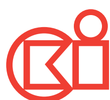
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Cheung Kong Infrastructure Holdings Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

POSSIBLE MAJOR TRANSACTION
POSSIBLE FORMATION OF A JOINT VENTURE AND
POSSIBLE PROVISION OF FINANCIAL ASSISTANCE

24th August, 2010

CONTENTS

Pages

Definitions 1

Letter from the Board 6

Introduction 6

Major terms of the possible JV Transaction 7

Banking facilities relating to the JV Transaction 12

Major terms of the Offer and the possible Acquisition 13

Information on the Vendors and the Target Companies 17

Information on the Group 18

Information on the HEH Group 18

Information on the Foundation 18

Reasons for and benefits of the possible Transactions to the Group 19

Financial and trading prospect of the Group 19

Effect of the Transactions on the earnings and assets and liabilities of the Company 20

Waiver from strict compliance with Rule 4.03 of the Listing Rules 20

General 21

Appendix I – Financial information of the Group 22

Appendix II – Accountants' report on the Target Group 24

Appendix III – Management discussion and analysis on the Target Group 99

Appendix IV – Unaudited pro forma financial information of the Enlarged Group following the possible JV Transaction 118

Appendix V – General information 123

In this circular, unless otherwise defined or the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the proposed acquisition of the Target Companies by the Bidco from the Vendors pursuant to the Offer and all transactions contemplated thereunder
"Acquisition Agreement"	the sale and purchase agreement to be entered into between the Vendors, the Bidco and the Guarantors in relation to the Acquisition, if the Offer is accepted by the Vendors, major terms of which are summarised in the section headed "Major terms of the Offer and the possible Acquisition" in this circular
"Acquisition Completion"	the Acquisition Agreement and any documents to be entered into pursuant to the Acquisition Agreement being executed by the parties to them and becoming unconditional in all respects other than the payment of any consideration
"Associated Corporation"	has the meaning ascribed to such term under Part XV of the SFO
"Bidco"	Eclipse First Network Limited, being a company incorporated under the laws of England and Wales
"Bidco Group"	the Bidco and any company which is a holding company or subsidiary of the Bidco and any subsidiary of any such holding company
"Bidco Shareholders"	the shareholders of the Bidco from time to time
"Bidco Shares"	shares of whatever class in the capital of the Bidco in issue from time to time
"Board"	the board of Directors
"business day"	a day (not being a Saturday) on which banks are open for general banking business in the City of London and Paris
"CKI Subsidiaries"	certain wholly-owned subsidiaries of CKI, and each of them a "CKI Subsidiary"
"Company"	Cheung Kong Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1038)

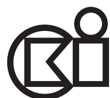
"Competition Break Fee"	the amount of £50,000,000 (approximately HK$604,950,000) payable to EDF if the Acquisition Agreement is terminated due to the Competition Condition not having been satisfied (or waived) by the Longstop Date
"Competition Condition"	the condition described in item (d) in the paragraph "Conditions precedent" under the section headed "Major terms of the Offer and the possible Acquisition" in this circular
"Completion Security Letter of Credit"	the letter of credit in respect of the completion security issued by a certain bank at the request of the Bidco in favour of the Vendors
"connected person"	has the meaning ascribed to such term in the Listing Rules
"Directors"	the directors of the Company
"EDF"	EDF Energy plc, being a company incorporated under the laws of England and Wales
"Equity Consideration"	the proposed consideration for the acquisition of the Target Companies offered by the Bidco in the Offer as further described in the paragraph "Consideration" under the section headed "Major terms of the Offer and the possible Acquisition" in this circular
"Finance Documents"	loan and security documents relating to the banking facilities described in the section headed "Banking facilities relating to the JV Transaction" in this circular
"Foundation"	LKSFL and LKSOF
"Foundation Companies"	certain companies which are directly or indirectly owned as to 70% by LKSFL and 30% by LKSOF, and each of them a "Foundation Company"
"GBP" or "£"	Pound Sterling, the lawful currency of the United Kingdom
"Group"	the Company and its subsidiaries
"Guarantors"	the Company, HEH and the Foundation, and each of them a "Guarantor"
"HEH"	Hongkong Electric Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6)

"HEH Group"	HEH and its subsidiaries
"HEH Subsidiaries"	certain wholly-owned subsidiaries of HEH, and each of them a "HEH Subsidiary"
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HWL"	Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 13)
"JV Transaction"	the proposed entering into of the Shareholders' Agreement by the Guarantors, the CKI Subsidiaries, the HEH Subsidiaries and the Foundation Companies in relation to the Bidco and all transactions contemplated thereunder
"Latest Practicable Date"	19th August, 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"LKSFL"	Li Ka Shing Foundation Limited, a company limited by guarantee and incorporated in Hong Kong
"LKSOF"	Li Ka Shing (Overseas) Foundation, a company limited by guarantee and incorporated in the Cayman Islands
"Longstop Date"	22nd January, 2011 (UK time), being the date falling on the 180th days after 26th July, 2010 (UK time) (or such later date as the parties to the Acquisition Agreement may agree)
"Non-Reg Holdco"	Eclipse Non-Regulated Limited, being a company incorporated under the laws of England and Wales and a wholly-owned subsidiary of the Bidco
"Offer"	a formal offer to acquire the Target Companies contained in an irrevocable offer letter dated 29th July, 2010 delivered to the Vendors by the Guarantors and the Bidco
"Ofgem"	the Gas and Electricity Markets Authority or, as the case may be, the Office of Gas and Electricity Markets (or any successor to either of them)

"OFT"	the United Kingdom Office of Fair Trading or such replacement entity from time to time
"percentage ratios"	shall have the meaning ascribed to such term in Chapter 14 of the Listing Rules
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$1 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"Shareholder Approval Break Fee"	the amount of £100,000,000 (approximately HK$1,209,900,000) payable to EDF by the relevant Guarantor(s) if the Acquisition Agreement is terminated due to one or both of the Shareholder Approval Conditions not having been satisfied (or waived) by the Longstop Date
"Shareholder Approval Conditions"	the conditions described in items (b) and (c) in the paragraph "Conditions precedent" under the section headed "Major terms of the Offer and the possible Acquisition" in this circular
"Shareholders' Agreement"	the shareholders' agreement proposed to be entered into by the Guarantors, the CKI Subsidiaries, the HEH Subsidiaries and the Foundation Companies, which will set out their capital contribution to, shareholding in and other rights and obligations in respect of the Bidco
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed to such term in the Listing Rules
"Target Companies"	EDF Energy Networks (LPN) plc, EDF Energy Networks (EPN) plc, EDF Energy (Transport Services) Limited, EDF Energy Networks Limited, EDF Energy (Services) Limited, EDF Energy (Enterprises) Limited, EDF Energy Networks (SPN) plc and EDF Energy (South East) plc, being a group of companies engaging in the business of electricity distribution in the United Kingdom, and each of the Target Companies being a "Target Company"
"Target Companies Shares"	the entire issued share capital of the Target Companies
"Target Group"	the Target Companies and their respective subsidiaries

"Transactions"	the JV Transaction and the provision of guarantee under the Acquisition Agreement
"UK"	the United Kingdom
"Vendors"	EDF and CSW Investments, both being independent third parties
"%"	per cent

Note: The figures in GBP are converted into HK$ at the rate of £1.00 : HK$12.099 as at 19th August, 2010 throughout this circular for indicative purpose only.



CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1038)

Directors

Executive Directors

LI Tzar Kuoi, Victor *(Chairman)*

FOK Kin Ning, Canning
(Deputy Chairman)
CHOW WOO Mo Fong, Susan*
Frank John SIXT
TSO Kai Sum

KAM Hing Lam
(Group Managing Director)
IP Tak Chuen, Edmond
(Deputy Chairman)
Andrew John HUNTER
(Deputy Managing Director)

* *also alternate to FOK Kin Ning, Canning and Frank John SIXT*

Independent Non-executive Directors
CHEONG Ying Chew, Henry
KWOK Eva Lee
SNG Sow-mei alias POON Sow Mei
Colin Stevens RUSSEL
LAN Hong Tsung, David

Alternate Directors
MAN Ka Keung, Simon
(alternate to IP Tak Chuen, Edmond)
Eirene YEUNG
(alternate to KAM Hing Lam)

Non-executive Directors
LEE Pui Ling, Angelina
Barrie COOK
George Colin MAGNUS

Company Secretary
Eirene YEUNG

Registered Office
Clarendon House
Church Street
Hamilton HM11
Bermuda

Principal Place of Business
12th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

24th August, 2010

Dear Shareholder(s),

POSSIBLE MAJOR TRANSACTION
POSSIBLE FORMATION OF A JOINT VENTURE AND
POSSIBLE PROVISION OF FINANCIAL ASSISTANCE

INTRODUCTION

The Company refers to the joint announcement issued by the Company and HEH dated 30th July, 2010 pursuant to Rule 13.09 of the Listing Rules and the joint announcement issued by the Company, HWL and HEH dated 23rd August, 2010, both in relation to, among other things, the Transactions. As stated in the joint announcements, the Bidco and the Guarantors as guarantors to the Bidco have participated in the bidding process in relation to the proposed acquisition of the Target Companies and on 29th July, 2010 (UK time) / 30th July, 2010 (Hong Kong time) delivered to the Vendors the Offer together with other transaction documents. The Offer is subject to

acceptance by the Vendors on or before 24th October, 2010 (UK time). The Vendors have advised that their decision regarding acceptance of the Offer will depend on, among other things, the completion of their consultation with the European Works Council.

If the Offer is accepted by the Vendors, (i) completion of the Acquisition will be conditional upon fulfilment of certain conditions as set out below in the paragraph "Conditions precedent" under the section headed "Major terms of the Offer and the possible Acquisition"; and (ii) the Guarantors, the CKI Subsidiaries, the HEH Subsidiaries and the Foundation Companies propose to enter into the JV Transaction for the purposes of, among other things, subscribing for the Bidco Shares and providing financial assistance to the Bidco in respect of the Acquisition.

The purpose of this circular is to provide you with further information on the possible Transactions.

MAJOR TERMS OF THE POSSIBLE JV TRANSACTION

If the Offer is accepted by the Vendors, the Guarantors, the CKI Subsidiaries, the HEH Subsidiaries and the Foundation Companies propose to enter into the Shareholders' Agreement for the possible JV Transaction. The Shareholders' Agreement contemplates the major terms of the possible JV Transaction to comprise the following:

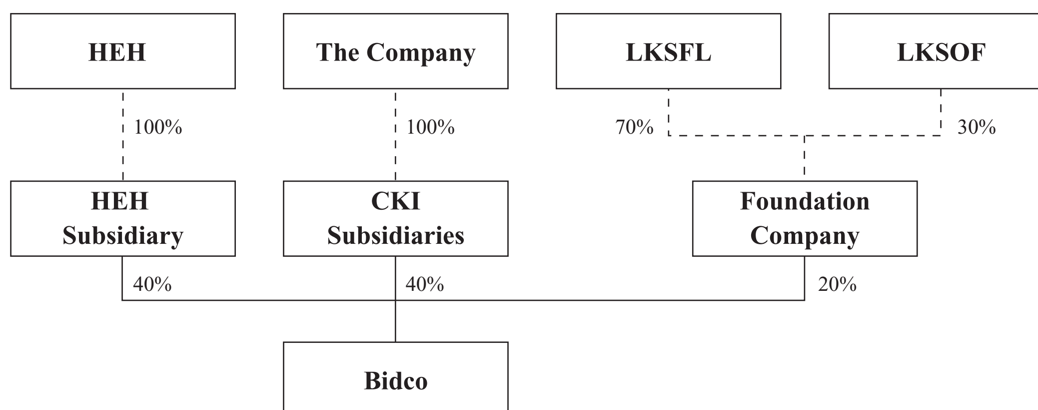
Funding

The aggregate amount of funding for the possible JV Transaction will be funded by the banking facilities (details of which are set out in the section headed "Banking facilities relating to the JV Transaction") and by the CKI Subsidiaries, the HEH Subsidiaries and the Foundation Companies through a combination of equity and shareholders' loans on a 40:40:20 basis. It is contemplated that the cash to be funded by the Company will be financed partly by internal resources and partly from bank borrowings.

Shareholding

Certain CKI Subsidiaries, a HEH Subsidiary and a Foundation Company will subscribe for certain ordinary and preference shares in the capital of the Bidco, and their respective proportions of the total issued share capital in the Bidco will be 40%, 40% and 20% respectively. Based on the Equity Consideration, the estimated costs and expenses associated with the possible Transactions and the working capital requirements of Bidco, the aggregate subscription price to be paid by the CKI Subsidiaries will be up to approximately £711,200,000 (approximately HK$8,604,808,800).

A simplified shareholding structure of the Bidco upon completion of the possible JV Transaction is as follows:



Subject to the completion of the possible JV Transaction, the Bidco will be accounted for as an associate company of the Company in the consolidated financial statements of the Company.

Shareholders' loans

A CKI Subsidiary, a HEH Subsidiary and a Foundation Company will advance shareholders' loans to the Bidco and the Non-Reg Holdco on a 40:40:20 basis. As the Bidco and the Non-Reg Holdco are expected to draw on the banking facilities (details of which are set out in the section headed "Banking facilities relating to the JV Transaction" below) as to approximately £665,000,000 (approximately HK$8,045,835,000) for partial financing of the Equity Consideration, it is expected that the aggregate amount of shareholders' loans to be advanced by the CKI Subsidiary to the Bidco and the Non-Reg Holdco will be approximately £350,000,000 (approximately HK$4,234,650,000) based on the Equity Consideration, the estimated costs and expenses associated with the possible Transactions and the working capital requirements of the Bidco. In such case, the Group's aggregate funding (through equity and shareholders' loan) for the possible JV Transaction will amount to approximately £1,061,200,000 (approximately HK$12,839,458,800).

However, should the banking facilities not have been drawn to such extent or at all, the aggregate amount of such shareholders' loans will be increased to make up any shortfall, provided that the maximum aggregate amount of shareholders' loans shall not exceed approximately £616,000,000 (approximately HK$7,452,984,000).

Board composition

Each of the Company, HEH and LKSFL will be entitled to appoint one director of the Bidco (and the Non-Reg Holdco) in respect of each complete 20% of the ordinary shares in the capital of the Bidco which it, directly or indirectly, owns. Accordingly, the Bidco shall have five directors, and the Company, HEH and LKSFL will be entitled to nominate two directors, two directors and one director respectively.

The quorum for the transaction of business at any board meeting of the Bidco shall be at least one director appointed by each of the Company, HEH and LKSFL.

Share rights

Profits available for distribution will be distributed to the CKI Subsidiaries, the HEH Subsidiary and the Foundation Company effectively on a 40:40:20 basis. Return of capital on the passing of a resolution for the winding-up of the Bidco will also be made amongst the CKI Subsidiaries, the HEH Subsidiary and the Foundation Company effectively on a 40:40:20 basis.

The ordinary shares and preference shares in the capital of the Bidco for which the CKI Subsidiaries, the HEH Subsidiary, and the Foundation Company will subscribe have different voting rights. However, it is provided for in the Shareholders' Agreement that neither the Bidco nor any of its subsidiaries may transact any of the following business without the prior written consent of each of the Company, HEH and LKSFL:

(i) the amendment of its articles of association (other than the adoption by the Bidco of the articles of association pursuant to the passing of resolutions contemplated under the JV Transaction);

(ii) the creation or issue of any Bidco Shares (other than the shares in issue at the date of the shareholders' agreement contemplated under the JV Transaction or the Bidco Shares which are to be allotted and issued pursuant to the JV Transaction) or the grant of any option over the Bidco Shares (except to the extent necessary to avoid or cure an event of default under the terms of any banking facilities of the Bidco or any of its subsidiaries and in such case any Bidco Shares to be issued shall first be offered to the Bidco Shareholders on identical terms pro rata to their respective relative percentage holding of ordinary shares in the Bidco, with any shares not taken up being offered round to accepting the Bidco Shareholders pro rata to their respective relative percentage holding of ordinary shares in the Bidco before being offered to persons who are not the Bidco Shareholders);

(iii) the capitalisation, repayment or other form of distribution of any amount standing to the credit of any reserve or the redemption of any Bidco Shares or any other reorganisation of its share capital;

(iv) the making of any petition or passing of any resolution for winding-up or liquidation or the making of an application for an administration order;

(v) pending Acquisition Completion, the exercise by the Bidco and/or the Non-Reg Holdco of any rights under the Acquisition Agreement and/or the Finance Documents;

(vi) pending Acquisition Completion, the waiver of any rights by the Bidco and/or the Non-Reg Holdco under the Acquisition Agreement and/or the Finance Documents; and

(vii) pending Acquisition Completion, the amendment of the Acquisition Agreement and any documents to be entered into pursuant to the Acquisition Agreement to which the Bidco or the Non-Reg Holdco is a party and/or the Finance Documents.

Consequently, all decisions on these matters will require the unanimous consent of the Company, HEH and LKSFL. Moreover, the Shareholders' Agreement further provides that neither the Bidco nor any of its subsidiaries may transact any of the following business unless the approval of the board of directors of the Bidco has been obtained with at least 80% of the votes cast on a poll taken at a board meeting of the Bidco (and therefore, effectively, the transacting of these matters will require both Company's and HEH's approval):

(i) the making of any consensual amendment to any licence held by the Target Group (other than any change which is considered by Ofgem to be routine);

(ii) the Bidco or any of its subsidiaries entering into any legally binding obligation or commitment with Ofgem or making any material submission to Ofgem;

(iii) any change in the nature of the business carried on by the Bidco or any of its subsidiaries including any change resulting from:

(a) any acquisition or investment in another company (other than a wholly-owned subsidiary of the Bidco) or participation in any partnership or joint venture;

(b) amalgamation or merger with any other company or legal entity; or

(c) any expansion or extension of, or amendment to, the core business of the Bidco or any of its subsidiaries;

(iv) any change of auditors;

(v) any change to the accounting reference date;

(vi) save as contemplated by the Finance Documents, the giving of any guarantee or indemnity or any similar assurance;

(vii) any change of dividend policy;

(viii) any change of tax election or grouping (which shall mean a change in the nature of the tax status of the Bidco or any of its subsidiaries in a manner which would have an adverse effect on either the Bidco Shareholders as a group or any individual Bidco Shareholder or the introduction of a new entity into the structure currently comprising the Bidco and its subsidiaries which would have the same effect);

(ix) any purchase by the Bidco of its own shares;

(x) the disposal of intellectual property rights or rights or assets relating to information technology if such disposal is likely to prejudice the operation of the business of the Bidco Group;

(xi) the acquisition of any assets or business which are not related to the operation of the business of the Bidco Group where the assets or business to be acquired have a value in excess of £30,000,000 (approximately HK$362,970,000) or the disposal of any assets or part of the business of the Bidco Group which is likely to prejudice the operation of the business of the Bidco Group;

(xii) the entering into of any contract, whether for the provision of services or for the acquisition or disposal of any assets or otherwise, involving payments by or to the Bidco or any of its subsidiaries or the assumption by the Bidco or any of its subsidiaries of liabilities in excess of £50,000,000 (approximately HK$604,950,000) in aggregate;

(xiii) save as contemplated by the Finance Documents, the Bidco or any of its subsidiaries borrowing money in excess of £50,000,000 (approximately HK$604,950,000) per annum in aggregate (it being acknowledged that any such borrowing may only be made to the extent permitted by banking covenants and required for the ordinary course of the business of the Bidco or as the case may be any of its subsidiaries);

(xiv) save as contemplated by the Finance Documents, the creation of any mortgage, charge, lien or encumbrance on any assets;

(xv) the settlement or compromise of any legal dispute or proceedings involving the payment or receipt of £20,000,000 (approximately HK$241,980,000) or more in aggregate in any one year;

(xvi) the appointment or removal of any chief executive officer, chief financial officer or any other key employee;

(xvii) the adoption of or amendment to an annual business plan;

(xviii) (except for a disposal which is likely to prejudice the operation of the business of the Bidco Group) the disposal of intellectual property rights or rights or assets relating to information technology for consideration exceeding £20,000,000 (approximately HK$241,980,000) in aggregate in any one year; and

(xix) the creation or issue of new shares to the extent necessary to avoid or cure an event of default under the terms of any banking facilities of the Bidco or any of its subsidiaries.

All matters with regard to the Bidco other than these reserved matters shall be decided by a majority of the board of directors of the Bidco, unless otherwise required by law. Decisions in such manner will require approval from directors nominated by any two of the Company, HEH and the Foundation. However, any director of the Bidco can demand voting by poll and in such case a matter shall only be approved by at least 80% of votes cast on the poll. Therefore, effectively, the decision of these matters will also require both the Company's and HEH's approval.

Guarantee

Each of the Company and HEH will guarantee on a several basis and pro-rata to its shareholding in the Bidco certain obligations (including financial contribution obligations) of the CKI Subsidiaries and the HEH Subsidiary respectively, under the possible JV Transaction. LKSFL and LKSOF will guarantee on a several basis 70% and 30% respectively of certain obligations (including financial contribution obligations) of the Foundation Company under the possible JV Transaction.

Conditions precedent

Completion of the obligations of the parties under the Shareholders' Agreement will be conditional on:

(a) the shareholders of HEH who are qualified to vote at the extraordinary general meeting of HEH, approving HEH's performance of its obligations under the Shareholders' Agreement as required under the Listing Rules;

(b) either:

  (i) the Shareholders who are qualified to vote at the special general meeting of the Company, approving the Company's performance of its obligations under the Shareholders' Agreement as required under the Listing Rules; or

  (ii) the approval in writing of the same by a majority of the Shareholders in accordance with Chapter 14 of the Listing Rules being obtained; and

(c) satisfaction of the conditions to completion of the Acquisition (which are set out below in the paragraph "Conditions precedent" under the section headed "Major terms of the Offer and the possible Acquisition".

BANKING FACILITIES RELATING TO THE JV TRANSACTION

If the Offer is accepted by the Vendors, it is expected that Bidco and the Non-Reg Holdco will arrange to obtain banking facilities for aggregate amounts of up to approximately £1,175,000,000 (approximately HK$14,216,325,000), of which approximately £665,000,000 (approximately HK$8,045,835,000) will be used for partial financing of the Equity Consideration and £510,000,000 (approximately HK$6,170,490,000) will be used to finance the general working capital requirements and/or capital expenditure requirements of the Bidco, the Non-Reg Holdco and their subsidiaries after completion of the Acquisition. It is contemplated that as security for the liabilities of the Bidco and the Non-Reg Holdco under the banking facilities, the CKI Subsidiaries will (i) assign to the relevant banks the shareholders' loans advanced by them to the Bidco and the Non-Reg Holdco; and (ii) charge by way of limited recourse security the Bidco Shares owned by them in favour of the relevant banks. The loans under such banking facilities shall be non-recourse to the Group.

MAJOR TERMS OF THE OFFER AND THE POSSIBLE ACQUISITION

The Offer

The Offer is subject to acceptance by the Vendors and the Vendors have advised that their decision regarding acceptance of the Offer will depend on, among other things, the completion of their consultation with the European Works Council. Accordingly, despite having been granted an exclusivity period (as detailed in the paragraph "Exclusivity period" below), there is no certainty that the Bidco will be successful in its bid for the acquisition of the Target Companies and the possible Acquisition may or may not proceed. The Offer remains open for acceptance until the date falling 90 calendar days from 26th July, 2010 (being 24th October, 2010 (UK time)).

Exclusivity period

The Bidco has been granted exclusivity from 26th July, 2010 until 6 months following the Longstop Date during which, the Vendors and their respective group members and their respective employees, directors, representatives and advisers may not, (a) directly or indirectly, solicit, enter into, continue or participate or otherwise engage in any discussions or negotiations; or (b) enter into any agreement or arrangement (whether oral or written), with any interested third party in relation to a possible sale of the Target Companies; or (c) initiate or conduct any consultation process with the European Works Council in respect of the acquisition by a potential acquirer of all or any of the Target Companies, other than by the Bidco and the Guarantors (the "**Exclusivity Obligation**"). If the Exclusivity Obligation is breached, the Vendors shall, within 5 business days on demand in writing by the Bidco to the Vendors, pay to the Bidco an inducement fee which is the greater of (a) an amount equals to the difference in (i) the Equity Consideration; and (ii) the consideration as stated in any other offer received by the Vendors arising out of, in relation to or otherwise in connection with a breach of the Exclusivity Obligation (provided that in the event of a sale of only some of the Target Companies Shares, appropriate adjustments will be made to this calculation); and (b) an amount of £10,000,000 (approximately HK$120,990,000).

If the Vendors deliver to the Bidco and the Guarantors a notice indicating their intention not to proceed with the Acquisition or do not deliver an acceptance notice to the Bidco and the Guarantors by 24th October, 2010, the Vendors will have to reimburse the Bidco the reasonable costs incurred by the Bidco in respect of its bid for the Target Companies Shares up to a maximum of £5,000,000 (approximately HK$60,495,000) plus £250,000 (approximately HK$3,024,750) for each complete 30 calendar days period from the date of the Offer until the earlier of the date of receipt by the Bidco of a notice not to proceed and 24th October, 2010.

The possible Acquisition

If the Offer is accepted by the Vendors, the Vendors as vendors, the Bidco as purchaser, and the Guarantors as guarantors will enter into the Acquisition Agreement pursuant to which the Vendors will agree to sell and the Bidco will agree to acquire the Target Companies Shares upon the terms and conditions of the Acquisition Agreement.

Consideration

The total consideration for the Offer, comprising the Equity Consideration plus assumed debt, is £5,775,000,000 (approximately HK$69,871,725,000). The Equity Consideration for the Target Companies Shares is £3,180,000,000 (approximately HK$38,474,820,000).

If the Offer is accepted by the Vendors and the Acquisition proceeds, the Equity Consideration will be paid by the Bidco to the Vendors on the date of completion of the Acquisition.

The Equity Consideration may be adjusted downwards (but not upwards) on account of recalculation of the capital allowances of the Target Companies.

The Equity Consideration was determined following a competitive auction process conducted by Electricité de France and after arm's length negotiations between the consortium comprising the Company, HEH and the Foundation, on the one hand, and the Vendors, on the other hand.

Conditions precedent

According to the Acquisition Agreement, completion of the Acquisition will be conditional on the satisfaction (or waiver) of the following conditions on or before the Longstop Date:

(a) the French Ministry of the Economy and Finance having authorised by decree the transactions contemplated by (and the terms and conditions contained in) the Acquisition Agreement and the other transaction documents for the purposes of Article 20 of French law no. 86-912 dated 6th August, 1986 (as amended from time to time);

(b) the shareholders of HEH who are qualified to vote at the extraordinary general meeting of HEH, approving the HEH's performance of its obligations under its joint venture in the Bidco and the Acquisition Agreement, and the transactions and matters contemplated under it, as required under the Listing Rules;

(c) either:

    (i) the Shareholders who are qualified to vote at the special general meeting of the Company, approving the Company's performance of its obligations under its joint venture in the Bidco and the Acquisition Agreement, and the transactions and matters contemplated under it, as required under the Listing Rules; or

    (ii) the approval in writing of the same by a majority of the Shareholders in accordance with Chapter 14 of the Listing Rules being obtained; and

(d) the Commission of the European Union in relation to the acquisition of the Target Companies Shares:

(i) adopting a decision under Article 6(1)(b) or 6(2) of Council Regulation (EC) 139/2004 (the "**Regulation**"), or being deemed to have done so under Article 10(6) of the Regulation declaring the acquisition of the Target Companies Shares compatible with the Common Market; or

(ii) adopting a decision, or being deemed to have done so, to refer the whole of the acquisition of the Target Companies Shares to the national authorities of the United Kingdom under Article 9 of the Regulation and the OFT adopting a decision not to refer the acquisition of the Target Companies Shares or matters arising therefrom to the Competition Commission pursuant to the merger control provisions of the Enterprise Act 2002; or

(iii) adopting a decision, or being deemed to have done so, to refer part of the merger to the national authorities of the United Kingdom under Article 9 of the Regulation (a "**Partial Referral Decision**") and:

(1) the OFT adopting a decision not to refer to the Competition Commission pursuant to the merger control provisions of the Enterprises Act 2002 any part of the merger referred to the UK authorities by the Partial Referral Decision or any matters arising therefrom; and

(2) the Commission of the European Union adopting a decision under Article 6(1) or 6(2) of the Regulation, or being deemed to have done so, declaring to be compatible with the Common Market so much of the acquisition of the Target Companies Shares as was not referred to the national authorities of the United Kingdom by the Partial Referral Decision.

The Acquisition Agreement will require EDF to use all reasonable endeavours to satisfy or procure satisfaction of the condition set out in item (a) above as soon as possible and in any event on or before the Longstop Date. The Bidco and the Guarantors shall use all reasonable endeavours to satisfy or procure the satisfaction of the conditions set out in items (b), (c) and (d) above as soon as possible and in any event on or before the Longstop Date.

Break fees

If the Offer is accepted by the Vendors and the Acquisition Agreement is entered into but subsequently terminated due to one or both of the Shareholder Approval Conditions not having been satisfied (or waived) by the Longstop Date, the Shareholder Approval Break Fee in the amount of £100,000,000 (approximately HK$1,209,900,000) shall be paid to EDF. If the Company or HEH cannot obtain approval from its shareholders or independent shareholders respectively where required under the Listing Rules, then the Company or HEH, as the case may be, will be solely responsible to pay the Shareholder Approval Break Fee in respect of its inability to obtain the approval from its shareholders. If the Acquisition Agreement is terminated due to the Competition Condition not having been satisfied (or waived) by the Longstop Date, the Bidco shall pay the Competition Break Fee in the amount of £50,000,000 (approximately HK$604,950,000) to EDF.

If on the Longstop Date, the Competition Condition and either or both of the Shareholder Approval Conditions have not been satisfied (or waived by the Bidco), the Shareholder Approval Break Fee only shall be payable.

If the condition set out in item (a) in the paragraph "Conditions precedent" above is not satisfied on or before the Longstop Date, or the Bidco exercises its right to terminate the Acquisition Agreement as a result of default by the Vendors, the Vendors shall reimburse the Bidco the reasonable costs incurred by the Bidco in respect of its bid for the Target Companies Shares up to a maximum of £5,000,000 (approximately HK$60,495,000) plus £250,000 (approximately HK$3,024,750) for each complete 30 calendar days period from the date of the Offer until 24th October, 2010.

Completion

Completion of the Acquisition shall take place on the 10th business day after notification by the Vendors or the Bidco (as the case may be) of fulfilment (or waiver) of the last of the conditions precedents to be fulfilled but provided that if prior to proposed completion:

(a) any shares in certain companies which are indirectly wholly-owned by a certain Target Company but not intended to be acquired by the Bidco, have not been transferred out of the Target Group and continue to be held by a Target Company or its subsidiary; or

(b) outstanding consents, waivers, releases and conditions which are necessary to be obtained from third parties or fulfilled in order for the relevant parties to enter into and perform the Acquisition Agreement without causing a breach or giving a rise to a termination right in relation to certain business carried on by members of the Target Group, have not be obtained or fulfilled; or

(c) (i) trustees of certain pension schemes relating to the Target Companies have not signed certain documents, or have raised certain objections, or are not willing to release the Vendors from certain obligations; (ii) the Vendors or their group members have been prevented from a third party from making certain payments to a pension scheme; or (iii) where the Vendors seek clearance of the transactions contemplated under the Acquisition Agreement from the relevant pension authority (the "**Pensions Regulator**") and the Pensions Regulator has informed the Vendors that clearance will not be granted on terms sought or will not be granted without additional contributions, financial support and/or other actions being taken which are not acceptable to the Vendors or sanctions will be imposed on the Vendors or members of their group as a result of the transactions contemplated under the Acquisition Agreement,

the Vendors or (in respect of the events described in paragraph (c) above only) the Bidco may, by written notice to the other, delay completion of the Acquisition until a date and time specified in the notice provided that such revised completion date shall not be later than the Longstop Date. If the events described in paragraph (c) occur or are subsisting on the Longstop Date, then the Acquisition Agreement will be terminated with immediate effect and the parties shall have no liability to each other except for any rights and liabilities accrued before termination.

Completion Security Letter of Credit

Pursuant to the terms of the Offer, the Bidco has caused to be issued the Completion Security Letter of Credit which is placed in escrow and is to be released to the Vendors upon their acceptance of the Offer. If the Acquisition Agreement is terminated by the Vendors for any of the following reasons:

(a) the Shareholder Approval Conditions and/or the Competition Condition remaining unsatisfied on the Longstop Date and not having been waived on or before that date;

(b) the Bidco not having complied with certain obligations with regard to certain pension schemes relating to the Target Companies; or

(c) completion of the Acquisition having been deferred and not taking place on such deferred date due to default by the Bidco,

the Vendors will be entitled immediately to make a demand under the Completion Security Letter of Credit in the amount of £25,000,000 (approximately HK$302,475,000) and the Vendors shall retain such amount for their benefit. However, the Vendors shall not be entitled to make a demand under the Completion Security Letter of Credit where the Shareholder Approval Break Fee or the Competition Break Fee has already been paid in full to EDF.

Guarantee

Each of the Guarantors will severally and pro-rata to its shareholding in the Bidco guarantee to the Vendors the punctual discharge by the Bidco of certain obligations of the Bidco (including payment obligations) in the Acquisition Agreement in so far as such obligations of the Bidco fall to be satisfied on or before completion of the Acquisition.

INFORMATION ON THE VENDORS AND THE TARGET COMPANIES

EDF is wholly owned by Electricité de France. It owns and operates three regulated electricity distribution networks in the UK that cover London, South East England and the East of England. Serving around 7.8 million customers and having a system length of over 182,000 km, these networks provide nearly a quarter of the electrical power in the United Kingdom, representing the country's largest electricity distributor.

Through its wholly owned subsidiary CSW Investments, EDF also carries on certain non-regulated electricity distribution business in the United Kingdom, which consists predominantly of commercial contracts to distribute electricity to a number of privately owned sites, including certain major airports and railway systems.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, the Vendors and their ultimate beneficial owner are third parties independent of the Group and connected persons of the Company.

For the financial years ended 31st December, 2008 and 2009, the audited combined net profits before tax and extraordinary items of the Target Companies were approximately £703,500,000 (approximately HK$8,511,646,500) and £668,800,000 (approximately HK$8,091,811,200) respectively and the audited combined net profits after tax and extraordinary items of the Target Companies were approximately £490,500,000 (approximately HK$5,934,559,500) and £495,000,000 (approximately HK$5,989,005,000) respectively. The audited combined net asset value of the Target Companies as at 31st December, 2009 was approximately £2,309,400,000 (approximately HK$27,941,430,600). The above financial information of the Target Group is also set out in the accountants' report on the Target Group in Appendix II of this circular.

INFORMATION ON THE GROUP

The principal activities of the Group are development, investment and operation of infrastructure business in Hong Kong, the Mainland, Australia, New Zealand, the United Kingdom, Canada and the Philippines.

INFORMATION ON THE HEH GROUP

The HEH Group is engaged in the generation of electricity and its transmission and distribution to Hong Kong Island and Lamma Island. Outside Hong Kong, the HEH Group has investments in electricity-related businesses in the Mainland, Australia, New Zealand, Canada, Thailand and the United Kingdom and in a gas distribution network business in the United Kingdom.

The Company is interested in approximately 38.87% in the issued share capital of HEH.

INFORMATION ON THE FOUNDATION

Both LKSFL and LKSOF are charitable organizations established by Mr. Li Ka-shing to nurture a culture of giving and to co-ordinate donations towards educational, healthcare, cultural and community welfare projects. The Foundation makes selective investment in quality projects both in Hong Kong and overseas from time to time to increase capital return for its charitable objectives.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of LKSFL and LKSOF being a company limited by guarantee and does not have ultimate beneficial owner, is not a connected person of the Company, and none of the connected persons of the Company had control over LKSFL or LKSOF nor had any beneficial interest in either of them and therefore each of LKSFL and LKSOF is a third party independent of the Company and connected persons of the Company.

REASONS FOR AND BENEFITS OF THE POSSIBLE TRANSACTIONS TO THE GROUP

The Company is a diversified investment company with a focus on development, investment and operation of infrastructure business in Hong Kong, the Mainland, Australia, New Zealand, the United Kingdom, Canada and the Philippines. The Company and HEH have worked together on a number of joint venture projects in the past and their previous experience of working together successfully makes HEH a suitable partner for the possible Transactions. The Company therefore considers that, subject to completion of the Acquisition, it would benefit from the co-operation with HEH in the possible JV Transaction.

It is contemplated that the cash required for payment of the Equity Consideration will be financed partly by internal resources of the Bidco (which will be funded by the Company, HEH and the Foundation in the manner set out in the section headed "Major terms of the possible JV Transaction" above) and partly from bank facilities described in the section headed "Banking facilities relating to the JV Transaction") above.

The Directors (including the independent non-executive Directors) consider that the terms of the JV Transaction are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

For the year ended 31st December, 2009, the Group's audited profit attributable to shareholders amounted to HK$5,568 million, a 26% increase as compared to the year ended 31st December, 2008. The Group's turnover and its share of turnover of jointly controlled entities was HK$4,054 million, a decrease of 46% over the year ended 31st December, 2008. Earnings per share for the year ended 31st December, 2009 were HK$2.47.

Earnings from HEH continued to be the largest contributor to the Group in 2009. 42% of the Group's total profit contribution came from HEH during the year. Overall profit contribution from HEH decreased by 17% to HK$2,578 million. The decrease was a result of lower returns permitted under the new Scheme of Control Agreement which adversely impacted earning from HEH's business in Hong Kong by 34%. This was partially offset by increased profit contribution from HEH's international investments, which doubled during the year. Profit contribution from the Group's China portfolio was HK$1,720 million, an increase of 29%, which included a one-off gain of HK$1,314 million from the divestment of three power plants to HEH. Profit contribution from the Group's Australian portfolio decreased by 5% to HK$805 million and such decrease was primarily due to currency fluctuation. The underlying operations of the Australian businesses generated a steady increase in profit contribution. Profit contribution from the Group's UK portfolio increased by 12% to HK$616 million. Profit contribution from the Group's Canada portfolio and New Zealand portfolio recorded impressive growth of 116% to HK$138 million and 142% to HK$80 million respectively. The Group's material business generated a profit contribution of HK$146 million, up 15%.

As at 31st December, 2009, the Group had a strong cash position of over HK$10 billion. The Group is well-placed to consider large-scale acquisitions that would add value to the Group's quality portfolio. The Company is optimistic about its future prospects and will continue to build on its growth momentum, sound fundamentals and solid business foundation.

The Acquisition is expected to further enhance the Company's strong existing portfolio of regulated businesses.

EFFECT OF THE TRANSACTIONS ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE COMPANY

The total consideration for the JV Transaction has been funded from the Company's internal resources and bank borrowings.

The Company has equity accounted for the results of the Bidco as "Interest in associates" subsequent to the completion of the JV Transaction. Based on the unaudited pro forma financial information of the Enlarged Group as shown in Appendix IV, the Group had unaudited total assets and total liabilities of approximately HK$51,452 million and HK$9,409 million respectively as at 30th June, 2010. Upon completion of the JV Transaction, the Enlarged Group would have unaudited pro forma total assets and total liabilities of approximately HK$55,686 million and HK$13,643 million respectively.

The JV Transaction would result in an increase in the Group's profit before taxation and interest due to sharing the operating results of the Bidco.

Save for the above, the possible Transactions has no significant impact on the assets and liabilities of the Company.

WAIVER FROM STRICT COMPLIANCE WITH RULE 4.03 OF THE LISTING RULES

Pursuant to Rule 4.03 of the Listing Rules, the accountants' report on the Target Group which is included in this circular must be prepared by certified public accountants who are qualified under Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong). Rule 4.03 of the Listing Rules also provides that, in the case of a circular issued by a listed issuer in connection with acquisition of an overseas company, the Stock Exchange may be prepared to permit the accountants' report to be prepared by a firm of accountants who is not so qualified but which is acceptable to the Stock Exchange. Such a firm must normally have an international name and reputation and be a member of a recognized body of accountants.

The Target Companies are incorporated and carry on business in the United Kingdom. Deloitte LLP has been appointed as auditors to the Target Group for the three financial years ended 31st December, 2009 for issuing auditor's reports on its accounts prepared under the United Kingdom Generally Accepted Accounting Practice. The Directors are of the view that Deloitte LLP is knowledgeable about the operations, accounting, reporting and management systems of the Target Group and is familiar with the financial information of the Target Group. Given their familiarity with, and geographical proximity to the Target Group, it will therefore be more cost and time effective to engage Deloitte LLP to issue the accountants' report of the Target Group in conformity with the International Financial Reporting Standards.

Although Deloitte LLP is not registered under the Professional Accountants Ordinance, it is a member of the Institute of Chartered Accountants in England and Wales, an internationally recognised association for accountants, and is part of a reputable international accounting practice of Deloitte Touche Tohmatsu.

The Directors are of the view that it is more appropriate to appoint Deloitte LLP instead of professional accountants who are qualified under the Professional Accountant Ordinance as reporting accountants for the purpose of issuing the accountants' report of the Target Group to be included in this circular. The Company has therefore applied to the Stock Exchange for a waiver from strict compliance with Rule 4.03 of the Listing Rules to allow Deloitte LLP to prepare the accountants' report of the Target Group for the inclusion in this circular. Such waiver was granted by the Stock Exchange on 20th August, 2010.

GENERAL

If the Offer is accepted by the Vendors and the Acquisition proceeds, it is expected that one or more of the relevant percentage ratios in respect of (i) the financial contribution to be provided by the Company to the Bidco under the possible JV Transaction and (ii) the proposed provision of a several guarantee by the Company in favour of the Vendors pro rata to its shareholding interest in the Bidco under the Acquisition Agreement, would exceed 25% but less than 100%, and thus the Transactions would constitute a major transaction for the Company under Chapter 14 of the Listing Rules, which is subject to the notification, publication and shareholders' approval requirements. If the Offer is accepted by the Vendors and the Acquisition proceeds, it is expected that the Company would also be under general disclosure obligation under Rules 13.16 and 13.22 of the Listing Rules with respect to the possible financial assistance and guarantee to be provided under the possible Transactions on the basis that the asset ratio exceeds 8%. As no shareholder of the Company is required to abstain from voting if the Company were to convene a general meeting for approving the possible Transactions, and as the Company has obtained a written approval of the possible Transactions from Hutchison Infrastructure Holdings Limited (which currently holds 1,906,681,945 shares in the Company, representing approximately 84.58% of the issued share capital of the Company), pursuant to Rule 14.44 of the Listing Rules, the Company is not required to convene a general meeting for approving the Acquisition.

It should be noted that since there is no certainty that the Offer will be accepted by the Vendors, the JV Transaction may or may not be entered into, or may be entered into on terms or in forms different from that described above. The Company will make a further announcement in accordance with the Listing Rules as and when the Offer is accepted by the Vendors.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED
LI TZAR KUOI, VICTOR
Chairman

(A) AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the year ended 31st December, 2009 has been set out from page 51 in the Annual Report 2009 of the Company which was published on 7th April, 2010. The Annual Report 2009 has also been posted on the Company's website http://www.cki.com.hk. Please also see below quick link to the Annual Report 2009:

http://www.cki.com.hk/english/PDF_file/annualReport/2009/cki_ar09_full.pdf

The audited consolidated financial statements of the Group for the year ended 31st December, 2008 has been set out from page 108 in the Annual Report 2008 of the Company which was published on 7th April, 2009. The Annual Report 2008 has also been posted on the Company's website http://www.cki.com.hk. Please also see below quick link to the Annual Report 2008:

http://www.cki.com.hk/english/PDF_file/annualReport/2008/cki_ar08_full.pdf

The audited consolidated financial statements of the Group for the year ended 31st December, 2007 has been set out from page 115 in the Annual Report 2007 of the Company which was published on 11th April, 2008. The Annual Report 2007 has also been posted on the Company's website http://www.cki.com.hk. Please also see below quick link to the Annual Report 2007:

http://www.cki.com.hk/english/PDF_file/annualReport/2007/cki_ar07_full.pdf

(B) INFORMATION FOR COMPANY ACQUIRED

The Company is also required to set out in this circular the information for any company acquired since the date of the last published audited accounts of the Group. The acquisition since the last published audited accounts has been set out in a circular of the Company which was published on 30th June, 2010. The circular has also been posted on the Company's website http://www.cki.com.hk. Please also see below quick link to the circular:

http://www.cki.com.hk/english/PDF_file/announcement/2010/20100629_1.pdf

(C) INDEBTEDNESS

As at the close of business on 31st July, 2010, for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately HK$7,867 million which comprised unsecured bank loans and other borrowings of approximately HK$7,734 million, secured bank loans of approximately HK$30 million, and finance lease obligations of approximately HK$103 million.

As at the close of business on 31st July, 2010, the Group had contingent liabilities of approximately HK$1,212 million. The contingent liabilities comprised approximately HK$1,182 million of guarantees in respect of bank loans drawn by an associate and a sub-contractor warranty of approximately HK$30 million.

Save as disclosed above or as otherwise mentioned herein and apart from intra-group liabilities, the Group did not, at the close of business on 31st July, 2010 have any mortgages, charges, debentures, bank overdrafts or loan capital, issued or outstanding, or authorised or otherwise created but unissued, or other similar indebtedness, finance lease commitment, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or guarantees or other contingent liabilities.

(D) WORKING CAPITAL

The Directors are of the opinion that after taking into account the Group's internal resources and available borrowing facilities, the Group has sufficient working capital for at least twelve months from the date of this circular.

Deloitte.

2 Deloitte LLP
New Street Square
London
EC4A 3BZ

24 August 2010

The Directors
Cheung Kong Infrastructure Holdings Limited
12/F Cheung Kong Center
2 Queen's Road Central
Hong Kong

Dear Sirs,

We set out below our report on the combined historical financial information of the EDF Energy plc ("EDF") subsidiaries set out in note 1 of the Financial Information below (the "EDF Energy Networks Group") for inclusion in the circular issued by Cheung Kong Infrastructure Holdings Limited ("CKI") (the "Circular"), dated 24 August 2010 in connection with CKI's proposed acquisition of a 40% equity interest in the EDF Energy Networks Group. The combined historical financial information comprises financial information for the three years ended 31 December 2007, 2008 and 2009, the three months ended 31 March 2010 (together the "Relevant Periods") (the "Financial Information") and the more limited financial information for the three months ended 31 March 2009 (the "Q1 Comparative Information") (together the "Combined Historical Financial Information"). The Combined Historical Financial Information has been compiled on the basis set out under the heading "Basis of Preparation" below.

Opinion on Financial Information

For the purpose of this report, the directors of EDF have prepared combined financial statements of the EDF Energy Networks Group for the Relevant Periods in accordance with the significant accounting policies, as set out in note 1 to the Financial Information, which conform with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Combined Financial Statements"). We have, for the purpose of this report, performed independent audit procedures on the Combined Financial Statements for the Relevant Periods in accordance with International Standards on Auditing ("ISA") issued by the International Auditing and Assurance Standards Board.

We have examined the Combined Financial Statements of the EDF Energy Networks Group for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

The Financial Information has been prepared for the Relevant Periods from the Combined Financial Statements. No adjustment was deemed necessary to the Combined Financial Statements in preparing our report for inclusion in the Circular. The preparation of the Combined Financial Statements is the responsibility of the directors of EDF, who approved their issue. The directors of CKI are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Combined Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

The directors of EDF are responsible for the true and fair presentation of the Financial Information in accordance with the Basis of Preparation. The directors of CKI are responsible for the true and fair presentation of the Financial Information in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Main Board Listing Rules") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes selecting appropriate principal accounting policies for the Financial Information and making accounting estimates that are reasonable in the circumstances.

In our opinion, on the Basis of Preparation set out in note 1 to the Combined Historical Financial Information, the Financial Information, together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the EDF Energy Networks Group as at 31 December 2007, 2008 and 2009 and 31 March 2010 and of the combined results and cash flows of the EDF Energy Networks Group for each of the three years ended 31 December 2007, 2008 and 2009 and for the three months period ended 31 March 2010.

Review opinion on the Q1 Comparative Information

The Q1 Comparative Information comprises the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the EDF Energy Networks Group for the three months ended 31 March 2009, together with the notes thereon and has been extracted from Combined Financial Statements for the same period which were prepared by the directors of EDF solely for the purpose of this report. We have reviewed the Q1 Comparative Financial Information in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board.

Our review of the Q1 Comparative Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with ISA and consequently does not enable us to obtain assurance that we could become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Q1 Comparative Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the Q1 Comparative Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information.

A. FINANCIAL INFORMATION

COMBINED INCOME STATEMENTS

Note: All transactions relate to the continuing operations of the Combined Group.

		For the year ended 31 December			For the three months ended 31 March	
		2007	2008	2009	2009	2010
£m	*Notes*				(unaudited)	
Revenue	*5*	1,476.8	1,482.5	1,461.7	402.1	389.5
Cost of sales		(272.1)	(193.2)	(183.5)	(50.1)	(35.2)
Gross margin		1,204.7	1,289.3	1,278.2	352.0	354.3
Distribution costs		(466.7)	(455.1)	(459.9)	(123.5)	(122.5)
Administrative expenses		(48.7)	(77.9)	(60.2)	(15.3)	(14.4)
Share of results of jointly controlled entities		2.4	1.1	1.1	0.1	0.3
Write off of debtor balances relating to Metronet contract	*6*	(19.2)	–	–	–	–
Operating profit		672.5	757.4	759.2	213.3	217.7
Investment revenue	*10*	55.8	67.6	35.2	10.2	8.5
Finance cost	*11*	(127.7)	(121.5)	(125.6)	(34.6)	(43.5)
Profit before taxation	*6*	600.6	703.5	668.8	188.9	182.7
Taxation	*12*	(125.8)	(213.0)	(173.8)	(48.8)	(49.8)
Profit for the year/ period		474.8	490.5	495.0	140.1	132.9
Profit attributable to:						
Equity holders of the Combined Group	*31*	474.1	489.7	494.3	139.7	132.9
Non-controlling interests	*26*	0.7	0.8	0.7	0.4	–
Profit for the year/ period		474.8	490.5	495.0	140.1	132.9

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		For the year ended 31 December			For the three months ended 31 March	
		2007	**2008**	**2009**	**2009**	**2010**
£m	*Notes*				(unaudited)	
Profit for the year/ period		474.8	490.5	495.0	140.1	132.9
Actuarial gains/(losses) on defined benefit pensions schemes	*34*	1.3	(61.1)	(440.0)	(109.8)	(70.9)
Share of reserve movements of jointly controlled entities		–	(5.5)	2.0	–	(1.2)
Other comprehensive income/(loss)		1.3	(66.6)	(438.0)	(109.8)	(72.1)
Tax relating to components of other comprehensive income		(1.6)	18.5	122.6	30.8	20.2
Other comprehensive loss for the year/ period		(0.3)	(48.1)	(315.4)	(79.0)	(51.9)
Total comprehensive income for the year/period		474.5	442.4	179.6	61.1	81.0
Attributable to:						
Equity holders of the Combined Group		473.8	441.6	178.9	60.7	81.0
Non-controlling interests	*26*	0.7	0.8	0.7	0.4	–
		474.5	442.4	179.6	61.1	81.0

No disclosure is included in respect of earnings per share, because the invested capital of the Combined Group (note 29) reflects the aggregation of multiple entities, rather than the share capital of a sole parent company.

COMBINED BALANCE SHEETS

£m	Notes	2007	As at 31 December 2008	2009	As at 31 March 2010
Non-current assets					
Property, plant and equipment	14	4,473.4	5,107.8	5,775.8	5,923.7
Interests in jointly controlled entities	16	2.7	(1.2)	0.6	(0.2)
Investments	15	10.8	1.6	1.0	1.2
Service concession receivables	17	315.7	306.6	307.2	308.0
		4,802.6	5,414.8	6,084.6	6,232.7
Current assets					
Inventories	18	55.0	47.9	35.3	34.3
Trade and other receivables	19	1,137.4	1,162.9	1,153.9	1,151.5
Pension reimbursement right asset	34	–	5.2	11.4	0.8
Service concession receivables	17	32.3	31.6	38.8	39.0
Cash and cash equivalents	21	478.3	342.4	664.5	666.0
		1,703.0	1,590.0	1,903.9	1,891.6
Total assets		6,505.6	7,004.8	7,988.5	8,124.3
Current liabilities					
Other liabilities	22	(1,239.8)	(1,240.7)	(1,247.7)	(1,220.1)
Borrowings	23	(407.0)	(565.1)	(199.0)	(191.4)
Short term provisions	24	(23.6)	(24.9)	(16.0)	(16.2)
Current tax liability		(278.2)	(191.8)	(88.1)	(124.0)
		(1,948.6)	(2,022.5)	(1,550.8)	(1,551.7)
Net current (liabilities)/assets		(245.6)	(432.5)	353.1	339.9
Total assets less current liabilities		4,557.0	4,982.3	6,437.7	6,572.6
Non-current liabilities					
Borrowings	23	(1,580.9)	(1,591.0)	(2,527.0)	(2,529.4)
Other liabilities	22	(224.0)	(211.6)	(191.1)	(188.4)
Deferred tax liability	25	(680.4)	(786.3)	(757.2)	(750.9)
Post-employment benefits provision	34	(193.8)	(217.8)	(653.0)	(713.5)
		(2,679.1)	(2,806.7)	(4,128.3)	(4,182.2)
Total liabilities		(4,627.7)	(4,829.2)	(5,679.1)	(5,733.9)
Net assets		1,877.9	2,175.6	2,309.4	2,390.4
Equity					
Invested capital	29	340.8	325.4	325.4	325.4
Capital and redemption reserves	30	17.2	17.9	17.4	17.4
Hedging reserve	32	(2.3)	(6.3)	(4.8)	(5.7)
Retained earnings	31	1,519.2	1,834.8	1,966.9	2,048.8
Equity attributable to equity holders of the Combined Group		1,874.9	2,171.8	2,304.9	2,385.9
Non-controlling interests	26	3.0	3.8	4.5	4.5
Total equity		1,877.9	2,175.6	2,309.4	2,390.4

COMBINED STATEMENTS OF CHANGES IN EQUITY

		Invested capital		Capital and Redemption Reserves	Hedging Reserve	Retained Earnings	Non-controlling Interests	Total Equity
£m	*Notes*	Share Capital	Share Premium					
At 1 January 2007		296.7	44.1	17.4	(2.2)	1,045.3	2.3	1,403.6
Share of reserve movements of jointly controlled entities	*16*	–	–	–	(0.1)	–	–	(0.1)
Movement on pension deficit, net of deferred taxation	*25, 34*	–	–	–	–	(0.2)	–	(0.2)
Other comprehensive loss for the year		–	–	–	(0.1)	(0.2)	–	(0.3)
Profit for the year		–	–	–	–	474.1	0.7	474.8
Total comprehensive (loss)/ income for the year		–	–	–	(0.1)	473.9	0.7	474.5
Share scheme	*9*	–	–	(0.2)	–	–	–	(0.2)
At 1 January 2008		296.7	44.1	17.2	(2.3)	1,519.2	3.0	1,877.9
Share of reserve movements of jointly controlled entities	*16*	–	–	–	(4.0)	–	–	(4.0)
Movement on pension deficit, net of deferred taxation	*25, 34*	–	–	–	–	(44.1)	–	(44.1)
Other comprehensive loss for the year		–	–	–	(4.0)	(44.1)	–	(48.1)
Profit for the year		–	–	–	–	489.7	0.8	490.5
Total comprehensive (loss)/ income for the year		–	–	–	(4.0)	445.6	0.8	442.4
Share scheme		–	–	0.7	–	–	–	0.7
Equity dividends	*13*	–	–	–	–	(130.0)	–	(130.0)
Share capital restructure	*29*	(15.4)	–	–	–	–	–	(15.4)
At 1 January 2009		281.3	44.1	17.9	(6.3)	1,834.8	3.8	2,175.6
Share of reserve movements of jointly controlled entities	*16*	–	–	–	1.5	–	–	1.5
Movement on pension deficit, net of deferred taxation	*25, 34*	–	–	–	–	(316.9)	–	(316.9)
Other comprehensive income/ (loss) for the year		–	–	–	1.5	(316.9)	–	(315.4)
Profit for the year		–	–	–	–	494.3	0.7	495.0
Total comprehensive income for the year		–	–	–	1.5	177.4	0.7	179.6
Share scheme	*9*	–	–	(0.8)	–	–	–	(0.8)
Transfer to retained earnings	*9*	–	–	0.3	–	(0.3)	–	–
Equity dividends	*13*	–	–	–	–	(45.0)	–	(45.0)
At 1 January 2010		281.3	44.1	17.4	(4.8)	1,966.9	4.5	2,309.4
Share of reserve movements of jointly controlled entities	*16*	–	–	–	(0.9)	–	–	(0.9)
Movement on pension deficit, net of deferred taxation	*25, 34*	–	–	–	–	(51.0)	–	(51.0)
Other comprehensive loss for the period		–	–	–	(0.9)	(51.0)	–	(51.9)
Profit for the period		–	–	–	–	132.9	–	132.9
Total comprehensive (loss)/ income for the period		–	–	–	(0.9)	81.9	–	81.0
At 31 March 2010		281.3	44.1	17.4	(5.7)	2,048.8	4.5	2,390.4

COMBINED STATEMENTS OF CASH FLOWS

£m	Notes	For the year ended 31 December 2007	2008	2009	For the three months ended 31 March 2009 (unaudited)	2010
Net cash from operating activities	33	748.4	702.6	717.6	272.2	252.6
Investing activities						
Purchase of property, plant and equipment		(672.5)	(776.2)	(828.2)	(187.4)	(188.9)
Purchase of shares in subsidiaries and other undertakings		–	(1.0)	(0.2)	–	(0.2)
Repayment of loans by investees		–	0.2	0.3	–	–
Proceeds from sale of property, plant and equipment		6.0	1.6	9.5	0.6	0.5
Proceeds from sale/liquidation of subsidiary		–	12.7	2.3	2.3	–
Dividends received from investments		–	21.7	–	–	–
Dividends received from jointly controlled entities		1.2	1.0	0.8	–	–
Interest received		15.5	11.0	1.4	0.6	0.5
Net cash used in investing activities		(649.8)	(729.0)	(814.1)	(183.9)	(188.1)
Financing activities						
Dividends paid to equity holders of the parent		–	(130.0)	(45.0)	–	–
Share capital structure		–	(15.4)	–	–	–
Proceeds from borrowings		122.7	108.0	938.4	–	–
Repayment of borrowings		–	(13.5)	(286.3)	(84.1)	(12.7)
Proceeds from related party borrowings		–	67.0	–	147.2	5.1
Repayment of related party borrowings		(182.7)	(3.4)	(79.8)	–	–
Interest paid		(126.0)	(122.2)	(108.7)	(58.3)	(55.4)
Net cash (used in)/from financing activities		(186.0)	(109.5)	418.6	4.8	(63.0)
Net (decrease)/increase in cash and cash equivalents		(87.4)	(135.9)	322.1	93.1	1.5
Cash and cash equivalents at 1 January		565.7	478.3	342.4	342.4	664.5
Cash and cash equivalents at year/period end	21	478.3	342.4	664.5	435.5	666.0

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Combined Historical Financial Information comprise the historical financial information of the regulated and non-regulated networks business of EDF Energy plc ('EDF') in the United Kingdom, which comprise a specific group of legal entities ('EDF Energy Networks Group', the 'Combined Group' or the 'Group') which are the subject of a proposed acquisition by CKI and Hongkong Electric Holdings Limited ('HEH'), Li Ka-shing Foundation Limited ('LKSFL') and Li Ka-shing (Overseas) Foundation ('LKSOF').

These legal entities have not previously constituted a legal group and hence consolidated historical financial information does not exist for the Group. However, the Group was under the common control of EDF throughout for the years ended 31 December 2007, 31 December 2008, 31 December 2009 and the period ended 31 March 2010 (the 'Relevant Periods').

As a result, the Combined Financial Statements, comprising the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Relevant Periods and the combined balance sheets of the Group as at 31 December 2007, 31 December 2008, 31 December 2009 and 31 March 2010 together with notes thereon, have been specifically prepared by EDF in anticipation of the proposed acquisition, on a basis that combines the assets, liabilities and results of the Group and makes certain adjustments, including intercompany trading and intercompany receivable and payable balances between the entities within the Group being eliminated, in accordance with the basis of preparation note below.

The Financial Information of the Group has extracted from those underlying Combined Financial Statements for the years ended 31 December 2009, 2008 and 2007 and three months ended 31 March 2010. The Q1 Comparative Information has been extracted from those underlying Combined Financial Statements for the three months ended 31 March 2009.

The basis of preparation describes how the Combined Historical Financial Information has been prepared in accordance with IFRSs as adopted by the IASB that are effective for financial years beginning on 1 January 2010.

Basis of preparation

The Combined Historical Financial Information has been prepared in connection with the offer for sale of a specific set of legal entities. These are all subsidiaries of a parent company which is itself excluded from the offer for sale, and which has been excluded from these Combined Financial Statements. As a result, the share capital of the directly-owned subsidiaries have been aggregated rather than eliminated. The share capitals of the indirectly-owned subsidiaries of the parent company have been eliminated on combination. Equity investments and long-term loans to those subsidiaries of the Group which are not included in the Group combination are reflected at cost in the carrying value of subsidiaries and jointly controlled entities (see notes 15 and 16).

The financial statements of the companies and subsidiaries included in the Group are prepared for the same reporting periods, using consistent accounting policies. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated on consolidation.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

1. GENERAL INFORMATION (cont'd)

Basis of preparation (cont'd)

IFRSs do not provide for the preparation of Combined Historical Financial Information, and accordingly in preparing the Combined Historical Financial Information certain accounting conventions commonly used for the preparation of historical financial information for inclusion in Hong Kong investment circulars have been applied. In applying these conventions, we note the following:

i. These legal entities have not previously constituted a legal group and so it is not meaningful to present share capital. The share capital and share premium of the entities owned directly by EDF have been combined and reflected as 'invested capital'.

ii. Financial information is presented for each of the three years ended 31 December 2007, 2008 and 2009. Prior year comparative information for the year ended 31 December 2007, required by International Accounting Standard 1 ('IAS 1') – Presentation of Financial Statements, has not been presented.

iii. The following subsidiaries and jointly controlled entity have not been incorporated in the Combined Historical Financial Information in accordance with IAS 27 and IAS 31 respectively:

- SEEBOARD Trading Limited together with its Lighting Contractor subsidiary was sold in 2008. Longfield Insurance Company Limited was liquidated in 2009. As the net assets of these companies are not included in the proposed acquisition, they have been included as fixed asset investments at cost in the Combined Historical Financial Information up to their date of disposal/liquidation.

- EDF Energy (Projects) Limited, EDF Energy (Metro Holdings) Limited and Trans4m Limited (jointly controlled entity) have been excluded as these will be transferred to EDF as part of the pre-sale restructuring.

- We note that the inclusion of the financial performance and position of these companies would not have a material impact on the Combined Historical Financial Information of the Group.

The combined income statements and combined statements of comprehensive income for the Group include EDF corporate recharges. These costs include, but are not limited to, allocations for finance, insurance, health and safety, tax and legal advice. Such costs may not be reflective of equivalent charges within the Group under new ownership.

The taxation charge relates to the aggregate of the combined entities. EDF manages its group tax position for the benefit of its entire portfolio of business and its tax strategies are not necessarily reflective of the tax strategies that the Group would have followed on a standalone basis.

The liability for retirement benefit obligations relates to the aggregate liability of the combined entities. No adjustments have been made as if the Group existed as a standalone entity.

As a result of the above, the Combined Historical Financial Information may not reflect the results and net assets of the Group in the future or what they would have been had the Group been a separate standalone group during the periods presented.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

1. GENERAL INFORMATION (cont'd)

Basis of preparation (cont'd)

The following companies are included in the Group. They are all directly or indirectly owned by EDF (the "parent company"). The parent company is not included in the Group for the purposes of these Combined Historical Financial Information.

Name of entity[1]	Proportion of ownership interest[5]	Date of incorporation	Issued and fully paid share capital (number of shares)	Principal activity
EDF Energy (Asset Management) Limited[2]	100%	20/12/1994	10,010,004	Investment company
EDF Energy Contracting Limited[2]	100%	05/09/1994	33,370,733	Electrical contracting
EDF Energy (Development) plc[2]	100%	18/04/1996	969,169	Holding company
EDF Energy (Enterprises) Limited	100%	15/05/1991	6,050,002	Investments in commercial projects
EDF Energy (IDNO Finance) Limited[2,4]	100%	23/04/2008	1	Investment company
EDF Energy (IDNO) Limited[2,4]	100%	31/01/2008	1	Electricity distribution project
EDF Energy Networks Limited	100%	03/11/1999	1,000,001 H ordinary shares 1,000,001 I ordinary shares 300 H preference shares 300 I preference shares	Maintenance of distribution networks
EDF Energy Networks (EPN) plc	100%	01/04/1989	251,513,142	Management of distribution network
EDF Energy Networks (LPN) plc	100%	15/02/2000	10,000,000	Management of distribution network
EDF Energy Networks (SPN) plc[2]	100%	07/04/1995	50,000	Management of distribution network
EDF Energy (Powerlink Holdings) Limited[2]	100%	30/01/1989	10,000	Investment company
EDF Energy (Services) Limited	100%	08/03/1988	10,100,000	Electricity distribution project
EDF Energy (South East) plc	100%	01/04/1989	251,693,703	Holding company
EDF Energy (South Eastern Services) Limited[2]	100%	01/09/1992	660,000	Property management

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

1. GENERAL INFORMATION (cont'd)

Basis of preparation (cont'd)

Name of entity[1]	Proportion of ownership interest[5]	Date of incorporation	Issued and fully paid share capital (number of shares)	Principal activity
EDF Energy (Transport Services) Limited	100%	26/01/1994	1,250,002	Provision and supply of transport services
Lea Valley Utilities Limited[2,3]	100%	08/01/2007	1	Electricity distribution project
EDF Energy Powerlink Limited[2,6]	80%	09/07/1996	1,000,000	Asset management
Power Asset Development Company Limited ("PADCo")[2,6]	50%	30/01/1989	100	Construction and financing of electrical distribution equipment
MUJV Limited[2,7]	49.9%	27/04/2005	100,000	Utility infrastructure management

1 All entities are audited by Deloitte LLP, unless stated otherwise.
2 Held indirectly by the parent company.
3 Dormant entity.
4 The two IDNO entities were first registered as companies in 2008 and started trading in 2009.
5 The proportion of ownership interest has remained the same for the three years ended 31 December 2007, 2008, 2009 and the three months ended 31 March 2010.
6 Entity is audited by KPMG Audit plc.
7 Entity is audited by Grant Thornton UK LLP.

All the companies are registered in Great Britain and have the registered address 40 Grosvenor Place, Victoria, London SW1X 7EN, United Kingdom – except for MUJV Limited, which has the registered address of Aspire Business Centre, Ordnance Road, Tidworth SP9 7QD, United Kingdom.

These financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Group operates. Monetary amounts are presented in millions, rounded to a single decimal place.

Going Concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its bank and other facilities, the net proceeds receivable by the Group from EDF and its capital expenditure commitment and plans, together with the other risks facing the Group.

The Directors have considered the options available should the Group Revolving Credit Facility and Money Market Borrowings be withdrawn if the Group is no longer part of the EDF group of companies. These options include seeking alternative funding under new ownership. The Directors are satisfied that this revised funding strategy could be adopted if and when necessary, as the Office of Gas and Electricity Markets would require confirmation of the ability of the new owners to fund the regulated distribution networks in the future.

After making appropriate enquiries, the Group considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of this document and that it is appropriate to adopt the going concern basis in preparing this financial information.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

1. GENERAL INFORMATION (cont'd)

Adoption of new and revised IFRSs

- IAS 1 (2007), IAS 23 (2007), IFRS 7 and IFRS 8 have been applied to all periods, including those prior to 2009.
- Interpretation 12 of the International Financial Reporting Interpretations Committee ("IFRIC 12") – Service Concession Arrangements has been applied to all periods. The related financial assets have been accounted for as loans and receivables and are discussed in note 17.
- IFRIC 18 – Transfers of Assets from Customers was implemented prospectively with effect from 1 January 2007, and has been applied to all periods.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective/endorsed and therefore not adopted:

- The amendments to IFRS 1 relating to (a) accounting policy changes in year of adoption, (b) revaluation as deemed cost and of deemed cost for operations subject to rate regulation, (c) additional exemptions for first time adopters, and (d) limited exemption from comparative IFRS 7 disclosure for first-time adopters.
- The amendments to IFRS 3 relating to (a) transition for contingent consideration from business acquired under IFRS 3 (2004), (b) measurement of Non-Controlling Interests, and (c) un-replaced and voluntarily replaced Share-Based Payment awards.
- The amendment to IFRS 7 – Clarification of disclosures.
- The amendment to IAS 1 – Clarification of the Statement of Changes in Equity ('SOCE').
- The amendment to IAS 27 describing the transition for amendments resulting from IAS 27 (2008).
- The amendment to IAS 34 relating to significant events and transactions.
- IFRIC 13 relating to fair value of award credits.
- The amendments to IFRS 2 – Group cash-settled share-based payment transactions.
- IFRS 9 – Financial instruments.
- Revised IAS 24 Related party disclosures.
- The amendment to IAS 32 – Classification of rights issues.
- The amendment to IFRIC 14 – Prepayments of a minimum funding requirement.
- IFRIC 19 – Extinguishing liabilities with equity instruments.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements of the Group.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES

Merger accounting

In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the Combined Financial Statements of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the combining party or parties. The combined entity recognises the assets, liabilities and equity of the combining entities or businesses at their carrying amounts in the Combined Financial Statements of the controlling party or parties prior to the common control combinations.

Business combinations and treatment of non-controlling interest

For financial periods ended prior to 1 January 2010

Acquisitions of businesses were accounted for using the purchase method. The consideration for each acquisition was measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

Any non-controlling interests in the acquired business was initially measured at the non-controlling interest's proportion of the fair value of assets and liabilities recognised. Non-controlling interests in the net assets of combined subsidiaries were identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the business combination, the excess was recognised immediately in the income statements. Goodwill was reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The interest of non-controlling shareholders in the acquiree was initially measured at the non-controlling interests' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

For the financial period beginning on 1 January 2010

The Group applies IFRS 3 (Revised) – Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) – Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010. The key features of IFRS 3 (Revised 2008) and IAS 27 (Revised 2008) are as follows:

- Acquisitions of businesses are accounted for using the acquisition method;
- A choice on a transaction-by-transaction basis for the measurement of non-controlling interests either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree is allowed;

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Business combinations and treatment of non-controlling interest (cont'd)

For the financial period beginning on 1 January 2010 (cont'd)

- Contingent consideration is measured at fair value at the acquisition date and its subsequent adjustments are recognised in profit or loss with exception of those occurring within the "measurement period";
- Acquisition-related costs are accounted for separately from the business combination and recognised in profit or loss as incurred;
- Once control is obtained, all subsequent increases and decreases in ownership interests that do not involve the loss of control are treated as transactions with owners. Goodwill is not re-measured or adjusted. Instead, any difference between the change in the non-controlling interests and the fair value of the consideration paid or received is recognised directly in equity and attributable to the owners of the parent;
- When a parent ceases to have control of a subsidiary, the parent de-recognises all assets, liabilities and non-controlling interests at their carrying amount. Any interest retained in the former subsidiary is recognised at its fair value at the date control is lost. Any gain or loss arising on loss of control is recognised in profit or loss; and
- Total comprehensive income and expense of a subsidiary is attributed to the owners of the Group and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

As there was no transaction during the three months ended 31 March 2010 in which IFRS 3 (Revised) and IAS 27 (Revised) are applicable, the application of IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to other IFRSs had no effect on the Combined Financial Statements of the Group for the Relevant Periods. Results of the Group in future periods may be affected by future transactions for which IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to the other IFRSs are applicable.

Cash and cash equivalents

These include cash in bank accounts and in transit, and short term money-market deposits. Overdrafts are included in other liabilities.

Interests in jointly controlled entities

The Group's interests in MUJV Limited and PADCo are accounted for using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the combined balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less impairment in the values of individual investments.

The Group's share in the jointly controlled entity in Trans4m Limited is not included in the sale group and will be transferred to another EDF group company as part of pre sale restructuring. It is therefore included at its cost of thirty pounds sterling.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currency

The presentation currency of the Group is pounds sterling. Transactions in foreign currency are initially recorded in the functional currency at the rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the combined income statements.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes.

Distribution: Revenue relating to Distribution Use of System (DUoS) charges is attributable to the continuing activity of electricity distribution. This includes an estimate of the sales value of units supplied to consumers between the date of the last meter reading and the year end. The fees paid by consumers upon connection to the network (connection fees) are recorded as revenue in the period when the connection is installed, in accordance with IFRIC 18.

Long term contracts: Revenue from long term contracts is recognised using the percentage-of-completion method, in accordance with the Group's accounting policy on long term contracts (see below).

Interest income on financial assets is recognised and included in the carrying value of the asset as the interest accrues using the effective interest rate method – that is, the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Borrowing costs incurred relating to the construction or purchase of fixed assets are capitalised as discussed in the paragraph headed "Borrowing costs". An appropriate proportion of staff costs and overheads are included in the cost of assets supplied and installed by the Group. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset and charged to income as follows:

Overhead and underground lines	–	45 to 60 years
Network plant and buildings	–	20 to 60 years
Freehold land	–	Not depreciated
Other buildings		
– freehold	–	Up to 60 years
– leasehold	–	Lower of lease period or 60 years
Vehicles and mobile plant	–	5 to 10 years
Fixtures and equipment	–	3 to 8 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Assets in the course of construction are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Customer-funded connections to the network are recognised (in accordance with IFRIC 18) as additions in property, plant and equipment at fair value, and depreciated over their useful lives.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Non-current assets and disposal groups classified as held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Group must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets until such time that the assets are substantially ready for their intended use. Qualifying assets are assets which take a substantial period of time to get ready for their intended use or sale.

In instances where the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the borrowing costs incurred are the borrowing costs that are capitalised. In instances where an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, a capitalisation rate is applied based on the weighted average of general borrowings during the period.

All other borrowing costs are recognised in the combined income statements in the period in which they are incurred.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. The cost of raw materials and consumables is calculated using the weighted average cost basis. Net realisable value represents the estimated selling price less any further costs expected to be incurred in completion and disposal.

Provisions are made for obsolete, slow-moving or defective items where appropriate.

Long term contracts

Where the outcome of a long term contract can be estimated reliably, and a profit at completion is expected, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally recognised by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a long term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Service concession arrangements

Where the Group has entered into long term agreements for the provision and operation of public sector assets and services, such arrangements are treated as service concessions and accounted for in compliance with IAS 11, IAS 18 and IFRIC 12. This includes instances where the client is not a public sector entity.

Financial assets are accounted for as loans and receivables and carried at amortised cost, less provisions for impairment. This reflects the Group's view that the cash flows from concessions are deemed to be fixed and determinable. If it was established that cash flows were not fixed and determinable, the financial assets would be classified as available for sale, and measured at fair value.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged in the combined income statements on a straight-line basis over the lease term. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the combined balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability, with charges being recognised directly in the combined income statements.

When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease, on a straight-line basis, using the net investment method, which recognises a constant periodic rate of return. When assets are leased out under an operating lease, assets are carried on the combined balance sheet based on the nature of the asset.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from accounting profit as reported in the combined income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the combined income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is measured on an undiscounted basis.

Post-employment benefit costs

The Group operates defined benefit pension schemes. The cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised immediately in full in the period in which they occur, outside the profit or loss, in equity. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

An employee benefit reimbursement right asset is recognised at its fair value where the Group is entitled to reimbursement by a third party of all or part of any contributions required by the scheme to fund any deficit in the scheme. The Group has a reimbursement right asset through a contractual obligation on the part of London Underground Limited ("LUL"), as detailed in note 34.

Financial instruments

Financial assets and liabilities are recognised on the Group's combined balance sheet when the Group becomes a party to the contractual provisions of the instruments.

Loans and receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Trade receivables are measured at original invoice amount. An allowance is recognised in the combined income statements for irrecoverable amounts when there is evidence that the asset is impaired. The allowance is calculated as the difference between the carrying amount and the expected future cash flows from the asset. Receivables resulting from service concessions are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables where the recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and other short term liquid investments which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities are classified according to the nature of the contractual obligations, and are based on the definition of liability.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Interest-bearing loans and borrowings

Interest-bearing bonds, bank loans and overdrafts are initially measured at proceeds received, net of direct issue costs. They are subsequently measured at amortised cost using the effective interest rate method. Foreign currency denominated bank loans and overdrafts are restated at closing exchange rates with any movements going through the combined income statements unless it is designated as a cash flow hedge. Any differences between the proceeds and the settlement/redemption of the borrowings are measured on an accrual basis and recognised over the life of the instrument.

Trade payables

Trade payables are reported at the book value which was recorded upon inception.

Derivatives and other financial instruments and hedge accounting

The Group's activities expose it to fluctuations in interest rates, and the Group's policy is to hedge/fix known interest rate exposures through swap agreements.

The use of derivatives and other financial instruments is governed by the Group's policies. The Group does not use derivatives and other financial instruments for speculative purposes.

Derivatives and other financial instruments are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivatives and other financial instruments that do not qualify for hedge accounting are recognised in the combined income statements as they arise.

Hedge accounting

The Group designates its interest rate hedging instruments as cash flow hedges.

At inception of the hedge relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge, and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the combined income statements as the recognised hedged item. However when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. The same treatment has historically been applied to development expenditure, because to date it has not resulted in any intangible asset meeting the criteria for recognition.

Share-based payments

EDF Energy plc's ultimate parent company, Electricité de France S.A. ("EDF S.A."), is listed on Euronext, the French stock exchange. Shares granted to employees are valued at market value on the date of announcement and charged to the combined income statements at the fair value determined and apportioned in a straight-line basis over the vesting period. A corresponding amount is recognised as a capital contribution from EDF S.A. within equity. Any repayment required to EDF S.A. is measured at the market value at the period end and recognised as a liability and reduced capital contribution.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, some critical accounting judgements have been applied by management and some balances are based on estimates.

Revenue recognition

Turnover is based on an estimate of the volume of units supplied to consumers between the date of the last meter reading and the year/period end. This is calculated by reference to data received through the settlement systems but not billed together with estimates of consumption not yet processed through settlements and selling price estimates. These statistics and estimates are sensitive to the assumptions used in determining the portion of sales not billed at the reporting date.

Revenue is valued at average pence per unit, and any unbilled revenue is treated as an unbilled debtor.

Provisions

Provisions for liabilities are made where a liability exists but is uncertain in respect of amount or when the liability will fall due.

Provisions are made against bad and doubtful debts and unbilled revenue as a percentage of the aged debt book at the end of each period. Approximations may result from the fact that the provision is based on historical write-offs, rather than a current assessment of the risk of non-collectability.

Provision is made against obsolete inventory taking account of age, using predefined formulae derived from actual experience.

Pensions and other post-employment benefits

The pension deficits are calculated by independent qualified actuaries, based on actual payroll data and certain actuarial assumptions. These actuarial assumptions are made to model potential future costs and benefits and include; life expectancy, rates of returns on plan assets, inflation, discount rate and expected retirement age. These assumptions are reviewed on an annual basis and may change based on current market data. Changes in assumptions could lead to additional actuarial gains and losses being recognised. Further information is available about pensions in note 34.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

Capitalisation of internal costs

Internal costs constitute a significant portion of the costs capitalised within property, plant and equipment. Management's judgment is required to be exercised in the allocation of operational overheads and support costs such as senior management resources, depreciation, information technology, etc. For this purpose, a Cost Reflectivity Model is used to collate costs and to book them (using appropriate cost drivers) to cost centres and (in the case of capital projects) to service orders associated with projects listed on the Network Asset Management Plan. The range of cost drivers includes timesheets, direct costs, number of customers, square footage occupied, etc. The use of drivers is kept under regular review to ensure that allocations are performed on a rational, consistent and transparent basis.

Depreciation of property, plant and equipment

Management's estimates of the useful lives of various categories of assets are listed in note 2. Since the assumed lives of certain categories of assets are extremely long (in excess of 40 years), there is an element of uncertainty in the resulting annual depreciation charge.

Taxation

Management has exercised judgement in its assessment of the probability of reversal of certain temporary differences (e.g. relating to holdover relief) which may have an impact on the value of deferred tax liabilities.

Service concession arrangements

The Group's service concessions within the scope of IFRIC 12 are determined to be financial assets on the basis that the Group has a contractual right to receive cash or another financial asset from or at the direction of the grantor, and substantially all the revenue is received from the Grantor on an "availability" basis.

Under the guidance of IAS 39, Financial Instruments: Measurement and Recognition, the financial asset is accounted for as either a loan or receivable or as an available-for-sale financial asset. A loan and receivable is appropriate where there are fixed and determinable payments and the operator will recover substantially all of the initial investment, other than because of credit deterioration.

The Directors are of the opinion that loans and receivables is the appropriate accounting treatment for the majority of these assets, due to the nature of the underlying service concessions.

Customer contributions

Contributions made by customers towards the cost of connecting their premises to the electricity networks are recognised at fair value and included in property, plant and equipment.

4. SEGMENT INFORMATION

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The segments have been identified in line with internal reporting reviewed by the Group management.

Regulated Electricity Distribution Network:

Activities related to the transfer of electricity from where it is received in bulk, across the distribution systems and its delivery to consumers.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

4. SEGMENT INFORMATION (cont'd)

Non-regulated Infrastructure Projects:

Activities related to the operation, maintenance and expansion of public and private electrical distribution systems. This segment also includes electrical contracting work.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

All revenue transactions take place, and all assets and liabilities are located, in the United Kingdom.

Included in the revenue of the Regulated Electricity Distribution Network segment are sales to the Group's largest customer totalling £90.3m in the three months ended 31 March 2010 (Year ended 31 December 2009: £299.4m, 2008: £284.0m, 2007: £267.3m). This customer represents more than 10% of the Group's revenue.

The same segment also includes sales to the Group's second largest customer, which also exceeded 10% of the Group turnover, totalling £53.8m in the three months ended 31 March 2010 (Year ended 31 December 2009: £187.8m, 2008: £212.2m, 2007: £198.7m).

Group segmental analysis – 31 December 2007:

£m	**Regulated electricity distribution network operation**	**Unregulated infrastructure projects**	**Eliminations**	**Combined**
Revenue	1,183.3	293.5	–	1,476.8
Inter-segment sales	5.2	15.4	(20.6)	–
Total revenue	1,188.5	308.9	(20.6)	1,476.8
Write off of debtor balances relating to the Metronet contract	–	(19.2)	–	(19.2)
Share of results of jointly controlled entities	–	2.4	–	2.4
Operating profit	695.0	(22.5)	–	672.5
Investment revenue	22.1	33.7	–	55.8
Finance costs	(114.1)	(13.6)	–	(127.7)
Profit before taxation	603.0	(2.4)	–	600.6
Balance sheet				
Reportable segment assets	4,844.4	1,705.0	(43.8)	6,505.6
Reportable segment liabilities	(3,383.1)	(1,288.4)	43.8	(4,627.7)
Other information				
Capital expenditure	677.8	4.4	–	682.2
Depreciation charged to operating profit	135.3	2.2	–	137.5

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

4. SEGMENT INFORMATION (cont'd)

Group segmental analysis – 31 December 2008:

£m	**Regulated electricity distribution network operation**	**Unregulated infrastructure projects**	**Eliminations**	**Combined**
Revenue	1,285.0	197.5	–	1,482.5
Inter-segment sales	10.7	14.0	(24.7)	–
Total revenue	1,295.7	211.5	(24.7)	1,482.5
Share of results of jointly controlled entities	–	1.1	–	1.1
Operating profit	746.3	11.1	–	757.4
Investment revenue	7.5	60.1	–	67.6
Finance costs	(109.8)	(11.7)	–	(121.5)
Profit before taxation	644.0	59.5	–	703.5
Balance sheet				
Reportable segment assets	5,329.8	1,724.0	(49.0)	7,004.8
Reportable segment liabilities	(3,598.6)	(1,279.6)	49.0	(4,829.2)
Other information				
Capital expenditure	788.7	0.5	–	789.2
Depreciation charged to operating profit	151.5	2.2	–	153.7

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

4. SEGMENT INFORMATION (cont'd)

Group segmental analysis – 31 December 2009:

£m	Regulated electricity distribution network operation	Unregulated infrastructure projects	Eliminations	Combined
Revenue	1,265.9	195.8	–	1,461.7
Inter-segment sales	8.0	16.5	(24.5)	–
Total revenue	1,273.9	212.3	(24.5)	1,461.7
Share of results of jointly controlled entities	–	1.1	–	1.1
Operating profit	721.8	37.4	–	759.2
Investment revenue	0.6	34.6	–	35.2
Finance costs	(121.8)	(3.8)	–	(125.6)
Profit before taxation	600.6	68.2	–	668.8
Balance sheet				
Reportable segment assets	6,282.7	1,753.8	(48.0)	7,988.5
Reportable segment liabilities	(4,460.5)	(1,266.6)	48.0	(5,679.1)
Other information				
Capital expenditure	836.9	1.4	–	838.3
Depreciation charged to operating profit	166.4	2.1	–	168.5

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

4. SEGMENT INFORMATION (cont'd)

Group segmental analysis – 31 March 2009 (unaudited):

£m	Regulated electricity distribution network operation	Unregulated infrastructure projects	Eliminations	Combined
Revenue	347.8	54.3	–	402.1
Inter-segment sales	2.2	3.1	(5.3)	–
Total revenue	350.0	57.4	(5.3)	402.1
Share of results of jointly controlled entities	–	0.1	–	0.1
Operating profit	208.4	4.9	–	213.3
Investment revenue	0.1	10.1	–	10.2
Finance costs	(33.5)	(1.1)	–	(34.6)
Profit before taxation	175.0	13.9	–	188.9
Balance sheet				
Reportable segment assets	5,549.3	1,743.0	(32.5)	7,259.8
Reportable segment liabilities	(3,757.8)	(1,297.9)	32.5	(5,023.2)
Other information				
Capital expenditure	189.7	0.2	–	189.9
Depreciation charged to operating profit	38.5	0.5	–	39.0

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

4. SEGMENT INFORMATION (cont'd)

Group segmental analysis – 31 March 2010:

£m	Regulated electricity distribution network operation	Unregulated infrastructure projects	Eliminations	Combined
Revenue	350.5	39.0	–	389.5
Inter-segment sales	1.9	3.4	(5.3)	–
Total revenue	352.4	42.4	(5.3)	389.5
Share of results of jointly controlled entities	–	0.3	–	0.3
Operating profit	210.5	7.2	–	217.7
Investment revenue	0.4	8.1	–	8.5
Finance costs	(42.7)	(0.8)	–	(43.5)
Profit before taxation	168.2	14.5	–	182.7
Balance sheet				
Reportable segment assets	6,417.8	1,743.1	(36.6)	8,124.3
Reportable segment liabilities	(4,484.3)	(1,286.2)	36.6	(5,733.9)
Other information				
Capital expenditure	191.8	–	–	191.8
Depreciation charged to operating profit	43.3	0.4	–	43.7

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

5. REVENUE

An analysis of the Group's revenue is as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
£m				(unaudited)	
Sales of goods and services[1]	1,434.1	1,428.4	1,406.6	390.2	371.7
Revenue from long term contracts (note 20)	40.9	51.7	54.0	13.6	17.0
Other revenue[2]	1.8	2.4	1.1	(1.7)	0.8
Per combined income statements	1,476.8	1,482.5	1,461.7	402.1	389.5
Other operating income[3]	1.1	0.5	7.7	0.4	0.3
Investment revenue (note 10)	55.8	67.6	35.2	10.2	8.5
Total revenue	1,533.7	1,550.6	1,504.6	412.7	398.3

[1] Includes DUoS and contributions from customers.

[2] The negative revenue reported in the three months ended 31 March 2009 reflects the revision of a prior-period estimate.

[3] Other operating income relates to the profit on disposal of non-current assets.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

6. PROFIT BEFORE TAXATION

Profit before taxation for the year has been arrived at after charging/(crediting) the following expenses and income:

	For the year ended 31 December			For the three months ended 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
£m				(unaudited)	
Research and development costs	4.5	3.4	3.5	1.9	1.8
Depreciation of property, plant and equipment	137.5	153.7	168.5	39.0	43.7
Staff costs	229.4	220.5	238.8	58.1	63.7
Auditors' remuneration for audit services (see below)	0.3	0.3	0.4	0.1	0.1
Auditors' remuneration for non-audit services (see below)	0.1	0.1	0.1	0.1	0.1
Cost of inventories recognised as expense	85.2	86.7	83.3	19.3	20.7
Operating lease rentals	26.5	26.1	24.7	6.4	6.2
Rental income under operating leases[1]	(9.9)	(11.9)	(11.8)	(2.9)	(2.7)
Movement in bad and doubtful debt allowance	5.5	(0.6)	(1.8)	(0.6)	1.3
Impairment losses recognised on trade receivables	0.4	0.6	0.5	–	–
Reversal of impairment losses recognised on trade receivables	–	–	–	–	(0.1)
Write off of debtor balances relating to the Metronet contract[2]	19.2	–	–	–	–
Provision/(Release of provision) for losses on major contracts	5.7	–	(3.9)	–	–
Profit on disposal of property, plant and equipment	(1.1)	(0.5)	(7.7)	(0.4)	(0.3)

1 Included within turnover in note 5 on the Sales of goods and services line.

2 During the year ended 31 December 2007, a sum of £19.2m was written off the Trans4m Limited debtor balances as a result of two companies within the Metronet group of companies entering into administration. Trans4m Limited was a sub-contractor for the two Metronet companies and terminated its contracts based upon Metronet's insolvency.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

6. PROFIT BEFORE TAXATION (cont'd)

The analysis of Auditors' remuneration is as follows:

	For the year ended 31 December			For the three months ended 31 March	
£m	**2007**	**2008**	**2009**	**2009** (unaudited)	**2010**
Fees payable to the Group's auditors for the audit of the Group accounts	0.3	0.3	0.4	0.1	0.1
Total audit fees	0.3	0.3	0.4	0.1	0.1
Other services pursuant to legislation (regulatory accounts)	0.1	0.1	0.1	0.1	0.1
Total non-audit fees	0.1	0.1	0.1	0.1	0.1
Total fees	0.4	0.4	0.5	0.2	0.2

7. DIRECTORS' EMOLUMENTS

£m Name of Director	Fees	Salary	Inducement fees	Other benefits	Employer contribution to pension scheme	Compensation for loss of office	Total
For the year ended 31 December 2007							
H Cadoux-Hudson	–	–	–	–	–	–	–
V de Rivaz	–	–	–	–	–	–	–
R Higson	–	–	–	–	–	–	–
A Dalton	–	–	–	–	–	–	–
P Cuttill	–	–	–	–	–	–	–
M Dyke	–	–	–	–	–	–	–
S Date	–	–	–	–	–	–	–
I Rylatt	–	–	–	–	–	–	–
R Lane	–	–	–	–	–	–	–
K Morton	–	–	–	–	–	–	–
M Ross	–	–	–	–	–	–	–
C Spencer	–	–	–	–	–	–	–
B Walker	–	–	–	–	–	–	–

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

7. DIRECTORS' EMOLUMENTS (cont'd)

£m **Name of Director**	**Fees**	**Salary**	**Inducement fees**	**Other benefits**	**Employer contribution to pension scheme**	**Compensation for loss of office**	**Total**
For the year ended 31 December 2008							
H Cadoux-Hudson	–	–	–	–	–	–	–
R Higson	–	–	–	–	–	–	–
L Ferrari	–	–	–	–	–	–	–
P Cuttill	–	–	–	–	–	–	–
P Clarke	–	–	–	–	–	–	–
M Dyke	–	–	–	–	–	–	–
V de Rivaz	–	–	–	–	–	–	–
I Rylatt	–	–	–	–	–	–	–
R Lane	–	–	–	–	–	–	–
B Walker	–	–	–	–	–	–	–
For the year ended 31 December 2009							
H Cadoux-Hudson	–	–	–	–	–	–	–
L Ferrari	–	–	–	–	–	–	–
T Kusterer	–	–	–	–	–	–	–
R Higson	–	–	–	–	–	–	–
J Souto	–	–	–	–	–	–	–
C Baker	–	–	–	–	–	–	–
J-N Reimeringer	–	–	–	–	–	–	–
P Clarke	–	–	–	–	–	–	–
V de Rivaz	–	–	–	–	–	–	–
R Lane	–	–	–	–	–	–	–
D Mitchell	–	–	–	–	–	–	–
B Walker	–	–	–	–	–	–	–
For the period ended 31 March 2009							
H Cadoux-Hudson	–	–	–	–	–	–	–
R Higson	–	–	–	–	–	–	–
J Souto	–	–	–	–	–	–	–
C Baker	–	–	–	–	–	–	–
J-N Reimeringer	–	–	–	–	–	–	–
P Clarke	–	–	–	–	–	–	–
V de Rivaz	–	–	–	–	–	–	–
R Lane	–	–	–	–	–	–	–
D Mitchell	–	–	–	–	–	–	–
B Walker	–	–	–	–	–	–	–
For the period ended 31 March 2010							
L Ferrari	–	–	–	–	–	–	–
T Kusterer	–	–	–	–	–	–	–
J Souto	–	–	–	–	–	–	–
C Baker	–	–	–	–	–	–	–
J-N Reimeringer	–	–	–	–	–	–	–
V de Rivaz	–	–	–	–	–	–	–
R Lane	–	–	–	–	–	–	–
D Mitchell	–	–	–	–	–	–	–
B Walker	–	–	–	–	–	–	–

All of the directors' remuneration was borne by the parent company for each of the financial periods presented.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

8. STAFF COSTS

Staff costs arising during the year/period were as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
£m				(unaudited)	
Wages and salaries	181.7	193.1	200.3	48.4	51.5
Social security costs	15.8	16.6	17.7	4.6	4.5
Pension costs (note 34)	28.1	7.4	16.7	4.1	7.7
Cost of granting shares to employees	1.0	2.5	1.5	0.4	–
Severance	2.8	0.9	2.6	0.6	–
	229.4	220.5	238.8	58.1	63.7

The monthly average number of employees during the year/period was as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
Number				(unaudited)	
Regulated Electricity Distribution Network Operation	3,704	3,922	4,208	4,093	4,291
Non-regulated Infrastructure Projects	1,921	1,143	967	1,019	894
	5,625	5,065	5,175	5,112	5,185

In accordance with EDF's Human Resources policies, senior staff above a certain level of management are employed directly by the parent company rather than by the subsidiary companies where they work.

The actual cost of employing them is invoiced monthly by the parent company under a service agreement, as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
£m				(unaudited)	
Cost of senior managers invoiced by the parent company	10.4	7.0	7.0	2.0	2.1

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

9. EMPLOYEE SHARE OFFERING

ACT 2007 scheme

On 30 August 2007 the ultimate parent company, EDF S.A. announced Actions pour Tous (ACT) 2007, the Free Award Share Plan. This plan entitled all persons who, on 30 August 2007, were bound by an employment contract with EDF Energy or one of its subsidiaries, to free distribution EDF S.A. ordinary shares in accordance with the Rules and Regulations of the plan. Each beneficiary was notified of the number of shares, the vesting and holding periods applicable to them and had right of refusal of the plan. Each employee who agreed to take part in the plan was guaranteed to receive 10 free shares plus an additional number of shares proportional to their salary, calculated on the basis of the actual June 2007 annual salary. The award of shares was dependent on the employee remaining in continuous employment within the Group for two years, and also relied on the EDF S.A. group achieving certain financial targets.

The table below shows the movements relating to the share scheme during the year/period.

	For the year ended 31 December			For the three months ended 31 March	
	2007	2008	2009	2009	2010
£m				(unaudited)	
At 1 January	–	(0.2)	0.5	0.5	–
Granted during the year/period	1.0	2.5	1.5	0.4	–
Revaluation	(1.2)	(1.8)	(2.3)	(0.6)	–
Cumulative loss transferred to retained earnings (note 31)	–	–	0.3	–	–
Balance carried forward in capital reserves (note 30)	(0.2)	0.5	–	0.3	–

The value of the shares "Granted during the year/period" represents the charge in the combined income statements. This is computed using the share price (base price) on date of announcement of the plan in August 2007, namely €72.50 or £48.99 per share and charged to the combined income statements pro-rata over the two-year vesting period. The "Revaluation" line is the cost of the shares at current market price, which is also accrued pro-rata over the vesting period. The net "Balance carried forward in capital reserves" represents the cumulative difference between the two valuations. Upon completion of the vesting period in August 2009, the adverse balance of £0.3m was transferred to retained earnings. During 2009, the Group paid £5.2m to EDF S.A., in exchange for 96,529 shares given to Group employees.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

10. INVESTMENT REVENUE

	For the year ended 31 December			For the three months ended 31 March	
	2007	2008	2009	2009	2010
£m				(unaudited)	
Interest on bank deposits	5.8	9.4	1.1	0.6	0.5
Dividends from unlisted equity investments[1]	–	21.7	–	–	–
Net interest return on pension scheme	11.2	–	–	–	–
Finance income receivable under service concessions	29.1	32.2	32.0	7.8	8.0
Interest on loans to related parties	9.6	1.6	0.3	–	–
Other finance income	0.1	–	–	–	–
Profit on sale of subsidiaries	–	2.7	1.8	1.8	–
Total investment revenue	55.8	67.6	35.2	10.2	8.5

[1] Includes £20.6m received from SEEBOARD Trading Limited prior to disposal in 2008.

11. FINANCE COST

	For the year ended 31 December			For the three months ended 31 March	
	2007	2008	2009	2009	2010
£m				(unaudited)	
Interest on					
Borrowings wholly repayable within five years	29.9	41.5	28.4	8.8	5.0
Borrowings not wholly repayable within five years	107.2	89.8	84.8	22.7	35.5
Net interest cost on pension scheme	–	3.2	22.5	5.6	5.9
Total finance cost	137.1	134.5	135.7	37.1	46.4

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

11. FINANCE COST (cont'd)

The details of the finance cost are as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
£m				(unaudited)	
Interest on bank loans and overdrafts	12.0	9.7	10.1	4.1	0.7
Interest on bonds[1]	107.2	107.3	102.3	27.0	39.8
Interest on other loans	0.7	0.1	0.2	0.1	–
Interest on loans from related parties	17.2	14.2	0.7	0.3	–
Net interest cost on pension scheme	–	3.2	22.4	5.6	5.9
Total finance cost	137.1	134.5	135.7	37.1	46.4
Less: amounts included in the cost of qualifying assets[2]	(9.4)	(13.0)	(10.1)	(2.5)	(2.9)
Total borrowing costs	127.7	121.5	125.6	34.6	43.5
Weighted average interest rates used for capitalisation of interest costs[3]	6.7%	7.0%	5.1%	6.0%	6.2%

1 A temporary reduction in interest costs in 2009 resulted from a sharp fall in the inflation rate, which reduced the effect of accretion on index linked borrowing.

2 Borrowing costs included in the cost of qualifying assets during the reported periods arose on the general borrowing pool at interest rates per above.

3 The variability of interest rates reflects changes in the mix of fixed-interest-rate borrowing instruments over the period, in addition to the use of variable rate loans and overdrafts.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

12. TAXATION

(a) Analysis of tax charge in the year/period

	For the year ended 31 December			For the three months ended 31 March	
	2007	2008	2009	2009	2010
£m				(unaudited)	
Current tax					
UK corporation tax	108.5	105.0	97.6	27.5	36.2
Adjustments in respect of previous years	(2.9)	(14.9)	(17.8)	(5.1)	–
Total current tax expense	105.6	90.1	79.8	22.4	36.2

	For the year ended 31 December			For the three months ended 31 March	
	2007	2008	2009	2009	2010
£m				(unaudited)	
Deferred tax					
Current year/period	62.9	83.8	88.4	25.0	14.7
Adjustment in respect of previous years[1]	(42.7)	39.1	5.6	1.4	(1.1)
Total deferred tax charge (note 25)	20.2	122.9	94.0	26.4	13.6
Income tax expense reported in combined income statements (note 12(b))	125.8	213.0	173.8	48.8	49.8

[1] The adjustment to prior year deferred tax in 2007 includes a £45.7m credit arising from a reduction in the mainstream rate of corporation tax from 30% to 28%. The adjustment to the prior year deferred tax in 2008 includes a £24.9m charge arising from the abolition of Industrial Building Allowances.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

12. TAXATION (cont'd)

(b) The charge for the year/period can be reconciled to the profit per the combined income statements as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
£m				(unaudited)	
Profit before taxation	(600.6)	(703.5)	(668.8)	(188.9)	(182.7)
Less: share of results of jointly controlled entities	2.4	1.1	1.1	0.1	0.3
	(598.2)	(702.4)	(667.7)	(188.8)	(182.4)
Tax at the UK corporation tax rate of (2007: 30%, 2008: 28.5%, 2009: 28%, 2010: 28%)	179.4	200.1	186.9	52.8	51.2
Effect of:					
Non-deductible expenses and non-taxable income	(3.6)	(10.0)	(0.9)	(0.3)	(0.3)
Adjustment to prior year corporation tax charge	(2.9)	(14.9)	(17.8)	(5.1)	–
Adjustment to prior year deferred tax charge	(42.7)	39.1	5.6	1.4	(1.1)
Current year effect of deferred tax rate change	(4.4)	(1.3)	–	–	–
Income tax expense reported in combined income statements	125.8	213.0	173.8	48.8	49.8

The effective rate of tax before special items and re-measurements for the period ended 31 March 2010 was 27.3% (31 March 2009: 28.0%, 31 December 2009: 26.0%, 2008: 30.3%, 2007: 21.0%).

13. DIVIDENDS

	For the year ended 31 December			For the three months ended 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
£m				(unaudited)	
Amounts recognised as distributions to equity holders in the year/period (note 31):					
Interim dividend paid	–	130.0	45.0	–	–
	–	130.0	45.0	–	–

No disclosure is included in respect of dividends per share, because the invested capital of the Combined Group (note 29) reflects the aggregation of multiple entities, rather than the share capital of a sole parent company.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

14. PROPERTY, PLANT AND EQUIPMENT

£m	Land and buildings	Network assets	Motor vehicles	Equipment and fittings	Total
Cost					
At 1 January 2007	68.6	5,735.8	54.5	245.3	6,104.2
Additions	14.0	640.6	14.0	13.6	682.2
Disposals	(3.4)	(27.6)	(5.3)	(0.1)	(36.4)
At 1 January 2008	79.2	6,348.8	63.2	258.8	6,750.0
Additions	2.9	749.5	15.6	21.2	789.2
Disposals	–	(13.9)	(6.0)	(0.6)	(20.5)
At 1 January 2009	82.1	7,084.4	72.8	279.4	7,518.7
Additions	2.6	801.0	11.9	22.8	838.3
Disposals	(0.5)	(36.8)	(8.3)	(1.5)	(47.1)
At 1 January 2010	84.2	7,848.6	76.4	300.7	8,309.9
Additions	0.3	186.7	2.1	2.7	191.8
Disposals	–	(9.7)	(2.2)	–	(11.9)
At 31 March 2010	84.5	8,025.6	76.3	303.4	8,489.8
Accumulated depreciation					
At 1 January 2007	17.0	1,934.6	24.3	194.7	2,170.6
Depreciation charge for the year	2.1	109.9	7.8	17.7	137.5
Disposals	(0.5)	(26.0)	(4.9)	(0.1)	(31.5)
At 1 January 2008	18.6	2,018.5	27.2	212.3	2,276.6
Depreciation charge for the year	1.5	121.3	9.0	21.9	153.7
Disposals	–	(13.6)	(5.5)	(0.3)	(19.4)
At 1 January 2009	20.1	2,126.2	30.7	233.9	2,410.9
Depreciation charge for the year	1.4	135.4	10.4	21.3	168.5
Disposals	–	(36.2)	(7.6)	(1.5)	(45.3)
At 1 January 2010	21.5	2,225.4	33.5	253.7	2,534.1
Depreciation charge for the period	0.3	35.0	2.8	5.6	43.7
Disposals	–	(9.6)	(2.1)	–	(11.7)
At 31 March 2010	21.8	2,250.8	34.2	259.3	2,566.1
Carrying amount					
At 31 March 2010	62.7	5,774.8	42.1	44.1	5,923.7
At 31 December 2009	62.7	5,623.2	42.9	47.0	5,775.8
At 31 December 2008	62.0	4,958.2	42.1	45.5	5,107.8
At 31 December 2007	60.6	4,330.3	36.0	46.5	4,473.4

Included in the cost of network assets at 31 March 2010 are assets in the course of construction totalling £229.5m (31 December 2009: £165.0m, 2008: £233.3m, 2007: £227.7m), and idle assets awaiting installation of £3.7m (31 December 2009: £3.6m, 2008: £5.3m, 2007: £6.0m).

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The land and buildings are located outside Hong Kong, and the following table provides the lease term of the land and buildings.

£m	As at 31 December			As at 31 March
	2007	**2008**	**2009**	**2010**
Freehold	58.9	60.4	61.1	61.1
Short leasehold	1.7	1.6	1.6	1.6
Total	60.6	62.0	62.7	62.7

15. INVESTMENTS

Investments in entities not combined in these financial statements are as follows:

£m	Shares	Loans	Total
At 1 January 2007 and 1 January 2008	10.3	0.5	10.8
Increase in investments	1.0	–	1.0
Disposal of SEEBOARD Trading Limited[1]	(10.0)	–	(10.0)
Repayments of loans	–	(0.2)	(0.2)
At 1 January 2009	1.3	0.3	1.6
Increase in investments	0.2	–	0.2
Disposal of Longfield Insurance Company Limited[2]	(0.5)	–	(0.5)
Repayments of loans	–	(0.3)	(0.3)
At 1 January 2010	1.0	–	1.0
Increase in investments	0.2	–	0.2
At 31 March 2010	1.2	–	1.2

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

15. INVESTMENTS (cont'd)

The above disclosure includes non-controlling interests in a number of small undertakings as well as the following wholly owned subsidiaries at cost:

Name of subsidiary	Class of shares	Proportion of ownership interest	Proportion of voting power held	Carrying value	Principal activity
SEEBOARD Trading Limited[1]	Ordinary	100%	100%	£10,000,000	Holding company
Longfield Insurance Company Limited[2]	Ordinary	100%	100%	£500,000	Insurance
EDF Energy (Projects) Limited[3]	Ordinary	100%	100%	£10,000	Investment company
EDF Energy (Metro Holdings) Limited[3]	Ordinary	100%	100%	£2	Investment company

All the companies are registered in Great Britain.

Information regarding the post-acquisition results of the investments in entities not combined in these financial statements has not been disclosed as required by Tenth Schedule to the Hong Kong Companies Ordinance as the results are insignificant.

[1] SEEBOARD Trading Limited together with its Lighting Contractor subsidiary companies were sold in 2008 for a consideration of £12.7m at a profit of £2.7m (note 10).

[2] Longfield Insurance Company Limited was liquidated in 2009, generating proceeds of £2.3m and a profit of £1.8m (note 10). This entity was inactive since the EDF S.A. group's acquisition of the SEEBOARD group in 2002, having formerly functioned as a captive insurance company underwriting warranties for household appliances sold through the retail outlets of SEEBOARD Trading Limited.

[3] EDF Energy (Projects) Limited and EDF Energy (Metro Holdings) Limited were still held by the Group as at 31 March 2010 but have not been combined because they are not included in the sale group. These shareholdings will be transferred at book value to other EDF group companies as part of pre sale restructuring.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 31 March 2010 the Group has the following interests in jointly controlled entities:

Name of jointly controlled entity	Class of shares	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held
Trans4m Limited[1]	Ordinary	Great Britain	25.0%	25.0%
PADCo	Ordinary	Great Britain	50.0%	50.0%
MUJV Limited	Ordinary	Great Britain	49.9%	49.9%

[1] The Group's share in the jointly controlled entity, Trans4m Limited, is not included in the sale group and will be transferred to another EDF group company as part of pre sale restructuring. It is therefore included at its cost of thirty pounds sterling. The remaining jointly controlled entities are combined using the equity accounting method.

The assets, liabilities, revenue and net profit of the jointly controlled entities, the Group's share of which is included in the Combined Financial Statements via the equity method of accounting, are as follows:

	As at 31 December			As at 31 March	
	2007	2008	2009	2009	2010
£m				(unaudited)	
Total assets	162.0	160.0	142.6	151.0	139.6
Total liabilities	(156.6)	(162.4)	(141.4)	(153.2)	(140.0)
Net assets/(liabilities)	5.4	(2.4)	1.2	(2.2)	(0.4)
Revenue	11.8	8.0	10.0	1.8	2.0
Net profit	4.8	2.2	2.2	0.2	0.6
Group Share					
Net assets of the jointly controlled entities[1]	2.7	(1.2)	0.6	(1.1)	(0.2)
Profit of the jointly controlled entities for the year/period	2.4	1.1	1.1	0.1	0.3
Reserve movements of the jointly controlled entities for the year/period	(0.1)	(4.0)	1.5	–	(0.9)

In accordance with contractual obligations with financial institutions, PADCo and EDF Energy Powerlink Limited are required to maintain a minimum cash balance of £46.5m (2009: £46.5m, 2008: £47.0m, 2007: £45.4m).

[1] The negative net asset position of the jointly controlled entities as at 31 December 2008, 31 March 2009 and 31 March 2010 is the result of the fluctuations in the fair value of the long term interest rate swaps in PADCo. Management's view is that PADCo's underlying financial position is sound, and that it is therefore appropriate to continue to apply the equity accounting method. Ceasing to apply the equity method would have no material effect on the Combined Financial Statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

17. SERVICE CONCESSION RECEIVABLES

£m	2007	As at 31 December 2008	2009	As at 31 March 2010
Current receivables (recoverable within 12 months)	32.3	31.6	38.8	39.0
Non-current receivables (recoverable after more than 12 months)	315.7	306.6	307.2	308.0
	348.0	338.2	346.0	347.0

The Group operates five service concession arrangements in the Rail and Airport sectors. These contracts have been accounted for in accordance with IFRIC 12 and IAS 11. The financial assets represented by the amounts recoverable from grantors under the terms of the concession agreements are classified as loans and receivables, and are carried at amortised cost.

The net book value of the installed plant and equipment, which serves as collateral against payment default by the lessee, is £337.0m as at 31 March 2010 (31 December 2009: £338.3m, 2008: £345.2m, 2007: £364.8m). Management considers that the fair value of these assets is approximately equal to their net book value.

An average effective rate of return of 8.8% (2009: 8.8%, 2008: 8.8%, 2007: 8.8%) is generated by the service concession receivables.

The concessions vary as to the nature of the asset but typically require the construction and operation of an electricity distribution network during the concession period. The concession may require the acquisition or replacement of an existing asset or the construction of a new asset. At the end of the concession period the ownership of the assets reverts to the concession provider.

The rights of both the concession grantor and concession operator are stated within the specific project documentation. The base remuneration under all the concession contracts is linked to the Retail Price Index, and there is no provision for re-pricing or re-negotiation. The standard rights of the provider to terminate the project include poor performance and in the event of force majeure. The operator's rights to terminate include the failure of the provider to make payment under the agreement, a material breach of contract and relevant changes of law which would render it impossible for the service company to fulfil its requirements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

17. SERVICE CONCESSION RECEIVABLES (cont'd)

The table below sets out the Group's economic interests in concessions.

Contract	Short description of concession arrangements and service obligations	Start date	End date	Duration of concession	Obligations to incur capital expenditure
BAA and Global Infrastructure Partners (GIP)	Asset ownership, capital projects and operational maintenance, covering London's Heathrow, Gatwick and Stansted airports.	1993	2083	90 years	Contract requires replacement of life-expired assets.
London City Airport (LCY)	Ownership, design, finance, construction, installation, operation maintenance and replacement of electrical infrastructure at LCY.	2003	2033	30 years	Contract requires replacement of life-expired assets.
Channel Tunnel Rail Link (CTRL)	Construction, ownership, operation and maintenance of the electrical distribution systems for two sections of the CTRL, including bearing the risk of asset replacement. Construction was completed in 2007.	South section: 1996 North section: 2003	South section: 2053 North section: 2057	56 years (Original term)	Replacement of the assets is projected to be carried out once in the life of the contract.
London Underground	Private Finance Initiative ("PFI") contract for the operation, maintenance and renewal of London Underground's private distribution network. Includes a partnership for construction of new electrical infrastructure for the Victoria Line Upgrade (VLU)	1998 (VLU 2007)	2028 (VLU 2010)	30 years (VLU 3 years)	None
Docklands Light Railway (DLR)	Ownership, operation and maintenance of the electrical distribution assets on the DLR Lewisham extension. Assets were acquired upon completion of construction in April 1999.	1996	2021	25 years	Contract requires replacement of life-expired assets.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

18. INVENTORIES

£m	As at 31 December 2007	2008	2009	As at 31 March 2010
Raw materials and consumables	23.8	22.6	21.8	20.4
Work in progress	31.2	25.3	13.5	13.9
	55.0	47.9	35.3	34.3

19. TRADE AND OTHER RECEIVABLES

£m	As at 31 December 2007	2008	2009	As at 31 March 2010
Trade receivables (i)	130.0	151.5	139.1	140.4
Allowance for doubtful debts (ii)	(19.6)	(19.0)	(17.2)	(18.5)
Amounts due under long term contracts (note 20)	0.7	1.0	2.4	1.3
Prepayments	36.6	36.2	21.5	14.8
Unbilled revenue	11.2	24.2	27.8	25.7
Amounts owed by other EDF group companies (iii)	972.1	965.4	975.3	983.8
Other debtors	6.4	3.6	5.0	4.0
	1,137.4	1,162.9	1,153.9	1,151.5

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

19. TRADE AND OTHER RECEIVABLES (cont'd)

(i) The majority of trade receivables are non-interest bearing and are generally on 14-day terms. Interest is applied to major accounts when the accounts become overdue. For further information relating to related party receivables, refer to note 36. The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

The following table provides an analysis of the ageing of trade receivables and the average debtor days:

£m		As at 31 December		As at 31 March
	2007	**2008**	**2009**	**2010**
Not overdue	96.8	118.9	102.5	103.2
1-30 days	9.7	7.6	13.3	10.0
31-60 days	3.5	5.2	2.6	2.5
61-120 days	3.7	3.2	4.3	5.6
121-365 days	5.2	4.8	8.1	7.0
Over 366 days	11.1	11.8	8.3	12.1
Total overdue debt	33.2	32.6	36.6	37.2
Total trade receivables	130.0	151.5	139.1	140.4
Average debtor days	32.3 days	37.7 days	35.1 days	33.3 days

Provisions have been established against these balances to the extent that they are not considered recoverable, and in accordance with the Group's policy on bad and doubtful debt provisioning. See note (ii) below for further details of the bad and doubtful debt allowance.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

19. TRADE AND OTHER RECEIVABLES (cont'd)

(ii) The following table provides an analysis of the movement in the allowance for bad and doubtful debts:

£m		As at 31 December		As at 31 March
	2007	**2008**	**2009**	**2010**
Balance at 1 January	14.1	19.6	19.0	17.2
Increase in allowance recognised in the combined income statements	9.3	3.5	5.0	2.7
Decrease due to lower overdue receivables	(3.8)	(4.1)	(6.8)	(1.4)
Closing balance	19.6	19.0	17.2	18.5
% of overdue debt (see preceding table)	60%	58%	47%	50%

The general policy is to provide against balances aged over 60 days except in cases where the income associated with the debtor is deferred in which case no provision is necessary. Further, no provision is required in respect of the Value Added Tax included (at a rate between 15% and 17.5%) in approximately 90% of the receivable balances. The allowance for doubtful debts covers over 80% of the trade receivables balance aged over 60 days (excluding Value Added Tax) for all periods reported.

(iii) The following table provides an analysis of the ageing of trade balances, including unbilled receivables, owed by other EDF group companies:

£m		As at 31 December		As at 31 March
	2007	**2008**	**2009**	**2010**
1-30 days	30.9	27.4	24.8	26.1
31-60 days	18.8	15.6	16.0	15.5
Total	49.7	43.0	40.8	41.6

The credit policy applicable to the Group's intercompany trading balances is as follows. The regulated Distribution Network Operators are required to apply the same credit policy to intercompany customers as to third parties. This provides for 14 days credit terms for DUoS and most other charges. All other intercompany balances recorded by both parties to a transaction as at the monthly cut-off date are settled by the middle of the following month. The balances aged 31-60 days represent receivables which were unbilled at the previous month-end.

The following table provides the maximum amount outstanding during the year/period in respect of the amounts owed by other EDF group companies in which the directors have beneficial interest/control:

£m		For the year ended 31 December		For the three months ended 31 March
	2007	**2008**	**2009**	**2010**
Maximum amount	972.1	972.1	975.3	983.8

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

20. LONG TERM CONTRACTS

	As at 31 December			As at 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
£m				(unaudited)	
Contracts in progress at balance sheet date:					
Amounts due from contract customers included in trade and other receivables (note 19)	0.7	1.0	2.4	1.6	1.3
Amounts due to contract customers included in other liabilities (note 22)	(43.7)	(62.3)	(72.9)	(70.4)	(73.4)
	(43.0)	(61.3)	(70.5)	(68.8)	(72.1)
Contract costs incurred plus recognised profits less recognised losses to date	349.9	402.6	462.4	426.4	478.4
Less: progress billings	(392.9)	(463.9)	(532.9)	(495.2)	(550.5)
	(43.0)	(61.3)	(70.5)	(68.8)	(72.1)
Revenue recognised under long term contracts	40.9	51.7	54.0	13.6	17.0

There are a number of long term PFI and Public-Private Partnership ("PPP") contracts within the Group. The Powerlink contract which ends in 2028 is part of a PFI consortium which includes the refurbishment of the legacy infrastructure assets for London Underground. The Allenby contract is a PFI electrical infrastructure contract with the Ministry of Defence, ending in 2041. Inflation rate risk arises from these long term contracts because revenue streams are generally based on the retail price index and index of average earnings, but costs generally rise based on the construction price index.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

21. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 31 March
£m	**2007**	**2008**	**2009**	**2010**
Cash at bank and in hand	323.5	336.1	379.0	394.5
Short term deposits	154.8	6.3	285.5	271.5
	478.3	342.4	664.5	666.0

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The fair value of cash and cash equivalents is £666.0m (2009: £664.5m, 2008: £342.4m, 2007: £478.3m).

The Group does not have access to committed borrowing facilities. Overdraft facilities are available as needed within the framework of a pooling arrangement with HSBC established by the parent company. As part of this pooling arrangement, the Group may have a combined cash balance in excess of the parent company's total cash position. The Group's utilisation of such cash balances is subject to the parent company arranging for settlement of overdrafts due by other subsidiaries. Cash at bank and in hand includes balances held by the Group in excess of the parent company's total cash position of £139.2m (2009: £115.9m, 2008: £43.2m, 2007: £58.9m). In the event of termination of this pooling arrangement upon the disposal of some or any subsidiaries, any cash balances in the subsidiaries disposed of would only be available for withdrawal subject to the parent company arranging for settlement of overdrafts due by other subsidiaries.

22. OTHER LIABILITIES

	As at 31 December			As at 31 March
£m	**2007**	**2008**	**2009**	**2010**
Trade creditors[1]	55.4	52.0	38.6	31.6
Amounts due under long term contracts (note 20)	43.7	62.3	72.9	73.4
Accruals and other payables	114.8	116.4	121.1	117.9
Deferred income due within one year	27.4	18.5	18.5	19.9
Interest payable	64.8	63.8	70.7	53.4
Amount owed to other Group companies[2]	933.7	927.7	925.9	923.9
Total other liabilities payable within one year	1,239.8	1,240.7	1,247.7	1,220.1
Non current other liabilities	224.0	211.6	191.1	188.4
Total other liabilities	1,463.8	1,452.3	1,438.8	1,408.5

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

22. OTHER LIABILITIES (cont'd)

[1] Trade creditors are non-interest bearing and are normally settled on 60-day (2009: 60-day, 2008: 60-day, 2007: 60-day) terms. The following table provides an analysis of the ageing of trade creditors:

	As at 31 December			As at 31 March
£m	2007	2008	2009	2010
Current	42.9	43.5	33.0	25.4
1-30 days overdue	10.0	8.5	4.2	5.5
31-60 days overdue	1.4	(0.8)	0.7	0.7
61-120 days overdue	1.1	0.5	0.5	–
121-365 days overdue	–	0.1	0.2	–
Over 366 days overdue	–	0.2	–	–
	55.4	52.0	38.6	31.6

[2] For further information regarding related party payables refer to note 36.

23. BORROWINGS

	As at 31 December			As at 31 March
£m	2007	2008	2009	2010
Current				
Short term borrowing[1]	407.0	565.1	199.0	191.4
Non-current				
£350m 5.75% Bonds due March 2024	348.9	349.0	349.1	349.1
£200m 8.75% Eurobond due March 2012	199.3	199.4	199.6	199.7
£200m 8.5% Eurobond due March 2025	197.9	198.0	198.2	198.2
£350m 6.0% Bonds due November 2036	–	–	343.0	343.1
£150m 3.125% Index Linked Bonds due June 2032	175.0	182.5	180.4	182.0
£300m 6.125% Bonds due June 2027	305.3	305.0	304.8	304.7
£300m 5.125% Eurobond due November 2016	–	–	298.7	298.7
£300m 5.5% Eurobond due June 2026	297.0	297.2	297.3	297.4
£50m Index Linked Bond due June 2023	57.5	59.9	59.2	59.8
£300m 6.125% Eurobond due November 2031	–	–	296.7	296.7
	1,580.9	1,591.0	2,527.0	2,529.4
Total borrowings	1,987.9	2,156.1	2,726.0	2,720.8

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

23. BORROWINGS (cont'd)

Carrying amounts of the borrowings repayable:

£m		As at 31 December		As at 31 March
	2007	2008	2009	2010
On demand or within one year	407.0	565.1	199.0	191.4
More than one year, but not exceeding two years	–	–	–	199.7
More than two years, but not more than five years	199.3	199.4	199.6	–
More than five years	1,381.6	1,391.6	2,327.4	2,329.7
Total borrowings	1,987.9	2,156.1	2,726.0	2,720.8

All borrowings are unsecured, denominated in sterling and valued at amortised cost. For fair valuation of borrowings, see note 35.

[1] The short term borrowing includes £52.6m (2009: £51.6m, 2008: £294.2m, 2007: £186.2m) which relates to money-market borrowings. The remaining short term borrowing relates to overdrafts and group loans.

24. SHORT-TERM PROVISIONS

The movements in provisions during the year/period are as follows:

£m	At 1 January 2007	Utilised in the year 2007	Released in the year 2007	Arising during the year 2007	At 31 December 2007
Provision re: Sale of LEC	0.5	(0.5)	–	–	–
Insurance	6.2	(0.1)	–	3.2	9.3
Wayleaves	7.1	–	(0.2)	–	6.9
Legal disputes	–	–	–	1.2	1.2
Loss making contracts	–	–	–	5.7	5.7
Dilapidations provision	0.2	–	(0.2)	–	–
Other	0.5	–	–	–	0.5
	14.5	(0.6)	(0.4)	10.1	23.6

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

24. SHORT-TERM PROVISIONS (cont'd)

£m	At 1 January 2008	Utilised in the year 2008	Released in the year 2008	Arising during the year 2008	At 31 December 2008
Contractual dispute	–	–	–	1.0	1.0
Insurance	9.3	–	(0.5)	–	8.8
Wayleaves	6.9	(0.7)	(3.3)	0.2	3.1
Legal disputes	1.2	–	–	2.8	4.0
Loss making contracts	5.7	–	–	0.9	6.6
Other	0.5	–	–	0.9	1.4
	23.6	(0.7)	(3.8)	5.8	24.9

£m	At 1 January 2009	Utilised in the year 2009	Released in the year 2009	Arising during the year 2009	At 31 December 2009
Contractual dispute	1.0	–	–	–	1.0
Insurance	8.8	–	(0.9)	0.2	8.1
Wayleaves	3.1	–	(2.6)	–	0.5
Legal disputes	4.0	(1.5)	(0.9)	2.0	3.6
Loss making contracts	6.6	(0.4)	(4.3)	0.4	2.3
Other	1.4	(0.5)	(0.5)	0.1	0.5
	24.9	(2.4)	(9.2)	2.7	16.0

£m	At 1 January 2010	Utilised in the quarter 2010	Released in the quarter 2010	Arising during the quarter 2010	At 31 March 2010
Contractual dispute	1.0	–	–	–	1.0
Insurance	8.1	–	–	0.1	8.2
Wayleaves	0.5	–	–	–	0.5
Legal disputes	3.6	–	–	–	3.6
Loss making contracts	2.3	–	–	0.1	2.4
Other	0.5	–	–	–	0.5
	16.0	–	–	0.2	16.2

The provisions are all considered to be current liabilities, since resolution of the underlying issues may take place at any time.

The contractual disputes provision relates to costs expected to be paid out under a number of ongoing legal cases. Any uncertainties within the cases have been considered in the calculation of the provision. None of the cases are expected to be settled after 2010.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

24. SHORT-TERM PROVISIONS (cont'd)

The insurance provision is based on an assessment of the Group's known liabilities at the end of each reporting period. The provision is calculated using various assumptions and is to cover the Group's estimated exposure on various motor, personal or claims against the networks business.

The wayleaves provision relates to disputes and potential disputes relating to acquisition of access and installation rights on land owned by third parties.

The provision for loss-making contracts represents the difference between the projected income from various projects and the cost of completion.

25. DEFERRED TAX LIABILITIES

£m	Accelerated tax depreciation	Retirement benefit obligations	Other	Total
At 1 January 2007	(736.4)	71.0	6.7	(658.7)
(Charge)/credit to combined income statement	(6.8)	(15.2)	1.8	(20.2)
Charge to equity	–	(1.5)	–	(1.5)
At 1 January 2008	(743.2)	54.3	8.5	(680.4)
Charge to combined income statement	(108.0)	(11.8)	(3.1)	(122.9)
Credit to equity	–	17.0	–	17.0
At 1 January 2009	(851.2)	59.5	5.4	(786.3)
Charge to combined income statement	(81.8)	(3.0)	(9.2)	(94.0)
Credit to equity	–	123.1	–	123.1
At 1 January 2010	(933.0)	179.6	(3.8)	(757.2)
(Charge)/credit to combined income statement	(14.0)	–	0.4	(13.6)
Credit to equity	–	19.9	–	19.9
At 31 March 2010	(947.0)	199.5	(3.4)	(750.9)

See note 12 for an analysis of the charge in the current/prior periods.

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax assets and liabilities which have been offset for financial reporting purposes:

	As at 31 December			As at 31 March
£m	2007	2008	2009	2010
Deferred tax assets	77.7	62.8	64.9	199.5
Deferred tax liabilities	(758.1)	(849.1)	(822.1)	(950.4)
Net deferred tax liabilities	(680.4)	(786.3)	(757.2)	(750.9)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

26. NON-CONTROLLING INTERESTS

£m	
At 1 January 2007	2.3
Non-controlling interests' share of profit after tax	0.7
At 1 January 2008	3.0
Non-controlling interests' share of profit after tax	0.8
At 1 January 2009	3.8
Non-controlling interests' share of profit after tax	0.4
At 1 April 2009	4.2
Non-controlling interests' share of profit after tax	0.3
At 1 January 2010	4.5
Non-controlling interests' share of profit after tax	–
At 31 March 2010	4.5

27. COMMITMENTS

		As at 31 December		**As at 31 March**
£m	**2007**	**2008**	**2009**	**2010**
Capital commitments				
Contractual commitments for the acquisition of property, plant and equipment contracted for but not provided in the financial statements	225.1	154.1	161.7	219.0

The Group's capital commitments are managed through a system-based workflow which requires contractual arrangements to be negotiated before the authorisation and issue of a purchase order to the supplier/contractor. The above total, which represents the value of all purchase orders issued less deliveries/invoices received, is therefore indicative of the total of authorised commitments.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

27. COMMITMENTS (cont'd)

In addition, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	As at 31 December			As at 31 March
£m	**2007**	**2008**	**2009**	**2010**
Operating lease minimum payments				
Within one year	22.4	18.9	20.2	20.7
In the second to fifth years inclusive	80.9	83.6	87.7	86.9
After five years	224.9	203.4	197.6	192.7
Future lease charges	328.2	305.9	305.5	300.3

The principal operating lease payments are made by EDF Energy Powerlink Limited to the jointly controlled entity PADCo in respect of the electricity distribution assets required for its Power Service Contract with London Underground, which expires in 2028.

Operating lease minimum receivables are not disclosed as they are all contracted with other subsidiaries of EDF S.A., and the minimum values recoverable are subject to negotiation in the context of the disposal of the Group.

28. CONTINGENT LIABILITIES

Certain Group companies have given guarantees in respect of bonds relating to the Group's own contracts amounting to £4.4m (2009: £4.4m, 2008: £1.9m, 2007: £3.2m).

Various guarantees of Metronet-related liabilities given by EDF Energy (Development) plc were outstanding at the balance sheet date. These guarantees will be transferred out of the Combined Group prior to sale completion. There will not therefore be any Metronet-related liabilities for a buyer to consider.

The Group is also exposed to funding requirements in respect of deficits in the defined benefit pension schemes (note 34).

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

29. INVESTED CAPITAL

The following table shows the aggregated share capital of the statutory entities within the Combined Group after eliminating internal investments.

	As at 31 December			As at 31 March	As at 31 December			As at 31 March
	2007	2008	2009	2010	2007	2008	2009	2010
	Number	*Number*[1]	*Number*	*Number*	*£m*	*£m*[1]	*£m*	*£m*
Authorised								
H Ordinary shares of £1.00 each[2]	25,000,000	25,000,000	25,000,000	25,000,000	25.0	25.0	25.0	25.0
I Ordinary shares of £1.00 each[2]	25,000,000	25,000,000	25,000,000	25,000,000	25.0	25.0	25.0	25.0
Ordinary shares of £1.00 each	62,000,000	42,000,000	42,000,000	42,000,000	62.0	42.0	42.0	42.0
Ordinary shares of £0.50 each	800,000,000	800,000,000	800,000,000	800,000,000	400.0	400.0	400.0	400.0
Allotted, called up and fully paid								
H Ordinary shares of £1.00 each[2]	1,000,001	1,000,001	1,000,001	1,000,001	1.0	1.0	1.0	1.0
I Ordinary shares of £1.00 each[2]	1,000,001	1,000,001	1,000,001	1,000,001	1.0	1.0	1.0	1.0
Ordinary shares of £1.00 each	42,970,737	27,600,004	27,600,004	27,600,004	43.0	27.6	27.6	27.6
Ordinary shares of £0.50 each	503,306,845	503,306,845	503,306,845	503,306,845	251.7	251.7	251.7	251.7
Subtotal fully paid share capital					296.7	281.3	281.3	281.3
Share premium					44.1	44.1	44.1	44.1
Total invested capital					340.8	325.4	325.4	325.4

1 The reduction in share capital in 2008 is the result of the transfer of ownership of EDF Energy Contracting Limited into the Combined Group. This eliminated £20,000,000 of authorised share capital and £15,370,733 of issued share capital.

2 The H Ordinary and I Ordinary shares constitute the entire share capital of EDF Energy Networks Limited. The two classes of shares rank pari passu for all purposes and have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

30. CAPITAL AND REDEMPTION RESERVES

£m	Capital reserve	Redemption reserve	Total
At 1 January 2007	–	17.4	17.4
Contribution arising on employee share offerings	(0.2)	–	(0.2)
At 1 January 2008	(0.2)	17.4	17.2
Contribution arising on employee share offerings	0.7	–	0.7
At 1 January 2009	0.5	17.4	17.9
Contribution arising on employee share offerings	(0.8)	–	(0.8)
Transfer to retained earnings	0.3	–	0.3
At 1 January 2010	–	17.4	17.4
At 31 March 2010	–	17.4	17.4

The capital reserve relates to the ACT2007 Free Award Share Plan – see note 9 for explanation of movements. The balance of £0.3m was transferred to retained earnings upon completion of the two-year scheme in 2009.

The redemption reserve relates to the repurchase by two group companies (EDF Energy Networks (EPN) plc and EDF Energy (South East) plc) of their own shares before 2007, and their subsequent cancellation.

31. RETAINED EARNINGS

£m	
At 1 January 2007	1,045.3
Movement on pension deficit	(0.2)
Profit for the year	474.1
At 1 January 2008	1,519.2
Movement on pension deficit	(44.1)
Profit for the year	489.7
Equity dividends paid (note 13)	(130.0)
At 1 January 2009	1,834.8
Movement on pension deficit	(316.9)
Profit for the year	494.3
Transfer from capital reserve	(0.3)
Equity dividends paid (note 13)	(45.0)
At 1 January 2010	1,966.9
Movement on pension deficit	(51.0)
Profit for the period	132.9
At 31 March 2010	2,048.8

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

32. HEDGING RESERVE

The Unregulated Infrastructure Projects policy is to use derivatives to reduce exposure to short term interest rates. Interest charged on the 50% jointly controlled entity PADCo's loans has been fixed to maturity under swap transaction arrangements at an interest rate of 6.0% per annum for the £105m facility and at an average of 5.4% for the £18m facility. The movements resulting from the valuation of the derivative hedging instrument are recorded in the Combined Group's hedging reserve in the following amounts:

£m	
At 1 January 2007	(2.2)
Share of reserve movements of jointly controlled entities	(0.1)
At 1 January 2008	(2.3)
Share of reserve movements of jointly controlled entities	(4.0)
At 1 January 2009	(6.3)
Share of reserve movements of jointly controlled entities	1.5
At 1 January 2010	(4.8)
Share of reserve movements of jointly controlled entities	(0.9)
At 31 March 2010	(5.7)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

33. NOTES TO THE COMBINED CASH FLOW STATEMENTS

	For the year ended 31 December			For the three months ended 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
£m				(unaudited)	
Profit before taxation	600.6	703.5	668.8	188.9	182.7
Adjustments for:					
Depreciation	137.5	153.7	168.5	39.0	43.7
Finance cost (net)	71.9	53.9	90.4	24.4	35.0
Profit on disposal of property, plant and equipment	(1.1)	(0.5)	(7.7)	(0.4)	(0.3)
Share of results of jointly controlled entities	(2.4)	(1.1)	(1.1)	(0.1)	(0.3)
Write-off of debtor balances relating to Metronet contract	19.2	–	–	–	–
Increase/(decrease) in provisions	9.1	1.3	(8.9)	(0.2)	0.2
Increase/(decrease) in post-employment benefits	6.8	(15.4)	(6.0)	(2.1)	1.5
(Increase)/decrease in services concession receivable	(3.9)	42.0	24.2	8.7	7.0
Cost of granting shares to employees	1.0	2.5	1.5	0.4	–
Operating cash flows before movements in working capital	838.7	939.9	929.7	258.6	269.5
(Increase)/decrease in inventories	(1.8)	7.1	12.6	–	1.0
(Increase)/decrease in receivables	(46.1)	(25.5)	9.0	(10.9)	2.4
Increase/(decrease) in payables	72.5	(5.5)	(21.7)	52.1	5.7
Cash generated by operations	863.3	916.0	929.6	299.8	278.6
Pension deficit payment	(37.3)	(36.9)	(28.5)	(27.4)	(25.7)
Income taxes paid	(77.6)	(176.5)	(183.5)	(0.2)	(0.3)
Net cash from operating activities	748.4	702.6	717.6	272.2	252.6

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

34. RETIREMENT BENEFIT SCHEMES

The Group participates in two pension schemes operated by EDF, the EDF Energy Pension Scheme ("EEPS") and the EDF Energy Group of the Electricity Supply Pension Scheme ("ESPS") both of which are defined benefit schemes.

In addition to EEPS and ESPS one company within the group is involved in a third scheme operated by Transport for London ("TfL"). The majority of employees of EDF Energy Powerlink Limited are members of the LRT Pension Fund ("TfL pension scheme"). This is a final salary scheme for eligible employees of TfL and its operating businesses which include London Underground. EDF Energy Powerlink Limited contributes to the TfL scheme for those employees who were transferred to EDF Energy Powerlink Limited under the Transfer of Undertakings (Protection of Employment) Regulations, ("TUPE"). The TfL pension scheme is a multi-employer scheme in which the assets and liabilities relative to each participating employer are separately identifiable. Accordingly, the following disclosures relate only to the section of the scheme attributable to EDF Energy Powerlink Limited.

The Group has an employee benefits reimbursement right asset connected to the TfL scheme. This arises through the contractual obligation that LUL has with EDF Energy Powerlink Limited to reimburse any lump sum payments that are required of EDF Energy Powerlink Limited by the scheme to fund a scheme deficit or contribution that exceed an agreed annual contribution, calculated as a percentage of the pensionable salaries of the EDF Energy Powerlink Limited employees who are members of the scheme. For periods up to the end of March 2007, the agreed annual contribution percentage was 16.2% of salaries of applicable employees. From April 2007 onwards, the agreed annual contribution percentage has increased to 26.0%. The reimbursement right asset is recognised on the face of the combined balance sheets.

The latest full actuarial valuations of the EDF Energy Group of the ESPS and EEPS were carried out by Hewitt Bacon & Woodrow, consulting actuaries, as at 31 March 2007. The valuation was agreed on 25 January 2008. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method. The latest full actuarial valuation of the TfL pension scheme was carried out by Watson Wyatt as at 31 March 2009.

The principal financial assumptions used to calculate ESPS and EEPS liabilities under IAS 19 were:

	As at 31 December			As at 31 March
	2007	2008	2009	2010
Discount rate ESPS	6.0%	6.5%	5.7%	5.5%
Discount rate EEPS	6.0%	6.5%	5.6%	5.6%
Inflation assumption ESPS	3.3%	2.6%	3.6%	3.7%
Inflation assumption EEPS	3.3%	2.6%	3.8%	3.9%
Rate of increase in salaries				
– ESPS	5.3%	4.6%	5.6%	5.7%
– EEPS	4.8%	4.1%	5.3%	5.4%
Rate of increase of pensions increases				
– full retail price indexation ("RPI")	3.3%	2.6%	3.6%	3.7%
– RPI up to 5% EPS (EEPS – service to 31 March 2006)	3.3%	2.6%	3.5%	3.6%
– RPI up to 2.5% (EEPS – service from 31 March 2006)	2.3%	2.0%	2.3%	2.3%

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

34. RETIREMENT BENEFIT SCHEMES (cont'd)

The table below shows details of assumptions around mortality rates used to calculate the IAS 19 ESPS and EEPS liabilities.

	As at 31 December			As at 31 March
	2007	2008	2009	2010
Life expectancy for current male pensioner aged 60	26.9 years	27.0 years	27.2 years	27.2 years
Life expectancy for current female pensioner aged 60	30.3 years	30.4 years	30.5 years	30.5 years
Life expectancy for future male pensioner currently aged 40 from age 60	29.8 years	29.9 years	30.0 years	30.0 years
Life expectancy for future female pensioner currently aged 40 from age 60	31.6 years	31.7 years	31.8 years	31.8 years

Mortality assumptions have been determined based on standard mortality tables, specifically the PNA 00 standard table.

These assumptions are governed by IAS 19 and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2007, which determined the Group's contribution rate for future years.

The expected return on assets are set based on advice given by the Group's actuaries and reflect the market expectations of the long term rate of return of assets at the balance sheet date with gilts used as a benchmark.

The principal financial assumptions used to calculate the TfL liability under IAS 19 were as follows:

	As at 31 December			As at 31 March
	2007	2008	2009	2010
Discount rate	5.9%	6.7%	5.8%	5.6%
Inflation assumption	3.1%	1.5%	3.1%	3.3%
Rate of increase in salaries	4.6%	3.0%	4.6%	4.8%
Rate of increase of pensions increases RPI	3.1%	1.5%	3.1%	3.3%

These assumptions are governed by IAS 19, and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2009, which determined the Powerlink contribution rate for future years.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

34. RETIREMENT BENEFIT SCHEMES (cont'd)

When an individual ceases to be an active member of the EDF Energy section of the TfL pension scheme, the obligation to provide the pension benefits is transferred from the EDF Energy section of the scheme, to a public sector section of the scheme. At the same time, there is an associated transfer of assets from the EDF section to the public sector section. The defined benefit obligations of the EDF Energy section of the TfL pension scheme have been measured under IAS 19 using the assumptions in the above table for the period prior to the transfer of obligations, and the actual assumptions used to determine the assets transferred at the point of the transfer of obligations.

	As at 31 December 2007			
£m	**ESPS**	**EEPS**	**TfL**	**Total**
Present value of defined benefit obligations	(2,116.0)	(34.6)	(34.3)	(2,184.9)
Fair value of scheme assets	1,927.3	28.9	34.9	1,991.1
(Liability)/asset recognised in the combined balance sheet	(188.7)	(5.7)	0.6	(193.8)

	As at 31 December 2008			
£m	**ESPS**	**EEPS**	**TfL**	**Total**
Present value of defined benefit obligations	(1,791.6)	(28.9)	(29.6)	(1,850.1)
Fair value of scheme assets	1,577.2	30.7	24.4	1,632.3
(Liability)/asset recognised in the combined balance sheet	(214.4)	1.8	(5.2)	(217.8)

	As at 31 December 2009			
£m	**ESPS**	**EEPS**	**TfL**	**Total**
Present value of defined benefit obligations	(2,391.3)	(61.0)	(41.1)	(2,493.4)
Fair value of scheme assets	1,763.6	47.1	29.7	1,840.4
Liability recognised in the combined balance sheet	(627.7)	(13.9)	(11.4)	(653.0)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

34. RETIREMENT BENEFIT SCHEMES (cont'd)

	As at 31 March 2010			
£m	**ESPS**	**EEPS**	**TfL**	**Total**
Present value of defined benefit obligations	(2,526.7)	(74.6)	(41.0)	(2,642.3)
Fair value of scheme assets	1,837.4	51.2	40.2	1,928.8
Liability recognised in the combined balance sheet	(689.3)	(23.4)	(0.8)	(713.5)

The liability is presented as a post-employment benefits provision on the face of the combined balance sheet.

The TfL scheme liability is exactly offset by the pension reimbursement right asset presented on the face of the combined balance sheet, representing the amount recoverable from LUL.

The costs associated with these defined benefit schemes are as follows:

	Year ended 31 December 2007			
£m	**ESPS**	**EEPS**	**TfL**	**Total**
Current service cost	18.9	7.5	1.7	28.1
Interest cost	105.8	1.6	2.1	109.5
Expected return on scheme assets	(117.1)	(1.5)	(2.0)	(120.6)
Changes arising on curtailments/settlements	1.0	–	–	1.0
Total operating cost	8.6	7.6	1.8	18.0

	Year ended 31 December 2008			
£m	**ESPS**	**EEPS**	**TfL**	**Total**
Current service cost	18.8	5.2	1.3	25.3
Interest cost	125.1	1.7	1.9	128.7
Expected return on scheme assets	(122.0)	(1.6)	(2.3)	(125.9)
Credit arising on change in pension scheme rules	(18.0)	–	–	(18.0)
Changes arising on curtailments/settlements	0.8	–	–	0.8
Total operating cost	4.7	5.3	0.9	10.9

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

34. RETIREMENT BENEFIT SCHEMES (cont'd)

	Year ended 31 December 2009			
£m	**ESPS**	**EEPS**	**TfL**	**Total**
Current service cost	13.2	3.2	1.0	17.4
Interest cost	114.7	1.4	2.0	118.1
Expected return on scheme assets	(91.9)	(1.7)	(1.3)	(94.9)
Total operating cost	36.0	2.9	1.7	40.6

	Three months ended 31 March 2010			
£m	**ESPS**	**EEPS**	**TfL**	**Total**
Current service cost	5.6	1.9	0.4	7.9
Interest cost	34.1	1.0	0.6	35.7
Expected return on scheme assets	(28.3)	(0.9)	(0.5)	(29.7)
Total operating cost	11.4	2.0	0.5	13.9

Of the charge for the period ended 31 March 2010 £7.9m (Year ended 31 December 2009: £17.4m, 2008: £8.1m, 2007: £29.1m) has been included in personnel costs and £5.9m (Year ended 31 December 2009: £22.5m, 2008: £3.2m, 2007: income £11.2m) has been included in interest.

The costs of the TfL pension are limited to the agreed annual contribution percentage of 16.2% for periods up to 31 March 2007 and 26% for subsequent periods. Costs over and above this cap have been recharged to LUL through the pension reimbursement rights asset presented on the face of the combined balance sheet.

In 2008 there was a credit due to changes in the pension scheme rules relating to members of the previous London section of the ESPS scheme. The change affected male employees who had accrued service before 1988 and are still currently employed. As the change reduced their future pension entitlements a credit of £18.0m was recognised in 2008. There has been no such change in 2009.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

34. RETIREMENT BENEFIT SCHEMES (cont'd)

Movements in the present value of defined benefit obligations in the year/period were as follows:

£m	ESPS	EEPS	TfL	Total
At 1 January 2007	(2,071.3)	(25.5)	(43.7)	(2,140.5)
Service cost	(18.9)	(7.5)	(1.7)	(28.1)
Changes arising on curtailments/settlements	(1.0)	–	–	(1.0)
Interest cost	(105.8)	(1.6)	(2.1)	(109.5)
Actuarial (losses)/gains	(5.2)	2.5	10.2	7.5
Benefits paid net of employee contributions	86.2	(2.5)	3.0	86.7
At 31 December 2007	(2,116.0)	(34.6)	(34.3)	(2,184.9)

£m	ESPS	EEPS	TfL	Total
At 1 January 2008	(2,116.0)	(34.6)	(34.3)	(2,184.9)
Service cost	(18.8)	(5.2)	(1.3)	(25.3)
Changes arising on curtailments/settlements	(0.8)	–	–	(0.8)
Interest cost	(125.1)	(1.7)	(1.9)	(128.7)
Actuarial gains	359.6	14.5	3.9	378.0
Credit arising on change in pension scheme rules	18.0	–	–	18.0
Benefits paid net of employee contributions	91.5	(1.9)	4.0	93.6
At 31 December 2008	(1,791.6)	(28.9)	(29.6)	(1,850.1)

£m	ESPS	EEPS	TfL	Total
At 1 January 2009	(1,791.6)	(28.9)	(29.6)	(1,850.1)
Service cost	(13.2)	(3.2)	(1.0)	(17.4)
Interest cost	(114.7)	(1.4)	(2.0)	(118.1)
Actuarial losses	(563.8)	(24.3)	(9.0)	(597.1)
Benefits paid net of employee contributions	92.0	(3.2)	0.5	89.3
At 31 December 2009	(2,391.3)	(61.0)	(41.1)	(2,493.4)

£m	ESPS	EEPS	TfL	Total
At 1 January 2010	(2,391.3)	(61.0)	(41.1)	(2,493.4)
Service cost	(5.6)	(1.9)	(0.4)	(7.9)
Interest cost	(34.1)	(1.0)	(0.6)	(35.7)
Actuarial (losses)/gains	(119.1)	(10.0)	0.2	(128.9)
Benefits paid net of employee contributions	23.4	(0.7)	0.9	23.6
At 31 March 2010	(2,526.7)	(74.6)	(41.0)	(2,642.3)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

34. RETIREMENT BENEFIT SCHEMES (cont'd)

Movements in the fair value of scheme assets in the year/period were as follows:

£m	ESPS	EEPS	TfL	Total
At 1 January 2007	1,840.5	19.9	26.9	1,887.3
Expected return on scheme assets	117.1	1.5	2.0	120.6
Actuarial gains	3.1	0.3	0.5	3.9
Contributions by employer	15.9	4.6	8.5	29.0
Deficit repair payments	36.9	0.1	–	37.0
Benefits paid net of employee contributions	(86.2)	2.5	(3.0)	(86.7)
At 31 December 2007	1,927.3	28.9	34.9	1,991.1

£m	ESPS	EEPS	TfL	Total
At 1 January 2008	1,927.3	28.9	34.9	1,991.1
Expected return on scheme assets	122.0	1.6	2.3	125.9
Actuarial losses	(425.8)	(8.8)	(10.1)	(444.7)
Contributions by employer	17.6	4.8	1.3	23.7
Deficit repair payments	27.6	2.3	–	29.9
Benefits paid net of employee contributions	(91.5)	1.9	(4.0)	(93.6)
At 31 December 2008	1,577.2	30.7	24.4	1,632.3

£m	ESPS	EEPS	TfL	Total
At 1 January 2009	1,577.2	30.7	24.4	1,632.3
Expected return on scheme assets	91.9	1.7	1.3	94.9
Actuarial gains	143.0	5.1	3.3	151.4
Contributions by employer	17.7	5.8	1.2	24.7
Deficit repair payments	25.8	0.6	–	26.4
Benefits paid net of employee contributions	(92.0)	3.2	(0.5)	(89.3)
At 31 December 2009	1,763.6	47.1	29.7	1,840.4

£m	ESPS	EEPS	TfL	Total
At 1 January 2010	1,763.6	47.1	29.7	1,840.4
Expected return on scheme assets	28.3	0.9	0.5	29.7
Actuarial gains	57.4	0.9	0.8	59.1
Contributions by employer	4.4	1.6	10.1	16.1
Deficit repair payments	7.1	–	–	7.1
Benefits paid net of employee contributions	(23.4)	0.7	(0.9)	(23.6)
At 31 March 2010	1,837.4	51.2	40.2	1,928.8

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

34. RETIREMENT BENEFIT SCHEMES (cont'd)

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows:

	Expected return As at 31 December 2007		Fair value of assets As at 31 December 2007			
£m	**ESPS/EEPS**	**TfL**	**ESPS**	**EEPS**	**TfL**	**Total**
Gilts – fixed	4.6%	–	471.5	–	–	471.5
– index linked	4.5%	–	251.6	–	–	251.6
Equities	8.2%	8.3%	872.8	12.0	19.8	904.6
Property	7.2%	–	44.7	–	–	44.7
Corporate bonds	5.4%	5.0%	183.2	12.0	12.5	207.7
Cash	5.4%	–	103.5	4.9	–	108.4
Other	–	4.4%	–	–	2.6	2.6
			1,927.3	28.9	34.9	1,991.1

	Expected return As at 31 December 2008		Fair value of assets As at 31 December 2008			
£m	**ESPS/EEPS**	**TfL**	**ESPS**	**EEPS**	**TfL**	**Total**
Gilts – fixed	3.9%	–	438.2	–	–	438.2
– index linked	3.8%	–	207.5	–	–	207.5
Equities	7.5%	6.6%	742.0	13.5	14.9	770.4
Property	6.5%	–	35.1	1.2	–	36.3
Corporate bonds	5.6%	4.6%	197.2	10.7	8.9	216.8
Cash	3.2%	–	(42.8)	5.3	–	(37.5)
Other	–	2.3%	–	–	0.6	0.6
			1,577.2	30.7	24.4	1,632.3

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

34. RETIREMENT BENEFIT SCHEMES (cont'd)

	Expected return As at 31 December 2009		Fair value of assets As at 31 December 2009			
£m	**ESPS/EEPS**	**TfL**	**ESPS**	**EEPS**	**TfL**	**Total**
Gilts – fixed	4.6%	–	188.6	–	–	188.6
– index linked	4.5%	–	199.4	–	–	199.4
Equities	8.2%	7.5%	757.0	20.5	19.7	797.2
Property	8.7%	–	38.5	1.4	–	39.9
Corporate bonds	5.9%	4.1%	500.3	19.5	9.7	529.5
Cash	0.7%	–	79.8	5.7	–	85.5
Other	–	4.0%	–	–	0.3	0.3
			1,763.6	47.1	29.7	1,840.4

	Expected return As at 31 March 2010		Fair value of assets As at 31 March 2010			
£m	**ESPS/EEPS**	**TfL**	**ESPS**	**EEPS**	**TfL**	**Total**
Gilts – fixed	4.6%	–	239.7	–	–	239.7
– index linked	4.5%	–	213.8	–	–	213.8
Equities	8.2%	7.7%	761.8	24.3	26.4	812.5
Property	8.7%	–	47.6	1.4	–	49.0
Corporate bonds	5.9%	5.6%	475.9	17.6	13.3	506.8
Cash	0.7%	–	98.6	7.9	–	106.5
Other	–	3.9%	–	–	0.5	0.5
			1,837.4	51.2	40.2	1,928.8

The Group employs a building block approach in determining the long term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long term rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for each pension scheme at the reporting date.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

34. RETIREMENT BENEFIT SCHEMES (cont'd)

The history of experience adjustments is as follows:

£m	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007	As at 31 December 2008	As at 31 December 2009	As at 31 March 2010
Present value of defined benefit obligations	(2,095.4)	(2,140.1)	(2,184.9)	(1,850.1)	(2,493.4)	(2,642.3)
Fair value of scheme assets	1,766.7	1,886.9	1,991.1	1,632.3	1,840.4	1,928.8
Deficit in the scheme	(328.7)	(253.2)	(193.8)	(217.8)	(653.0)	(713.5)
Experience adjustments on scheme liabilities	(8.0)	(2.3)	(95.8)	(3.5)	(19.4)	–
Percentage of scheme liabilities	0.4%	0.1%	4.4%	0.2%	0.8%	–
Experience adjustments on scheme assets	177.7	18.7	3.9	(444.7)	151.4	59.1
Percentage of scheme assets	10.1%	1.0%	0.2%	(27.2%)	8.2%	3.1%

The estimated amount of contributions expected to be paid to the scheme during 2010 is £54.9m.

The actuarial gains and losses in respect of all schemes are summarised as follows:

£m	For the year ended 31 December 2007	2008	2009	For the three months ended 31 March 2010
Net actuarial gain/(loss) recognised during the year/period	11.4	(66.7)	(445.7)	(69.8)
Cumulative losses in respect of all schemes recognised in the combined statements of comprehensive income at end of year/period	(48.8)	(115.5)	(561.2)	(631.0)

The actuarial gains and losses relating to the TfL scheme included above are directly offset by gains and losses against the pension reimbursement right asset, which are as follows:

£m	For the year ended 31 December 2007	2008	2009	For the three months ended 31 March 2010
Net actuarial (loss)/gain recognised during the year/period	(10.1)	5.6	5.7	(1.1)
Cumulative (losses)/gains relating to the TfL scheme reimbursement right asset recognised in the combined statements of comprehensive income at end of year/period	(5.7)	(0.1)	5.6	4.5

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

35. FINANCIAL INSTRUMENTS

A financial instrument is defined in IAS 32 as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Detailed below are the Group's risk management objectives and policies, a discussion of the risks, and a summary of the Group's approach to managing and accounting for them. The accounting treatment for financial instruments entered into as a result of these policies is detailed in note 2.

The table below shows the carrying value of financial instruments by category:

	As at 31 December			As at 31 March
£m	**2007**	**2008**	**2009**	**2010**
Financial assets				
Cash and cash equivalents	478.3	342.4	664.5	666.0
Loans and receivables	1,126.7	1,154.7	1,166.2	1,171.7
Financial liabilities				
Borrowings and other liabilities at amortised cost	3,164.8	3,326.3	3,890.8	3,888.9

Loans and receivables include trade and other receivables and service concession receivables, less any provision for impairment and less other debtors.

Borrowings and other liabilities at amortised cost exclude deferred income.

a) Capital risk management

The Group manages its capital risk through focusing on its net debt which comprises borrowings and accrued interest, cash and cash equivalents (note 21). The Group raises debt via external bond issuance such as the £950m of bonds issued under the medium term note programme in 2009.

Except for the minimum cash balance requirements referred to in note 21, the Group is not subject to any externally imposed capital requirements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

35. FINANCIAL INSTRUMENTS (cont'd)

b) Interest rate risk management

The Group's exposure to interest rate fluctuations on its borrowings is managed principally through the use of fixed rate debt instruments and swap agreements. The Group's policy is to use derivatives to reduce exposure to short term interest rates and not for speculative purposes.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date, assuming that the rate change took effect at the start of the reporting period and remained in place for the full period, and assuming the closing borrowing position was in place throughout the period.

If the floating and index-linked interest rate had been 25 basis points higher on the basis of the assumptions outlined above, then the Group's profit would have been £0.3m lower for the three months ended 31 March 2010 and £1.1m lower for the year ended 31 December 2009.

Interest rate profile

The interest rate profile of interest-bearing loans and borrowings was as follows:

	As at 31 December			As at 31 March
£m	2007	2008	2009	2010
Index linked borrowings	232.5	242.4	239.6	241.8
Floating rate borrowings	394.8	565.1	199.0	191.4
Fixed rate borrowings	1,360.6	1,348.6	2,287.4	2,287.6
Total borrowings	1,987.9	2,156.1	2,726.0	2,720.8

The weighted average interest rate for all borrowings and finance lease obligations was as follows:

	As at 31 December			As at 31 March
	2007	2008	2009	2010
Weighted average fixed interest rate	6.6%	6.6%	6.3%	6.3%
Weighted average floating interest rate	6.7%	6.2%	2.0%	4.1%

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

35. FINANCIAL INSTRUMENTS (cont'd)

c) Credit risk management

The Group's credit risk is primarily attributable to its trade receivables and amounts recoverable under long term contracts. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. For commercial customers with poor credit ratings, the Group on occasion will receive security deposits which can be used in the event of default by the customer.

Key customers of the regulated electricity distribution network operation are retail electricity suppliers, which due to their standing represent minimal credit risk. Key customers of the non-regulated infrastructure projects are major organisations which are either backed by government or formerly owned by government and therefore represent a low credit risk.

Due to the nature of the Group's trading with other EDF group companies in Europe, there are large trading balances with other group companies, however these are not considered to be a risk because of parent company financial support.

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible amounts. Provision is made when there is objective evidence that the Group may not be able to collect the trade receivable. Depending on the nature of the receivable, the risk associated with doubtful receivables is assessed individually or by experience-based statistical methods. This provision increases as trade receivable balances age and is calculated based on the analysis of past collections. Balances are written off when recoverability is assessed as being remote. The assessment considers the age of debt balances and takes account of the creditworthiness of some customers and considers whether they remain ongoing customers. Money recovered relating to balances previously written off are credited to the combined income statements on receipt.

The maximum credit risk exposure is derived from the carrying value of financial assets in the financial statements, in addition to the credit risk arising from the provision of support and guarantees as detailed in the table below.

				As at
		As at 31 December		31 March
£m	**2007**	**2008**	**2009**	**2010**
Guarantee provided by subsidiary relating to performance of contractual obligations – nominal amount	32.4	27.1	4.4	4.4

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

35. FINANCIAL INSTRUMENTS (cont'd)

d) Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its obligations as they fall due because it has inadequate funding or is unable to liquidate its assets. The Group manages liquidity risk by preparing cash flow forecasts and by ensuring it has sufficient funding to meet its forecast cash demands.

The tables below detail the contracted maturity for all financial liabilities, based on undiscounted contractual cash flows.

£m	0-30 days	30-90 days	3-6 months	6-12 months	1-2 yrs	2-5 yrs	>5 yrs	Total
At 31 December 2007								
Borrowings	378.1	51.8	39.3	4.5	95.5	469.1	2,349.2	3,387.5
Other liabilities	1,120.4	81.3	70.1	140.1	22.9	–	–	1,434.8
	1,498.5	133.1	109.4	144.6	118.4	469.1	2,349.2	4,822.3
At 31 December 2008								
Borrowings	565.0	51.8	39.3	4.5	95.5	469.1	2,284.6	3,509.8
Other liabilities	1,084.9	101.2	68.3	136.7	1.3	–	–	1,392.4
	1,649.9	153.0	107.6	141.2	96.8	469.1	2,284.6	4,902.2
At 31 December 2009								
Borrowings	198.9	51.8	39.3	59.2	150.2	615.6	3,960.6	5,075.6
Other liabilities	1,055.1	82.2	40.4	80.9	5.6	–	–	1,264.2
	1,254.0	134.0	79.7	140.1	155.8	615.6	3,960.6	6,339.8
At 31 March 2010								
Borrowings	186.3	39.3	–	110.9	145.8	602.4	3,864.8	4,949.5
Other liabilities	1,056.3	92.1	56.9	113.8	4.3	–	–	1,323.4
	1,242.6	131.4	56.9	224.7	150.1	602.4	3,864.8	6,272.9

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

35. FINANCIAL INSTRUMENTS (cont'd)

e) Fair values of assets and liabilities

The fair values of financial assets and liabilities are determined as follows:

- The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes of similar instruments.
- The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

£m	Level 1 2010	Level 2 2010	Level 3 2010	Total 2007[1]	Total 2008[1]	Total 2009[1]	Total 2010
Available-for-sale financial assets							
Unquoted equities[2]	–	–	0.8	0.6	0.9	0.8	0.8

1 The fair-valuation techniques applied to Levels 1, 2 & 3 in 2010 were also utilised in 2007, 2008 and 2009 on a like-for-like basis.

2 Management believe that the carrying value at cost of unquoted equities in and shareholder loans to Marine Current Turbines Ltd and City Greenwich Lewisham Rail Link Plc approximate to their fair value.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

35. FINANCIAL INSTRUMENTS (cont'd)

e) Fair values of assets and liabilities (cont'd)

Borrowings

	Carrying amount – amortised cost				Fair value			
	As at 31 December			As at 31 March	As at 31 December			As at 31 March
£m	2007	2008	2009	2010	2007	2008	2009	2010
Total (see note 23 for details)	(1,987.9)	(2,156.1)	(2,726.0)	(2,720.8)	(2,179.1)	(2,204.1)	(2,881.0)	(2,947.0)

Except as detailed in the table above, the directors consider that the carrying amount of the financial assets and financial liabilities recorded in the financial statements approximates fair value.

36. RELATED PARTIES

During the Relevant Periods, group companies entered into the following transactions and had the following outstanding balances at the balance sheet date with related parties which are not members of the Group:

£m	Year/period ended	Sales to related parties, net of purchases	Interest paid to related parties	Interest received from related parties	Amounts owed by related parties[2]	Amounts owed to related parties[2]
Jointly controlled entities[1]	31 Dec 2007	90.3	(24.3)	–	–	–
	31 Dec 2008	31.2	(24.1)	–	–	–
	31 Dec 2009	20.2	(23.8)	–	–	–
	31 Mar 2010	16.2	(5.5)	–	–	–
Transactions with other EDF S.A. group companies	31 Dec 2007	166.5	(3.1)	–	972.1	(932.5)
	31 Dec 2008	166.9	(2.5)	–	965.4	(930.0)
	31 Dec 2009	204.0	(0.7)	–	975.3	(926.9)
	31 Mar 2010	1.4	–	–	983.8	(922.9)

1 Relates to PADCo, MUJV and the Metronet JV. During the year ended 31 December 2007, a receivable of £19.2m was written off the Trans4m Limited debtor balances as a result of two companies within the Metronet group (Metronet Rail BCV Limited and Metronet Rail SSL Limited – together Metronet Rail) entering administration and Trans4m Limited consequently providing written notice to Metronet of the termination of its contracts based upon Metronet's insolvency. Trans4m Limited was a sub-contractor for the two Metronet companies.

2 Included in the column "Amounts owed by related parties" is a receivable of £919.8m (2009 and 2008: £919.8m, 2007: £919.3m). An equal and opposite amount is included as a payable in the column "Amounts owed to related parties". These relate to amounts owing from and to CSW Investments by two different group companies. Neither balance is interest-bearing.

Details of transactions with the pension scheme are disclosed in note 34.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (cont'd)

36. RELATED PARTIES (cont'd)

Sales and purchases from related parties are made at normal market prices. Outstanding balances at year/period end are unsecured (except where covered by parent company support) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. For the period ended 31 March 2010 the Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2009 – £nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Transactions with key management personnel

	As at 31 December			As at 31 March	
	2007	**2008**	**2009**	**2009**	**2010**
£m				(unaudited)	
Short term benefits	2.0	2.4	2.4	0.6	0.5
Post-employment benefits	0.3	0.4	0.4	0.1	0.1
	2.3	2.8	2.8	0.7	0.6

Key management personnel comprise members of the Board and the Executive Committee, a total of eleven individuals at 31 March 2010 (31 December 2009: 13, 2008: 13, 2007: 12). The Executive Committee is a cross-branch committee of senior staff who take part in the decision-making for the Group.

37. PARENT UNDERTAKING AND CONTROLLING PARTY

EDF, a company incorporated in Great Britain, is the immediate parent company of the Group, but is not included in the Group for the purposes of these Combined Financial Statements.

At 31 March 2010, EDF S.A., a company incorporated in France, is the Group's ultimate parent company and controlling party. This is the largest group for which consolidated accounts are prepared. Copies of that company's consolidated accounts may be obtained from EDF S.A., 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.

38. POST-BALANCE SHEET EVENTS

On 30 July 2010 EDF S.A. announced that it had received a binding irrevocable offer from CKI, HEH, LKSFL, LKSOF and Eclipse First Network Limited (together the "Consortium") to acquire 100% of EDF's ownership of its UK electricity distribution network and Non-Regulatory network activities. Although EDF S.A. still has to consult with the European Works Council and then submit the offer to the Board, EDF S.A. has granted the Consortium a period of exclusivity.

The closing deferred tax liability is shown using the UK corporation tax rate of 28%. The Finance Act 2010, which provides for a reduction in the main rate of corporation tax from 28% to 27%, is effective from 1 April 2011 and was substantively enacted on 27 July 2010. As it was not substantively enacted at the balance sheet date of 31 March 2010, the rate reduction is not reflected in these financial statements in accordance with IAS 10, as it is a non-adjusting event occurring after the reporting period. The impact of the rate reduction, which will be reflected in the next reporting period, is estimated to reduce the UK deferred tax liability provided at 31 March 2010 by £26.8m. The UK Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 24% by 1 April 2014. These future 1% main tax rate reductions are expected to have a similar impact on the financial statements to the reduction in respect of 31 March 2010 indicated above, although the actual economic impact will be dependent on the network's deferred tax position at that time alongside ongoing funding negotiations with the Office for Gas and Electricity Markets ("Ofgem"), the industry regulator.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Eclipse Companies in respect of any period subsequent to 31 March 2010.

Yours faithfully

Deloitte LLP

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTT"), whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

The following discussion and analysis is based on the financial information from the accountants' report on the Target Group contained in Appendix II to this circular.

Regulated Networks

The four Regulated Electricity Distribution Networks (the "Regulated Networks") owned by EDF Energy Plc ("EDF Energy") maintain and operate public electricity networks within the London ("LPN"), South East ("SPN") and East of England ("EPN") areas. Together they are the largest distributor of electricity in the United Kingdom by volume and regulatory asset value ("RAV"), distributing electricity to around 8 million customers.

The Regulated Networks were nationalised in 1948 under the Electricity Act 1947 which resulted in the creation of London Electricity Board, South Eastern Electricity Board and Eastern Electricity Board assets and liabilities respectively. In 1990, the electricity industry was privatised under the Electricity Act 1989. The Electricity Boards were vested into public limited companies (London Electricity plc, SEEBOARD plc and Eastern Electricity plc), which were then listed on the London Stock Exchange.

London Electricity plc was the first network to be acquired by Electricité de France S.A. ("EDF S.A.") in 1998. In April 2000, TXU Europe (owners of the Eastern Electricity network) and EDF S.A. (owners of the London Electricity network) formed a 50/50 jointly controlled asset management company, 24Seven Utility Services Limited, to develop, operate and maintain their respective networks under a commercial service agreement. In 2002, EDF S.A. acquired both Eastern Electricity plc together with the remaining stake in 24Seven Utility Services Limited and SEEBOARD plc, and the Regulated Networks were rebranded under EDF Energy in 2003. SEEBOARD Power Networks, a subsidiary of SEEBOARD plc, became EDF Energy Networks (SPN) plc. London Power Networks, a subsidiary of London Electricity plc became EDF Energy Networks (LPN) plc, and Eastern Electricity plc became EDF Energy Networks (EPN) plc. 24Seven Utility Services Limited became EDF Energy Networks Limited.

Each of the three regulated businesses described above holds a rolling 25-year Distribution Network Operator ("DNO") licence to distribute electricity through their infrastructure networks with a specific distribution service area covering the SPN, EPN, and LPN.

The fourth Regulated Network is owned by EDF Energy (IDNO) Limited, which received its regulatory Electricity Distribution Licence under the Electricity Act 1989 on 22 January 2009 to operate as an Independent Distribution Network Operator ("IDNO"). Under a 40 year concession agreement with the Olympic Delivery Authority and Stratford City Development Ltd, the company is contracted to build and operate the electricity distribution network for the London 2012 Olympics site. The agreement was signed in May 2009 and the network is currently under construction.

The networks are regulated by the Office for Gas and Electricity Markets ("Ofgem"), which performs a periodic Distribution Price Control Review ("DPCR") to establish new price control allowances applicable for a fixed five year period. The fifth such period ("DPCR5") came into effect on 1 April 2010.

Regulated Networks (cont'd)

The Regulated Networks are licensed to distribute electricity over an area that covers in excess of 29,000 km^2. This is achieved through a network of around 47,000 km of overhead wires and 135,000 km of underground cables. The volume of electricity distributed is demand-driven, and over the period under review amounted to between 85 and 90 TWh of electricity annually.

The Regulated Networks levy a charge for electricity transported over its distribution network. The total revenue allowed to be recovered is determined by Ofgem as part of the Distribution Price Control Mechanism, and the Regulated Networks set tariffs designed to collect this revenue.

Each of the four distribution networks operate under very different operating conditions, with a concentrated urban network in LPN and a mix of rural and urban networks in SPN and EPN. Regulated Networks are required to ensure there is a sufficient amount of investment in the network to support the load growth requirement of the customers and maintenance of the network.

Unregulated Infrastructure Projects

The Non-regulated Infrastructure Projects ("Unregulated Infrastructure Projects") portfolio includes a range of high-profile clients from both the public and private sector, serviced under long and medium term contracts and partnerships with terms of up to 90 years. The Unregulated Infrastructure Projects target markets and customers where the management of electrical infrastructure is critical but not a core skill of the customer's business. These existing contracts provide a stable and highly predictable stream of revenues and cash flows. The relationships with high-profile partners and customers create ongoing opportunities to develop the activities as well as a platform from which to market to new potential partners and customers. The existing activities of the Non-Regulated Network Activities are broadly organised into and can be considered as the following sectors:

- Airports
- Rail
- Defence and other infrastructure.

Unregulated Infrastructure Projects construct, maintain and operate a number of private networks including Heathrow Terminal Five and the Channel Tunnel Rail Link, and have built up a portfolio of contracts through Private Finance Initiatives ("PFIs") and Public-Private Partnerships ("PPPs") for asset infrastructure and electrical distribution networks projects.

Review of the year ended 31 December 2007

In the year ended 31 December 2007, the revenue of the Combined Group amounted to £1,476.8m. Profit before taxation amounted to £600.6m.

i. Liquidity and financial resources

As at 31 December 2007, total long and short term borrowings amounted to £1,987.9m, while cash and cash equivalents amounted to £478.3m.

Review of the year ended 31 December 2007 (cont'd)

i. ***Liquidity and financial resources*** (cont'd)

The Regulated Networks are financed mainly by fixed rate and index-linked bonds, short term debt and intercompany loans. The bonds will mature at various dates between 2012 and 2036, and will remain in place on sale of the business.

Debt funding for the Unregulated Infrastructure Projects consists mainly of facilities arranged by the parent company, including overdraft facilities which are made available within the framework of a pooling arrangement whereby overdrafts in one entity are offset against cash balances in other entities, avoiding the need to set up committed bank facilities for each entity, and reducing interest expense.

In addition, bank loan facilities of £105m and £18m were entered into by the 50% jointly controlled Power Asset Development Company Ltd ("PADCo") on 13 August 1998, secured by fixed and floating charges over PADCo's assets, and repayable in quarterly instalments. This external debt financing was used to finance the Powerlink business, which has a power service contract with London Underground Limited. In addition, Powerlink and PADCo retained trapped cash of £45.4m (on a 50% basis for PADCo) at 31 December 2007, due to various restrictions within the European Investment Bank finance agreement that result in cash being ring-fenced.

ii. Capital structure

The Combined Group is not subject to any externally imposed capital requirements, and manages its capital through focusing on its net debt which comprises borrowings, cash and cash equivalents and accrued interest.

As at 31 December 2007, the maturity profile of the Combined Group's borrowings (measured in terms of undiscounted cash outflows including interest payments) was as follows: 0-12 months: 14%, 1-5 years: 17%, greater than 5 years: 69%.

For the year ended 31 December 2007, the Combined Group's weighted average interest rates on its borrowings were as follows: fixed: 6.6%, variable: 6.7%.

The Regulated Networks have no financial risk management or hedging facilities in place, with financial risk management currently carried out at EDF Energy group level.

The Regulated Networks' exposure to interest rate fluctuations on its borrowings and deposits is managed principally through the use of fixed rate debt instruments.

The Unregulated Infrastructure Projects policy is to use derivatives to reduce exposure to short term interest rates. Interest charged on PADCo's loans has been fixed to maturity under swap transaction arrangements at an interest rate of 6.0% per annum for the £105m facility and at an average of 5.4% for the £18m facility.

All borrowings are in Pound Sterling, and all cash and cash equivalents are held in Pound Sterling, and neither the Regulated nor the Unregulated Infrastructure Projects hold any investments in companies with an operating currency other than Pound Sterling. Therefore no hedging of foreign currency net investments is required.

Review of the year ended 31 December 2007 (cont'd)

iii. State of the Combined Group's order book

The Regulated Networks' price control structure operated by Ofgem allows a rate of return on a notional valuation of the network referred to as the RAV. The original RAV was based on a valuation of the business derived from share prices following flotation. This valuation has been increased through capital expenditure, re-valued to current prices using the Retail Price Index and reduced by a depreciation charge on the opening valuation and subsequent expenditure.

iv. Significant investments held

The Combined Group held 100% of the shares of three holding companies which are reported as unquoted equity investments at fair value rather than being consolidated, because they are not part of the sale group. They were as follows: SEEBOARD Trading Limited, EDF Energy (Projects) Limited and EDF Energy (Metro Holdings) Limited. The carrying value of these entities totalled £10.8m at 31 December 2007.

v. Material acquisitions, disposals and associations

Unregulated Infrastructure Projects owned three Street Lighting Private Finance Initiatives in Dorset, Ealing and Islington. The PFI projects required the delivery of capital replacement works (in the first 5 years) and maintenance and renewal over a 25-year period. Strategic reviews following the decision to integrate Regulated Networks and Other Networks into a single branch, resulted in the decision to concentrate on core business and sell these projects. Preferred bidders were selected in November 2007, and the companies were sold in February 2008.

vi. Segmental information

In 2007, Regulated Networks were able to increase their profits due to allowable tariff increases and unit growth. This increase was also due to greater efficiency within the segment and a concerted effort to reduce operating expenses.

During 2007, the Unregulated Infrastructure Projects wrote off their receivables from Metronet, a PPP created to maintain, renew and upgrade two-thirds of London Underground Network's infrastructure. Metronet had been unable to renegotiate a sufficient share of anticipated cost overruns on the contracts. This write-off resulted in a charge of £19.2m.

In 2007, the Unregulated Infrastructure Projects business won a £9.9m contract to construct the main electricity substation on the Olympic site at Kings Yard. Cost overruns were experienced as a result of a requirement to improve the technical specifications of the design, and a provision for a loss of £5.4m was created. £3.5m of this provision was released in 2009.

Physical completion of the high speed rail link to St Pancras was achieved in the Rail sector.

The integration of the Development and Networks branches was completed during the year, resulting in one-off integration charges to be recovered through future savings resulting from the unified management structure.

Review of the year ended 31 December 2007 (cont'd)

vii. Employees

The Regulated Networks' workforce averaged 3,704 full time equivalents ("FTEs") during the year ended 31 December 2007. Total FTEs in the Unregulated Infrastructure Projects segment averaged 1,921. Total remuneration, including wages, salaries, pension costs, share schemes and severance, was £213.6m.

A number of senior management employees have service contracts within companies outside of the Combined Group but work entirely, or substantially, for companies within the Combined Group and are excluded from the disclosure above.

A structured salary system is in place for collectively-bargained staff. Other employees, including all senior managers, are employed under individually negotiated terms and conditions reflecting the market rate. Annual salary reviews are performed which result in adjustments to base salary made on the basis of performance measured against agreed objectives. Private health insurance contributions are provided to selected employees, forming 62% of the total Regulated Networks' workforce.

The majority of the Combined Group's employees are members of one of two contributory defined benefit pension schemes: the Electricity Supply Pension Scheme or the EDF Energy Pension Scheme. The majority of employees of EDF Energy Powerlink Limited are members of the LRT Pension Fund which is a defined benefit scheme and is operated by Transport for London.

A discretionary bonus is usually paid annually to all eligible staff. The bonus levels are linked to salary, seniority and the fulfilment of specific performance metrics.

On 30 August 2007 the ultimate parent company, EDF S.A. announced Actions pour Tous (ACT) 2007, a Free Award Share Plan. This plan entitled all persons who, on 30 August 2007, were bound by an employment contract with EDF Energy or one of its subsidiaries, to free distribution of EDF S.A. ordinary shares in accordance with the rules and regulations of the plan. Each beneficiary was notified of the number of shares, the vesting and holding periods applicable to them and had right of refusal of the plan. Each employee who agreed to take part in the plan was guaranteed to receive 10 free shares plus an additional number of shares proportional to their salary, calculated on the basis of their actual June 2007 annual salary. The award of shares was dependent on the employee remaining in continuous employment within the Group for two years, and also relied on the EDF S.A. group achieving certain financial targets.

The Regulated Networks run regular and comprehensive training programmes for new intakes of apprentices and craft trainees, for technically skilled employees (professional qualifications, health and safety) and for management. The Regulated Networks also face certain regulatory requirements regarding the training programmes for the employees. The national shortage of technically skilled employees at all levels increases the need for training. Recent metrics indicate that both the Regulated and Unregulated Infrastructure Projects have provided an average of four days of training per employee per annum at an investment cost of £1,700 per FTE, demonstrating the Business' strong commitment to highly-trained staff.

Review of the year ended 31 December 2007 (cont'd)

viii. Charges on Group assets

All Regulated Networks borrowings are unsecured. A negative pledge is in place under which, subject to certain exceptions, the Regulated Networks and their subsidiaries which hold public supply licences under the Electricity Act (1989), or which have executed a guarantee, or have become primary obligors in accordance with the relevant bonds, may not provide security or guarantee for any additional indebtedness that is quoted, listed or ordinarily dealt with on any stock exchange or other securities market unless all existing bonds share the security or guarantee, equally and rateably subject to satisfaction of the trustee of the securitisation or other security or guarantee being granted as approved by an extraordinary resolution of the bondholders.

PADCo's loan facilities in the Unregulated Infrastructure Projects of £105m and £18m were entered into on 13 August 1998, and are secured by fixed and floating charges over PADCo's assets.

ix. Future plans for material investments and capital assets

The Regulated Networks are required to ensure that the distribution network is of sufficient capacity and quality to meet customer demand. This requires capital investment as well as expenditure on inspections and maintenance. Capital expenditure relating to the Regulated Networks amounted to £677.8m.

Typically the cost of renewal and enhancement of the network is capitalised as property, plant and equipment. However, IFRIC 18 requires that contributions from customers related to the cost of connecting their premises to the electrical network should be regarded as revenue. The actual cost of the connection has been recognised at fair value within property, plant and equipment. As a result revenue for the year ended 31 December 2007 is £164.2m higher than under UK Financial Reporting Standard ("UK GAAP").

Most of the tangible fixed assets owned by the Unregulated Infrastructure Projects are installed under concession arrangements which for accounting purposes under IFRS are classified as financial assets. As a result, property, plant and equipment are £296.3m lower than UK GAAP.

x. Gearing ratio

The gearing ratio as at 31 December 2007 was 44.6%, based on net debt in the amount of £1,509.6m divided by the sum of net debt and the equity attributable to equity holders in the Combined Group in the amount of £1,874.9m.

xi. Exposure to fluctuations in exchange rates and any related hedges

Neither the Regulated nor the Unregulated Infrastructure Projects have any significant exposure to foreign currency gains and losses. Transactions involving the importation of foreign goods and equipment are hedged only if they exceed £0.5m, using forward contracts placed by the parent company.

Review of the year ended 31 December 2007 (cont'd)

xii. Contingent liabilities

The annual funding update of the three defined benefit pension schemes indicated a deficit as at 31 December 2007 of £193.8m, which is recognised in full in the balance sheet in accordance with the Group's accounting policy under IAS 19.

Various guarantees of Metronet-related liabilities given by EDF Energy (Development) plc were outstanding at the end of the reporting period. These guarantees will be transferred out of the Combined Group prior to sale completion. There will not therefore be any Metronet-related liabilities for a buyer to consider.

In addition, the Group was engaged in a number of disputes arising in the normal course of business which are individually immaterial, and which the Group Management believe are unlikely to result in a loss. No provision has been made against such cases.

Review of the year ended 31 December 2008

In the year ended 31 December 2008, the revenue of the Combined Group amounted to £1,482.5m, an increase of 0.4% compared to the prior year. Profit before taxation amounted to £703.5m, an increase of 17.1%.

Background Information

In March 2008, the following long term strategy and business objectives were set by the Combined Group for 2012.

- Safe for All – Measured through the lost time incident rate (the number of incidents with a day or more off work per 100,000 hours worked).
- Customers' Choice – Measured through customer satisfaction.
- Sustainable Performance – Measured against climate and social commitments (comprising 15 measures).
- High Performing People – Measured through results of the annual employee engagement survey.
- Shareholder's Expectations – Measured through (a) earnings before interest, tax, depreciation and amortisation and (b) free cash flow.

Review of the year ended 31 December 2008 (cont'd)

i. Liquidity and financial resources

As at 31 December 2008, total long and short term borrowings amounted to £2,156.1m, an increase of £168.2m (8.5%) on the prior year. Cash and cash equivalents amounted to £342.4m, a decrease of £135.9m (28.4%) on the prior year. These cash outflows reflect the heavy capital expenditures during the fourth Distribution Price Control Period ("DPCR4").

The Combined Group declared and paid a dividend of £130m to the parent company.

In addition, Powerlink and PADCo retained trapped cash of £47.0m (on a 50% basis for PADCo) at 31 December 2008, due to various restrictions within the European Investment Bank finance agreement that result in cash being ring-fenced.

ii. Capital structure

As at 31 December 2008, the maturity profile of the Combined Group's borrowings (measured in terms of undiscounted cash outflows including interest payments) was as follows: 0-12 months: 19%, 1-5 years: 16%, greater than 5 years: 65%.

For the year ended 31 December 2008, the Combined Group's weighted average interest rates on its borrowings were as follows: fixed: 6.6%, variable: 6.2%. The proportion of fixed-rate borrowings as a percentage of total borrowings decreased from 68.4% to 62.5%.

iii. State of the Combined Group's order book

There was a satisfactory continuing workload of pre-paid connections in the Regulated Networks business. The turnover for the Unregulated Infrastructure Projects businesses was significantly lower than 2007 due to the reduction in the level of Metronet-related business in EDF Energy Contracting Ltd.

iv. Significant investments held

No change.

v. Material acquisitions, disposals and associations

SEEBOARD Trading Limited together with its Lighting Contractor subsidiary companies were sold in 2008 for consideration of £12.7m and a profit of £2.7m. This reflects the Combined Group's strategic focus on core energy sector projects.

vi. Segmental information

In the year ended 31 December 2008, the revenue of the Regulated Networks increased by 9.0% compared to prior year. Operating profit increased by 7.4%.

Review of the year ended 31 December 2008 (cont'd)

vi. Segmental information (cont'd)

In the year ended 31 December 2008, the revenue of the Unregulated Networks decreased by 31.5% compared to prior year. This includes a £6.2m decline in activity on the Victoria Line Upgrade project, which peaked in 2007 and is due to complete in 2010. Operating profit increased from a loss of £22.5m to a profit of £11.1m. This was partly due to the Rail sector, where the Channel Tunnel Rail Link contract improved due to a profit on disposal of existing distribution system assets and the finalisation of the commercial settlement related to the high-speed line. In the Airports sector, the Raglan contract delivered higher margins and a £1.4m reduction in operating costs following an internal reorganisation of the Combined Group's airport operations.

The Regulated Networks suffered a number of disruptive events including storm damage in January resulting in 40,000 customers off supply, and again in March with 130,000 customers off supply. In April a 20" water main burst causing damage to equipment in LPN, and in late May further damage was caused by heavy rain and strong winds.

vii. Employees

The Regulated Networks' workforce averaged 3,922 FTEs for the year ended 31 December 2008. FTEs in the Unregulated Infrastructure Projects segment averaged 1,143. The ramp-up in the Regulated Networks staff numbers between 2006 and 2008 is as a result of an active recruitment and training HR policy, which was in order to support the increase in capital expenditure associated with DPCR4. Total remuneration, including wages, salaries, pension costs, share schemes and severance, was £203.9m.

For a discussion of the Group's remuneration policies, bonus and share option schemes and training schemes, please refer to paragraph *vii Employees* in the Review for the year ended 31 December 2007 above.

viii. Charges on Group assets

No change.

ix. Future plans for material investments and capital assets

Capital expenditure on Regulated Network assets increased from £677.8m to £788.7m during the year.

x. Gearing ratio

The gearing ratio as at 31 December 2008 was 45.5%, based on net debt in the amount of £1,813.7m divided by the sum of net debt and the equity attributable to equity holders in the Combined Group in the amount of £2,171.8m.

xi. Exposure to fluctuations in exchange rates and any related hedges

None.

Review of the year ended 31 December 2008 (cont'd)

xii. Contingent liabilities

The annual funding update of the three defined benefit pension schemes indicated a deficit as at 31 December 2008 of £217.8m, which is recognised in full in the balance sheet in accordance with the Group's accounting policy under IAS 19.

Various guarantees of Metronet-related liabilities given by EDF Energy (Development) plc were outstanding at the end of the reporting period. These guarantees will be transferred out of the Combined Group prior to sale completion. There will not therefore be any Metronet-related liabilities for a buyer to consider.

Review of the year ended 31 December 2009

In the year ended 31 December 2009, the revenue of the Combined Group amounted to £1,461.7m, a decrease of 1.4% compared to the prior year. Profit before taxation amounted to £668.8m, a decrease of 4.9%.

i. Liquidity and financial resources

As at 31 December 2009, total long and short term borrowings amounted to £2,726.0m, an increase of £569.9m (26.4%) on the prior year. Cash and cash equivalents amounted to £664.5m, an increase of £322.1m (94.1%) on the prior year. These movements reflect the cash inflows resulting from the issue by the Regulated Networks of £950m of fixed interest long term bonds in September 2009, as follows:

LPN – £300m 5.125% Eurobond due November 2016
SPN – £300m 6.125% Eurobond due November 2031
EPN – £350m 6.0% Eurobond due November 2036

Total funds received after issue costs were £938.4m. The coupon payable on these bonds is subject to variation if there is a change in the credit rating of the issuer from either Standard & Poors or Moody's and/or if a securitisation structure is put in place.

Part of the proceeds of the 2009 bond issue was used to refinance the outstanding amount of short term borrowings with the remainder being used to fund the first year of the DPCR5 capital expenditure programme.

As at 31 December 2009 the Unregulated Infrastructure Projects had £48.2m of external debt finance, which is included in the combined balance sheets as interest in jointly controlled entities.

In addition, Powerlink and PADCo retained trapped cash of £46.5m (on a 50% basis for PADCo) at 31 December 2009, due to various restrictions within the European Investment Bank finance agreement that result in cash being ring-fenced.

The Combined Group declared and paid a dividend of £45m to the parent company.

Review of the year ended 31 December 2009 (cont'd)

ii. Capital structure

As at 31 December 2009, the maturity profile of the Combined Group's borrowings (measured as undiscounted cash outflows including interest payments) was as follows: 0-12 months: 7%, 1-5 years: 15%, greater than 5 years: 78%.

For the year ended 31 December 2009, the Combined Group's weighted average interest rates on its borrowings were as follows: fixed: 6.3%, variable 2.0%, reflecting the sharp fall in wholesale market interest rates. The proportion of fixed-rate borrowings as a percentage of total borrowings increased from 62.5% to 83.9%, reflecting the issuance of £950m of fixed-rate bonds.

iii. State of the Combined Group's order book

In 2008, the Unregulated Infrastructure Projects created a Central Bid Management Function to ensure that all activity relating to bidding and tendering were carried out to consistently high standards, following common processes, completed to time and quality, meeting the requirements of the client and ensuring that all technical aspects are dealt with to the best of the businesses' ability. Recent tender wins have vindicated the stance taken by management.

Agreement was reached with Veolia to support provision of an IDNO solution for Ebbsfleet Valley Utilities, the client being Land Securities.

Business Development and Contracting continued to work to increase the external market customer base, with low voltage work being a priority. The low-voltage business was actively pursuing opportunities for riser replacement work and identifying likely properties.

iv. Significant investments held

No change.

v. Material acquisitions, disposals and associations

The Olympic Delivery Authority and Stratford City Developments Limited entered into a 40-year concession agreement in May 2009 with Lea Valley Utilities Limited, a special purpose vehicle that forms part of the Regulated Networks. The concession is to design, build, part finance, own and operate the distribution network that will supply electricity to the Olympic Park and Stratford City both for the 2012 Olympic and Paralympics Games and for the subsequent legacy development that will take place as part of the regeneration of the area. The development also includes the provision of power to the Athletes' Village.

Review of the year ended 31 December 2009 (cont'd)

v. ***Material acquisitions, disposals and associations*** (cont'd)

This is one of the highest profile projects currently being undertaken in the UK and it is located in the Regulated Networks' geographical footprint. As such, the Regulated Networks undertook a number of key projects in order to deliver the electrical networks necessary to support the Games and the associated regeneration of the area, and are therefore effectively responsible for distribution of electricity via LPN for the Olympic Games. Winning this additional work enables the Regulated Networks to take end-to-end control of operating the electrical distribution infrastructure for the Olympic Games, thereby providing the best opportunity for effective management of the project.

The IDNO vehicle created for this project allows for private sector investment whilst respecting the regulatory requirements around licensing for residential customers, and enables the Regulated Networks to utilise the existing infrastructure and operational capability to deliver the network efficiently.

On 2 October 2009, the ultimate parent company announced that it was initiating a process to evaluate ownership options for its electricity distribution business in the UK, in order to reduce its net financial debt by at least €5 billion by the end of 2010.

vi. Segmental information

In the year ended 31 December 2009, the revenue of the Regulated Networks decreased by 1.7% compared to prior year. Operating profit decreased by 3.3%.

In the year ended 31 December 2009, the revenue of the Unregulated Networks increased by 0.4% compared to prior year. This includes an £11.2m increase in Thameslink contract revenues, reflecting heightened activity to complete two work programmes by 2010, and a £2.4m increase in Powerlink revenues mainly due to contract variations. This is partly offset by a £9.4m decline in revenues from the Channel Tunnel Rail Link contract due to a reduction in accrued revenues following completion of asset construction, and a £13.6m reduction in Victoria Line Upgrade revenues in line with expectations. Operating profit increased from £11.1m to £37.4m.

vii. Employees

During the year ended 31 December 2009, the Regulated Networks' workforce averaged 4,208 FTEs. Approximately 840 FTEs are in design or engineering positions, requiring extensive specialised skills and training. The total number of employees with technical engineering skills in the Regulated Networks was 3,362. Total FTEs in the Unregulated Infrastructure Projects segment averaged 967. Total remuneration, including wages, salaries, pension costs, share schemes and severance, was £221.1m.

For a discussion of the Group's remuneration policies, bonus and share option schemes and training schemes, please refer to paragraph *vii Employees* in the Review of the year ended 31 December 2007 above.

Review of the year ended 31 December 2009 (cont'd)

viii. Charges on Group assets

No change.

ix. Future plans for material investments and capital assets

Capital expenditure on regulated network assets increased from £788.7m to £836.9m during the year.

x. Gearing ratio

The gearing ratio as at 31 December 2009 was 47.2%, based on net debt in the amount of £2,061.5m divided by the sum of net debt and the equity attributable to equity holders in the Combined Group in the amount of £2,304.9m.

xi. Exposure to fluctuations in exchange rates and any related hedges

None.

xii. Contingent liabilities

The annual funding update of the three defined benefit pension schemes indicated a deficit as at 31 December 2009 of £653.0m, which is recognised in full in the balance sheet in accordance with the Group's accounting policy under IAS 19.

As at 31 December 2009, two guarantees totalling £4.3m had been provided by EDF Energy Contracting Ltd relating to two ongoing contracts, and a letter of credit for £0.1m was also outstanding.

Various guarantees of Metronet-related liabilities given by EDF Energy (Development) plc were outstanding at the end of the reporting period. These guarantees will be transferred out of the Combined Group prior to sale completion. There will not therefore be any Metronet-related liabilities for a buyer to consider.

Review of the three months ended 31 March 2010

In the three months ended 31 March 2010, the revenue of the Combined Group amounted to £389.5m, a decrease of 3.1% compared to the three months ended 31 March 2009. Profit before taxation amounted to £182.7m, a decrease of 3.3%.

Review of the three months ended 31 March 2010 (cont'd)

Background Information

i. Liquidity and financial resources

As at 31 March 2010, total long and short term borrowings amounted to £2,720.8m, while cash and cash equivalents amounted to £666.0m. Both amounts were virtually unchanged since 31 December 2009.

The Regulated Networks efficiently delivered the largest ramp-up in direct capital expenditure across all the DNOs in the DPCR4, with capital expenditure during the period equal to 67% of opening RAV, as compared to an average of 49% across the other DNO Combined Groups. For DPCR5 this means the Regulated Networks are better positioned than many of their peers that are facing a sizeable increase in capital expenditure for the first time.

For DPCR5, the Group was set challenging targets for the levels of operating and capital expenditure which have been accepted by the Group as a package, rather than as individual components. The Regulated Networks have reviewed their capital programme forecasts and have been able to reduce them through the following:

- Aligning unit costs more closely with observed actual rates;
- Removing costs associated with undertaking additional discretionary works while on site;
- Delivering planned reductions in contractor costs through imposing a ratcheting mechanism on the target cost provisions included in the contractual frameworks with Integrated Delivery Team contractors;
- Reviewing and rescheduling the volumes of work planned to be undertaken during the DPCR5.

The Regulated Networks' total allowance for slow money (i.e. capital expenditure) including the share of ongoing pension costs for DPCR5 amounted to £2,601m which amounts to 67% of opening RAV. The Regulated Networks' RAV is forecast to be one of the fastest growing DNO Combined Groups in the UK with circa 20% growth in real terms to reach £4,638m by 31 March 2015.

In addition, Powerlink and PADCo retained trapped cash of £46.5m (on a 50% basis for PADCo) at 31 March 2010, due to various restrictions within the European Investment Bank finance agreement that result in cash being ring-fenced.

ii. Capital structure

As at 31 March 2010, the maturity profile of the Combined Group's borrowings (measured in terms of undiscounted cash outflows including interest payments) was as follows: 0-12 months: 7%, 1-5 years: 15%, greater than 5 years: 78%.

Review of the three months ended 31 March 2010 (cont'd)

ii. Capital structure (cont'd)

For the three months ended 31 March 2010, the Combined Group's weighted average interest rates on its borrowings were as follows: fixed: 6.3%, variable: 4.1%. The proportion of fixed-rate borrowings as a percentage of total borrowings remained stable at approximately 84%.

iii. State of the Combined Group's order book

The Unregulated Infrastructure Projects have successfully secured additional opportunities outside existing contracts and expect to continue to do so in the future. Opportunities have been identified within each of the Unregulated Infrastructure Projects' target sectors, which meet the following criteria:

- Target markets and high-profile customers where electricity is critical but not core;
- Substantial electrical infrastructure components; and
- Leverages the experience of the Unregulated Infrastructure Projects while extending the value proposition.

For the Regulated Networks, the DPCR5 Final Proposals include a reduction in the allowed rate of return that forms part of the "revenue building blocks", from the level allowed in DPCR4 and assumed in the DPCR5 Initial Proposals. However, Ofgem has pointed to the opportunity for DNOs to outperform the allowed return through the delivery of efficiencies in the DNO's cost base beyond the assumed regulatory cost allowances and through incentive mechanisms. Such outperformance creates value for shareholders, and also delivers benefits to customers and the environment. In addition, Ofgem has sought to de-risk the DNOs by introducing new measures to deal with uncertainty and limit downside risk.

For the Regulated Networks, the key long term opportunities identified beyond 2015 relate to the areas listed below:

- Regulatory: potentially increased regulatory focus on environmental targets and security of supply leads to increased investment and performance incentives in these areas;
- Technology: development of smart distribution grids;
- Integration: continued integration of activities to fewer locations to capture synergies through hubs, clusters and delivery points.

iv. Significant investments held

Two wholly-owned subsidiaries (EDF Energy (Projects) Limited and EDF Energy (Metro Holdings) Limited) were held by the Group as at 31 March 2010 but have not been consolidated because they are not included in the sale group. These shareholdings will be transferred to other EDF group companies as part of pre sale restructuring.

Review of the three months ended 31 March 2010 (cont'd)

v. Material acquisitions, disposals and associations

No change.

vi. Segmental information

In the three months ended 31 March 2010, the revenue of the Regulated Networks increased by 0.7% compared to the three months ended 31 March 2009. Operating profit increased by 1.0%.

The Regulated Networks' licence for DPCR5 allows for £5.3 billion in revenue, including allowances for certain pass-through costs and Excluded Services, over the five years ending 31 March 2015 (in 2007/08 prices). Based upon the approach Ofgem used, this could be seen to be broadly made up of £1.8 billion for depreciation, £1.0 billion for fast money (i.e. Opex), £1.0 billion for return on the RAV, £0.8 billion for pass-through costs and incentives, £0.4 billion for tax and £0.3 billion for pensions.

The license includes a series of incentive and penalty schemes to encourage specific action and behaviour by the DNOs, as follows:

- Information quality incentive: This incentive encourages the DNOs to submit good quality forecasts by providing lower returns to companies that over-forecast their expenditure requirements; and in DPCR4, the incentive mechanism only applied to regulatory capital expenditure, whereas the DPCR5 Initial Proposals extend the measurement of the Retention Rate to apply to network operating and indirect costs (excluding business support costs);

- Interruptions Incentive Scheme or Quality of Service: Provides incentives (or penalties) based on customer interruptions and customer minutes lost below (or above) a specific target set for each DNO;

- Losses: Provides incentives (or penalties) based on units of electricity lost in the process of distribution below (or above) a specific target set for each DNO. The incentive rate is set on a £/MWh basis;

- Customer satisfaction: A new scheme in the DPCR5 Initial Proposals that captures and measures customer experience across a broad range of network services is expected to be operational from 2012/13;

- Low Carbon Networks fund: A new scheme that funds trials for technology/commercial operating arrangements to facilitate a low carbon economy. The mechanism requires DNOs to fund at least 10% of the costs, with up to 90% being recoverable through the incentive. An industry-wide fund of £500m has been made available.

Review of the three months ended 31 March 2010 (cont'd)

vi. Segmental information (cont'd)

In the three months ended 31 March 2010, the revenue of the Unregulated Networks decreased by 26.1% compared to the three months ended 31 March 2009. Operating profit increased by 46.9%. Profit before taxation increased by 4.3% compared to the three months ended 31 March 2009, as improvements in the Rail and Defence sectors were offset by lower results in Airports and Contracting.

Rail:

Profitability improved following an increase in the mark up on Victoria Line Upgrade contract from 20% to 25%. The contract is nearing completion and the final outcome can be foreseen with greater certainty.

Airports:

The scope of work demanded by British Airports Authority on the Raglan contract has been less than expected, resulting in less mark-up on costs.

Defence and other infrastructure:

Milestone completions on the Allenby barracks refurbishment project resulted in a profit before taxation of £1.3m.

Contracting was loss-making during the quarter.

vii. Employees

During the three months ended 31 March 2010, the Regulated Networks' workforce averaged 4,291 FTEs, while FTEs in the Unregulated Infrastructure Projects segment averaged 894. Total remuneration, including wages, salaries, pension costs, share schemes and severance, was £59.2m.

The Regulated Networks' need for training resources formed an integral part of the Regulated Networks' DPCR5 submission. Due to the large number of employees in the Regulated Networks, management training is of vital importance to ensure efficiency. Training for management is provided both internally, through the HR function, and by external consultants.

For a discussion of the Group's remuneration policies, bonus and share option schemes and training schemes, please refer to paragraph *vii Employees* in the Review of the year ended 31 December 2007 above.

viii. Charges on Group assets

No change.

Review of the three months ended 31 March 2010 (cont'd)

ix. Future plans for material investments and capital assets

As part of the DPCR5 process, the Regulated Networks submitted direct capital expenditure forecasts to Ofgem for the DPCR5 totalling approximately £2,098m (2007/08 prices). After removing discretionary programmes that were included within the forecasts and which it was agreed with Ofgem would not be required to be delivered during the DPCR5, the revised capital programme totalled £1,951m. The Regulated Networks have undertaken a comprehensive review of the capital programme in order to reduce expenditure levels to just over £1,610m, whilst maintaining overall network performance, thereby generating outperformance against the DPCR5 allowances.

x. Gearing ratio

The gearing ratio as at 31 March 2010 was 46.3%, based on net debt in the amount of £2,054.8m divided by the sum of net debt and the equity attributable to equity holders in the Combined Group in the amount of £2,385.9m.

xi. Exposure to fluctuations in exchange rates and any related hedges

None.

xii. Contingent liabilities

The annual funding update of the three defined benefit pension schemes indicated a deficit as at 31 March 2010 of £713.5m, which is recognised in full in the balance sheet in accordance with the Group's accounting policy under IAS 19.

As at 31 March 2010, the guarantees and letter of credit totalling £4.4m in place at 31 December 2009 were still outstanding.

Various guarantees of Metronet-related liabilities given by EDF Energy (Development) plc were outstanding at the end of the reporting period. These guarantees will be transferred out of the Combined Group prior to sale completion. There will not therefore be any Metronet-related liabilities for a buyer to consider.

Regulated Networks litigation:

- LPN is in dispute with various parties regarding who is liable to replace internal cabling within multi-occupied premises from the cut-outs or point of supply to the individual flat or office. The maximum potential value of this claim is £5m. In the event the claim is lost, any expenditure is likely to qualify for addition to the RAV;

- A dispute in relation to charges payable for meter fault investigation services.

Review of the three months ended 31 March 2010 (cont'd)

xii. Contingent liabilities (cont'd)

Customers of the Regulated Networks have at times claimed against the licensed distributors for damage to their property caused by fire alleged to be caused by defective electric lines and/or electrical plant belonging to one of the distributors at the customers' property. Presently the total sums in dispute are £8.6m.

Furthermore, as part of the normal course of the Regulated Networks business, there are several minor disputes currently in progress.

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF
CHEUNG KONG INFRASTRUCTURE HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Cheung Kong Infrastructure Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the possible formation of a joint venture and possible provision of financial assistance to the joint venture might have affected the financial information presented, for inclusion in Appendix IV of the circular dated 24th August, 2010 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 120 to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 30th June, 2010 or any future date.

OPINION

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group so far as such policies relate to the transaction; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24th August, 2010

UNAUDITED PRO FORMA NET ASSET STATEMENT OF THE ENLARGED GROUP

The following is a summary of the unaudited pro forma net asset statement of the Enlarged Group, assuming that the possible JV Transaction had been completed as at 30th June, 2010 for the purposes of illustrating how the possible JV Transaction might have affected the financial position of the Group.

The following unaudited pro forma net asset statement of the Enlarged Group has been prepared based on the unaudited statement of financial position of the Group as at 30th June, 2010, incorporated with pro forma adjustments arising from the possible JV Transaction.

The unaudited pro forma net asset statement is prepared to provide financial information of the Group as if the possible JV Transaction had been completed as at 30th June, 2010. As it is prepared for illustrative purpose only, it may not purport to represent what the financial position of the Group shall be on the actual completion of the possible JV Transaction.

UNAUDITED PRO FORMA NET ASSET STATEMENT OF THE ENLARGED GROUP

HK$ million	**The Group**	**Pro forma adjustments**	**The Enlarged Group**
	(Note 1)	(Note 2)	
Property, plant and equipment	1,228		1,228
Investment properties	174		174
Interests in associates	34,295	12,839	47,134
Interests in jointly controlled entities	655		655
Investments in securities	4,214		4,214
Goodwill	141		141
Deferred tax assets	7		7
Other non-current assets	1		1
Total non-current assets	**40,715**	**12,839**	**53,554**
Inventories	105		105
Derivative financial instruments	84		84
Debtors and prepayments	620		620
Bank balances and deposits	9,928	(8,605)	1,323
Total current assets	**10,737**	**(8,605)**	**2,132**
Bank and other loans	347	4,234	4,581
Derivative financial instruments	180		180
Creditors and accruals	1,170		1,170
Taxation	98		98
Total current liabilities	**1,795**	**4,234**	**6,029**
Net current assets/(liabilities)	**8,942**	**(12,839)**	**(3,897)**
Total assets less current liabilities	**49,657**	**–**	**49,657**
Bank and other loans	7,299		7,299
Derivative financial instruments	71		71
Deferred tax liabilities	223		223
Other non-current liabilities	21		21
Total non-current liabilities	**7,614**	**–**	**7,614**
Net assets	**42,043**	**–**	**42,043**

NOTES TO THE UNAUDITED PRO FORMA NET ASSET STATEMENT OF THE ENLARGED GROUP

1. Figures are extracted from the unaudited consolidated statement of financial position of the Group as at 30th June, 2010 as included in the published interim report of the Group for the six months ended 30th June, 2010.

2. The Company, HEH and the Foundation and their respective subsidiaries propose to enter into a shareholders' agreement to make capital contribution to Bidco and to advance shareholders' loans to Bidco. It is expected that the Company, HEH and the Foundation, through their respective subsidiaries, will be interested in 40%, 40% and 20% respectively of the issued share capital of the Bidco upon completion of the possible JV Transaction.

   The pro forma adjustment of HK$12,839 million represents (a) the subscription price for the issued share capital of Bidco of £711.2 million (approximately HK$8,605 million translated at the rate of £1.00: HK$12.099) to be paid by the Group and (b) a non-current interest bearing shareholders' loan to be made by the Group to Bidco of £350 million (approximately HK$4,234 million translated at the rate of £1.00: HK$12.099). The payment of HK$12,839 million will be financed by internal resources of the Group and bank borrowings of HK$8,605 million and HK$4,234 million, respectively. The whole payment is included in interests in associates in the pro forma net asset statement of the Enlarged Group.

   The information set out in item 3 below is for additional information only and does not constitute pro forma adjustment.

3. The possible JV Transaction is intended to be entered into once the Offer is accepted by the Vendors. The Offer is subject to acceptance by the Vendors and the Vendors have advised that their decision will depend on, amongst other things, the completion of the consultation with the European Work Council.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(1) Long Positions in Shares

			Number of Ordinary Shares					
Name of Company	Name of Director	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate % of Shareholding
Company	Li Tzar Kuoi, Victor	Beneficiary of trusts	–	–	–	1,912,109,945 (Note 1)	1,912,109,945	84.82%
	Kam Hing Lam	Beneficial owner	100,000	–	–	–	100,000	0.004%
Hutchison Whampoa Limited	Li Tzar Kuoi, Victor	Interest of controlled corporations & beneficiary of trusts	–	–	1,086,770 (Note 3)	2,141,698,773 (Note 2)	2,142,785,543	50.26%
	Kam Hing Lam	Beneficial owner & interest of child or spouse	60,000	40,000	–	–	100,000	0.002%
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	6,010,875 (Note 5)	–	6,010,875	0.14%
	Chow Woo Mo Fong, Susan	Beneficial owner	150,000	–	–	–	150,000	0.003%
	Frank John Sixt	Beneficial owner	200,000	–	–	–	200,000	0.004%
	Lan Hong Tsung, David	Beneficial owner	20,000	–	–	–	20,000	0.0004%
	Lee Pui Ling, Angelina	Beneficial owner	38,500	–	–	–	38,500	0.0009%
	George Colin Magnus	Beneficial owner, interest of child or spouse & founder & beneficiary of a discretionary trust	40,000	9,900	–	950,100 (Note 6)	1,000,000	0.02%
	Man Ka Keung, Simon	Beneficial owner & interest of child or spouse	2,770 (Note 7)	2,770 (Note 7)	–	–	2,770	0.00006%

(1) Long Positions in Shares (Cont'd)

Name of Company	Name of Director	Capacity	Number of Ordinary Shares					Approximate % of Shareholding
			Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	
Hongkong Electric Holdings Limited	Li Tzar Kuoi, Victor	Interest of child or spouse & beneficiary of trusts	–	151,000	–	829,599,612 (Note 4)	829,750,612	38.87%
	Lee Pui Ling, Angelina	Beneficial owner	8,800	–	–	–	8,800	0.0004%
Hutchison Harbour Ring Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	5,000,000 (Note 5)	–	5,000,000	0.05%
Hutchison Telecommunications (Australia) Limited	Fok Kin Ning, Canning	Beneficial owner & interest of controlled corporation	4,100,000	–	1,000,000 (Note 5)	–	5,100,000	0.037%
	Frank John Sixt	Beneficial owner	1,000,000	–	–	–	1,000,000	0.007%
Hutchison Telecommunications Hong Kong Holdings Limited	Li Tzar Kuoi, Victor	Interest of controlled corporations & beneficiary of trusts	–	–	2,519,250 (Note 3)	3,179,646,120 (Note 8)	3,182,165,370	66.09%
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	1,202,380 (Note 5)	–	1,202,380	0.025%
	Chow Woo Mo Fong, Susan	Beneficial owner	250,000	–	–	–	250,000	0.005%
	George Colin Magnus	Beneficial owner & interest of child or spouse	13,201	132	–	–	13,333	0.0003%

(2) Long Positions in Underlying Shares

Name of Company	Name of Director	Capacity	Number of Underlying Shares				
			Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Hutchison Telecommunications Hong Kong Holdings Limited	Frank John Sixt	Beneficial owner	255,000 (Note 9)	–	–	–	255,000

(3) Long Positions in Debentures

Name of Company	Name of Director	Capacity	Amount of Debentures				
			Personal Interests	Family Interests	Corporate Interests	Other Interests	Total
Hutchison Whampoa International (03/13) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$10,208,000 6.5% Notes due 2013 (Note 3)	–	US$10,208,000 6.5% Notes due 2013
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	US$1,216,000 6.5% Notes due 2013 (Note 5)	–	US$1,216,000 6.5% Notes due 2013
	Man Ka Keung, Simon	Beneficial owner & interest of child or spouse	US$100,000 6.5% Notes due 2013 (Note 7)	US$100,000 6.5% Notes due 2013 (Note 7)	–	–	US$100,000 6.5% Notes due 2013
Hutchison Whampoa International (03/33) Limited	Man Ka Keung, Simon	Beneficial owner & interest of child or spouse	US$200,000 6.25% Notes due 2014 (Note 7)	US$200,000 6.25% Notes due 2014 (Note 7)	–	–	US$200,000 6.25% Notes due 2014
Hutchison Whampoa Finance (CI) Limited	Man Ka Keung, Simon	Beneficial owner & interest of child or spouse	US$100,000 7.45% Notes due 2017 (Note 7)	US$100,000 7.45% Notes due 2017 (Note 7)	–	–	US$100,000 7.45% Notes due 2017
Hutchison Whampoa International (09) Limited	Li Tzar Kuoi, Victor	Interest of controlled corporation	–	–	US$45,792,000 7.625% Notes due 2019 (Note 3)	–	US$45,792,000 7.625% Notes due 2019
	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	US$4,000,000 7.625% Notes due 2019 (Note 5)	–	US$4,000,000 7.625% Notes due 2019
Hutchison Whampoa International (09/19) Limited	Fok Kin Ning, Canning	Interest of controlled corporation	–	–	US$4,000,000 5.75% Notes due 2019 (Note 5)	–	US$4,000,000 5.75% Notes due 2019

Notes:

1. The 1,912,109,945 shares in the Company comprise 1,906,681,945 shares held by a subsidiary of Hutchison Whampoa Limited ("HWL") and 5,428,000 shares held by Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1").

Notes (Cont'd):

The discretionary beneficiaries of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("TDT2", which is the trustee of DT2) holds units in UT1 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. TUT1 as trustee of UT1 and its related companies in which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings ("TUT1 related companies") hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). Certain subsidiaries of CKH in turn together hold more than one-third of the issued share capital of HWL.

The entire issued share capital of TUT1 and of the trustees of DT1 and DT2 are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard as a holder of the shares of Unity Holdco as aforesaid.

By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a director of CKH, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies, the shares of HWL held by the subsidiaries of CKH and the shares of the Company held by each of the subsidiary of HWL and TUT1 as trustee of UT1 under the SFO as a Director of the Company. Although Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Unity Holdco and is a discretionary beneficiary of each of DT1 and DT2, he is not a director of CKH and has no duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies under the SFO.

2. The 2,141,698,773 shares in HWL comprise:

   (a) 2,130,202,773 shares held by certain subsidiaries of CKH. By virtue of the interests in shares of CKH in relation to which Mr. Li Tzar Kuoi, Victor has a duty of disclosure under the SFO in the issued share capital of CKH as described in Note 1 above and as a Director of the Company, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HWL under the SFO; and

   (b) 11,496,000 shares held by Li Ka-Shing Castle Trustee Company Limited ("TUT3") as trustee of The Li Ka-Shing Castle Trust ("UT3"). The discretionary beneficiaries of each of the two discretionary trusts ("DT3" and "DT4") are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Each of the trustees of DT3 and DT4 holds units in UT3 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust.

Notes (Cont'd):

The entire issued share capital of TUT3 and the trustees of DT3 and DT4 are owned by Li Ka-Shing Castle Holdings Limited ("Castle Holdco"). Each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Castle Holdco. TUT3 is only interested in the shares of HWL by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of HWL independently without any reference to Castle Holdco or any of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard as a holder of the shares of Castle Holdco as aforesaid.

By virtue of the above and as a discretionary beneficiary of each of DT3 and DT4 and as a director of HWL, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HWL held by TUT3 as trustee of UT3 under the SFO as a Director of the Company. Although Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital of Castle Holdco and is a discretionary beneficiary of each of DT3 and DT4, he is not a Director of the Company and has no duty of disclosure in relation to the shares of HWL held by TUT3 as trustee of UT3 under the SFO.

3. Such interests are held by certain companies of which Mr. Li Tzar Kuoi, Victor is interested in the entire issued share capital.

4. By virtue of being a Director of the Company and his deemed interest in those shares of the Company as described in Note 1 above, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to those shares of Hongkong Electric Holdings Limited held through the Company under the SFO.

5. These interests are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.

6. Such interests are indirectly held by a trust of which Mr. George Colin Magnus is the settlor and a discretionary beneficiary.

7. Such interests are jointly held by Mr. Man Ka Keung, Simon and his wife.

8. Such shares of Hutchison Telecommunications Hong Kong Holdings Limited ("HTHKH") comprise:

   (a) 3,179,492,840 ordinary shares of which 52,092,587 ordinary shares and 3,127,400,253 ordinary shares are held by certain wholly-owned subsidiaries of CKH and HWL respectively. By virtue of the interests in the shares of CKH and HWL in relation to which Mr. Li Tzar Kuoi, Victor has a duty of disclosure under the SFO in the issued share capital of CKH and HWL as described in Notes 1 and 2 above and as a Director of the Company, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the said shares of HTHKH under the SFO; and

   (b) 153,280 ordinary shares held by TUT3 as trustee of UT3. Mr. Li Tzar Kuoi, Victor as a Director of the Company, by virtue of being a discretionary beneficiary of each of DT3 and DT4 and his deemed interests in TUT3 as trustee of UT3 as described in Note 2(b) above, is taken to have a duty of disclosure in relation to the said shares of HTHKH under the SFO.

9. Such underlying shares are derived from the 17,000 American Depositary Shares (each representing 15 ordinary shares) in HTHKH beneficially owned by Mr. Frank John Sixt.

Mr. Li Tzar Kuoi, Victor, by virtue of being a Director of the Company and his interests in the share capital of the Company as a discretionary beneficiary of certain discretionary trusts as described in Note 1 above, is deemed to be interested in those securities of subsidiaries and associated companies of the Company held through the Company and in those securities of the subsidiaries of HWL held through HWL under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests and short positions of Shareholders

So far as is known to any Director or chief executive of the Company, as at Latest Practicable Date, Shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long Positions of Substantial Shareholders in the Shares of the Company

Name	Capacity	Number of Ordinary Shares	Total	Approximate % of Shareholding
Hutchison Infrastructure Holdings Limited	Beneficial owner	1,906,681,945 (Note i)	1,906,681,945	84.58%
Hutchison International Limited	Interest of controlled corporation	1,906,681,945 (Note ii)	1,906,681,945	84.58%
Hutchison Whampoa Limited	Interest of controlled corporations	1,906,681,945 (Note ii)	1,906,681,945	84.58%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	1,906,681,945 (Note iii)	1,906,681,945	84.58%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	1,912,109,945 (Note iv)	1,912,109,945	84.82%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	1,912,109,945 (Note v)	1,912,109,945	84.82%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	1,912,109,945 (Note v)	1,912,109,945	84.82%
Li Ka-shing	Founder of discretionary trusts	1,912,109,945 (Note v)	1,912,109,945	84.82%

(b) Interests and short positions of Shareholders (Cont'd)

Notes:

i. 1,906,681,945 shares of the Company are held by Hutchison Infrastructure Holdings Limited, a subsidiary of HWL. Its interests are duplicated in the interests of HWL in the Company described in Note ii below.

ii. HWL is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note i above as it holds more than one-third of the issued share capital of Hutchison International Limited, which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited.

iii. CKH is deemed to be interested in the 1,906,681,945 shares of the Company referred to in Note ii above as certain subsidiaries of CKH hold more than one-third of the issued share capital of HWL.

iv. TUT1 as trustee of UT1 is deemed to be interested in those shares of the Company described in Note iii above as TUT1 as trustee of UT1 and TUT1 related companies hold more than one-third of the issued share capital of CKH and TUT1 as trustee of UT1 holds 5,428,000 shares of the Company.

v. By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each DT1 and DT2 for the purpose of the SFO, TDT1 as trustee of DT1 and TDT2 as trustee of DT2 is deemed to be interested in the same block of shares TUT1 as trustee of UT1 is deemed to be interested in as referred to in Note iv above as all issued and outstanding units in UT1 are held by TDT1 as trustee of DT1 and by TDT2 as trustee of DT2. More than one-third of the issued share capital of TUT1 and of the trustees of the said discretionary trusts are owned by Unity Holdco. Mr. Li Ka-shing owns one-third of the issued share capital of Unity Holdco.

(c) Interests of substantial shareholders in other members of the Group

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following shareholders were interested in 10% or more of the equity interests of the following subsidiaries of the Company:

Name of Subsidiary	Name of Shareholder	No. and Class of Shares Held	% of Shareholding Directly	Indirectly
China Cement Company (International) Limited	Bell Investment Limited	300,000 Ordinary	30%	–
Guangdong GITIC Green Island Cement Co. Limited (廣東廣信青洲水泥有限公司)	Bell Investment Limited	N/A	–	28.5%
Tangshan Tangle Road Co., Ltd.	唐山市交通開發總公司 (Tangshan City Transportation Development Company*)	N/A	49%	–
Zhumadian Gangma Road Development Co., Ltd.	駐馬店市公路工程開發公司 (Zhumadian City Highway Construction Development Company*)	N/A	34%	–
Zhumadian Gangyi Road Development Co., Ltd.	駐馬店市公路工程開發公司 (Zhumadian City Highway Construction Development Company*)	N/A	34%	–

* Name translated for reference purposes only in this circular

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

3. COMPETING INTERESTS

As at the Latest Practicable Date, the interests of Directors or their respective associates (as defined in the Listing Rules) in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (the "Competing Business") as required to be disclosed pursuant to the Listing Rules were as follows:

(a) Core Business Activities of the Group

(1) Development, investment and operation of energy infrastructure;

(2) Development, investment and operation of transportation infrastructure;

(3) Development, investment and operation of water infrastructure;

(4) Development, investment and operation and commercialisation of infrastructure related business;

(5) Investment holding and project management;

(6) Securities investment; and

(7) Information technology, e-commerce and new technology.

(b) Interests in Competing Business

Name of Director	Name of Company	Nature of Interest	Competing Business (Note)
Li Tzar Kuoi, Victor	Cheung Kong (Holdings) Limited	Managing Director and Deputy Chairman	(5), (6) & (7)
	Hutchison Whampoa Limited	Deputy Chairman	(1), (3), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	CK Life Sciences Int'l., (Holdings) Inc.	Chairman	(3), (6) & (7)
Kam Hing Lam	Cheung Kong (Holdings) Limited	Deputy Managing Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Executive Director	(1), (3), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	CK Life Sciences Int'l., (Holdings) Inc.	President and Chief Executive Officer	(3), (6) & (7)
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited	Deputy Managing Director	(5), (6) & (7)
	CK Life Sciences Int'l., (Holdings) Inc.	Senior Vice President and Chief Investment Officer	(3), (6) & (7)
	TOM Group Limited	Non-executive Director	(5), (6) & (7)
	AVIC International Holding (HK) Limited	Non-executive Director	(1), (5) & (6)
	Excel Technology International Holdings Limited	Non-executive Director	(5), (6) & (7)
	Shougang Concord International Enterprises Company Limited	Non-executive Director	(5) & (6)
	ARA Asset Management Limited	Non-executive Director	(5) & (6)
Fok Kin Ning, Canning	Cheung Kong (Holdings) Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Group Managing Director	(1), (3), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Chairman	(1), (5), (6) & (7)
	Hutchison Harbour Ring Limited	Chairman	(7)
	Hutchison Telecommunications Hong Kong Holdings Limited	Chairman and Alternate Director	(7)
Andrew John Hunter	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	Spark Infrastructure Group	Non-executive Director	(1) & (5)
Chow Woo Mo Fong, Susan	Hutchison Whampoa Limited	Deputy Group Managing Director	(1), (3), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director and Alternate Director	(1), (5), (6) & (7)
	TOM Group Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Harbour Ring Limited	Executive Director	(7)
	Hutchison Telecommunications Hong Kong Holdings Limited	Non-executive Director	(7)
Frank John Sixt	Cheung Kong (Holdings) Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Group Finance Director	(1), (3), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Executive Director	(1), (5), (6) & (7)
	TOM Group Limited	Non-executive Chairman	(5), (6) & (7)
	Hutchison Telecommunications Hong Kong Holdings Limited	Non-executive Director	(7)

(b) Interests in Competing Business (Cont'd)

Name of Director	Name of Company	Nature of Interest	Competing Business (Note)
Tso Kai Sum	Hongkong Electric Holdings Limited	Group Managing Director	(1), (5), (6) & (7)
Lee Pui Ling, Angelina	TOM Group Limited	Non-executive Director	(5), (6) & (7)
George Colin Magnus	Cheung Kong (Holdings) Limited	Non-executive Director	(5), (6) & (7)
	Hutchison Whampoa Limited	Non-executive Director	(1), (3), (5), (6) & (7)
	Hongkong Electric Holdings Limited	Non-executive Director	(1), (5), (6) & (7)

Note: Such businesses may be made through subsidiaries, associated companies or by way of other forms of investments.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

4. DIRECTORS' INTERESTS IN CONTRACTS

(a) As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

(b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31st December, 2009, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which was significant in relation to the business of the Group.

5. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claim of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

6. MATERIAL CONTRACTS

Within the two years immediately preceding the Latest Practicable Date, the Group has not entered into any contracts, not being contracts entered into in the ordinary course of business, which are or may be material.

7. NO MATERIAL ADVERSE CHANGE

The Company is a diversified infrastructure investment company with businesses in Hong Kong, the Mainland, Australia, New Zealand, the United Kingdom, Canada and the Philippines, and is exposed to potential currency fluctuations in these countries and places in which the Group operate. The results of the Group are recorded in Hong Kong dollars but its various subsidiaries, associates and joint ventures may receive revenue and incur expenses in other currencies. Any currency fluctuations on translation of the accounts of these subsidiaries, associates and joint ventures and also on the repatriation of earnings, equity investments and loans may therefore impact on the Group's financial position or potential income, asset value and liabilities, but the Group confirms that it has not entered into any speculative derivative transaction and generally hedging arrangements are in place for overseas investments as appropriate.

Save as aforesaid, the Directors believe there has been no material adverse change in the financial or trading position of the Group since 31st December, 2009, being the date to which the latest published audited accounts of the Company have been made up.

8. EXPERTS AND CONSENT

(a) The following are the qualifications of the experts who have given their opinions or advice which are contained or referred to in this circular:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants
Deloitte LLP	Chartered Accountants

(b) As at the Latest Practicable Date, Deloitte Touche Tohmatsu and Deloitte LLP did not have any shareholding in any Shares or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

(c) As at the Latest Practicable Date, Deloitte Touche Tohmatsu and Deloitte LLP did not have any direct or indirect interest in any assets which had been, since 31st December, 2009, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group.

(d) Deloitte Touche Tohmatsu and Deloitte LLP have given and have not withdrawn their written consents to inclusion of their letters dated 24th August, 2010 in this circular and the references to their names included herein in the form and context in which they respectively appear.

(e) As advised by Deloitte Touche Tohmatsu, the Board confirmed that there is no material difference in adopting International Financial Reporting Standards and Hong Kong Financial Reporting Standards for the preparation of the accountants' report on the Target Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong on weekdays (Saturdays and public holidays excepted) up to and including 7th September, 2010:

(a) the Memorandum of Association and Bye-laws of the Company;

(b) the audited financial statements of the Group for the last two financial years ended 31st December 2009;

(c) the accountant's report from Deloitte LLP on the Target Companies as set out in Appendix II to this circular for the years ended 31st December, 2007, 2008 and 2009 and the period ended 31st March, 2010;

(d) a copy of each circular published pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited consolidated accounts of the Group, which includes the accountants' report on Seabank Power Limited, a company which was acquired by the Group on 10th June, 2010; and

(e) the written consents from Deloitte Touche Tohmatsu and Deloitte LLP referred to in paragraph 8(d) of this Appendix.

10. MISCELLANEOUS

(a) The principal activities of the Group are development, investment and operation of infrastructure businesses in Hong Kong, the Mainland, Australia, New Zealand, the United Kingdom, Canada and the Philippines.

(b) The company secretary of the Company is Ms. Eirene Yeung. She is a solicitor of the High Court of the Hong Kong Special Administrative Region and of the Supreme Court of Judicature in England and Wales, and she holds a Master of Science degree in Finance, a Master's degree in Business Administration and a Bachelor's degree in Laws.

(c) The registered office of the Company is at Clarendon House, Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company is at 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

(d) The principal share registrar and transfer office of the Company is Butterfield Fulcrum Group (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda. The branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

This circular (both English and Chinese versions) ("Circular") has been posted on the Company's website at http://www.cki.com.hk. Shareholders who have chosen (or are deemed to have consented) to read the Company's corporate communications (including but not limited to the Circular) published on the Company's website in place of receiving printed copies thereof may request the printed copy of the Circular in writing to the Company c/o the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong or by email to cki.ecom@computershare.com.hk.

Shareholders who have chosen (or are deemed to have consented) to receive the corporate communications using electronic means through the Company's website and who for any reason have difficulty in receiving or gaining access to the Circular posted on the Company's website will upon request in writing to the Company c/o the Company's Branch Share Registrar or by email to cki.ecom@computershare.com.hk promptly be sent the Circular in printed form free of charge.

Shareholders may at any time choose to change your choice as to the means of receipt (i.e. in printed form or by electronic means through the Company's website) and/or the language of the Company's corporate communications by reasonable prior notice in writing to the Company c/o the Company's Branch Share Registrar or sending a notice to cki.ecom@computershare.com.hk.

Shareholders who have chosen to receive printed copy of the corporate communications in either English or Chinese version will receive both English and Chinese versions of the Circular since both language versions are bound together into one booklet.