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REGULATED INFORMATION

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INFORMATION NOTICE

ACQUISITION OF THE GERMAN TRANSMISSION SYSTEM OPERATOR 50HERTZ TRANSMISSION GMBH

On 12 March 2010, Elia System Operator NV/SA ("Elia") announced that it had reached a deal with Industry Funds Management Pty ("IFM") for the joint acquisition of the shares of the German transmission system operator 50Hertz Transmission GmbH ("50Hertz"), a 100% subsidiary of Vattenfall Europe AG (the "Transaction"). Subject to certain closing conditions, the Transaction should result in Elia acquiring 60% of the shares of 50Hertz and IFM acquiring the remaining 40% of the shares of 50Hertz.

1. BACKGROUND OF THE TRANSACTION AND STRATEGIC RATIONALE

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

The Transaction aims at consolidating the role of Elia in the development of the CWE market in a context of regional integration, including the integration of wind energy and the development of the future North Sea grid. The acquisition of 50Hertz fits into Elia's current strategy, which aims at contributing to the fair remuneration of its equity by focusing on operational excellence in its core business as well as customer satisfaction, within a sustainable development framework. In particular, the acquisition is expected to offer the following benefits for Elia and its stakeholders:

Consolidate the creation of shareholder value and diversify regulatory risk. The earnings of 50Hertz - defined by the German regulatory scheme - will contribute to Elia's earnings. Since TSOs are still governed by national laws and (tariff) regulations, the acquisition of 50Hertz will diversify the regulatory risk of Elia.

Strengthen Elia's role within the Central West European market and the future EU network integration. The acquisition of 50Hertz should strengthen Elia's role in the future Central West European electricity market and establish Elia's position for the future integration of the European network. By strengthening its presence in this wide geographical area (representing more than 40% of the internal electricity market), Elia will be better positioned to influence and to take part in the major investment decisions in this area. The collaboration between Elia and 50Hertz and their respective strategic geographical positions should also facilitate the further extension of market coupling towards Northern and Eastern Europe. Elia is already a driving force behind the implementation of a pentalateral market coupling mechanism between the Benelux countries, France and Germany. Due to the geographical area covered by 50Hertz' network, the Transaction should allow Elia to play a major role in the extension of this mechanism to the Nordic countries.

Further improving operational excellence. Elia and 50Hertz already entered into a cooperation agreement in 2007 to exchange knowledge and best practices recognising the complementary nature of their expertise as well as their commitment towards a regional coordination of their networks. The acquisition should enhance the sharing of experience and resources. In addition, the acquisition offers opportunities for efficiency gains such as the pooling of purchases and the development of market tools for their customers.

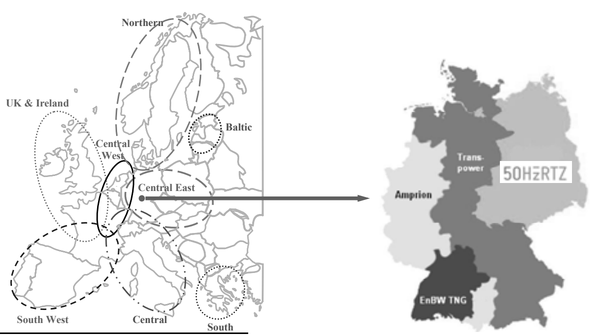
Contribute to the integration of renewable energy sources. The acquisition is also expected to enhance the access to a reliable and diversified mix of generation capacity composed of green electricity from offshore and onshore renewables, as well as traditional generation units with different technologies and maturity levels. The European integration should give market players in Belgium and Germany a secure access to a larger and greener energy mix, hence reinforcing security of supply, while simultaneously increasing system security in a context where international electricity flows and variable generation constantly increase. The acquisition should allow Elia to further develop its innovative edge in the European electricity market and actively participate in the integration of large-scale renewable energy sources, such as offshore and onshore wind energy. Due to the presence of Elia at the lower part of the shores of the North Sea and of 50Hertz on the upper part of the shores of the North Sea and Baltic Sea, both TSOs are ideally located at both ends of the future North Sea grid as well as on one side of the future Baltic Sea grid.

The acquisition should also be set against the background of a "transfer pricing agreement" entered into between Elia and the Belgian regulator (CREG) in January 2010 (see also analyst presentation 26 February 2010). This agreement provides for certain arrangements between Elia and the CREG relating to the development by Elia of new, non-regulated (foreign) activities and their impact on the tariffs for Belgian customers. As to financial participations in regulated activities outside of Belgium not included in the regulated asset base (RAB) (such as the participation in 50Hertz), the agreement provides that all revenues related to these activities shall be considered as additional profit for Elia. Accordingly, all costs related to these activities will be supported by Elia so as to ensure that the impact of these activities is neutral for the Belgian tariffs[1].

2. KEY FEATURES OF THE BUSINESS OF 50HERTZ

2.1. Overview

50Hertz (formerly “Vattenfall Europe Transmission” or “VE-T”) is one of the four TSOs in Germany. 50Hertz has the same core business as Elia as it owns, operates, maintains and develops a 380 kV - 220 kV transmission network to be compared with Elia’s very high voltage network. 50Hertz has overall responsibility for the reliability and stability of the power system in the area covering the German federal states of Thuringia, Saxony, Saxony-Anhalt, Brandenburg, Berlin, Mecklenburg-Western Pomerania and Hamburg. 50Hertz' control area covers approximately 109,000km² with more than 19 million inhabitants and companies contributing approximately 20% of Germany’s gross domestic product.



[1] This agreement provides for a mechanism to accurately allocating costs between different activities and to ensuring that Belgian tariffs would not be adversely affected by other activities than the Belgian regulated activities. It also includes a mechanism to remunerate Elia for further developing its activities profitably and thereby both contributing to a reduction in the tariffs for Belgian customers and providing additional profit for Elia. The positive margin generated by *foreign operational activities* (such as consulting activities) should be allocated for 40% to future tariff reductions and the remaining 60% (before tax, tax being supported by Elia) shall be considered as an additional profit for Elia. In case of negative margin, this shall be entirely (100%) supported by Elia. The profit (dividends, capital gains) resulting from *financial participations* in other companies which are considered by the CREG as being *part of the RAB*, should be allocated for 40% to future tariff reductions and the remaining 60 % (before tax, tax being on charge of Elia) shall be considered as an additional profit for the Company. In case of a negative margin, this shall be entirely (100%) supported by Elia. The agreement further provides that the impact of *financial participations in other companies not considered as part of the RAB* by the CREG (such as, participations in regulated activities outside of Belgium, such as the participation in 50Hertz) should be neutral for the Belgian tariffs. As a result, all costs and all revenues relating to these activities should be supported by Elia.

50Hertz' network is situated in a unique position at the crossroads of four regional market areas: Central West Europe, Central East Europe, Central Europe and Northern Europe. The four TSOs in Germany, with their distinct control areas, are shown in the figure above on the right.

2.2. Activities

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

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

50Hertz is currently the only transmission system operator that has been licensed for the geographical area indicated above. Although this license does not convey a legal monopoly, it is currently unlikely that another operator could meet the requirements to be licensed as a second TSO in that area. Unlike under Belgian regulation, authorisation as TSO is not limited in time. Once granted, such authorisation can only be revoked if a TSO does not have the personnel, technical and financial means to guarantee a continuous operation of the network in accordance with the relevant legislation.

Transmission operation / asset management. The table below shows a general comparison between the networks of Elia and 50Hertz.

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

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

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

The maintenance strategies of 50Hertz are comparable to Elia's, except for the higher level of outsourcing. Since 50Hertz' assets are mostly young, they generally require less maintenance due to newer technologies.

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

Currently, 50Hertz has about 30 clients connected to its network: 2 large industrial clients (steel factories), 8 DSOs, 9 power plants, 3 pump storage plants and 6 wind farms. Based on the applicable legislation, the relationship between 50Hertz and its customers is mainly governed by three types of contracts (connection contracts, access contracts and balancing contracts), which represent the largest part of 50Hertz regulated activities and revenues.

Market facilitation - Electricity import and export. Due to the central location of 50Hertz' network within Central Europe and the intensive cross-border commercial exchanges following the deregulation of the European electricity market, 50Hertz' network is also used by market participants for cross-border import and export and for the transit of electricity. As it is the case for all European TSOs, the costs incurred by 50Hertz as a result of the transit flows are partially compensated by means of an inter-TSO compensation arrangement developed and monitored by ENTSO-E.

2.3. Regulatory framework

General principles of tariff regulation. Almost all of 50Hertz' income is generated from regulated tariffs charged for use of the transmission system (tariff income). Since 1 January 2009, fees for the use of the transmission system are determined by the regulatory authority (*BNetzA*) for each calendar year in a regulation period. Each regulation period lasts five years, the first regulation period having started 1 January 2009 and ending on 31 December 2013. The fees are fixed for the regulation period, but may vary on a yearly basis, based on a "revenue cap". The BNetzA determines the revenue cap for each year on the basis of incurred or budgeted costs for the regulated activities, on the estimated volumes of electricity taken from the network, and by considering the individual efficiency of the specific network operator. The costs relating to the regulated activities include the authorised return on equity, as well as the predicted values of various cost categories, divided in those over which 50Hertz has an influence ("incentivised costs") and those over which it has no influence ("non-incentivised costs"). Tariffs are public and are not subject to negotiation with customers.

Summary of key differences between the regulation of tariffs in Belgium and Germany. The key differences between the regulation of tariffs in Belgium and Germany are summarised in the table attached as **Annex 1**.

Certain specific features of the regulatory context in Germany include the following:

- Compared to the Belgian regulatory context, more cost items are incentivised but outperformance on incentivised costs is not capped under the German regulatory scheme. The level of incentivised costs accepted by the regulator is mainly based on a past reference year and evolves in accordance with an inflation rate reduced by an efficiency factor and a productivity factor. The efficiency factor of 50Hertz is currently close to 100% and therefore creates only a negligible risk for the current regulatory period. However, the efficiency factor for the next regulatory period is unknown.
- Differences between forecasted and incurred non-incentivised costs are recovered into the tariffs with a two year delay ("t-2 time lag").
- German regulation provides for a specific remuneration regime for transmission network investments called "investment budgets" (IB). Under German regulation, investments are remunerated by the inclusion of imputed depreciation, imputed cost of debt, imputed return on equity and imputed trade tax in the revenue cap. As a rule, these costs are part of the incentivised costs unless they are incurred in the framework of investment budgets approved by the regulator. If that is the case, these cost items are not incentivised but fall under the so called "permanently non-incentivised costs" (which are fully integrated in the revenue cap and recovered by network charges based on the "pass through" principle).
- In addition, 50Hertz needs to apply for the approval of investment budgets in order to ensure the appropriate remuneration of the costs related to the investments during a regulatory period. The investment budgets for several investment projects contemplated by 50Hertz are still in the approval phase. Discussions are ongoing between the German regulator and the network operators.
- The level of cost of debt accepted by the German regulator for the incentivised costs does not reflect the real cost of debt. However, for the capital expenditure that is approved as part of the investment budgets the actual cost of debt is accepted.
- Specific rules apply in relation to the costs and revenues generated in the support schemes for renewable energy source and combined heat and power plants. The net costs incurred by the TSO are fully compensated through a levy. However, the time lag in the compensation of these costs (which is typical for the German regulatory framework), requires TSO's to pre-finance these costs, which may have an impact on the cash position of 50Hertz (but not on its net profit).
- Operational expenses linked to investments are not allowed to be considered in investment budgets and are considered as "incentivised costs", which are subject to efficiency and productivity factors.
- Costs and revenues related to system services are subject to a specific treatment which provides for a limited incentive and a cap. In Belgium, costs related to system services are subject to pass through.

2.4. Investment projects of 50 Hertz

Investment drivers. The main challenge of network management in 50Hertz' control area is to evacuate the excess energy to the consumption areas with high load. This is one of the key drivers of 50Hertz' investment programme. Other investment drivers of 50Hertz are:

- The integration of new conventional power plants and renewable energy sources, mainly windfarms (on- and offshore): due to the concentration of the RES-plants in the north of Germany and the concentration of the load in the south of Germany, a large transmission capacity from the north east to the south west is needed. Not only the location but also the upward trend in installed capacity of wind farms, cogeneration units and other renewable energy based units (e.g. photo-voltaic) result in a higher unpredictability at the level of the operational management of the network.
- The upgrade of the 220 kV level to the 380 kV level: given the age of the 220 kV equipment and the impact of Directive 2001/80/EC of 23 October 2001 on the limitation of emissions of certain pollutants into the air from large combustion plants (no power plant can be connected to the 220 kV network except for pump storage plants and wind farms), 50Hertz launched a strategy privileging the expansion of a 380 kV network.
- The replacement of existing assets: the ultimate objective of the investment plan is to maintain a high level of security of supply, to support market developments and to integrate the generation capacity from renewable energy sources.

Key investment projects of 50Hertz. Currently, the key investment projects of 50Hertz ("Essential Projects") deal with the physical distance between generation and off-take of energy and the integration of new generation units, and aim at increasing the installed capacity in 50Hertz' control area. The Essential Projects are:

- *380 kV Halle-Schweinfurt transmission line (Südwest-Kuppelleitung)*: The project plans to establish a transmission network from Halle to Schweinfurt in order to transfer excess renewable energy and conventional power generated in the north of Germany to the south, linking 50Hertz' network to the neighbouring Transpower network. The approval procedure for permits for the third part of this investment has not yet been finished, potentially impacting the expected commissioning date.
- *380 kV Hamburg-Schwerin transmission line (Nordleitung)*: The project aims to connect Hamburg to Schwerin, improving the horizontal transmission capacity in the north-west of the control area.
- *380 kV network conversion Uckermark Süd (Uckermarkleitung)*: A 125 km line is being built between Neuenhagen – Bertilow / Vierraden. The project aims to further increase the transmission capacity in the north-east of the control area.
- *380 kV network conversion Berliner Ring (Berliner Nordring)*: A 380 kV network extension within the northern Berlin ring between Wustermark, Hennigsdorf and Neuenhagen is considered as an essential project. The project aims to alleviate the load of the 380 kV underground cables of Berlin.
- *Third interconnector to PSE-O (Eisenhüttenstadt-Bacqzyne (Pleviska))*: Due to the increase in conventional, as well as renewable, energy within 50Hertz' control area, a project for the

construction of a new 380 kV interconnector to the Polish transmission system operator PSE-O, between Eisenhüttenstadt and Bazcyna is envisaged.

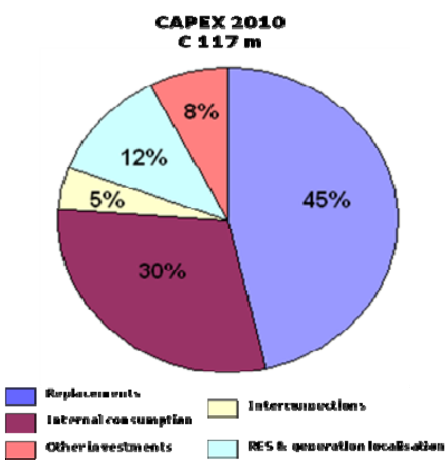
- *Measures to secure functioning of the Transmission Control Centre (TCC)*: This project aims to ensure the system security at the Neuenhagen location where the control centre will be located. This includes also changes to the communications technology.

These projects are currently foreseen to be commissioned within the next decade with an overall budget of about EUR 600 million. Except for the TCC-project, they are also included in the “Ten Year Network Development Plan” (“10YNDP”) of ENTSO-E, and covered by investment budgets approved by BNetzA.

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

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

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



3. THE ACQUISITION OF 50HERTZ BY ELIA AND IFM

3.1. Transaction structure

The Transaction will take the form of an acquisition of all of the shares of 50Hertz Transmission GmbH, including 100% of the shares in 50Hertz Offshore GmbH and its two minority shareholdings in European Market Coupling Company GmbH (EMCC) (20%) and Central Allocation Office (CAO) GmbH (12.5%). Between the parties, the sale will have economic effect as of 1 January 2010 (although 50 Hertz would be consolidated as of 1 June 2010 only).

In view of the acquisition, Elia and IFM have set up a holding company, Eurogrid International CVBA/SCRL, a cooperative company with limited liability incorporated under Belgian law. The shares of Eurogrid International CVBA/SCRL are owned for 60% by Elia and Elia Asset and for 40% by IFM (through Luxembourg No. 2 S.à.r.l., a private limited liability company incorporated under the laws of the Grand Duchy of Luxembourg). The shares of 50Hertz will be acquired through Eurogrid GmbH, a German limited company ("GmbH"), which was incorporated on 2 March 2010 and which is a 100% subsidiary of Eurogrid International CVBA/SCRL. (for an overview of the structure of the Eurogrid group following the transaction, see **Annex 2**).

3.2.Financial terms

The purchase price owed by Eurogrid GmbH to Vattenfall Europe AG for the acquisition of 50Hertz amounts to EUR 464.6 million. Of the total price, 60% will be funded by Elia (EUR 278.8 million) and 40% will be funded by IFM (EUR 185.8 million). Eurogrid GmbH will also take over a shareholder loan of EUR 320 million between Vattenfall Europe AG and 50 Hertz, subject to an adjustment to take into account the netting of certain intra-group financing agreements and cash pooling arrangements entered into by 50Hertz and 50Hertz Offshore. If positive, the resulting balance is to be transferred to Eurogrid GmbH and its nominal value shall be added to the purchase price. If negative, the resulting payable shall be assumed by Eurogrid GmbH and the corresponding amount shall be deducted from the purchase price. The shareholder loan will be replaced with bank debt (see below, 6.2).

Vattenfall Europe AG has given certain contractual warranties to Eurogrid GmbH in line with market practice and standards.

The liability of Vattenfall Europe AG in case of a breach of warranties is subject to certain limitations. No claims for damages can be made unless and until all claims reach EUR 10,000,000, the cap on warranty claims equals 30% of the purchase price and liability claims are time-barred 24 months after closing (subject to certain exceptions).

Vattenfall Europe AG has also given an indemnity for environmental liabilities in accordance to which Vattenfall Europe AG and Eurogrid GmbH will share certain potential environmental liabilities. Vattenfall Europe AG bears (i) 50% of the environmental liabilities with regard to real estate up to an amount of EUR 100,000,000, (ii) 70% of certain environmental liabilities relating to two specific sites (Berlin and Hamburg) up to an amount of EUR 100,000,000 and (iii) 100% of the environmental liabilities above EUR 100,000,000 up to the amount of the purchase price. Claims in relation to the indemnity for environmental matters become time barred six years after closing. A provision amounting to EUR 4.2 million is already accounted for in respect of these environmental matters under German GAAP (EUR 3.4 million under IFRS) by 50Hertz.

3.3. Closing conditions

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

3.4. Agreements with Vattenfall Europe AG in respect of Essential Projects of 50Hertz, congestion management and certain other regulatory matters

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

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

Under the Bilateral Agreement, Elia ensures that 50Hertz shall take all technically and legally possible and economically reasonable steps to start, carry out and complete the Essential Projects by certain deadlines/milestones (subject to (i) obtaining the necessary permits, (ii) obtaining appropriate private use rights, (iii) compliance with law/regulations, (iv) absence of force majeure events and (v) objective correctness of certain assurances given by Vattenfall Europe AG in respect of the Essential Projects). In case of a delay for which neither Elia nor 50Hertz can be held responsible, Elia is to ensure timely completion or completion at the earliest possible date. Elia also undertakes not to use its rights as shareholder in any way that would result in 50Hertz becoming incapable of completing Essential Projects. In case of violation of these obligations, Vattenfall Europe AG may claim fulfilment of the respective obligations as well as damages. Claims for damages are subject to a cap on liability of EUR 10,000,000 million per calendar year until 2014. No damages or penalties may be claimed after the expiry of five years after the closing date provided for in the Share Purchase Agreement.

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

In the event of a breach of any of these regulatory duties, a contractual penalty of EUR 10,000,000 may be claimed for each violation of its obligations regarding (i) the management of congestion and (ii) the operation of its own control area (unless Elia proves that Vattenfall Europe AG has not suffered any damages or the violation is remedied within eight weeks after Elia has been notified of such violation). The aggregate amount of penalties to be paid in respect of violations of these obligations is limited to EUR 10,000,000 per calendar year until the earlier of (i) completion of Nordleitung and Südwestkuppelleitung and (ii) the end of 2014. No damages or penalties may be claimed after the expiry of five years after the closing date provided for in the Share Purchase Agreement.

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

Until the earlier of (i) completion of the *Nordleitung* and *Südwestkuppelleitung* projects (see above – Essential Projects) and (ii) the end of 2012, Eurogrid GmbH may not transfer or encumber the 50Hertz shares or significant assets of 50Hertz to a third party, nor shall it proceed to measures enabling a power generator to acquire influence over business operations or significant assets (subject to certain exceptions, such as a transfer as security for the financing of the Transaction or the business of 50Hertz and its subsidiaries). In case of breach of some of these undertakings, a contractual penalty in the amount of EUR 100,000,000 is due, regardless of fault, for each incident of non-compliance, unless such breach is remedied within eight weeks of Vattenfall Europe AG giving written notice to Eurogrid GmbH of such violation.

In addition, Eurogrid GmbH agreed, subject to certain limitations and exceptions, that for a period of five years after the closing date, Eurogrid GmbH or 50Hertz shall not conduct, agree to or participate in a transfer of the shares of 50Hertz or of its assets to an undertaking which is active in the power generation sector, which holds a competitively significant influence in a power generator or in which a power generator holds a competitive interest and that Eurogrid GmbH nor 50Hertz shall become a power generator and hold or acquire, directly or indirectly, a competitive interest in a power generator.

Trilateral Agreement Elia, IFM, Vattenfall Europe AG. The closing of the Transaction is also subject to Vattenfall Europe AG, Elia and IFM entering into a Trilateral Agreement (the "Trilateral Agreement"). Subject to certain conditions, the Trilateral Agreement particularly extends the application of the lock-up provisions and transfer restrictions in relation to the shares of 50Hertz shares to Eurogrid International CVBA and Eurogrid GmbH. The exceptions to the lock-up defined in the Share Purchase Agreement with respect to 50Hertz apply *mutatis mutandis* to Eurogrid International CVBA and Eurogrid GmbH. In case of breach of these undertakings, Elia and IFM may be liable (jointly in the event of a transfer of shares in Eurogrid GmbH) to pay to Vattenfall Europe AG, regardless of fault, for each incident of non-compliance, a contractual penalty in the amount of EUR 100,000,000 (unless such breach is remedied within eight weeks of the earlier of Vattenfall Europe AG giving written notice to Elia and IFM of such violation and Elia and IFM becoming aware of such violation). Elia and IFM are also jointly and severally liable for the payment of a similar penalty if Eurogrid GmbH or 50Hertz have not complied with the lock-up or share transfer provisions under the Share Purchase Agreement.

4. AGREEMENTS WITH IFM

IFM was established in 1995 by four Australian industry pension funds. Since then, IFM has grown to a substantial partnership with thirty-five Australian 'not for profit' superannuation funds (*i.e.* member owned pension funds) the total assets of which exceed EUR 85 billion. IFM has approximately EUR 12.5 billion assets under management (September 2009), including EUR 4.0 billion in infrastructure across Australia, Europe, the United States and South America.

In view of the acquisition of 50Hertz, Elia and IFM have entered into an investment and shareholders' agreement providing for the obligations of each of the parties in respect of the set-up of the acquisition structure, the funding of Eurogrid International CVBA and the future affairs and governance of its subsidiaries. The investment and shareholders agreement is entered into for a term of 20 years (but ceases to apply if a shareholder no longer holds shares), which term can be renewed. The investment and shareholders' agreement also provides for certain restrictions on the transfer of shares in Eurogrid International CVBA (pre-emption rights, drag-along and tag along rights). In addition, the shares in Eurogrid International CVBA cannot be transferred to any third party for a period of five years. After the initial five years' lock-up, no transfer of shares in Eurogrid International CVBA can occur for a further period of five years (i) to a power generator or generation undertaking; or (ii) to a party which does not have the same or a similar profile as the investors. Any such transfer should be compatible with the Third Energy Package unbundling requirements.

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

5. PRINCIPLES ON FUTURE GOVERNANCE OF THE EUROGRID GROUP AND 50HERTZ AGREED UPON BETWEEN ELIA AND IFM

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

Management Eurogrid International CVBA and Eurogrid GmbH. Eurogrid International CVBA will be managed by a board of directors consisting of 5 directors. Each investor in Eurogrid International CVBA holding 20% or more shall have the right to appoint one director for each share of 20% held by that investor in the capital of Eurogrid International CVBA. Based on the current allocation of the shares of Eurogrid International CVBA between IFM and Elia, this results in a 60/40 allocation (three directors for Elia, two for IMF). The governance structure of Eurogrid GmbH mirrors the governance structure of Eurogrid International CVBA (although the parties have decided to temporarily restrict the number of directors of Eurogrid GmbH to two directors only, one for IFM, the other for Elia).

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

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

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

6. FINANCING

6.1. Financing of the acquisition

In order to finance its portion of the purchase price, Elia intends to increase its capital with an amount of up to EUR 300 million through the issue of new shares, currently expected to occur before end of June 2010 (subject to market conditions). Elia has secured bridge financing for the period between the closing date of the acquisition (expected May) and the finalisation of the capital increase (expected end of June) by entering into a EUR 153 million credit agreement in the course of April 2010 with KBC Bank NV (the balance of the portion of the price owed by Elia being financed with excess cash). The loan can be extended until ultimately 31 December 2011 ("bridge to equity"). The proceeds of the capital increase would be used to refinance the bridge financing, while the balance of the net proceeds of this capital increase would be used to finance general capital expenditure programmes and to satisfy working capital and general corporate purpose needs.

6.2. Credit Facility entered in view of future financing of Eurogrid GmbH

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

The Credit Facility consists of:

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

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

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

The borrowing conditions and more specifically the margins for all facilities will vary between 75bp to 130bp for a public rating of A-/A3 or higher and 175bp to 205bp for a public rating of BBB-/Baa3 or lower.

In case Eurogrid GmbH obtains a public rating of BBB/Baa2 or lower, Eurogrid GmbH will have to observe specific financial ratios. These financial ratio's will not be tested as long as Eurogrid GmbH has a public rating of BBB+/Baa1 or higher. The financial covenants will in any case not be tested for any measurement period ending before 31 December 2010.

The Credit Facility provides for the following restrictions on the payments of dividends:

- as long as Eurogrid GmbH has a rating of BBB+/Baa1 or higher, Eurogrid GmbH is permitted to pay dividends out of the consolidated net profit of Eurogrid GmbH based on German GAAP accounts without specific restrictions;
- if at the time of the declaration and payment of such dividend Eurogrid GmbH has a public rating which is equal to BBB/Baa2 and if all term loans under Facility A have been repaid in full, Eurogrid GmbH is permitted to pay dividends out of the consolidated net profit of Eurogrid GmbH based on German GAAP accounts without specific restrictions.
- if at the time of the declaration and payment of such dividend, Eurogrid GmbH has a rating which is equal to BBB/Baa2, and if any amount is outstanding under the term loans under Facility A, Eurogrid GmbH is permitted to pay out up to a maximum amount of 62.5% of the consolidated net profit of Eurogrid GmbH based on German GAAP accounts.
- if at the time of the declaration and payment of such dividend, Eurogrid GmbH has a rating lower than BBB/Baa2, Eurogrid GmbH is not permitted to pay out dividends as long as any amount is outstanding under the term loans under Facility A.
- if at the time of the declaration and payment of such dividend, Eurogrid GmbH has a rating equal to BBB-/Baa3 or lower or if the public rating of Eurogrid GmbH is withdrawn, Eurogrid is permitted to pay out up to a maximum amount of 50% of the consolidated net profit of Eurogrid GmbH based on German GAAP accounts, provided that all term loans under Facility A have been repaid in full.]

The Credit Facility provides for certain other covenants and restrictions relating to the disposal of assets, the incurring of additional financial indebtedness, acquisitions, mergers and demergers, third party guarantees and lending. The Credit Facility also provides for a mandatory prepayment of all amounts accrued under the Credit Facility in the event of a change of control over 50hertz or Eurogrid GmbH (which will occur if Eurogrid GmbH ceases to control and hold directly or indirectly 100 per cent of the shares and voting rights of 50Hertz or if Elia ceases to hold directly or indirectly at least 50.1 per cent of the shares and voting rights in Eurogrid GmbH*).*

50Hertz and 50Hertz Offshore GmbH have unconditionally and irrevocably guaranteed the performance by Eurogrid GmbH of its obligations under the Credit Facility. The Credit Facility is further secured by a pledge over the shares of 50Hertz and an assignment of rights and claims of Eurogrid GmbH against 50Hertz.

7. IMPACT ON ELIA'S FINANCIAL SITUATION

Based on currently available information, it is estimated that 50Hertz' equity as of 31 December 2009 (under IFRS as applied by Elia) would amount to 890.5 million EUR, while the estimated total assets of 50Hertz as of 31 December 2009 (under IFRS as applied by Elia) would amount to 2.096,40 million EUR.

Due to the fact that the preliminary fair value of the acquired assets exceeds the acquisition price, a positive amount will most likely have to be recognised as profit by Elia in 2010. Based on a preliminary assessment of the fair value of the net assets of 50Hertz done in the context of the preparation of the contemplated capital increase, a one-off profit (gain on bargain purchase) of EUR 255,5 million would have to be recognised by Elia.

Elia intends to maintain its dividend at its current level (subject to changes to the regulatory framework or developments in the market environment). Based on currently available information, it is also not expected that the acquisition will have a negative impact on Elia's credit rating, also taking into account that the part of the purchase price for the acquisition to be funded by Elia would be financed through a capital increase and that the credit facilities granted to Eurogrid GmbH in respect of the financing of 50Hertz' activities were entered into on a non-recourse basis.

The impact of the transaction on the financial position of Elia is shown in the table below (as if the acquisition occurred on 1 January 2009). This is prepared for illustrative purposes only, addresses a hypothetical situation and therefore does not represent Elia's actual or future financial position or results.

	IFRS		
	Elia [1]	Indicative consolidated figures (Elia+60% of 50Hertz) [2]	
Income statement (€ million)	**2009**	**2009**	**Estimated Change in %**
Consolidated turnover	771,30	1.210,20	56,9%
EBITDA	327,90	634,60 [3]	93,5%
Operating result (EBIT)	225,80	490,40	117,2%
Operating result before gain on bargain purchase	225,80	234,90	4,03%
Financial result	(120,40)	(129,30)	7,4%
Taxes	(20,00)	(22,00)	10,0%
Consolidated net profit	85,40	344,50 [4]	302,2%
Balance sheet (€ million)	**31/12/2009**	**31/12/2009**	
Total assets	4.420,00	5.690,70	28,7%
Equity attributable to the equity holders of the company	1.365,40	1.912,00 [5]	40,0%
Net financial debt	2.444,40	2.591.20	6,01%%

(1) Based on Elia's 2009 consolidated financial statements under IFRS.
(2) Based on Elia's 2009 consolidated financial statements under IFRS and the estimated impact of the restatement of 50Hertz 2009 accounts to IFRS.
(3) EBITDA = EBIT + depreciation + changes in provisions.
(4) Estimated bargain on purchase price of 255,5 million EUR is included as a one-off net profit.
(5) Taking into account the capital increase of January 2010 and assuming a capital increase of EUR 300 million.

Annex 1: Key differences tariff regulation Germany and Belgium

	Germany		Belgium
Basic principle	Cost based regulation	=	Cost based Regulation
Model	Revenue Cap	=	Revenue Cap
Regulatory periods (RP)	5 years 2009-2013 ; 2014-2018	≈	4 years 2008-2011 ; 2012-2015
Investments	• Investment Budgets (IB) : expansion and restructuring investments • Other investments: RAB • Offshore investments borne by TSO	≠	• All investments in RAB • Offshore investments borne by wind generator
Allowed return on equity	• Return does not depend on liquidity of share • Rate fixed ex-ante, based on formula (risk free rate + risk premium) – ROE is remunerated at 7.56% for investments before 2006 and 9.29% for investments since 2006 (before corporate tax). • Lower Remuneration (= Cost of debt) for excess equity. Reference: 40% of total regulated balance sheet	≠	• Return depends on liquidity of share (ß) • Formula: OLO +ß* 3,5% • Lower Remuneration (OLO + 0.7%) for excess equity. Reference: 33% RAB.
Goodwill decomissioning assets	• Not applicable		• Recovered through tariffs
<u>Non incentivised costs</u> Definition	<u>Permanently Non Influenceable Costs</u> • IB: Cost of debt • IB: Imputed depreciation • IB: Imputed trade taxes • IB: Return on equity • IB: OPEX for offshore IB (as agreed by the 4 TSOs, not by the regulator) • Inter-TSO shared costs • … • Congestion rents and ITC NB: Costs for provision of ancillary services – see below	≠	<u>Coûts non gérables – Niet beheersbare kosten</u> • Costs for provision of ancillary services • Cost of debt – principle of embedded debt • Depreciation • Taxes • Return on equity • Usage fees to other operators • Pensions (for retired/non-active) • Congestion rents and ITC
Inclusion in Revenue Cap	• Incurred cost in year t-2, with compensation for time lag for cost items related to IB (no time lag compensation for offshore opex) • To be fixed in year t-1 (Revenue Cap may be updated during RP)	≠	• Forecasted cost for year t • To be fixed before start of RP (Revenue Cap may not be updated during RP)

<u>Incentivised costs</u>
 	
Definition
	<u>Total Incentivised Costs</u>
	• OPEX, with the exception of
	  ○ costs for provision of regulating power, compensation of grid losses and redispatch
	
	• Assets in RAB: Cost of debt, with cap
	• Assets in RAB: Depreciation
	• Assets in RAB: Trade taxes
	• Assets in RAB: Return on equity
	• Non tariff revenues
		≠	<u>Coûts gérables – Beheersbare kosten</u>
			• OPEX, with the exception of
			  ○ costs for provision of ancillary services
			  ○ usage fees to other operators
			  ○ pensions
			
			• Non tariff revenues

Inclusion in Revenue Cap	• Base year costs: 2006 for period 2009-2013; 2011 for period 2014-2018 • Increase with inflation (2 years lag) • Decrease with efficiency and productivity factors	≠	• Proposal Elia for period 2008 • Increase with actual inflation • Reduction of efficiency factor
Efficiency and productivity improvements	• Efficiency factor: 0.04% per year (cumulative) in first period • Productivity factor: 1,25% per year (cumulative) in 1st period (1.5% in 2nd period)	≠	Productivity and efficiency factor: global reduction of €25 million for period of 4 years (€4 million, €6million, €7 million, €8 million)

	Germany		Belgium
Out-performance	• On incentivized costs (no limit) and costs under Korridor model (5% of planned costs as limit). • No limitation on outperformance	≠	• On incentivized costs. • 1st RP: limitation to €25 million for 4 years

Provision ancillary services	• Voltage control and black start: incentivized costs
	• Regulating power, redispatching and losses: Korridor model:
	  ○ Reference = planned costs
	  ○ Market based rates for supply of ancillaries
	  ○ Limited incentive (25% of difference between planned & actual costs)
		≠	• All costs non incentivized (→ pass through)
			• Advice CREG; decision Minister on reasonable prices

Support schemes Renewables	• Obligation to buy/sell energy + balancing • Difference between costs and revenues to be recovered through levy (AusglMechV)	≈	• Obligation to buy/sell green certificates • Difference between costs and revenues to be recovered through levy
Network tariffs	Defined on yearly basis	≠	Fixed for 4 years
Differences actual – projected revenues	• On regulatory account • To be recovered by adjustment tariffs next period • If difference exceeds 5%: immediate (next year) adjustment of tariffs	≈	• On regulatory account • To be recovered by adjustment tariffs next period

Annex 2 – Eurogrid group structure after the Transaction.