



ELIA SYSTEM OPERATOR SA/NV

(incorporated with limited liability in Belgium)

€500,000,000 4.75 per cent. Bonds due 2014

Issue price: 99.649 per cent.

and

€500,000,000 5.25 per cent. Bonds due 2019

Issue price: 99.806 per cent.

The €500,000,000 4.75 per cent. Bonds due 2014 (the **Series A Bonds**) and the €500,000,000 5.25 per cent. Bonds due 2019 (the **Series B Bonds** and, together with the Series A Bonds, the **Bonds**) are issued by Elia System Operator SA/NV (the **Issuer**).

Interest on the Bonds is payable in arrear on 13th May in each year. Payments on the Bonds will be made without deduction for or on account of taxes of the Kingdom of Belgium to the extent described under “*Terms and Conditions of the Bonds – Taxation*”. The Series A Bonds mature on 13th May, 2014 and the Series B Bonds mature on 13th May, 2019. The Issuer may, at its option, redeem all, but not some only, of the Bonds at any time at par plus accrued interest in the event of certain changes affecting taxes of the Kingdom of Belgium. See “*Terms and Conditions of the Bonds - Redemption and Purchase*”.

Application has been made for the listing of the Bonds on the Luxembourg Stock Exchange.

The Bonds will be rated A- by Standard & Poor’s Rating Services, a division of The McGraw Hill Companies Inc. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Bonds will be in bearer form and in the denominations of €1,000 and €50,000 each with interest coupons attached on issue. The Series A Bonds and the Series B Bonds will each be represented on issue by a global bond (each a **Global Bond**), without interest coupons, which will be deposited on or about 13th May, 2004 (the **Closing Date**) with the National Bank of Belgium or any successor thereto (the **NBB**), as depositary for the X/N book-entry clearance and settlement system (the **X/N System**). Interests in each Global Bond will be exchangeable for the relevant definitive Bonds only in certain limited circumstances. See “*Summary of Provisions relating to the Bonds while represented by the relevant Global Bond*”.

Joint Lead Managers

Barclays Capital

Credit Suisse First Boston

Fortis Bank

ING

Manager

Dexia Capital Markets

The date of this Offering Circular is 7th May, 2004

The Issuer, having made all reasonable enquiries, confirms that this offering circular (the **Offering Circular**) contains or incorporates all information with respect to the Issuer and its consolidated subsidiaries (the **Group**) and the Bonds which is material in the context of the Bonds, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Managers (as defined under “*Subscription and Sale*” below). Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Managers to subscribe for, or purchase, any of the Bonds. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The Managers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Bonds or their distribution.

Neither this Offering Circular nor any other information supplied in connection with the Bonds or their distribution is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer or the Managers that any recipient of this Offering Circular or any other information supplied in connection with the Bonds or their distribution should purchase any of the Bonds. Each investor contemplating purchasing Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to United States tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States. For a further description of certain restrictions on the offering and sale of the Bonds and on distribution of this document, see “*Subscription and Sale*” below.

IN CONNECTION WITH THE ISSUE OF EITHER SERIES OF THE BONDS, ING BELGIUM SA/NV OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF EITHER SERIES OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER THERE MAY BE NO OBLIGATION ON ING BELGIUM SA/NV OR ANY AGENT OF IT TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

All references in this document to euro and € refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on 25th March, 1957), as amended.

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TERMS AND CONDITIONS OF THE SERIES A BONDS

The issue of €500,000,000 4.75 per cent. Bonds due 2014 (the **Bonds**) by Elia System Operator SA/NV (the **Issuer**) was authorised by resolutions of the Board of Directors of the Issuer on 4th March, 2004. An agency agreement dated 13th May, 2004 (the **Agency Agreement**) has been entered into in relation to the Bonds between the Issuer, ING Belgium SA/NV as fiscal agent and the paying agents named in it. The fiscal agent and the paying agents for the time being are referred to below respectively as the **Fiscal Agent** and the **Paying Agents** (which expression shall include the Fiscal Agent). The Agency Agreement includes the form of the Bonds and the coupons relating to them (the **Coupons**). Copies of the Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents. The holders of the Bonds (the **Bondholders**) and the holders of the Coupons (whether or not attached to them) (the **Couponholders**) are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

1 Form, Denomination and Title

- (a) **Form and denomination:** The Bonds are serially numbered and in bearer form in the denominations of €1,000 and €50,000 each with Coupons attached on issue.
- (b) **Title:** Title to the Bonds and Coupons passes by delivery. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Status

The Bonds and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 3) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds and Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3 Negative Pledge

- (a) **Restriction:** So long as any Bond or Coupon remains outstanding (as defined in the Agency Agreement):
 - (i) the Issuer will not, and it shall procure that none of its Material Subsidiaries (as defined below) will, create or permit to subsist any Security Interest (as defined below) (other than a Permitted Security Interest (as defined below)) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Debt (as defined below) of any person, or any guarantee of or indemnity in respect of any Relevant Debt of any person;
 - (ii) the Issuer will, and shall procure that its Material Subsidiaries will, procure that no other person creates or permits to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure any of the Issuer's or any of its Material Subsidiaries' Relevant Debt, or any guarantee of or indemnity in respect of any of the Issuer's or any of its Material Subsidiaries' Relevant Debt; and
 - (iii) the Issuer will, and shall procure that its Material Subsidiaries will, procure that no other person gives any guarantee of, or indemnity in respect of, any of the Issuer's or any of its Material Subsidiaries' Relevant Debt,

unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Coupons (aa) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (bb) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution of the Bondholders.

(b) **Definitions:** For the purposes of these Conditions:

- (i) **Security Interest** means any mortgage, charge, pledge, lien or other form of encumbrance or security interest.
- (ii) **Permitted Security Interest** means any Security Interest securing any Relevant Debt issued for the purpose of financing all or part of the costs of the acquisition, construction or development of any project if the person or persons providing such financing expressly agree to limit their recourse to the project financed and the revenues derived from such as the principal source of repayment for such Relevant Debt.
- (iii) **Relevant Debt** means any present or future indebtedness in the form of, or represented by, bonds, notes or other securities which are for the time being quoted or listed or capable of being quoted or listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, having an original maturity of more than one year from its date of issue.
- (iv) **Subsidiary** means an entity from time to time which the Issuer controls: "control" for this purpose has the meaning as set out in article 5 of the Belgian Companies Code.
- (v) **Material Subsidiary** means a Subsidiary whose (a) turnover, or (b) total assets (in each case determined on a non-consolidated basis and determined on a basis consistent with the preparation of the consolidated accounts of the Issuer) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer relate, are equal to) no less than 20 per cent. of the consolidated turnover or total assets (as the case may be) of the Issuer, all as calculated respectively by reference to the then latest audited accounts of such Subsidiary and the then latest audited consolidated accounts of the Issuer, provided that:
 - (i) in case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer relate, the reference to the then latest audited consolidated accounts of the Issuer for the purposes of the calculation above shall, until consolidated accounts of the Issuer for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest audited accounts, adjusted as deemed appropriate by the auditors of the relevant Subsidiary from time to time (the **Auditors**); and
 - (ii) in the case of a Subsidiary in respect of which no audited accounts are prepared, its turnover and total assets shall be determined on the basis of pro forma accounts of the relevant Subsidiary prepared for this purpose by the Auditors on the basis of accounting principles consistent with those adopted by the Issuer.

4 Interest

The Bonds bear interest from and including 13th May, 2004 (the **Interest Commencement Date**) at the rate of 4.75 per cent. per annum, payable annually in arrear on 13th May in each year (each, an **Interest Payment Date**) commencing 13th May, 2005. Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Fiscal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

Where interest is to be calculated in respect of a period which is shorter than an Interest Period (as defined below) it shall be calculated on the basis of the actual number of days in the relevant period, from and including the immediately preceding Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the date on which it falls due, divided by the number of days in the Interest Period. The period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an **Interest Period**.

5 Redemption and Purchase

- (a) **Final redemption:** Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 13th May, 2014. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition.
- (b) **Redemption for taxation reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Belgium or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 7th May, 2004, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.
- (c) **Purchase:** The Issuer and any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price (provided that if they should be cancelled under paragraph (d) below, they are purchased together with all unmatured Coupons relating to them). The Bonds so purchased, while held by or on behalf of the Issuer or

any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 11(a).

- (d) **Cancellation:** All Bonds so redeemed or purchased and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or resold.

6 Payments

- (a) **Method of Payment:** Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Bonds or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent in Euro by credit or by transfer to a Euro account maintained by the payee with, or at the option of the payee, by cheque drawn on, a bank in a city in which banks have access to the TARGET System (as defined below). Payments of interest due in respect of any Bond other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Bond.
- (b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable fiscal laws and regulations, but without prejudice to the provisions of Condition 7.
- (c) **Surrender of unmatured Coupons:** Each Bond should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.
- (d) **Payments on business days:** A Bond or Coupon may only be presented for payment on a day which is a business day (as defined below). No further interest or other payment will be made as a consequence of the day on which the relevant Bond or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition **business day** means a day (not being a Saturday or Sunday) falling on or after the relevant due date on which (i) commercial banks and foreign exchange markets are open in the place of presentation, (ii) the Trans-European Automated Real Time Gross Settlement Express Transfer System or any successor thereto (the **TARGET System**) is operating and (iii) for so long as the Bonds are cleared through the X/N book-entry clearance and settlement system (the **X/N System**), the X/N System is clearing.
- (e) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain (i) a Fiscal Agent, (ii) Paying Agents having specified offices in at least two major European cities (including Luxembourg, so long as the Bonds are listed on the Luxembourg Stock Exchange) and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th

November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives.

7 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Kingdom of Belgium or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

- (a) **Other connection:** by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the Kingdom of Belgium other than the mere holding of the Bond or Coupon; or
- (b) **Presentation more than 30 days after the Relevant Date:** more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Bond or Coupon for payment on the last day of such period of 30 days; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
- (d) **Payment by another Paying Agent:** by or on behalf of a Bondholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) **Eligible Investor:** to a Bondholder, who at the time of issue of the Bonds, was not an eligible investor within the meaning of article 4 of the Belgian royal decree of 26th May, 1994 on the deduction of withholding tax or to a Bondholder who was such an eligible investor at the time of issue of the Bonds but, for reasons within the Bondholder's control, ceased to be an eligible investor or, at any relevant time on or after the issue of the Bonds, otherwise failed to meet any other condition for the exemption of Belgian withholding tax pursuant to the Belgian law of 6th August, 1993 relating to certain securities.

Relevant Date means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts which may be payable under this Condition 7.

8 Events of Default

If any of the following events occurs and is continuing:

- (a) **Non-Payment:** the Issuer fails to pay interest on any of the Bonds when due and such failure continues for a period of 15 days; or
- (b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Bonds which default is incapable of remedy, or, if capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer by the Fiscal Agent at its specified office by any Bondholder; or
- (c) **Cross-Default:** (i) any other present or future indebtedness for borrowed money (**Indebtedness**) of the Issuer or any of its Material Subsidiaries becomes due and payable prior to its stated maturity by reason of any event of default, or (ii) any such Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness, provided that the aggregate amount of the Indebtedness, guarantees and indemnities in respect of which one or more of the relevant events mentioned in this paragraph (c) have occurred equals or exceeds €50 million or its equivalent (on the basis of the middle spot rate for the relevant currency against the Euro as quoted by any leading bank on the day on which this paragraph operates) and provided further that, for the purposes of this paragraph (c), the Issuer or any of its Material Subsidiaries shall not be deemed to be in default with respect to such Indebtedness, guarantee or indemnity if it shall be contesting in good faith by appropriate means its liability to make payment thereunder; or
- (d) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Material Subsidiaries in an aggregate amount exceeding €25 million or its equivalent (on the basis of the middle spot rate for the relevant currency against the Euro as quoted by any leading bank on the day on which this paragraph operates), becomes enforceable and any step is taken to enforce any such mortgage, charge, pledge, lien or other encumbrance (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person); or
- (e) **Insolvency:** the Issuer or any of its Material Subsidiaries becomes insolvent or bankrupt (*est déclaré en faillite/wordt failliet verklaard*) or unable to pay its debts, stops or suspends payment of all or substantially all of its debts, is under judicial composition (*concordat judiciaire/gerechtigd akkoord*), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of or affecting all or substantially all of the debts of the Issuer or any of its Material Subsidiaries; or
- (f) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Material Subsidiaries or the Issuer or any of its Material Subsidiaries ceases to carry on all or substantially all of its business or operations, except in either case for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) in respect of any of its Material Subsidiaries, which is not insolvent (*déclaré en faillite/failliet verklaard*), or (ii) on terms approved by an Extraordinary Resolution of the Bondholders,

then any Bond may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately

due and payable at its principal amount together with accrued interest without further formality unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent.

9 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 6 within a period of ten years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10 Replacement of Bonds and Coupons

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

Notwithstanding the above, in the case of loss, destruction, theft or any other event of involuntary dispossession of a Bond, the provisions of the Belgian law of 24th July, 1921 relating to involuntary dispossession of bearer securities, as amended on 22nd July, 1991 (the **Law**) will apply. Provided such an event of involuntary dispossession with respect to any Bond has been notified and published in accordance with the procedure of opposition provided for by the Law, the Law will impose certain obligations upon the Issuer or the Fiscal Agent including attaching such Bond, reinvesting the principal and, in some cases, the revenues of such Bond as specified, and refusing any payment on such Bond for a period of four years starting from the first of January following the first publication in the Bulletin of Oppositions (*Bulletin des oppositions/Bulletin der met verzet aangetekende waarden*).

11 Meetings of Bondholders, Modification and Substitution

- (a) **Meetings of Bondholders:** All meetings of Bondholders will be held in accordance with the Belgian Companies Code. Such a meeting may be convened by Bondholders holding not less than 20 per cent. in principal amount of the Bonds outstanding. The quorum at any such meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing at least 50 per cent. of the aggregate principal amount of Bonds then outstanding or, at any adjourned meeting after publication of a new convening notice pursuant to Condition 13, two or more persons being or representing Bondholders whatever the aggregate principal amount of the Bonds so held or represented. If an Extraordinary Resolution is adopted by Bondholders holding or representing less than one-third of the aggregate principal amount of the Bonds outstanding (whether present or represented at the meeting or not), such Extraordinary Resolution is not binding unless approved by the competent Court of Appeal in the district where the Issuer's registered office is located. The above quorum and special majority requirements do not apply to Extraordinary Resolutions relating to interim measures taken in the common interest of the Bondholders or to the appointment of a representative of the Bondholders. In such cases, the Extraordinary Resolutions are adopted by Bondholders holding or representing at least a majority of the aggregate principal amount of the Bonds outstanding present or represented at the meeting. An Extraordinary Resolution duly passed in accordance with the provisions of the Belgian Companies Code at any meeting of the Bondholders and, to the extent required by law, approved by the relevant Court of Appeal, will be binding on Bondholders, whether or not they vote in favour thereof, and on all holders of Coupons relating to the Bonds.

The matters listed in article 568 of the Belgian Companies Code in respect of which an Extraordinary Resolution may be adopted include modifying or suspending the date of maturity of Bonds, postponing any day for payment of interest thereon, reducing the rate of interest applicable in respect of such Bonds, deciding urgent interim actions in the common interest of Bondholders, accepting a security in favour of the Bondholders, accepting a transformation of Bonds into shares on conditions proposed by the Issuer, and appointing a special agent of the Bondholders to implement the resolutions of the meeting of Bondholders.

- (b) **Modification of Agency Agreement:** The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Bondholders.
- (c) **Substitution:** The Issuer, or any previous substituted company, may at any time, without the consent of the Bondholders or the Couponholders, substitute for itself as principal debtor under the Bonds and the Coupons such company (the **Substitute**) as is specified in the Agency Agreement, provided that no payment in respect of the Bonds or the Coupons is at the relevant time overdue. The substitution shall be made by a deed poll (the **Deed Poll**), pursuant to which, *inter alia*, the Substitute will become the principal debtor under the Bonds and the Coupons, and may take place only if (i) the Substitute shall, by means of the Deed Poll, agree to indemnify each Bondholder and Couponholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Bond or Coupon and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution, (ii) the obligations of the Substitute under the Deed Poll, the Bonds and the Coupons shall be unconditionally guaranteed by the Issuer by means of the Deed Poll, (iii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Bonds and Coupons represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Issuer have been taken, fulfilled and done and are in full force and effect, (iv) the Substitute shall have become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it, (v) legal opinions addressed to the Bondholders shall have been delivered to them (care of the Fiscal Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (i) above, the jurisdiction of any guarantor to the Substitute and in England as to the fulfilment of the preceding conditions of this paragraph (c) and the other matters specified in the Deed Poll, (vi) the stock exchange on which the Bonds are listed shall have confirmed that, following the proposed substitution, the Bonds will continue to be listed on such stock exchange and (vii) the Issuer shall have given at least 14 days' prior notice of such substitution to the Bondholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Bondholders, will be available for inspection at the specified office of each of the Paying Agents. References in Condition 8 to obligations under the Bonds shall be deemed to include obligations under the Deed Poll, and, where the Deed Poll contains a guarantee, the events listed in Condition 8 shall be deemed to include that guarantee not being (or being claimed by the guarantor not to be) in full force and effect and the provisions of Condition 8(c) - 8(f) inclusive shall be deemed to apply in addition to the guarantor.

12 Further Issues

The Issuer may from time to time without the consent of the Bondholders or Couponholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds.

13 Notices

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and (so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require) in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

In addition to the above publications, with respect to notices for a meeting of Bondholders, any convening notice for such meeting shall be made in accordance with article 570 of the Belgian Companies Code, by an announcement to be inserted twice, with an interval of not less than eight days and the second one at least eight days prior to the meeting, in the Belgian Official Gazette (*Moniteur belge/Belgisch Staatsblad*), in a newspaper issued in the district in which the Issuer has its registered office and in a newspaper with national coverage. Resolutions to be submitted to the meeting must be described in the convening notice.

14 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

15 Governing Law

- (a) **Governing Law:** The Agency Agreement, the Bonds and the Coupons are governed by and shall be construed in accordance with English law. Certain mandatory provisions of Belgian law as referred to in Conditions 10, 11, and 13 may apply.
- (b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds or the Coupons and accordingly any legal action or proceedings arising out of or in connection with the Bonds or the Coupons (**Proceedings**) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Bondholders and Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
- (c) **Agent for Service of Process:** The Issuer irrevocably appoints Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX as its

agent in England to receive service of process in any Proceedings in England based on any of the Bonds or the Coupons. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

TERMS AND CONDITIONS OF THE SERIES B BONDS

The issue of €500,000,000 5.25 per cent. Bonds due 2019 (the **Bonds**) by Elia System Operator SA/NV (the **Issuer**) was authorised by resolutions of the Board of Directors of the Issuer on 4th March, 2004. An agency agreement dated 13th May, 2004 (the **Agency Agreement**) has been entered into in relation to the Bonds between the Issuer, ING Belgium SA/NV as fiscal agent and the paying agents named in it. The fiscal agent and the paying agents for the time being are referred to below respectively as the **Fiscal Agent** and the **Paying Agents** (which expression shall include the Fiscal Agent). The Agency Agreement includes the form of the Bonds and the coupons relating to them (the **Coupons**). Copies of the Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents. The holders of the Bonds (the **Bondholders**) and the holders of the Coupons (whether or not attached to them) (the **Couponholders**) are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

1 Form, Denomination and Title

- (a) **Form and denomination:** The Bonds are serially numbered and in bearer form in the denominations of €1,000 and €50,000 each with Coupons attached on issue.
- (b) **Title:** Title to the Bonds and Coupons passes by delivery. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Status

The Bonds and Coupons constitute direct, unconditional, unsubordinated and (subject to Condition 3) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds and Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3 Negative Pledge

- (a) **Restriction:** So long as any Bond or Coupon remains outstanding (as defined in the Agency Agreement):
 - (i) the Issuer will not, and it shall procure that none of its Material Subsidiaries (as defined below) will, create or permit to subsist any Security Interest (as defined below) (other than a Permitted Security Interest (as defined below)) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Debt (as defined below) of any person, or any guarantee of or indemnity in respect of any Relevant Debt of any person;
 - (ii) the Issuer will, and shall procure that its Material Subsidiaries will, procure that no other person creates or permits to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure any of the Issuer's or any of its Material Subsidiaries' Relevant Debt, or any guarantee of or indemnity in respect of any of the Issuer's or any of its Material Subsidiaries' Relevant Debt; and
 - (iii) the Issuer will, and shall procure that its Material Subsidiaries will, procure that no other person gives any guarantee of, or indemnity in respect of, any of the Issuer's or any of its Material Subsidiaries' Relevant Debt,

unless, at the same time or prior thereto, the Issuer's obligations under the Bonds and the Coupons (aa) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (bb) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution of the Bondholders.

(b) **Definitions:** For the purposes of these Conditions:

- (i) **Security Interest** means any mortgage, charge, pledge, lien or other form of encumbrance or security interest.
- (ii) **Permitted Security Interest** means any Security Interest securing any Relevant Debt issued for the purpose of financing all or part of the costs of the acquisition, construction or development of any project if the person or persons providing such financing expressly agree to limit their recourse to the project financed and the revenues derived from such as the principal source of repayment for such Relevant Debt.
- (iii) **Relevant Debt** means any present or future indebtedness in the form of, or represented by, bonds, notes or other securities which are for the time being quoted or listed or capable of being quoted or listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, having an original maturity of more than one year from its date of issue.
- (iv) **Subsidiary** means an entity from time to time which the Issuer controls: "control" for this purpose has the meaning as set out in article 5 of the Belgian Companies Code.
- (v) **Material Subsidiary** means a Subsidiary whose (a) turnover, or (b) total assets (in each case determined on a non-consolidated basis and determined on a basis consistent with the preparation of the consolidated accounts of the Issuer) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer relate, are equal to) no less than 20 per cent. of the consolidated turnover or total assets (as the case may be) of the Issuer, all as calculated respectively by reference to the then latest audited accounts of such Subsidiary and the then latest audited consolidated accounts of the Issuer, provided that:
 - (i) in case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer relate, the reference to the then latest audited consolidated accounts of the Issuer for the purposes of the calculation above shall, until consolidated accounts of the Issuer for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest audited accounts, adjusted as deemed appropriate by the auditors of the relevant Subsidiary from time to time (the **Auditors**); and
 - (ii) in the case of a Subsidiary in respect of which no audited accounts are prepared, its turnover and total assets shall be determined on the basis of pro forma accounts of the relevant Subsidiary prepared for this purpose by the Auditors on the basis of accounting principles consistent with those adopted by the Issuer.

4 Interest

The Bonds bear interest from and including 13th May, 2004 (the **Interest Commencement Date**) at the rate of 5.25 per cent. per annum, payable annually in arrear on 13th May in each year (each, an **Interest Payment Date**) commencing 13th May, 2005. Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Fiscal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

Where interest is to be calculated in respect of a period which is shorter than an Interest Period (as defined below) it shall be calculated on the basis of the actual number of days in the relevant period, from and including the immediately preceding Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the date on which it falls due, divided by the number of days in the Interest Period. The period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an **Interest Period**.

5 Redemption and Purchase

- (a) **Final redemption:** Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 13th May, 2019. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition.
- (b) **Redemption for taxation reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Belgium or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 7th May, 2004, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.
- (c) **Purchase:** The Issuer and any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price (provided that if they should be cancelled under paragraph (d) below, they are purchased together with all unmatured Coupons relating to them). The Bonds so purchased, while held by or on behalf of the Issuer or

any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 11(a).

- (d) **Cancellation:** All Bonds so redeemed or purchased and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or resold.

6 Payments

- (a) **Method of Payment:** Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Bonds or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent in Euro by credit or by transfer to a Euro account maintained by the payee with, or at the option of the payee, by cheque drawn on, a bank in a city in which banks have access to the TARGET System (as defined below). Payments of interest due in respect of any Bond other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Bond.
- (b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable fiscal laws and regulations, but without prejudice to the provisions of Condition 7.
- (c) **Surrender of unmatured Coupons:** Each Bond should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.
- (d) **Payments on business days:** A Bond or Coupon may only be presented for payment on a day which is a business day (as defined below). No further interest or other payment will be made as a consequence of the day on which the relevant Bond or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition **business day** means a day (not being a Saturday or Sunday) falling on or after the relevant due date on which (i) commercial banks and foreign exchange markets are open in the place of presentation, (ii) the Trans-European Automated Real Time Gross Settlement Express Transfer System or any successor thereto (the **TARGET System**) is operating and (iii) for so long as the Bonds are cleared through the X/N book-entry clearance and settlement system (the **X/N System**), the X/N System is clearing.
- (e) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain (i) a Fiscal Agent, (ii) Paying Agents having specified offices in at least two major European cities (including Luxembourg, so long as the Bonds are listed on the Luxembourg Stock Exchange) and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th

November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives.

7 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Kingdom of Belgium or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

- (a) **Other connection:** by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the Kingdom of Belgium other than the mere holding of the Bond or Coupon; or
- (b) **Presentation more than 30 days after the Relevant Date:** more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Bond or Coupon for payment on the last day of such period of 30 days; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
- (d) **Payment by another Paying Agent:** by or on behalf of a Bondholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) **Eligible Investor:** to a Bondholder, who at the time of issue of the Bonds, was not an eligible investor within the meaning of article 4 of the Belgian royal decree of 26th May, 1994 on the deduction of withholding tax or to a Bondholder who was such an eligible investor at the time of issue of the Bonds but, for reasons within the Bondholder's control, ceased to be an eligible investor or, at any relevant time on or after the issue of the Bonds, otherwise failed to meet any other condition for the exemption of Belgian withholding tax pursuant to the Belgian law of 6th August, 1993 relating to certain securities.

Relevant Date means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts which may be payable under this Condition 7.

8 Events of Default

If any of the following events occurs and is continuing:

- (a) **Non-Payment:** the Issuer fails to pay interest on any of the Bonds when due and such failure continues for a period of 15 days; or
- (b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Bonds which default is incapable of remedy, or, if capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer by the Fiscal Agent at its specified office by any Bondholder; or
- (c) **Cross-Default:** (i) any other present or future indebtedness for borrowed money (**Indebtedness**) of the Issuer or any of its Material Subsidiaries becomes due and payable prior to its stated maturity by reason of any event of default, or (ii) any such Indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness, provided that the aggregate amount of the Indebtedness, guarantees and indemnities in respect of which one or more of the relevant events mentioned in this paragraph (c) have occurred equals or exceeds €50 million or its equivalent (on the basis of the middle spot rate for the relevant currency against the Euro as quoted by any leading bank on the day on which this paragraph operates) and provided further that, for the purposes of this paragraph (c), the Issuer or any of its Material Subsidiaries shall not be deemed to be in default with respect to such Indebtedness, guarantee or indemnity if it shall be contesting in good faith by appropriate means its liability to make payment thereunder; or
- (d) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Material Subsidiaries in an aggregate amount exceeding €25 million or its equivalent (on the basis of the middle spot rate for the relevant currency against the Euro as quoted by any leading bank on the day on which this paragraph operates), becomes enforceable and any step is taken to enforce any such mortgage, charge, pledge, lien or other encumbrance (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person); or
- (e) **Insolvency:** the Issuer or any of its Material Subsidiaries becomes insolvent or bankrupt (*est déclaré en faillite/wordt failliet verklaard*) or unable to pay its debts, stops or suspends payment of all or substantially all of its debts, is under judicial composition (*concordat judiciaire/gerechtigd akkoord*), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of or affecting all or substantially all of the debts of the Issuer or any of its Material Subsidiaries; or
- (f) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of its Material Subsidiaries or the Issuer or any of its Material Subsidiaries ceases to carry on all or substantially all of its business or operations, except in either case for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) in respect of any of its Material Subsidiaries, which is not insolvent (*déclaré en faillite/failliet verklaard*), or (ii) on terms approved by an Extraordinary Resolution of the Bondholders,

then any Bond may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately

due and payable at its principal amount together with accrued interest without further formality unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent.

9 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 6 within a period of ten years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10 Replacement of Bonds and Coupons

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

Notwithstanding the above, in the case of loss, destruction, theft or any other event of involuntary dispossession of a Bond, the provisions of the Belgian law of 24th July, 1921 relating to involuntary dispossession of bearer securities, as amended on 22nd July, 1991 (the **Law**) will apply. Provided such an event of involuntary dispossession with respect to any Bond has been notified and published in accordance with the procedure of opposition provided for by the Law, the Law will impose certain obligations upon the Issuer or the Fiscal Agent including attaching such Bond, reinvesting the principal and, in some cases, the revenues of such Bond as specified, and refusing any payment on such Bond for a period of four years starting from the first of January following the first publication in the Bulletin of Oppositions (*Bulletin des oppositions/Bulletin der met verzet aangetekende waarden*).

11 Meetings of Bondholders, Modification and Substitution

- (a) **Meetings of Bondholders:** All meetings of Bondholders will be held in accordance with the Belgian Companies Code. Such a meeting may be convened by Bondholders holding not less than 20 per cent. in principal amount of the Bonds outstanding. The quorum at any such meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing at least 50 per cent. of the aggregate principal amount of Bonds then outstanding or, at any adjourned meeting after publication of a new convening notice pursuant to Condition 13, two or more persons being or representing Bondholders whatever the aggregate principal amount of the Bonds so held or represented. If an Extraordinary Resolution is adopted by Bondholders holding or representing less than one-third of the aggregate principal amount of the Bonds outstanding (whether present or represented at the meeting or not), such Extraordinary Resolution is not binding unless approved by the competent Court of Appeal in the district where the Issuer's registered office is located. The above quorum and special majority requirements do not apply to Extraordinary Resolutions relating to interim measures taken in the common interest of the Bondholders or to the appointment of a representative of the Bondholders. In such cases, the Extraordinary Resolutions are adopted by Bondholders holding or representing at least a majority of the aggregate principal amount of the Bonds outstanding present or represented at the meeting. An Extraordinary Resolution duly passed in accordance with the provisions of the Belgian Companies Code at any meeting of the Bondholders and, to the extent required by law, approved by the relevant Court of Appeal, will be binding on Bondholders, whether or not they vote in favour thereof, and on all holders of Coupons relating to the Bonds.

The matters listed in article 568 of the Belgian Companies Code in respect of which an Extraordinary Resolution may be adopted include modifying or suspending the date of maturity of Bonds, postponing any day for payment of interest thereon, reducing the rate of interest applicable in respect of such Bonds, deciding urgent interim actions in the common interest of Bondholders, accepting a security in favour of the Bondholders, accepting a transformation of Bonds into shares on conditions proposed by the Issuer, and appointing a special agent of the Bondholders to implement the resolutions of the meeting of Bondholders.

- (b) **Modification of Agency Agreement:** The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Bondholders.
- (c) **Substitution:** The Issuer, or any previous substituted company, may at any time, without the consent of the Bondholders or the Couponholders, substitute for itself as principal debtor under the Bonds and the Coupons such company (the **Substitute**) as is specified in the Agency Agreement, provided that no payment in respect of the Bonds or the Coupons is at the relevant time overdue. The substitution shall be made by a deed poll (the **Deed Poll**), pursuant to which, *inter alia*, the Substitute will become the principal debtor under the Bonds and the Coupons, and may take place only if (i) the Substitute shall, by means of the Deed Poll, agree to indemnify each Bondholder and Couponholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Bond or Coupon and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution, (ii) the obligations of the Substitute under the Deed Poll, the Bonds and the Coupons shall be unconditionally guaranteed by the Issuer by means of the Deed Poll, (iii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Bonds and Coupons represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Issuer have been taken, fulfilled and done and are in full force and effect, (iv) the Substitute shall have become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it, (v) legal opinions addressed to the Bondholders shall have been delivered to them (care of the Fiscal Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (i) above, the jurisdiction of any guarantor to the Substitute and in England as to the fulfilment of the preceding conditions of this paragraph (c) and the other matters specified in the Deed Poll, (vi) the stock exchange on which the Bonds are listed shall have confirmed that, following the proposed substitution, the Bonds will continue to be listed on such stock exchange and (vii) the Issuer shall have given at least 14 days' prior notice of such substitution to the Bondholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Bondholders, will be available for inspection at the specified office of each of the Paying Agents. References in Condition 8 to obligations under the Bonds shall be deemed to include obligations under the Deed Poll, and, where the Deed Poll contains a guarantee, the events listed in Condition 8 shall be deemed to include that guarantee not being (or being claimed by the guarantor not to be) in full force and effect and the provisions of Condition 8(c) - 8(f) inclusive shall be deemed to apply in addition to the guarantor.

12 Further Issues

The Issuer may from time to time without the consent of the Bondholders or Couponholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds.

13 Notices

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and (so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require) in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

In addition to the above publications, with respect to notices for a meeting of Bondholders, any convening notice for such meeting shall be made in accordance with article 570 of the Belgian Companies Code, by an announcement to be inserted twice, with an interval of not less than eight days and the second one at least eight days prior to the meeting, in the Belgian Official Gazette (*Moniteur belge/Belgisch Staatsblad*), in a newspaper issued in the district in which the Issuer has its registered office and in a newspaper with national coverage. Resolutions to be submitted to the meeting must be described in the convening notice.

14 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

15 Governing Law

- (a) **Governing Law:** The Agency Agreement, the Bonds and the Coupons are governed by and shall be construed in accordance with English law. Certain mandatory provisions of Belgian law as referred to in Conditions 10, 11, and 13 may apply.
- (b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds or the Coupons and accordingly any legal action or proceedings arising out of or in connection with the Bonds or the Coupons (**Proceedings**) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Bondholders and Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
- (c) **Agent for Service of Process:** The Issuer irrevocably appoints Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX as its

agent in England to receive service of process in any Proceedings in England based on any of the Bonds or the Coupons. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED BY THE RELEVANT GLOBAL BOND

The following is a summary of the provisions to be contained in each Global Bond which will apply to, and in some cases modify, the Terms and Conditions of the relevant Bonds while those Bonds are represented by the relevant Global Bond.

The Bonds will initially be in the form of the relevant Global Bond, which will be in bearer form.

Each Global Bond will be deposited on or around the Closing Date with the NBB as operator of the X/N System or its custodian. Upon receipt of each Global Bond, the NBB will credit the securities account of ING Belgium SA/NV (the **Domiciliary Agent**), being an exempt account in the X/N System, with an amount equivalent to the principal amount of that Global Bond. On the Closing Date, the Domiciliary Agent, on behalf of the Issuer, will instruct the NBB to credit the securities account of Euroclear Bank SA/NV as operator of the Euroclear System (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), being an exempt account, in the X/N System, with an aggregate amount equivalent to the principal amount of each Global Bond. Following confirmation of payment to the Issuer of the net proceeds for the issue of the relevant Bonds, Euroclear and Clearstream, Luxembourg will credit the relevant Bonds in the Managers' securities accounts with Euroclear and Clearstream, Luxembourg. The Managers will credit the holders of beneficial interests by crediting their securities accounts as participants in Euroclear or Clearstream, Luxembourg with the principal amount of the relevant Bonds purchased by each of them against payment of the purchase price.

Ownership of beneficial interests in each Global Bond will be limited to persons who maintain accounts with the X/N System, Euroclear and Clearstream, Luxembourg or persons who hold interests through such persons and which are Eligible Investors holding the relevant Bonds in an exempt securities account. See "*Taxation - Belgium*". Ownership of beneficial interests in each Global Bond will be shown on, and the transfer of such interests will be effected only through, records maintained by the X/N System, Euroclear and Clearstream, Luxembourg and in accordance with the applicable procedures of the X/N System, Euroclear and Clearstream, Luxembourg.

Each of the persons shown in the records of the X/N System, Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in the relevant Global Bond must look solely to the X/N System, Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's (as defined below) share of each payment made by the Issuer to the bearer of the relevant Global Bond and in relation to all other rights arising under the relevant Global Bond.

Neither the Issuer, the Domiciliary Agent nor any of their respective agents will have any responsibility or liability for any aspect of the records relating to beneficial ownership interests in each Global Bond or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The X/N System, Euroclear and Clearstream, Luxembourg as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Bonds will be responsible for establishing and maintaining accounts for their participants and customers having interests in book-entry interests in the Bonds. The Domiciliary Agent will be responsible for ensuring that payments received by it from the Issuer for holders of interests in the Bonds holding through the X/N System, Euroclear and Clearstream, Luxembourg are credited to the X/N System participant, Euroclear or Clearstream, Luxembourg, as the case may be.

The Issuer will not impose any fees in respect of the Bonds. Holders of book-entry interests in the Bonds may incur fees normally payable in respect of the maintenance and operation of accounts in the X/N System, Euroclear and Clearstream, Luxembourg.

1. Exchange

Each Global Bond will be exchangeable in whole but not in part (free of charge to the holder) for the relevant definitive Bonds only if an Exchange Event occurs, being if:

- (a) an event of default (as set out in Condition 8) has occurred and is continuing; or
- (b) the Issuer has been notified that the X/N System or any other relevant clearing system has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available.

The Issuer will promptly give notice to Bondholders if an Exchange Event occurs. In the case of (a) or (b) above, the holder of the relevant Global Bond, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Domiciliary Agent of its intention to exchange that Global Bond for the relevant definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of each Global Bond may surrender that Global Bond to or to the order of the Domiciliary Agent. In exchange for the relevant Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of the relevant definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the relevant Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the relevant agency agreement made between the Issuer, ING Belgium SA/NV and the Paying Agents named in it (each an **Agency Agreement**). On exchange of the relevant Global Bond, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Bonds.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given, being a day on which banks are open for general business in the place in which the specified office of the Domiciliary Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the (as applicable) NBB as operator of the X/N System, Euroclear or Clearstream, Luxembourg is located.

2. Payments

Payments of principal and interest in respect of Bonds represented by the relevant Global Bond will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the relevant Bonds, surrender of the relevant Global Bond to the order of the Domiciliary Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Bond by or on behalf of the Domiciliary Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the relevant Bonds.

3. Notices

For so long as all of the relevant Bonds are represented by the relevant Global Bond and such Global Bond is held on behalf of the X/N System, notices to relevant Bondholders may be given by delivery of the relevant notice to the X/N System for communication to the relative Accountholders rather than by publication as required by Condition 13, provided that, so long as the relevant Bonds are listed on the Luxembourg Stock Exchange, notice will also be given by publication in a daily newspaper published in Luxembourg if and to the extent that the rules of the Luxembourg Stock Exchange so require. Any such notice shall be

deemed to have been given to the relevant Bondholders on the seventh day after the day on which such notice is delivered to the X/N System as aforesaid.

With respect to notices for a meeting of the relevant Bondholders, any convening notice for such meeting shall be made in accordance with article 570 of the Belgian Companies Code, by an announcement to be inserted twice, with an interval of not less than eight days and the second one at least eight days prior to the meeting, in the Belgian Official Gazette (*Moniteur belge/Belgisch Staatsblad*), in a newspaper issued in the district in which the Issuer has its registered office and in a newspaper with national coverage. Resolutions to be submitted to the meeting must be described in the convening notice.

4. Accountholders

For so long as the relevant Bonds are represented by the relevant Global Bond and such Global Bond is held on behalf of the X/N System, each person who is for the time being shown in the records of a participant, a sub-participant or the operator of the X/N System as the holder of a particular principal amount of the relevant Bonds (each an **Accountholder**) (in which regard any certificate or other document issued by a participant, sub-participant or the operator of the X/N System as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to for the purposes of any quorum requirements of, or the right to demand a poll or, meetings of the relevant Bondholders and giving notice to the Issuer pursuant to Condition 11) other than with respect to the payment of principal and interest on the relevant Bonds, the right to which, subject to applicable Belgian law, shall be vested, as against the Issuer, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms. Each Accountholder must look solely to the relevant clearing system for its share of each payment made to the bearer of the relevant Global Bond.

5. Prescription

Claims against the Issuer in respect of principal and interest on the Bonds represented by the relevant Global Bond will be prescribed after ten years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7).

6. Cancellation

Cancellation of any Bond represented by the relevant Global Bond and required by the Terms and Conditions of the relevant Bonds to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Domiciliary Agent of the reduction in the principal amount of the relevant Global Bond on the relevant part of the schedule thereto.

7. Clearing System

Bonds represented by the relevant Global Bond are transferable in accordance with the rules and procedures of the relevant clearing system. References in the relevant Global Bond to a relevant clearing system shall be deemed to include references to any other clearing system through which interest in the relevant Bonds are held.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, amounting to approximately €995,525,000, will be applied by the Issuer principally in the repayment of short-term bank debt.

CAPITALISATION OF THE ISSUER

The following consolidated capitalisation and indebtedness table of the Issuer has been extracted from its consolidated audited financial statements prepared in accordance with generally accepted accounting principles in the Kingdom of Belgium as at 31st December, 2003 and has been adjusted for the issue of the Bonds:

	As at 31st December, 2003 (as adjusted)
	<i>(in thousands of euro)</i>
Short-term debt⁽¹⁾	358,611
Long-term debt	
Bonds ⁽²⁾	997,276
Loans from shareholders ⁽³⁾	989,596
Total long-term debt	1,986,872
Shareholders' Equity	
Restricted Equity	0
Issued Share Capital ⁽⁴⁾	1,049,491
Consolidated Reserves	83,522
Total shareholders' equity	1,133,013
Total capitalisation and indebtedness⁽¹⁾⁽⁵⁾	3,478,496

Notes:

- (1) An amount of €358,611,000 of long term shareholders' debt which may become repayable in accordance with the Protocol (as defined in "*Description of the Issuer*").
- (2) Gross proceeds according to Belgian GAAP.
- (3) Loans from shareholders' were granted by a) Electrabel and SPE in an amount of €890,439,000 and b) Electrabel and Publi-T (as defined in "*Description of the Issuer*") for an amount of €99,157,000.
- (4) The issued share capital of the Issuer amounts to €1,049,491,000 and is divided into 10,494,910 shares without nominal value. There are 3 classes of shares: 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. The Class A and the Class C shares carry special rights regarding the appointment of members of the Board of Directors and decisions at the level of the general shareholders meeting.
- (5) Save as mentioned above, there have been no material changes in the capitalisation of the Issuer since 31st December, 2003.

DESCRIPTION OF THE ISSUER

Introduction

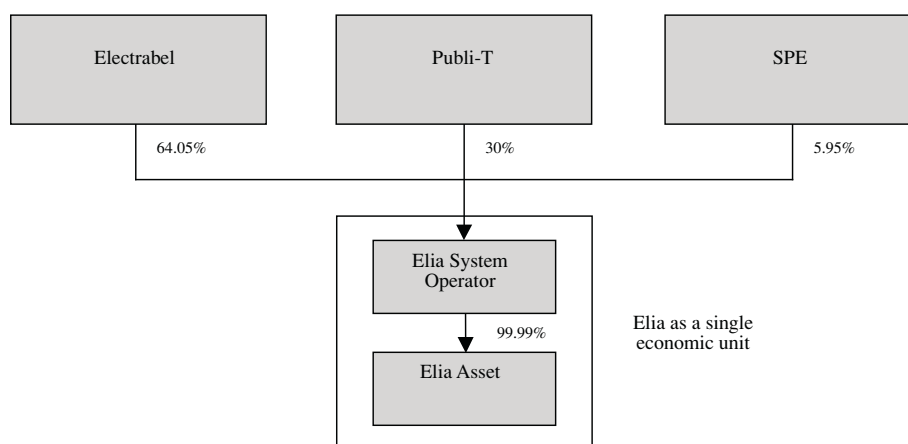
The Issuer is a limited liability company (*société anonyme/naamloze vennootschap*) and was established under Belgian law by a deed dated 20th December, 2001, published in the Appendix to the Belgian Official Gazette (*Moniteur belge/Belgisch Staatsblad*) on 3rd January, 2002, under the reference 20020103-1764. Its registered office is located in 1000 Brussels, Boulevard de l'Empereur 20 and it is registered in the Belgian Register of Legal Entities under the number 0476.388.378.

The Issuer and Elia Asset SA/NV (**Elia Asset**, and together with the Issuer, **Elia**) develops, operates and maintains the very high and high-voltage electricity grid system (380kV to 70kV) in Belgium, which is regulated at a federal level. In addition, it operates a major part of the local high-voltage transmission and distribution system (70kV to 30kV) which is regulated at a regional level (together with the very high and high-voltage electricity grid system referred to above, the **Grid**) (see "*The Belgian Legal Framework*" below). It provides the physical link between electricity generators, distribution system operators (**DSO**) and direct supply customers and manages interconnections with the electricity grids of neighbouring countries. It also manages the coordination of the flow of electricity across the national grid in Belgium, to enable the secure and reliable delivery from electricity generators to customers.

The Issuer was appointed as Belgium's transmission system operator (**TSO**) on 13th September, 2002 for a 20 year period. The 2003 financial year was the first complete fiscal period during which the Issuer was operating as a fully regulated TSO. Since its appointment as TSO, the Issuer's tariffs which are calculated on a cost plus basis (see "*Tariffs*" below), are subject to approval by the national regulator, the Commission for Electricity and Gas Regulation (**CREG**). As a result of this new regulatory supervision the financial results of the Issuer are not directly comparable with those in the year ended 31st December, 2002. In the year ended 31st December, 2003, the Issuer's consolidated operating income was €710.1 million, EBITDA €306.8 million and consolidated net income €106.3 million.

History

Since the mid-1990s the European Union, through a number of directives which have been transposed into the national laws of member states, has been seeking the gradual liberalisation of the electricity market in the European Union. An important feature of this liberalisation process is a separation between the electricity generators and suppliers and the companies providing transmission facilities (the so called "unbundling"). The Belgian government and electricity entities in Belgium have been giving effect to these directives through a reorganisation of the electricity transmission and distribution systems in Belgium. This has culminated in the creation of the Issuer as Belgium's TSO working as a single economic unit with its virtually wholly owned subsidiary Elia Asset in an ownership structure as set out below.



Electrabel SA/NV (**Electrabel**) is the largest power company in the Benelux, with installed generating capacity of approximately 25,000 MW. It also engages in electricity trading on a number of European power exchanges. The largest shareholder in Electrabel is Suez-Tractebel SA/NV, which is the energy arm of the Suez group of companies.

Publi-T SCRL/CVBA (**Publi-T**) is a co-operative company owned by SOCOFE SA (a regional holding company that participates in business areas of public interest such as electricity and water (**SOCOFE**), Vlaamse Energieholding CVBA (**VEH**) and Belgian municipalities (through a holding structure, *Holding Communal SA/Gemeentelijke Holding NV*, and public sector associations (*intercommunales*) founded for the purpose of being shareholders of the Issuer as a TSO).

Société de production d'Electricité SCRL / Vennootschap voor Productie van Elektriciteit CVBA (**SPE**) is a Belgian public sector power producer. Its main shareholders are Publilec SCRL/CVBA, Dexia Banque Belgique SA / Dexia Bank België NV, SOCOFE and VEH.

Pursuant to an agreement between the shareholders of the Issuer and the Belgian government dated May 2001 as amended (the **Protocol**), 40 per cent. of the existing shares of the Issuer are to be offered to the public (subject to market conditions) within two years after the appointment of the Issuer as the Belgian TSO, such appointment being made on 13th September, 2002 for a 20 year period. If market conditions within this period are not favourable to a public offering, there is a continuing obligation on the shareholders to reduce their 40 per cent. stake either by way of a public offer or a direct sale to interested third parties.

Business

Elia is the operator of Belgium's high-voltage electricity transmission system and all cross border power inter-connections with neighbouring countries. The core and regulated business of Elia consists in managing the physical connection of electricity generators, DSOs, direct supply customers and/or foreign TSOs, seeking to balance the injection and off-take to and from its Grid, maintaining the voltage levels at each off-take point and contributing to the stability of the interconnected European UCTE grid. See "*International Relations*" below.

The Grid

The Grid consists of overhead lines, underground cables, transformers and substations with voltages ranging from 380 kV to 30 kV. The voltage is converted in stages to the required levels at more than 800 substations. The high-voltage Grid consists of 8,286 kilometres of links, 5,607 km of overhead lines and 2,679 km of underground cable.

Geographic length (km) at 1st January, 2004

Voltage	Overhead lines	Underground cables	Total
380 kV	884	0	884
220 kV	267	0	267
150 kV	2,010	282	2,292
70 kV	2,418	240	2,658
36 kV	8	1,934	1,942
30 kV	20	223	243
Total	5,607	2,679	8,286

The Grid performs three major functions. The 380 kV network forms the backbone of the Belgian network and is connected with the European 380 kV network. International suppliers transit over these overhead lines and the Belgian nuclear power stations and pumped-storage power station are connected to this network. The 220 and 150 kV networks carry electricity to large consumption centres and provide Belgium's domestic supply. At that voltage level all important fossil fuel fired

power plants, such as the combined cycle gas turbine plants are also connected. Finally, power is carried over 70 and 36 kV networks to the off-take points used by the DSOs. Large industrial customers are directly connected to the high-voltage grid (150 – 30 kV).

This power system requires constant coordinated monitoring. Elia has four control centres (dispatching centres) where the system frequency, power flows and voltage levels are continually monitored and managed. The national control centre is based in Linkebeek while the three regional control centres are located in Antwerp (Merksem), Brussels and Namur.

The Grid forms an integral part of the European transmission network. The interconnections with the Netherlands and France are mainly at 380 kV. These interconnections allow the Belgian electricity market to be closely connected to the international market, enabling the import and export of power as well as improving the reliability of supply of the Belgian system.

Environmental Factors

As one of its main objectives as a TSO, Elia takes into account environmental issues and focuses on preventing environmental damage. The elimination of PCBs in transformers and other electrical equipment (in accordance with plans approved by Belgian environmental authorities), soil decontamination whenever it is determined that there is a potential significant threat to human health or the environment, the construction of sealed catchment tanks under transformers and noise reduction are just some of the action programmes in which Elia has made and continues to make significant investment. Each action programme involves the management of environmental risks both from a technical and legal point of view, enabling Elia to establish priorities.

All new installations are built and operated in accordance with the principle of the best available technologies. Elia has established an action programme, in order to check the permit compliance of older installations.

Elia has been certified by Ethibel ASBL (a Belgian non-profit association acting as an independent consultancy advising financial institutions on ethical savings and investment products) as an ethically committed company. This certification was granted after screening Elia in relation to its internal social, environmental, external social and ethical economic policies.

Maintenance and Operations

Network breakdown, caused by either internal or external factors, failure of a generator to deliver electricity and unscheduled electricity flows from neighbouring countries are some of the risks which can threaten the reliable operation of the Grid. Elia has adopted a set of measures in order to maintain reliability for its customers. These measures consist both in operational procedures (such as capacity allocation, forecasting the load flows and the N-1 compliance checks) and in emergency procedures. Some of the measures have been determined in cooperation with neighbouring TSOs and approved by their respective regulators so as to ensure coordinated action.

The N-1 criterion, generally used by most of the international TSOs, requires that an electrical system must withstand any single contingency of the loss of a generator or a grid component without interruption of service. Maintenance outages are planned in a way to optimise overall system security, so that the N-1 criterion is still respected for the Grid, although some local loads can be affected by a single event.

Customers

The Issuer's customers are mainly DSOs, grid users (large industrial enterprises and generators), wholesale and retail suppliers and traders. The grid users are directly connected to the Grid. The Issuer and each grid user are required to conclude a connection agreement. This agreement

stipulates the rights and obligations of the parties and the necessary technical prescriptions that apply to all installations connected to the Grid.

For each connection to the Grid, an access point to the Grid is defined which is subject to an access agreement. This agreement defines the rights and obligations of the parties relating to the injection and/or off-take of energy from the Grid. It is concluded between the Issuer and the access holder that is a grid user itself or a mandated party, such as the supplier or any other third party. The access to the Grid is charged to the access holder on the basis of regulated access tariffs that are applied to the transport capacity purchased under the access holder's access contract and on the actual off-take of energy from the Grid. This regulated tariff scheme provides the Issuer with a stable income with nearly 75 per cent. of the income being provided by DSOs.

For each access to the Grid an access responsible party (**ARP**) must be notified to the Issuer by the access holder. ARPs include generators, large industrial customers, suppliers and traders who each, by virtue of a contract to be concluded with the Issuer, have the responsibility to maintain a balance between their injection and off-take of energy. ARPs can also import/export energy from the neighbouring electricity grids and buy and/or sell energy on the Belgian hub. Any imbalance between injection and off-take of an ARP is charged by the Issuer to this ARP on the basis of an imbalance tariff. This income enables the Issuer to cover the costs of energy purchases required to maintain the balance of the Belgian electricity system.

Other energy-linked activities

In addition to transmission activities, Elia is also involved in the allocation of the interconnection capacity on the border between the Netherlands and Belgium through an auctioning mechanism. The allocation mechanism is subject to CREG approval. The Issuer also has a participation in the shareholding of Holding des Gestionnaires des Réseaux de Transport (see "*Other Subsidiaries and Principal Affiliate*" below).

Telecommunications activities

In the field of telecommunication activities, Elia allows mobile phone companies and radio stations to install transmission equipment on its pylons and rents out some excess capacity of its glass fibre network, mainly to utility companies.

Regulatory framework

The European legal framework

As described in "*History*" above, the European Union, through a number of directives and regulations, has been promoting the "unbundling" of national electricity markets. Recent directives and regulations have continued the liberalising trend establishing common rules for an international market in electricity as well as providing conditions for the fair access to national networks for the cross-border exchange of electricity.

The Belgian legal framework

The federal government of Belgium is responsible for matters relating to the transmission and pricing of energy and the regions are responsible for distribution and local transmission of electricity over networks whose nominal voltage is equal to or lower than 70kV.

In addition to the federal law of 29th April, 1999 on the organisation of the electricity market, as amended (the **Electricity Law**), the Belgian federal government has enacted several royal decrees governing aspects of the generation of electricity, the operation of the transmission network (including the royal decree of 19th December, 2002 on the grid code for the operation of the national transmission system and access to the system, the **Federal Grid Code**), access to

the transmission network, tariff setting, public service obligations and accounting requirements with respect to the transmission network and market regulation by CREG.

The regions are responsible for regulating the distribution and local transmission of electricity over networks whose nominal voltage is equal to or lower than 70 kV. The main regional statutes are the Flemish statute of 17th July, 2000, the Walloon statute of 12th April, 2001 and the Brussels Capital ordinance of 19th July, 2001. These regional statutes and ordinances have been complemented by several other statutes and implementing decrees on matters such as public service obligations, green certificates, authorisation procedures for suppliers, etc.

The regulations regarding the operation of the transmission network require specific measures to be implemented aimed at safeguarding the independence and impartiality of the management of the electricity transmission system, including corporate governance rules.

Regulatory authorities

CREG was established at the federal level in Belgium as the regulatory institution for the supervision of the liberalised part of the gas and electricity market. The functions of the CREG include the supervision of the TSO, the supervision of the application of the technical regulations and public service obligations at the federal level and also the approval of both TSO and DSO tariffs and the control of the accounts of certain enterprises involved in the electricity sector. In addition, the general conditions included in the connection, access and ARP agreements are subject to CREG review.

The supervision of a free electricity market at a regional level is carried out by the following regional regulators: the Flemish Commission for the Electricity and Gas Markets (*Vlaamse Reguleringsinstantie voor de Elektriciteits- en Gasmarkt*) (**VREG**) for the Flemish Region, the Walloon Commission for Energy (*Commission wallonne pour l'Energie*) (**CWAPE**) for the Walloon Region, and the Brussels Institute for the Management of the Environment (*Institut Bruxellois pour la Gestion de l'Environnement/Brussels Instituut voor Milieubeheer*) (**IBGE/BIM**) for the Brussels Capital Region.

Their role includes the issue of supply licences, technical regulations, certification of co-generation facilities and facilities which generate renewable power, issue of and management of green power certificates and supervision of the respective local or regional TSO and the DSOs.

The Belgian Electricity Market

The Belgian economy, like most developed economies, is energy intensive and is reliant upon dependable and efficient electricity supply systems. Consumption of electricity in Belgium has been steadily increasing although since 2000 there has been a comparatively lower rate of increase. The following table shows the rate of change in demand over the last five years.

	1998	1999	2000	2001	2002	2003
% increase in electricity demand	3.1	1.0	3.3	0.9	0.8	1.5

The Belgian electricity generation market is open to all authorised producers. The principal generator is Electrabel with 91.5 per cent. of the generation capacity in Belgium, while SPE has close to 8.5 per cent. The remaining generation capacity consists of co-generation units and renewable energy sources.

Tariffs

Cost-plus basis

The Issuer's tariffs are actually determined pursuant to a "cost-plus" mechanism that enables it to recover the reasonable costs incurred in the course of its activity as a TSO and to generate a fair

return for the invested capital. The Issuer determines, in accordance with a predetermined procedure, the tariff to be charged on an annual basis for any connection to its Grid, usage of the Grid and the provision of ancillary services. The procedures used in the compilation of the tariff refer to a range of services which are priced according to the most significant parameters (such as power and/or transmitted energy) for each service, in accordance with the tariff structure defined in the relevant royal decree.

The tariffs must be approved by CREG and, once approved, the tariffs are published and are not negotiable by individual customers. This is a “regulated third-party access system” (as opposed to a “negotiated third-party access system”), where generators and consumers contract directly with each other for supply but the price for the use of the Grid is fixed. Although the Grid itself, as it stretches from 380 kV to 30 kV, is subject to regulation both at the federal and regional levels, the approval of the tariffs is a competence of the federal regulator CREG.

The tariffs set pursuant to the Electricity Law are intended to:

- be non-discriminatory and transparent;
- be cost-oriented (to cover reasonable costs linked to the operation of the Grid and its maintenance, its improvement, renewal and extension, the technical management of the electricity flow, and the maintenance of the security, reliability and efficiency of the Grid, as well as financial charges);
- include a fair profit margin representing a return on the invested capital; and
- be geared towards an optimal use of the capacity of the Grid.

The tariffs are broken down to show the charges relating to different services and come within four categories:

- the tariff for the connection to the Grid;
- the tariffs for the use of the Grid;
- the tariffs for system services; and
- on request of the public authorities, other taxes, levies, additional charges and contributions, which are paid by Elia to the relevant public bodies and then collected from its customers.

When reviewing the tariffs proposed by the Issuer, CREG takes into account the possible difference between the effective results in the previous year and the approved budget determined in relation to the tariffs applied for that year. Any unbudgeted differences are to be reassigned in part to future tariffs and in part retained by the TSO; any such reassignment must be discussed and agreed with the CREG.

Capital Expenditure

In the two years ended 31st December, 2002 and 31st December, 2003 Elia incurred €134.9 million and €150.7 million respectively of capital expenditure. These funds were principally used in the maintenance and renewal of transmission lines and on the development of new international inter-connection capacity. Elia plans to continue its capital expenditure programme subject to available funding and the leverage ratio recommended by the CREG guidelines.

Principal Subsidiary

Elia Asset

The Issuer is the parent company of Elia Asset. All shares are owned by the Issuer, with the exception of one share owned by Electrabel and one share owned by Publi-T. The Issuer and Elia Asset operate as a single economic entity.

Elia Asset was created in 2001 by Société pour la coordination de la production et le transport de l'énergie électrique SCRL/Maatschappij voor de coördinatie van productie en transport van elektrische energie CVBA (**CPTE**) (the former parent company, now Electrabel and SPE) and Publi-T with the aim of becoming Belgium's TSO. The transmission activity and related infrastructure of CPTE was contributed into the capital of Elia Asset at its accounting value, against the issuance of shares.

The TSO financial structure had to meet the conditions set by the CREG, specifically namely being close to one third equity and two thirds external third party financing.

In order to comply with these guidelines, CPTE set up a new subsidiary, the Issuer, and sold two thirds of its shares in Elia Asset to the Issuer. These shares were valued at their economic value.

This led to the creation of a 'double structure', where Elia Asset is the owner (or holder of rights of use) of the transmission network infrastructure (evaluated at the initial accounting value) and the Issuer, as shareholder of Elia Asset, was appointed as the TSO.

The operation of these two companies as a single economic entity results, amongst other things, from a partnership between both companies. Pursuant to this contractual undertaking, (i) Elia Asset undertakes vis-à-vis the Issuer to carry out the necessary activities regarding the operation of and investments in the infrastructure of the transmission system, in accordance with the instructions of the Issuer and (ii) the Issuer undertakes, at the request of Elia Asset, to finance the upgrading and expansion of the Grid related assets, in accordance with the then current development plans.

Certain features of the 'double structure' have been enacted into the Electricity Law. As a result of this, the Issuer is legally obliged to keep the ownership of all but two shares in the capital of Elia Asset and/or of all subsidiaries, if any, which could operate all or part of the transmission system or own all or part of the infrastructure thereof. Moreover, the approval of the CREG is required for any disposal of the infrastructure and/or equipment, which are part of the transmission system. The Issuer and Elia Asset are also required to staff their board of directors and their executive committee in an identical manner.

Other Subsidiaries and Principal Affiliate

BEL Engineering SA/NV (BEL Engineering)

Elia has acquired all shares of BEL Engineering, a subsidiary of Suez-Tractebel, on 26th December, 2003 taking effect on 1st January, 2004. BEL Engineering is an engineering consultancy firm heavily involved in the design and project management of grid related infrastructure.

Elia Re

Elia Re is a company based in Luxemburg in which Elia Asset owns 99.99 per cent. of the shares. It is a reinsurance company established to manage certain risks associated with the activities of the TSO which cannot adequately be covered at a comparable cost on the traditional insurance or reinsurance market.

Holding des Gestionnaires des Réseaux de Transport (HGRT)

The Issuer owns 24.50 per cent. of the shares of HGRT. This is a French holding company that owns a shareholding in Pownernext SA (**Pownernext**), the French power exchange. Pownernext is a trading platform available to all European electricity traders. Pownernext is both an optional and anonymously organised exchange. In terms of trading, Pownernext offers standard hourly contracts with physical delivery the day after trading within the French hub. Réseau de Transport de l'Electricité (**RTE**) is responsible for the physical delivery of the volume of electricity traded by the members of Pownernext. Euronext (34 per cent. share of Pownernext) and HGRT (17 per cent. share

of Powernext) jointly have a controlling share of 51 per cent. in Powernext. The remaining 49 per cent. is owned by market players.

International relations

The Issuer is a member of two TSO umbrella organisations, Union for the Co-ordination of the Supply of Electricity (**UCTE**) and European Transmission System Operators (**ETSO**). UCTE is a technical association involving some 20 continental European countries whose grids are physically interconnected. UCTE's mission is to ensure the safe and reliable co-ordination of the interconnected grid's operation. Its purpose is to ensure that a stable frequency and voltage are maintained, monitor the security and adequacy of supply and to provide mutual assistance in case of emergency.

ETSO was founded to support the liberalisation of the European electricity market. ETSO is a member organisation comprising the system operators from all the Member States of the European Union plus Kingdom of Norway, Switzerland, Slovenia, Slovak Republic, Poland, Republic of Hungary and Czech Republic. ETSO enters into dialogue with the European Commission, discussing the commercial operation of the European electricity market. In addition, ETSO working groups monitor the tariffs for international energy movements and examine capacity problems at borders. Mr Dobbeni, the Chief Executive Officer of Elia, is Chairman of the ETSO Steering Committee.

Litigation

The Issuer is currently involved in a series of related legal proceedings with a company (currently in the process of liquidation) which was a trader in electricity with access to the Grid. The amounts claimed by the company are substantial (in excess of €15 million), however, the Issuer believes that the grounds for the claim are without foundation and is counter-claiming for unpaid access charges. Although there can be no certainty as to the outcome of on-going negotiations or any court proceedings, the Issuer expects that a settlement should be reached which will not have a material adverse effect on its business. The Issuer is involved in a number of other on-going disputes and claims none of which involve amounts which would be material.

Management

Principles of corporate governance

The royal decree of 3rd May, 1999, as amended on 6th October, 2000, sets out the specific rules regarding the organisation and corporate governance of the TSO, with a view to guarantee its independence and impartiality. The rules concern in particular the transparency of the shareholder structure, the appointment of independent directors on the board of directors, the establishment of a corporate governance committee, an audit committee and a remuneration committee, the application of rules related to conflicts of interests and opposition of interest with dominant shareholders, and the establishment of an executive committee (*comité de direction/directie comité*) (the **Executive Committee**). The independence of the TSO requires namely that half of the members of the board of directors are independent directors and that all the directors member of the corporate governance committee are independent directors. The Executive Committee was appointed in September 2003 and in accordance with the applicable legislation, the board of directors have requested that the CREG confirm these appointments. The CREG has started the confirmation procedure and Elia expects to receive these confirmations in 2004.

The Board of Directors

The board of directors of each of the Issuer and Elia Asset has the same 12 members.

Name and Position

Principal Outside Interests as at 31st December, 2003

Three representatives from Electrabel

- | | |
|--|--|
| <ul style="list-style-type: none">• Ronnie Belmans, Chairman | Professor at the University of Leuven, Electrical Engineering Department |
| <ul style="list-style-type: none">• Willy Bosmans, also member of the Remuneration Committee | Executive Director of Electrabel SA/NV |
| <ul style="list-style-type: none">• Etienne Snyers | Director of Electrabel SA/NV - Strategy and Communication Departments |

Three representatives from Publi-T

- | | |
|--|---|
| <ul style="list-style-type: none">• Johan De Roo, also member of the Audit Committee | Burgomaster of Maldegem and member of the Flemish regional parliament |
| <ul style="list-style-type: none">• Claude Grégoire | Executive Director of SPE SA/NV |
| <ul style="list-style-type: none">• Francis Vermeiren, Vice-president of the Board | Burgomaster of Zaventem and member of the Flemish regional parliament |

Six independent directors

- | | |
|---|--|
| <ul style="list-style-type: none">• Clement De Meersman, also Chairman of the Audit Committee | Executive Director of Deceuninck SA/NV |
| <ul style="list-style-type: none">• Hilde Laga, also member of the Corporate Governance Committee | Lawyer and Professor at the University of Leuven |
| <ul style="list-style-type: none">• Jean-Marie Laurent Josi, also Chairman of the Remuneration Committee | Director of Compagnie Benelux Paribas "COBEPA" SA/NV |
| <ul style="list-style-type: none">• Pierre Meyers, also member of the Audit Committee and of the Remuneration Committee | Executive Director of Euremis Holding SA/NV |
| <ul style="list-style-type: none">• Luc Van Nevel, also member of the Corporate Governance Committee | Chief Executive Officer of Samsonite Corporation |
| <ul style="list-style-type: none">• Thierry Willemarck, Vice-president of the Board and Chairman of the Corporate Governance Committee. | Executive Director of Touring Club |

The business address of each of the directors is 1000 Brussels, boulevard de l'Empereur 20, Belgium.

The Executive Committee

The Executive Committee of each of the Issuer and Elia Asset has the same seven members:

- Daniel Dobbeni (Chairman of the Executive Committee and CEO);
- Jacques Vandermeiren (CCO and Vice-Chairman of the Executive Committee);
- Markus Berger (Grid Services).
- Jan Gesquiere (CFO);
- Roel Goethals (Infrastructure);

- Hubert Lemmens (Transmission); and
- Frank Vandenberghe (Customers and Marketing);

Secretary General

Pierre Bernard has been appointed by the Board as the Secretary General of both the Issuer and Elia Asset.

Employees

As at 31st December, 2003, Elia employed a total of 1,113 people.

TAXATION

BELGIUM

The following is a general description of certain Belgian tax considerations relating to the Bonds. It does not purport to be a complete analysis of all tax considerations relating thereto. Prospective purchasers should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Belgium of acquiring, holding and disposing of the Bonds and receiving payments of interest, principal and/or other amounts thereunder. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Belgian Withholding Tax

Securities

The holding of the Bonds in the NBB clearing and settlement system (see “*Summary of provisions relating to the Bonds while represented by the Global Bond*”) permits most types of investors (the **Eligible Investors**, see below) to collect interest on their Bonds free of withholding tax, and to trade their Bonds on a gross basis.

Participants in the X/N System must keep the Bonds they hold for the account of Eligible Investors on so called “X-accounts”, and those they hold for the account of non-Eligible Investors on “N-accounts”. Payments of interest made through X-accounts are free of withholding tax; payments of interest made through N-accounts are subject to a withholding tax of 15 per cent., which the NBB deducts from the payment and pays over to the tax authorities.

The main categories of Eligible Investors are as follows:

- (a) Belgian resident corporate investors subject to Belgian corporate income tax;
- (b) qualifying Belgian pension funds;
- (c) corporate investors who are non-residents of Belgium, whether they have a permanent establishment in Belgium or not;
- (d) individuals who are non-residents of Belgium, unless their holding of the Bonds is connected to a permanent establishment they have in Belgium; and
- (e) non incorporated foreign collective investment schemes (such as *beleggingsfondsen/fonds de placement*) whose units are not publicly offered or marketed in Belgium.

The main categories of non-Eligible Investors are as follows:

- (a) Belgian resident individuals;
- (b) Belgian non-profit organisations (other than qualifying pension funds); and
- (c) non incorporated Belgian collective investment schemes (*beleggingsfondsen/fonds de placement*) and similar foreign funds whose units are publicly offered or marketed in Belgium.

(The above categories summarise the detailed definitions contained in article 4 of the Belgian royal decree of 26th May, 1994, to which investors should refer for a precise description of the relevant eligibility rules.)

When opening an X-account for the holding of Bonds or other securities kept in the NBB clearing and settlement system, investors are required to provide the financial institution where this account is kept with a statement as to their tax status. This statement need not be periodically reissued.

Different identification requirements apply to investors who are non-residents of Belgium and keep their Bonds on a securities account through Euroclear or Clearstream, Luxembourg.

Capital Gains and Income Tax

Holders of Bonds who are residents of Belgium or hold the Bonds through a permanent establishment in Belgium will be subject to Belgian income tax on the interest collected thereunder and, depending on their tax status, on capital gains realised in respect thereof.

Other holders of Bonds will in principle, not be subject to such Belgian income tax (save, as the case may be and as set out above, in the form of withholding tax).

Stamp duties

Subscriptions for the Bonds will give rise to a stamp duty (*taxe sur les opérations de bourse/taks op beursverrichtingen*), if the subscriptions are carried out through the instruction of a professional intermediary established in Belgium. Trades in respect of the Bonds will give rise to stamp duty if they are carried out through the instruction of a professional intermediary established in Belgium. The amount of the stamp duty, however, is capped at EUR 250 per transaction and per party, and various types of investors (including credit institutions, insurance companies, pension funds and non-residents of Belgium) are exempted from this stamp duty.

Tax on the physical delivery of bearer securities

The physical delivery to investors (other than qualifying financial institutions) of Bonds in definitive bearer form will be subject to a tax of 0.6 per cent., if such delivery takes place in Belgium. Delivery of the Bonds in the form of a global certificate into the X/N System will not give rise to that tax.

Inheritance duties

No Belgian inheritance duties will be levied in respect of the Bonds if the deceased holder was not a Belgian resident at the time of his or her death.

EU Savings Directive

On 3rd June, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income under which Member States will be required, if a number of important conditions are met and from a date not earlier than 1st January, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

SUBSCRIPTION AND SALE

Barclays Bank PLC, Credit Suisse First Boston (Europe) Limited, Fortis Bank SA/NV, ING Belgium SA/NV and Dexia Banque Internationale à Luxembourg, société anonyme acting under the name of Dexia Capital Markets (the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 7 May, 2004, jointly and severally agreed to subscribe or procure subscribers for the Bonds at the issue price of 99.649 per cent. of the principal amount of the Series A Bonds and 99.806 per cent. of the principal amount of the Series B Bonds, less a combined management and underwriting commission in respect of each series of the Bonds. The Issuer has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

- (a) it has not offered or sold and, prior to the expiry of the period of 6 months from the Closing Date, will not offer or sell any Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the **FSMA**)) received by it in connection with the issue of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Belgium

The Bonds have not been and will not be publicly offered in Belgium.

The offering is exclusively conducted under applicable private placement exemptions and therefore it has not been and will not be notified to, and the Offering Circular or any other offering material relating to the Bonds has not been and will not be approved by, the Belgian Banking, Finance and Insurance Commission (*Commission bancaire, financière et des assurances/Commissie voor het Bank-, Financie- en Assurantiewezen*).

Accordingly, the offering may not be advertised and each of the Managers has represented, warranted and agreed that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Bonds and that it has not distributed, and will not distribute, any memorandum, information circular, brochure or any similar documents, directly or indirectly, to any individual or legal entity in Belgium other than:

- (i) investors required to invest a minimum of €250,000 (per investor and per transaction);
- (ii) institutional investors as defined in article 3, 2°, of the Belgian royal decree of 7th July, 1999 on the public character of financial transactions, acting for their own account.

This Offering Circular has been issued only for the personal use of the above qualified investors and exclusively for the purpose of the offering of Bonds. Accordingly, the information contained therein may not be used for any other purpose nor disclosed to any other person in Belgium.

In particular, and without prejudice to the foregoing, the Bonds may not be offered, sold or resold, transferred or delivered to any person qualifying as a consumer within the meaning of article 1, 7° of the Belgian law of 14th July, 1991 on consumer protection and trade practices (the **Consumer Protection Law**), unless such offer or sale is made in compliance with the provisions of the Consumer Protection Law and its implementing legislation.

General

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Bonds by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Bonds was duly authorised by a resolution of the Board of Directors of the Issuer dated 4th March, 2004.

Listing

2. Application has been made to list each series of the Bonds on the Luxembourg Stock Exchange. A legal notice relating to the issue of the Bonds and the constitutional documents of the Issuer are being lodged with the Luxembourg trade and companies register (*Registre de commerce et des sociétés, Luxembourg*) where such documents may be examined and copies obtained.

Clearing Systems

3. The Bonds have been accepted for clearance through the X/N System. The ISIN for the Series A Bonds is BE0119549450 and the Common Code is 019192369. The ISIN for the Series B Bonds is BE0119550466 and the Common Code is 019192431

No significant change

4. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or the Group since 31st December, 2003 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31st December, 2003.

Litigation

5. Save as disclosed in this Offering Circular, neither the Issuer nor any of its Material Subsidiaries is involved in any legal or arbitration proceedings relating to claims or amounts which are materially adverse in the context of the issue of the Bonds nor so far as the Issuer is aware, is any such litigation or arbitration pending or threatened.

Accounts

6. The auditors of the Issuer are Ernst & Young Réviseurs d'Entreprises S.C.C./Ernst & Young Bedrijfsrevisoren B.C.V. and KPMG Réviseurs d'Entreprises S.C.R.L./KPMG Bedrijfsrevisoren C.V.B.A., who have audited the Issuer's accounts and rendered an unqualified report in accordance with generally accepted auditing standards in Belgium for each of the two financial years ended on 31st December, 2003. Without affecting the unqualified nature of such report, the auditors also include Emphasis Matter Paragraphs which draw attention to certain matters described in Note 13 to the consolidated financial statements of the Issuer that are peculiar to the Issuer in their accounting treatment as a result of Belgian legal and regulatory requirements. (Emphasis Matter Paragraphs are issued in accordance with the International Standard on Auditing No. 700 paragraphs 30 to 35).

U.S. tax

7. The Bonds and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Documents

8. Copies of the following documents will be available from the specified offices of the Paying Agent for the time being in Luxembourg so long as any of the Bonds remain outstanding:
- (a) the constitutional documents of the Issuer;
 - (b) the audited consolidated accounts of the Issuer in respect of the financial years ended 31st December, 2002 and 2003 and all future annual consolidated accounts of the Issuer in their complete form;
 - (c) the non-consolidated accounts of the Issuer in respect of the financial years ended 31st December, 2002 and 2003 and all future annual non-consolidated accounts of the Issuer in their complete form; and
 - (d) the Subscription Agreement, the Clearing Services Agreement and the Agency Agreement.

CONSOLIDATED FINANCIAL STATEMENTS OF ELIA SYSTEM OPERATOR SA/NV

The financial information in respect of the two years ended 31st December, 2003 contained in this section has been extracted without material adjustment from the audited consolidated accounts of the Issuer.⁽¹⁾

Consolidated Balance Sheet

Assets	2003	2002
	(€000s)	
Fixed Assets	3,418,891	3,345,189
I. Formation expenses	0	0
II. Intangible assets	0	0
III. Positive consolidation differences	0	0
IV. Tangible assets	3,412,627	3,342,651
A. Land and buildings	71,905	62,729
B. Plant, machinery and equipment	3,014,917	2,963,049
C. Furniture and vehicles	5,935	6,844
D. Leasing and other similar rights	116	234
E. Other tangible assets	1,828	2,147
F. Assets under construction and advance payments	317,925	307,648
V. Financial assets	6,265	2,538
A. Companies accounted for using the equity method	2,000	2,000
1. Participating interests	2,000	2,000
2. Amounts receivable	0	0
B. Other enterprises	4,265	538
1. Participating interests and shares	4,192	466
2. Amounts receivable	73	72
Current Assets	302,331	215,640
VI. Amounts receivable after one year	0	0
A. Trade debtors	0	0
B. Other amounts receivable	0	0
C. Deferred taxation	0	0
VII. Stocks and contracts in progress	15,822	15,688
A. Stocks	11,669	11,305
1. Raw materials and consumables	11,669	11,305
2. Work in progress	0	0
3. Finished goods	0	0
4. Goods purchased for resale	0	0
5. Immovable property acquired or constructed for resale	0	0
6. Advance payments	0	0
B. Contracts in progress	4,153	4,383
VIII. Amounts receivable within one year	153,067	129,553
A. Trade debtors	124,691	101,171
B. Other amounts receivable	28,376	28,382
IX. Investments	55,614	44,900
A. Own shares	0	0
B. Other investments and deposits	55,614	44,900
X. Cash at bank and in hand	16,235	2,580
XI. Deferred charges and accrued income	61,594	22,919
TOTAL ASSETS	3,721,222	3,560,829

(1) These consolidated financial statements have been approved by the board of directors except for the distribution of dividend, and will be submitted to the general assembly of the shareholders to be held on 11th May, 2004 for their approval

Liabilities		2003	2002
		(€000s)	
Capital and Reserves		1,133,013	1,063,718
I. Capital		1,049,491	1,049,491
A. Issued capital		1,049,491	1,049,491
B. Uncalled capital		0	0
II. Share premium account		0	0
III. Revaluation surpluses		0	0
IV. Consolidation reserves		83,522	14,227
V. Negative consolidation differences		0	0
Vbis. To charge positive consolidation differences		0	0
VI. Translation differences		0	0
VII. Investment grants		0	0
Minority Interests		0	0
VIII. Minority interests		0	0
Provisions, deferred tax and latent taxation liabilities		26,303	57,660
IX. A. Provisions for liabilities and charges		26,303	57,660
1. Pensions and similar obligations		2,351	0
2. Taxation		0	0
3. Major repairs and maintenance		0	0
4. Other liabilities and charges		23,952	57,660
B. Deferred tax and latent taxation liabilities		0	0
Creditors		2,561,905	2,439,451
X. Amounts payable after one year		989,596	1,348,207
A. Financial debts		989,596	1,348,207
1. Subordinated loans		99,157	111,552
2. Unsubordinated debentures		0	0
3. Leasing and other similar obligations		0	0
4. Credit institutions		0	0
5. Other loans		890,439	1,236,655
B. Trade debts		0	0
1. Suppliers		0	0
2. Bills of exchange payable		0	0
C. Advance received on contracts in progress		0	0
D. Other amounts payable		0	0
XI. Amounts payable within one year		1,413,718	1,085,985
A. Current portion of amounts payable after one year		358,611	13,862
B. Financial debts		902,654	902,654
1. Credit institutions		902,654	902,654
2. Other loans		0	0
C. Trade debts		80,984	78,554
1. Suppliers		80,984	78,554
2. Bills of exchange payable		0	0
D. Advances received on contracts in progress		2,156	769
E. Amounts payable regarding taxes, remuneration and social security		24,077	36,140
1. Taxes		9,039	19,170
2. Remuneration and social security		15,038	16,970
F. Other amounts payable		45,236	54,006
XII. Accrued charges and deferred income		158,591	5,259
Total Liabilities		3,721,222	3,560,829

Consolidated Profit and Loss Account

	2003	2002
	(€000s)	
I. Operating income	710,121	696,053
A. Turnover	693,098	668,894
B. Increase (+) (decrease) (–) in stocks of finished goods, work and contracts in progress	(230)	(1,266)
C. Fixed assets - own construction.....	5,166	5,322
D. Other operating income	12,088	23,103
II. Operating charges (-)	(496,501)	(508,832)
A. Raw material, consumables and goods for resale	(5,908)	(3,562)
1. Purchases	(5,939)	(5,086)
2. Increase (+) (decrease) (–) in stocks	31	1,524
B. Services and other goods	(291,944)	(234,113)
C. Remuneration, social security costs and pensions	(110,328)	(114,070)
D. Depreciation of and other amounts written off formation expenses, intangible and tangible fixed assets	(67,850)	(94,686)
E. Increase (+), decrease (-) in amounts written of stocks, contracts in progress and trade debtors	1,579	(1,941)
F. Increase (+), decrease (-) in provisions for liabilities and charges	2,199	(36,273)
G. Other operating charges.....	(24,249)	(24,187)
H. Operating charges capitalised as reorganisation costs (–)	0	0
I. Amounts written down on positive consolidation differences	0	0
III. Operating profit (loss) (or operating loss)	213,621	187,221
IV. Financial income	2,368	2,449
A. Income from financial fixed assets	0	0
B. Income from current assets	2,357	2,440
C. Other financial income	10	9
V. Financial charges	(77,799)	(85,422)
A. Interests and other debt charges	(76,774)	(85,000)
B. Amounts written on positive consolidation differences.....	0	0
C. Increase (+) (decrease) (–) in amounts written off current assets other than those mentioned under II.E	0	0
D. Other financial charges	(1,024)	(422)
VI. Profit (or Loss) on ordinary activities before taxation	138,190	104,248
VII. Extraordinary income	26,516	0
VIII. Extraordinary charges	2,641	2,753
D. Provisions for extraordinary liabilities and charges (increase) (+), (decrease) (–)	2,641	2,753
IX. Profit (or Loss) for the financial period before taxation	167,347	107,001
XI. Income taxes		
A. Income taxes	(61,052)	(43,463)
B. Adjustment of income taxes and write-back of tax provisions	(61,197)	(43,463)
	145	0
XII. Profit (Loss) for the financial period	106,295	63,538

	2003	2002
	(€000s)	
XIII. Share in the result of the companies accounted for using the equity method	0	0
XIV. Consolidated profit (loss)	106,295	63,538
A. Share of third parties	0	0
B. Share of the group	106,295	63,538

Consolidated Cash Flow Statement

	2003	2002
	(€000s)	
Consolidated profit	106,295	63,538
Depreciation and other amounts written off of fixed assets.....	67,850	94,686
Variation in provisions for liabilities and charges	(31,356)	57,660
Cash flow from consolidated profit	142,789	215,884
Changes in		
Stocks and contracts in progress.....	(134)	(15,688)
Trade debtors < 1 year.....	(23,514)	(129,553)
Deferred charges and accrued income	(38,675)	(22,919)
Suppliers	2,430	78,554
Advances received on contracts in progress.....	1,387	769
Amounts payable regarding taxes, remuneration and social security	(12,063)	36,140
Other debts	(8,770)	103,317
Accrued charges and deferred income	153,332	5,259
Change in net working capital	86,305	(42,743)
Total cash flow from commercial activity	229,094	173,141
New investments in (in)tangible assets	(150,710)	(3,453,935)
New investments in financial assets	(3,727)	(2,538)
Disposal of (in)tangible assets	12,885	16,598
Disposal of financial assets	0	0
Total cash flow from investments	(141,553)	(3,439,875)
(+) or (-) Change in capital.....	0	1,049,491
(-) Dividends paid.....	(49,311)	0
(-) Reimbursements of loans	(13,862)	0
(+) New Loans	0	2,264,723
Total cash flow from financial means	(63,173)	3,314,214
Cash flow variation	24,368	47,480

Notes on the consolidated annual accounts

Note 1

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 of percentage of capital held (as compared to the previous period)
Elia Asset SA/NV	Boulevard de l'Empereur 20 B-1000 Brussels	BE-475.028.202	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 of 30th January, 2001 implementing the Companies Code)

Note 2

List of the subsidiary companies exclusively or jointly controlled not included and associated enterprises accounted for using the equity method

Name	Office	V.A.T. number	Method used	Proportion of capital held (in %)	Change of percentage of capital held (as compared to the previous period)
H.G.R.T.	Rue Henri Régnault 34-40 F-92068 Paris La Défense Cedex 08	— -	A	25%	0%
Bel Engineering SA/NV	Arianelaan 5 B-1200 Brussels	BE-471.869.861	E	100%	100%

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.

E. Associated company whose inclusion is not material for the purpose of providing a true and fair view.

Note 3

Consolidation criteria and changes in the consolidation scope

- A. The consolidation scope includes all subsidiaries effectively controlled by Elia System Operator, either because it holds more than 50 per cent. of the voting rights at the general assembly, or because it is entitled to appoint more than half of the directors.

Were excluded from the scope of consolidation:

- companies in which Elia System Operator holds more than 20 per cent. 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 per cent. of the capital, but who were only acquired on 31st December and which were not controlled by Elia System Operator during the accounting period.

B. The consolidation scope of 2003 has not changed in comparison with 2002.

Note 4

Summary of valuation rules and methods of calculating of deferred taxes

A. 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 following on 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 Asset 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 principles, tangible assets whose use is not limited in time are subject to being written down in the event of a write-down or long-term depreciation.

As a result, the consolidation difference allocated to the assets side is not written off. At each year-end, the intangible nature of this asset is re-assessed in the light of the economic, regulatory and technological environment in which the company is changing. If the circumstances prevailing at the time of booking have changed, then write-downs are 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 30th 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 1st January, 2003. The new depreciation rates applied are the following:

	2003	2002
– industrial buildings and civil engineering	2.70%	4.00%
– administrative buildings.....	3.00%	3.00%
– installations and machinery.....	2.70%	5.00%
– 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.....	20.00%	20.00%

- Financial assets

Stocks, shares and other participating interests

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.

Receivables recorded as financial assets

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

Raw materials and goods

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.

Orders in progress

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 are 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.

On the assets side

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 parts of revenues of which the collection will take place during one or more following accounting years, but that have to be charged in the accounting year concerned, are valued for the proportion that relates to the accounting year concerned.

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.

Note 5

Statement of tangible fixed assets (heading 22 to 24 of the assets) (continued)

	1. Land and buildings	2. Plant, machinery and equipment	3. Furniture and vehicles
		(€000s)	
a) Acquisition Cost			
As at the end of the preceding period	75,962	4,691,857	164,952
Movements during the period			
– Acquisitions, incl. fixed assets, own construction	1,886	0	1,453
– Sales and disposals (-)	(399)	(26,233)	(613)
– Transfers from one heading to another (+) (-) ..	9,201	134,436	0
– Translation differences (+) (-)	0	0	0
– Other movements	0	0	0
At the end of the period	86,651	4,800,060	165,792
b) Revaluation Surpluses			
As at the end of the preceding period	18	158	0
– Recorded	0	0	0
– Acquisitions from third parties	0	0	0
– Reversals (-)	0	0	0
– Transfers from one heading to another (-) (+) ..	0	0	0
– Translation differences (+) (-)	0	0	0
– Other movements	0	0	0
At the end of the period	18	158	0
c) Depreciation and amounts written down			
As at the end of the preceding period	13,251	1,728,966	158,108
Movements during the period			
- Recorded	981	64,078	2,354
- Written back as superfluous	0	0	0
- Acquisitions from third parties	121	0	0
- Written down after sales and disposals (-)	(73)	(12,981)	(605)
- Transfers from one heading to another (+) (-) ..	483	5,238	0
- Translation differences (+) (-)	0	0	0
- Other movements	0	0	0
At the end of the period	14,763	1,785,301	159,857
d) Net carrying value at the end of the period (a) + (b) - (c)	71,905	3,014,917	5,935

Note 5 continued

Statement of tangible fixed assets (heading 25 to 27 of the assets)

	4. Leasing and other similar rights	5. Other tangible assets	6. Assets under construction and advance payments
	(€000s)		
a) Acquisition Cost.....			
As at the end of the preceding period	2,926	3,102	316,224
Movements during the period			
- Acquisitions, incl. fixed assets, own construction	0	0	148,194
- Sales and disposals (-)	0	0	0
- Transfers from one heading to another (+) (-) ..	0	0	(143,637)
- Translation differences (+) (-)	0	0	0
- Other movements	0	0	0
At the end of the period	2,926	3,102	320,781
b) Revaluation surpluses			
As at the end of the preceding period	0	0	0
Movements during the period			
- Recorded	0	0	0
- Acquisitions from third parties	0	0	0
- Reversals (-)	0	0	0
- Transfers from one heading to another (-) (+) ..	0	0	0
- Translation differences (+) (-)	0	0	0
- Other movements	0	0	0
At the end of the period	0	0	0
c) Depreciation and amounts written down			
As at the end of the preceding period	2,692	955	8,576
Movements during the period			
- Recorded	118	319	0
- Written back as superfluous	0	0	0
- Acquisitions from third parties	0	0	0
- Written down after sales and disposals (-)	0	0	0
- Transfers from one heading to another (+) (-) ..	0	0	(5,721)
- Translation differences (+) (-)	0	0	0
- Other movements	0	0	0
At the end of the period	2,810	1,274	2,856
d) Net carrying value at the end of the period (a) + (b) - (c)	116	1,828	317,925
Of which: – Land and buildings	0		
– Plant, machinery and equipment	116		
– Furniture and vehicles	0		

Note 6

Statement of financial fixed assets (heading 28 of assets)

	1. Enterprises accounted for using the equity method	2. Other enterprises
	(€000s)	
1 Participating interests		
a) Acquisition cost		
As at the end of the preceding period	5,000	466
Movements during the period		
– Acquisitions	0	7,452
– Sales and disposals (-)	0	0
– Transfers from one heading to another (+) (-)	0	0
– Translation differences (+) (-)	0	0
At the end of the period	5,000	7,918
b) Revaluation surpluses		
As at the end of the preceding period	0	0
Movements during the period		
– Recorded	0	0
– Acquisitions from third parties	0	0
– Reversals (-)	0	0
– Translation differences (+) (-)	0	0
– Translations from one heading to another (-) (+)	0	0
At the end of the period	0	0
c) Amounts written down		
As at the end of the preceding period	0	0
Movements during the period		
– Recorded	0	0
– Written back as superfluous (-)	0	0
– Acquisitions from third parties	0	0
– Written down after sales and disposals (-)	0	0
– Translation differences (+) (-)	0	0
– Transfers from one heading to another (+) (-)	0	0
At the end of the period	0	0
d) Uncalled amounts		
As at the end of the preceding period	3,000	0
Movements during the period (+) (-)	0	3,726
At the end of the period	3,000	3,726
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	0	0
– Elimination of dividends regarding those participating interests	0	0
– Other movements in the capital and reserves	0	0
Net carrying value at the end of the period		
(a) + (b) - (c) - (d) +/- (e)	2,000	4,192

Note 6 continued

Statement of financial fixed assets (heading 28 of assets)

	1. Enterprises accounted for using the equity method	2. Other enterprises
	(€000s)	
2 Amounts receivable		
Net carrying value at the end of the period	0	72
Movements during the period		
– Additions.....	0	3
– Reimbursements (-)	0	(2)
– Amounts written down (-)	0	0
– Amounts written back.....	0	0
– Translation differences (+) (-)	0	0
– Other (+) (-)	0	0
Net carrying value at the end of the period	0	73
Accumulated amounts written down at the end of the period.....	0	0

Note 7

Statement of consolidated reserves (heading 9910 of liabilities)

	Amounts
	(€000s)
Consolidated reserves at the end of the previous financial period (+) (-)	14,227
Movements during the period:	
– Shares of the group in de consolidated income (+) (-)	106,295
– Other movements (+) (-) Interim dividend of ESO company.....	(37,000)
Consolidated reserves at the end of the financial period (+) (-)	83,522

Note 8

Statement of the amounts payable (heading 17 and 42/48 of the liabilities)

a. Analysis of the amounts originally payable after one year according to their residual term

	Amounts payable with a residual term of		
	1. Not more than 1 year	2. Between 1 and 5 years	3. Over 5 years
		€000s	
Financial debts	358,611	55,718	933,878
1 Subordinated loans	12,395	49,579	49,579
2 Unsubordinated debentures	0	0	0
3 Leasing and other similar obligations	0	0	0
4 Credit institutions	0	0	0
5 Other loans	346,217	6,140	884,299
Trade debts	0	0	0
1 Suppliers	0	0	0
2 Bills of exchange payable	0	0	0
Advances received on contracts in progress	0	0	0
Other amounts payable	0	0	0
TOTAL	358,611	55,718	933,878

Note 9**Result**

	Period	Preceding period
	(€000s)	
A. Net Turnover.....	693,098	668,894
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	1,113	1,105
Workers	0	0
Employees	1,105	1,095
Management personnel	8	10
Other persons	0	0
B. 12. Personnel charges		
Remunerations and social charges	100,934	104,253
Pensions	9,394	9,817
B. 13. Average number of persons employed in Belgium by the enterprises concerned	1,113	1,105
C. EXTRAORDINARY RESULTS		
C1. Analysis of the Other Extraordinary Income, if it involves significant amounts	0	0
C2. Analysis of the Other Extraordinary Costs, if it involves significant amounts	0	(2,753)
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.....	0	0
D2. Effect of extraordinary results on the amount of income taxes on the current period	(9,910)	(1,106)

Note 10

Rights and commitments not reflected in the balance sheet

	2003 €000s
A. 1. Amount of personal guarantees, given or irrevocably promised by the enterprises included in the consolidation, as security for third parties' debts or commitments	0
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	0
of third parties.....	0
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	0
4. a) Commitments to acquire fixed assets	81,808
b) Commitments to dispose of fixed assets.....	0
5. a) Rights from transactions	
– to interest rates.....	945,787
– to exchange rates.....	0
– to prices of raw materials or goods purchased for resale ..	0
– to other similar transactions	0
b) Commitments from transactions	
– to interest rates.....	0
– to exchange rates.....	0
– to prices of raw materials or goods purchased for resale ..	0
– to other similar transactions	0

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 per cent. 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 booked a provision for the proceedings that could in aggregate have adverse effects on the consolidated accounts

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:

1. By virtue of a collective agreement of 2nd May, 1952, staff enjoy pension supplements under which, as retired persons, they are entitled (following a full career) to overall funds equal to 75 per cent. 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.

2. Pension scheme 'defined benefit plan'

To the operating personnel hired since 1st January, 1993 and all managerial/executive staff hired prior to 1st May, 1999 the same guarantees are granted through a pension scheme 'defined benefit plan', 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, by 1997, more than 90% of operating staff were involved in this pension scheme.

3. Pension scheme 'defined contribution plan'

Managerial and executive staff hired after 1st May, 1999 and operating staff hired after 1st January, 2002 enjoy a pension scheme called 'defined contribution plan' which is funded with 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 the insurance company 'Contassur'. All of them act as the pension fund for the Electricity and Gas Sector. From the same perspective, a group insurance policy has been subscribed for the managerial staff.

Note 11

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	
	2003	2002	€000s 2003	2002
1 Financial Fixed Assets				
Participating interests and shares	0	0	4,192	466
2 Amounts Receivable	0	0	0	0
After one year	0	0	0	0
Within one year	0	0	0	0
3 Current Investments	0	0		
Shares	0	0		
Amounts receivable	0	0		
4 Amounts Payable	0	0	0	
After one year	0	0	0	
Within one year	0	0	0	

Note 12

Financial relationships with directors or managers of the consolidation enterprise

	2003 €000s
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.....	393
B. Total amount of advances and credits granted by the consolidating enterprise, by a subsidiary company or by an associated company.....	0

Note 13

Additional specific information

A. Fixed assets

Tangible assets include:

	2003 in € million	2002
High-voltage substations and transformers	910.0	861.8
Lines and cables	682.3	660.6
Land on which substations, lines and cable are located	46.6	45.6
Facilities used for network operation	38.1	37.9
Administrative buildings, furnishings and vehicles.....	35.6	36.6
Positive consolidation difference allocated to tangible fixed assets ¹	1,700.0	1,700.0
Total Fixed Assets	3,412.6	3,342.6

In 2003 new investments of €150.7 million were made. For more information on major projects, please refer to the Activity Report (chapter Infrastructure set out in the Annual Report of Elia System Operator SA/NV (Elia System Operator)).

In 2002 Elia System Operator took a stake in Elia Asset, the owner of the transmission system, for €3,304.1 million. This is the economic value of Elia Asset's transmission system that is booked to tangible fixed assets in the consolidated accounts.

The positive consolidation difference (as shown in the above table) is the result of the difference between the economic value and the historical book value of the transmission system. The economic value is derived from the regulated value of the electricity grid (RAB), of which Elia Asset is the owner. In accordance with the rules established by the regulator for tariff purposes, the RAB evolves annually as follows:

$$RAB_{t+1} = RAB_t + \text{investments}_{t+1} - \text{disinvestments}_{t+1} - \text{depreciation}_{t+1} +/\text{-- variation in net working capital requirement.}$$

Only the book depreciation - not the depreciation on its regulated value - is deducted from RAB_t . As a result of this regulated framework, the positive consolidation difference is permanent and not limited in time. The positive consolidation difference is not written off, but, in accordance with Belgian accounting standards², is re-assessed at each year-end in light of the economic, regulatory and technological environment to determine whether or not a write-down should be booked³.

(1) Royal Decree of 30 January 2001, Article 140, section 1.

(2) Royal Decree of 30 January 2001, Article 125, para. lid, and Article 64 section 2.

(3) If the positive consolidation difference were written down, then the additional depreciation would amount to €67.4 million and the consolidated profit would be reduced to €38.9 million.

IAS Rule 36, which describes the “impairment test”, has been used as a benchmark to define the valuation method. Under this rule, the recovery value of the transmission system is determined annually. The recovery value is the highest value of the sale value or the utility value of the system. The sale value is determined by using the “multiples” method (the average of various multiples). However, the value of the utility of the system is calculated by applying the discounted cash flow method to the continuous use of the system. The test carried out on 31 December 2003, in accordance with these principles, showed that no write-down needed to be booked.

The company is also currently working to reconcile the book-value inventory with the physical inventory of the fixed assets. These activities – begun in 2002 – will be completed by 30 June 2004.

B. Provisions

In 2002 a provision of €35.4 million was created for future expenditure on improving the control of loop flows in the system. This provision (see Annual Report 2002, p. 13) was based on the income from the auction of transmission capacity on the border with the Netherlands. In December 2003, however, CREG decided that revenue from auctions earned from September 2002 must be deducted from the 2004 tariffs. Pursuant to this decision, and without prejudice to Elia System Operator’s right to lodge and appeal against this decision with the State Council, the provision reported here was written back in full. A portion (€8.9 million) will be written back via the normal operating charges, and is linked to the portion for 2002 that will be deducted from the 2004 tariffs. The balance (€26.5 million) concerns the first three quarters of 2002 and will be written back via the exceptional income.

C. Accrued charges and deferred income

Accrued charges and deferred income (€158.6 million) were up by €153.3 million. This difference can be attributed largely to the settlement mechanism as described in Article 24 of the Royal Decree of 4 April 2001 on the tariff structure. This significant difference (€133.3 million) between the real 2003 figures and the budget submitted to the CREG in preparation for the 2003 tariffs should benefit future tariffs in part and Elia System Operator in part. The size of the difference should be viewed in the light of the first fully regulated year. In the future, the difference could be reduced since, when preparing its budget for use in setting tariffs, the system operator can learn from its experience regarding the behaviour of various market players. Since the CREG and Elia System Operator will decide on where to allocate this difference in the first half of 2004 (see also under “Key events occurring after year-end”), the difference was booked in full to accrued charges and deferred income in accordance with the precautionary principle.

D. Appropriation of 2003 results of Elia System Operator

As of the date of the Offering Circular, the board of directors of Elia System Operator has not yet formally decided on the appropriation of the 2003 result. This issue is therefore also taken up in the consolidated financial statements as per 31 December 2003 as the consolidated reserves are currently overstated by the amount of the result which distribution will be decided by the shareholders general assembly to be held on 11th May 2004.

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