at 100% whereas the impact of the proportionate consolidation method (40%) is presented in the last pro forma column.

The unadjusted financial information for 50Hertz and 50Hertz Offshore has been presented with different captions than in the audited historical financial statements in order to be comparable with the balance sheet and income statement presentation of the Company.

The Unaudited Pro Forma Consolidated Financial Information does not reflect any operating efficiencies and cost savings that the Company may achieve with respect to the acquisition of 50Hertz.

12.7.4 *50Hertz acquisition and related assumptions*

As set out in detail in section 12, the Company and IFM announced the acquisition of 50Hertz from Vattenfall on 12 March 2010. The acquisition was closed on 19 May 2010.

The acquisition includes all of the shares of 50Hertz, including its 100% subsidiary 50Hertz Offshore and its two minority shareholdings, *i.e.* EMCC (12.5%) and CAO (20%).

In view of the acquisition, the Company and IFM have set up a holding company, Eurogrid International. The shares of Eurogrid International are owned for 60% by the Company and Elia Asset (holder of 1 share) and for 40% by IFM Luxembourg No. 2 S.à.r.l. IFM Luxembourg No. 2 S.à.r.l. is a private limited liability company incorporated under the laws of the Grand Duchy of Luxembourg and is controlled by IFM.

The shares of 50Hertz were acquired through Eurogrid GmbH, a German limited company, which was incorporated on 2 March 2010. Eurogrid GmbH is a 100% subsidiary of Eurogrid International.

The acquisition price for all the shares of 50Hertz is EUR 464.6 million. The part of the purchase price owed by the Company for its 60% interest (to be paid through Eurogrid GmbH) is EUR 278.8 million. The amount of EUR 278.8 million will be paid out of the total proceeds of the capital increase of maximum EUR 300 million. The Company has secured bridge financing for the period between the closing date of the acquisition and the closing date of the capital increase ("bridge to equity"). For the purpose of this Unaudited Pro Forma Consolidated Financial Information, the closing date of the acquisition and the closing date of the capital increase are assumed to be 1 January 2009 and as such the "bridge to equity" financing does not have any impact on the Unaudited Pro Forma Consolidated Financial Information except for the up-front fee (EUR 0.4 million) of 0.25% of the facility. Commitment fees on the "bridge to equity" are excluded from the pro forma adjustments, as the Company assumed a successful placement of the Offering, resulting in a repayment of the loan and early termination of the facility. The financial impact of the use of the "bridge to equity" has been estimated by the Company and can be considered as not material. The cash consideration payable by IFM has been paid by IFM in full on the closing date of the acquisition.

As set out in detail in section 12.6.2, Eurogrid GmbH has secured long term bank financing (up to 3 year facilities) of EUR 850 million with four banks (Royal Bank of Scotland, BNP Paribas Fortis, ING and Dexia). About EUR 320 million will be used immediately to repay an existing shareholder loan between 50Hertz and Vattenfall. The remaining part of the financing will be used to finance future investments and working capital needs of Eurogrid GmbH and its subsidiaries ("bridge to bonds"). Eurogrid GmbH is considering replacing the bank financing with long term Eurobonds. For the purpose of this Unaudited Pro Forma Consolidated Financial Information, it has been assumed that:

- the "bridge to bonds" facility has been used for an amount of EUR 320 million and the remaining of EUR 530 million remains unused over the period from 1 January to 31 December 2009;
- the transaction costs amount to EUR 6.3 million, consisting of arrangement and structure fees (EUR 5.5 million) and an up-front fee of EUR 0.8 million. For the purpose of the pro forma consolidated financial information, it is assumed that these transaction costs are fully paid by Eurogrid GmbH.

12.7.5 *Pro forma adjustments*

The following pro forma adjustments are included in the unaudited pro forma consolidated balance sheet.

A. *Consolidation and presentation column*. These adjustments were made to consolidate 50Hertz and 50Hertz Offshore under German GAAP (since there is no obligation for 50Hertz to consolidate under German law) and to reclassify certain assets and liabilities in order to be consistent with the balance sheet presentation of the Company.

B. *IFRS column*. These adjustments record the adjustments needed to convert the historical unadjusted balance sheet of 50Hertz and the historical unadjusted balance sheet of 50Hertz Offshore, both prepared in accordance with HBI, to IFRS as applied by the Company in its consolidated financial statements as of 31 December 2009. Due to the timing of the transaction (in particular the fact the transaction was closed only on 19 May 2010), the Company has not been able to access neither detailed accounting records nor details of the underlying documents but believes its IFRS identification and estimation process reflects the financial information on a consistent basis compared to the Company's accounting policy which are compliant to IFRS, and therefore the approach meets the requirements of the Prospectus Directive.

   As required by the Prospectus Directive, the Company has adjusted the statutory financial statements of 50Hertz and 50Hertz Offshore prepared in accordance with HBI to IFRS. The Company has identified the possible adjustments and has estimated the impact on equity based on available information. These adjustments result in a total adjustment of the equity amount of EUR 228.2 million:

		(€ million)
(1)	Different useful lives on property, plant and equipment and intangible assets between HBI and IFRS	200.5
(2)	Reversal of the special loss account classified in current assets (*Sonderverlustkonto*) required under HBI	-4.2
(3)	Timing difference resulting from deferral under HBI from auction revenues as well as revenue in excess of revenue cap	74.3
(4)	Reversal of an accrual for loss contract recorded under HBI	7.8
(5)	Different methodology and assumptions related to pension accounting	-1.6
(6)	Reversal of various smaller provisions for employees as well as environmental risk provisions	0.4
(7)	Reversals of deferred revenues relating to auctioning revenue resulting from cross-border network capacity	135.7
(8)	Deferred tax on the above adjustments (1-7)	-120.9
(9)	The impact of IFRIC 18 with respect to transfer of assets from customers	4.6
(10)	The impact of assets and liabilities reflecting the difference between tariffs charged and tariffs that should have been charged based on reasonable regulatory costs.	-94.5
(11)	Deferred tax on the above adjustments (9-10)	26.1
Total adjustments to equity		**228.2**

The adjustments in points (1) to (8) were made as part of the conversion of the historical unadjusted balance sheet of 50Hertz and 50Hertz Offshore prepared in accordance with HBI to IFRS as applied by Vattenfall.

The adjustments in points (9), (10) and (11) reflect adjustments that were made to align the financial information of 50Hertz and 50Hertz Offshore after conversion to IFRS as applied by Vattenfall with IFRS accounting rules as applied by Elia.

The following observations are made in respect of these adjustments:

- Point (3) reflects an amount of EUR 74.3 million which mainly relates to excess revenues generated in the past which need to be released into the tariffs and so-called "auction revenues" from auction sales of cross border network capacity which also needs to be used to reduce the tariffs. These amounts are recognised as liability under HBI, but not under IFRS as applied by Vattenfall.
- Point (4) is related to an energy procurement contract for which the price at year end was above the forward price and for which as a result the corresponding electricity price swap was out of the money. A loss on an energy procurement contract was recorded in the statutory accounts under HBI (German GAAP) and reversed in IFRS as the criteria to record the accrual were not compliant to IAS 37. The loss amount was based on the difference between the energy price at year end and the price of the contract.
- Point (7) reflects an amount of EUR 135.7 million which mainly relates to certain auction revenues which should be released in the future tariffs. This amount is recognised as a liability under HBI, but not under IFRS as applied by Vattenfall.
- Point (10) reflects adjustments which were made to account for certain specific features of the regulatory framework in which 50Hertz operates in a way which is consistent with Elia's accounting policies. Under the regulatory framework applicable to 50Hertz, certain revenues will have to be restituted in future tariffs (surpluses in revenues). On the other hand, certain deficits in revenues could be recovered in future tariffs. For the purpose of the unaudited pro forma consolidation, the Company has, after careful consideration of all available information, and subject to changes in the regulatory environment that may occur, concluded that accounting for these tariff surpluses or tariff deficits in revenues in accordance with the Company's own accounting policies, subject to the control of the regulator, is a supportable pro forma adjustment. This results in a net impact in the amount of EUR -94.5 milion on the equity. This consists of:

  (i) the recognition of liabilities for a total amount of EUR 187.2 million. This amount relates to:
    a. excess revenues generated in the past which need to be released into the tariffs over a period of 9 years for an amount of EUR 37.5 million as tariff reductions;
    b. "auction revenues" from auction sales of cross border network capacity in 2008 and 2009 (EUR 35.6 million), which need to be used to reduce the tariffs;
    c. an amount of EUR 114.1 million which mainly relates to certain auction revenues generated before 2008 in respect of which the BNetzA decided that these amounts should be released over 30 years, on the condition that these amounts are invested over that period for the expansion of cross border interconnections; and

(ii) the recognition of assets for a total amount of EUR 92.7 million corresponding to certain deficits resulting from the fact that tariffs are based on historical information and do not reflect the actual costs, taking into account that the differences should be recoverable in future tariffs.

- Certain adjustments (in particular in respect of points (3), (7) and (10)) were particularly difficult to estimate at the date of this Prospectus. This is due to both a relative new regulatory framework in Germany as well as divergent practices under IFRS.

C. *Cash*. These adjustments were made to record the following adjustments to cash and cash equivalents (in EUR million):

(1)	Proceeds of the capital increase, less directly attributable costs incurred from the capital increase	294.0
(2)	Cash consideration paid for the acquisition	-278.8
(3)	Net cash impact of "bridge to bond" facility (refer to point E)	5.5
(4)	Net cash impact of commitment fees on bridge to bond facility	-2.3
(5)	Net cash impact of "bridge to equity" facility	-0.4
(6)	Direct attributable costs related to the acquisition	-9.5
Total adjustments to equity attributable to equity holders		**8.5**

- Point (1) and (2) above reflect the difference between the total purchase price of EUR 278.8 million paid by the Company for the acquisition and the total proceeds of the capital increase for a total amount of EUR 300 million, after deduction was made of the Company's best estimate of the capital increase transaction costs of EUR 6.0 million.
- Point (4) reflects the adjustment of the Company's best estimate of the commitment fees on the unused portion of the "bridge to bond" facility for an amount of EUR 2.3 million, fully paid at 31 December 2009. For the purpose of the pro forma consolidated financial information, the Company assumed that no other fees than the commitment fee are payable.
- Point (5) reflects the up-front fees paid on the "bridge to equity" facility.
- Point (6) reflects the adjustment of the Company's best estimate of the costs incurred in relation to the acquisition of 50Hertz for a total amount of EUR 9.5 million. The costs are assumed to be fully paid at the end of the year and are as such adjusted through the cash and cash equivalent line item in the pro forma consolidated financial information.

D. *Equity*. These adjustments record the following adjustments to equity attributable to equity holders of the Company (in EUR million):

Elimination of the net equity of 50Hertz and 50Hertz Offshore	890.5
Net impact of the "other" pro forma adjustments in the income statement	-252.6
Capital increase, less direct attributable costs incurred for the capital increase	-294.0
Total adjustments to equity attributable to equity holders	**343.9**

The amount of EUR -237.6 million (D1) consists of the elimination of the retained earnings of 50Hertz under IFRS for EUR -234.7 million and the impact of the pro forma adjustments (net of income tax and after proportionate consolidation for 60%) related to:

Costs of "Bridge to bond"	1.3
Acquisition costs	-3.9
Costs of "Bridge to equity"	-0.3
Total (net of income tax and after proportionate consolidation)	**-2.9**

The amount of EUR -252.6 million ("*Net impact of the "other" pro forma adjustments in the income statement*") consists of the adjustment related to the gain on purchase price for EUR 255.5 million and the pro forma adjustments (net of income tax and after proportionate consolidation for 60%) relating to the costs of the bridge to bond, the acquisition costs and the costs of the bridge to equity in the amount of EUR -2.9 million (as described above).

As described in section 12, in view of the acquisition, Elia and IFM have set up a holding company, Eurogrid International. The shares of Eurogrid International are owned for 60% by the Company and Elia Asset and for 40% by IFM (through Luxembourg No. 2 S.à.r.l.). The shares of 50Hertz will be acquired through Eurogrid GmbH, which is a 100% subsidiary of Eurogrid International. Pursuant to the Investment and Shareholders' Agreement entered into between Elia and IFM, all important decisions relating to Eurogrid International, Eurogrid GmbH and 50Hertz and its subsidiaries require the consent of Elia and IFM. For the purpose of the pro forma consolidated financial information, no adjustments have been reflected in that respect as the investment and related equity would be eliminated in the consolidation process and therefore not result in any impact on the pro forma consolidated balance sheet.

E. *Loans and borrowings*. These adjustments record the measurement of the "bridge to bond" facility using the effective interest rate method. For the purpose of the pro forma consolidated financial information, the Company has estimated that the transaction costs incurred in relation to the bridge to bond facility will be amortised over a period of 1 year, considering the assumption that the "bridge to bond" facility will be refinanced by a bond by the end of the year. As such, the amortised cost equals the nominal value as of 31 December 2009, of EUR 320 million. The costs of this facility amount to EUR 8.6 million and are recognised directly in to the income statement (see section E of the income statement below).

F. *Deferred tax*. These adjustments record the deferred tax on the balance sheet for the pro forma adjustments at a statutory rate of approximately 30% (rate applicable to the tax group 50Hertz).

G. *Proportionate consolidation*. These adjustments record the impact of the proportionate consolidation method. The Company has presented the elimination of the 40% interest held by IFM in the column except for certain adjustments that are 100% related to the Company (such as the impact of the "bridge to equity" and the direct attributable costs incurred from the capital increase).

The following pro forma adjustments are included in the unaudited pro forma consolidated income statement.

A. *Consolidation and presentation column*. These adjustments were made to consolidate 50Hertz and 50Hertz Offshore under German GAAP (since there is no obligation for 50Hertz to consolidate under German law) and to reclassify certain income and expenses in order to be consistent with the income statement presentation of the Company. As part of this adjustment, a significant amount of revenues is eliminated. This relates to the fact that 50Hertz has an obligation to purchase renewable energy generated by power plants located near their network at fixed tariffs to be paid to the plant operators. These costs are shared between the TSOs in Germany, the post-sharing costs are passed on to the electricity retailers and ultimately to the consumers. As a result, the final impact on the income statement is nil, and for presentation purposes these "revenues" and "costs of sales" have been compensated.

B. Reference is made to the first paragraph in point B above in respect of the pro forma adjustments relating to the unaudited pro forma consolidated balance sheet as to the estimation process followed to determine the IFRS adjustments.

These adjustments were made to record the adjustments to convert the historical unadjusted income statement of 50Hertz and the historical unadjusted income statement of 50Hertz Offshore, both prepared in accordance with HBI, to IFRS as applied by the Company in its consolidated financial statements as of 31 December 2009.

The following IFRS adjustments have been recorded (in EUR million):

(1)	Different useful lives on property, plant and equipment and intangible assets between HBI and IFRS	9.1
(2)	Reversal of the special loss account classified in current assets (*Sonderverlustkonto*) required under HBI	-
(3)	Timing difference resulting from deferral under HBI from auction revenues as well as revenue in excess of revenue cap	6.9
(4)	Reversal of an accrual for loss contract recorded under HBI	-17.9
(5)	Different methodology and assumptions related to pension accounting	0.1
(6)	Reversal of various smaller employee related provisions as well as environmental risk provisions	-1.2
(7)	Reversals of deferred revenues relating to auctioning revenue resulting from cross-border network capacity	-6.7
(8)	The impact of IFRIC 18 with respect to transfer of assets from customers	4.6
(9)	The impact of assets and liabilities reflecting the difference between tariffs charged and tariffs that should have been charged based on reasonable regulatory costs.	-17.9
(10)	Deferred tax on the above adjustments	27.4
Total adjustments to the income statement		**4.4**

The adjustments in points (1) to (7) were made as part of the conversion of the historical unadjusted income statement of 50Hertz and 50Hertz Offshore, both prepared in accordance with HBI, to IFRS as applied by Vattenfall.

The adjustments in points (8), (9) and (10) reflect adjustments that were made to align the financial information of 50Hertz and 50Hertz Offshore after conversion to IFRS as applied by Vattenfall with IFRS as applied by Elia.

C. *Services and other goods*. This adjustment was made to record the adjustment of direct attributable costs incurred in relation to the acquisition.

D. *Gain on bargain purchase.* This adjustment was made to record the estimated gain on the bargain purchase of EUR 425.9 million determined by the Company resulting from the difference between the cash consideration owed to Vattenfall for an amount of EUR 464.6 million and the net assets of 50Hertz (after IFRS adjustments mentioned in column B) as of 31 December 2009 for an amount of EUR 890.5 million. For the purpose of the Unaudited Pro Forma Consolidated Financial Information, the gain on the bargain purchase has been determined at 31 December 2009, as opposed to 1 January 2009, which is used elsewhere as the point in time to reflect the date of the acquisition. The Company believes that, by considering the net assets of 50Hertz as of 31 December 2009, the gain included in the Unaudited Pro Forma Consolidated Financial Information will better reflect the expected gain on the bargain purchase that will be recognised at the time of the closing of the acquisition of 50Hertz.

This amount is compliant with the Company's preliminary estimation of the fair value of the net assets of 50Hertz to be within a range of EUR 890.3 million and EUR 984.1 million. This preliminary fair value exercise was performed with the assistance of an independent valuation expert based on three methodologies and applying the following assumptions:

- discounting of future free cash flows ("FCF") using the "Regulated Asset Base" or "RAB" as basis for the estimation of the terminal value FCF ("DCF method") due to the nature of the business the net cash flow can be negative due to expected investment plans.

- discounting of future expected dividends as estimated by the Company ("DDM method")

These analyses are based on financial prospects (business plan) prepared by management (not certified by the independent expert) for the period 2010 -2028 taking into account the current regulatory framework as described under section 13.7.6. The business plan takes into account the expected positive impact of (i) the implementation and entry into force as of 1 January 2010 of the AusgleichMechV compensation mechanism for the compensation of public services obligations in respect of the promotion of renewable energy sources (EEG), which allows to treat certain costs related to this mechanism as pass through costs and to include those costs in the tariffs (see section 13.7.6); (ii) an expected positive impact of the implementation of the "Korridor model" as of 1 January 2010, providing for a new treatment of the major part of system services (regulating power, compensation of network losses, re-dispatch), which allows to include most of these costs in the revenue cap (see section 13.7.7.8); (iii) a further optimisation of the costs relating to various support services (IT, insurance, cash pooling, consulting and various support services). In that respect, the financial results of 50Hertz for year 2009 have limited comparability with the assumptions of the business plan, also taking into account the fact that 50Hertz has incurred exceptional and one-off costs in 2009 in order to allow 50Hertz to operate independently from the Vattenfall group as a stand-alone entity, in view of its contemplated disposal by Vattenfall.

The future cash flows and future dividends are based on the business plan prepared by IFM and Elia during the first quarter of 2010 applying the current German tariff mechanism for the period 2010-2028 as described under section 13.7.6 and using the following assumptions: (i) period 2010-2018 mainly driven by Elia's and IFM's investment schedule which includes relatively high capital expenditures compared to the past; (ii) for the period 2019 -2028 also driven by Elia's and IFM's investment schedule although at a level which is closer to or even below the operating cash flow. The net RAB is nearly on a constant level in the years after 2021. The terminal value is based on the net RAB value which is assumed to be in a steady state in 2028. Basic assumptions are therefore that depreciation expenses balance capital expenditure and that there is no change in working capital.

As the activity as 'TSO' is an activity with a long term perspective, the cash flows have been projected over the period 2010-2028.

The applied discount rate of 5.7% (cost of equity 7.2% and the cost of debt of 5.1%) is in line with the WACC that results from applying the after-tax cost of equity and cost of debt rates set by the regulator BNetzA to 50Hertz (which amounts to 5;8%) and also with the WACC (weighted costs of capital) used by financial analysts for peer group companies. For purposes of the DDM method a pay-out ratio of 100% of the profit under German GAAP was assumed (which is not binding for the actual future pay-out ratio).

- market approach on the basis of prospective EBIT and EBITDA multiples ("Market approach") and those used by some comparable West European listed companies, such as Red Electrica corpororation SA, Enagas, Terna, Fluxys, Snam Rete Gas, National Grid and Redes Energiticas Nacionais S.A. The market approach method was primarily used to validate the results of the DCF and DDM valuation methods.

The Company agrees with the conclusions of its independent expert to consider that the DCF method better reflects the steady state of the asset base with regard to terminal value. In particular, the P/E multiple was not retained due to a lack of comparability to peers as a result of (amongs other things) different regulatory regimes, depreciation methods and non-regulated income. In addition, due to 50Hertz'investment schedule and one-off costs, forecasted net income, EBIT and EBITDA differ significantly and especially net income shows a high fluctuation from year to year, resulting in a wide overall value range which limits the relevance of the market approach method.. As such, the preliminary range of fair value of the net assets is consistent with the valuation range resulting from the DCF method.

The recognition of a gain on bargain purchase takes into account the underlying fair value of 50Hertz which has been determined following appropriate procedures after due diligence conducted by Elia and its advisors in view of the acquisition of 50Hertz.

The purchase price to be paid for the acquisition of 50Hertz results from negotiations between the parties following a competitive sale process. Vattenfall has released no information as to the reasons why 50Hertz has been sold with a certain badwill. However, as stated in its annual report 2009, Vattenfall's debt position has increased over the past few years, while its cash flow decreased, and Vattenfall AB announced in that context that it intended to improve profitability through concrete measures, amongst other things by reprioritising and reducing its investments and divesting non-core assets. In addition, Vattenfall is subject to certain unbundling requirements under the Third Energy Package.

E. *Financial cost*. As a result of the planned acquisition, the Company expects to have to refinance (through Eurogrid GmbH) certain shareholder loans between 50Hertz and the affiliates of 50Hertz prior to the acquisition. The Company has adjusted (as described below) the net interest impact by reversing the interest expense of the shareholder loans with the estimated interest charge it expects to incur on the "bridge to bond" facility. The estimated interest rate has been applied on EUR 320 million, which is the total amount of the debt that 50Hertz had outstanding towards its shareholders as of 31 December 2009. In addition, the Company estimated the interest rate applied based on an expected rating between BBB and BBB+ using all available information to date.

The adjustment records the following adjustments in the financial costs (in EUR million):

(1)	Elimination of the interest expense on the shareholder loan between 50Hertz and Vattenfall	17.9
(2)	Interest expense on the new bridge to bond facility	-6.1
(3)	Impact up-front fees from the “bridge to bond” facility	-6.3
(4)	Commitment fees paid on the “bridge to bond” facility	-2.3
(5)	Up-front fees paid on “bridge to equity” facility, fully charged to the income statement	-0.4
Total adjustments to financial cost		**2.8**

Point (1) reflects the adjustment to eliminated the interest expense paid by 50Hertz on the shareholders loan and which is replaced by point (2) which reflects the interest expense payable on the “bridge to bond” facility. The interest payable is determined based on the credit rating to be obtained by Eurogrid GmbH. The Company has assumed an expected rating between BBB and BBB+ using all available information to date.

Point (3) reflects the adjustment of the application of the effective interest rate method on the “bridge to bond” facility with an expected refinance of the facility by the end of the year (reference is made to point G in the balance sheet).

Point (4) reflects the adjustment to account for the quarterly commitment fees payable on the unused portion of the “bridge to bond” facility. For the purpose of the Unaudited Pro Forma Consolidated Financial Information, the Company has assumed that unused portion outstanding during the year at EUR 530 million.

Point (5) reflects the adjustment to record the Company’s best estimate of the upfront fees related to the “bridge to equity” for an amount of EUR 0.4 million, totally recognised in the income statement. The Company assumed that the “bridge to equity” facility will be terminated upon closing of the capital increase and as such has expensed the transaction costs in the income statement as incurred.

The depreciation on the property, plant and equipment and the intangible assets has been calculated based on the useful lives as historically applied by 50Hertz. Differences between the useful lives as historically applied by 50Hertz and the useful lives as applied by the Company may exist. While the Company has not been able yet to quantify the impact on the Unaudited Pro Forma Consolidated Financial Information. it is currently expected that this impact will be limited.

F. *Income tax*. This adjustment was made to record the income tax benefit / (expense) on pro forma adjustments at the statutory approximate tax rate of 30%. For the purpose of the pro forma financial information, the Company has calculated the tax impact as if the Company, 50Hertz, 50Hertz Offshore and Eurogrid Gmbh are stand-alone tax units and as such have not estimated the potential impact of a future tax consolidation in Germany.

G. *Non-controlling interest*. These adjustments record the non-controlling interest on the above pro forma adjustments.

H. *Proportionate consolidation method*. These adjustments record the impact of the proportionate consolidation method. The Company has presented the elimination of the 40% interest held by IFM in the column except for certain adjustments that are 100% related to the Company (such as the impact of the “bridge to equity”).

12.7.6 *Summary unaudited pro forma financial information and impact per share*

The key figures here below are a summary of the Unaudited Pro Forma Consolidated Financial Information as presented here above.[23]

	Elia (1)	50Hertz proportionately consolidated (60%) (2)	Indicative consolidated figures (Elia+60% of 50Hertz) (3)		
	[A]	[B]	[C]		([C]-[A])/[A])
	IFRS	**IFRS**	**IFRS**		
Income statement (€ million)	**31 December 2009**	**31 December 2009**	**31 December 2009**		**Change (%)**
Consolidated turnover	771.3	438.9	1,210.2		56.9%
EBITDA	327.9	56.8	634.6	(4)	93.5%
Operating result (EBIT)	225.8	14.7	490.4		117.2%
Gain from bargain price	-	-	255.5		
Operating result before gain on bargain purchase	*225.8*	*14.7*	*234.9*		*4.0%*
Financial result	-120.4	-10.4	-129.3		7.4%
Taxes	-20.0	-3.2	-22.0		10.0%
Consolidated net profit attributable to the equity holders of the Company	84.0	6.5	343.1	(5)	308.5%
Balance sheet (€ million)	**31 December 2009**	**31 December 2009**	**31 December 2009**		**Change (%)**
Total assets	4,420.0	1,257.8	5,690.7		28.7%
Equity attributable to the equity holders of the Company	1,365.4	534.3	1,912.0	(6)	40.0%
Net financial debt	2,444.4	157.8	2,591.2		6.0%

Profit per share (€)					
Profit per share (before acquisition and capital increase)	1.74				
Profit per share (after acquisition and capital increase - excluding bargain price) (7)			1.47		
Profit per share (after acquisition and capital increase (7)			5.76		

Notes

(1) Based on the Company's 2009 consolidated financial statements under IFRS.
(2) 50Hertz 2009 unaudited IFRS accounts compliant to Elia accounting rules.
(3) 2009 unaudited consolidated pro forma income statement and balance sheet of the Company - 50Hertz combined (50Hertz proportionally consolidated for 60 %).
(4) EBITDA = EBIT + depreciation + changes in provisions.
(5) Estimated bargain on purchase price of EUR 255.5 million is included as a one-off net profit.
(6) Taking into account the capital increase of January 2010 and assuming a capital increase of EUR 300 million.
(7) The table is based on the assumption that an amount of EUR 300 million would be raised by means of the capital increase (to be reduced with management's best estimate of the capital increase transaction costs for a total amount of EUR 6 million) at a hypothetical price per share of EUR 26.5, resulting in 11,320,754 shares to be issued. This hypothesis is made only for illustrative purposes and should under no condition be considered as an indication of the potential issue price of the new shares.

[23] This table is not to be considered as the Unaudited Pro Forma Consolidated Financial Information.

12.7.7 *Statutory auditors report regarding the Unaudited Pro Forma Consolidated Financial Information*

For the attention of the Board of Directors of Elia System Operator SA/NV
Boulevard de l'Empereur 20
B - 1000 Brussels

Dear,

We report on the unaudited pro forma consolidated financial information (the "Pro Forma Financial Information") which has been compiled on the basis described in the notes, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by Elia System Operator SA/NV ("the Company") for the period ended December 31, 2009 which show an unaudited pro forma consolidated balance sheet total of € 5.691 million and an unaudited pro forma consolidated profit for the year of € 344 million. This report is required by EU Commission Regulation No 809/2004 and is given for the purpose of complying with that the Regulation and for no other purpose. Because of its nature, the Pro Forma Financial Information addresses a hypothetical situation and therefore does not represent the Company's actual financial position as at December 31, 2009 had the acquisition occurred on that date.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with the guidance issued by the Regulation and the Committee of European Exchange Regulators (CESR).

It is our responsibility to express an opinion, as required by the Regulation, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the audit standards and related guidance issued by the *Instituut van de Bedrijfsrevisoren* (IBR) / *Institut des Réviseurs d'Entreprises* (IRE) and its research institute (ICCI) as well as International Standard for Assurance Engagements 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
(b) such basis is consistent with the accounting policies of Elia System Operator SA/NV.

Brussels, 28 May 2010

Ernst & Young Réviseurs d'Entreprises SCCRL
Represented by

Jacques Vandernoot
Partner

KPMG Réviseurs d'Entreprises SCRL
Represented by

Alexis Palm
Partner

13 REGULATION AND TARIFFS

13.1 EUROPEAN LAW

13.1.1 *The Electricity Directives and the Third Energy Package*

The Electricity Directives and related regulations regarding the liberalisation of the European electricity market have been modified by the adoption of the Third Energy Package in 2009.

In respect of electricity, the Third Energy Package (the "Third Energy Package") includes a new Electricity Directive (Directive 2009/72/EC, the "Third Electricity Directive") and a new Regulation on Cross-Border Exchanges (Regulation 714/2009). The Third Energy Package also includes a Regulation establishing an Agency for the Cooperation of Energy Regulators (Regulation 713/2009), entitled to handle electricity matters.

The Third Energy Package will enter into force, and the Third Electricity Directive has to be implemented into national law, by March 2011. Currently, the Second Electricity Directive (Directive 2003/54/EC) still applies.

For transmission activities, Member States are required by EU law to implement provisions regarding (i) the appointment of the TSOs, (ii) the separation of generation and supply activities from the operation of the network (the so-called unbundling), (iii) the network access and (iv) the creation of independent regulators.

Appointment of the TSO (see sections 13.2.1 and 13.2.2)

Member States are required to appoint one or more TSOs. The duration of such appointment is not specified by EU law and, consequently, is determined at the national level by each Member State. At Belgian federal level, the Company was appointed for a period of 20 years. 50Hertz' authorisation as TSO in Germany is not granted for a definite duration.

Unbundling

If an appointed TSO is part of a vertically integrated group of companies, it is required to be "unbundled" from the electricity generation, distribution, supply and trading activities of the group. More precisely, the company that is appointed as TSO must be independent in terms of its legal form, its organisation and its decision-making process. While the Second Electricity Directive had specified the minimum criteria to ensure such independence (no intervention of individuals responsible for the management of the TSO in operations of electricity generation, distribution and supply activities, independent acting of individuals responsible for the management of the TSO,…), the Third Electricity Directive emphasises the need to separate the ownership of transmission assets from the ownership of generation and supply facilities, under the model "full ownership unbundling". Two other models are allowed by the Third Electricity Directive: independent system operator ("ISO") or independent transmission operator ("ITO"), with strict conditions to meet the requirements in terms of independence and absence of discrimination in the exercise of transmission activities.

Elia complies with the currently applicable EU legislation and also meets a number or requirements for full ownership unbundling. The exit of Electrabel as a shareholder constitutes a further step towards full ownership unbundling. In respect of the unbundling in Germany, see section 13.7.3.

Network access (see section 10.7.3)

EU law requires each Member State to implement a regulated third-party access regime based on published tariffs that are applied to all network users in a non-discriminatory manner. The tariffs, or at least the methodologies for their calculation, have to be pre-approved by an independent regulator and must make allowance for the investments necessary for the long-term viability of the network.

Independent regulators (see section 13.3 and section 13.7.4).

EU law requires that each Member State establishes an independent regulator specific to the energy industry. The regulator's main task is to ensure non-discrimination amongst users and efficiency of the market through, amongst other things, the setting or approval of the tariffs (or at least the methodology for their calculation). In addition, the regulator must monitor the management and allocation of the interconnection capacity, the mechanism for managing congested capacity and the level of transparency and competition on the market. Furthermore, the regulator may also act as the dispute settlement authority for complaints made by network users against the TSO.

13.1.2 *Regulation on cross-border exchanges*

Cross-border exchanges in electricity

Regulation EC No 1228/2003 of 26 June 2003 regarding conditions for access to the network for cross-border exchanges in electricity and its appendix (guidelines on congestion management) provide rules applicable to cross-border capacity allocation methods and to the establishment of a compensation mechanism for cross-border flows of electricity. It also provides the basic principles applicable to setting cross-border transmission charges. These charges must be transparent, take into account the need for network security, reflect actual not unreasonable costs, be applied in a non-discriminatory manner and must not be distance-related.

Under the Third Energy Package, this Regulation will be replaced by Regulation No 714/2009, entering into force on 3 March 2011. Under this new regulation, any revenues resulting from the allocation of capacity must be taken into account by regulatory bodies when setting the national tariffs and shall be used for one or more of the following purposes:

- to guarantee the actual availability of the allocated capacity;
- to maintain or increase interconnection capacities through network investments; and/or
- if the revenues cannot be efficiently used for the purposes set out in one of the points above, they may be used, subject to approval by the regulatory authorities of the Member States concerned, up to a maximum amount to be decided by those regulatory authorities, as income to be taken into account by the regulatory authorities when approving the methodology for calculating network tariffs and/or fixing network tariffs.

ENTSO-E

Cross-border capacity allocation must be performed in accordance with non-discriminatory market-based methods. Regulation No 714/2009 tables the creation of the ENTSO-E, as an organisation to foster the cooperation of all TSOs in Europe, entitled to adopt common network operation tools to ensure coordination of network operation in normal and emergency conditions, a non-binding community-wide ten-year network development plan, and recommendations relating to the coordination of technical cooperation between community and third-country TSOs. The ENTSO-E will be entitled to propose network codes in line with Framework Guidelines to be established by the new Agency of Energy Regulators (settled by Directive No 713/2009 establishing an Agency for the Cooperation of Energy Regulators under the Third Energy Package). The Company and 50Hertz play an active role in this organisation.

Regulations regarding the compensation scheme for cross-border exchanges and regarding transmission tariffs have recently been adopted. They provide for:

- a description of the compensation scheme to be implemented by European TSOs to compensate for costs incurred as a result of cross-border exchanges;
- basic provisions for the setting of transmission charges applicable to generators.

13.1.3 *Competition law*

In addition to sector-specific regulations, Elia is subject to EU and national competition rules. The EU competition rules, based on the Treaty on the Functioning of the European Union, are directly applicable in Belgium and in Germany. These provisions prohibit abusive behaviour by a company having a dominant position in the market as well as collusion between competitors that could affect trade between Member States and have the object or effect of restricting or preventing competition within the European Union.

There are certain limitations to the applicability of the EU competition rules for companies which fulfil public service obligations, such as Elia or 50Hertz. These companies are subject to competition law insofar as its application does not obstruct the performance, in law or in fact, of the particular public service tasks assigned to them.

13.2 BELGIAN LEGISLATION

13.2.1 *Electricity Law and Royal Decrees*

The Electricity Law, as amended from time to time, forms the overall basis of and contains the main principles applicable to the regulatory framework, such as unbundling of the transmission activities, operation of and access to the transmission network, tariff setting and creation of a regulatory authority. Several royal decrees contain more detailed elements of the regulatory framework.

As endorsed under EU law, the Belgian legislator has opted for a single TSO at the federal level. The TSO is appointed by the government and the appointment is valid for a period of 20 years. The Electricity Law states that only one system operator can be authorised to manage and operate the transmission system, provided that such TSO owns, alone or jointly, that portion of the network that covers at least three fourths of the national territory and at least two thirds of the territory of each region. This condition is currently only satisfied by Elia.

The federal government appointed the Company as sole TSO. This appointment became effective on 17 September 2002 for a renewable term of 20 years (380 kV down to more than 70 kV). This appointment may or may not be renewed upon expiry of the 20-year period. In addition, it is subject to early termination by the Belgian federal government under certain circumstances including:

- bankruptcy, winding-up, merger or demerger of the Company;
- serious breach of the Company's obligations; or
- significant changes in the Company's shareholders which would jeopardise its independence vis-à-vis electricity producers, suppliers, traders or consumers.

As TSO, the Company is entrusted with the following tasks:

- operating and maintaining the transmission network;
- monitoring the improvement, renewal and expansion of the transmission network as required to meet the demand in capacity;
- using the means available to it to maintain the balance of electricity flows (injections and off-takes) within the control area covered by its network. In order to achieve this, the TSO coordinates the supply of available ancillary services, the dispatching of generating plants, the determination of the use of interconnections and constantly monitors electricity flows in view of the reliability of operations and quality of supply;
- seeking to ensure the reliability, security and efficiency of the network, with the means available to it; and
- providing regulated third party access to eligible customers. To that aim, the TSO provides connection and access to the network to enable transmission between generation, distribution networks, installations of directly connected customers and interconnection circuits. This task also includes the management of the access contracts, the connection to the network and the nomination procedure.

According to Article 8 of the Electricity Law (as amended), Elia may develop, either in Belgium or abroad, both network and non-network operation activities, provided that this development has no negative influence on the independence and the regulatory missions of the system operator. The acquisition of 50Hertz should be set against this background.

13.2.2 *Regional legislation*

The three Belgian regions are responsible for the distribution and local transmission of electricity on networks with a voltage equal to or lower than 70 kV in their respective territories, save for tariff setting which is within the federal jurisdiction. Their impact on the liberalisation process is similar to the impact of the Electricity Law at the federal level.

The regional decrees have been complemented by several other rules on matters such as public services, renewable energy, network operators and authorisation procedures for suppliers.

The Company has also been granted licences by the regional governments and/or regulators with the following durations:

- Flemish Region: the Flemish regulator ("VREG") appointed the Company as DSO for the network from 70kV to 30kV in Flanders. This appointment became effective on 5 September 2002 for a term of 12 years.

- Walloon Region: the federal TSO is automatically appointed as local TSO. Therefore, by virtue of its appointment as TSO at the federal level, the Company is also the Walloon local TSO. As with the federal appointment, this appointment became effective on 17 September 2002 for a term of 20 years.
- Brussels-Capital Region: the regional government appointed the Company as Regional TSO for the network from 70 kV to 30 kV in Brussels-Capital Region. This appointment is effective for a period of 20 years, until 26 November 2021.

The appointment of the Company as DSO in the Flemish Region and as regional TSO in the Brussels-Capital Region is subject to early termination by the competent regional governments under certain circumstances including:

- bankruptcy, winding-up, merger or demerger of the Company;
- serious breach of the Company's obligations; or
- significant changes in the Company's shareholders which would jeopardise its independence vis-à-vis electricity producers, suppliers, traders or consumers.

The appointment of the Company as local TSO in the Walloon Region is automatically terminated in case of early termination of the appointment as TSO at the federal level.

13.2.3 *Competition law*

The Belgian national competition rules contain provisions that are substantially similar to the European competition rules (see above 13.1.3) although they are applicable only in circumstances in which the Belgian market or part of it (as distinguished from a broader geographical market within the EU) is affected. The Belgian laws also contain a public service exception which is substantially equivalent to the one provided for under the European competition rules.

13.2.4 *Corporate governance*

The Company is subject to specific corporate governance rules designed to separate its transmission network operation from the electricity generation and supply activities of shareholders and of any other operators. These rules are provided for in the Electricity Law and in the Royal Decree of 3 May 1999 on the operation of the national transmission system, as amended by the Royal Decree of 6 October 2000 (the "Corporate Governance Decree"). The Electricity Law also prohibits the disclosure, and renders such disclosure a criminal offence, by the Company of any information relating to the Elia's customers so as to ensure that no commercially sensitive information passes from the Company to its shareholders (see section 14).

13.2.5 *Public procurement*

The Company is subject to the public procurement rules. As such, it is required to organise open or restricted tenders for its procurement, except in limited circumstances (such as when the amount of the contract is below certain thresholds). These rules limit the Company's flexibility with regard to procurement but they also have the advantage of formalising and securing the supply process.

13.3 REGULATORY BODIES IN BELGIUM

As required by EU law, the Belgian electricity market is monitored and controlled by independent regulators.

13.3.1 *Federal regulator*

The CREG is the federal regulator and its powers with regard to Elia include a.o.:

- approval of the standard terms of the three main contracts used by the Company at the federal level: connection, access and ARP;
- approval of the capacity allocation system at the borders between Belgium and neighbouring countries;
- approval of the appointment of the independent members of the Board of Directors; and
- approval of the tariffs for connection and access to, and use of Elia's network (see section 13.6).

More generally, the CREG may also force any operator (including the Company) to abide by any specific provision of the Electricity Law or any related royal decrees, failing which it can impose a variety of sanctions.

According to the Electricity Law, appeals against the tariff decisions of the CREG should be brought before the Brussels Court of Appeal by way of an accelerated procedure. Appeals against the other decisions of the CREG (regulated contracts, allocation of capacity on the interconnections, *etc.*) take the form of a petition for annulment filed with the Council of the State (*Conseil d'Etat/Raad van State*).

The Electricity Law further makes a distinction between the policy making tasks (conferred to the government) and market-monitoring missions (within the jurisdiction of the CREG).

13.3.2 *Regional regulators*

Operation of electricity networks of voltages equal to or below 70 kV falls within the jurisdiction of the respective regional regulators. Each of them may require any operator (including the Company when it operates such networks), to abide by any specific provision of the regional electricity rules under the threat of administrative fines or other sanctions. Currently, the regional regulators have no authority with regard to tariff setting, which falls under the sole jurisdiction of the CREG.

13.3.2.1 Flemish Region

The VREG is the regulator for the Flemish Region. The powers of the VREG with respect to the Company include the adoption of the Flemish Grid Code and the authority to approve the standard contracts used by the Company to allow access to the network.

13.3.2.2 Walloon Region

The CWaPE is the regulator for the Walloon Region and also acts as an advisor to the Walloon government. The CWaPE's powers with respect to the Company include the drafting of a proposal for the Walloon Grid Code and the authority to approve the standard contracts used by the Company to allow access to the network.

13.3.2.3 Brussels-Capital Region

BRUGEL is the regulator for the Brussels-Capital Region. BRUGEL acts as an advisor to the government of the Brussels-Capital Region for the functioning of the regional electricity market, and is responsible for the general supervision of the implementation of relevant legislation in the region.

13.4 GRID CODES IN BELGIUM

A Grid Code contains the rules governing access to the electricity network by the network users (producers, distributors, suppliers and end users when they are directly connected to Elia's network) and their respective rights and duties, as well as the rights and duties of the TSO. There are six Grid Codes (one federal and five regional), four of which apply to the Company. All four codes deal with similar issues, mostly technical, but apply to different networks: they establish, amongst other matters, the procedure for the connection of a user to the network, the rights and duties of each network user, the parties' balancing obligations, the procedure for metering the volume of electricity transmitted and emergency procedures in the event of an incident or an anticipated blackout.

13.4.1 *Federal Grid Code*

The federal Grid Code is contained in a royal decree and addresses, amongst others, the following topics:

- technical requirements for a user's connection to the transmission network;
- balancing of energy between injection and off-take;
- rights and obligations of the TSO and the system users regarding access to the transmission network;
- ancillary services;

- operation of the transmission network;
- metering;
- information to be communicated by the network users to the TSO;
- collaboration between the TSO and the operators of other electricity networks connected to the transmission network; and
- standard terms of the contracts to be entered into between the TSO and its customers to get access to its transmission network, which have to be approved, at the federal level, by the CREG.

To carry out the tasks entrusted to it by the Electricity Law, the TSO is required to monitor, maintain and, if necessary, restore the balance between the injections in and off-takes from the transmission network. To this effect, the Electricity Law provides that the TSO uses the means at its disposal in accordance with the specifications of the federal Grid Code. Those means mainly consist of:

- the obligation of the ARPs to maintain the balance between injections and off-takes within their balance perimeter;
- load shedding arrangements with large customers, which allow the TSO to switch off some of their installations; and
- the supply of ancillary services by the owners of generation facilities and network users, which are purchased by the TSO through a public procurement procedure.

The federal Grid Code also establishes the procedures to be implemented by the TSO to counter emergency situations, such as natural disasters, sabotage, technical constraints, or unscheduled flows from neighbouring countries. Since these situations may affect the reliability and safety of the transmission network, specific emergency powers are at the disposal of the TSO should such situations occur. The TSO must draft and communicate to the CREG the rescue and the restoration codes. In this context, on 3 June 2005, the Minister of Energy has, in cooperation with the Minister of Economy, adopted the "*plan de délestage / afschakelplan*" submitted by the Company following the CREG's opinion.

The TSO is required to establish a development plan relating to the transmission network. This plan must be based on a study related to the evolution of energy supply known as "Etude Prospective Electricité" established by the Belgian Energy Administration. A procedure with respect to communications by the network users to the TSO of the information necessary for the drafting of the development plan is provided.

Additionally, the federal Grid Code contains provisions governing the procedure to adopt rules on congestion management and allocation of capacity on the interconnections with foreign networks and sets out certain governing guidelines. These rules are determined by the TSO in accordance with agreements between network operators of interconnected networks and are submitted to the CREG for approval.

13.4.2 *Regional Grid Codes*

Regional Grid Codes mirror the federal Grid Code, except for some provisions dealing with the specificities of the voltage level. In the Flemish Region, the Grid Code is under the jurisdiction of the regional regulator, while in the Walloon and Brussels-Capital Regions, the codes are within the jurisdiction of the regional government.

13.5 PUBLIC SERVICE OBLIGATIONS IN BELGIUM

As provided by EU law, the Belgian federal and regional laws may entrust the TSO (at federal level) and the DSOs in the Flemish Region, the local TSO in the Walloon Region and the regional TSO in the Brussels-Capital Region, with public service obligations. Any costs relating to the public service obligations are considered as non-controllable costs and are passed through in the tariffs (see section 13.6.6.2).

The main public service obligations can be summarised as follows:

13.5.1 *Federal level*

Several support schemes of offshore wind generation have been established at the federal level, to stimulate the development of these technologies in Belgium. As TSO, the Company is charged with the operation of three supports schemes, foreseen in the Electricity Law:

- the TSO is required to buy green energy certificates from producers at fixed prices, which may be higher than the market price. The TSO will in turn sell at market price the green energy certificates to suppliers. The potential losses incurred by the TSO on these transactions are to be compensated by a compensatory levy on the tariffs that must first be approved by the government. This system is for instance in application for certificates delivered to offshore wind generation, with a fixed (purchase) price of EUR 107/MWh for the first 216 MW installed capacity, and EUR 90/MWh for the remaining capacity.
- the TSO is required to apply specific provisions in respect of unexpected deviations in wind generation compared to programmed generation. Maximum 30% of this deviation has to be bought or sold by the TSO against a price related to the electricity market price.
- the TSO also has to partly finance a cable connecting the offshore wind farms to its onshore network. The contribution by the TSO is capped at maximum EUR 25 million (EUR 5 million per annum over a period of five years) which is recovered by a levy on transmission charges.

13.5.2 *Flemish Region*

DSOs (including the Company, see section 13.2.2) are required to buy green energy certificates and CHP certificates at fixed prices, upon request of generators connected to the network they operate. These prices are usually higher than the federal ones but lower than the market value, meaning that the green energy producers and the producers on the basis of CHP are more likely to sell their green energy certificates and CHP certificates directly to the Flemish market. In some cases (*e.g.* photovoltaic generation), the price determination mechanism provided for in the Flemish legislation is more attractive than the one fixed at federal level, leading generators to request DSOs to buy these certificates.

DSOs are also required to grant more favourable provisions for the connection of new renewable generation: instead of charging the actual connection costs, DSOs are entitled to charge only the cost of a connection to the closest point of the network. The difference in cost is currently recovered through a levy on distribution charges.

The Flemish legislation imposes on all system operators, including the Company, the public service obligation to improve the rational use of energy (*i.e.* limit the use of energy). Each year, the DSOs submit an action plan to the administration and are fined if they do not reach the targets as set out in the action plan.

13.5.3 *Walloon Region*

When investing in new infrastructures, the local TSO has to give priority to underground cables over overhead lines. The authorisation of the regulator is required if the local TSO wants to opt for an overhead line.

The local TSO is required to buy green energy certificates and CHP certificates at fixed prices, upon request of generators located in the Walloon Region. These prices are usually higher than the federal ones but lower than the current market value, meaning that the green producers are more likely to sell their green energy certificates and CHP certificates to the Walloon market.

In case of an unplanned interruption of supply being caused by the local TSO and occurring during a period longer than 6 hours or causing damages, the local TSO may be called to compensate concerned network users. This is also the case when the connection of network users to the local TSO’s network is not completed within given deadlines. The Company, as local TSO, must submit evidence to the regional regulator of the existence of an insurance to cover these compensations.

13.5.4 *Brussels-Capital Region*

Currently, there are no specific public service obligations applicable to the regional TSO in the Brussels-Capital Region.

13.6 TARIFFS IN BELGIUM

13.6.1 *Overview*

Most of the Company’s income is derived from the regulated tariffs charged for the use of the transmission system (tariff income), which are approved in advance by the CREG. A tariff regulation mechanism was approved by the CREG in December 2007 and took effect on 1 January 2008, whereby the approved tariffs apply for a four-year period (2008-2011), barring exceptional circumstances. The tariffs are based on budgeted costs for the regulated activities, and on the estimated volumes of electricity taken from the network. The costs relating to the regulated activities include the forecasted value of the authorised fair remuneration, as well as the budgeted values of various cost categories, divided in those over which Elia has direct control ("controllable costs") and those over which it has no direct control ("non-controllable costs"). Tariffs are public, apply nationwide and are not subject to negotiation with customers.

13.6.2 *Regulatory framework*

The principles, structure and methodology of tariff setting are set out in the Electricity Law and its implementing royal decrees (including in the Tariffs Decree). Tariffs implemented up to end 2007 were governed by the Royal Decree of 4 April 2001 (the "Former Tariffs Decree"). The tariffs apply to a range of services, each being priced according to the most relevant parameters (such as power or transmitted energy). The Tariffs Decree applies to all very high voltage (150kV – 380kV) and high voltage (30kV – 70 kV) networks. Elia operates all very high, and the most important part of the high, voltage networks in Belgium. The costs of some high voltage networks operated by other system operators are integrated in the Company's tariffs or considered as transmission tariffs submitted to the Tariffs Decree. Once the regulated tariffs are made public they are not negotiable by individual customers. The currently applicable tariffs can be found on the CREG website and on the Company's website.

13.6.3 *Types of tariffs*

There are different types of tariffs for different types of services:

- connection charges paid by counterparts to the Company under Connection Contracts;
- charges for the use of the system (the use of the network and the system management and the provision of other services) paid by the counterparts to the Company under Access Contracts;
- balancing fees paid by the ARPs to cover their balances; and
- levies.

Connection charges

Connection charges relate to the use of all equipment required to connect a customer's installation to the TSO's network. Such charges are levied on an individual basis, so as to accurately reflect the costs incurred, taking into account the specifics of the respective devices. Connection charges are applicable to all customers directly connected to the TSO's network, irrespective of whether they are producers or customers. Pursuant to the Tariffs Decree, connection charges are determined on the basis of the type of connection equipment used (overhead line, underground cable, substation bay or transformer).

Use of system charges

Use of system charges relate to the use of the TSO network. Access holders are invoiced on the basis of the capacity and energy booked based on a postage-stamp model. This is a single average price per group of consumers, which is designed to allow for the full recovery of all costs incurred by the TSO, irrespective of the location of the user.

In accordance with the Tariffs Decree, the use of system charges is different from one group of consumers to another. Groups of consumers are defined on the basis of objective parameters, such as voltage level of the access points, in order to accurately reflect and account for the different technical configurations.

Balancing fees

Balancing fees are paid by those ARPs which have incurred an imbalance on a quarter-hourly basis. These fees are adapted on a monthly basis to account for the price paid to purchase the energy injected by the TSO in order to compensate these imbalances.

Levies

The government designated the TSO to collect certain additional charges on its behalf or on behalf of other public bodies. In execution of its obligations under federal and regional legislation, Elia collects several levies, used, for example, to finance the CREG, ONDRAF/NIRAS (the Belgian Agency for Radioactive Waste and Enriched Fossile Material), certain activities relating to municipal social welfare services, or the Kyoto fund.

Other levies on transmission charges are designed to recover the costs incurred by the Company as TSO, DSO, regional and local TSO due to the respective legal obligation to purchase green certificates from generators.

13.6.4 *General principles for tariff setting*

Pursuant to the current legal framework for tariffs (which applies since 1 January 2008), tariffs for regulated services must:

- enable the TSO to recover the actual not unreasonable costs necessary for the performance of its regulated activities, including financial charges; and
- cover both depreciation and a fair remuneration of equity, as required to ensure optimal functioning, necessary investments and viability of the transmission network, and to provide the TSO with a "favourable perspective regarding access to long-term capital markets".

To this end, the amended Electricity Law and the Tariffs Decree provide as key tariff-setting principles that the tariffs must:

- be set for a four-year period (subject to variations as clarified below);
- be non-discriminatory and transparent;
- allow a balanced development of the transmission network, in accordance with the investment and development plans of the TSO;
- be equivalent to the best tariff practices applied by comparable TSOs abroad;
- allow the TSO to generate the revenue described in the previous paragraph;
- be structured to encourage the optimal usage of network capacity;
- be sufficiently detailed; and
- be structured in a uniform manner for the entire territory.

13.6.5 *Setting of tariffs*

Under the Former Tariffs Decree (which applied up to end 2007), tariffs for the following year were proposed each year by Elia to the CREG. The submission of the tariffs proposal took place before 30 September of each year for the following year. The CREG's approval was then expected by 31 December at the latest. In addition to the tariffs proposal, the Company was required by the Former Tariffs Decree to report on a three-monthly basis to the CREG on its actual results of operations. Once approved by the CREG, the tariffs remained applicable throughout the relevant year. Failing such approval, the CREG unilaterally determined provisional tariffs, which were applied for a renewable period of three months. The CREG decided by 30 June of each year on the amount of the deviation between the budgeted costs and actually incurred costs and on the extent to which this amount could be recovered through future tariff adjustments. In case of positive deviation (*i.e.* budgeted costs greater than incurred costs), the deviation was taken into account to decrease future tariffs, unless a part of this deviation was considered by the regulator as a "bonus", which might (totally or partially) be added to the net profit of the Company. In case of negative deviation (*i.e.* budgeted costs smaller than incurred costs), the deviation was taken into account to increase future tariffs, unless a part of this deviation was considered by the regulator as a "malus", which could (totally or partially) be deducted from the net profit of the Company.

Under the current tariff-setting mechanism (in application since 1 January 2008), the Company files a tariff proposal for a four-year period with the CREG for approval. The CREG approved the tariffs for the period 2008-2011 in December 2007.

The tariffs have been determined based on the budgeted revenue for the first year (2008), and are subject to subsequent yearly variations taking into account the following elements:

- variations in costs that are beyond the direct control of Elia and that are necessary for the reliability, efficiency and security of the network (including costs of ancillary services) are reflected in the tariffs on an annual basis;
- variations in costs that are under the direct control of Elia and that are necessary for the reliability, efficiency and security of the network are captured through an objective indexation formula, which must favour stability of the tariffs over the four-year period and enable Elia to perform its regulated activities; a mechanism has been organised whereby Elia derives a profit or a loss from part or all of the variation of costs that are under its direct control and

that are not captured by the indexation formula applied to the budgeted costs in the framework of the four-year tariff period;

- depreciation varies annually in relation to the investments, including both development and replacement investments;
- the fair remuneration on Elia's equity varies annually in relation to the evolution of the regulated asset base ("RAB") and the remuneration rate, both specified by means of a royal decree;
- financial charges vary annually in relation to interest rate fluctuations and Elia's financial indebtedness.

The Company has the possibility to submit, in the course of any four-year tariff period, a reviewed tariffs proposal to reflect the offer of new services, the amendments to the current services or exceptional circumstances and events beyond the control of Elia.

In addition, with a view to enhancing the security and the functioning of interconnected networks in a Belgian and European perspective, specific rules concerning depreciation and fair remuneration on some capital expenditures may be defined by royal decree for a limited period of time.

Belgian GAAP is currently used to set the tariffs.

All income and costs resulting from the related activities are taken into account and are reflected in the tariffs. The Company's income or charges from the inter-TSO compensation mechanism for EU cross-border trade are currently also reflected in the tariffs (see section 10.8.2).

After final approval by the CREG of the global set of forecasted values, this set becomes the reference budget fixed for the relevant period, currently 2008-2011.

13.6.6 *Parameters for the determination of tariff levels*

The tariff levels are determined based on the following key parameters:

1. the fair remuneration;
2. the allowed "non controllable costs" (unless deemed unreasonable by the CREG) – including depreciation, financial charges and other recurring and one-time costs;
3. the "controllable costs", taking into account a fixed factor for efficiency improvement.

13.6.6.1 Fair remuneration

Principle. The fair remuneration is the return on capital invested in the network. It is based on the average annual value of the RAB, which is calculated annually, taking into account amongst others new investments, depreciations and changes in working capital requirements.

Formula for the calculation of the fair remuneration. Since 2008, the following formula is used to calculate the fair remuneration, assuming consolidated capital and reserves make up more than 33% of the RAB, as is the case at present:

A: [33% x average RAB x [(OLO n)+(beta x risk premium)]]

plus

B: [(S – 33%) x average RAB x (OLO (n) + 70 base points)]

minus

C: adjustment of excessive decommissioning rates in the past

This formula should be read as follows:

- *RAB*. The initial value of the RAB (at 31 December 1999) corresponded to the sum of (i) the depreciated replacement value of Elia's assets, and (ii) Elia's net working capital. This initial RAB was calculated at EUR 3,508 million by three auditors appointed by the CREG. In May 2002, the initial value of the RAB was adjusted to EUR 3,260 million (corresponding to the net book value on 31 December 1999 of EUR 1,605 million and a surplus value of EUR 1,655 million). The RAB used for tariff-setting purposes for any given year is the average between its value as of 1 January and its value as of 31 December of that year. The value of the RAB is recalculated on an annual basis according to the following formula:

  RAB(n) = RAB(n-1) + investments(n) – depreciation(n) – divestments(n) – decommissioning[24](n) +/- change in working capital need

  As to the investments, Elia has to submit network development plans to the federal and regional governments in accordance with the requirements of the Electricity Law. After the approval by the respective competent authorities, the development plans are binding on the Company and the CREG.

- *In respect of A*: The rate of remuneration (in %) as set by the CREG for year 'n' is equal to the sum of the risk-free rate, *i.e.* the average rate of Belgian ten-year linear bonds for the year in question (OLO(n)) and a premium for market risk for shares, weighted using the applicable beta factor.

  The tariff regulations set the risk premium at 3.5%. The applicable beta factor is calculated over a historical seven year period, taking into account available information on the Company's share price in this period, compared with the Bel20 index over the same period. For the period prior to the listing of the Company, the share price of Electrabel is used. The value of the beta cannot be lower than 0.3.

- *In respect of B*: If the Company's actual capital and reserves are higher than the reference capital and reserves, the surplus amount is balanced out with a reduced rate of remuneration calculated using the following formula: [(OLO n + 70 base points)].

  "S" corresponds to the consolidated capital and reserves/RAB, in accordance with Belgian GAAP. CREG recommends that "S" should be as close as possible to 33%. This ratio (33%) is applied to Elia's average RAB to calculate the Company's reference capital and reserves.

- *In respect of C*: the CREG also decided that the annual fair remuneration margin should be reduced by EUR 12.4 million (before taxes) up to and including October 2012, due to overly rapid depreciations before the Company was appointed system operator, which the regulator considered to be excessive.

  The tariff regulations also provide for the possibility of setting higher remuneration rates for capital that is invested to finance projects of national or European interest. In the absence of a royal decree implementing this provision of the Electricity Law, this measure was not carried out up to now.

The table below shows the evolution of these elements since 2007:

Year	Average RAB (million €)	OLOn (%)	Beta x Risk Premium (%)	Reference Equity remuneration (%)
2007	3,512.0	3.4230 %	2.6238 %	6.0468 %
2008	3,673.0	4.4414 %	1.1760 %	5.6174 %
2009	3,765.0	3.9431 %	1.0500 %	4.9931 %

13.6.6.2 "Non controllable costs"

The costs over which Elia has no direct control ("non controllable costs") are an integral part of the costs used to determine the tariffs. The tariffs are set based on forecasted values for these costs.

[24] The purpose of decommissioning is to take into account the difference between the initial RAB and the actual net book value of these assets (as adjusted) in the calculation of the tariffs.

Depreciation of tangible fixed assets is taken into account as a “non controllable cost” in the tariff-setting on the basis of the following depreciation rates (defined in the Tariffs Decree):

Type of Asset	**Depreciation Rate**
Industrial buildings	3.00%
Administrative buildings	2.00%
Underground cables	2.00%
Overhead lines	2.00%
Substations – Low voltage equipments	3.00%
Substations – High voltage equipments	3.00%
Connections – Transformations	3.00%
Connections – Lines and cables	2.00%
Metering equipments	3.00%
Teletransmission and optic fibres	10.00%
Tools and office furniture	10.00%
Vehicles	20.00%

The Electricity Law confirms the principle of financial embedded debt, which means the inclusion in the tariffs of all actual not unreasonable costs related to debt financing, under the form of “non controllable costs”.

13.6.6.3 “Controllable costs”

The costs over which Elia has direct control (“controllable costs”) are subject to an incentive regulation mechanism, meaning that they are subject to the application of a productivity and efficiency improvement factor.

This factor indicates the efforts that Elia must make to control such costs: the authorised costs used to determine the tariffs are established following application of this factor.

The productivity improvement required of Elia over the period 2008-2011 is stipulated in the Royal Decree of 18 December 2007. The amount for 2008 was EUR 4 million, and for 2009 was EUR 6 million. The requirements for 2010 and 2011 respectively amount to EUR 7 million and EUR 8 million.

13.6.6.4 Settlement of deviations from budgeted values

The actual volumes of electricity may differ from the forecasted volumes. If the transmitted volumes are higher (lower) than those forecasted, the deviation is booked to an accrual account during the year in which it occurs and such deviation from budgeted values creates a “regulatory debt” (or a “regulatory receivable”).

The same mechanism applies to non-controllable costs. Since the actual values of “non-controllable costs” may differ from the budgeted values, any deviation from budgeted values is booked on an accrual account during the year in which it occurs and becomes a “regulatory debt” (“regulatory receivable”), in the event of lower (respectively higher) costs than budgeted.

The Tariffs Decree provides that the above mentioned deviations, at the expiry of the regulatory period, are taken into account by the TSO as part of the budgeted amounts for the setting of tariffs for the next period. The Tariffs Decree also provides that the allocation of the deviations will be decided upon by the Council of Ministers, after an opinion from the CREG.

A different mechanism applies to the deviations in respect of “controllable costs” (whether positive or negative). The deviation of “controllable costs” is the difference – established yearly ex-post – between the actual costs on the one hand and the budgeted costs on the other hand. The absolute value of such deviations, if any, is in principle either added to (if the difference is negative) or deducted from (if the difference is positive) the fair remuneration. For the period 2008-2011, if the outperformance on the “controllable costs” of Elia exceeds the total amount of EUR 25 million, the excess has to be considered as a “deviation from non-controllable costs”, and will therefore be taken into account to adjust network tariffs for the next regulatory period.

13.6.7 *Agreement with the CREG on transfer pricing (cost and revenue allocation between regulated and non-regulated activities)*

An agreement was concluded by the Company and the CREG in January 2010 for an indefinite duration with regard to the development of the new activities by the Company and how the Company could be remunerated for these activities in the future.

This agreement consists of:

- a mechanism to allocate costs accurately to different activities and to ensure that Belgian tariffs would not be adversely affected in the event of the launch of other activities than Belgian regulated activities.
- a mechanism to remunerate the Company to further develop its activities profitably thereby both contributing to a reduction in the tariffs for Belgian customers and providing additional profit for the Company:
    - the positive margin of foreign operational activities (such as consulting activities) should be allocated for 40% to future tariff reductions and the remaining 60% (before tax, tax being for the account of the Company) shall be considered as an additional profit for the Company. In case of negative margin, this shall be entirely (100%) supported by the Company.
    - the profit (dividends, capital gains) resulting from financial participations in other companies which the CREG accepted as being part of the RAB, should be allocated for 40% to future tariff reductions and the remaining 60 % (before tax, tax being on charge of the Company) shall be considered as an additional profit for the Company. In case of negative margin, this shall be entirely (100%) supported by the Company.
- a mechanism to ensure that the impact of financial participations in other companies not considered as part of the RAB by the CREG (such as, participations in regulated activities outside of Belgium, including the participation in 50Hertz) will be neutral for the Belgian tariffs. All costs and all revenues related to these activities should be supported by the Company.

13.7 SPECIFIC ASPECTS OF GERMAN REGULATION AND TARIFFS

13.7.1 *Relevant legislation*

The German regulatory framework is laid down in various pieces of legislation. The key law is the German Energy Supply Law of 2005 (*Energiewirtschaftsgesetz* – EnWG), which defines the overall legal framework for the gas and electricity supply industry in Germany.

The enactment of the previous version of the energy law in 1998 started the liberalisation process of the German electricity market but was entirely overhauled in 2005. The EnWG is supported by a number of laws, ordinances and regulatory decisions, which provide detailed rules on the current regime of incentive regulation, accounting methods and network access arrangements, including:

- The Ordinance on Electricity Network tariffs 2005 (Verordnung über die Entgelte für den Zugang zu Elektrizitätsversorgungsnetzen (*Stromnetzentgeltverordnung* – StromNEV)), as amended from time to time, last by Article 6 of the Statute of 21 August 2009, which establishes, *inter alia*, principles (*Grundsätze*) and methods for the network tariffs calculation of electricity networks and further obligations of network operators;
- The Ordinance on Electricity Network Access 2005 (Verordnung über den Zugang zu Elektrizitätsversorgungsnetzen (*Stromnetzzugangsverordnung* – StromNZV)), as amended from time to time, last by Article 2, 1st paragraph of the Ordinance of 17 October 2008, which, *inter alia*, sets out the further detail on how to grant access to the transmission systems grids (and other types of grids) by way of establishing the balancing amount system (*Bilanzkreissystem*), scheduling of electricity deliveries, control energy and further general obligations, *e.g.* capacity shortage (*Engpaßmanagement*), publication obligations, metering, minimum requirements for various types of contracts;
- The Ordinance on Incentive Regulation 2007 (*Verordnung über die Anreizregulierung der Energieversorungsnetze* (*Anreizregulierungsverordnung* – ARegV)), as amended from time to time, last by Article 4 of the Statute of 21 August 2009,which sets out the basic rules for incentive regulation of TSOs and other network operators, involving a mixture of cost pass-through and a revenue cap (as further described below). It also describes in general terms how to benchmark efficiency, which costs enter the efficiency benchmarking, the method of determining inefficiency and how it translates into yearly targets for efficiency growth.

In addition, several non-binding position papers of the BNetzA have been published, *inter alia* guidelines for investment budget regulation in 2009.

A further set of laws and ordinances sets out each network operator's obligations and cost-sharing arrangements with regard to renewable generation (*e.g.* the Renewable Energy Sources Act 2009 (*Erneuerbare-Energien-Gesetz,* "EEG")).

50Hertz is currently authorised as TSO. Unlike the authorisation of the Company under Belgian regulation, this authorisation is not granted for a definite duration. Once authorised, such authorisation can only be revoked if a TSO does not have the personnel, technical and financial means to guarantee a continuous operation of the network in accordance with the applicable legislation. There is no indication of such an event in the past and the Company has no reason to believe that the transaction would have an impact on this authorisation.

13.7.2 *Main statutory obligations of network operators*

13.7.2.1 Obligation to operate, maintain and expand the network system

Pursuant to Sec. 11 EnWG, network operators are obliged to operate, maintain and expand the network system adjusted to the current needs of the market as long as such extension is economically reasonable. These obligations can require reasonable investments in the network, *e.g.* for expansion measures. Furthermore, the EnWG provides for detailed cooperation and information duties.

In addition, TSOs are responsible for a safe and reliable energy supply system and, thus, for the security of electricity supply. Finally, due to their responsibility for the security of the energy supply, transmission system operators are also obliged to cooperate with other German and European TSOs and DSOs they are connected to.

It may be questioned whether, subject to the business concept behind it, an interconnector is to be differentiated from a transmission network system since it could serve predominately as power purchase channel. However, Regulation (EC) 1228/2003 is specifically tailored for cross-border interconnectors regardless of the aforementioned question and the respective business concept. The same applies to Directive 2003/54 and the EnWG, both addressing interconnectors regardless of the business concept behind. For that reason, the specific TSO provisions apply (but for the provisions regarding system stability this issue would need to be discussed with the BNetzA and the Norwegian regulatory agency).

13.7.2.2 Obligation to connect network users

Pursuant to Sec. 17 EnWG, network operators must connect end consumers, adjacent and downstream networks, power lines as well as power plants to their network on an economically reasonable, non-discriminatory and transparent basis. Connection means the physical linkage to the network. Network operators may only refuse connection to the network if the connection would be unfeasible or unreasonable for economic or technical reasons. A specific connection regime applies, according to Sec. 17 para. 2a EnWG, regarding the connection of offshore wind parks.

The EnWG and the StromNAV provide details on the connection of power plants, adjacent networks and customers and set some cornerstones in relation to the contractual relationship between network operator and the party requesting network connection without providing details of such contractual relationship. In contrast, the connection of power plants with a capacity of more than 100 MW (this being in fact the KraftNAV) contains some more details on such relationship.

Should the network operator refuse the connection, there is, pursuant to Sec. 31 EnWG, the possibility of initiating abuse proceedings at the BNetzA which shall take a decision within four months.

Further obligations to provide for specific network connections are included in the EEG and the Act on Combined Heat and Power Generation (*Kraft-Wärme-Kopplungsgesetz – KWKG*).

13.7.2.3 Obligation to grant network access

Pursuant to Sec. 20 EnWG, network operators must also grant (regulated) third party access to their network on economically reasonable, non-discriminatory and transparent basis. Access is granted by allowing network users (downstream network operators, final customers, energy suppliers and power plants) the usage of the network, *e.g.* supplying electricity to final customers. Access to electricity networks is regulated by the EnWG and, in more detail, by the StromNZV.

The network operator is entitled to levy network fees as consideration for the network usage according to the detailed principles laid down in the StromNEV and the ARegV (*cf.* 13.7.7).

13.7.3 *Unbundling*

One of the amended EnWG's main focuses is to foster the unbundling of vertically integrated energy utilities which are active in either the transmission or distribution of electricity on the one side and either the generation or supply of electricity on the other side (Sec. 3 No. 38 EnWG). Vertically integrated energy utilities are obliged to provide for a transparent and non-discriminatory operation of their electricity networks. Therefore, the EnWG contains several unbundling guidelines. *Inter alia*, vertically integrated energy utilities have to ensure that the operation of the network is assigned to a separate legal entity (so-called "legal unbundling"). However, there is no strict obligation to separate ownership of assets of the network from vertically integrated undertakings yet. Furthermore, vertically integrated energy utilities have to ensure the independence of their associated network operators by operational and organisational measures (so-called "operational unbundling").

The current unbundling regime will be fully revised due to the changes contained in the Third Energy Package. The Third Electricity Directive provides for three models for unbundling on TSO level, namely full ownership unbundling, ISO or ITO (see section 13.1.1). The latter model has been incorporated due to the intervention of seven Member States, amongst which the Federal Republic of Germany. Although it could therefore be expected that the ITO model will be implemented in Germany, details of the implementation are not yet known.

13.7.4 *Regulatory agencies in Germany*

The regulatory agencies for the energy sector in Germany are the Federal Network Agency (*Bundesnetzagentur* or BNetzA) in Bonn (in case of network systems to which 100,000 and more network users are directly or indirectly connected) and the specific regulatory authorities in the respective federal states (in case of network systems to which less than 100,000 network users are directly or indirectly connected). The regulatory agencies are, *inter alia*, in charge of ensuring non-discriminatory third-party access to networks and monitoring the use-of-system tariffs levied by the network operators.

13.7.5 *Grid Codes in Germany*

The German Transmission Code is based on the European framework as set out in sections 13.1.1 and 13.1.2 and on the EnWG as well as the EEG.

13.7.6 *Specific public service obligations in Germany*

EEG and AusglMechV

To promote the use of renewable energy sources the EEG provides for a system of fixed tariffs for electricity generated from renewable sources. The network operators have to purchase the renewable energy generated in power plants located next to their network and pay such fixed tariffs to the plant operators. Due to regional differences in the generation of renewable energy (*e.g.* wind conditions allow far more electricity generation from wind power in northern Germany than in the south), the EEG provides for a nationwide equalisation mechanism on the highest network level amongst the German TSOs which are obliged to purchase the renewable energy generated within their areas of responsibility from the respective network operators and pay them the tariff-in tariffs which they had paid to the operators of the renewable power plants before. The four TSOs in Germany then share these costs amongst them; they have agreed on the exact mechanism, the technical proceedings and necessary information exchange. On 17 July 2009, a Balancing Mechanism Ordinance for the development of a countrywide balancing mechanism was published (*Verordnung zur Weiterentwicklung des bundesweiten Ausgleichsmechanismus* – AusglMechV) and supplemented in the beginning of 2010 by the Balancing Mechanism Implementation Ordinance (*Ausgleichsmechanismus-Ausführungsverordnung* – AusglMechAV). The AusglMechV came into force on 1 January 2010 and replaced the transitional EEG re-packaging rules. Under this new ordinance the German TSOs must sell the infeed from renewable energy sources on the day-ahead or intraday markets of the German power exchange, EEX. Any shortfall due to higher remunerations paid to the downstream network operators than prices realised at the EEX can be invoiced to the energy suppliers which pass them on to the end-customers. The remaining costs of these schemes and the associated costs of managing them are both treated as pass-through costs and can be included in the network tariffs. The respective turnover can reach a multiple of the turnover from network operation functions and may require significant working capital.

KWKG

On 6 June 2008, the German lower house passed a new version of the Combined Heat and Power Law (CHP) (KWKG 2009). The stated purpose of the law is “to make a contribution” to increasing electricity production from CHP plants in Germany towards 25% of total production. The law came into effect on 1 January 2009 and defines a support mechanism for CHP plants and newly built or expanded heat networks. The law places a duty on the German TSOs and DSOs to connect certain eligible types of CHP plants and to purchase their electricity exports, as well as to prioritise their output. These connecting (distribution) network operators take off electricity and sell the CHP power on power markets. They also pay the electricity price plus the (uniform) surcharge to CHP generation plants. They pass on the cost of this surcharge (less avoided network charges) to the upstream TSOs who share them *pro rata* to volumes consumed by final consumers. The equalised costs are passed back to the downstream networks. Final customers pay the network charges plus the surcharge.

Connection obligations for renewable energy sources (RES) and cogeneration plants

The EnWG sets out the general rules for connection of power plants. According to these rules, German TSOs and DSOs must connect power plants to their network on technical and economic conditions that are appropriate, non-discriminatory, transparent, and no less favourable than the network operator would apply to itself. TSOs and DSOs can refuse a connection if they prove that the connection is not possible or unreasonable for operational, technical or economic reasons.

More specific rules on how to allocate the costs of connecting offshore wind plants and cogeneration plants are defined by different laws and acts. TSOs are obliged to connect offshore wind farms for which construction starts prior to 31 December 2015.

13.7.7 *Tariffs in Germany*

13.7.7.1 Overview

Most of the income of 50Hertz is generated from the regulated tariffs charged for use of the transmission system (tariff income). A new tariff regulation mechanism was established by the Ordinance on Incentive Regulation (*Verordnung über die Anreizregulierung der Energieversorgungsnetze* – ARegV) of 29 October 2007, coming into force on 6 November 2007 and last time amended by Statute of 21 August 2009. According to the ARegV, starting 1 January 2009, revenue caps are determined by the regulatory authority BNetzA for each network operator and for each calendar year in a so-called regulation period. Each regulation period lasts five years, the first regulation period started 1 January 2009 and will end on 31 December 2013. The network operators are not allowed to exceed their individually determined revenue caps with the network tariffs invoiced to their network users in the respective calendar year. The revenue caps are fixed for the entire regulation period, but can nevertheless be adjusted in specific cases provided for in the ARegV. The BNetzA determines the revenue cap on the basis of incurred or budgeted costs for the regulated activities and by considering the individual efficiency of the specific network operator. Therefore, the revenue caps may vary from year to year. The costs relating to the regulated activities include the allowed return on equity, as well as the predicted values of various cost categories, divided in those over which 50Hertz has an influence (“incentivised costs”[25]) and those over which it has no influence (“non-incentivised costs”[26]). Tariffs are public and are not subject to negotiation with customers.

13.7.7.2 General principles for tariff setting

Pursuant to the legal framework for tariffs, network tariffs are defined so as to generate a pre-defined “revenue cap” (*Erlösobergrenze*), which is the maximum revenue allowed by the regulator.

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[25] Named “Temporarily Non-Influenceable” and “Influenceable Costs” (TNIC/IC) under German regulation. It is to note that the notion “temporarily non-influenceable” is misleading in the way that these costs are also costs which the network operator basically can influence (therefore they do not belong to the permanently non-influenceable costs). However, such costs are defined in the efficiency test as costs which correspond to an efficient network operation and, thus, do not need to be decreased over the respective regulatory period. Nevertheless, TNIC can become IC within the efficiency test of the next regulatory period.

[26] Named “Permanently Non-Influenceable Costs” (PNIC) under German regulation.

This “revenue cap” reflects:

- the individual costs of the respective network operator incurred by the network operation, to the extent corresponding amounts are approved by the regulator in a separate cost assessment:
    - operational expenditures
    - capital expenditures, namely imputed depreciation, imputed return on equity and imputed trade tax; the imputed return on equity is a regulated rate of return on the equity component of the approved asset value.
- the individual efficiency of the respective network operator which is determined as a percentage rate between 60% (least efficient) and 100% (most efficient) in a nationwide or, respectively pan-European efficiency comparison.

Once approved by the regulator, this yearly “revenue cap” is used to set network tariffs, taking into account best estimates of the transmitted power/energy over the networks.

Costs are further classified into two main categories:

- “Non incentivised costs” or, respectively, PNIC: these costs are fully integrated into the “revenue cap”, and hence fully recovered by network tariffs (“pass-through” principle);
- “Incentivised costs” or, respectively, TNIC and IC: these costs are subject to an incentive scheme, fixed by the regulator. This scheme contains inefficiency (only applicable to IC) and productivity improvement objectives (applicable to both, TNIC and IC) over a 5 year period on this cost category (cf. regulation formula below). This gives the TSO a medium-term objective to cut inefficient costs.

For example, when a network operator has total costs of 100 MU (money units), its permanently non-influenceable costs (PNIC) are 20 MU and its efficiency is 80%, than the influenceable costs (IC) are 16 MU because it has 20% of inefficient costs ((100 MU - 20 MU) * 0,2 = 16 MU) and the temporarily non-influenceable costs are 64 MU because 100 MU - 20 MU -16 MU equals 64 MU.

13.7.7.3 Setting of revenue cap and tariffs

The revenue cap is a yearly reference amount to fix network tariffs for the regulation period, *i.e.* tariffs possibly differ from one year to another, according to the evolution of the revenue cap and forecasted transmitted power or energy.

The following regulation formula is applied for the “revenue cap” (or “allowed revenue”). The most important elements determining the revenue cap are explained in the paragraphs below.

$$\underbrace{EO_t}_{\text{Revenue Cap}} = \underbrace{\underbrace{KA_{dnb,t}}_{\text{Permanently Non-Influenceable}} + \underbrace{[KA_{vnb,0} + (1-V_t) * KA_{b,0}] * [(VPI_t/VPI_0) - PF_t]}_{\text{Total Influenceable \& Incentive Regime}}}_{\text{Costs}} * \underbrace{EF_t}_{\text{Not for TSO}} + \underbrace{Q_t}_{\text{From 2014}} + \underbrace{S_t}_{\text{Regulatory Account}}$$

EO_t = revenue cap for the year t.

$KA_{dnb,t}$ = permanently non-influenceable costs (“PNIC”) for the year t.

$KA_{vnb,0}$ = temporary non-influenceable costs (“TNIC”) in the reference year, *i.e.* the year which is the basis for the cost calculation of the following regulation period, subject to the application of productivity improvement objectives as considered by the term $[(VPI_t/VPI_0) – PF_t]$.

V_t = efficiency improvement factor for the year t; *e.g.* the factor is 1/5 in the first year of the regulation period so that the network operator is allowed to pass on *e.g.* 1 – 1/5 = 4/5 of the influenceable costs (IC) in the first year and 1 – 5/5 = 0 of the IC in the fifth year.

$KA_{b,0}$ = influenceable costs (IC) in the reference year, subject to the application of inefficiency improvement objectives as considered by the term (1- V_t) and productivity improvement objectives as considered by the term [(VPI_t,/VPI_0) – PF_t].

VPI_t = consumer price index in year t (published by the German Federal Statistical Office).

VPI_0 = consumer price index in reference year (published by the German Federal Statistical Office).

PF_t = general sectoral productivity factor.

EF_t = expansion factor for year t. This factor is not applied to TSOs, and has therefore no impact on the position of 50Hertz.

Q_t = quality component for year t. This will apply from the second regulatory period (2014-2018), and has therefore no impact on the position of 50Hertz during the first period (2009-2013). It is not known how this parameter will be determined from 2014 on.

S_t = regulatory account for year t. This will apply from the second regulatory period (2014-2018), and has therefore no impact on the position of 50Hertz during the first period (2009-2013).

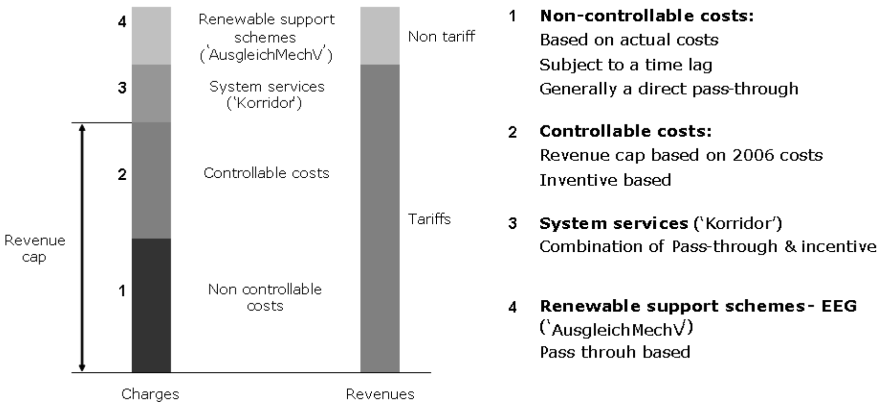
t = index running from 1 to 5 (0 is the reference year or so-called photo year which will be *e.g.* the year 2011 for the second regulatory period starting in 2014).

13.7.7.4 Parameters for the determination of the revenue cap and tariff levels

The revenue cap and the tariff levels are determined based on the following key parameters:

1. the fair remuneration;
2. the allowed “non-incentivised costs” or, respectively, PNIC – including financial charges, taxes and investments belonging to approved IBs as well as other recurring and one-time costs;
3. the “incentivised costs”, or TNIC/IC, respectively, taking into account fixed factors for efficiency and productivity improvement;
4. the costs related to system services. These costs are considered as “non incentivised costs” or, respectively, PNIC to the extent the BNetzA has accepted the voluntary commitment of German TSOs in the meaning of Sec. 11 para. 2 s. 2–4 ARegV;
5. the costs related to support schemes for renewables (unless compensated through EEX sales or compensations by energy utilities).

The following picture summarises the built-up of the German tariff levels.



Under German regulation, the principle of two different cost categories is to a large extent similar to the Belgian principle: the "non-incentivised costs" (PNIC in Germany; *coûts non gérables / niet-beheersbare kosten* in Belgium) are subject to pass-through, while the "incentivised costs" (TNIC/IC in Germany; *coûts gérables / beheersbare kosten* in Belgium) are subject to an incentive. However, the types of costs that are taken into account for each category are different. Another difference between the Belgian and the German scheme is the fact that the authorised revenues in the German regulation scheme are based on incurred incentivised costs mainly of a reference year in the past (ex. 2006 for the period 2009-2013) whereas they are based on planned costs (*i.e.* forecasts) in the Belgian regulation scheme. The BNetzA tends to allow planned costs only to a very limited extent and therefore restrictively interprets the underlying provision of the StromNEV.

13.7.7.5 Fair remuneration

As a basic principle to allow for a fair remuneration, the German regulation sets provisions related to the allowed return on equity, both related to assets in the Regulatory Asset Base and for assets in IBs.

Return on equity is established under the Capital Asset Pricing Model ("CAPM"), *i.e.* a risk free rate plus risk premium. Equity in excess is also remunerated at lower rates. A similar system is applicable in Belgium.

The return on equity is remunerated at 7.56% for investments made before 2006, and at 9.29% for investments made since 2006. The return on equity applies for the first regulatory period (2009-2013) and is before corporate tax but after trade tax (since the network operator is allowed to include the trade tax burden as costs in its network tariff calculation; due to a restrictive approach of the BNetzA as to the methods to be used to determine these costs, the network operator is not allowed to include the full trade tax burden).

The valuation of assets for regulatory purposes follows rules that are specific to Germany. Beginning with the value of assets defined by historic cost accounting (HCA), networks are allowed to revalue the proportion of their assets built before 2006 ("old assets") and "financed by equity". As per the principles of current cost accounting ("CCA"), networks are allowed to revalue this equity financed proportion of their old assets to depreciated replacement cost (*Tagesneuwert*). However, the rules limit the proportion of total asset value that can be regarded as "financed by equity" to a maximum of 40%. This limit applies both before and after the revaluation. Any equity in excess of 40% is treated as "quasi-debt". Assets which follow these principles are integrated in the RAB.

German regulation features a specific remuneration regime for transmission network investments called investment budgets ("IB"). These IBs relate to investments for expanding and restructuring networks if they are necessary for the stability of the system, the integration of the national or international network, the connection of offshore wind farms, or an extension of the energy supply network in line with demand levels. Costs as approved in an IB are basically not subject to the efficiency test and can be added to the determined revenue cap even during a regulatory period (cf. 13.7.6.7). The methods to be used in order to determine whether IBs are included in the revenue cap are highly disputed between the regulatory agencies and the network operators.

The return on equity, computed as defined above, is included in:

- "Incentivised costs" for assets belonging to the Regulatory Asset Base (section 13.7.6.6.)
- "Non incentivised costs" for assets considered in IBs (section 13.7.6.7.).

13.7.7.6 "Temporarily non influencable costs" ("TNIC") and "influencable costs" ("IC") = "Incentivised costs"

The inclusion of imputed depreciation, imputed cost of debt, imputed return on equity and imputed trade tax as cost item in the "incentivised costs" (TNIC/IC) is mandatory for investments included in the RAB. Cost of debt included in the "incentivised costs" is capped by the regulator at the rate of 10 year German corporate bonds (currently 4.23%). This is a major difference to the Belgian system, under which these costs do not fall under the scope of "incentivised costs".

All operating expenses are also part of the "incentivised costs" except for costs for the provision of systems services (other than costs related to voltage control and black start) to the extent the BNetzA has accepted the voluntary commitment of German TSOs in the meaning of Sec. 11 para. 2 s. 2–4 ARegV.

Non tariff revenues (for instance telecom revenues) are deducted from the "incentivised costs" revenues cap.

The evolution over time of "incentivised costs" is subject to the application of an efficiency improvement factor and a productivity improvement factor (*cf.* 13.7.7.3). The efficiency improvement factor ("V" in the formula above) has been fixed after a benchmarking analysis carried out by the regulator. The less efficient network operators receive ten years from the beginning of the first regulatory period to overcome the established inefficiencies ("$KA_{b,0}$" in the formula above). A second benchmarking will be carried out for the second regulatory period (2014-2018). For the first regulatory period (2009-2013), the efficiency improvement factor of 50Hertz amounts to 0.04% per year.

A productivity factor ("PF_t" in the formula above) of 1.25% also applies on "incentivised costs" for the first regulatory period.

The efficiency factor and the productivity factor are partially compensated thanks to an inflation factor with a two year time lag ("VPI_t/VPI_0" in the formula above).

13.7.7.7 "Permanently non-influenceable costs" ("PNIC") = "Non-incentivised costs"

The inclusion of imputed depreciation, imputed cost of debt, return on equity and trade tax as cost item in the "non-incentivised costs" is only allowed in the framework of IBs. Cost of debt is basically also capped here unless the network operator can demonstrate that it has raised a loan specifically for a project the costs of which are approved in the IB.

The interpretation of certain provisions of the ARegV relating to permanently non-influenceable costs is highly disputed between the German regulatory agencies and the network operators and subject to pending court proceedings. One of the disputed issues is whether costs as approved in an IB can nevertheless be included in the RAB of future regulatory periods or whether such costs remain non-incentivised costs for the entire depreciation range of the assets. The BNetzA argues that, when considered under IBs, assets were to be transferred (once for all) in the RAB in the next regulatory period if they are operational at the next photo year to set the revenue cap for the next regulatory period (*e.g.* photo year 2011 for the period 2014-2018). If not, they were to be transferred in the RAB of the next but one regulatory period (*e.g.* starting in 2019). By contrast, network operators argue that the underlying cost remained non-incentivised costs for the entire depreciation range since the respective provision of the ARegV referred. Court decisions clarifying this and other disputes are expected at the earliest for late 2010.

IBs are specified in the ARegV and represent important pass-through costs since the network operator is allowed to adjust the revenue caps even during a regulatory period with a two year delay (so-called t-2; *e.g.* the revenue cap of the year 2012 can be adjusted according to the costs of the year 2010). The IB regime provides network operators with an additional revenue allowance until the assets enter the regular revenue cap.

The costs imposed by legal obligations and shared with other TSOs must be accounted for separately and do fall within the “non-incentivised costs” revenue cap.

Congestion rents and costs or revenues resulting from the inter-TSO compensation scheme (ITC) described in section 11.2.6.2 are also considered as “non-incentivised costs” or revenues under German regulation. These costs are added to the revenue cap, as stated in the formula above (“$KA_{dnb,t}$ ” in the formula).

13.7.7.8 Cost related to system services

Under German regulation, a specific treatment is applied, starting January 2010, to the major part of system services (regulating power, compensation of network losses, re-dispatch). These costs are included in the revenue caps and are taken into consideration to fix network tariffs according to a separate scheme. This scheme (*Korridormodell*) has been proposed by the four German operators. It relies on a limited incentive (with caps and collars) to cut these costs. This model is approved for the remaining part of the first regulatory period (2010-2013), although the goal is to extend this mechanism for the next regulatory period with revised parameter settings. As already stated, this treatment does not include costs related to voltage control and black start, which are considered in total “incentivised costs”.

The costs related to the system services are included in the tariffs based on planned costs. The differences between the planned and real costs will be compensated with a t-2 year time lag. However, the *Korridormodell* gives an incentive to the TSO to outperform with respect to the planned costs with a capped risk: the bonus/malus factor is set at +/- 25% of the saved/additional costs with an absolute cap of +/- 5% of the target value, including a “dead band” of the first 1% of the difference, that is passed on to tariffs. This model is different from the treatment of “incentivised costs” under German regulation, mainly because the incentive relates to planned costs (taking into account the evolution of needs and evolution of prices), instead of incurred costs in the base year (though there is no efficiency improvement factor applied to these types of costs, the productivity factor is applicable).

This treatment differs from the current practice under Belgian regulation, in which these costs[27] are subject to a pass-through scheme, taking into account the procedure foreseen in the Electricity Law (article 12*quater*), whereby the regulator advices on the reasonable nature of these costs and the Minister is appointed to decide on the value of “acceptable” costs if necessary.

13.7.7.9 Costs related to support schemes for renewables and CHP Plants

Costs incurred by 50Hertz when carrying out its obligations in the framework of support schemes for renewable energy (AusglMechV, section 13.7.6) and CHP plants (CHP law, section 13.7.4.) are subject to a specific treatment: the German regulation scheme intends to get a balanced treatment of costs and income for the TSO and is based on a levy on transmission tariffs to compensate for net costs incurred by TSOs.

Under the German scheme, it is mandatory for the TSO to balance itself the injected green energy.

13.7.7.10 Settlement of deviations from budgeted values

The incentive regime offers the operator the possibility of outperforming the system and effectively earning higher returns on equity than just the allowed returns. To do this, the company must reduce its costs more, or faster, than the fall in allowed revenues. The revenue formula does not limit or claw back this potential outperformance, but the target (*i.e.* the new revenue formula) is reset for each regulatory period.

Outperformance may also be achieved on costs related to system services in accordance with the *Korridormodell*. Since the scheme only entered into force in early 2010, there is no experience with its operation and the actual room for outperformance.

Differences between “non-incentivised costs” are compensated for two years later: the definitive costs of year t-2 are known in year t-1 and are included in the revenue cap of year t. In German regulation, this is referred to as “t-2 time lag”.

[27] All costs related to the provision of system services, *i.e.* regulating power, compensation of network losses, re-dispatch <u>and</u> black-start and voltage control.

Under this scheme, any revenue surplus (resp. shortage) due to increased (resp. decreased) transmitted power/energy[28] is to be compensated by a network tariff adjustment. These differences can be put on a regulatory account. Tariff adjustments are in principle applied to set network tariffs for the next regulatory period. However, should the revenue surplus or shortage exceed 5% of the expected amount, a tariff adjustment will be applied sooner (*i.e.* during the current regulatory period). In case of a surplus of more than 5%, network tariffs must be adjusted. The TSO may ask an update of the tariffs in case of a shortage of more than 5%.

13.7.7.11 Summary of key differences between German and Belgian regulatory framework for tariffs

	Germany		**Belgium**
Basic principle	Cost based regulation	=	Cost based Regulation
Model	Revenue Cap	=	Revenue Cap
Regulatory periods (RP)	5 years 2009-2013 ; 2014-2018	≈	4 years 2008-2011 ; 2012-2015
Investments	• IB: expansion and restructuring investments • Other investments: RAB • Offshore investments borne by TSO	≠	• All investments in RAB • Offshore investments borne by wind generator
Allowed return on equity	• Return does not depend on liquidity of share • Rate fixed ex-ante, based on formula (risk free rate + risk premium) • Lower Remuneration (= Cost of debt) for excess equity. Reference: 40% of total regulated balance sheet	≠	• Return depends on liquidity of share (ß) • Formula: OLO +ß* 3,5% • Lower Remuneration (OLO + 0.7%) for excess equity. Reference: 33% RAB.
Offsetting in tariffs of the decommissioning of fixed assets	• Not applicable		• Recovered through tariffs
Non incentivised costs Definition	Permanently Non Influenceable Costs • IB: Cost of debt • IB: Imputed depreciation • IB: Imputed trade taxes • IB: Imputed return on equity • IB: OPEX for offshore IB (as agreed by the 4 TSOs, not by the regulator) • Inter-TSO shared costs • … • Congestion rents and ITC NB: Costs for provision of ancillary services – see below	≠	*Coûts non gérables – Niet beheersbare kosten* • Costs for provision of ancillary services • Cost of debt – principle of embedded debt • Depreciation • Taxes • Return on equity • Usage fees to other operators • Pensions (for retired/non-active) • Congestion rents and ITC
Inclusion in Revenue Cap	• Incurred cost in year t-2, with compensation for time lag for cost items related to IB (no time lag compensation for offshore opex) • To be fixed in year t-1 (Revenue Cap may be updated during RP)	≠	• Forecasted cost for year t • To be fixed before start of RP (Revenue Cap may not be updated during RP)

[28] Or any other tariff driver used to set network tariffs.

Incentivised costs Definition	Total Incentivised Costs
	• OPEX, with the exception of
	  ○ costs for provision of regulating power, compensation of network losses and redispatch
	
	• Assets in RAB: Cost of debt, with cap
	• Assets in RAB: Imputed depreciation
	• Assets in RAB: Imputed trade taxes
	• Assets in RAB: Imputed return on equity
	• Non tariff revenues
		≠	*Coûts gérables – Beheersbare kosten*
			• OPEX, with the exception of
			  ○ costs for provision of ancillary services
			  ○ usage fees to other operators
			  ○ pensions
			
			• Non tariff revenues

Inclusion in Revenue Cap	• Base year costs: 2006 for period 2009-2013; 2011 for period 2014-2018 • Increase with inflation (2 years lag) • Decrease with efficiency and productivity factors	≠	• Proposal Elia for period 2008 • Increase with actual inflation • Reduction of efficiency factor
Efficiency and productivity improvements	• Efficiency factor 50Hertz: 0.04% per year (cumulative) in first period • Productivity factor: 1,25% per year (cumulative) in 1st period (1.5% in 2nd period)	≠	Productivity and efficiency factor: global reduction of €25 million for period of 4 years (€4 million, €6million, €7 million, €8 million)
Out-performance	• On incentivised costs (no limit) and costs under *Korridormodell* (5% of planned costs as limit). • No limitation on outperformance	≠	• On incentivised costs. • 1st RP: limitation to €25 million for 4 years

Provision ancillary services	• Voltage control and black start: incentivised costs
	• Regulating power, redispatching and losses: *Korridormodell*:
	  ○ Reference = planned costs
	  ○ Market based rates for supply of ancillaries
	  ○ Limited incentive (25% of difference between planned and actual costs)
		≠	• All costs non incentivised (→ pass-through)
			• Advice CREG; decision Minister on reasonable prices

Support schemes Renewables	• Obligation to buy/sell energy + balancing • Difference between costs and revenues to be recovered through levy (*AusglMechV*)	≈	• Obligation to buy/sell green certificates • Difference between costs and revenues to be recovered through levy
Network tariffs	Determined on basis of the photo year for regulatory period of 5 years; may be adjusted during regulatory period	≠	Fixed for 4 years
Differences actual – projected revenues	• On regulatory account • To be recovered by adjustment tariffs next period • If difference exceeds 5%: immediate (next year) adjustment of tariffs	≈	• On regulatory account • To be recovered by adjustment tariffs next period

14 MANAGEMENT AND GOVERNANCE

The respective roles and responsibilities of the management bodies of Elia are, in a large part, governed by the provisions of the Electricity Law, the Corporate Governance Decree and the Articles of Association. The Company is also subject to the Belgian Company Code.

The Corporate Governance Decree and the Electricity Law, as amended, set out certain specific rules regarding the organisation and corporate governance of the TSO, with a view to guarantee its independence and impartiality. These rules relate more specifically to the transparency of the shareholder structure, the appointment of independent directors, the establishment of a Corporate Governance Committee, an Audit Committee and a Remuneration Committee, the application of rules related to conflicts of interests and opposition of interest with dominant shareholders and the establishment of an Executive Committee (*comité de direction/directiecomité*) (the "Executive Committee"). The independence of the TSO requires in particular that half of the members of the Board of Directors are independent directors and that all members of the Corporate Governance Committee are independent directors.

14.1 BOARD OF DIRECTORS

14.1.1 *Powers*

As provided by Article 521 of the Belgian Company Code, the Company is headed by a Board of Directors acting as a collegiate body. The Board of Directors' role is to pursue the long-term success of the Company by providing entrepreneurial leadership and enabling risks to be assessed and managed. The Board of Directors should decide on the Company's values and strategy, its risk appetite and key policies. The Board of Directors should ensure that the required financial and human resources are in place for the Company to meet its objectives.

The Board of Directors is responsible for all matters relating to the realisation of the Company's corporate purpose, with the exception of those matters that are, pursuant to the applicable law or the Articles of Association, exclusively reserved to the Executive Committee or the General Shareholders' Meeting. Pursuant to the Electricity Law and the Corporate Governance Decree, the Company has a two-tier governance structure based on a distinction between:

- the management of the Company (including the daily management) which is conferred to the Executive Committee, within the framework of the general strategy defined by, and under the supervision of the Board of Directors; and
- the development of the general strategy of the Company, the general supervision of the Executive Committee within the legal limits with respect to the access to and treatment of confidential commercial information or customer data, and the exercise of specific powers attributed by virtue of the Electricity Law, the Belgian Company Code and the Articles of Association, which fall within the powers of the Board of Directors.

Under the Articles of Association, the reserved powers of the Board of Directors include, without limitation:

- the approval, control and amendment of the Company's business plan and budget;
- the approval and/or refusal of the development plan, the investment plans and the adaptation plan, which the Company must present periodically in accordance with the applicable provisions of the regional and federal regulations regarding the electricity market, it being understood that such plans can only be refused because of their financial impact on the Company;
- decisions on capital expenses, loans or the grant of security and guarantees for amounts in excess of EUR 10,000,000, if not contemplated by the Company's business plan or the annual budget;
- decisions on matters relating to the corporate and financial structure of the Company or its subsidiaries;
- decisions on strategic acquisitions, alliances and divestments or transfers of important assets or activities;
- decisions on amendments to the Company's accounting or tax policies;
- decisions on the incorporation of subsidiaries, transfers of shareholdings or significant changes in the activities of the subsidiaries;
- decisions to undertake or resume activities other than the management of electricity networks, to the extent such decisions are permitted under federal or regional regulations regarding the electricity market; and

- strategic decisions to manage and/or acquire electricity networks outside of Belgium, to the extent that such decisions are permitted under federal and regional regulations and without prejudice to the powers of the Executive Committee with regard to the European and international integration of electricity networks.

14.1.2 *Composition*

The Board of Directors is composed of twelve members. In accordance with the relevant provisions of the Electricity Law and the Articles of Association, all members of the Board of Directors must be non-executive directors (*i.e.* persons who do not have management duties within the Company or one of its subsidiaries). Half of the members of the Board of Directors must be "independent" directors within the meaning of the Articles of Association, the federal and regional regulations applicable to the electricity market and Article 526*ter* of the Belgian Company Code. One third of the members of the Board of Directors must be of a different gender than the other members. A linguistic balance must be observed and maintained upon renewal of members of the Board of Directors.

14.1.2.1 Appointment of independent directors

The independent directors are elected by the General Shareholders' Meeting based on a list of candidates proposed by the Corporate Governance Committee. The conforming opinion (*avis conforme / eensluidend advies*) of the CREG must be obtained on the independence of the directors. The works council should be informed of the nominations before the election by the General Shareholders' Meeting.

The independent directors are selected based on their financial management skills and their relevant technical skills.

In the case of vacancies with regard to independent director positions which occur during the term of his/her mandate, the Corporate Governance Committee must present a list of candidates to the Board of Directors, which has the authority to fill the vacancy until the next Shareholders' Meeting. The Board of Directors' decision with regard to the candidate chosen to fill such a vacancy is subject to the conforming opinion of the CREG, which can refuse on the grounds of lack of independence or impartiality.

14.1.2.2 Appointment of non-independent directors

Following an amendment of the Articles of Association approved by the extraordinary General Shareholders' Meeting held on 11 May 2010, new rules have been adopted as to the appointment of the non-independent directors. As long as the class A and class C shares, alone or together, represent more than 30% of the share capital of the Company, a certain number of these non-independent directors will be elected on the basis of a list of candidates proposed by the class A shareholders (the "A Directors") and a certain number of these non-independent directors will be elected on the basis of a list of candidates proposed by the class C shareholders (the "C Directors"). The number of non-independent directors to be elected on the basis of a list of candidates proposed by the class A and class C shareholders respectively, is determined *pro rata* based on the percentage that the respective class A shares and class C shares represent in the aggregate number of class A and class C shares, as follows:

- six directors if this percentage is greater than 83.33%;
- five directors if this percentage is greater than 66.67% but not greater than 83.33%;
- four directors if such ownership is greater than 50% but not greater than 66.67%;
- three directors if this percentage is equal to 50%;
- two directors if this percentage is greater than 33.33% but less than 50%; and
- one director if this percentage is at least 16.67% but not greater than 33.33%.

If there are no longer either class A shares or class C shares, six non-independent directors shall be elected among a list of candidates presented by the holders of the other, remaining class of shares (either class A or class C), to the extent that the shares of this latter class represent more than 30% of the share capital of the Company.

The extraordinary General Shareholders' Meeting of 11 May 2010 also amended the rules relating to vacancies with regards to non-independent directors. If a non-independent director position becomes vacant prior to a General Shareholders' Meeting, the Board of Directors has the authority to fill the vacancy until the next General Shareholders' Meeting by appointing a director among a list of candidates presented by the directors who were appointed by the shareholders of the class of shares which, taking into account the percentage of the class A shares and the class C shares respectively at that time, would be entitled to present a list of candidates for the vacancy that needs to be filled. If there are no (longer) directors that have been appointed among the candidates proposed by the shareholders of the class of shares that has presented the director who needs to be replaced, the other directors shall be entitled to fill the vacancy by appointing a director among the candidates proposed by the non-independent directors.

14.1.3 *Independence criteria*

In accordance with the Articles of Association, an independent director, within the meaning of the applicable legal provisions, is any non-executive director who:

- does not or did not, during the preceding year, supply any goods or services to the Company or any of its subsidiaries or affiliated companies, directly or as a shareholder, director or senior executive of an entity that maintains such relations, it being understood that acting as director or as member of any other statutory body of a subsidiary in which the Company holds all but two (2) shares, and who either manages the transmission network entirely or partly or who is owner of the infrastructure and equipment which belongs to the transmission network, is not deemed to be provision of services;
- does not have a significant financial interest in a company or association that supplies goods or services to the Company or any of its subsidiaries or affiliates;
- does not, and has not during the last three (3) years, filled the position of executive or managing director in an affiliated company of the Company;
- is not, and has not been during the last three (3) years, an employee of the Company or of any of its affiliated companies;
- does not, and did not, receive a material additional remuneration from the Company or any of its affiliated companies, except for the remuneration received in his capacity of director;
- is not a controlling shareholder or a shareholder holding more than ten percent (10%) of the shares, nor is he a director or an executive manager of such shareholder;
- is not, and has not been during the last three (3) years, a shareholder or employee of the current or former statutory auditor of the Company or of any of its affiliated companies;
- has not filled a position as non-executive director in the Board of Directors for more than three (3) terms;
- is not a close family member of persons who find themselves in one of the six situations described above;
- does not have family ties up to the third degree with a member of the management of the Company or any of its subsidiaries;
- does not exercise any activity or hold any position, and has not exercised any activity or held any position within the 24 months preceding his designation as director, remunerated or not, for a producer, an owner of the network, a supplier, a distributor, an intermediary, or a dominant shareholder (as defined in the Electricity Law), it being understood that a position as independent director of a subsidiary in which the Company holds all but two (2) shares, and who either manages the transmission network entirely or partly or who is owner of the infrastructure and equipment which belongs to the transmission network, is not deemed to be an incompatibility within the meaning of the Articles of Association;
- does not maintain any other relation, directly or indirectly, with, and does not receive a material benefit from, one of the persons indicated in the previous item or one of their affiliates that could, according to the federal and regional regulatory authorities for the electricity market, influence his judgment; and
- complies with the independence criteria set out in Article 526*ter* of the Belgian Company Code.

The independence requirements of Article 526*ter* of the Belgian Company Code can be summarised as follows:

- the director has not been an executive member of the board of directors, member of the executive committee or daily manager in the Company (or any of its affiliated companies), during a term of five years prior to his or her election;
- the director has not been a non-executive director for more than three consecutive terms or during a period of more than 12 years;
- the director has not been a member of the managerial staff (*personnel de direction / leidinggevend personeel*) of the Company (or an affiliate of the Company) during a term of three years prior to his or her election;
- the director does not receive and has not received any remuneration or other significant financial advantage from the Company (or any of its affiliated companies), other than the profit share (*tantièmes*) and remuneration received in his or her capacity as a non-executive director or as a member of the supervisory body;

- the director does not own any corporate rights (*droits sociaux / maatschappelijke rechten*) that represent 10% or more of the share capital, the corporate funds or of a category of shares of the Company. If the director has corporate rights which represent less than 10%, then:
    - such rights, taken together with rights in the same Company held by companies over which the director has control, may not represent 10% or more of the share capital, the corporate funds or of a class of shares of the Company; or
    - the disposal of these shares, or the exercise of the rights attached thereto, may not be subject to agreements or unilateral commitments entered into by the director.

  In any event, the director cannot represent a shareholder who meets the conditions set forth in this criterion;
- the director does not and, during the past financial year, did not, have a significant business relationship with the Company (or any of its affiliated companies), either directly or as a partner, shareholder, member of the board of directors or member of the managerial staff of a company or of a person that maintains such a relationship;
- the director is not and has not been at any time during the past three years, a partner or an employee of the Company's current or former statutory auditor or of a company or person affiliated therewith;
- the director is not an executive director of another company in which an executive director of the Company is a non-executive director or a member of the supervisory body, and has no other significant ties with executive directors of the Company through his or her involvement in other companies or bodies;
- the director's spouse, unmarried legal partner and relatives (via birth or marriage) up to the second degree do not act as a member of the board of directors, member of the executive committee or daily manager or member of the managerial staff in the Company (or any of its affiliated companies), and meet all of the requirements set out above.

14.1.4 *Functioning*

The members of the Board of Directors elect a Chairman and one or more Vice Chairmen, who will not have a casting vote.

A meeting of the Board of Directors can be validly held if at least half of the members are present or represented at the meeting. If a meeting is adjourned for lack of quorum, upon reconvening the meeting, the Board of Directors may validly deliberate and resolve on matters on the agenda of the original meeting without satisfying the quorum requirements. Meetings of the Board of Directors are convened by the Chairman of the Board of Directors or by at least two directors.

Decisions of the Board of Directors are, to the extent possible, taken by consensus and, if no consensus can reasonably be reached, by a simple majority vote. If four directors (including at least one independent director) request so, decisions regarding certain significant issues, identified in Article 19.10 of the Articles of Association, must be postponed to a next meeting to be held on the first Business Day following the expiry of a ten days' waiting period. These decisions include:

- the approval, follow up of and amendment of the Company's business plan and budgets;
- the approval and/or refusal of the development plan, investment plans and adaptation plan which the Company must present periodically in accordance with the respective applicable provisions of the regional and federal regulation regarding the electricity market, it being understood that such plans can only be refused because of their financial impact on the Company;
- capital expenditures, loans or the grant of securities and guarantees in excess of EUR 10,000,000 (if not contemplated by the Company's business plan or annual budget);
- the corporate or financial structure of the Company or any of its subsidiaries;
- strategic acquisitions or alliances, divestments or transfers of important assets or termination of core activities;
- changes to accounting and tax policies;
- the incorporation of subsidiaries or the transfer of shareholdings in subsidiaries;
- important changes to the activities of subsidiaries;
- decisions to undertake or resume activities other than the management of electricity networks to the extent such decisions are permitted under federal or regional regulations regarding the electricity market;
- strategic decisions to manage and/or acquire electricity networks outside of Belgium, to the extent that such decisions are permitted under federal and regional regulations regarding the electricity market and are without prejudice to the powers of the Executive Committee with regard to the European and international integration of electricity networks;
- engaging in new activities not contemplated in the Company's business plan;
- the retention of profits; and
- the issue of any securities.

The Articles of Association require a double majority vote (*i.e.*, a majority of the independent directors and a majority of the non-independent directors) with regard to the following matters:

- the composition of the Executive Committee;
- the proposal to appoint the Company's auditors;
- the composition of the Corporate Governance Committee;
- proposals to the General Shareholders' Meeting to dismiss an independent director;
- the approval or refusal of the development plan, investment plans and adaptation plan which the Company must present periodically in accordance with the respective applicable provisions of the regional and federal regulations regarding the electricity market, it being understood that such plans can only be refused because of their financial impact on the Company;
- decisions to undertake or resume activities other than the management of electricity networks to the extent such decisions are permitted under federal or regional regulations regarding the electricity market;
- strategic decisions to manage and/or acquire electricity networks outside of Belgium, to the extent that such decisions are permitted under federal and regional regulations regarding the electricity market and without prejudice to the powers of the Executive Committee with regard to the European and international integration of electricity networks.

Additionally, the approval of the majority of the independent directors is required with respect to the following matters relating to general policy and supervision decisions regarding the distribution activities in the Flemish Region:

- management, maintenance and development of the distribution networks;
- access to the distribution networks, connection terms and conditions, technical conditions and tariffs;
- reading and management of the consumption data of eligible clients;
- accounting of the management and exploitation of the network; and
- sub-contracting of activities.

14.1.5 *Current members of the Board of Directors*

The Boards of Directors of both the Company and Elia Asset are composed of the same twelve non-executive members.

The current members of the Board of Directors are:

Name	Year of birth	Position	Term	Professional address	Board committee membership
Luc Van Nevel	1947	Independent director and Chairman	2011	Berchemweg 131, 9700 Oudenaarde, Belgium	Member of the Corporate Governance Committee
Jennifer Debatisse	1976	Non-independent director	2011, subject to confirmation at next shareholders' meeting	Avenue du Centenaire 18A, 7022 Hyon, Belgium	/
Clement De Meersman	1951	Independent director	2011	Leffingestraat 17, 8000 Brugge, Belgium	Chairman of the Audit Committee
Johan De Roo	1948	Non-independent director	2011	Harinkweg 14A, 9990 Maldegem, Belgium	/
Jacques de Smet	1949	Independent director	2011	Avenue des Aubépines 96, 1180 Brussels, Belgium	Member of the Audit Committee, member of the Remuneration Committee
Claude Grégoire	1954	Non-independent director	2011	Avenue Destenay 13, 4000 Liège, Belgium	Member of the Audit Committee
Jean-Marie Laurent Josi	1964	Independent director	2011	Rue de la Chancellerie 2, 1000 Brussels, Belgium	Chairman of the Remuneration Committee
Dominique Offergeld	1963	Non-independent director	2011, subject to confirmation at next shareholders' meeting	Chars à Boeufs 24, 6690 Vielsalm, Belgium	/
Leen Van den Neste	1966	Non-independent director	2011, subject to confirmation at next shareholders' meeting	Livingstonelaan 6, 1000 Brussel, Belgium	/
Jane Murphy	1967	Independent director	2011	Avenue du port 86c / b113, 1000 Brussels, Belgium	Member of the Corporate Governance Committee
Francis Vermeiren	1936	Vice Chairman, non-independent director	2011	Maria Dallaan 30, 1930 Zaventem, Belgium	Member of the Remuneration Committee
Thierry Willemarck	1953	Vice Chairman, independent director	2011	Rue de la loi 44, 1040 Brussels, Belgium	Chairman of the Corporate Governance Committee

Notes

(1) The term of the mandate of the director will expire immediately after the annual General Shareholders' Meeting held in the year set forth next to the director's name.

Jennifer Debatisse, Dominque Offergeld and Leen Van den Neste have been elected as directors by the Board of Directors held on 11 May 2010 to temporarily fill the positions that became vacant following the resignation of Jacqueline Boucher, Sophie Dutordoir and Ronnie Belmans as directors of the Company. Jacqueline Boucher, Sophie Dutordoir and Ronnie Belmans resigned as directors of the Company at the meeting of the Board of Directors held on 11 May 2010, following the completion of the sale by Electrabel of 12.5 % of the shares of the Company to Publi-T (see section 15.1).

The following paragraphs contain brief biographies of each of the directors, with an indication of other mandates as member of administrative, management or supervisory bodies in other companies during the previous five years.

Luc Van Nevel – Chairman, born in 1947. Luc Van Nevel holds a degree from the University of Ghent in economic sciences and obtained a degree at the Northwestern University of Chicago in the Strategic Marketing Course in 1994. He started his career with the US audit firm Touche Ross & Co. (currently Deloitte) as audit manager. In 1975 he started as assistant controller with Samsonite Europe NV, an industry leader in assembling suitcases. He became president and managing director of Samsonite Europe NV in 1984, president of Samsonite International in 1994 and chairman and CEO of Samsonite Corporation in 1998. He retired from Samsonite in 2004. At present, he is director of several major Belgian companies such as Picanol NV, PinguinLutosa NV, Vanobake NV, Jensen Group NV, Interbrush NV, van Welden Group NV, Hevebra NV and Van de Walle Bouwteam NV. He is also active in the non-profit sector as member of the board of VLAB (Vlaamse Federatie van Beschutte Werkplaatsen – an organisation that supports sheltered workshops) and the regional clinic in his hometown Oudenaarde. Formerly, he has been chairman of the Picanol Group, vice-chairman of VOKA, and member of the board of directors at VRT. Luc Van Nevel was awarded as manager of the year (Trends Magazine) and man of the year - economic section (Knack Magazine) in 1990. He is also an Officer in the Order of the Crown and Officer in the Order of Leopold. He joined the Board of Directors of Elia in 2002.

Jennifer Debatisse – Director, born in 1976. Jennifer Debatisse graduated as commercial engineer at Solvay Business School in Brussels. She started her professional career in 1999 as internal communication officer at Electrabel, where she became Marketing Communication Manager in 2000. As of 2002, she was successively brand manager at Tractebel, competitive intelligence manager, market analysis manager and value chain management coordinator at Electrabel. In 2008, she became advisor to the management at Sibelga, where she became responsible for strategy and organisation since 2009.

Clement De Meersman – Director, born in 1951. He graduated as a civil engineer electro mechanics from the Katholieke Universiteit Leuven and obtained a PhD in applied sciences from that same university. He followed executive training courses in IMD (Switzerland) and at the Vlerick Management School. He was visiting researcher at MIT (USA) and the Institute of Technology in Tokio. He started working at the Katholieke Universiteit Leuven as assistant professor and continued his non academic career with an affiliate of the Michelin Group for the development, production and sales of high impact tyres. In 1986, he moved to the Dutch DSM Group as a business unit director for the development and sales of high performance plastic materials, composites and products for the transport and automotive sector. In early 1994, he took up the function of CEO at Deceuninck NV, which he would hold until 2009. Clement De Meersmans is currently also board member at Deceuninck, Koramic Industries, ANL, Plasticvision, VKC and Smartroof. He is member of the advisory board of Verhelst and ING Kortrijk. Formerly, he has been a member of the board of Roularta.

Johan De Roo – Director, born in 1948. He graduated as social worker in 1970, after which he worked as a social worker for 6 years. He was head of internal affairs at the Christelijke Centrale Textiel- en Kledingbewerkers van België (an association of textile workers) from 1977 untill 1985. Between 1978 and 1983, he was a teacher at IPSOC in Kortrijk. He started his political career as a member of the town council of Maldegem in 1983. After several political mandates, he became a member of the Flemish parliament for the first time in 1985, after which he would take up several political mandates in the Flemish region. He is currently honorary vice-chairman of the Flemish Parliament. Johan De Roo is also director at VDK Spaarbank and is the mayor of his hometown Maldegem.

Jacques de Smet – Director, born in 1949. He holds a degree in the economic sciences from the University of Brussels. He started his career as auditor with peat Marwick Mitchell & Co (currently KPMG). As of 1979, He joined Tractionel group (currently GdFSuez) first as assistant to the CEO of the holding, after which he was transferred to the financial department of the group company Frima Viking S.A. and later became CFO of Chamebel S.A.. In 1987 he acted as member of the management committee of the venture capitalist Prominvest S.A.. Between 1988 and 2002 he was CFO and member of the management committee of D'Ieteren S.A.. Between 2002 and 2005, he was CFO of the Ziegler group. Furthermore, he has been member of the board of directors of UCO Textiles S.A., Ibel S.A., La Lieve S.A., La Lys-Lieve S.A., Belgo-Katanga S.A., Avis Europe Ltd and Belron S.A.. In August 2009 he was appointed as member of the board of directors of SABCA S.A.. Moreover, as of 1986, he is managing director of Gefor SA, a consulting company specialised in corporate financial matters. He is member of the "Institut des Experts-comptables et des Conseils fiscaux", Chairman of the "Financial Executives Institute of Belgium" and director of the Walloon companies union. He is also Officer in the Order of the Crown, Knight in the Order of Leopold and Commandant de reserve au 1er Régiment de Guides. He joined the Board of Directors of Elia in 2005.

Claude Grégoire – Director, born in 1954. He graduated *summa cum laude* as civil engineer in electromechanical engineering (option electricity) of the University of Liège. He started his career with the University of Liège as teaching assistant with the electric energy transport and distribution department. He started his non-academic career in 1982 with Socolie/SPE as in-house management consultant. In 1989 he promoted and became vice-president of the board. He subsequently became CEO of Socolie/SPE, until he was appointed as managing director between 2000 and 2005. Since 1990 he is also managing director of the financial holding company Socofe. He is a board member of Fluxys, SPGE, CPower, Power&Sea and Elia. In addition, he is managing director in Ecotech Finance, a subsidiary of S.R.I.W. that has as object to improve the environment in the Walloon region. Currently, mister Grégoire is also CEO of SOCOFE and Ecotech Finance; he is president of the board of directors of Caissse de Pensions ASBL and director in Fluxys, BE FIN, Publi-T, SPGE C-Power, C-Power Holdco, Power@sea, Secogen, Publisolar, Start-up Invest, CE+T and JEMA. Formerly, he was CEO of SPE and Promocell and director in Publipart, CE+T cabling, Citypower, ALE-Trading, Inter-Régies, BPS (Luxembourg), CPDH, SPEPCO, WESPAVIA and ACM. He joined the Board of Directors of Elia in 2002.

Jean-Marie Laurent Josi – Director, born in 1965. He graduated in 1987 *summa cum laude* as a commercial engineer (option finance) at the Ecole de Commerce Solvay (University of Brussels). He also obtained a degree at the Fiscale Hogeschool (Brussels) in 1988. He started his career as financial analyst working for the managing director with the investment firm Copeba. After having been in charge of the M&A department (1990-1994), he became member of the management committee of Assurances Groupe Josi, an insurance company subsidiary of Copeba. Between 1998 and 2004 he was member of Copeba's board of management before becoming managing director as of 2004. Furthermore, between 2000 and 2004 he was partner with PAI Management, an independent company with its origins in Paribas' historical principal investment activity Paribas Affaires Industrielles. Mister Josi is currently president of the board of directors of PQ Licensing, and director at AEA International Holdings, AON Belgium, Banque Degroof, Belrond – Carglass, Carmeuse, JF Hillebrand, Mobilexpense, Sapec, Touring Club, Verlinvest and Zetes. Formerly, he has been director at Keytrade Bank, Lunch Garden, Touring Assurances and Winterthur Europe Assurances. He joined the Board of Directors of Elia in 2003.

Jane Murphy – Director, born 1967. In 1990 she obtained a law degree at the Laval University in Quebec (Canada) and in 1991 she qualified as a lawyer at the Quebec law school. In 1994 she succeeded a master in international and European law at the Brussels University (Dutch). In 2005 she obtained a Belgian law degree at the Brussels University (French). She started her professional career in 1991 as a lawyer with the Quebec justice department. Between 1994 and 1995 she worked on the competition and state aid section of the European Commission. Between 1995 and 1998 she worked first for the Canadian mission to the European Union and then for the Canadian embassy in Brussels. In 1998 she joined the software company Trilogy as a consultant. In 2002 and 2003 she worked as financial consultant with the Continental Advisory Group. As of 2003 she was active as corporate lawyer, first with Tossens & Piroux then with Lawfort and as of 2007 with Lydian. She joined Elia as of 2010.

Dominique Offergeld – Director, born in 1963. She obtained a degree in economic and social sciences (option public economics) from the Université Notre Dame de la Paix in Namur. She followed several extra-academic programs, under which the General Management Program at Cedep (Insead) in Fontainebleau (France). She started her career at Générale de Banque (currently BNP Paribas Fortis), in the corporate finance department in 1988, after which she was appointed expert to the vice-president and minister of economic affairs of the Walloon Region in 1999. In 2001, she became advisor of the vice-prime minister and minister of foreign affairs. Between 2004 and 2005, she was deputy head of the cabinet of the energy minister, after which she became general adviser at NMBS holding in 2005. As of 2008, she is chief financial officer at SC. Ores. Mrs. Offergeld is currently also vice-president of the Institut des Radio Eléments, director at Publigaz, member of Guberna and municipal adviser at the town of Vielsalm. Previously, she has been director at TEC Namur/Luxembourg and at Interlux and commissioner of the government at Fluxys. She has also been president of the board of directors and of the audit committee of NMBS.

Leen Van den Neste – Director, born in 1966. She obtained a law degree from the University of Gent, is a qualified teacher and holds a special licentiate accountancy from the Vlerick Leuven Gent Management School. She started her career at KPMG in 1990 as a junior auditor and worked as senior internal auditor at VF dpt. internal audit between 1993 and 1995. In 1995 she was employed by the Arco group, successively as auditor, head of the accountancy and audit department, deputy chief administration and finance and chief administration and finance. As of 1 November 2007, she is member of the executive committee of the Arco Group. Mrs. Van den Neste is currently chaiman of the board of directors of Sofato, and director at Arcopar, Arcoplus, Arcofin, Arcosyn, Auxipar, Interfinance, VDK Spaarbank, De Lindeboom, Escapo, Familiehulp and Artevelde Hogeschool.

Francis Vermeiren – Director, born in 1936. He is mayor of Zaventem and member of the Flemish Regional Parliament. He is chairman of the board of directors of Holding Communal / Gemeentelijke Holding since 1999 and chairman of the board of directors of Publi-T. Furthermore, he is director of Dexia SA/NV, Elia Asset NV and Asco.

Thierry Willemarck – Director, born in 1953. He graduated as industrial engineer in electromechanics. Furthermore he graduated at the Solvay Business School and at the Harvard Business School. He started his professional career with an internship at Castrol NV in 1979. In 1980 he started his career with Seca first as project coordinator with Seca, then as CEO of Secatecnic, chief of the technical department with Seca, Area manager with Kayo Oil Company (Conoco), retail sales manager and commercial manager, deputy managing director petroleum with DuPont Scandinavia (Conoco) and managing director of Seca. As of 2001 he is managing director with Touring Club. Mister Willemarck is CEO of Touring ASBL, Touring Assurances and Touring SA. He is director at Rent-a-Car, Be Mobile and ARC Transistance. He is also a member of the world council of FIA. Formerly, he was director at Octa Plus. He joined the Board of Directors of Elia in 2005.

14.1.6 *Litigation statement concerning the directors*

At the date of this Prospectus, none of the directors of the Company has for at least the previous five years:

- been convicted in relation to fraudulent offences;
- held an executive function as a senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation;
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or,
- has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of affairs of any company.

14.2 COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has established (i) a Corporate Governance Committee, (ii) an Audit Committee and (iii) a Remuneration Committee, as required by the Electricity Law.

14.2.1 *Corporate Governance Committee*

The Corporate Governance Committee is comprised of not less than three members, all of which are independent and non-executive members of the Board of Directors. Its duties include the following:

- to nominate candidate independent directors for election to the Board of Directors by the Company's shareholders at the General Shareholders' Meeting;
- to give prior approval for the election and/or, as the case may be, the dismissal of members of the Executive Committee;
- to examine, if so requested by an independent member of the Board of Directors, by the Chairman of the Executive Committee, by the CREG or by any other authorised regulatory authority, any case of conflict of interest between the Company and a shareholder who is a municipality, a dominant shareholder (as defined in the Electricity Law) or an affiliated company of a dominant shareholder and to report to the Board of Directors regarding such examination;
- to make a decision in case of incompatibility with regard to any members of the Executive Committee or the personnel;
- to monitor, without prejudice to the powers of the CREG or any other authorised regulatory authority, the Company's compliance with the legal provisions relating to the management of the electricity network, to assess the efficiency of the Company's policies with respect to the requirements of independence and impartiality of the TSO and to report, on an annual basis, to the Board of Directors and to the CREG or any other authorised regulatory authority with regard to these issues; and
- to convene a meeting of the Board of Directors in accordance with the convening formalities set out in the Articles of Association upon the request thereto by one third (1/3) of the members of the Board of Directors.

As a Belgian public company, the Company must also follow the procedures set out in Article 523 of the Belgian Company Code regarding conflicts of interest within the Board of Directors and Article 524 of the Belgian Company Code regarding intra-group operations (see section 15.6).

The current members of the Corporate Governance Committee are:

- Thierry Willemarck, Chairman;

- Jane Murphy; and
- Luc Van Nevel.

14.2.2 *Audit Committee*

As of 8 January 2009 (the effective date of the Law of 17 December 2008 regarding the incorporation of an audit committee in listed companies and financial companies (*Loi instituant notamment un Comité d'audit dans les sociétés cotées et dans les entreprises financiers* / *Wet inzonderheid tot oprichting van een auditcomité in de genoteerde vennootschappen en de financiële ondernemingen*)) "large" listed companies (as defined in Article 526*bis* of the Belgian Company Code) are legally obliged to establish an Audit Committee within their Board of Directors.

The Board of Directors has set up an Audit Committee. The Audit Committee must be composed of at least three members, which are exclusively non-executive directors. A majority of its members should be independent directors. The audit Committee should have expertise in the field of accounts and audit (see section 15.6).

Without prejudice to the legal responsibilities of the Board of Directors, the Audit Committee shall have at least the following roles:

- verifying the Company's accounts and control the budget;
- monitoring the financial reporting process;
- monitoring the effectiveness of the Company's internal control and risk management systems;
- monitoring the internal audit and its effectiveness;
- monitoring the statutory audit (*contrôle legal / wettelijke controle*) of the annual accounts, including any follow-up on any questions and recommendations made by the statutory auditor and, as the case may be, by the external auditor charged with the audit of the consolidated accounts;
- reviewing and monitoring the independence of the statutory auditor, and, as the case may be, of the external auditor charged with the audit of the consolidated accounts, in particular regarding the provision of additional services to the Company.
- making proposals to the Board of Directors on the (re)appointment of the statutory auditors, as well as making recommendations to the Board of Directors regarding the terms of their engagement;
- as the case may be, investigating the issues giving rise to any resignation of the statutory auditor, and making recommendations regarding any required action in that respect;
- monitoring the nature and extent of the non-audit services provided by the statutory auditor;
- reviewing the effectiveness of the external audit process.

The Audit Committee reports regularly to the Board of Directors on the exercise of its duties, and at least when the Board of Directors sets up the annual accounts, and where applicable the condensed financial statements intended for publication.

The current members of the Audit Committee are:

- Clement De Meersman, Chairman;
- Claude Grégoire; and
- Jacques de Smet.

14.2.3 *Remuneration Committee*

The Remuneration Committee of the Company is comprised of not less than three members, all of which are non-executive directors and the majority of which are independent directors.

The current members of the Remuneration Committee are:

- Jean-Marie Laurent Josi, Chairman;
- Francis Vermeiren; and
- Jacques de Smet.

The Remuneration Committee is charged with the following tasks:

- to make recommendations to the Board of Directors, in accordance with the laws, decrees, rules and Articles of Association, with regard to the remuneration of the directors and the members of the Executive Committee, and on the remuneration policy determined by the Remuneration Committee;
- to prepare a remuneration report and submit this to the Board of Directors. At the General Shareholders' Meeting of the Company, the Remuneration Committee will provide any necessary information regarding this report;
- to set the conditions under which the members of the Executive Committee and the personnel can participate, in any way, in the financial results of a producer, one of the network owners, a distributor, an intermediary or a dominant shareholder (these terms having the strictest definition that can be given to them by the Articles of Association, the legislation, the decrees, the orders and the rules) or in the products sold or the services provided by these entities. The restrictions set by the Remuneration Committee shall remain in force for a period of twenty four (24) months after the relevant members of the Executive Committee or the personnel have left their position at the system operator. The remuneration criteria may link a variable part of the remuneration to the evaluation of the work, the performance and the value of the Company;
- to ensure that the Company offers competitive remuneration conditions in order to recruit and retain competent and qualified personnel.

14.3 EXECUTIVE COMMITTEE

14.3.1 *Powers, composition, functioning and reporting of the Executive Committee*

In accordance with Article 9 of the Electricity Law, the Board of Directors has established an Executive Committee (*comité de direction / directiecomité*) within the meaning of Article 524*bis* of the Belgian Company Code.

Article 524*bis* of the Belgian Company Code stipulates that the articles of association may authorise the board of directors to delegate its management powers to an executive committee. This delegation cannot comprise the general policy of the company or any of the decisions reserved by law to the board of directors. The board of directors must supervise the executive committee. The executive committee is comprised of several persons, who do not have to be directors. The conditions of appointment and dismissal, term of office and remuneration of the members of the executive committee and the functioning of the committee are provided for by the articles of association (or absent provisions in the articles of association, by the board of directors). The articles of association may grant to one or more members, acting alone or jointly, of the executive committee the power to represent the company.

The Executive Committee of the Company consists of seven members, who are selected based on their competence, experience and independence. It has exclusive authority with regard to the management of all aspects of the Company's activities relating to the electricity network. This encompasses all technical, financial and human resources matters relating to the operation of the network, including, without limitation, the following:

- operation, maintenance and development of the network;
- improvement, replacement and extension of the network in accordance with the development plan, the investment plans and the adaptation plan;
- management of the electricity flows on the network, coordination of the connection to generation facilities and definition and use of interconnectors so as to ensure, with the available means, a permanent balance between supply and demand;
- ensuring safety, reliability and efficiency of the network with the available means, and, in this context, managing the availability of the necessary ancillary services and assistance services in case of default of the generation facilities;
- transmission or distribution for third parties as organised by applicable legislation;
- definition of tariffs for connection to and use of the networks and tariffs for support services; and
- integration of European and international electricity networks in accordance with the business plan and the human resources and communication policies on electricity networks, safeguarding the electricity networks in law and otherwise, management of policies regarding information technology, accounting, finance and the administration of the electricity networks.

It is also entrusted with the day-to-day management of the Company and with all other powers delegated to it by the Board of Directors (and assigned to it by the Articles of Association).

In accordance with the Electricity Law, all members of the Executive Committee are appointed and/or dismissed by the Board of Directors, upon the prior approval by the Corporate Governance Committee.

The Chairman and the Vice Chairman of the Executive Committee attend the meetings of the Board of Directors, with a consultative, non-voting, voice.

The Executive Committee charter, which defines the duties and reporting rules of the Executive Committee, must be adopted by the Board of Directors and the Executive Committee, acting together.

Typically, the Executive Committee meets on a monthly basis and endeavours to decide all matters by consensus. It can hold meetings whenever necessary and upon the request of either its chairman, vice-chairman or two of its members. It may also meet informally whenever requested by any member.

The Executive Committee is required to report to the Board of Directors regarding the exercise of its duties. All such reports must be made in accordance with any legal restrictions imposed by law, including those relating to the protection of confidential information, individual data related to the network users and commercially sensitive information, the disclosure of which could create a competitive advantage. Possible conflicts or questions in this respect should be submitted to the Corporate Governance Committee.

A linguistic balance must be pursued and maintained upon renewal of members of the Executive Committee.

14.3.2 *Confidentiality*

The protection of information relating to the Company's clients from third parties, particularly the shareholders of the Company, can, generally, be summarised as follows:

- further to Article 11 of the federal Grid Code, communication of confidential or commercial information (as defined by said code) to third parties is strictly limited by the conditions provided in the code;
- further to the Corporate Governance Decree, the Company is obliged to take all necessary technical and organisational measures to limit access to commercial information relating to network users only to the members of the Executive Committee and to the Company's staff, insofar as such access is necessary for the performance of their duties; and
- further to the Electricity Law, members of the Executive Committee and Elia's staff are under a duty of professional secrecy in relation to confidential information acquired while performing their duties for the TSO, the infringement of which is criminally sanctioned.

In accordance with the Articles of Association, the members of the Executive Committee and the Company's employees are not allowed to perform any function or activities, compensated or not, for any producer, owner of an electricity network (other than mandates as director or member of the executive committee of a subsidiary of the Company), distributor, intermediary, holder of a licence to supply energy, or any affiliate of such enterprises or any shareholder holding 10% or more of the voting rights or the capital of the Company.

14.3.3 *Current members of the Executive Committee*

The current members of the Executive Committee are listed in the table below.

Name	Function	Year of birth
Daniel Dobbeni	Chairman of the Executive Committee, Chief Executive Officer	1952
Jacques Vandermeiren	Vice-Chairman of the Executive Committee, Chief Corporate Officer	1963
Markus Berger	Chief Executive Officer Elia Engineering	1963
Jan Gesquière	Chief Financial Officer	1961
Roel Goethals	Chief Officer Transmission	1948
Hubert Lemmens	Chief Officer Network Services	1954
Frank Vandenberghe	Chief Officer Customers and Market	1956

Daniel Dobbeni – Chairman of the Executive Committee and Chief Executive Officer, born in 1952. Mr Dobbeni holds a degree in Industrial Engineering, a diploma in Middle Management from the Vlerick Management School and a diploma from the General Management Program at CEDEP in Fontainebleau, France. He began his career at Belgonucléaire, and was subsequently appointed project engineer at Intercontrol, a French company specialising in control equipment for oil rigs and nuclear power stations. In 1977, he joined Laborelec, a Belgian electricity laboratory. He left that company in 1997 as Chief Officer Production and joined Electrabel as head of the Generation and Transmission Planning Department. At that time, he was already preparing intensively for the creation of the transmission system operator and, from 1997 to 2001, served as a member of the board of CPTE. He joined the organisation that was put in place in 1999 to prepare the creation of Elia (June 2001) and served as Chief Officer Energy Movements from 1999 to 2003, when he was appointed CEO and chairman of the Executive Committee of Elia. In the same year, he was also appointed chairman of the Steering Committee of ETSO (European Transmission System Operators). Previously, he served as chairman of the ETSO Task Force, responsible for the financial compensation mechanism between the TSOs for cross-border trade between the EU Member States. During his career, he played an active role in various committees for the Electric Power Research Institute, the American Society of Mechanical Engineers, UCTE and the European Commission. During their general meeting on 24 June 2005 the ETSO members appointed him chairman of ETSO for a term of two years. On 2 October 2006, the board of directors unanimously appointed Daniel Dobbeni chairman of Synergrid, the Federation of Electricity and Gas Operators in Belgium. In December 2008, Daniel Dobbeni was appointed President of the European Network of Transmission System Operators for Electricity (ENTSO-E) for a two-year term of office. This network replaces the six existing associations of TSOs (UCTE, ETSO, NORDEL, BALTSO, UKTSOA and ATSO). Mr Dobbeni is currently also chairman of the board of Belpex and Elia Engineering, board member at HGRT, CASC-CWE and Coreso, and president of ENTSO-E and Synergrid. Formerly, he has been president of ETSO.

Jacques Vandermeiren – Vice-chairman of the Executive Committee and Chief Corporate Officer, born in 1963. He holds law degrees from the Katholieke Universiteit Leuven and the Université Catholique de Louvain as well as a degree in Middle Management from the Vlerick School in Ghent, which he obtained in 1999 and a diploma of the Advanced Management Program from INSEAD in Fontainebleau (France), which he obtained in 2008. He started his career in 1989 as legal counsel (distribution) for Intercom, a Belgian company active in the energy generation, transmission and distribution sector. From 1990 to 1999 he served as management assistant at the distribution department of Electrabel when it was the major electricity company in Belgium. He joined the organisation that was put in place in 1999 to prepare the creation of Elia (June 2001) and currently serves as Chief Corporate Officer and Vice-President of the Executive Committee. Mister Vandermeiren is currently also director at Elgabel (pension fund), Enerbel (pension fund), Elia Re, Contassur (where he is also a member of the audit and nomination committee), Belpex, Elia Engineering, Eurogrid International and VMA Brussels. He is member of the supervisory board of 50Hertz, member of the executive committee of B&S and chairman of SOFEDEG. Formerly, he has been director at VBO (the federation of enterprises in Belgium).

Markus Berger – Chief Executive Officer Elia Engineering, born in 1963. He holds a degree from the Université Libre de Bruxelles in electro-mechanic civil engineering, an executive MBA degree from the Solvay Business School and a diploma from the Advanced Management Program at INSEAD in Fontainebleau (France). He began his career with Laborelec SC in 1988 as system engineer and moved to Electrabel in 1996 as project engineer. He joined the organisation that was put into place in 1999 to prepare the cration of Elia (June 2001). He has held a position as maintenance engineer responsible for the South Area (2001–2002) and head of the sales department (2002-2003). From 2004 to end October 2008, he was Chief

Officer Grid Services and as from November 2008 he heads Elia Engineering. Mister Berger is also president of the board of Bemas VZW and is board member in the companies Uwel and Be Prone. Previously, he has been vice-president of the board of KLIM – CICC.

Jan Gesquière – Chief Financial Officer, born in 1961. He is a commercial engineer and holds a degree from the Katholieke Universiteit Leuven, which he obtained in 1984. He started his career in 1986 with Ernst & Young as an Audit Assistant specialising in controlling. In 1989, he was hired by Sidmar, a Belgian subsidiary of European steel producer Arcelor, as internal auditor and was subsequently promoted to finance and administration manager of its steel scrap division. In 1993, he joined Domo, a Belgian company producing and selling carpets, textile products and chemicals worldwide, where he served as Chief Financial Officer. In 2001 he was appointed Chief Financial Officer at Carestel, a Belgian company internationally active in catering services to highways, airports and specialising in other restaurant services, as Chief Financial Officer. He joined the Elia group in 2003 in his current position. Mr Gesquière is currently also chairman of Elia Re, independent chairman of Deroose Plants and director at Belpex, Elia Engineering, Pensiobel, Powerbel, Powernext, FEIB, Orbo Labels and Fasiver. He is also member of the audit committee of Elia, Powernext and CASC. Furthermore, he is chairman of BBC Latem-De Pinte (a basketball team) and chairman of the youth basketball training centre JBOC.

Roel Goethals – Chief Officer Transmission, born in 1948. He graduated with a degree in Electro Technical and Mechanical Engineering from the University of Ghent in 1972. He obtained a specialisation degree in Naval Architecture in 1975 from the same university and obtained a Management degree from the Vlerick School in Ghent in 1982. He began his professional career in 1972 as engineering assistant at the University of Ghent, specialising in special metals. In 1973, he was hired by the Regie voor Maritiem Transport in Ostend, which was in charge of the transport of persons and goods between Ostend and Dover (UK). He left the company in 1983 as first engineer in charge of various Naval and Harbor projects and joined Pauwels International, a Belgian company building and selling worldwide transformers for the transport and distribution of electricity. He joined Pauwels International as assistant to the managing director and left the company in 1998 as general manager Europe. In 1999, he joined Electrabel as project manager. He joined Elia since its inception and has held a position as Chief Officer Infrastructure before being appointed in 2004 Chief Executive Officer of BEL Engineering and Chief Officer Transmission of Elia in 2008. Mister Goethals is currently a member of the board of Elia Re and vice-president of the board of Coreso. He is also member of ENTSO-E. Previously, he was managing director and CEO of Bel Engineering.

Hubert Lemmens – Chief Officer Network Services, born in 1954. In 1977 he obtained a degree in Civil Engineering, specialised in electronics, from the Katholieke Universiteit Leuven. He also holds a degree in Middle Management from the Vlerick School, which he obtained in 1992, and a degree from the "General Management Program" from CEDEP in Fontainebleau, which he obtained in 2000. He began his career in 1977 as engineer for the UKEC, a Belgian electricity company. In 1980, he joined EBES, another electricity company, as engineer. He became employed with Electrabel when EBES, Intercom and Unerg merged into Electrabel in 1990. He joined Elia since its inception and has held a position as head of the department network management before being appointed as Chief Officer Transmission in 2004 and Chief Officer Network Services in 2008.

Frank Vandenberghe – Chief Officer Customers and Market, born in 1956. He graduated as civil engineer from the University of Ghent in 1979 and holds a degree from the "General Management Program" of CEDEP in Fontainebleau. He began his career in 1979 at the CRIF, a laboratory of the University of Ghent where he was a software research engineer. In 1981 he joined EGW, a local electricity and gas utility, where he was operations engineer of a power plant. In 1987, following the take-over of EGW by SPE, he became plant manager of SPE in Ghent and was promoted in 1992 to general manager, generation – transmission of SPE. He left SPE to join the predecessor of Elia in 1999 where he became head of European affairs and Grid Services. He has been employed by Elia since its inception and became Chief Officer Network Services (2002-2003) before being appointed Chief Officer Customers and Market in 2003. From 2000 until 2004, he was vice-president and chairman of the steering committee of UCTE ("Union for the Coordination of Transmission of Electricity"), which has been merged into ENTSO-E. Mister Vandeberghe is a member of the executive board of the Company and Elia Asset. He is director at Belpex and Synergrid (the Belgian association of transmission and distribution grid owners and operators) and is permanent representative of HGRT in the board of directors of Powernext.

14.3.4 *Litigation statement concerning the members of the Executive Committee*

At the date of this Prospectus, none of the members of the Executive Committee of the Company none of their permanent representatives, has, for the previous five years:

- been convicted in relation to fraudulent offences;

- held an executive function as a senior manager or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation;
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body); or
- has ever been disqualified by a court from acting as member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of affairs of any company.

14.4 CORPORATE GOVERNANCE

This section summarises the rules and principles applying to the corporate governance of the Company. Corporate governance within the Company is based on two systems: the system for companies listed on the stock exchange (including the Belgian Corporate Governance Code (the "CGC")) and the system provided for by the Corporate Governance Decree. The Company aims to harmonise these two methods of corporate governance as far as possible whilst remaining mindful of the fact that the objectives laid down in the Electricity Law are mainly aimed at ensuring the non-discriminatory treatment of market players and prevent any unfair advantage being granted to certain players, particularly power generators or intermediaries, especially if the latter also have a large stake in the Company.

The Company's corporate governance charter has been adopted in accordance with the relevant provisions of the Electricity Law and the recommendations set out in the CGC that was issued on 9 December 2004 by the Belgian corporate governance committee and further amended on 12 March 2009.

Corporate governance has been defined in the CGC as a set of rules and behaviours according to which companies are managed and controlled. The CGC is based on a "comply or explain" system: Belgian listed companies are requested to follow the CGC, but may deviate from its provisions and guidelines (though not the principles) provided they disclose the justifications for such deviation.

The Company's Board of Directors complies with the CGC, but believes that certain deviations from its provisions are justified in view of the Company's particular situation. These deviations include in particular the following:

- Provision 4.6, second section CGC: the members of the Board of Directors are appointed for a term of six years. This six-year period diverges from the period of four years recommended by the CGC, a fact justified by the technical, financial and legal specificities and complexities associated with the tasks of the TSO.
- Provisions 4.2, 4.6, first section and 5.3 CGC: the Company does not have a nomination committee that makes recommendations to the Board of Directors regarding the appointment of the non-independent directors. The Corporate Governance Committee acts as a nomination committee for the appointment of the independent directors.
- Provision 1.4 CGC: the powers and duties entrusted to the Executive Committee are not included in the terms of reference of the Board of Directors. This is explained by the fact that these powers and duties are already described in the Electricity Law, the Articles of Association and the terms of reference of the Executive Committee.
- Provision 7.16 (appendix F, provision 9.3./2): the corporate governance statement included in the annual report indicates the number of shares held by the CEO on individual basis and the number of shares held by the other members of the Executive Committee only on a global basis.

In accordance with the CGC, the Board of Directors of the Company will review its corporate governance charter from time to time and make such changes as it deems necessary and appropriate. The charter is available on the Company's website (www.elia.be) and may be obtained free of charge at the registered office of the Company. In its annual report for the financial year ending 31 December 2009, the Board of Directors devoted a specific chapter to corporate governance, describing the Company's corporate governance practices during that year.

14.5 REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

14.5.1 *General*

The CGC requires that any contractual arrangement entered into on or after 1 July 2009 regarding the remuneration of the CEO or any other member of the Executive Committee specifies that the amount of severance pay awarded in the event of early termination should not exceed 12 months' base and variable remuneration. All existing contractual arrangements with the CEO or any other member of the Executive Committee have been entered into prior to 1 July 2009. The terms of the agreements of the Company with members of the Board of Directors and members of the Executive Committee, including the Chairman, do not contain any specific termination arrangements.

14.5.2 *Directors*

Directors' remuneration consists of a basic remuneration of EUR 25,000 per year (EUR 12,500 for the Company and EUR 12,500 for Elia Asset) plus an additional EUR 800 (EUR 400 for the Company and EUR 400 for Elia Asset) for each meeting in addition to the 8th Board meeting during the year, including meetings with regulators. These two remunerations are increased by 50% for the Chairman and 20% for each Vice-Chairman of the Board of Directors.

An additional fixed remuneration of EUR 6,000 per year per committee (EUR 3,000 for the Company and EUR 3,000 for Elia Asset) is awarded to directors who sit on a board committee, with an additional remuneration of EUR 800 (EUR 400 for the Company and EUR 400 for Elia Asset) for each additional committee meeting (*i.e.* each meeting after the three covered by the basic remuneration), including meetings with regulators.

This remuneration covers all costs and is included in the Company's operating costs. It is indexed annually in accordance with the consumer price index. All remunerations are paid on a *pro rata* basis for the director's term of office.

Directors receive an advance on their annual remuneration at the end of the first, second and third quarter. The advance is calculated on the basis of the basic indexed fee and on a *pro rata* basis in relation to the duration of the directorship during the quarter in question.

A detailed account is prepared during the month of December for the financial year. This account takes into consideration any additional remuneration on top of the basic remuneration.

Directors do not receive any other benefits in kind, stock options, special loans or advances.

The total remuneration paid by the Company and Elia Asset to its twelve directors (in such capacity) in 2009 amounted to EUR 494,472 (EUR 247,236 for the Company and EUR 247,236 for Elia Asset), including indexing.

The table below lists the individual gross sums paid to each director in 2009:

Name director	Gross sum paid in 2009 (€)
Ronnie Belmans	43,548
Jacqueline Boucher	29,032
Clement De Meersman	36,928
Johan De Roo	29,032
Claude Grégoire	50,864
Ingrid Lieten	18,000
Jean-Marie Laurent Josi	50,864
Walter Peeraer/Sophie Dutordoir	50,864
Luc Van Nevel	49,936
Francis Vermeiren	34,838
Jacques de Smet	58,760
Thierry Willemarck	41,806

14.5.3 *Members of the Executive Committee*

The Company has entered into employment agreements with all its executive officers. Pursuant to such agreements, executive officers receive a base salary and are eligible for a performance-based variable loan on an annual basis. Additionally, all executive officers receive certain fringe benefits.

Pursuant to the employment agreements and/or Belgian law, each executive officer remains subject to a confidentiality undertaking upon termination. Certain executive officers also remain subject to non-competition clauses upon termination. Retirement age of the executive officers, for the purposes of extra-legal benefits, is between 60 and 65.

The evolution of the basic remuneration is linked to the position of each member of the Executive Committee with respect to a benchmark salary in the general marketplace and the assessment of his/her individual performance. Since 2004, the Hay methodology has been used to weight each management position and ensure that remuneration is in line with market standards.

In addition, the Remuneration Committee evaluates the members of the Executive Committee at the end of each year, based on a number of qualitative and quantitative targets. Since 2008, the variable portion of the remuneration consists of two components. The first is based on the achievement of a number of targets set by the Remuneration Committee at the start of the year, with a maximum of 25% of variable remuneration for the individual targets and 75% for the attainment of six collective targets. The second is based on multi-annual criteria covering a period of four years. In 2009, no variable remuneration was awarded in connection with the second component.

In 2009, the gross remuneration for the chairman of the Executive Committee, which is paid by the Company, totalled EUR 538,260.95, of which 35.22% was variable remuneration. The remuneration paid to the other members of the Executive Committee in 2009 totalled EUR 1,717,525.11 (EUR 895,284.64 for the Company and EUR 822,240.46 for Elia Asset), of which 27.57% was variable remuneration. A total amount of EUR 2,255,786.06 was therefore paid to members of the Executive Committee in 2009.

Since 2007, all pension plans for Executive Committee members are of ‘defined contribution’ type. In 2009, the Company paid a total of EUR 94,449.56 in corporate pension contributions for the Chairman of the Executive Committee. Contributions totalling EUR 284,610.18 (EUR 148,449.90 for the Company and EUR 136,160.28 for Elia Asset) were paid for the other members of the Executive Committee.

Other benefits awarded to members of the Executive Committee, such as guaranteed income in the event of long-term illness or an accident, healthcare and hospitalisation insurance, invalidity insurance, life insurance, tariff benefits, other allowances, assistance with public transport costs, provision of a company car and other small benefits are in line with the policies applying to all senior managers.

The cost of other benefits in 2009 is estimated at EUR 32,465.84 for the chairman of the Executive Committee and EUR 225,693.10 (EUR 104,957.26 for the Company and EUR 120,735.84 for Elia Asset) for the other members of the Executive Committee.

There is no stock option plan for the Executive Committee.

14.6 SHARES HELD BY DIRECTORS AND EXECUTIVE OFFICERS

The Chairman of the Executive Committee of the Company holds 6,998 shares of the Company; the other members of the Executive Committee hold a total of 17,372 shares of the Company.

14.6.1 *Directors*

Johan De Roo holds 115 shares in the Company.

14.6.2 *Members of the Executive Committee*

Daniel Dobbeni holds 6,998 shares in the Company.

Markus Berger holds 4,633 shares in the Company.

Jan Gesquière holds 3,730 shares in the Company.

Roel Goethals holds 2,634 shares in the Company.

Hubert Lemmens holds 3,724 shares in the Company.

Frank Vandenberghe holds 2,651 shares in the Company.

14.7 COLLEGE OF STATUTORY AUDITORS

As provided in Article 23 of the Articles of Association, the Company is required to engage the services of two joint auditors. Currently, the Company's joint auditors are:

- Ernst & Young Réviseurs d'Entreprises / Bedrijfsrevisoren BCVBA (B160), represented by Jacques Vandernoot, and
- Klynveld Peat Marwick Goerdeler Réviseurs d'Entreprises / Bedrijfsrevisoren CVBA (B001), represented by Alexis Palm.

They are responsible for the audit of the consolidated financial statements of the Company and of the statutory accounts of the Company, Elia Asset, Belpex and Elia Engineering.

Remuneration for each auditor was fixed at EUR 111,250 for each financial year for the Company, Elia Asset and Elia Engineering, to be indexed annually. The auditors were appointed for a period of three years. Their mandate is therefore due to expire at the end of the General Shareholders' Meeting for the year ending 31 December 2010.

In 2009, additional fees in the amount of EUR 152,991.45 were requested by the auditors for duties relating to the IFRS accounts, tax advice and other special tasks.

14.8 EMPLOYEES AND INDEPENDENT CONTRACTORS

14.8.1 *Number of employees*

The average number of employees (full time equivalents (FTE)) employed by the Company, Elia Asset, and Elia Engineering for the last three business years was as follows:

Year	Total	The Company	Elia Asset	Elia Engineering
2009	1,144.7	248.3	750.3	146.1
2008	1,207.2	229.7	805.0	172.5
2007	1,189.4	219.9	809.1	160.4

At the end of February 2010, there were 1,146 individuals employed in Belgium for the Group or 1,122.8 full-time equivalents, spread geographically as follows:

	Individuals	FTE	Sites
Brussels-Capital Region	436	425.9	3
Flemish Region	470	461.9	5
Walloon Region	240	235.0	4

14.8.2 *Employment contracts*

All employees have employment contracts for white-collar workers. Employees of each of the Company, Elia Asset and Elia Engineering perform their work for the benefit of each of those companies, within the framework of the silent partnership (for the Company and Elia Asset) and on the basis of a multilateral agreement between Elia Engineering and the Company and Elia Asset.

14.8.3 *Temporary workers*

In general, the Company, Elia Asset and Elia Engineering offer contracts of undetermined duration. During 2009, a total of 31 persons were employed with contracts of limited duration.

14.8.4 *Compensation*

In 2009, the costs for personnel amounted to EUR 117 million for the Company and its fully owned subsidiaries, excluding costs relating to the non-active staff members.

There is a difference between the salary of employees hired before 1 January 2002 and the salary of employees hired after that date. The new conditions of employment have been included in the relevant collective bargaining agreements, which have reduced overall remuneration and apply only to personnel hired as from 1 January 2002.

Since 1 January 2004, the Company has implemented a new compensation policy for its managerial staff. This policy introduces a compensation and benefits programme based on performance and professional management. In the total remuneration package, the portion of the variable remuneration has been increased in accordance with market standards.

14.8.5 *Collective labour law*

The collective bargaining agreements of the National Joint Committee number 326 for Gas and Electricity apply to all employees of the Company and Elia Asset. The employees of Elia Engineering are governed by the collective bargaining agreements of the National Joint Committee number 218 (*e.g.*, for auxiliary employees). The Company has also concluded a number of collective bargaining agreements at company level. These agreements primarily concern matters such as the remuneration of employees, working time, trade unions, organisation of the Works Council and of the Committee for Prevention and Protection on the Workplace, holidays and other related matters.

The Company's employees are represented by three trade unions. In May 2008, social elections were held at company level. Each of the operational units (North, South, Central exploitation, Elia Engineering) has its own trade union delegation and its own Committee for the Prevention and Protection on the Workplace. The Company has one Joint Works Council as the 4 operational units are considered to be part of the same technical exploitation unit.

The monthly meeting of each committee provides the opportunity to inform and consult the employees' representatives on various matters related to the Company, Elia Asset and Elia Engineering in particular, with regard to:

- the financial situation of the Company and its impact on employment prospects;
- the work organisation (*i.e.*, part-time, labour rules and night work); and
- health, safety and security matters.

The Company's overall relations with the trade unions are generally positive.

14.8.6 *Social funds*

There are two social funds within Elia (one for non management staff and one for management staff), which fund corporate social responsibility (CSR) actions and complement a limited number of social security benefits.

The social funds are financed by the Company and managed by a joint group of representatives of the employer and the employees.

14.8.7 *Pensions*

Elia has 9 different pension schemes for its personnel, of which 5 defined contribution schemes, 3 funded defined benefit schemes and 1 unfunded defined benefit scheme:

- Defined contribution schemes: under this system, the amount of the pension capital is determined based on the premiums that have been paid during the career of the employee, as well as the proceeds of the premiums.
    - Enerbel: pension scheme open for all employees hired since 1 January 2002 with personal contributions paid into a group insurance and employer contributions that amount to 3 times the personal contributions paid into a pension fund;

- Powerbel Bis: pension scheme open for all management staff hired since 1 January 2004 with personal contributions paid into a group insurance and employer contributions that amount to 3 times the personal contributions paid into a pension fund;
    - Elia Engineering scheme: pension scheme open for all employees hired by Elia Engineering since April 1, 2003 with personal contributions paid into a group insurance and employer contributions paid into a pension fund;
    - TopEx plan: pension scheme open for the management without personal contributions;
    - Powerbel: a closed pension scheme only available for management staff hired prior to 1 January 2004 with personal contributions paid into a group insurance and employer contributions that amount to 4 times the personal contributions paid into a pension fund.

- Defined benefit schemes: under this system, the employee receives a pension capital based on the last annual salary after deduction of the legal pension when they retire.
    - Elgabel New: Employees hired prior to 1 January 2002 receive a pension capital according to the following formula : N/45 x (2,7 x capped salary + 9,6 x salary above cap) x average working time;
    - Pensiobel New: Management staff hired prior to 1 May 1999 and provided that they have not opted for Powerbel receive a pension capital according to the following formula: N/45 x (2,5 x capped salary + 10 x salary above cap) x average working time;
    - Elia Engineering scheme: employees hired by Elia Engineering prior to 1 April 2003 receive a pension capital according to the following formula: N/45 x (30% of capped salary + 75% of salary above cap) x 11,6 x average working time.

- Monthly pension allowances paid through withholding on general costs: under this system, the pension is not funded and no premiums are paid. This system is a closed system, which only applies to 355 retired employees and 18 current employees yet to retire.

The CREG has determined that the Company's pension costs are not unreasonable and that they could, therefore, be reflected in the electricity tariffs, except for the costs relating to 20 former employees.

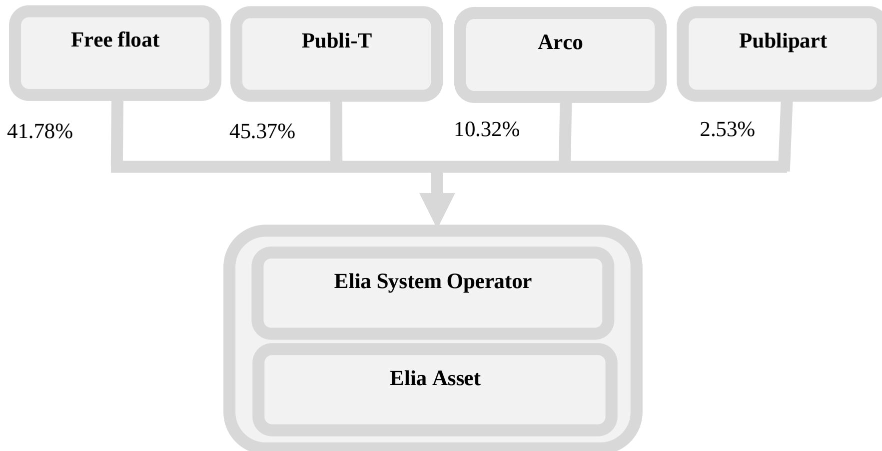
14.8.8 *Capital increases for the benefit of personnel*

The Company has built a tradition of issuing shares of the Company for the benefit of its employees through capital increases reserved specifically for its personnel. The first capital increase occurred in 2005 at the occasion of the Company's listing. Since then, capital increases have taken place in 2007 (for a maximum amount of EUR 4,240,000), 2008 (for a maximum amount of EUR 760,000), 2009 (for a maximum amount of EUR 4,400,000) and 2010 (for a maximum amount of EUR 600,000) (for more details, see section 16.4.1). The price equalled each time the average of the closing prices during a period of 30 calendar days preceding the issuance date, reduced by a discount of 16.66%. In order to benefit from the beneficial tax treatment of this discount, the shares remain blocked on the employee's investment account for a period of 2 years starting from the date of the actual capital increase.

15 RELATIONSHIP WITH SIGNIFICANT SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

15.1 SHARE OWNERSHIP

Currently, the shares of the Company are held as follows (based on the latest published transparency notifications):



The issued share capital of the Company before the Offering amounts to EUR 1,206,010,115.13 (fully paid up) and is divided into 48,284,174 shares without nominal value. There are three classes of shares: class A consisting of 1,221,405 shares, class B consisting of 25,215,963 shares, and class C consisting of 21,846,806 shares. All shares have identical voting, dividend and liquidation rights, but, as described in further detail in section 16.5, the class A and the class C shares carry certain special rights regarding the nomination of candidates for appointment to the Board of Directors and the voting of shareholders' resolutions.

Publi-T is a Belgian cooperative company with limited liability, with registered office at Galerie Ravenstein 4 (bte 2) / Ravensteingalerij 4 (bus 2) – 1000 Brussels (enterprise number 0475.048.986 Brussels). According to a transparency notification dated 11 May 2010, no person ultimately controls Publi-T.

Publipart SA/NV ("Publipart") is a Belgian limited liability company with registered office at Rue du Roi 55 / Koningstraat 55 – 1000 Brussels (enterprise number 0875.090.844 Brussels). According to a transparency notification dated 11 May 2010, Publipart is controlled by Publilec CVBA/SCRL, a Belgian cooperative company with limited liability, with registered office at Koningsstraat 55, 1000 Brussel, which owns 64.93% of the shares of Publipart.

On 31 March 2010, Publi-T and Electrabel SA/NV have announced an agreement for the sale to Publi-T of 6,035,522 shares of the Company representing 12.5% of the share capital of the Company at a price of EUR 26.5 per share and for a total amount of EUR 159,941,333[29]. This transaction was closed on 10 May 2010. Electrabel also converted its 5,670,655 remaining class A shares into class B shares effective 10 May 2010.

On 18 May 2010, Electrabel sold its remaining shares in the Company (representing 11.74% of the total outstanding shares of the Company at that date) on the market through an accelerated book building procedure at a price of EUR 27 per share and a total price of EUR 153 million[30]. According to a transparency notification dated 11 May 2010, Electrabel had ceased to act in concert with Publi-T following the sale of 6,035,522 shares to Publi-T and the conversion of its remaining A shares into B shares. Publi-T and Publipart are acting in concert in the meaning of the Transparency Law.

The table below details the ownership of the shares prior to the closing of the Offering:

[29] Source: joint press release GDF Suez, Publi-T and Elia 31 March 2010.
[30] Source: GDF-Suez press release 18 May 2010.

	Shares owned prior to the closing of the Offering			
Shareholder	**Number**	**Class**	**% Shares**	**% Voting rights**
Publi-T	21,846,806	C	45.25%	45.25%
	60,000	B	0.12%	0.12%
Total Publi-T	*21,906,806*	*B+C*	*45.37%*	*45.37%*
Publipart	1,221,405	A	2.53%	2.53%
Total Publi-T and Publipart	*23,128,211*		*47.90%*	*47.90%*
Arco Group	4,984,624	B	10.32%	10.32%
Free Float (without Arco)	20,171,339	B	41.78%	41.78%

15.2 AGREEMENTS AMONG CERTAIN SHAREHOLDERS AND THE BELGIAN STATE

The relationship between certain shareholders of the Company is governed by three agreements, *i.e.* (i) a Protocol dated 30 May 2001, (ii) an Additional Protocol dated 8 October 2001 and (iii) a Shareholders' Agreement dated 31 May 2002. These agreements are all concluded in furtherance of the objectives of the Electricity Law, which required the separation of the management of the electricity network from the generation and sales activities. The Belgian State is a signatory to each of these agreements.

The obligations of CPTE as original signatory to these agreements have been assumed by Electrabel and Publipart following a de-merger of CPTE (resulting in the transfer of the shares of the Company from CPTE to Electrabel and SPE) and a partial de-merger of SPE (resulting in the transfer of the shares of the Company from SPE to Publipart). In the sections below, any reference to the rights and obligations of CPTE and SPE should be construed accordingly.

15.2.1 *Protocol dated 30 May 2001 and Additional Protocol dated 8 October 2001*

Electrabel, SPE, CPTE, Publi-T and the Belgian State entered into a Protocol on 30 May 2001 which sets forth their common intention to appoint as Belgian TSO a company to which CPTE would contribute its transmission infrastructure and related assets. The Protocol provided a time line for the implementation of this operation. Electrabel, SPE, Publi-T, CPTE and the Belgian State entered into an Additional Protocol on 8 October 2001. The Additional Protocol supplements the Protocol but does not replace it. The Additional Protocol sets the purchase price for the 30% shareholding of the Company which CPTE had agreed to sell to Publi-T (and subsequently sold to it on 31 May 2002).

Although the Protocol and the Additional Protocol are still in force, the provisions of the Protocol and the Additional Protocol have to a large extent been restated and implemented in the Shareholders' Agreement and the Shareholder Loan Agreement described below, and have therefore become mostly of historical interest only.

15.2.2 *Shareholders' Agreement dated 31 May 2002*

On 31 May 2002, Electrabel, SPE, CPTE, Publi-T, the Belgian State, the Company and Elia Asset entered into a shareholders' agreement (the "Shareholders' Agreement"). The Shareholders' Agreement is governed by Belgian law and entered into for the term of appointment of the Company as TSO (*i.e.*, 20 years as of 17 September 2002), plus six months. If a party ceases to be a shareholder of the Company, it is no longer bound by the provisions of the Shareholders' Agreement. Following the disposal by Electrabel of its shares in the Company, the Shareholders Agreement no longer applies in respect of Electrabel.

The Shareholders' Agreement restates and implements provisions of the Protocol and Additional Protocol described above, and reflects the special corporate governance rules imposed by law with a view to ensuring the independence of the TSO vis-à-vis its shareholders and market operators. At the federal level, these rules are set forth especially in the Electricity Law and in the Corporate Governance Decree (see section 14).

The following subsections discuss the key provisions of the Shareholders' Agreement.

Reciprocal standstill

Electrabel, SPE and Publi-T will be free to acquire, in one or more transactions, directly or through affiliated companies or companies with whom they act in concert, class B shares on the market up to a maximum of 5% of the total issued shares of the Company. For any acquisition beyond this 5% limit, Publi-T must obtain prior approval of the majority of Electrabel, and Publipart, and vice versa. Such approval may be withheld if the proposed acquisition would disturb the equilibrium between Publi-T, on the one hand, and Electrabel and Publipart, on the other hand, in the Company's shareholder structure. In case of non-compliance by one of said shareholders with this standstill obligation, notwithstanding any other legal remedy, the obligation ceases to apply for the other shareholders and all parties will be free to acquire class B shares. In any event, none of Electrabel, Publipart or Publi-T is allowed to acquire class B shares in any number that would take its shareholding above 50% of the total issued shares of the Company.

Reciprocal transfer restrictions

Each of Electrabel, Publipart and Publi-T may freely transfer part or all of its shares to an affiliate that agrees to be bound by the terms of the Shareholders' Agreement. Transfers between SPE and Electrabel are also free.

For transfers to third parties, reciprocal pre-emption rights and tag-along rights apply in respect of class A and class C shares (see section 16.5.5).

In addition, in case a holder of class A shares wishes to convert its registered shares to dematerialised shares with a view to selling such shares on the stock exchange, the holders of class C shares have a right of first refusal at market price, defined as the arithmetic mean of the 20 most recent closing prices on the stock exchange preceding the date of request for delivery of shares in dematerialised form. A reciprocal restriction applies to the holders of class C shares.

Reciprocal call option in case of change of control

In case of a change of control of CPTE or Electrabel as a result of which CPTE or Electrabel are no longer controlled, directly or indirectly, by Tractebel or a person related to Tractebel, Publi-T has a call option to acquire all of CPTE's or Electrabel's shares of the Company. Likewise, CPTE has a call option to acquire all of Publi-T's shares of the Company in case of change of control of Publi-T. The exercise price of this call option is the arithmetic mean of the 20 most recent stock exchange closing prices preceding the date of exercise. In the case of exercise of the call option, the transferee is also obliged to take over the outstanding amount of any loan granted to the Company by the transferor.

General Shareholders' Meetings

The General Shareholders' Meeting decides in accordance with the quorum and majority requirements provided for in the Belgian Company Code. In addition, the approval of any shareholders' resolution also requires the approval of holders of a majority of class A and/or class C as long as the holders of class A and/or class C shares own at least 25% of the total outstanding share capital of the Company (or 15% in the event of dilution following a capital increase).

Governance structure

The Shareholders' Agreement reflects the special corporate governance rules imposed by law with a view to ensuring the independence of the Company and certain of its subsidiaries vis-à-vis its shareholders and market operators.

According to the Shareholders' Agreement, the Board of Directors consists of twelve directors, including six independent directors. This is consistent with Article 9, §2, of the Electricity Law (as amended), which requires that at least half of the directors be independent.

The directors other than the independent directors are elected by the General Shareholders' Meeting from among candidates proposed by the holders of class A and class C shares.

The Shareholders' Agreement further provides for a Shareholders' Committee (*Comité de Consultation Permanent / Permanent Overlegcomité),* consisting of two representatives of each of class A and class C. The committee serves as a forum for advance consultation on a series of important Board decisions (at the level of the Company or any of its subsidiaries) listed in the Shareholders' Agreement (see below), as well as on other matters to be submitted for shareholders' or Board approval (again at the level of the Company or any of its subsidiaries) and considered important by any member of the committee. Additionally, the parties will cause their representatives on the Board to engage in advance consultation with the independent directors with a view to forging consensus.

With respect to a number of important Board decisions (to be taken at the level of the Company or any of its subsidiaries), any four directors (including at least one independent director in case of decisions to be taken at the level of the Company or Elia Asset) may require that the matter be deferred for further discussion and decision at a new Board meeting, to be held the first Business Day after a 10-day “cool-off” period. Those decisions include (i) the adoption or follow-up of, and changes to, the business plan; (ii) capital expenditures and borrowings in excess of EUR 10,000,000 (if not reflected in the business plan or annual budget); (iii) decisions regarding the corporate or financial structure of the Company or any of its subsidiaries; (iv) any decision to retain profits; (v) strategic acquisitions or alliances, transfers of important assets or termination of core activities; (vi) any change to accounting and tax policies; (vii) the incorporation of subsidiaries or the transfer of shares of subsidiaries; (viii) engaging in new activities not contemplated in the business plan; (ix) the issuance of any securities; (x) important changes to the activities of subsidiaries; (xi) the granting of guarantees or security interests; and (xii) the appointment and dismissal of management personnel.

Specific provisions regarding Elia Asset and other subsidiaries

The issued share capital of Elia Asset amounts to EUR 1,603,839,348 and is represented by 154,280,669 registered shares without par value. The Shareholders’ Agreement divides these shares into three classes: class A and C, each consisting of one share, and class B including the remaining 154,280,667 shares. According to the Shareholders Agreement, Electrabel holds the one class A share and Publi-T holds the one class C share. Electrabel and Publi-T can freely transfer those shares to their respective affiliates but, in case of a proposed transfer to a third party, the other party holds a right of first refusal at a price corresponding to the accounting par value of the share. If the class A shares of the Company no longer represent more than 15% of the outstanding share capital of the Company, either the Company or Elia Asset shall purchase Electrabel’s one share of Elia Asset at a price corresponding to the accounting par value of the share, in which case the special rights attached to that share disappear. A symmetrical clause applies in respect of Publi-T’s class C share.

In Elia Asset’s General Shareholders’ Meeting, resolutions require, in addition to the majority vote required by company law, the affirmative vote of both the holder of the class A share and of the holder of the class C share.

Following the sale by Electrabel of shares in the Company to Publi-T on 10 May 2010, Electrabel sold its share in Elia Asset to the Company on the same date.

The composition of the board of directors and the standing board committees of Elia Asset mirror that of the Company’s Board of Directors and Board committees, as required by Article 9*bis* of the Electricity Law. Such mirroring provisions also apply to other so-called regulated subsidiaries of the Company.

For subsidiaries of the Company that are not regulated in Belgium, (*i.e.*, subsidiaries that do not own or operate transmission infrastructure in Belgium), the Shareholders’ Agreement provides that the board of directors is composed of the members of the Company’s or Elia Asset’s management and decides in accordance with ordinary rules, except that Electrabel, Publi-T or SPE may at any time require the application of corporate governance provisions mirroring those of the Company in order to ensure observance of the principles of the Shareholders’ Agreement.

Several provisions of the Shareholders’ Agreement are also entered into to the benefit of the Belgian State, who can claim the performance of these provisions.

15.3 SHAREHOLDER LOAN AGREEMENT DATED 31 MAY 2002

On 31 May 2002, the Company, as borrower, and CPTE, as lender, entered into a shareholder loan agreement (the “Shareholder Loan Agreement”) with a view to attaining the CREG’s target equity/debt ratio (see section 13.6.6).

Under the Shareholder Loan Agreement, CPTE has lent to the Company a total amount of EUR 2,130,801,712, *i.e.*, (i) an amount of EUR 2,101,068,450 on 28 December 2001 and (ii) an amount of EUR 29,733,262 on 23 May 2002.

The loan consisted of two tranches:

- Tranche A, in an amount of EUR 495,787,049.55; and
- Tranche B, in an amount of EUR 1,635,014,662.45. This tranche has been repaid in full.

Under an Assignment Agreement dated 12 August 2002, CPTE assigned all of its rights under the Shareholder Loan Agreement to Electrabel and SPE in proportion to their respective shareholdings in CPTE (*i.e.*, 91.5% for Electrabel and 8.5% for SPE). The principal amount of Tranche A was allocated as follows (all amounts expressed in euro):

- Electrabel: EUR 453,645,150.3
- SPE: EUR 42,141,899.2

As a result of several assignment agreements, Electrabel's rights under the Shareholder Loan Agreement were transferred to Synatom SA. The outstanding amount of the shareholders loan with SPE has been transferred to Publipart as result of the de-merger of SPE.

The margin and contractual repayment date are as follows:

	Amount	**Margin over EURIBOR**	**Contractual repayment date**	**Effective repayment date**
Tranche A	EUR 495,787,049.6	1.15%	20 years after the Company's appointment as TSO, *i.e.*, on 17 September 2022	

Interest periods are freely determined by the Company. There is a tax gross-up obligation for the Company. In addition, the Company must indemnify Electrabel or SPE (as successors of CPTE) for any taxes that they would suffer as a result of a recharacterisation of interest into dividends or as a result of a taxation on the basis of abnormal and gratuitous benefits.

The Shareholder Loan Agreement further provides for a number of covenants by the borrower, prepayment events and a right for the lender to accelerate the loan upon the occurrence of certain events of default.

Those covenants include among others a negative pledge covenant, *a pari passu* clause, limitations on indebtedness and asset disposals, compliance with all obligations as TSO, a prohibition to substantially change the business, and restrictions on ownership by subsidiaries of any material assets other than the network or related assets.

The Company must prepay the loan in case (i) the lender notifies the Company that it has become unlawful for the lender to perform its obligations under the loan or maintain the loan, or (ii) subject to good faith negotiations, the Company is subject to a "change of control" (defined as a third party, alone or in concert with other parties, other than Electrabel, SPE or Publi-T, acquiring more than 30% of the shares of the Company), or (iii) the lender accelerates the loan upon occurrence of an event of default. Events of default include, among others:

- a payment default not cured within five Business Days after the due date;
- failure to comply with any of the other terms of the Shareholder Loan Agreement, if not cured within 30 Business Days after notice by the lender;
- any cross-default of the Company or any of its subsidiaries under financial indebtedness exceeding EUR 25,000,000;
- termination, breach or amendment of the TSO licence or any licence for the operation of a regional or local network, if such event can be expected to have a material adverse effect (as defined in the agreement), and subject to a 30-day good faith negotiation period;
- Elia Asset ceasing to be a wholly-owned subsidiary (except for the two shares being held by Electrabel and Publi-T);
- any material subsidiary ceasing to carry on the network operation business or entering into any unrelated business which the lender reasonably believes may have a material adverse effect; or
- the occurrence of any other event or circumstance which the lender reasonably believes may produce a material adverse effect.

15.4 BUSINESS AND COMMERCIAL DEALINGS WITH THE REFERENCE SHAREHOLDERS

This section includes dealings with Electrabel and affiliates of Electrabel, as Electrabel was an important shareholder of the Company until 18 May 2010.

15.4.1 *Ancillary services supplied by Electrabel*

Electrabel, as well as other generators, renders certain ancillary services to Elia, *i.e.*, services defined in the federal Grid Code (see section 13.4.1). These services include the following tasks:

- "Primary control or Very Fast Reserve" (*réglage primaire de la fréquence / primaire regeling van de frequentie*): a permanent balance between supply and demand on the European high voltage network is required to operate the network in a reliable manner. The purpose of the primary reserve is to restore this balance (if and when needed) within seconds. This is done by generation units that automatically adapt their active injection of power in function of variations in the network's frequency.
- "Secondary control" (*réglage secondaire de l'équilibre de la zone de réglage belge / secundaire regeling van het evenwicht in de Belgische regelzone*): the purpose of this service is to maintain the energy exchanges with foreign countries at their programmed values by adapting the injection of active power of pre-contracted generation units on the Belgian high voltage network within minutes in function of an ACE (Area Control Error) signal calculated and emitted by the Company.
- "Tertiary reserve" (*réserve tertiaire / tertiaire reserve*): this service aims at providing a last-resort reserve that can be used in case of an emergency on the network. This reserve consists of an allocated fast reserve that can be activated within 15 minutes upon demand by the Company.
- "MVAr contract" (*réglage de la tension et de la puissance reactive / regeling van de spanning en van het reactief vermogen*): the regulation of the voltage and the reactive power adapts the reactive power of generation units in order to regulate the voltage level of the network.
- "Black start service" (*service de black-start / black-start dienst*): in order to rebuild the network after a total blackout, the Company enters into contracts with certain power plants that have equipment capable of starting up (on battery) without the help of external energy supply from the network.

Ancillary services contracts are entered into following a tendering procedure as provided by the federal Grid Code. Contract duration vary from services (primary and tertiary reserve are 4 year contracts, secondary reserve is 2 year contract , MVAr and Black Start are 6 year contracts).

15.4.2 *Coordination contracts ("CIPU")*

The Company enters into coordination contracts with power plant operators, including Electrabel.

This contract relates to congestion management pursuant to the federal Grid Code. In the framework of this coordination contract, the price of the increase or the reduction of generation of power as requested by the Company is set up through a tender procedure. The contract is granted on a year-to-year basis (without any automatic renewal provisions).

The purpose of this contract is to regulate the information exchanges between the Company and power plant operators in order to enable the Company to avoid congestions on its network or intervene in case of congestion and/or plan works on the network by adjusting generation programming.

15.4.3 *Network losses*

Pursuant to the federal Grid Code, the Company must compensate for part of the losses that occur due to the transportation of electricity.

The Company organises auctions every year in which Electrabel participates. A yearly contract is signed with Electrabel when it wins one or more of the lots auctioned.

15.4.4 *Other business and commercial dealings*

Other current business and commercial dealings between the shareholders and their affiliates and the Company and its subsidiaries include the following:

- As electricity producer and supplier, Electrabel is a significant client of the Company. To this end, it has entered into several contracts with the Company, including the customary connection agreement, network access agreement and access responsibility party agreement with the Company (see section 10.7.3).
- Fabricom SA/NV, an affiliate of Electrabel, and its subsidiaries provide certain construction and maintenance services (including the delivery of spare parts) with respect to Elia's network under framework agreements establishing pre-agreed conditions for certain types of services and supplies. These services are rendered at arm's length conditions, following a tendering procedure.
- Suez is also one of the Company's suppliers for technical studies and legal controls (via AIB Vinçotte under Suez umbrella agreement) of the Company's electrical network. Some car leasing contracts still exist till their expiry date under the Suez umbrella agreement with the leasing company ALD. The Company is also participating in a purchasing process with Suez for selecting the services of a fixed and mobile telecom supplier.
- An affiliate of Electrabel, Trasys SA/NV, is a provider of IT services to Elia. In addition, Tractebel Engineering SA/NV, an affiliate of Electrabel, provides certain IT services to Elia.
- The Company is included in certain insurance policies of Electrabel and Suez until 30 June 2010. The Company participates in Electrabel's (and in some cases, Suez') self-insurance programme for high-frequency low-severity risks (such as excess workers compensation, private-life accidents, employee insurance for hospitalisation and medical care costs, material damages to employees' own cars used in the course of their duty, fleet insurance and third-party liability insurance). After 30 June 2010, Elia will attribute the contract through a RFP (*request for proposal*) process to the best supplier on the market for above mentioned insurance policies.
- Electrabel has provided a bank guarantee (currently in the amount of EUR 4,090,243) and a guarantee (currently in the amount of EUR 8,899,378) in respect of Elia Asset's soil clean-up obligations in the Flemish Region in relation to real estate transferred to it as part of the 1997 and 2001 contributions of transmission infrastructure to respectively CPTE and Elia Asset.
- Since December 2001, Electrabel and Elia Asset have entered into several real estate purchase agreements and long-term lease agreements in connection with the 2001 contribution of transmission infrastructure. These agreements relate to parcels of land used or to be used for the very high voltage or high voltage electricity network. For certain parcels of land, negotiations regarding the transfer of rights in connection with the 2001 contribution of transmission infrastructure or for the purchase of additional land are still ongoing. A majority of these files will be closed at the end of 2010.
- CPTE, as electricity producer, and Elia, as TSO, have signed in June 2001 a reciprocal optical fibre exchange agreement for 20 years while both companies own approximately half of the historically common network. In general the network consists of connections of 48 parallel fibres where 24 are reserved for own use and 24 are exchanged.
- Some utilities (electricity and gas) are purchased from Electrabel.
- Different smaller commercial contracts open to all customers exists with Electrabel for services offered by Elia:
    - Electrabel also has commercial telecom contracts with Elia for bandwidth (see section 10.9.3)
    - Some maintenance contracts with Electrabel, *e.g.* the maintenance of 150kV station of Tihange
    - Commercial metering contracts with Electrabel for additional services on metering
- On 30 March 2010, the Company, Publi-T and Electrabel entered into a term sheet holding the principal terms of a potential exit of Electrabel as a shareholder of the Company and certain modalities of the Offering.

15.5 TRANSACTIONS WITH ASSOCIATED COMPANIES

The table below provides an overview of the transactions between the Company and associated companies (*sociétés associées / geassocieerde vennootschappen*), within the meaning of IFRS. The table does not include any transactions between the Company and its subsidiaries, as such transactions were eliminated during consolidation.

(in million €)	**2009**	**2008**	**2007**
Transactions with joint ventures and associated companies			
Sales of goods	1.3	0.0	0.0
Purchase of goods	1.4	0.0	0.0
Outstanding balances with joint ventures and associated companies			
Long-terms debtors	0.3	0.0	0.0
Trade debtors	0.1	0.0	0.0

15.6 CONFLICTS OF INTEREST

Each director and member of the Executive Committee is encouraged to arrange his or her personal and business affairs so as to avoid direct and indirect conflicts of interest with the Company.

15.6.1 *Conflicts of interest of directors*

Article 523 of the Belgian Company Code contains special provisions, which must be complied with whenever a director has a direct or indirect conflicting interest of a patrimonial nature in a decision or transaction within the authority of the Board of Directors.

According to Article 523, § 1 of the Belgian Company Code, the director having a direct or indirect conflicting interest of a patrimonial nature shall notify the other directors thereof prior to a decision of the Board of Directors relating to such conflicting interest. His/her statement and the grounds justifying the aforementioned conflict of interest must be recorded in the minutes of the Board of Directors meeting at which such decision is taken.

With a view to its publication in the annual report, the Board of Directors must describe in the minutes the nature of the contemplated decision or the transaction and shall account for the decision taken. The minutes shall also mention the patrimonial consequences thereof for the Company. The annual report must contain the aforementioned minutes in their entirety.

If the Company has appointed one or more statutory auditors, the director concerned shall also inform such auditor of his/her conflicting interest. The report of the statutory auditors must contain a separate description of the patrimonial consequences for the Company of the decisions of the Board of Directors in respect of which there is a conflicting interest.

If the Company makes or has made a public call on savings, which is the case for the Company, the director concerned may not participate in the deliberations or voting of the Board of Directors on such decisions or transactions in respect of which there is a conflicting interest.

In case of non-compliance with the foregoing, the Company may nullify the decision or the transactions which have taken place in breach of these provisions if the counterparty to the decision or the transaction was, or should have been, aware of such breach (Article 523, § 2 Belgian Company Code).

The provisions of Article 523, § 1 of the Belgian Company Code do not apply:

- if the decision or transaction within the authority of the Board of Directors relates to decisions or transactions between companies of which one holds, directly or indirectly, at least 95% of the voting securities issued by the other or between companies of which at least 95% of the voting securities issued by each of them are held by another company (Article 523, §3, al. 1, Belgian Company Code) or
- if the decision of the Board of Directors relates to customary transactions which take place on conditions and with collateral customary for similar market transactions (Article 523, § 3, al. 2 Belgian Company Code).

This procedure was never applied in the financial years 2006, 2007, 2008 and 2009.

15.6.2 *Conflicts of interest of members of the Executive Committee*

Article 524*ter* of the Belgian Company Code provides for a similar procedure as the procedure to be applied when a member of the Board of Directors has a conflict of interest in the event of a conflict of interest of members of the Executive Committee. In the event of such a conflict, only the Board of Directors will be authorised to take the decision that has led to the conflict of interest within the Executive Committee.

This procedure was never applied in the financial years 2006, 2007, 2008 and 2009.

15.6.3 *Existing conflicts of interest of members of the Board of Directors and of the Executive Committee*

Currently, the Company is not aware of any potential conflicts of interests between any duties to the Company of the directors or the members of the Executive Committee and their private interests and / or other duties.

15.6.4 *Transactions with affiliates*

Article 524 of the Belgian Company Code which applies to the Company provides a special procedure to be followed when the Company's decisions or transactions concern relationships between the Company, on the one hand, and affiliated companies (other than subsidiaries) of the Company, on the other hand. The procedure contained in Article 524 must also be followed for decisions or transactions that concern relationships between the Company's subsidiaries and affiliated companies of such subsidiaries (other than subsidiaries of those subsidiaries). Such a procedure does not apply to transactions that are entered into in the ordinary course of business at usual market conditions or for decisions and transactions whose value does not exceed 1% of the Company's consolidated net assets.

Prior to a decision or transaction to which Article 524 applies, a committee of three independent members of the Board of Directors, assisted by one or more independent experts, must give an assessment thereof, identifying advantages and disadvantages for the Company and its shareholders and its financial impact and determining whether or not the decision or transaction is manifestly detrimental in light of the Company's policies. The committee's assessment must be submitted in writing to the Board of Directors, which then makes a decision in light of the committee's recommendation. The Board of Directors may deviate from the committee's recommendation, but, if it does, it must justify the reasons for such a deviation. The committee's conclusions must be published, together with an excerpt of the minutes of the Board of Directors' conclusions, in the Company's annual report.

The Company has applied this procedure:

- In 2005 in respect of certain agreements entered into in the context of the initial public offering of the Company.
- In 2010 at the occasion of the approval of a term sheet between the Company, Publi-T and Electrabel holding the principal terms of a potential exit of Electrabel as a shareholder of the Company (as announced on 30 March 2010).

16 DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE

16.1 GENERAL

The Company is a public limited liability company (*société anonyme / naamloze vennootschap*) and was incorporated under the laws of Belgium on 20 December 2001 for an indefinite period of time. The Company's registered office is located at Boulevard de l'Empereur / Keizerlaan 20, 1000 Brussels, Belgium and it is registered with the Belgian register for legal entities under number 0476 388 378.

The Company also qualifies as a listed company (*société cotée / genoteerde vennootschap*) within the meaning of Article 4 of the Belgian Company Code and as a company having made a public call on savings (*société faisant ou ayant fait publiquement appel à l'épargne / vennootschap die een openbaar beroep op het spaarwezen doet of heeft gedaan*) within the meaning of Article 438 of the Belgian Company Code.

Pursuant to the Belgian Company Code, the liability of shareholders of a public limited liability company is limited to the amount of their respective committed contribution to the capital of the Company.

The Company may be reached by telephone at the number +32 (0) 2 546 70 11.

This section summarises the Company's group structure, corporate purpose, share capital and rights attached to certain shares and is based on the Articles of Association.

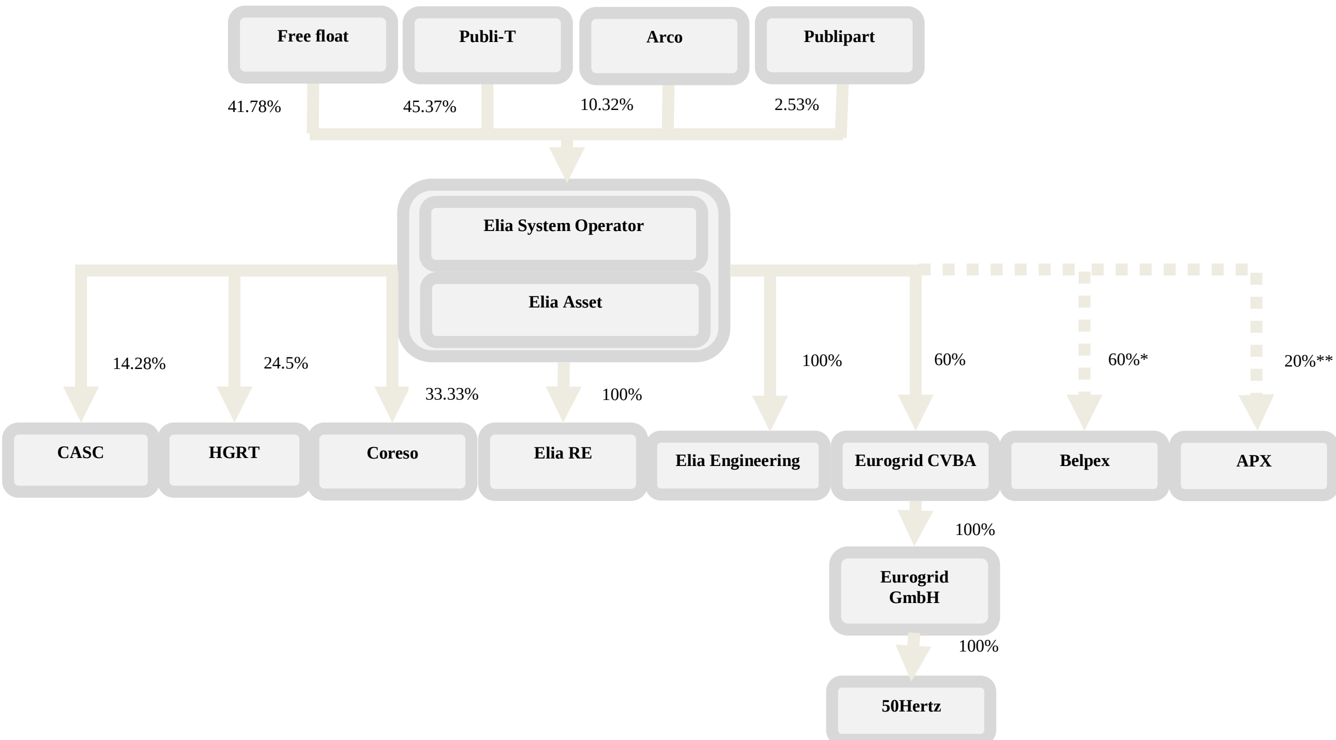
At its meeting of 11 May 2010, the extraordinary General Shareholders' Meeting of the Company has passed, amongst other things, the following resolutions and amendments to the Articles of Association:

- Temporary authorisation to the Board of Directors to increase the capital of the Company with an amount of up to EUR 300 million within the context of the authorised capital;
- Subject to the condition precedent of the completion of the Offering, the increase of the Company's share capital by the amount of the Offering with, to the extent required, cancellation of the preferential subscription right and listing of the New Shares;
- Approval of the terms and conditions of the capital increase and delegation to two directors;
- Amendment of the Articles of Association to clarify that the class A shares and class C shares that are converted into shares in dematerialised form, are freely transferable; and
- Amendment of the Articles of Association in order to provide that the respective rights of class A and C shareholders to present candidates for the Board of Directors is determined *pro rata* to the number that the respective class A and C shares represent towards the aggregate number of class A and C shares, so long as the class A and C shares, alone or together, represent more than 30% of the Company's share capital (see section 14.1.2).

The description hereafter is a summary only and does not purport to give a complete overview of the Articles of Association, nor of all relevant provisions of Belgian law. It should neither be considered as legal advice regarding these matters.

16.2 GROUP STRUCTURE

16.2.1 *Overview of the Company's group*



* Shares held in Belpex to be sold to APX subject to closing conditions (see section 10.8.4).
** Subscription of shares in APX subject to closing conditions (see section 10.8.4).

16.2.2 *Dual structure – Elia Asset*

To perform some of the tasks legally required to be performed by a TSO, DSO, regional or local TSO, the Company acts with its wholly-owned (99.99%) subsidiary, Elia Asset, which owns the very high voltage network and the high voltage network (or has rights to use it). All shares are owned by the Company, with the exception of one share owned by Publi-T. Together, the Company and Elia Asset constitute a single economic unit.

With regard to this dual structure, the Electricity Law provides that:

- the Company must maintain the ownership of all but two shares of Elia Asset and/or all subsidiaries, if any, which operate all or part of the transmission system or own all or part of the infrastructure thereof;
- the conforming opinion of the CREG is required prior to any disposal relating to the infrastructure and/or equipment that form part of the transmission system;
- the Company and Elia Asset must have identical corporate bodies and their respective Boards of Directors and Executive Committees must have the same members.

16.2.3 *Elia Engineering*

The Company, mainly through Elia Asset, acquired all shares of Elia Engineering (previously BEL Engineering), a former subsidiary of Suez- Tractebel, on 26 December 2003. Elia Engineering is an engineering consultancy firm involved in the design and project management of infrastructure related to the very high voltage and high voltage electricity network.

Elia Engineering manages all investment projects and major transformation works of, as well as the new connection of customers' installation to, Elia's network. Elia Engineering is responsible for the final realisation of these projects and acts as the consulting engineer of Elia's investment plans. In fulfilling this role, Elia Engineering is responsible for the design, the follow-up of the works and the final commissioning of the concerned installations. Throughout this process, Elia Engineering focuses on design and control tasks, while the realisation itself and related supporting activities (*e.g.* fieldwork or cables stringing or pulling) are outsourced to subcontractors (*e.g.* suppliers or other engineering companies). Elia Engineering is also responsible for expertise and knowledge management related to network infrastructure development, maintenance and operation for the Company.

16.2.4 *50Hertz*

For a description of 50Hertz, its 100% subsidiary 50Hertz Offshore and its two minority shareholdings, *i.e.* EMCC (12.5%) and CAO (20%), see section 11.2.8.

16.2.5 *Belpex*

The Company is one of the founding shareholders in Belpex. Prior to the integration of Belpex in APX (which is still subject to closing conditions) (see section 10.8.4), the Company owned 60% of the shares in Belpex. The other shareholders were APX (Dutch Power Exchange) (10%), Powernext (French Power Exchange) (10%), RTE (French TSO) (10%) and TenneT (Dutch TSO) (10%). Belpex has operated the Belgian power exchange since November 2006 and had three different markets segments. One of these segments, the day-ahead market segment, is coupled with the Dutch and French power exchanges. Belpex operated a green certificates exchange as from 10 March 2009.

16.2.6 *CASC–CWE*

The Company owns 14.28% of the shares of CASC-CWE (Capacity Allocation Service Company for the Central West European Electricity market), a public company limited by shares (SA), incorporated under Luxembourg Law on 1 October 2008, the registered office of which is located at 2 rue de Bitbourg L-1273 Luxembourg Hamm.

The creation of CASC-CWE is one of the actions following up the Memorandum of Understanding of June 2007 between the Ministries, regulators, TSOs, power exchanges and representatives of the market participants of the five countries of the CWE region (Belgium, Germany, France, the Netherlands and the Grand Duchy of Luxembourg). Its shareholders are the seven TSOs of the CWE region (Creos, Elia, EnBW TNG, Transpower, RTE, Amprion and TenneT).

Clearance from the European Commission was obtained on 14 August 2008, thus opening the way for this important leap towards integrating the five electricity markets into a regional electricity market for Central West Europe.

CASC-CWE, as a service company, acts as a single auction office to implement and operate services for the yearly and monthly explicit allocation of physical transmission right of electricity on the common borders between the five countries based on standardised systems and rules. CASC-CWE is also anticipated to act as a service provider of the TSOs in the CWE market coupling project (a coordinated project, also involving the power exchanges of the region, with respect to implicit allocation of physical transmission right of electricity).

The purpose of CASC-CWE is to facilitate cross-border power exchanges for all market parties in the CWE electricity market and to increase liquidity and competition in the five markets.

16.2.7 *Coreso*

The creation of Coreso by Elia, National Grid and RTE fits in the framework of increased operational coordination between TSOs, as recommended by the European Commission and market players, in order to enhance the operational security of the grids and the reliability of power supplies in Europe. Coreso also fits one of the recommendations of the Memorandum of Understanding of June 2007 between the Ministries, regulators, TSOs, power exchanges and representatives of the market participants of the five countries of the CWE region (Belgium, Germany, France, the Netherlands and the Grand Duchy of Luxembourg).

Coreso was established on 19 December 2008 and began operating on 16 February 2009. Since July 2009, Coreso operates 24 hours a day, 7 days a week. It is based in Brussels. Each of Elia, RTE and National Grid, respectively the Belgian, French and UK TSOs owns 1/3 of the capital of Coreso.

The centre contributes to the operational safety of the power systems in the CWE area, the integration of large-scale renewable energy generation (wind energy) and the development of the electricity market in this area. After less than a year's operation, Coreso has demonstrated its capacity to identify potential reliability issues and to propose remedial actions that could not have been assessed by Elia or RTE alone. Coreso has also identified remedial actions that were less expensive either for RTE or Elia, contributing to a more reliable and cost efficient operation of their respective networks.

16.2.8 *HGRT*

The Company owns 24.50% of the shares of HGRT (the other shareholders are RTE, the French TSO and TenneT, the Dutch TSO). This is a French holding company that owns 52.8% of the shares in Powernext SA ("Powernext"), the French power exchange. Powernext is a trading platform available to all European electricity traders. Powernext is both an optional and anonymously organised exchange. In terms of trading, Powernext offers, among others, standard hourly contracts with physical delivery the day after trading within the French hub.

16.2.9 *Elia RE*

Elia RE is a company based in Luxembourg in which Elia Asset owns 99.99 per cent of the shares, and the Company the remaining part. It is a reinsurance company established to manage certain risks associated with the activities of the TSO which cannot adequately be covered at a comparable cost on the traditional insurance or reinsurance market.

16.2.10 *Eurogrid CVBA*

See section 12.1.

16.2.11 *Eurogrid GmbH*

See section 12.1.

16.3 CORPORATE PURPOSE

Pursuant to the limits and conditions set forth in the Electricity Law, the Company may according to Article 3 of its Articles of Association:

- engage in the management of electricity networks, directly or via shareholdings in entities that own electricity networks and/or are active within the electricity sector, including the related services;
- engage in the performance of the following tasks in relation to the electricity networks mentioned above:
    - the operation, maintenance and development of the network, including the interconnections with other networks, in order to secure the continuity of the supply;
    - the improvement, study, renewal and extension of the networks, in particular in the context of a development plan, in order to guarantee an appropriate capacity to meet demand;
    - the technical system operation of the electricity flows on the transmission systems and, within this framework, the coordination of the dispatching of the generation plants and the determination of the use of the interconnections in view of the permanent balancing between the supply and demand for electricity;
    - the upholding of the safe, reliable and efficient operation of the networks and, in this context, seeking to the availability of the essential ancillary services, in particular the rescue services in case of breakdown of generation plants;
    - the supply of services on the electricity market, which are directly linked to the execution of the aforementioned tasks;
    - the supply of services dedicated to the operation, maintenance, improvement, renewal, extension and/or operation of local transmission systems and/or power distribution systems;
    - the transmission and distribution of electricity to third parties in accordance with the laws applicable to the Company;
- involve, under its control and supervision and in accordance with applicable law, one or more subsidiaries in carrying out certain of its activities set out above;
- carry out, in Belgium and abroad, any operation which facilitates the achievement of its corporate purpose, and any public services mission imposed on it by law, provided, however, that the Company may not perform any activities

with regard to the production or sale of electricity, other than the sales required by its coordination activity as network manager;

- carry out any actions or transactions, whether of industrial, commercial, financial or any other nature, relating to moveable or immoveable property, which directly or indirectly relate to its corporate purpose. The Company may in particular be the owner of any property, movable or immovable, which it manages or exercise or acquire any rights in respect thereof which are necessary in order to perform its tasks;
- acquire interests under any form in any businesses or entities that may contribute to the achievement of the Company's corporate purpose, and the Company may in particular acquire interests, whether or not in the capacity of shareholder, cooperate or enter in any form of cooperation agreement, commercially, technically or of any other nature, with any Belgian or foreign person, business or company that performs similar or related activities, provided, however, that the Company may not hold, directly or indirectly, shareholders' rights of any kind, in electricity producers or distributors, intermediaries buying electricity rights to resell them, holders of authorisations for delivery or in affiliated or associated undertakings to the above-mentioned undertakings.

The terms "producer", "distributor", "intermediary" and "subsidiary" have the meanings provided in Article 2 of the Electricity Law.

16.4 SHARE CAPITAL

16.4.1 *Amount of capital, number and categories of shares*

On the date of this Prospectus, the Company's share capital amounts to EUR 1,206,010,115.13 represented by 48,284,174 ordinary shares without nominal value, each representing 1/48,284,174th of the Company's share capital. The capital is fully paid up.

The shares are divided into three classes of shares, as follows (see also section 15.1):

- Class A: 1,221,405 shares (held by Publipart[31]);
- Class B: 25,215,963 shares (including 60,000 shares held by Publi-T and 4,984,624 shares held by Arco Group[32]);
- Class C: 21,846,806 shares held by Publi-T[33].

All shares have the same rights irrespective of their class, except as otherwise provided in the Articles of Association. Pursuant to the Articles of Association, the class A and class C shares are conferred with special rights regarding the nomination of candidates for appointment to the Board of Directors and the voting of shareholders resolutions.

The table below provides an overview of the history of the Company's share capital since 1 January 2007.

	Date	Number of shares issued	Issue price per share (€)	Capital increase	Subscribed capital after transaction	Aggregate number of shares after capital increase
Capital increase 2007	29 June 2007	163,643	25.91	4,239,990.13	1,200,940,408.28	48,061,695
Capital increase 2008	31 March 2008	15,254	23.24	354,502.96	1,201,294,911.24	48,076,949
Capital increase 2009	21 December 2009	193,306	22.75	4,397,711.50	1,205,692,622.74	48,270,255
Capital increase 2010	19 February 2010	13,919	22.81	317,492.39	1,206,010,115.13	48,284,174
Total					**1,206,010,115.13**	**48,284,174**

[31] According to the shareholders' register.

[32] According to the latest available transparency notifications as of the date of this Prospectus.

[33] According to the shareholders' register.

16.4.2 *Capital increase*

Pursuant to the Belgian Company Code, the Company may increase or decrease its share capital upon the approval of 75% of the votes cast at a General Shareholders' Meeting where at least 50 % of the share capital is present or represented. In addition, pursuant to the Articles of Association, approval of any shareholders' resolution also requires the approval of holders of a majority of class A and/or class C as long as the holders of class A and/or class C shares own at least 25% of the total outstanding share capital of the Company (or 15% in the event of dilution following a capital increase) (see section 16.5.1).

Subject to the same quorum and majority requirements, the General Shareholders' Meeting can authorise the Board of Directors, within certain limits, to increase the Company's share capital without any further approval of the shareholders. This authorisation needs to be limited in time (*i.e.* it can only be granted for a renewable period of maximum five years) and in scope (*i.e.* the authorised capital may not exceed the amount of the registered capital at the time of the authorisation).

On 11 May 2010, the extraordinary General Shareholders' Meeting temporarily authorised the Board of Directors to increase the Company's share capital in one or more transactions with a maximum amount of EUR 300.000.000. The authorisation was granted for a period expiring on the earlier of 31 December 2010 or the date on which the capital increase approved by the extraordinary General Shareholders' Meeting on 11 May 2010 is completed.

In the case of a capital increase in cash with issue of new shares, or in the event of an issue of convertible bonds or warrants exercisable in cash, the existing shareholders have a preferential subscription right to subscribe for the new shares, convertible bonds or warrants, *pro rata* to the part of the share capital represented by the shares that they already hold. The General Shareholders' Meeting may, however, limit or cancel such preferential subscription rights subject to substantive and reporting requirements. Such decision must satisfy the same quorum and majority requirements as the decision to increase the Company's share capital. The shareholders can also decide to authorise the Board of Directors to limit or cancel the preferential subscription right, subject to the conditions set forth in the Belgian Company Code. The authorisation of the Board of Directors to increase the share capital of the Company through contributions in cash with cancellation or limitation of the preferential right of the existing shareholders is suspended as of the notification to the Company by the CBFA of a public tender offer for the investment instruments of the Company.

16.4.3 *Shares' buy-back*

In accordance with the Belgian Company Code and the Articles of Association, the Company can only purchase and sell its own shares by virtue of a shareholders' resolution passed with (i) a majority of at least 80% of the votes, (ii) a majority of votes of the class A and/or class C shares as long as the holders of class A and/or class C shares own at least 25% of the total outstanding share capital of the Company (or 15% in the event of dilution following a capital increase) and (iii) at an extraordinary General Shareholders' Meeting where at least 50% of the share capital and at least 50% of the profit certificates (if any) are present or represented. The prior approval by the shareholders is not required if the Company purchases the shares to offer them to the Company's personnel.

In accordance with the Belgian Company Code, an offer to purchase shares must be made to all shareholders under the same conditions. This does not apply to:

i. the acquisition of shares by companies listed on a regulated market and companies whose shares are admitted to trading on a multilateral trading facility (an "MTF"), provided that the Company ensures equal treatment of shareholders finding themselves in the same circumstances by offering an equivalent price (which is assumed to be the case (a) if the transaction is executed in the central order book of a regulated market or MTF or (b) if it is not so executed in the central order book of a regulated market or MTF, in case the offered price is lower than or equal to the highest actual independent bid price in the central order book of a regulated market or (if not listed on a regulated market) of the MTF offering the highest liquidity in the share); or
ii. the acquisition of shares that has been unanimously decided by the shareholders at a meeting where all shareholders were present or represented.

Shares can only be acquired with funds that would otherwise be available for distribution as a dividend to the shareholders pursuant to Article 617 of the Belgian Company Code (see section 6.2). The total amount of shares held by the Company can at no time be higher than 20% of its share capital.

A transitional statutory provision authorising the Company, for a period of three years, as from 6 November 2009, to purchase its own shares in case of imminent serious harm to the Company in accordance with Article 620, § 1, al. 3, 4 and 5 of the Belgian Company Code, has been inserted in the Articles of Association pursuant to an amendment adopted by the extraordinary General Shareholders' Meeting held on 14 October 2009.

16.5 SHARES – RIGHTS ATTACHED TO THE SHARES

16.5.1 *General Shareholders' Meeting and voting rights*

Annual General Shareholders' Meeting

The annual General Shareholders' Meeting is held on the second Tuesday of May at 10.00 a.m. (Brussels time), or, if not a Business Day, on the next Business Day. At the annual General Shareholders' Meeting, the Board of Directors submits the audited statutory financial statements under Belgian GAAP, the audited consolidated financial statements under IFRS and the reports of the Board of Directors and of the Statutory Auditors with respect thereto to the shareholders. The annual General Shareholders' Meeting then decides on the approval of the statutory financial statements under Belgian GAAP, the proposed allocation of the Company's profit or loss, the discharge of liability of the directors and the Statutory Auditors, and, as the case may be, the (re-)appointment or dismissal of the Statutory Auditors and/or of all or certain directors.

Special and extraordinary General Shareholders' Meetings

A special or extraordinary General Shareholders' Meeting may be convened by the Board of Directors or the auditors whenever the Company's interests so require and must be convened at the request of one or more shareholders representing at least one-fifth of the Company's share capital (see Article 24.2 of the Articles of Association).

Notices convening the General Shareholders' Meeting

The notice of the General Shareholders' Meeting must include an agenda indicating the items to be discussed as well as any motions for resolutions.

The notice must be published in the Belgian Official Gazette (*Moniteur belge / Belgisch Staatsblad*) at least 24 days prior to the record date. The notice must also be published in a national newspaper 24 days prior to the record date, except if the relevant meeting is an annual General Shareholders' Meeting held at the municipality, place, day and hour mentioned in the Articles of Association and the agenda of which is limited to the review of the statutory financial statements, the annual report of the Board of Directors on the statutory financial statements, the annual report of the statutory auditors and the vote on the discharge of the directors and the statutory auditors.

Convening notices must be communicated 15 days prior to the General Shareholders' Meeting to the holders of registered shares, registered bonds, registered warrants, registered certificates issued with the cooperation of the Company (if any) and to the directors and Statutory Auditors of the Company. The communication is made by way of ordinary letter (without having to give evidence of the fulfilment of such formality) unless the addressees have individually and expressly accepted in writing to receive the notice by another form of communication.

If all the shares, bonds, warrants and certificates issued with the cooperation of the Company are registered, the communication of the convening notices is sufficient. This communication is done by registered letter unless the addressees have individually and expressly accepted in writing to receive the notice by another form of communication.

Formalities to attend the General Shareholders' Meeting

The shareholders shall only be entitled to participate in the General Shareholders' Meeting and to vote on the items of the agenda, with respect to the shares of which they are the holder on 12 p.m. of the record date, such date being determined as the sixth Business Day before the General Shareholders' Meeting takes place. The above applies irrespective of the number of shares held by each shareholder or bondholder on the day of the General Shareholders' Meeting.

To attend a meeting, holders of bearer shares must deposit their shares and holders of dematerialised shares must deposit a certificate issued by a certified account holder or by the depository institution confirming that, on the Record Date (six

Business days prior to the meeting) they did hold the number of shares in respect of which they intend to attend the ordinary General Shareholders' Meeting and the extraordinary General Shareholders' Meeting. All shareholders may attend upon presentation of proof of their identity (subject to compliance with special formalities regarding their intention to attend and the number of shares held).

The holders of bonds, warrants (if any), profit certificates (if any), shares without voting rights (if any) or other securities issued by the Company (if any), as well as the holders of certificates issued with cooperation of the Company (if any) may attend the General Shareholders' Meeting insofar as the law grants them such right with an advisory vote or, as the case may be, the right to participate in the voting. If they wish to attend, they must abide by the same formalities, requirements to be admitted, form and deposit of proxies, as those imposed on the shareholders.

Voting rights – quorum and majorities

Each share is entitled to one vote. Voting rights may however be suspended in relation to shares, in the following events, without limitation and without this list being exhaustive:

- which are not fully paid up, notwithstanding the request thereto by the Board of Directors of the Company;
- to which more than one person is entitled, except in the event that a single representative is appointed for the exercise of the voting right;
- which entitle their holder to voting rights above the threshold of 5%, or any multiple of 5% of the total number of voting rights attached to the outstanding financial instruments of the Company on the date of the relevant General Shareholders' Meeting, except in case the relevant shareholder has notified the Company and the CBFA at least 20 days prior to the date of the General Shareholders' Meeting (see section 16.5.7) of its shareholding reaching or exceeding the thresholds above; and
- of which the voting right was suspended by a competent court or the CBFA.

Generally, the General Shareholders' Meeting has sole authority with respect to:

- the approval of the statutory financial statements of the Company (statutory financial statements under Belgian GAAP);
- the appointment and dismissal of directors and the Statutory Auditors of the Company;
- the granting of discharge of liability to the directors and the Statutory Auditors;
- the determination of the remuneration of the directors and of the Statutory Auditors for the exercise of their mandate;
- the distribution of profits;
- the filing of a claim for liability against directors;
- the decisions relating to the dissolution, merger and certain other reorganisations of the Company; and
- the approval of amendments to the Articles of Association.

Any owner of securities may be represented at a General Shareholders' Meeting by a special proxy holder, who need not to be a shareholder. The Board of Directors may determine the text of these proxies to the extent that the shareholders' freedom to vote is respected and that the provisions of such proxies do not deprive the shareholder of any right, and may demand that they shall be deposited at the registered office of the Company at least three (3) Business Days prior to the relevant General Shareholders' Meeting.

The Company's Shareholders take decisions at the General Shareholders' Meeting in accordance with the quorum and majority requirements contained in the Belgian Company Code. In general, there is no quorum requirement for a Shareholders Meeting and decisions are generally passed with a simple majority of the votes of the shares present and represented. Capital increases (unless decided by the Board of Directors within the framework of the authorised capital), decisions with respect to the Company's dissolution, mergers, de-mergers and certain other reorganisations of the Company, amendments to the Articles of Association (other than an amendment of the corporate purpose) and certain other matters referred to in the Belgian Company Code not only require the presence or representation of at least 50% of the share capital of the Company but also the approval of at least 75% of the votes cast. An amendment of the Company's corporate purpose and the buy-back of shares require the approval of at least 80% of the votes cast at a Shareholders Meeting, which in principle can only validly pass such resolution if at least 50% of the share capital of the Company and at least 50% of the profit certificates, if any, are present or represented. In the event that the required attendance quorum is not present or represented at the first meeting, a second meeting needs to be convened through a new notice. The second Shareholders Meeting can validly deliberate and resolve regardless of the number of shares present or represented.

Additionally, so long as the holders of class A and/or class C shares own at least 25% of the total outstanding share capital of the Company (or 15% in the event of dilution following a capital increase), approval of any shareholders' resolution also requires the approval by simple majority of the present or represented holders of such classes.

Any amendment of an article of the Articles of Association which is the transposition of the Articles 2 to 11 of the Corporate Governance Decree has to be submitted to the CREG for approval.

16.5.2 *Distribution of profits*

All shares participate in the same manner in the Company's profits (if any).

In general, the Company may pay dividends only upon the approval of the Company's Shareholders at the General Shareholders' Meeting, although the Board of Directors may declare interim dividends without such shareholder approval. Dividends can only be distributed if, following the declaration and payment of the dividends, the amount of the Company's net assets on the date of the closing of the last financial year as follows from the statutory financial statements prepared in accordance with Belgian GAAP (*i.e.*, the amount of the assets as shown in the balance sheet, decreased with provisions and liabilities), decreased with the non-amortised activated costs of incorporation and extension and the non-amortised activated costs for research and development, does not fall below the amount of the paid-up capital (or, if higher, the called capital), increased with the amount of non-distributable reserves. In addition, pursuant to the Belgian Company Code and the Articles of Association, the Company must allocate at least 5% of its annual net profits under its statutory non-consolidated accounts to a legal reserve until the reserve equals 10% of the Company's share capital. With regard to distributable profits over and above the required allocation to the legal reserve, the Articles of Association provide that 85% of the yearly profits available for distribution, or such higher percentage thereof as may be proposed by the Board of Directors, must be allocated for the payment of dividends, unless the shareholders decide otherwise at the General Shareholders' Meeting (it being understood that the holders of class A shares and class C shares must concur in such decision).

In accordance with Belgian law, the right to collect dividends declared on ordinary shares expires five years after the date the Board of Directors has declared the dividend payable, whereupon the Company is no longer under an obligation to pay such dividends. If, with respect to bearer shares, the Company decides to enforce the expiration of the five-year term, the amounts not distributed must be made available in accordance with the provisions of Belgian law and, ultimately, will accrue to the Belgian State.

For more information, see section 6.

16.5.3 *Liquidation*

The Company can only be dissolved by a shareholders' resolution passed with (i) a majority of at least 75% of the votes, (ii) a majority of votes of the class A and/or class C shares as long as the holders of class A and/or class C shares own at least 25% of the total outstanding share capital of the Company (or 15% in the event of dilution following a capital increase) and (iii) at an extraordinary General Shareholders' Meeting where at least 50% of the share capital is present or represented (see section 16.5.1).

If, as a result of losses incurred, the ratio of the Company's net assets (determined in accordance with Belgian GAAP) to share capital is less than 50%, the Board of Directors must convene a General Shareholders' Meeting within two months, from the date the Board of Directors discovered or should have discovered this undercapitalisation. At such General Shareholders' Meeting, the Board of Directors must propose either the dissolution of the Company, or the continuation of the Company, in which case the Board of Directors must propose measures to redress the Company's financial situation. Shareholders representing at least 75% of the votes validly cast at this meeting can decide to dissolve the Company, provided that at least 50% of the Company's share capital is present or represented at the meeting. If, as a result of losses incurred, the ratio of the Company's net assets to share capital is less than 25%, the same procedure must be followed, it being understood, however, that in such event shareholders representing 25% of the votes validly cast at the meeting can decide to dissolve the Company. If the amount of the Company's net assets has fallen below EUR 61,500 (the minimum amount of share capital of a Belgian public limited liability company), each interested party is entitled to request the competent court to dissolve the

Company. The court may order the dissolution of the Company or grant a grace period within which the Company is allowed to remedy the situation.

In case of dissolution of the Company for whatever reason, the General Shareholders' Meeting shall appoint and dismiss the liquidator(s), determine their powers and the manner of liquidation. The General Shareholders' Meeting shall fix the remuneration of the liquidator(s), if any.

The liquidators can only take up their function after confirmation of their appointment by the General Shareholders' Meeting by the Commercial Court pursuant to Article 184 of the Belgian Company Code.

After settlement of all debts, charges and expenses relating to the liquidation, the net assets shall be equally distributed amongst all the shares, after deduction of that portion of such shares that are not fully paid, if any.

16.5.4 *Form of shares*

As described in section 5.2.6, the New Shares and VVPR Strips will be delivered in dematerialised (book-entry) form.

The Shares of the Company may be in registered, bearer or dematerialised form. As long as all bearer Shares have not been converted into dematerialised or registered Shares, and up to the ultimate date on which bearer shares must be converted into registered or dematerialised shares (see below), the three types of Shares can co-exist.

A dematerialised Share is represented by an entry in the name of the owner or holder with an approved account holder or a settlement agency. A Share entered on the account will be transferred by transfer from account to account. The number of dematerialised Shares in circulation at any given time will be registered in the related register of Shares in the name of the settlement agency.

In accordance with the Act of 14 December 2005 concerning the abolition of bearer securities, shares issued after 1 January 2008 can only be registered or dematerialised. On 1 January 2008, the bearer shares listed on a regulated market and registered on a securities account, were automatically converted into dematerialised shares. The owners of bearer shares that have not been automatically converted must request conversion to registered or dematerialised shares by 31 December 2013 at the latest. The request for conversion to dematerialised shares must be submitted to a recognised account holder or a settlement institution selected by the issuer of the shares. However, this request will only be admissible if the shares, for which the conversion is requested, are handed over to the recognised account holder or settlement institution. The conversion will take place by registration of the shares on a securities account by the recognised account holder or the settlement institution. On the expiration date of the above-mentioned term, the bearer shares for which no conversion was requested, will be automatically converted by the issuer into dematerialised shares, and be registered as a credit in a securities account under the name of the issuer, until the titleholder makes itself known. The rights associated with these shares will be deferred. As of 1 January 2015 and after the publication of an announcement in the Annexes to the Belgian Official Gazette and in the Belgian Financial Press, the issuer must offer all Shares that do not have a known owner by that date for sale. The proceeds of the sale (after the deduction of certain costs of the issuer) will be deposited at the Deposit and Consignment Office until the owner has demonstrated its rights to the sold securities and demands repayment. This person is entitled to the proceeds of the sale of its securities or to the unsold shares, but must pay a penalty of 10% on the exchange value of the securities for each year of delay from 31 December 2015.

The Belgian Company Code and the Articles of Association entitle shareholders to request, in writing and at their expense, the conversion of their dematerialised shares in registered shares. Moreover, holders of class B shares can also request the conversion of their registered shares in dematerialised shares.

If a holder of class A shares or of class C shares requests the conversion of its registered class A or class C shares into dematerialised shares with a view to selling such shares on the stock exchange, such conversion is subject to the pre-emption right (see section 16.5.5) to the benefit of the holders of the other class of shares (class C respectively class A) at market price, defined as the average of the 20 most recent closing prices on the stock exchange preceding the date of the request for conversion into dematerialised shares. Following the sale by Electrabel of 6,035,522 shares of the Company to Publi-T on 10 May 2010 (see section 15.1), Electrabel converted its 5,670,655 remaining class A shares into class B shares effective 10 May 2010. Publi-T waived its pre-emption right in respect of this conversion.

16.5.5 *Transfer of shares*

The class B shares are freely transferable.

Each holder of class A shares or class C shares may freely transfer part or all of its class A or class C shares (i) to an affiliated or associated person as defined in Articles 11 and 12 of the Belgian Company Code, who agrees to be bound by the terms of and by the transferor's obligations under the Shareholders' Agreement, and (ii) to the persons indicated in the Shareholders' Agreement, subject to the terms set forward in the Shareholders' Agreement being fulfilled.

Pledges, options or similar rights may be granted on the class A and class C shares if the beneficiary of the pledge, option or other right commits in writing to be bound by the applicable pre-emption rights.

Transfer restrictions

Other than in the cases of the transfers discussed above, the Articles of Association provide for reciprocal pre-emption rights that apply with respect to transfers of class A and class C shares. In case of such intended transfer, the transferor must notify the holder(s) of the other class of shares (class C respectively class A) (the "Beneficiary") and the Company's Board of Directors of the intended transfer and the terms and conditions under which such transfer is to take place. Each Beneficiary then has a 60 day period (the "Offer Period") to exercise its pre-emption right upon the same terms and conditions as the proposed transfer. The notification constitutes an offer to the Beneficiaries, which is irrevocable during the Offer Period. Each Beneficiary can exercise the pre-emption right in respect of a maximum number of shares equal to the total number of offered shares, multiplied by the number of shares of the beneficiary class held by the Beneficiary and divided by the total number of shares of the beneficiary class. If a Beneficiary fails to exercise (part of) its pre-emption rights, the other Beneficiaries may, in a manner agreed by them or, if no agreement can be reached, proportionally, acquire the offered shares in respect of which the pre-emption rights were not exercised. The pre-emption right can only be exercised by the Beneficiaries in respect of all, and not a part, of the offered shares. If the pre-emption right is not exercised within the Offer Period, the transferor must transfer the offered shares to the candidate-transferee within a period of 1 month following the Offer Period. In addition to the reciprocal pre-emption rights taken over in the Articles of Association, the Shareholders' Agreement provides for tag along rights that apply with respect to transfers of class A and class C shares. In accordance with the Shareholders' Agreement, each Beneficiary during the Offer Period not only has the right to exercise its pre-emption right, but can also exercise its tag along right with regard to the same number of shares and upon the same terms and conditions as the proposed transfer. Each Beneficiary can exercise the tag along right in respect of a maximum number of shares equal to the total number of offered shares, multiplied by the number of shares of the beneficiary class held by the Beneficiary and divided by the total number of shares of the beneficiary class. The tag along right can only be exercised by the Beneficiaries if the pre-emption right has not been exercised in respect of all offered shares.

No transfer of shares shall be enforceable against the Company or the shareholders if such transfer has not been executed in accordance with the applicable restrictions.

16.5.6 *Change of the class of shares as a result of a share transfer*

Upon transfer to a holder of class A shares or to affiliates of, or persons acting in concert with, a holder of class A shares, class C shares automatically convert into class A shares and similarly, upon transfer to a holder of class C shares or to affiliates of, or persons acting in concert with, a holder of class C shares, class A shares automatically convert into class C shares. Class A shares or class C shares sold on Euronext or any other regulated market within the European Union in accordance with the provisions outlined below will automatically convert into class B shares when they are converted into dematerialised shares.

Any holder of class A shares or class C shares may require its registered class A shares or class C shares to be converted into dematerialised shares, subject to certain transfer restrictions described below. The class A shares and class C shares that are converted into shares in dematerialised form are freely transferable. Such class A shares and class C shares shall automatically be converted into class B shares at such time as they are converted into dematerialised shares. For all other transfers of class A and C shares, the class of the transferred shares remains unchanged, except for the class A and class C shares transferred as a result of the exercise of any tag along right based on the Shareholders' Agreement, which will automatically be converted into, respectively, class C and class A shares.

Class B shares remain class B shares, regardless of the transfer between holders of different classes of shares.

16.5.7 *Notification of major holdings*

Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC has been implemented in Belgian law by, *inter alia*, the Transparency Law and the Transparency Royal Decree. This transparency legislation entered into effect on 1 September 2008.

Pursuant to this legislation, Belgian law, in conjunction with Article 10 of the Articles of Association, imposes disclosure requirements on any natural person or entity directly or indirectly acquiring or transferring securities carrying voting rights or securities which give a right to securities carrying voting rights, as soon as, following such acquisition or transfer, the total number of voting rights directly or indirectly held by such natural person or entity, alone or in concert with others, increases above or falls below a threshold of 5%, or any multiple of 5%, of the total number of voting rights attached to the Company's securities. Pursuant to Article 18 of the Transparency Law, the Company has not exercised its right to reduce the disclosure thresholds provided by the Transparency Law or to impose an additional disclosure threshold of 7,5%. Any specific disclosure thresholds under the articles of association shall be made public and simultaneously notified to the CBFA. All legal provisions applicable for the legal thresholds of 5% or any multiple of 5% also fully apply to thresholds under the articles of association.

Pursuant to Article 6 of the Transparency Law, the above disclosure obligations will be triggered any time the above thresholds are crossed (downwards or upwards) as a result of, amongst other things: (i) the acquisition or the disposal of securities carrying voting rights, regardless of the way in which this acquisition or disposal takes place, for example, through purchase, sale, exchange, contribution, merger, de-merger, or succession; (ii) the passive crossing of these thresholds (as a result of events that have changed the breakdown of voting rights even if no acquisition or disposal took place); or (iii) the execution, amendment or termination of an agreement of concerted action.

It should be stressed that, pursuant to Article 6 of the Transparency Law, the disclosure provisions apply to each natural or legal entity that "directly" or "indirectly" acquires, disposes of or holds (at the time of the admission to trading, at the time of passive crossing the threshold or at the time of execution, amendment or termination of an agreement of concerted action) securities carrying voting rights, or voting rights. In this respect, a natural or legal entity is deemed to "indirectly" acquire, dispose of or hold securities carrying voting rights of the Company:

- (i) when securities carrying voting rights are acquired, disposed of or held by a third party that, regardless in whose name it is acting, acts on behalf of such natural or legal entity (for example, in case of an agreement of agency, commission, carrying , name lending, trust or an agreement with similar effect which leaves the principal elements of the ownership rights on the securities with the other contracting party);
- (ii) when securities carrying voting rights are acquired, disposed of or held by an undertaking controlled (within the meaning of Articles 5 and 7 of the Belgian Company Code) by such natural or legal entity (the notion "control" implies that possibly several persons will be deemed to be a controlling person (for example, the parent company, the parent company of such parent company, as well as the natural person controlling the latter) and therefore subject to the notification duty); or
- (iii) when such natural or legal entity acquires or transfers the control over an entity holding securities carrying voting rights of the Company in which case there is no acquisition or disposal of a shareholding in the Company itself, but an acquisition or transfer of control over an entity holding securities carrying voting rights of the Company (for example, if the entity over which control is acquired or transferred itself holds a holding in Company which must be notified, or if the securities held by the entity over which control is acquired or transferred together with the securities the person acquiring or transferring control holds in a different manner, reaches, exceeds or falls below one of the thresholds).

In addition, persons subject to notification must include in their notification the total number of potential voting rights (provided they meet the requirements of Article 6, § 1 of the Transparency Royal Decree) (whether or not incorporated in securities) they own.

If a transparency declaration is legally required, such declaration must be notified to the CBFA and the Company as soon as possible and at the latest within a period of four trading days as from the event giving rise to the transparency notification (as published by the CBFA). This term starts on the trading day following the day on which the event triggering the disclosure obligation took place.

The notification can be electronically transmitted to the Company and the CBFA. The forms required to make such notifications, as well as further explanations may be found on the website of the CBFA (www.cbfa.be).

Violation of the disclosure requirements may result in the suspension of voting rights, a court order to sell the securities to a third party and/or criminal liability. The CBFA may also impose administrative sanctions.

The Company must publish all information contained in such notifications no later than three trading days after receipt of such notification. In addition, the Company must mention in the notes to its annual accounts its shareholders structure (as it appears from the notifications received). Moreover, the Company must publish the total share capital, the total number of securities carrying voting rights and of voting rights, as well as the total number of securities carrying voting rights and of voting rights for each class (if any) at the end of each calendar month during which one of these numbers has changed. Furthermore, the Company must disclose, as the case may be, the total number of bonds convertible in securities carrying voting rights (if any) and rights, whether or not incorporated in securities, to subscribe to securities carrying voting rights not yet issued (if any), the total number of voting rights that can be obtained upon the exercise of these conversion or subscription rights and the total number of shares without voting rights (if any).

16.6 OTHER SECURITIES

The Company issued in May 2004 two bonds of a nominal amount of EUR 500,000,000 each. One bond bears an interest of 4.75% per annum and is due in May 2014 (with ISIN BE0119549450), the other one bears an interest of 5.25% per annum with maturity date in May 2019 (with ISIN BE0119549466). Both are listed on the Luxembourg Stock Exchange.

In addition, the Company issued in April 2009 two bonds of a nominal amount of EUR 500,000,000 each. One bond bears an interest of 4.50% per annum and is due in April 2013 (with ISIN BE6000104727), the other one bears an interest of 5.625% per annum with maturity date in April 2016 (with ISIN BE6000105732). Both are listed on the Luxembourg Stock Exchange.

The key terms of these bonds can be summarised as follows:

Start Date	Amount (€)	Maturity Date	Interest per annum
13 May 2004	500,000,000	13 May 2014	4.75%
13 May 2004	500,000,000	13 May 2019	5.25%
22 April 2009	500,000,000	22 April 2013	4.50%
22 April 2009	500,000,000	22 April 2016	5.625%

16.7 MANDATORY TAKEOVER BIDS

Public tender offers on the Company's shares and other securities carrying voting rights (such as warrants or convertible bonds, if any) are subject to supervision by the CBFA. Public tender offers must be made for all of the Company's securities carrying voting rights, as well as for all other securities issued by the Company that entitle the holders thereof to the subscription for or the conversion in securities carrying voting rights. Prior to making an offer, an offeror must issue and disseminate an offer document, which must be approved by the CBFA. The offeror must also obtain approval of the relevant competition authorities, where such approval is legally required for the acquisition of the Company.

Tender offers on a Belgian company listed on a Belgian regulated market are governed by the Belgian Law of 1 April 2007 on public takeover bids *(Loi relative aux offres publiques d'acquisition / Wet op de openbare overnamebiedingen*), as implemented by the Belgian Royal Decree of 27 April 2007 on public tender offers (*Arrêté Royal relatif aux offres publiques d'acquisition / Koninklijk Besluit op de openbare overnamebiedingen*) and the Belgian Royal Decree of 27 April 2007 on public squeeze-outs *(Arrêté Royal relatif aux offres publiques de reprise / Koninklijk Besluit op de openbare uitkoopbiedingen*) (for the latter, see section 16.8).

Pursuant to these regulations, all shareholders and warrantholders (and holders of other voting securities or securities granting access to voting rights issued by the Company) must have equal rights to contribute their securities in any public tender offer. Furthermore, whenever a person (as a result of its own acquisition or the acquisition by persons acting in concert with it or by persons acting for their account, directly or indirectly) acquires more than 30% of the voting securities of a company that are (at least in part) admitted to trading on a regulated market, such person must, regardless of the price paid, make a mandatory tender offer for the shares, warrants and convertible securities issued by the Company. In general and except for certain exceptions, the mere fact of exceeding the relevant threshold as a result of an acquisition will give rise to a mandatory bid, irrespective of whether or not the price paid in the relevant transaction exceeds the then current market price.

In such an event, the tender offer must be launched at a price equal to the higher of the two following amounts: (i) the highest price paid by the offeror or persons acting in concert with it for the acquisition of shares during the last 12 calendar months; and (ii) the average trading price during the last 30 days before the obligation to launch a tender offer arose. No mandatory tender offer is required, amongst other things, when the acquisition is the result of a subscription for a capital increase with application of the preferential subscription rights of the shareholders. The price can be in cash or in securities. In the event of a mandatory tender offer or a voluntary tender offer by an offeror who controls the Company offering a price composed of securities, a cash alternative must be offered in the event that: (i) the price does not consist of liquid securities admitted to trading on a regulated market; or (ii) the offeror or a person acting in concert with it acquired shares for cash during a period of 12 calendar months preceding the publication of the tender offer or during the tender offer (whereby these shares, in the event of a voluntary tender offer by a controlling shareholders, represent more than 1% of the outstanding voting securities). Where the voluntary tender offer is issued by a controlling shareholder, the price must be supported by a fairness opinion issued by an independent expert. The Board of Directors of the target company is required to publish its opinion concerning the offer as well as its comments on the offer document. The acceptance period for the tender offer must be at least two weeks and not more than ten weeks.

In addition, there are several provisions of the Belgian Company Code and certain other provisions of Belgian law, such as the obligation to disclose large shareholdings (see section 16.5.7) and merger control, that may apply to the Company and/or authorisations granted to the Company which may make an unfriendly tender offer, merger, change in management or other change in control, more difficult. These provisions or decisions could discourage potential takeover attempts that other shareholders may consider to be in their best interest and could adversely affect the market price of the Company's shares. These provisions may also have the effect of depriving the shareholders of the opportunity to sell their shares at a premium.

Normally, the authorisation of the Board of Directors to increase the share capital of the Company through contributions in cash with cancellation or limitation of the preferential subscription right of the existing shareholders is suspended as of the notification to the Company by the CBFA of a public tender offer on the securities of the Company. However, the General Shareholders’ Meeting can authorise the Board of Directors to increase the share capital by issuing shares representing not more than 10% of the existing shares of the Company at the time of such a public tender offer.

The Company can acquire, dispose of, or pledge its own shares, profit certificates or any certificates relating thereto subject to compliance with the relevant legal provisions. In particular, the General Shareholders’ Meeting can authorise the Board of Directors to, redeem and keep the Company's own shares when such is necessary to prevent imminent serious harm to the Company, without any resolution of the General Shareholders’ Meeting. Such authorisation is valid for a period of three years as of the publication thereof in the Annexes to the Belgian Official Gazette.

The Articles of Association of the Company do not provide for any other specific protective mechanisms against public tender offers, other than the authorisation to buy back shares granted on 14 October 2009 (see section 16.4).

16.8 SQUEEZE-OUT AND SELL-OUT

Pursuant to Article 513 of the Belgian Company Code, a person or legal entity acting alone or in concert, who owns 95% of the voting securities in the Company having made a public call on savings, can acquire all of the outstanding voting securities or securities entitling to such voting securities in that Company following a squeeze out offer.

The securities that are not voluntarily tendered in response to such offer are deemed to be automatically transferred to the offeror at the end of the bidding process. At the end of the offer, the Company is no longer deemed to be a company having made a public call on savings, unless bonds issued by the Company, if any, are still publicly held. The consideration paid for the securities must be in cash and must represent the fair value of the securities with a view to safeguarding the interests of the transferring shareholders.

The Belgian Law of 1 April 2007 on public takeover bids and its implementing Royal Decrees provide for certain rules on the squeeze out by majority shareholders of the minority shareholders and on the sell out right of the minority shareholders. If, as a result of a (re-opened) takeover bid, a bidder (or any person acting in concert with the bidder) holds 95% or more of the shares of the target company, and provided that the bidder acquired at least 90% of the shares under the takeover bid, then the bidder can proceed with a simplified squeeze-out in accordance with Article 42 of the aforementioned Royal Decree of 27

April 2007 on public tender offers, provided that all conditions for such squeeze-out are met, to acquire the shares not yet acquired by the bidder (or any other person then deemed to act in concert with the bidder). Also, if, as a result of such a (re-opened) takeover bid, a bidder (or any person acting in concert with the bidder) holds 95% or more of the shares of the target company, and provided that the bidder acquired at least 90% of the shares under the takeover bid, each security holder has the right to make the bidder take over its securities against the offer price in accordance with Article 44 of the aforementioned Royal Decree (the so-called “sell-out”).

17 MARKET INFORMATION

The Company's common shares and VVPR Strips are listed on Euronext Brussels, respectively under the symbol "ELI" and "ELIS". A request for admission to trading of the New Shares and the VVPR Strips on the regulated market of Euronext Brussels has been submitted. The admission of the New Shares and VVPR Strips is expected to take place on the Closing Date.

The following chart sets forth the high and low prices and trading volumes for the Company's shares on Euronext Brussels[34].

	High (€ per share)	Low (€ per share)	Volume
Annual information			
2007	31.40	26.85	5,611,926
2008	29.09	20.10	4,211,255
2009	28.00	24.00	2,636,093
Quarterly information 2007			
First Quarter	30.80	29.29	1,644,797
Second Quarter	31.40	29.10	1,153,854
Third Quarter	30.35	27.82	1,680,121
Last quarter	29.00	26.85	1,133,154
Quarterly information 2008			
First Quarter	29.00	27.00	1,547,247
Second Quarter	29.09	26.00	664,748
Third Quarter	26.85	25.15	788,238
Last quarter	27.00	20.10	1,211,022
Quarterly information 2009			
First Quarter	27.50	24.00	927,219
Second Quarter	27.96	24.50	736,859
Third Quarter	28.00	25.50	420,523
Fourth Quarter	28.00	27.00	551,492
Quarterly information 2010			
First Quarter	29.00	27.05	680,176

[34] Source: Bloomberg.

18 TAXATION IN BELGIUM

The following is a summary of the principal Belgian tax consequences for investors relating to the acquisition, the ownership and disposal of the shares of the Company. This summary is based on the Company's understanding of the applicable laws, treaties and regulations as in effect in Belgium on the date of this Prospectus, all of which are subject to change, including changes that could have a retroactive effect.

This summary does not purport to address all tax consequences associated with ownership of the shares, and does not take into account the specific circumstances of any particular investor or the tax laws of any country other than Belgium. In particular, this summary does not address the tax treatment of investors who are subject to special rules, such as financial institutions, insurance companies, collective investment undertakings, dealers in securities or currencies or persons who hold the shares as a position in a straddle, share-repurchase transactions, conversion transactions, a synthetic security or other integrated financial transaction. This summary does not address the local taxes that may be due in connection with an investment in shares.

Investors should consult their own advisers regarding the tax consequences of an investment in the shares in light of their particular situation, including the effect of any state, local or other national laws and regulations, treaties and the official interpretation thereof.

For the purposes of this summary, a resident investor is:

(i) an individual subject to Belgian individual income tax (*impôt des personnes physiques / personenbelasting*);

(ii) a corporation (as defined by Belgian tax law) subject to Belgian corporate income tax (*impôt des sociétés / vennootschapsbelasting*); or

(iii) a legal entity subject to the Belgian tax on legal entities (*impôt des personnes morales / rechtspersonenbelasting*).

A non-resident investor is any person that is not a resident investor.

18.1 DIVIDENDS

As a general rule, a withholding tax of 25% is levied on the gross amount of dividends distributed on shares upon payment or attribution of the dividends. Dividends include all benefits paid on or attributed by the Company to the shares in whatever form and way they are distributed, as well as repayments of statutory capital, except repayments of fiscal capital made in accordance with the Belgian Company Code. Generally, fiscal capital includes statutory paid-up capital and, subject to certain conditions, paid-up share premiums and the amounts subscribed to at the time of the issuance of profit participating certificates (*winstbewijzen*).

Subject to certain conditions, Belgian law provides for a reduction of the withholding tax rate to 15% in respect of dividends distributed on shares that are issued to the public after 1 January 1994. The New Shares will benefit from this reduced withholding tax rate. Therefore, they will be issued together with VVPR Strips, which are the instruments representing the right of the holder to receive dividends on the shares at a reduced withholding tax rate of 15%. These VVPR Strips are described in more detail under section 18.4 below.

A Belgian withholding tax of 10% is in principle levied on redemption and liquidation bonuses distributed by the Company upon the purchase of its own shares or its liquidation. The basis for the withholding tax is equal to any amount distributed over and above (the proportional share of) the fiscal capital. No withholding tax will be due for redemptions of own shares carried out on Euronext Brussels or any other similar regulated stock exchange market.

Belgian tax law provides for certain exemptions from Belgian withholding tax on Belgian source dividends. If there is no exemption available under Belgian domestic law, the Belgian withholding tax can potentially be reduced for non-resident investors pursuant to the bilateral tax treaty concluded between Belgium and the state of residence of the investor.

18.1.1 *Resident private investors*

For resident individuals holding the shares as a private investment, the dividend withholding tax is a final tax. The dividend income must not be declared in the investor's personal income tax return.

If such investor opts to report such dividend income in his personal income tax return, this dividend income will, in principle, not be submitted to the ordinary progressive personal income tax rates, but will be taxed separately at rates that are equivalent to the withholding tax rate plus local taxes (which vary, as a rule, from 0% to 10% of the investor's income tax liability). However, if this tax liability exceeds the tax that would otherwise be due if the dividends and the other reported income were subject to the ordinary progressive personal income tax rates (plus local taxes), the progressive rates will apply instead. In both cases, the withholding tax levied at source will be creditable against the final income tax liability of such investor, and be reimbursable (if it is at least EUR 2.50) to the extent it exceeds the final income tax liability of the investor. To qualify for this credit and refund, the dividend distribution must not give rise to a reduction in value of or a capital loss on the shares. This condition is not applicable if the investor demonstrates that he held the shares in full legal ownership during an uninterrupted period of 12 months prior to the attribution of the dividends.

For resident individuals who hold the shares for professional purposes, the dividends must be reported in the investor's personal income tax return and are taxable at the progressive personal income tax rates plus local taxes. The withholding tax will be creditable against the final income tax liability of such investor and is reimbursable to the extent that it exceeds the investor's final income tax liability and is at least EUR 2.50, subject to two conditions (both for the credit and the refund): (i) the investor must hold the full legal title to the shares at the time of payment or attribution of the dividends, and (ii) the dividend distribution may not give rise to a reduction in the value of, or a capital loss on, the shares. The second condition is not applicable if the investor demonstrates that he held the full legal title to the shares during an uninterrupted period of 12 months prior to the attribution of the dividends.

18.1.2 *Resident corporations*

For resident corporations, the gross dividend income (including the withholding tax levied) will generally be taxable at the resident corporate income tax rate of 33.99% unless the corporation would be entitled to the application of the reduced corporate income tax rates.

The withholding tax may, in principle, be credited against the final corporate income tax liability of the investor and is reimbursable to the extent that it exceeds the investor's final income tax liability and is at least EUR 2.50, subject to two conditions (both for the credit and the refund):

(i) the investor must hold the full legal title to the shares at the time of payment or attribution of the dividends; and

(ii) the dividend distribution may not give rise to a reduction in the value of, or a capital loss on, the shares.

The second condition is not applicable if the investor demonstrates that it held the shares in full legal ownership during an uninterrupted period of 12 months prior to the attribution of the dividends or if, during that period, the shares never belonged to a taxpayer who was not a resident corporation or who was not a non-resident corporation that held the shares in an uninterrupted manner through a permanent establishment in Belgium.

No withholding tax will be due on dividends paid to a resident corporation provided that the resident corporation owns, at the time of the distribution of the dividend, at least 10% of the share capital of the Company for an uninterrupted period of at least one year and, provided further that the resident corporation provides the Company or its paying agent with a certificate as to its status as a resident company and as to the fact that it has owned a 10% shareholding for an uninterrupted period of at least one year. For those investors holding a participation of at least 10% in the share capital of the Company for less than one year, the Company will levy the withholding tax but will not transfer it to the Belgian Treasury, provided that the investor certifies:

(i) its resident status;

(ii) the date on which it acquired the shareholding;

(iii) its commitment to hold the shares up to at least one year and to immediately notify the Company when the one year period requirement has been satisfied; and

(iv) its commitment to immediately notify to the Company a reduction of its shareholding below this threshold prior to the end of the one year period.

As soon as the investor owns the shareholding of at least 10% in the capital of the Company for one year, it will receive the amount of this temporarily levied withholding tax.

A resident corporation may deduct 95% of the gross dividends received from its taxable income under the Dividend Received Deduction (*revenus définitivement taxés / definitief belaste inkomsten*) (DRD) regime. The application of the DRD regime is subject to the following conditions, to be fulfilled at the date of attribution or payment of the dividends:

(i) the shareholding has an acquisition value of at least EUR 2,500,000 or represents at least 10% of the capital of the Company;

(ii) the shares have been or will be held in full legal ownership for an uninterrupted period of at least one year;

(iii) the shares qualify as financial fixed assets under Belgian GAAP; and

(iv) the Company is subject to the ordinary regime of Belgian corporate income tax and does not fall within the scope of application of one of the exceptions set out in Article 203 of the Income Tax Code ("subject to tax" condition) (together the "DRD Conditions").

As from assessment period 2010, the first condition also applies to dividends received by credit institutions, insurance companies and stockbroking firms.

18.1.3 *Resident legal entities*

For resident legal entities, the Belgian withholding tax levied generally constitutes their final tax liability.

18.1.4 *Non-residents*

For individuals, corporations or other legal entities which are not resident in Belgium and do not hold the shares through a Belgian establishment or fixed base, the withholding tax is generally levied at the rate of 25% or 15% if they also hold VVPR Strips (see section 18.4), subject to such relief as may be available under applicable tax treaty provisions. This withholding tax will be the only tax payable in Belgium on the dividends.

Belgium has entered into tax treaties with more than 80 countries, reducing the dividend withholding tax rate to 15%, 10%, 5% or 0% for residents of such countries, depending on conditions related to the importance of the shareholding and the identity of the shareholder, as well as certain identification formalities. Such reduction may be obtained either directly at source or through a refund of taxes withheld in excess of the applicable tax treaty rate.

Prospective non-resident investors should consult their own tax advisors as to whether they qualify for a reduction of, or exemption from, Belgian withholding tax upon payment or attribution of dividends, and as to the procedural requirements for obtaining such a reduction or exemption.

If the shares held by a non-resident investor are connected with a fixed base or a permanent establishment in Belgium, the dividends must be reported in the investor's non-resident individual or corporate income tax return (as appropriate), and are subject to the non-resident individual or corporate income tax. The Belgian withholding tax may, in principle, be credited against the final non-resident individual or corporate income tax liability of such investor and is reimbursable to the extent that it exceeds the investor's final income tax liability and is at least EUR 2.50, subject to the conditions that (both for the credit and the refund):

(i) the investor has full legal ownership of the shares at the time the dividends are made available for payment or attributed; and

(ii) the dividend distribution does not reduce the value of, or result in a capital loss on, the shares.

The second condition is not applicable if the investor demonstrates that it held the shares in full legal ownership during an uninterrupted period of 12 calendar months prior to the attribution of the dividends or if, during that period, the shares never belonged to a taxpayer who was not a resident corporation or who was not a non-resident corporation that held the shares in an uninterrupted manner through a permanent establishment in Belgium.

Non-resident corporations may deduct up to 95% of the gross dividends from their taxable profits if, at the date dividends are made available for payment or attributed, the DRD Conditions set out above are met.

Additionally, non-resident corporations, subject to corporate taxation or a similar taxation without benefiting from a tax regime which deviates from the applicable common tax regime, that are resident of a Member State, or of a jurisdiction with which Belgium has concluded a tax treaty whereby there is an exchange of information between those two states on the basis of the tax treaty or any other treaty, and that have a corporate form as provided for in the annex to the EU Parent-Subsidiary Directive of 23 July 1990 (90/435/EEC) as amended by Directive 2003/123/EC of 22 December 2003, or a similar corporate form in a jurisdiction with which Belgium has entered into a tax treaty, are entitled to an exemption from withholding tax if they own at least 10% of the share capital in the Company for an uninterrupted period of at least one year. In order to benefit from this exemption, the shareholder must sign a certificate in which its qualifying parent company status is confirmed and in which it is stated that at the moment of attribution of the dividends it has held the qualifying participation in the capital of the Company for an uninterrupted period of at least one year. This certificate must be transmitted to the Company or the paying agent in due time. For those investors owning a participation of at least 10% in the capital of the Company for less than one year at the moment of attribution of the dividends, the Company or the paying agent will levy the withholding tax but will not transfer it to the Belgian Treasury, provided that the investor certifies:

(i) its qualifying parent company status;

(ii) the date on which it acquired the 10% shareholding;

(iii) its commitment to hold the minimum shareholding up to at least one year and to immediately notify this event to the Company; and

(iv) its commitment to immediately notify the Company of a reduction of its shareholding below such threshold prior to the end of the one year period.

As soon as the investor owns the participation of at least 10% in the capital of the Company for one year, it will receive the amount of this temporarily levied withholding tax.

Under Belgian tax law, withholding tax is not due on dividends paid to a non-resident entity that is not engaged in any business or other profit making activity and is exempt from income tax in its country of residence, provided that it is not contractually obligated to redistribute the dividends to any beneficial owner of such dividends for whom it holds the shares (apart from certain qualifying beneficial owners which are themselves eligible for a withholding tax exemption). The exemption will only apply if the non-resident entity signs a certificate confirming that:

(i) it is the full legal owner or usufruct holder of the shares;

(ii) it is a non-resident that is not engaged in any business or other profit making activity and is exempt from income tax in its country of residence; and

(iii) it is not bound to redistribute the dividends to non-qualifying beneficial owners.

This certificate must then be transmitted to the Company or the paying agent in due time.

18.2 CAPITAL GAINS AND LOSSES

18.2.1 *Resident private investors*

Resident individuals holding the shares as a private investment are not subject to Belgian income tax on capital gains realised on the shares provided that the capital gain arises from a transaction that is considered an act of normal management of the shares. Conversely, capital losses incurred on the shares are not tax deductible. Such investors may, however, be subject to a 33% tax (plus local taxes) if the capital gain arises from transactions going beyond the scope of the normal management of one's own private portfolio.

If, at any time during the five years preceding the transfer of the shares, the resident individual held directly or indirectly, alone or with his/her spouse or with certain relatives, a substantial shareholding in the Company (*i.e.*, a shareholding of more than 25%) and the shares are transferred, immediately or within the following 12 months, to a legal person that has its registered offices, its principal establishment, or place of management outside the EEA, the capital gains realised upon the transfer will be subject to a 16.5% personal income tax (plus local taxes).

Resident individuals who hold the shares for professional purposes are taxed at the ordinary progressive income tax rates (which are currently in the range of 25% to 50%, plus local taxes) on any capital gains realised upon the disposal of the shares. If the shares were held for at least five years prior to such disposal, the capital gain will be subject to a reduced rate of 16.5% (plus local taxes). Capital losses on shares realised by such an investor are in principle tax deductible.

Capital gains realised by resident private investors upon the redemption of the shares or upon liquidation of the Company will be taxed as a dividend (see *supra*).

18.2.2 *Resident corporations and Belgian branches of non-resident corporations*

Resident corporations and non-resident corporations that hold the shares through a permanent establishment or fixed base in Belgium, will not be taxed in Belgium on the capital gains realised upon disposal of the shares, provided that the "subject to tax" condition relating to the application of the DRD regime (see section 18.1.2) is fulfilled.

Any losses incurred by such investors upon disposal of the shares will not be tax deductible, except capital losses incurred as a result of the full liquidation of the Company up to the fiscal capital of the Company represented by those shares.

Capital gains realised upon redemption of shares or upon liquidation of the Company will in principle be taxable as dividend income.

18.2.3 *Resident legal entities*

Resident legal entities are normally not subject to Belgian capital gains tax on the disposal of the shares, but they may be subject to the 16.5% tax described above if they hold a substantial participation (more than 25%) in the capital of the Company (see section 18.2.1).

Losses incurred by resident legal entities upon disposal of the shares are generally not tax deductible.

18.2.4 *Non-residents*

Capital gains realised by a non-resident individual who does not hold the shares through a fixed base in Belgium are generally not subject to taxation in Belgium. However if the gain is deemed to be realised outside the scope of the normal management of the individual's private estate, this capital gain will be subject to a final professional withholding tax of 30.28% in Belgium unless the non-resident individual is entitled to an exemption from such capital gains tax on the basis of a tax treaty.

Moreover, capital gains realised by a non-resident individual on the direct or indirect transfer of the shares, outside the exercise of a professional activity, to a legal person which is not a resident of the EEA are in principle taxable at a rate of 16.5% if, at any time during the five years preceding the transfer the individual has owned directly or indirectly, alone or with his/her spouse or with certain relatives, a substantial shareholding (*i.e.*, a shareholding of more than 25%) in the Company, unless the non-resident individual is entitled to an exemption from such capital gains tax on the basis of a tax treaty.

Capital gains will be taxable at the ordinary progressive income tax rates, and capital losses will be tax deductible, if those gains or losses are realised on shares held by a non-resident individual in connection with a business conducted in Belgium through a fixed base in Belgium.

Capital gains realised by a non-resident corporation that has not acquired the shares in connection with a business conducted in Belgium through a permanent establishment are generally not subject to taxation in Belgium. Capital gains realised by a non-resident corporation that holds the shares in connection with a business conducted in Belgium through a permanent establishment are normally not subject to Belgian taxable gains taxation on the disposal of the shares provided that, the "subject to tax" condition described above is fulfilled.

Capital gains realised by non-resident shareholders upon redemption of the shares or upon the liquidation of the Company will in principle be taxable as dividends.

18.3 TAX ON STOCK EXCHANGE TRANSACTIONS

The purchase and sale or any other acquisition or transfer for consideration in Belgium, through a "professional intermediary" (which will always be the case for shares existing in book-entry form), of existing shares in the Company (secondary market) give rise to tax on stock-exchange transactions at a rate of 0.17%, subject to a cap of EUR 500 per transaction and per party and is collected by the professional intermediary on behalf of both parties involved.

This tax is not due by the following exempted persons acting for their own account:

(i) professional intermediaries described in Articles 2, 9° and 10° of the Belgian Law of 2 August 2002 on the supervision of the financial sector and financial services (*Loi relative à la surveillance du secteur financier et aux services financiers / Wet betreffende het toezicht op de financiële sector en de financiële diensten*);

(ii) insurance companies described in Article 2, §1 of the Belgian Law of 9 July 1975 on the supervision of insurance companies (*Loi relative au contrôle des entreprises d'assurances / Wet betreffende de controle der verzekeringsondernemingen*);

(iii) pension funds described in Article 2, 1° of the Belgian Law of 27 October 2006 on the supervision of pension funds (*Loi relative au contrôle des institutions de retraite professionnelle / Wet betreffende het toezicht op de instellingen voor bedrijfspensioenvoorzieningen*);

(iv) collective investment undertakings; and

(v) non-residents (upon delivery of a certificate on non-residency in Belgium).

The subscription for New Shares does not give rise to a tax on stock exchange transactions.

18.4 VVPR STRIPS

The New Shares meet the conditions pursuant to which shares are entitled to a reduced withholding tax rate of 15% (instead of 25%). The right to this reduced withholding tax will be incorporated in VVPR Strips, which will be issued together with the New Shares.

The coupons representing the right of the holder to receive dividends at the ordinary withholding tax rate are attached to each share. In addition, some shares will be accompanied by a second (book-entry) sheet of coupons, which gives the holder the right to benefit from the reduced withholding tax rate of 15%. The coupons of the second sheet must bear the same sequential numbers as those of the ordinary coupons and must bear the wording, in French, "Strip-PR" or, in Dutch, "Strip-VV" (together, "VVPR Strips"). The VVPR Strips will be listed on Euronext Brussels and may be traded separately. They are offered as part of the Offering. The reduced withholding tax rate of 15% can be obtained by delivery of both coupons with the same number to the Company or the paying agent, within three years as of 1 January of the year during which the dividend was attributed.

Individual Belgian residents and individual Belgian non-residents holding the VVPR Strips as a private investment are not subject to Belgian capital gains tax upon the disposal of the VVPR Strips, and cannot deduct losses incurred as a result of such disposal. Individual Belgian residents and individual Belgian non-residents may, however, be subject to Belgian income tax if the capital gain is realised outside the scope of the normal management of one's private estate. The tax amounts to 33% (plus local taxes) for Belgian residents. Non-residents are subject to a final professional withholding tax at a rate of 30.28%, subject to such relief as may be available under applicable tax treaty provisions.

Capital gains realised on VVPR Strips by resident individuals holding the shares for professional purposes or by resident corporations, or by non-resident investors who are holding the VVPR Strips in the framework of a business conducted in Belgium through a fixed base or a Belgian establishment, are taxable as ordinary income, and losses on VVPR Strips are in principle deductible.

Legal entities subject to the Belgian tax on legal entities are not subject to Belgian capital gains tax upon the disposal of the VVPR Strips and cannot deduct losses incurred as a result of such disposal.

The rules regarding the tax on stock exchange transactions apply equally to the VVPR Strips.

19 MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read together with

(i) *the information in the section entitled "Selected Financial Data";*
(ii) *the Company's audited consolidated financial statements, including the notes to those financial statements, which are included or incorporated by reference in this Prospectus (see section 20 and the Company's website:* www.elia.be*); and*
(iii) *the section related to the description of Elia's business (see section 10) and the section regarding regulation and tariffs (see section 13).*

Certain statements in this section are "forward-looking" statements and should be read together with the section entitled "Forward-Looking Statements". The Company prepares its consolidated financial statements in accordance with IFRS, as endorsed by the EU.

See "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this section.

19.1 REPORTING ENTITY

Established in Belgium, the Company has its registered office at Boulevard de l'Empereur 20, B-1000 Brussels.

All the entities keep their accounts in euro and have the same closing date as the Company.

The consolidated financial statements for the financial year 2009 include the Company and four subsidiaries, *i.e.* Elia Asset, Elia Engineering, Belpex and Elia RE, and also the associated companies HGRT and Coreso. HGRT and Coreso are included in the consolidated statements on the basis of the equity method. The stake in CASC-CWE, a company established in 2008, is recognised at cost price in the item "financial assets".

The consolidated financial statements for the 2008 financial year include the Company and four subsidiaries, *i.e.* Elia Asset, Elia Engineering, Belpex and Elia RE and also an associated company, HGRT. HGRT is included in the consolidated statements on the basis of the equity method. Stakes in the companies CASC-CWE and Coreso, both of which were established in 2008, are recognised at cost price as "financial assets".

The Company, together with the consolidated entities for the relevant year, are referred to as the "Group".

19.1.1 *Fully consolidated participations*

The Company has direct and indirect control of the subsidiaries listed below:

Name	Country of establishment	Headquarters	Enterprise number	Average staff	Stake (%)		
					2009	2008	2007
Elia Asset	Belgium	Bd de l'Empereur 20 1000 Brussels	475028202	750.3	99.99	99.99	99.99
Elia Engineering	Belgium	Bd de l'Empereur 20 1000 Brussels	471869861	146.1	100.00	100.00	100.00
Belpex	Belgium	Bd de l'Imperatrice 66 1000 Brussels	874978602	5.3	60.00	60.00	60.00
Elia RE	Luxembourg	Rue de Merl 74 2146 Luxembourg	-	-	100.00	100.00	100.00

19.1.2 *Associated companies accounted for using the equity method*

In 2008, Coreso was recognised at cost price because no economic or accounting transactions had occurred. In 2009, Coreso started operations and 16.7% of the participation was sold to the British TSO National Grid.

Name	Country of establishment	Headquarters	Enterprise number	Average staff	Stake (%)		
					2009	**2008**	**2007**
HGRT	France	1 Terrasse Bellini 92919 La Défense Cedex	438262800 RCS Nanterre	0	24.5	24.5	22.17
Coreso	Belgium	Avenue de Cortenbergh 71 1000 Brussels	808569630	10.1	33.3	0	0

19.1.3 *Other participations*

In 2009, the company CASC-CWE, which was founded in 2008, was included for the first time in the "Equity accounted investees" section.

Name	Country of establishment	Headquarters	Enterprise number	Stake (%)		
				2009	**2008**	**2007**
CASC-CWE	Luxembourg	2 Rue de Bitbourg 1273 Luxembourg-Hamm	B142.282 Luxembourg	14.29	14.29	0
Coreso	Belgium	Avenue de Cortenbergh 71 1000 Brussels	808569630	0	50.00	0

19.2 CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Continuing operations			
Revenue	733.7	724.4	705.7
Cost of sales	(5.6)	(6.8)	(8.6)
Gross profit	**728.1**	**717.6**	**697.1**
Other income	37.6	32.9	26.0
Services and other goods	(303.5)	(281.9)	(281.0)
Personnel expenses	(124.4)	(118.8)	(114.0)
Depreciation, amortisation, impairment and changes in provisions	(102.1)	(96.2)	(93.8)
Other expenses	(9.9)	(15.7)	(19.6)
Results from operating activities	**225.8**	**237.9**	**214.7**
Net finance costs	(120.5)	(109.3)	(104.0)
Finance costs	12.8	8.3	3.7
Finance income	(133.2)	(117.6)	(107.7)
Share of profit of equity accounted investees (net income tax)	(1.0)	2.0	0.0
Profit before income tax	**104.3**	**130.6**	**110.7**
Income tax expense	(20.0)	(27.2)	(32.9)
Profit from continuing operations	**84.3**	**103.4**	**77.8**
Profit for the period	**84.3**	**103.4**	**77.8**
Profit attributable to:			
Owners of the Company	84.0	103.1	77.6
Non-controlling interest	0.3	0.3	0.2
Profit for the period	**84.3**	**103.4**	**77.8**

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Profit for the period	**84.3**	**103.4**	**77.8**
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges, net of tax	(2.6)	(19.7)	5.2
Defined benefit plan actuarial gains and losses, net of tax	(3.4)	(12.0)	4.9
Subtotal other comprehensive income for the period, net of income tax	**(6.0)**	**(31.7)**	**10.1**
Total comprehensive income for the period	**78.3**	**71.7**	**87.9**
Profit attributable to:			
Owners of the Company	78.0	71.4	87.7
Non-controlling interest	0.3	0.3	0.2
Total comprehensive income for the period	**78.3**	**71.7**	**87.9**

19.2.1 *Revenue – general*

New regulatory framework

Since 1 January 2008, the Company has been applying multi-annual transmission tariffs fixed for four years (2008-2011). The Company's regulated net profit comprises three elements:

- Fair profit margin on shareholders' equity is calculated on the basis of the actual value of the Belgian ten-year interest rate (daily average) and the actual beta of the Company's share multiplied by a fixed risk premium of 3.5%.
- Offsetting in tariffs of the decommissioning of fixed assets. According to Elia estimates, this will amount to EUR 14.2 million in net profit annually between 2008 and 2011. By law, this portion of the net profit must be reserved to fund future investment.
- The savings in operating expenses on top of the savings imposed by Royal Decree (EUR 4 million in 2008, EUR 6 million in 2009, EUR 7 million in 2010 and EUR 8 million in 2011, making a total of EUR 25 million for the period 2008-2011). If less than EUR 25 million is saved over a four-year period, the shortfall is at charge of the Company. In the event that the Company saves more than the stated amount, these additional savings (up to a maximum of EUR 25 million) are included in the net profit over a four-year period.

	Year ended 31 December		
Detail revenue - general (million €)	**2009**	**2008**	**2007**
Network connection revenue	32.8	32.7	32.3
Network use revenue	509.9	510.9	406.7
Revenues from the reversal of surpluses from previous years (decision by the regulator)	22.8	20.9	85.6
Ancillary services revenue	108.0	113.4	129.0
International revenue	28.7	28.3	43.1
Other revenue	37.6	32.9	25.1
Subtotal revenue	739.8	739.1	721.8
Deviations from approved budget (settlement mechanism) (see section 19.2.2)	31.5	18.2	9.9
Total revenue	**771.3**	**757.3**	**731.7**

	Year ended 31 December r		
Detail - other revenue (million €)	**2009**	**2008**	**2007**
Own production	13.2	16.2	15.8
Bonus previous year	0.0	0.0	2.7
Optimal use of assets	10.0	9.8	9.4
Services and technical expertise	3.2	3.2	3.0
Changes in current assets related to application of IAS 19	(4.4)	(5.6)	(13.0)
Transfers of assets from customers	2.7	0.0	0.0
Belpex activities	4.2	3.4	2.7
Other	8.7	5.9	4.5
Total other revenue	**37.6**	**32.9**	**25.1**

2008 compared to 2007

Network connection revenue remained stable in relation to 2007 figures.

Network use revenue rose by 25.6% due to:

- the impact of **reversals of surpluses from previous periods**, which were significantly lower than in previous years (-75.6%); and
- the introduction of fixed tariffs for the period 2008-2011. This implies that the amount charged for each MWh transported is higher than actual cost at the start of the period and less than actual cost at the end of the period.

Ancillary services revenue decreased due to the reduction of costs for ancillary services purchased from producers. These lower purchase costs are passed on in full to customers.

International revenue dropped by 34.3% compared with 2007 as a result of less congestion on the interconnections with neighbouring countries. Revenue from explicit annual and monthly auctions fell by EUR 10.2 million and revenue from implicit daily auctions via Belpex by EUR 2 million. Compensation revenue for international electricity flows over the European network fell by EUR 2.7 million. These revenues have no influence on the regulated profit as they fall under the "non–controllable cost" part of the regulated tariffs.

Apart from exceptional items, **other operating revenue** remained unchanged from 2007. The difference of EUR 7.8 million is largely due to the fact that the net amount of retirement provisions to be recovered from future tariffs was EUR 7.4 million less in 2008 than in 2007. Furthermore, in 2008, EUR 4.9 million of moratorium interest (on tax claim, see section 19.2.3.6) was deducted from other operating revenue to be returned to future tariffs. The latter amount was offset by a one-off compensation payment received for late commissioning (EUR 2.3 million) and EUR 2.7 million in passed-on service costs relating to a number of European projects (CASC-CWE, Coreso, Belpex).

2009 compared to 2008

Network connection revenue remained stable compared to 2008.

Network use revenue was in line with 2008 despite an 8% reduction in electricity off-take from the Elia network as a result of the economic crisis. The decrease was largely offset by the introduction last year of revenue from off-take tariffs for hydraulic energy storage units (pumped-storage power stations) during pump operations.

Ancillary services revenue decreased as a result of the reduction in off-take from the Elia network.

International revenue remained more or less unchanged in 2009 compared to 2008. Thanks to market coupling of the Belgian, French and Dutch electricity markets, wholesale prices in these three countries remained highly convergent.

Other operating revenue increased by 14.3% from EUR 32.9 million to EUR 37.6 million in 2009, mainly due to application of IFRIC 18[35] for the first time (up EUR 2.7 million), whereby all customer contributions to network connections must be booked as revenue in IFRS and are no longer deducted from investments as previously. Other contributing factors are a result of a rise in the compensation received from insurance companies (up EUR 1.7 million) and more passed-on costs as part of the CWE project and other assignments (up EUR 0.9 million).

The section "Deviations from approved budget for non-controllable items" is described under the section "Regulation", for the financial impact see section 19.2.2.

19.2.2 *Revenue – settlement mechanism*

The Company is operating in a regulatory environment, and almost all of the profit of the Company is determined by a tariff settings formula composed of the sum of fair remuneration, offsetting in tariffs of the decommissioning of fixed assets, incentive on "controllable costs", profit from transfer pricing and some other elements. Tariffs and net profit are based on budgeted or forecasted values.

Deviations between budget and real figures in revenue and/or in expenses (shortage/surplus) are recognised through the income statement under the section revenue to obtain a net profit under Belgian GAAP in line with the regulatory framework (see above).

[35] IFRIC 18: Transfers of Assets from Customers.

More details on the deviations from approved budget for non-controllable items can be found in section 13.6.5.

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Sources			
1. Source of differences in the financial year			
Deviations in revenue from network access	(14.8)	1.4	2.7
Deviations in international revenue	(17.3)	(23.8)	(10.9)
Deviations in other revenue	(0.7)	2.4	3.0
Total difference at the end of the financial year	**(32.8)**	**(20.0)**	**(5.2)**
Deviation on budget for purchase of ancillary services	(14.1)	6.4	8.6
Deviation on budget for sundry operating charges	25.3	1.9	(9.9)
Deviation on budget for financial expenses	(8.3)	2.3	2.3
Total difference in operating charges	**2.9**	**10.6**	**1.0**
Readjustment bonus/malus decision 2005 and 2006	0.0	0.0	(9.4)
Difference surplus value and others	(2.2)	0.4	0.0
Total adjustment of regulated profit	0.6	(6.3)	3.7
Total difference revenue	**(1.6)**	**(5.9)**	**(5.7)**
TOTAL OF DIFFERENCES IN RESULTS	**(31.5)**	**(15.3)**	**(9.9)**
2. CREG decision			
Allocation of 50% of the bonus to the Company	0.0	(2.9)	0.0
Total impact of the CREG decision	**0.0**	**(2.9)**	**0.0**
TOTAL OF DIFFERENCES IN RESULTS	**(31.5)**	**(18.2)**	**(9.9)**

2008 compared to 2007

The section "Deviations from approved budget for non-controllable items" refers to the tariff deficit for 2008 that can be recovered in the next tariff period 2012-2015. The tariff deficit of EUR 18.2 million in 2008 is mainly the result of lower than budgeted international revenue (EUR 23.8 million) and higher than budgeted profit (EUR 8.8 million, including bonus for financial year 2007), partially offset by lower-than-budgeted operating expenses (EUR 10.6 million).

The CREG's final decision on 29 May 2008 concerning the balance for the 2007 settlement mechanism resulted in the allocation of EUR 12.8 million to be recovered in the next tariff period 2012 and following. This included a bonus of EUR 5.9 million for 2007, 50% of which (*i.e.* EUR 2.9 million before tax) was granted to the Company in 2008. The remaining 50%, or EUR 2.9 million, will be deducted from tariffs in the next tariff period 2012 and following.

2009 compared to 2008

The section "Deviations from approved budget for non-controllable items" refers to the tariff deficit for 2009 that can be recovered in the next tariff period 2012-2015. The tariff deficit of EUR 31.5 million is mainly the result of lower-than-budgeted network access revenue (EUR 14.8 million) and international revenue (EUR 17.3 million), greater than expected offsetting of the surplus value in the decommissioning of fixed assets (EUR 1.2 million, see section 19.2.3.7) and lower than budgeted operating charges (EUR 2.9 million), including extra savings amounting to EUR 8.3 million as a result of lower than expected inflation (-1.4% compared with budgeted inflation of 1.8%).

Pursuant to the Tariffs Decree, during 2009 the CREG assessed the amounts booked in 2008 with regard to the settlement mechanism and confirmed that the sum of EUR 15.7 million can be regarded as a "regulatory receivable".

The sum of EUR 15.7 million is broken down as follows:

Regulatory receivable (million €)	
Balance (see above table)	18.2
Correction regarding to previous financial year (already recognised as a regulatory receivable in the past)	(2.9)
Amendment new activities (included in the 2009 accounts)	0.4
Total	**15.7**

In light of these assessments, an agreement was concluded by the Company and the CREG with regard to the subsequent development of the Group's new activities and how the Group could be remunerated for them in the future. Its purpose was to ensure that the Company continued to strive to further develop its activities profitably, thereby both contributing to a reduction in the tariffs for users and providing additional income for the Company.

In addition, a mechanism was adopted to allocate costs accurately and ensure that Belgian tariffs would not be adversely affected in the event of the launch of non-Belgian regulated activities.

19.2.3 *Operating expenses*

19.2.3.1 Cost of materials, services and other goods

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Purchase of ancillary services	155.6	135.0	138.9
Raw materials, consumables and goods for resale	5.6	6.8	8.6
Services and other goods (excl. purchase of ancillary services)	147.9	146.9	142.1
Total	**309.1**	**288.7**	**289.6**

2008 compared to 2007

Notwithstanding rising electricity prices, there was a 2.8% drop in the purchase of ancillary services from EUR 138.9 million in 2007 to EUR 135.0 million in 2008 thanks to an efficient day-to-day management of purchased goods and an efficient procurement policy. The other items ("services and other goods" and "raw materials and consumables") rose by EUR 3 million from EUR 150.7 million in 2007 to EUR 153.7 million in 2008. Active participation in European initiatives (such as CWE and CASC-CWE) and a rise in works for third parties were the main factors driving the 1.9% increase. The costs for these projects were largely charged to the other project participants and the projects' principals.

2009 compared to 2008

The cost of purchasing ancillary services rose with 15.2% from EUR 135.0 million in 2008 to EUR 155.6 million in 2009 due mainly due to relatively high electricity prices contracted in 2008 but taking effect in 2009 and to a lesser extent to an increase in the quantities of energy used under the respective contracts.

The other items ("Services and other goods" and "Raw materials") remained more or less unchanged compared to 2008.

19.2.3.2 Personnel expenses

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Wages	79.3	77.9	76.1
Social security contributions	22.9	22.8	21.5
Contribution to defined benefit plans and other liabilities	19.2	15.2	14.3
Other personnel liabilities	(1.5)	(0.5)	(1.8)
Share-based payment with reduction	0.9	0.1	0.7
Other personnel cost	3.5	3.3	3.2
Total	**124.3**	**118.8**	**114.0**

2008 compared to 2007

Personnel expenses rose by 4.2% from EUR 114.0 million in 2007 to EUR 118.8 million in 2008, mainly because of high inflation during the first three quarters of 2008. For further details about the contribution to defined benefit plans and other liabilities, see section 19.3.12.

2009 compared to 2008

Personnel expenses rose by 4.6% from EUR 118.8 million in 2008 to EUR 124.3 million in 2009, mainly due to a rise in wages. More information about the defined benefit pension plan and other personnel liabilities can be found in section 19.3.12.

19.2.3.3 Depreciation, amortisation, impairment and changes in provisions

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Depreciation of property, plant and equipment	91.7	91.0	89.5
Depreciation of intangible assets	6.1	4.5	2.9
Total of depreciation	**97.8**	**95.5**	**92.4**
Impairment of inventories and trade receivables	0.7	0.4	0.5
Total of impairment	**0.7**	**0.4**	**0.5**
Provisions for litigation	0.1	(0.6)	0.9
Environmental provisions	3.5	0.9	0.0
Total of provisions	**3.6**	**0.3**	**0.9**
Total	**102.1**	**96.2**	**93.8**

2008 compared to 2007

Depreciations increased by EUR 3.1 million due to a rise in the acquisition value of tangible and intangible assets (see sections 19.3.1 and 19.3.2).

The inventory consists of consumables and strategic items required for repairing high voltage substations, cables and lines. The turnover of these strategic items is quite low, and the amount written off for these materials was EUR 0.4 million in 2008.

No amounts were written off for trade debtors in 2008 (see section 19.3.7).

A detailed description of provisions is provided in section 19.3.14.

2009 compared to 2008

Depreciations increased by EUR 2.3 million, mainly due to a rise in depreciations in intangible assets (see sections 19.3.1 and 19.3.2).

The turnover of strategic articles in the inventory is quite low, and the amount written off for these materials was EUR 0.7 million in 2009.

No amounts were written off for trade debtors in 2009 (see section 19.3.7).

A detailed description of provisions is provided in section 19.3.14.

19.2.3.4 Other expenses

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Taxes other than income tax	6.4	12.6	12.3
Net loss on disposal/sale of property, plant and equipment	3.3	3.1	2.8
Net loss on trade debtors	0.2	0.0	0.0
Bonus-malus settlement of previous year	0.0	0.0	4.5
Total	**9.9**	**15.7**	**19.6**

2008 compared to 2007

Other expenses fell by EUR 3.9 million in 2008 compared to 2007 as the Company did not incur any additional costs as a result of the application of the settlement mechanism (bonus-malus settlement for the previous year) for 2007.

The deviation under “Bonus-malus settlement of previous year” for 2007 is due to the application of the settlement mechanism as described in section 13.6.5.

2009 compared to 2008

The 36.9% decrease in other expenses from EUR 15.7 million in 2008 to EUR 9.9 million in 2009 is mainly due to a decrease in “Taxes other than income tax”, and specifically taxes on high voltage pylons, which were unjustifiably charged to the Company and recovered by the Group from the municipal authorities in a court case (subject to appeal proceedings).

The “Bonus-malus settlement” is no longer applicable due the new 4 years tariff mechanism which started in 2008.

19.2.3.5 Net finance costs

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Finance income	**12.8**	**8.3**	**3.7**
Interest income on investment trust, bank deposits, cash and cash equivalents	3.0	2.5	3.2
Net change in fair value of investment trust	0.7	0.9	0.5
Other financial income	9.1	4.9	0.0
Finance expenses	**133.2**	**117.6**	**107.7**
Interest expense	127.5	117.2	107.3
Other financial costs	5.7	0.4	0.4
Net finance expense recognised in income statement	**(120.4)**	**(109.3)**	**(104.0)**

2008 compared to 2007

Finance income increased by EUR 4.6 million from EUR 3.7 million in 2007 to EUR 8.3 million in 2008 due to the recognition of EUR 4.9 million in moratorium interest on a EUR 93.8 million tax assessment (paid, but contested) relating to the tax file (see section 19.2.3.6).

The interest expenses (*i.e.* interest expense and interest expense on derivatives) amounted to EUR 117.2 million in 2008 and mainly included interest expenses on financial liabilities and the interest income or expense resulting from the associated derivatives. The EUR 9.9 million increase in 2008 compared to 2007 is primarily due to rising interest rates on loans with variable rates of interest and use of additional short-term loans (see section 19.3.11).

As a result, net finance expenses, *i.e.* expenses minus income, rose by 5.1% from EUR 104.0 million in 2007 to EU 109.3 million in 2008.

2009 compared to 2008

Finance income increased by EUR 4.5 million from EUR 8.3 million in 2008 to EUR 12.8 million in 2009, which is mainly the result of other financial income increasing by EUR 4.2 million due to the increase of moratorium interest of EUR 1.7 million on a EUR 93.8 million tax assessment (paid but contested) relating to the tax file (see section 19.2.3.6), and the moratorium interest collected from the repayment of tax on high voltage pylons (see section 19.2.3).

The net finance expenses amounted to EUR 120.4 million and mainly included interest expenses on financial liabilities and the interest income or expense resulting from the associated derivatives. The EUR 11.1 million increase in 2009 compared to 2008 is primarily due to rising net financial debt and to the interest expense arising from the pre-financing operation for the issue of the Eurobond (see section 19.3.11 for more details).

19.2.3.6 Income taxes

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Due income tax expenses	17.5	20.2	28.9
Adjustments prior years	(0.1)	0.0	0.7
Total income tax expenses	**17.4**	**20.2**	**29.6**
Origination and settlement of temporary differences	2.6	7.0	3.3
Total deferred tax	**2.6**	**7.0**	**3.3**
Total income tax recognised in income statement	**20.0**	**27.2**	**32.9**

The outcome of the tax assessment by the tax authorities is described under sections 10.13 and 10.14.

Following a tax audit in relation to the Company's financial year 2004, the Company received in early 2008 a notice of additional corporate tax assessment relating to the excess tariff applied in 2004. The additional tax to be paid amounted to EUR 85.3 million, to be increased by 10%. In consultation with its tax advisor and the CREG, and given that similar excess tariffs have not been taxed with similar companies that are also active in a regulated sector, the Company's management decided to lodge an administrative appeal against this additional tax assessment. This administrative appeal was, however, rejected by the regional tax director. The Company subsequently started a judicial procedure before the court of first instance in Brussels in which it requested the court to annul the contested tax assessment and to order the total reimbursement (and interest) of the additional tax amount that has been effectively paid by the Company. In 2008 and 2009, the tax administration took similar decisions in relation to the excess tariffs applied in 2005 and 2006. The Company received additional tax assessments which amount to EUR 9.8 million for 2005 and to EUR 22.7 million for 2006, both amounts to be increased by 10%. The Company has decided, in the same way as for the 2004 file, to lodge an administrative appeal against these additional tax assessments, which have not yet been paid by the Company.

The excess tariffs, on which the additional tax assessments for 2004, 2005 and 2006 are based, have been systematically taken into account for the determination of the tariffs in the following years (restitution to consumers). Accordingly, there is only a timing difference in relation to, on the one hand, the excess tariffs applied in the past, and on the other hand, the restitution of these excess tariffs in the following years.

Should the outcome of this tax dispute be negative for the Company, the company tax paid on the excess tariffs will automatically be compensated by the "taxes to recover" on the restitution made to the customers in 2005, 2006 and 2007 and in the following years. The principal amount of the additional company tax assessments can thus be entirely recovered. Should there be any balance remaining, it can be reasonably expected that this amount may be neutralised by the tariff mechanism.

From an accounting perspective, the amounts related to the year 2004 (EUR 85.3 million), year 2005 (EUR 9.8 million) and for 2006 (EUR 22.7 million) (to be increased by 10%), have been treated as follows:

- The notice received from the tax authorities is recognised through the income statement as income tax and the amount to be paid as income tax payable.
- The fact that legal proceedings have been initiated and the fact that the Company is already paying income tax on the release of these amounts, results in a recognition of a correction on the income tax in the income statement and the amount to be recovered as a income tax receivable. The amount of tax payable and tax receivable have been netted.

For the amount relating to the year 2004, as the Company has already paid the amount, the income tax receivable was mentioned under 'non current tax receivables'.

2008 compared to 2007

Notwithstanding an 18.0% rise in income before tax (from EUR 110.7 million to 130.6 million EUR), income tax expenses decreased by 17.3% as the result of a fiscal ruling obtained in December 2007. This ruling related to transfer pricing between the Company and Elia Asset and resulted in an increase of the notional interest deduction. This drop in taxes will be used to reduce tariffs and will therefore benefit all the consumers.

2009 compared to 2008

Income tax expense fell by 26.5%, due to both an 18.1% decrease in the pre-tax profit (from EUR 130.6 million to EUR 104.3 million) and a further tax optimisation. The lower level of tax will be passed on in full in the form of lower tariffs, to the benefit of all consumers.

19.2.3.7 Profit

Although the Company draws up its consolidated results according to IFRS standards, the major part of its profit (96.9% in 2009) is determined by the regulatory framework in which the Company operates. Within this framework, tariffs are approved by the CREG and are based on Belgian GAAP.

A detailed description relating to the fair remuneration margin in accordance with the regulatory framework and the association with profit in line with IFRS standards can be found below.

(in € million)	Year ended 31 December 2009		2008		2007[36]	
	Real	Budget	Real	Budget	Real	Budget
Average RAB	3,765.0	3,687.6	3,673.0	3,611.0	3,512.0	3,537.0
Equity reference	1,242.0	1,216.9	1,212.0	1,191.6	1,159.0	1,167.0
Equity compensation	4.99%	5.08%	5.62%	5.17%	6.05%	6.05%
Compensation Equity reference (A)	**62.0**	**61.9**	**68.1**	**61.6**	**70.1**	**70.6**
Average RAB	35.70%	36.25%	35.93%	36.45%	33.91%	34.29%
Variance equity reference	2.70%	3.25%	2.93%	3.45%	0.91%	1.29%
Compensation variance equity reference	4.64%	4.63%	5.14%	4.63%	2.72%	2.72%
S-Factor (B)	**4.7**	**5.5**	**5.5**	**5.8**	**0.9**	**1.2**
Accelerated depreciations (C)	**(8.2)**	**(8.2)**	**(8.2)**	**(8.2)**	**(8.2)**	**(8.2)**
Fair remuneration on shareholders' equity (A+B+C) = (1)	**58.6**	**59.2**	**65.5**	**59.2**	**62.8**	**63.7**
Offsetting in tariffs of the decommissioning of fixed assets	15.4	14.2	15.0	14.2	N/A	N/A
"Controllable costs" incentive Y	6.3	0.0	4.4	0.0	N/A	N/A
Profit transfer pricing	0.7	0.0	N/A	N/A	N/A	N/A
Court of appeal relating to 2005 and 2006	N/A	N/A	N/A	N/A	5.0	
Other elements	0.3	0.0	(0.2)	0.0	0.0	
Bonus previous years	N/A	0.0	1.9	0.0	0.0	
Total various regulatory elements (2)	**22.7**	**14.2**	**21.1**	**14.2**	**5.0**	**0.0**
Profit after tax (Regulated) (1+2)	**81.3**	**73.4**	**86.6**	**73.4**	**67.8**	**63.7**
Various IFRS adjustments and others	**2.7**		**16.5**		**9.8**	
Profit attributable to owners of the company	**84.0**		**103.1**		**77.6**	

2008 compared to 2007

Consolidated profit (based on IFRS standards) after income tax increased by 32.9% from EUR 77.6 million in 2007 to EUR 103.1 million in 2008, which is significantly better than the 2008 budget of EUR 73.4 million approved by the regulator. This is essentially owing to:

- the actual value of the Belgian ten-year interest rate, which averaged 4.44% in 2008, compared with a budgeted value of 3.93%, producing a positive impact of EUR 6.3 million;
- offsetting in tariffs of the decommissioning of fixed assets; EUR 14.2 million was earmarked for this in the budget, whereas the amount realised was EUR 15 million (+ EUR 0.8 million);
- additional savings over and above those imposed by the regulator (+ EUR 4.4 million);
- the regulator's final settlement for the 2007 bonus (+ EUR 1.9 million);
- the consolidation of Belpex, which was not budgeted for (+ EUR 0.3 million);
- the IFRS adjustments for 2008 (gain of EUR 16.5 million): these adjustments relate mainly to the capitalisation of software (EUR 4.1 million), the consolidation of Elia RE (EUR 2.8 million), HGRT (EUR 2 million) and Elia Engineering (EUR 1.3 million) and the recovery of retirement provisions through additional payments (EUR 11.9 million) which under IFRS were previously recognised as debt, minus the net effect of deferred tax on all IFRS entries (EUR 5.8 million).

2009 compared to 2008

Consolidated profit (based on IFRS standards) after income tax decreased by 18.5% to EUR 84.0 million in 2009 compared to EUR 103.1 million in 2008. However, this still represents an outperformance on the multi-annual budget of EUR 73.4 million approved by the regulator for 2009, mainly thanks to:

- offsetting in tariffs of the surplus arising from decommissioning of fixed assets; EUR 14.2 million was earmarked for this in the budget, whereas the amount realised was EUR 15.4 million (*i.e.* EUR 1.2 million more than expected);
- extra savings over and above those imposed by the regulator (EUR 6.3 million extra);
- dividends from Belpex and HGRT (two financial shareholdings that are part of the RAB): following the approval of the regulator as of 2009, 60% of these dividends are paid to Elia (gain of EUR 0.7 million) and 40% are used to reduce future tariffs;

[36] 2007, last year of annual tariff mechanism.

- the IFRS adjustments for 2009 and others (gain of EUR 2.7 million): these adjustments relate mainly to the capitalisation of software (EUR 3.1 million), booking in full of revenue from customer contributions (EUR 2.7 million) minus the consolidation of HGRT/Coreso (EUR 1.0 million) and the net effect of deferred tax on all IFRS entries (EUR 2.4 million).

A detailed description of the method for calculating fair remuneration is given in section 13.6.6.

19.3 CONSOLIDATED BALANCE SHEET

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Assets			
Non-current assets	**3,976.6**	**3,938.1**	**3,760.0**
Property. plant and equipment	2,089.6	2,060.4	1,993.2
Intangible assets	1,730.1	1,727.0	1,722.7
Trade and other receivables	105.8	98.7	0.0
Investments in equity accounted investees	9.4	10.1	8.1
Derivatives	0.0	0.0	5.5
Other investments (excluding derivatives)	16.7	17.7	16.8
Deferred tax assets	25.0	24.2	13.7
Current assets	**443.4**	**290.0**	**217.9**
Inventories	13.7	13.7	13.2
Trade and other receivables	218.1	246.9	171.2
Income tax receivable	0.7	2.1	0.0
Cash and cash equivalents	174.6	27.3	33.5
Other assets	36.3	0.0	0.0
Total assets	**4,420.0**	**4,228.1**	**3,977.9**
Equity and liabilities			
Equity	**1,367.1**	**1,349.7**	**1,339.9**
Equity attributable to equity holders of the Company	***1,365.4***	***1,348.1***	***1,338.6***
Share capital	1,207.3	1,202.1	1,201.7
Share premium	8.5	8.5	8.5
Reserves	36.0	21.0	18.4
Hedging reserve	(18.7)	(16.0)	3.6
Retained earnings	132.2	132.5	106.4
Non-controlling interest	***1.7***	***1.6***	***1.3***
Non-controlling interest	1.7	1.6	1.3
Non-current liabilities	**2,804.7**	**1,774.8**	**2,385.5**
Loans and borrowings	2,618.9	1,593.5	2,230.2
Employee benefits	142.9	142.7	143.6
Derivatives	28.2	24.3	0.0
Provisions	4.8	4.7	5.4
Deferred tax liabilities	6.8	6.5	5.3
Other liabilities	3.1	3.1	1.0
Current liabilities	**248.2**	**1,103.6**	**252.5**
Loans and borrowings	0.1	804.3	0.0
Provisions	13.9	10.3	9.4
Trade and other payables	233.9	281.7	204.8
Income tax payables	0.2	0.2	2.7
Other liabilities	0.0	7.1	35.6
Total equity and liabilities	**4,420.0**	**4,228.1**	**3,977.9**

19.3.1 *Property, plant and equipment*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
High voltage substations and transformers	1,167.2	1,141.1	1,084.7
Lines and cables	760.9	762.5	765.6
Land on which substations, lines and cables are located	70.9	70.6	59.8
Facilities used for network operation	31.4	31.5	30.7
Administrative buildings, furnishings and vehicles	59.2	54.7	52.4
Total property, plant and equipment	**2,089.6**	**2,060.4**	**1,993.2**

2008 compared to 2007

The capital expenditures of EUR 161.3 million in 2008 are mainly related to the construction of high voltage substations, laying of underground cables, building of overhead lines and installing of phase shifters.

2009 compared to 2008

The capital expenditure of EUR 157.3 million in 2009 is mainly related to the construction of high voltage substations, laying of underground cables and building of overhead lines.

In 2009, the new IAS 23 Borrowing Costs standard was first applied. This had an impact of EUR 0.1 million on the cost price of the assets.

19.3.2 *Intangible assets*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Goodwill	1,707.8	1,707.8	1,707.8
Software	22.3	19.2	14.9
Total intangible assets	**1,730.1**	**1,727.0**	**1,722.7**

19.3.2.1 Goodwill

The goodwill of EUR 1,707.8 million is related to the following past transactions:

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Acquisition of participations in Elia Asset by the Company - 2002	1,700.1	1,700.1	1,700.1
Acquisition of participations in Elia Engineering by Elia Asset - 2004	7.7	7.7	7.7
Total	**1,707.8**	**1,707.8**	**1,707.8**

In 2002, the acquisition of Elia Asset by the Company for an amount of EUR 3,304.1 million resulted in a positive consolidation difference of EUR 1,700.1 million. This positive consolidation difference is the result of the difference between acquisition value of this economic entity and historical net book value of the assets of Elia Asset. This difference consists of different elements such as the fact that (i) Elia was appointed as TSO for a period of 20 years, (ii) Elia has unique resources in Belgium as Elia is the owner of 100% of the very high-voltage network and is the owner of (or has the right to use) 94% of the high-voltage network, and hence only Elia is entitled to propose a development plan and (iii) Elia has the TSO know-how. At the date of acquisition, the qualification or the quantification in EUR of these elements could not be performed on an objective, transparent and reliable basis and therefore, the difference could not be allocated to specific assets and was considered as unallocated. Therefore, this difference has been recognised as goodwill since the 1st time adoption of IFRS as at 31st December 2004. The regulatory framework especially the offsetting in the tariffs of the decommissioning of fixed assets, applicable as from 2008 on did not have an impact on this accounting treatment.

The goodwill, as described above and the goodwill resulting from the acquisition of Elia Engineering in 2004 were allocated to the single cash-generating unit for the impairment test determined, since the income and expenses were generated by one activity especially the "regulated activity in Belgium", which will also be considered as one cash-generating unit going forward. As a result, the Company assigned the carrying amount of the goodwill to one unit, being the regulated activity in Belgium. Since 2004, annual impairment tests have been conducted and did not result in recognition of any impairment losses.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually as the higher of their fair value less cost to sell or value in use, applying the following assumptions and using the following valuation methods.

2008 compared to 2007

The impairment test was conducted by an independent organisation and was based on four valuation methods and applying the following assumptions (according to fair value less cost to sell methodology):

1. Discounting of future cash flows and using the "Regulated Asset Base" or "RAB" as basis for the estimation of the terminal value.
2. Discounting of future dividends.
3. Comparison between previously mentioned impairment methods and those used by some comparable West European listed companies, such as Red Electrica España, Enagas, Terna, Fluxys, Snam Rete Gas and National Grid.
4. Market valuation based on the Company's share price.

The future cash flows and future dividends methods are based on the latest long term budgeting exercise of 2007 applying the actual multi-annual tariffs mechanism for the period 2008-2015 as described under section 13.6 which has been extrapolated to 2018 using the following assumptions (i) period 2008-2011: the return for the fair remuneration of the company (4.6% to 4.9%), the offsetting in tariffs of the decommissioning of fixed assets (EUR million 14.2), a potential profit from controllable costs incentive; (ii) period 2012-2015: assumptions identical to 2008-2011, but no recognition of the potential profit from the controllable costs incentive and including an increase as result of accelerated depreciations (8.2 EUR million); (iii) for the period 2015-2018 a perpetual growth ratio of 1.9 % on the revenues is applied on the 2015 figures.

Management believes that extrapolating its budget from 2015 through 2018 is appropriate due to the regulated drivers of its business as well as the fact that Belgian regulatory environment has a historical track record of being consistent.

The discount rates used are between 4.79% (cost of equity 7.67% and the cost of debt of 5%), based on the Belgian 10 year bonds rate for the cost of equity, the 10 year Euro swap rate for the cost of debt and a tax rate of 33.99%.

The Company agrees with the conclusions of its independent expert to consider that the DCF method better reflects the steady state of the estimated fair value of Elia. As such, these tests did not result in accounting of an impairment loss on goodwill in 2008.

The independent analysis did not result in accounting an impairment loss on goodwill in 2008.

2009 compared to 2008

The impairment test was conducted by independent experts and was based on the following valuation methods and applying the following assumptions (according to fair value less cost to sell methodology):

1. Discounting of future cash flows and using the "Regulated Asset Base" or "RAB" as basis for the estimation of the terminal value.
2. Discounting of future dividends.
3. Comparison between previously mentioned impairment methods and those used by some comparable West European listed companies, such as Red Electrica España, Enagas, Terna, Fluxys, Snam Rete Gas and National Grid.
4. Market valuation based on the Company's share price.

The future cash flows and future dividends methods are based on the latest long term budgeting exercise of 2007 applying the current multi-annual tariffs mechanism for the period 2008-2015 as described under section 13.6 which has been extrapolated to 2018 using the following assumptions (i) period 2008-2011 the return for the fair remuneration of the company (4.6% to 4.9%), the offsetting in tariffs of the decommissioning of fixed assets (EUR million 14.2), a potential profit from controllable costs incentive; (ii) period 2012-2015, assumptions identical to 2008-2011, but no recognition of the potential profit from controllable costs incentive and including an increase as result of the accelerated depreciations (8.2 EUR million); (iii) for the period 2015 -2018 a perpetual growth ratio of 1.5 % on the revenues is applied on the 2015 figures.

Management believes that extrapolating its budget from 2015 through 2018 is appropriate due to the regulated drivers of its business as well as the fact that Belgian regulatory environment has a historic track record of being consistent.

The discount rates used are between 3.78% (cost of equity 5.47% and the cost of debt of 4.47%). and 4.51 % (cost of equity 7.51% and the cost of debt of 4.5%), based on the Belgian 10 year bond rates for the cost of equity, the 10 year Euro swap rate for the cost of debt and a tax rate of 33.99%.
The independent analyses did not result in accounting an impairment loss on goodwill in 2009.

Based on current knowledge, reasonable changes in key assumptions (including discount rate, OLO, …) would not generate material impairments for the cash-generating unit.

19.3.2.2 Software

Software comprises both IT applications developed by the Company for operating the network and software for Elia's normal business operations.

2008 compared to 2007

Internally-developed software increased with EUR 9.1 million in 2008 compared to 2007.

2009 compared to 2008

The capital expenditures in 2009 for internally-developed software amounts to EUR 9.2 million in 2009.

19.3.3 *Non-current trade and other receivables*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Tax receivables	105.3	98.7	0.0
Other amounts receivable	0.4	0.0	0.0
Total	**105.7**	**98.7**	**0.0**

2008 compared to 2007

Long-term receivables consists of the principal amount of tax receivable (EUR 93.8 million) and the moratorium interest (EUR 4.9 million) that the Group could recover. These amounts only relate to the tax audit of 2004 and since the dispute will first come before the court in 2011, they have been qualified as a long-term receivable. A detailed description can be found in section 10.14.

2009 compared to 2008

The fluctuation in 2009 compared to 2008 is mainly due to recognition of the additional moratorium interest (EUR 6.6 million for 2009) on the basic amount of the tax receivable (EUR 93.8 million).

19.3.4 *Equity accounted investees*

Investment in associated companies	**As at 31 December**		
(million €)	**2009**	**2008**	**2007**
At 1 January	10.1	8.1	0.5
Entry of subsidiary	0.3	0.0	7.6
Share of (loss)/profit	**(1.0)**	**2.0**	**0.0**
Total	**9.4**	**10.1**	**8.1**

The amounts mentioned here above are related to HGRT in 2007 until 2009. In 2008, the share in Coreso was initially qualified under other financial assets. As from 2009, the share in Coreso was qualified as "investments in equity accounted investees".

19.3.5 *Other financial assets*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Immediately claimable deposits	16.7	17.2	16.8
Others	0.0	0.5	0.0
Total	**16.7**	**17.7**	**16.8**

Other financial assets include investments classified at fair value for which the changes in fair value are being recognised in profit or loss.

2008 compared to 2007

A profit of EUR 0.4 million was entered during the 2008 financial year related to the immediately claimable deposits. The risk profile of these investments is discussed in section 19.5.

The Group's stakes in the companies CASC-CWE and Coreso, both of which were established in 2008, are recognised at cost price in the section 'Others'.

2009 compared to 2008

In 2009, a portion of immediately claimable deposits, EUR 0.6 million, was sold. The risk profile of these investments is discussed in section 19.5.

As from 2009, the shareholding in Coreso, which was included in other financial assets in 2008, is covered by the category 'Investments in equity accounted investees'.

19.3.6 *Inventories*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Raw materials and consumables	24.3	23.6	22.7
Impairment	(10.6)	(9.9)	(9.5)
Total	**13.7**	**13.7**	**13.2**

The inventories primarily consist of replacement and spare parts for Elia's maintenance and repairs of high voltage substations, overhead lines and underground cables.

2008 compared to 2007

The total value of the inventories in 2008 is in line with its value in 2007.

In 2008, the inventory increased by EUR 0.9 million compared to the previous year and purchasing for materials/consumables came to EUR 7.8 million, which resulted in a total net impact on the consolidated income statement of EUR 6.8 million (see section 19.2.3.1). Impairment recognised in profit or loss totalled EUR 0.4 million for 2008 and is included under ‘Impairment of inventories and trade receivables’ in section 19.2.3.3.

2009 compared to 2008

The total value of the inventories in 2009 is in line with its value in 2008.

In 2009, the inventory increased by EUR 0.7 million compared to the previous year and purchasing for materials/consumables came to EUR 6.3 million, which resulted in a total net impact on the consolidated income statement of EUR 5.6 million (see section 19.2.3.1). Impairment recognised in profit or loss totalled EUR 0.7 million for 2009 and is included under the booked impairment of inventories in section 19.2.3.3.

19.3.7 *Current trade and other receivables*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Projects for third parties	3.8	1.8	0.9
Other amounts receivables and advance payments	201.7	221.4	153.7
Levies	0.0	0.0	2.8
VAT, other taxes	6.7	10.3	4.4
Other	2.7	7.3	5.0
Deferred charges and accrued income	3.2	6.1	4.4
Total	**218.1**	**246.9**	**171.2**

	As at 31 December		
Detail of Other amounts receivables (million €)	**2009**	**2008**	**2007**
Not past due	172.6	181.9	135.9
Past due 0-30 days	32.9	35.8	13.3
Past due 31-60 days	(4.1)	3.0	3.5
Past due 61 - one year	0.0	0.0	0.3
More than one year	0.0	0.0	0.0
Total (excl. impairment)	**201.4**	**220.7**	**153.0**
Doubtful amounts	3.7	4.1	4.1
Amounts write offs	(3.4)	(3.4)	(3.4)
Total	**201.7**	**221.4**	**153.7**

2008 compared to 2007

The fluctuation in current trade and other receivables in 2008 compared to 2007 (+ EUR 75.7 million) was mainly due to a rise in other amounts receivables and advance payments from EUR 153.7 million in 2007 to EUR 221.4 million in 2008. This increase of EUR 67.7 million is the result of the favourable balance relating to market coupling with France and the Netherlands and an increase in “invoices to be issued”.

In 2007, EUR 2.8 million in levies was receivable, while in 2008, the amount for levies reflects a credit balance (see section 19.3.15).

The EUR 5.9 million increase under VAT, other taxes is due to an increase in recoverable VAT.

2009 compared to 2008

The decrease of EUR 28.8 million in 2009 compared to 2008 in current trade and other receivables was mainly due to both a drop in trade receivables relating to market coupling with France and the Netherlands and a EUR 3.7 million decrease in recoverable VAT.

19.3.8 *Cash and cash equivalents*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Balance at bank	60.6	3.5	1.7
Immediately claimable deposits	114.0	23.8	31.8
Total	**174.6**	**27.3**	**33.5**

Short-term deposits are invested for periods that vary from a few days to a few weeks, depending on the Group's immediate cash requirements and report interest in accordance with the interest rates for the short-term deposits.

Bank accounts earn interest in line with the variable rates of interest on the basis of daily bank deposit interest. The Group's interest rate risk and the sensitivity analysis for financial assets and liabilities are discussed in section 19.5.

For the purposes of the consolidated statement of cash flows "cash and cash equivalents" comprises the real bank balance and immediately claimable deposits (as listed above) minus current-account credits.

2008 compared to 2007

The interest rate of interest-bearing investments at the balance sheet date varied from 2% to 2.5% in 2008. The investments were due to mature in the first week of 2009.

The Group did not make use of credits on current account on 31 December 2008. As such, the amount listed in the consolidated balance sheet and the consolidated cash flow statement match those shown above.

2009 compared to 2008

The rise in cash is due to the fact that the market coupling activity did not result in a pre-financing situation at the end of the financial year. In addition, at the time of the EUR 1 billion Eurobond issue (see section 19.3.11) in April 2009, provision was made for financing potential tariff deficits and covering future needs so as to minimise the liquidity risk.

The interest rate of interest-bearing investments at the balance sheet date varied from 0.25% to 0.40% in 2009. The investments were due to mature in January 2010.

The Group did not make use of credits on current-account on 31 December 2009. As such, the amounts listed in the consolidated statement of financial position and the consolidated statement of cash flows match those shown below.

19.3.9 *Other assets*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Balance settlement mechanism	36.3	(7.1)	(35.6)
Total other current assets (liabilities)	**36.3**	**(7.1)**	**(35.6)**

(million €)	**2009**	**2008**	**2007**
Balance financial year 2004			(71.3)
Balance financial year 2006			(52.4)
To be refunded to the tariffs of current period	(80.1)	(102.9)	
Balance period 2007, 2008, 2009 to be recovered through the tariffs - period to be determined	59.7	28.1	9.9
Discount future tariffs	**(20.4)**	**(74.8)**	**(113.8)**
Moratorium interest on income tax - period 2008	(11.5)	(4.9)	
Amount receivable as a result of the application of IAS 19	68.2	72.6	78.2
Balance settlement mechanism	**36.3**	**(7.1)**	**(35.6)**

(*) Positive amounts are assets, whilst negative amounts are liabilities.

A detailed description of the balance settlement mechanism can be found in section 13.6 and the risks related to this mechanism are described under section 19.2.2.

2008 compared to 2007

On 31 December 2008, the other current liabilities totalled EUR 7.1 million and included the remaining balance of EUR 74.8 million from the settlement mechanism, which is yearly being agreed with the regulator, and various entries linked to the regulatory mechanism. The amount listed under “Discount future tariffs” included EUR 102.9 million to be reimbursed into the tariffs in the 2008-2011 period and EUR 28.1 million that will be settled in tariffs in the next tariff period (2012-2015).

Moratorium interest of EUR 4.9 million, related to the tax file, has been posted under section “Other assets” and as such this amount will also be settled in the tariffs once it has been obtained. Elia has specific obligations with respect to employee benefits and similar commitments (see section 19.3.12). In accordance with a study report issued by the CREG, it is believed by Elia that some of the employee benefits for a total of EUR 72.6 million will be accepted by the CREG as reasonable expenses and will therefore be passed on in future tariffs. Since this amount can be recovered by Elia from third parties, in accordance with IFRS principles (IAS 19), it is classified as an asset item.

An amount of EUR 20.9 million at the end of 2007 (EUR 113.8 million) has been included in the 2008 income statement as “income” (revenues from the reversal of surpluses from previous years) (see section 19.2.1).

2009 compared to 2008

On 31 December 2009, other assets totalled EUR 36.3 million, whereas at the end of 2008 the negative balance amounted to EUR 7.1 million.

Other assets include the remaining balance of EUR 20.4 million resulting from the settlement mechanism, which is still under review with the regulator, and various entries linked to the regulatory mechanism. The amount listed under “Discount future tariffs” includes EUR 80.1 million to be reimbursed into the tariffs in the 2010-2011 period and EUR 59.7 million that will be passed on in tariffs in the next tariff period (2012-2015).

Moratorium interest of EUR 6.6 million, related to the tax file, has been added under section “Other assets” in 2009. Elia has specific obligations as regards employee benefits and similar commitments (see section 19.3.12). In accordance with a study report issued by the CREG, it is virtually certain that some of the employee benefits for a total of EUR 68.2 million will be accepted by the CREG as reasonable expenses and will therefore be passed on in future tariffs. Since this amount can be recovered by the Company from third parties, in accordance with IFRS principles (IAS 19), it is classified as an asset item.

A total of EUR 22.8 million of the remaining balance at the end of 2008 (EUR 102.9 million) has been included in the 2009 income statement as “income” (revenues from the reversal of surpluses from previous years) (see section 19.2.1).

19.3.10 *Shareholders’ equity*

Equity attributable to the owners of the Company

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Equity beginning period	1,348.1	1,338.6	1,299.7
Share capital increase	5.2	0.5	4.8
Profit or loss	84.0	103.1	77.6
Other comprehensive income, net of income tax	(6.0)	(31.6)	17.9
Total other comprehensive income for the period, net of income tax	78.0	71.5	95.5
Dividends to equity holders	(65.9)	(62.5)	(61.3)
Equity end of period	1,365.4	1,348.1	1,338.6

Share capital

The Group offered its staff discounted share purchase plans in 2007, 2008 and in 2009, which resulted in three capital increases.

Reserves

In accordance with Belgian legislation, 5% of the parent company's statutory net profit must be transferred to a legal reserve each year until the legal reserve represents 10% of the capital. This reserve is only available for distribution in case of liquidation. The Board of Directors can propose the payment of a dividend to shareholders up to a maximum of the available reserves and the profit carried forward from previous financial years from the parent company, including the profit from the financial year closed. Shareholders must approve the dividend payment at the annual General Shareholders' Meeting.

2008 compared to 2007

On 31 December 2008 and 31 December 2007, the Group's legal reserve totalled EUR 21.0 million and EUR 17.6 million respectively.

2009 compared to 2008

Within the tariff mechanism, the Company must reserve in shareholders' equity the realised surplus passed on in the tariffs as a result of decommissioning of fixed assets (decrease in Regulated Asset Base). In 2008, this amounted to EUR 15.0 million. The General Shareholders' Meeting of 12 May 2009 decided to include that amount in the legal reserve. On 31 December 2009 the Group's legal reserve was EUR 36.0 million, compared to EUR 21.0 million on 31 December 2008. This reserve can only be paid to shareholders in the event of liquidation.

19.3.11 *Interest bearing loans and borrowings*

The Company manages its liabilities and general financing strategy through a combination of short and long-term liabilities or hedges them by use of interest rate swaps. The Group finances its daily working capital requirement, if necessary, via various confirmed or non-confirmed credit lines and uses commercial paper. Medium-term loans usually have an interest rate that is based on the inter-bank interest rate on the date on which they are taken out increased by a predefined margin.

A global overview of loans (long- and short-term borrowings) and interest payable is provided below:

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Long-term borrowings	2,550.5	1,552.9	2,190.3
Accrued interests	68.4	40.6	39.8
Subtotal long-term borrowings	**2,618.9**	**1,593.5**	**2,230.1**
Current portion of long-term borrowings	0.0	637.7	0.0
Short-term borrowings	0.0	161.9	0.0
Short-term borrowings branch Belpex	0.0	4.5	0.0
Accrued interests	0.1	0.2	0.0
Subtotal short-term borrowings	**0.1**	**804.3**	**0.0**
Total	**2,619.0**	**2,397.8**	**2,230.1**

Interest-bearing loans

	As at 31 December		
(million €) (Book value)	**2009**	**2008**	**2007**
Shareholders' loan tranche A	495.8	495.8	495.8
Shareholders' loan tranche B3	0.0	387.7	387.7
Other shareholders' loans	0.0	0.0	0.0
Financial institutions	0.0	250.0	250.0
Eurobond issues	1,994.7 (2)	997.1(1)	996.8
European Investment Bank	60.0	60.0	60.0
Total	**2,550.5**	**2,190.6**	**2,190.3**
Current portion of long-term borrowings	0.0	(637.7)	0.0
Total long-term borrowings	**2,550.5**	**1,552.9**	**2,190.3**

(1) Nominal value of Eurobond issue as per 31 December 2008 consisting of two tranches, with an aggregate nominal value of EUR 1,000 million.

(2) Current carrying amount of the Eurobond, consisting of a number of tranches, with a nominal value of EUR 2,000 million.

2008

The following table provides an overview of the maturity dates and conditions of the loans at 31 December 2008:

Interest bearing loans

(million €)	Maturity	Amount	Interest rate before hedging	Interest rate after hedging	Current proportion of the interest	
					Fixed	Variable
Shareholders Loan tranche A	2022	495.8	6.18%	4.96%	100.00%	0.00%
Shareholders Loan tranche B3	2009	387.7	5.67%	5.55%	12.90%	87.10%
Eurobond issues 2004/10 years	2014	498.6	4.75%	4.75%	100.00%	0.00%
Eurobond issues 2004/15 years	2019	498.5	5.25%	5.25%	100.00%	0.00%
Financial institution	2009	250.0	5.07%	5.07%	0.00%	100.00%
European Investment Bank	2016	40.0	4.27%	4.27%	100.00%	0.00%
European Investment Bank	2017	20.0	4.79%	4.79%	100.00%	0.00%
Total		**2,190.6**			**73.17%**	**26.83%**
Current portion of long-term borrowings		(637.7)				
Total long-term borrowings		**1,552.9**			**73.17%**	**26.83%**

Short-term loans and credit line facilities

(million €)	Maturity	Available amount	Average basic interest	Amount	
				Used	Not used
Confirmed credit line	15/09/2009	150.0	Euribor + 0.25 %	100.0	50.0
Uncommitted credit line facility	-	80.0	Euribor + margin when concluding the deal	0.0	80.0
Belgian dematerialised treasury notes	03/2009	250.0	Euribor + margin when concluding the deal	61.9	188.1
Total		**480.0**		**161.9**	**318.1**

The interest-bearing loans have been issued in euro to avoid all financial exchange rate risks and totalled EUR 2,190.6 million at 31 December 2008.

The payment of EUR 93.8 million to the tax authorities and recurrent temporary requirements for working capital were financed by drawing EUR 100 million on a committed credit facility of EUR 150 million and using EUR 61.9 million obtained from the Programme for Belgian Treasury Bills.

2009

The following table gives an overview of the maturity dates and conditions of the loans at 31 December 2009:

Interest bearing loans

(million €)	Maturity	Amount	Interest rate before hedging	Interest rate after hedging	Current proportion of the interest	
					Fixed	Variable
Shareholders' loan tranche A	2022	495.8	3.37%	5.51%	79.83%	20.17%
Eurobond issues 2004/10 years	2014	498.9	4.75%	4.75%	100.00%	0.00%
Eurobond issues 2004/15 years	2019	498.6	5.25%	5.25%	100.00%	0.00%
Eurobond issues 2009/7 years	2016	498.2	5.63%	5.63%	100.00%	0.00%
Eurobond issues 2009/4 years	2013	499.1	4.50%	4.50%	100.00%	0.00%
European Investment Bank	2016	40.0	4.27%	4.27%	100.00%	0.00%
European Investment Bank	2017	20.0	4.79%	4.79%	100.00%	0.00%
Total		**2,550.6**			**95.43%**	**4.57%**
Current portion of long-term borrowings		0.0				
Total long-term borrowings		**2,550.6**			**95.43%**	**4.57%**

Short-term loans and credit line facilities

(million €)	Maturity	Available amount	Average basic interest	Amount Used	Amount Not used
Confirmed credit line	30/10/2010	150.0	Euribor + 0.65%	0.0	150.0
Confirmed credit line	15/01/2010	125.0	Euribor + margin when concluding the deal	0.0	125.0
Uncommitted credit line facility		70.0	Market conditions	0.0	70.0
Uncommitted credit line facility		100.0	Euribor + margin when concluding the deal	0.0	100.0
Belgian dematerialised treasury notes		250.0	Euribor + margin when concluding the deal	0.0	250.0
Total		**695.0**		**0.0**	**695.0**

During 2009, a shareholders' loan expired in September, as well as a number of short-term loans and the commercial paper programme.

The Company refinanced these loans by issuing a Eurobond. This transaction was implemented in two tranches (a EUR 500 million four-year tranche and a EUR 500 million seven-year tranche) in April 2009 with a price setting for the four-year tranche at mid-swap + 1.90% (coupon of 4.5%), and at mid-swap + 2.45% (coupon of 5.625%) for the seven-year tranche. The bonds are listed on the Luxembourg stock exchange.

The interest bearing loans have been issued in euro to avoid all financial exchange rate risks and totalled EUR 2,550.6 million at 31 December 2009.

19.3.12 *Employee benefits*

Elia's employees are entitled to a number of benefit plans, as described below.

Defined benefit pension plan

For details on the defined benefit pension plans organised by the Company, see section 14.8.

Early retirement

If certain conditions are met, employees may leave before the age of 60.

Other employee benefits

In addition to the pension arrangements described above, employee benefits also include other extra-legal benefits, such as:

- A "jubilee" premium paid to staff who have been with the Company for 25, 30 and 35 years;
- Cover of medical costs and hospitalisation;
- Reductions on gas and electricity bills.

Other provisions

Other benefits consist of a provision for restructuring, which provides for future expenses for career breaks and time credits.

Overview of employee benefits

(million €)	As at 31 December 2009	2008	2007
Defined benefit plans	85.9	87.5	82.6
Early retirement plan	13.9	12.0	17.2
Other employee benefits	41.9	42.0	42.1
Subtotal	*141.7*	*141.5*	*141.9*
Others (restructuring)	1.2	1.2	1.7
Total employee benefits	**142.9**	**142.7**	**143.6**

Detail defined benefit plans, early retirement plan and other employee benefits

(million €)	As at 31 December 2009	2008	2007
Change in benefit obligation			
Defined benefit obligation at the beginning of the period	(240.0)	(258.8)	(322.4)
Changes during fiscal year	3.1	18.8	63.6
Defined benefit obligation at the end of the period	(236.9)	(240.0)	(258.8)
Changes in plan assets			
Fair value of plan assets at beginning of the period	98.5	116.9	143.1
Changes during fiscal year	(3.3)	(18.4)	(26.2)
Fair value of plan assets at end of period	95.2	98.5	116.9
Funded status			
Funded status of the plan	**(141.7)**	**(141.5)**	**(141.9)**

2008 compared to 2007

The decrease of EUR 44.8 million from EUR 63.6 million in 2007 to EUR 18.8 million in 2008 in the changes of the fiscal year in defined benefit obligations and the decrease of EUR 26.2 million in 2007 to EUR 18.4 million in 2008 in the plan assets are mainly due to exceptional changes and curtailments of different defined benefit plans. Beside that effect, the financial crisis had a negative impact in 2008 on the plan assets of the funded defined pension plans.

The changes and curtailment in the defined benefit plans in 2007 consisted of:

- a sectoral collective labour agreement offered a restricted group, already retired and entitled to a monthly pension, the chance of converting their pension into a one-off capital payment.
- sectoral agreements and agreements at company level, in which the defined-contribution pensions were brought into line with recent legislation on supplementary pensions and a certain category complied with the request to switch over to a defined contribution pension.

2009 compared to 2008

The decrease of EUR 15.7 million from EUR 18.8 million in 2008 to EUR 3.1 million in 2009 in the changes of the fiscal year in defined benefit obligations and the decrease of EUR 15.1 million from EUR 18.4 million in 2008 to EUR 3.3 million in 2009 in the plan assets are related the exceptional effect of the financial crisis in 2008.

19.3.13 *Derivatives (liabilities)*

(million €)	As at 31 December 2009	2008	2007
Interest rate swaps	(28.2)	(24.3)	5.5
Total	**(28.2)**	**(24.3)**	**5.5**

2008 compared to 2007

As at 31 December 2007 and at 31 December 2008, the Group held hedging instruments with a contracted reference value of EUR 545.8 million. The interest rate swaps had an interest rate varying from 4.05% to 4.41%. The net fair value of the swaps as at 31 December 2007 totalled EUR 5.5 million and was entirely composed of assets as a result of higher market interest rates then the rates of the swaps. The net fair value of the swaps as at 31 December 2008 totalled EUR 24.3 million and was entirely composed of liabilities due a drop in the market interest rate.

2009 compared to 2008

As at 31 December 2009, the Group held hedging instruments with a contracted reference value of EUR 395.8 million. The interest rate swap related to the shareholders loan B3 expired at 17 September 2009, the same date as the maturity date of that loan. The interest rate swaps had an interest rate varying from 4.23% to 4.41%. The net fair value of the swaps as at 31 December 2009 totalled EUR 28.2 million and was entirely composed of liabilities.

19.3.14 *Provisions*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Environment	13.9	10.3	9.4
Litigation	4.8	4.7	5.4
Total	**18.7**	**15.0**	**14.8**

2008 compared to 2007

The **provision for the environment** comprises obligations based on estimates for decontaminating sites in the Flemish Region, where, in addition to a decontamination obligation, Elia also bears ultimate responsibility for decontamination costs under previous ownership transfers. Estimates include costs for setting up the decontamination project, monitoring and the actual decontamination costs. There were no significant changes in 2008 (EUR 10.3 million) compared to 2007 (EUR 9.4 million).

For sites located in the Brussels Capital Region, where soil legislation recently changed and has not entered into force yet, Elia has already preventively screened 23 sites. Of these, two are being studied further. In 2008, the results have not led to the posting of additional provisions. The purchase of a site with a strategic location for Elia could only go ahead if an IBGE/BIM-approved decontamination plan was made available. Elia worked with the seller to draw up a rehabilitation plan and made itself responsible for decontamination by paying a bank guarantee. This led to an additional provision of EUR 0.5 million being posted.

The "soil decree" was approved by the Walloon Parliament in December 2008 and was published on 18 February 2009. The decree entered into force three months after its publication, with the exception of Article 21[37], which will only enter into force after 18 months. As this development has not brought about any actual change in the legal framework, it is impossible to make a reliable estimate of any future decontamination costs. Elia visited all sites for preventive screening and carried out 5 soil analyses in 2008. This screening, which is compliant with the current legal obligation, did not suggest there was any reason to introduce an environmental provision.

The **provision for litigation** is based on the management's best estimate of charges that Elia would have to pay as a result of cases in which legal proceedings have been instituted against Elia by a third party or in which Elia is involved in a legal dispute.

The expected timing of the related cash outflow depends on the progress and duration of the associated procedures.

[37] Art. 21 makes it compulsory to have a study carried out when applying for permission to perform a non-riskfullactivity if this is due to take place on a site where a risky activity is performed.

2009 compared to 2008

The change in **provisions relating to the environment** is due to further soil research and decontamination on certain sites in Flanders and to the impact of the announcement of the initial results of the preventive screening of sites in the Brussels Capital Region and the Walloon Region.

The booked provisions for the sites in the Flemish Region mainly result from past transfers of business rights. In 2009, one site was declared as “not requiring remediation” by the Flanders Public Waste Agency (OVAM), thereby leading to the reversal of a provision amounting to EUR 5.4 million. Meanwhile, in 2009 it became clearer that Elia would indeed have to undertake decontamination on two other sites. This resulted in an additional appropriation of EUR 3.8 million (on a without prejudice basis).

For sites located in the Brussels Capital Region, Elia has already preventively screened 23 sites. Of these, one site was considered to probably present a risk to humans and the environment. For this purpose, a provision of EUR 0.7 million was provided, without any disadvantageous acknowledgement of any obligation or liability.

The “soil decree” was approved by the Walloon Parliament in December 2008 and was published in the Belgian Official Gazette on 18 February 2009. The practical implementation of this new legislation and the interpretation of certain criteria are still causes of doubts. However, Elia has proactively visually screened the sites of high voltage substations it owns in the Walloon Region. Further analyses were conducted for 56 sites in 2009. For 10 sites, Elia, without any acknowledgement of any obligation or liability, provided a total provision of EUR 5 million.

Estimates of the amounts were made by an external design office, bearing in mind the BATNEEC[38] principle.

The **provision for litigation** is based on the management’s best estimate of charges that the Company would have to pay as a result of cases in which legal proceedings have been instituted against the Company by a third party or in which the Company is involved in a legal dispute.

The expected timing of the related cash outflow depends on the progress and duration of the associated procedures.

19.3.15 *Trade and other payables*

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Trade debts	126.3	229.4	169.6
VAT, other taxes	5.5	2.4	6.5
Remuneration and social security	24.4	23.4	21.0
Dividend	1.3	1.7	0.6
Levies	55.7	9.0	0.0
Other	10.1	7.0	3.4
Accruals and deferred income	10.6	8.8	3.7
Total	**233.9**	**281.7**	**204.8**

The Group’s foreign currency exchange rate risk and liquidity risk relating to trade and other payables are discussed in section 19.5.

2008 compared to 2007

Trade debts increased with EUR 59.8 million to EUR 229.4 million in 2008 compared to EUR 169.6 million in 2007, which is mainly a consequence of open balances linked to the market coupling mechanism.

At the end of 2008, levies are EUR 9 million in credit while in 2007, there was a debit balance of EUR 2.8 million (see section 19.3.7).

[38] Best available techniques not entailing excessive costs.

2009 compared to 2008

Trade debts decreased with EUR 103.1 million to EUR 126.3 million in 2009 compared to EUR 229.4 million in 2008, which is mainly a consequence of the exceptionally open balances linked to the market coupling mechanism in 2008.

At the end of 2009, levies are EUR 55.7 million in credit. The increase compared to 2008 is due to the introduction of the federal levy in 2009. The Company collects the levy from its customers and pays the collected amount to the regulator.

19.3.16 *Deferred tax assets and liabilities*

	Assets			Liabilities		
	As at 31 December			As at 31 December		
(million €)	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Property, plant and equipment	0.5	0.4	0.2			
Intangible fixed assets	(7.1)	(6.1)	(4.3)			
Inventories	(1.0)	(0.9)	(0.9)			
Interest-bearing loans and other non-current financial liabilities	8.6	7.9	(2.3)			
Employee benefits	47.7	46.9	46.8			
Provisions	0.1	0.3	0.3			
Other items	(23.8)	(24.3)	(26.1)	(6.8)	(6.5)	(5.3)
Net tax asset (-) / liability	**25.0**	**24.2**	**13.7**	**(6.8)**	**(6.5)**	**(5.3)**

19.4 CONSOLIDATED CASH FLOWS STATEMENT

	Year ended 31 December		
(million €)	**2009**	**2008**	**2007**
Profit for the period after income tax	**84.3**	**103.4**	**77.8**
Non cash adjustments to reconcile profit before tax to net cash	100.5	79.1	77.0
Finance cost	124.1	114.7	104.2
Working capital adjustments	(70.5)	(31.2)	(14.0)
Income tax expense	20.0	27.2	32.5
Income tax paid	(15.9)	(118.6)	(27.1)
Interest paid	(102.0)	(116.7)	(103.2)
Net cash flow from (used in) operating activities	**140.5**	**57.9**	**147.2**
Purchase of property, plant and equipment, intangible assets	(133.7)	(170.5)	(150.0)
Interest received	6.1	2.5	2.9
Other cash flow from investing activities	0.2	(0.5)	(7.6)
Net cash flow from (used in) investing activities	**(127.4)**	**(168.5)**	**(154.7)**
Proceeds from/repayment of borrowings	195.9	166.5	69.3
Dividends paid	(66.0)	(62.5)	(61.3)
Other financing activities	4.3	0.4	4.1
Net cash flow from (used in) financing activities	**134.2**	**104.4**	**12.1**
Net increase (decrease) in cash and cash equivalents	**147.3**	**(6.2)**	**4.6**
Cash and cash equivalents at period end	174.6	27.3	33.5

2008 compared to 2007

The net cash flow from operating activities decreased with EUR 88.6 million, from EUR 146.5 million in 2007 to EUR 57.9 million in 2008, which is mainly due to the exceptional payment of EUR 93.8 million related to the tax claim as result of the tax assessment of the Company. The outcome of the tax assessment by the tax authorities is described under section "Business – Tax assessment".

The net cash flow used in investing activities increased by EUR 13.8 million, from EUR 154.7 million in 2007 to EUR 168.5 million in 2008, as the result of higher capital expenditures for the construction of HS voltage installations.

The net cash flow used in financing activities fluctuated with EUR 91.6 million from EUR 12.8 million in 2007 to EUR 104.4 million in 2008 resulting from the use of the back-up credit lines to cover the exceptional payment of the tax claim.

2009 compared to 2008

The net cash flow from operating activities increased by EUR 82.6 million, from EUR 57.9 million in 2008 to EUR 140.5 million in 2009, as there was in 2008 an exceptional payment of EUR 93.8 million related to the tax claim.

The net cash flow used in investing activities decreased by EUR 41.1 million from EUR 168.5 million in 2008 to EUR 127.4 million in 2009, which is mainly due to the decision to reduce the capital expenditures in 2009. This decision by the management, supported by the Board of Directors was based on a sharp drop in volumes since late 2008 and the deferment of tariff revenue that may potentially result from this and to respect the "auto-financing capacity".

The net cash flow used in financing activities increased from EUR 104.4 million in 2008 to EUR 134.2 million in 2009 thanks to the proceeds (EUR 1,000 million) of the issuance of the Eurobond, partially offset by the re-imbursement of loans and borrowings (see section 19.3.11) .

19.5 FINANCIAL RISK AND DERIVATIVE MANAGEMENT

19.5.1 *Risks*

The Company aims to identify each risk and sets out strategies to control their economic impact on the Company's results. In addition to its routine tasks, such as monitoring the risk analysis, defining risk management strategies and reporting to management, the Internal Audit and Risk Management department continues to pay attention to the impact of the financial/economic crisis on the Company and its effects in other sectors, with a view to assessing any risks this unusual situation poses for the Group. The potential impact for each risk factor is described below. The regulatory framework in which the Company operates considerably restricts their effects on profit or loss (see section 13). The results of increased interest rates, credit risk, *etc*. can be settled in the tariffs, in accordance with the applicable legislation.

Certain strategies to control these risks make use of derivative financial instruments: instruments whose value is derived from one or more underlying assets, reference prices or indices. The derivative instruments create rights and commitments which transfer all or some of the financial risks to other parties to the contract.

19.5.2 *Credit risk*

Credit risk is the risk that one of the parties to a contract fails to meet its obligations with respect to the financial instrument, thereby resulting in a potential loss for the counterparty.

The management has put a credit policy in place and the exposure to counterparty credit risk is continually monitored. Consequently for certain contracts appropriate bank guarantees must be requested from the counterparty of the contract.

On the balance sheet date there were no significant concentrations of credit risks. The maximum credit risk is the carrying amount of each financial asset, including derivative financial instruments.

	As at 31 December		
(million €)	**2009**	**2008**	**2007**
Loans and receivables	201.7	221.4	153.0
Cash and cash equivalents	174.6	27.3	33.5
Balance at bank	16.7	17.7	16.8
Interest rate swaps used for hedging			
Assets	0.0	0.0	5.5
Liabilities	(28.2)	(24.3)	0.0
Total	**364.8**	**242.1**	**208.8**

19.5.3 *Market risk*

Market risk is the risk that changes in market prices, raw material prices and salary indexation will affect the Company's results.

The impact in changes in raw material prices on "controllable costs", as defined in the new regulatory mechanism, could have a very restricted effect (see section 13) on the Company's income statement.

The Company has taken a series of precautions to limit the potential impact on the income statement.

19.5.4 *Currency risk*

The Company is not exposed to any significant currency risk, either from transactions or from exchanging foreign currencies into euro, since it has no foreign investments or activities and less than 1% of its costs are expressed in currencies other than the euro.

19.5.5 *Investment risk*

"Investment risk" is the name given to the risks faced by the Company as the result of holding major investments that are available for sale as well as investments made under pension plans. As a result of the financial crisis, the Company performed additional monitoring of the situation regarding plan assets in pension funds and it was established that the decrease in these funds, after benchmarking, was lower than the normal market situation. In anticipation of possible consequences, the Company decided to pay a supplement with a view to limiting deficits. Currently, no additional funding is required.

The Company had investments available for sale – these are in line with the investment strategy and have a very low risk profile.

19.5.6 *Interest rate risk*

Hedging - The objective of the Company's policy is to ensure that between 40% and 70% of the interest rate risk on loans is based on a fixed interest rate. The Company has undertaken interest rate swaps in euro in order to achieve a good balance within the Company's policy between the exposure to a fixed interest rate and a variable interest rate.

In accordance with the hedge accounting rules of IAS 39, all derivative financial instruments are accepted as cash flow hedges and valued at fair value. Consequently, the portion of the gain or loss on the derivative financial instruments that can be considered an effective hedge is reflected directly in equity (hedging reserves).

Sensitivity analysis - In its management of the interest rate risk, the Company endeavours to limit the effect of short-term fluctuations on the Company's result. Changes in the interest rates will not affect the consolidated result in the short and long-term as the Company operates within a regulatory framework where the consequences of fluctuations in financial expenses are recovered in tariffs.

Derivative financial instruments - Under IFRS, derivative financial instruments are accounted for at fair value.

Fair value - The summary below shows the fair values and carrying amounts of derivative financial instruments. As the loan has a variable interest rate, the carrying amount of the loan is equal to the fair value.

(€ million)	As at 31 December 2009 Carrying amount	Fair value	As at 31 December 2008 Carrying amount	Fair value	As at 31 December 2007 Carrying amount	Fair value
Assets						
Sicavs	16.7	16.7	17.2	17.2	0.0	0.0
Interest rate swaps	0.0	0.0	0.0	0.0	5.5	5.5
Liabilities						
Interest rate swaps	28.2	28.2	24.3	24.3	0.0	0.0
Loans	395.8	395.8	545.8	545.8	545.8	545.8
Total	**440.7**	**440.7**	**570.1**	**570.1**	**540.3**	**540.3**

19.5.7 *Liquidity risk*

Liquidity risk is the risk that the Company may not be able to meet its financial obligations. The Company limits this risk by constantly monitoring cash flows and ensuring that there are always sufficient credit line facilities available.

In April 2009, the Company issued a EUR 1,000 million Eurobond to reimburse the loans that were to expire in 2009 (see section 19.3.11). The amount was determined taking into account any future tariff deficits, the sum of EUR 98 million that was paid as part of the tax assessment and a sum to use as pre-financing to minimise the liquidity risk.

19.5.8 *Capital structure*

The Company constantly monitors its capital structure, which is a combination of debt and equity. The main objective of the Company is to obtain the optimal debt-equity ratio of one-third equity and two-thirds debt, taking into account the parameters for the determination of tariff levels (see section 13.6). For the other companies in the Group the main objective is to maximise shareholder value while at the same time retaining the desired financial flexibility.

The Company's dividend policy involves optimising dividend payments while still bearing in mind that there is a requirement to reserve a part of the profit which is the result of offsetting the decommissioning of fixed assets in the tariffs. Reserving this part of the profit as equity boosts the Company's self-financing capacity considerably, enabling it to finance the investments needed for carrying out its tasks.

The Company gives its employees the opportunity to subscribe to capital increases that are exclusively reserved for them.

19.6 EVENTS AFTER CLOSURE OF THE ANNUAL ACCOUNTS

19.6.1 *Acquisition 50Hertz*

As mentioned in a press release of 12 March 2010, Elia and IFM, one of the largest global infrastructure investment managers, signed an agreement under which they will acquire the German TSO 50Hertz from Vattenfall (see section 12). Under the terms of the agreement, IFM will own 40 percent of 50Hertz, and Elia will own the remaining 60 percent stake. The Transaction was closed on 19 May 2010.

19.6.2 *Integration Belpex and APX*

On 19 April 2010, the Company and TenneT announced the transfer of their respective 60% and 10% stakes in Belpex to APX. At the same time, the Company announced its acquisition of a 20% stake in the capital of APX (both transactions are subject to closing conditions) (see section 10.8.4).

19.7 OUTLOOK 2010

This paragraph includes forward-looking statements which, although based on assumptions that the Company considers reasonable, are subject to risks and uncertainties which could cause actual events or conditions to materially differ from those expressed or implied by the forward-looking statements.

19.7.1 *Fair remuneration profit for Belgian regulated activities (Belgian GAAP) 2010*

The Company's regulated profit after income tax will comprise three elements in 2010:

- Fair remuneration on regulated assets calculated on the basis of the actual value of the Belgian ten-year interest rate (daily average) and the actual beta of the Company's share multiplied by a fixed risk premium of 3.5%;
- Offsetting in tariffs of the decommissioning of fixed assets. According to the Company's estimates, this will amount to around EUR 14.2 million in net profit. This part of the net profit may not be paid out as dividend;
- Savings in operating expenditure (on top of the savings imposed by Royal Decree) totalling EUR 25 million for the period 2008-2011. Up to a further EUR 14.3 million can be generated for shareholders over the period 2010-2011, since EUR 10.7 million has been saved in 2008 and 2009.

Since the result for 2010 is dependent on parameters that can only be known at the end of 2010 (*e.g.* the Belgian ten-year interest rate) or can only be calculated then, the Company cannot make any specific profit forecasts for 2010. The net profit in the budget agreed with the regulator in 2007 for the year 2010 amounts to EUR 73.1 million, of which the calculation is shown in detail in the table below. However, this budgeted net profit for 2010 can differ from the real net profit of 2010 because the underlying parameters have to be recomputed at the end of 2010.

(in million €)	**2010** *Outlook*	
Average RAB [c]	3,772.0	
Equity reference (33%)	1,245.0	
Equity compensation [c]	4.98%	[a]
Compensation Equity reference (A)	62.0	
Average RAB/Moyenne RAB [c]	35.94%	
Variance equity reference	2.94%	
Compensation variance equity reference [c]	4.63%	[b]
S-Factor (B)	5.1	
Accelarated depreciations (C)	(8.2)	
Fair remuneration on shareholders' equity (A+B+C) = (1)	58.9	
Offsetting in tariffs of the decommissioning of fixed assets [c]	14.2	
Controllable costs incentive = Y [c]	0.0	
Total various regulatory elements (2)	14.2	
Profit after tax (Regulated) (Σ1+2+3)	73.1	

a) OLO of 3.9278%; Beta of 0.3 and a risk premium of 3.5%;
b) OLO of 3.9278% and deviation rate of 70bp;
c) To be recomputed ex-post based on real OLO, real beta, real RAB & Equity, real offsetting in tariffs of the decommissioning of fixed assets and real controllable cost savings

19.7.2 *Capital expenditures 2010*

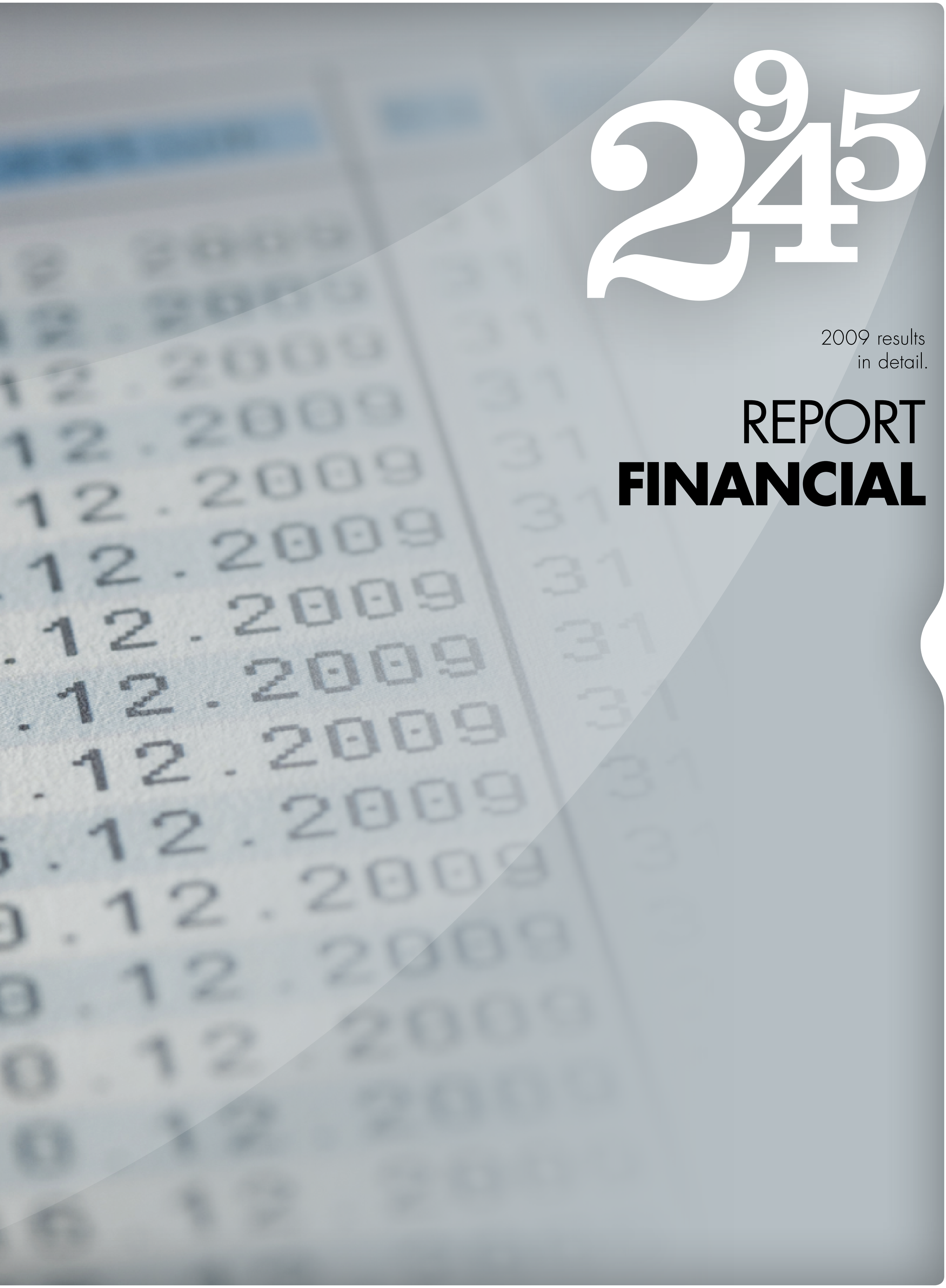
In connection with the multi-annual tariffs the Company expects to invest a total of EUR 615.6 million over the period 2008-2011. This amount was accepted by the regulator in the approved multi-annual tariffs. Given the economic crisis, the sharp drop in volumes since late 2008 and the goal to respect the level of auto financing for the Company, the expected investment for 2010 – which will be focused mainly on upgrading high voltage stations and laying high voltage cables – will be in line with the 2009 level of investment.

20 INDEX TO FINANCIAL INFORMATION

The following financial information is incorporated in the F-pages of this Prospectus:

The following financial information is incorporated by reference to the following websites:

• Consolidated financial statements of the Company as of and for the years ended 31 December 2008 and 31 December 2007 in accordance with IFRS	www.elia.be
• Statutory financial statements of the Company as of and for the years ended 31 December 2009, 31 December 2008 and 31 December 2007 in accordance with Belgian GAAP	www.elia.be
• Statutory financial statements of 50Hertz and 50Hertz Offshore as of and for the year ended 31 December 2009, prepared in accordance with German GAAP	www.ebundesanzeiger.de www.elia.be



2009 results
in detail.

REPORT FINANCIAL

CONSOLIDATED FINANCIAL **STATEMENTS IFRS**

1. CONSOLIDATED INCOME STATEMENT (31 DECEMBER 2009 – 31 DECEMBER 2008)

(in million €)	Notes	31 December 2009	31 December 2008	Change (%)
Continuing operations	(3.1)			
Revenue		733.7	724.4	1.3
Cost of sales	(3.2.1)	(5.6)	(6.8)	(17.6)
Gross profit		**728.1**	**717.6**	**1.5**
Other income		37.6	32.9	14.3
Services and other goods	(3.2.1)	(303.5)	(281.9)	7.7
Personnel expenses	(3.2.2)	(124.4)	(118.8)	4.7
Depreciation, amortisation, impairment and changes in provisions	(3.2.3)	(102.1)	(96.2)	6.1
Other expenses	(3.2.4)	(9.9)	(15.7)	(36.9)
Results from operating activities		**225.8**	**237.9**	**(5.1)**
Net finance costs	(3.3)	(120.5)	(109.3)	10.2
Finance costs		12.8	8.3	54.2
Finance income		(133.2)	(117.6)	13.3
Share of profit of equity accounted investees (net income tax)		(1.0)	2.0	(150.0)
Profit before income tax		**104.3**	**130.6**	**(20.1)**
Income tax expense	(3.4)	(20.0)	(27.2)	(26.5)
Profit from continuing operations		**84.3**	**103.4**	**(18.5)**
Profit for the period	(3.5)	**84.3**	**103.4**	**(18.5)**
Profit attributable to Owners of the Company		84.0	103.1	(18.5)
Non-controlling interest		0.3	0.3	0.0
Profit for the period		**84.3**	**103.4**	**(18.5)**

Earnings per share (€)	Notes	31 December 2009	31 December 2008	Change (%)
Basic earnings per share	(3.6)	1.7	2.1	(19.5)
Diluted earnings per share	(3.6)	1.7	2.1	(19.5)

2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in million €)	Notes	31 December 2009	31 December 2008	Change between 2008 and 2009 (%)
Profit for the period		**84.3**	**103.4**	**(18.5)**
Other comprehensive income				
Effective portion of changes in fair value of cash flow hedges, net of tax	(4.15+5.2)	(2.6)	(19.7)	86.8)
Defined benefit plan actuarial gains and losses, net of tax	(4.12+4.15)	(3.4)	(12.0)	(71.7)
Other comprehensive income for the period, net of income tax		**(6.0)**	**(31.7)**	**(81.1)**
Total comprehensive income for the period		**78.3**	**71.7**	**9.2**
Profit attributable to Owners of the Company		78.0	71.4	9.2
Profit attributable to Non-controlling interest		0.3	0.3	0.0
Total comprehensive income for the period		**78.3**	**71.7**	**9.2**

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION (31 DECEMBER 2009 – 31 DECEMBER 2008)

ASSETS (in million €)	Notes	31 December 2009	31 December 2008
Non-current assets		3,976.6	3,938.1
Property, plant and equipment	(4.1)	2,089.6	2,060.4
Intangible assets	(4.2)	1,730.1	1,727.0
Trade and other receivables	(4.3)	105.8	98.7
Investments in equity accounted investees	(4.4)	9.4	10.1
Other investments (including derivatives)	(4.5)	16.7	17.7
Deferred tax assets	(4.15)	25.0	24.2
Current assets		**443.4**	**290.0**
Inventories	(4.6)	13.7	13.7
Trade and other receivables	(4.7)	218.1	246.9
Income tax receivable		0.7	2.1
Cash and cash equivalents	(4.8)	174.6	27.3
Other assets	(4.9)	36.3	0.0
Total assets		**4,420.0**	**4,228.1**

EQUITY AND LIABILITIES (in million €)	Notes	31 December 2009	31 December 2008
Equity		1,367.1	1,349.7
Equity attributable to equity holders of the Company	(4.10)	1,365.4	1,348.1
Share capital		1,207.3	1,202.1
Share premium		8.5	8.5
Reserves		36.0	21.0
Hedging reserve		(18.7)	(16.0)
Retained earnings		132.2	132.5
Non-controlling interest		1.7	1.6
Non-controlling interest		1.7	1.6
Non-current liabilities		2,804.7	1,774.8
Loans and borrowings	(4.11)	2,618.9	1,593.5
Employee benefits	(4.12)	142.9	142.7
Derivatives	(5.1)	28.2	24.3
Provisions	(4.13)	4.8	4.7
Deferred tax liabilities	(4.15)	6.8	6.5
Other liabilities	(4.15)	3.1	3.1
Current liabilities		**248.2**	**1,103.6**
Loans and borrowings	(4.11)	0.1	804.3
Provisions	(4.13)	13.9	10.3
Trade and other payables	(4.14)	233.9	281.7
Income tax payables	(4.15)	0.2	0.2
Other liabilities		0.0	7.1
Total equity and liabilities		**4,420.0**	**4,228.1**

4. CONSOLIDATED STATEMENT OF CASH FLOWS AS AT 31 DECEMBER 2009 AND 31 DECEMBER 2008

CASH FLOWS FROM OPERATING ACTIVITIES (in million €)	Notes	31 December 2009	31 December 2008
Profit for the period	(3.5)	84.3	103.4
Adjustments for:			
Net finance costs	(3.3)	124.1	114.7
Income tax expense	(3.4)	17.3	20.2
Share of profit of investments accounted investees, net of tax		1.0	(2.0)
Depreciation of property, plant and equipment and amortisation of intangible assets	(4.1 – 4.2)	97.7	95.4
Loss on disposal/sale of property, plant and equipment	(4.1 – 4.2)	3.5	3.6
Impairment losses of current assets	(3.2.3)	0.7	0.1
Change in provisions	(3.2.3)	(1.3)	(18.8)
Change in fair value of derivatives	(5.2)	(2.4)	1.1
Change in deferred taxes	(4.15)	2.6	7.0
Change in fair value of financial assets through income		0.5	(0.4)
Change in non-cash items		0.9	0.1
Cash flow from operating activities		**328.9**	**324.4**
Change in inventories	(4.6)	(0.7)	(0.6)
Change in trade and other receivables	(4.7)	(14.9)	(80.7)
Other Current assets	(4.9)		0.5
Change in trade and other payables	(4.14)	(47.8)	76.9
Change in other current liabilities	(4.3)	(7.1)	(27.3)
Changes in working capital		**(70.5)**	**(31.2)**
Interest paid	(3.3)	(102.0)	(116.7)
Income tax paid	(3.4)	(15.9)	(118.6)
Net cash from operating activities		**140.5**	**57.9**

CASH FLOWS FROM INVESTING ACTIVITIES	Notes	31 December 2009	31 December 2008
Acquisition of property, plant and equipment and intangible assets	(4.1 – 4.2)	(133.7)	(170.5)
Investments in equity accounted investees	(4.4)	0.0	0.0
Investments recognised at cost		0.0	(0.5)
Proceeds from sales of investments		0.2	0.0
Interest received	(3.3)	6.1	2.5
Net cash used in investing activities		**(127.4)**	**(168.5)**
Cash flow from financing activities			
Proceeds from issue share capital	(5.1)	4.4	0.4
Expenses related to issue share capital	(4.10)	(0.1)	0.0
Dividends paid (-)	(4.10)	(66.0)	(62.5)
Repayment of borrowings (-)	(4.11)	(927.9)	0.0
Proceeds from withdrawal borrowings (+)	(4.11)	1 123.8	166.5
Net cash flow from (used in) financing activities		**134.2**	**104.4**
Net increase (decrease) in cash and cash equivalents		**147.3**	**(6.2)**
Cash & Cash equivalents at 1 January	(4.8)	27.3	33.5
Cash & Cash equivalents at 31 Dec	(4.8)	174.6	27.3

1. REPORTING ENTITY

Established in Belgium, Elia System Operator SA has its registered office at Boulevard de l'Empereur 20, B 1000 Brussels. The Group's consolidated financial statements for the 2009 financial year include Elia System Operator SA and four subsidiaries, i.e. Elia Asset SA, Elia Engineering SA, Belpex SA and Elia Re SA, and also the associated companies HGRT S.A.S. and Coreso SA (see Note 5.8). HGRT S.A.S. and Coreso SA are included in the consolidated statements on the basis of the equity method. The stake in CASC-CWE SA, a company established in 2008, is recognised at cost price in the item 'Other investments'.

Elia is the Belgian transmission system operator, transmitting electricity from producers to distribution system operators and major industrial users, and importing and exporting electrical power from and to Belgium's neighbouring countries.

These activities are regulated by the Commission for Electricity and Gas Regulation (CREG).

Please refer to the 'Regulatory framework and tariffs' chapter for more details.

2. SIGNIFICANT ACCOUNTING POLICIES FOR FINANCIAL REPORTING UNDER IFRS

(A) STATEMENT OF COMPLIANCE

The consolidated financial statements for the year ending 31 December 2009 presented in this annual report were prepared under the supervision of the board of directors and established by the board of directors on 25 February 2010 subject to the shareholders' approval of the statutory non-consolidated financial statements at the annual general meeting due to take place on 11 May 2010. In accordance with Belgian legislation, the consolidated financial statements will also be presented to Group shareholders at the annual general meeting. The consolidated financial statements are not subject to change unless they are modified following a decision taken by the shareholders concerning the statutory non-consolidated financial statements that has an impact on the consolidated financial statements.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of IFRS that are established by the International Accounting Standards Board (IASB) as adopted for use in the European Union. The Group has applied all new and revised standards and interpretations published by IASB and applicable to the Group's activities which are in force for financial years starting on 1 January 2009.

The Group has applied the following interpretations and amendments:

IAS 23 (Amendment) Borrowing Costs: Under the amendment, borrowing costs that are the direct result of the acquisition, construction or production of an eligible asset must be capitalised as part of the cost price of that asset. An eligible asset is any asset that can only be used or sold after a significant period. Said amendment was prospectively applied to assets that are capitalised on or after 1 January 2009. Previously, the Group immediately booked all borrowing costs as costs.

IFRIC 18, Transfers of Assets from Customers: This interpretation explains the requirements for agreements in which an entity receives a tangible fixed asset from the customer that the entity subsequently has to use to connect the customer to a network or to give the customer access to the provision of goods or services (such as the supply of electricity, gas or water). The amount received is booked in revenues, whereas it was previously recognised as a negative item among the booked property, plant and equipment. This interpretation was prospectively applied as from 1 July 2009.

IAS 1 (revised in 2007): Presentation of Financial Statements (effective 1 January 2009). Under the revised standard, all income and expenses, regardless of whether they are recognised in the result or in shareholders' equity, are presented in an overview of the overall result for the period. This overview of the overall result for the period can be integrated into the income statement, but the Group decided to present it separately from the income statement.

Amendment to **IFRS 7** Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments (applicable to financial years as from 1 January 2009).

None of the above amendments to the policies for financial reporting has a significant impact on the consolidated financial statements, and their effects are discussed in more detail in the notes, apart from the adoption of IFRIC 18 (more information is included in the explanatory notes).

The following amended and new standards are effective but are not applicable to the Group:

IFRS 1 First-time Adoption of International Financial Reporting Standards (revised in 2008) (applicable to financial years as from 1 January 2009).

IFRS 8 Operating Segments (applicable to financial years as from 1 January 2009).

Improvements to **IFRS** (2007-2008) (applicable to financial years as from 1 January 2009).

Amendment to **IFRS 1** First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (applicable to financial years as from 1 January 2009).

Amendment to **IFRS 2** Share-based payment - Vesting Conditions and Cancellations (amendments applicable to financial years as from 1 January 2009).

Amendment to **IAS 32** Financial Instruments: Presentation, and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (applicable to financial years as from 1 January 2009).

IFRIC 13 Loyalty Programmes (applicable to financial years as from 1 July 2008).

IFRIC 15 Agreements for the Construction of Real Estate (applicable to financial years as from 1 January 2009).

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (applicable to financial years as from 1 October 2008).

Amendment to **IFRIC 9** Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement (applicable to financial years ended on or after 30 June 2009).

The standards and interpretations listed hereafter are published on the date of approval of these consolidated financial statements but are not yet effective, and the Group did not opt for early adoption. The Group does not expect any major impact on its financial statements in the period of their initial application:

IFRS 3 Business Combinations (applicable to business combinations taken over on or after the start of the first financial year as from 1 July 2009). Said standard replaces the version of IFRS 3 Business Combinations published in 2004.

IFRS 9 Financial Instruments (applicable to financial years as from 1 January 2013).

Improvements to **IFRS** (2008-2009) (applicable to financial years as from 1 January 2010).

Amendment to **IFRS 1** First-time Adoption of International Financial Reporting Standards – Additional Exemptions (applicable to financial years as from 1 January 2010).

Amendment to **IFRS 2** Share-based Payment (amendments applicable to financial years as from 1 January 2010).

Amendment to **IAS 24** Related Party Disclosures (applicable to financial years as from 1 January 2011). Said standard replaces the version of IAS 24 Related Party Disclosures published in 2003.

Amendment to **IAS 27** Consolidated and Separate Financial Statements (amendments applicable to financial years as from 1 July 2009). Said standard is an amendment to IAS 27 Consolidated and Separate Financial Statements (revised in 2003).

Amendment to **IAS 32** Financial Instruments: Presentation – Classification of Rights Issues (applicable to financial years as from 1 February 2010).

Amendment to **IAS 39** Financial Instruments: Recognition and Measurement – Eligible Hedged Items (applicable to financial years as from 1 July 2009).

IFRIC 17 Distributions of Non-cash Assets to Owners (applicable to financial years as from 1 July 2009).

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (applicable to financial years as from 1 July 2010).

Amendment to **IFRIC 14 IAS 19** –The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement (applicable to financial years as from 1 January 2011).

(B) BASIS OF PREPARATION

The financial statements are presented in million euro (the functional currency of the Group), rounded off to the nearest hundred thousand, unless stated otherwise. The financial statements have been prepared on a historical-cost basis, except for the derivative financial instruments, which are estimated at fair value. Non-current assets and assets groups held for sale are valued at the lowest of carrying amount and fair value less cost to sell, and employee benefits are valued at actuarial value.

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that could affect the reported amounts of assets and liabilities and revenue and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements regarding the carrying amounts of assets and liabilities. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision only affects this period, or in the period in which the estimate is revised and future periods, if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 3.2.3 – Depreciations, impairment and amortisations, changes in provisions

Note 3.4- Income taxes

Note 4.2 – Intangible assets

Note 4.5 – Other financial assets

Note 4.6 – Inventories

Note 4.12 – Employee benefits

Note 4.13 – Provisions

Note 5.2 – Financial risk and derivative management

The accounting policies set out hereafter have been applied consistently to all the periods presented in this financial report and have been applied by all Group entities.

(C) BASIS OF CONSOLIDATION

1. Subsidiaries

A subsidiary is an entity that is controlled by the company. Control means that the company has the power to, directly or indirectly, govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

2. Associated companies

Associated companies are those companies in which the company has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised profits and losses of associated companies on the basis of the equity method, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of the losses exceeds its interest in an associated company, the Group's carrying amount is reduced to nil and further losses are not recognised except to the extent that the Group has incurred legal or constructive obligations or has made payments on behalf of an associated company.

3. Elimination of intra-Group transactions

Intra-Group balances and any unrealised gains or losses or revenue and expenses arising from intra-Group transactions are eliminated when preparing the consolidated financial statements.

Unrealised gains from transactions with associated companies are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence for impairment.

(D) FOREIGN CURRENCIES

Transactions in foreign currencies are converted into euro at the foreign exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies on the balance sheet date are converted into euro at the foreign exchange rate prevailing on that date. Foreign exchange differences arising on conversion are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are valued in terms of historical cost are converted at the exchange rate prevailing on the date of the transaction.

(E) DERIVATIVE FINANCIAL INSTRUMENTS

The Group sometimes uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investment activities. In accordance with its treasury policy the Group neither holds nor issues derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as instruments held for trading purposes.

Derivative financial instruments are recognised initially at fair value. Any gain or loss resulting from changes in the fair value is immediately booked in the income statement. Where, however, derivative financial instruments qualify for hedge accounting, reflection of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy F).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap on the balance sheet date, taking into account the current interest rates and the current creditworthiness of the swap counterparties and the Group. The fair value of forward exchange contracts is their quoted market price on the balance sheet date, i.e. the present value of the quoted forward price.

(F) DERIVATIVES USED AS HEDGING INSTRUMENTS

1. Cash-flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred, where justified, to the carrying amount of the asset. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

When a derivative or hedge relationship terminates, cumulative gains or losses still remain in equity provided that the hedged transaction is still expected to occur. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is removed from equity and is immediately recognised in profit or loss.

2. Hedging of monetary assets and liabilities

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss of foreign currency gains and losses.

(G) PROPERTY, PLANT AND EQUIPMENT

1. Owned assets

Items of property, plant and equipment are stated at cost price (including the directly allocated costs such as finance costs) less accumulated depreciation and impairment losses (see accounting policy M). The cost price of self-produced assets comprises the cost of materials, of direct labour and, where relevant, of the initial estimate of the costs of dismantling and removing the assets and restoring the site where the assets were located.

If parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

2. Leased assets

Leases under the terms of which the Group assumes virtually all the risks and rewards of ownership are classified as finance leases. Fixed assets used via a finance lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation (see hereafter) and impairment losses (see accounting policy M). Lease payments are accounted for as described in accounting policy U.

3. Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost price of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Group and the cost price of the item can be assessed reliably. All other costs are recognised in profit or loss as and when they are incurred.

4. Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment. Land is not depreciated. The applied depreciation percentages are as follows:

Administrative buildings	2.00%
Industrial buildings	3.00%
Overhead lines	2.00%
Underground cables	2.00%
Substations (facilities & machines)	3.00%
Remote control	10.00%
Dispatching	10.00%
Other property plant and equipment	20.00%
Vehicles	20.00%
Tools and office furniture	10.00%
Hardware	33.00%

Depreciation methods, remaining useful lives and residual values of the property, plant and equipment are reassessed annually and are prospectively adjusted as the occasion arises.

5. Derecognition

An asset is no longer recognised on the balance sheet when the asset is subject to disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the derecognition of the asset on the balance sheet (which is determined as the difference between the net disposal proceeds and the carrying amount of the asset) are included in profit or loss during the year in which the asset was derecognised from the balance sheet.

(H) INTANGIBLE ASSETS

1. Business combinations and goodwill

Goodwill is determined as the excess of the cost of an acquisition over the Group's interest in the net fair value of the identifiable assets and (contingent) liabilities of the acquired subsidiary or associate at the date of acquisition.

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries and associated companies.

In the case of acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the net fair value of the acquired identifiable assets, liabilities and contingent liabilities of the acquiree.

In the case of acquisitions that occurred before the above date (i.e. Elia Asset SA), goodwill is included on the basis of the assumed cost price, which is equal to the value allocated under the previously applied Be GAAP [1]. The classification and accounting treatment of business combinations that occurred before 1 January 2004 was not reconsidered when preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill is stated at cost price less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but tested annually for impairment (see accounting policy M). In the case of associated companies, the carrying amount of goodwill is included in the carrying amount of the investment in the associated company.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(1) Be GAAP : Belgian GAAP (generally accepted accounting principles)

2. Software

Software licences acquired by the Group are stated at cost price less accumulated amortisation (see hereafter) and impairment losses (see accounting policy M).

Expenditure for research activities undertaken with the prospect of developing software within the Group is recognised in profit or loss as expenditure as incurred. Expenditure for the development phase of software developed within the Group is capitalised if:

- the costs of development can be measured reliably;
- the software is technically and commercially feasible and future economic benefits are likely;
- the Group plans - and has sufficient resources - to complete development;
- the Group plans to use the software.

The capitalised expenditure includes cost of material, direct labour costs and overhead costs that are directly attributable to preparing the software for its use. Other costs are recognised in profit or loss as incurred.

3. Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as expenditure as incurred.

4. Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of intangible assets, unless the useful life is indefinite. Goodwill and intangible assets are tested systematically for impairment on each balance sheet date. Software is amortised from the date it is available for use. The estimated useful lives are as follows:

Licences	5 years
Internally developed software	5 years

Depreciation methods, remaining useful lives, and residual values of intangible assets are reassessed annually and are prospectively adjusted as the occasion arises.

(I) INVESTMENTS

Each type of investment is recognised on the date of the transaction.

1. Investments in equity securities

Investments in equity securities are undertakings in which the Group does not have significant influence or control. This is the case in undertakings where the Group owns less than 20% of the voting rights. Such investments are designated as available-for-sale financial assets and are measured at fair value. Any resulting changes in fair value, except those related to impairment losses and foreign exchange gains and losses, are recognised directly in profit or loss. On disposal of an investment, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

2. Investments in debt instruments

Investments in debt securities classified as held for trading purposes or as being available-for-sale are carried at fair value, with any resulting gain or loss respectively recognised in profit or loss or directly in equity. Fair value of these investments is determined as the quoted bid price at the balance sheet date. Impairment charges and foreign exchange gains and losses are recognised in profit or loss. Investments in debt securities classified as held to maturity are measured at amortised cost.

3. Other investments

Other investments held by the Group are classified as available-for-sale and are measured at fair value, with any resulting gain or loss recognised directly in equity. Impairment charges are recognised in profit or loss (see accounting policy M).

(J) TRADE AND OTHER RECEIVABLES

1. Construction work in progress

Construction work in progress is stated at cost price plus profit based on progress made to date, less a provision for foreseeable losses and less progress billing. The cost price comprises all expenditure directly related to specific projects, plus an allocation of fixed and variable overheads incurred during the Group's contract activities based on normal operating capacity.

2. Lease receivables

Receivables from financial lease contracts are stated at an amount equal to the present value of the future net lease payments at the inception of the contract. The values of the receivables are reduced during the course of the lease contract by the amount of the lease payments associated with the reimbursement of the principal amount.

3. Trade and other receivables

Trade receivables and other receivables are measured at nominal value, less the appropriate provisions for amounts regarded as unrecoverable.

(K) INVENTORIES

Inventories (spare parts) are stated at the lower of cost price and net realisable value. Net realisable value is the estimated selling price less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted-average-cost-price method. The cost includes the expenditure incurred in acquiring the inventories, and the direct costs of bringing them to their location and making them operational.

Write-offs of inventories at net realisable value are recognised in the period in which the write-off occurred.

(L) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances, bank balances and deposits that can be withdrawn on demand. Overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(M) IMPAIRMENT

The carrying amount of the Group's assets, excluding inventories (see accounting policy K) and deferred taxes (see accounting policy V), are reviewed on each asset's balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated (see accounting policy M1).

The recoverable amount of goodwill and intangible assets with an indefinite useful life and intangible assets that are not yet available for use is estimated on each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Recognised impairment losses relating to cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

After recognition of impairment losses, the depreciation costs for the asset will be adjusted for future periods in order to post the revised carrying amount of the asset throughout its remaining useful life.

1. Calculation of recoverable amount

The recoverable amount of intangible assets and property, plant and equipment is determined as the higher of their fair value less costs to sell or value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects both the current market assessment of the time value of money and the risks specific to the asset.

The Group's assets do not generate cash flow that is independent from other assets and the recoverable amount is therefore determined for the cash-generating unit (i.e. the entire high-voltage network) to which the asset belongs. This is also the level at which the Group administers its goodwill and receives the economic advantages of acquired goodwill.

2. Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

Impairment loss on other assets is reversed if there have been changes in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(N) SHARE CAPITAL

1. Transaction costs

Transaction costs in respect of the issuing of capital are deducted from the capital received.

2. Dividends

Dividends are recognised as a liability in the period in which they are declared.

(O) INTEREST BEARING LOANS

Interest bearing loans are recognised initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing loans are stated at amortised cost price with any difference between cost price and redemption value being recognised in profit or loss over the period of the loans on an effective interest basis.

(P) EMPLOYEE BENEFITS

1. Defined contribution plans

Obligations related to contributions to defined-contribution pension plans are recognised as an expense in profit or loss as incurred.

2. Defined benefit plans

For defined benefit plans, the pension expenses are assessed on an annual basis by accredited actuaries separately for each plan by using the projected unit credit method. The estimated future benefit that employees have earned in return for their service in the current and prior periods is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the interest rate as at the balance sheet date on high-quality bonds which have maturity dates that approximate to the terms of the Group's obligations. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, the expense is recognised immediately in profit or loss.

All actuarial gains and losses as at 1 January 2004, the date of transition to IFRS, were recognised in the opening reserves. Actuarial gains and losses are immediately recognised as liabilities and do not affect the income statement, but are immediately recognised in equity. The amount charged in profit or loss consists of current service cost, interest costs, the expected return on any plan assets and the past service cost.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the balance of past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

3. Other long-term employee benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is assessed on an annual basis by accredited actuaries. The net obligation is calculated by using the projected unit credit method and is the amount of future benefit that employees have earned in return for their service in the current and previous periods. The obligation is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield as at the balance sheet date on high-quality bonds having maturity dates that approximate to the terms of the Group's obligations.

4. Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised as for the amount expected to be paid out under a short-term cash bonus or profit sharing plans if the Group has a legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

(Q) PROVISIONS

A provision is recognised in the balance sheet when the Group has a current legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits – of which a reliable estimate can be made – will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, of the risks specific to the liability.

If the Group expects to recover some or all of the provisions from a third party, the compensation is only included as a separate asset if it is virtually certain that said compensation will be awarded. The cost connected to a provision is included in profit or loss net of any compensation.

The total estimated cost of dismantling and disposal of an asset are, if applicable, recognised as property, plant and equipment and depreciated over the asset's entire useful life. The total estimated cost of dismantling and of disposal of the asset, is posted as provisions for the discounted current value. If the amount is discounted, the increase of the provision due to expiring of time is classified as finance expenses.

(R) TRADE AND OTHER PAYABLES

Trade and other payables are stated at amortised cost price.

(S) CAPITAL SUBSIDIES

Capital subsidies are related to property, plant and equipment and are presented under other liabilities. The subsidies are only recognised in the balance sheet when there is a reasonable assurance that the amounts will be received and are expensed on a systematic basis over the expected useful life of the underlying asset.

(T) REVENUE

Revenue is recognised when it is probable that the company will enjoy the economic benefits associated with the transaction and the income can be measured reliably and recovery of the compensation due is likely.

1. Goods sold and services rendered

Revenue from services and the sale of goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

2. Construction work in progress

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. An expected loss on a contract is immediately recognised in profit or loss.

3. Transfers of assets from customers

The revenue from customers (financial contribution) for the Construction of connections to the high-voltage grid is recognised in profit or loss on the basis of the stage reached in recovery of the underlying property, plant and equipment.

(U) EXPENSES

1. Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received to conclude the leasing agreement are recognised in profit or loss as an integral part of the total lease expenses.

2. Finance lease payments

Payments made under finance lease payments are apportioned between the financing charges and the reduction of the outstanding liability. The financing charges are allocated to each period of the total lease term so as to produce a constant periodic rate of interest over the remaining balance of the liability.

3. Finance income and expenses

Finance expenses comprise interest payable on borrowings, calculated using the effective interest rate method, foreign exchange losses, gains on currency hedging instruments offsetting currency losses, results on interest rate hedging instruments, losses on hedging instruments that are not part of a hedge accounting relationship, losses on financial assets classified as for trading purposes and impairment losses on available-for-sale financial assets as well as any losses from hedge ineffectiveness. All interest and other costs incurred in connection with borrowings or financial transactions are expensed as incurred as part of finance expenses. Net finance expenses comprise interest on loans, calculated using the effective interest rate method and foreign exchange gains and losses.

Interest income is recognised in profit or loss as it accrues using the effective interest rate method. The interest expense component of the finance lease payments is recognised in profit or loss using the effective interest rate method.

(V) INCOME TAXES

Income taxes comprise current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on taxable income of the year, using tax rates enacted or substantially enacted on the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investment in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising from initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(W) SEGMENT REPORTING

A segment is a clearly distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment) and which is subject to risks and rewards that are different from those of other segments.

The company does not use segment reporting since the Group is a company that generates revenue from one activity, i.e. its role as the federal electricity transmission system operator in Belgium. Furthermore, the Group only operates in one geographical area (Belgium) where there are no differences between the Regions as regards risks and returns.

3. ITEMS IN THE INCOME STATEMENT

3.1. REVENUE

DETAIL REVENUE (in million €)	2009	2008
Grid connection revenue	32.8	32.7
Grid use revenue	509.9	510.9
Revenues from the reversal of surpluses from previous years (decision by the regulator)	22.8	20.9
Ancillary services revenue	108.0	113.4
International revenue	28.7	28.3
Energy sales	37.6	32.9
Other revenue	739.8	739.1
Deviations from approved budget (settlement mechanism)	31.5	18.2
Total revenue	**771.3**	**757.3**

Grid connection revenue remained stable compared to 2008.

Grid use revenue was in line with the same period last year, in spite of an 8% reduction in electricity offtake from the Elia grid as a result of the economic crisis, since this decrease was largely offset by the introduction last year of revenue from offtake tariffs for hydraulic energy storage units (pumped-storage power stations) during pump operations.

Ancillary services revenue decreased as a result of the reduction in offtake from the Elia grid.

(in million €)	2009	2008
Explicit auctioning	22.3	19.2
Implicit auctioning (trilateral market coupling)	6.2	7.7
ETSO	0.1	1.2
Sale of auxiliary energy	0.1	0.2
Total international revenue	**28.7**	**28.3**

International revenue remained more or less unchanged from 2008. Thanks to market coupling of the Belgian, French and Dutch electricity markets, wholesale prices in these three countries remained highly convergent.

Details of the ETSO mechanism [2] which has an impact on both 'International revenue' and 'Services and other goods', are given in the table hereafter:

(in million €)	2009	2008
Sales ETSO (recognised as revenue)	0,1	1,2
Costs ETSO (recognised as expense)	(1,5)	(1,9)
Net profit/loss ETSO (+ revenue/- expense)	**(1,4)**	**(0,7)**

Other operating revenue increased by 14.3% to €37.6 million, mainly due to application of IFRIC 18 [3] for the first time (up €2.7 million), whereby all customer contributions to grid connections must be booked as revenue in IFRS and are no longer deducted from investments as previously, as a result of a rise in the compensation received from insurance companies (up €1.7 million) and more passed-on costs as part of the CWE (Central West Europe) project and other assignments (up €0.9 million).

The section **"Deviations from approved budget for non-controllable items"** refers to the tariff deficit for 2009 that can be recovered in the next tariff period 2012-2015. The tariff deficit of €31.5 million is mainly the result of lower-than-budgeted tariff revenue (€14.8 million) and international revenue (€18 million), greater-than-expected offsetting of the surplus value in the decommissioning of fixed assets (€1.2 million) and lower-than-budgeted operating expenses (€2.9 million), including extra savings amounting to €8.3 million as a result of lower-than-expected inflation (-1.4% compared with budgeted inflation of 1.8%).

(in million €)	2009	2008
Own production	13.2	16.2
Optimal use of assets	10.0	9.8
Services and technical expertise	3.2	3.2
Changes in current assets related to application of IAS 19	(4.4)	(5.6)
Transfers of assets from customers	2.7	
Belpex activities	4.2	3.4
Other	8.7	5.9
Total other revenue	**37.6**	**32.9**

(2) ETSO mechanism: the European Transmission System Operators (ETSO) – which on 1 July 2009 was integrated into ENTSO-E (European Transmission System Operators for Electricity), to which Elia belongs – established a compensation mechanism ('Inter-TSO Compensation' (ITC)), meaning that all participants receive compensation for any losses caused by uncontrolled (loop) flows in their grid.

(3) IFRIC 18: Transfers of Assets from Customers

Details of the settlement mechanism are given in the table hereafter:

SOURCES (in million €)	**2009**	**2008**
1. SOURCE OF DIFFERENCES IN THE FINANCIAL YEAR		
Surplus revenue from grid access	(14.8)	1.4
Surplus in international revenue	(17.3)	(23.8)
Surplus in other revenue	(0.7)	2.4
Total difference at the end of the financial year	**(32.8)**	**(20.0)**
Amount saved on budget for purchase of ancillary services	(14.1)	6.4
Amount saved on budget for sundry operating charges	25.3	1.9
Amount saved on budget for financial expenses	(8.3)	2.3
Total difference in operating charges	**2.9**	**10.6**
Difference surplus value and others	(2.2)	0.4
Total adjustment of regulated profit	0.6	(6.3)
Total difference revenue	**(1.6)**	**(5.9)**
Total of differences in results	**(31.5)**	**(15.3)**
2. CREG DECISION		
Allocation of 50% of the bonus to Elia	0.0	(2.9)
Total impact of the CREG decision	0.0	(2.9)
TOTAL OF DIFFERENCES IN RESULTS	**(31.5)**	**(18.2)**

Pursuant to the Royal Decree of 8 June 2007 [4], during 2009 CREG assessed the amounts booked in 2008 with regard to the settlement mechanism and confirmed that the sum of €15.7 million can be regarded as a 'regulatory receivable'.

The sum of €15.7 million is broken down as follows:

(in € million)	
Balance (see above table)	18.2
Correction regarding to previous financial year (already recognised as a regulatory receivable in the past)	(2.9)
Amendment new activities (included in the 2009 accounts)	0.4
Total	**15.7**

(4) Royal Decree of 8 June 2007 regarding the rules on determining and assessing the total income and the reasonable profit margin, the general tariff structure, the balance between costs and revenue and the basic principles and procedures with regard to tariffs, reporting and cost control by the national transmission system operator.

In light of these assessments, an agreement was concluded by Elia and CREG with regard to the subsequent development of the Group's new activities and how the Group could be remunerated for them in the future. Its purpose was to ensure that Elia continues to strive to further develop its activities profitably, thereby both contributing to a reduction in the tariffs for users and providing additional income for Elia.

In addition, a mechanism was adopted to allocate costs accurately and ensure that Belgian tariffs would not be adversely affected in the event of the launch of non-Belgian regulated activities.

3.2. OPERATING EXPENSES

3.2.1. Cost of materials, services and other goods

(in million €)	**2009**	**2008**
Purchase of ancillary services	155.6	135.0
Raw materials, consumables and goods for resale	5.6	6.8
Services and other goods (excl. purchase of ancillary services)	147.9	146.9
Total	**309.1**	**288.7**

The rise in the cost of purchasing ancillary services is mainly due to the relatively high prices of electricity and to a lesser extent an increase in the quantities of energy used under the respective contracts.

The other items ('Services and other goods' and 'Raw materials') are more or less unchanged from last financial year.

3.2.2. Personnel expenses

(in million €)	**2009**	**2008**
Wages	79,3	77,9
Social security contributions	22,9	22,8
Contribution to defined benefit plans and other liabilities	19,2	15,2
Other personnel liabilities	(1,5)	(0,5)
Share-based payment with reduction	0,9	0,1
Other personnel cost	3,5	3,3
Total	**124,3**	**118,8**

Personnel expenses are up 4.6% - mainly due to a rise in wages. More information about the defined benefit pension plan and other personnel liabilities can be found in Note 4.12, and Note 5.1 provides more details about the item 'Share-based payment with reduction'.

3.2.3. Depreciation, amortisation, impairment and changes in provisions

(in million €)	2009	2008
Depreciation of property, plant and equipment	91.7	91.0
Depreciation of intangible assets	6.1	4.5
Total of depreciation	**97.8**	**95.5**
Impairment of inventories and trade receivables	0.7	0.4
Total of impairment	**0.7**	**0.4**
Provisions for litigation	0.1	(0.6)
Environmental provisions	3.5	0.9
Total of provisions	**3.6**	**0.3**
Total	**102.1**	**96.2**

Depreciations in property, plant and equipment assets increased by €2.3 million, mainly due to a rise in depreciations in intangible assets.

A brief content-based description of the property, plant and equipment, intangible assets and amounts written off is provided in Notes 4.1 and 4.2.

The inventory consists of consumables and strategic items required for repairing high-voltage substations, cables and lines. The turnover of these strategic items is very low, and the amount written off for these materials is €0.7 million.

No amounts were written off for trade debtors.

A detailed description of provisions is provided in Note 4.13.

3.2.4. Other expenses

(in million €)	2009	2008
Taxes other than income tax	6.4	12.6
Net loss on disposal/sale of property, plant and equipment	3.3	3.1
Net loss on trade debtors	0.2	
Total	**9.9**	**15.7**

The 36.9% decrease is mainly due to a decrease in the item "Taxes other than income tax", and specifically taxes on high-voltage pylons, which were unjustifiably charged to Elia and recovered by the Group from the municipal authorities in a court case.

3.3. FINANCE INCOME AND EXPENSES

RECOGNISED IN PROFIT AND LOSS (in million €)	2009	2008
Finance income	**12.8**	**8.3**
Interest income on investment trust, bank deposits, cash and cash equivalents	3.0	2.5
Net change in fair value of investment trust	0.7	0.9
Other financial income	9.1	4.9
Finance expenses	**133.2**	**117.6**
Interest expense	116.3	120.9
Interest expense on derivatives	11.2	(3.7)
Other financial costs	5.7	0.4
Net finance expense	**(120.4)**	**(109.3)**

Finance income increased by €4.5 million due to both the recognition of €6.6 million in moratorium interest on a €93.8 million tax assessment (paid, but contested) relating to the tax file (see Note 3.4) and the moratorium interest collected from the repayment of tax on high-voltage pylons (see Note 3.2.3).

The interest expenses amounted to €120.4 million and mainly included interest expenses on loans and the interest income or expense resulting from the associated interest rate swaps. The €11.1 million increase is primarily due to rising net financial debt and to the interest expense arising from the pre-financing operation for the issue of the Eurobond. See Note 4.11 for more details.

RECOGNISED DIRECTLY IN EQUITY (in million €)	2009	2008
Net changes in fair value of interest rate swaps	(3.9)	(29.8)
Finance income/expenses directly recognised in equity	**(3.9)**	**(29.8)**
Recognised in:		
Hedging reserve	(3.9)	(29.8)

The hedging reserve is discussed in detail in Note 5.2.

3.4. INCOME TAXES

Recognised in profit and loss

The consolidated income statement includes the following taxes:

(in million €)	2009	2008
Due income tax expenses	17.5	20.2
Adjustments prior years	(0.1)	0.0
Total income tax expenses	**17.4**	**20.2**
Origination and settlement of temporary differences	2.6	7.0
Total deferred tax	**2.6**	**7.0**
Total income tax recognised in income statement	**20.0**	**27.2**

Reconciliation of the effective tax rate

The reconciliation between the theoretical income taxes calculated on the basis of the statutory tax rate and the actual income tax rate as presented in the income statement can be summarised as follows:

(in million €)	2009	2008
Profit after tax	85.3	101.4
Share of profit of equity accounted investees	(1.0)	2.0
Profit for the period	**84.3**	**103.4**
Income tax expenses	20.0	27.2
Profit before tax	104.3	130.6
Income tax using the domestic corporation tax rate	35.4	44.4
Effect of the foreign tax rate	0.0	(0.1)
Expenses not deductible	1.7	1.4
Other tax free income mainly related to intercompany dividend	0.6	0.9
Adjustments prior years	(0.1)	0.0
Recognition unrecognised tax losses	0.0	0.0
Use of notional interest	(18.0)	(19.1)
Other	0.4	(0.3)
Total income tax expenses in income statement	**20.0**	**27.2**

Income tax expense fell by 26.5%, due to both an 18.1% decrease in the pre-tax profit (from €128.6 million to €105.3 million) and a further tax optimisation. The lower level of tax has been passed on in full in the form of lower tariffs, to the benefit of all consumers.

Elia received a tax assessment in early 2008 in view of taxation of the remaining tariff surpluses as at 31 December 2004. The income taxes paid total €85.3 million, plus an administrative charge of 10%. Having consulted its tax advisor and CREG and given that similar tariff surpluses accounted for by other companies in the sector were not taxed, Elia management decided to file a complaint, but it was rejected by the tax authorities. Elia is now using judicial channels to claim back the full amount, including moratorium interest. In 2009, the tax authorities made a similar decision on the increase of tariff surpluses in 2006. Elia received a tax assessment of €22.7 million, plus a 10% administrative increase, and decided to file a complaint about this in line with the 2004 file.

The tariff surpluses that led to the additional assessment will be systematically settled in tariffs over the years to come (refund to consumers), meaning that this is a matter of a timing difference between a surplus generated in the past and a refund in the subsequent years.

If Elia's complaint is rejected, the corporate income tax paid on the remaining surpluses will automatically be offset by 'recoverable taxes' on the refund given to consumers in 2005, 2006 and 2007 and subsequent periods. In this way the basic amount of the corporate income tax can be recovered in full. If a balance is still outstanding, it will be settled using the tariff mechanism.

INCOME TAXES RECOGNISED DIRECTLY IN EQUITY (in million €)	2009	2008
Derivatives	1.4	10.2
Actuarial gains (losses) on employee benefits	1.8	6.1
Total	**3.2**	**16.3**

Deferred income taxes are discussed in Note 4.15 ('Changes in deferred tax assets and liabilities resulting from movements in temporary differences during the financial year').

* Belgian tax rate in 2008 and 2009 was 33.99%

3.5. PROFIT

Although Elia draws up its consolidated results according to IFRS standards, 96.9% of profit is determined by the regulatory framework in which Elia operates. Within this framework, tariffs are approved by CREG and are based on Belgian accounting standards.

You will find hereafter a detailed description relating to the fair remuneration margin in accordance with the regulatory framework and the association with profit in line with IFRS standards.

(in million €)	2009 Actual	2008 Budget	2008 Actual
Average RAB	3,765.0	3,688.0	3,673.0
Equity reference	1,242.0	1,217.0	1,212.0
Equity compensation	4.99%	5.08%	5.62%
Compensation Equity reference (A)	**62.0**	**61.8**	**68.1**
Average RAB/Mean RAB	35.70%	36.25%	35.93%
Variance equity reference	2.70%	3.25%	2.93%
Compensation variance equity reference	4.64%	4.63%	5.14%
S-Factor (B)	**4.7**	**5.5**	**5.5**
Accelerated depreciations (C)	**(8.2)**	**(8.2)**	**(8.2)**
Fair remuneration on shareholders' equity (A+B+C) = (1)	**58.6**	**59.3**	**65.5**
Realised added value	15.4	14.2	15.0
Controllable costs incentive Y	6.3	0.0	4.4
Profit transfer pricing	0.7	0.0	
Other elements	0.3	0.0	(0.2)
Bonus			1.9
Total various regulatory elements (2)	**22.7**	**14.2**	**21.1**
Profit after tax (Regulated) (1+2)	**81.3**	**73.5**	**86.6**
Various IFRS adjustments and others	**2.7**		**16.5**
Profit attributable to owners of the company	**84.0**		**103.1**

Consolidated profit (based on IFRS standards) **after income tax** decreased by 18.5% to €84 million compared to 2008. However, this still represents an improvement on the multiannual budget of €73.5 million approved by the regulator for 2009, mainly thanks to:

- **offsetting in tariffs of the surplus arising from decommissioning of fixed assets**; €14.2 million was earmarked for this in the budget, whereas the amount realised was €15.4 million (i.e. €1.2 million more than expected);
- **extra savings over and above those imposed by the regulator** (€6.3 million extra);
- **dividends from Belpex and HGRT** (two financial shareholdings that are part of the RAB): following the approval of the regulator, 60% of these dividends are paid to Elia (gain of €0.7 million) and 40% are used to reduce future tariffs;
- **the IFRS adjustments for 2009 and others** (gain of €2.7 million): these adjustments relate mainly to the capitalisation of software (€3.1 million), booking in full of revenue from customer contributions (€2.7 million) minus the consolidation of HGRT/Coreso (€1.0 million) and the net effect of deferred tax on all IFRS entries (€2.4 million).

A detailed description of the method for calculating fair remuneration is given in the 'Regulatory framework and tariffs' chapter.

3.6. BASIC EARNINGS PER SHARE

The basic earnings per share are calculated by dividing the net profit of €84.0 million (2008: €103.1 million) from the year which can be paid out to holders of ordinary shares by the weighted average number of ordinary shares during the year (48,082,774).

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES (in million €)	**2009**	**2008**
Issued ordinary shares on 1 January	48,076,949	48,061,695
Impact of the shares issued in March 2008		11,535
Impact of the shares issued in December 2009	5,825	
Weighted average number of shares on 31 December	48,082,774	48,073,230

Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit from the year to be paid out to the holders of ordinary shares by the weighted average number of ordinary shares outstanding, corrected for potential dilution.

The diluted profit is equal to the ordinary profit per share, since there are no convertible bonds or share options.

Share capital and reserves per share

Share capital and reserves per share totalled €28.3 per share on 31 December 2009, compared to a value of €28.0 per share at the end of 2008.

4. ITEMS IN THE STATEMENT OF FINANCIAL POSITION

4.1. PROPERTY, PLANT AND EQUIPMENT

(in million €)	**2009**	**2008**
High-voltage substations and transformers	1,167.2	1,141.1
Lines and cables	760.9	762.5
Land on which substations, lines and cables are located	70.9	70.6
Facilities used for network operation	31.4	31.5
Administrative buildings, furnishings and vehicles	59.2	54.7
Total property, plant and equipment	**2,089.6**	**2,060.4**

The capital expenditure of €157.3 million in 2009 is mainly related to the construction of high-voltage substations, laying of underground cables and building of overhead lines. The most important projects are discussed in more detail in the activity report.

Application of the new IAS 23 Borrowing Costs standard had an impact of €0.1 million on the cost price of the assets.

Property, plant and equipment under construction totalled €124.6 million as at 31 December 2009, compared to €149.3 million as at 31 December 2008 and are presented in the table hereafter. In 2009, €142.1 million of property, plant and equipment under construction was commissioned and transferred to assets in use.

(in million €)	**2009**	**2008**
High-voltage substations and transformers	98.3	107.2
Lines and cables	17.3	30.4
Facilities used for network operation	8.7	7.3
Administrative buildings, furnishings and vehicules	0.3	4.4
Total property, plant and equipment under construction	**124.6**	**149.3**

Other liabilities relating to new investments are described in Note 5.4.

CHANGES IN THE PERIOD (in million €)	**Land and buildings**	**Machinery and equipment**	**Furniture and vehicles**	**Other tangible assets**	**Assets under construction**	**Total**
ACQUISITION VALUE						
Balance at 1 January 2008	**121.5**	**3,737.3**	**119.0**	**10.6**	**160.5**	**4,148.9**
Acquired by business combinations	0.0	0.0	0.0	0.0	0.0	0.0
Other acquisition	11.0	23.0	2.9	0.0	124.4	161.3
Disposals	(0.6)	(17.4)	(0.7)	0.0	0.0	(18.7)
Transfers from one heading to another	0.2	135.6	0.0	0.0	(135.6)	0.2
Balance at 31 December 2008	**132.1**	**3,878.5**	**121.2**	**10.6**	**149.3**	**4,291.7**
Balance at 1 January 2009	**132.1**	**3,878.5**	**121.2**	**10.6**	**149.3**	**4,291.7**
Acquired by business combinations	0.0	0.0	0.0	0.0	0.0	0.0
Other acquisition	7.0	50.6	2.6	0.3	67.2	127.7
Disposals	(0.1)	(33.5)	(0.4)	0.0	0.0	(34.0)
Transfers from one heading to another	4.1	87.7	0.0	0.3	(95.3)	(3.2)
Balance at 31 December 2009	**143.1**	**3,983.3**	**123.4**	**11.2**	**121.2**	**4,382.2**
DEPRECIATION AND IMPAIRMENT						
Balance at 1 January 2008	**(20.0)**	**(2,016.4)**	**(110.3)**	**(9.0)**	**0.0**	**(2,155.7)**
Depreciation of the period	(1.2)	(86.0)	(3.3)	(0.5)	0.0	(91.0)
Acquisitions from third parties	0.0	0.0	0.0	0.0	0.0	0.0
Written down and disposals	0.5	14.3	0.7	0.0	0.0	15.5
Transfers from one heading to another	0.0	(0.3)	0.3	(0.1)	0.0	(0.1)
Balance at 31 December 2008	**(20.7)**	**(2,088.4)**	**(112.6)**	**(9.6)**	**0.0**	**(2,231.3)**
Balance at 1 January 2009	**(20.7)**	**(2,088.4)**	**(112.6)**	**(9.6)**	**0.0**	**(2,231.3)**
Depreciation of the period	(1.2)	(86.8)	(3.4)	(0.3)	0.0	(91.7)
Acquisitions from third parties	0.0	0.0	0.0	0.0	0.0	0.0
Written down and disposals	0.0	30.2	0.4	0.0	0.0	30.5
Transfers from one heading to another	0.0	0.2	0.0	(0.2)	0.0	0.0
Balance at 31 December 2009	**(21.9)**	**(2,144.8)**	**(115.6)**	**(10.1)**	**0.0**	**(2,292.5)**
BOOK VALUE						
At 1 January 2008	101.5	1,720.9	8.7	1.6	160.5	1,993.2
At 31 January 2008	111.4	1,790.1	8.6	1.0	149.3	2,060.4
At 1 January 2009	111.4	1,790.1	8.6	1.0	149.3	2,060.4
At 31 January 2009	121.2	1,838.5	7.8	1.1	121.2	2,089.7

4.2. INTANGIBLE FIXED ASSETS

(in million €)	Goodwill	Software	Total
ACQUISITION COST			0,0
Balance at 1 January 2008	**1,707.8**	**20.8**	**1,728.6**
Obtained by business combinations	0.0	0.0	0.0
Acquired, others - own construction capitalised	0.0	9.1	9.1
Disposals	0.0	(0.3)	(0.3)
Balance at 31 December 2008	**1,707.8**	**29.6**	**1,737.4**
Balance at 1 January 2009	**1,707.8**	**29.6**	**1,737.4**
Obtained by business combinations	0.0	0.0	0.0
Acquired, others - own construction capitalised	0.0	9.2	9.2
Disposals	0.0	0.0	0.0
Balance at 31 December 2009	**1,707.8**	**38.8**	**1,746.6**
DEPRECIATION AND AMOUNTS WRITTEN OFF			
Balance at 1 January 2008	**0.0**	**(5.9)**	**(5.9)**
Depreciations	0.0	(4.5)	(4.5)
Balance at 31 December 2008	**0.0**	**(10.4)**	**(10.4)**
Balance at 1 January 2009	**0.0**	**(10.4)**	**(10.4)**
Depreciations	0.0	(6.1)	(6.1)
Balance at 31 December 2009	**0.0**	**(16.5)**	**(16.5)**
BOOK VALUE			
At 1 January 2008	1,707.8	14.9	1,722.7
At 31 December 2008	1,707.8	19.2	1,727.0
At 1 January 2009	1,707.8	19.2	1,727.0
At 31 December 2009	1,707.8	22.3	1,730.1

The goodwill, amounting to €1,707.8 million, relates to the following past transactions:

(in million €)	2009	2008
Acquisition of participations in Elia Asset SA by Elia System Operator SA - 2002	1,700.1	1,700.1
Acquisition of participations in Elia Engineering by Elia Asset SA - 2004	7.7	7.7
Total	1,707.8	1,707.8

'Intangible assets' consists of two items: goodwill and software. Software comprises both IT applications developed by the company for operating the grid and software for Elia's normal business operations. The increase for internally-developed software was €9.2 million in 2009.

See Note 3.2.3 for the impact of depreciations in intangible assets on profit or loss.

Impairment test for cash-generating units containing goodwill

The goodwill generated by the acquisition of Elia Asset SA by Elia System Operator SA in 2002 and the goodwill generated by the acquisition of Elia Engineering SA in 2004 were classified as one cash-generating unit for the impairment test, since the income and expenses were generated by one activity.

The impairment test was conducted by independent experts and was based on the following valuation methods:

1. Discounting of future cash flows.
2. Discounting of future dividends.
3. Comparison between previously mentioned impairment methods and those used by some comparable Western European listed companies, such as Red Electrica España, Enagas, Terna, Fluxys, Snam Rete Gas and National Grid.
4. Market valuation based on Elia's share price.

Future cash flows and dividends were discounted on the basis of financial prospects approved by the management for the period 2008-2011 (new regulation mechanism), accompanied by an extrapolation to 2018 based on assumptions included in the strategic plan for 2007-2015 and applying discount rates of between 3.78 % and 5.41%. The independent analyses did not result in accounting an impairment loss on goodwill in 2009.

4.3. TRADE AND OTHER RECEIVABLES

(in million €)	2009	2008
Tax receivables	105.3	98.7
Other amounts receivable	0.4	
Total	**105.7**	**98.7**

Long-term receivables consist of the basic amount of tax receivable (€93.8 million) and the cumulative moratorium interest (€6.6 million for 2009 and €4.9 million for 2008) that the Group could recover in the future. These amounts only relate to the tax audit of 2004 and since the dispute will first come before the court in 2011, they have been qualified as a long-term receivable. A detailed description can be found in Note 3.4.

4.4. EQUITY ACCOUNTED INVESTEES

INVESTMENTS IN ASSOCIATED COMPANIES (in million €)	2009	2008
At 1 January	10.1	8.1
Acquisition of subsidiary	0.3	0.0
Share of (loss)/profit	(1.0)	2.0
At 31 December	9.4	10.1

Summary of financial data on equity accounted investees, not corrected for the group's ownership percentage:

(in million €)

Name	Assets	Liabilities	Revenues	Profit/(loss)	% interest held
2008					
H.G.R.T. S.A.S.	39.3	23.1	6.6	6.3	24.5%
Total	**39.3**	**23.1**	**6.6**	**6.3**	
2009					
H.G.R.T. S.A.S.	45.3	8.3	7.1	1.7	24.5%
Coreso	2.4	1.3	3.4	0.1	33.3%
Total	**47.7**	**9.6**	**10.5**	**1.8**	

4.5. OTHER FINANCIAL ASSETS

(in million €)	2009	2008
Immediately claimable deposits	16.7	17.2
Others	0.0	0.5
Total	**16.7**	**17.7**

This section covers investments classified at fair value for which the changes in fair value are recognised in profit or loss. In 2009, a portion of investments, good for €0.6 million, was sold. The risk profile of these investments is discussed in Note 5.2.

As from 2009, the shareholding in Coreso SA, which was included in other financial assets in 2008, is covered by the category 'Investments in equity accounted investees' (see Note 4.4).

4.6. INVENTORIES

(in million €)	2009	2008
Raw materials and consumables	24.3	23.6
Impairment	(10.6)	(9.9)
Total	**13.7**	**13.7**

The total value of warehouse articles is in line with the value for last financial year.

The warehouse primarily stores replacement and spare parts for maintenance and repair work on Elia's high-voltage substations, overhead lines and underground cables.

In 2009, the inventory increased by €0.7 million compared to the previous year and purchasing for materials/consumables came to €6.3 million, which resulted in a total net impact on the consolidated income statement was €5.6 million (see Note 3.2.1). Impairment recognised in profit or loss totalled €0.7 million for 2009 and is included under the booked impairment of inventories in Note 3.2.3.

4.7. TRADE AND OTHER RECEIVABLES

(in million €)	2009	2008
Projects for third parties	3.8	1.8
Other amounts receivables and advance payments	201.7	221.4
VAT, other taxes	6.7	10.3
Other	2.7	7.3
Deferred charges and accrued income	3.2	6.1
Total	**218.1**	**246.9**

The decrease in trade and other receivables (€28.8 million) was mainly due to both a drop of 22.1% in trade receivables relating to market coupling with France and the Netherlands and a €3.7 million decrease in recoverable VAT.

TRADE DEBTORS (in million €)	2009	2008
Not past due	172.6	181.9
Past due 0-30 days	32.9	35.8
Past due 31-60 days	(4.1)	3.0
Total (excl. impairment)	201.4	220.7
Doubtful amounts	3.7	4.1
Amounts written off	(3.4)	(3.4)
Total	**201.7**	**221.4**

Trade and other receivables are recorded without taking into account receivables which have been impaired. Receivables impaired are mostly due after more than one year. In 2009 no additional impairment losses were accounted for and the total impairment of trade debtors is €3.4 million.

(in million €)	Bad debtors	Impairment losses	Remaining balance
Balance at 1 January 2008	**4.1**	**(3.4)**	**0.7**
Changes during the year	0.0	0.0	0.0
Balance at 31 December 2008	**4.1**	**(3.4)**	**0.7**
Balance at 1 January 2009	**4.1**	**(3.4)**	**0.7**
Changes during the year	(0.4)	0.0	(0.4)
Balance at 31 December 2009	**3.7**	**(3.4)**	**0.3**

4.8. CASH AND CASH EQUIVALENTS

(in million €)	2009	2008
Balance at bank	60.6	3.5
Immediately claimable deposits	114.0	23.8
Total	**174.6**	**27.3**

The rise in cash is due to the fact that the market coupling activity did not result in a pre-financing situation at the end of the financial year. In addition, at the time of the €1 million Eurobond issue (see Note 4.11) in April 2009, provision was made for financing potential tariff deficits and covering future needs so as to minimise the liquidity risk.

Short-term deposits are invested for periods that vary from a few days to a few weeks, depending on the Group's immediate cash requirements and report interest in accordance with the interest rates for the short-term deposits. The interest rate of interest-bearing investments at the balance sheet date varies from 0.25% to 0.40%. The investments were due to mature in January 2010.

Bank-account balances earn interest in line with the variable rates of interest on the basis of daily bank deposit interest. The Group's interest rate risk and the sensitivity analysis for financial assets and liabilities are discussed in Note 5.2.

For the purposes of the consolidated statement of cash flows, 'cash and cash equivalents' comprises the real bank balance and immediately claimable deposits (as listed above) minus current-account credits. The Group did not make use of current-account credits on 31 December 2009. The amounts listed in the consolidated statement of financial position and the consolidated statement of cash flows match those shown above.

4.9. OTHER ASSETS

(in million €)	2009	2008
Balance settlement mechanism	36.3	(7.1)
Total other current liabilities	**36.3**	**(7.1)**

(in million €)	2009	2008
To be refunded to the tariffs of current period	(80.1)	(102.9)
Balance period 2007, 2008,2009 to be recovered through the tariffs - period to be determined	59.7	28.1
Discount future tariffs	**(20.4)**	**(74.8)**
Moratorium interest on income tax - period 2008	(11.5)	(4.9)
Amount receivable as a result of the application of IAS 19	68.2	72.6
Balance settlement mechanism*	**36.3**	**(7.1)**

A detailed description of this mechanism can be found in the 'Regulatory framework and tariffs' chapter.

On 31 December 2009, other assets totalled €36.3 million, whereas at the end of 2008 the negative balance amounted to €7.1 million.

This section includes the remaining balance of €20.4 million from the settlement mechanism, which is still being agreed with the regulator, and various entries linked to the regulatory mechanism. The amount listed under 'Discount future tariffs' includes €80.1 million to be reimbursed into the tariffs in the 2010-2011 period and €59.7 million that will be passed on in tariffs in the next tariff period (2012-2015).

Moratorium interest of €6.6 million, related to the tax file, has been posted under this section in 2009. The sum of €68.2 million that resulted in receivables under the application of IAS 19 is also recognised as other asset.

A total of €22.8 million of the remaining balance at the end of 2008 (€102.9 million) has been included in the 2009 income statement as 'income' (see 'revenues from the reversal of surpluses from previous years' in Note 3.1).

(*) Positive amounts are receivables, whilst negative amounts are debts.

4.10. SHAREHOLDERS' EQUITY

Consolidated statement of changes in equity

(in million €)	Share capital	Share premium	Hedging reserve	Retained earnings	Total	Minority interests	Total equity
Balance at 1 January 2008	**1,201.7**	**8.5**	**3.6**	**124.8**	**1,338.7**	**1.3**	**1,340.0**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD							
Profit or loss				**103.1**	**103.1**	**0.3**	**103.4**
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges, net of tax			(19.7)	0.0	(19.7)	0.0	(19.7)
Defined benefit plan actuarial gains and losses, net of tax				(11.9)	(11.9)	0.0	(11.9)
Total other comprehensive income			**(19.7)**	**(11.9)**	**(31.6)**	**0.0**	**(31.6)**
Total comprehensive income for the period			**(19.7)**	**91.2**	**71.5**	**0.3**	**71.8**
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY							
Contribution by and distribution to owners							
Shares issued	0.4				0.4		0.4
Dividends paid				(62.5)	(62.5)		(62.5)
Total transactions with owners	0.4			(62.5)	(62.1)		(62.1)
Balance at 31 December 2008	1,202.1	8.5	(16.1)	153.5	1,348.1	1.6	1,349.7
Balance at 1 January 2009	**1,202.1**	**8.5**	**(16.1)**	**153.5**	**1,348.1**	**1.6**	**1,349.7**
TOTAL COMPREHENSIVE INCOME FOR FHE PERIOD							
Profit or loss				**84.0**	**84.0**	**0.1**	**84.1**
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges, net of tax			(2.6)		(2.6)		(2.6)
Defined benefit plan actuarial gains and losses, net of tax				(3.4)	(3.4)		(3.4)
Total other comprehensive income			(2.6)	(3.4)	(6.0)		(6.0)
Total comprehensive income for the period			**(2.6)**	**80.6**	**78.0**	**0.1**	**78.1**
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY							
Contributions by and distributions to owners							
Shares issued	5.2				5.2		5.2
Dividends to equity holders				(65.9)	(65.9)		(65.9)
Total transactions with owners	5.2			(65.9)	(60.7)		(60.7)
Balance at 31 December 2009	1,207.3	8.5	(18.7)	168.2	1,365.4	1.7	1,367.1

Share capital and share premium

NUMBER OF SHARES	2009	2008
Outstanding on 1 January	48,076,949	48,061,695
Issued against cash payment	193,306	15,254
Outstanding on 31 December - paid	48,270,255	48,076,949

In 2009 the Elia Group gave its personnel the opportunity to subscribe to an Elia System Operator SA capital increase (tax tranche and additional tranche). This was welcomed by the Group's employees and resulted in a total of €4.4 million being underwritten (see Notes 5.1 and 3.2.2), meaning the number of shares outstanding rose from 48,076,949 to 48,270,255 (shares without nominal value). The capital of Elia System Operator SA increased from €1,202.1 million to €1,207.3 million.

Reserves

In accordance with Belgian legislation, 5% of the parent company's statutory net profit must be transferred to a legal reserve each year until the legal reserve represents 10% of the capital. Within the tariff mechanism, Elia must reserve in shareholders' equity the realised surplus passed on in the tariffs as a result of derecognitions of fixed assets (decrease in Regulated Asset Base). In 2008, this amounted to €15.0 million. The general meeting of 12 May 2009 decided to include that amount in the legal reserve.

On 31 December 2009 the Group's legal reserve was €36.0 million, compared to €21.0 million on 31 December 2008. This reserve can only be paid to shareholders in the event of liquidation.

The board of directors can propose the payment of a dividend to shareholders up to a maximum of the available reserves and the profit carried forward from previous financial years for the parent company, including the profit from the financial year closed. Shareholders must approve the dividend payment at the annual general meeting of shareholders.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash-flow hedging instruments in respect of hedged transactions that have not yet occurred.

Dividend

After the balance sheet date, the board of directors put forward the dividend proposal stated hereafter.

(in €)	2009	2008
Per ordinary share entitled to dividend	1.38	1.37

On 12 May 2009, the shareholders approved payment of a gross dividend of €1.37 per share (€1.0275 per share without VVPR strip or €1.1645 per share with VVPR strip after the deduction of 25% Belgian withholding tax), yielding a total gross dividend of €65.9 million.

This year, the board of directors' meeting of 25 February 2010 proposed a gross dividend of €1.38 per share. This dividend is subject to approval by shareholders at the annual general meeting on 11 May 2010 and was not included as a liability in the consolidated financial statements for the Elia Group prepared under IFRS. The total dividend will, on the basis of the number of shares outstanding on 25 February 2010, be €66.6 million. The Group's profit includes the fair remuneration as described in the 'Regulatory framework and tariffs' chapter and remuneration for the amounts that are removed from the Regulated Asset Based for the decommissioning of assets. This resulted in a net profit of €15.4 million for 2009. The regulatory framework specifies that this amount cannot be paid to the shareholders but must be posted to the reserve. The board of directors' meeting of 25 February 2010 decided to suggest to the annual general meeting that this amount be allocated to the legal reserve. The amount had not yet been posted to the reserve on 31 December 2009.

4.11. INTEREST BEARING LOANS AND BORROWINGS

Elia manages its liabilities and general financing strategy through a combination of short- and long-term liabilities or hedges them using interest rate swaps. The Group finances its daily working capital requirement, if necessary, via various confirmed or non-confirmed credit lines and uses commercial paper. Medium-term loans usually have an interest rate that is based on the inter-bank interest rate on the date on which they are taken out increased by a predefined margin.

A general overview of loans (long- and short-term borrowings) and interest payable is given hereafter:

(in million €)	2009	2008
Long term borrowings	2,550.5	1,552.9
Accrued interests	68.4	40.6
Subtotal long term borrowings	**2,618.9**	**1,593.5**
Current portion of long term borrowings	0.0	637.7
Short term borrowings	0.0	161.9
Short term borrowings branch Belpex	0.0	4.5
Accrued interests	0.1	0.2
Subtotal short term borrowings	**0.1**	**804.3**
Total	**2,619.0**	**2,397.8**

LONG TERM BORROWINGS (in million €) (Book value)	2009	2008
Shareholders' loan tranche A	495.8	495.8
Shareholders' loan tranche B3	0.0	387.7
Financial institutions	0.0	250.0
Eurobond issues [1]	1,994.7	997.1
European Investment Bank	60.0	60.0
Total	**2,550.5**	**2,190.6**
Current portion of long term borrowings	0.0	(637.7)
Total long term borrowings	**2,550.5**	**1,552.9**

(1) Current carrying amount of the Eurobond, consisting of a number of tranches, with a nominal value of €2,000 million.

The following table gives an overview of the maturity dates and conditions of the loans:

(in million €)	Maturity	Amount	Interest rate before hedging	Interest rate after hedging	Current proportion of the interest	
					Fixed	Variable
Shareholders' loan tranche A	2022	495.8	3.37%	5.51%	79.83%	20.17%
Eurobond issues 2004/10 years	2014	498.9	4.75%	4.75%	100.00%	0.00%
Eurobond issues 2004/15 years	2019	498.6	5.25%	5.25%	100.00%	0.00%
Eurobond issues 2009/7 years	2016	498.2	4.50%	4.50%	100.00%	0.00%
Eurobond issues 2009/4 years	2013	499.1	5.63%	5.63%	100.00%	0.00%
European Investment Bank	2016	40.0	4.27%	4.27%	100.00%	0.00%
European Investment Bank	2017	20.0	4.79%	4.79%	100.00%	0.00%
Total		**2,550.6**			**95.43%**	**4.57%**
Current portion of long term borrowings		0.0				
Total long term borrowings		**2,550.6**			**95.43%**	**4.57%**

The following table gives an overview of the actual amounts of the loans outstanding at year-end by maturity bucket. The differences in amounts are attributable to the issuing below par of the Eurobond.

(in million €)	Face value	1 year or less	1-2 years	3-5 years	More than 5 years
Shareholders' loan tranche A	495.8	0.0	0.0	0.0	495.8
Eurobond issues	2,000.0	0.0	0.0	1,000.0	1,000.0
European Investment Bank	40.0	0.0	0.0	0.0	40.0
European Investment Bank	20.0	0.0	0.0	0.0	20.0
Total	**2,555.8**	**0.0**	**0.0**	**1,000.0**	**1,555.8**

SHORT-TERM LOANS AND CREDIT LINE FACILITIES (in million €)	Maturity	Available amount	Average basic interest	Amount	
				used	not used
Confirmed credit line	30/10/2010	150.0	Euribor + 0.65%	0.0	150.0
Confirmed credit line	15/01/2010	125.0	Euribor + margin when concluding the deal	0.0	125.0
Total		**275,0**		**0,0**	**275,0**

(in million €)	Maturity	Available amount	Average basic interest	Amount	
				used	not used
Uncommitted credit line facility		70.0	Market conditions	0.0	70.0
Uncommitted credit line facility		100.0	Euribor + margin when concluding the deal	0.0	100.0
Belgian dematerialised treasury notes		250.0	Euribor + margin when concluding the deal		250.0
Total		**420.0**		**0.0**	**420.0**

During 2009, a shareholders' loan expired in September, as well as a number of short-term loans and the used amounts of the commercial paper programme.

Elia decided to refinance these loans by issuing a Eurobond. This transaction was successfully implemented in two tranches (a €500 million four-year tranche and a €500 million seven-year tranche) in April 2009, following a roadshow that presented Elia's industrial and regulatory strengths to the leading European financial markets.

Investors welcomed this initiative with open arms both during the roadshow and in order-book subscriptions, with a total of over €5.3 billion being offered in less than an hour. The four-year tranche attracted €3 billion of subscriptions, while the seven-year tranche was good for €2.3 billion. Altogether they attracted more than 300 investors from 14 countries across Europe.

The considerable interest that investors showed Elia in the credit meant that bookrunners set the price for the four-year tranche at mid-swap + 190 bp (coupon of 4.5%), and at mid-swap + 245 bp (coupon of 5.625%) for the seven-year tranche. The bonds are listed on the Luxembourg stock exchange.

The interest bearing loans have been issued in euro to avoid all financial exchange rate risks and totalled €2,550.6 million.

4.12. EMPLOYEE BENEFITS

Elia Group employees are entitled to a number of benefit plans, as described hereafter:

Defined benefit pension plan

1. By virtue of a collective agreement of 2 May 1952, staff receive specific benefits, called pension supplements, under which, as retired persons, they are entitled (following a full career) to overall funds equal to 75% of their annual income, in line with their statutory pension. The supplements are partially revertible to the widow or widower and, where necessary, can be supplemented by orphan benefit. If the individual dies while at work, the additional survivors' supplements are paid to the beneficiaries. The benefits granted are linked to Elia's operating result.

   There is neither an external pension fund nor group insurance for these liabilities, which means that no reserves are constituted with third parties.

2. Defined benefit pension plan

   Active staff hired from 1 January 1993 until 31 December 2001 and all managerial/executive staff hired prior to 1 May 1999 are granted the same guarantees via a defined benefit pension, which is funded by individual and employer contributions as set out in the Belgian law on supplementary pensions. Staff employed prior to 1993 have since been given the option of signing up to the plan, and more than 90% of the active staff members were participating by 1997.

   The amounts are paid to Elgabel and Pensiobel and to the insurance company Contassur. The three entities work together as the pension fund for the gas and electricity sector.

Early retirement:

If certain conditions are met, employees may leave Elia before 60.

Other employee benefits:

In addition to the pension arrangements described above, employee benefits also include other non-statutory benefits, such as:

- a 'jubilee' premium paid to staff who have been with the company for 25, 30 and 35 years;
- cover of medical costs and hospitalisation;
- reductions on gas and electricity bills.

Other provisions

Other benefits consist of a provision for restructuring, which provides for future expenses for career breaks and time credits.

Overview of the provisions for employee benefits

(in million €)	**2009**	**2008**
Defined benefit plans	85.9	87.5
Early retirement plan	13.9	12.0
Other employee benefits	41.9	42.0
Subtotal	141.7	141.5
Others (restructuring)	1.2	1.2
Total provisions for employee benefits	**142.9**	**142.7**

CHANGE IN BENEFIT OBLIGATION (in million €)	**2009**	**2008**
Defined benefit obligation at the beginning of the period	(240.0)	(258.8)
Service Cost	(5.8)	(5.6)
Interest Cost	(11.9)	(12.0)
Contributions from plan participants	(0.6)	(0.5)
Gains (losses) on curtailments or settlements of plans	0.0	0.0
Special termination benefits	5.5	(1.3)
Actuarial gains (losses) on long term benefits	0.9	1.6
Actuarial gains (losses)	(5.5)	9.2
Benefits paid	31.5	27.4
Defined benefit obligation at the end of the period	(236.9)	(240.0)
CHANGES IN PLAN ASSETS		
Fair value of plan assets at beginning of the period	98.5	116.9
Expected (not actual) return on plan assets	5.5	6.0
Company contributions	21.9	29.8
Plan participants contributions	0.6	0.5
Actuarial gains (losses) on long term benefits	0.3	(27.3)
Benefits paid	(31.5)	(27.4)
Fair value of plan assets at end of period	95.2	98.5
FUNDED STATUS		
Funded status of the plan	(141.7)	(141.5)
Net amount recognised accrued / prepaid	(141.7)	(141.5)
Net amount recognised (accrued)	(142.7)	(142.1)
Net amount recognised (prepaid)	1.0	0.6
NET PERIODIC PENSION COST		
Service Cost	(5.8)	(5.6)
Interest Cost	(11.9)	(12.0)
Plan participants contributions	(0.6)	(0.5)
Expected return on plan assets	5.5	6.0
Amortisation of actuarial net gains (losses)	0.0	0.0
Gains (losses) on changes of plans	0.0	0.0
Special termination benefits	(4.6)	(1.3)
Gains (losses) on curtailments or settlements	0.0	1.6
Actuarial gains (losses) on long term benefits	**(17.5)**	**(11.8)**
NET PERIODIC BENEFIT COST		
(Accrued) prepaid benefit cost	(141.7)	(141.5)
(Accrued) benefit cost	(142.7)	(142.1)
Prepaid benefit cost	1.0	0.6

ACTUARIAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY (in million €)	2009	2008
Cumulative amount at 1 January	(25.7)	(7.6)
Recognised in the period	(5.2)	(18.1)
Cumulative amount at 31 December	**(30.9)**	**(25.7)**

ACTUARIAL ASSUMPTIONS	2009	2008
Inflation rate	2.00%	2.20%
Interest rate (not including inflation)	2.60%	3.00%
Salary increase rate (not including inflation)	2.00%	2.00%
Yield rate on deposits (not including inflation)	4.00%	3.70%
Interest appreciation rate (not including inflation)	3.00%	0.00%
Length of future services (years)	18.0	17.0
Rate of increase of health benefits (retirement and current)	1.00%	1.00%

DETAILS OF PLAN ASSETS	2009	2008
Equity instruments	21.76%	27.91%
Bonds	55.23%	44.53%
Property	7.83%	8.75%
Other (cash included)	15.18%	18.81%
Total plan assets	**100.00%**	**100.00%**

Inclusion in future tariffs

Elia has specific obligations as regards employee benefits and similar commitments. In accordance with a study report issued by CREG, it is virtually certain that some of the employee benefits total of €68.2 million will be accepted by CREG as reasonable expenses and will therefore be passed on in future tariffs. Since this amount can be recovered by Elia from third parties, in accordance with IFRS principles (IAS 19), it will be classified as an asset item. The amount is included under other current liabilities (see Note 4.9).

4.13. PROVISIONS

(in million €)	Environment	Litigation	Total
Balance at 1 January 2008	**9.4**	**5.4**	**14.8**
During financial year: increase in provisions	1.2	0.8	2.0
During financial year: usage provisions	(0.3)	(0.1)	(0.4)
During financial year: reversals of provisions	0.0	(1.4)	(1.4)
Balance at 31 December 2008	**10.3**	**4.7**	**15.0**
Long term portion	0.0	4.7	4.7
Short term portion	10.3	0.0	10.3
Balance at 1 January 2009	**10.3**	**4.7**	**15.0**
During financial year: increase in provisions	9.6	0.4	10.0
During financial year: usage provisions	(0.2)	0.0	(0.2)
During financial year: reversals of provisions	(5.8)	(0.3)	(6.1)
Balance at 31 December 2009	**13.9**	**4.8**	**18.7**
Long term portion	0.0	4.8	4.8
Short term portion	13.9	0.0	13.9

The change **in provisions** relating to the **environment** is due to further soil research and remediation on certain sites in Flanders and to the impact of the announcement of the initial results of the preventive screening of sites in the Brussels Capital Region and the Walloon Region.

The booked provisions for the sites in the Flemish Region mainly result from past transfers of business rights. In 2009, was declared as 'not requiring remediation' by the Flanders Public Waste Agency (OVAM), thereby leading to the reversal of a provision amounting to €5.4 million). Meanwhile, in 2009 it became clearer that Elia would indeed have to undertake decontamination on two other sites. This resulted in an additional appropriation of €3.8 million (without any disadvantageous acknowledgement).

For sites located in the Brussels Capital Region, Elia has already preventively screened 23 sites. Of these, one site was considered to probably present a risk to humans and the environment. For this purpose, a provision of €0.7 million was provided, without any disadvantageous acknowledgement of any obligation or liability.

The 'soil decree' was approved by the Walloon Parliament in December 2008 and was published in the Belgian Official Gazette on 18 February 2009. The practical implementation of this new legislation and the interpretation of certain criteria are still causes of doubts. However, Elia has proactively visually screened the sites of high-voltage substations it owns in the Walloon Region. Further analyses were conducted for 56 sites in 2009. For 10 sites Elia, without any acknowledgement of any obligation or liability, provided a total provision of €5 million.

Estimates of the amounts were made by an external design office, bearing in mind the BATNEEC[5] principle.

The **provision for litigation** is based on the management's best estimate of charges that Elia would have to pay as a result of cases in which legal proceedings have been instituted against Elia by a third party or in which Elia is involved in a legal dispute.

The expected timing of the related cash outflow depends on the progress and duration of the associated procedures.

The changes in provisions are discussed in Note 3.2.3.

(5) Best available techniques not entailing excessive costs

4.14. TRADE AND OTHER PAYABLES

(in million €)	2009	2008
Trade debts	126.3	229.4
VAT, other taxes	5.5	2.4
Remuneration and social security	24.4	23.4
Dividend	1.3	1.7
Levies	55.7	9.0
Other	10.1	7.0
Accruals and deferred income	10.6	8.8
Total	**233.9**	**281.7**

The €103.1 million decrease in trade payables is mainly a consequence of the exceptionally open balances linked to the market coupling mechanism in 2008.

At the end of 2009, levies are €55.7 million in credit. The increase is due to the introduction of the federal levy in 2009. Elia collects the levy from its customers and pays the collected amount to the regulator.

The Group's foreign currency exchange rate risk and liquidity risk relating to trade and other payables are discussed in Note 5.2.

4.15. DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets

For the following items no deferred income taxes are recognised in the balance sheet:

(in € million)	2009	2008
Notional interest reduction	111.4	92.1
Not recognised tax asset (-) / liability	**111.4**	**92.1**

The notional interest deduction, if not used, expires after seven years. For these differences no tax assets were recognised because it is unlikely that in the future there will be taxable profit that the Group can use for realising these assets.

Recognised deferred tax assets and liabilities

(in million €)	Assets		Liabilities	
	2009	2008	2009	2008
Property, plant and equipment	0.5	0.4		
Intangible fixed assets	(7.1)	(6.1)		
Inventories	(1.0)	(0.9)		
Interest-bearing loans and other non-current financial liabilities	8.6	7.9		
Employee benefits	47.7	46.9		
Government grants, paid in advance		0.0		
Provisions	0.1	0.3		
Other items	(23.8)	(24.3)	(6.8)	(6.5)
Net tax asset (-) / liability	**25.0**	**24.2**	**(6.8)**	**(6.5)**

Changes in deferred tax assets and liabilities resulting from movements in temporary differences during the financial year

(in million €)	1 January 2008	Recognised in income statement	Recognised in equity	31 December 2008
Property, plant and equipment	0.2	0.2		0.4
Intangible fixed assets	(4.3)	(1.8)		(6.1)
Other financial assets	0.0	0.0		0.0
Inventories	(0.9)	0.0		(0.9)
Interest bearing loans and other long term financial liabilities	(2.3)	0.0	10.2	7.9
Employee benefits	46.8	(6.0)	6.1	46.9
Provisions	0.3	0.0		0.3
Other items	(31.4)	0.6		(30.8)
Total	**8.4**	**(7.0)**	**16.3**	**17.7**

(in million €)	1 January 2009	Recognised in income statement	Recognised in equity	31 December 2009
Property, plant and equipment	0.4	0.1		0.5
Intangible fixed assets	(6.1)	(1.0)		(7.1)
Other financial assets	0.0	0.0		0.0
Inventories and	(0.9)	(0.1)		(1.0)
Interest bearing loans and other long term financial liabilities	7.9	(0.6)	1.3	8.6
Employee benefits	46.9	(1.0)	1.8	47.7
Provisions	0.3	(0.2)		0.1
Other items	(30.8)	0.2		(30.6)
Total	**17.7**	**(2.6)**	**3.1**	**18.2**

Effect of changes in temporary differences during the financial year

Changes in temporary differences during the year are reflected in profit or loss as income tax expense (also see Note 3.4).

5. MISCELLANEOUS

5.1. SHARE-BASED PAYMENTS

Discounted share purchase plans

The Group offered its staff discounted share purchase plans in 2009. This was welcomed with open arms by the Group's employees and resulted in €4.4 million being underwritten. The average price over one month before the decision was taken as a basis for determining the subscription price basis. This came to €27.30 per share. After applying a 16.7% discount, the price amounted to €22.75 (see Notes 4.10 and 3.2.2).

5.2. FINANCIAL RISK AND DERIVATIVE MANAGEMENT

Risks

The Group aims to identify each risk and set out strategies to control their economic impact on the Group's results. In addition to its routine tasks, such as monitoring the risk analysis, defining risk management strategies and reporting to management, the Internal Audit & Risk Management department continues to pay attention to the impact of the financial/economic crisis on Elia and its effects in other sectors, with a view to assessing any risks this unusual situation poses for the Group. The potential impact for each risk factor is described hereafter. The regulatory framework in which Elia operates considerably restricts their effects on profit or loss (see the 'Regulatory framework and tariffs' chapter). The results of increased interest rates, credit risk, etc. can be settled in the tariffs, in accordance with the applicable legislation.

Certain strategies to control these risks make use of derivative financial instruments: instruments whose value is derived from one or more underlying assets, reference prices or indices. The derivative instruments create rights and commitments which transfer all or some of the financial risks to other parties to the contract.

Credit risk

Credit risk is the risk that one of the parties to a contract fails to meet its obligations as regards the financial instrument, thereby resulting in a potential loss for the counterparty.

The management has put a credit policy in place and the exposure to counterparty credit risk is continually monitored. Consequently for certain contracts appropriate bank guarantees must be requested from the counterparty of the contract.

On the balance sheet date there were no significant concentrations of credit risks. The maximum credit risk is the carrying amount of each financial asset, including derivative financial instruments.

(in million €)	2009	2008
Loans and receivables	201.7	221.4
Cash and cash equivalents	174.6	27.3
Balance at bank	16.7	17.7
Interest rate swaps used for hedging		
Assets		0.0
Liabilities	(28.2)	(24.3)
Total	**364.8**	**242.1**

Market risk

Market risk is the risk that changes in market prices, raw material prices and salary indexation will affect the Group's results.

The impact in changes in raw material prices on 'controllable costs', as defined in the new regulatory mechanism, could have a very restricted effect (see regulatory framework) on the Group's income statement.

The Group has taken a series of precautions to limit the potential impact on the income statement.

Currency risk

The Group is not exposed to any significant currency risk, either from transactions or from exchanging foreign currencies into euro, since it has no foreign investments or activities and less than 1% of its costs are expressed in currencies other than the euro.

Investment risk

'Investment risk' is the name given to the risks faced by the Group as the result of holding major investments that are available for sale as well as investments made under pension plans. As a result of the financial crisis, Elia performed additional monitoring of the situation regarding plan assets in pension funds and it was established that the decrease in these funds, after benchmarking, was lower than the normal market situation. In anticipation of possible consequences, Elia decided to pay a supplement with a view to limiting deficits. Further details of this can be found in the 'Employee benefits' section.

The Group had investments available for sale – these are in line with the investment strategy and have a very low risk profile. This gave rise to a €0.2 million increase in the value of the funds during the financial year.

Interest rate risk

Hedging

The objective of the Group's policy is to ensure that between 40% and 70% of the interest rate risk on loans is based on a fixed interest rate. The Group has undertaken interest rate swaps in euro in order to achieve a good balance within the Group's policy between the exposure to a fixed interest rate and a variable interest rate.

In accordance with the hedge accounting rules of IAS 39, all derivative financial instruments are accepted as cash-flow hedges and valued at fair value. Consequently, the portion of the gain or loss on the derivative financial instrument that can be considered an effective hedge is reflected directly in equity (hedging reserves).

Interest rate swaps have an interest rate varying from 4.23% to 4.41%. As at 31 December 2009, the Group held hedging instruments with a contracted reference value of €395.8 million.

The net fair value of the swaps as at 31 December 2009 totalled €28.2 million and was entirely composed of liabilities. The amounts are included as derivatives at fair value.

As at 31 December 2009, no financial expenses resulting from ineffective cash-flow hedges are included in profit or loss.

Sensitivity analysis

In its management of the interest rate risk, the Group endeavours to limit the effect of short-term fluctuations on the Group result. Changes in the interest rates will not affect the consolidated result in the short and long term as Elia operates within a regulatory framework where the consequences of fluctuations in financial expenses are recovered in tariffs.

Derivative financial instruments

Under IFRS, derivative financial instruments are accounted for at fair value.

Fair value

The summary hereafter shows the fair values and carrying amounts of derivative financial instruments. As the loan has a variable interest rate, the carrying amount of the loan is equal to the fair value.

	Carrying amount	Fair value	Carrying amount	Fair value
(in million €)	2009	2009	2008	2008
Assets				
Sicavs	16.7	16.7	17.2	17.2
Interest rate swaps:	0	0.0	0.0	0.0
Liabilities				
Interest rate swaps	28.2	28.2	24.3	24.3
Loans	395.8	395.8	545.8	545.8
Total	440.7	440.7	570.1	570.1

Fair-value hierarchy

The above fair value of 'sicavs' has level 1 type, i.e. valuation is based on the (unadjusted) listed market price on an active market for identical instruments.

The above fair value of interest rate swaps has level 2 type, which entails that valuation is based on input from other prices than the stated prices, where these other prices can be observed for assets or liabilities. This category includes instruments valued on the basis of listed market prices on active markets for such instruments; listed prices for identical or similar instruments on markets that are deemed less than active; or other valuation techniques arising directly or indirectly from observable market data.

The table hereafter shows the periods when cash flows relating to derivatives that act as cash flow hedges are expected.

(in million €)	Carrying amount	Expected cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	> 5 years
Interest rate swaps	**(24.3)**	**(35.8)**	**(3.3)**	**(3.3)**	**(5.2)**	**(13.1)**	**(10.9)**
Assets		(35.8)	(3.3)	(3.3)	(5.2)	(13.1)	(10.9)
Liabilities	(24.3)						
Balance at 31 December 2008	**(24.3)**	**(35.8)**	**(3.3)**	**(3.3)**	**(5.2)**	**(13.1)**	**(10.9)**
Interest rate swaps:	(28.2)	(64.8)	(6.6)	(5.8)	(11.4)	(23.2)	(17.7)
Assets		(64.8)	(6.6)	(5.8)	(11.4)	(23.2)	(17.7)
Liabilities	(28.2)						
Balance at 31 December 2009	**(28.2)**	**(64.8)**	**(6.6)**	**(5.8)**	**(11.4)**	**(23.2)**	**(17.7)**

Fair-value hierarchy

The above fair value of interest rate swaps has level 2 type, which entails that valuation is based on input from other prices than the stated prices, where these other prices can be observed for assets or liabilities. This category includes instruments valued on the basis of listed market prices on active markets for such instruments; listed prices for identical or similar instruments on markets that are deemed less than active; or other valuation techniques arising directly or indirectly from observable market data.

Estimate of fair value

Derivatives

Brokers' statements are used for interest rate swaps. The statements are controlled using valuation models or techniques based on discounted cash flows.

Interest-bearing loans

The fair value is calculated on the basis of the discounted future redemptions and interest payments.

Financial lease obligations

The fair value is estimated at the present value of future cash flows, discounted against the interest rate for uniform lease contracts. The estimated fair value reflects interest rate changes.

Trade and other receivables/trade liabilities and other items payable

For receivables and liabilities due within one year the nominal value is deemed to reflect the fair value. All other receivables and liabilities are discounted in order to determine the fair value.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its financial obligations. The Group limits this risk by constantly monitoring cash flows and ensuring that there are always sufficient credit line facilities available.

In April 2009, the Group issued a €1,000 million Eurobond to reimburse the loans that were to expire in 2009. The amount was determined taking into account any future tariff deficits, the sum of €98 million that was paid as part of the tax assessment and a sum for pre-financing to minimise the liquidity risk. In spite of the financial crisis, the issue was a success – as indicated in Note 4.11. The regulated framework in which Elia operates was very welcomed by investors.

For an overview of the credit line facilities available, see Note 4.11.

NON-DERIVATIVE FINANCIAL LIABILITIES	**Carrying amount**	**Expected cash flows**	**6 mths or less**	**6-12 mths**	**1-2 years**	**2-5 years**	**> 5 years**
Unsecured bond issues	998.2	(1,399.6)	(50.0)	0.0	(50.0)	(150.1)	(1,149.5)
Unsecured financial bank loans and other loans	1,355.4	(1,685.1)	(438.8)	(403.0)	(23.9)	(71.6)	(747.8)
Trade and other payables	281.7	(281.7)	(281.7)				
DERIVATIVE FINANCIAL LIABILITIES							
Interest rate swaps used for hedging	24.3	(35.8)	(3.3)	(3.3)	(5.2)	(13.1)	(10.9)
Of which cash flow hedges	24.3	(35.8)	(3.3)	(3.3)	(5.2)	(13.1)	(10.9)
Balance at 31 December 2008	**2,659.6**	**(3,402.2)**	**(773.8)**	**(406.3)**	**(79.1)**	**(234.8)**	**(1,908.2)**
NON-DERIVATIVE FINANCIAL LIABILITIES							
Unsecured bond issues	1.994.7	(2.601.4)	(100.3)	0.0	(100.6)	(1,249.0)	(1,151.5)
Unsecured financial bank loans and other loans	555.8	(742.2)	(8.0)	(6.7)	(16.0)	(48.0)	(663.5)
Trade and other payables	224.5	(224.5)	(224.5)				
DERIVATIVE FINANCIAL LIABILITIES							
Interest rate swaps used for hedging	28.3	(64.8)	(6.6)	(5.8)	(11.4)	(23.2)	(17.7)
Of which cash flow hedges	28.3	(64.7)	(6.6)	(5.8)	(11.4)	(23.2)	(17.7)
Balance at 31 December 2009	**2,803.3**	**(3,632.9)**	**(339.4)**	**(12.5)**	**(128.0)**	**(1,320.2)**	**(1,832.7)**

Capital structure

Elia constantly monitors its capital structure, which is a combination of debts and equity. Its main objective regarding the capital structure of regulated activities is to achieve the structure imposed by law: one-third equity and two-thirds debt capital. For the other companies the main objective is to maximise shareholder value while at the same time retaining the desired financial flexibility.

The company's dividend policy involves optimising dividend payments while still bearing in mind that there is a requirement to reserve a part of the profit resulting from including the surplus, caused by decommissioning property, plant and equipment, in the tariff. Reserving this part of the profit as equity boosts the company's self-financing capacity considerably, enabling it to finance the investments needed for carrying out its tasks.

The Group gives its employees the chance to subscribe to capital increases that are exclusively reserved for them. For more details on the capital increase, see Note 4.10.

5.3. OPERATING LEASE CONTRACTS

Leases as lessee

The Group has operating leases for some office buildings. The leases normally have a term of nine years, with the possibility of renewing the lease thereafter.

In addition the Group has contracts for leasing cars, IT equipment and other items with an average lease period of three years.

(in million €)	<1 year	1–5 years	>5 years
Buildings	3.6	15.3	8.1
Cars, IT equipment and others	4.6	6.1	0.0
Total at 31 December 2008	**8.2**	**21.4**	**8.1**
Buildings	3.7	15.6	8.2
Cars, IT equipment and others	4.9	6.9	0.0
Total at 31 December 2009	**8.6**	**22.5**	**8.2**

The following expenses related to leasing buildings and other lease contracts were included in profit or loss for the financial year 2009:

(in million €)	2009	2008
Buildings	3.6	3.6
Cars, IT equipment and others	4.1	4.1
Total	**7.7**	**7.7**

Leases as lessor

The Group hires out sites and high-voltage pylons to telecommunications operators on the basis of operating leases. The relevant lease contracts have a term of at least nine years. A summary of the future minimum lease payments in respect to the lease contracts is given hereafter:

(in million €)	<1 year	1–5 year	>5 years
Telecom	9.6	39.9	50.7
Total at 31 December 2008	**9.6**	**39.9**	**50.7**
Telecom	9.8	32.3	51.3
Total at 31 December 2009	**9.8**	**32.3**	**51.3**

The following revenues were included in profit or loss for 2009 in the section 'Optimal use of assets' (see Note 3.1):

(in million €)	2009	2008
Telecom	10.1	9.8
Total	**10.1**	**9.8**

5.4. INVESTMENTS AND OTHER LIABILITIES

As at 31 December 2009, Elia had investment liabilities totalling €87.0 million for the purchase and installation of property, plant and equipment to further extend its grid.

5.5. CONTINGENT LIABILITIES AND UNCERTAINTIES

Settlement mechanism

- A calculation of the amount is given in the 'Regulatory framework and tariffs' chapter.
- Application of IFRS

Elia now operates under a 'cost plus with incentive for greater efficiency' system in a regulated context which states that Elia tariffs must make it possible to realise total revenue consisting of:

1. a reasonable return on invested capital;
2. all costs that are not unreasonable incurred by Elia.

Since the tariffs are based on estimated figures, there is always a difference between the tariffs that are actually charged and the tariffs that should have been charged to cover all reasonable costs of the system operator and to provide shareholders with a reasonable profit margin on their investment.

If the applied tariffs result in a surplus or a deficit at the end of the year, this means that the tariffs charged to consumers / the general public could have been respectively lower or higher (and vice versa). Based on IAS 18, Elia is convinced that a surplus or deficit arising from the settlement mechanism must not be classified as revenue or an expense, or as an item under equity.

On a cumulative basis, it could be argued that the public has made an advance payment for its future use of the network. As such, the surplus (deficit) is not a commission for a future loss (recovery) of income but instead a passive debt (receivable) to (with regard to) consumers. On the basis of the Electricity Act, Elia believes that the surplus (deficit) does not represent an item of revenue (cost). Consequently, Elia booked this net amount as at 31 December 2009 as an item in other assets, which reflects the reduction in future tariffs that must be approved by the regulator.

Following the same logic, Elia also decided to post certain pension expenses as recoverable costs since the federal regulator deemed such expenses to be reasonable charges. Elia is convinced that it can compensate for these expenses in future tariffs and consequently they were booked as an asset.

For the purpose of presentation of the consolidated financial statements, both the 'income to be carried forward' and the 'recoverable costs' arising from the pension obligations are converted to their net values, which means that only a net asset is displayed.

At present, there are no definitive IFRS guidelines on the calculation of the settlement mechanism in a regulated context.

5.6. DISCLOSURE ABOUT RELATED PARTIES

Transactions with directors

Remuneration policy for directors was agreed upon at the general meeting of shareholders. The total remuneration paid to the 12 Elia directors in 2009 was €494,472 (€247,236 for Elia System Operator SA and €247,236 for Elia Asset SA), including indexing.

Directors do not receive any other benefits in kind, stock options, special loans or advances.

Transactions with members of the management committee

Note that all members of the Elia management committee are employees.

The gross remuneration of the chairman of the management committee, which is paid by Elia System Operator SA, was €538,260.95 in 2009, including 35.22% in the form of variable remuneration.

The payments that Elia made to the other members of the management committee in 2009 amounted to €1,717,525.11 (€895,284.64 for Elia System Operator SA and €822,240.46 for Elia Asset SA), including 27.57% in the form of variable remuneration.

In this way, a total of €2,255,785.57 was paid out to the members of the management committee in 2009.

Payment to the non-statutory pension system

Since 2007, all pension plans for managers have been 'fixed-benefit plans'. In 2009, Elia System Operator SA paid a total of €94,449.56 as non-statutory pension bonuses to the chairman of the management committee. These bonuses amount to €284,610.18 (€148,449.90 for Elia System Operator SA and €136,160.28 for Elia Asset SA) for the other members of the management committee.

Other benefits

The allocation of other benefits to the members of the management committee, such as the guaranteed income in the event of long-term illness or an accident, the medical and hospitalisation insurance, disability and death insurance, the tariff-related benefits, the other bonuses, the contribution to public transport costs, provision of a company car and other minor benefits, is paid on the basis of the rules that apply to members of the company's managerial staff.

For 2009, the cost of other benefits is estimated at €32,465.84 for the chairman of the management committee and at €225,693.10 (€104,957.26 for Elia System Operator SA and €120,735.84 for Elia Asset SA) for the other members of the management committee.

No share option plan for the management board was allocated at Elia in 2009.

Shares held by members of the management committee

The chairman of the management committee of Elia System Operator SA holds 6,998 shares in Elia System Operator SA, while the other members of the management committee hold a total of 16,991 shares.

Elia has yet to introduce a long-term share allotment policy.

Provisions of the contracts of employment of the members of the management committee

At the time of coming into force, the provisions in the contracts of employment of the members of the management committee, including the chairman of the management committee, do not include any special conditions regarding resignation.

Transactions with associated companies

Transactions between the company and its subsidiaries which are related parties were eliminated during consolidation and therefore are not recognised in this note.

In the 2009 and 2008 financial years, there were no transactions between Elia and HGRT.

Details of transactions with other related parties are explained hereafter.

(in million €)	2009	2008
Transactions with joint venture and associated companies		
Sales of goods	1.3	0.0
Purchase of goods	1.4	0.0
Outstanding balances with joint ventures and associated companies		
Long terms debtors	0.3	0.0
Trade debtors	0.1	0.0

5.7. BUSINESS COMBINATIONS

There was no change in the consolidation scope of the Group in 2009.

5.8. GROUP ENTITIES

Fully consolidated participations

Elia System Operator SA has direct and indirect control of the subsidiaries listed hereafter:

Name	Country of establishment	Headquarters	Enterprise number	Average staff	Stake %	
					2009	2008
Elia Asset SA	Belgium	Bd de l'Empereur 20 - 1000 Brussels	0475.028.202	750.3	99.99	99.99
Elia Engineering SA	Belgium	Bd de l'Empereur 20 - 1000 Brussels	0471.869.861	146.1	100.00	100.00
Belpex SA	Belgium	Bd de l'Impératrice 66 - 1000 Brussels	0874.978.602	5.3	60.00	60.00
Elia Re SA	Luxembourg	Rue de Merl 65 - 2146 Luxembourg	–	–	100.00	100.00

All the entities keep their accounts in euro and have the same closing date as Elia System Operator SA.

Associated companies accounted for using the equity method

Name	Country of establishment	Headquarters	Enterprise number	Average staff	Stake %	
					2009	2008
H.G.R.T S.A.S. (Holding de Gestionnaires de Réseaux de Transport)	France	1 Terrasse Bellini 92919 La Défense Cedex	438.262.800 RCS Nanterre	0	24.50	24.50
Coreso SA	Belgium	Avenue de Cortenbergh 71 1000 Brussels	808.569.630	10.1	33.3	50.0

In 2008, Coreso was recognised at cost price because no economic or accounting transactions had occurred. In 2009, Coreso started operations and 16.7% of the participation was sold to the British power transmission system operator (TSO) National Grid.

Other participations

In 2009, the company CASC-CWE, which was founded in 2008, is being included for the first time in the 'Equity accounted investees' section (see Note 4.4).

Name	Country of establishment	Headquarters	Enterprise number	Stake %	
				2009	2008
CASC-CWE sa	Luxembourg	2 Rue de Bitbourg - 1273 Luxembourg-Hamm	B142.282 Luxembourg	14.29	14.29

5.9. EVENTS AFTER CLOSURE OF THE ANNUAL ACCOUNTS

As mentioned in the press release of 12 March 2010, Elia System Operator SA (Elia), the Belgian transmission system operator (TSO), and Industry Funds Management (IFM), one of the largest global infrastructure investment managers, signed an agreement under which they will acquire the German transmission system operator 50Hertz Transmission GmbH from Vattenfall Europe AG. Under the terms of the agreement, IFM will own 40 percent of 50Hertz Transmission, and Elia will own the remaining 60 percent stake.

50Hertz Transmission, a company employing around 600 people, ensures operation, maintenance, planning and demand-based development of the transmission grid, just as Elia does. It is responsible for compliant management of the entire electric system in the territories of the German Federal States of Berlin, Brandenburg, Hamburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt and Thuringia.

This transaction represents a major step forward in the construction of the European electricity market that Elia has been supporting since its inception as an independent TSO in 2001. It also fits in with its other strategic regional investments, including those in the Central Western Europe (Benelux, France and Germany) to develop a regional market.

Thanks to this acquisition, Elia will be better positioned to participate in the growth of a truly reliable and efficient European electricity market in the region that takes into account the integration of a larger part of renewable energy sources among which wind energy, in line with national and European energy policy.

The agreed enterprise value is € 810 million and the parties expect to complete the transaction for 50Hertz Transmission in the second quarter of 2010. This acquisition has no impact on the balance sheet and on the income statement on 31 December 2009. Elia will detail the acquisition in the next report in accordance with IFRS standards.

The transaction is subject to approval by the relevant authorities.

Elia will propose a capital increase at the general meeting to finance the transaction.

5.10. NON-AUDIT TASKS CARRIED OUT BY THE JOINT AUDITORS

As well as the standard audit tasks, Elia made use of the services of the joint auditors Klynveld Peat Marwick Goerdeler Bedrijfsrevisoren (represented by Alexis Palm) and Ernst & Young Bedrijfsrevisoren (represented by Jacques Vandernoot) for the following items:

- IFRS: extra tasks and advice
- Capital increase
- Certification of levies
- Miscellaneous advice

For these services, costs amounting to €75,780 were recognised.

Ernst & Young Tax Consultants advised Elia System Operator SA, Elia Asset SA and Elia Engineering and Belpex on various topics, providing for example advice and support with regard to the tax audit and the legal ruling and recurring advice about VAT and corporate income taxes. A total of €50,452 was invoiced for these services.

The activities were approved by the Audit Committee.

JOINT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

KPMG Bedrijfsrevisoren CVBA
Bourgetlaan 40
1130 Brussels
Belgium

Ernst & Young Bedrijfsrevisoren BCVBA
De Kleetlaan 2
1831 Diegem
Belgium

Joint statutory auditor's report to the general meeting of shareholders of Elia System Operator NV/SA on the consolidated financial statements for the year ended December 31st, 2009

In accordance with legal requirements, we report to you on the performance of our audit mandate. This report includes our opinion on the consolidated financial statements together with the required additional comment.

Unqualified audit opinion on the consolidated financial statements, with emphasis of matter

We have audited the consolidated financial statements of Elia System Operator NV/SA ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated accounts comprise the consolidated balance sheet as of December 31st, 2009 and the consolidated statements of income, changes in equity, recognized income and expense and cash flows for the year then ended, as well as the summary of significant accounting policies and the other explanatory notes. The total of the consolidated balance sheet amounts to € 4.420,0 million and the consolidated income statement shows a profit for the year of € 84,3 million.

The board of directors of the company is responsible for the preparation of the consolidated financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing, legal requirements and auditing standards applicable in Belgium, as issued by the "Institut des Réviseurs d'Entreprises/Instituut der Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

In accordance with these standards, we have performed procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. We have also evaluated the appropriateness of the accounting policies used, the reasonableness of accounting estimates made by the company and the presentation of the consolidated financial statements, taken as a whole. Finally, we have obtained from management and responsible officers of the company the explanations and information necessary for our audit. We believe that the audit evidence we have obtained provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the group's net worth and financial position as of December 31, 2009 and of its results and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

The joint statutory auditors although want to draw the attention to the uncertainty resulting from the outcome of the tax audit and from the settlement mechanism, already in use in prior years, which determines the results of the financial year and the estimated amount of the tariff deficit 2009 as described in article 16 of the Royal Degree of June 8, 2007.

Additional comment

The preparation of the management report and its content are the responsibility of the board of directors.

Our responsibility is to supplement our report with the following additional comment, which do not modify our audit opinion on the financial statements:

- The management report on the consolidated financial statements includes the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the group is facing, and on its financial situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, March 27, 2010

KPMG Bedrijfsrevisoren CVBA
Statutory auditor
Represented by

Alexis Palm
Vennoot

Ernst & Young Bedrijfsrevisoren BCVBA
Statutory auditor
Represented by

Jacques Vandernoot
Vennoot

Unaudited Historical Financial Information of 50Hertz for the year ended 31 December 2009 compiled using the measurement principles of IFRS

Set forth below are the unaudited consolidated income statement, balance sheet and cash flow statement of 50Hertz as of and for the year ended 31 December 2009.

These unaudited consolidated income statement, balance sheet and cash flow statement present 50Hertz and 50Hertz Offshore on a consolidated basis and have been prepared by the Company as follows:

- the statutory balance sheet and the statutory income statement of 50Hertz and 50Hertz Offshore, prepared under German accounting principles ("HBI"), have been consolidated by the Company (since there is no obligation for 50Hertz to consolidate under German law) and certain assets and liabilities have been reclassified in order to be consistent with the balance sheet presentation of the Company;
- the statutory balance sheet and the statutory income statement of 50Hertz and 50Hertz Offshore, prepared under HBI, have been converted to IFRS, as endorsed by the EU, as applied by the Company.

Investors should read this section together with the Unaudited Pro Forma Financial Information in section 12.7 and the audited historical financial statements of 50Hertz and 50Hertz Offshore GmbH for the year ended 31 December 2009 prepared in accordance with German GAAP ("HBI") which have been filed to the appropriate authorities on 12 April 2010 and 8 April 2010, respectively. The audited historical financial statements of 50Hertz and 50Hertz Offshore GmbH for the year ended 31 December 2009 are filed in the German language and can be retrieved on http://www.ebundesanzeiger.de and on the Company's website (www.elia.be) (together with a free translation in English). The audited historical financial statements of 50Hertz and 50Hertz Offshore GmbH for the year ended 31 December 2009 and their translations are part of the Prospectus and included by reference (see section 8.2).

Consolidated income statement

	Note	As at 31 December 2009 (unaudited)
(million EUR)		
Revenue	3.1	673.2
Cost of sales		0.0
Gross profit		**673.2**
Other income	3.2	58.3
Services and other goods	3.3	(593.3)
Personnel expenses	3.4	(49.8)
Depreciation, amortization, impairment and changes in provisions	3.5	(70.2)
Other expenses		6.3
Result from operating activities		**24.5**
Finance income		1.1
Finance costs	3.6	(18.4)
Net finance costs		**(17.3)**
Profit before income tax		**7.2**
Income tax expenses		(5.4)
Net profit before tax equalisation		**1.8**
Profit transfer	3.7	9.0
Profit for the period after income tax		**10.8**

Consolidated balance sheet

(million EUR)	Note	As at 31 December 2009 (unaudited)
Non-current assets		
Intangible assets	4.1	32.8
Property, plant & equipment	4.2	1.332.3
Other investments		0.9
Current assets		
Trade & other receivables	4.3	542.9
Cash & cash equivalents	4.4	57.0
Other assets	4.5	130.5
TOTAL ASSETS		**2.096.4**
Equity	**4.6**	
Share capital		200.0
Capital reserves		455.8
Retained earnings		234.7
Non-current liabilities		
Loans and borrowings	4.7	320.0
Employee benefits		1.2
Provisions	4.8	146.6
Deferred tax liabilities	4.9	112.8
Current liabilities		
Trade and other payables	4.10	362.7
Other liabilities	4.11	262.6
TOTAL EQUITY AND LIABILITIES		**2.096.4**

Consolidated cash flow statement

	As at 31 December 2009 (unaudited)
(in million EUR)	
Profit for the period after income tax	**10.8**
Non cash adjustments to reconcile profit before tax to net cash	92.0
Finance income	(4.1)
Working capital adjustments	(43.3)
Income tax expense	0.0
Income tax paid	0.0
Interest paid	(0.1)
Net cash flow from operating activities	**55.3**
Purchase of Property, Plant and Equipment, intangible assets	(157.4)
Interest received	0.1
Other cash flow from investing activities	0.5
Net cash flow from investing activities	**(156.8)**
Proceeds from/Repayment of borrowings	0.0
Dividends paid	8.9
Other Financing activities	0.0
Net cash flow used in financing activities	**8.9**
Net increase (decrease) in cash and cash equivalents	(92.6)
Cash and cash equivalents at period end	57.0

Notes:

(1) The amount of EUR 9 million disclosed as "profit transfer" in the income statement results from the unwinding of a tax unity which ended in 2008. As a result, the net income number that has been used in the cash flow statement is EUR 10.8 million.

(2) "*Non cash adjustments to reconcile profit before tax to net cash*" consist of on-cash movements in the income statement consisting of depreciation (EUR 75.4 million); changes in deferred taxes (EUR 8.4 million); changes in fair value (EUR 4.9 million); and changes in provisions (EUR 3.3 million).

Selected notes to the unaudited historical financial information of 50Hertz

1. Reporting entity

The unaudited consolidated financial information for the financial year ended 31 December 2009 includes 50Hertz Transmission GmbH, its 100% subsidiary 50Hertz Offshore GmbH and its two minority shareholdings European Market Coupling Company GmbH and Central Allocation Office GmbH. (see section 11.2.8 for a description of the group structure of 50Hertz)

2. Basis of presentation and preparation

These unaudited consolidated income statement, balance sheet and cash flow statement present 50Hertz and 50Hertz Offshore on a consolidated basis and have been prepared by the Company as follows:

- the statutory balance sheet and the statutory income statement of 50Hertz and 50Hertz Offshore, prepared under German GAAP ("HBI"), have been consolidated by the Company (since there is no obligation for 50Hertz to consolidate under German law) and certain assets and liabilities have been reclassified in order to be consistent with the balance sheet presentation of the Company;

- the statutory balance sheet and the statutory income statement of 50Hertz and 50Hertz Offshore, prepared under HBI, have been converted to IFRS, as endorsed by the EU, as applied by the Company.

50Hertz is not required by German law to establish consolidated financial statements under IFRS. The unaudited consolidated information has been prepared in accordance with the measurement principles of IFRS. It does not meet all IFRS requirements due to lack of comparatives as well as comprehensive notes. It has been prepared based on the historical financial statements of 50Hertz and 50Hertz Offshore (2009 financial statements being included in the prospectus by reference, see section 8.2), and certain additional information which the Company has had access to prior to the acquisition of 50Hertz (for further details see also the basis for the preparation of the Unaudited Pro Forma Consolidated Financial Information in section 12.7.3). Any abbreviations used are defined in the Glossary of selected terms.

3. Items in the income statement

3.1 Revenues

The revenue cap, based on accepted costs, set by the regulator for 50Hertz in 2009 amounted to EUR 680.0 million. The shortfall in revenue (EUR 6.8 million) is mainly due to the lower than anticipated grid fees paid by three power plants. This results in net revenues of EUR 673.2 million.

3.2 Other income

Other income (EUR 58.3 million) primarily consists of the following items:

(i) revenues in connection with public service obligations relating to combined heat and power plants (*Kraft-Wärme-Kopplung* - see section 13.7.5) (EUR 18.1 million);
(ii) revenues from projects performed for customers (EUR 6.5 million);
(iii) a positive impact resulting from the posting of a regulatory receivable (EUR 19.2 million) relating to offshore costs for the period 2001-2009;
(iv) revenues resulting from the optimal use of assets (asset valorisation such as lease of installations to mobile telephone operators,...) (EUR 6.5 million);
(v) revenue from application IFRIC 18[1] (EUR 4.6 million).

3.3 Services and other goods

Total services and other goods (EUR 593.3 million) can be detailed as follows:

(in million EUR)	For the year ended 31 December 2009 (unaudited)
Services and other goods	502.3
Grid losses	83.6
Other	7.4
Total services and other goods	**593.3**

Services and other goods primarily consist of the following items:

(i) costs related to public service obligations in connection with renewable energy ("EEG", see section 13.7.6), corresponding to accrued income from the monthly delivery of EEG energy (remaining outstanding amount from the 2009 EEG activities) (EUR 139.9 million);
(ii) costs related to ancillary services (such as the services for primary control, secondary control, tertiary reserve, regulation of the voltage and the reactive power, congestion management and black start) (EUR 182.1 million);

[1] IFRIC 18 : Transfer of Assets from Customers

(iii) maintenance charges (EUR 35.9 million);
(iv) costs relating to off-shore installations (EUR 19.3 million);
(v) miscellaneous items, none of which is higher than EUR 20.0 million.

3.4 Personnel expenses

Personnel expenses (EUR 49.8 million) primarily consists of the following items:

(i) Wages and salaries (EUR 40.2 million;
(ii) Social charges (EUR 7.2 million);
(iii) Early retirement expenses and other expensenes (EUR 2.4 million);

3.5 Depreciation, amortisation & changes in provisions

Charges of depreciation, amortisation and changes in provisions (EUR 70.2 million) consist of depreciation charges for the year (EUR 75.4 million), which is partially offset by the release of subsidies and capital grants (EUR 5.2 million).

3.6 Finance costs

Finance costs (EUR 18.4 million EUR) primarily relate to interest expenses on a shareholder loan granted by Vattenfall. This resulted also in a pro forma adjustment (see section 12.7.5 of the Prospectus).

3.7 Profit transfer

During 2008, 50Hertz received a profit transfer amounting to EUR 86.3 million under a profit transfer agreement with Vattenfall for tax purposes. The profit transfer of EUR 9.0 million in 2009 results from the unwinding of the profit transfer agreement.

4 Items in the statement of financial position

4.1 Intangible assets

Intangible assets relate to the capitalised right for the usage of the "Kontek" underwater cable (EUR 32.8 million as of 31 December 2009) which connects the German with the Danish grid. The contract expires in 2026. The asset amortises on a straight line basis over 20 years.

4.2 Property, plant and equipment

Property, plant and equipment can be detailed as follows:

(million EUR)	As at 31 December 2009 (unaudited)
Property, plant and equipment	127.5
Accumulated depreciation	47.7
Property, plant and equipment -Net book value	79.8
Plant, machinery and fittings	2,709.2
Accumulated depreciation	1,486.0
Plant, machinery and fittings - Net book value	1,223.2
Building cost subsidy	(101.8)
Assets under Construction	81.4
Advance payments	49.7
Total tangible fixed assets	**1,332.3**

Tangible assets amount to EUR 1,332.3 million and consist of:

(i) property, plant and equipment comprise land and water rights (net book value amounting to EUR 79.8 million (at the end of 2009)).
(ii) plant, machinery and fittings include the grid network, consisting of overhead lines, substations, other transformers and inductors, safety and information facilities, fibre optic cables and sub-terrestrial grids (net book value amounting to EUR 1,223.3 million (at the end of 2009)).
(iii) building cost subsidies comprise financial contribution by customers in respect of the construction of defined grid assets and government grants (EUR -101.8 million) .
(iv) assets under construction (EUR 81.4 million) relating to two main offshore projects for connecting the grid to offshore wind farms.
(v) advance payments (EUR 49.7 million) mainly related to two important projects of 50Hertz Offshore which are also reflected in assets under construction ,.

4.3 Trade receivables

Trade and other receivables can be detailed as follows:

(million EUR)	As at 31 December 2009 (unaudited)
Trade receivables from third parties	439.4
Trade receivables from Vattenfall related companies	90.7
Other	12.8
Total trade receivables	**542.9**

Trade and other receivables consist primarily of accrued income from the monthly delivery of renewable energies (“EEG”) (see section 13.7.6) and cogenerated energy (“KWK”) (see section 13.7.6), energy balancing services and network tariffs.

Trade receivables from Vattenfall related companies mainly relate to receivables on distribution system operators.

4.4 Cash and cash equivalents

Cash and cash equivalents primarily comprise balances under certain cash pooling arrangements entered into with Vattenfall Europe (EUR 54.4 million). The interest rate on these cash pooling balances is linked to the EONIA (Euro OverNight Index Average) rate.

4.5 Other assets

Other current assets (EUR 130.5 million) include:

(i) receivable in connection with the public service obligations in connection with renewable energy ("EEG", see section 13.7.5) (EUR 36.3 million); The EEG-receivable relates to an outstanding settlement of the EEG variances ("*Nachlieferverpflichtung*") from 2008 (old mechanism) which is due to be settled in 2010.
(ii) VAT receivables partially offset by advance payments (EUR 1.5 million).
(iii) the remaining amount relates to the). the recognition of assets for a total amount of EUR 92.7 million corresponding to certain deficits resulting from the fact that tariffs are based on historical information and do not reflect the actual costs, taking into account that these differences should be recoverable in future tariffs (see also section 12.7.5., discussion of adjustment B in respect of unaudited pro forma consolidated balance sheet).

4.6 Equity

The subscribed capital amounts to EUR 200.0 million as of 31 December 2009. Capital reserves amount to EUR 455.8 million and are generally not distributable under German law. Retained earnings primarily result from pro forma adjustments (see also section 12.7.5., discussion of adjustment D in respect of unaudited pro forma consolidated balance sheet).

4.7 Loans and borrowings

Loans and borrowings relate to a shareholder loan (EUR 320.0 million) between Vattenfall Europe AG and 50Hertz. Interest rates on these loans are variable based on EURIBOR plus a 0.6% premium.

4.8 Provisions

The provisions (EUR 146.6 million) consist mainly of:

(i) a provision covering potential liabilities relating to claims from landowners for land used to build the transmission network (EUR 62.7 million);
(ii) provisions related to the fact that received revenues between November 2005 and the first time application of the regulated tariffs need to be returned through future tariffs over a period of 9 years (EUR 37.5 million) (see also section 12.7.5 B);
(iii) pension and personnel related provisions consisting of :
  i. early and partial retirement provisions (EUR 7.3 million);
  ii. pension provisions (EUR 8.1 million),;
  iii. provision for flexible working hours (EUR 1.3 million) ;
  iv. provision for jubilee premiums (EUR 0.8 million);
  v. other one-off payments (EUR 2.3 million);
(iv) a provision for litigation primarily relates to certain claims from distribution system operators (EUR 6.5 million) for alleged excessive pricing prior to October 2004.
(v) a provision for environmental liabilities (EUR 3.4 million).

4.9 Deferred tax liabilities

Deferred tax liabilities primarily result from the accelerated depreciation for tax reasons under HBI compared to IFRS where depreciations are based on economic life time and the different accounting treatment of auctioning revenues between HBI and IFRS (see also section 12.7.5., discussion of adjustment F in respect of unaudited pro forma consolidated balance sheet).

4.10 Trade and other payables

Trade and other receivables can be detailed as follows:

(million EUR)	As at 31 December 2009 (unaudited)
Trade payables to third parties	52.3
Trade payables to Vattenfall related companies	84.2
Liabilities resulting from regulatory framework	187.2
Other payables	39.0
Total	**362.7**

Trade payables to Vattenfall related companies are primarily due to Vattenfall Europe Generation (EUR 41.9 million) and primarily relate to the purchase of balancing energy.

The liabilities resulting from the regulatory framework result from adjustments which were made to account for certain specific features of the regulatory framework in which 50Hertz operates in a way which is consistent with Elia's accounting policies. Under the regulatory framework applicable to 50Hertz, certain revenues will have to be restituted in future tariffs (surpluses in revenues) as described in the pro forma adjustment (see section 12.7.5, discussion of adjustment B in respect of unaudited pro forma consolidated balance sheet).

Other payables (EUR 39.0 million) mainly include personnel-related liabilities (*e.g.* holiday and bonus accrual, social security charges, salaries).

4.11 Other liabilities

Other liabilities primarily relate to the monthly balancing of EEG and KWK energy (EUR 241.3 million) (see section 13.7.6).

GLOSSARY OF SELECTED TERMS

The following explanations are not intended as technical definitions, but are provided in order to assist the reader to understand the most important terms as used in this Prospectus:

Access Contract: The contract concluded between the system operator and a network user connected to the network or concluded between the system operator and an electricity supplier or an ARP designated thereto by the network user, concerning the access to injection and/or off-take points on the network.

ARP Contract: The contract concluded between the system operator and an ARP concerning the balancing obligations of the ARP for the injections and off-takes of electricity within its responsibility.

Access Responsibility Party (ARP): Any producer, trader or eligible customer listed in the register of Access Responsible Parties that concluded an ARP Contract with the system operator.

AIT: Average interruption time, which is the quality indicator for lasting power interruptions, expressed in minutes/customer per year.

Ancillary services: The services for primary control, secondary control, tertiary reserve, regulation of the voltage and the reactive power, congestion management and black start.

Belpex: The Belgian day-ahead power exchange, incorporated by the Company as majority shareholder, in partnership with APX (the Amsterdam power exchange), Powernext (the French power exchange), TenneT (the Dutch TSO) and RTE (the French TSO), and currently sold to APX subject to closing conditions (see section 10.8.4).

Black start service: An ancillary service for restoring the power system after a blackout assuring the availability of generation means fit to start and to supply electricity to the network without the need for external electricity supply from the network.

Combined heat and power (CHP): CHP or co-generation is an energy conversion process, where electricity and useful heat are produced simultaneously in one process. CHP heat can be used either for district heating or for industrial processes. The CHP process may be based on the use of steam or gas turbines or combustion engines. The primary energy source can be a wide range of fuels, including biomass and fossil fuels, as well as geothermal or solar energy.

Congestion management: All the measures taken by electricity network operators to alleviate capacity constraints on the network and to maximise the availability of network capacity to the market actors (*gestion des congestions / congestiebeheer*).

Connection Contract: The agreement entered into between the system operator and the network users, which provides for the rights and obligations of the system operator and the network users regarding the connection, including the relevant technical specifications.

CREG: The Commission for the Regulation of Electricity and Gas (*Commission de Régulation de l'Electricité et du Gaz / Commissie voor de Regulering van de Elektriciteit en het Gas*), the Belgian federal regulator for gas and electricity. At the date hereof, the management committee of the CREG is composed out of the following members: François Possemiers (chairman), Guido Camps, Bernard Lacrosse and Dominique Woitrin.

CWaPE: The *Commission Wallonne Pour l'Energie*, the regulator for the gas and the electricity for the Walloon Region.

Distribution network: The electricity network, consisting of overhead lines, underground cables, substations and other equipment necessary to enable the transport of electricity at the voltages up to 70 kV in the Flemish Region, lower than 36 kV in the Brussels-Capital Region and lower than 30 kV in the Walloon Region.

Distribution: The transport of electricity on networks with a view to its delivery to customers on voltages up to 70 kV in the Flemish Region, on voltages lower than 36 kV in the Brussels-Capital Region and lower than 30 kV in the Walloon Region, with the exception of the supply to these customers.

Distribution system operator (DSO): A natural or legal person responsible for operating, maintaining and developing a distribution system in a given area and, where applicable, its interconnections with other systems in order to seek to ensure the long-term ability of the system to meet reasonable demands for the distribution of electricity.

EEG: The German Renewable Energy Sources Act (*Gesetz zur Neuregelung der Rechts der Erneuerbaren Energien im Strombereich und zur Änderung damit zusammenhängender Vorschriften*), last amended 25 October 2008. In addition to the technical functions (frequency and voltage control) that prevail in other countries as well, German TSOs are also responsible for operating all electricity fed into the network in compliance with the German Renewable Energy Sources Act, managing the associated payments as well as managing payments associated with the law for conservation, modernisation and expansion of cogeneration plants (KWKG).

Electricity demand: The total consumption of electrical energy in a given geographical area during a given period of time.

Eligible customers: Customers who are free to purchase electricity from the supplier of their choice, as per the Electricity Law.

EMF: Electromagnetic fields.

ENTSO-E: European Network of Transmission System Operators for Electricity, the international association of 42 TSOs from 34 European countries providing for a European wide harmonisation of network access and conditions for usage, especially for cross-border electricity trade.

Generation: The production of electricity.

Green certificates: Tradable certificates that are allocated to producers of renewable energy (green electricity).

Grid Code: The technical rules governing the operation, the access to and the use of the electricity network and the respective rights and obligations of the network users (generators, traders, suppliers and end users) and of the TSOs or DSOs.

GW Stands for gigawatt. One gigawatt corresponds to 1 billion watts.

High voltage (electricity) network: The 30 kV to 70 kV electricity network.

HVDC: High voltage direct current.

Power hub: A bilateral market platform to exchange electricity between Access Responsible Parties.

IBGE/BIM: The *Institut Bruxellois pour la Gestion de l'Environnement / Brussels Instituut voor Milieubeheer,* an administration that houses the regulator for gas and electricity for the Brussels-Capital Region, in a service called "Energy markets regulation" managed inside the department "Energy, undertakings and environment"

Injection: The injection of electricity into the network.

Interconnectors: The equipment (mostly overhead lines) used to connect electricity networks between neighbouring countries that are operated by system operators.

iRAB:	The initial economic value or depreciated replacement value of the Company's regulated asset base, valued by three auditors, appointed as advisors by the CREG, at the amount of EUR 3.508 billion as of the end of 1999. Further to the Publi-T transaction, this iRAB was adjusted to EUR 3.260 billion.
KWKG:	Gesetz zur Förderung der Kraft-Wärme-Kopplung (KWKG 2009).
Load shedding contracts:	Contracts with large industrial energy consumers used to enable the decrease of electricity demand in order to seek to maintain the balance between total supply and demand within a given control area and, as much as possible, to prevent congestions on the TSO network.
Local transmission:	The transport of electricity on the electricity network of a tension of 30 up to 70 kV in the Walloon Region.
Metering:	The activity that consists in measuring off-takes and/or injections of a network user from and/or into the network.
MW:	Stands for megawatt. One megawatt corresponds to 1 million watts.
MWh:	Stands for megawatt hour, which is a unit of energy equal to 3.6 billion megajoules.
Nomination:	The activity of providing, in accordance with the Access Contract or the ARP Contract, schedules to the system operator which comprise the tables indicating the quantity of active power per time frame to be injected and/or off-taken for such day.
Off-take:	The off-take of electricity from the network.
Primary control or Very Fast Reserve:	An ancillary service supplied by generation units that automatically and within seconds adapt their injection of active power in function of variations in the measured frequency.
Power station:	An industrial installation that is able to generate electricity.
RAB:	The regulated asset base, which correspond to the iRAB plus investments minus depreciation minus divestments minus decommissioning plus/minus change in working capital need of successive years.
Renewable energy sources (RES):	Renewable non-fossil energy sources (wind, solar, geothermal, wave, tidal, hydropower, biomass, landfill gas, sewage treatment plant gas, biogases, *etc*.).
Retail suppliers:	A person who produces or buys electricity in order to sell it to one or more end users.
Secondary control:	An ancillary service to restore the balance between injections and off-takes within minutes, by adapting the injection of active power of pre-contracted generation units using a signal calculated and emitted by a TSO.
Settlement:	The process that handles the calculation of the invoicing to customers related to the contracts.
Supply:	The sale, including resale, of electricity to end-users.
Third Energy Package:	In respect of electricity, the Third Energy Package includes a new Electricity Directive (Directive 2009/72/EC, the "Third Electricity Directive"), a new Regulation on Cross-Border Exchanges (Regulation 714/2009) and a Regulation establishing an Agency for the Cooperation of Energy Regulators (Regulation 713/2009), entitled to handle electricity matters.
Tertiary reserve:	An ancillary service contracted with producers to restore the balance between injections and off-takes, used as a last resort reserve in case of an emergency on the TSO network.
Trader:	A person, other than a producer or a distributor, who buys electricity in order to re-sell it.
Transmission	The electricity network, consisting of overhead lines, underground cables, substations and other

network: equipment necessary to enable the transmission of electricity at the voltages of 30 kV to 380 kV.

Transmission system operator (TSO): A natural or legal person responsible for operating, maintaining and, when necessary, developing a transmission network in a given area and, where applicable, its interconnections with other networks, in order to seek to ensure the long-term ability of the network to meet reasonable demands for the transmission of electricity.

Transmission: The transport of electricity on the very high voltage and, except if otherwise defined by regional regulation, high voltage interconnected network with a view to its delivery to final customers or to distributors, but not including supply.

TW: Stands for terawatt. One terawatt corresponds to 1 trillion watts.

Very high voltage (electricity) network: The 380 kV to 150 kV electricity network.

VREG: The *Vlaamse Reguleringsinstantie voor de Elektriciteits- en Gasmarkt*, the regulator for gas and electricity for the Flemish Region.

W: Stands for watt, which is a derived unit of power in the International System of Units (SI) and measures the rate of energy conversion.

DEFINED TERMS

Articles of Association:	The articles of association of the Company, as amended from time to time.
ASIC:	Australian Securities and Investments Commission.
Belgian Company Code:	The Belgian Law of 7 May 1999 containing the companies code (*Code des sociétés / Wetboek van vennootschappen*).
Belgian Financial Press:	L'Echo and De Tijd.
Belgian GAAP:	The applicable accounting framework in Belgium (Belgian Generally Accepted Accounting Principles), including specific regulatory requirements applicable to the Company.
Board of Directors:	The board of directors of the Company, as recomposed from time to time.
Business Day:	Any day, other than a Saturday or Sunday, on which banks are open for general business in Brussels.
CBFA:	The Belgian Commission for Banking, Finance and Insurance (*Commission bancaire, financière et des assurances / Commissie voor het Bank-, Financie- en Assurantiewezen*).
CGC:	The Belgian Corporate Governance Code, as amended from time to time.
Closing Date of the Offering:	The day on which the capital increase is realised. This date is expected to be 25 June 2010.
Closing Date of the Rights Offering:	Last day on which the Existing Shareholders and holders of Preferential Rights can subscribe to the New Shares. This date is expected to be 18 June 2010.
Company:	Elia System Operator SA/NV, a public limited liability company (*société anonyme / naamloze vennootschap*) incorporated under Belgian law, having its registered office at Boulevard de l'Empereur 20, B-1000 Brussels and registered with the Belgian register for legal entities under the number 0 476.388.378 (RPR Brussels). The Company qualifies as a listed company (*société cotée / genoteerde vennootschap*) within the meaning of Article 4 of the Belgian Company Code and as a company having made a public call on savings (*société faisant ou ayant fait publiquement appel à l'épargne / vennootschap die een openbaar beroep op het spaarwezen heeft gedaan*) within the meaning of Article 438 of the Belgian Company Code.
Corporate Governance Decree:	The Belgian Royal Decree of 3 May 1999 on the operation of the national transmission system, as amended by the Royal Decree of 6 October 2000.
CWE:	Central West European.
EEA:	The European Economic Area.
Electricity Law:	The Belgian Law of 29 April 1999 on the organisation of the electricity market, as amended.
Elia:	The Company and/or any or all of its subsidiaries, as existing prior to the closing of the acquisition of 50Hertz.
EU:	The European Union.
EUR or €:	The official currency of the European Union, in use in Belgium.
Euronext:	The "Euronext Brussels" market of Euronext Brussels.

Executive Committee:	The Executive Committee, as established by the Board of Directors from time to time, within the meaning of Article 524*bis* of the Belgian Company Code and Article 24 of the Articles of Association.
Existing Shareholders:	The holders of Existing Shares.
Existing Shares or Shares:	The 48,284,174 existing shares without designation of nominal value, with voting right, issued by the Company that represent the capital.
General Shareholders' Meeting:	The meeting of the shareholders of the Company
Group:	The Company, together with the consolidated entities for the relevant year.
IB:	Investment budget.
IFM	Industry Funds Management
IFRS:	International Financial Reporting Standards.
Institutional Investors:	Qualified and/or institutional investors under applicable laws of the relevant jurisdiction and, in respect of Belgium, investors that meet the definition of "qualified investors", as defined in Article 10 of the Prospectus Law, as extended by the Belgian Royal Decree of 26 September 2006 regarding the extension of the term qualified investor and the term institutional or professional investor (*Arrêté royal du 26 septembre 2006 portant extension de la notion d'investisseurs qualifiés et de la notion d'investisseurs institutionnels ou professionnels / Koninklijk Besluit van 26 september 2006 tot uitbreiding van het begrip gekwalificeerde belegger en het begrip institutionele of professionele belegger*).
Issue Price:	The price in Euro at which each New Share is offered, *i.e.* EUR 24.80 per New Share.
Joint Global Coordinators and Bookrunners:	The Joint Global Coordinators and Bookrunners are: • KBC Securities NV, with registered office located at Havenlaan 12, 1080 Brussels, Belgium; • ING Belgium NV, with registered office at Marnixlaan 24, 1000 Brussels, Belgium; • BNP Paribas SA, with registered office at Boulevard des Italiens 16, 75009 Paris, France; and • Dexia Bank België NV, with registered office at Pachecolaan 44, 1000 Brussels, Belgium.
Member State:	A member state of the European Union.
MTF:	Multilateral trading facility.
Net Scrips Proceeds:	The net proceeds arising from the sale of the Scrips, after deducting expenses, charges and all forms of expenditure which the Company will have incurred for this, will be distributed proportionally to all holders of non-exercised Preferential Rights.
New Shares:	The shares with VVPR Strips to be issued within the framework of the Offering.
Offering:	The public offering to existing shareholders and holders of Preferential Rights to subscribe to New Shares and the Scrips Private Placement.
Opening Date of the Rights Offering:	The date as from which the holders of Preferential Rights can submit their subscription orders for the New Shares. This date is expected to be 4 June 2010.
Preferential Rights:	The extra-legal preferential subscription right to subscribe in an irreducible manner to the New Shares with VVPR Strips represented by coupon nr. 6 of the Existing Shares, which

	will be detached from the Existing Shares on 3 June 2010 after the closing of Euronext Brussels. Such Preferential Rights will be negotiable on Euronext Brussels under the ISIN code BE0970113164 during the entire Rights Subscription Period. The preferential subscription rights which entitle the holders to subscribe to the New Shares in accordance with the Ratio at the Issue Price. 4 Preferential Rights give the right to subscribe to 1 New Share as part of the Offering.
Prospectus:	This document.
Prospectus Directive:	Directive 2003/71/EC together with any relevant implementing measure in each Relevant Member State.
Prospectus Law:	The Belgian Law of 16 June 2006 regarding the public offering of investment instruments and the authorisation of investment instruments to trade on a regulated market.
Ratio:	The ratio 1/4, in which 4 Preferential Rights or Scrips give the right to subscribe to 1 New Share as part of the Offering.
Regulation S:	Regulation S under the Securities Act.
Relevant Member State:	Each member state of the EEA which has implemented the Prospectus Directive.
Rights Offering:	The public offering by Elia to subscribe to New Shares as part of a capital increase with Preferential Rights.
Rights Subscription Period:	The Rights Offering will be open from 4 June 2010up to and including 18 June 2010.
Scrips:	The Preferential Rights that are not exercised at the latest on the last day of the Rights Subscription Period will be converted automatically into an equal number of Scrips. Institutional Investors who acquire Scrips irrevocably commit to exercise the Scrips and thus to subscribe to the corresponding number of New Shares at the Issue Price and in accordance with the Ratio.
Scrips Private Placement:	After the Rights Subscription Period has been closed, the Scrips, if any, will be sold to Institutional Investors by way of a private placement. The Scrip Private Placement is expected to last for one day and is expected to be on 22 June 2010. Through such a procedure, a book of demand will be built to find a single market price for the Scrips. The Net Scrips Proceeds (rounded down to a whole Eurocent per unexercised Preferential Right), will be distributed proportionally between all holders of coupons nr. 6 unless the Net Scrips Proceeds divided by the total number of unexercised Preferential Rights is less than EUR 0.05.
SEC:	U.S. Securities and Exchange Commission.
Securities Act:	The United States Securities Act of 1933, as amended.
Selling Agents:	KBC Bank NV, CBC Banque SA, KBC Securities NV, ING Belgium NV, Fortis Bank NV/SA, and Dexia Bank België NV, and their affiliated companies.
Statutory Auditors:	Ernst & Young BCVBA, represented by Jacques Vandernoot and Klynveld Peat Marwick Goerdeler CVBA, represented by Alexis Palm.
Tariffs Decree:	The Belgian Royal Decree of 8 June 2007 relating to the rules on determining and assessing the total income and the reasonable profit margin, the general tariff structure, the balance between costs and revenue and the basic principles and procedures with regard to tariffs, reporting and cost control by the national TSO.

Transparency Law:	The Belgian Law of 2 May 2007 on the disclosure of large shareholdings in issuers whose securities are admitted to trading on a regulated market.
Transparency Royal Decree:	The Belgian Royal Decree of 14 February 2008 on the disclosure of large shareholdings.
Underwriters:	The Joint Global Coordinators and Bookrunners.
Underwriting Agreement:	The underwriting agreement relating to the Rights Offering expected to be entered into by the Underwriters and the Issuer on or about 22 June 2010.
VVPR Strips:	VVPR Strips give certain holders the right to cash dividends with a reduced withholding tax on dividends of 15 per cent instead of 25 per cent. The VVPR Strips are listed on Euronext Brussels and can be traded separately from the shares.

COMPANY

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Belgium

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