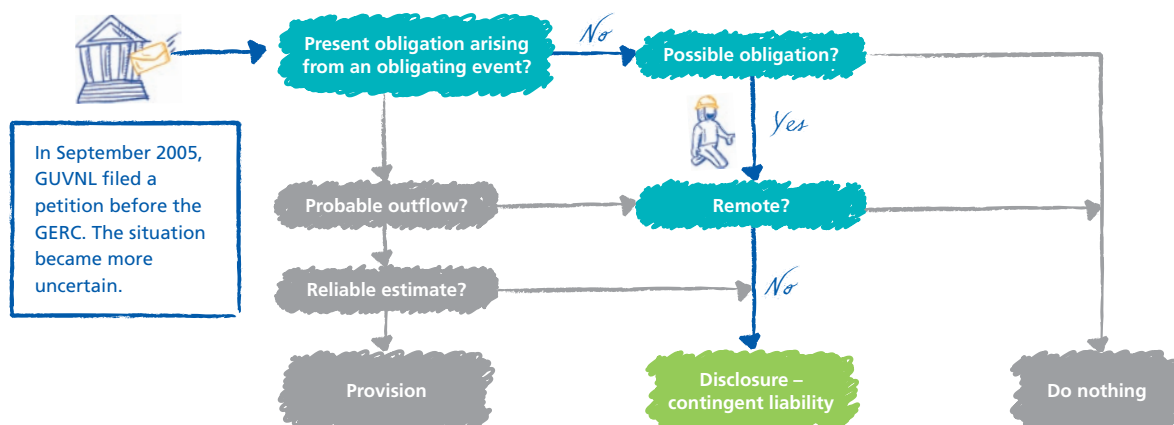


The petition

In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) against GPEC seeking a refund of the deemed generation incentive payments.

Our assessment, supported by independent legal advice, remained that the payments were due to GPEC. However, with the legality of these payments becoming subject to a decision of the GERC, the situation became uncertain and the results were not fully predictable. A detailed disclosure of the dispute was therefore made in our 2005 Financial Statements.

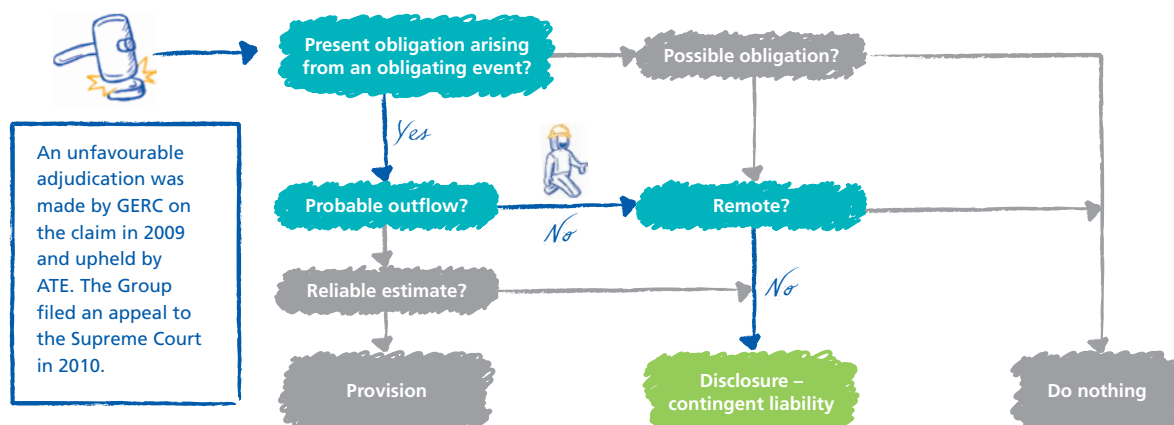


The latest developments

In February 2009, GERC made an adjudication on GUVNL's claims, and ordered that a partial refund of the payments be made by GPEC to GUVNL. GPEC then filed an appeal to the Appellate Tribunal for Electricity (ATE) against the decision of the GERC.

In January 2010, the ATE dismissed GPEC's appeal and upheld the decision of the GERC. GPEC subsequently filed an appeal petition to the Supreme Court of India against the decision of the ATE. The matter was admitted by the Supreme Court on 16 April 2010. The date of hearing has yet to be fixed by the court.

After the decision of the GERC and again after the decision of the ATE, we reconsidered our position. At each stage we remained of the view that the disputed payments are due to GPEC, no new issues had come to light to alter that view and that GPEC is likely to ultimately succeed on appeal to the Supreme Court. That view has been confirmed by independent legal advice. In these circumstances, we concluded that ultimately a requirement to refund GUVNL these deemed generation incentive payments is not probable. As a result, no provision was recognised but a detailed disclosure was set out in a note to our accounts.



Ongoing assessment!

This is not the end of the story. We have to continuously assess whether there are any changes in the circumstances which may affect our current judgment. If the settlement of an obligation becomes probable, we should recognise a liability in the financial statements in the period that the situation changes.