Prospectus
dated June 2005

ELIA SYSTEM OPERATOR

Offering by Electrabel SA/NV and SPE SA/NV (the "Selling Shareholders")
to sell up to 16,791,856 ordinary shares (including the Additional Shares, if any, as defined below)
(the "Existing Shares")
and
Offering to subscribe for newly issued ordinary shares
for an aggregate amount of up to EUR 150,000,000
(the "New Shares")
of Elia System Operator SA/NV (the "Company")

The Existing Shares are being offered by Electrabel SA/NV ("Electrabel") and SPE SA/NV ("SPE") in a public offering in Belgium and in a private placement to institutional investors in Belgium and internationally (outside the United States) (the "Secondary Offering"). The Company will concurrently therewith offer the New Shares in a public offering in Belgium and in a private placement to institutional investors in Belgium and internationally (outside the United States) (the "Primary Offering" and, together with the Secondary Offering, the "Offering"). The issuance of the New Shares is subject to the suspensive condition of the closing of the Secondary Offering.

The Selling Shareholders will grant to the Underwriters, as identified in the section entitled "Underwriting", an option, exercisable for 30 days from the date of commencement of trading of the Shares on Eurolist by Euronext (Brussels), to purchase a number of additional shares corresponding to maximum 10% of the Existing Shares and of the New Shares (other than New Shares allocated to the Company's existing shareholders, *i.e.,* Electrabel, SPE and Publi-T SCRL/CVBA ("Publi-T")), at the Offer Price, less the underwriting discount, to cover over-allotments, if any, in connection with the Offering (the "Over-Allotment Option"). The shares that may be purchased by the Underwriters pursuant to the Over-Allotment Option are referred to herein as the "Additional Shares" and, together with the Existing Shares and the New Shares, as the "Shares".

Prior to the Offering, there has been no public market for the Shares or for the VVPR-strips.

The offering price per Share (the "Offer Price") will be within a range (the "Price Range") that will be published in the Belgian financial press on or about 9 June 2005. The Offer Price and the number of Shares will be published in the Belgian financial press on or about 23 June 2005.

APPLICATION FOR LISTING OF ALL OF THE SHARES OF THE COMPANY UNDER THE SYMBOL "ELI" AND OF THE VVPR-STRIPS UNDER THE SYMBOL "ELIS" ON EUROLIST BY EURONEXT, THE REGULATED MARKET OF EURONEXT BRUSSELS, HAS BEEN MADE, and it is expected that such listing will become effective on or about 23 June 2005.

See "Risk Factors" beginning on page 19 to read about factors that should be considered before purchasing or subscribing for the Shares.

The Shares have not been and 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 Shares are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The Shares are being offered outside the United States in accordance with Regulation S.

The Shares 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, sale 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 on offers, sales and transfers of the Shares and the distribution of this Prospectus, see "Selling Restrictions".

The Retail Offering will start on 9 June 2005 and close on 20 June 2005, subject to early closing. The Offering to institutional investors will start on 9 June 2005 and close on 21 June 2005.

Delivery of the Shares is expected to take place in book-entry form against payment therefore in immediately available funds on or about 28 June 2005.

Joint Global Coordinators

MERRILL LYNCH INTERNATIONAL **FORTIS BANK**

Advisor to the Company

KBC SECURITIES

Joint Global Coordinators

MERRILL LYNCH INTERNATIONAL **FORTIS BANK**

Global Institutional Offering

Joint Bookrunners

MERRILL LYNCH INTERNATIONAL **FORTIS BANK**

Co-Lead Manager

CITIGROUP

Co-Manager

ING

Belgian Retail Offering

Joint-Lead Managers

DEXIA BANK **FORTIS BANK**

Co-Lead Managers

ING **KBC** **PETERCAM**

Selling Agent

BANK DEGROOF

Advisor to the Company

KBC SECURITIES

The French and Dutch texts of this Prospectus can also be accessed via the Internet on the following websites: *www.elia.be*, *www.eliaenbourse.be* and *www.eliabeursgang.be*. The Company has arranged for a French and a Dutch translation of the English version of this Prospectus and assumes responsibility for the consistency between the English, French and Dutch versions. Only the French and Dutch printed versions are legally binding for the Offering in Belgium. The Internet versions of this Prospectus do not constitute an offer to sell or a solicitation of an offer to purchase or to subscribe for securities in jurisdictions where such offer or solicitation is unlawful. Any reproduction or distribution of the internet version of this Prospectus is prohibited.

June 2005

SELLING RESTRICTIONS

The Offering and this Prospectus have not been 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 Shares outside Belgium. The distribution of this Prospectus and the offer and sale of the Shares may be restricted by law in certain jurisdictions. Neither the Company nor the Selling Shareholders nor the Underwriters represent that this Prospectus or any other Offering-related documents may be lawfully distributed, or that the Shares may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such distribution or offering. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other Offering-related documents may be distributed or published in any jurisdiction, except in circumstances that will result in the compliance with all applicable laws and regulations. This Prospectus does not constitute an offer to sell, or constitute a solicitation of an offer to buy or to subscribe for, any of the Shares to any person in any jurisdiction in which it is unlawful to make such an offer or solicitation to such person. Persons into whose possession this Prospectus or any Shares come, must inform themselves about and observe any such restrictions.

In particular, this Prospectus and any other documents or materials relating to the Offering or the Shares may not be distributed outside Belgium, including but not limited to, the United States, Canada, Japan and the United Kingdom. Any failure to comply with these restrictions may constitute a violation of US, Canadian, Japanese and English securities laws or the securities laws of other jurisdictions.

United States

The Offering is being made outside the United States in reliance upon Regulation S under the Securities Act. The Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold except in compliance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act.

The Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities approved or endorsed the merits of the Offering or the Shares or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the US.

United Kingdom

The Offering may only be made to persons who satisfy the requirements of the applicable exemptions under the Public Offers of Securities Regulations 1995 and, accordingly, no offer is being made to the public in the United Kingdom.

In the United Kingdom, this Prospectus is being distributed and directed only to, (a) persons who have professional experience in matters relating to investments as described in Article 19 (1)(a) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Order") or (b) high-net-worth entities, and other persons to whom it may otherwise lawfully be communicated, as described in Article 49 (1)(a) of the Order.

The investment to which this Prospectus relates is available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will only be directed to, UK persons of the type specified in the foregoing paragraphs.

France

Neither this Prospectus nor any other material relating to the Offering has been submitted for clearance by the *Autorité des marchés financiers* in France. The Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this Prospectus nor any other documents or materials relating to the Offering or the Shares has been or will be (i) released, issued, distributed, or caused to be released, issued or distributed, to the public in France or (ii) used in connection with any offer, sale or distribution of the Shares to the public in France. Such offers, sales and distributions will be made in France only to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case, investing for their own account, all as defined in, and in accordance with, Article L.411-2 of the French *Code monétaire et financier* and French Decree no. 98-880 dated 1 October 1998. The Shares may be resold only in compliance with Articles L.411-1, L-411-2 of the French *Code monétaire et financier*. Where an issue of Shares is implemented as an exception to the rules relating to an *appel public à l'épargne* in France (public offer rules) by way of an offer to a restricted circle of over 100 investors, such

investors must provide certification as to their personal, professional or familial relationship with a member of the management of the Company. Investors in France and persons who come into possession of this Prospectus or any other documents or materials relating to the Offering or the Shares are required to inform themselves about and observe any such restrictions.

Japan

The Shares have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, no person may offer or sell, directly or indirectly, any Shares in Japan, to, or for the benefit of, any resident of Japan, including any corporation or other entity organised under the laws of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, any person resident in Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

The Netherlands

The Shares may not be offered, sold, transferred or delivered in or from the Netherlands, as part of their initial distribution or as part of any re-offering, and neither this Prospectus nor any other documents or materials relating to the Offering or the Shares may be distributed in or from the Netherlands, other than to individuals or legal entities that trade or invest in securities in the conduct of their profession or trade (which include banks, investment institutions, securities intermediaries, insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises), in which case, it must be made clear, upon making the offer and from any documents or advertisements in which a forthcoming offering of the Shares is publicly announced, that the Offering is exclusively made to said individuals or legal entities.

Spain

The Offering has not been and will not be registered with the *Comisión Nacional del Mercado de Valores* in Spain. Accordingly, no Shares will be offered or sold in Spain nor, may this Prospectus or any other documents or material relating to the Offering be distributed or targeted at Spanish resident investors, except in compliance and in accordance with the requirements of the Spanish Securities Market Law 24/1998 and the Royal Decree 291/1992 on Issues and Public Offers of Securities, both as amended, and any regulation issued thereunder.

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. Any decision to buy or to subscribe for any Shares should be based solely on this Prospectus (and any supplement thereto), taking into account that any summary or description set forth in this Prospectus of legal provisions, accounting principles or comparison of such principles, corporate structuring or contractual relationships is for information purposes only and should not be construed as legal, accounting or tax advice as to the interpretation or enforceability of such provisions, information or relationships. The Offering has not been recommended by any securities commission or regulatory authority in Belgium or elsewhere.

GENERAL INFORMATION

The Company, represented by its Board of Directors, assumes responsibility for the content of this Prospectus. Certain parts of the Prospectus have been drafted on the basis of information provided by the Selling Shareholders and consisting of the following: (i) the description of the Selling Shareholders, as set forth in the section entitled "The Company's current shareholders" on page 8, the section entitled "The Selling Shareholders" on page 9 and the description of Electrabel and SPE on page 113; (ii) the description of any transactions between them and the Company, as set forth in the section entitled "Business and Commercial Dealings with the Selling Shareholders" on pages 121 and 122; (iii) the statements regarding the Selling Shareholders' intentions with respect to the Secondary Offering, including, without limitation, future transfers and compliance with restrictions relating thereto, as set forth in the section entitled "Lock-up" on page 9, the final paragraph of the section entitled "Risks related to the Offering" "The future actual or expected sale of a substantial number of the Company's shares may negatively affect the price of the Company's shares" on page 24 and the section entitled "No Sales of Similar Securities" on page 136, as well as with respect to their undertakings related to the Primary Offering described on page 17; (iv) the description of the agreements among the existing shareholders of the Company and the Belgian State and the shareholder loans, as set forth in the section entitled "Secondary Offering" on page 16, the last three paragraphs of the section entitled "Risks related to the shareholding structure" on page 25, the section entitled "Agreements among Existing Shareholders and the Belgian State" on pages 114 to 118 and the section entitled "Shareholder Loans" on pages 118 to 120; (v) the description of the contribution of assets made by CPTE to Elia Asset at the time of its incorporation, and the description of the dual structure of the Company and Elia Asset, as set forth in the section entitled "History and Structure of the TSO" on pages 13 to 15 except for the last two paragraphs of page 15 and the section entitled "History of Share Ownership" on page 112; (vi) the description of the terms and structure of the Offering and underwriting arrangements insofar as they relate to the Secondary Offering or to undertakings of the Selling Shareholders in respect of the Primary Offering, as set forth in the section entitled "Information on the Public Offering in Belgium" on pages 26 to 28 and the section entitled "Form and delivery of the Shares" on page 29, the first three paragraphs of the section entitled "Primary Offering" on page 17 and the section entitled "Underwriting" on pages 135 to 137; (vii) the statements regarding the use of proceeds from the Secondary Offering, as set forth in the first paragraph of the section entitled "Use of Proceeds" on page 11 and the first paragraph of the chapter entitled "Use of Proceeds" on page 32; (viii) the biographies of the Company's directors in office who have been appointed upon the proposal of the Selling Shareholders, as such biographies appear in the section entitled "Board of Directors" on pages 103; and (ix) the description of the Over-Allotment Option as set forth in the second full paragraph on the first cover page, the section entitled "Over-Allotment Option" on page 10, the third paragraph of the section entitled "Size and Nature of the Offering" on page 26 and the section entitled "Over-Allotment Option" on page 136.

The Company declares that, to the best of its knowledge, the information contained in this Prospectus is factually accurate in all material respects and contains no omission that would make any statement made therein materially misleading.

The Underwriters make no representation or warranty, express or implied, as to the accuracy or completeness of the information in this Prospectus, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation by the Underwriters.

This Prospectus is intended to provide information to potential investors in the context of and for the sole purpose of evaluating the Offering and a possible investment. It contains selected and summarised information, does not express any commitment or acknowledgement or waiver and does not create any right expressed or implied towards anyone other than a potential investor. It cannot be used except in connection with the Offering. The content of this Prospectus is not to be construed as an interpretation of the rights and obligations of Elia, of the market practices or of contracts entered into by Elia.

In connection with the Offering, this Prospectus has been prepared in the English, French and Dutch languages. On 24 May 2005, the Belgian Banking, Finance and Insurance Commission (*"Commission Bancaire, Financière et des Assurances / Commissie voor het Bank-, Financie- en Assurantiewezen"*) approved this Prospectus in accordance with Article 14 of the Belgian Law of 22 April 2003 regarding the public offering of securities (the "Law of 22 April 2003"). The Belgian Banking, Finance and Insurance Commission's approval does not imply any judgment on the merits or the quality of the Prospectus, the Shares or the Company. In connection with the Offering in Belgium, only the French and Dutch printed versions of the Prospectus are legally binding. The Company assumes responsibility for the consistency between the English, French and Dutch versions of this Prospectus.

The notice required by Article 13, paragraph 1 of the Law of 22 April 2003 was published on 9 June 2005. All publications with regard to the Offering will be made in the Belgian financial press as mentioned in the section entitled "Information on the public offering in Belgium".

The consolidated annual accounts of the Company have been audited by Ernst & Young Reviseurs d'entreprises SCC ("Ernst & Young"), represented by Jacques Vandernoot, and Klynveld Peat Marwick Goerdeler Reviseurs d'entreprises SCRL ("KPMG"), represented by Erik Clinck, for the fiscal years 2002, 2003 and 2004.

This Prospectus will be made available to investors at no cost at the registered office of the Company, at the counters in Belgium of Fortis Bank, Dexia Bank, KBC, ING, Petercam and Bank Degroof, as well as by telephone at the toll free number 0800 30360. The French and Dutch versions of the prospectus are also available on the website of the Company (*www.elia.be*) and on www.eliaenbourse.be and www.elabeursegang.be, it being understood however that such online versions are for information purposes only and that only the French and Dutch printed versions of the Prospectus are legally binding in connection with the Offering in Belgium.

Copies of the Articles of Association and the financial statements of the Company will be made available to investors at no cost at the registered office of the Company and via the Internet on the following website: *www.elia.be*.

Price-sensitive information (as defined in Article 10, §1, 1°, b) of the Law of 2 August 2002 with respect to the supervision of the financial sector and financial services) will be made available to investors through an announcement in the Belgian financial press and the Euronext reporting and publication system and other information vendors in accordance with Article 6 of the Royal Decree of 31 March 2003 on the obligation of issuers of securities admitted to trading on a Belgian regulated market.

No person is or has been authorised by the Company, the Selling Shareholders, the Underwriters or the affiliates of any of them to give any information or to make any representations or promises in connection with the Offering other than the information contained in this Prospectus and, if given or made, such information, representations or promises must not be relied upon as having been authorised by the Company, the Selling Shareholders, the Underwriters or the affiliates of any of them. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Shares is prohibited. Each offeree of the Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

Neither the delivery of this Prospectus nor any sale made hereunder at any time after the date hereof shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the entirety of the information set forth in this Prospectus is correct as of any time subsequent to its date.

The Company undertakes to update the information provided in this Prospectus by means of an addendum hereto if a significant event that may influence the public's judgment of the Offering occurs prior to the closing of the Offering. If the Company does not provide an update with respect to such event, the Belgian Banking, Finance and Insurance Commission may suspend the Offering until such event has been made public.

In connection with this Offering, the Underwriters, through Merrill Lynch International, may over-allot or, during a period of 30 days commencing on the first date of trading of the Shares on Eurolist by Euronext (Brussels), effect transactions that stabilise or maintain the market price of the Shares at levels above those which might otherwise prevail in the open market. Such transactions may be effected on Eurolist by Euronext, the Regulated Market of Euronext Brussels, in the over-the-counter market or otherwise. There is no assurance that such stabilisation will be undertaken and, if it is, it may be discontinued at any time.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Company maintains its accounting records and prepares its non-consolidated financial statements for statutory purposes in accordance with accounting and reporting laws and regulations applicable in Belgium (“Belgian GAAP”). (See “Annex A”).

The consolidated financial statements of the Company and its subsidiaries as of and for the fiscal years ended 31 December 2002, 2003 and 2004 have been prepared in accordance with Belgian GAAP and audited by KPMG and Ernst & Young. (See “Auditors”). Currently the Company consolidates two subsidiaries: Elia Asset SA/NV and BEL Engineering SA/NV.

As from the fiscal year commencing on 1 January 2005 the consolidated financial statements of the Company will be prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Company has provided, for information purposes only, a description of summary preliminary financial information in IFRS and the main significant differences that would result from the application of the IFRS reporting standards to its 2004 consolidated financial statements. (See “Summary of certain significant differences between Belgian GAAP and IFRS”).

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements, including statements about the Company's beliefs and expectations. These statements are based on the Company's current plans, estimates and projections, as well as its reasonable expectations of external conditions and events. By their nature, forward-looking statements involve known and unknown risks and uncertainties and speak only as of the date they are made. The Company undertakes no duty to, and will not necessarily, update any of such forward-looking statements in light of new information or future events, except to the extent required by Belgian law. The Company cautions investors that a number of important factors may cause actual results, financial conditions, performance or achievements of the Company to be materially different from those made or suggested by such forward-looking statements. Such factors include, but are not limited to, those discussed in the sections entitled "Summary", "Risk Factors", "Dividends and Dividend Policy", "Use of Proceeds", "Management Discussion and Analysis of Financial Condition and Results of Operations", "Description of Elia's Business", "Regulation and Tariffs" and "Management and Personnel".

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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.

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SUMMARY

This summary contains selected information about Elia and the Offering. It does not include all the information that may be important to investors. This summary should be read together with, and is qualified in its entirety by, the more detailed information and the consolidated financial statements and notes thereto appearing elsewhere in this Prospectus. It should also be read together with the matters set forth under "Risk Factors".

Profile

The Company is the transmission system operator ("TSO") for the Belgian very high-voltage (380 kV – 150 kV) and high-voltage (70 kV – 30 kV) electricity network. The electricity transmission networks and the related assets are owned by the Company's wholly-owned subsidiary, Elia Asset SA/NV ("Elia Asset"). The Company and Elia Asset operate as a single economic entity. (See "Context and Background of the Offering" for more explanation concerning the dual structure).

The Company operates under a cost-plus tariff system designed to provide a fair remuneration on the Company's equity. (See "Regulation and Tariffs").

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. The Company also operates at the regional level high-voltage networks.

Elia's business

Elia owns, operates, maintains and develops a very high-voltage and high-voltage network in Belgium. Elia's very high-voltage network is also an important transit hub between the foreign electricity markets. (See "Description of Elia's Business"). Elia's core business is operating its very high-voltage and high-voltage network to seek to ensure that electricity flows in a reliable manner from producers to distributors and large corporate clients in Belgium or elsewhere in Europe.

Elia owns and operates the Belgian very high-voltage electricity network. Elia also owns and operates (or has the right to use) approximately 94% of the Belgian high-voltage electricity network.

As TSO, the Company manages the infrastructure and operates the system. In managing the infrastructure, Elia owns, operates, maintains and develops a network, consisting of power overhead lines, underground cables, transformer stations and other equipment necessary to enable the transmission of electricity at the voltages of 380 kV to 30 kV. As system operator, the Company provides access to its electricity network to the relevant market participants and seeks to ensure the stability of the Belgian power system so that electricity is transmitted in a stable, secure and reliable manner.

Key strengths

The following are among the key strengths of Elia's business:

- A legal monopoly and unique resource in Belgium.
- A highly reliable and resilient network.
- A low risk profile.
- A 70-year old business with experienced employees and management.
- A proven and solid financial strength.
- An attractive dividend policy.

Elia's strategy

Building on Elia's key strengths, within the applicable regulatory framework, Elia's primary strategies are to:

- continue to achieve operating excellence in its core business (reliability and efficiency);
- deploy capital resources efficiently and minimise operational costs in view of the Company's tariff and fair remuneration system;

- acquire portions of some high-voltage electricity networks;
- invest in cross-border connections; and
- act as a market facilitator.

Regulation and tariff system and Elia's revenues for regulated activities

The total annual income received by Elia for its activities, including both system operation and infrastructure management, results from tariffs based on a cost-plus mechanism. The tariff principles and structures are defined in the Electricity Law, the implementing Royal Decrees and the guidelines of 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 "CREG").

The tariffs include (i) a fair remuneration of the invested capital and (ii) compensation of all costs incurred by Elia (unless deemed unreasonable by the CREG). Interest on Elia's debt is included in the tariffs as a result of the financial embedded debt principle, under the supervision of the CREG.

Under the current procedure, tariffs are proposed by Elia for a one-year period and submitted to the CREG for approval. The CREG has the authority to reject the costs it considers unreasonable. In case the tariff proposal is not approved and without prejudice to possible adjustments, the CREG may determine tariffs for a period of three months subject to further extension.

Under the recent amendments to the Electricity Law, tariffs are proposed by Elia to the CREG for a four-year period. These recent amendments, which will apply to the tariff setting system as of a date to be determined by Royal Decree but not expected to be before 2007 (unless the Royal Decree is adopted by September 2005), confirm and articulate the key principle that tariffs must be set in a manner so as to procure total revenues for the TSO which:

- enable the TSO to recover 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".

(See "Regulation and Tariffs").

The Company's current shareholders

Following completion of the Offering, and assuming (i) all Shares are sold or subscribed in the Offering, (ii) Electrabel, SPE and Publi-T subscribe for 27.45%, 2.55% and 30%, respectively, of the New Shares, and (iii) the Underwriters exercise their Over-Allotment Option in full, then Electrabel, SPE and Publi-T, the current shareholders of the Company, will own 27.45%, 2.55% and 30%, respectively, of the ordinary shares of the Company[1].

The Selling Shareholders are major players in the Belgian electricity market. Together with Publi-T, they are directly or through their affiliates the main suppliers of Elia or users of the electricity network owned and operated by Elia.

The Company's current shareholders have entered into three agreements with the Belgian State, including a shareholders' agreement reflecting the special corporate governance rules imposed by law with a view to ensuring the independence of the Company as TSO. (See "Relationship with Existing Shareholders and Related-Party Transactions" – "Agreements among the Existing Shareholders and the Belgian State").

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[1] These percentages are before any dilution resulting from the Employee Offering, which Electrabel, SPE and Publi-T may or may not decide to neutralise either by subscribing for a slightly higher percentage of the New Shares or by subsequently purchasing additional Shares in the market.

THE OFFERING

The Company: Elia System Operator SA/NV, a limited liability company organised under the laws of Belgium.

Elia: The Company and/or its subsidiaries (including Elia Re, save where consolidation in Belgian GAAP is concerned).

The Selling Shareholders: Electrabel and SPE own, respectively, 26,887,956 and 2,497,792 ordinary shares prior to the Offering and before subscription of New Shares.

The Existing Shareholders: The Selling Shareholders together with Publi-T.

Shares: The Selling Shareholders intend to offer up to 16,791,856[2] Existing Shares and the Company intends to offer New Shares in an aggregate subscription amount of up to EUR 150,000,000 (including share issue premium, if any, but excluding the Employee Offering), in the manner described in the section "Information on the Public Offering in Belgium".

Existing Shares: Ordinary shares, up to 16,791,856[3], that the Selling Shareholders intend to sell in the Secondary Offering.

Additional Shares: The shares that may be purchased by the Underwriters pursuant to the Over-Allotment Option.

Offering: The Offering consists of:

- a public offering of the Shares in Belgium; and
- a private offering of the Shares to institutional investors in Belgium and internationally (outside the United States to non-US Persons in reliance upon Regulation S).

Secondary Offering: The offering of the Existing Shares by Electrabel and SPE in a public offering in Belgium and a private placement to institutional investors in Belgium and internationally (outside the United States).

Primary Offering: The concurrent offering of the New Shares by the Company in a public offering in Belgium and a private placement to institutional investors in Belgium and internationally (outside the United States). The issuance of the New Shares is subject to the suspensive condition of the closing of the Secondary Offering.

Lock-up: For a period of 180 calendar days from the first day of trading of the Shares on Eurolist by Euronext (Brussels), the Selling Shareholders, Publi-T and Elia will not, without the underwriters' prior consent, offer, sell or contract to sell, grant any option to sell or purchase, pledge, lend or otherwise dispose of any ordinary shares of the Company nor enter into any swap, hedge or other arrangement in which they transfer part or all of the economic benefits of share ownership to any other entity. Transfers to affiliates as defined in Article 11 of the Belgian Company Code are not restricted and remain free, as well as, in the case of Publi-T, pledges of any ordinary shares that are granted to financial institutions for the purpose of the financing of the acquistion of additional shares in the Company.

[2, 3] Less the shares set aside for the Over-Allotment Option (*i.e.*, the Additional Shares). The number of "base deal" shares corresponds to 16,791,856 shares less the sum of:

$$[0.1 * \frac{(16{,}791{,}856 - 0.1 * P)}{1.1}] + 0.1 * P$$

where "P" refers to the number of New Shares placed with investors other than the Existing Shareholders.

Over-Allotment Option: .... The Selling Shareholders will grant to the Underwriters an option to purchase a number of additional shares corresponding to maximum 10% of the Existing Shares and of the New Shares (other than New Shares allocated to the Existing Shareholders), at the Offer Price less the underwriting discount during a period of 30 days from the commencement of trading of the Shares on Eurolist by Euronext (Brussels), solely to cover over-allotments, if any, in connection with the Offering.

Priority Allocation: .... In the Primary Offering, Electrabel, SPE and Publi-T may subscribe for 27.45%, 2.55% and 30%, respectively,[4] of the New Shares, in which case they are entitled to an irreducible priority allocation right in respect of such subscription.

Offer Price: .... The Price Range is expected to be published in the Belgian financial press on or about 9 June 2005. The Offer Price, together with the number of New Shares issued, is expected to be published in the Belgian financial press on or about 23 June 2005. The Offer Price will be a single euro price applicable to all investors.

Employee Offering: .... At the time of the Offering, in a separate offering and subject to the suspensive condition of closing of the Secondary Offering, the Company will offer its employees to subscribe for a maximum of up to EUR 5.7 million in new shares with VVPR-strips, by way of two tranches, a first tranche of EUR 700,000 and a second tranche of EUR 5,000,000. The subscription price will be equal to the Offer Price less a discount of 16.66%. Shares of the first tranche will not be transferable for five years and shares of the second tranche will not be transferable for two years. The costs of the Employee Offering will be borne by the Company.

Offering Period: .... The Retail Offering Period will commence on 9 June and end on 20 June 2005, 4.00 p.m., Brussels time, subject to early closing. This period will be open for at least three banking days after availability of the Prospectus. The Offering Period to institutional investors will commence on 9 June and end on 21 June 2005, 4.00 p.m., Brussels time.

Payment and Settlement: .... Delivery of the Shares is expected to take place in book-entry form against payment in immediately available funds on or about 28 June 2005. The Shares will initially be delivered through the facilities of the CIK (as defined below). The physical delivery of bearer shares to investors who so request is expected to take place within three months from the commencement of trading of the Shares on Eurolist by Euronext (Brussels).

Listing: .... Application has been submitted to Euronext Brussels for the admission of all of the Company's shares and the VVPR-strips relating to the New Shares on Eurolist by Euronext, the Regulated Market of Euronext Brussels. Commencement of trading is expected to occur on or about 23 June 2005 on a "when-issued-or-delivered" basis. Only Class B shares will be tradable on Eurolist by Euronext: Class A or Class C shares must first be converted into (bearer or dematerialised) Class B shares for them to be tradable on Eurolist by Euronext. Prior to the Offering, there has been no public market for the ordinary shares or the VVPR-strips.

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[4] These percentages are before any dilution resulting from the Employee Offering, which Electrabel, SPE and Publi-T may or may not decide to neutralise either by subscribing for a slightly higher percentage of the New Shares or by subsequently purchasing additional Shares in the market.

Use of Proceeds: The Company will not receive any of the proceeds from the sale of the Existing Shares in the Secondary Offering. The Selling Shareholders will receive such proceeds less certain expenses and the underwriting discount relating to the Secondary Offering.

The Company will receive the proceeds from the sale of the New Shares in the Primary Offering, less certain expenses and the underwriting fee relating to the Primary Offering. Such proceeds will be used, primarily, to (i) reinforce its equity, (ii) enhance cross-border capacities, and (iii) finance general capital expenditures programmes including possible acquisitions of the 70 kV – 30 kV network infrastructure and related assets in Belgium, while complying with the CREG's recommendation with regard to the financial structure of the TSO in terms of its debt/equity ratio (67/33).

Dividends: The Shares are entitled to dividends declared, if any, for the fiscal year starting 1 January 2005 and subsequent years.

With regard to distributable profits over and above the required allocation to the legal reserve, the Articles of Association of the Company provide that 85% of the yearly profits available for distribution, or such higher percentage thereof as may be proposed by the Board of Directors[5], 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 so long as they each own at least 25% of the total outstanding share capital of the Company, or 15% in the event of dilution following a capital increase).

The statutory dividend of minimum 85% of distributable profit after allocation to the legal reserve is equivalent to a pay-out ratio of 81% of net profit. Subject to market and regulatory constraints[6], Elia will analyse the possibility to increase the pay-out level, up to approximately 90%, as a recurring target.

The Company foresees the possibility to recommend to its Shareholders' Meeting an exceptional increase in the pay-out level for 2005 (beyond the 90% recurring level it is considering), targeting the 2004 dividend per share level of EUR 1.27 in order to offset the dilution effect resulting from the issuance of the New Shares in 2005.

(See "Dividends and Dividend Policy – Dividend Policy").

VVPR-strips: VVPR-strips entitle their holder to a reduced rate of Belgian withholding tax (15% rather than 25%) on dividends and will be separately tradable.

[5] The possibility for the Board of Directors to propose a higher than 85% distribution has been added to the Company's Articles of Association by one of the amendments adopted by the Extraordinary Shareholders' Meeting held on 30 May 2005.

[6] Future dividends will remain dependent upon the results of Elia, which are affected by a number of factors, including the evolution of long-term interest rates in Belgium. The actual amount of 2005 dividends and the amount and evolution of subsequent dividends will depend on various factors, including factors outside Elia's control, and the foregoing does not constitute, nor should be construed as constituting, a commitment or guarantee by Elia as to the actual amount of such dividends.

Security Codes: . . . . Shares:

ISIN Code: BE 000 3822 393
Common Code: 022156411
National Code: 3822-39

VVPR-strips:

ISIN Code: BE 000 5597 688
Common Code: 022156683
National Code: 5597-68

CONTEXT AND BACKGROUND OF THE OFFERING

The Company

The Company is a limited liability company (*société anonyme / naamloze vennootschap*), incorporated under Belgian law by a deed of 20 December 2001.

The Company is the operator of Belgium's electricity transmission network. It has been appointed as transmission system operator (TSO) by a ministerial decree of 13 September 2002 (published in the *Moniteur belge / Belgisch Staatsblad* of 17 September 2002 and with effect as of that date) for a renewable period of 20 years. The Company has also been designated as a distribution system operator in the Flemish Region, the local transmission system operator in the Walloon Region and, provisionally, pending final appointment, the regional transmission system operator in the Brussels-Capital Region. (See "Regulation and Tariffs").

History and Structure of the TSO

The concept of a TSO is rooted in the liberalisation of the European electricity market, which started with Directive 96/92/EC of 19 December 1996 concerning common rules for the internal market in electricity (the "First Electricity Directive"). (See "Regulation and Tariffs – Relevant legislation – European Law – The Two Liberalisation Directives"). The First Electricity Directive was implemented in Belgium, at the federal level, by the Law of 29 April 1999 *"relative à l'organisation du marché de l'électricité / betreffende de organisatie van de elektriciteitsmarkt"* (the "Electricity Law").

The Electricity Law requires the separation of the management of the electricity network from the generation and sales activities. It entrusts the operation of the national very high-voltage (380 kV, 220 kV and 150 kV) electricity network to a single TSO, to be designated by the federal government for a renewable period of 20 years, upon the proposal of the historical network owners. The Electricity Law and its implementing decrees contain rules relating to, among other things, corporate governance which are designed to ensure the independence of the TSO from electricity producers, distributors, intermediaries and historical network owners. (See "Regulation and Tariffs – Belgian Legislation – Electricity Law and Royal Decrees" and "Management and Personnel").

Prior to the creation of the TSO, the *Société pour la Coordination de la Production et du Transport de l'Energie électrique SCRL / Maatschappij voor de Coördinatie van de Productie en het Transport van Elektrische Energie CVBA* ("CPTE") originally created in 1937, owned and operated the very high-voltage and high-voltage electricity network. When the TSO was created CPTE was a joint venture between Electrabel (owning, directly and through its subsidiary Laborelec SC/CV, 91.5% of the CPTE shares) and SPE (owning 8.5% of the CPTE shares). (See "Relationship with Existing Shareholders and Related-Party Transactions – History of Share Ownership").

In anticipation of the appointment of the TSO, CPTE, Electrabel, SPE (as the historical network owners referred to in the Electricity Law), Publi-T and the Belgian State signed a Protocol on 30 May 2001. In this Protocol, the parties set forth their common intention to propose and appoint as the Belgian TSO a company to which CPTE would contribute its very high-voltage and high-voltage electricity network and related assets (including existing contracts), and set a time line for the implementation of this operation. (See "Relationship with Existing Shareholders and Related-Party Transactions – Agreements among the Existing Shareholders and the Belgian State – Protocol dated 30 May 2001").

Pursuant to this Protocol, CPTE contributed its transmission infrastructure and related assets (including existing contracts) to a newly-formed limited liability company, Elia SA/NV, on 28 June 2001 in exchange for shares of Elia SA/NV. Relevant personnel for the operation of the transmission system was transferred to Elia SA/NV in accordance with National Collective Agreement n° 32*bis*. The asset contribution to Elia SA/NV was made on a tax-neutral basis and with carry-over book values. Elia SA/NV was incorporated with a share capital of EUR 1,630,839,348.

Origin of the Dual Structure

In its first guidelines, the CREG recommended that the ratio of Elia SA/NV's equity to total assets be as close as possible to 33%, which implies a 33/67 equity/debt ratio. The CREG would apply this ratio for the calculation of the allowed annual return on equity and, for this purpose, value Elia SA/NV's asset base at depreciated replacement value (the "Regulated Asset Base" ("RAB")). The RAB was agreed at the time at EUR 3,508 million following advice from three auditors. (See "Regulation and Tariffs – Tariffs – Determination of Tariff Levels – Regulated Asset Base").

Following Elia SA/NV's incorporation on 28 June 2001, its equity/debt ratio and the carry-over book value of its assets were not consistent with these parameters. To achieve consistency, the TSO's shareholders and the Belgian State agreed, pursuant to an Additional Protocol of 8 October 2001, to implement a dual structure for the TSO. (See "Relationship with Existing Shareholders and Related-Party Transactions – Agreements among the Existing Shareholders and the Belgian State – Additional Protocol dated 8 October 2001").

Under this dual structure, Elia SA/NV, to be renamed Elia Asset SA/NV ("Elia Asset"), would own the transmission infrastructure and related assets, but all of its shares, minus two shares, would be held by a separate company, to be named Elia System Operator SA/NV, that would be appointed as TSO and actually operate the network. To this end, the Company was incorporated on 20 December 2001.

Implementation of the Dual Structure

This dual structure and the related changes of capital structure and share ownership were implemented in several steps in 2001 and 2002:

- On 20 December 2001, CPTE incorporated the Company.
- CPTE then transferred all of its shares of Elia SA/NV, renamed Elia Asset on 31 May 2002, to the Company in three successive transactions with the objective to achieve the 33/67 equity/debt ratio:
    - On 31 December 2001, CPTE sold 66.66% (rounded) of the shares of Elia Asset (102,853,778 shares) to the Company for consideration in cash of EUR 2,101,068,450. This acquisition by the Company was financed by a shareholder loan, of which EUR 773,413,836.32 was subsequently refinanced by third-party debt. (See "Relationship with Existing Shareholders and Related-Party Transactions – Shareholder Loans").
    - On 23 May 2002, CPTE contributed a further 29.07% (rounded) of the shares of Elia Asset (44,857,848 shares) to the Company in exchange for 10,494,290 newly-issued shares[7] of the Company. This contribution was valued at EUR 1,049,429,000.
    - Also on 23 May 2002, CPTE sold its remaining interest of approximately 4.25% in Elia Asset (6,569,041 shares) to the Company for consideration in cash of EUR 153,680,024. This acquisition by the Company was financed by EUR 29,733,262 in shareholder loans under Tranche B1 of the Shareholder Loan Agreement of 31 May 2002 and a further EUR 123,946,762 by a separate interest-free shareholder loan. (See "Relationship with Existing Shareholders and Related-Party Transactions – Shareholder Loans").
    - At the time of those transactions, the economic value of Elia Asset's shares was determined on the basis of the following values and methods:
        - the replacement value;
        - a valuation on basis of the "EV/EBITDA multiple"; and
        - a discounted cash flow (DCF) approach.
- On 31 May 2002, CPTE sold a 30% interest in the Company (3,148,473 shares[8]) to Publi-T for a price of EUR 184,358,144. On the same occasion, Publi-T acquired a pro rata portion of the interest-free shareholder loan referred to above.
- Also on 31 May 2002, CPTE, Electrabel, SPE, Publi-T and the Belgian State entered into a shareholders' agreement regarding the Company and Elia Asset. (See "Relationship with Existing Shareholders and Related-Party Transactions – Shareholders' Agreement dated 31 May 2002"). Key provisions of this Shareholders' Agreement were reflected in the Articles of Association of the Company and Elia Asset.
- On 8 July 2002, the Company and Elia Asset concluded a silent partnership agreement (*société interne / stille handelsvennootschap*) with effect as of 1 January 2002. As a result, they substantially operate as a single economic entity (see below).

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[7] Prior to the 1:4 stock-split decided by the Company's Extraordinary Shareholders' Meeting held on 30 May 2005.

[8] Prior to the 1:4 stock-split decided by the Company's Extraordinary Shareholders' Meeting held on 30 May 2005.

Following implementation of this dual structure, the Company was appointed, at the federal level, as TSO by a ministerial decree of 13 September 2002, with effect as of 17 September 2002.

Key Features of the Dual Structure

The key characteristics of the dual structure of the TSO are the following:

Silent Partnership

The Company and Elia Asset operate as a single economic entity under the terms of a silent partnership agreement (*société interne / stille handelsvennootschap*), which remains effective throughout the duration of the Company's appointment as TSO (and as regional and local transmission and distribution system operator). The silent partnership involves a form of profit-and-loss pooling, in which Elia Asset shares in profits to the extent of 5% of its own costs and shares in losses to the extent of the lower of 5% of its own costs or 5% of the losses.

The Company and Elia Asset remain the owners of their respective assets. The Company acts as the managing partner of the partnership.

The silent partnership is not a separate legal entity and, according to Article 29 of the Belgian Income Tax Code of 1992, is transparent for Belgian income tax purposes. Accordingly, the Company and Elia Asset each are taxed directly on their respective share of the partnership profit and, as a rule, are each entitled to deduct their share of any partnership loss from their respective taxable income.

Structure Embedded in the Law

The parent-subsidiary relationship of the Company and Elia Asset is set forth in the law. Article 9*bis*, §1, of the Electricity Law (as added by a Law of 14 January 2003) requires the Company to hold, directly or indirectly, all but two shares of Elia Asset.

Mirroring Corporate Governance

The Company and Elia Asset are subject to identical corporate governance arrangements. Pursuant to Article 9*bis*, §3, of the Electricity Law, their respective Boards of Directors and Executive Committees must have identical compositions subject to limited exceptions which the competent minister may authorise upon the CREG's proposal.

No Impact on Tariffs

The dual structure is intended to be cost-neutral for tariff-setting purposes.

Further Transactions

CPTE Demerger

Following the termination of the joint venture between Electrabel and SPE, CPTE was split up on 4 July 2003, with effect as of 1 January 2003. As a result of this reorganisation, the shares of the Company previously owned by CPTE are now held directly by Electrabel (64.05%) and SPE (5.95%).

BEL Engineering Acquisition

Pursuant to a share and asset purchase agreement dated 26 December 2003, Elia Asset acquired substantially all of the shares of Belgian Electricity Lines Engineering SA/NV ("BEL Engineering"), previously a subsidiary of Suez-Tractebel SA/NV, as well as title to, or rights of use of, certain related assets. BEL Engineering is an engineering consultancy firm mainly involved in the design and project management of infrastructure related to the very high-voltage and high-voltage electricity network. This acquisition was made pursuant to a recommendation of the CREG of 6 March 2003. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Recent Transactions").

Repayment of Certain Shareholder Loans

The EUR 123,946,762 shareholders loan granted by Electrabel, SPE and Publi-T to the Company (See "Relationship with Existing Shareholders and Related-Party Transactions – Shareholder Loan – Loan by Electrabel, SPE and Publi-T") was repaid early on 24 December 2004 for EUR 87,049,203.45, *i.e.,* the present value of the principal amount then outstanding (EUR 99.16 million). (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Recent Transactions").

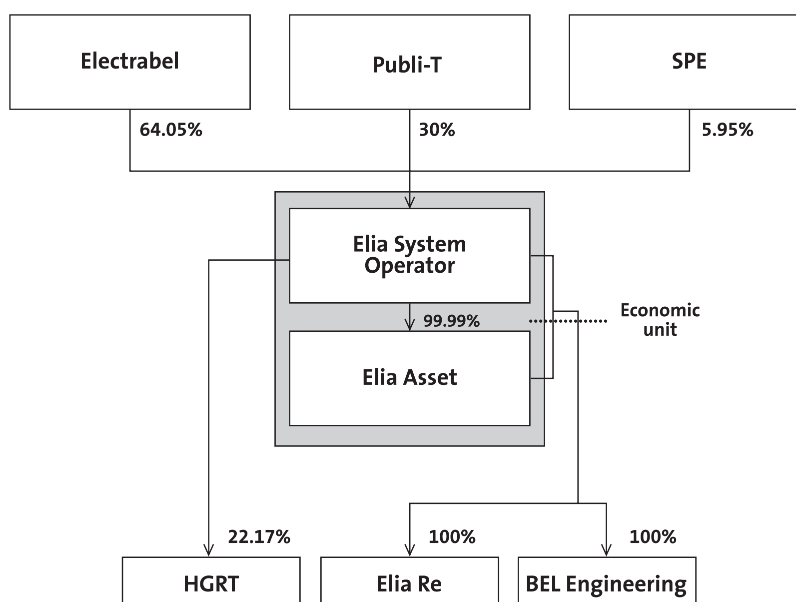
Following the closing of the Offering, the Company will need to repay to Electrabel and SPE a portion of Tranche B loans made to the Company pursuant to the Shareholder Loan Agreement dated 31 May 2002. (See, for the calculation of the amounts due to Electrabel and SPE following the closing of the Offering, "Relationship with Existing Shareholders and Related-Party Transactions – Shareholders Loans – Shareholder Loan Agreement dated 31 May 2002"). On the assumption that all of the shares of the Company offered by Electrabel and SPE are placed and the Over-Allotment Option is exercised in full, the maximum repayment will be in an aggregate principal amount of EUR 344,640,330. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Outlook – Outlook 2005" for the Company's refinancing of these amounts).

Dividend Payments for 2004

On 24 December 2004, the Company paid an interim dividend in an aggregate amount of EUR 53.4 million to the Existing Shareholders. On 10 May 2005, the Company's shareholders meeting declared such dividend as final.

Group Structure

As a result of the transactions described above, the group structure is currently as follows:



Reasons and Conduct of the Offering

Secondary Offering

The Offering includes an offering by Electrabel and SPE of up to 16,791,856[9] Existing Shares of the Company. This part of the Offering is made pursuant to an understanding between the Company's current shareholders and the Belgian State with a view to diversifying the Company's share ownership and further increasing its independence. This understanding is reflected in the Protocol dated 30 May 2001 and the Shareholders' Agreement dated 31 May 2002, both referred to above. In those agreements, CPTE agreed to offer 40% of the shares of the Company, *i.e.*, the Class B shares, in a public offering, market conditions permitting, or by way of a private placement with institutional investors. (See "Relationship with Existing Shareholders and Related-Party Transactions – Agreements among the Existing Shareholders and the Belgian State – Protocol dated 30 May 2001" and section entitled "Relationship with Existing Shareholders and the Belgian State – Agreements among the Existing Shareholders and the Belgian State – Shareholders' Agreement dated 31 May 2002").

[9] Less the shares set aside for the Over-Allotment Option (*i.e.*, the Additional Shares). The number of "base deal" shares corresponds to 16,791,856 shares less the sum of:

$$[0.1 * \frac{(16,791,856 - 0.1 * P)]}{1.1} + 0.1 * P$$

where "P" refers to the number of New Shares placed with investors other than the Existing Shareholders.

Primary Offering

The Offering includes a second component, which is an offering of New Shares of the Company in an aggregate subscription amount of up to EUR 150,000,000 (including share issue premium, if any). The relevant resolutions have been adopted by the Company's Extraordinary Shareholders' Meeting held on 30 May 2005. The issuance of the New Shares will be subject to the suspensive condition of the closing of the Secondary Offering. If the Offering were reduced, such reduction will be applied first to the Primary Offering.

Electrabel, SPE and Publi-T may decide to subscribe for 27.45%, 2.55% and 30%, respectively,[10] of the New Shares, in which case they will benefit from an irreducible priority allocation right for the corresponding number of New Shares. Electrabel and SPE intend to subscribe for those New Shares if Publi-T decides to do so, in order to maintain their post-IPO share ownership in the Company at the levels of 27.45% and 2.55%, respectively, at par with Publi-T and as contemplated by Article 3.1 of the Protocol dated 30 May 2001.

If the proceeds of the Primary Offering are less than EUR 150,000,000, Electrabel, SPE and Publi-T have committed to the Company to subscribe, on a pro rata basis, for the balance of the New Shares up to an aggregate amount of EUR 87,049,203.45 (*i.e.*, up to EUR 55,755,014.81 for Electrabel, EUR 5,179,427.61 for SPE and EUR 26,114,761.04 for Publi-T), including the portion of the Primary Offering which they may subscribe for as set out in the preceding paragraph. (See "Relationship with Existing Shareholders and Related Party Transactions – Shareholder Loans").

The proceeds of the Primary Offering will allow the Company to (i) reinforce its equity, (ii) enhance cross border capacities and (iii) finance general capital expenditure programmes including possible acquisitions of 70 kV – 30 kV network infrastructure, while maintaining the debt / equity ratio resulting from the CREG's guidelines (67/33).

Employee Offering

At the time of the Offering, in a separate offering pursuant to a resolution to be adopted by the Company's Extraordinary Shareholders' Meeting held on 30 May 2005 (and subject to the suspensive condition of the closing of the Secondary Offering), the Company will offer its employees to subscribe for a maximum of up to EUR 5.7 million in new shares with VVPR-strips, by way of two tranches, a first tranche of EUR 700,000 and a second tranche of EUR 5,000,000. The subscription price will be equal to the Offer Price less a discount of 16.66%. The shares of the first tranche will not be transferable for five years and the shares of the second tranche will not be transferable for two years. The costs of the Employee Offering will be borne by the Company. Other terms and conditions will be communicated directly to the employees. The Company may organise subsequent employee offerings.

Terms of Reference for the Conduct of the Offering

With a view to the Offering, the Company and the Selling Shareholders signed a memorandum of understanding on 14 January 2005, entitled "Terms of Reference", which sets forth their agreement on a number of organisational and other aspects of the preparation and conduct of the Offering, including the allocation of expenses in connection with the Offering and the allocation of liabilities in respect of the offering documents and the underwriting arrangements.

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[10] These percentages are before any dilution resulting from the Employee Offering, which Electrabel, SPE and Publi-T may or may not decide to neutralise either by subscribing for a slightly higher percentage of the New Shares or by subsequently purchasing additional Shares in the market.

CAPITALISATION TABLE

The following table sets forth Elia's capitalisation as of 31 December 2004 including two tranches of Eurobonds issued in 2004, in a principal amount of EUR 500 million each, with respective maturities in 2014 and 2019. This table should be read in conjunction with the Company's audited consolidated financial statements in Belgian GAAP, including the notes thereto, and with the "Management Discussion and Analysis of Financial Condition and Results of Operations".

	As of 31 December 2004	
	Actual	Assuming that the Primary Offering is subscribed in full, but excluding the Employee Offering
	in million euro	
Interest-bearing liabilities	2,225.54(1)(2)(3)	
Shareholders' Equity(4)		
Issued Share Capital	1,049.49	1,199.49
Consolidated Reserves	48.5	
Total capitalisation(5)	**3,323.53**	
Cash and cash equivalents	(49.38)	

Notes:

(1) A portion of long-term shareholders' debt will become payable when Electrabel and SPE sell Existing Shares in this Offering in accordance with the Protocol of 30 May 2001 (up to EUR 344.64 million if all Existing Shares are placed and the Over-Allotment Option is fully exercised). (See "Relationship with Existing Shareholders and Related-Party Transactions – Shareholder Loan Agreement dated 31 May 2002").

(2) The shareholders' loan is granted by an affiliate of Electrabel and by SPE.

(3) Proceeds according to Belgian GAAP. The debt to financial institutions maturing in 2004 was refinanced through the issuance of two tranches of Eurobonds in a principal amount of EUR 500 million each.

(4) A dividend relating to fiscal year 2004 was paid on 24 December 2004, for an amount of EUR 53.4 million.

(5) Except for the consequences of the Primary Offering (*i.e.*, the repayment of long-term debt as set out under (1) and the increase of shareholders' equity), there have been no material changes in the capitalisation of Elia since 31 December 2004.

RISK FACTORS

Prospective investors should carefully consider the risks described below in addition to all other information presented in this Prospectus before deciding to invest in the Shares.

Risks related to the regulatory framework at the federal and regional levels

The Company's revenues and the conduct of its regulated activities are dependent on the actions and decisions of regulatory bodies in Belgium and Europe. The related risks mainly include the following:

The regulatory framework is recent and is evolving, which may affect the Company's performance

The Company's activities are subject to extensive regulation at both federal and regional levels. The regulatory framework was progressively put in place since the spring of 1999 in view of the implementation of the First Electricity Directive. Accordingly, the regulatory framework governing the TSO's activities is recent and, in the past years, has been adapted and supplemented on several occasions. A law adopted by the House of Representatives on 28 April 2005 and by the Senate on 19 May 2005 has significantly amended applicable federal legislation, including several provisions regarding the TSO, in order to implement EU Directive 2003/54/EC of 26 June 2003 (the "Second Electricity Directive"). As a result, the regulatory framework has now reached greater stability, but it is likely to evolve further.

Tariffs are a key area of regulation and of central importance to the Company's revenues and profitability. In this area too, the regulatory framework has evolved over the past years. The above-mentioned law contains several amendments (which will apply to the tariff setting system as of a date to be determined by Royal Decree but not expected to be before 2007, unless the Royal Decree is adopted by September 2005) which generally go in the direction of creating greater stability and longer-term predictability of tariffs. While in substance confirming core elements of the current methodology of tariff setting and the principle of fair remuneration of capital invested, the law offers a more elaborated set of principles of tariff setting and also introduces a four-year tariff period (as distinguished from the current annual time frame). However, as before, the law leaves it to secondary legislation to further elaborate and implement those principles, including for example with respect to the evolution mechanism of the RAB and the determination of the remuneration rate applicable to it. Although the new law reduces the bandwidth within which implementing rules are to be set and may evolve, it cannot be excluded that relatively limited changes in implementing rules may have significant one-time or recurring effects on the Company's results.

Inconsistency between rules issued by various competent authorities may create potential risk for the Company

The Federal State and each Belgian Region have a regulatory framework and a regulator of their own for the electricity market of their own jurisdiction (for the determination of federal and regional powers, see "Regulations and Tariffs"). This may result in inconsistencies between these frameworks. For example, inconsistencies may arise between the various federal and regional grid codes, or between the federal tariff setting mechanism and any of the grid codes. Inconsistencies may also arise between, on the one hand, regional public service obligations, and, on the other hand, certain other legal provisions or general contractual provisions capping the Company's liability as approved by the CREG (See "Description of Elia's Business" – "System operation" – "Elia's contracts" and "Litigation"). The possibility of diverging rules with regard to matters that are actually technically interdependent and, therefore, have to be managed as a whole, creates a potential risk for the Company. Consequently, the Company cannot predict how any potentially resulting inconsistencies between the rules issued by various competent authorities may affect the Company's business and results of operations.

Tariff decisions by the CREG may negatively affect Elia's results of operations

Until the tariff-setting amendments to the Electricity Law and the corresponding Royal Decrees become effective, which will apply to the tariff setting system as of a date to be determined by Royal Decree but not expected to be before 2007, unless the Royal Decree is adopted by September 2005, the tariffs applied by the Company for its regulated activities as TSO are governed by the pre-amendment provisions of the Electricity Law and its implementing Royal Decrees, including the Royal Decree of 4 April 2001 ("Tariffs Decree"). The tariffs are currently set on the basis of a cost-plus principle pursuant to which the Company uses its estimates of operational and financial costs and a fair remuneration of its equity as the basis for its next year's tariffs. The Company proposes these tariffs for the access and the use of the network to the CREG for approval.

The CREG then has the authority to disallow those of Elia's costs which it considers to be unreasonable. Failing agreement with the Company, the CREG may impose tariffs for a three-month period, renewable three

more times during the year. In 2003, 2004 and 2005, the CREG rejected the tariffs proposed by Company and the CREG consequently imposed tariffs for successive three-month periods. These tariff decisions included some positions which the Company deemed to affect negatively its business and results of operations. It hence initiated proceedings before the Council of State with regard to these tariffs decisions; these proceedings are still pending.

The recent amendments to the Electricity Law, while maintaining core elements of the current methodology of tariff setting and the principle of fair remuneration, aim at providing increased predictability by providing for multi-annual tariffs. However, those amendments do not specify how a disagreement between the CREG and the Company over certain aspects of the Company's tariff proposal for a multi-year period will be resolved, but it is expected that this will be included in a future legislation.

Elia's remuneration may be negatively impacted when assets existing prior to 1999 are decommissioned

In its 2005 tariff decision, the CREG has decreased Elia's RAB for the assets that were planned to be put out of service ("decommissioned") in 2005 by an amount equal to the difference between the net book value in 1999 of these assets and their depreciated replacement value at the same time as estimated by the CREG when the RAB was valued by accounting firms. (See "Regulation and Tariffs" – "Tariffs" – "RAB"[11]). The fair remuneration will therefore be negatively impacted due to the reduction of the RAB by the amount corresponding to the difference in 1999 between the net book value and the depreciated replacement value of those assets. The pass-through in the profit and loss statement of the financial expenses under the embedded debt principle limits the impact of the decision to the equity financed portion of the affected RAB only (33%). (See "Regulation and Tariffs" – "Tariffs"). Based on the CREG's current position, this decrease of the RAB will not be compensated by revenue through the tariffs, which will result in a shortfall of cash flow that otherwise would have permitted the financing of the replacement of the decommissioned assets.

With regard to 2005 tariff, the decrease in the RAB corresponding to this decision, amounted to EUR 8.2 million. This yearly amount would increase in the next years, should the principle stated by the CREG in its decision continue to apply.

The Company considers the CREG's position unfounded and has challenged the 2005 tariff decision, which includes this mechanism, by initiating proceedings before the Council of State.

Decisions taken by the CREG regarding the bonus-malus may negatively affect the Company's results of operations

Under the current tariff system, which will continue to be applicable until the relevant amendments to the Electricity Law become effective, the CREG, at the end of any given financial year, compares the budget for that year (as approved (or corrected) the year before) with the actual results of the Company for that same year. Any differences resulting from events within the Company's control and, in the case of a positive difference, of a recurrent nature, may result in a profit ("bonus") or in a loss ("malus") for the Company. This amount of bonus or malus is ultimately determined by the CREG. Then, 50% of the bonus or malus of any given year is reflected in the following year's tariffs (by a decrease or increase of the tariffs respectively), whilst the remaining 50% will be supported by the Company (in case of a malus) or will benefit to the Company (in case of a bonus), it being understood that, in the second year, the CREG may reflect this amount in the tariffs as well. (See "Regulation and Tariffs" – "Tariffs" – "Determination of Tariff Levels" – "Bonus / Malus").

The CREG determined the bonus for the year 2003 at EUR 6.3 million, of which 50% was attributed to Elia in 2004 and 50% was used for a tariff reduction in the year 2005. The CREG has not yet taken a decision on the bonus/malus for 2004. Subject to the content of the Royal Decrees implementing the recent amendments to the Electricity Law, a decision in this respect may also have to be taken for the years 2005, and, possibly 2006 if the tariff-setting amendments to the Electricity Law have then not yet entered into force. The decision it will take may adversely affect the results of the Company's operations.

However, the recent amendments to the Electricity Law, once effective, will replace the current bonus/malus mechanism by an incentive based system on the costs under the control of Elia. The current bonus/malus mechanism will therefore disappear once the relevant implementing decrees will be taken.

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[11] The amount of the net book value of the asset decommissioned is also deducted from the RAB, however this decrease in RAB is compensated in the tariffs.

Elia has accounted for regulatory liabilities in its IFRS Preliminary Financial Information (See "Summary of certain significant differences between Belgian GAAP and IFRS") as these liabilities reflect in the most economic way the activity of the Company in the regulatory environment in which it operates today. Under IFRS, this accounting treatment is currently being reviewed. Should it not be in compliance with the IFRS standards, then the results of Elia and the equity position should be restated accordingly.

Elia currently operates under a cost-plus system: the Electricity Law (Article 12, §2, 2° and 3°) stipulates that the tariffs must allow Elia to realise a total revenue which comprises:

(i) a fair remuneration of the invested capital and ;

(ii) all not unreasonable costs incurred by Elia.

Because the tariffs are based on budgeted figures, there is always a difference between the tariffs that have effectively been charged and the tariffs that should have been charged so as to cover all reasonable costs of the system operator incurred and to provide the shareholders with a fair margin on their investment (cost-plus system).

If the applied tariffs result in a surplus at year end, it implies that tariffs charged to the customers/public at large could have been lower (and vice versa). One might argue that the public at large has made a prepayment on their future usage of the network. As such, the surplus is not a provision for future loss of profit but a liability to its customers. Based on the Electricity Law, Elia believes the surplus doesn't represent revenue. Therefore, Elia has recognised in the IFRS preliminary balance sheet a regulatory liability that reflects the decrease in future tariffs to be approved by the regulator.

Also, based on the same approach Elia has decided to account for certain pension costs as a regulated asset, as the regulator has assessed the reasonable character of those costs in a study. Elia is convinced that it is virtually certain to recoup these costs in the future tariffs and therefore an asset has been booked.

For presentation purposes of the consolidated accounts, the regulated liability and regulated asset are netted, showing only a net regulated liability.

Under IFRS, this accounting treatment is currently being examined. Should this accounting treatment not be in compliance with future IFRS standards, then the results and the equity of Elia should be restated.

The accounts would be impacted as follows:

	Actual IFRS preliminary financial information	**Restated IFRS preliminary financial information**
	All amounts in 000 euro	
Opening balance reserves position:	54,946.5	79,345.4
Income statement 2004 profit	59,456.2	129,920.8
Closing balance equity position as of 31 December 2004, of which:		
• Reserves of Elia	5,946.2	5,946.5
• Retained earnings of Elia	6,056.2	6,056.2
• Reserves for futures rate decreases		70,464.6

The appointment of the Company as Belgian TSO may be terminated before the expiry of the licence or may not be renewed upon expiry of the licence

The Company was appointed as the Belgian TSO for a renewable period of 20 years as of 17 September 2002. 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 Federal Government under certain circumstances including:

- bankruptcy, winding-up, merger or demerger of the Company; or
- 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 CREG's powers to apply sector-specific legislation may conflict with those exercised by the Belgian Competition Council or the Belgian courts applying (inter alia) Belgian or EC competition law, or those exercised by other regulators, which may result in the Company being subject to parallel proceedings and conflicting decisions on the same issues.

The CREG has the authority to require any electricity market operator on the Belgian market, including the Company, to abide by sector-specific regulations and to impose administrative fines on an operator who fails to do so. Furthermore, the European Commission, the Belgian Competition Council and the Belgian courts have jurisdiction with respect to general competition law, which Elia is also subject to.

Despite the mandatory cooperation mechanism between the CREG and the Belgian Competition authorities, there can be no assurance that the Belgian Competition Council, the CREG and the Belgian courts will always reach the same or consistent conclusions on identical or similar issues.

This could lead to procedural complexities and risks of forum shopping by potential litigants. Although the Company has only been subject to one competition complaint so far (as a part of a broader dispute), which was subsequently settled without any acknowledgment of liability, the Company cannot predict the consequences of these overlapping powers on its results of operations.

Risks related to the business of Elia

Elia may be held liable in case of a transmission disruption or a system breakdown.

Electricity networks may be affected by transmission disruption or by system breakdowns, which would create a service interruption for which Elia could be held liable.

Transmission disruptions affecting Elia's network may be caused by operational hazards or unforeseen events including, without limitation, overload of the very high-voltage network caused by foreign unscheduled major electricity flows, accidents, breakdowns or failure 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 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 exportations or progressively reducing the electricity consumption in the concerned area. The probability of occurrence of some of the abovementioned events may increase if the competent authorities do not approve necessary operational procedure and/or investments proposed in Elia's 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 a power plant or the lack of sufficient on-line generation capacity in a given geographical area. The risk of a lack of sufficient on-line generation capacity in Belgium must be considered as unlikely, as the generation capacity of all Belgian units increased with the transportation capacities from the neighbouring countries is slightly higher than the domestic consumption. However, if for one reason or another, there would be a shortage, the TSO can take various measures as mentioned above.

In the event of a transmission disruption or a system breakdown affecting its network, the resulting failure to deliver electricity to customers or to inject energy from power plants may expose Elia to liability claims and litigation and may negatively impact its results of operations.

Elia seeks to limit such risks by taking into account, in its operational and investment planning criteria, an adequate level of reserve transmission capacity. In addition, Elia's liability is capped at moderate levels by the general provisions of some of its standard contracts, which are approved by the CREG. (See "Description of Elia's Business" – "System Operation" – "Elia's Contracts"). Moreover, the costs caused by such events and incurred by Elia may be submitted to the CREG for inclusion in the following years' tariffs.

Acts of terrorism or sabotage may adversely affect the Company's results of operations

Elia's electricity network and assets are widely spread over the country which could expose them to possible acts of terrorism and sabotage. Acts of terrorism and sabotage affecting Elia's network or operations may cause network failure or system breakdown. Network failure or system breakdown could have a material adverse effect on Elia's financial condition and results of operation should the destruction be of major importance (reduction of

revenues due to the unavailability of some parts of the network). As far as material damage to Elia's assets resulting from such acts is concerned, Elia is currently partially insured against such risk. This insurance coverage may be insufficient. The federal, the Flemish and the Walloon grid codes equate these acts with emergency situations comparable to acts of God and entitle Elia to take appropriate measures to seek to restore the balance of the network. On this basis, excess damages arising from these acts may be submitted to the CREG for inclusion in the next years' tariffs.

A failure of IT system and processes used by Elia or a breach of its security measures may result in losses for customers and reduced revenues for Elia.

Elia's operation depends, to a large extent, on IT processes, hardware and software, including the glass fibre network, and their reliability and continuity are essential for an efficient and reliable operation of the electricity network.

Elia takes important measures continuously to improve its 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 ability to provide all or part of the services required under the contracts to which it is a party or by law. However, the federal, the Flemish and the Walloon grid codes equate these acts with emergency situations comparable to acts of God and entitle Elia to take specific measures to seek to restore the balance of the network. On this basis, damages arising from these accidents may be submitted to the CREG for inclusion in the next years' tariffs.

Elia may incur significant costs to comply with environmental and city planning laws.

Elia's operations and assets are subject to EU, Belgian federal and regional environmental and city and country planning regulations. These regulations are often complex and constantly evolving. The most significant environmental issues are soil pollution, PCB contamination of equipment, water, waste and electromagnetic fields (EMF). Significant city and country planning regulations applicable to Elia relate to zoning, building and environmental permits and rights of way.

Elia may incur significant additional costs to comply with existing or new city and country planning and/or environmental regulations, including the costs associated with the implementation of preventive or remedial measures or settling third-party claims. Elia may be sued and/or be subject to local opposition to some of its environmental and city and country planning actions or programmes. If this happens, Elia may incur additional costs for enquiries or publicity measures. These costs and expenditures may be submitted to the CREG for inclusion in the following years' tariffs.

In addition, future changes in laws or regulations may require Elia to adopt additional preventive and/or remedial measures, or to remediate soil or groundwater contamination in areas where such measures are currently not required.

The Company may be required by the competent authorities to amend the current methodology for the allocation of cross-border transmission capacity with neighbouring countries, which, depending on the nature of the required amendments, may be challenged and could lead to possible litigation.

The determination of available interconnection capacity is subject to international consultations, and 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.

The mechanisms used by the Company to allocate available transmission capacity between neighbouring countries to market participants are subject to approval by the CREG, pursuant to the federal grid code. The CREG is conducting discussions with various relevant market players on these issues, including the Company, but has not yet issued a formal decision on these mechanisms nor on the notion of available transmission capacity (in relation, in particular, to legacy contracts).

For these reasons, the allocation mechanisms currently applied by the Company might be revised in the short term.

The Company cannot foresee the consequences on its results of operations of a revision by the CREG of the allocation mechanisms or of any procedure and/or any third-party claim related to the allocation of capacity. (See "Description of Elia's Business" – "System operation" – "Electricity import and export").

Risks related to the Offering

The price of the Company's ordinary shares may fluctuate significantly due to various factors, including variations in the Company's results of operations.

The trading price of the Company's ordinary shares may fluctuate as a result of such factors as adverse general economic conditions, variations in the Company's results of operations, changes in interest rates, changes in financial estimates by securities analysts, changes to the Company's credit rating, or other risks described herein.

The Offer Price of the Shares has been determined by the Selling Shareholders following the recommendations from the Joint Bookrunners/Global Coordinators.

Investors may not be able to resell Shares at or above the Offer Price.

The future actual or expected sale of a substantial number of the Company's shares may negatively affect the price of the Company's shares.

The market price of the Company's ordinary shares may fall as a result of a sale of a substantial number of the Company's ordinary shares in the public market following the Offering, or the public perception that a sale may occur.

In connection with the Offering, the Selling Shareholders, the Company and Publi-T have agreed to certain restrictions on the sale or other disposition of the Company's ordinary shares for a period of up to 180 days from the first date of trading of the Shares, except with the prior written consent of the Joint Bookrunners/Global Coordinators (See "Underwriting").

As the Shares will be listed and traded on Euronext Brussels on an "as-if-and-when-issued-or-delivered" basis as of the Listing Date until the envisaged Closing Date, Euronext Brussels may annul all transactions effected in the Shares if the Offer Shares are not issued or delivered on the envisaged Closing Date.

As of the Listing Date until the envisaged Closing Date, the Shares will be listed and traded on Euronext Brussels on an "as-if-and-when-issued-or-delivered" basis. Investors that wish to enter into transactions in the Shares prior to the envisaged Closing Date, whether such transactions are effected on Euronext Brussels or otherwise, should be aware that the Closing Date may not take place on 28 June 2005, or at all, if certain conditions or events are not satisfied or waived or do not occur on or prior to such date. Such conditions include the receipt of officers' certificates and legal opinions and such events include the suspension of trading on Euronext Brussels or a material adverse change in the issuer's financial condition or business affairs or in the financial markets.

Euronext Brussels has indicated that it will annul all transactions effected in the Shares if the Offer Shares are not issued on the envisaged Closing Date. Euronext Brussels has indicated it cannot be held liable for any damage arising from the listing and trading on an "as-if-and-when-issued-or-delivered" basis as of the Listing Date until the envisaged Closing Date.

Risks related to the shareholding structure

The Selling Shareholders and Publi-T will each hold an important shareholding in the Company after the Offering and will be able to influence certain shareholders' decisions of the Company.

The Selling Shareholders and Publi-T will each hold an important shareholding in the Company, holding together 60% of the Company's ordinary shares and voting rights following completion of the Offering[12]. They are currently, directly or through their affiliates, among the large players in the Belgian electricity market and are among Elia's important suppliers and customers (See "Context and Background of the offering – History and Structure of the TSO", "Relationship with the Existing Shareholders and Related-Party Transactions" and "Description of Shares and Share Capital").

[12] The combined share ownership of 60% assumes that (i) all Shares are sold in the Offering, (ii) Electrabel, SPE and Publi-T subscribe for 27.45%, 2.55% and 30%, respectively, of the New Shares, and (iii) the Underwriters exercise their Over-Allotment Option in full. The combined share ownership will be slightly less than 60%, because of dilution resulting from the Employee Offering, unless Electrabel, SPE and Publi-T decide to subscribe for additional New Shares, or purchase Shares in the market, in a quantity sufficient to neutralise such dilution.

Pursuant to the Company's Articles of Association and the Shareholders' Agreement, the Selling Shareholders and Publi-T are entitled to specific shareholder rights which may limit the ability of other shareholders to influence certain shareholders decisions. The interests of each of the Selling Shareholders and Publi-T in these decisions may differ from those of the Company's other shareholders. These specific rights granted to the Existing Shareholders may also hinder a change of control of the Company.

The main shareholder rights held by the Existing Shareholders are:

- the consent of those shareholders holding a majority of the Class A shares (*i.e.,* the Selling Shareholders) and the consent of those shareholders holding a majority of the Class C shares (*i.e.,* Publi-T) are both required for any shareholders' decision so long as they represent 25% of the total shares (or 15% of the total shares after dilution following a capital increase);
- a minimum number of directors has to be elected on the basis of a list of candidates proposed by Class A and Class C shareholders (See "Management and Personnel"). However, Elia's Board of Directors has to include at least six independent Board of Directors members out of 12 members in total;
- in the case of a transfer of Class A shares or Class C shares, the Selling Shareholders and Publi-T each have (i) a right of first refusal to acquire the relevant shares from the selling shareholder and (ii) a tag along right to sell their shares in the same transaction;
- in case of a change of control of Publi-T, the Selling Shareholders may exercise a call option on the Company's shares held by Publi-T and vice versa.

If there is a change of control of the Company, the amounts outstanding under the Shareholder Loan Agreement dated 31 May 2002 between the Company and the Selling Shareholders may be accelerated.

On 31 May 2002, the Company entered into a EUR 2,130,801,712 shareholder loan agreement with CPTE (whose rights were later assigned to the Selling Shareholders) (the "Shareholder Loan Agreement"). The Shareholder Loan Agreement may be accelerated in case of a change of control of the Company. However, prior to invoking the change of control clause, the Selling Shareholders must engage in good faith negotiations with the Company, which should give it some time to arrange refinancing.

In the Shareholder Loan Agreement, a change of control is defined as any person or group of persons acting in concert, other than CPTE/Selling Shareholders and Publi-T, acquiring more than 30% of the total issued share capital of the Company.

An aggregate principal amount of EUR 1,228,147,751.76 is currently outstanding under the Shareholder Loan Agreement, which will be further reduced to EUR 883,507,421.31 as a result of the Offering. (See "Relationship with Existing Shareholders and Related-Party Transactions – Shareholder Loans").

INFORMATION ON THE PUBLIC OFFERING IN BELGIUM

Size and Nature of the Offering

The Offering is comprised of a public offering in Belgium and a private placement to Belgian and international institutional investors outside the United States.

The Offering includes both existing and newly-issued shares (being the Existing Shares offered in the Secondary Offering and the New Shares offered in the Primary Offering). Both types of shares will be offered as part of a single Offering and on the same terms (except for the issuance of VVPR-strips in connection with the New Shares, as described below). The issuance of the New Shares is subject to the suspensive condition of the closing of the Secondary Offering. In a separate offering and subject to the same suspensive condition, the Company will also offer newly-issued shares to Elia's employees.

The Selling Shareholders intend to offer up to 16,791,856 Existing Shares[13] in the Secondary Offering, but reserve the right to offer less. In addition, the Selling Shareholders will grant to the Underwriters an option to purchase a number of additional shares corresponding to maximum 10% of the Existing Shares and of the New Shares (other than the New Shares allocated to the Existing Shareholders), at the Offer Price, less the underwriting discount, during a period of 30 days from the commencement of trading of the Shares on Eurolist by Euronext (Brussels), solely to cover over-allotments, if any, in connection with the Offering.

The Company intends to offer New Shares in an aggregate subscription amount of up to EUR 150,000,000 (including share issue premium, if any) in the Primary Offering, but also reserves the right to offer less. If the Offering were reduced, such reduction will be applied first to the Primary Offering.

In the Primary Offering, Electrabel, SPE and Publi-T may subscribe, respectively, 27.45%, 2.55% and 30% of the New Shares[14] and are entitled to an irreducible priority allocation right in respect of such subscription.

If the proceeds from the Primary Offering are less than EUR 150,000,000, Electrabel, SPE and Publi-T have committed to purchase, on a pro rata basis, the balance of the New Shares up to a maximum aggregate amount of EUR 87,049,203.45 (i.e., up to EUR 55,755,014.81 for Electrabel, EUR 5,179,427.61 for SPE and EUR 26,114,761.04 for Publi-T), including the portion of the Primary Offering which they may subscribe for pursuant to the preceding paragraph. (See "Relationship with Existing Shareholders and Related Party Transactions – Shareholder Loans").

The final aggregate number of Shares sold in the Offering will be determined after the end of the Offering Period and be published in the Belgian financial press on or about 23 June 2005.

It is expected that no less than 15% of the Shares effectively allocated (excluding any Shares offered under the Over-Allotment Option granted to the Underwriters) will be allocated to retail investors in Belgium. However, (i) the proportion of Shares allocated to retail investors may be increased, and possibly substantially, if applications received from them substantially exceed 15% of the Shares effectively allocated or, conversely, (ii) such proportion may be reduced if the relative demand from institutional investors at or above the Offer Price significantly exceeds that of retail investors. For the purpose of the Offering, retail investors are considered to include (i) individual persons resident in Belgium and (ii) legal entities in Belgium applying for Shares for an amount not exceeding EUR 250,000.

The New Shares will be issued together with VVPR-strips, which entitle their holder to a reduced rate of Belgian withholding tax on dividends and will be separately tradable. (See "Taxation in Belgium").

The Selling Shareholders, the Company and the Underwriters will use reasonable efforts to ensure that the Shares delivered to individual investors resident in Belgium and to entities subject to the Belgian legal entities tax are New Shares with VVPR-strips. (See "Allocation" below).

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13 Less the shares set aside for the Over-Allotment Option (*i.e.*, the Additional Shares). The number of "base deal" shares corresponds to 16,791,856 shares less the sum of:

$$\left[0.1 * \frac{(16,791,856 - 0.1 * P)}{1.1}\right] + 0.1 * P$$

where "P" refers to the number of New Shares placed with investors other than the Existing Shareholders.

14 These percentages are before any dilution resulting from the Employee Offering, which Electrabel, SPE and Publi-T may or may not decide to neutralise either by subscribing for a slightly higher percentage of the New Shares or by subsequently purchasing additional Shares in the market.

Offer Price

The Offer Price will be the same for all investors and will be determined on the basis of a book-building process in which only institutional investors will participate. (See "Underwriting").

The Offer Price will be determined by the Selling Shareholders following the recommendations of the Joint Global Coordinators after consultation with the Company, taking into account market conditions and such factors as:

- the results of the pre-marketing;
- a qualitative assessment of demand for the Shares;
- Elia's financial information;
- the history of, and the prospects for, Elia and the industry in which it operates;
- an assessment of Elia's management, its past and present operations and the prospects for, and timing of, its future revenues;
- the present state of its development;
- the above factors in relation to other companies engaged in activities similar to Elia; and
- all other factors deemed appropriate.

The Price Range will be published in the Belgian financial press on or about 9 June 2005. The final Offer Price, determined within the Price Range, will be published in the Belgian financial press on or about 23 June 2005.

Retail investors are legally bound to purchase the number of Shares indicated in their share application form at such final Offer Price.

The Offer Price will be expressed in euro. It is exclusive of any taxes and expenses, which must be borne by the investor.

Offering Period

The period during which retail investors may submit a share application form (the "Retail Offering Period") will begin on 9 June 2005 and end on 20 June 2005, subject to early closing, but will not be less than three banking days. The period during which institutional investors may submit a share application form will begin on 9 June 2005 and end on 21 June 2005.

Application Procedure

Retail investors wishing to purchase Shares may submit a share application form, free of charge, at the counters of the branches of Fortis Bank and of Dexia Bank (the "Joint Lead Managers of the Belgian Offering") or through any branch of ING, KBC Bank or CBC Banque and of Petercam (the "Co-Lead Managers of the Belgian Offering") or through any branch of Bank Degroof (the "Selling Agent in Belgium").

Applications may also be submitted through any other financial intermediary in Belgium. Investors should inquire about the costs that such financial intermediaries may apply and will be solely responsible for any such costs.

Share application forms must be received by the Joint Lead Managers of the Belgian Offering, the Co-Lead Managers of the Belgian Offering or the Selling Agent in Belgium before 4.00 p.m. Brussels time on the last day of the Retail Offering Period.

If the Joint Global Coordinators determine, or have reason to believe, that a single investor has submitted multiple applications through one or more Joint Lead Managers of the Belgian Offering, Co-Lead Managers of the Belgian Offering or Selling Agent in Belgium, they may disregard such applications.

Allocation

General

The exact number of Shares allocated to retail investors will be determined after the end of the Offering Period (and after any exercise of the priority allocation rights of Electrabel, SPE and Publi-T in respect of the Primary Offering, as described above).

The allocation among applications from retail investors will be made on the basis of objective allocation criteria. Such criteria will include, among others, preferential allocation in respect of applications received from retail investors before 4 p.m. Brussels time on 15 June 2005 and may include preferential treatment of applications submitted by retail investors at the counters of the Joint Lead Managers of the Belgian Offering, the Co-Lead Managers of the Belgian Offering or the Selling Agent in Belgium.

The result of the Offering, the number of Shares allocated to retail investors and the methodology applied in case of over-subscription will be published in the financial press in Belgium, together with the Offer Price, on or about 23 June 2005.

Allocation of New Shares and Existing Shares

Tax on Stock Exchange transactions

The acquisition of Existing Shares will, unless an exemption applies, give rise to tax on stock exchange transactions (*taxe sur les opérations de bourse / taks op the beursverrichtingen*) ("TSET") at a rate of 0.17%, subject to a cap of EUR 500. The subscription of New Shares will not give rise to TSET. (See "Taxation – Indirect Taxes – Tax on stock exchange transactions").

The Selling Shareholders, the Company and the Underwriters will use reasonable efforts to ensure that the Shares delivered to retail investors are New Shares. Should the total number of Shares allocated to retail investors exceed the total number of New Shares effectively allocated in the Offering (other than the New Shares allocated to the Existing Shareholders), then the Selling Shareholders, the Company and the Underwriters will use reasonable efforts to ensure that retail investors receive a combination of New Shares and Existing Shares in a proportion equal to the proportion that the amount of New Shares effectively allocated in the Offering (other than the New Shares allocated to the Existing Shareholders) bears to the total amount of Shares allocated to the retail investors.

VVPR Strips

The New Shares will be issued together with VVPR-strips, which entitle their holder to a reduced rate of Belgian withholding tax on dividends and will be separately tradable. (See "Taxation – Income taxes – Dividends").

The Selling Shareholders, the Company and the Underwriters will use reasonable efforts to ensure that the New Shares with VVPR-strips are delivered to retail investors and to investors subject to Belgian legal entities tax (*impôt des personnes morales / rechtspersonenbelasting*), in this order of priority. The Selling Shareholders will also endeavour to redistribute, free of charge, the VVPR-strips which they obtained when subscribing for New Shares, for the benefit of retail investors and investors subject to Belgian legal entities tax (in the same order of priority) insofar as the latter investors received Existing Shares. Should the total number of Shares allocated to the retail investors exceed the total number of VVPR-strips thus available, which is not unlikely, the VVPR-strips will be allocated among these investors on a prorata basis.

VVPR-strips will be separately tradable on Eurolist by Euronext (Brussels) from the first day of trading of the Shares, and investors who do not receive VVPR-strips in the Offering may be able to purchase such instruments on the secondary market.

Except as stated in the preceding paragraphs, all investors may receive either New Shares or Existing Shares or a combination of both. None of the Selling Shareholders, the Company or the Underwriters will have any liability to investors in connection with the allocation of one or the other type of Shares.

Payment and Taxes

The Offer Price of the allocated Shares must be paid in full in euro.

The Offer Price of the Shares, together with (i) any applicable stock exchange tax, (ii) any applicable tax on the physical delivery of bearer securities and (iii) any applicable costs (e.g. the cost for the physical delivery of bearer shares), must be paid by investors in cash upon remittance of their share application form or, alternatively, by authorising their financial institution to debit their bank account with such amount for value 28 June 2005. For further information about applicable taxes, see "Taxation in Belgium".

Form and Delivery of the Shares

All Shares included in the Offering are Class B shares, except that any New Shares subscribed to by and allocated to Existing Shareholders will be Class A Shares in the case of New Shares subscribed to by Electrabel and SPE and Class C Shares in the case of New Shares subscribed to by Publi-T (it being understood that the total number of New Shares of Class A cannot exceed the number of New Shares of Class C and that, for the surplus, Electrabel and SPE will receive New Shares of Class B). All of these shares have identical rights, except for certain special rights of Class A and Class C shares with respect to the nomination of candidates for appointment to the Company's Board of Directors and the voting of shareholders' resolutions. (See "Description of Shares and Share Capital").

The Shares entitle their holder to any dividends that may be declared in respect of the fiscal year commencing 1 January 2005 and future years.

The Class B Shares will, initially, be bearer securities represented by one or more global certificates deposited with the *"Caisse Interprofessionnelle de dépôts et virements de titres / Interprofessionele effectendeposito- en girokas"* (the "CIK").

Investors should indicate on their share application form whether they wish to receive their Shares (i) in book-entry form or (ii) in the form of physical bearer shares.

If delivery in book-entry form is requested, interests in the Shares and VVPR-strips will be credited on or about 28 June 2005 to the securities account of the investors through the facilities of the CIK.

If physical delivery of the Shares and VVPR-strips is requested, the relevant Shares will remain represented by global bearer certificates, and only book-entry delivery and book-entry settlement will be possible until the physical delivery (which is expected within three months from the commencement of trading of the Shares on Eurolist by Euronext (Brussels)). The shareholders requesting such delivery will bear the taxes and costs related thereto and consisting of, among others, printing costs, a tax of 0.6% on the physical delivery of bearer securities in the case of Existing Shares (See "Taxation") and the cost for physical delivery by the financial institution. The latter cost amounts up to EUR 25 (plus any applicable value-added tax) per delivery requested at the counters of the Joint Lead Managers of the Belgian Offering, Co-Lead Managers of the Belgian Offering and Selling Agent in Belgium. Investors should inquire about the costs that may be charged by other financial institutions and which are to be borne by them.

Shareholders may at any time ask the Company for their bearer securities to be converted into registered securities or vice versa, at the cost of the shareholder.

Listing

Application has been made for admission to listing of all of the shares of the Company on Eurolist by Euronext, the Regulated Market of Euronext Brussels, under the code "ELI". Only Class B shares will effectively be traded on Eurolist by Euronext. Class A or Class C shares must first be converted into (bearer or dematerialised) Class B shares in order for them to be tradable on Eurolist by Euronext.

Application has also been made for admission to trading of all of the VVPR-strips on Eurolist by Euronext, under the code "ELIS".

Commencement of trading, which is expected to occur on or about 23 June 2005, will take place on a "when issued-or-delivered" basis, meaning that trading of the Shares will commence prior to their payment by, and their delivery to, the investors, which is expected to occur on 23 June 2005. (See "Underwriting").

Investors who wish to effect transactions in the Shares prior to the Closing, whether transactions are effected on Eurolist by Euronext, the Regulated Market of Euronext Brussels, or otherwise, should be aware that the delivery of the Shares offered may not take place on the expected date of the Closing or at all if certain conditions, such as delivery of opinions and officer's certificates or events referred to in the Underwriting Agreement, are not satisfied or waived, or occur on or prior to such date. (See "Underwriting"). Euronext Brussels has indicated that it will annul all transactions in the Shares effected on Eurolist by Euronext, if the Shares offered are not delivered at the expected date.

Paying Agents

The financial services in Belgium for the Shares (which include the payment of dividends and the deposit of shares with a view to attending shareholders' meetings) will be provided by ING Belgium, KBC Bank, Dexia Bank and Fortis Bank. These paying agents will not charge the shareholders for the provision of such services. Investors should inform themselves about the amounts that other financial intermediaries may charge in connection with paying agency services.

DIVIDENDS AND DIVIDEND POLICY

Dividends

The audited consolidated financial statements of the Company included in this Prospectus have been prepared in accordance with Belgian GAAP. The Company also prepares non-consolidated financial statements in accordance with Belgian GAAP. Pursuant to Belgian law, the calculation of amounts available for distribution to shareholders, as dividends or otherwise, must be determined on the basis of the non-consolidated Belgian GAAP financial statements. As of 31 December 2004, the Company had reserves available for distribution of EUR 24.1 million, after payment of the dividend in respect of the fiscal year 2004 as mentioned below.

The Company paid gross dividends in the aggregate amount of EUR 49.3 million, EUR 86.0 million and EUR 53.4 million to its shareholders in respect of the fiscal years ended 31 December 2002, 2003 and 2004 respectively, in accordance with the dividend provisions of the Articles of Association of the Company. (See "Dividend Policy" below). Historical dividends and any implicit payout ratios are not necessarily indicative of future dividends or payout ratios.

The Shares offered 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 2005 and future fiscal years. Dividends in respect of the fiscal year 2004 have been declared at the Company's annual shareholders' meeting held on 10 May 2005 in a total amount of EUR 53.4 million or EUR 1.27 per share; they have been paid in full in December 2004 as an interim dividend.

Dividend Policy

Article 33 of the Company's Articles of Association requires that the Company allocate, 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 11,201,553.76. With regard to distributable profits over and above the required allocation to the legal reserve, the Articles of Association of the Company provide that 85% of the yearly profits available for distribution, or such higher percentage thereof as may be proposed by the Board of Directors[15], 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 so long as they each own at least 25% of the total outstanding share capital of the Company, or 15% in the event of dilution following a capital increase).

In addition to the Company's Articles of Association, Article 10 of the Shareholders Agreement provides that, after deduction of the amounts necessary to constitute the legal reserve, all profits must be distributed as dividends to the shareholders, except insofar as – in accordance with past practice – such distribution would cause a significant deviation from the equity/debt ratio recommended by the CREG (33/67).[16]

The statutory dividend of minimum 85% of distributable profit after allocation to the legal reserve is equivalent to a pay-out ratio of 81% of net profit. Subject to market and regulatory constraints[17], Elia will analyse the possibility to increase the pay-out level, up to approximately 90%, as a recurring target.

The Company foresees the possibility to recommend to its Shareholders' Meeting an exceptional increase in the pay-out level for 2005 (beyond the 90% recurring level it is considering), targeting the 2004 dividend per share level of EUR 1.27 in order to offset the dilution effect resulting from the issuance of the New Shares in 2005.

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[15] The possibility for the Board of Directors to propose a higher than 85% distribution has been added to the Company's Articles of Association by one of the amendments adopted by the Extraordinary Shareholders' Meeting held on 30 May 2005.

[16] On 31 December 2004, the equity/debt ratio of Elia was 29.29/70.71. If the Primary Offering amounts to EUR 150 million (excluding the amount of the Employee Offering), the equity/debt ratio of Elia would be 33.36/66.64.

[17] Future dividends will remain dependent upon the results of Elia, which are affected by a number of factors, including the evolution of long-term interest rates in Belgium. The actual amount of 2005 dividends and the amount and evolution of subsequent dividends will depend on various factors, including factors outside Elia's control, and the foregoing does not constitute, nor should be construed as constituting, a commitment or guarantee by Elia as to the actual amount of such dividends.

CURRENCY OF PRESENTATION / EXCHANGE RATE

The Company publishes its consolidated financial statements in euro.

The Company is not subject to any significant translational or transactional exchange risk, as it has no foreign currency investments or activities and less than 1% of its costs are denominated in currencies other than euro.

USE OF PROCEEDS

The Company will not receive any of the proceeds from the sale of the Existing Shares in the Secondary Offering. The Selling Shareholders will receive such proceeds less certain expenses and the underwriting discount relating to the Secondary Offering.

The Company will receive the proceeds from the sale of the New Shares in the Primary Offering, less certain expenses and the underwriting fee related to the Primary Offering. Such proceeds will be used, primarily, to (i) reinforce its equity, (ii) enhance cross-border capacities, and (iii) finance general capital expenditure programmes including possible acquisitions of the 70 kV – 30 kV network infrastructure and related assets in Belgium, while complying with the CREG's recommendation with regard to the financial structure of the TSO in terms of its debt/equity ratio (67/33).[18]

The costs of the Offering include legal, administrative and other costs, registration duties in relation to the issue of the New Shares, remuneration of the Banking, Finance and Insurance Commission, legal publication and printing of the Shares and this Prospectus as well as the fees paid to the Underwriters.

The Company will bear the fees to be paid to the Underwriters on the aggregate gross proceeds for the New Shares other than the shares subscribed to by the Existing Shareholders and the Selling Shareholders will bear the fees of the Underwriters or underwriting discount on the Secondary Offering.

The Company and the Selling Shareholders will severally (but not jointly) pay or cause to be paid all out-of-pocket expenses of the Underwriters in connection with the Offering. The share of said out-of-pocket expenses to be borne by the Company will be the lower of (i) the amount corresponding to the ratio of gross proceeds of the Primary Offering to aggregate gross proceeds of the Offering, it being understood that both the numerator and the denominator will be diminished by the amount of the Primary Offering subscribed by the Selling Shareholders and (ii) EUR 450,000.

Each of the Company and the Selling Shareholders will bear the fees and disbursements of its own legal and other advisers and its other own out-of-pocket expenses in connection with the Offering, except that the Selling Shareholders will severally (but not jointly), to the extent of 91.5% and 8.5% respectively, reimburse the fees and disbursements, reasonably incurred, of the Company's legal advisers in respect of tasks related directly to the preparation and implementation of the Offering as a whole (as distinguished from work specifically related to the Primary Offering or the Employee Offering and from advisory work for the Company in relation to the Offering), up to a maximum amount of EUR 350,000.

The Company alone will bear its own other expenses in relation to the Primary Offering, all expenses and discounts in relation to the Employee Offering and the initial and recurring fees payable to Euronext Brussels in connection with the listing of all of the Company's shares.

On the basis of the foregoing principles for the allocation of expenses, the Company's share of the costs in respect of the the Offering can be estimated at approximately EUR 5,700,000 in the aggregate (on the assumption that the Primary Offering is fully placed and that Electrabel, SPE and Publi-T subscribe for 27.45% 2.55% and 30% of the New Shares).

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[18] The current federal and regional development plans support capital expenditures for the period 2005-2009 in the amount of approximately EUR 800 million (this total capex amount does not include potential acquisitions). (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Outlook 2005 – Outlook beyond 2005").

SELECTED FINANCIAL DATA

The following tables set forth selected consolidated financial and operating data of the Company. The selected financial data cover the three-year period from 2002 to 2004 and are derived from the Company's annual consolidated financial statements, which have been audited by the auditors Ernst & Young and KPMG for the years 2002, 2003 and 2004.

The Company's audited consolidated financial statements have been prepared in accordance with Belgian GAAP, which differ in certain respects from IFRS. For a discussion of certain significant differences between Belgian GAAP and IFRS as they relate to the Company, see "Summary of certain significant differences between Belgian GAAP and IFRS". Investors should read the following data together with the Company's audited consolidated financial statements, as well as the notes to those financial statements, included in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations".

The Company was established on 20 December 2001. Since its designation as TSO, effective as of 17 September 2002, the Company has applied regulated tariffs for connection and access to its transmission network. As a result, the 2003 financial results are not entirely comparable with the 2002 results, which did not cover a fully regulated year. The acquisition of BEL Engineering (See "Management Discussion and Analysis of Financial Condition and Results of operations – Recent Transactions – BEL Engineering") led to a change in the consolidation scope in 2004. BEL Engineering is fully consolidated as from 1 January 2004.

Key consolidated figures

	2002	2003	2004
	All amounts in million euro		
Revenue	696.1	710.1	705.6
EBITDA(1)	298.5	294.4	264.2
Depreciation	(94.7)	(67.9)	(71.0)
BEL Engineering goodwill amortisation	0.0	0.0	(1.4)
Net disposal of tangible fixed assets	(16.6)	(12.9)	(5.3)
EBIT(2)	187.2	213.6	185.9
Net financial result	(83.0)	(75.4)	(76.2)
Net income	63.5	106.3	67.4
Funds from operations (FFO)(3)	232.5	155.7	147.4
Equity	1,063.7	1,084.0	1,098.0
Total capitalisation(4)	3,328.4	3,334.9	3,323.5
Positive consolidation difference	0.0	1,700.1	1,705.6
Total tangible assets	3,342.7	1,712.6	1,795.4
Total financial debt	2,497.1	2,637.2	2,650.6
Total assets	3,560.8	3,721.2	3,748.6
Investments in tangible assets	134.9	150.7	160.7

(1) EBITDA = EBIT + depreciation + disposal of fixed assets + amortisation of goodwill on BEL Engineering
(2) EBIT = EBITDA – depreciation – amortisation
(3) FFO = Net income + depreciation + amortisation + provisions (cash flow from consolidated profit)
(4) Total capitalisation = interest-bearing liability + shareholder's equity

Consolidated balance sheet (31 December year-end)

	2002	2003	2004
	All amounts in 000 euro		
ASSETS			
FIXED ASSETS	3,345,189	3.418,891	3,503,862
III. Positive consolidation differences	0	1,700,071	1,705,610
IV. Tangible assets	3,342,651	1,712,555	1,795,418
V. Financial assets	2,538	6,265	2,834
CURRENT ASSETS	215,640	302,331	244,756
VII. Stocks and contracts in progress	15,688	15,822	12,772
VIII. Accounts receivable within one year	129,553	153,066	98,495
IX. Investments	44,900	55,614	47,233
X. Cash at bank and in hand	2,580	16,235	2,149
XI. Deferred charges and accrued income	22,919	61,594	84,107
TOTAL ASSETS	3,560,829	3,721,222	3,748,618
LIABILITIES			
CAPITAL AND RESERVES	1,063,718	1,084,013	1,097,990
I. Capital	1,049,491	1,049,491	1,049,491
IV. Consolidated Reserves	14,227	34,522	48,499
PROVISIONS AND DEFERRED TAX	57,660	26,303	28,692
IX. Provisions for liabilities and charges	57,660	26,303	28,692
LIABILITIES	2,439,451	2,610,906	2,621,936
X. Amounts payable after more than one year	1,348,207	989,596	1,880,899
XI. Amounts payable within one year	1,085,985	1,462,719	464,875
XII. Accrued charges and deferred income	5,259	158,591	276,162
TOTAL LIABILITIES	3,560,829	3,721,222	3,748,618

Consolidated income statement

	2002	2003	2004
	All amounts in 000 euro		
Operating income	696,053	710,121	705,612
Operating charges (-)	(508,832)	(496,500)	(519,699)
Raw materials, consumables and goods for resale	(3,562)	(5,908)	(4,818)
Services and other goods	(234,113)	(291,943)	(295,298)
Remuneration, social security costs and pensions	(114,070)	(110,328)	(126,197)
Depreciation of and other amounts written off on formation expenses, intangible and tangible fixed assets	(94,686)	(67,850)	(70,981)
Increase (+), decrease (-) in amounts written off stocks, contracts in progress and trade debtors	(1,941)	1,579	(2,865)
Increase (+), decrease (-) in provisions for liabilities and charges	(36,273)	2,199	(1,634)
Other operating charges	(24,187)	(24,249)	(16,521)
Amounts written down on positive consolidation differences	0.00	0.00	(1,385)
OPERATING PROFIT	187,221	213,621	185,913
Financial income	2,449	2,367	18,106
Financial charges	(85,422)	(77,798)	(94,313)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	104,248	138,190	109,706
Extraordinary income	0.00	26,516	3,147
Extraordinary charges	2,753	2,641	(6,936)
PROFIT FOR THE FINANCIAL PERIOD BEFORE TAXATION	107,001	167,347	105,917
Income taxes	(43,463)	(61,052)	(38,540)
PROFIT FOR THE FINANCIAL PERIOD	63,538	106,295	67,377
CONSOLIDATED PROFIT	63,538	106,295	67,377
A. Share of third parties	0.00	0.00	0.00
B. Share of the group	63,538	106,295	67,377

Consolidated cash flow statement

	2002	2003	2004
	All amounts in 000 euro		
Consolidated profit	63,538	106,295	67,377
Depreciation and other amounts written off of fixed assets	94,686	67,850	70,981
Amortisation of consolidation differences	0,00	0,00	1,385
Variation in provisions for liabilities and charges	57,660	(31,356)	2,388
Net disposal of (in)tangible assets	16,598	12,885	5,308
CASH FLOW FROM CONSOLIDATED PROFIT	232,482	155,674	147,439
Changes in			
Stocks and contracts in progress	(15,688)	(133)	3,050
Trade debtors < 1 year	(129,553)	(23,515)	54,571
Deferred charges and accrued income	(22,919)	(38,674)	(22,513)
Suppliers	78,554	2,429	2,349
Advances received on contracts in progress	769	1,387	2,380
Accounts payable regarding taxes, remuneration and social security	36,140	(12,063)	1,277
Other debts	4,695	3,542	(1,224)
Accrued charges and deferred income	5,259	153,332	117,571
CHANGE IN NET WORKING CAPITAL	(42,743)	86,305	157,460
TOTAL CASH FLOW FROM OPERATING ACTIVITIES	189,739	241,979	304,899
Consolidation differences	0,00	0,00	(6,924)
New investments in (in)tangible assets	(3,453,935)	(150,711)	(160,657)
New investments in financial assets	(2,538)	(3,727)	3,431
Disposal of (in)tangible assets	0,00	0,00	1,505
Disposal of financial assets	0,00	0,00	0,00
TOTAL CASH FLOW FROM INVESTING ACTIVITIES	(3,456,473)	(154,438)	(162,644)
(+) or (-) Change in capital	1,049,491	0,00	0,00
(-) Dividends paid	0,00	(49,311)	(139,400)
(-) Reimbursements of loans	0,00	(13,862)	(1,022,714)
(+) New Loans	2,264,723	0,00	997,392
TOTAL CASH FLOW FROM FINANCIAL ACTIVITIES	3,314,214	(63,173)	(164,721)
CASH FLOW VARIATION	47,480	24,369	(22,465)

SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN BELGIAN GAAP AND IFRS

Elia is not currently under any legal obligation to publish its financial statements under IFRS, but has prepared preliminary consolidated financial information including a Balance Sheet, Income and Cash flow statements under IFRS for purposes of this Prospectus. They have been audited under the form of a special purpose audit report by the Company's auditors.

The main differences in the Company's financial statements between Belgian GAAP and IFRS as well as a reconciliation of the equity to IFRS at the date of conversion are also presented hereunder.

Summary of certain significant differences between Belgian GAAP and IFRS

In light of the future listing of its shares on Eurolist by Euronext (Brussels), Elia will be required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and the interpretations adopted by the International Accounting Standards Board ("IASB"), for the first time for the interim reporting after 1 January 2005 and for the financial year ending 31 December 2005.

For the purposes of this Prospectus, Elia has prepared preliminary consolidated condensed historical financial information in accordance with IFRS. This information (hereafter "the IFRS Preliminary Financial Information") is prepared with a transition date of 1 January 2004 and comprises the balance sheets at 1 January 2004 and 31 December 2004, an income statement and cash flow statement for the year ended 31 December 2004, including selected notes to the IFRS Preliminary Financial Information and the key accounting policies applied in the preparation of the IFRS adoption.

The accounting policies note to the IFRS Preliminary Financial Information explains why the accompanying IFRS Preliminary Financial Information may require adjustment before their inclusion in the IFRS financial statements for the year ended 31 December 2005 when Elia adopts IFRS for the first time.

The IFRS Preliminary Financial Information is included below together with an explanation of the impact that the transition from Belgian GAAP to IFRS has had on Elia's financial statements.

The selected notes to the IFRS Preliminary Financial Information are related to key financial topics for Elia. These selected notes provide full details and explanations on the differences between Belgian GAAP and IFRS for (i) Business Combinations (the acquisition of BEL Engineering), (ii) deferred taxes, (iii) financial instruments and (iv) employee benefits.

Consolidated balance sheet as at 1 January 2004 (Opening balance sheet)

The balance sheet as at 1 January 2004 prepared in accordance with IFRS, including an explanation of how the transition from Belgian-GAAP to IFRS has affected Elia's financial position, is set out below.

Consolidated balance sheet as at 1 January 2004

All amounts in 000 euro	1st January 2004 Belgian GAAP	Inventories	Provisions environ-mental	Employee benefits	Long-term borrowings	Provisions for litigations	Elia Re	Regulatory Liability	Deferred taxes	Dividends	Work in Progress	Total adjustments	Opening Balance IFRS
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(11)	(12)	(13)	(15)	
ASSETS													
Non-current assets	3,418,890.8	0.0		0.0	0.0		-2,000.0	0.0	19,488.4	0.0	0.0	17,488.4	3,436,379.2
Intangible assets	0.0											0.0	0.0
Goodwill	1,700,070.6											0.0	1,700,070.6
Property, plant and equipment	1,712,555.5											0.0	1,712,555.5
Investments in subsidiaries	2,000.0						-2,000.0					-2,000.0	0.0
Investments in associates	4,191.5											0.0	4,191.5
Other financial assets	73.1											0.0	73.1
Deferred taxes	0.0								19,488.4			19,488.4	19,488.4
Current assets	302,331.4	2,470.8	0.0	0.0	0.0	0.0	6,993.7	0.0	0.0	0.0	-2,155.9	7,308.6	309,640.0
Inventories and construction contracts	15,822.0	2,470.8									-2,155.9	314.9	16,136.9
Trade and other receivables	153,066.8						807.1					807.1	153,873.9
Cash and cash equivalents	71,848.9						6,186.6					6,186.6	78,035.5
Deferred charges and accrued income	61,593.6	0.0										0.0	61,593.6
TOTAL ASSETS	3,721,222.1	2,470.8	0.0	0.0	0.0	0.0	4,993.7	0.0	19,488.4	0.0	-2,155.9	24,797.0	3,746,019.2
EQUITY & LIABILITIES													
Shareholders' equity	1,084,013.1	2,470.8	-2,314.3	-175,101.0	24,094.4	2,925.0	3,459.7	96,401.4	19,488.4	49,000.0	0.0	20,424.4	1,104,437.5
Issued capital	1,049,491.0	0.0										0.0	1,049,491.0
Consolidated reserves	34,522.1	2,470.8	-2,314.3	-175,101.0	24,094.4	2,925.0	3,459.7	96,401.4	19,488.4	49,000.0		20,424.4	54,946.5
Retained earnings	0.0											0.0	0.0
Non-current liabilities	1,005,339.7	0.0	0.0	175,101.0	-23,800.7	-2,925.0	1,509.7	0.0	0.0	0.0	0.0	149,885.0	1,155,224.7
Long-term borrowings	989,596.1				-23,800.7							-23,800.7	965,795.4
Employee benefits	11,632.5			175,101.0								175,101.0	186,733.5
Provisions for liabilities and charges	4,111.0					-2,925.0						-2,925.0	1,186.0
Deferred tax liabilities	0.0						1,509.7					1,509.7	1,509.7
Current liabilities	1,631,869.3	0.0	2,314.3	0.0	-293.6	0.0	24.3	-96,401.4	0.0	-49,000.0	-2,155.9	-145,512.3	1,486,357.0
Short-term borrowings	902,653.9											0.0	902,653.9
Current portion of long-term borrowings	358,611.4				-293.6							-293.6	358,317.8
Provisions for liabilities and charges	10,560.1		2,314.3									2,314.3	12,874.4
Trade and other payables	201,453.1						12.9			-49,000.0	-2,155.9	-51,143.0	150,310.1
Income tax payable	0.0	0.0										0.0	0.0
Accrued charges and deferred income	158,590.9						11.4	-133,363.9				-133,352.6	25,238.4
Regulatory liability								36,962.5				36,962.5	36,962.5
TOTAL EQUITY & LIABILITIES	3,721,222.1	2,470.8	0.0	0.0	0.0	0.0	4,993.7	0.0	19,488.4	0.0	-2,155.9	24,797.0	3,746,019.2

1 Under IFRS certain write-downs recognised on inventories in Belgian GAAP, have been partially reversed in order to reflect the net realisable value of the inventories. As a result the inventories increased by EUR 2.5 million.

2 The current portion of the provision for other liabilities and charges obligations (EUR 10.6 million) covers soil clean-up in the Flemish region. The accounting treatment to recognise and assess these provisions is similar under Belgian GAAP and IFRS.

In addition, Elia has the specific obligation to dismantle one particular site and restore it to original state during the years 2005-2006. In accordance with IFRS, a provision of EUR 2.0 million in this respect has been recorded in the balance sheet. Furthermore, future costs relating to the current obligation to remove PCBs identified in transformer stations, have resulted in an increase of the current portion of the provision for other liabilities and charges amounting to EUR 283,337.

3 Under Belgian GAAP certain employee benefits and similar obligations are recorded in the income statement as incurred. For some obligations related to early retirement plans and pension commitments, provisions were recorded under Belgian GAAP for an amount of EUR 11,6 million. (See Management Discussion and Analysis of Financial Condition and Results of Operations – Balance Sheet – Liabilities – Provisions). In accordance with IAS 19, employee benefits and similar obligations, including defined benefit obligations, have been added to the provision under Belgian GAAP, resulting in an increase of the provisions for employee benefits amounting to EUR 175,1 million at balance sheet date. This adjustment can be summarised as follows:

	All amounts in 000 euro
Belgian GAAP	
Provisions for early retirement plan – Pension obligations	11,632.5
IFRS	
Defined benefit plan	130,593.1
Early retirement plan	15,818.0
Reduction on electricity tariff	8,750.2
Coverage of medical costs and hospitalization	10,360.4
Jubilee premium	21,211.9
Total IFRS	186,733.6
Total adjustments	175,101.1

4 Borrowings amount to EUR 1,348.2 million and consist of a current portion of EUR 358.6 million and a non-current portion of EUR 989.6 million. These long-term borrowings consist of interest bearing loans and an interest-free shareholders' loan, the latter amounting to an aggregate amount of EUR 111.6 million. Under Belgian GAAP, long-term liabilities are carried at nominal value excluding any effect for discounting. In accordance with IFRS, the carrying amount of the interest-free shareholders' loans has been adjusted in order to reflect the present discounted value of the future net cash outflows. This correction has resulted in a transition adjustment decreasing the current and the non-current portion of the interest-free shareholders loans by EUR 293,637.2 and EUR 23.8 million, respectively.

5 The non-current portion of the provisions for other liabilities and charges relate to litigations. Certain provisions recognised under Belgian GAAP did not meet the recognition criteria under IFRS. As a result, the provisions decreased by EUR 2.9 million at transition date.

6 Elia Re is a captive reinsurance company held by Elia Asset for the purpose of reinsuring all or part of the risks of Elia. Under Belgian GAAP, Elia Re is accounted for in the consolidated financial statements by using the equity method.

All entities controlled by Elia are fully consolidated in the IFRS consolidated financial information. As a result, the carrying amount of Elia's investment (EUR 2.0 million) in Elia Re and Elia's portion of equity in Elia Re were eliminated. This transaction resulted in an increase of the reserves amounting to EUR 3.5 million. The consolidation adjustments can be summarized as follows:

	All amounts in 000 euro
ASSETS	4,993.7
Investments in subsidiaries	-2,000.0
Trade and other receivables	807.1
Cash and cash equivalents	6,186.6
EQUITY & LIABILITIES	4,993.7
Reserves	3,459.7
Deferred tax liabilities	1,509.7
Trade and other payables	12.9
Accrued charges and deferred income	11.4

After the adjustments of Elia Re, investments in associates remaining on the balance sheet under IFRS consist of the first instalment paid in respect to the acquisition of BEL Engineering (EUR 3.7 million) and Elia's investment in HGRT (EUR 465,500).

7 Under Belgian GAAP deviations arising from the budget and/or bonus/malus mechanism are recorded as deferred income. As of 1 January 2004, the deferred income on the balance sheet, which was generated by deviations of previous years, amounts to EUR 133.4 million. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Deviations from budget and bonus/malus"). Under IFRS these deviations meet the criteria of a liability and have been recorded as a regulatory liability.

In addition, as discussed above in note 3, Elia has certain obligations relating to employee benefits and similar obligations. In accordance with a study report issued by the CREG, it is virtually certain that a portion amounting to EUR 96.4 million of the total employee benefits costs will be considered as reasonable by the CREG and therefore recovered by Elia through inclusion in the future tariff amounts. As this amount can be recovered from third parties, in accordance with IFRS principles (IAS 19), it has to be considered as an asset. Since the regulatory liability and the regulatory asset are based on the same principles especially the impact on future tariffs, the offsetting was applied under IFRS and so the asset has been recorded as a reduction of the regulatory liability, which hence amounts to EUR 36.9 million.

8 No comment

9 No comment

10 No comment

11 Deferred taxes include the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes under IFRS and the amounts used for taxation purposes.

The various changes on transition to IFRS result in deferred tax assets (EUR 19.5 million) arising from the following captions:

		All amounts in 000 euro
Inventories	1	839.8
Other provisions (Environmental)	2	-786.6
Employee benefits	3	-60,481.1
Long-term borrowings	4	8,189.7
Provisions (Litigations)	5	-17.0
Regulatory liability	7	32,766.8
Total		-19,488.4

Elia does not have any unused tax losses or unused tax credits.

Beside the deferred tax assets, the deferred tax liabilities (EUR 1.5 million) consist of temporary differences resulting from the consolidation of Elia Re for the first time (see note 6 above).

12 The dividends declared after the balance sheet date are not recognised as a liability at the respective balance sheet dates as the liability does not represent a present obligation in accordance with IFRS. The final dividend (EUR 49.0 million) has been reversed in the opening balance sheet and will be provided for with a corresponding charge directly to equity in the balance sheet as at 31 December 2004.

13 Under Belgian GAAP the charges related to the construction works are recorded as they occur and the progress billings are recorded under the liabilities as trade and other payables.

Under IFRS, construction works in progress are stated at cost plus profit and are recognised to date less progress billings. The reclassification on transition date relates to progress billings (EUR 2.2 million).

14 No comment

15 Set out below is an overview of the adjustments mentioned above and their impact on opening equity as at 1 January 2004:

		All amounts in 000 euro
Inventories	(1)	-2,470.8
Other provisions (Environmental)	(2)	2,314.3
Employee benefits	(3)	175,101.0
Long-term borrowings	(4)	-24,094.4
Provisions (Litigations)	(5)	-2,925.0
Elia Re consolidation	(6)	-3,459.7
Regulatory liability	(7)	-96,401.4
Deferred taxes	(11)	-19,488.4
Dividends	(12)	-49,000.0
Total		-20,424.4

Consolidated IFRS Preliminary Financial Information as at 31 December 2004

The balance sheet, income statement and statement of cash flows as at 31 December, 2004 prepared in accordance with IFRS, including an explanation of how the transition from Belgian GAAP to IFRS has affected Elia's financial position and cash flows, are set out below.

Consolidated balance sheet as at 31 December 2004

All amounts in 000 euro	2004 Belgian GAAP	Inventories	Provisions environmental	Employee benefits	Long-term borrowings	Provisions for litigations	Elia Re	Regulatory Liability	Soft-ware	Hard-ware	BEL Engineering	Deferred taxes	Work in Progress	Total adjust-ments	2004 IFRS
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(13)	(15)	
ASSETS															
Fixed assets	3,503,862.2	0.0	0.0	0.0	0.0	0.0	-2,000.0	0.0	1,513.1	1,899.5	2,503.9	25,539.4	0.0	29,456.0	3,533,318.2
Intangible assets	0.0								1,513.1		33.7			1,546.8	1,546.8
Goodwill	1,705,609.9										2,155.3			2,155.3	1,707,765.2
Property, plant and equipment	1,795,417.9									1,899.5	-27.1			1,872.4	1,797,290.3
Investments in subsidiaries	2,000.0						-2,000.0							-2,000.0	0.0
Investments in associates	465.5													0.0	465.5
Other financial assets	369.0													0.0	369.0
Deferred taxes assets	0.0										342.0	25,539.4		25,881.5	25,881.5
Current assets	244,756.1	4,200.5	0.0	0.0	0.0	0.0	10,573.2	0.0	0.0	0.0	0.0	0.0	-3,360.5	11,413.2	256,169.3
Inventories and construction contracts	12,771.6	4,200.5											-3,360.5	839.9	13,611.5
Trade and other receivables	98,495.6						811.7							811.7	99,307.3
Income tax assets	0.0													0.0	0.0
Cash and cash equivalents	49,381.8						9,761.6							9,761.6	59,143.4
Deferred charges and accrued income	84,107.1													0.0	84,107.1
TOTAL ASSETS	3,748,618.4	4,200.5	0.0	0.0	0.0	0.0	8,573.2	0.0	1,513.1	1,899.5	2,503.9	25,539.4	-3,360.5	40,869.1	3,789,487.5
EQUITY & LIABILITIES															
Shareholders' equity	1,097,990.0	4,200.5	0.0	-173,993.6	1,627.8	3,113.0	5,959.1	92,118.2	1,513.1	1,899.5	1,526.7	25,539.4	0.0	-36,496.2	1,061,493.7
Issued capital	1,049,491.0													0.0	1,049,491.0
Reserves	34,522.1	2,470.8	-2,314.3	-175,101.0	24,094.4	2,925.0	3,459.7	96,401.4				19,488.4		-28,575.6	5,946.5
Retained earnings	13,976.9	1,729.7	2,314.3	1,107.4	-22,466.5	188.0	2,499.3	-4,283.2	1,513.1	1,899.5	1,526.7	6,051.0		-7,920.7	6,056.2
Non-current liabilities	1,897,432.5	0.0	0.0	173,993.6	-1,627.8	-3,113.0	2,600.4	0.0	0.0	0.0	977.2	0.0	0.0	172,830.3	2,070,262.8
Long-term borrowings	1,880,899.8				-1,627.8									-1,627.8	1,879,272.0
Employee benefits	11,111.8			173,993.6							977.2			174,970.8	186,082.6
Provisions for liabilities and charges	5,420.9		0.0			-3,113.0								-3,113.0	2,307.9
Deferred tax liabilities	0.0						2,600.4							2,600.4	2,600.4
Current liabilities	753,195.9	0.0	0.0	0.0	0.0	0.0	13.8	-92,118.2	0.0	0.0	0.0	0.0	-3,360.5	-95,465.0	657,730.9
Short-term borrowings	0.0													0.0	0.0
Current portion of long-term borrowings	344,640.3													0.0	344,640.3
Provisions for liabilities and charges	12,159.1		0.0											0.0	12,159.1
Trade and other payables	120,234.9						4.0						-3,360.5	-3,356.5	116,878.4
Accrued charges and deferred income	276,161.5						9.7	-235,829.1						-235,819.3	40,342.2
Regulatory liability								143,710.8						143,710.8	143,710.8
TOTAL EQUITY & LIABILITIES	3,748,618.4	4,200.5	0.0	0.0	0.0	0.0	8,573.2	0.0	1,513.1	1,899.5	2,503.9	25,539.4	-3,360.5	40,869.1	3,789,487.5

Consolidated income statement for the year ended 31 December 2004

All amounts in 000 euro	2004 Belgian GAAP	Inventories	Provisions environ-mental	Employee benefits	Long-term borrowings	Provisions for litigations	Elia Re	Regulatory Liability	Software	Hardware	BEL Engineering	Deferred taxes	Exceptional result	Total adjustments	2004 IFRS
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(14)	(15)	
Operating income	705,612.7	0.0	0.0	0.0	0.0	0.0	0.0	(4,283.2)	0.0	0.0	0.0	0.0	3,146.8	(1,136.4)	704,476.3
Net revenue	691,693.2							(4,283.2)						(4,283.2)	687,410.0
Other operating income	13,919.4												3,146.8	3,146.8	17,066.3
Total operating expenses and charges	(519,699.4)	1,729.7	2,314.3	1,107.4	0.0	188.0	3,590.0	0.0	1,513.1	1,899.5	1,599.7	0.0	(6,935.1)	7,006.7	(512,692.8)
Costs of material and charges to revenue	(4,817.7)													0.0	(4,817.7)
Services and other goods	(295,299.2)						3,590.0		1,580.3	1,962.8	31.0			7,164.0	(288,135.1)
Personnel expenses and pensions	(126,197.2)													0.0	(126,197.2)
Depreciation, write-offs and amortization expenses, changes in provisions	(76,864.3)	1,729.7	2,314.3	1,107.4		188.0			(67.2)	(63.3)	1,568.7			6,777.7	(70,086.6)
Other operating charges	(16,521.0)												(6,935.1)	(6,935.1)	(23,456.1)
Total operating income	185,913.2	1,729.7	2,314.3	1,107.4	0.0	188.0	3,590.0	(4,283.2)	1,513.1	1,899.5	1,599.7	0.0	(3,788.2)	5,870.3	191,783.5
Net finance costs	(76,207.7)	0.0	0.0	0.0	(22,466.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(22,466.5)	(98,674.3)
Financial income	18,106.2													0.0	18,106.2
Financial charges	(94,313.9)				(22,466.5)									(22,466.5)	(116,780.4)
Profit on ordinary activities before taxation	109,705.5	1,729.7	2,314.3	1,107.4	(22,466.5)	188.0	3,590.0	(4,283.2)	1,513.1	1,899.5	1,599.7	0.0	(3,788.2)	(16,596.2)	93,109.3
Extra ordinary result	(3,788.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3,788.2	3,788.2	0.0
Extraordinary income	3,146.8												(3,146.8)	(3,146.8)	0.0
Extraordinary charges	(6,935.1)												6,935.1	6,935.1	0.0
Profit before taxation	105,917.3	1,729.7	2,314.3	1,107.4	(22,466.5)	188.0	3,590.0	(4,283.2)	1,513.1	1,899.5	1,599.7	0.0	0.0	(12,808.0)	93,109.3
Taxes	(38,540.4)	0.0	0.0	0.0	0.0	0.0	(1,090.6)	0.0	0.0	0.0	(73.0)	6,051.0	0.0	4,887.3	(33,653.0)
Income taxes	(38,840.6)													0.0	(38,840.6)
Deferred taxes	300.2						(1,090.6)				(73.0)	6,051.0		4,887.3	5,187.6
Profit after tax	67,376.9	1,729.7	2,314.3	1,107.4	(22,466.5)	188.0	2,499.3	(4,283.2)	1,513.1	1,899.5	1,526.7	6,051.0	0.0	(7,920.7)	59,456.2
Minority interests	(0.0)														(0.0)
Net profit for the period	67,376.9	1,729.7	2,314.3	1,107.4	(22,466.5)	188.0	2,499.3	(4,283.2)	1,513.1	1,899.5	1,526.7	6,051.0	0.0	(7,920.7)	59,456.2

Cash Flow statement at 31 December 2004

	Note	2004 Belgian GAAP	2004 IFRS
		All amounts in 000 euro	
Operating activities			
Net income	(15)	67,376.9	59,456.2
Depreciation tangible and intangible assets	(8)(9)(10)	70,980.9	71,171.4
Disposals on tangible assets	(a)	5,308.2	6,813.0
Depreciation on consolidation difference		1,384.8	
Write offs of current assets	(1)		1,135.3
Variation in provisions	(10)	2,388.1	-2,803.8
Amortisation of debts	(4)		22,466.5
Interest expenses	(b)		89,303.3
Deferred taxes	(11)		-5,187.5
Cash flow from operating activities		**147,438.9**	**242,354.4**
Changes in			
stocks and contracts in progress	(1)(13)	3,050.4	1,390.1
Trade and other receivables	(6)(10)	54,571.2	66,834.7
Deferred charges and accrued income		-22,513.5	-22,513.5
Trade and other payables	(10)(13)	4,781.8	-14,614.3
Accrued charges and deferred income	(b)(6)(7)	117,570.6	90,128.4
Changes in working capital		157,460.6	121,225.4
Interest paid			-57,579.5
Net total cash flow from operating activities		**304,899.5**	**306,000.3**
New investments in (in)tangible assets	(8)(9)(10)	-160,656.7	-164,007.1
New subsidiaries	(10)	-6,924.1	
New investments in affiliates	(10)(c)	3,430.1	4,131.6
Other financial assets	(c)		-295.8
Disposals on tangible assets	(a)	1,505.3	
Total cash flow from investing activities		**-162,645.4**	**-160,171.3**
(+) or (-) Change in capital		0.0	0.0
(-) Dividends paid		-139,400.0	-139,400.0
(-) Reimbursements of loans		-1,022,713.7	-1,022,713.7
(+) New loans		997,392.4	997,392.4
Total cash flow from financing activities		**-164,721.3**	**-164,721.3**
Cash flow variations		**-22,467.1**	**-18,892.3**
Cash & Cash equivalents at the beginning of the year		71,848.9	78,035.6
Cash & Cash equivalents at the end of the year		49,381.8	59,143.3
Net variations in cash & cash equivalents		-22,467.1	-18,892.3

1 Under Belgian GAAP, due to slow moving inventory articles, write-downs were recognised on inventories. These write-downs have been partially reversed under IFRS, in order to reflect the net realisable value. As a result the inventories increased by EUR 4.2 million resulting in a positive impact of EUR 1.7 million in the 2004 income statement.

2 The current portion of the provision for other liabilities and charges consist of the environment-related obligations (EUR 12.2 million) to cover soil clean-up in the Flemish region. The accounting treatment to recognise and assess these provisions is similar under Belgian GAAP and IFRS.

In addition, Elia has to dismantle and restore one specific site to its original state. Consistent with IFRS, a provision in this respect is recorded for the obligation at transition date. During 2004 this provision was recorded under Belgian GAAP. Consequently, the transition adjustment of EUR 2.3 million recorded in the opening balance has been reversed.

3 Under Belgian GAAP certain employee benefits and similar obligations are recorded in the income statement as incurred. In accordance with IAS 19, employee defined benefits and similar obligations have resulted in an increase of the provisions for employee benefits amounting to EUR 175.1 million at transition date. In 2004, due to an update of the assumptions and information used for the calculation of the provisions, this provision decreased by EUR 1.1 million.

(See notes to IFRS Preliminary Financial Information – Description of the different Employee Benefit plans).

4 Borrowings amount to EUR 2,225.5 million and consist of a current portion of EUR 344.6 million and a non-current portion of EUR 1,880.9 million. Under Belgian GAAP, long-term liabilities are recognised at nominal value. In accordance with IFRS, the carrying value of the loans has been adjusted and is carried at the present discounted value of the future net cash outflows.

During 2004, Elia decided to repay the interest-free shareholder loan prior to the original repayment date. The loan was repaid in December 2004. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Recent Transactions"). Consequently, the effect of the evaluation at the discounted present value, recorded in the opening balance sheet at 1 January 2004, was reversed in the 2004 income statement (EUR 22.5 million).

During 2004, Elia issued a two tranches eurobond for an aggregate principal amount of EUR 1,000 million. Under Belgian GAAP this liability is recognised at EUR 997.4 million. Under IFRS, the two tranches of that eurobond have been recognised at the present discounted value, which resulted in a decrease of the liability with a corresponding impact in the 2004 income statement of EUR 1.6 million.

5 The current portion of the provision for other liabilities and charges relates to litigations. At 1 January 2004, certain provisions did not meet the recognition criteria under IFRS. This resulted in a decrease of the provisions amounting to EUR 2.9 million. In 2004 new provisions were recorded under Belgian GAAP and were not recognized under IFRS which resulted in a reduction of EUR 188,000 with a corresponding effect in the 2004 income statement. This had a total impact on the balance sheet at 31 December 2004 of EUR 3,1 million, transition adjustments included.

6 Elia Re is a captive reinsurance company and collected in 2004 insurance premiums related to insurance contracts. 2004 financial statements are prepared in accordance with laws and regulations applicable in Luxemburg. They mainly consist of premiums recorded as revenue as well as recognition of technical provisions. Under IFRS, technical provisions amounting to EUR 3.59 million do not meet the recognition criteria and have been reversed with a corresponding decrease in charges for the year recorded in the income statement account "services and other goods".

In addition to the adjustments recorded at 1 January 2004, the change in scope relating to the consolidation method applied to the subsidiary Elia Re, resulted in the following changes in 2004.

	Opening balance	**Adjustments 31 December 2004**	**Total Adjustments**
	All amounts in 000 euro		
ASSETS	4,993.7	3,579.5	8,573.3
Investments in subsidiaries	-2,000.0		-2,000.0
Trade and other receivables	807.1	4.6	811.7
Cash and cash equivalents	6,186.6	3,574.9	9,761.5
EQUITY & LIABILITIES	4,993.7	3,579.4	8,573.1
Reserves	3,459.7	2,499.3	5,959.1
Deferred tax liabilities	1,509.7	1,090.6	2,600.3
Trade and other payables	12.9	-8.9	4.0
Accrued charges and deferred income ...	11.4	-1.6	9.8

The increase of deferred tax liabilities is primarily due to the reversal of the technical provisions, which resulted in a temporary difference between the carrying amount of the provision under IFRS and the amounts used for taxation purposes.

7 Under Belgian GAAP the deviation from budget and/or bonus/malus mechanism are recorded as deferred income. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Deviations from budget and bonus/malus"). Under IFRS such deviations meet the criteria of a liability and are recorded as a regulatory liability.

As discussed in note 3 of the transitional adjustments, Elia has certain obligations relating to employee benefits and similar obligations. In accordance with a "study report" issued by the CREG, it is virtually certain that a portion amounting to EUR 96.4 million of the total employee benefits will be accepted as reasonable costs by the CREG and therefore passed through in future tariffs. As at 1 January 2004, this amount has been recorded as a reduction of the regulatory liability. During 2004, the regulatory liability has decreased by EUR 4.3 million.

8 Under Belgian GAAP, software costs are expenses. In accordance with the IFRS accounting policies and interpretative guidance, costs for acquisition of licences and internally generated software are capitalised. In 2004 this resulted in an IFRS adjustment increasing software by EUR 1.58 million offset by the amortization charge of the year amounting to EUR 67,157.35. Referring to the IFRS principle (IAS38-21§b) and interpretative guidance, as the cost of the asset could not be measured in a reliable manner for the period before the year 2004, no adjustments were recorded in the opening balance.

9 Computer equipment has been recorded in accordance with Elia's accounting policies and IFRS resulting in an IFRS adjustment increasing property, plant and equipment by EUR 1,96 million, offset by the depreciation charge of the year amounting to EUR 63.3 thousand. In the years before 2004 there were no acquisitions of computer equipment that met the recognition criteria under IFRS for property, plant and equipment.

10 As of January 2004, BEL Engineering has been consolidated and included in the consolidated financial statements of Elia (See "Context and Background of the Offering – History and Structure of the TSO – Further Transactions – BEL Engineering Transaction"). The effects of this inclusion on the balance sheet and income statement in 2004 are as follows:

		Adjustments Belgian GAAP <> IFRS		
	Notes	**1st consolidation**	**After 1st consolidation**	**Total**
		All amount in 000 euro		
ASSETS		1,221.2	1,282.7	2,503.9
Intangible assets	(a)	35.6	-2.0	33.7
Goodwill	(b)	770.5	1,384.8	2,155.3
Property, plant and equipment	(c)		-27.1	-27.1
Deferred taxes	(d)	415.1	-73.0	342.0
EQUITY & LIABILITIES		1,221.2	1,282.7	2,503.9
Retained earnings	(e)		1,526.7	1,526.7
Employee benefits	(f)	1,221.2	-244.0	977.2
INCOME STATEMENT		0.0	1,526.7	1,526.7
Services and other goods	(a)		31.0	31.0
Depreciation positive consolidation difference	(b)		1,384.8	1,384.8
Depreciation intangible and tangible assets	(a),(c)		-60.1	-60.1
Employee benefits	(f)		244.0	244.0
Deferred taxes	(d)		-73.0	-73.0

a) Intangible assets consisting of software have been recorded in accordance with the IFRS accounting policies and IFRS, and resulted in an adjustment of EUR 33,681.

b) For Belgian GAAP purposes, the consolidation goodwill amounts to EUR 6.9 million with an amortisation charge for the year amounting to EUR 1.4 million. Elia has applied IFRS 3 in respect of this business combination. For IFRS purposes, consolidation goodwill has been adjusted to consider the provisions for employee benefits and intangible assets increasing the goodwill by EUR 770,491. In accordance with IFRS, the consolidation difference is not amortized on an annual basis, but annually tested for impairment. The impairment test did not result in an impairment loss.

c) In order to align the depreciation rules of BEL Engineering to the IFRS accounting policies, an adjustment of EUR 60,086 has been recorded.

d) The adjustment relates to the net deferred tax asset arising on the acquisition adjustments.

e) This relates to the impact on net income of the adjustments mentioned above.

f) The transition adjustment from Belgian GAAP to IFRS considers that all these employee benefits and similar obligations need to be recognised in the balance sheet in accordance with the IFRS accounting policies and interpretative IFRS.

(See "Selected notes to IFRS Preliminary Financial Information – section a – Business combinations: Acquisition of BEL Engineering")

11 Deferred taxes provide for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes under IFRS and the amounts used for taxation purposes.

Deferred tax assets provide for temporary differences resulting from certain transition adjustments from Belgian GAAP to IFRS, as follows:

		all amounts in 000 euro
Inventories	(1)	-587.9
Other provisions (Environmental)	(2)	-786.6
Employee benefits	(3)	-442.7
Long-term borrowings	(4)	7,636.4
Provisions (Litigations)	(5)	-63.9
Regulatory Liability	(7)	1,455.9
Software	(8)	-514.3
Hardware	(9)	-645.7
Total		6,051.0

Deferred tax liabilities amounting EUR 2,6 million consist of temporary differences resulting from the consolidation of Elia Re (see note 6 above).

(See "Selected notes to IFRS Preliminary Financial Information – Deferred taxes").

12 No comment.

13 No comment.

14 No comment.

15 The adjustments to the result of the year are as follows

		all amounts in 000 euro
Inventories	(1)	1,729.7
Other provisions (Environmental)	(2)	2,314.3
Employee benefits	(3)	1,107.4
Long-term borrowings	(4)	-22,466.5
Provisions (Litigations)	(5)	188.0
Elia Re consolidation	(6)	2,499.3
Regulatory Liability	(7)	-4,283.2
Software	(8)	1,513.1
Hardware	(9)	1,899.5
BEL Engineering	(10)	1,526.7
Deferred taxes	(11)	6,051.0
Total		-7,920.7

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with (i) the information in the section entitled "Selected Financial Data" and (ii) the Company's audited consolidated financial statements, including the notes to those financial statements, included in this Prospectus. 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 Belgian GAAP. IFRS differ in some respects from Belgian GAAP. For a discussion of certain significant differences between IFRS and Belgian GAAP as they relate to the Company, see "Summary of Significant Differences between IFRS and Belgian GAAP".

Overview

Elia's core business is the operation of a very high-voltage and high-voltage network, 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. Therefore, Elia owns, maintains and develops the very high-voltage (380 kV, 220 kV and 150 kV) and high-voltage (70 kV, 36 kV and 30 kV) network in Belgium. Elia's very high-voltage network is also an important transit hub between foreign electricity systems.

Elia's core activities as TSO, which represented 98.6% of its revenues in 2004, are twofold:

- Infrastructure Management: Elia owns, maintains and develops an electricity network, consisting of overhead lines, underground cables, transformer stations and other equipment necessary to enable the transmission of electricity at the voltages of 380 kV to 30 kV. All Belgian very high-voltage electricity network assets are fully owned and operated by Elia. Elia also owns (or has the right to use) approximately 94% of the Belgian high-voltage electricity network. Elia's network consists of 8,276 km of power links, consisting of 5,674 km of overhead lines and 2,602 km of underground cables.
- System Operation: Elia provides electricity 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, through the procurement of the appropriate ancillary services, the total electricity injected into and taken off of its network, taking into account the power exchanges with neighbouring countries. Elia also purchases energy to compensate in the networks from 70 kV to 30 kV for energy losses that are a consequence of the transmission of electricity on the high-voltage network.

Elia also engages in the following related activities:

- Elia aims to enhance the functioning of the electricity market and proposes certain market facilitation services related to its core activities;
- in order to optimise the use of its assets, Elia makes some of its high-voltage towers available to mobile telecom operators. Elia also makes data transmission bandwidth capacity available exclusively to a closed users' group. If there is a demand from the market and if Elia does not use all of its glass fibre for its internal communication network, it makes this extra available capacity of dark fibre available to third parties; and
- Elia is co-owner and operator of 220 kV and 150 kV network assets in the southern part of the Grand Duchy of Luxembourg.

These related activities represented 1.4% of Elia's revenue in 2004. (See "Description of Elia's Business – Related Activities").

Elia's tariffs are approved by the CREG pursuant to a method established by law which includes a compensation of all costs incurred by Elia (unless deemed unreasonable by the CREG) and a fair remuneration on the Company's equity. Tariffs are public, apply nationwide and are not subject to negotiation.

Factors Affecting Results

Elia's results of operations currently correspond to the fair remuneration on Elia's equity as adjusted for (i) deviations from budget within Elia's control (bonus/malus) and (ii) costs deemed unreasonable.

Regulatory Environment

As TSO, the Company has been entrusted with a legal monopoly and is compensated for its services on the basis of regulated tariffs.

Tariffs are determined pursuant to a cost-plus mechanism. This cost-plus mechanism includes a fair remuneration on the Company's equity. The Company's results of operations in 2003 and 2004 reflect the application of this mechanism, which is explained in the section entitled "Regulation and Tariffs – Tariffs". Tariffs are based on a budget proposed by Elia to the CREG before 30 September of each year for the following year. Deviations between actual and budgeted results are reviewed by the CREG before 30 June of the year following the year under review. These deviations can result in (i) tariff decreases or increases for the future, which do not impact Elia's results, and if the conditions are present in (ii) a bonus or malus which impacts Elia's future results and Elia's future tariffs. The decision on bonus or malus does not affect the results of the year reviewed, as the annual accounts of that year have already been approved at the date of the bonus/malus decision, but only the results of the following years. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Deviations from budget and bonus/malus"). The recently amended Electricity Law, which confirms and expands certain tariff-setting principles (see "Regulation and Tariffs – Tariffs – General Principles"), will apply to the tariff setting system as of a date to be determined by Royal Decree which is not expected to be sooner than 2007 (unless such Royal Decree is adopted by September 2005). (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Outlook"). The amendments to the Electricity Law, once implemented by the relevant Royal Decrees, should replace the current bonus/malus mechanism by an incentive-based system in respect of the costs under the control of Elia.

Calculation of the fair remuneration

For the purpose of determining the fair remuneration on Elia's equity, such equity is deemed to be a reference equity equal to 33% of the value of Elia's Regulated Asset Base ("RAB"). For 2003, the average RAB has been set at EUR 3,345.3 million. For 2004, the average RAB submitted by Elia to the CREG for approval is EUR 3,329.6 million. The decrease of the RAB has resulted from both an increase in net fixed assets and a proportionally larger decrease in Elia's working capital. (See "Regulation and Tariffs – Tariffs – Regulated Asset Base").

The remuneration rate applied to the reference equity is equal to the risk-free interest rate (measured as the average yield of the 10-year Belgian OLO in year "n – 2"), plus a market risk premium for shares weighted by a Beta factor. (See "Regulation and Tariffs – Tariffs – Remuneration Rate and Capital Structure").

Year	Risk free rate	Remuneration rate (year basis)
2003	5.11%	8.60%
2004	4.98%	7.98%
2005	4.17%	6.83% (budgeted)

The decrease of the remuneration rate over the period 2003-2005 resulted from simultaneous variations in the risk-free rate and the Beta factor as determined by the CREG.

Deviations from the reference equity are partially offset by an adjustment, known as the D-factor. This D-factor is intended to remunerate Elia's equity in excess of the reference equity at a lower rate than the reference equity, or, should the actual equity be lower than the reference equity, by deducting a certain amount from the remuneration. (See "Regulations and Tariffs – Tariffs – Remuneration Rate and Capital Structure"). For 2003 and 2004, Elia's equity was close to the reference equity. The D-factor adjustment is currently determined by the CREG by applying a certain remuneration rate to the amount of the deviation of Elia's equity from 33% of Elia's total assets. (See "Regulations and Tariffs").

Therefore, the D-factor adjustment has generated a negative correction of EUR 3.2 million for 2003, and subject to CREG approval, EUR 4.3 million for 2004. For 2005, the budgeted D-factor adjustment amounts to EUR 1.1 million.

	2003	2004	2005
Risk free rate (OLO_{n-2})	5.11%	4.98%	4.17%
Remuneration over risk-free rate for deviation	0.70%	0.70%	0.70%
Tax rate	33.99%	33.99%	33.99%
Equity deviation remuneration	3.84%	3.75%	3.21%

Finally, the CREG decided to exclude EUR 8.2 million of historical depreciation costs from the tariff basis (after taxes) on an annual basis between 2002 and 2011 on account of depreciation deemed excessive by the CREG in years preceding 2002.

In 2003, the fair remuneration amounted to EUR 83.4 million. In 2004, the fair remuneration amounted to EUR 75.6 million. For 2005, the budgeted fair remuneration amounts to EUR 68.3 million.

Deviations from budget and bonus/malus

The Royal Decree of 4 April 2001 (the "Tariffs Decree") currently provides that, when the CREG reviews proposed tariffs for any given period, it must take into account any deviations between actual and budgeted results arising from the application of the tariffs during the previous year. Such deviations are referred to as the "surplus" or the "shortfall". A part of the surplus or the shortfall is reflected in the following years' tariffs, while the balance, as determined by the CREG, will be partially added to ("bonus") or deducted from ("malus") Elia's results of the following year. In the CREG's current practice, deviations from the budgeted results, which are not within Elia's control, are passed through in the form of tariff decreases or increases for the following years (such as, for example, differences between expected and actual volumes of energy flows in the network). The bonus/malus mechanism then practically only applies to deviations that are within Elia's control.

A bonus for Elia is accepted by the CREG only when three conditions are met: (i) the budgeted costs basis has been approved by the CREG; (ii) the saving is effective and implies a real decrease in costs; and (iii) the saving is sustainable in the long term.

For 2003, the surplus passed through in the tariffs has been set at EUR 137.7 million by the CREG and has resulted or will result in a reduction of the tariffs of EUR 25.3 million in 2004 and EUR 36.4 million in 2005, 2006 and 2007. The positive deviations not directly passed through in the tariffs resulted in a bonus to Elia of EUR 6.3 million. Of this bonus, EUR 3.15 million (50%) has been added to the Company's fair remuneration for 2004 whilst another EUR 3.15 million (50%) has been deducted from the tariffs for 2005, in accordance with the Tariffs Decree.

The surplus is relatively high, which is to a large extent due to the recent character of the rules of functioning and the novelty that the liberalised European electricity market, including the tariff-setting and budgeting procedure, presented to all market players.

The following table sets forth the sources of the deviations and their uses.

		2003	2004
		in EUR Million	
(Sources)			
1/ Deviation from budget			
Surplus revenue from Network Operations		70.3	33.4
Reasons (2003):			
* absence of Royal Decree for backup energy			
* volume capacity			
* access fees			
Reasons (2004):			
* volume capacity			
* access & balancing fees			
Surplus international income		21.3	12.8
Reasons (2003):			
* auctioning North			
Reasons (2004):			
* auctioning North			
* congestion fee South			
* ETSO fees			
Other surplus income		(1.8)	7.7
Reasons (2004):			
* supplier claims			
* insurance claims			
* third-party services			
* fixed asset values			
Total Surplus in Revenue		89.8	53.9
Shortfall in purchase of ancillary services		0.4	33.7
Reasons (2003):			
* absence of Royal Decree for backup energy			
Reasons (2004):			
* compensation ARP balancing			
* price reductions			
* other supporting services			
Shortfall in other operating charges		19.0	2.3
Reasons (2003):			
* auctioning 4th quarter 2002			
* personnel expenses			
Shortfall in financial charges		24.2	24.2
Reasons (2003):			
* debt management			
Reasons (2004):			
* Eurobonds from May instead of 1 January			
* interest-free loan repayment			
Total Shortfall in charges		43.5	60.2
Adjustments to the regulated profit	(f)		9.4
Total deviation at the end of the book year	(a)	133.3	123.4
2/ Decision of the CREG			
D-factor adjustment	(b)	3.2	
Adjustments related to turnover 2002	(b)	4.3	
50% Bonus 2003 attributed to Elia	(c)	(3.1)	
Total impact of the decision of the CREG		4.4	
Total of the differences of the result (Sources)		137.7	123.4
(Uses)			
3/ Allocation of the future differences			(e)
Tariff Reduction in 2004	(d)	25.4	
50 % Bonus 2003 to be reflected in tariff 2005		3.1	
Tariff Reduction in 2005		36.4	
Tariff Reduction in 2006		36.4	
Tariff Reduction in 2007		36.4	
Total of the future attributions (Uses)		137.7	

(a) The amount of EUR 133.3 million has been split into two elements in the 2003 income statement, (i) an adjustment in the revenue in the amount of EUR 124.5 million and (ii) a charge of EUR 8.8 million under Service & Other Goods.
(b) The total amount of EUR 7.5 million is taken into account in 2004 as exceptional charges.
(c) The amount of EUR 3.1 million is taken into account in 2004 as an exceptional revenue.
(d) The amount of EUR 25.4 million is embedded in the revenue of the "network use revenue" in the year 2004.
(e) To be decided by the CREG in 2005.
(f) The adjustments to the regulated profit for year 2004 as introduced to the CREG are the result of (i) the computation of the regulated profit on the basis of an average value of the RAB at the beginning and at the end of the year, instead of on the end-of-year value of the RAB, and (ii) some differences between the actual and the budgeted values of the parameters used in the regulated profit formula.

Correction for costs deemed unreasonable

The CREG allows pass-through of costs in tariffs except with regard to those costs which it deems unreasonable. In 2003, study costs in the amount of EUR 7.25 million billed by Suez-Tractebel SA/NV to Elia and a provision for pension commitments in the amount of EUR 2.3 million were rejected by the CREG on this basis. (See "Management and Personnel – Employment Contracts Pensions"). In 2004, study costs in an amount of EUR 10.0 million have likewise been rejected. As the corresponding contract was terminated, such costs do no longer exist in 2005.

Volume of electricity

The actual volumes of electricity may differ from the volumes budgeted by Elia. However, in the CREG's current practice, this has no substantial effect on Elia's actual profit. If the transmitted volumes are higher than those budgeted, the deviation is booked to an accrual account during the year in which it occurs, and is taken into account in the following years, fully or partially, as a tariff decrease.

If the transmitted volumes are lower than those budgeted, the deviation is booked to an accrual account during the year in which it occurs, and is reflected, fully or partially, in subsequent tariff increases (although possibly spread over several years).

Recent Transactions

BEL Engineering

Since its inception, Elia has sourced nearly all of its engineering services needs from BEL Engineering. Pursuant to a share and asset purchase agreement dated 26 December 2003, Elia acquired all the shares of BEL Engineering, previously a subsidiary of Suez-Tractebel SA/NV, as well as title or rights of use to certain related assets (*e.g.*, IT tools for design and project management) for EUR 7.4 million. BEL Engineering is an engineering consultancy firm primarily involved in the design and project management of very high-voltage and high-voltage network-related infrastructure. This acquisition was made pursuant to a recommendation from the CREG on 6 March 2003. (See "Context and Background of the Offering – History and Structure of the TSO – Further Transactions – BEL Engineering Transaction").

Elia's acquisition of BEL Engineering provides it with the strategic knowledge required for the development of its very high-voltage and high-voltage network-related infrastructure. Elia also expects cost reductions as a result of the vertical integration resulting from the acquisition. Additionally, the acquisition ensures compliance with the requirements of the Flemish Decree, which requires that the operator's strategic activities be performed by its own staff and through its own means to ensure management and operational independence from energy producers and suppliers. The acquisition became effective on 9 March 2004 and, from 2005 on, BEL Engineering will be consolidated, for tariff setting purposes, with the Company and Elia Asset.

Repayment of Shareholder Loans

As described in the section entitled "Relationship with Existing Shareholders and Related Party Transactions", the Company's shareholders have made certain loans to the Company. Based on an agreement reached with such shareholders, some of these loans were repaid as follows:

(i) a shareholders' loan of an initial amount of EUR 123.9 million, was repaid by Elia, on 24 December 2004, in an amount of EUR 87 million. This amount represented the net present value, at prevailing market conditions, of the principal amount then outstanding, *i.e.*, EUR 99.2 million. This loan was granted to the Company to partially finance the Company's acquisition of shares of Elia Asset. (See "Relationship with Existing Shareholders and Related-Party Transactions – Loan by Electrabel, Publi-T and SPE"); and

(ii) other loans in an amount of EUR 8.8 million.

Results of Operations

Non-Comparability of Results 2002 and 2003

The Company was established on 20 December 2001 and was operational as of that date. As the Company was appointed TSO nine months later, on 17 September 2002, it did not operate under regulated tariffs, as described above, between 20 December 2001 and 17 September 2002. It is only after the Company's appointment as TSO that it became subject to regulated tariffs. In this respect, therefore, the 2003 financial results are not fully comparable with the 2002 financial results.

Results 2003 and 2004

As from 2003, a comparison between the revenues and charges of Elia must be understood in the framework of the cost-plus mechanism for determining tariffs, which is designed to provide a fair remuneration of the Company's equity. In such a system, deviations from budgeted income and charges are, in principle, passed through in the tariffs for the next fiscal years. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results of Operations – Deviations from budget and bonus/malus").

Operating Income

The following table sets forth the operating income for the three years ended 31 December 2002, 2003 and 2004.

	2002	2003	2004
		in million euro	
Connection revenues		21.8	27.9
Grid use revenues		606.7	537.3
Ancillary services revenues		159.6	191.6
International revenues		28.3	21.9
Own production		5.2	21.8
Other		4.8	5.7
Other revenues BEL Engineering			11.6
Total revenues from network operations (core activities)	27.2	826.3	817.8
Revenues 2002	668.9		
Optimal use of assets		7.0	7.1
Services and technical expertise		1.3	4.1
Total revenues from related activities	–	8.3	11.2
Deviations from budget and / or bonus/malus	–	(124.5)	(123.4)
Total revenues	696.1	710.1	705.6

The related activities revenues are comprised of the revenue resulting from Elia's related activities. (See "Description of Elia's business" – "Related Activities").

2003 compared to 2002

The increase in total revenues from network operations is mainly due to the fact that Elia was appointed as TSO on 17 September 2002. For the first three quarters of 2002, the tariffs and the revenues were inferior compared to the fourth quarter of 2002, due to lower costs compared to costs incurred by Elia as legally appointed TSO. During the fourth quarter of 2002, Elia applied tariffs approved by the CREG, in compliance with the relevant legal and regulatory provisions, which resulted in adjustments (EUR 16.6 million) in the 2003 accounts but related to the revenues for 2002.

In 2003, the amount of positive deviation between actual and budgeted results reserved for tariff reduction was EUR 133.3 million (see table p. 50-51-2003(a)). This amount has been split into two elements in the 2003 income statement: an adjustment in the revenue of EUR 124.5 million (see table p. 50-51-2003 (a)(i)) and a charge of EUR 8.8 million (see table p. 50-51-2003 (a) (ii)). The final decision by the CREG with regard to such deviation was taken in June 2004, which decision had an impact on the 2004 figures and will also have an impact on the 2005, 2006 and 2007 figures. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results of Operations – Deviations from budget and bonus/malus").

2004 compared to 2003

The EUR 31.3 million decrease in the revenues related to network operations is mainly due to elements acting in opposite direction: a decrease in tariffs and volume fluctuations in energy flows in the network.

The EUR 6 million decrease in the international revenue in 2004, is mainly due to a decrease in the revenues related to activities at the TSO auctioning office, which is related to differences between expected and real volumes and price setting for the auctioning of transmission capacity at the border with the Netherlands. (See "Description of Elia's Business – System Operation – Electricity Import and Export").

In 2004, EUR 123.4 million (see table p.[50-51]-2004 (a)) was the amount of positive deviation between actual and budgeted results reserved for tariff reductions. The final decision of the CREG with respect to such deviation is expected during the first semester of 2005. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results of Operations – Deviations from budget and bonus/malus").

BEL Engineering contributed to the revenues of Elia in an amount equal to EUR 28.4 million on a consolidated basis, which consists of EUR 16.8 million of own production and EUR 11.6 million which are mainly due to an amendment to the accounting rules.

Approximately 75% of Elia's revenues stem from distribution system operators.

Operating Charges

Services & Other Goods

The following table sets forth the costs of raw material, services and other goods for the three years ended 31 December 2002, 2003 and 2004.

	2002	2003	2004
		in million euro	
Raw materials, consumables and goods for resale	3.6	5.9	4.8
Purchase of ancillary services	114.7	144.9	145.1
Services and other goods (excl. purchase of ancillary services)	119.4	138.2	150.2
Deviation from budget		8.8	
Total Raw material, services and goods	237.7	297.8	300.1

2003 compared to 2002

The charges of services and other goods (EUR 297.8 million) rose in 2003 by EUR 60.1 million over 2002. This increase is mainly the consequence of an increase in the activities of Elia by virtue of its appointment as TSO. The contract for purchase of ancillary services did not cover the same services and risks in 2002 and in 2003, which lead to the recorded increase (*e.g.* energy purchased to cover energy losses in Brussels-Capital and Walloon Regions in 2003). In 2003, other services and goods included new elements that were not covered in 2002 such as changes in insurance coverage and remuneration for the use of network infrastructures owned by third parties. Additionally, in 2003 an adjustment of EUR 8.8 million (see table p.[50-51]-2004 (a) (ii)) corresponding to a deviation from budget was taken into account under this section. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results of Operations – Deviations from budget and bonus/malus").

2004 compared to 2003

The cost of services and other goods increased by EUR 12.0 million in 2004 as compared to 2003. Costs increased by an amount of EUR 4.3 million because of the consolidation of BEL Engineering and a EUR 1.8 million increase related to the Inter-TSO compensation mechanism for EU cross-border trade. (See "Description of Elia's Business – System Operation – Inter-TSO compensation mechanism for EU cross-border trade"). The balance of the increase (EUR 5.9 million) was due to variations in costs such as insurance premiums or external consultancy fees.

Remunerations, social security and pensions

The following table sets forth the costs for wages, social security costs and pensions for the three years ended 31 December 2002, 2003 and 2004.

	2002	2003	2004
	in million euro		
Wages	68.1	67.2	66.5
Write back of overestimated provisions (exceptional items)		(3.5)	
Social security costs	21.0	20.2	19.4
Pensions and similar commitments	21.6	23.0	21.7
Other social security expenses	3.3	3.4	3.1
Wages, social security and pensions costs for BEL Engineering			15.4
Total	114.0	110.3	126.1
FTE average	1,105	1,093	1,079
FTE average BEL Engineering			169

2003 compared to 2002

The reduction in costs in 2003 as compared to 2002 can, to a large extent, be explained by the exceptional write-back of an overestimated restructuring provision.

2004 compared to 2003

Although the average full-time equivalent (FTE) is decreasing, the increase in wages of EUR 2.8 million in 2004 is mainly due to a write back in 2003 of provisions, which were overestimated over the years 2002-2003. Because BEL Engineering is consolidated with Elia as from 1 January 2004, the personnel costs of BEL Engineering have increased the wages and social security expenses by EUR 15.4 million.

Non-cash charges

The following table sets forth the depreciation, write-offs and provisions for the three years ended 31 December 2002, 2003 and 2004.

	2002	2003	2004
	in million euro		
Depreciation of property, plant and equipment	94.7	67.9	71.0
Write-offs of inventories and trade receivables	1.9	(1.6)	2.9
Pension commitments		2.3	(0.2)
Litigation	1.1	3.0	1.0
Future expenditure for network adaptation in order to better control loop flows	35.4	(8.8)	0.0
Other	(0.2)	1.3	(1.9)
Provisions	36.3	(2.2)	(1.2)
Provisions BEL Engineering			2.8
Depreciation of goodwill BEL Engineering			1.4
Total	132.9	64.1	76.8

2003 compared to 2002

The decrease of EUR 26.8 million in depreciation of fixed assets to EUR 67.9 million in 2003 as compared to 2002 is mainly due to the changes in depreciation rates, as recommended by the CREG. (See "Regulation and Tariffs – Tariffs – Determination of Tariff Levels – Costs and Depreciation"). Additionally, Elia Asset switched to a pro rata temporis depreciation method for commissioning fixed assets under construction pursuant to a change in the tax legislation.

The write-offs of inventories and trade receivables (EUR 1.6 million) are comprised of a write-back of past write-downs on inventory items (EUR 0.3 million) and a write-back for trade receivables for EUR 1.2 million.

In 2003, a provision for pension commitments in the amount of EUR 2.3 million was created to cover the portion of pensions not included in the regulated tariffs. This cost was not considered by the CREG to be a reasonable cost for tariff purposes and resulted in a correction for costs deemed unreasonable. (See "Management and Personnel – Employment Contracts – Pensions").

Some customers initiated claims for indemnification which relate to a temporary interruption of their access to Elia's network. Elia created a provision to cover possible indemnification obligations in excess of the amount covered by its insurance contracts. In 2003, this resulted in an increase of EUR 1.9 million for provisions related to litigations.

In 2002, a provision of EUR 35.4 million was created for future expenditures related to improving the control of foreign electricity flows on the very high-voltage network, *i.e.* an amount equivalent to the revenues received from the auction of transmission capacity on the border with the Netherlands during the same year. In December 2003, when the CREG decided that revenue from capacity auctions earned from September 2002 had to be deducted from the 2004 tariffs, the provision was written back completely in 2003 and was split into two elements, (i) EUR 8.9 million corresponding to the portion of the 2002 revenues (last quarter) that has been deducted from the 2004 tariffs and (ii) the remaining amount of EUR 26.6 million corresponding to the revenues of the first three quarters of 2002 resulted in an exceptional revenue.

2004 compared to 2003

The increase of EUR 3.1 million in depreciation of fixed assets during 2004 is mainly due to a higher commissionning of assets under construction to fixed assets. As BEL Engineering has no plant and property, the impact of its consolidation is marginal.

The write-offs of inventories and trade receivables (EUR 2.9 million) are comprised mainly of write-downs on slow-moving items related to the inventory.

In 2004, the provision for litigations increased by EUR 1 million and is mainly due to additional provisions relating to claims introduced by third parties.

The other provisions include the utilisation and/or the write-back of the existing provisions related to early retirement of employees (EUR 4.0 million) and a new EUR 2.1 million provision covering an obligation to dismantle a high-voltage connection.

The provision of BEL Engineering mainly relates to the implementation of an Elia restructuring plan (EUR 2.8 million).

The full consolidation of BEL Engineering is the basis of the positive consolidation difference of EUR 6.9 million, and is depreciated on a straight-line basis over five years, which impacted the 2004 result in an amount of EUR 1.4 million.

Financial Results

2003 compared to 2002

The financial charges in 2003, amounting to EUR 77.8 million, represent the interest paid on long and short-term loans. The decrease of EUR 7.6 million as compared to 2002 is mainly due to a reduction in short-term interest rates.

2004 compared to 2003

The EUR 15.7 million increase in revenue is mainly comprised of the EUR 12.1 million difference between the nominal amount and the net present value of the shareholder loans that were repaid. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Recent Transactions – Repayment of Shareholder Loans"). The positive cash situation in 2004 also generated extra financial revenue for an amount of EUR 1.9 million.

The financial charges (EUR 94.3 million) increased by EUR 16.5 million in 2004 as compared to 2003. This variation is due to changes in the debt structure of the group, mainly impacted by a switch from short-term debt to long-term debt.

Exceptional Results

2003 compared to 2002

The exceptional charges in 2003 include the write-back and utilisation of a restructuring provision set up in 2001 for an amount of EUR 2.6 million.

The increase of the exceptional income in 2003 is due to the deduction, over the first three quarters of 2002, of the EUR 26.5 million provision that was created to cover future expenditures related to improving the control of foreign power flows on the very high-voltage network for the first three quarters of 2002. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Operating Income – Non-cash charges – 2003 compared to 2002").

2004 compared to 2003

The exceptional result for 2004 corresponds mainly to the bonus for the year 2003, for which the final decision was taken by the CREG in June 2004. The CREG's decision resulted in EUR 3.2 million attributed to Elia in the form of a bonus and two corrections that were reserved for future tariff reduction for a total amount of EUR 7.6 million. (See "Regulations and Tariffs – Tariffs – Determination of Tariff Levels – Bonus / Malus" and footnote (b) of the sources and uses table).

Taxes

2003 compared to 2002

Taxes amounted to EUR 61.1 million in 2003 and EUR 43.5 million in 2002. The increase is due to Elia's increased pre-tax income in 2003 among others related to exceptional result.

2004 compared to 2003

The decrease in income taxes in the amount of EUR 22.5 million is directly related to the decrease in income in 2004. Since BEL Engineering is consolidated as from 1 January 2004, its impact on the tax charges is EUR 3.1 million.

Balance sheet

Assets

Positive Consolidation Difference

	2002	2003	2004
		in million euro	
Positive consolidation difference Elia Asset – Elia System Operator	0	1,700.1	1,700.1
Positive consolidation difference BEL Engineering	0	0	5.5
Total consolidation differences	0	1,700.1	1,705.6

2003 compared to 2002

The consolidation difference booked as a tangible asset has been reclassified as a positive consolidation difference as described below.

2004 compared to 2003

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 the economic value and historical net book value of the assets which were allocated in 2002 as tangible assets. This difference can be explained by the following intangible elements: Elia's unique position in Belgium, its client base and its know-how. Therefore, it cannot be allocated to specific assets and must be seen as a whole. For the sake of coherence between Belgian GAAP and IFRS, Elia's management has recently decided to reclassify this amount as consolidation difference as from the year 2003. As an exception to the usual treatment of a positive consolidation difference, in order to give a fair view of Elia's consolidated asset base, this consolidation difference is not depreciated on an annual basis. The reasons therefore relate to the permanent character of the positive consolidation difference that is due to the regulatory and legal framework in

which Elia operates as TSO, *e.g.*, (i) the fact that Elia was appointed as TSO for a period of 20 years, (ii) the fact that Elia has unique resource 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) the fact Elia has the TSO know-how.

Consequently, the consolidation difference has an infinite useful life and will be subject to a write-off only if the write-off is permanent and durable. On an annual basis, the valuation of the assets will be reviewed using the 'impairment test'. The impairment test for 2004 did not indicate any adjustments for the consolidation difference.

The acquisition of BEL Engineering in December 2003 and its subsequent integration resulted in a goodwill of EUR 6.9 million, which is depreciated over five years in equal installments of approximately EUR 1.4 million.

Tangible Assets

The following table sets forth the tangible assets for the three years ended 31 December 2002, 2003 and 2004:

	2002	2003	2004
		in million euro	
High-voltage substations and transformers	861.8	910.0	958.1
Lines and cables	660.6	682.3	710.5
Land on which substations, lines and cables are located	45.6	46.6	51.6
Facilities used for network operation	37.9	38.1	38.8
Administrative buildings, furnishings and vehicles	36.6	35.6	36.4
Positive consolidation difference allocated to tangible assets	1,700.1	0.0	0.0
TOTAL TANGIBLE ASSETS	3,342.6	1,712.6	1,795.4

2003 compared to 2002

In 2003, new investments of EUR 150.7 million were made, compared to 2002 in which investments of EUR 134.9 million were made. This equates to an increase of EUR 16 million mainly due to costs associated with the extension of Elia's network. (See "Description of Elia's Business – Infrastructure Management – Network Development").

The changes in depreciation percentages (See "Regulation and Tariffs – Tariffs – Costs and Depreciation") had a significant impact (EUR 24.3 million) in 2003. Elia Asset also switched to a pro rata temporis depreciation method for commissioning fixed assets under construction pursuant to a change in the tax legislation.

2004 compared to 2003

The investments of EUR 160.7 million in 2004 are related to new projects for extension and replacement investments related to Elia's network and network related activities.

The depreciation percentages used are consistent with those percentages used for determining the 2004 tariff and such percentages were unchanged from those used in 2003.

Financial Assets

2003 compared to 2002

The increase in financial assets is due to the acquisition of BEL Engineering (See "Context and Background of the Offering – History and Structure of the TSO – Further Transactions – BEL Engineering Transaction"), which is booked at acquisition cost in 2003. The first installment of EUR 3.7 million was paid at the end of 2003.

The other financial assets are mainly comprised of Elia's stake in Elia Re, a company consolidated according to the equity method, due to the nature of its activities. (See "Description of Elia's Business – Transversal Matters – Elia Re"). At year-end, Elia Re did not have a profit or a loss. The Company's stake in HGRT (Holding des Gestionnaires de Réseau de Transport) is not consolidated, either fully nor under the equity method. (See "Description of Elia's Business – Related activities").

2004 compared to 2003

The second installment due to the acquisition of BEL Engineering in an amount of EUR 3.7 million was paid in May 2004.

The decrease in financial assets in 2004 as compared to 2003 is due to the full consolidation of BEL Engineering. (See "Selected Financial Data"). The Company's other financial assets did not undergo any changes in value during the year 2004.

Accounts Receivable

2003 compared to 2002

The short-term receivables consist largely of outstanding invoices to trade debtors in connection with the 'network access' business**,** and the increase is mainly attributable to additional invoicing made in the fourth quarter of 2003, for which the amounts were received during the first quarter of 2004.

2004 compared to 2003

Short-term trade receivables decreased by EUR 51.9 million in 2004. Such decrease is mainly due to active credit control policy and no additional adjustments like those made in 2003 were required at the end of 2004.

Deferred Charges and Accrued Income

2003 compared to 2002

In 2003, deferred charges and accrued income were up EUR 38.7 million to EUR 61.6 million compared to 2002. This increase can be attributed mainly to the change in the invoicing process necessitated by the appointment of the Company as TSO, and includes revenues for December 2003 that were not invoiced until early 2004.

2004 compared to 2003

Deferred charges and accrued income increased by EUR 22.5 million to EUR 84.1 million in 2004 as compared to the year 2003. This can be primarily attributed to the invoicing related to the use of the network, for which the invoices were sent out in January 2005.

Liabilities

Provisions

The following table sets forth the provisions for the three years ended 31 December 2002, 2003 and 2004:

	2002	2003	2004
	in million euro		
Pension commitments	0	2.3	2.1
Rehabilitation of polluted sites	10.8	10.6	10.1
Restructuring plan (Transform) and early retirement of staff	10.2	9.3	5.1
Litigation	1.2	4.1	5.2
Other provisions			2.1
Future expenditure for grid adaptation in order to better control loop flows	35.4	0	0
Provisions BEL Engineering			4.1
Total	57.6	26.3	28.7

The major fluctuations were described in the income statement. (See "Selected Financial Data").

Financial Debt

On 28 March 2002, the Company approved the funding required to adapt Elia's financial structure so that it complies with the CREG guidelines, *i.e.* a reference equity equal to 33% of the RAB value. Accordingly, a total sum of EUR 2,264.7 million was borrowed from financial institutions and shareholders. A significant portion of the loan as it was refinanced, amounting to EUR 902.7 million, which was due to the banks in 2004, was

refinanced on the international capital markets, due to favourable market conditions. (See, for the origin and purpose of these loans, "Relationship with Existing Shareholders and Related-Party Transactions – Shareholder Loans" and the table below).

The rating agency Standard & Poor's provided the Company with a long-term rating of A- with a stable outlook. The Company maintains a regular dialogue with Standard & Poor's.

The table below sets forth debt amounts outstanding for the three years ended 31 December 2002, 2003 and 2004.

	2002	2003	2004
		in million euro	
Shareholders Loan Tranche A	495.8	495.8	495.8
Shareholders Loan Tranche B2	344.6	344.6	344.6
Shareholders Loan Tranche B3	387.7	387.7	387.7
Other Shareholders Loans	133.9	120.1	0.00
Financial Institutions	902.7	902.7	0.00
Euro bond Issues	0.00	0.00	997.4[19]
TOTAL	2,264.7	2,250.9	2,225.5

2003 compared to 2002

As of 31 December 2003, Elia's financial debt was EUR 2,250.9 million compared to EUR 2,264.7 million as of 31 December 2002. During 2003, instalments due under certain shareholder loans were repaid for a total amount of EUR 13.8 million. The financial consortium loan extended in 2002 has been refinanced in 2003. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Recent Transactions – Repayment of Shareholders Loans").

2004 compared to 2003

As 31 December 2004, Elia's financial debt was EUR 2,225.5 million compared to EUR 2,250.9 million as of 31 December 2003. During 2004, certain shareholder loans were repaid (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Recent Transactions – Repayment of Shareholders Loans") and, as described above, the EUR 902.7 million financial institutions debt was replaced by the issuance of two tranches eurobond for an amount of EUR 997.4 million. This eurobond issuance consists of two tranches amounting to EUR 500 million each with respective maturities of 2014 and 2019 and respective coupon rates of 4.75 % and 5.25 %.

During the last three years, Elia did not draw under its Belgian commercial paper program, which totals EUR 250 million, and neither did it use its committed credit line facility amounting to EUR 50 million nor its uncommitted credit facilities, which total EUR 310 million.

BEL Engineering has no liabilities related to financial indebtedness or intercompany loans.

Trade Debt and Other Liabilities

2003 compared to 2002

Trade debt totaled EUR 81.0 million in 2003, which represents a nominal increase from total trade debts of EUR 78.6 million in 2002. The increase of other liabilities to EUR 120.5 million in 2003 is mainly due to the increase of EUR 42.8 million in the dividend paid to shareholders in 2003 as compared to the dividend paid in 2002 and outstanding balances on federal and regional taxes that the TSO recovers from system users in accordance with legal provisions, VAT liabilities and other tax liabilities.

2004 compared to 2003

Trade debt totaled EUR 83.3 million in 2004, and did not show any important variation as compared to 2003.

The other liabilities amounted to EUR 36.9 million on 31 December 2004, reflecting a EUR 83.6 million decrease, due to the dividends that have been paid during 2004.

[19] Current book value of a eurobond issue consisting of two tranches, with an aggregate principal amount of EUR 1,000 million.

Accrued Charges and Deferred Income

	2002	2003	2004
	in million euro		
Accrued charges	2.2	19.3	32.5
Deferred income	3.1	5.9	7.9
Deviation from budget and bonus/malus at the end of the year		133.4	123.4
Deviation from budget reduction to future tariffs			112.3
Total	5.3	158.6	276.2

2003 compared to 2002

Accrued charges and deferred income totaling EUR 158.6 million were up by EUR 153.3 million from 2002. This difference can mainly be attributed to the EUR 133.4 million related to application of the bonus/malus mechanism. (See "Regulation and Tariffs – Tariffs – Determination of Tariff Levels – Bonus / Malus").

2004 compared to 2003

Accrued charges and deferred income totaling EUR 276.2 million at 31 December 2004 increased by EUR 117.5 million from 2003. In addition to the normal accrued charges and deferred income totaling EUR 40.3 million (including, among other items, accrued charges related to the issuance of two tranches of eurobonds (EUR 31.8 million)), the 2004 amounts include amounts reserved for future tariff reduction related to the decision by the CREG on the bonus / malus of 2003 (EUR 112.3 million). (See "Regulation and Tariffs – Tariffs – Determination of Tariff Levels – Bonus / Malus").

The amounts from the 2004 positive deviations between actual and budgeted results have also been taken into account in the amount of EUR 123.4 million for which the CREG's decision is expected in the 1st semester of 2005. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results of Operations – Deviations from budget and bonus/malus").

Liquidity and Capital Resources

The following consolidated capitalisation and indebtedness table has been extracted from Elia's audited consolidated financial statements prepared in accordance with Belgian GAAP for the two years ended 31 December 2003 and 2004.

	2003	2004
	in million euro	
Short-term debt[(1)]	1,261.3	344.6
Long-term debt		
Bonds[(2)]	0	997.4
Loans from shareholders	989.6	883.5
Total long-term debt	989.6	1,880.9
Shareholders' equity		
Issued Share Capital[(3)]	1,049.5	1,049.5
Consolidated Reserves	34.5	48.5
Total shareholders' equity	1,084.0	1,098.0
Total capitalisation and indebtedness	3,334.9	3,323.5

Notes:

(1) A portion of long-term shareholders' debt will become payable when Electrabel and SPE sell Existing Shares in the Offering in accordance with the Protocol of 30 May 2001 (up to EUR 344.6 million if all of those shares are placed and the Over-Allotment Option is exercised in full). (See "Relationship with Existing Shareholders and Related-Party Transactions – Shareholder Loan Agreement dated 31 May 2002").

(2) Proceeds according to Belgian GAAP (a two-tranche eurobond of EUR 1.000 million).

(3) The issued share capital of the Company amounts to EUR 1,049.5 million and is divided into 41,979,640 shares without nominal value.

Long and short-term debt

UNDERLYING LONG-TERM DEBT	MATURITY	AMOUNT	INTEREST RATE	CURRENT PROPORTION OF RATE	
				FIXED	VARIABLE
all amounts in million euro					
Shareholders Loan Tranche A[1]	2022	495.8	5.34%	100.00%	0.00%
Shareholders Loan Tranche B3[1]	2009	387.7	3.40%	38.65%	61.35%
Bond issues	2014	498.3	4.75%	100.00%	0.00%
Bond issues	2019	499.1	5.25%	100.00%	0.00%
TOTAL		**1,880.9**	**4.76%**	**87.74%**	**12.26%**

(1) Average interest rates after hedging

UNDERLYING SHORT-TERM DEBT	MATURITY	AVAILABLE AMOUNT	AVERAGE INTEREST RATE	AMOUNT	
				USED	UNUSED
all amounts in million euro					
Shareholders Loan Tranche B2	2005	344.6	2.76%	344.6	0.0
Belgian Treasury Bills Program[2]	2006	250.0	Euribor + margin applicable to A-2	0.0	250.0
Committed Credit Line Facility[2]	2006	50.0	Euribor + 0.325 %	0.0	50.0
Uncommitted Credit Line Facilities[2]		310.0	Euribor	0.0	310.0
TOTAL		**954.6**		**344.6**	**610.0**

(2) Undrawn at 31 December 2004
(3) The share of total loans subject to fixed rates amounts to 74 %

Outlook

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.

Outlook 2005

Bonus 2004

The provisional 2004 deviation between actual and budgeted results amounts to EUR 123.4 million. The CREG will review this figure and will decide, at the latest on 30 June 2005, on the bonus or malus amount and on the extent to which this amount will be deducted from future tariffs (as it is the second consecutive year during which a bonus would occur if such a bonus is decided on by the CREG and the CREG has the authority to make a full or partial adjustment in the form of a reduction of tariffs). If a bonus is decided by the CREG, Elia expects that the amount not deducted from future tariffs will only be a limited portion of the provisional 2004 deviation. The CREG will also determine the manner in which the balance of the surplus will be deducted from future tariffs. (See "Tariffs – Determination of Tariff Levels – Bonus / Malus").

Remuneration 2005

In the absence of approval by the CREG of the tariffs proposed by Elia for 2005, provisional tariffs valid for three months have been published. So far, Elia has always operated under a system of provisional tariffs with the exception of a part of the year 2002. The CREG did not approve Elia's proposed treatment of decommissioning when computing the RAB value. Elia's proposal was to take into account the net tangible book value of the decommissioned assets whereas the CREG considered in its 2005 tariffs decision that an additional amount representing a portion of the intangible assets should also be deducted without being reflected in the tariffs. The CREG set the budgeted average RAB value for 2005 at EUR 3,439.5 million. The significant RAB increase between 2004 and 2005 is mainly due to the budgeted investments and to the budgeted increase of the working capital partially caused by the anticipation of certain future recurring expenses.

Elia has filed an annulment request against the CREG's decision with respect to the approval of the 2005 tariffs, including, in particular, with regard to the principles applied by the CREG to the decommissioning.

However, in contrast with preceding years, these tariffs include all budgeted costs and, thus, do not imply the rejection of costs deemed unreasonable by the CREG. Currently, Elia has no indication that these tariffs will be amended for the remainder of 2005.

The budgeted fair remuneration for 2005 amounts to EUR 68.3 million. It is based on a budgeted average RAB value for 2005 of EUR 3,439.5 million, a budgeted D-Factor of EUR 1.1 million and a remuneration rate of 6.8%. Given the issue of New Shares during 2005 (New Shares which will be entitled to the full 2005 dividend to be paid in 2006), Elia foresees the possibility to recommend to its shareholders an exceptional increase in the pay-out level for 2005, targeting the 2004 dividend per share level of EUR 1.27.

Repayment of Shareholder Loan

A portion of long-term shareholders' debt will become due and payable when Electrabel and SPE sell Existing Shares in the Offering in accordance with the Protocol of 30 May 2001 (up to an amount of EUR 344.64 million if all of these shares are placed and the Over-Allotment Option is exercised in full. (See "Relationship with Existing Shareholders and Related-Party Transactions – Shareholder Loan Agreement dated 31 May 2002"). This amount, representing Tranche B2 of the shareholder loans, will be refinanced primarily through the use of the credit line facilities granted by Elia's core banks (for a total available amount of EUR 610 million in January 2005) and will then be refinanced in the long term through new capital market transactions, if prevailing market conditions are acceptable. This refinancing will enable Elia to comply more closely with the financial structure recommended in the CREG guidelines.

Capital Expenditures 2005

A total amount of EUR 182.6 million is expected for investments during 2005. About EUR 40.0 million are foreseen for increasing the capacity of the international interconnections and capacity of internal networks necessary for the increased electricity market liquidity. The other investments are related to general corporate purposes and the possible acquisition of 70 kV – 30 kV networks.

Equity/debt ratio

On 31 December 2004, the equity/debt ratio of Elia was 29.29 % / 70.71 %. If the Primary Offering of EUR 150 million (excluding the amount of the Employee Offering) is fully placed, the expected equity/debt ratio of Elia would be 33.36 % / 66.64 %.

Outlook beyond 2005

Electricity Law

The recently amended Electricity Law will apply to the tariff setting system as of a date to be determined by Royal Decree but not expected to be before 2007 (unless such Royal Decree is adopted by September 2005). (See "Regulation and Tariffs – General Principles").

The amended Electricity Law confirms the cost-plus mechanism and the principle of fair remuneration on equity and specifies that the fair remuneration must be such as to provide the TSO with a favorable perspective regarding access to long-term capital markets. Pursuant to this law, the current bonus/malus system will be replaced by another mechanism whereby Elia would derive a profit or a loss from all or part 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.

The other key parameters for tariff-setting will be computed or taken into account pursuant to the Royal Decrees that will implement the amended Electricity Law. The CREG is also expected to issue guidelines for the purposes of implementing tariff mechanism.

Development plans

Elia expects that additional electricity transmission capacity will have to be developed in the future to increase the liquidity of the electricity market, to facilitate the competition between producers and to accommodate the development of decentralised generation units and renewable sources, such as windmill generation units in the North Sea.

The relocation of electricity generation plants, such as the current nuclear plants, could also create the need to further develop the Company's transmission capacity.

Elia expects that these capacity developments will be integrated in future development plans and be reflected in the RAB or be directly reflected in the tariffs.

The current federal and regional development plans support capital expenditures for the period 2005-2009 in the amount of approximately EUR 800 million (this total capex amount does not include potential acquisitions). It is based on the following drivers : (i) maintenance and replacement (22%), (ii) interconnections with neighbouring countries (24%), (iii) import levels and generation localisation (10%) and (iv) internal consumption (44%). It is expected that these capital expenditures will be more front loaded over the 2005-2009 period.

Acquisition of network assets

Elia contemplates the possible acquisition in the next few years of 70 kV – 30 kV network assets. If these acquisitions are made, they will take place in agreement with the CREG and be reflected in the RAB.

Market Risk

Qualitative and Quantitative Disclosure about Market Risks

The Company is subject to various financial market risks, including interest rate and credit risks associated with its underlying assets and liabilities. The Company's Finance Department is responsible for assessing and supervising exposure to market risk arising from financial activities. The activities of the Finance Department with regard to managing the Company's exposure to market risk are subject to Treasury Guidelines addressing practices such as the use of derivatives, hedging and approval of exposure to counterparties. These Guidelines are approved by the Board of Directors. To adequately manage exposure to market risks, Elia selectively enters into derivatives and does not hold or issue derivatives for trading or speculative purposes.

Foreign Currency and Exchange Rate Risk

Elia publishes its consolidated financial statements in Euro.

Elia is not subject to any significant translational or transactional exchange risk neither transactional nor relating to the conversion of a foreign currency into euro, as it has no foreign currency investments or activities and less than 1% of its costs are denominated in currency other than euro.

Interest Rate Risk

Although Elia benefits from the financial embedded debt principle (See "Regulations and Tariffs – Tariffs – Determination of Tariff Levels – Financial Embedded Debt Principle"), Elia considers fluctuations of interest rate as a market risk exposure that needs to be monitored in a responsible manner. To manage exposure to changes in interest rates and the overall costs of financing, Elia may use interest rate swaps, interest rate and currency swaps, interest rate options and forward rate agreements. Elia also achieves fixed rates on its borrowings by using fixed rate debt.

All of Elia's financial debt is unsecured.

Elia's current policy is to maintain, at all times, the ratio of fixed rate debt above 40% of the overall debt, unless otherwise agreed by the executive bodies of the Company. As of 31 December 2004, after taking into account the effect of interest rate swaps, Elia satisfied this threshold with 73.86% of its total debt being at fixed rates.

The table in the Liquidity and Capital Resources section provides information regarding Elia's long-term fixed and floating rate debt as of 31 December 2004.

Counterparty Risk

Credit risk arising from the inability of a counterparty to meet the terms of Elia's financial instruments is generally limited to the amount, if any, by which the counterparty's obligations exceed the obligations of Elia.

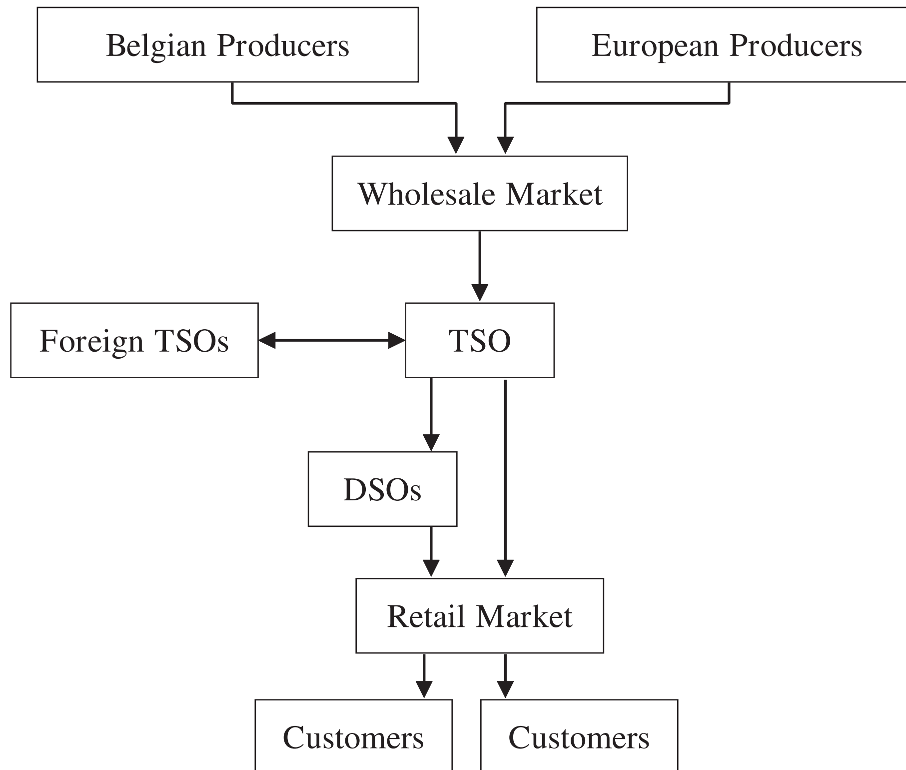
Elia is exposed to credit risk in the event of non-performance by counterparties on derivatives, but does not currently expect non-performance by any such counterparties, given their credit ratings. The amount of such exposure equals the market value of such contracts. Elia generally does not require collateral or other security from counterparties as such parties are highly rated financial institutions. To reduce the risk of counterparty failure, Elia sets credit limits based on the individual ratings of counterparties by well-known rating agencies.

DESCRIPTION OF THE BELGIAN ELECTRICITY MARKET

Organisation of the Belgian electricity market

The main participants in the electricity market are the electricity producers, the transmission and distribution system operators, 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.



Generation

Currently, the leading actors on the Belgian electricity generation market are Electrabel, which owns approximately 80% of the installed generation capacity in Belgium, and SPE which owns 9%, excluding the impact of the virtual power plants (VPP) auctions organised by Electrabel[20]. The balance consists of the share of EDF in the power plant of Tihange, and of co-generation units located on the site of large industrial consumers and renewable energy units (such as small hydro plants, biomass and wind mills).

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 CREG.

Over the years, electricity producers have adapted their portfolio of primary fuels for electricity generation. In the 1960's, the main primary fuels were coal and oil (during this period, the average contribution of coal was 63% and of oil 27%). At the end of the 1970's, the use of oil decreased, after having reached a contribution of 52% in 1973, and nuclear energy production began. The use of nuclear energy started in 1975 with a contribution of 16.2%. At the beginning of the 1980's, the role of nuclear energy became more important (a use of 67.2% was reached in 1986) together with gas and cogeneration units, and continued throughout the 1990's (the average contribution in the 1990's of nuclear energy was 58% and of gas and co-generation units was 17%). Currently, the role of renewable energy resources is increasing, mainly with windmills and biomass.

In 2003, the Belgian Parliament enacted a statute with a view to phase out the use of nuclear power plants from 2015 onwards. Currently, the location of new generation plants intended to compensate for the closing of

[20] Computed on the basis of data contained in: Federation of the Electricity Companies in Belgium, Annual Publication 2003.

nuclear generation capacity is unknown. Therefore, Elia's investment plan includes several projects that account for the possibility that future generation plants may be in different geographical locations than the existing ones. Based on the timing to build such plants, Elia will adjust its investment plan in order to make, when necessary, possible modifications to the electricity network.

The general policy of the European Union and the Belgian government is to reinforce the share of renewable resources and CHP (Combined Heat and Power generation). To promote this type of generation, the federal government has introduced measures for off-shore wind generation and the regional governments have introduced different mechanisms including the imposition of minimum levels of energy supplied using renewables and/or CHP through the creation of a mechanism of "green certificates". The green certificates are provided to the producers of renewables and/or CHP electricity who can trade them on the market so that suppliers can fulfil their obligations to submit, to the relevant regulators, a number of green certificates pro-rata the electricity supplied. The installed power from renewables and co-generation should increase and account for 15% of the Belgian electricity demand in 2010.

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.

Transmission System Operation

Transmission system operation refers to the regulated activity related to the very high-voltage and high-voltage electricity networks and the energy flows on these networks. The main users of these networks are the electricity producers, the traders, the DSOs and the large industries (electricity customers).

TSOs, such as Elia in Belgium, operate their electricity network independently of electricity producers and suppliers. TSOs organise an objective, non-discriminatory and transparent access to their electricity network. Transmission system operations are regulated activities which are usually granted a legal monopoly. To fulfil this objective efficiently, TSOs are in charge of the operation, maintenance and development of their network as well as providing the required ancillary services such as balancing the energy sourced to and taken-off from their network.

The very high-voltage electricity networks, such as the one operated by Elia, are also used to import and export electricity internationally and for mutual assistance between TSOs according to international standards set by the UCTE operation rules. Belgium's very high-voltage-electricity network is connected to France, Luxembourg and the Netherlands. The main energy flows related to the wholesale market are for the time being from France to the Netherlands and Belgium.

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 Distribution System Operator ("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

Customers of the DSOs are wholesale suppliers, retail suppliers and captive customers (household customers in Brussels-Capital Region and Walloon Region).

As a result of the liberalisation process, most appointed DSOs are *intercommunales* in Belgium. An *intercommunale* is an intermunicipal association that is tasked with certain activities common to several Belgian municipalities. *Intercommunales* can either be "public" or "pure" *intercommunales*, which are wholly-owned by public authorities (such as municipalities or other *intercommunales*) or "public-private" or "mixed" *intercommunales*, which are held jointly by public authorities and by private sector entities (usually Electrabel or affiliates). In 2004, there were 25 *intercommunales* engaged in the distribution of electricity in Belgium, 14 of which were "mixed" *intercommunales.*

With a view to ensuring the independence of the DSOs, the shareholding of producers and suppliers in DSOs is limited by law. In the Flemish Region, producers and suppliers may not hold more than 30% of the shares of a DSO. In the Walloon Region, the municipalities or the provinces must own at least 51% of the shares of DSOs.

Although operating a network equal or above 30 kV, Elia is referred to as a DSO in the Flemish Region since the networks operating from 70 kV and below are from a legal perspective under the responsibility of the regional authorities in Belgium. The Flemish authorities, differing in that respect from the other two regions, have named DSO all operators of networks equal to or less than 70 kV.

Retail Supply

Retail supply of electricity refers to the sale of electricity to end customers. In the Walloon Region and in the Brussels-Capital Region, the distributors are currently, and until 1 January 2007 and 1 July 2007 respectively, the suppliers to household customers except for renewable energy. As from these dates, retail supply to household customers will be coordinated and managed by retail suppliers rather than distributors as it has been the case in the Flemish Region since 1 July 2003.

A licence is required to engage in retail supply. The licence may only be granted to individuals or companies that operate independently from the TSO and DSOs.

Customers

Pursuant to the Second Electricity Directive, Member States are required to ensure that all non-household customers be eligible to choose their electricity supplier by 1 July 2004, and that all household customers be eligible to do so by 1 July 2007. 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.

Currently, all Belgian customers are eligible to choose their electricity supplier, except household customers in the Walloon and Brussels-Capital Regions except if they chose a renewable energy supplier. In these regions, household customers will become eligible at the latest by 1 January 2007 and by 1 July 2007 respectively.

Belgian regulators

Due to the Belgian federal structure, there are four regulators. (See "Regulation and Tariffs" – Relevant Legislation – Regulatory Bodies").

Federal level. The CREG is the federal regulator, and as such is competent amongst other things, for supervising the electricity market at a voltage higher than 70kV and for licensing the large energy generation facilities. Tariff setting for the TSO and DSOs is within the scope of the CREG's authority, irrespective of the voltage of the network on which the electricity flows.

Regional level. Regional regulators are competent, amongst other things, for supervising the electricity market operations at a voltage equal to or below 70kV and for renewable sources of energy. They are not authorised to engage in tariff setting. The regional regulators are in the Flemish, Walloon and Brussels-Capital Regions respectively the VREG, the CWaPE and the IBGE/BIM. (See "Regulation and Tariffs – Relevant Legislation – Regulatory Bodies").

Key market figures

Growth

The Belgian electricity demand has increased by 2.0% in 2004 compared to 2003[21]. Belgian electricity demand has increased on average by 1.8% per year, over the 1998-2004 period as shown in the table below, also representing the evolution in Belgium's neighbouring countries:

GROWTH RATE OF ELECTRICITY DEMAND[22]

	2003	2002	2001	2000	1999	1998
Germany	1.4%	0.3%	0.9%	3.5%	0.2%	1.4%
Belgium	1.9%	0.8%	0.9%	3.3%	1.0%	3.1%
France	8.2%	-0.2%	2.4%	2.3%	1.7%	3.3%
Luxembourg	3.6%	1.1%	-0.9%	3.8%	3.8%	3.8%
The Netherlands	1.2%	1.0%	2.2%	3.5%	2.1%	3.6%
European Union (15)	2.0%	0.8%	2.2%	3.7%	1.9%	2.9%

Although electricity demand in Belgium has been steadily increasing since 2000, the rate of increase has been comparatively 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 heavy industry.

The Belgian Federal Planning Bureau (*Bureau fédéral du plan/Federaal Planbureau*) uses two scenarios of possible electricity demand growth. The first one is called the reference scenario: it predicts an average annual growth rate of 1.7% during the period 2004-2010. The second scenario is based on the assumption that demand side measurements will be in place and will reduce the average annual growth rate to 0.8% during the same period. The recent investment plan of 2003-2010 is based on the assumption of average yearly growth rates of 1.2% and 2%.

Maximum quarter-hourly demand

In 2004, the maximum quarter-hourly demand ("peak") was 13,708 MW, an increase of 1 %, compared to 2003. 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 winter.

Capacity and generation

At the end of 2004, the electricity generation capacity in Belgium was 15.8 GW. The share generated by the nuclear power plants reaches a total capacity of 36.8%. However, in terms of actual energy generated, their share amounts to 55%. The remaining electricity generation is primarily made of gas- and coal-fired power plants, or pumped storage hydro (about 1,400 MW). This mix has remained virtually unchanged over the last years, creating a beneficial diversity of electricity sourcing in Belgium. Electricity generation from wind power and biomass still represents a limited, although increasing portion of the overall electricity generation in Belgium.

Capacity and generation were as follows in 2004:

	Installed generation capacity (Mega Watts)[23]	%	Volume of electricity produced (Giga Watt hours)[24]	%
Nuclear	5,802	36.8%	44,856	55.1%
Fossil fuels (including Blast Furnace Gas)	8,091	51.4%	33,651	41.4%
Hydro: pumped storage	1,388	8.8%	1,237	1.5%
Renewables:				
– Hydro: run-of-river	105	0.7%	313	0.4%
– Wind power	96	0.6%	133	0.2%
– Other Renewables (Biomass, Biogas, Solar and Geothermal)	270	1.7%	1,178	1.4%
Total	**15,752**		**81,368**	

21 Sources: Federation of the Electricity Companies in Belgium, Provisional Statistics 2004.

22 Sources: Federation of the Electricity Companies in Belgium, Annual Publication 2003, 2002, 2001, 2000, 1999 and 1998.

23 Federation of the Electricity Companies in Belgium, Annual Publication 2003 and Elia's estimates

24 Federation of the Electricity Companies in Belgium, Provisional Statistics 2004.

Energy exchange with neighbouring countries

After several consecutive years of increasing energy exchanges with neighbouring countries (see table below), from 19 TWh in 2000 to 25.7 TWh in 2002, the trend reversed with a decrease of approximately 11% in 2003, as compared with 2002. This reversal was due to a temporary decrease of capacity available within the French network due to works and to exceptionally high temperatures during the summer of 2003 (leading to a reduction of French exports). The ratio between total energy exchange and Belgian energy demand is significantly higher than the EU average.

Energy exchange with neighbouring countries (GWh)[25]

		2000	2001	2002	2003	2004
The Netherlands	Import	3,133	3,802	3,037	3,209	4,489
	Export	5,151	4,486	6,817	5,776	4,162
France	Import	8,512	11,613	11,586	9,496	7,767
	Export	202	206	524	873	1,130
Luxembourg	Import	0	403	2,035	1,959	2,408
	Export	1,967	2,020	1,729	1,605	1,578
Total energy exchange (Total Import + Total Export)		**18,965**	**22,531**	**25,728**	**22,918**	**21,538**
Ratio total energy exchange and Belgian energy demand		**22.9%**	**27.0%**	**30.5%**	**26.7%**	**24.6%**

[25] Sources: Federation of the Electricity Companies in Belgium, Annual Publication 2003 and Provisional Statistics 2004.

DESCRIPTION OF ELIA'S BUSINESS

Overview

Elia's core business is the operation, the maintenance and development of its very high-voltage and high-voltage network 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. Therefore, Elia owns, maintains and develops a very high-voltage (380 kV, 220 kV and 150 kV) and high-voltage (70 kV, 36 kV and 30 kV) network in Belgium. Elia's very high-voltage network is also an important transit hub between the foreign electricity markets.

The Company has been appointed, at the federal level, as the sole TSO in Belgium for the very high-voltage network (from 380 kV to 150 kV) for a renewable term of 20 years with effect from 17 September 2002. The Company also operates at regional level high-voltage networks (from 70 kV to 30 kV). (See "Regulation and Tariffs – Licences").

All Belgian very high-voltage electricity network assets are fully owned and operated by Elia. Elia also owns (or has the right to use) and operates approximately 94% of the Belgian high-voltage electricity network.

In addition to its activities relating to the operation of the network, Elia also aims to improve the functioning of the open electricity market by acting as a market facilitator.

Elia's tariffs are approved by the CREG pursuant to a method defined by law that includes a compensation of all costs incurred by Elia (unless deemed unreasonable by the CREG) and a fair remuneration on the Company's equity. Tariffs are public, apply nationwide and are not subject to negotiation. (See "Regulation and Tariffs – Tariffs").

Core business

Elia's essential tasks as TSO are twofold:

- Infrastructure Management: Elia owns, maintains and develops an electricity network, consisting of overhead lines, underground cables, transformer stations and other equipment necessary to enable the transmission of electricity at the voltages of 380 kV to 30 kV. Elia's network consists of 8,276 km of power links, consisting in 5,674 km of overhead lines and 2,602 km of underground cables.
- 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 through the procurement of the appropriate ancillary services the total electricity injected into and taken off its network, taking into account the power exchanges with the neighbouring countries. Elia also purchases electricity on the market to compensate in the networks from 70 kV to 30 kV for energy losses that are a consequence of the transmission of electricity.

Related activities

Elia has developed a number of activities related to its core business.

Market facilitator. The activities of market facilitator are part of Elia's tasks as system operator. Elia provides several services in the framework of its core business, such as the allocation of international interconnection capacity. Other market facilitating services, which are related activities, include:

- operating the Elia trading hub, which is a day ahead and an intra-day trading facility available to electricity producers, traders and suppliers, allowing quarter-hourly bilateral exchanges of electricity on Elia's network. The volume of energy exchanged in 2004 on the day ahead trading hub amounted to 24,881 GWh, representing 28.2% of the yearly electricity consumption in Belgium. (See "Description of Elia's Business – Related Activities – Market Facilitator – Exchange Hub");
- holding an equity interest of 22.17% in HGRT (*Holding des Gestionnaires de Réseaux de Transport*), itself a 17% shareholder of the French-based electricity power exchange Powernext. The latter offers, among other things, standard hourly day-ahead electricity contracts for delivery on the French hub;
- Elia is a driving force in Belpex, the future Belgian Power exchange, which is expected to be incorporated in mid-2005 by Elia (as majority shareholder), in partnership with APX, Powernext, TenneT and probably RTE.

Services and technical expertise. Elia provides its customers with various services and technical expertise, including maintenance interventions, high-voltage network development, testing and putting into service new equipments, repairs after incidents and energy metering.

Optimal use of assets. In order to optimise the use of its assets, Elia makes some of its high-voltage towers available to mobile telecom operators. Elia makes data transmission bandwidth capacity available exclusively to a closed users' group. If there is a demand from the market and if Elia does not use all of its glass fibre for its own needs, it makes this extra available capacity of dark fibre available to third parties.

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.

Key strengths

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

- *Legal monopoly and unique resource in Belgium:* Elia has a unique position in the Belgian electricity market. By law, Elia has a legal monopoly for operating the very high-voltage network at the federal level (380 kV – 150 kV) and operates the high-voltage network (70 kV – 30 kV) in two Regions of Belgium and is the *de facto* regional TSO of the third region. Elia's licences were granted for renewable terms of 12 years to 20 years. In addition, Elia has unique resource as it owns 100% of the very high-voltage network at federal level and as it is the owner (or has the right to use) 94% of the high-voltage network at the regional levels. Elia is the sole Company that fulfils the conditions provided by law to obtain such licences.

- *Highly reliable and resilient network:* Elia not only operates and owns the transmission network as infrastructure 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 significantly reduces any risk of power interruptions. Finally, Elia operates a relatively young network, considering its maintenance programme.

- *Low risk profile:* Elia has a low risk profile due to the nature of its activity and its environment including its legal monopoly and its unique resource. In particular regarding the tariff-setting mechanism, the recent amendments to the Electricity Law introduce a four-year tariff period and confirm the current principles which allow all costs, including financial charges, and a fair remuneration of the equity to be included in the tariffs.

- *A 70-year old business with experienced employees and management:* Although Elia was only incorporated in 2001, its activities were started in 1937. Today, Elia employs more than 1,200 people, who have been with the company for 25 years on average, providing a very large experience.

- *Proven and solid financial strength:* Elia's regulatory framework includes, in the law or other regulations, elements creating a solid long-term financial basis for the Company. First, Elia's leverage ratio is set by the regulator, which hence includes financial expenses in Elia's tariffs. Secondly, the tariff structure allows all costs (unless deemed unreasonable), to be recovered through the tariffs. Finally, Elia's development is by definition under control: its 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 policy:* Since its incorporation, Elia has demonstrated its strong commitment to distribute an attractive dividend, as evidenced by a historical yearly payout of 80% of its net profits. Moreover, subject to market and regulatory constraints, Elia's management will analyse the possibility to increase its future payout level, up to approximately 90%, as a recurring target. Elia foresees the possibility to recommend to its Shareholders' Meeting an exceptional increase in the pay-out level for 2005 (beyond the 90% recurring level it is considering), targeting the 2004 dividend per share level of EUR 1.27 in order to offset the dilution effect resulting from the issuance of the New Shares in 2005.

Strategy

Elia's strategy, within the regulated environment in which it operates, is focused on operational excellence and aims at supporting its position as Belgian TSO and the fair remuneration on the Company's equity.

Elia intends to take advantage of its unique asset base and other key strengths to implement this strategy.

Operational excellence in its core business

Elia's core strategic focus is on the operation, maintenance and development of the Belgian very high-voltage and high-voltage electricity network. Within this framework, Elia intends to create shareholder value through continuous improvement of its operational efficiency within the framework of a multi-annual tariff system. The recent acquisition and reorganisation of BEL Engineering demonstrates Elia's commitment to achieving such objectives.

Consolidation of Elia's network perimeter

In its continuous drive for increased efficiency, Elia contemplates the acquisition of these parts of the high-voltage network that it does not yet own. This consolidation of Elia's network perimeter will generate opportunities for potential synergies in operation, management and development of the system by integrating staff, combining know-how and optimizing the investment expenditures.

Cross-border capacity

Elia is in the process of investing in cross-border interconnections with France to increase its import, export and transit capacity. In this respect, works relating to the installation of a second circuit on the 380 kV cross-border interconnection – Avelin (F) – Avelgem (B) and to the reinforcement of the 220-150kV overhead line Chooz (F) – Monceau (B) have already begun. Additional equipment has been ordered in 2004 for improving the control of the cross-border energy flows on the very high-voltage network. This is aimed at both increasing reliability and enhancing commercial exchange capacity with foreign countries. All interconnection reinforcements with France included in the development plan approved by the competent authorities are expected to be in operation by the end of 2009.

Market facilitation

As market facilitator, Elia is working to enhance the opening of the Belgian electricity market.

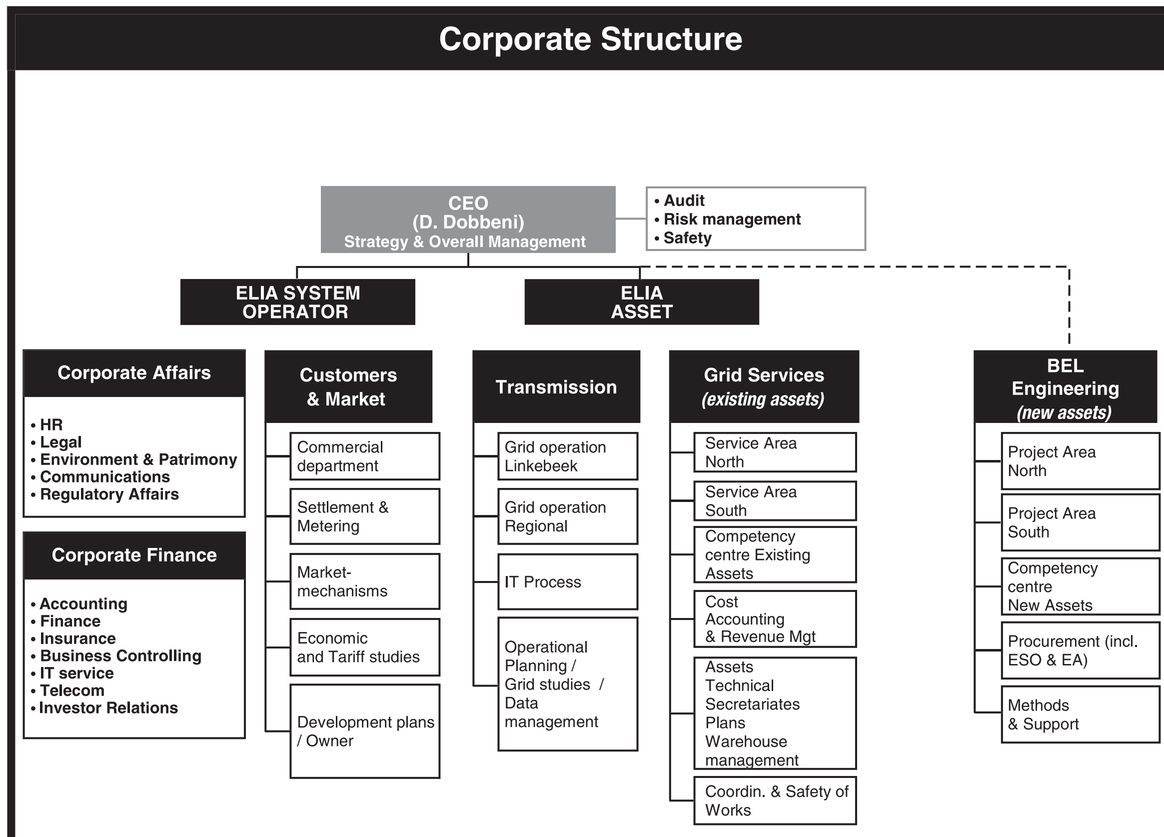
The incorporation of Belpex, the Belgian power exchange and the development of an intraday bilateral trading hub in Belgium are a few of the initiatives undertaken by Elia to further promote the creation of an open European electricity market.

Regulatory and market players

An important element in Elia's strategy is to build a constructive relationship with the various regulators and to be permanently involved in the evolution of the regulatory framework, taking into account the interests of Elia's shareholders and other stakeholders. Elia has also established a consultation body with representatives of employers' organisations, large consumers, traders, producers, suppliers and DSOs, to develop a better understanding of their needs within the context of Elia's legal and regulatory constraints.

Internal organisation

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



The four operational divisions are:

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

The two corporate divisions are:

- Finance Division: in charge of all financial related matters (tax, treasury, accounting, controlling, IT corporate and insurance).
- Corporate Affairs: which manages human resources, regulatory affairs, legal affairs, environmental and real estate management and communication.

There is (i) an audit department (which is also in charge of the implementation of the Risk Management programme within Elia), (ii) a safety department, both reporting directly to Elia's CEO, and (iii) a compliance officer responsible with regard to confidentiality and non-discrimination policies of Elia.

Elia has also established a programme management department, which monitors the execution of the business objectives by coordinating a transversal projects portfolio.

Infrastructure Management

Main characteristics of Elia's network

The network is 8,276 km long with 800 substations providing 270 off-take points and generation/injection points of customers and producers directly connected to the network and 508 off-take points of DSOs.

Elia's 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 8,276 km of links consisting in 5,674 km of overhead lines and 2,602 km of underground cables.

Elia is one of the few TSOs in Europe to own and operate a network with a high degree of meshing and wide range of voltages. It provides Elia with the opportunity to improve the reliability of its network as Elia has a global overview of the electricity generation, consumption and transmission in Belgium.

Over the last years, the 220 kV to 150 kV network was extended by 62 km, mainly with underground cables. With the exception of the works in progress on the 380 kV line Avelgem (B)-Avelin (F) to reinforce the interconnection capacity between Belgium and France, the 380 kV network remained virtually unchanged since the early 80's. An additional 103 kilometres of underground cables at voltages in the 70 kV – 30 kV range were put in service.

Geographic length of the very high and high voltage network (km)

Voltage level	2004
380 kV	
Overhead lines	890
Underground cables	0
TOTAL	**890**
220-150 kV	
Overhead lines	2,311
Underground cables	331
TOTAL	**2,642**
70 kV	
Overhead lines	2,439
Underground cables	189
TOTAL	**2,628**
36-30 kV	
Overhead lines	34
Underground cables	2,082
TOTAL	**2,116**
TOTAL	
Overhead lines	**5,674**
Underground cables	**2,602**
TOTAL	**8,276**

Age of Network and Stations (2003)[26]

	< 10 yrs	10-20 yrs	20-30 yrs	> 30 yrs
Underground cables	56.7%	21.4%	11.3%	10.6%
Overhead lines	14.5%	32.5%	38.6%	14.3%
Stations	39.3%	37.3%	20.1%	3.3%

[26] Based upon historical acquisition value.

Elia's network ranges from 380 kV to 30 kV

Elia's network is comprised 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 exists.
    - the 220 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. The South of 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 optimalisation. Very high-voltage is required for the optimal transmission over long distances with minimal energy losses while lower voltages are optimal for lower distances and quantities.

Network reliability

Elia's network has a highly meshed structure comparable to a spider's web. This meshed configuration, which is the result of more than 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.

Network maintenance

Elia's policy with respect to the network maintenance is based on a risk assessment approach taking into account the meshed structure of its network. The main objectives of this policy are to reach maximum availability and reliability of the network with the highest efficiency so as to minimise the total cost of ownership. In order to comply with its policy, Elia performs extensive monitoring of the network.

Routine preventive inspections are performed at regular intervals (*e.g.*, every three months) and corrective action is taken if a problem is contemplated or diagnosed. An important preventive anti-corrosion maintenance program is run on the towers of overhead lines. Tower painting is condition-based.

Elia's corrective maintenance policy is determined by the function and type of equipment based on historical data. For underground cables, by their very nature, all maintenance is corrective.

Network Development

Elia's network development standards are designed to deliver reliable transmission of electricity with a minimal total cost of ownership while minimizing the impacts on land-use and environment.

Elia is required to establish four investment plans: one on the federal level for the very high-voltage network (380 kV to 150 kV) and one for each of the three regions' high-voltage network (70 kV to 30 kV). These plans are available on Elia's website.

The current federal development plan covers 2003 to 2010. Under the Electricity Law (as amended), the federal development plan will be reviewed every three years and will cover a period of ten years.

At the regional levels, the investment plans are established on an annual basis (Flemish and Brussels-Capital Regions) or on a biannual basis (Walloon Region) and cover periods from three years (Flemish Region) up to seven years (Brussels-Capital and Walloon Regions).

The most recent Flemish Region plan covers from 2004 to 2007, the Brussels-Capital Region plan covers from 2005 to 2012 and the Walloon Region plan covers from 2003 to 2010.

These investment plans identify the reinforcements to the networks required to cope with the increase of consumption at each off-take point as well as new power plants requirements or increased import and export

capacity with the neighbouring countries. For each investment plan, Elia consults with the relevant regulator so as 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 approved solely by the regulator). This process will ensure both the short and long-term adequacy of Elia's network with respect to the expected customers' demand and also ensures that the related charges will be transferred into the future tariffs.

The investment plans take into account the environmental and land-use constraints as well as applicable health and safety objectives. Elia tends to favour underground cables for all voltage levels up to 150kV while maximizing 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.

Elia decides and prioritises the projects by comparing each individual project's value with its costs, its environmental and land-use constraints, and its health and safety objectives in accordance with the following principles.

Increasing the opening of the Belgian electricity market: Network development aims at (i) facilitating the opening of the electricity market by increasing the import capacity of the Belgian network and (ii) reducing the dependency of the network with regards to the geographical location of Belgian generation plants. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Outlook – Outlook over 2005 – Development Plans").

Achieving consistent and reliable transmission: In a context of steadily increasing importance of a reliable electricity supply and a steadily increasing growth of electricity demand, Elia's investments aim to enhance whenever needed or maintain at its present level, the reliability of its network.

Environmental and land-use requirements: The legislation regarding land-use and environmental matters is evolving. Elia's policy aims to adapt its network infrastructure 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 on a cost-plus basis.

Information with respect to Elia's investments are contained in Elia's annual reports *(rapports annuels / jaarverslagen)*, available on Elia's website (www.elia.be).

Engineering

BEL Engineering manages all investment projects and major transformation works of, as well as the new connection of customers' installation to, Elia's network. BEL 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, BEL Engineering is responsible for the design, the negotiation of the permits, the purchase of the materials and services, and the final commissioning of the concerned installations. Throughout this process, BEL 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). (See "Context and Background of the Offering – History and Structure of the TSO – Further Transactions – BEL Engineering Acquisition").

The rationale of the acquisition of BEL Engineering by Elia (See "Context and Background of the Offering – History and Structure of the TSO – Further Transactions – BEL Engineering Acquisition") was twofold: (i) stabilise and develop the high level of technical expertise needed for the realisation of Elia's investment plans, and (ii) substantially decrease the cost of the different investment projects through rationalisation and increased synergies with Elia.

Elia's quality indicators

Elia has an established tradition of high reliability. This tradition is reflected in the statistical records mentioned below.

The three most important quality indicators relating to power reliability are the average interruption time (AIT) (expressed in minutes/customer/year), the frequency of interruption (expressed in interruptions/

customer/year), and the average duration of interruptions (expressed in minutes per interruption). The evolution of these indicators for Elia is provided in the following chart.

Elia quality indicators (voltage levels from 380 kV to 30 kV)

	2000	2001	2002	2003	2004
Frequency (interruptions/customer/year)	0.124	0.085	0.069	0.118	0.100
Average duration (min per interruption)	54	47	35	50	52
AIT (min/customer/year)	6'42"	4'00"	2'24"	5'53"	5'12"
Availability (%) (1 – AIT/year)	99.9987	99.9992	99.9995	99.9989	99.9990

For the year 2004, a dedicated follow up of interruptions caused by events in the influence of Elia (excluding external causes as those occurred in the network of grid users, those caused by digging works etc.) showed the following figures :

- Frequency: 0.050
- Average duration: 40'
- AIT: 1'58".

These figures indicate that Elia's network is highly reliable. For example, a frequency of interruption of 0.118 means that, for a specific client, an outage only occurs, on average, once every 8 years and 5 months and a value of 0.050 means that, for a specific client, an outage only occurs on average every 20 years.

However, 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 occurrence rate of incidents. Therefore, a single incident can have a significant impact on the quality indicator. For example, a single incident resulting in a loss of 160 MW during one hour or in a loss of 80 MW during two hours will be sufficient to increase the overall yearly AIT of Elia by one minute. For these reasons, the AIT of 5'53" in 2003, although being higher than in 2002 (2'24"), does not indicate that the network reliability was half as good as it was in 2002 but reflects the fact that two relatively long interruptions occurred.

The yearly evolution of the AIT indicators 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 for several years.

From 2000 to 2004, the relative number of employees in charge of the maintenance and of the development studies of the network has progressively decreased, indicating an increased efficiency.

System operation

As a system operator, Elia 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 the Belgian geographical area.

Access to the electricity network

Elia's network is the essential link between 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 a such way as to allow this electricity, as well as the electricity coming from the 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.

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 the neighbouring countries; and
- seeking to ensure reliability, continuity and quality of the transmission by maintaining the frequency and voltage within internationally determined given boundaries.

Elia's network is monitored 24 hours a day, seven days a week by four control centres (one national centre located in Linkebeek, and three regional centres located in Antwerp, Brussels and Namur), also called dispatching centres. Among other things, the control centres continuously monitor 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, appropriate measures are taken by Elia's personnel to enforce the operational reliability of the network and to safeguard the electricity supply to Elia's customers. Elia has the ability to remotely activate or deactivate 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, forecasting the load flows and compliance checks) and emergency procedures (see above). Some of the measures have been formulated in cooperation with neighbouring TSOs and approved by their respective regulators to promote coordinated action. The standard known as "N–1" criterion, which is used by all European TSOs, requires that an electrical system must be able to withstand any single contingency of the 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"), who may act for several consumers or suppliers. The ARP is responsible for balancing the injections and off-takes on a quarter-hourly basis of its portfolio of suppliers and consumers.

ARPs are either producers or consumers themselves, but may also be traders or intermediaries. (See "Description of Elia's Business – System Operation – Elia's Contracts – Access Contract"). Among their obligations, each ARP is required 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 injects or withdraws electricity from its network. To achieve this, 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 in order to be able to balance, at any time, the total injections and off-takes from the system, taking into account the international exchanges. This generation capacity is one of the ancillary services purchased by Elia.

Elia also purchases electricity on the market to compensate on the network from 70 to 30kV for electricity losses.

Ancillary services contracts are granted in accordance with public procurement rules. (See "Regulation and Tariffs – Relevant Legislation – Public Procurement"). The main ancillary services consist in electricity purchase and are currently contracted with the Selling Shareholders. (See "Relationship with Existing Shareholders and Related-Party Transactions – Business and Commercial Dealings with the Selling Shareholders – Ancillary Services supplied by Electrabel and SPE"). Other ancillary services purchased by Elia consist in load shedding contracts (*i.e.* reduction of electricity off-take) entered into with several large industrial electricity consumers in Belgium. These contracts can be used by Elia to balance between injection and take-off, or to prevent an overload of some network elements.

A part of the costs incurred by Elia in purchasing the ancillary services is directly invoiced to the defaulting ARPs while the ancillary services (such as compensation for the electricity losses) are reflected in the use of network tariffs.

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 from neighbouring countries and Elia'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 demand arising from Elia'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.

Electricity import and export

Due to the central location of the Belgian network within Continental Europe and the intensive cross-border commercial exchanges since 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 allocation at the northern border takes place by auctioning the capacity available, which is determined jointly by TenneT and Elia, and which takes into account operational safety criteria. This auction process is organised by TSO – Auction Office, a subsidiary of TenneT. This system is used for Dutch border capacity with Belgium and with Germany and is a cooperation between TenneT, the German TSOs (E.ON Netz and RWE Transportnetz) and Elia.

Capacity allocation on the French border is based on the ranking of active participants (the first on the list is first served with a use-it or lose-it principle). The capacity commercially available is determined jointly by RTE and Elia, taking into account the operational safety criteria.

The determination of available interconnection capacity is subject to international regulations, and 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.

The mechanisms used by the Company to allocate available transmission capacity between neighbouring countries to market participants are subject to approval by the CREG, pursuant to the federal grid code. The CREG is conducting discussions with various market players, including the Company on these issues, but has not yet issued a formal decision on these mechanisms nor on the notion of available transmission capacity (in relation, in particular, to legacy contracts).

For these reasons, the allocation mechanisms currently applied by the Company might be revised in the short term. The Company cannot foresee the consequences on its results of operations of a revision by the CREG of the allocation mechanisms or of any procedure and/or any third-party claim related to the allocation of capacity.

As indicated above, Elia is investing in cross-border interconnections with France to increase its import, export and transit capacity. All of these interconnection reinforcements are expected to be in operation by the end of 2009.

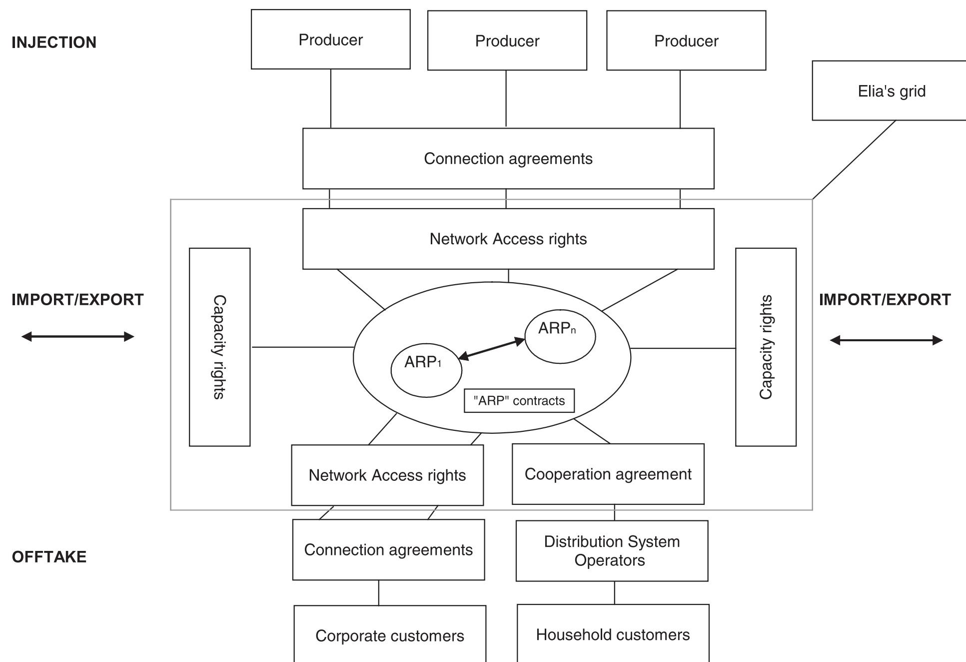
Once implemented, the Belpex project will provide an implicit allocation of the daily available capacity on both the French and Dutch borders. The capacity available on a daily basis will be allocated to the power exchange and, subsequently, indirectly to the successful bidders on the exchange.

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 between neighbouring countries. As physical flows of electricity follow the path of least impedance (*i.e.,* resistance to electricity flow), real electricity flows may deviate significantly from the commercial or scheduled flow path. 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 by ETSO.

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

General model for contracts



Elia's contracts

Customers

Elia's customers are producers, distribution system operators, wholesale and retail suppliers and large corporate customers. Some of the customers are mere access holders, who have the right to access the network while others are ARPs.

Some 270 generation and off-take facilities are currently connected to Elia's network, including 130 industrial users.

Contracts

Based on the federal Grid Code, 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.

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

Some Grid Codes require that the general terms and conditions of the three types of contracts be approved by the relevant regulator. 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 the customer whose facility is to be connected to Elia's network. It 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.

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

The Connection Contract contains liability provisions similar to those of the Access Contract. (See "Description of Elia's Business – Infrastructure Management – Elia's Contracts – Contracts – Access Contract"). The procedure for CREG approval of the standard Connection Contract is still on-going.

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 the network 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 Elia's network at specified injection and/or off-take point(s) of the customer.

DSOs (25 in total in 2005) are directly connected to Elia's network and have entered into specific Access Contracts called Cooperation Agreements.

For access to Elia's network, the access holder is charged regulated access tariffs that 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 grounds of liability (contractual, extra-contractual or otherwise). They apply to all rights and remedies which the parties might be able to claim, if they arise from an interruption of the access to Elia's network or an intervention on Elia's network occuring at the access point.

According to the Access Contract, the parties are liable to one another only for damage caused by fraud or wilful or serious misconduct committed against the other party. The Access Contract contains a double restriction with respect to the Company's liability for damages. First, the total liability of Elia for any damage arising from its serious misconduct is limited for the duration of the interruption to a maximum of EUR 300 for each MWh that could not be injected and/or off-taken at an access point as a result of a serious fault. Second, and without prejudice to the aforementioned maximum amount of EUR 300 for each MWh, 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.

Under no circumstances, except in case of fraud or wilful misconduct, will a party be held liable vis-à-vis the other party for indirect or unforeseeable (*indirects ou imprévisibles / onrechtstreekse of onvoorzienbare*) damages or for consequential damages, including, but not limited to, loss of profits and/or interruption of business activities.

Access Responsible Party Contract

Any person injecting 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. On 1 January 2005, 46 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 between the injection and off-take from Elia's network. It provides that ARPs will be charged for imbalances they are responsible for. This income enables Elia to cover part of the costs associated with energy purchases (ancillary services) required to maintain the balance between injection and off-take of the Belgian electricity system.

The ARP Contract provides that the parties shall be liable vis-à-vis each other for any damage resulting from any contractual breach and/or fault. The defaulting party or the party in breach 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 the case of fraud or intentional fault, the parties will, under no circumstances, be liable

vis-à-vis each other for compensating or indemnifying the other party, including for claims by third parties, indirect damage or consequential (*indirects ou consécutifs / onrechtstreekse schade of gevolgschade*) loss, including and not restricted to, loss of profits, loss of earnings, loss of contracts or loss of goodwill.

Related activities

Elia has developed and is in the process of developing a number of activities related to its core business:

Market facilitator

The activities of market facilitator are part of Elia's tasks as system operator. Elia provides several services, in the framework of its core business, such as the allocation of international interconnection capacity through auctioning. The following other market facilitating services are related activities. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Overview"):

- *Exchange hubs*. To maintain a balance within their perimeter, ARPs can either (i) inject/off-take electric energy, (ii) import or export electricity from the neighbouring networks (if they have been allocated the necessary capacity) and (iii) buy or sell energy on a bilateral basis on the Belgian hub. To facilitate the exchange of electricity between market participants, Elia established a Belgian hub in October 2001. The volume of electricity exchanged on this hub increased marginally in 2003 compared with 2002, as illustrated in the following table. In October 2003, Elia also established an intra-day hub working on an intra daily basis.

  In an electricity market, a hub is a market place where market participants, the ARPs, can exchange electric energy. However, the Belgian hub is not a power exchange as Elia is only informed of the identity of the parties who intend to exchange energy and of the amount of exchanged energy, but not of the price of the transaction. The price is directly negotiated between buyer and seller. It does not provide for anonymity between buyer and seller. Elia's hub contributes to the overall balance of the network as it helps ARPs to remain in balance.

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

	2002	2003	2004
% of day ahead hub in Belgian offtake	12.9%	13.1%	28.2%

- *HGRT*. HGRT is a French holding company, currently held by three shareholders: RTE (53.33%), TenneT (24.5%) and the Company (22.17%). It has a shareholding in Powernext, the French electricity power exchange, which is a trading platform available to electricity traders in France. Powernext is both an optional and anonymous exchange of electricity. It offers standard hourly electricity contracts with physical delivery, within the French hub, the day after trading. RTE is responsible for the physical delivery of the volume of electricity traded by the members of Powernext. Since June 2004, futures are also traded on and for the French market. HGRT has a 17% stake in Powernext and together with Euronext it holds a controlling stake of 51% in Powernext. The remaining 49% is owned by market players.
- *Belpex*. In partnership with neighbouring power exchanges (APX in The Netherlands and Powernext in France) and TSOs (RTE in France and TenneT in the Netherlands), Elia intends to establish a day-ahead electricity power exchange that will be called Belpex. Contrary to the existing exchange hub, the power exchange provides for anonymous transactions between buyer and seller at a centrally fixed price. One of the objectives of this project is to improve the liquidity of the Belgian power market. Therefore, Belpex will be coupled with the neighbouring power exchanges, APX and Powernext, through a cross border capacity allocation mechanism. (See "Description of Elia's Business – Strategy"). Belpex is expected to be incorporated in mid-2005.

Engineering, procurement and construction (EPC) of high-voltage facilities

Through its subsidiary, BEL Engineering, Elia is a partner in the engineering, procurement and construction of very high-voltage and high-voltage network assets. Elia provides services in this field to its customers, mainly on customers' network and internal substations as well as those of the DSOs.

Optimal use of assets.

Elia aims to use optimally its assets by:

- *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 antennas. Contracts with those operators stipulate that those activities are subordinated to the network operations

of Elia and that the activity 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) fibre available*. Elia owns glass fibre in Belgium used for its internal communication. If there is demand from the market and if Elia does not use all of its glass fibre for its own needs, Elia makes this extra capacity (no bandwidth) available to other operators for a fee.
- *Making bandwidth available.* As notified to the IBPT (Belgian Telecom Regulator), Elia makes data transmission bandwidth capacity available exclusively to a closed users' group.
- *Grand Duchy of Luxembourg.* Elia is one of the TSOs in the Grand Duchy of Luxembourg. Elia operates under the terms of an agreement with "Sotel Réseau et Cie", pursuant to which Elia and Sotel co-operate as TSOs in a part of Luxembourg that accounts for 35% (2.1 TWh/year) of the consumption of the country, which, itself, accounts for 2.5 % of the Belgian consumption.

Revenues generated by the related activities are non-tariff revenues. However, profits or losses arising out of these activities are currently reflected in the tariffs as a deduction from the costs. (See "Regulations and tariffs – Tariffs – Determination of Tariff Levels – Related Activities and International Revenues").

Transversal matters

IT

Organisation

Management of IT inside Elia is entrusted to two internal departments: IT Process and IT Services.

IT Process ("ITP")

ITP is responsible for the development and the maintenance of IT applications, owned by or licensed to Elia, that support Elia in the operation of the electricity exchanges within Belgium and with the neighbouring countries and of the energy management systems installed in each of the four control centres. These systems consist primarily of software applications that perform several tasks, such as real time supervision of the electricity network and the energy flows. They also monitor electricity transactions between contracting parties in advance and validate as well as process the data that are required for invoicing purposes. The applications that are business critical are maintained on a very high level of availability.

The applications relating to the continuous monitoring and control of the electricity network are key for business and must be available more than 99.9% of the time.

These applications are usually being maintained and updated in close partnership with the initial suppliers, such as Trasys (a subsidiary of Suez-Tractebel) for the SCADA (supervisory, control and data acquisition), ABB for the Power Applications System and Suez-Tractebel for the network security calculation systems. Hewlett Packard maintains the basic software and hardware for the four dispatching units.

IT Services ("ITS")

ITS provides, amongst other things, technical solutions to support the business process of Elia's administration, network development and maintenance services. The technical solutions are realised with IT software licensed from third parties (SAP and ORACLE) and adapted to Elia's standards. Adaptations and further development are led by Elia and the execution is outsourced. For business critical applications, Elia opts for tailor-made applications (*e.g.*, software for the maintenance of the network and business internet/intranet applications) that are owned by or licensed to Elia. Strategic IT functions are performed by Elia's employees.

IT Security

Several measures have been established to protect the Elia's IT systems: only one server is connected to the outside world (not the core server used for the supervision and monitoring of the electricity network), tapes are stored at different locations and monthly, weekly and daily backups are made. Since early in 2005, key business data are replicated on-line to another location and less important data will be backed up several times during the day.

Elia has four data centres (server rooms). All data centres are connected by redundant gigabit connections and powered by a 'no-break' infrastructure with redundant air conditioning systems. Moreover, each site is capable of functioning independently through redundant internet connections with automatic failover. Servers are equipped with redundant power suppliers, disks in raid configured, two network connections etc. Switches and routers are duplicated. IT business critical applications have a Disaster Recovery Plan solution on another site.

Property/City Planning

Description

Elia is one of the largest property owners in Belgium. Most of Elia's rights 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 by virtue of 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 2004, Elia owns some 12,627 plots of land in Belgium, representing a total area of 10,141,251 square meters, 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 two of them which are located in Brussels (registered office in boulevard de l'Empereur and BEL Engineering offices in Avenue Ariane) and the ground location of the dispatching centre in Linkebeek (long lease).

Rights of way

Current legislation provides Elia with rights of way on the public domain and on private plots of land for the operation of the network. However, additional agreements are negotiated, on an individual basis, with private persons regarding the use of their property each time it is necessary to go beyond the legal rights granted to Elia. Under these agreements, a fee is allocated to the private owner for use of their property.

The amount of 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 such taxes has been systematically challenged by Elia.

Permits and environment

Elia carefully considers environmental issues and is dedicated to preventing environmental damage in its business processes. Therefore, Elia has formulated an Environmental Statement and has defined an environmental policy focused on the following issues, which are listed in order of impact: risks to people, risks to the environment, compliance with obligations and issues of concern to the public.

Based on these categories, Elia's priorities include PCBs, paint, asbestos, transformer tanks, waste, noise reduction, visual nuisances and electromagnetic fields.

In 2004, Elia's environmental action focused on:

- developing methods to promote better integration of environmental aspects in decision-making processes, with regard to both maintenance and new installations;
- introducing indicators for monitoring environmental policy;
- providing improved environmental training;
- proceeding with the removal plan of equipment containing PCB;
- developing an internal policy regarding electromagnetic fields; and
- promoting responsible care when using mineral oils in Elia Service Centres.

Elia has also continued its efforts to implement the environmental policy, in particular, with regard to soil and groundwater pollution, the compliance of older installations with environmental permits legislation, systematic reduction of noise, elimination of equipment possibly containing PCBs, visual impact, consultation with residents living close to Elia's installations, and contact with nature protection groups. Elia currently does not have any specific insurance for environmental risks.

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 contain criminal sanctions. With regard to city and country plannings the situation is similar.

Elia must obtain environmental and building permits for certain activities on its properties and certain types of construction, delivered in accordance with applicable zoning regulation and urban development plans.

All new equipment is built and operated in accordance with best available technologies. Elia has established an action programme designed to seek compliance of older facilities with required regulations.

Noise reduction

Elia makes its efforts to reduce the noise nuisance generated by its activities and facilities. For new installations or renovations, less noisy transformers are used. Prior to the installation of new transformers, Elia systematically conducts noise assessments by third parties. Noise assessments are also conducted for existing transformers in the event of complaints or large-scale works. Where necessary, measures such as the installation of soundproof walls and modification of fans, are taken to reduce noise nuisance.

Transformers

Elia has a policy of systematically building concrete tanks under transformers on existing sites whilst large-scale work is being carried out. Elia has adopted an action plan on this matter to adapt existing sites.

Waste: oil and PCBs

Elia is systematically replacing and/or cleaning-up PCB contaminated transformers. By the end of 2005, approximately 180 items of equipment containing PCBs will have been removed or cleaned. The removed equipment or substances are eliminated by registered collectors and recyclers.

Soil

Flemish Region. Pursuant to 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 legally required subsequent to the transfer of installations from Electrabel and SPE to CPTE in June 1997 and from CPTE to Elia in June 2001. As a consequence of the 1997 transfer, the Flanders Public Waste Agency (OVAM) requested additional investigations (descriptive soil tests) to be conducted with regard to 40 sites. Seven clean-up projects were drafted. On three sites, soil sanitation work began in May 2003. In the meantime, one clean-up project was completed. For the remaining two projects, the groundwork has been completed. The treatment of groundwater began in 2003 and continued in 2004. In three substations requiring clean-up, monitoring was conducted. The results of these investigations were declared compliant by OVAM and, as a result, in 2004, the frequency of monitoring was reduced.

As a result of the 2001 transfer, 24 descriptive soil tests have been conducted. Seven are located on land occupied by a power station. Practical agreements have been reached between the various parties involved in order to proceed with the tests. For the 17 remaining descriptive soil tests, 15 proposals have been submitted to, and approved by, OVAM (7 regarding high-voltage towers and 8 regarding high-voltage substations).

The Walloon and Brussels-Capital Regions. The Walloon Region and the Brussels-Capital Region adopted legislation in 2004 regarding the clean up and the management of polluted soil. Although these regulations are not yet operational in the Walloon Region and before the entry into force in the Brussels-Capital Region, Elia has taken proactive steps in anticipation of the application of this new legislation.

At the end of 2003, 17 exploratory soil tests were carried out in Wallonia and Brussels-Capital Region. Samples were taken to assess the state of the soil of these facilities. These assessments were conducted in accordance with the Flemish soil clean-up standards, as no standards were adopted, at that time, in Wallonia and the Brussels-Capital Region. Based on the soil tests that have been carried out to date, it appears that soil pollution is present in some of the land owned by Elia, which may among others be due to the regions' industrial heritage and the natural condition of the soil in Wallonia.

Electromagnetic fields (EMF)

Electromagnetic fields ("EMF") are also produced by Elia's network.

Limits to exposure to EMF have been set since the 1980s, notably by an international commission of specialists: the ICNIRP (International Commission on Non-Ionizing Radiation Protection). The ICNIRP proposes human exposure limits to EMF based on a detailed scrutiny of existing scientific publications. The first limits of exposure to EMF were published in 1988 and have been confirmed in 1998.

Some countries have established their own standards based on these recommendations. In Europe, the Council of the European Union has adopted a recommendation on 12 July 1999, aiming to limit 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.

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

However, despite the lack of constraining regulations, the authorities in charge of authorising the setting up of 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 by the courts and by environmental law.

Elia is mindful that the worries among the public with respect to a phenomenon that is seen as hasardous and invisible can increase if the public perceives that it is being exposed to a risk without being able to do something about it. The relative lack of technical and medical knowledge among the public makes it especially difficult to gain a clear understanding in this regard. This concern among the public has led to growing suspicion towards installations and opposition by local residents to new projects. Elia recognizes these concerns and plans to respond to them by developing an EMF policy.

Elia has published a brochure entitled "Electromagnetic fields and high-voltage", which is designed to explain the concepts surrounding EMF and 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. Elia intends to make new areas 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. So far, more than 100 eggs have hatched since the boxes were first installed three years ago. 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 utilising biological treatments for soil decontamination.

Elia is involved in a common project with the environmental organisation "Réserves naturelles et ornithologiques de Belgique". Elia has provided access to a 10-hectare site to allow the organisation to expand its protected territories. Elia is currently talking to various other organisations with regard to establishing an ecological network that may contribute to preservation of biodiversity around its high-voltage lines.

Elia Re

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

Since its creation, Elia has entrusted Elia Re with three of its insurance programmes: the overhead network, buildings and equipments and repurchase of excess (civil liability). As at 31 December 2004, Elia Re had a capital of EUR 5 million (EUR 2 million are paid-up) and an excess solvency margin of EUR 3.2 million.

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

Intellectual Property

The Company is the owner of important trademarks, such as "Elia" and the related logo, in the Benelux and in the European Union, as well as, on an international level, in Switzerland and Norway. The Company does not license trademarks for its business as a whole. The Company and Elia Asset do not own any other registered intellectual property rights.

Elia uses important information and technology based on licenses with third parties, including, for network maps, its subsidiary BEL Engineering, which conducts studies and implements projects relating to recent electricity networks. BEL Engineering owns all rights in its current studies.

Litigation

In the ordinary course of its operations, as at 31 December 2004, Elia was involved in approximately 115 civil and administrative litigation proceedings, as plaintiff or as defendant. Fifteen of these proceedings related to claims exceeding a value of EUR 800,000.

Elia has a provision for litigation and contingent liabilities which, as at 31 December 2004, amounted to EUR 1.9 million. This provision does not cover claims brought against Elia for which damages have not been quantified or in relation to which the plaintiff's prospects are considered by Elia as being remote.

Elia is unable to predict the ultimate outcome of the proceedings pending against it, some of which may be unfavourable to Elia and may require Elia paying damages to the plaintiff(s), or incur costs for modifying parts of Elia's network or (temporarily or permanently) taking portions of the network out of service.

The principal civil and administrative proceedings to which Elia is a party are 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 sub-stations, overhead lines and underground cables, or against 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 of 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 electromagnetic fields, noise, interruptions of telephone and radio connections, esthetic or other damages).

By Elia:

- judicial review of decisions refusing to issue a building permit or against expropriation decisions;
- judicial review of decisions by the CREG to refuse approval of the general terms and conditions of the 2003 Access Contract and 2003 ARP Contract (solved);
- judicial review of the decision by the CREG to refuse approval of the general terms and conditions of the 2004 Connection Contract (in negotiation with the CREG);
- 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; and
- claims contesting taxes imposed on high-voltage towers by certains municipalities (these claims concern eight Belgian municipalities).

Elia has no access to a dedicated dispute settlement body, other than the Council of State, to submit a claim against a decision of the CREG. In practice, the procedures lodged with the Council of State are rather lengthy

and could take four to five years. Elia has lodged various judicial review proceedings with the Council of State against decisions of the CREG with respect to the approval of the tariffs for the years 2003, 2004 and 2005, amongst others:

- judicial review of the Royal Decree of 4 April 2001 on tariffs (the "Tariffs Decree"): amongst the issues being challenged is the provision enabling the CREG to impose temporary tariffs for three months if it does not approve the tariffs proposed by the TSO; and
- judicial review of some of the CREG decisions regarding tariff setting: more specifically, Elia is challenging: (a) the systematic use by the CREG throughout 2003, 2004 and 2005 of the powers recognised by the Tariffs Decree allowing the CREG to impose temporary tariffs for three months if it does not approve the tariffs proposed by Elia (and, more specifically, the fact that the temporary tariffs have, each time, been extended by an additional three-month period); (b) the depreciation rates imposed by the CREG and subsequently used by Elia including the impact of a subsequent decision of the CREG to increase the impact of the decommissioning of some of Elia's assets on the RAB (see "Management Discussion and Analysis of Financial Condition and Results of Operations – Outlook – Outlook 2005 – Remuneration 2005"); (c) the position adopted by the CREG in relation to the invoicing of contractual costs of the engineering division of Suez-Tractebel (from a practical point of view, this item has been addressed for the future since the acquisition of BEL Engineering); (d) the position adopted by the CREG in relation to the financial treatement to be given to revenues attributable to the auctioning of transmission capacity at the Dutch border; and (e) the position adopted by the CREG in relation to the D-factor in 2005. Although the CREG calculates the deviation based on an equity/total assets ratio, Elia's point of view is that an equity/RAB ratio would better reflect the fundamentals of Elia and its regulatory regime.

The Belgian government is contemplating the introduction of a new dispute settlement procedure, with a view to improving the settlement of claims against decisions of the CREG.

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%. On a consolidated basis, the average effective tax rate in 2003 amounted to 35.78%, due to non deductible expenses.

Neither the Company nor Elia Asset have tax loss carry-forwards.

Elia Asset has been audited relating to assessment years 2002 and 2003, which has resulted in minor corrections. The Company has had no tax audit so far.

According to the partnership agreement concluded between the Company and Elia Asset (See "Relationship with Existing Shareholders and Related-Party Transactions – History of Share Ownership"), Elia Asset is entitled to the partnership profits up to 5% of its own operating costs and the Company is entitled to the balance of those profits. In the event of a partnership loss, this loss shall be borne by Elia Asset up to the lower of (i) 5% of its operating costs, or (ii) 5% of the partnership loss. The balance will be borne by the Company.

Since the silent partnership does not have a 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 of the partnership profits and, in the event of a partnership loss, in principle, will be entitled to deduct their share of the loss from their respective taxable income.

The capital of the Company, which currently amounts to EUR 1,049,491,000 (prior to the Offering), at the date of this Prospectus, is composed exclusively of tax-free reserves. The consequence is that this part of the Company's capital does not qualify as fiscal capital. This particular situation results from a legal fiction introduced by the law of 14 January 2003 amending the Electricity Law, 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 Primary 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 in any other manner, such distribution will attract corporate income tax 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 portions 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.

REGULATION AND TARIFFS

Introduction

In the framework of the liberalisation of the Belgian electricity sector and to provide the end consumers with the ability to choose their electricity supplier, a regime of regulated third party access to the transmission network has been established. To allow for such access, the operation of the transmission network has been separated from the activities of electricity production and supply by way of the appointment of an independent TSO.

The TSO is tasked with the operation of the transmission network and the provision of non-discriminatory access to the network based on published tariffs that are approved by independent regulators.

In Belgium, the Company has been appointed as the sole TSO at the federal level. All Belgian network assets at voltage levels from 380 kV to above 70 kV are fully owned and operated by Elia. Elia also owns and operates, or as the case may be, has a right of usage to, approximately 94% of the Belgian 70 kV to 30 kV network. Elia's network currently consists of approximately 8,276 km of lines, comprising 5,674 km of overhead lines and 2,602 km of underground cables.

Licences

The Company has been granted licences by the respective federal and regional governments and/or regulators with the following durations:

- Federal level: the Federal Government appointed the Company as sole TSO. This appointment became effective on 17 September 2002 for a term of 20 years (380 kV up to more than 70 kV).
- Flemish Region: the VREG (the Flemish Regulator) appointed the Company as distribution system operator 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: in the 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 Company is the temporary *de facto* regional TSO of the Brussels-Capital Region due to its status, as owner of the regional transmission system, since an official appointment has not yet been made. The Company is currently the only operator to satisfy the requirements to become regional TSO. The Company expects that the government will make such an official appointment in the coming months. The relevant regulator has already provided positive feedback on this matter. In the meantime, the Company fulfils all necessary duties and receives all revenues as if it were officially appointed.

Relevant Legislation

European Law

The two Liberalisation Directives

The Second Electricity Directive sets out the framework applicable to the liberalisation of the European electricity market. This directive supersedes the First Electricity Directive (together with the Second Directive, the "EU law") which provided the starting point for the European Union liberalisation process by gradually allowing end users to freely select their electricity suppliers.

For transmission activities, Member States are required by EU law to implement provisions regarding the appointment of the TSOs, the separation of generation and supply activities from the operation of the network, the network access and the creation of independent regulators.

Appointment of the transmission system operator. Member States are required to appoint one or more transmission system operators. The duration of such appointments is not mandated by EU law and, consequently, is determined at the national level by each Member State.

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. The Second Directive specifies the following minimum criteria to ensure such independence:

- the individuals responsible for the management of the TSO may not participate, directly or indirectly, in the day-to-day operation of the electricity generation, distribution and supply activities of the companies that form part of the group to which the TSO is affiliated;

- the individuals responsible for the management of the TSO must be capable of acting independently;
- the TSO should have autonomy with regard to the assets that are necessary to operate, maintain or develop the transmission network. The TSO's parent company may, however, be involved in determining the return on assets, approving the annual financial plan and setting the overall limits on the TSO's indebtedness; and
- the TSO shall establish a compliance programme which sets out measures taken to ensure that discriminatory conduct is excluded.

Network access. 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 reliability of the network.

Independent regulators. 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.

Regulation on Cross-Border Exchanges

Regulation EC No 1228/2003 of 26 June 2003 regarding conditions for access to the network for cross-border exchanges in electricity provides rules applicable 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.

Revenues attributable to management services relating to 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 network investments or increase interconnection capacities; and
- to decrease the national tariffs for transmission.

Cross-border capacity allocation must be performed in accordance with non-discriminatory market-based methods. The annex of the cross-border exchange regulation also provides, *a contrario*, that priority access rights to interconnection capacity may be assigned to legacy contracts, provided they are compatible with EU competition law.

Competition Law

In addition to sector-specific regulations, the Company is subject to EU and national competition rules. The EU competition rules, based on the EC Treaty, are directly applicable in Belgium. These provisions prohibit anti-competitive 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 Community.

There is an exception to the EU competition rules for companies, such as Elia, which fulfil public service obligations. These companies are subject to competition law in so far as its application does not obstruct the performance, in law or in fact, of the particular public service tasks assigned to them.

Belgian Legislation

Electricity Law and Royal Decrees

The Electricity Law 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 provides for only one system operator to be authorised to manage and operate the transmission system provided that the 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 Company has been appointed by the Belgian Government as the TSO for a period of 20 years at the federal level, and, as such, is entrusted with the following tasks:

- operating and maintaining the transmission network;
- seeing to 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 monitor 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 grid and non-grid operation activities, provided that this development has no negative influence on the independence and the regulatory missions of the system operator.

Regional Legislations

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 in the liberalisation process is similar to the impact of the Electricity Law at the federal level.

The regional decrees have been implemented by several other ordinances and rules on such matters as public services, renewable energy, network operators and authorisation procedures for suppliers.

Competition Law

The Belgian national competition rules contain provisions that are identical to the European competition rules (see above) 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 that is equivalent to the one provided under the European competition rules.

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 its shareholders and of any other operators. These rules are provided in the recent amendment to the Electricity Law and in the Corporate Governance Decree. (See "Management and Personnel"). Some of these rules will only be applicable as from the next renewal of the Board of Directors or of the Executive Committee of the Company.

These rules prohibit the disclosure, and make such disclosure a criminal offence, by the Company of any information relating to the users of Elia's network so as to ensure that no commercially sensitive information passes from the Company to its shareholders.

Grid Code

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) as well as the rules

regulating their respective rights and duties, as well as those 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 black out.

Federal Grid Code

The federal grid code addresses, amongst others, the following topics:

- technical requirements required 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 by the Electricity Law, the Company 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 Elia 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 Company 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 Company through a public procurement procedure. (See section "Relationship with Existing Shareholders and Related-Party Transactions – Business and Commercial Dealings with the Selling Shareholders – Ancillary Services Supplied by Electrabel and SPE –" and "Public Procurement").

The federal grid code also establishes the procedures to be implemented by the Company 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, the identification of the customers that can be interrupted in those situations is submitted by the TSO, following CREG's opinion, to the Minister of Energy who will formally adopt it in cooperation with the Minister of Economy.

The TSO is required to establish a development plan relating to the transmission network and 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 within UCTE and are submitted to the CREG for approval.

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.

Public Procurement

The Company is subject to the Belgian 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.

Public Service Obligations

As provided by EU law, the Belgian federal and regional laws may entrust, at federal level the TSO and, at regional level, DSOs in the Flemish Region, the local TSO in the Walloon Region and the regional TSO in the Brussels-Capital Region, with the public service obligations discussed below.

Federal level

At federal level, the TSO is required to buy from producers green energy certificates 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.

So as to promote renewable energy, producers and/or consumers of this "green electricity" are treated more favourably: generators of renewable energy or cogeneration have a more favourable threshold for imbalance and have lower transmission and connection tariffs.

On 21 January 2005, the federal government approved a draft law which foresees that Elia has to partly finance the cable connecting the off-shore wind mills. The contribution by Elia is fixed at EUR 25 million (EUR 5 million per annum over a period of five years) which will be included in the tariffs. For calculating the imbalance, a threshold of 30% is applicable. The federal government also plans to amend the Royal Decree of 26 July 2002 by setting the price for buying the green energy certificates at EUR 107/MWh for a period of 20 years.

Flemish Region

DSOs are required to buy their green energy certificates at fixed prices. These prices are usually higher than the federal ones, meaning that the green producers are more likely to sell their green energy certificates to the DSOs, and not to the TSO.

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 target as set out.

The Company's plan is twofold: offering grants to consumers for audits concerning the rational use of energy and offering grants to consumers for energy saving investments.

Walloon Region

When investing in new infrastructures, the Company is obliged to give priority to underground cables over overhead lines. The permission of the regulator is required when the system operators want to choose an overhead line.

Brussels-Capital Region

At the moment, there are no specific Public Service Obligations applicable to the Company.

Regulatory Bodies

As required by EU law, the Belgian electricity market is monitored and controlled by independent regulators.

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 (for a defined number of questions) of the appointment of the independent members of the Board of Directors of the Company ; and
- approval of the tariffs for access and use of the Company's network. (See section "Tariffs").

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.

Appeals against the decisions of the CREG must currently take the form of petitions for annulment filed with the Council of State (*Conseil d'Etat / Raad van State*). It is contemplated that a process will be established pursuant to which an appeal against the CREG's decisions may be brought before the Brussels Court of Appeal by way of an accelerated procedure.

The recent amendment to the Electricity Law further clarifies the distinction between the policy making tasks (belonging to the government) and market-monitoring missions (within the jurisdiction of the CREG).

Regional Regulators

Operation of electricity networks of voltages equal to or below 70 kV falls within the jurisdiction of each respective regional regulator. 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 fall under the sole jurisdiction of the CREG.

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 accept jointly with the Company the standard contracts used by the Company to allow access to the network.

Walloon Region

The CWaPE is the regulator for the Walloon Region and acts as an advisor to the Walloon government. The CWaPE's powers in relation to the Company include the drafting of a proposal for the Walloon grid code and the authority to comment on the standard contracts used by the Company to allow access to the network.

Brussels-Capital Region

The IBGE / BIM is the regulator for the Brussels-Capital Region and is a specific department of the regional administration. It is an advisor to the Brussels government.

Tariffs

General Principles

The principles, structure and methodology of tariff setting are set out in the Electricity Law, the implementing Royal Decrees (specifically a Royal Decree of 4 April 2001, the "Tariffs Decree") and the CREG's guidelines. The tariffs apply to a range of services, each being priced according to the most relevant parameters (such as power or transmitted energy). Once the 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 website.

Pursuant to the current legal tariff framework (which will apply to the tariff setting system until a date to be determined by Royal Decree but not expected to be before 2007, unless the Royal Decree is adopted by September 2005), tariffs for regulated services must:

- be set for a one-year period;
- be non-discriminatory and transparent;
- be cost-based and allow the TSO to recover the actual not unreasonable costs incurred in the performance of its regulated activities (See section "Description of Elia's Business – Core Business");
- include a fair remuneration of capital invested in the network with a view to ensuring the optimal development of the transmission network in the long term;
- insofar as possible, be structured to encourage optimal usage of network capacity;
- be sufficiently "unbundled"; and
- be structured in a uniform manner for the entire territory, without geographical differentiation.

The recent amendments to the Electricity Law, which will apply to the tariff setting system as of a date to be determined by Royal Decree but not expected to be before 2007 (unless the Royal Decree is adopted by September 2005), confirm and expand the above principles. They confirm and articulate the key principle that the tariffs must be set in a manner so as to produce total revenues for the TSO which:

- 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 provides 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 satisfactory in reference 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 "unbundled"; and
- be structured in a uniform manner for the entire territory.

These tariff-setting principles will be implemented by one or more technical Royal Decrees. These technical rules will need to comply with the principles of the amended Electricity Law, including the core principle that tariffs must generate the revenue that enables the TSO to cover its actual not unreasonable costs and depreciation, plus a fair remuneration on equity.

Mechanism of Tariff-Setting

Under the current tariff-setting framework (expected to apply until tariff-setting system of the amended Electricity Law enters into force), tariffs for the following year are proposed by Elia to the CREG. The submission of the tariffs proposal takes place before 30 September of each year for the following year. The

CREG's approval is then expected by 31 December at the latest. In addition to the tariffs proposal, the Company is required by the Tariffs Decree to make a three-month reporting to the CREG on its actual results of operations. Once approved by the CREG, the tariffs remain applicable throughout the relevant year. Failing such approval, the CREG unilaterally determines provisional tariffs, which are applied for a renewable period of three months. Since its appointment as TSO, and with the exception of a part of the year 2002, Elia has always operated under a system of provisional tariffs applied for successive periods of three months during each relevant year (*i.e.* 2003 and 2004). The CREG determined provisional tariffs for the first quarter of 2005; these tariffs also apply for the second quarter and it is expected that they will equally apply for the third and fourth quarters of 2005. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Outlook – Outlook 2005 – Remuneration 2005").

The CREG decides by 30 June of each year on the amount of the bonus or malus related to the preceding year and on the extent to which this amount will be deducted from future tariffs. The CREG will decide, at the latest on 30 June 2005, on the amount of the bonus or malus related to 2004. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Outlook – Outlook 2005 – Bonus 2004").

Pursuant to the recent amendments to the Electricity Law which will apply to the tariff setting system as of a date to be determined by Royal Decree but not expected to be before 2007 (unless the Royal Decree is adopted by September 2005), Elia will file with the CREG, for approval, a tariff proposal for a four-year period. The budgeted revenue for the first year will serve as the basis for determining these tariffs, subject to subsequent variations in relation to 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) will be 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 will be captured through an objective indexation formula, which must favour stability of the tariffs over the four-year period and enable the TSO to perform its regulated activities; the current bonus/malus system will be replaced by another mechanism whereby Elia would derive 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 RAB and the remuneration rate, both to be further specified by Royal Decree;
- financial charges will vary annually in relation to interest rate fluctuations and Elia's financial indebtedness.

Elia will have 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.

The Electricity Law does not specify how disagreements will be resolved. It is expected to be determined in a future Royal Decree and/or in a new Law that should come into force before the first application of the new tariff mechanism.

Determination of Tariff Levels

Both under the current and future tariff-setting mechanism, tariffs, as based on the objectives outlined above, must allow Elia to generate a total revenue which covers (i) the actual not unreasonable costs incurred by Elia in the performance of its regulated activities, including depreciation charges, and (ii) a fair remuneration on equity.

So far, the tariffs have been calculated based on key parameters explicitly mentioned in the Electricity Law or in the Tariffs Decree, or developed and interpreted from the law in the CREG guidelines. The Royal Decrees that will be adopted in the future to technically implement the recent amendments to the Electricity Law (as described above) may affect the way in which some of these parameters are computed or taken into account.

The current key parameters are the following:

- the Regulated Asset Base (“RAB”);
- the remuneration rate and the capital structure;
- the actual costs (unless deemed unreasonable by the CREG) – including depreciation, financial charges and other recurring and one-time costs;
- the parameters used for the calculation of financial charges pursuant to the financial embedded debt principle; and
- the bonus/malus incentive mechanism.

For an example of tariff setting on the basis of these parameters, see “Management Discussion and Analysis of Financial Condition and Results of Operations – Factors Affecting Results of Operations – Regulatory Environment”.

The actual volumes of electricity may differ from the volumes budgeted by Elia. However, in the CREG’s current practice this has no substantial consequence on Elia’s actual profit. If the transmitted volumes are higher than those budgeted, the deviation is booked to an accrual account during the year in which it occurs, and is taken into account in the following years, fully or partially, as a tariff decrease, in accordance with the bonus/malus system.

If the transmitted volumes are lower that those budgeted, the deviation is booked to an accrual account during the year in which it occurs, and are reflected, fully or partially, in subsequent tariff increases (although possibly spread over several years).

The amendments to the Electricity Law provide that, once the relevant Royal Decree will be taken, the allocation of the deviations (either positive or negative) will be decided by the Council of Ministers.

Regulated Asset Base

The fair remuneration on Elia’s equity, which is included in the tariffs, is currently determined by applying a remuneration rate (defined below) to Elia’s reference equity. For the purpose of this calculation, Elia’s reference equity is deemed equal to 33% of Elia’s Regulated Asset Base.

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 1999 value of the RAB was adjusted to EUR 3,260 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:

$RAB_{(t+1)} = RAB_{(t)} + investments_{(t+1)} – depreciation_{(t+1)} – divestments_{(t+1)} – decommissioning_{(t+1)}$ +/- 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 Ministers of Energy, the development plans are binding on Elia and the CREG.

The depreciation on tangible fixed assets is deducted from the RAB.

Divestments and the decommissioning of equipment are also deducted from the RAB at book value. In its 2005 tariff decision, the CREG deducted from Elia’s RAB the amount of the revaluation difference attributable to the assets invested prior to 1999 and taken out of service in 2004. Elia has initiated a proceeding before the Council of State with regard to this decision. (See section “Description of Elia’s Business – Transversal Matters – Litigation”).

The table below shows the evolution of Elia's yearly average RAB since 1999[27]:

RAB	Amount in billion euro
1999	3.260
2000	3.271
2001	3.293
2002	3.323
2003	3.345
2004	3.329
2005	3.439

The significant RAB increase between 2004 and 2005 (*i.e.*, from EUR 3,311 million end of year 2004 to EUR 3,567 million end of year 2005) is mainly due to the budgeted investments and to the budgeted increase of the working capital partially caused by the anticipation of certain future recurring expenses.

Remuneration Rate and Capital Structure

The remuneration rate applied to Elia's reference equity as currently determined by the CREG in year "n" is equal to the sum of (i) the risk free rate, *i.e.*, the average yield of the Belgian 10-year OLO in year "n-2", and (ii) a market risk premium for shares, weighted by the appropriate beta factor. Currently, the appropriate beta factor is calculated on the basis of Electrabel's historical beta compared to the BEL 20 index, over a seven-year period and relevered according to Elia's financial structure. At some point in the future, the computation of the fair remuneration will be set forth in forthcoming regulations.

The following table shows the components of the remuneration rate since 2002:

	2002	2003	2004	2005
OLO 10 years (year-2)	5.40%	5.11%	4.98%	4.17%
Risk Premium	2.54%	2.54%	2.54%	2.54%
Equity Beta	1.28	1.37	1.18	1.05
Remuneration rate	8.65%	8.59%	7.98%	6.83%

The CREG recommends that the solvency ratio (average shareholders equity / average total assets) of Elia be as close as possible to 33%. This 33% ratio has been set by the CREG based on an average equity/debt structure taken from a sample of Belgian companies.

The ratio is applied to Elia's RAB to determine Elia's reference equity.

When applied to adjust Elia's remuneration in function of Elia's capital structure, the ratio is applied to Elia's total assets according to its consolidated accounts under Belgian GAAP (see below).

Deviations from reference equity are offset by the "D-Factor". In the event Elia's total shareholder equity exceeds reference equity, the excess portion is remunerated at a reduced remuneration rate determined by applying the following formula: [(OLO(n-2) + 70 bps) * (1 – corporate tax rate)].

In the event that Elia's total shareholders' equity falls short of the reference equity, the remuneration of equity equals (i) the remuneration that would apply to the reference equity less (ii) an amount corresponding to a remuneration of [(OLO(n-2) + 70 bps) * (1 – corporate tax rate)] on the shortfall.

In addition, it was decided to exclude EUR 12.4 million of depreciation costs from the tariff basis (before taxes) on an annual basis between 2002 and 2011 on account of depreciation deemed excessive by the CREG in years preceding 2003.

The recent amendment to the Electricity Law consolidates the fair remuneration principle. The Law requires that the remuneration rate correspond to "the yield which investors on competitive markets can expect to obtain for long-term investments with a similar risk profile, according to best practices of the international financial market".

Costs and Depreciation

Actual costs are currently reflected in the tariffs if not deemed unreasonable by the CREG. The recent amendment to the Electricity Law confirms that the tariffs must allow coverage of Elia's actual not unreasonable costs for the performance of its regulated activities, including depreciation and financial charges, subject to review by the CREG.

[27] Source: 1999–2004: Reporting CREG; 2005: CREG decision tariffs 2005.

Costs that have not been challenged by the CREG in the past have included recurring and one-time operational costs such as certain taxes, environmental compliance costs, litigation costs, large maintenance and repair costs and IT-related costs. In addition, Elia can recoup unpaid customer receivables in the tariffs, provided it has taken certain precautions and actions to obtain payment of the receivables. Elia's income taxes based on the budgeted profit are also added to the fair remuneration when determining the tariffs.

Depreciation of tangible fixed assets is taken into account in the tariff-setting on the basis of depreciation rates that may vary from depreciation rates used for accounting purposes (although there was no such discrepancy in 2003 or 2004). The depreciation rates approved by the CREG for 2004 and 2005 are as follows:

Type of Asset	Depreciation Rate 2004	Depreciation Rate 2005
Administrative buildings	3.00%	3.00%
Industrial buildings	2.70%	2.70%
Overhead lines	2.08%	2.00%
Underground cables	1.82%	2.00%
Substations	2.70%	3.00%
Teletransmission	6.67%	7.00%
Dispatching	10.00%	10.00%
Others (cars)	20.00%	20.00%

Elia has initiated various judicial proceedings with the Council of State against, amongst others, depreciation rates determined by the CREG as used by Elia. (See "Description of Elia's Business – Litigation").

Financial Embedded Debt Principle

The amended Electricity Law confirms the CREG's principle of financial embedded debt, which means the inclusion in the tariffs of all actual not unreasonable costs related to debt financing.

Each year, Elia provides the CREG with a detailed financing plan, consisting of at least the following: maturity profile, average maturity, amount to be financed in the relevant year, fixed versus floating rate, liquidity, currency, other related financial instruments and the total interest charges per instrument.

In the event that the budgeted financial charges deviate from the actual financial charges, the actual deviation will be charged to an accrual account and will be reflected in the tariff calculations for the following year(s). (See "Regulation and Tariffs – Tariffs – Determination of Tariff Levels – Bonus / Malus").

Bonus / Malus

Currently, the Tariffs Decree provides that when the CREG reviews proposed tariffs for any given period, it must take into account any deviations between actual and budgeted results arising from the application of the tariffs of the previous year. Such deviations are referred to as the "surplus" or the "shortfall". The larger part of the surplus or the shortfall will be reflected in the following years' tariffs, while the balance, as determined by the CREG, will be partially added ("bonus") to or deducted ("malus") from Elia's fair remuneration. In the CREG's current practice, deviations from the budgeted results, which are not in Elia's control, are passed through in the tariffs in the form of tariff decreases or increases for the following years. The bonus/malus mechanism then only applies to the other results.

In the CREG's current practice, a bonus is accepted only when three conditions are met: (i) the budgeted cost basis has been approved by the CREG, (ii) the saving is effective, implying a real decrease in costs and results from Elia's action, and (iii) the saving is sustainable over the longer term.

The surplus or the shortfall and its allocation for any given year are proposed by Elia to the CREG and discussed with the CREG during the first half of the following year based on annual accounts of the relevant year.

Pursuant to the Tariffs Decree, 50% of the bonus or malus will be reflected in the tariffs of the year following the year during which the CREG establishes its existence. The remaining 50% of the bonus/malus will be for the benefit, or at the cost, of the Company. However, if a bonus occurs for two consecutive years, the CREG has the authority to determine whether it will make a full or partial adjustment in the form of a reduction in the tariffs for the following year. If a malus occurs for two consecutive years, then no adjustment (increase) in the tariffs will take place.

Pursuant to the recent amendments to the Electricity Law, the current bonus/malus mechanism could be replaced, probably as of 2007, by another mechanism whereby Elia would derive a profit or a loss from all or

part 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. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Outlook beyond 2005 – Electricity Law").

Notwithstanding the forthcoming changes of the regulatory framework, Elia is expected to submit, during the first semester 2006, the bonus/malus proposal for the year 2005. This procedure will comply with the current bonus/malus principles, meaning that the tariffs 2007 will be impacted by the 2005 bonus/malus decision of the CREG. The same could apply in 2008, with respect to the bonus/malus for the year 2006, should the new tariff setting mechanism only apply from 2007.

GAAP used to set the Tariffs

Belgian GAAP are currently used to set the tariffs.

Related Activities and International Revenues

Given the very limited size of Elia's related activities (1.4% of Elia's revenues in 2004), there is no separate accounting for these activities. Consequently, all income and costs resulting from the related activities are taken into account and are reflected in the tariffs. Elia's income or charges from the Inter-TSO compensation mechanism for EU cross-border trade are currently also reflected in the tariffs. (See "Description of Elia's Business – System Operation – Inter-TSO compensation mechanism for EU cross-border trade").

Types of Tariffs

There are different types of tariffs for different types of services:

- connection charges paid by counterparts to the 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 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 Elia'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 Elia's network, 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 Company's network. Access holders are invoiced on the basis of the capacity and energy booked pursuant to a postage-stamp structure. 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 Company, irrespective of the location of the user.

In accordance with the Tariffs Decree, the use of system charges are different from one group of consumers to another. Group 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 who 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 Company in order to compensate these imbalances.

Levies

The government has requested that the Company collect additional charges on its behalf or on behalf of other public bodies. In execution of its obligations under federal and regional legislation, the Company collects several levies, used, for example, to finance the CREG, ONDRAF/NIRAS (the Belgian Agency for Radioactive Waste and Enriched Fissile Material), certain activities relating to municipal social welfare services, the Kyoto fund or municipalities.

Although the Company is not specifically remunerated for the performance of such service, the costs incurred by the Company for providing this collection service are included in the tariffs.

MANAGEMENT AND PERSONNEL

The respective roles and responsibilities of the management bodies of the Company are, in a large part, governed by the provisions of the Electricity Law, the Corporate Governance Decree and the Company's Articles of Association. The Company is also subject to the Belgian Company Code. The relevant provisions of the Electricity Law and the Corporate Governance Decree are primarily focused on ensuring the independence of the Company.

Corporate Structure

The Company has been appointed by the Belgian federal government as sole TSO at the federal level. To perform some of the tasks legally required from a 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). Together, the Company and Elia Asset constitute a single economic unit (See "Context and background of the offering – History and Structure of the TSO – Dual Structure").

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.

The dual structure is further discussed in the section entitled "Context and Background of the Offering".

Following its official appointment as TSO, the Company amended its Articles of Association to comply with the specific legal and regulatory requirements applicable to it by virtue of its status as TSO. In particular, the amendments were intended to ensure the Company's independence with regard to the operation of its network. These amendments to the Company's Articles of Association were approved by the CREG on 4 September 2003.

Further amendments to the Articles of Association have been made in view of the Offering by the Company's Extraordinary General Shareholders' Meeting held on 30 May 2005. (See "Description of Shares and Share capital – Shareholders' Meeting").

Board of Directors

The Boards of Directors of both the Company and Elia Asset are comprised of the same twelve non-executive members.

The Company's 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 for the Executive Committee or the General Shareholders' Meeting.

In general, the Board of Directors formulates the Company's overall strategies and policies, assesses its primary options, determines appropriate guidelines, exercises general control over the management, within the legal limits with respect to the treatment of confidential commercial information or customers data, and decides on important structural changes.

Under the Articles of Association, the specific powers of the Board of Directors include, without limitation:

- the approval, control and amendment of the Company's business plan and budget;
- the approval of the development plan, the investment plans and the adaptation plan, which are periodically submitted to the relevant governmental authorities as required by federal and regional regulations, it being understood that the Board of Directors' refusal to grant such approval may occur only as a result of such a plan's financial impact on the Company;

- decision on capital expenses, loans or the grant of security and guarantees for amounts in excess of EUR 10 million, if not contemplated by the business plan or the annual budget;
- decision on matters relating to the Company's corporate and financial structure;
- decision on acquisitions, strategic alliances and transfers of important assets or activities;
- decision on amendments to the Company's accounting or tax policies;
- decision on the incorporation of subsidiaries, transfers of shareholdings or significant changes in the activities of the subsidiaries;
- decisions to undertake or resume activities beyond network management, provided that such decisions are permitted under federal or regional regulations; and
- decisions to manage or acquire electricity networks outside of Belgium, to the extent that such decisions are permitted under federal and regional regulations and are not prejudicial to the authority of the Executive Committee with regard to the European and international integration of electricity networks.

In accordance with the Company's Articles of Association and Articles 1 and 3 of the Corporate Governance Decree, a majority of the Board of Directors must be comprised of non-executive directors (*i.e.* persons who have no 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 Company's Articles of Association and the federal and regional regulations applicable to the electricity market. At least three of the six independent members must be "independent" within the meaning of Article 524 of the Belgian Company Code.

These provisions have been adapted by the recent amendment to the Electricity Law, which will apply for the first time upon renewal or replacement of all or some of the members of the Board of Directors. Pursuant to this amendment, the Company's Board of Directors must be comprised exclusively of non executive directors, one third of the members of the Board must be of a different gender than the other members, and at least half of the directors must be independent (*i.e.* independent within the meaning of Article 524 of the Company Code). The independent members of the Board of Directors must not have exercised any activity within the 24 months preceding their designation for a producer, other than a self-producer, an owner of the network, a distributor, an intermediary, a supplier or a dominant shareholder. The CREG gives a conforming opinion ("*avis conforme*" / "*eensluidend advies*") on the independence of the directors at the latest within 30 days following the receipt of the notice of the election of these independent directors by the competent corporate body of the Company. In addition to their independence, these independent directors are selected based on their financial management skills and their relevant technical skills.

The independent directors are elected by the Company's Shareholders at the General Shareholders' Meeting based on a list of candidates proposed by the Corporate Governance Committee, which list must include a number of candidates equal to twice the number of directors to be elected.

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, which includes a number of candidates equal to twice the number of directors to be elected, to the Board of Directors, which has the authority to fill the vacancy until the next General 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.

The non-independent members of the Board of Directors are elected at the General Shareholders' Meeting on the basis of two lists of candidates; one proposed by those shareholders holding Class A shares and one proposed by those shareholders holding Class C shares. The proposed candidates are determined by a majority of the shareholders holding the shares of the respective classes. (See "Relationship with Existing Shareholders and Related-party Transactions – Agreements among the Existing Shareholders and the Belgian State – Shareholders' Agreement Dated 31 May 2002").

The number of directors to be elected on the basis of the list of candidates proposed by each of the Class A and Class C shareholders, is determined based upon the percentage of their shareholding in the Company, as follows:

- six directors if the percentage of shares owned is greater than 50% of the total issued and outstanding shares of the Company;
- five directors if such ownership is greater than 45% but less than or equal to 50%;

- four directors if such ownership is greater than 35% but less than or equal to 45%;
- three directors if such ownership is greater than 25% but less than or equal to 35%;
- two directors if such ownership is greater than 15% but less than or equal to 25%; and
- one director if such ownership is greater than 10% but less than or equal to 15%.

If a non-independent director position becomes vacant prior to the General Shareholders' Meeting, the Board of Directors has the authority to fill the vacancy until the next General Shareholders' Meeting, based upon a list of candidates proposed by those members of the Board of Directors who were elected from the same list of candidates from which the departing director was elected.

The members of the Board of Directors elect a Chairman and one or more Vice Chairmen.

A meeting of the Board of Directors is validly constituted if there is a quorum, consisting of at least half of the members present in person 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 matters that were contained in 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 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. However, decisions regarding certain significant issues, identified in Article 19.10 of the Company's Articles of Association, must be postponed to the next meeting, if four directors (including at least one independent director) so request. These decisions include those regarding:

- the approval, follow up of and changes to the Company's business plan and budgets;
- capital expenditures and borrowings in excess of EUR 10 million (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;
- the retention of profits;
- strategic acquisitions or alliances, transfers of important assets or termination of core activities;
- changes to accounting and tax policies;
- the granting of guarantees or security interests (if not contemplated by the Company's business plan or annual budget);
- the incorporation of subsidiaries or the transfer of shares of subsidiaries;
- engaging in new activities not contemplated in the Company's business plan;
- the issuance of any securities.

(See "Relationship with Existing Shareholders and Related-Party Transactions – Agreements between the Existing Shareholders and the Belgian State – Shareholders' Agreement Dated 31 May 2002").

The Chairman of the Board has no casting vote on matters before the Board of Directors.

The Company's Articles of Association require a double majority vote (*i.e.*, one by the independent directors and one by 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;
- the proposal to the General Shareholders's Meeting to dismiss an independent director;
- the approval or refusal of the development plan, investment plans and adaptation plan; and
- certain other decisions.

Additionally, the approval of the majority of the independent directors is required with respect to the following matters relating to general policy 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 and 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.

The current members of the Company's Board of Directors are:

Name and position	Principal Outside Interests as of 10 May 2005
Ronnie Belmans, Chairman (Nominated by Electrabel) (Non-independent Director)	Professor at the Catholic University of Leuven (KULeuven) and Head of the Research Group Electa of the Department of Electrical Engineering (ESAT)
Willy Bosmans Member of the Remuneration Committee (Nominated by Electrabel) (Non-independent Director)	Chairman of the Board of Directors of Distrigaz SA/NV
Clement De Meersman Chairman of the Audit Committee (Independent Director)	CEO of Deceuninck SA/NV
Johan De Roo Member of the Audit Committee (Nominated by Publi-T) (Non-independent Director)	Mayor of Maldegem and First Past Vice-President of the Flemish Regional Parliament
Jacques de Smet (Independent Director)	Director of Duferco and of its Belgian subsidiaries Carsid, Duferco Belgium, Duferco Clabecq and Duferco La Louvière
Claude Grégoire (Nominated by Publi-T) (Non-independent Director)	CEO of SOCOFE SA/NV
Hilde Laga Member of the Corporate Governance Committee (Independent Director)	Lawyer and part-time Professor at the Catholic University of Leuven (KULeuven)
Jean-Marie Laurent Josi Chairman of the Remuneration Committee (Independent Director)	Managing Director of COBEPA SA/NV, Managing Director of the Josi Group and Chairman of the Board of Directors of Keytrade Bank
Walter Peeraer (Nominated by Electrabel) (Non-independent Director)	General Manager Strategy, Communication and Administration of Electrabel SA/NV
Luc Van Nevel Member of the Corporate Governance Committee (Independent Director)	Chairman of the Board of directors of Picanol NV/SA
Francis Vermeiren, Vice Chairman (Nominated by Publi-T) (Non-independent Director)	Mayor of Zaventem and Deputy in the Flemish Parliament
Thierry Willemarck Chairman of the Corporate Governance Committee (Independent Director)	Managing director of Touring Club

Committees of the Board of Directors

The Board of Directors has established (i) an Executive Committee, (ii) a Corporate Governance Committee, (iii) an Audit Committee and (iv) a Remuneration Committee.

Executive Committee

Powers, Composition, Functioning and Reporting

The Executive Committee is comprised 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 calls 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;
- integration of European and international electricity networks in accordance with the business plan and the human resources and communication policies on electricity networks; and
- 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.

In accordance with the Electricity Law and under the supervision of the CREG, all members of the Executive Committee will be 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, and submitted to the CREG for approval.

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 may be submitted to the Corporate Governance Committee.

Article 9 of the Electricity Law provides that the Board of Directors has to establish an Executive Committee accordance with article 524bis of the Company Code.

Article 524bis of the 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 may not 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 member, acting alone or jointly, of the executive committee the power to represent the Company. The establishment of the executive committee and provisions just mentioned of the Articles of Association are enforceable against third parties when published in the Belgian State Gazette (*Moniteur belge/Belgisch Staatsblad*) with a reference in writing to Article 524bis of the Company Code. The Articles of Association or a decision of the Board of Directors may restrict the management powers delegated to the executive committee. These restrictions or the distribution of tasks between the members of the executive committee are not enforceable against third parties even if they are published. For a description of the Company's executive committee and of its specific features, see "Executive Committee" below. A linguistic balance must be obtained and maintained upon renewal of members of the Board of Directors and of the executive committee.

Confidentiality

The protection of information relating to the Company's clients from third parties, particularly the shareholders of the Company, is treated, generally, as follows:

- under 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 such code;
- the Company is legally 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 Company's Articles of Association, the members of the Executive Committee and the Company's employees may not perform any function or activities, compensated or not, for any producer, owner of an electricity network (other than Elia Asset), distributor, intermediary, holder of a license to supply energy, or any affiliate of such enterprises or any shareholder holding more than 10% of the voting rights or the capital of the Company.

Composition of the Executive Committee

The current members of the Executive Committee[28] are:

- Daniel Dobbeni, Chairman of the Executive Committee and Chief Executive Officer;
- Jacques Vandermeiren, Vice-Chairman of the Executive Committee and Chief Corporate Officer;
- Markus Berger, Chief Officer, Grid Services;
- Jan Gesquière, Chief Financial Officer;
- Roel Goethals, Chief Officer, Infrastructure and Managing Director of BEL Engineering;
- Hubert Lemmens, Chief Officer, Transmission; and
- Frank Vandenberghe, Chief Officer, Customers & Market.

Daniel Dobbeni, Chairman of the Executive Committee and Chief Executive Officer, was born in 1952 and holds a degree in Industrial Engineering (electronics and nuclear physics). He graduated major of his promotion. He also holds a degree in Middle Management from the Vlerick School in Ghent (1991) and a degree from the "General Management Program" of the CEDEP in Fontainebleau (1995). He started his professional career at Belgonucléaire SA/NV, a nuclear engineering company, as an R&D Engineer. He later moved to

[28] The CREG confirmed the appointment of the current members of the Executive Committee on 19 August 2004.

Intercontrol SA, a French company developing and selling control equipment designed for oilrigs and nuclear power plants, where he worked as project engineer and was responsible for the inspection of primary components of nuclear power plants. In 1977, he was hired by Laborelec SC, a Belgian laboratory providing services to the electrical sector. Under his leadership, several new inspection techniques were conceived of which several have been licensed and commercialised in other countries. He left that company in 1997 as Chief Officer Production, whereupon he was hired by Electrabel as Head of the Planning Department for Production and Transmission. His responsibilities included the investment plans for power plants and transmission infrastructure. He was also strongly involved in preparing the creation of the future transmission system operator in the perspective of the First Electricity Directive. From 1997 to 2001, he was 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 Movement from 1999 to 2003, when he was appointed Chief Executive Officer and Chairman of the Executive Committee of Elia. He was also elected Chairman of the Executive Committee of the Association of European Transmission System Operators (ETSO) in 2003. He served previously as Chairman of the ETSO Task Force in charge of designing the financial compensation mechanism between the Transmission System Operators for cross-border trade between EU Member States. During his career, he worked actively in several commissions for the Electric Power Research Institute, the American Society of Mechanical Engineers, UCTE as well as the European Commission.

Jacques Vandermeiren, Vice-Chairman of the Executive Committee and Chief Corporate Officer was 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. 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. He is also Chairman of the Federation of the Belgian Electricity and Gas Companies (FEBEG) since it was created in April 2004.

Markus Berger, Chief Officer Grid Services, was born in 1963. He holds a degree from the Université Libre de Bruxelles in electro-mechanic civil engineering and a "Management and Business Administration" degree from the Solvay Business School, which was obtained in 2002. He began his career with Laborelec SC in 1988 as System Engineer and moved to Electrabel in 1996 as Project Engineer. He has been employed with Elia since its inception and has held a position as Maintenance Engineer responsible for the South Area (2001–2002) and Head of the Commercial Department (2002-2003).

Jan Gesquière, Chief Financial Officer, was 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.

Roel Goethals, Managing Director of BEL Engineering and Chief Officer Infrastructure, was 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 1997 as General Manager Distribution Transformers Europe. In 1998, 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 Managing Director of BEL Engineering.

Hubert Lemmens, Chief Officer Transmission, was 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 to its current position in 2004.

Frank Vandenberghe, Chief Officer Customers & Market, was 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 the 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. He has been employed by Elia since its inception and became Chief Officer Grid Services (2002-2003) before being appointed Chief Officer Customers & Market in 2003.

Corporate Governance Committee

The Corporate Governance Committee is comprised of three members, all of which are independent and non-executive members of the Board of Directors. Its duties include the following:

- to nominate independent candidates for election to the Board of Directors by the Company's shareholders at the General Shareholders' Meeting;
- to examine, if so requested by an independent member of the Board of Directors, the Chairman of the Executive Committee, the CREG or any other authorised regulatory authority, any case of conflict of interest between the Company and a "shareholder municipality", dominant shareholder or a company related to or associated with 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, 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 with regard to these issues; and
- to approve the appointment and dismissal of the members of the Executive Committee prior to their designation.

The scope of the concept "conflict of interest" under the corporate governance provisions applicable to Elia is broader than that applicable under general provisions of Belgian corporate law. As a Belgian public company, the Company must also follow the procedures set out in Article 523 of the Company Code regarding conflicts of interest within the Board of Directors and Article 524 of the Company Code regarding intra-group operations.

Article 523 of the 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 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 offer, 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 Company Code do not apply:

- if the decision or transaction within the authority of the Board of Directors relate 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, 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 Company Code).

Article 524 of the 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 the 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 requirements of Article 524 of the Company Code which relates to the independence of directors can be summarised as follows:

- an independent director may not have held a position as a director, a member of the management committee or a higher management position in the company or an affiliate during the two-year period preceding his or her election to the Board of Directors;
- an independent director may not own shares representing 10% or more of the total share capital of the company or of a particular class of shares. If he/she owns less than 10%: (i) such shares, together with other company shares held by companies controlled by the director concerned may not equal or exceed 10% or (ii) the disposal of such shares or the exercise of the rights attached thereto may not be subject to any contractual arrangement or unilateral undertaking from the independent directors;
- an independent director may not have a close family member, meaning a spouse or partner or relative up to the second degree, holding a key position or a financial interest as described above; and
- an independent director may not maintain any relationship with a company which would jeopardise his/her independent judgment.

An independent director is a non-executive director who meets the requirements of Article 524 § 4 of the Company Code and who, in addition, has not exercised a function or an activity, remunerated or not, in the service of an electricity producer, other than an auto-producer, one of the network owners, distributors, intermediaries, suppliers or dominant shareholders during the 12 months preceding his or her election as director of the TSO.

The current members of the Corporate Governance Committee are:

- Thierry Willemarck, Chairman;

- Hilde Laga; and
- Luc Van Nevel.

Audit Committee

The Audit Committee of the Company is comprised of three members, all of which are non-executive directors and the majority of which are independent directors. The Audit Committee has the following tasks:

- to verify the Company's accounts and control the budget;
- to follow-up on matters relating to audit activities;
- to evaluate the reliability of the Company's financial information; and
- to organise internal control procedures and monitor them.

The current members of the Audit Committee are:

- Clement De Meersman, Chairman;
- Johan De Roo; and
- Jean-Marie Laurent Josi.

Remuneration Committee

The Remuneration Committee of the Company is comprised of three members, all of which are non-executive directors and the majority of which are independent directors. The Remuneration Committee establishes the salary criteria applicable to members of the Executive Committee and also establishes conditions for possible stock options for personnel.

The current members of the Remuneration Committee are:

- Jean-Marie Laurent Josi, Chairman;
- Willy Bosmans; and
- Luc Van Nevel.

Directors and Executive Officers

Compensation

The total remuneration paid by the Company and Elia Asset to its twelve directors in 2004 amounted to approximately EUR 400,000. The total remuneration paid by the Company and Elia Asset to its executive officers, including the Chief Executive Officer, in 2004 amounted to approximately EUR 1,532,000, of which about 30% represented variable remuneration. Based on remuneration in 2004, the minimum amount which would be payable by the Company upon termination of employment of its executive officers, including the Chief Executive Officer, would amount to approximately EUR 3,450,000.

Incentive Programs

A substantial portion of the incentive package for the Company's executive officers is linked to the Company's achievement of defined financial and non-financial goals. Accordingly, the Company's short term incentive plan is driven by various corporate parameters such as revenue, net profit, availability of the network, evolution of the network efficiency, improvement of productivity and individual objectives. The Company intends to implement a long-term incentive plan for the executive officers and senior managers.

Executive Officer Agreements

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 bonus 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.

College of Statutory Auditors

As provided in Article 23 of the Company's Articles of Association, the Company is required to engage the services of two joint auditors. Currently, the Company's joint auditors are:

- Ernst & Young Reviseurs d'entreprises SCC (B160), represented by Jacques Vandernoot, and
- Klynveld Peat Marwick Goerdeler Reviseurs d'entreprises SCRL (B001), represented by Erik Clinck

They are responsible for the audit of the consolidated financial statements of the Company and of the statutory accounts of the Company and Elia Asset. The joint annual fee for the auditing services was EUR 80,000, excluding value-added tax, for fiscal year 2004. This amount does not include remuneration for other services provided to the Company, for which the remuneration totals approximately EUR 40,000.

The three-year mandate of the auditors expired and was renewed for a three-year period on the annual General Shareholders' Meeting held on 10 May 2005.

Employees and Independent Contractors

Number of employees

The average number of employees (full time equivalents (FTE)) employed by the Company, Elia Asset and BEL Engineering for the last three business years was as follows:

Year	The Company	Elia Asset	BEL Engineering
2004	176	902	169
2003	168	924	170
2002	0	1,105[29]	NA

Employment contracts

All employees have employment contracts for white-collar workers. Employees of each of the Company, Elia Asset and BEL Engineering perform their work for the benefit of each of those companies, within the framework of the silent partnership and a multilateral agreement (as far as the Company and Elia Asset are concerned).

Compensation

The costs for personnel were equal to EUR 18,620,000 for the Company and EUR 82,860,000 for Elia Asset in 2004, excluding pension costs.

There is a difference between the salary of employees hired before 1 January 2002 and the salary of employees hired after that date, whose salaries are, in general, substantially lower. New conditions of employment have been included in the relevant collective bargaining agreements, which have lowered overall remuneration and apply only to personnel hired as from 1 January 2002. Therefore, employees hired before that date continue to benefit from higher remuneration.

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.

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 BEL Engineering benefit from the advantages of 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 the company level. Such 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.

[29] Approximately 160 employees of those employees were transferred by Elia Asset to the Company with effect on 1 January 2003. This also explains the decrease of the average number of employees employed by Elia Asset between 2002 and 2003.

The Company's employees are represented by three trade unions. In May 2004, social elections were held at the company level. Each of the three technical exploitation units has its own trade union delegation and its own Committee for the Prevention and Protection on the Workplace. The Company has one Works Council for the three technical exploitation units.

The monthly meeting of each committee provides the opportunity to inform and consult the employees' representatives on various matters related to the Company and Elia Asset, 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.

Social funds

There are four Social Funds within Elia (GS North, GS South, Central for employees, Central for management staff), which complement the statutory social security benefits, such as invalidity, sickness and family allowances.

The Social Funds are financed by the Company and managed by a joint local group of representatives of the employer and the employees.

Pensions

Elia has a pension scheme for its personnel. There are three different systems:

- defined benefits: under this system, the employees receive a pension capital equal to 75% of the last annual salary after deduction of the legal pension when they retire. Employees hired since 1 January 1993 do not qualify for this scheme.
- defined contributions: 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. Employees hired since 1 January 1993 qualify for this scheme.
- 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 560 retired employees and current employees yet to retire.

(See "Summary of Certain Significant Differences between Belgian GAAP and IFRS").

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 (such costs amounted to approximately EUR 290,000 in 2004).

RELATIONSHIP WITH EXISTING SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS

History of Share Ownership

Prior to 2001, the *Société pour la Coordination de la Production et du Transport de l'Energie électrique SCRL/Maatschappij voor de Coördinatie van de Productie en het Transport van Elektrische Energie CVBA* ("CPTE") owned and operated Belgium's very high-voltage and high-voltage electricity transmission network. When the TSO was created, CPTE was a joint venture between Electrabel (owning directly and through its subsidiary Laborelec CV/SC, 91.5% of the CPTE shares) and SPE (owning 8.5% of the CPTE shares). On 28 June 2001, CPTE contributed this transmission infrastructure and related assets (including existing contracts) to a newly-formed limited liability company, Elia SA/NV, in exchange for shares of Elia SA/NV.

The resulting equity/debt ratio of Elia SA/NV and the carry-over book value of its assets were not consistent with parameters which the CREG proposed to define for tariff-setting purposes. In order to achieve consistency, Elia SA/NV's shareholders and the Belgian State agreed, pursuant to the Additional Protocol discussed below, to implement a dual structure for the TSO.

Under this dual structure, Elia SA/NV, to be renamed Elia Asset SA/NV, would own the transmission infrastructure and related assets, but substantially all of its shares would be held by a separate company, to be named Elia System Operator SA/NV, that would be appointed as TSO and actually operate the electricity network. To this end, the Company was incorporated on 20 December 2001.

On 31 December 2001, CPTE sold 66.66% of its shares of Elia SA/NV (102,853,778 shares) to the Company for a price of EUR 2,101,068,450. On 23 May 2002, CPTE transferred the remaining 33.33% of its shares of Elia SA/NV (51,426,889 shares) to the Company, partly by way of a contribution to the Company's share capital (44,857,848 shares) and partly by way of a sale (the remaining 6,569,041 shares for a cash consideration of EUR 153,680,024). The combination of a contribution to capital and a straight sale was designed to achieve the target equity/debt ratio recommended by the CREG (33/67).

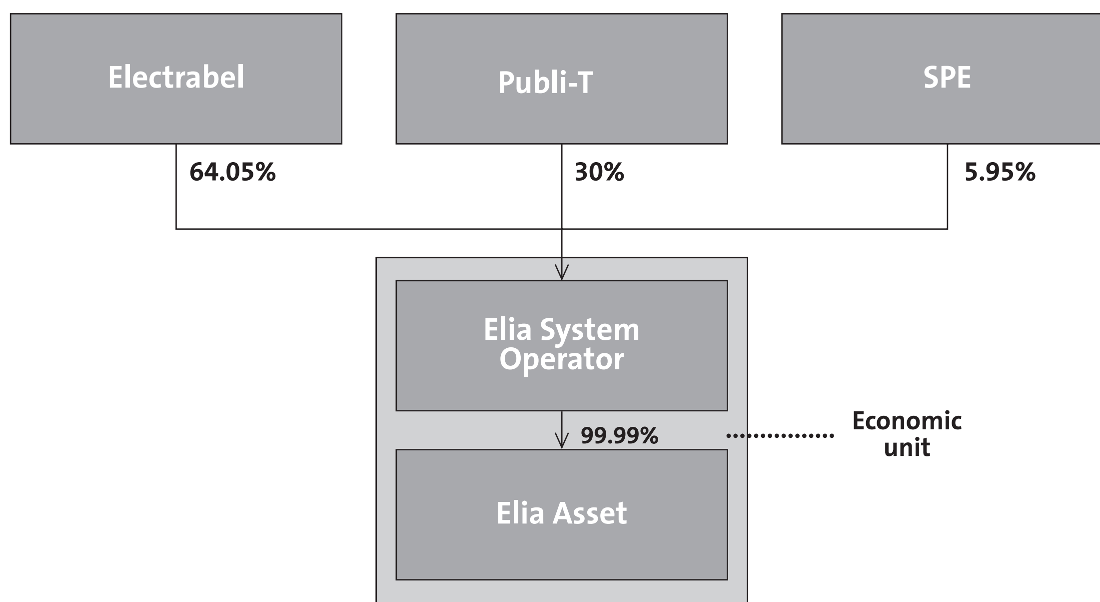
As a result of the above transactions, CPTE initially owned substantially all of the shares of the Company. On 31 May 2002, CPTE sold to Publi-T (described below) 30% of the shares of the Company, *i.e.,* 3,148,473 shares[30], for a price of EUR 184,358,414. On the same day, Elia SA/NV's name was changed to Elia Asset. Since 8 July 2002, the Company and Elia Asset have been acting as a single economic entity pursuant to a silent partnership arrangement (*société interne / stille handelsvennootschap*). For greater detail on the origin, implementation and key features of this dual structure, see "Context and Background of the Offering – History and Structure of the TSO".

On the occasion of the termination of the joint venture between Electrabel and SPE, CPTE was demerged (*scission par absorption / splitsing door overname*) on 4 July 2003 with effect as of 1 January 2003. As a result of this reorganisation, the shares of the Company previously owned by CPTE are now held directly by Electrabel (64.05%) and SPE (5.95%). Since then, Electrabel and SPE have been operating independently from each other.

[30] Prior to the 1:4 stock-split decided by the Company's Extraordinary Shareholders' Meeting held on 30 May 2005.

Current Share Ownership

As a result of the transactions described above, the shares of the Company are currently (*i.e.*, prior to the Closing of the Offering and issuance of New Shares) held as follows:



Electrabel is a Belgian limited liability company listed on Eurolist by Euronext (Brussels) (ticker symbol EBL), with registered office at Boulevard du Régent 8 / Regentlaan 8 – 1000 Brussels (enterprise number 0 403 170 701 Brussels). It is the largest power generation company in Belgium and the Benelux, with installed generating capacity of approximately 25,000 MW. It also engages in electricity trading on a number of European power exchanges. Electrabel's largest shareholder is Suez-Tractebel SA/NV, a company of the Suez group, which (together with other companies of the Suez group) currently owns 50.08% of Electrabel. Suez is a diversified international industrial and services group, active in sustainable development, providing businesses, public authorities and individuals with solutions in the field of energy (electricity, gas and services) and the environment (water, sanitation and waste services).

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 0 475 0489 86 Brussels) which is owned by municipal associations (*intercommunales*) from Belgium's three Regions, as well as Holding Communal SA/Gemeentelijke Holding NV, Société de Financement en matière Energétique SA ("SOCOFE") and Vlaamse Energieholding CVBA ("VEH").

SPE (enterprise number 0 458 364 788 Brussels) is a Belgian public-sector power producer, with registered office at Rue Royale 55 / Koningstraat 55 – 1000 Brussels. Its principal shareholders are Publilec SCRL/CVBA (64.9%), Dexia Banque SA/Dexia Bank NV (16%), SOCOFE (12.9%) and VEH (5.6%). Publilec's own main shareholders include Socolie (58.70%%), WVEM (27.60%) and the city of Gent (12.14%). It is intended that on or around 30 June 2005 there will be a partial de-merger of SPE as a result of which the shares of the Company currently owned by SPE will be transmitted to a newly incorporated company Publipart SA/NV. The shares of the latter company will be owned by the current shareholders of SPE. As a result of the de-merger all rights and obligations in relation to the Company's shares currently owned by SPE, as well as all rights and obligations in relation to the Offering, will be transferred to Publipart SA/NV.

The issued share capital of the Company before the Offering amounts to EUR 1,049,491,000, fully paid up and is divided into 41,979,640 shares without nominal value and currently all in registered form. There are three classes of shares: Class A consisting of 12,593,892 shares, Class B consisting of 16,791,856 shares, and Class C consisting of 12,593,892 shares. All shares have identical voting, dividend and liquidation rights, but, as described in further detail below, 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.

The table below details the ownership of the shares prior to the closing of the Offering and the expected share ownership distribution after the closing of the Offering:

Shareholder	Shares owned prior to the closing of the Offering			Share and voting right % after the closing of the Offering[31]	
	Number	Class	Share and voting right %	Class	Share and voting right %
Electrabel	11,523,408	Class A			
	15,364,548	Class B	64.05%	Class A	27.45%
Publi-T	12,593,892	Class C	30.00%	Class C	30.00%
SPE	1,070,484	Class A			
	1,427,308	Class B	5.95%	Class A	2.55%

Agreements among the Existing Shareholders and the Belgian State

The relationship between the Existing 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 have been concluded in furtherance of the objectives of the Electricity Law. As indicated above, this law requires the separation of the management of the electricity network from the generation and sales activities. It entrusts the operation of the national electricity transmission network to a single TSO, to be designated by the federal government for a renewable period of 20 years. In the agreements discussed below, the Belgian State and the Existing Shareholders of the Company have agreed on a timeline for the organisation of the TSO and on certain corporate governance and other measures designed to ensure the TSO's operational autonomy from its shareholders. To achieve such autonomy, the parties agreed that the share ownership of the TSO should be diversified (in a first stage, by Publi-T's acquisition of 30% of the shares of the TSO, and, in a second stage, by Electrabel's and SPE's sale of 40% of the shares of the TSO in a public offering or a private placement). The agreements also define the key parameters of the Company's financial structure.

The Belgian State is a signatory of each of these agreements. The obligations of CPTE as original signatory of these agreements have been assumed by Electrabel and SPE following CPTE's split-up (see above).

Protocol dated 30 May 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.

In addition, in order to diversify the ownership of the TSO's shares, the parties agreed that CPTE would transfer 30% of the shares of the TSO to Publi-T. CPTE also undertook to offer a further 40% of the shares of the TSO in a public offering or similar transaction within 24 months after the Company's appointment as TSO, market conditions permitting.

Furthermore, the Protocol provides for a right of first refusal and a tag-along right for CPTE and Publi-T with respect to each other's shares of the TSO, as well as for a call option for Publi-T on a maximum of 20% of the shares of TSO. This call option, which is valid for five years following the Company's appointment as TSO, can be exercised only on CPTE's shares of the TSO initially intended to be floated, and is triggered by a proposed transfer of such shares when Publi-T does not exercise its right of first refusal or tag-along right. The exercise of this call option may not result in Publi-T owning more than 50% of the shares of the Company. The right of first refusal, tag-along right and call option referred to in this paragraph do not apply to transfers by CPTE (now Electrabel and SPE) of TSO shares marked for floating if such transfers occur in the context of an initial public offering or a private placement with a diversified group of institutional investors unrelated to Electrabel, SPE or CPTE. Accordingly, none of these rights is triggered by, or affects, the Offering.

[31] The share percentages in this column assume that (i) all Shares are sold or subscribed in the Offering, (ii) Electrabel, SPE and Publi-T subscribe for 27.45%, 2.55% and 30%, respectively, of the New Shares, and (iii) the Underwriters exercise the Over-Allotment Option in full. These percentages are before any dilution resulting from the Employee Offering, which Electrabel, SPE and Publi-T may or may not decide to neutralise either by subscribing for a slightly higher percentage of the New Shares or by subsequently purchasing additional Shares in the market.

In the Protocol, CPTE also undertook for the benefit of Publi-T, in the event CPTE transfers its shares of the TSO to a third party (without Publi-T exercising its right of first refusal, tag-along right or call option), to obtain such third party's agreement regarding Publi-T's continued representation on the Board of Directors of the Company in proportion to its shareholding (but counting only the directors that are not independent directors), even if such third party were to acquire the majority of the Company's shares.

Finally, the Protocol includes certain provisions regarding the future shareholders' agreement. These provisions are implemented in the Shareholders' Agreement described below.

Additional Protocol dated 8 October 2001

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).

Furthermore, the Additional Protocol subjected to the CREG's prior approval (i) the organisational structure of the TSO; (ii) the provisions of the Articles of Association of the TSO implementing certain provisions of the Royal Decree of 3 May 1999 (as amended by the Royal Decree of 6 October 2000) (the "Corporate Governance Decree"); (iii) the candidates for the first positions of independent directors; and (iv) the shareholders' agreement to be entered into between CPTE and Publi-T.

The Additional Protocol also provided that the shareholders' agreement would have to define the financial structure of the TSO in such a way as to approximate the equity/debt ratio recommended by the CREG, and that the debt component must consist of a mix of third-party and shareholder loans with defined maturities. (See, below, "Shareholder Loans").

Section 2.2. of the term sheet annexed to the Additional Protocol allows the Belgian TSO to be organised on the basis of a dual structure with a view to aligning the TSO's balance sheet structure to the RAB and leverage concepts of the CREG. (See "Context and Background of the Offering – History and Structure of the TSO").

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 agreements described below. Upon closing of the Offering, the Protocol and the Additional Protocol will otherwise become mostly of historical interest only.

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 will not terminate upon closing of the Offering. The Shareholders' Agreement is 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.

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 "Management and Personnel").

The following subsections discuss the key provisions of the Shareholders' Agreement.

Classes of Shares

The issued share capital of the Company, prior the Offering, amounts to EUR 1,049,491,000 and is divided into 10,494,910 shares without par value. The Shareholders' Agreement divides these shares into three classes: Class A consisting of 3,148,473 shares, Class B consisting of 4,197,964 shares, and Class C consisting of 3,148,473 shares[32]. The Class B Shares are reserved for this Offering.

[32] Prior to the 1:4 stock-split decided by the Company's Extraordinary Shareholders' Meeting held on 30 May 2005 since these are the historical numbers stated in the Shareholders' Agreement.

Upon transfer to a holder of Class A shares, Class C shares automatically convert into Class A shares and vice versa. Class A shares or Class C shares sold on the stock exchange in accordance with the provisions outlined below will automatically convert into Class B shares. Class B shares remain Class B shares, despite their transfer between holders of different classes of shares.

All shares have identical rights, except as otherwise provided in the Shareholders' Agreement and/or the Company's Articles of Association. These exceptions are limited to certain special rights of Class A and Class C shares regarding the nomination of candidates for appointment to the Board of Directors and the voting of shareholders' resolutions.

Public Offering

In furtherance of the 30 May 2001 Protocol, CPTE, Electrabel and SPE have agreed to do a public offering of their Class B shares within 24 months after the appointment of the Company as TSO, market conditions permitting, and to liaise with Publi-T on the planning and conduct of such offering through an IPO information committee.

If market conditions stand in the way of a public offering in this 24-month period, CPTE, Electrabel and SPE have agreed to sell the Class B shares as soon as practicable after the 24-month period either in a public offering or by way of a private placement with a diversified group of institutional investors (unrelated to Electrabel, SPE and CPTE or their affiliates and not acting in concert with them).

With a view to the Offering, the Company, on the one hand, and Electrabel and SPE, on the other hand, signed a document entitled "Terms of Reference" on 14 January 2005 which sets forth their agreement on a number of organisational and other practical aspects of the preparation and conduct of the Offering. Parties will enter into an Indemnification Agreement with regard the allocation of liabilities in respect of the offering documents and the underwriting arrangements. (See "Context and Background of the Offering – Terms of Reference for the Context of the Offering").

Reciprocal Standstill

Following the closing of the Offering, Electrabel, SPE and Publi-T will be free to acquire, in one or more transactions, 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 Electrabel, and vice versa. Such approval may be withheld if the proposed acquisition would upset the equilibrium between the respective shareholdings of Publi-T, Electrabel and SPE. In case of non-compliance by one of said shareholders with this standstill obligation, the obligation ceases to apply and all parties will be free to acquire Class B shares. In any event, none of Electrabel, SPE 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, SPE 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, the transfer restrictions provided in the Protocol of 30 May 2001 (see above) are restated and detailed in the Shareholders' Agreement. As a result, reciprocal first-refusal and tag-along rights apply in respect of Class A and Class C shares, and Publi-T has a right of first refusal on any existing Class B shares that would not be sold in the Offering, as well as a five-year call option on certain shares owned by CPTE (now Electrabel and SPE), on the terms outlined above.

In addition, in case a holder of Class A shares wishes to sell 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 bearer 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, 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. Once the Class B shares are listed, 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.

General Meeting of Shareholders

As a rule, the general meeting of shareholders decides in accordance with the quorum and majority requirements provided in the Company Code. In addition, so long as the Class A shares represent at least 25% of the outstanding share capital of the Company (or 15% in the event of dilution following a capital increase), any shareholders' resolution requires a majority within Class A. The same applies for the Class C shares.

Board of Directors

According to the Shareholders' Agreement, the Board of Directors consists of 12 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 notion of independence is defined by reference to Article 524, §4, of the Company Code but is expanded to exclude any function or activity (whether or not for remuneration) with a producer (other than an auto-producer), network owner, distributor, intermediary, supplier or dominant shareholder during 24 months prior to his or her appointment (Article 2, 30°, of the Electricity Law, as amended). (See "Management and Personnel").

The directors other than the independent directors are elected by the general meeting of shareholders from among candidates proposed by the holders of Class A and Class C shares. Each such class is entitled, by simple majority vote within the class, to nominate candidates for a number of Board seats that varies with the size of the relevant class, *i.e.,* six directors if the class represents more than 50% of the Company's outstanding shares, five directors if the class represents more than 45% and up to 50%, four directors if the class represents more than 35% and up to 45%, three directors if the class represents more than 25% and up to 35%, two directors if the class represents more than 15% and up to 25%, and one director if the class represents at least 10% and up to 15%. Currently, Classes A and C are each represented by three directors.

The Shareholders' Agreement further provides for a shareholders' committee (*Comité de Consultation Permanent),* 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 granting of guarantees or security interests; (viii) the incorporation of subsidiaries or the transfer of shares of subsidiaries; (ix) engaging in new activities not contemplated in the business plan; and (x) the issuance of any securities.

Dividend Policy

The Shareholders' Agreement provides for a full dividend payout, subject only to retention of the amounts (if any) which the law requires to be allocated to the (undistributable) statutory reserve and except if the distribution would cause the Company's equity/debt ratio to drop below the CREG's target level (currently 33/67). With regard to distributable profits over and above the required allocation to the legal reserve, Article 33 of the Company's Articles of Association provides that 85% of the yearly profits available for distribution, or such higher percentage thereof as may be proposed by the Board of Directors[33], 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 so long as they each 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 "Dividends and Dividend Policy – Dividend Policy").

[33] The possibility for the Board of Directors to propose a higher than 85% distribution has been added to the Company's Articles of Association by one of the amendments adopted by the Extraordinary Shareholders' Meeting held on 30 May 2005.

Shareholder Loans

The Shareholders' Agreement restates the principles of the Additional Protocol dated 8 October 2001 regarding the Company's level and structure of indebtedness. The parties additionally agree in the Shareholders' Agreement to extend a 10-year interest-free loan to the Company to partially finance its purchase of the shares of Elia Asset, and to assign 30% of this loan to Publi-T at the time of the transfer of 30% of the shares of the Company to Publi-T. (See "Relationship with Existing Shareholders and Related-Party Transactions – History of Share Ownership" and "Shareholder Loans").

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. 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, each holds a right of first refusal at a price corresponding to the accounting par of the share. If the Class A shares no longer represent 15% at least of the outstanding share capital of the Company, either the Company or Elia Asset must purchase Electrabel's one share of Elia Asset, 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 meeting of shareholders, 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.

The composition of the Board of Directors and the standing Board committees of Elia Asset mirror that of the Company's Board and Board committees, as required by Article 9*bis* of the Electricity Law. Such mirroring provisions also apply to other regulated subsidiaries of the Company.

For unregulated subsidiaries of the Company, *i.e.,* subsidiaries that do not own or operate transmission infrastructure, 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.

Shareholder Loans

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", effective as of 28 December 2001, for the financing of the Company's acquisition of certain shares of Elia Asset. (See "Relationship with Existing Shareholders and Related-Party Transactions – History of Share Ownership"). This Shareholder Loan Agreement implements the relevant provisions of the Additional Protocol and the Shareholders' Agreement (described above) with a view to attaining the CREG's target equity/debt ratio. (See "Regulation and Tariffs – Tariffs").

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 to finance the acquisition of 66.66% of the shares of Elia Asset; and (ii) an amount of EUR 29,733,262 on 23 May 2002 to partially finance the acquisition of a further 4.25% of the shares of Elia Asset.

The loan has two tranches:

Tranche A, in an amount of EUR 495,787,049.55, to be repaid 20 years after the Company's appointment as TSO, *i.e.,* on 17 September 2022;

Tranche B, in an amount of EUR 1,635,014,662.45, consisting of:

- an amount of EUR 773,413,836.32 of short-term debt pending third-party refinancing. This refinancing occurred in December 2002 when the conditions precedent to draw-down of the 31 May 2002 EUR 902,653,960 Term Loan Facility Agreement with a syndicate of banks were fulfilled. This loan was

itself refinanced by a Belgian bank syndicate on 30 May 2003 and eventually by the bonds issued in May 2004. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Liquidity and Capital Resources").

- the balance, *i.e.*, an amount of EUR 861,600,826.13, is to be repaid in full no later than seven years after the Company's appointment as TSO, it being understood that each time Electrabel or SPE sell shares of the Company to third parties, the Company must repay Electrabel and SPE an amount corresponding to the percentage of shares sold within 45 business days. By way of exception, the agreement provides that when CPTE sells 30% of its shares of the Company to Publi-T, only 50% of this amount is to be repaid.

Consequently, following CPTE's sale of 30% of the shares of the Company to Publi-T on 31 May 2002, the Company repaid EUR 129,240,124 (EUR 861,600,826.13 * 0.3 * 0.5) in December 2002 with funds drawn under the above-mentioned EUR 902,653,960 Term Loan Facility Agreement. Since there have not been any further divestments prior to the Offering, a total amount in principal of EUR 732,360,702.13 is still outstanding under Tranche B.

Further divestments of shares of the Company by Electrabel and SPE will trigger further repayments on the same basis. Therefore, following the closing of the Offering (and on the assumption that all of the shares offered by Electrabel and SPE are placed and the Over-Allotment Option is exercised in full), the Company will reimburse EUR 344,640,330 (EUR 861,600,826.13 * 0.4) (to be allocated to Tranche B2; see the table below.). (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Outlook – Outlook 2005").

For each tranche, the interest rate corresponds to EURIBOR for the relevant interest period plus a margin. Tranche B itself is subdivided in three subtranches for interest rate computation purposes. Repayments are applied first to Tranche B1, then to Tranche B2 and finally to Tranche B3.

Margins and repayment dates are as follows:

	Amount	Margin over EURIBOR	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
Tranche B1 . . .	EUR 902,653,960.2	0.20%	31 May 2002[34]
Tranche B2 . . .	EUR 344,640,330.5	0.30%	within 45 business days following the Offering in an amount corresponding to the percentage of shares sold
Tranche B3 . . .	EUR 387,720,371.8	0.65%	No later than seven years after the Company's appointment as TSO, *i.e.*, on 17 September 2009

Interest periods are freely determined by the Company for each tranche. There is a tax gross-up obligation for the Company. In addition, the Company must indemnify Electrabel or SPE for any tax 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 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 suffers a "change of control" (defined as a third party, alone or in concert with other parties, other

[34] The repayment date itself is not expressly provided for in the Shareholder Loan Agreement: it results from the third-party refinancing of EUR 773,413,836.32 short-term debt and the repayment of EUR 129,240,124 in connection with the Publi-T transaction (see above).

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 license or any license 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.

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 was allocated as follows (all amounts expressed in Euro):

	Total	Tranche A	Tranche B1	Tranche B2	Tranche B3
Electrabel	1,949,683,566.5	453,645,150.3	825,928,373.6	315,345,902.36	354,764,140.2
SPE	181,118,145.5	42,141,899.2	76,725,586.6	29,294,428.1	32,956,231.6

Under a subsequent Assignment Agreement dated 12 August 2002, Electrabel assigned all of its rights under the Shareholder Loan Agreement to an affiliate, Belgelec Finance SA, with effect as of 14 August 2002. Belgelec Finance SA assigned all of its rights under the Shareholder Loan Agreement to Electrabel Invest Luxembourg s.a. on 30 December 2004, with effect as of that date. Electrabel Invest Luxembourg s.a. is an affiliate of Electrabel.

Loan by Electrabel, SPE and Publi-T

On 23 May 2002, CPTE extended a EUR 123,946,762 interest-free subordinated loan to the Company to partially finance the Company's acquisition, on the same day, of 4.25% of the shares of Elia Asset. (See "Context and Background of the Offering" and "Relationship with Existing Shareholders and Related-Party Transactions – History of Share Ownership").

On 31 May 2002, simultaneously with its purchase of 30% of the shares of the Company, Publi-T acquired from CPTE 30% of this interest-free loan for a consideration of EUR 37,184,029. As a result, Publi-T participated for 30% in the loan, Electrabel for 64.1% and SPE for 5.9%. This loan implemented the relevant provisions of the Shareholders' Agreement. (See "Relationship with Existing Shareholders and Related-Party Transactions – Agreements among the Existing Shareholders and the Belgian State – Shareholders' Agreement dated 31 May 2002").

The loan had to be repaid in 10 annual and equal instalments, each time on the anniversary date of the loan, *i.e*., until 31 May 2012.

The loan was, however, repaid in full on 24 December 2004 at the then present value (using a discount rate based on the then applicable market conditions) of its outstanding amount of EUR 99.16 million, *i.e*., a total amount of EUR 87,049,203.45, divided as follows: EUR 55,755,014.81 for Electrabel, EUR 5,179,427.61 for SPE and EUR 26,114,761.04 for Publi-T. (See "Management Discussion and Analysis of Financial Condition and Results of Operations – Recent Transactions"). If the proceeds are less than EUR 150,000,000 in the Primary Offering, Electrabel, SPE and Publi-T have committed to subscribe, on a pro rata basis, for the balance of the New Shares up to a maximum aggregate amount of EUR 87,049,203.45 (*i.e*., up to EUR 55,755,014.81 for Electrabel, EUR 5,179,427.61 for SPE and EUR 26,114,761.04 for Publi-T), including their share in the Primary Offering. (See "Information on the Public Offering in Belgium – Size and Nature of the Offering").

For the repayment of the loan as described above, the procedure of article 524 of the Company Code regarding intra-group operations has been followed.

Business and Commercial Dealings with the Selling Shareholders

Ancillary Services Supplied by Electrabel and SPE

Electrabel and SPE each render certain ancillary services to Elia, *i.e.,* services defined in the Federal Grid Code. (See "Regulation and Tariffs – Relevant Legislation – Grid Code"). 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 (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 réactive/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 black-out, 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. The contracts between Electrabel and the Company and between SPE and the Company are granted on a year-to-year basis (without any automatic renewal provisions).

Coordination Contracts

The Company enters into a coordination contract with each of Electrabel and SPE.

This contract relates to congestion management *(gestion des congestions/congestiebeheer)* 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 Elia is set up through a tender procedure. The contract is also 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.

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 producers and suppliers, Electrabel and SPE are significant clients of the Company. To this end, each has entered into several contracts with Elia, including the customary connection agreement, network access agreement and access responsibility party agreement with the Company (see "Description of Elia's Business – System Operation – Contracts"). There also exist agreements between Electrabel and Elia (as a result of the contribution by CPTE of its transmission infrastructure and related assets to Elia), concerning the import of electricity pursuant to legacy contracts entered into directly or indirectly by Electrabel.
- 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.

- An affiliate of Electrabel, Trasys SA/NV, is a significant provider of IT services to the Company, Elia Asset and BEL Engineering SA/NV**.** 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. The Company participates in Electrabel's (and in some cases, Suez') self-insurance program 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).
- 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. Some of these transfers are still in various stages of preparation.
- Electrabel and SPE have each entered into an optical fibre agreement with Elia.

DESCRIPTION OF SHARES AND SHARE CAPITAL

General corporate information

The Company is a company limited by shares (*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 documents related to the Company and quoted in this Prospectus can be reviewed and/or obtained at its registered office.

This section summarises the Company's corporate purpose, share capital and rights attached to certain shares. It is based on the Company's Articles of Association, as amended by the Company's Extraordinary Shareholders' Meeting held on 30 May 2005, which amendments will become effective upon closing of the Offering. The description provided hereafter is a summary only and does not purport to give a complete overview of the Company's Articles of Association, nor of the relevant provisions of Belgian law.

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 and operation 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 view of the security of the supply;
    - the improvement, study, renewal and extension of the networks, including 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 of which it assumes the management 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 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, notably 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 its other 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, one or more subsidiaries in carrying out its activities relating to the management and operation of the electricity networks in accordance with applicable law;
- carry out, in Belgium and abroad, any operation which allows it to achieve its corporate purpose and any public services mission imposed on it by law;
- carry out any actions or transactions, whether industrial, commercial, financial or relating to moveable or immoveable property, which directly or indirectly relate to its corporate purpose;
- acquire interests under any form in any businesses or entities that may contribute to the achievement of the Company's corporate purpose, provided, however, that the Company may not hold, directly or indirectly, shareholders' rights of any kind, in electricity producers, intermediaries buying electricity rights to resell them, or holders of authorisations for delivery or in affiliated or associated undertakings to the above-mentioned undertakings.

The terms "producers", "distributor", "intermediary" and "subsidiary" have the meanings provided in Article 2 of the Electricity Law.

Share capital

Amount of capital, number and categories of shares

The Company's share capital amounts to EUR 1,049,491,000 represented by 41,979,640 registered ordinary shares without par value, each representing 1/41,979,640th of the Company's share capital. The capital is fully paid.

The shares are divided into three classes of shares, as follows:

- Class A: 12,593,892 shares numbered from 1 to 12,593,892, held by Electrabel (11,523,408 shares) and SPE (1,070,484 shares);
- Class B: 16,791,856 shares numbered from 12,593,893 to 29,385,748, held by Electrabel (15,364,548 shares) and SPE (1,427,308 shares);
- Class C: 12,593,892 shares numbered from 29,385,749 to 41,979,640, held by Publi-T.

Apart from the above-mentioned classes of ordinary shares, the Company has not issued any other securities, whether or not representing the Company's capital.

All the ordinary shares have the same rights irrespective of their class, except as otherwise provided in the Company's Articles of Association and/or the Shareholders' Agreement.

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 (and, pursuant to the Articles of Association, with the concurrence of the holders of Class A and Class C). (See "Rights attached to the Shares" below). In case of a capital increase in cash, the existing shareholders have, in principle, a preferential subscription right. The Company's shareholders acting at the General Shareholders' Meeting may, however, restrict or disapply such preferential subscription rights, according to the same quorum and voting requirements. At the date hereof, the Company's Board of Directors has no authorisation to proceed with any capital increase (within the framework of the authorised capital or otherwise) without the intervention of the General Shareholders' Meeting.

Shares may be in registered, bearer or dematerialised form. No implementing legislation to date has, however, been passed to allow shares to take such dematerialised form. Registered shares may, upon request from any shareholder and at its cost, be converted into bearer shares, and vice-versa.

Shares' buy-back

A transitional statutory provision authorizing the Company, for a period of three years, 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 Company Code, has been inserted in the Company's Articles of Association pursuant to an amendment adopted by the Company's Extraordinary Shareholders' Meeting held on 30 May 2005 under the suspensive condition of the closing of the Secondary Offering.

Rights attached to the shares

Suspension of the rights attached to the shares

The Company may suspend the exercise of rights attached to shares which are subject to co-ownership, usufruct, and/or pledge until one person is appointed as the beneficiary of these rights.

General Shareholders' Meeting and Voting Rights

Each share is entitled to one vote except in case of suspensions with respect to such voting rights as provided for by law or the Company's Articles of Association. Shareholders may vote by proxy.

The Company's Shareholders make decisions at the General Shareholders' Meeting in accordance with the quorum and majority requirements contained in the Belgian Company Code. 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 of holders of a majority of such classes.

If certain decisions must or may be taken by holders of a specific class of shares, such decisions are taken upon the approval by simple majority of the holders of such class of shares.

The annual General Shareholders' Meeting is held on the second Tuesday of May at 11.30 a.m. (Brussels time), or, if not a business day, on the next business day. An 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 shareholders representing at least one-fifth of the Company's share capital.

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 fifth working day before the General Shareholders' Meeting takes place. The above applies irrespective of the number of shares hold by each shareholder.

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 State Gazette (*Moniteur belge / Belgisch Staatsblad*) at least 24 days prior to the record date. Notwithstanding the above, if the notice concerns meetings held at the municipality, place, day and hour mentioned in the incorporation act and whose agenda is limited to the examination of the annual accounts, the Board report, the statutory auditors' report and the vote on the directors and statutory auditors' release, the notice must be published 15 days before the record date, in a national newspaper.

These notices will be sent 15 days prior to the meeting to holders of registered shares, holders of registered bonds, holders of a registered subscription right, holders of registered certificates issued with the cooperation of the Company, directors and statutory auditors of the Company. This communication is made by ordinary letter unless the addressees have individually and expressly accepted in writing to receive the notice by another form of communication, without having to give evidence of the fulfillment of such formality.

When all the shares, bonds, subscription rights and certificates issued with the cooperation of the Company are registered, the communication may be limited to the notices. 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.

To attend a meeting, holders of bearer shares must deposit their shares at those places indicated in the notice at the earliest six business days before the meeting and at least three business days prior to the meeting. Holders of registered shares 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).

Any amendment of an article of the Company's 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.

Distribution of profits

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. Pursuant to the Belgian Company Code and the Company's 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 of the Company provide that 85% of the yearly profits available for distribution, or such higher percentage thereof as may be proposed by the Board of Directors[35], 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 so long as the relevant class owns at least 25% of the total outstanding share capital of the Company, or 15% in the event of dilution following a capital increase).

In accordance with Belgian law, the right to collect dividends declared on ordinary shares expires five years after the distribution date, 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.

(See "Dividends and Dividend Policy – Dividends").

Liquidation

In the event the Company is wound up, the Company's Shareholders, acting at the General Shareholders' Meeting, shall appoint one or more liquidators and determine at the same time the liquidation method to be used. 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.

35 The possibility for the Board of Directors to propose a higher than 85% distribution has been added to the Company's Articles of Association by one of the amendments adopted by the Extraordinary Shareholders' Meeting held on 30 May 2005.

Conversion of the shares

Upon transfer to 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, Class A shares automatically convert into Class C shares. Class A shares or Class C shares sold on the stock exchange in accordance with the provisions outlined below will automatically convert into Class B shares. Class B shares remain Class B shares, regardless of the transfer between holders of different classes of shares.

After closing of the Offering, 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 bearer shares or into dematerialised shares for the purpose of selling these shares on the stock exchange, subject to certain transfer restrictions described below. Such Class A shares and Class C shares shall automatically be converted into Class B shares at such time as they are converted into bearer shares or into dematerialised shares. For all other transfers of Class A, B and C shares, the class of the transferred shares remains unchanged.

Transfer of shares

The Class B shares are freely transferable.

Each of Electrabel, SPE and Publi-T may freely transfer part or all of their Class A or Class C shares to an affiliated or associated person as defined in Articles 11 and 12 of the Company Code, who agrees to be bound by the terms of the Shareholders' Agreement. Class A shares are also freely transferable between SPE and Electrabel.

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 preemption rights.

Transfer Restrictions

Other than in the cases of the transfers discussed above, reciprocal preemption and tag-along rights 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 (the "Beneficiary") and the Company of the intended transfer and the terms and conditions under which such transfer is to take place. The Beneficiary then has a 60 day period to exercise its pre-emption right upon the same terms and conditions as the proposed transfer, or to exercise its tag along right with regard to the same number of shares and upon the same terms and conditions as the proposed transfer. If the Beneficiary fails to exercise its pre-emption or tag-along rights, the proposed transfer may effectively take place.

Additionally if a holder of Class A shares wishes to sell its shares on the stock exchange and is therefore required to convert its Class A shares into bearer or dematerialised Class B shares, the holders of Class C shares have a right of first refusal with regard to such shares at market price, defined as the average of the 20 most recent closing prices on the stock exchange preceding the date of request for delivery of the shares in bearer form. A reciprocal restriction applies to the holders of Class C 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.

Disclosure of share interests

Belgian law, in conjunction with the Company's Articles of Association, imposes disclosure requirements on any individual or entity acquiring or transferring voting securities or securities which give a right to voting securities, as soon as the total number of voting rights directly or indirectly held by such individual 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. A shareholder whose shareholding increases above or falls below any such thresholds must, each time, disclose this fact to the Belgian Banking, Finance and Insurance Commission and to the Company, as well as to the CREG. The documents pursuant to which the transaction was effected must be submitted to the Belgian Banking, Finance and Insurance Commission.

The Company is required to publicly disclose any notifications received regarding increases or decreases in a shareholder's ownership of the Company's securities on the next business day, and must mention these notifications in the notes to its annual accounts. Euronext Brussels will publish details of the notifications. 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.

MARKET INFORMATION – EURONEXT BRUSSELS

Application has been made for the listing of all of the Company's ordinary shares and the VVPR-strips of the Company on Eurolist by Euronext, the Regulated Market of Euronext Brussels, under the symbol "ELI" and "ELIS", including all existing shares, the New Shares to be issued pursuant to the Primary Offering and those to be issued pursuant to the Employee Offering. The Company expects trading to commence on or about 23 June 2005. Prior to the Offering, there has been no public market for the Company's ordinary shares.

General

In 2000, the stock exchanges of Amsterdam, Brussels and Paris were combined into Euronext, the first pan-European stock exchange, whose holding company, Euronext N.V., is a limited liability company formed under Dutch law. In 2002, the stock exchange of Lisbon and the London International Financial Futures and Options Exchange ("LIFFE") joined Euronext.

Access to Euronext cash markets is provided by Euronext Brussels, Euronext Amsterdam, Euronext Lisbon or Euronext Paris. Each market-operator is a subsidiary of Euronext N.V. Current market-operators include Euronext Brussels SA/NV, Euronext Amsterdam N.V., Euronext Lisbon S.A. and Euronext Paris S.A., and, with respect to derivative trading, Euronext LIFFE. The choice of access point determines the regulatory system applicable to an issuer. The Company will be listed on Eurolist by Euronext in Brussels and will, therefore, be subject to Belgian securities regulations and authorities.

Application has been made for the listing of all of the Company's ordinary shares and the VVPR-strips of the Company on Eurolist by Euronext, the Regulated Market of Euronext Brussels, under the symbol "ELI" and "ELIS", including all existing shares (it being understood that any Class A or C shares must be converted into (bearer or dematerialized) Class B shares before being effectively tradable on the exchange), the New Shares to be issued pursuant to the Primary Offering and those to be issued pursuant to the Employee Offering. The Company expects trading to commence on or about 23 June 2005. Prior to the Offering, there has been no public market for the Company's ordinary shares.

The trading system of Euronext is order driven. Depending on the liquidity of their stock, issuers are placed either in the "continuous segment" or "fixing segment". Provided that liquidity is deemed sufficient, an issuer is listed in the continuous segment, in which securities may be traded at any time during trading hours and trading prices are quoted in real time. In the fixing segment, trades are limited to "auctions" organised twice a day. The Company has applied for the shares to be listed on the continuous segment, where trading starts at 9.00 a.m. and ends at 5.30 p.m., Brussels time (with a possibility of trading at closing price till 5.40 p.m.).

Each trading day, Euronext Brussels publishes a price list in respect of transactions carried out on the Euronext Brussels markets. The price list includes the following information for each security:

- the opening price, the highest price, the lowest price and the closing price in respect of transactions executed through the order book;
- the daily trading volume, including block trades, in the relevant securities; and
- the highest price, the lowest price and the daily trading volume of block trades.

Indices

Since 2005, the main securities listed on Eurolist by Euronext have been included in three indices: BEL 20, BEL Mid and BEL Small, according to the free float market capitalisation and free float velocity of each share.

Based on reasonable assumptions, Elia anticipates to join the BEL Mid index in the reshuffling that should take place in October 2005. The main requirements for eligibility in the BEL Mid are a free float market capitalisation between EUR 50,000 and EUR 500,000 times the BEL 20 index and a minimum free float velocity of 10 %.

Elia could also be included in other national or pan-European blue chip indexes such as the Euronext 100 or Euronext 150. The Euronext 100 is composed of the top 100 blue chip shares traded on the markets constituting Euronext. The Next 150 consists of the next 150 blue chip shares following the selection of the Euronext 100 index.

Members

Euronext Brussels members consist primarily of credit institutions and investment firms that are authorised to execute buy and sell orders on Euronext Brussels. Depending on the type of authorisation, they trade for their own account, as dealers, and/or for the account of third parties, as brokers. Euronext Brussels members must either be a clearing member or enter into an agreement with a clearing member. Clearing members are companies with clearing and settlement authorisation.

Surveillance and Supervision

The market regulator in Belgium is the Banking, Finance and Insurance Commission. The supervision unit of the Banking, Finance and Insurance Commission closely monitors and supervises all trading operations and is authorised to temporarily suspend trading in securities. Additionally, the Banking, Finance and Insurance Commission has supervisory powers with respect to the publication of information by listed companies and the application of take-over regulations. It also supervises the financial intermediaries, such as credit institutions and investment firms, and investment advisors.

Brokerage Fees and Transaction Costs

Euronext Brussels members charge negotiable brokerage fees for transactions on the market. Financial intermediaries that are not members of Euronext Brussels may charge additional brokerage fees.

On each sale or purchase of existing shares on Euronext Brussels by a Belgian resident, a stock market tax of 0.17% of the purchase price, with a cap of EUR 500, is levied per party. Professional intermediaries, insurance companies, pension funds, collective investment institutions and non-residents of Belgium, acting for their own account are exempt from this tax. There is no stock exchange tax on subscription of new shares. The cap of EUR 250 per transaction and per party has been abolished by the Program Law of 27 December 2004. A new Law of 28 April 2005 reintroduces a cap, but increases it from EUR 250 up to EUR 500. This Law applies to all transactions as of 31 December 2004. (See "Taxation").

Settlement and Clearing

Transactions in listed securities are settled through a system of delivery against payment. This system settles transactions through electronic book-entry changes in the accounts of its participants. It thereby ensures that sellers receive cash when delivering securities and that buyers receive corresponding securities when paying, and eliminates the need for the physical movement of securities. Settlement takes place three business days following the transaction and clearing procedures are executed by LCH Clearnet.

TAXATION

Following is a summary of the Belgian federal income tax consequences of the ownership of the Shares by an investor purchasing them.

This summary does not purport to address all material tax consequences associated with ownership of the Shares, and does not take into account the specific circumstances of any particular investor which may be subject to special rules, or the tax laws of any country other than Belgium. In particular, the summary deals only with investors that hold, or will hold, the Shares as capital assets and does not address the tax treatment of investors that are subject to special rules, such as banks, insurance companies, collective investment undertakings, dealers in securities or currencies, persons that hold, or will hold, the Shares as a position in a straddle, share-repurchase transactions, conversion transactions, synthetic security or other integrated financial transaction.

The summary is based on the applicable laws, treaties and regulatory interpretations in effect on the date of this prospectus, all of which are subject to change, including changes that could have retroactive effect.

Investors should consult their own advisers regarding the tax consequences of an investment in the Shares in light of their particular circumstances, including the effect of any state, local or other national laws.

For the purposes of this summary, a resident investor is: (i) an individual subject to Belgian individual income tax (*i.e.*, an individual that is domiciled in Belgium or has the seat of his wealth in Belgium or a person assimilated to a resident); (ii) a corporation subject to Belgian corporate income tax (*i.e.*, a corporation that has its registered offices, its principal establishment or its place of management in Belgium) or (iii) a legal entity subject to Belgian tax on legal entities (*i.e.*, a legal entity other than a corporation subject to corporate income tax, that has its registered offices, its principal establishment or its place of management in Belgium). A non-resident is a person that is not a resident investor.

Income Taxes

Dividends

As a general rule, a withholding tax of 25% is levied on the gross amount of dividends paid on or attributed to the Shares. Dividends subject to the dividend withholding tax include all benefits attributed by the Company to the Shares in whatever form, as well as repayments of statutory capital, except repayments of fiscal capital made in accordance with the Belgian Company Code. Generally, fiscal capital includes paid-in capital and paid-in share premiums.

Under certain circumstances, Belgian domestic law provides for a reduction of the withholding tax rate to 15% in respect of Dividends paid on shares which are issued to the public after 1 January 1994. Shares eligible for this reduced withholding tax rate may be issued together with "VVPR" strips, which are an instrument representing the right to receive dividends at a reduced withholding tax rate of 15%. These VVPR-strips are described under "VVPR-strips" below.

A Belgian withholding tax of 10% is levied on redemption and liquidation bonuses distributed by the Company. The basis for the withholding tax is equal to any amount distributed over and above the fiscal capital. No withholding tax will be due for redemptions carried out on Euronext or any other similar stock exchange market. At the date of this Prospectus, the statutory capital of the Company does not include any amount that qualifies as fiscal capital. The capital increase that will take place as a result of the issuance of the New Shares does, however, qualify as fiscal capital. Accordingly, any liquidation bonuses distributed by the Company will give rise to a 10% withholding tax on the portion so distributed in excess of the size of the Primary Offering or any subsequent capital increases. The exact amount subject to withholding tax will depend on the precise amount of the capital increase. For redemptions of own shares by the Company, the amount of the redemption bonus, subject to withholding tax, will also depend on the final destination of the shares thus redeemed (*e.g.* cancellation, resale,…).

Resident private investors

For resident investors acquiring the Shares as a private investment, the dividend withholding tax may constitute their final tax liability. The dividend income must not be declared in the investor's personal income tax return.

If those investors opt to declare these dividends in their personal income tax return, they will, in principle, be taxed at rates that are separate from the ordinary progressive personal income tax rates, and that are equivalent to the withholding tax rate plus communal surcharges. However, if the tax amount obtained by taxing both these dividends and other declared income in accordance with the progressive personal income tax rate scale is lower than that resulting from the application of the separate rates, the progressive rates will apply. In both cases, the income tax payable will be increased by the communal surcharges and the withholding tax levied at the source will be creditable against the total amount of tax due and even reimbursable should it exceed the tax payable, provided that the dividend distribution does not give rise to a reduction in value of or a capital loss on the Shares. This condition is not applicable if the investor proves that he/she held the Shares in full legal ownership during an uninterrupted period of twelve months prior to the attribution of the dividends.

For resident individuals who hold the Shares for professional purposes, the dividends received will be taxed at the progressive personal income tax rates. The withholding tax will be creditable against the personal income tax due and is reimbursable to the extent that it exceeds the tax payable, subject to two conditions: (i) the taxpayer must own the Shares at the time of payment or attribution of the dividends in full legal ownership 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 such investor proves that he/she held the Shares in full legal ownership during an uninterrupted period of twelve months prior to the attribution of the dividends.

Resident corporations

For resident corporations, the gross dividend income (including the withholding tax levied) received will generally be taxed at the resident corporate income tax rate of 33.99% (*i.e.* 33% increased by 3% additional crisis contribution) unless the corporation would be entitled to the application of the reduced corporate income tax rate scale.

The withholding tax may, in principle, be credited against the corporate tax and is reimbursable to the extent that it exceeds the corporate tax payable, subject to two conditions: (i) the taxpayer must own the Shares at the time of payment or attribution of the dividends in full legal ownership 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 proves that it held the Shares in full legal ownership during an uninterrupted period of twelve 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 being a non-resident corporation that held the Shares through a permanent establishment in Belgium.

No withholding tax will be due on dividends paid to a resident corporation provided the resident corporation owns, at the time of the distribution of the dividend, at least 20% 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 20% shareholding for an uninterrupted period of one year. For those investors owning a share participation of at least 20% in the share capital of the Company for less than one year, the Company will levy the withholding tax but, provided the investor certifies its resident status and the date on which he acquired the shareholding, will not transfer it to the Belgian Treasury. As soon as the investor owns the share participation of at least 20% in the capital of the Company for one year, it will receive the amount of this temporarily levied withholding tax. The 20% minimum participation requirement will be reduced to 15% for dividends attributed or paid after 1 January 2007 and to 10% for dividends attributed or paid after 1 January 2009.

The herementioned corporate investors may deduct 95% of the gross dividends received from their taxable income under the Belgian Dividend Received Deduction ("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 1,200,000 or represents at least 10% of the total capital of the Company; (ii) full legal ownership of the Shares for an uninterrupted period of at least one year and (iii) the Shares must qualify as financial fixed assets under Belgian GAAP.

The above conditions do not apply to dividends received by qualifying investment companies. Condition (i) does not apply to dividends received by Belgian financial institutions, insurance companies and stock exchange companies.

Resident legal entities

For resident legal entities, the withholding tax levied generally constitutes their final tax liability.

Non-residents

For individuals or legal entities which are not resident in Belgium and not holding the Shares through a Belgian establishment or a fixed base in Belgium, the withholding tax is generally levied at the rate of 25%. This withholding tax will be the only tax payable in Belgium on the dividends.

If the Shares are held by a non-resident in connection with a business in Belgium, the beneficiary must report any dividends received, which will be subject to the non-resident individual or corporate income tax. Withholding tax retained at the source may, in principle, be offset against non-resident individual or corporate income tax and is reimbursable to the extent that it exceeds the actual tax payable, subject to the condition that the dividend distribution must not reduce the value of, or result in a capital loss, on the Shares. This condition is not applicable if: (a) the non-resident individual or the non-resident corporation can demonstrate that he/it has held the full legal ownership of the Shares for an uninterrupted period of 12 months preceding the date upon which the dividends are attributed or (b) with regard to non-resident corporations only, if, during the said period, the Shares never belonged to a taxpayer other than a resident corporation or a non-resident corporation which has, in an uninterrupted manner, invested the Shares in a Belgian establishment.

With regard to non-resident individual investors who acquire the Shares for professional purposes or non-resident corporations, the taxpayer must fully own the Shares at the time the dividends are made available for payment or attributed for the withholding tax to be offset against non-resident individual or corporate income tax. Non-resident corporate taxpayers may deduct up to 95% of gross dividends from their taxable profits if, at the date dividends are made available for payment or attributed (*mis en paiement ou attribuées*), (i) they hold at least 10% of the total capital of the Company or a shareholding with an acquisition value of at least EUR 1,200,000; (ii) full legal ownership of the Shares for an uninterrupted period of at least one year and (iii) the Shares must qualify as financial fixed assets under Belgian GAAP.

Non-resident investors may, pursuant to the bilateral tax treaty concluded between the Kingdom of Belgium and their state of residence, and subject to certain conditions, either benefit from a reimbursement of the tax amount withheld in excess of the treaty rate or may benefit from a reduction of the withholding tax deducted at the source. The reduction and reimbursement of the withholding tax under the relevant tax treaty is subject to the timely filing of a "Form 276 Div." with the relevant Belgian tax administration.

Under normal procedures, the Company or the paying agent must withhold the full Belgian withholding tax, and the treaty beneficiary may make a claim for reimbursement for amounts withheld in excess of the rate defined by the Treaty. The reimbursement form (Form 276 Div.-Aut.) may be obtained from the *Bureau Central de Taxation/Bruxelles-Etranger*, 10 Place Jean Jacobs, B-1000 Brussels. The treaty beneficiary must complete the form in duplicate and send it to the tax authorities competent in his state of residence with a request to return one copy appropriately stamped. The treaty beneficiary may then obtain reimbursement from the *Bureau Central de Taxation*, at the same address, upon presentation of the stamped form and a document proving that the dividend has been cashed. In principle, the treaty beneficiary must file the request for reimbursement with the Bureau Central de Taxation within three years following the end of the year in which the dividend was declared payable.

Treaty beneficiaries who have a significant holding of bearer Shares or Shares in registered form may be able to obtain an immediate reduction of the withholding tax at the source if they deliver the claim form and the relevant coupons from bearer Shares no later than ten days after the date on which the dividend becomes payable. To benefit from this reduced rate, the qualifying treaty beneficiary should complete and forward a Form 276 Div.-Aut., properly stamped by the tax authorities of his or her state of residence, to the Company or the paying agent, confirming that the requirements for the reduction are satisfied. The Company or the paying agent will review and complete the form and file it together with the withholding tax return, with the relevant Belgian tax administration.

Belgium has concluded tax treaties with more than 60 countries, reducing the dividend withholding tax rate to 15%, 10%, or 5% for residents of those countries, depending on conditions related to the importance of the shareholding and certain identification formalities.

Prospective holders should consult their own tax advisors to determine whether they qualify for a reduction of the withholding tax rate upon payment of dividends and, if so, the procedural requirements for obtaining such reduction upon the payment of dividends or making claims for reimbursement.

Additionally, in accordance with European Union law, European Union resident companies that qualify under the EU Parent-Subsidiary Directive of 23 July 1990 (90/435/EEC) as amended by Directive 2003/123/EG of 22 December 2003 are exempt from withholding tax if they own at least a 20% interest in the Company for an

uninterrupted period of at least one year. To benefit from this exemption, the qualifying shareholder must sign a certificate as to its status as a European-Union resident company within the meaning of the EU Parent-Subsidiary Directive of 23 July 1990 (90/435/EEC) as amended by Directive 2003/123/EG of 22 December 2003 and as to it having held a 20% or more interest for an uninterrupted period of at least one year. This certificate must then be forwarded to the Company or the paying agent. A shareholder that holds an interest in the Company of 20% or more but that has not held such interest for the minimum one year period at the time the dividends are attributed, may benefit from the exemption if it signs a certificate such as that described above, but, giving the date from which it has held its 20% or more interest. In the certificate, the shareholder must also undertake to continue to hold the interest until the one year period has expired and to notify the Company immediately if the one-year period has expired or if its shareholding falls below 20%. The Company will hold the withholding tax until the end of the one-year holding period and then pay it to the shareholder or the Belgian tax authorities, as appropriate. The 20% minimum participation requirement will be reduced to 15% for dividends attributed or paid after 1 January 2007 and to 10% for dividends attributed or paid after 1 January 2009.

Under Belgian tax law, withholding tax is not due on dividends paid to a non-resident organisation that is not engaged in any business or other profit making activity and is exempt from income taxes 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 manages the Shares. The exemption will only apply if the organisation signs a certificate confirming that it is the full legal owner or usufruct holder of the Shares, that it is a non-resident that is not engaged in any business or other profit making activity and that it is exempt from income taxes in its country of residence. The organisation must then forward that certificate to the Company or the paying agent.

Capital Gains and Losses

Resident private investors

Resident private investors holding the Shares as a private investment are not subject to Belgian capital gains tax on the disposal of the Shares. Conversely capital losses are not tax deductible. Such investors may, however, be subject to a 33% tax if the capital gain is deemed, by way of exception, to be speculative or if the capital gain is realised outside the scope of the normal management of one's own private estate, or to a 16.5% tax if, during the five year period preceding the transfer of the Shares, the investor, or, in certain circumstances, the person from whom he has received the Shares, has held a substantial shareholding in the Company (*i.e.*, a shareholding of more than 25%, together with the Shares held by a certain category of relatives), and the Shares are transferred directly or indirectly to a non-resident company. However, the European Court of Justice has decided recently that the application of this 16.5% capital gain tax is contrary to the general principles of free movement of capital and freedom of establishment contained in the EC Treaty if the Shares are transferred to an EU resident company.

These taxes are subject to the communal surcharge. Any losses suffered by private investors upon the disposal of the Shares are generally not tax deductible. However, losses on speculative transactions or transactions outside the scope of the normal management are tax deductible from the income received pursuant to similar transactions.

Individual residents who hold the Shares for professional purposes are taxed at the ordinary progressive income tax rates on any capital gains realised upon the disposal of the Shares. If the shares were held for at least 5 years prior to such disposal, the capital gains tax will be levied at a reduced rate of 16.5%. Losses on Shares realised by such an investor are tax deductible.

Resident corporations and Belgian branches of non-resident corporations

Resident corporations and corporations with their tax residence outside Belgium, which hold the Shares through a permanent establishment in Belgium, will not be taxed in Belgium with respect to capital gains realized upon disposal of the Shares.

Any losses incurred by such investors with respect to disposal of the shares will not be tax deductible, except possibly at the time of liquidation of the Company up to the fiscal capital of the Company represented by those Shares.

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%). (See "Capital Gains and Losses – Resident private investors").

Losses incurred by resident legal entities upon disposal of the Shares are generally not tax deductible.

Non-residents

Non-resident shareholders, who do not hold the Shares through a permanent establishment or fixed base in Belgium, will generally not be subject to any Belgian income tax on capital gains realized upon the sale, exchange, redemption (except for the dividend withholding tax, see *supra*) or other transfer of the Shares, unless they hold a substantial participation and the bilateral tax treaty concluded between the Kingdom of Belgium and their state of residence does not provide for an exemption from Belgium capital gains tax.

Tax reduction on the investment in the Shares ("The Monory bis Law")

Cash payments up to a maximum of EUR 620 for Qualifying Shares which a Belgian resident has subscribed as an employee of the Company, or as an employee of certain qualifying subsidiaries of the Company, entitle the subscriber, subject to certain conditions described below, to a reduction in personal income tax.

Qualifying Shares are new shares subscribed for on the primary market, *i.e.*, new shares subscribed for upon the incorporation of or a capital increase by the Company. Shares acquired on the secondary market, *i.e.*, purchase of existing shares on the stock market, are not considered Qualifying Shares.

The tax reduction applicable to qualifying shares is limited to taxpayers who are, at the moment of subscription of Qualifying Shares, working for the Company or certain qualifying subsidiaries of the Company under an employment contract and who receive a remuneration as described in Articles 30, 1° and 31 of the Belgian Income Tax Code of 1992. Directors, even if they are working for the Company under an employment contract, are not eligible for this tax reduction, as they do not receive a remuneration described in the above articles of the Belgian Income Tax Code of 1992. A company will be considered as a qualifying subsidiary of the Company if the Company is irrefutably deemed to control such company. Such control is deemed to exist in those circumstances where in the Company possesses: (i) the majority of voting rights in such company, either as a result of shareholding or on the basis of an agreement; (ii) the right to appoint and remove the majority of the members of the board of directors of such company; (iii) the authority to control, by virtue of the company's Articles of Association or contracts concluded with such company, or (iv) joint control on such company.

The reduction applicable to Qualifying Shares, must be claimed in the annual tax return and cannot be cumulated with the tax reduction for pension savings. The reduction is granted subject to the condition that the employee demonstrates, in his/her personal income tax return related to the taxable period in which the payment occurred, that the Qualifying Shares were acquired and that the Qualifying Shares were held through the end of that the applicable taxable period. The tax reduction will only be maintained if the employee proves that he has held the Shares during the subsequent five taxable periods.

Indirect taxes

Tax on stock exchange transactions

Stamp Tax on Securities Transactions

A stock market tax is normally levied on the purchase, sale or any other acquisition or transfer for consideration in Belgium, of existing Shares through a professional intermediary. The usual tax rate is 0.17% of the purchase price, per party. The cap of EUR 250 per transaction and per party has been abolished by the Program Law of 27 December 2004. A new Law of 28 April 2005 reintroduces a cap, but increases it from EUR 250 up to EUR 500. This Law applies to all transactions as of 31 December 2004.

Pursuant to the decision of 15 July 2004 of the European Court of Justice (Case C-415/02) and the Program Law of 27 December 2004, no stock market tax is due upon the issue of new shares. Only secondary transactions, *i.e.* transactions in which investors purchase existing shares, are subject to the usual 0.17% tax rate.

No stock exchange tax is payable by: (i) professional intermediaries, described in Article 2 of the Law of 6 April 1995, acting for their own account, (ii) insurance companies, described in Article 2, § 1 of the Law of 9 July 1975, acting for their own account, (iii) pension funds, described in Article 2, § 3, 6° of the Law of 9 July 1975, acting for their own account, (iv) UCIT's, described in the Law of 4 December 1990 acting for their own account or (v) non-residents (upon delivery of a certificate of non-residence).

The difference of treatment between New Shares and Existing Shares requires that both kinds of shares be distinguished. As the Shares are fungible, the Shares subscribed by a particular investor cannot be individualised. Therefore, a prorata system is established where each non-exempt investor will be deemed to be subscribing a

proportion of New and Existing Shares that is equal to the proportion that total Shares allocated to non-exempt investors bears to the total number of New Shares available. Only the Existing Shares deemed to be received by each non-exempt investor would be subject to a 0.17% stock market tax.

Tax on the physical delivery of bearer instruments

There is a tax on the physical delivery of bearer Shares acquired on the secondary market for consideration through a professional intermediary in Belgium. The tax payable is currently 0.6% of the purchase price.

A tax is also due upon the physical delivery of bearer Shares in Belgium pursuant to the withdrawal of Shares from "open custody" (*dépôt à découvert/open bewaargeving*) or as a result of the conversion of registered Shares in bearer Shares. The tax payable is currently 0.6% of the fair market value of the Shares, as estimated by the custodian or, for listed Shares, the last price quotation prior to the date of withdrawal or conversion.

VVPR-strips

The New Shares offered pursuant to this prospectus meet the conditions pursuant to which shares are entitled to a reduced withholding tax rate of 15% and are, therefore, eligible for the "*Verminderde voorheffing / Précompte Réduit*" regime, and will be issued with VVPR-strips. The Existing Shares have not been issued with VVPR-strips. The Selling Shareholders, the Company and the Underwriters will use reasonable efforts to ensure that the New Shares with VVPR-strips are delivered to retail investors and to investors subject to Belgian legal entities tax (*impôt des personnes morales / rechtspersonenbelasting*), in this order of priority. However, no guarantees can be given in this regard. Should the total number of Shares allocated to the retail investors exceed the total number of VVPR-strips thus available, which is not unlikely, the VVPR-strips will be allocated among the retail investors on a prorata basis.

The coupons representing the right to receive dividends at the ordinary withholding tax rate, are attached to each New Share. In addition, each New Share will be accompanied by a second sheet of coupon, 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 legend "Strip-PR" or, in Dutch, "Strip-VV" (together "VVPR-strips"). The VVPR-strips will be listed on Eurolist by Euronext (Brussels) and may be traded separately. They are sold simultaneously with the New Shares offered as part of the Offering. (See "Information on the Public Offering in Belgium – Allocation"). The reduced withholding tax rate of 15% can be obtained by delivery of both coupons with the same number to the Company or one of its paying agents before the end of the third year following the year in which the dividend was attributed.

Capital gains and losses

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 can not deduct losses incurred as a result of such disposal. Individual Belgian residents and individual Belgian non-residents may, however, be subject to a 33% tax (to be increased with a local surcharge and a 3% crisis surcharge) if the capital gain is deemed to be speculative or if the capital gain is otherwise realised outside the scope of the normal management of one's own private estate. Losses on speculative transaction or on transaction outside the scope of the normal management are deductible from the income realized pursuant to similar transactions.

Capital gains realised on VVPR-strips by Belgian resident investors holding the shares for professional purposes, or by non-resident investors who acquired the strips for a business conducted in Belgium through a fixed base or a Belgian establishment, are taxable as ordinary income, and losses on VVPR-strips are deductible.

Stamp tax on securities transactions and tax on the physical delivery of bearer shares

The rules regarding the levy of the stock market tax and the tax on the physical delivery of bearer instruments with respect to the Shares are also applicable to the VVPR-strips.

Bearer Shares

A draft bill approved by the Council of Ministers on 29 April 2005 for submission to the Parliament provides for the abolition of bearer securities and, hence, the abolition of the anonymous character thereof. All bearer securities shall be converted into dematerialised or registered securities. Two dates are contemplated to be relevant with respect to the entering into force of this new law. First, as of 1 January 2008, it will no longer be possible to issue new bearer securities nor will it be possible to physically deliver in bearer form existing securities previously unconverted. Second, securities issued prior to the publication of the proposed law should be converted into dematerialised or registered securities before 2014.

UNDERWRITING

The Offering consists of a public offering of Shares to retail investors in Belgium and an offering of Shares to institutional investors in Belgium and internationally, but not in the United States, nor to "US Persons", as that term is defined in Regulation S. Merrill Lynch International and Fortis Bank are Joint Global Coordinators, Joint Bookrunners and representatives of the Underwriters named below.

Subject to the terms and conditions set out in the underwriting agreement among the Company, the Selling Shareholders and the Underwriters (the "Underwriting Agreement"), to be executed after the close of the Offering Period, the Underwriters are currently expected to purchase and subscribe for the percentages of Shares (other than Shares allocated to the Selling Shareholders) listed opposite their names below.

Underwriters	Percentage of Shares
Merrill Lynch International	36%
Fortis Bank SA/NV	36%
Dexia Bank Belgium SA/NV	8%
Citigroup	6%
ING Belgium SA/NV	6%
KBC SA/NV	4%
Petercam SA/NV	4%
Total	100%

In the Underwriting Agreement, the Underwriters will agree to restrictions regarding where and to whom they, and any dealer purchasing the Shares from them, may offer and sell the Shares. The Shares have not been, and will not be, registered under the Securities Act. In the Underwriting Agreement, each Underwriter will agree that the Shares may not be offered or sold within the United States nor to US persons.

If an Underwriter defaults, the Underwriting Agreement will provide that, in certain circumstances, the purchase commitments of the non-defaulting Underwriters may be increased or the Underwriting Agreement may be terminated.

Each of the Company and the Selling Shareholders will make certain representations and warranties and will agree to indemnify the several Underwriters against certain liabilities and to contribute to payments the Underwriters may be required to make in respect of such liabilities.

The Underwriters are offering the Shares, subject to prior sale, when, as and if issued and delivered to and accepted by them, subject to certain conditions, including the validity of the Shares and other conditions contained in the Underwriting Agreement, such as the receipt by the Underwriters of officers' certificates and legal opinions.

The Underwriting Agreement will provide that, upon certain conditions or the occurrence of certain events, such as the suspension of trading on Eurolist by Euronext, the Regulated Market of Euronext Brussels, or a material adverse change in the Company's financial condition or business affairs or in the financial markets, the Underwriters, upon the decision of the Joint Bookrunners (after consultation, in certain cases, with the Selling Shareholders and the Company), have the right, collectively but not individually, to withdraw from the Offering prior to delivery of the Shares.

The Underwriters reserve the right to withdraw, cancel or modify orders from institutional investors in whole or in part. If the Underwriters determine, or have reason to believe, that a single investor has submitted several orders through one or more Underwriters, the Underwriters may reduce or disregard any or all such orders. Additionally, the Underwriters may reduce or disregard any unusually large subscription if they believe that such subscription could disrupt the secondary market.

Commissions and fees

The fees of the Underwriters and, in the case of the Secondary Offering, the underwriting discount, are equal to 1.60 % on the aggregate gross proceeds of the Offering (including any proceeds received in connection with the Over-Allotment Option).

The fees for the Underwriters do not include a discretionary incentive fee of up to 0.40 % of the aggregate gross proceeds of the Offering (including any proceeds received in connection with the Over-Allotment Option), which the Selling Shareholders and the Company may in their discretion, award to the Joint Bookrunners in connection with the Offering.

Over-Allotment Option

The Selling Shareholders will grant to the Underwriters an option to purchase a number of additional shares corresponding to maximum 10% of the Existing Shares and of the New Shares (other than New Shares allocated to the Existing Shareholders), at the Offer Price less the underwriting discount during a period of 30 days from the commencement of trading of the Shares on Eurolist by Euronext (Brussels), solely to cover over-allotments, if any, in connection with the Offering. The Joint Global Coordinators may exercise the Over-Allotment Option, in whole or in part, at any time during the 30 day period following the commencement of trading of the ordinary shares. If the Joint Global Coordinators exercise this option, each Underwriter will be obligated, subject to the conditions contained in the Underwriting Agreement, to purchase a percentage of Additional Shares, equal to the percentage of Shares listed opposite their names in the table above and each of the Selling Shareholders will be obligated to sell a number of Additional Shares proportionate to the total additional shares over which each such Selling Shareholder has granted the Over-Allotment Option.

No Sales of Similar Securities

Each of the Selling Shareholders, Publi-T and the Company will agree that, other than pursuant to the Underwriting Agreement or any stock lending arrangements entered into with the representatives of the Underwriters in connection with the Offering, they will not, unless authorised in writing by the Underwriters during the period ending 180 days following the commencement of trading of the ordinary shares on Eurolist by Euronext, the Regulated Market of Euronext Brussels:

- directly or indirectly offer, pledge, sell or contract to sell any ordinary shares;
- directly or indirectly sell any option or contract to purchase any ordinary shares;
- directly or indirectly purchase any option or contract to sell any ordinary shares;
- directly or indirectly grant any option, right or warrant to purchase any ordinary shares;
- otherwise dispose of or transfer any ordinary shares;
- request or demand that the Company file a registration statement in the United States related to any of the foregoing; or
- enter into any swap or other agreement in which they transfer, in whole or in part, directly or indirectly, the economic consequence of ownership of any ordinary shares, whether any such swap or transaction is to be settled by delivery of Shares or other securities, in cash or otherwise.

This lock-up provision will apply to the Company's ordinary shares and to shares convertible into or exchangeable or exercisable for ordinary shares. It will not apply to the transfer of any ordinary shares or any shares convertible into or exercisable or exchangeable for ordinary shares to affiliates (within the meaning of Article 11 of the Belgian Company Code) which undertake to be bound by it, as well as, in the case of Publi-T, to pledge any ordinary shares that are granted to financial institutions for the purpose of the financing of the acquisition of additional shares in the Company.

Price Stabilisation and Short Positions

In connection with the Offering, the Underwriters, through Merrill Lynch International or its affiliates or agents, may, during a period of 30 days following the commencement of trading of the Shares on Eurolist by Euronext (Brussels), engage in transactions on Eurolist by Euronext, the Regulated Market of Euronext Brussels, in the over-the-counter market or otherwise, that stabilise or maintain the market price of the ordinary shares at levels that might not otherwise exist. Such stabilisation, if commenced, may be discontinued at any time without prior notice.

If the Underwriters, through Merrill Lynch International, create a short position in the Shares in connection with the Offering (for example if they sell more ordinary shares than are listed on the cover of this Prospectus), they may reduce that short position by purchasing ordinary shares in the open market. The Underwriters, through Merrill Lynch International, may also elect to reduce any short position by exercising all or part of the Over-Allotment Option.

Purchases of ordinary shares to stabilise the trading price or to reduce a short position may cause the price of the ordinary shares to be higher than it might be in the absence of such purchases.

None of the Company, the Selling Shareholders or any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the ordinary shares. In addition, none of the Company, the Selling Shareholders or any of the Underwriters makes any representation that Merrill Lynch International will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

Some of the Underwriters and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company and the Selling Shareholders. They have received customary fees and commissions for these transactions and services.

Retail Offering

For a description of the retail offering, see "Information on the Public Offering in Belgium".

Listing of Shares

Application has been made for the listing of all of the Company's ordinary shares and the VVPR-strips of the Company on Eurolist by Euronext, the Regulated Market of Euronext Brussels, under the symbol "ELI" and "ELIS", including all existing shares, the New Shares to be issued pursuant to the Primary Offering and those to be issued pursuant to the Employee Offering. (See "Market Information – Euronext Brussels – General"). The Company expects trading to commence on or about 23 June 2005.

The ordinary shares will be first listed and traded on a when-delivered (or, in the case of the New Shares, on a when-issued) basis, which means that trading of the Shares will commence prior to closing of the Offering, which is expected to occur on or about 28 June 2005, the third business day following the date on which trading is expected to commence. Investors who wish to enter into transactions in ordinary shares of the Company prior to the closing date of the Offering, whether such transactions are effected on Eurolist by Euronext, the Regulated Market of Euronext Brussels, or otherwise, should be aware that the closing of the Offering may not take place on 28 June 2005 or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or do not occur on or prior to such date. Such conditions include the receipt of officers' certificates and legal opinions and such events include the suspension of trading on Eurolist by Euronext, the Regulated Market of Euronext Brussels, or a material adverse change in the Company's financial condition or business affairs or in the financial markets. Euronext Brussels has indicated that it will annul all transactions effected on Eurolist by Euronext, the Regulated Market of Euronext Brussels, if the Shares offered hereby are not delivered on the closing date of the Offering.

No Public Offering Outside Belgium

No action has been, or will be, taken in any jurisdiction (except in Belgium) that would permit a public offering of the Shares, or the possession, circulation or distribution of this Prospectus or any other material relating to the Company or the Shares in any jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other Offering material or advertisements in connection with the Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Purchasers of the Shares may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Offer Price.

Selling Restrictions

Please see "Selling Restrictions".

VALIDITY OF SECURITIES

The validity of the Shares will be passed upon by Coudert Brothers LLP and Eubelius, the Company's Belgian counsels, and by Clifford Chance LLP, counsel for the Underwriters. Electrabel is advised by Cleary Gottlieb Steen and Hamilton LLP and SPE is advised by Cruyplants, Eloy, Hupin, their respective Belgian counsels.

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 Company and a grid user connected to the network or concluded between the Company and an electricity supplier or an ARP designated thereto by the grid user, concerning the access to Injection and/or Off-take points on the network.

Access Responsibility Contract: . . The contract concluded between the Company 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 Access Responsibility Contract with Elia.

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, to be incorporated by the Company as majority shareholder, in partnership with APX (the Amsterdam power exchange), Powernext (the French power exchange), TenneT (the Dutch Transmission System Operator) and probably RTE (the French Transmission System Operator).

Black start service: . . . . An ancillary service for restoring the Belgian power system after a black-out 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.

Congestion Management: . . . . All the measures taken by electricity network operators to alleviate capacity constraints on the network and maximise the availability of network capacity to the market actors.

Connection Contract: . . . . The agreement entered into between the Company and the network users, which provides for the rights and obligations of the Company and the network users regarding the connection, included 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 six members: Mrs Christine Vanderveeren, Chairman (former chairman of the "Stichting van de Onderneming"), Mr. Guido Camps (who was affiliated with Aquafin), Mr. Thomas Lekane (who was affiliated with the Tractebel group), Mr. Jean-Paul Pinon (who was affiliated with Amasco), Mr. François Possemiers (former representative of the Federal Ministry of Economy) and Mr. Bernard Lacrosse (former deputy manager of the Federal Agency for Control on Nuclear Energy).

CWaPE: . . . . The "*Commission Wallonne Pour l'Energie*", the regulator for the gas and the electricity for the Walloon Region. The management committee of the CWaPE is, for what electricity is concerned, composed of a chairman Francis Ghigny, a "technical electricity" director, Xavier Delrée, a "public service obligations" director, Jean – Louis Buysse, and an "administrative" director, André Melin.

Distribution network: . . . . The electricity network, consisting of overhead lines, underground cables, transformer stations 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 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 region and lower than 30 kV in the Walloon Region, with the exception of the supply to these customers.

Distribution system operator: . . . . 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.

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: . . . . Electric and magnetic fields.

ETSO: . . . . European Transmission System Operators, the international association of transmission system operators from 23 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 (either at a federal level or at a regional level) 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 transmission or distribution system operators.

High-voltage electricity network: . . . . The 30 kV to 70 kV electricity network.

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" managed by Pascal Misselyn within the division "Energy, authorisations, regulatory and integrated actions", managed by Jean Delfosse.

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.

Load shedding contracts: . . . . Contracts with large industrial energy consumers in Belgium used to enable the decrease of electricity demand in order to seek to maintain the balance between total supply and demand within the Belgian control area and, as much as possible, to prevent congestions on the Belgian 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 .... One megawatt, corresponding to 1,000,000 watts.

Nomination: .... The activity of providing, in accordance with the access contract or the access responsibility contract, schedules to Elia 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.

Regional Transmission: .... The transport of electricity on the electricity network of a tension of 30-36 kV in the Brussels-Capital Region.

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: ...... 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 the Company.

Settlement: .... The process that handles the calculation of the invoicing to customers related to the contracts.

Subscription: .... The yearly and monthly reservation of capacity for Injection and/or Off-take points directly connected to the Company's network on a use it or lose it basis.

Supply: .... The sale, including resale, of electricity to end-users.

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 Belgian network.

Trader: .... A person, other than a producer or a distributor, who buys electricity in order to re-sell it.

Transmission network: .... The electricity network, consisting of overhead lines, underground cables, transformer stations and other 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.

UCTE: . . . . An international association of transmission system operators of continental Europe, established in Brussels, called "Union for the Co-ordination of Transmission of Electricity", mainly in charge of the co-ordination relative to the operational management of the synchronous area, covering the countries of continental Europe.

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. The chairman of the VREG is André Pictoel. It has four departments managed respectively by an office coordinator, Ingrid Borrey, a social and economics administrator, Dirk Van Evercooren, a legal administrator, Ludo Deckers, and a technical administrator, Thierry Van Craenenbroeck.

ANNEXES

Annex A

Annex A – Accounts – Belgian GAAP

Excerpt from Elia's 2004 annual report (financial report) . . . . A - 1
Consolidated balance sheet – Comparative tables (2002-2003-2004) Belgian GAAP . . . . A - 43
Consolidated income statement – Comparative tables (2002-2003-2004) Belgian GAAP . . . . A - 45
Belgian GAAP statutory financial statements 2003-2004 (link) . . . . A - 46
Comparative tables – Belgian GAAP statutory balance sheet (2002-2003-2004) . . . . A - 47
Comparative tables – Belgian GAAP statutory income statement (2002-2003-2004) . . . . A - 49

Excerpt from Elise's 2004 annual report (financial report).

Financial report

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46 Annual Accounts of Elia System Operator SA (abridged form)

Elia consist of two companies: Elia System operator and its subsidiary, Elia Asset. The two companies operate as a single unit under the name Elia. The Elia Group consists of Elia System Operator, Elia Asset, Elia Re and Bel Engineering. Elia Re is Elia's in-house reinsurance business and Bel Engineering is Elia's engineering subsidiary.

Key figures

Consolidated results of the Elia Group

	2003	2004*
	In € million	
Revenue	710	**706**
Operating cash flow (EBITDA)	294	**264**
Operating income (EBIT)	214	**186**
Profit on ordinary activities before taxation	138	**110**
Group income	106	**67**
Cash flow	156	**149**
Regulated Asset Base	3.345	**3.329**
Total workforce (31 December 2004)	1.113	**1.238**
Geographical length of the grid (31 December 2004)	8.286	**8.276**

* Bel Engineering included

Operating cash flow (EBITDA): Revenue – costs of goods and services – personnel costs – provisions – write-downs

Operating income (EBIT): Revenue – costs of goods and services – personnel costs – provisions – write-downs – depreciation – write-offs

Group income: proportion of the group in the consolidated net income

Cash flow: Net income + depreciation + write-offs + provisions

Regulated Asset Base (RAB): the sum of the value of the grid and the net operating capital. The tariffs that Elia can charge for use of the grid and for its services are based on the RAB. The tariffs must give Elia reasonable remuneration on the capital invested in the RAB. The RAB is adjusted annually, taking into account investments, write-offs and changes in operating capital. The RAB for 2004 still has to be approved by the Commission for Electricity and Gas Regulation (CREG).

1. Management and Control Bodies

BOARD OF DIRECTORS

Chairman	Ronnie Belmans
Vice-Chairmen	Francis Vermeiren Thierry Willemarck
Directors	Willy Bosmans Clement de Meersman Johan De Roo Claude Grégoire Hilde Laga Jean-Marie Laurent Josi Pierre Meyers Walter Peeraer (since 17 June 2004) Luc Van Nevel

CORPORATE GOVERNANCE COMMITTEE

Thierry Willemarck (Chairman)
Hilde Laga
Luc Van Nevel

AUDIT COMMITTEE

Clement de Meersman (Chairman)
Johan De Roo
Pierre Meyers

REMUNERATION COMMITTEE

Jean-Marie Laurent Josi (Chairman)
Willy Bosmans
Pierre Meyers

AUDITORS

KPMG, represented by Erik Clinck
Ernst & Young, represented by Jacques Vandernoot

MANAGEMENT COMMITTEE

Chairman and Chief Executive Officer	Daniel Dobbeni
Vice-Chairman and Chief Corporate Officer	Jacques Vandermeiren
Members	
Chief Officer Grid Services	Markus Berger
Chief Financial Officer	Jan Gesquière
Chief Officer Infrastructure / CEO Bel Engineering	Roel Goethals
Chief Officer Transmission	Hubert Lemmens
Chief Officer Customers & Market	Frank Vandenberghe

2. Corporate Governance

Operation of the Board of Directors

The Boards of Directors of Elia Asset and Elia System Operator consist of 12 members each. The same members sit on each Board. These members do not have a management function within either Elia System Operator or Elia Asset. Half of the members are independent directors appointed by the General Meeting.

Composition

The composition of the Boards of Directors changed slightly in 2004: Walter Peeraer replaced Etienne Snyers as a director (appointed by Electrabel) on the Board of Directors of Elia System Operator and Elia Asset on 17 June 2004, following Mr Syners' resignation. Mr Peeraer was co-opted by the Board in accordance with Articles 12.3 and 13.5.4 of the Articles of Association.

Operation and meetings

The Boards of Directors met 10 times. At these meetings the directors dealt with industrial, financial and policy-related matters, bearing in mind the fact that under the legal and regulatory provisions network management is the exclusive preserve of the Management Committee.

Decision-making

In accordance with the Articles of Association, the members of the Boards of Directors always strive to achieve consensus during their deliberations. If they are unable to reach a consensus, then decisions are taken by either a simple or qualified majority (depending on the matter at hand) of the members present or represented. The Board of Directors is only duly empowered to deliberate or take decisions if at least half of the members are present or represented. If convened a second time, they make take decisions regardless of the number of members present or represented.

Certain decisions, such as appointing or dismissing members of the Management Committee, or submitting proposals to the General Meeting to dismiss an independent director, can only be taken by a qualified majority.

Remuneration

The Extraordinary General Meetings held on 6 December 2002 set the remuneration for directors of Elia System Operator and Elia Asset. At their meeting on 17 September 2003, the Board of Directors decided to disburse the remuneration in two payouts: the first in or around September for the first three quarters, and the final quarter in December.

The total gross amount of remuneration was €396,392 in 2004. Directors are not entitled to any other benefits in kind, share options, loans or advances.

Elia System Operator / Elia Asset: Directors

Shareholder representatives (Electrabel)

Ronnie Belmans – Chairman

Directorship expires: 10 May 2005

Professor at the Catholic University of Leuven (KUL), head of the Department of Electrical Engineering (ESAT), Chairman of the Board of the Electrical Engineering Committee of the Koninklijke Vlaamse Ingenieursvereniging (Royal Flemish Association of Engineers) and International Secretary of the International Conference on Electrical Machines (ICEM).

Willy Bosmans – Director – Member of the Remuneration Committee

Directorship expires: 10 May 2005

Chairman of the Board of Directors of Distrigas.

Walter Peeraer – Director (co-opted by the Board on 17 June 2004)

Directorship expires: 10 May 2005

Director and member of Electrabel's Management Committee and Chairman of the Board of Directors of Fluxys.

Shareholder representatives (Publi-T)

Johan De Roo – Director – Member of the Audit Committee

Directorship expires: 10 May 2005

First Honorary Vice President of the Flemish Parliament and Mayor of Maldegem (CD&V party).

Claude Grégoire – Director

Directorship expires: 10 May 2005

Managing Director of SPE.

Francis Vermeiren – Vice-Chairman

Directorship expires: 10 May 2005

Deputy in the Flemish Parliament and Mayor of Zaventem (VLD party).

Independent directors

Clement de Meersman – Director – Chairman of the Audit Committee

Directorship expires: 10 May 2005

CEO of Deceuninck.

Hilde Laga – Director – Member of the Corporate Governance Committee

Directorship expires: 10 May 2005

Professor of company law at the Catholic University Of Leuven (KUL), lawyer and member of the Bar in Kortrijk and Brussels and member of the Supervisory Board of the CBFA (Banking, Finance and Insurance Commission).

Jean-Marie Laurent Josi – Director – Chairman of the Remuneration Committee

Directorship expires: 10 May 2005

Managing Director of Copeba, managing Director of Josi Group and Chairman of the Board of Directors of Keytrade Bank.

Pierre Meyers – Director – Member of the Audit Committee and the Remuneration Committee

Directorship expires: 10 May 2005

Managing Director of Euremis Holding.

Luc Van Nevel – Director – Member of the Corporate Governance Committee

Directorship expires: 10 May 2005

Interim CEO of Picanol and Chairman of the Board of Directors of Picanol.

Thierry Willemarck – Vice-Chairman – Chairman of the Corporate Governance Committee

Directorship expires: 10 May 2005

Managing Director of Touring Club, director of the Federation of Enterprises in Belgium and director of the Brussels Chamber of Commerce and Industry.

Committees within the Boards of Directors

In accordance with the legislation and the Articles of Association, the Boards of Directors of Elia System Operator and Elia Asset are supported by three committees: a Corporate Governance Committee, an Audit Committee and a Remuneration Committee. As per the Articles of Association, each of these committees – along with the Management Committee – drafted their own internal rules of procedure in cooperation with the Board of Directors. The rules of procedure define how the various committees operate and how they report to the Board of Directors.

Corporate Governance Committee

The Corporate Governance Committee consists of three independent directors:

- Thierry Willemarck (Chairman);
- Hilde Laga;
- Luc Van Nevel.

The Corporate Governance Committee reports to the Board of Directors and is responsible for various tasks, which include:

- presenting candidates for independent directorships to the Annual General Meeting;
- investigating – when so requested by any independent director, the chairman of the Management Committee, the Commission for Electricity and Gas Regulation (CREG) or any other authorised regulatory authority – any conflict of interests between the transmission system operator and a controlling shareholder (within the meaning of Article 14.2 of the Articles of Association of Elia System Operator and Article 13.2 of the Articles of Association of Elia Asset) or a company linked to or associated with a controlling shareholder;
- ruling on instances of incompatibility within the meaning of the Articles of Association and the legislation, decrees and regulations pertaining to members of the Management Committee and staff;
- enforcing the provisions of the Royal Decree of 3 May 1999 on the operation of the national electricity transmission system, evaluating the effectiveness of said provisions in connection with ensuring the independence and impartiality of transmission system operation, and submitting an annual report on this matter to CREG or any other authorised regulatory authority.

In 2004 the Corporate Governance Committee met inter alia to deliberate on the procedure for obtaining a unanimous opinion from CREG for the appointment of the chairman of the Management Committee. The Corporate Governance Committee also met a number of times in 2004 to oversee implementation of the Corporate Governance provisions. It submitted its first annual report to CREG in accordance with the provisions of the Royal Decree on Corporate Governance of 3 May 1999. This report comments on implementation of the Corporate Governance provisions at Elia System Operator as per the law of 29 April 1999 on the organisation of the electricity market.

Audit Committee

The Audit Committee consists of three non-executive directors, two of whom are independent directors:

- Clement de Meersman (Chairman);
- Johan De Roo;
- Pierre Meyers.

The position of secretary is held by the Internal Audit officer. Depending on the items on the agenda, the secretary meets with the Chief Executive Officer, the Chief Financial Officer and the internal and external auditors.

As part of its role of assisting the Board of Directors, the Audit Committee is responsible for the following tasks and reports on these tasks to the Board of Directors:

- Examining the accounts and monitoring the budget.
- Monitoring internal and external audit activities.
- Evaluating the reliability of financial information.
- Organising and overseeing internal control.

The Audit Committee met seven times in 2004 for a number of reasons including:

- to examine the financial reports compiled by the management and discuss the most important aspects with the management and auditors;
- to examine the results of the IFRS project (International Financial Reporting Standards);
- to examine the quality of internal audit activities through evaluation of the results of the internal auditing tasks and compliance with the recommendations and the annual audit plan;
- to look into extending the auditors' contracts;
- to study the results of the project to bring the inventories of electrical facilities into line with the book-value inventories;
- to study the pension regulations and their financial repercussions.

Remuneration Committee

The Remuneration Committee consists of three non-executive directors, two of whom are independent directors:

- Jean-Marie Laurent Josi (Chairman);
- Willy Bosmans;
- Pierre Meyers.

The Remuneration Committee is responsible for drafting recommendations for the Board of Directors on remuneration for the members of the Management Committee.

The Remuneration Committee ensures that the company offers a competitive overall package in line with market standards in order to attract and retain individuals with the required skills and qualities.

The Remuneration Committee met three times in 2004.

Management Committee

No directors sit on the Management Committee. The decision to appoint the chairman of the Management Committee is subject to prior approval by the Corporate Governance Committee and a favourable opinion from CREG. The other members of the Management Committee are appointed by the Board of Directors subject to a favourable opinion from CREG. CREG issued these positive, unanimous opinions in summer 2004.

The Management Committee is responsible for a number of areas including operating the transmission system in accordance with the law and the Articles of Association. The Management Committee met 12 times in 2004 and carried out system operation tasks, such as defining investment and development plans, implementing the new HR policy and organising the new working relationship with Bel Engineering. The Management Committee also meets informally when necessary.

Key events in 2004

Introduction

On 13 September 2002, Elia System Operator was appointed operator of the national transmission system by the federal Council of Ministers for a period of 20 years. Since its appointment, Elia System Operator has to submit tariffs on accessing and using the system it operates for the approval of CREG.

The operational activities of Elia System Operator and Elia Asset are examined in the enclosed Operational report 2004 and Environmental and social report 2004.

Transmission system tariffs and operational activities

Elia System Operator submitted its 2004 transmission tariffs in late September 2003, within the legal deadline. On 6 November 2003, CREG in its decision (B) 031106 – CDC – 190/5a rejected the adjusted tariffs proposed by Elia for 2004 and imposed provisional transmission tariffs renewable for three-month periods. Elia System Operator lodged an appeal with the Council of State to have CREG's decision nullified. By so doing, Elia System Operator aims to limit the legal consequences of the above-mentioned CREG decision on the functioning of the transmission system operator.

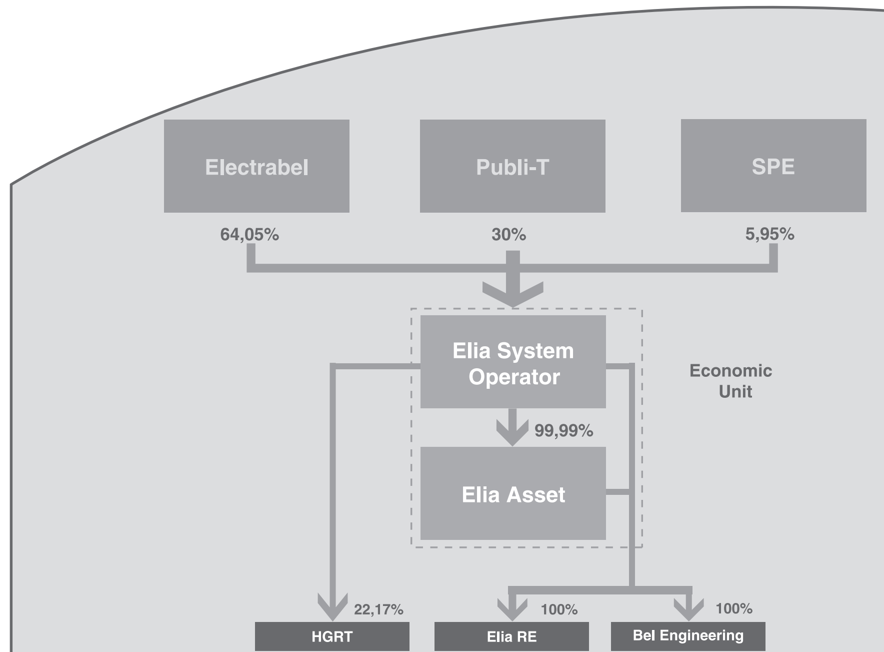
Eurobond

In 2003, Elia System Operator was rated by Standard & Poor's with a view to issuing a bond offering. Based on its assessment of the relevant industrial and financial risks, Standard & Poor's awarded Elia System Operator an A- / outlook stable / A-2 rating.

Elia System Operator issued a bond offering last year, divided in two parts of €500 million. The Eurobond was subscribed by over 200 institutional investors. One part was for €500 million with a fixed interest rate of 4.75% and maturing in 2014, the other for €500 million with a fixed interest rate of 5.25% and maturing in 2019. The two parts of the Eurobonds are quoted on the Luxembourg stock exchange.

Acquisition of Bel Engineering

In late December 2003 (effective 1 January 2004), Elia System Operator and Elia Asset acquired Bel Engineering. As a result of this acquisition, the Elia Group is able to carry out the whole network engineering and development process in house. The company was integrated into the Elia Group following the favourable judgement of the Competition Council in 2004. Bel Engineering is a subsidiary of Elia Asset with Elia System Operator owning one share.



Procedures required by Article 524 of the Belgian Companies Code

Investigating the possible partial transfer of shares belonging to Electrabel and SPE shareholders, the Board decided to apply the article in question to two transactions forming part of the projected transfer. This procedure should prevent any conflicts of interest between these shareholders and the company.

The Board designated four independent directors who in turn appointed an independent expert. This expert is responsible for studying the Terms of Reference, an agreement between the company and the shareholders concerned. At the meeting of the Board of Directors on 21 December 2004, the Board in accordance with Article 524 of the Belgian Companies Code took cognisance of the report compiled by the independent directors, which concludes as follows:

"The Committee of Independent Directors, assisted by an independent expert appointed by the Committee, concludes that the decision or operation described in chapter III above is not manifestly abusive and that any theoretical disadvantage which it could entail for Elia System Operator, in the event that the responsibility of Elia System Operator should be invoked based on the guarantees given in reference to the prospectus or in the Underwriting Agreement, would be largely compensated for and justified by the advantages arising for Elia System Operator from this operation (i.e. the rearrangement of the share structure in accordance with the wishes of the government and the perspective of an increase in capital)" (free translation).

In the light of the report and following a debate on the subject, the Board of Directors decided to approve the draft Terms of Reference, bearing in mind that Elia System Operator, until now, has no certainty on the timing and the modalities of this operation. The auditor was informed of the above-mentioned procedure and formulated the following findings in its report:

3. Report by the Board of Directors

"Our mission comprises the following tasks:

- checking whether the financial data contained in the judgement of the Committee of Independent Directors of 21 December 2004 correspond with the underlying supporting documents.
- checking whether the financial data contained in the minutes of the Board of Directors meeting of 21 December 2004 correspond with the underlying supporting documents.
- checking whether the data contained in the judgement of the Committee of Independent Directors correspond with the provisions of Article 524 of the Companies Code.

We have no findings to report on the basis of our work" (free translation).

During the same meeting, the Board of Directors also took cognisance of the reports of three independent directors who had been appointed previously by the Board, in accordance with Article 524 of the Companies Code, to look into the conditions of repayment of the balance of a loan granted by the company's shareholders after the company was set up. These independent directors in turn appointed an independent expert who presented them with a report in accordance with the above-mentioned Article 524. The independent experts report concludes as follows:

"Taking into account all the aforementioned considerations and after studying the information made available, the independent expert is of the opinion that the proposed early repayment of the interest-free loan is justified and clearly not counter to the interests of the company.

It should be noted that the fiscal consequences for the company of this early repayment are different depending on whether the transaction is viewed on its own or in combination with the planned capital increase. Decisions regarding future tariff adjustments (as part of the system of transfer to future tariffs) may also have a fiscal impact.

However, under no circumstances can the proposed transaction bring abnormal or particular advantage to one or more shareholders, given that the loan is being provided by all of the current shareholders in the same proportion as their current level of shareholdings in Elia" (free translation).

The report of the independent directors concludes as follows: "In accordance with Article 524 of the Companies Code, we conclude from the above, and from the examinations that we carried out with the assistance of BDO in its capacity as an independent expert, that the decision is not likely to cause the company excessive damage in light of the policy pursued by the company" (free translation).

Following a discussion of the above-mentioned report, the Board of Directors decided to approve the proposed early repayment; in its view, the transaction brought no abnormal advantage to the shareholders concerned. The auditor was informed of the above-mentioned procedure and expressed the following in its report:

"In connection with our duties, our activities are as follows:

- check whether the financial data given in the report of the Committee of Independent Directors dated 21 December 2004 correspond to the relevant supporting documents;
- check whether the financial data given in the minutes of the Board of Directors meeting of 21 December 2004 correspond to the relevant supporting documents;
- reading of the report dated 20 December 2004 of the independent expert BDO Bedrijfsrevisoren, represented by Mr Gert Claes, which provides support for the Committee of Independent Directors;
- check whether the data given in the report of the Committee of Independent Directors correspond to the requirements set out in Article 524 of the Companies Code.

Pursuant to our activities, we have no findings to report" (free translation).

System access contracts

In its decision (B)040325-CDC-267) of 25 March 2004, CREG approved the general conditions of the ARP (Access Responsible Party) contract submitted by Elia System Operator in line with the provisions of the Royal Decree of 19 December 2002 on the Grid Code for managing and accessing the transmission system. This approval is the outcome of the consultation that began in 2003 between the transmission system operator and the federal regulator for the ARP contract and the access contract (the conditions of which had received prior approval on 20 November 2003).

In September 2004, in accordance with the provisions of the aforementioned Royal Decree, Elia System Operator submitted for CREG's approval the general conditions relating to its connection contract. The conditions were, however, rejected. Elia System Operator decided to lodge an appeal with the Council of State to have this rejection nullified.

In 2005, Elia System Operator will submit for CREG's approval a new set of proposed general conditions relating to the connection contract.

Articles of Association

Consequent on the issue of bond offerings mentioned above, Elia System Operator had to make technical modifications to its Articles of Association to bring them fully into line with the prevailing legal and regulatory provisions. The company held an Extraordinary General Meeting on 24 March 2004 to deal with this matter.

The Articles of Association also accord with the provisions of the law of 2 August 2002 (the "Corporate Governance Act") and enable the Management Committee of Elia System Operator to comply fully with Article 524 ff. of the Companies Code.

Management Committee

On 17 September 2003, the Boards of Directors of Elia Asset and Elia System Operator appointed the chairman and members of the Management Committee of both companies. In accordance with the applicable laws and regulatory provisions, the Board of Directors of the transmission system operator asked CREG to issue a favourable opinion on these appointments, which it did unanimously in July 2004.

Key events occurring after year-end

No events of note occurred after year-end.

Special tasks of the auditors during the financial year

In addition to normal auditing activities, Elia System Operator commissioned auditors KPMG (represented by Erik Clinck) and Ernst & Young (represented by Jacques Vandernoot) to look into the following matters:

- limited auditing of the prospectus produced for the Eurobond issue;
- reporting to CREG as per Article 11 of the Royal Decree of 3 May 1999 (on Corporate Governance);
- advice regarding the accounting procedure for pension commitments;
- checking reconciliation of the book-value inventory with the technical inventory of fixed assets;
- proposal to issue an interim dividend.

A charge of €116,821 was entered in the accounts for these services.

In addition, KPMG was commissioned to advise on the transition to IFRS. The charge for this service was €143,372.

Ernst & Young Tax Consultants advised Elia System Operator on various tax matters. The company was invoiced a total of €49,457,50 (excl. VAT) for these services.

4. Consolidated annual accounts

Income statement

	2004	2003
	In € million	
Operating income	**705.612**	**710.121**
Turnover (notes XIV, A)	672.848	693.097
Increase (+), decrease (-) in stocks of finished goods, work and contracts in progress	(3.003)	(0.230)
Fixed assets - own construction	21.848	5.166
Other operating income	13.919	12.088
Operating charges (-)	**519.699**	**496.500**
Raw material, consumables and goods for resale	4.818	5.908
Purchases	5.337	5.939
Increase (-), decrease (+) in stocks	(0.519)	(0.031)
Services and other goods	295.298	291.943
Remuneration, social security costs and pensions	126.197	110.328
Depreciation of and other amounts written off formation expenses, intangible and tangible fixed assets	70.981	67.850
Increase (+), decrease (-) in amounts written of stocks, contracts in progress and trade debtors	2.865	(1.579)
Increase (+), decrease (-) in provisions for liabilities and charges	1.634	(2.199)
Other operating charges	16.521	24.249
Amounts written down on positive consolidation differences	1.385	0
OPERATING PROFIT	**185.913**	**213.621**
Financial income	**18.106**	**2.367**
Income from financial fixed assets	1.694	0
Income from current assets	4.253	2.357
Other financial income	12.159	0.010
Financial charges	**94.313**	**77.798**
Interests and other debt charges	91.263	76.774
Other financial charges	3.050	1.024
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**109.706**	**138.190**
Extraordinary income	**3.147**	**26.516**
Adjustments to provisions for extraordinary liabilities and charges	0	26.516
Other extraordinary income	3.147	0
Extraordinary charges	**6.936**	**(2.641)**
Provisions for extraordinary liabilities and charges (increase +, decrease -)	(0.584)	(2.641)
Other extraordinary charges	7.520	
PROFIT FOR THE FINANCIAL PERIOD BEFORE TAXATION	**105.917**	**167.347**
Income taxes	**38.540**	**61.052**
Income taxes	40.199	61.197
Adjustment of income taxes and write-back of tax provisions	(1.659)	(0.145)
PROFIT FOR THE FINANCIAL PERIOD	**67.377**	**106.295**
Share in the result of the companies accounted for using the equity method	**0**	**0**
CONSOLIDATED PROFIT	**67.377**	**106.295**
Share of the group	67.377	106.295

Consolidated balance sheet after appropriation

	2004	2003
	In € million	
ASSETS		
FIXED ASSETS	**3,503.862**	**3,418.891**
Positive consolidation differences	1,705.610	1,700.071
Tangible assets	**1,795.418**	**1,712.555**
Land and buildings	75.437	71.905
Plant, machinery and equipment	1,438.512	1,314.846
Furniture and vehicles	5.948	5.935
Leasing and other similar rights	0	0.116
Other tangible assets	1.642	1.828
Assets under construction and advance payments	273.879	317.925
Financial assets	**2.834**	**6.265**
Companies accounted for using the equity method	2.000	2.000
Participating interests	2.000	2.000
Amounts receivable	0	0
Other enterprises	0.834	4.265
Participating interests and shares	0.465	4.192
Amounts receivable	0.369	0.073
CURRENT ASSETS	**244.756**	**302.331**
Stocks and contracts in progress	**12.772**	**15.822**
Stocks	9.361	11.669
Raw materials and consumables	9.361	11.669
Contracts in progress	3.411	4.153
Amounts receivable within one year	**98.495**	**153.066**
Trade debtors	72.751	124.690
Other amounts receivable	25.744	28.376
Investments	**47.233**	**55.614**
Other investments and deposits	47.233	55.614
Cash at bank and in hand	**2.149**	**16.235**
Deferred charges and accrued income	**84.107**	**61.594**
TOTAL ASSETS	3,748.618	3,721.222

4. Consolidated annual accounts

	2004	2003
	In € million	
LIABILITIES		
CAPITAL AND RESERVES	**1,097.990**	**1,084.013**
Capital	**1,049.491**	**1,049.491**
Issued capital	1,049.491	1,049.491
Consolidation reserves	**48.499**	**34.522**
MINORITY INTERESTS	**0**	**0**
Minority interests	**0**	**0**
PROVISIONS, DEFERRED TAX AND LATENT TAXATION LIABILITIES	**28.692**	**26.303**
Provisions for liabilities and charges	**28.692**	**26.303**
Pensions and similar obligations	2.156	2.351
Other liabilities and charges	26.536	23.952
CREDITORS	**2,621.936**	**2,610.906**
Amounts payable after one year	**1,880.899**	**989.596**
Financial debts	1,880.899	989.596
Subordinated loans	0	99.157
Unsubordinated debentures	997.392	0
Other loans	883.507	890.439
Amounts payable within one year	**464.875**	**1,462.719**
Current portion of amounts payable after one year	344.640	358.611
Financial debts	0	902.654
Credit institutions	0	902.654
Trade debts	83.333	80.984
Suppliers	83.333	80.984
Advances received on contracts in progress	4.536	2.156
Amounts payable regarding taxes, remuneration and social security	25.354	24.078
Taxes	5.532	9.040
Remuneration and social security	19.822	15.038
Other amounts payable	7.012	94.236
Accrued charges and deferred income	**276.162**	**158.591**
TOTAL LIABILITIES	**3,748.618**	**3,721.222**

Consolidated cash flow

	2004	2003
	In € million	
Consolidated profit	67.377	106.295
Depreciation and other amounts written off of fixed assets	70.981	67.850
Amounts written down on consolidation differences	1.385	0
Variation in provisions for liabilities and charges	2.388	(31.356)
Amounts written down on (in)tangible fixed assets	5.308	12.885
CASH FLOW FROM CONSOLIDATED PROFIT	**147.439**	**155.674**
Changes in:		
stocks and contracts in progress	3.050	(0.133)
Trade debtors <1 year	54.571	(23.515)
deferred charges and accrued income	(22.513)	(38.674)
Suppliers	2.349	2.429
Advances received on contracts in progress	2.380	1.387
Amounts payable regarding taxes, remuneration and social security	1.277	(12.063)
Other debts	(1.224)	3.542
Accrued charges and deferred income	117.571	153.332
CHANGE IN NET WORKING CAPITAL	**157.460**	**86.305**
TOTAL CASH FLOW FROM COMMERCIAL ACTIVITY	**304.899**	**241.979**
Consolidation differences	(6.924)	0
New investments in (in)tangible assets	(160.657)	(150.711)
New investments in financial assets	3.431	(3.727)
Disposal of (in)tangible assets	1.505	0
Disposal of financial assets	0	0
TOTAL CASH FLOW FROM INVESTMENTS	**(162.645)**	**(154.438)**
(+) or (-) Change in capital	0	0
(-) Dividends paid	(139.400)	(49.311)
(-) Reimbursements of loans	(1,022.714)	(13.862)
(+) New Loans	997.392	0
TOTAL CASH FLOW FROM FINANCIAL MEANS	**(164.721)**	**(63.173)**
CASH FLOW VARIATION	**(22.467)**	**24.369**

Comments on the consolidated annual accounts

Introduction

The business activities of Elia System Operator take place largely on Belgian territory. Since all transactions are denominated in euro, Elia System Operator does not have to deal with exchange risk.

As described in the Annual Accounts, Bel Engineering was included in consolidation and fully consolidated into the Elia Group with effect from 1 January 2004.

Regulatory environment

Elia System Operator was founded on 20 December 2001. Its appointment as transmission system operator on 13 September 2002 changed the financial context. Since that time, Elia System Operator has applied tariffs for connection and access to the system. These tariffs must be approved by CREG and are calculated on a cost-plus basis. They have accordingly been applied during the financial years 2003 and 2004.

The tariffs are calculated on the basis of budgeted costs plus a reasonable profit margin and take into account predicted volumes. They are checked and approved by CREG. The total turnover corresponds to the sum of the real costs incurred in carrying out the system operator's tasks, including the reasonable profit margin. The real costs and the reasonable profit margin are submitted to CREG for approval. The mechanism is designed in such a way that only the agreed real costs associated with the system operator's tasks, including the reasonable profit margin, need to be covered by the tariffs.

4. Consolidated annual accounts

Reasonable profit margin

The return on invested capital is based on the formula "Regulated Asset Base (RAB)[1] X a return on invested capital" and a capital and reserves benchmark ratio of 33% of the balance sheet total.

The difference between the benchmark ratio of 33% of capital and reserves and the balance sheet total is corrected by means of a D factor.

The formula for the reasonable profit margin if the D factor is less than 33% is as follows:

$$[0.33 \text{ x RAB x}[(\text{OLO}_{\text{Belgian 10 yaer n-2)}} + (\text{Beta}_{\text{recalculated}} \text{ x risk premium})]]-$$

$$[((1\text{-D})\text{-}67\%) \text{ x RAB x } (1\text{-t}_{\text{tax rate}}) \text{ x } (\text{OLO}_{\text{n-2}} + 70_{\text{base points}})]$$

The settlement mechanism

As described in Article 24 of the Royal Decree of 4 April 2001 on tariff structure, the discrepancy between the real results and the budget used as the basis for the approved tariffs for the year are settled annually. The differences, whether positive or negative, are entered onto the balance sheet in a suspense account. Within the six months following the financial year concerned, CREG decides on the amount involved and the use to which that amount should be put. This may result in a decrease/increase in future tariffs. Any balance may be assigned by CREG to Elia as a bonus/malus.

A bonus may be awarded on three conditions: (i) the budgeted costs were approved by CREG (ii) the cost savings have been made (iii) the savings are sustainable over the long term.

Elia's net result therefore reflects the reasonable profit margin for shareholders adjusted to take account of a possible bonus or malus from the year before and reduced by the total of the costs not considered by CREG as necessary for carrying out the system operator's tasks.

The settlement mechanism as it appears in the suspense account is not a definite figure since the CREG decision is not given until the following financial year.

Consolidated balance sheet

Fixed assets

Positive consolidation differences:

Acquisition of Elia Asset in 2002

In 2002, Elia System Operator acquired the owner of the transmission system, Elia Asset, for a total of €3,304.1 million. There was a positive consolidation difference of €1,700 million in relation to the value of its capital and reserves. This difference was initially entered under fixed assets under a separate heading entitled "Positive consolidation difference allocated to tangible fixed assets[2]". 2004 saw the start of a project to bring the company's accounting methods into line with International Financial Reporting Standards (IFRS). This involved cataloguing in detail the differences between IFRS and BE-GAAP (the Belgian accounting rules), including the consolidation difference. Initially in 2002, the allocation was made based solely on the economic value of the system, but within this framework other things had to be taken into account e.g. expertise, the awarded licence, sustainability, and it was decided that the consolidation difference could not be assigned to any particular asset and should therefore be entered as a consolidation difference. Given this broader interpretation and given also the similar nature of the two accounting systems, Elia's management bodies decided to reclassify the consolidation

1 $RAB_{t+1} = RAB_t$ – disinvestments $_{t+1}$+investments $_{t+1}$ – depreciation $_{t+1}$+/- variation in net working capital requirement.

2 See Elia System Operator's Annual Report 2003, page 10.

difference under BE-GAAP and accordingly to enter it as a positive consolidation difference. This positive consolidation difference is a permanent one due to the regulatory and legal framework in which Elia functions as system operator.

In order to enable comparison of the accounts with those for financial year 2003, the consolidation difference continued to be allocated to the tangible fixed assets, adjusted as described above. Elia has been appointed system operator for a renewable period of 20 years[3] and owns over 75% of the transmission system[4]. Also, only the system operator can submit a development plan[5], meaning that other market players have no chance to build up a parallel transmission system.

Lieve Kerckhof – Accounting Manager

" The Finance department is responsible for recording all transactions payable in euro: acquisitions, sales, financial transactions, network expansions, asset management, etc. Elia's accounting system is quite unique because we deal with so many different stakeholders - CREG, the regional regulators, the shareholders and soon the financial market too. Elia has set up an International Financial Reporting Standards (IFRS) project ahead of the sale of a part of the participation of the electricity generators in Elia. The accounting team wants to offer added value to quite a technically oriented company. Changes to the financial, regulatory and legal framework and the group's economic development keep us on our toes and add variety to the job"

Hence, the consolidation difference is of unlimited duration and will not therefore be depreciated[6] annually in order to give a true picture of the state of the company[7]. If an annual check with the economic and regulatory environment reveals that a write-down should be booked, this will be done provided the write-down is permanent and lasting. IAS 36 is applied for this test.

According to this standard, the value of an asset is impaired when the carrying value (book value) is higher than the recoverable amount.

The recoverable amount is the highest figure of the fair value less the net selling price and the value in use.

The carrying value is based on the contribution value as fixed in 2001 using various methods (DCF, multiples, economic value of the system).

Calculation of the net selling price is based on a selection of similar businesses for which different ratios were calculated e.g. P/Es, ebit, ebitda and equity capital.

The value in use was calculated using the current value of future cash flows resulting from Elia's normal activities together with Elia's residual value.

The test revealed no reason for booking a write-down on the consolidation difference in 2004.

Acquisition of Bel Engineering in 2003

On 26 December 2003 (effective 1 January 2004) Elia took over Bel Engineering. The acquisition was given final approval by the Competition Council in March 2004. The total purchase price was fixed at €7.4 million, 50% of which (€3.7 million) had already been paid in the previous financial year. Following the Competition Council's final approval, the remaining €3.7 million could be handed over. This transaction gave rise to a positive consolidation difference of €6.9 million to be written off over a period of five years, and results in a net book value of €5.5 million as at 31 December 2004.

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3 As per the law of 29 April 1999 on the organisation of the electricity market– Article 10.2.

4 As per the law of 29 April 1999 on the organisation of the electricity market– Article 10.1.

5 As per the law of 29 April 1999 on the organisation of the electricity market– Article 13.

6 If the positive consolidation difference is written off over 20 years, the additional depreciation cost would be €85 million and the accumulated depreciation cost €255 million.

7 Article 141 of the Royal Decree of 30 January 2001: "Consolidation differences shall be written off according to a plan corresponding with the lifetime of the asset. If this is over five years, it must be recorded in the notes". Further, Articles 115-116 state that if application of Article 141 and others is not compatible with giving a true image of the consolidated whole, said article need not be applied but an explanation for this must be given in the notes.

Tangible fixed assets:

This heading mainly comprises the land and technical facilities Elia uses to carry out its mission as system operator. It can be broken down as follows:

Tangible fixed assets

	2004	2003
	In € million	
Land on which substations, lines and cable are located	51.6	46.6
High-voltage substations and transformers	958.1	910.0
Lines and cables	710.5	682.3
Facilities used for network operation	38.8	38.1
Administrative buildings, furnishings and vehicles	36.4	35.6
TOTAL TANGIBLE FIXED ASSETS	**1,795.4**	**1,712.6**

In 2004, investments of €160.9 million in asset replacement and expansion were made, with sizeable amounts being spent on high-voltage substations and the laying of underground cables. For more information on major projects, please refer to the Operational Report 2004 (chapter on Infrastructure).

The depreciation percentages were applied consistently, in the same way as they were applied for tariff purposes[8].

The work to bring the book-value inventory into line with the technical inventory of tangible fixed assets was completed during the financial year and no major corrections were required. The process of reconciling the two inventories took approximately two years. A procedure was set up to ensure that the technical inventory and the book-value inventory tally in the future.

Financial fixed assets:

Financial fixed assets represent a total of €2.8 million, the decrease being mainly due to the stake in Bel Engineering, which was fully included in consolidation scope for the first time in 2004. The shareholdings described below have not altered since 2003:

- The stake in Elia Re (€2 million), a company consolidated according to the equity method. Elia Re is a reinsurance company established to manage, as efficiently as possible, certain risks associated with the activities of the system operator that cannot adequately be covered by or are more costly for the insurance or reinsurance market. At year-end Elia Re had not made either a profit or a loss.
- The €0.5 million stake in HGRT (Holding des Gestionnaires de Réseau de Transport) is not consolidated, either fully or using the equity method, due to its small size. HGRT is a company incorporated under French law which is owned by several European transmission system operators and which holds a 17% stake in Powernext, the French power exchange.
- Guarantees (€0.4 million).

Current assets:

Inventories (€9.4 million) consist chiefly of spare parts for the electricity grid and contracts in progress. The fall of €2.3 million is mainly due to the write-down of articles that had a low turnover in the financial year 2004.

Contracts in progress, i.e. work carried out by Elia at customers' request such as maintenance of facilities, display a balance of €3.4 million.

8 The depreciation percentages were modified in 2003; in accordance with the depreciation percentages used by CREG to determine the 2003 tariffs.

Short-term trade debtors (€72.8 million) consist largely of outstanding invoices in connection with the 'grid access' business. The fall of €51.9 million is due to a more active credit control policy within the Elia Group and to adjustments from the end of 2003 that were credited in 2004.

The other amounts receivable (€25.7 million) consist largely of claims against the government relating to VAT and corporation taxes.

The cash position (cash and short-term investments) stands at €49.4 million including €8.7 million from Bel Engineering. More details about events can be found in the notes to the cash flow table.

Deferred charges and accrued income (€84.1 million) were up €22.5 million compared to the previous year. This increase can be attributed chiefly to unprepared grid access invoices. These invoices will be prepared in early 2005.

Capital and reserves

As at 31 December 2004, the issued capital of Elia System Operator stood at €1,049.5 million, represented by 10,494,910 shares. Neither the issued capital nor the shareholder structure changed in 2004.

As at 31 December 2004, there were no warrants or convertible bonds likely to increase the number of shares.

The consolidated reserves stood at €48.5 million as at 31 December 2004.

At the end of 2004, the solvency ratio stood at 29.3%.

Provisions

Provisions cover the following risks:

Provisions

	2004	2003
	In € million	
Pension commitments	2.1	2.3
Rehabilitation of polluted sites	10.1	10.6
Restructuring plan (Transform) and early retirement of staff	5.1	9.3
Litigation	5.2	4.1
Other	2.1	
Bel Engineering provisions	4.1	
TOTAL	**28.7**	**26.3**

The commitment to rehabilitating polluted sites consists of two provisions and covers the soil decontamination requirement imposed by the Flemish government. A preliminary provision was created in 1997 covering the future costs for eight sites and based on the worst case scenario. Recent developments and observations relating to the rehabilitation work show that this provision is a prudent reflection of the future costs. This provision also covers three sites subject to monitoring programmes for which Elia is still committed to providing rehabilitation and for which the provision and rehabilitation costs have been retained. A second provision was set up for €6.4 million as part of the creation of Elia in 2001 and is based on an estimate provided by outside experts. This estimate was partially revised in 2004. The provision covers the rehabilitation of ten sites where a preparatory soil survey will be carried out in 2005 and a rehabilitation commitment is expected. The fall of €4.2 million in the provisions for the Transform restructuring plan and early retirement is mainly attributable to the change in staff numbers and to the fact that the plan is nearer completion. The provisions for litigation rose by €1.1 million and covers Elia's future expenses relating to insured risks. The provision is based on the amount of the contractual excess for these risks taking into account the precautionary principle. In addition, there are various disputes that could result in cash expenditure and for which a provision of €0.7 million has been made. A commitment arose during the financial year for the demolition of a high-voltage line; future cost provisions in 2004 were consequently put at €2.1 million. The provisions for Bel Engineering cover early retirement and restructuring commitments and commitments arising from contractual obligations (e.g. leases).

Debts

Long-term and short-term financial debts totalled €2,225.5 million, a fall of €25.3 million. The average term of long-term debts is 11 years and such debts are fully denominated in euro, thus avoiding exchange risks.

The fall in 2004 is the result of two major transactions to restructure the group's debts and bring them into line with the lifespan of its assets. A short-term loan of €902.6 million was repaid and in its place a bond offering (Eurobond) of €1,000 million was issued. The Eurobond comprises two tranches of €500 million each with maturity dates of 2014 and 2019 and fixed interest rates of 4.75% and 5.25% respectively. It was subscribed by over 200 investors and will considerably diversify Elia's investor base.

In addition, an interest-free debenture loan from shareholders[9] (of which €12.4 million was repaid on the annual maturity date in May) was repaid early. At year-end, the balance of €99.2 million was repaid at present value as was a further loan of €8.8 million. Further, Elia System Operator has short-term lines of credit for €360 million which had not been used at year-end but which serve to meet any short-term financial requirements.

Trade debts totalled €83.3 million, 65% relating to unpaid invoices for operational costs and 35% to unpaid invoices for investment projects.

There was a sharp fall (€87.2 million) in other liabilities (totalling €7 million) due to the pay-out of dividends for 2003 (€86 million); an interim dividend of €53.4 million was also paid out in 2004 for the year-end. This caption includes the as yet unsettled balance of federal and regional taxes that the system operator recovers from system users in accordance with the legal provisions (€6.19 million), and which it must pass on to the relevant authorities. Accrued charges and deferred income stood at €270 million as at 31 December 2004 compared with €158.6 million the previous year. This entry is largely made up of the sums connected with the settlement mechanism[10].

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9 Article 524 bis of the Royal Decree of 30 January 2001. The procedure set out in Article 524 was followed in this case since the repayment was made to two shareholders.

10 For the settlement mechanism, see introduction.

An overview of the sums linked to the settlement mechanism is given below:

	2004	2003
	In € million	
Sources		
1/ Source of differences in the financial year		
Surplus income from grid access	33.4	70.3
Surplus in international income	12.8	21.3
Surplus in other income	7.7	(1.8)
Total difference in income at the end of the period	**53.9**	**89.8**
Amount saved on budget for purchase of ancillary services	33.7	0.4
Amount saved on budget for sundry operating charges	2.3	19.0
Amount saved on budget for financial expenses	24.2	24.2
Total difference in operating charges	**60.2**	**43.5**
Total adjustment of regulated profit	**9.4**	
Total difference at year-end	**123.4**	**133.4**
2/ CREG decision		
Change in method for calculating regulated profit	[a]	3.2
Adjustment of regulated profit	[a]	4.3
Allocation to Elia of 50% bonus for 2003	[b]	(3.1)
Total impact of CREG decision		**4.4**
TOTAL OF DIFFERENCES IN RESULTS (SOURCES)	**123.4**	**137.7**
Use		
3/ Allocation to future tariffs		
Tariff reduction 2004		25.4
50% bonus for 2003 used for tariff reduction 2005		3.1
Tariff reduction 2005		36.4
Tariff reduction 2006		36.4
Tariff reduction 2007		36.4
TOTAL OF FUTURE ALLOCATIONS (USE)		**137.7**

CREG's final decision of 10 June 2004 resulted in the allocation of €137.7 million for future tariff reduction. The discrepancy between €133.4 million and €137.7 million is the result of a) a further CREG decision concerning the settlement for 2002 and 2003 whereby the future tariffs were lowered (€7.5 million [a]) and b) a bonus of €6.4 million of which 50% (€3.1 million [b]) was allocated to Elia because the differences in question were the result of cost-cutting measures. The decision resulted in a €4.4 million drop in the extraordinary income for 2004.

As at 31 December 2004, the accrued charges and deferred income registered a balance of €276.2 million and in addition to the normal charges to be attributed and income to be carried forward (€40.3 million) included the outstanding balance of the settlement mechanism for 2003 to be used in future tariffs to the tune of €112.4 million. Furthermore, the balance includes the 2004 settlement mechanism of €123.4 million. In the first half of 2005, CREG will decide on the final amount and the use to which it should be put.

4. Consolidated annual accounts

Geert Magerman – Key Account Manager

« Elia is at the centre of the liberalised electricity market and for me it's exciting to be able to contribute to its development. One advantage of liberalisation is that the different services (supply, connection, access and balance) are now separate from each other and tariffs have become more transparent. I always do my best to inform my customers about our products and services and help them to evaluate their situation. Together we search for the best solution available within the legal framework we're working in. I also visit them on a regular basis to find out whether everything is running smoothly. In my job, you have to be proactive and play close to the ball! »

Revenue

Elia System Operator was appointed system operator on 13 September 2002 and from that date it has applied tariffs approved by CREG in accordance with the legal and regulatory provisions. In 2003 and 2004, the tariffs were determined by CREG on a quarterly basis. In 2004, the tariffs were identical for each quarter.

Total revenue can be broken down as follows:

Revenues

	2004	2003
	In € million	
Connection sales	27.9	21.8
Grid use sales	542.9	606.7
Ancillary services sales	191.6	159.6
Total grid access sales	**762.4**	**788.1**
International income	21.9	28.3
Other income	22.0	18.3
Allocation to future tariffs for 2004 in line with CREG decision	(5.6)	
Allocation to future tariffs and/or discussion of settlement for 2004[11]	(123.4)	(124.5)
Bel Engineering turnover	28.4	
TOTAL	705.6	710.1

The drop in access sales is due largely to such factors as changes in unit prices (tariffs approved by CREG) and volumes, and shifts among customer groups.

The international income heading includes revenue generated from transactions at the international connections on the northern and southern borders, the drop of €6.4 million being mainly due to the lower revenues from the auction of capacity on the northern border.

The amounts included under "allocation to future tariffs" result from application of the settlement mechanism as described in the introduction and under "accrued charges and deferred income".

Operating charges

Purchases of goods for resale, services and other goods

	2004	2003
	In € million	
Goods purchased for resale	4.8	5.9
Purchase of ancillary services	145.1	144.9
Purchase of other goods and services	145.9	147.0
Bel Engineering charges (excluding intercompany transactions)	4.3	
TOTAL	300.1	297.8

There were no major changes from last year.

[11] In 2003, part of the switch to future tariffs (€8.9 million) was incorporated into the charges.

Wages, social security costs and pensions

	2004	2003
	In € million	
Wages	66.5	63.7
Social security costs	19.4	20.2
Pensions and similar commitments	21.7	23.0
Other social security expenses	3.1	3.4
Bel Engineering - wages, social security costs and pensions	15.4	
TOTAL	**126.1**	**110.3**

There was a slight upturn of the wages in spite of the reduction in the number of employees. This follows a readjustment in 2003 of provisions that had been overestimated in 2002-2003 (€3.4 million). The total amount of wages, social security costs and pensions has risen mainly by the first consolidation of Bel Engineering.

This heading also includes the cost of disbursing a non-statutory pension in the form of an annuity as well as the additional benefits (medical costs, tariff benefits) paid to recipients of the pension (see also the description of non-statutory benefits and "off-balance sheet" commitments). Active employees receive a jubilee premium based on the length of time they have worked for the group. These outlays have been and continue to be viewed by CREG as acceptable charges for inclusion in the annual tariffs. They do not form part of the provisions.

Following a study carried out by CREG in 2002, these charges were rejected for a very small group of former employees and a provision created in 2003. In 2004, this provision is for €2.1 million.

The increase (€3.1 million) in the depreciation of tangible fixed assets (€70.9 million) is due to increased commissioning of assets under construction during the financial year 2004 compared with 2003.

The depreciation percentages used are consistent with the percentages used for tariff purposes and are also coherent with the previous financial year.

The amounts written down on stocks and trade debtors (€2.9 million) consist largely of stocks resulting from a low turnover of the spare parts in stock.

Provisions

The changes in the provisions are given below:

Changes in the provisions

	2004	2003
	In € million	
Pension commitments	(0.2)	2.4
Rehabilitation of polluted sites	(0.5)	(0.3)
Early retirement and staff career breaks	(3.6)	1.6
Litigation	1.1	3.0
Future expenditure for grid adaptation in order to better control loop flows	0	(8.8)
Other	2.1	0
Bel Engineering provisions	2.7	
TOTAL	**1,6**	**(2,2)**

The write-back of provisions and charges (€1.6 million) is explained above under "Provisions". In 2003, this entry included an extraordinary write-back of the provision for controlling unscheduled loop flows.

Other operating charges (€16.5 million) fell by €7.7 million on the previous financial year. This difference is due to a fall in property tax and a reduction (€6.8 million) in losses resulting from less disposal of fixed assets compared with 2003.

The annual depreciation of Bel Engineering's positive consolidation difference was €1.4 million.

4. Consolidated annual accounts

Financial results

The financial results (€18.1 million) consist of interest (€4.3 million) collected on temporary cash surpluses invested with financial institutions. The rise in 2004 is largely a result of the positive cash position during the financial year.

At year-end, the interest-free loan was repaid early and the difference between the nominal value and the present value resulted in a financial income of €12.2 million.

The financial charges (€94.3 million) consist chiefly of interest paid on long-term and short-term loans. The rise of €16.5 million is largely a result of restructuring from short-term to long-term debt during the financial year 2004 by means of the issue of two bond offerings (Eurobond) in May 2004. In 2003, the average interest rate was 3.7% compared with 3.97% in 2004.

Extraordinary income

Extraordinary income is primarily the result of the CREG decision of June 2004 regarding the allocation to future tariffs and the bonus/malus mechanism for 2003. For Elia, this led to revenue of €3.1 million (50% bonus of a total €6.4 million) as well as additional charges of €7.5 million.

Taxes

Income taxes stood at €38.5 million as at 31 December 2004.

The average tax rate was 36.4%.

Appropriation of profit

The consolidated annual accounts were established after the proposed appropriation of profit of Elia System Operator.

An interim dividend of €53.4 million was paid out in December 2004.

Consolidated cash flow table

The fact that Bel Engineering was fully consolidated for the first time in 2004 should be borne in mind when comparing the cash flow tables for 2003 and 2004. Despite a fall in profit of €38.9 million, the cash flow from profit diminished with just €8.2 million. The fall in profit for the period was partially offset by a reduction in the change in provisions of €33.7 million. The fall in cash flow from operations was more than offset by the €71.1 million rise in working capital due to changes in the following captions in 2004 (compared to 2003):

- inventories (up €3.2 million);
- short-term trade and other debtors (up €78.1 million);
- trade debtors social security charges and other debts (up €9.5 million);
- deferred charges and accrued income, and accrued charges and deferred income (down €19.5 million).

The change in working capital was influenced to a large extent by a provision in deferrals and accruals of the difference between the realised result and the 2003 tariff budget approved by CREG.

Total cash flow from commercial activity was therefore €304.9 million, a rise of €62.9 million on 2003.

Consequently, cash flow from commercial activity was sufficient in 2004 to cover the financing of investments (€162.6 million).

The cash decrease (€22.4 million) was due to the payment of dividends (€139.4 million) and the repayment of loans (€1,022.7 million), which were only partially refinanced (€997.4 million).

Consolidated cash flow

	2004	2003
	In € million	
Consolidated profit	67.377	106.295
Depreciation and other amounts written off of fixed assets	70.981	67.850
Amounts written down on consolidation differences	1.385	0
Variation in provisions for liabilities and charges	2.388	(31.356)
Amounts written down on (in)tangible fixed assets	5.308	12.885
CASH FLOW FROM CONSOLIDATED PROFIT	**147.439**	**155.674**
Changes in:		
stocks and contracts in progress	3.050	(0.133)
Trade debtors < 1 year	54.571	(23.515)
deferred charges and accrued income	(22.513)	(38.674)
Suppliers	2.349	2.429
Advances received on contracts in progress	2.380	1.387
Amounts payable regarding taxes, remuneration and social security	1.277	(12.063)
Other debts	(1.224)	3.542
Accrued charges and deferred income	117.571	153.332
CHANGE IN NET WORKING CAPITAL	**157.460**	**86.305**
TOTAL CASH FLOW FROM COMMERCIAL ACTIVITY	**304.899**	**241.979**
Consolidation differences	(6.924)	0
New investments in (in)tangible assets	(160.657)	(150.711)
New investments in financial assets	3.431	(3.727)
Disposal of (in)tangible assets	1.505	0
Disposal of financial assets	0	0
TOTAL CASH FLOW FROM INVESTMENTS	**(162.645)**	**(154.438)**
(+) or (-) Change in capital	0	0
(-) Dividends paid	(139.400)	(49.311)
(-) Reimbursements of loans	(1,022.714)	(13.862)
(+) New loans	997.392	0
TOTAL CASH FLOW FROM FINANCIAL MEANS	**(164.721)**	**(63.173)**
CASH FLOW VARIATION	**(22.467)**	**24.369**

Notes on the consolidated annual accounts

I. List of the consolidated subsidiary companies and companies included using the equity method

NAME	OFFICE	V.A.T. number	Method used	Proportion of capital held (in %)	Change in percentage of capital held (as compared to the previous period)
Belgian Electricity Lines Engineering SA (Bel Engineering)	Avenue Ariane 5 B-1200 Woluwé-Saint-Lambert	BE 0471.869.861	F	100%	0%
Elia Asset SA	Boulevard de l'Empereur 20 B-1000 Bruxelles	BE 0475.028.202	F	100%	0%
Elia Re SA	Avenue de la gare 65 L-1161 Luxembourg	—	E3	100%	0%

F: Full consolidation

E3: Subsidiary company accounted for using the equity method which activities are so different that inclusion in the consolidated accounts would be incompatible with the principle of a true and fair view (article 108, §2 of the aforementioned Royal Decree)

II. List of subsidiary companies exclusively or jointly controlled not included and associated enterprises accounted for using the equity method

NAME	OFFICE	V.A.T. number	Reason for exclusion	Share in the capital (in %)	Change in percentage of capital held (as compared to the previous period)
H.G.R.T.	Rue Henri Regnault 34-40 F-92068 Paris La Défense Cedex 08	—	A	22.17%	0%

A: Subsidiary company of minor importance. Including it in consolidation would not have any significant effect on the amount of consolidated assets, the consolidated financial position or the consolidated result.

III. Consolidation criteria and changes in the consolidation scope

A. Consolidation scope

The consolidation scope includes all subsidiaries actually controlled by Elia System Operator, either because it holds more than 50% of the voting rights at the general assembly, or because it is entitled to appoint more than half of the directors.

Excluded from the scope of consolidation:

- companies in which Elia System Operator holds more than 20% of the capital but whose capital and reserves are less than €1 million or whose result is less than €0.5 million and whose inclusion in consolidation would not make any significant difference to the group's assets;
- companies whose object is not directly linked to the group's main activity and whose inclusion in consolidation would not make any significant difference to the group's assets;
- companies in which Elia System Operator holds more than 20% of the capital, but which were only acquired on 31 December and which were not controlled by Elia System Operator during the accounting period.

B. The consolidation scope of 2004 has only changed with the full consolidation of Bel Engineering in comparison with 2003.

IV. Summary of valuation rules and methods of calculating deferred taxes

Disclosure of the criteria governing the valuation of the various items in the consolidated annual accounts, and in particular:

Consolidation difference

Consolidation difference represents the difference between the book value of the shares held in the subsidiary and the share of the consolidated investee's equity capital represented by those shares. Consolidation differences are subdivided into consolidation differences arising on initial consolidation and changes within the reporting period. The initial consolidation difference is calculated when the entity is first accounted for in the

consolidated balance sheet. When an entity is consolidated, the difference between the cost of the investment and the share in the consolidated entity's equity is, insofar as possible, allocated to the asset or liability item from which the difference arises. All or part of any amounts that cannot be allocated to these headings are accounted for as a "consolidation difference" in the consolidated balance sheet on the assets side where the acquisition cost exceeds the share of equity value, and on the liabilities side where it does not. A consolidation difference booked as an asset is written off using the straight-line depreciation principle, which takes due and reasonable account of the economic situation and the objectives pursued when the acquisition took place.

A positive consolidation difference arising from the participation of Elia System Operator in Elia Assets is booked to the assets side. In view of the regulatory environment and legal framework within which the group is developing, this difference is considered as intangible.

Under Belgian accounting standards, the consolidation difference must be written off. However, if this is not sufficient to give a true and fair view, then additional information must be provided in the notes.

As a result, the consolidation difference is not written off at year-end but is assessed in connection with the tangible nature and the value of the tangible assets in the light of the economic and regulatory environment within which the group is evolving. If circumstances reveal modifications, then write-downs will be booked.

Tangible assets

Acquisition cost

Tangible assets are carried at their purchase price, original cost or contribution value.

Accessory expenses

Accessory expenses are included in the acquisition cost of the tangible assets to which they relate, and include in particular the non-deductible portion of VAT levied on capital expenditure up to 30 June 1980. Accessory expenses are written down at the same rate as the facilities to which they relate.

Third-party contributions

Third-party contributions to the cost of tangible assets are deducted from their acquisition cost. They are not deducted from the basis of depreciation, but no further depreciation allowance is made when the net book value of the facilities, net of contributions, is equal to zero.

Depreciation

Depreciation recorded is calculated according to the straight-line method. Some of the depreciation rates were changed as of 1 January 2003, but remained unchanged in 2004. The new depreciation rates applied are the following:

	2003 & 2004	2002
• industrial buildings and civil engineering	2.70%	4.00%
• administrative buildings	3.00%	3.00%
• installations and machinery	2.70%	4.00%
• lines	2.08%	2.50%
• cables	1.82%	2.50%
• remote control	6.67%	10.00%
• dispatching	10.00%	10.00%
• tools and office furniture	10.00%	10.00%
• vehicles	20.00%	20.00%
• residential buildings	3.00%	3.00%
• other tangible assets	11.11%	11.11%

Financial assets

<u>Stocks, shares and other participating interests</u>

Stocks, shares and other participating interests in non-consolidated companies are carried at their acquisition cost or contribution value net of subsidiary expenses and of any amount still uncalled.

<u>Receivables recorded as financial assets</u>

Receivables recorded as financial assets are carried at their face value. Fixed-interest securities are recorded at their acquisition cost. If there is any doubt or risk that all or any part of either receivables or fixed-interest securities will not be redeemed at maturity, the relevant amount is written off.

Amounts receivable after and within one year

Receivables are recorded at their face value and written-down if any doubt or risk arises that all or any part will not be paid when due. In case of bankruptcy or composition, the unpaid receivables are automatically treated as bad debts and immediately written off for their total net value (less VAT). Amounts may be written off other receivables if appropriate and on a case-by-case basis.

Inventories

<u>Raw materials and goods</u>

Raw materials and goods are carried as assets at their acquisition value, including any accessory expenses. The stocks to which they relate are valued by the weighted average price method. Goods which are obsolete and unusable in the business, or whose estimated realisable value is lower than their book value, are written down.

<u>Orders in progress</u>

Orders in progress are carried at cost as assets in the balance sheet.

Short-term investments and cash

Investments are carried as assets at their acquisition price, excluding accessory expenses. At year-end, investments and cash are written down if the market value is less than the book value. Investments that are only going to be realised in the medium to long term are written off where there is a capital loss or depreciation. Cash in foreign currencies is valued on the basis of the exchange rate applicable on the last day of the company's financial year.

Provisions and deferred taxes

At the end of each accounting year, the Board of Directors, acting prudently, fairly and in good faith, decides on the provisions to be made against foreseeable liabilities and contingent losses arising in the current or previous accounting periods.

Debts

Debts are booked at their face value.

Deferrals and accruals

<u>On the assets side</u>

The expenses that were made during the accounting year but that are completely or partly chargeable to a later accounting year, are valued according to a proportional rule. The revenues or portions of revenues which are collected during one or more financial years, but which must be booked to the financial year concerned, are valued in respect of the proportion that relates to the financial year in question.

On the liability side

Charges completely or partly relating to the accounting year but which will be paid during a later accounting year, are valued with the amount relating to the accounting year. The revenues collected during the accounting year, are also valued with the amount which must be considered as a revenue for the next accounting year.

Rights and commitments not reflected in the balance sheet

Rights and commitments not reflected in the balance sheet are disclosed in the notes to the accounts by class of transaction for the face value of the commitment shown in the contract, or failing that, at their estimated value. Non-quantifiable rights and commitments are disclosed for reference only.

Financial instruments and derivatives

Where financial instruments clearly cover a specific asset or liability item, they are valued according to the symmetry rule. The object of this rule is to book the derivative financial instrument taking into account the valuation rules of the hedged item. The same rule also applies where classes of assets or liabilities of the same kind are hedged. At the end of the financial year, the income from financial transactions not specifically identified as hedging instruments is valued at the fair market value for the open positions it generates. By virtue of the precautionary principle, possible unrealised losses are taken as charges.

V. Statement of tangible fixed assets

	1. Land and buildings	2. Plant, machinery and equipment	3. Furniture and vehicles
		In € million	
a) ACQUISITION COST			
As at the end of the preceding period	**86.651**	**3,099.989**	**165.791**
Movements during the period			
– Acquisitions, incl. fixed assets, own construction	5.338	4.741	1.774
– Sales and disposals (-)	(0.376)	(76.075)	(19.931)
– Transfers from one heading to another (+) (-)	(0.552)	196.935	(0.184)
– Translation differences (+) (-)			
– Other movements		(0.883)	0.807
At the end of the period	**91.061**	**3,224.707**	**148.257**
b) REVALUATION SURPLUSES			
As at the end of the preceding period	**0.018**	**0.158**	
Movements during the period			
– Recorded			
– Acquisitions from third parties			
– Reversals (-)			
– Transfers from one heading to another (-) (+)			
– Translation differences (+) (-)			
– Other movements			
At the end of the period	**0.018**	**0.158**	**0**
c) DEPRECIATION AND AMOUNTS WRITTEN DOWN			
As at the end of the preceding period	**14.764**	**1,785.301**	**159.856**
Movements during the period			
– Recorded	1.174	67.148	2.008
– Written back as superfluous			
– Acquisitions from third parties		0.954	
– Written down after sales and disposals (-)	(0.009)	(69.910)	(19.906)
– Transfers from one heading to another (+) (-)	(0.287)	2.859	(0.184)
– Translation differences (+) (-)			
– Other movements			0.535
At the end of the period	**15.642**	**1,786.352**	**142.309**
d) NET CARRYING VALUE AT THE END OF THE PERIOD			
(a) + (b) - (c)	**75.437**	**1,438.513**	**5.948**

	4. Leasing and other similar rights	5. Other tangible assets	6. Assets under construction and advance payments
		In € million	
a) ACQUISITION COST			
As at the end of the preceding period	**2.926**	**3.102**	**320.780**
Movements during the period			
– Acquisitions, incl. fixed assets, own construction			150.021
– Sales and disposals (-)			(0.268)
– Transfers from one heading to another (+) (-)			(196.198)
– Translation differences (+) (-)			
– Other movements		0.235	
At the end of the period	**2.926**	**3.337**	**274.335**
b) REVALUATION SURPLUSES			
As at the end of the preceding period			
Movements during the period			
– Recorded			
– Acquisitions from third parties			
– Reversals (-)			
– Transfers from one heading to another (-) (+)			
– Translation differences (+) (-)			
– Other movements			
At the end of the period	**0**	**0**	**0**
c) DEPRECIATION AND AMOUNTS WRITTEN DOWN			
As at the end of the preceding period	**2.810**	**1.275**	**2.855**
Movements during the period			
– Recorded	0.116	0.319	
– Written back as superfluous			
– Acquisitions from third parties			
– Written down after sales and disposals (-)			
– Transfers from one heading to another (+) (-)			(0.012)
– Translation differences (+) (-)			(2.387)
– Other movements		0.101	
At the end of the period	**2.926**	**1.695**	**0.456**
d) NET CARRYING VALUE AT THE END OF THE PERIOD (a) + (b) - (c)	0	1.642	273.879

Of which: – Land and buildings
– Plant, machinery and equipment
– Furniture and vehicles

VI. Statement of financial fixed assets

		1. Enterprises accounted for using the equity method	2. Other enterprises
		In € million	
1	**PARTICIPATING INTERESTS**		
a)	**ACQUISITION COST**		
	As at the end of the preceding period	**5.000**	**7.918**
	Movements during the period		
	– Acquisitions		
	– Sales and disposals (-)		
	– Transfers from one heading to another (+) (-)		(7.452)
	– Translation differences (+) (-)		
	At the end of the period	**5.000**	**0.466**
b)	**REVALUATION SURPLUSES**		
	As at the end of the preceding period		
	Movements during the period		
	– Recorded		
	– Acquisitions from third parties		
	– Reversals (-)		
	– Translation differences (+) (-)		
	– Translations from one heading to another (-) (+)		
	At the end of the period	**0**	**0**
c)	**AMOUNTS WRITTEN DOWN**		
	As at the end of the preceding period		
	Movements during the period		
	– Recorded		
	– Written back as superfluous (-)		
	– Acquisitions from third parties		
	– Written down after sales and disposals (-)		
	– Translation differences (+) (-)		
	– Transfers from one heading to another (+) (-)		
	At the end of the period	**0**	**0**
d)	**UNCALLED AMOUNTS**		
	As at the end of the preceding period	**3.000**	**3.726**
	Movements during the period (+) (-)		(3.726)
	At the end of the period	**3.000**	**0**
e)	**MOVEMENTS IN THE CAPITAL AND RESERVES OF THE ENTERPRISES ACCOUNTED FOR USING THE EQUITY METHOD (+) (-)**	**0**	**0**
	– Share in the result for the financial period		
	– Elimination of dividends regarding those participating interests		
	– Other movements in the capital and reserves		
	NET CARRYING VALUE AT THE END OF THE PERIOD (a) + (b) - (c) - (d) +/- (e)	**2.000**	**0.466**
2	**AMOUNTS RECEIVABLE**		
	NET CARRYING VALUE AT THE END OF THE PERIOD		**0.073**
	Movements during the period		
	– Additions		0.224
	– Reimbursements (-)		
	– Amounts written down (-)		
	– Amounts written back		
	– Translation differences (+) (-)		
	– Other (+) (-)		0.072
	NET CARRYING VALUE AT THE BEGINNING OF THE PERIOD	**0**	**0.369**
	ACCUMULATED AMOUNTS WRITTEN DOWN AT THE END OF THE PERIOD	**0**	**0**

VII. Statement of consolidated reserves

	2004 In € million
Consolidated reserves at the end of the previous financial period (+) (-)	**34.522**
Movements during the period:	
– Shares of the group in de consolidated income (+) (-)	67.377
– Other movements (+) (-)	(53.400)
Interim dividend of Elia System Operator	
Consolidated reserves at the end of the financial period (+) (-)	**48.499**

VIII. Statement of the amounts payable

AMOUNTS PAYABLE WITH A RESIDUAL TERM OF:

	1. Not more than 1 year	2. Between 1 and 5 years	3. Over 5 year
		In € million	
Financial debts	**344.640**	**0**	**1,880.899**
1 Subordinated loans			
2 Unsubordinated debentures			997.392
3 Leasing and other similar obligations			
4 Credit institutions			
5 Other loans	344.640		883.507
Trade debts	**0**	**0**	**0**
1 Suppliers			
2 Bills of exchange payable			
Advances received on contracts in progress			
Other amounts payable			
TOTAL	344.640	0	1,880.899

IX. Result

		2004	2003
		In € million	
A.	**NET TURNOVER**	**672.848**	**693.097**
B.	**AVERAGE NUMBER OF PERSONS EMPLOYED (in units) AND PERSONNEL CHARGES**		
B. 1.	**Consolidated enterprises and fully consolidated enterprises**		
B. 11.	**Average number of persons employed**	**1,248**	**1,093**
	Workers		
	Employees	1,240	1,085
	Management personnel	8	8
	Other persons		
B. 12.	**Personnel charges**		
	Remunerations and social charges	116.837	100.934
	Pensions	9.360	9.394
B. 13.	**Average number of persons employed in Belgium by the enterprises concerned**	**1,248**	**1,093**

		2004	2003
		In € million	
C.	**EXTRAORDINARY RESULTS**		
C1.	Analysis of the OTHER EXTRAORDINARY INCOME, if it involves significant amounts	3.147	0
C2.	Analysis of the OTHER EXTRAORDINARY COSTS, if it involves significant amounts	7.519	0

		2004	2003
		In € million	
D.	**INCOME TAXES**		
D1.	Difference between the tax charged in the consolidated income statement for the period and the preceding periods and the amount of the tax paid or payable in respect of those periods, provided that this difference is material for the purposes of future taxation		
D2.	Effect of extraordinary results on the amount of income taxes on the current period	(1.486)	(9.910)

X. Rights and commitments not reflected in the balance sheet

	2004 In € million
1. Amount of personal guarantees, given or irrevocably promised by the enterprises included in the consolidation, as security for third parties' debts or commitments	
2. Amount of real guarantees, given or irrevocably promised by the enterprises included in the consolidation on their own assets, as security for debts and commitments:	
– of enterprises included in the consolidation	
– of third parties	
3. Amounts of goods and values, held by third parties in their own name but at risk to and for the benefit of the enterprises included in the consolidation not reflected in the balance sheet	
4. a) Commitments to acquire fixed assets	108.129
b) Commitments to dispose of fixed assets	
5. a) Rights from transactions	
– to interest rates	7.241
– to exchange rates	
– to prices of raw materials or goods purchased for resale	
– to other similar transactions	
b) Commitments from transactions	
– to interest rates	12.952
– to exchange rates	
– to prices of raw materials or goods purchased for resale	
– to other similar transactions	

A. Purchase commitments

The group has short-, medium-, and long-term commitments for a number of services that are essential to its business.

Derivatives

Derivatives are used to hedge interest-rate risk.

Interest-rate risk management is performed and managed centrally by the financial department, in compliance with the objectives and guidelines approved by the Board of Directors. It applies to the net financial indebtedness. The general policy does not allow the use of financial instruments for speculative or trading purposes. Currently, more than 40% of the group's total net indebtedness is at fixed rate.

The group had entered into interest-rate swap agreements and forward rate agreements. These agreements aim at ensuring a perfect hedge with the hedged items. The cost of these agreements are posted under interest and other debt charges.

B. Commitments relating to technical guarantees, in respect of sales or services already provided

None

C. Significant litigation and other significant commitments

Several legal actions and proceedings are pending. They were brought both by and against the group's companies. In light of the information available at the time the present accounts were drawn up, the group does not anticipate that these proceedings will have major adverse effects on the consolidated accounts.

Other important commitments:

– Orders related to the operations: . . . . €77.887 million
– Other commitments: . . . . € 1.304 million

D. Commitments with respect to retirement and survivors' pensions in favour of their personnel or executives, at the expense of the enterprises included in the consolidation

There are three different pension schemes applicable within the group. The first two are being phased out; they are no longer open to new members of staff:

1. By virtue of a collective agreement of 2 May 1952, staff enjoy 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 accordance with the relevant legal provisions. These 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 survivorship supplements are transferred to the beneficiaries. In accordance with the express terms of the above-mentioned collective agreement, these benefits meet the following three criteria:

   – individuals only become entitled to a pension supplement upon reaching retirement age;

   – they are booked to operating charges in the same way as salaries;

   – the benefits granted are linked to the company's operating result.

The CREG has accepted these charges, and therefore these are booked to the operating charges and passed through in the tariffs.

2. Pension scheme "defined benefit plan"

The operating personnel hired since 1 January 1993 and all managerial/executive staff hired prior to 1 May 1999 enjoy the same guarantees via a "defined benefit plan" pension, funded by individual and employer contributions as set out in legislation. After staff employed prior to 1993 were given the option of signing up to the scheme, more than 90% of operating staff were involved in this pension scheme by 1997.

3. "Defined contribution plan" pension

Managerial and executive staff hired after 1 May 1999 and operating staff hired after 1 January 2002 enjoy a "defined contribution plan" pension which is funded by both personal and employers' premiums. The employers' premiums represent three to four times the personal premiums.

These contributions are paid respectively to the companies Elgabel, Pensiobel, Powerbel and Enerbel, as well as to Contassur, an insurance company. All of them act as the pension fund for the electricity and gas sector. By the same token, a group insurance policy has been taken out for managerial staff.

Those covered by the pension receive the following social benefits:

– Outpatient care

– Hospital costs

– Tariff benefits

These social benefits are considered as running costs as and when they arise. An estimate of future costs, based on IFRS principles (cf. IAS 19), is shown below.

Other staff-related "commitments"

In addition to pension commitments, there are additional benefits for active staff: jubilee premiums.

Overview of pension and other staff-related commitments:

These amounts are booked at the time of payment.

An estimate of these commitments, based on IFRS principles (cf. IAS 19), may be summarised as follows:

	2004
	Amount in € million
Annuity cf. section D 1	93.365
Health costs	10.641
Tariff benefits	9.119
Jubilee premiums	22.768

XI. Relationships with affiliated enterprises and enterprises linked by participating interests but not included in the consolidation

		1. AFFILIATED ENTERPRISES		2. ENTERPRISES LINKED WITH PARTICIPATING INTERESTS	
		2004	2003	2004	2003
		In € million			
1	**FINANCIAL FIXED ASSETS**			**0.466**	**4.192**
	Participating interests and shares			0.466	4.192
2	**AMOUNTS RECEIVABLE**	**21.183**			
	After one year				
	Within one year	21.183			
3	**CURRENT INVESTMENTS**				
	Shares				
	Amounts receivable				
4	**AMOUNTS PAYABLE**	**1,125.899**			
	After one year	1,123.755			
	Within one year	2.144			

XII. Financial relationships with directors or managers of the consolidation enterprise

		2004
		In € million
A.	Total amount of remuneration granted in respect of their responsibilities in the consolidation enterprise, its subsidiary companies and its affiliated companies, including the amounts in respect of retirement pensions granted to former directors or managers	0.396
B.	Total amount of advances and credits granted by the consolidating enterprise, by a subsidiary company or by an associated company	

4. Consolidated annual accounts

JOINT STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 TO THE SHAREHOLDERS' MEETING OF THE COMPANY ELIA SYSTEM OPERATOR SA/NV

[FREE TRANSLATION]

In accordance with legal requirements, we are reporting to you on the completion of the mandate that you have entrusted to us.

We have audited the consolidated financial statements as of 31 December 2004, which have been prepared under the responsibility of the board of directors of the Company and which show a balance sheet total of 3.748.618 (000) euros and a consolidated profit for the year of 67.377 (000) euros. We have also examined the consolidated directors' report.

Unqualified audit opinion on the consolidated financial statements with an emphasis of matter paragraph

We conducted our audit in accordance with the standards of the "Institut des Reviseurs d'Entreprises-Instituut der Bedrijfsrevisoren". Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, taking into account the legal and regulatory requirements applicable to consolidated financial statements in Belgium.

In accordance with these standards we have considered the group's administrative and accounting organisation as well as its internal control procedures. We have obtained explanations and information required for our audit. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing accounting principles used, the basis for consolidation and significant accounting estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements give a true and fair view of the group's assets, liabilities, consolidated financial position as of 31 December 2004 and the consolidated results of its operations for the year then ended, in accordance with the legal and regulatory requirements applicable in Belgium and the information given in the notes to the consolidated financial statements is adequate.

Without qualifying our opinion as expressed above, we draw the attention to the consolidated report of the board of directors which mentions the estimated amount resulting from the 'mecanisme de décompte–afrekeningmechanisme' as described in article 24 of the Royal Decree of 4 April 2001. The full amount is booked under the caption of the transitory liability accounts pending its final appropriation which depends on future agreements with the 'Commission de Régularisation de l'Electricité et du Gaz–Commissie van de Regeling van Elektriciteit en Gas'.

We supplement our report with the following certification and information that do not modify our audit opinion on the consolidated financial statements.

- The consolidated directors' report contains the information required by law and is consistent with the consolidated financial statements.
- Without prejudice to certain formal aspects of minor importance, the consolidated financial statements have been prepared in accordance with the legal and regulatory requirements applicable in Belgium and disclose the accounting treatment for employee benefits and similar obligations as well as the justification of the non depreciation in 2002, 2003 and 2004 of the consolidation difference and the cumulated impact of this decision.

Brussels, April 18, 2005

ERNST & YOUNG
REVISEURS D'ENTREPRISES SCC (B160)
Statutory Auditor
represented by
Jacques Vandernoot
Partner

KLYNVELD PEAT MARWICK GOERDELER
REVISEURS D'ENTREPRISES SCRL (B001)
Statutory Auditor
represented by
Erik Clinck
Partner

5. Annual Accounts of Elia System Operator SA (abridged form)

Bearing in mind the structure of the companies, the details of the statutory annual accounts and the comments on the accounts by parent company Elia System Operator SA in this report would frequently be overlapped by the comments.

Consequently, in accordance with the Belgian Companies Code, the annual accounts of Elia System Operator SA are presented below in an abridged version.

In addition, the complete annual accounts version and the directors' report of Elia System Operator SA, along with the auditor's report, have been submitted to the National Bank of Belgium. These documents are available upon request from:

Elia System Operator SA
Department Accounting
Boulevard de l'Empereur 20
B-1000 Brussels

The auditors gave their unqualified opinion with explanatory paragraph of Elia System Operator SA's annual accounts.

Abridged balance sheet on 31 December 2004

	2004	2003
	In € million	
ASSETS		
FIXED ASSETS		
Financial assets	3,304.654	3,304.644
CURRENT ASSETS		
Amounts receivable within one year	226.248	206.040
Short-term investments	36.683	55.014
Cash	0.037	15.511
Deferred charges and accrued income	81.705	62.455
TOTAL ASSETS	**3,649.385**	**3,643.664**
LIABILITIES		
CAPITAL AND RESERVES		
Capital	1,049.491	1,049.491
Legal reserve	11.202	8.085
Reserves available for distribution	24.118	18.308
PROVISIONS AND DEFERRED TAXES		
Provisions for risks and charges	3.271	3.151
DEBTS		
Long term financial debts	1,880.900	982.664
Short term financial debts	344.640	1,259.689
Trade debts	53.951	77.660
Other debts	11.744	96.809
Accrued charges and deferred income	269.908	147.807
TOTAL LIABILITIES	**3,649.385**	**3,643.664**

5. Annual Accounts of Elia System Operator SA (abridged form)

Abridged income statement on 31 December 2004

	2004	2003
	In € million	
Operating income	656.490	694.535
Operating charges	(492.392)	(491.787)
OPERATING PROFIT	**164.098**	**202.748**
Financial charges and income	(67.226)	(63.835)
Profit before taxes	96.872	138.913
Exceptional income	(3.147)	26.515
INCOME BEFORE TAXES FOR THE CURRENT YEAR (+)	**92.500**	**165.428**
Taxes	(30.173)	(55.630)
NET INCOME FOR THE CURRENT YEAR	**62.327**	**109.798**
INCOME FOR THE CURRENT YEAR TO BE APPROPRIATED	**62.327**	**109.798**

CONSOLIDATED BALANCE SHEET – COMPARATIVE TABLES (2002 – 2003 – 2004)
BELGIAN GAAP

	2004	2003	2002
	All amounts in 000€		
ASSETS			
FIXED ASSETS	3,503,862	3,418,891	3,345,189
Positive consolidation differences	1,705,610	1,700,071	0
IV. Tangible assets	**1,795,418**	**1,712,555**	**3,342,651**
A. Land and buildings	75,437	71,905	62,729
B. Plant, machinery and equipment	1,438,512	1,314,846	2,963,049
C. Furniture and vehicles	5,948	5,935	6,844
D. Leasing and other similar rights	0	116	234
E. Other tangible assets	1,642	1,828	2,147
F. Assets under construction and advance payments	273,879	317,925	307,648
V. Financial assets	**2,834**	**6,265**	**2,538**
A. Companies accounted for using the equity method	2,000	2,000	2,000
1. Participating interests	2,000	2,000	2,000
B. Other enterprises	834	4,265	538
1. Participating interests and shares	465	4,192	466
2. Amounts receivable	369	73	72
CURRENT ASSETS	244,756	302,331	215,640
VII. Stocks and contracts in progress	**12,772**	**15,822**	**15,688**
A. Stocks	9,361	11,669	11,305
1. Raw materials and consumables	9,361	11,669	11,305
B. Contracts in progress	3,411	4,153	4,383
VIII. Amounts receivable within one year	**98,495**	**153,066**	**129,553**
A. Trade debtors	72,751	124,690	101,171
B. Other amounts receivable	25,744	28,376	28,382
IX. Investments	**47,233**	**55,614**	**44,900**
A. Own shares			
B. Other investments and deposits	47,233	55,614	44,900
X. Cash at bank and in hand	**2,149**	**16,235**	**2,580**
XI. Deferred charges and accrued income	**84,107**	**61,594**	**22,919**
TOTAL ASSETS	3,748,618	3,721,222	3,560,829

	2004	2003	2002
	All amounts in 000€		
LIABILITIES			
CAPITAL AND RESERVES	1,097,990	1,084,013	1,063,718
I. Capital	**1,049,491**	**1,049,491**	**1,049,491**
A. Issued capital	1,049,491	1,049,491	1,049,491
IV. Consolidation reserves	**48,499**	**34,522**	**14,227**
PROVISIONS, DEFERRED TAX AND LATENT TAXATION LIABILITIES	**28,692**	**26,303**	**57,660**
IX. Provisions for liabilities and charges	**28,692**	**26,303**	**57,660**
1. Pensions and similar obligations	2,156	2,351	0
4. Other liabilities and charges	26,536	23,952	57,660
CREDITORS	2,621,936	2,610,906	2,439,451
X. Amounts payable after one year	**1,880,899**	**989,596**	**1,348,207**
A. Financial debts	1,880,899	989,596	1,348,207
1. Subordinated loans	0	99,157	111,552
2. Unsubordinated debentures	997,392	0	0
5. Other loans	883,507	890,439	1,236,655
XI. Amounts payable within one year	**464,875**	**1,462,719**	**1,085,985**
A. Current portion of amounts payable after one year	344,640	358,611	13,862
B. Financial debts	0	902,654	902,654
1. Credit institutions	0	902,654	902,654
C. Trade debts	83,333	80,984	78,554
1. Suppliers	83,333	80,984	78,554
D. Advances received on contracts in progress	4,536	2,156	769
E. Amounts payable regarding taxes, remuneration and social security	25,354	24,078	36,140
1. Taxes	5,532	9,040	19,170
2. Remuneration and social security	19,822	15,038	16,970
F. Other amounts payable	7,012	94,236	54,006
XII. Accrued charges and deferred income	276,162	158,591	5,259
TOTAL LIABILITIES	3,748,618	3,721,222	3,560,829

CONSOLIDATED INCOME STATEMENT – COMPARATIVE TABLES (2002 – 2003 – 2004)
BELGIAN GAAP

	2004	2003	2002
	All amounts in 000€		
I. Operating income	**705,612**	**710,121**	**696,053**
A. Turnover	672,848	693,097	668,894
B. Increase (+), decrease (-) in stocks of finished goods, work and contracts in progress	(3,003)	(230)	(1,266)
C. Fixed assets-own construction	21,848	5,166	5,322
D. Other operating income	13,919	12,088	23,103
II. Operating charges (-)	**519,699**	**496,500**	**508,832**
A. Raw material, consumables and goods for resale	4,818	5,908	3,562
1. Purchases	5,337	5,939	5,086
2. Increase (-), decrease (+) in stocks	(519)	(31)	(1,524)
B. Services and other goods	295,298	291,943	234,113
C. Remuneration, social security costs and pensions	126,197	110,328	114,070
D. Depreciation of and other amounts written off formation expenses, intangible and tangible fixed assets	70,981	67,850	94,686
E. Increase (+), decrease (-) in amounts written of stocks, contracts in progress and trade debtors	2,865	(1,579)	1,941
F. Increase (+), decrease (-) in provisions for liabilities and charges	1,634	(2,199)	36,273
G. Other operating charges	16,521	24,249	24,187
I. Amounts written down on positive consolidation differences	1,385	0	0
III. OPERATING PROFIT	**185,913**	**213,621**	**187,221**
IV. Financial income	**18,106**	**2,367**	**2,449**
A. Income from financial fixed assets	1,694	0	0
B. Income from current assets	4,253	2,357	2,440
C. Other financial income	12,159	10	9
V. Financial charges	**94,313**	**77,798**	**85,422**
A. Interests and other debt charges	91,263	76,774	85,000
D. Other financial charges	3,050	1,024	422
VI. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**109,706**	**138,190**	**104,248**
VII. Extraordinary income	**3,147**	**26,516**	**0**
D. Adjustments to provisions for extraordinary liabilities and charges	0	26,516	0
F. Other extraordinary income	3,147	0	0
VIII. Extraordinary charges	**6,936**	**(2,641)**	**(2,753)**
D. Provisions for extraordinary liabilities and charges (increase +, decrease -)	(584)	(2,641)	(2,753)
F. Other extraordinary charges	7,520	0	0
IX. PROFIT FOR THE FINANCIAL PERIOD BEFORE TAXATION	**105,917**	**167,347**	**107,001**
XI. Income taxes	**(38,540)**	**(61,052)**	**(43,463)**
A. Income taxes	(40,199)	(61,197)	(43,463)
B. Adjustment of income taxes and write-back of tax provisions	1,659	145	0
XII. PROFIT FOR THE FINANCIAL PERIOD	**67,377**	**106,295**	**63,538**
XIV. CONSOLIDATED PROFIT	**67,377**	**106,295**	**63,538**
A. Share of third parties	0	0	0
B. Share of the group	67,377	106,295	63,538

The full version of the 2004 annual accounts of Elia System Operator SA/NV is available in French and Dutch only on *www.elia.be*.

COMPARATIVE TABLES – BELGIAN GAAP STATUTORY BALANCE SHEET (2002 – 2003 – 2004)

	2004	2003	2002
	All amounts in 000€		
ASSETS			
FIXED ASSETS	**3,304,654**	**3,304,644**	**3,304,177**
Tangible assets	**0**	**0**	**0**
Land and buildings	0	0	0
Plant, machinery and equipment	0	0	0
Furniture and vehicles	0	0	0
Leasing and other similar rights	0	0	0
Other tangible assets	0	0	0
Assets under construction and advance payments	0	0	0
Financial assets	**3,304,654**	**3,304,644**	**3,304,177**
Affiliated enterprises	3,304,179	3,304,177	3,304,177
Participating interests	3,304,179	3,304,177	3,304,177
Amounts receivable	0	0	0
Other enterprises linked by participating interests	466	466	0
Participating interests	466	466	0
Other financial assets	9	1	0
Shares	0	1	0
Amounts receivables and cash guarantees	9	0	0
CURRENT ASSETS	**344,731**	**339,020**	**207,335**
Stocks and contracts in progress	**58**	**0**	**0**
Stocks	0	0	0
Raw materials and consumables	0	0	0
Contracts in progress	58	0	0
Amounts receivable within one year	**226,248**	**206,040**	**140,187**
Trade debtors	68,946	120,975	91,371
Other amounts receivable	157,302	85,065	48,816
Investments	**36,683**	**55,014**	**44,100**
Own shares	0	0	0
Other investments and deposits	36,683	55,014	44,100
Cash at bank and in hand	**37**	**15,511**	**1,001**
Deferred charges and accrued income	**81,705**	**62,455**	**22,047**
TOTAL ASSETS	**3,649,385**	**3,643,664**	**3,511,512**

	2004	2003	2002
	All amounts in 000 euro		
LIABILITIES			
CAPITAL AND RESERVES	**1,084,811**	**1,075,884**	**1,052,086**
Capital	**1,049,491**	**1,049,491**	**1,049,491**
Issued capital	1,049,491	1,049,491	1,049,491
Legal reserves	**11,202**	**8,085**	**2,595**
Retained earnings	**24,118**	**18,308**	**0**
PROVISIONS AND DEFERRED TAXES	**3,271**	**3,151**	**35,354**
Provisions for liabilities and charges	**3,271**	**3,151**	**35,354**
Pensions and similar obligations			
Other liabilities and charges	3,271	3,151	35,354
CREDITORS	**2,561,303**	**2,564,629**	**2,424,072**
Amounts payable after one year	**1,880,900**	**982,664**	**1,339,700**
Financial debts	1,880,900	982,664	1,339,700
Subordinated loans	0	99,157	111,552
Unsubordinated debentures	997,393	0	0
Other loans	883,507	883,507	1,228,148
Amounts payable within one year	**410,495**	**1,434,158**	**1,082,738**
Current portion of amounts payable after one year	344,640	357,035	12,395
Financial debts	0	902,654	902,654
Credit institutions	0	902,654	902,654
Trade debts	53,951	77,660	116,265
Suppliers	53,951	77,660	116,265
Advances received on contracts in progress	160	0	0
Amounts payable regarding taxes, remuneration and social security	5,559	3,618	13
Taxes	2,323	824	13
Remuneration and social security	3,236	2,794	0
Other amounts payable	6,185	93,191	51,411
Accrued charges and deferred income	**269,908**	**147,807**	**1,634**
TOTAL LIABILITIES	**3,649,385**	**3,643,664**	**3,511,512**

COMPARATIVE TABLES – BELGIAN GAAP STATUTORY INCOME STATEMENT (2002 – 2003 – 2004)

	2004	2003	2002
	All amounts in 000 euro		
Operating income	**656,490**	**694,535**	**459,471**
Turnover	655,409	691,797	459,470
Increase (+), decrease (-) in stocks of finished goods, work and contracts in progress	58	0	0
Fixed assets – own construction	0	0	0
Other operating income	1,023	2,738	1
Operating charges (-)	**492,392**	**491,787**	**288,851**
Raw material, consumables and goods for resale	0	0	0
Purchases	0	0	0
Increase (-), decrease (+) in stocks	0	0	0
Services and other goods	473,651	480,342	253,144
Remuneration, social security costs and pensions	18,620	17,129	0
Depreciation of and other amounts written off formation expenses, intangible and tangible fixed assets	0	0	0
Increase (+), decrease (-) in amounts written of stocks, contracts in progress and trade debtors	0	0	353
Increase (+), decrease (-) in provisions for liabilities and charges	120	(5,687)	35,354
Other operating charges	1	3	0
OPERATING PROFIT	**164,098**	**202,748**	**170,620**
Financial income	**24,987**	**13,449**	**1,093**
Income from financial fixed assets	7,170	11,050	0
Income from current assets	5,693	2,397	1,092
Other financial income	12,124	2	1
Financial charges	**92,213**	**77,284**	**84,715**
Interests and other debt charges	90,879	76,277	84,384
Other financial charges	1,334	1,007	331
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**96,872**	**138,913**	**86,998**
Extraordinary income	**3,147**	**26,515**	**0**
Adjustments to provisions for extraordinary liabilities and charges	0	26,515	0
Other extraordinary income	3,147	0	0
Extraordinary charges	**7,519**	**0**	**0**
Provisions for extraordinary liabilities and charges (increase +, decrease -)	0	0	0
Other extraordinary charges	7,519	0	0
PROFIT FOR THE FINANCIAL PERIOD BEFORE TAXATION	**92,500**	**165,428**	**86,998**
Income taxes	**30,173**	**55,630**	**35,092**
Income taxes	30,327	55,630	35,092
Adjustment of income taxes and write-back of tax provisions	(154)	0	0
PROFIT FOR THE FINANCIAL PERIOD	**62,327**	**109,798**	**51,906**

Annex B

Annex B – IFRS Preliminary Financial Information

Special purpose audit report by the Company's auditors dated 25 April 2005 . . . . B - 1
Consolidated balance sheet as at 1 January 2004 (opening balance sheet) (IFRS) . . . . B - 3
Consolidated balance sheet as at 31 December 2004 (closing balance sheet) (IFRS) . . . . B - 4
Consolidated income statement for the year ended 31 December 2004 (IFRS) . . . . B - 5
Cash flow statement at 31 December 2004 (IFRS) . . . . B - 6
Selected notes to the IFRS Preliminary Financial Information . . . . B - 7
Significant accounting policies to the IFRS Preliminary Financial Information . . . . B - 12

ERNST & YOUNG BEDRIJFSREVISOREN/ REVISEURS D'ENTREPRISES SCC	KLYNVELD PEAT MARWICK GOERDELER BEDRIJFSREVISOREN/REVISEURS D'ENTREPRISES SCRL

Special Purpose Audit Report of E&Y Bedrijfsrevisoren SCC and KPMG Bedrijfsrevisoren SCRL on the International Financial Reporting Standards Preliminary Financial Information

To the Directors and Shareholders of Elia System Operator

We have audited the accompanying preliminary consolidated financial information prepared in accordance with International Financial Reporting Standards ("IFRS") for Elia System Operator NV and its subsidiaries ("the Company") as of 31 December 2004. This information (hereafter "the IFRS preliminary financial information") has been prepared with a transition date of 1 January 2004 and consists of the balance sheet as at 1 January 2004 and as at 31 December 2004, an income statement and a cash flow statement for the year ended 31 December 2004, selected notes and related accounting policies.

The directors of the Company are responsible for the preparation of the IFRS preliminary financial information. This information has been prepared for the Company's conversion to IFRS and for purpose of inclusion in the intended public offering in Belgium and the private placement to institutional investors in Belgium and internationally. Our responsibility, as independent auditors, is to express an opinion on these IFRS preliminary financial informations.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS preliminary financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS preliminary financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the IFRS preliminary financial information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the IFRS preliminary financial information as at 31 December 2004 have been prepared, in all material respects, in accordance with the basis set out in the accounting policies, which describe how IFRS have been applied under IFRS 1, including the assumptions made by the directors of the Company about the standards and interpretations expected to be effective, and the policies expected to be adopted, when they prepare the first complete set of consolidated IFRS financial statements of the Company for the year ended 31 December 2005.

ERNST & YOUNG BEDRIJFSREVISOREN/ REVISEURS D'ENTREPRISES SCC

KLYNVELD PEAT MARWICK GOERDELER BEDRIJFSREVISOREN/REVISEURS D'ENTREPRISES SCRL

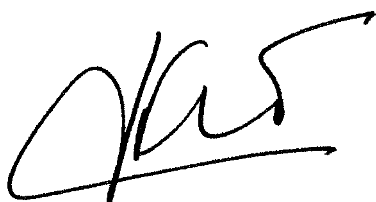
Without qualifying our opinion, we draw the attention to note (a): "statement of compliance" of the related accounting policies in which the Company explains why the IFRS preliminary financial information may require adjustment before their inclusion as comparative information in the consolidated IFRS financial statements as at 31 December 2005 when the Company prepares its first consolidated IFRS financial statements.

Also the Company has prepared the IFRS preliminary financial information as at 1 January 2004 to establish the financial position, results of operations and cash flows of the Company necessary to provide the comparative financial information expected to be included in the Company's first complete set of consolidated IFRS financial statements as at 31 December 2005. We draw attention to the fact that, under IFRS only a full set of financial statements with comparative financial information, including a balance sheet, an income statement, a cash flow statement, a statement of changes in equity, explanatory notes and related accounting policies can provide a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRS.

Our report has been prepared for the Company solely in connection with the Company's conversion to IFRS and for purpose of inclusion in the intended public offering in Belgium and the private placement to institutional investors in Belgium and internationally. It should not be used or provided to other parties for any other purpose.

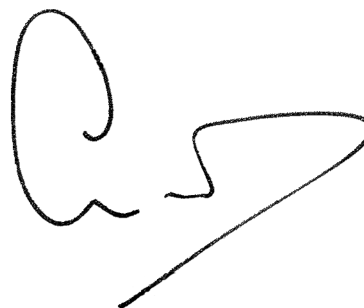
Brussels, 25 April 2005

Ernst & Young
Bedrijfsrevisoren/Reviseurs d'Entreprises SSC
Represented by



Jacques Vandernoot
Partner

Klynveld Peat Marwick Goerdeler
Bedrijfsrevisoren/Reviseurs d'Entreprises SCRL
Represented by



Erik Clinck
Partner

Consolidated balance sheet as at 1 January 2004 (opening balance sheet) (IFRS)

All amounts in 000 euro	Opening Balance IFRS
ASSETS	
Non-current assets	3,436,379.2
Intangible assets	0.0
Goodwill	1,700,070.6
Property, plant and equipment	1,712,555.5
Investments in subsidiaries	0.0
Investments in associates	4,191.5
Other financial assets	73.1
Deferred taxes	19,488.4
Current assets	309,640.0
Inventories and construction contracts	16,136.9
Trade and other receivables	153,873.9
Cash and cash equivalents	78,035.5
Deferred charges and accrued income	61,593.6
TOTAL ASSETS	3,746,019.2
EQUITY & LIABILITIES	
Shareholders' equity	1,104,437.5
Issued capital	1,049,491.0
Consolidated Reserves	54,946.5
Retained earnings	0.0
Non-current liabilities	1,155,224.7
Long-term borrowings	965,795.4
Employee benefits	186,733.5
Provisions for liabilities and charges	1,186.0
Deferred tax liabilities	1,509.7
Current liabilities	1,486,357.0
Short-term borrowings	902,653.9
Current portion of long-term borrowings	358,317.8
Provisions for liabilities and charges	12,874.4
Trade and other payables	150,310.1
Income tax payable	0.0
Accrued charges and deferred income	25,238.4
Regulatory liability	36,962.5
TOTAL EQUITY & LIABILITIES	3,746,019.2

Consolidated balance sheet as at 31 December 2004 (closing balance sheet) (IFRS)

All amounts in 000 euro	2004 IFRS
ASSETS	
Fixed assets	3,533,318.2
Intangible assets	1,546.8
Goodwill	1,707,765.2
Property, plant and equipment	1,797,290.3
Investments in subsidiaries	0.0
Investments in associates	465.5
Other financial assets	369.0
Deferred taxes	25,881.5
Current assets	256,169.3
Inventories and construction contracts	13,611.5
Trade and other receivables	99,307.3
Income tax assets	0.0
Cash and cash equivalents	59,143.4
Deferred charges and accrued income	84,107.1
TOTAL ASSETS	3,789,487.5
EQUITY & LIABILITIES	
Shareholders' equity	1,061,493.7
Issued capital	1,049,491.0
Consolidated Reserves	5,946.5
Retained earnings	6,056.2
Non-current liabilities	2,070,262.8
Long-term borrowings	1,879,272.0
Employee benefits	186,082.6
Provisions for liabilities and charges	2,307.9
Deferred tax liabilities	2,600.4
Current liabilities	657,730.9
Short-term borrowings	0.0
Current portion of long-term borrowings	344,640.3
Provisions for liabilities and charges	12,159.1
Trade and other payables	116,878.4
Accrued charges and deferred income	40,342.2
Regulatory liability	143,710.8
TOTAL EQUITY & LIABILITIES	3,789,487.5

Consolidated income statement for the year ended 31 December 2004 (IFRS)

All amounts in 000 euro	**2004 IFRS**
Operating income	704,476.3
Net revenue	687,410.0
Other operating income	17,066.3
Total operating expenses and charges	(512,692.8)
Costs of material and charges to revenue	(4,817.7)
Services and other goods	(288,135.1)
Personnel expenses and pensions	(126,197.2)
Depreciation, write-offs and amortisation expenses, changes in provisions	(70,086.6)
Other operating charges	(23,456.1)
Total operating income	191,783.5
Net finance costs	(98,674.3)
Financial income	18,106.2
Financial charges	(116,780.4)
Profit on ordinary activities before taxation	93,109.3
Extra ordinary result	0.0
Extraordinary income	0.0
Extraordinary charges	0.0
Profit before taxation	93,109.3
Taxes	(33,653.0)
Income taxes	(38,840.6)
Deferred taxes	5,187.6
Profit after tax	59,456.2
Minority interests	(0.0)
Net profit for the period	59,456.2

Cash Flow statement at 31 December 2004 (IFRS)

	2004 IFRS All amounts in 000 euro
Operating activities	
Net income	59,456.2
Depreciation tangible and intangible assets	71,171.4
Disposals on tangible assets	6,813.0
Depreciation on consolidation difference	
Write offs of current assets	1,135.3
Variation in provisions	-2,803.8
Amortisation of debts	22,466.5
Interest expenses	89,303.3
Deferred taxes	-5,187.5
Cash flow from operating activities	**242,354.4**
Changes in	
stocks and contracts in progress	1,390.1
Trade and other receivables	66,834.7
Deferred charges and accrued income	-22,513.5
Trade and other payables	-14,614.3
Accrued charges and deferred income	90,128.4
Changes in working capital	121,225.4
Interest paid	-57,579.5
Net total cash flow from operating activities	**306,000.3**
New investments in (in)tangible assets	-164,007.1
New subsidiaries	
New investments in affiliates	4,131.6
Other financial assets	-295.8
Disposals on tangible assets	
Total cash flow from investing activities	**-160,171.3**
(+) or (-) Change in capital	0.0
(-) Dividends paid	-139,400.0
(-) Reimbursements of loans	-1,022,713.7
(+) New loans	997,392.4
Total cash flow from financing activities	**-164,721.3**
Cash flow variations	**-18,892.3**
Cash & Cash equivalents at the beginning of the year	78,035.6
Cash & Cash equivalents at the end of the year	59,143.3
Net variations in cash & cash equivalents	-18,892.3

Selected notes to the IFRS Preliminary Financial Information

Business combinations: Acquisition of BEL Engineering

BEL Engineering financial statements have been fully consolidated by Elia integrating their financial statements in the consolidated financial Information of Elia as from January 2004. (See "Context and Background of the Offering – History and Structure of the TSO – Further Transactions – BEL Engineering Transaction").

The application of the business combination had the following effect on the company's assets and liabilities:

	Recognised values
	All amounts in 000 euro
Intangible assets	35.6
Tangible assets	223.2
Trade and other receivables	12,268.1
Cash and Cash equivalents	7,857.6
Deferred taxes	415.1
Liabilities employee benefits	-2,559.4
Trade and other payables	-7,258.4
Advances and down-payments received on orders	-11,224.3
Net identifiable assets and liabilities	-242.6
Goodwill on acquisition	7,694.6
Consideration paid	7,452.0
Cash acquired	7,857.6
Net Cash inflow	405.6

For details on adjustments recorded to Belgian GAAP to comply with IFRS 3, please see "Summary of certain significant differences between Belgian GAAP and IFRS" – Consolidated balance sheet as at 1 January 2004 – note 10.

Deferred taxes

Reconciliation of the tax expenses recorded in the income statement 31 December 2004.

Recognised in the income statement

	2004
	All amounts in 000 euro
Current tax expense	
Current year	39,257.6
Adjustments prior years	-416.9
Total current tax expenses	38,840.6
Deferred tax expense	
Origination an reversal of temporary differences	-5,187.6
Total deferred tax expense	-5,187.6
Total income tax expense in income statement	33,653.0

Reconciliation of effective tax rate

	2004
	All amounts in 000 euro
Profit before tax	93,109.3
Income tax using in the domestic corporation tax rate (33.85%)	31,518.2
Expenses not deductible for tax purposes	2,931.6
Other tax free income mainly related to intercompany dividend	-379.8
Adjustments prior years	-416.9
Total income tax expense in income statement	33,653.0

Financial instruments

The following IFRS standards will be adopted as from 1 January 2005:

- IAS 39 "Financial Instruments: Recognition and Measurement and should be applied for annual periods beginning on or after 1 January 1 2005",
- IAS 32 Financial Instruments: Disclosure and Presentation and should be applied for annual periods beginning on or after 1 January 1 2005.

Interest rate risk

The following note is provided for information purposes only.

Hedging

Elia's current policy is to maintain, at all times, the ratio of fixed rate debt above 40% of the overall debt, unless otherwise agreed by the executive bodies of the Company. As of 31 December 2004, after taking into account the effect of interest rate swaps, Elia satisfied this threshold with 74.15% of its total debt at fixed rates. The fixed swap rates range from 3.3275% to 4.37%.

The group will classify interest rate swaps as cash flow hedges and will state them at fair value as from January 1, 2005 and will recognise them against the equity in the opening balance.

The net fair value of the swaps at 31 December 2004 was EUR 24.8 million.

Employee benefits

Summary of provisions

	2004
	All amounts in 000 euro
Defined Benefit plans	123,262.8
Early retirement plan	16,879.1
Other employee benefits	43,132.6
Subtotal	183,274.6
Other (Restructuring)	2,807.9
Total provisions for Employee Benefits	186,082.6

Description of the different Employee Benefit plans

Defined Benefit plans:

1. Pursuant to a collective agreement dated 2 May 1952, the personnel receives certain benefits, referred to as pension supplements, under which, as retired persons, they are entitled (following a full career) to receive overall funds equal to 75% of their annual income, in accordance with the relevant legal provisions. These benefits are partially transferable to the widow or widower and where necessary, can be supplemented by orphan benefits. If the individual is deceased while at work, the additional survivorship supplements are transferred to the beneficiaries.

   In accordance with the terms of the above-mentioned collective agreement, these benefits meet the following three criteria:

   - individuals only become entitled to a pension supplement upon reaching retirement age;
   - they are recorded in operating charges in a way similar to recognition of salaries;
   - benefits granted are linked to Elia's operating result.

   These obligations are unfunded.

2. Pension scheme “defined benefit plan”

In respect to operational personnel hired since January 1, 1993 and all managerial/executive staff hired prior to May 1, 1999 the same guarantees are granted through a “defined benefit plan” pension scheme, funded by individual and employer contributions as set out in the Belgian legislation. Staff employed prior to 1993 were since given the option of signing up to the scheme, and by 1997, more than 90% of operating staff participated in this pension scheme.

These contributions are paid respectively to Elgabel, Pensiobel and to the insurance company Contassur. Collectively these entities act as the pension fund for the Electricity and Gas Sector. In the same way, a group insurance policy has been subscribed for to cover managerial staff.

Early retirement plan:

- When certain conditions are met, employees can take advantage of leaving Elia earlier than the age of 60 years.

Other employee benefits:

Besides the pension scheme described above, the personnel benefits include other extra-legal benefits, such as:

- For the employees a jubilee premium is granted when seniority 25, 30 and 35 years is reached;
- Coverage of medical costs and hospitalisation;
- Reduction on electricity invoice.

Other provisions

Other provisions consist of a restructuring provision relating to the early retirement plan.

Analysis of fluctuations

	Total group
	All amounts in 000 euro
CHANGE IN BENEFIT OBLIGATION	
Projected Benefit Obligation at beginning of period	-303,989.5
Service Cost	-6,928.9
Interest Cost	-14,423.6
Plan participants contributions	-889.0
Special termination benefits	-1,567.0
Actuarial (loss) gain	-8,456.3
Benefits paid	26,124.0
Projected Benefit Obligation at end of period	-310,130.2
CHANGE IN PLAN ASSETS	
Fair value of plan assets at beginning of period	114,696.6
Expected (NOT ACTUAL) return on plan assets	5,808.0
Company contributions	23,618.0
Plan participants contributions	889.0
Actuarial (loss) gain	3,990.4
Benefits paid	-26,124.0
Fair value of plan assets at end of period	122,878.0
FUNDED STATUS	
Funded status of the plan	-187,252.3
Unrecognized actuarial gain and loss	3,977.8
Net amount recognized (Accrued) / Prepaid	-183,274.6
Net amount recognized (Accrued)	-184,382.2
Net amount recognized Prepaid	1,107.7
NET PERIODIC PENSION COST	
Service Cost	-6,928.9
Interest Cost	-14,423.6
Plan participants contributions	-889.0
Expected return on plan Assets	5,808.0
Amortization of actuarial net (loss) gain	-488.1
Special termination benefits	-1,567.0
Net periodic benefit cost	-18,488.6
MINIMUM LIABILITY ADJUSTMENT	
(Accrued) prepaid benefit cost	-183,274.6
(Accrued) benefit cost	-184,382.2
Prepaid benefit cost	1,107.7

Actuarial assumptions

Inflation rate	1.70%
Interest rate (not including inflation)	3.00%
Salary increase rate (not including inflation)	0.02%
Yield rate on deposits (not including inflation)	3.70%
Interest appreciation rate (not including inflation)	0.00%
Length of future services	16
Rate of increase of health benefits (retirement and current)	2.50%

Reimbursement

Under Belgian GAAP deviations arising from the budget and/or bonus/malus mechanism are recorded as deferred income. As of 1 January 2004, the deferred income on the balance sheet, which was generated by deviations of previous years, amounts to EUR 133.4 million. (See "Management Discussion and Analysis of Financial Conditions and Results of Operations – Deviations from budget and bonus/malus"). Under IFRS these deviations meet the criteria of a liability and have been recorded as a regulatory liability.

In addition, as discussed above (see "Summary of certain significant differences between Belgian GAAP and IFRS" – Consolidated balance sheet as at 1 January 2004 – note 3), Elia has certain obligations relating to employee benefits and similar obligations. In accordance with a study report issued by the CREG, it is virtually certain that a portion amounting to EUR 96.4 million of the total employee benefits costs will be considered as reasonable by the CREG and therefore recovered by Elia through inclusion in the future tariff amounts. As this amount can be recovered from third parties, in accordance with IFRS principles (IAS 19), it has to be considered as an asset. As the regulatory liability and the regulatory asset are based on the same principles especially the impact on future tariffs, the offsetting was applied under IFRS and so the asset has been recorded as a reduction of the regulatory liability, which hence amounts to EUR 36.9 million. During 2004, the regulatory liability has decreased by EUR 4.3 million.

Significant accounting policies to the IFRS preliminary financial information

The IFRS preliminary financial information of the Company at 31 December 2004 and for the year then ended includes the accounts of the Company and its wholly owned subsidiaries (together referred to as the "Group") and the Group's interests in associates.

The IFRS preliminary financial information was authorised for issue by the Board of Directors.

(a) Statement of compliance

To date, the Company has prepared its consolidated financial statements in accordance with laws and regulations applicable in Belgium ("Belgian GAAP"). For the accounting year ended 31 December 2005, the Company will be required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"). As the Company will publish comparative information for two years the date for transition to IFRS was determined at 1 January 2004.

For purposes of this Prospectus, the Company has prepared preliminary consolidated condensed historical financial information in accordance with IFRS and its interpretations adopted by the IASB as of 31 December 2004 and an opening balance sheet at 1 January 2004 in accordance with IFRS 1, *First Time Adoption* (jointly referred to hereafter as the "IFRS preliminary financial information"). The IFRS preliminary financial information does not constitute the Company's first annual financial statements within the meaning of IFRS 1.

The IFRS preliminary financial information has been prepared on the basis of IFRS expected to be applicable at 31 December 2004. The impact of IAS 32 and 39 has not been reflected in these financial statements as the Company decided to apply these standards for the first time on 1 January 2005.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in notes [1-15] of the summary of certain significant differences between Belgian GAAP and IFRS.

(b) Basis of preparation

The financial information is expressed in thousands of euro. They are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income 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 of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may 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 affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the notes.

The accounting policies set out below have been applied consistently to all periods presented in this financial information. The accounting policies have been applied by all Group entities.

(c) Basis of consolidation

(i) Subsidiaries

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

(ii) Associates

An associate is an entity 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

gains and losses of associates on an equity accounted basis, from the date significant influence commences until the date significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities 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 of impairment.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the transaction.

(e) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. In compliance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

The company still applies the accounting rules in compliance with Belgian GAAP. IAS 39 will be applied as of 1 January 2005.

(f) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost (including directly attributable costs) less accumulated depreciation and impairment losses (see accounting policy l). The cost of self-constructed assets includes the cost of materials, direct labour and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Where 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.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy l). Lease payments are accounted for as described in accounting policy v.

(iii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Depreciation rates used are as follows:

Administrative buildings	3.00%
Industrial buildings	2.70%
Overhead lines	2.08%
Underground cables	1.82%
Substations (installations & machinery)	2.70%
Teletransmission	6.67%
Dispatching	10.00%
Other property, plant and equipment	20.00%
Vehicles	20.00%
Tools and office furniture	10.00%
Hardware	33.00%

The residual value, if not insignificant, is reassessed annually.

(g) Intangible assets

(i) Business Combinations and Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and associates. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date (*i.e.* Elia Asset), goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy l). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit and loss account.

(ii) Software

Software licences that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy l).

Expenditures on research activities undertaken to develop software internally is recognised in the income statement as an expense when incurred. Expenditures related to the development phase of internally developed software is capitalised if all conditions of IAS 38, §57 are met.

(iii) 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 expensed when incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is systematically tested for impairment at each balance sheet date. Software is amortised from the date they are available for use. The estimated useful lives are as follows:

Licences	5 years
Internally developed software	5 years

(h) Investments

(i) Investments in equity securities

Equity securities held by the Group are classified at cost less any impairment losses.

(i) Trade and other receivables

(i) Construction work in progress

Construction work in progress is stated at cost plus profit recognised to date (see accounting policy u) less a provision for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

(ii) Lease receivables

Assets leased out under finance leases are presented as receivables at an amount equal to the net investment in the lease.

(iii) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy l).

(j) Inventories

Inventories (spare parts) are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted-average cost principle. The cost of inventories includes the purchase price, import duties and other taxes and transport costs directly attributable to the acquisition of the spare parts.

Write-downs of inventories to net realisable value are expensed in the period that the write-down occurs.

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash balances and call deposits. Bank 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.

(l) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy j) and deferred tax assets (see accounting policy w), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy l (i)).

For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at 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 the income statement.

Impairment losses recognised in respect of 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.

Goodwill was tested for impairment at 1 January 2004, the date of transition to IFRS, even though no indication of impairment existed.

After the recognition of an impairment loss, the depreciation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount over its remaining useful life.

(i) Calculation of recoverable amount

The recoverable amount of intangible assets and property, plant and equipment is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The assets of the Group do not generate independent cash inflows and therefore the recoverable amount is determined for the cash-generating unit (*i.e.* the entire network) to which the assets belong.

(ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change 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.

(m) Share capital

(i) Transaction costs

Transaction costs related to the issuance of capital are deducted from the proceeds.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised at their present value. Any difference between present value and redemption value is being recognised in the income statement over the period of the borrowings on an effective interest basis.

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

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 the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All actuarial gains and losses as at 1 January 2004, the date of transition to IFRS, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 January 2004 in calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating the terms of the Group's obligations.

(p) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits 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 current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) Trade and other payables

Trade and other payables are stated at cost.

(r) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. An expected loss on a contract is recognised immediately in the income statement.

(s) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(t) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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.

(u) Segment reporting

A segment is a 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), which is subject to risks and rewards that are different from those of other segment.

The Company does not apply segment reporting since the Group is a single product business. Furthermore, the Group is only operational in one geographical area (Belgium), where no difference in respect of risks and returns exists between the various regions.

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