



ANNUAL REPORT 2005

(1 JANUARY 2005 TO 31 DECEMBER 2005)

- I. GOVERNING BODIES**
- II. REPORT OF THE BOARD OF DIRECTORS**
- III. 2005 CONSOLIDATED ACCOUNTS**
- IV. 2005 CORPORATE FINANCIAL STATEMENTS**

Note: In the following tables and commentary, figures are given in thousands of Swiss francs (KCHF) unless otherwise indicated.



Lausanne, 24 March 2006

I. GOVERNING BODIES

BOARD OF DIRECTORS		<i>Term of office begins</i>	<i>Term of office ends at the AGM called to receive the accounts</i>
Dominique Dreyer	Chairman, lawyer, Fribourg	2000	2005
Marc-Henri Chaudet	Vice-Chairman, Chairman of CVE-Romande Energie Group, Rivaz	1995	2007
Daniel Brélaz	Mayor of the City of Lausanne, Lausanne	1990	2006
Jean Deschenaux	Company director, Fribourg Fribourg	2005	2007
Daniel Mouchet	Chairman of Services Industriels de Genève, Carouge	2003	2005
Hubert Barde	Member of the board of the CVE-Romande Energie Group, Mont-sur-Lausanne	2003	2007
Jean-Jacques Monney	Vice-Chairman of Services Industriels de Genève, Geneva	1998	2006
Jean Pralong	Chairman of Forces Motrices Valaisannes, St-Martin	2001	2005
Eliane Rey	Lausanne City Councillor, Lausanne	2002	2007
Daniel Schmutz	Member of the Board of CVE-Romande Energie Group, La Tour-de-Peilz	2002	2007
Pierre Stephan	Vice-chairman of Groupe E, Fribourg	1997	2005

COMPANY SECRETARY

Benoît Revaz

AUDITORS

Ernst & Young, Lausanne

II. REPORT OF THE BOARD OF DIRECTORS

Presented to the Ordinary General Meeting on 23 May 2006

GENERAL Energie Ouest Suisse SA (EOS SA) is wholly owned by EOS HOLDING.

The annual report of EOS Holding should therefore be consulted for information concerning the business affairs of the company and the accounts.

2005 ACCOUNTS

The Group's corporate and consolidated financial statements are appended to this report:

- III. Consolidated financial statements at 31 December 2005;
- VI. Corporate financial statements at 31 December 2005.

AUDITORS

The Annual General Meeting held on 25 May 2005 appointed Lausanne-based Ernst & Young SA as company auditors.

The Board of Directors proposes that Ernst & Young SA be retained again as auditors of the consolidated financial statements and annual accounts for the 2006 financial year.

CONCLUSIONS

We submit the following resolutions for the approval of the Meeting:

First resolution

Approve the annual report, the consolidated financial statements and the consolidated accounts for the 2005 financial year, including the profit and loss account, the balance sheet at 31 December 2005 and the Notes to the Consolidated Financial Statements.

Second resolution

Approve the proposals concerning the use to be made of the balance sheet profit of KCHF 173,696 comprising the distribution of a dividend of CHF 7.00 per share, i.e. KCHF 10,150, and a carry forward of KCHF 163,546.

Third resolution

Approve the Board's management of the company.

Lausanne, 6 April 2006

On behalf of the Board of Directors

Chairman :
Dominique Dreyer

Vice-Chairman :
Marc-Henri Chaudet

III. 2005 CONSOLIDATED ACCOUNTS

	<u>Page(s)</u>
Commentary	5
Consolidated profit and loss account	6
Consolidated balance sheet	7
Consolidated cash flow statement	8
Changes in shareholders' equity	9
Group accounting policies	10-16
Scope of consolidation	17
Notes to the consolidated financial statements	18-37
Auditors' report	38

Note :

In the following tables and commentary, figures are given in thousands of Swiss francs (KCHF) unless otherwise indicated.

COMMENTARY

COMMENTARY

Since 2002, the EOS HOLDING Group has pursued a policy of strengthening its balance sheet by substantially reducing its indebtedness and by endeavouring at all times to control costs.

PROFIT AND LOSS ACCOUNT

The constant growth of national and European consumption, the expansion of the commercial business operation, the surge in market prices and the increase in generation asset optimization transactions are behind the rise in our 2005 turnover. It stands at CHF 1.3 bn and is 39% higher than the previous year. Earnings from trading operations have grown significantly (+387%), with profit rising from CHF 7.9 m to CHF 38.9 m.

The special contributions of our "shareholder-clients" came to an end in 2004. This resulted in a CHF 67 m fall in revenue in 2005. Sales to "shareholder-clients" on pre-arranged terms and conditions will continue until 2007.

Overall, and in spite of the decreased revenue due to the end of the special contributions, operating revenues increased by 30% compared with the previous year.

Energy purchases are much higher and demonstrate how actively we pursue the optimization of our generation assets on the wholesale market and also how market prices have risen.

Materials and third party services are down. The decrease is mainly due to technical adjustments: inventory reduction in 2004 and stricter allocation of costs according to type from 2005, this being also the result of installing SAP accounting and finance system software.

Reinforcement of our headcount to match the development of our business, performance-based remuneration and adjustments to the provisions for retired employees explain the increase of CHF 1.2 m (+ 5%) in staff costs.

The significant decrease in depreciation is explained by the impairments of assets recognized as expenses during the preceding accounting period.

Other operating expenses include in particular costs connected with the "Pôle Suisse occidentale" project.

Earnings before interest and taxes (EBIT) stand at CHF 96.6 m, a rise of 55%.

Net financial cost was affected by the shareholders' interest-free loan and by the financial instrument adjustment.

Net profit reached CHF 58.2 m, against CHF 35.8 m in 2004, i.e. an increase of 63%.

BALANCE SHEET

The reason for the increase of CHF 51 m in receivables arising from deliveries and services is the growth in turnover.

Shareholders' equity accounted for 42.6% of the balance sheet total (42.3% at 31 December 2004). During the period under review, the EOS Group paid a dividend of CHF 20.30 m.

Long-term financial liabilities decreased markedly, following the transfer to EOS HOLDING of the shareholders' interest-free loans; the amount corresponding to this transfer has been recorded in short-term financial liabilities. EOS Group's total indebtedness net of cash and cash equivalents was CHF 509.6 m at 31 December 2005, compared with CHF 571.5 m at 31 December 2004.

The increase in liabilities arising from purchases and sales is due to the strong growth of our commercial business compared with 2004.

CASH FLOW

Cash flow for operation for the year was CHF 122 m against CHF 137.2 m in 2004, both periods benefiting from a large reduction in working capital.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2005	2004
Net turnover	1	1,343,980	964,601
Special contributions		-	67,163
Other operating income	2	24,981	18,439
Total operating income		1,368,961	1,050,203
Energy purchases	3	(1,149,571)	(854,649)
Materials and services	4	(18,378)	(22,372)
Personnel expenses	5	(22,023)	(20,814)
Depreciation	6	(41,215)	(56,072)
Other operating expenses	7	(41,189)	(34,100)
Total operating expenses		(1,272,376)	(988,007)
Earnings before interest and tax (EBIT)		96,585	62,196
Share in profits of associated companies	14	224	576
Income from other financial assets	8	7	17
Net financial cost	9	(24,365)	(19,843)
Earnings before tax (EBT)		72,451	42,946
Income taxes	10	(14,193)	(7,095)
Net Group profit		58,258	35,851
- attributable to parent company shareholders		58,128	35,654
- attributable to minority shareholders		130	197

CONSOLIDATED BALANCE SHEET

	Note	31.12.2005	31.12.2004
ASSETS			
Tangible fixed assets	11	554,063	554,219
Intangible fixed assets	12	274,892	290,902
Investments (joint ventures)	13	600,551	606,789
Investments (associated companies)	14	3,434	6,245
Other long-term financial assets	15	5,310	6,179
Total de l'actif immobilisé		1,438,250	1,464,334
Inventory and work in progress	16	5,691	2,357
Receivables arising from deliveries and services	17	169,088	117,825
Current tax refundable		1	1
Other receivables and accruals	18	18,995	14,583
Cash		86,598	85,983
Total current assets		280,373	220,749
Total assets		1,718,623	1,685,083
LIABILITIES			
Share capital	19	145,000	145,000
Additional contributions	19	37,935	37,935
Accumulated profits	19	548,182	529,273
Currency translation	19	-	(11)
Equity attributable to parent company		731,117	712,197
Equity attributable to minority shareholders		1,667	1,715
Total shareholders' equity		732,784	713,912
Long-term financial liabilities	20	438,264	570,367
Provisions	21	24,789	23,898
Employee benefits	22	13,015	14,651
Other long-term liabilities	23	17,590	20,395
Deferred tax liabilities	10	144,219	147,630
Total long-term liabilities		637,877	776,941
Short-term financial liabilities	20	157,948	87,101
Liabilities arising from purchases and services	24	108,343	61,487
Current tax payable		12,760	2,641
Other short-term liabilities and accruals	25	66,824	40,194
Provisions	21	2,087	2,807
Total short-term liabilities		347,962	194,230
Total liabilities		985,839	971,171
Total liabilities & shareholders' equity		1,718,623	1,685,083

CONSOLIDATED CASH FLOW STATEMENT

	Note	2005	2004
Earnings before interest and tax (EBIT)		96,585	62,196
Adjustments for:			
Depreciation	6	41,215	56,072
Gains and losses on disposals	2,7	(329)	(127)
Variation in provisions		(1,465)	(5,917)
Share in profits of joint ventures	13	(641)	(1,893)
Other items		(6,402)	(1,924)
Variation in working capital		15,192	46,872
Interest paid		(20,197)	(18,870)
Tax paid		(1,970)	820
Cash flow from operations		121,988	137,229
Tangible and intangible fixed assets			
Investments	11,12	(24,283)	(24,659)
Disposals		4,593	5,756
Acquisition of minority shareholders' interests		(437)	(2,405)
Associated companies and joint ventures			
Investments	13,14	(224)	(58,481)
Disposals		3,179	-
Reimbursements	13	778	3,163
Dividends received	13,14	3,715	4,309
Other financial assets			
Investments		-	10
Disposals		7	7
Reimbursements		(83)	-
Dividends received		948	1,672
Financial loans granted and repaid		(11,807)	(70,628)
Other liabilities			
Investments		70,847	104,681
Reimbursements		(160,000)	(22,809)
Dividends paid to EOS HOLDING		(20,299)	(158,680)
Dividends paid to minority shareholders		(114)	(907)
Increase in share capital		0	0
Cash flow from financing		(109,566)	(77,715)
Decrease in cash		615	(11,114)
Cash at the beginning of the period		85,983	97,097
Cash at the end of the period		86,598	85,983

CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Additional contributions	Accumulated profits	Currency translation	Total Group shareholders' equity	Minority interests	Total shareholders' equity
At 1.10.2004	145,000	37,935	640,041	2	822,978	1,605	824,583
Net profit for the year			35,654		35,654	197	35,851
Dividends paid by EOS			(159,500)		(159,500)		(159,500)
Dividends paid to minority shareholders					0	(87)	(87)
Convertible loan discounting effect 1)			13,078		13,078		13,078
Currency translation				(13)	(13)		(13)
At 31.12.2004	145,000	37,935	529,273	(11)	712,197	1,715	713,912
At 1.01.2005	145,000	37,935	529,273	(11)	712,197	1,715	713,912
Acquisition of minority shares 4)					0	(65)	(65)
Net profit for the year			58,128		58,128	130	58,258
Change in fair value of financial instruments available for sale 1)			80		80		80
Dividends paid by EOS			(20,300)		(20,300)		(20,300)
Dividends paid to minority shareholders					0	(113)	(113)
Convertible loan discounting effect 4)			(18,999)		(18,999)		(18,999)
Currency translation				11	11		11
At 31.12.2005	145,000	37,935	548,182	0	731,117	1,667	732,784

1) Impact of discounting non-interest-bearing convertible loan contributed by shareholders (note 20).

2) EES minority shares (0.563%).

3) Variations in fair value of shareholdings net of tax.

4) Reversal of discounting impact on non-interest-bearing convertible loans following the taking over of these loans by EOS Holding and their reclassification in the interest-bearing short term financial liabilities.

GROUP ACCOUNTING POLICIES

GENERAL INFORMATION

Energie Ouest Suisse (EOS) is a public limited company incorporated under Swiss law and domiciled in Lausanne. It is a 100% subsidiary of EOS Holding. EOS Holding is owned by:

• Romande Energie SA (RE), Montreux (société du Groupe Compagnie Vaudoise d'Electricité, Morges)	28.72%
• Services Industriels de Genève (SIG), Genève	23.02%
• Groupe E, Fribourg	22.33%
• Commune de Lausanne (SIL), Lausanne	20.06%
• FMV SA, Sion	5.87%

The EEF and ENSA merger to create GROUPE E was backdated to take effect on 1 January 2005.

In the Notes to the Consolidated Financial Statements, transactions with EOS HOLDING and its shareholders are given under "shareholders".

The main business of EOS and its subsidiaries is the production and transmission of electricity in Switzerland and the marketing of electricity in Switzerland and abroad.

The consolidated accounts for the 2005 accounting period were approved by the Board of Directors of EOS on 6 April 2006.

ACCOUNTING BASIS

The consolidated accounts have been prepared in accordance with the international accounting standards (IFRS) published by the International Accounting Standards Board (IASB) and the interpretations of the IFRS standards published by the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements are presented in thousands of Swiss francs (KCHF) and prepared on the historic cost basis, with the exception of certain financial instruments that are measured at fair value.

Drawing up financial statements in accordance with the IFRS standards implies the use of estimates and assumptions impacting the assets and liabilities disclosed, the contingent assets and liabilities on the balance sheet date, as well as the revenues and expenses for the accounting period. Although the estimates are based on the best knowledge available to the Executive Management about the current situation or future operations of the Group, actual results can differ from those predicted when the estimates were done. Aspects involving great judgment and complexity and those where assumptions and estimates significantly impact the preparation of the financial statements are described in Note 28.

CHANGES OF ACCOUNTING METHOD

The application of the new IFRS standards and the revised IAS standards on 1 January 2005 does not affect the consolidated accounts, apart from the points mentioned below.

IFRS 3, IAS 36 and IAS 38 – Business combinations, impairment of assets and intangible assets

According to these standards, goodwill and intangible assets with an undefined economic life are no longer amortized but subject to an annual impairment review. These changes do not have any significant effect on the consolidated financial statements of the Group.

IAS 19 – Employee benefits

The EOS Group has decided to present the employee benefit provisions separately. The presentation of the comparative accounting period has also been modified accordingly.

The Group has decided not to anticipate the adoption of the standards and interpretations applicable from 1 January 2006, given that they will have almost no impact on the financial statements for the period of first-time application.

GROUP ACCOUNTING POLICIES

SCOPE OF CONSOLIDATION

The consolidated accounts include figures for EOS, its subsidiaries, its joint ventures and associated companies.

Subsidiaries are companies under Group control. EOS has control when it has the power to govern, directly or indirectly, the financial and operating policies of an enterprise so as to benefit from its operations (usually more than 50% of the voting rights). The financial statements of subsidiaries are fully integrated into the consolidated accounts as of the date on which the Group begins to exercise control and until the date on which the Group ceases to do so.

Joint ventures and associated companies are companies in which the Group exercises a significant influence over the financial and operating policies, without however having control (usually between 20% and 50% of voting rights). The financial statements of these enterprises are subject to equity accounting from the date on which the Group begins to exercise a significant influence and until the date when the Group ceases to do so.

Joint ventures in which the Group holds more than 50% of voting rights, but has limited control because of contractual rights, or holds less than 20% of voting rights but has a significant influence, are also accounted for by the equity method.

METHOD OF CONSOLIDATION

Shareholdings newly acquired by the Group are consolidated using the purchase method. The difference between the cost and the fair value of the net assets of the company acquired is presented in the balance sheet under goodwill. If a goodwill is negative, it is recorded directly in the profit and loss account. The goodwill of joint venture partners and associates is included in the carrying amount of equity-accounted shareholdings.

If a Group company is disposed of, it is eliminated from the scope of consolidation on the date on which control is lost. The Group records the difference between the selling price and the value of the net assets disposed of in the profit and loss account on the same date.

INTRA-GROUP TRANSACTIONS

Transactions and unrealized gains and losses between Group companies are eliminated on consolidation. Unrealized gains with joint venture partners and associates proportionate to the Group's share of the company are eliminated and deducted from the equity-accounted shareholding in the accounts.

FOREIGN CURRENCY TRANSACTIONS

For Group companies, transactions denominated in foreign currencies are translated at the exchange rate applicable when the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates applicable on the balance sheet date. Differences arising on the translation of these operations are stated in the profit and loss account.

All the Group's subsidiaries present their accounts in CHF with the exception of one associated undertaking which was disposed of during the financial year under review. The Group's share of this company's net assets is translated at the exchange rate applicable on the balance sheet date and the Group's share of the profits is expressed at the average exchange rate for the year. Exchange differences arising on the translation of these items are stated in shareholders' equity.

NET TURNOVER

Turnover represents all revenues from the sale and transmission of electricity, net of discounts, reductions and impairment in respect of receivables. Amounts received are recorded when the electricity has been delivered.

As part of its trading activity, the Group sells large quantities of electricity, which considerably increases the volumes processed during the year. In order to improve the relevance and comparability over time of its turnover, the Group accounts only for the net result from these operations.

GROUP ACCOUNTING POLICIES

INCOME TAXES

Taxes on the income of the period include current and deferred taxes. The tax impact on the items recognized under shareholders' equity is also recorded under equity.

Current tax is the tax payable on the taxable profit for the year, and any adjustments to the tax payable and recoverable in respect of the taxable profit from prior periods.

Deferred tax is recorded to take account of temporary differences that occur when the tax authorities record and assess assets and liabilities using rules that are different from those used to prepare the consolidated accounts. This tax is calculated using the liability method based on the tax rates expected to apply when the assets or liabilities are realized. Any change in the tax rate is recorded in the Profit and Loss account unless it is directly linked to the items recorded under shareholders' equity.

Deferred tax liabilities are recorded for all taxable timing differences except non-deductible goodwill. Deferred tax assets are recorded for all timing differences and for all deductible losses carried forward to the extent that it is likely that taxable income will be available for offsetting in the future.

IMPAIRMENT

At each balance sheet date, the Group tests its assets for evidence of impairment. If evidence of impairment is found, the recoverable amount of the asset is estimated, and an impairment charge is recorded in the Profit and Loss account if the carrying amount is greater than the recoverable amount. As of 1 January 2005, the recoverable amount of goodwill and of intangible assets with an indefinite useful life is estimated each year.

The recoverable amount is the higher of the net sale price of the asset and its value in use. The value in use is the discounted value of the estimated future cash flows expected from the asset. If an asset does not generate cash inflows that are largely independent of other assets, the value in use is determined for the cash generating unit to which the asset belongs. The recoverable amount is discounted at the Group's average borrowing rate plus a rate corresponding to the inherent risks of the asset. In the case of the financial assets issued by the Group, the level of discounting is determined by the asset's effective rate of interest. Short-term receivables are not discounted.

An impairment charge entered during prior periods is adjusted when there is a change in the estimated recoverable amount. The adjustment is recorded in the Profit and Loss account up to an amount corresponding to the carrying amount that would have been determined, net of depreciation, if no impairment had been entered. An impairment of goodwill is not reversed during a subsequent financial year.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at acquisition or construction cost, net of accumulated depreciation and impairment. The costs of acquiring concessions to use the hydraulic power are included under this heading.

Interest on the financing of fixed assets under construction is capitalized. Replacement and renovation expenditure is stated in the balance sheet when it extends the useful economic life or increases the level of performance of the asset. All other costs are recorded in the Profit and Loss account.

Where a fixed asset is made up of a number of elements with varying estimated economic lives, each element is accounted for separately and depreciated over its useful life.

GROUP ACCOUNTING POLICIES

The useful economic life of the main tangible fixed assets is estimated as follows:

• Hydropower plant, civil engineering works	80 years
• Hydropower plant, equipment and machinery	20 to 40 years
• Nuclear power plant buildings, equipment and machinery	20 to 40 years
• Transmission and distribution network lines (VHV and HV)	40 to 60 years
• Transmission and distribution network substations	25 to 40 years
• Administrative buildings	60 to 80 years
• Other buildings	10 to 25 years
• IT components	1 to 5 years

INTANGIBLE FIXED ASSETS

Intangible fixed assets are recorded at acquisition cost net of accumulated depreciation and impairment.

Depreciation is calculated using the straight-line method over the useful economic life of each asset. Energy drawing rights and rights of use are depreciated over a period equal to the duration of the right, which is generally more than 20 years. IT

software, bought-in or developed in-house, are depreciated over a period of one to five years, starting from the time when they were brought into service. As of 1 January 2005, goodwill and intangible assets with an indefinite useful life are no longer amortized. Interest charged for the financing of energy drawing rights and on current projects are recorded in the balance sheet.

HOLDINGS IN JOINT VENTURES AND ASSOCIATED COMPANIES

Holdings in joint ventures and associated companies are stated in the consolidated balance sheet using the equity method. Consequently, these equity holdings are entered for an amount corresponding to the Group's share in the net assets of the companies and the goodwill arising on acquisition. The companies' net assets, goodwill and profits are valued on the same accounting basis as the Group.

If the restated net assets of joint ventures are negative, the Group's share is treated as a liability and stated under liabilities due to joint ventures and valued at amortised cost.

OTHER FINANCIAL ASSETS

Shareholdings in which EOS Group holds less than 20% of the voting rights and which are not equity-accounted are deemed to be available-for-sale financial assets and are measured at fair value. All unrealized gains and losses are recorded in the shareholders' equity. When an asset is sold, the gains and losses realized are recorded in the Profit and Loss account. Impairment is recorded in the Profit and Loss account where there is a sustained loss. Fair value is determined using the market price or estimated future cash flow discounting techniques. When the fair value cannot be reliably estimated, financial assets are stated in the balance sheet at amortized cost. Long-term loans granted to joint ventures are regarded as financial assets issued by the Group and are stated at amortized cost.

Long-term loans granted to joint ventures are measured at amortized cost.

GROUP ACCOUNTING POLICIES

INVENTORY AND WORK IN PROGRESS

Inventory is valued at the lower of acquisition cost or net realizable value.

Work in progress is stated using the percentage of completion method. When the estimated profit is uncertain or when a loss is expected, the value is adjusted immediately.

RECEIVABLES

Receivables are treated as financial assets issued by the Group and are stated at amortized cost.

CASH AND CASH EQUIVALENTS

Cash comprises cash in hand and at bank and post office and financial institution deposits with a maturity date no greater than 90 days.

DEBT

Debt includes bonds, bank financing and other borrowings.

Bonds are stated at depreciated cost. The difference between the issue value and the redemption value is depreciated using the effective interest rate method. Transaction costs are included in the issue value.

Non-interest-bearing debt is stated in the balance sheet at current value. The current value corresponds to discounted future cash flows at the prevailing market rate of interest on the date when the debts were incurred.

PROVISIONS

Provisions include commitments for which the outcome, due date or amount is uncertain. They are stated in the balance sheet when the Group has a legal or implicit obligation resulting from a past event, when it is probable that an outflow of funds will be necessary in order to settle the obligation and when the amount of the commitment can be reliably estimated. When an outflow of funds is not probable or cannot be reliably estimated, the obligation is not recorded in the balance sheet but disclosed under contingent liabilities.

Where the impact is significant, the projected cash flows required to meet the obligation are discounted. The provision is discounted at the market rate, increased to cover the specific risks of the liability if necessary.

OTHER LIABILITIES

Other liabilities mainly comprise commitments to joint ventures and correspond to the share of negative net assets of the consolidated equity-accounted companies.

Other liabilities are valued at amortized cost.

The financial option is measured at fair value. All unrealized gains and losses are recorded in the profit and loss accounts.

GROUP ACCOUNTING POLICIES

EMPLOYEE BENEFITS

Pension liability

EOS and the Group's companies are affiliated to the CAISSE PENSION ENERGIE (CPE), a collective pension fund for the sector that is legally independent and based on the Swiss defined benefits scheme.

Pension liability and the fair value of the assets used to fund pension commitments are valued each year by an independent expert. The liability is determined by the projected unit method of funding. This method takes account of pensions currently being paid, future pension costs and estimated future increases in salaries and pensions.

The surpluses and shortfalls in the fair value of the assets compared with the current value of the commitments are not treated in the same way.

Asset surpluses are not stated in the balance sheet because the member companies of the CPE and the representatives of their employees must decide their use jointly.

The CPE's articles of association stipulate that if the technical balance sheet has a shortfall of more than one tenth of the liabilities and no improvement is foreseeable, the contributions must be increased and/or anticipated future benefits reduced by an amendment to the articles of association in order to rebalance the CPE's accounts. Thus, shortfalls are stated in the balance sheet for the portion that exceeds 10 % of the discounted value of the commitment ("corridor"). This excess is reflected in the Profit and Loss account based on the length of the expected average residual working life of the employees.

Voluntary pensions

Some companies in the Group have granted all retired employees indexation of pensions not covered by the CPE together with membership of the health insurance scheme.

Voluntary pensions are a liability in respect of all retired employees and are immediately recognized in the profit and loss account.

Early retirement

Some companies in the Group have given all their employees the possibility of taking early retirement at 60 years of age.

Post-employment contract benefits ('Pont AVS') are a liability in respect of all serving members of staff and are recognized immediately in the profit and loss account. Given that these liabilities are on average payable at more than twelve months, the contingency reserve to cover them is discounted.

SEGMENT INFORMATION

The purpose of segment information is to present the various levels of corporate risk and profitability in terms of business operations and geographical location.

The EOS Group mainly operates in the electrical energy sector, which covers production, transmission and marketing. Activities outside the energy business represent less than 10 % of consolidated turnover, earnings and net assets. No segment information is therefore required concerning these operations.

As for geographical location, all the Group's operations are managed from its head office in Switzerland and essentially include the optimization of its assets, which are mainly located in Switzerland. Moreover, the Group's interventions on the wholesale markets in Europe are by way of hedging the generation assets. The turnover from end user deliveries in foreign locations accounts for less than 10% of the total. Risks and gains are therefore essentially generated in Switzerland.

GROUP ACCOUNTING POLICIES

RISK MANAGEMENT

In its business operations, the Group is exposed to energy price, counterparty, interest rate and foreign exchange rate risks. Management monitors these risks regularly for changes.

COMMERCIAL RISKS AND RISKS ASSOCIATED WITH ELECTRICITY TRADING OPERATIONS

The energy trading business is exposed to European market risks. These risks arise from energy price fluctuations caused by changes in the spot and forward markets, price variations between markets and products and deteriorations in market liquidity. In order to manage the risks associated with these changes, the Group uses physical instruments and financial derivatives as necessary. Only the Group's core assets and current or future liabilities that are very likely to be realized are hedged. Apart from transactions entered into for hedging purposes, trading is subject to price risk exposure limits approved by the Board of Directors and regularly monitored both by a Risk Management Committee and by management. Physical and financial contracts are only entered into with counterparties active on the energy markets and meeting strict financial criteria. A credit line is established for each counterparty, based on financial solidity. Counterparty risk exposure, defined as the sum of invoices outstanding and the replacement value of open positions, is monitored regularly and compared with the credit line previously decided by management. Practically all international energy trades are denominated in euros.

FINANCIAL RISK

The production and transmission of electricity require considerable capital. In order to limit the impact of interest rate fluctuations, the Group uses fixed-rate financing, which is usually long-term with phased maturity dates. Cash is invested short-term in CHF and EUR, mainly in fixed-rate products in order to limit interest rate and foreign exchange risk. The Group occasionally uses financial derivatives to moderate the effects of these fluctuations. Investments and derivative instruments are only placed with first-class financial institutions.

The internal funding and treasury rules approved by the Board of Directors set out the financing, interest rate cover and exchange policies, and indicate which operations are authorized. The Audit Committee, acting on the authority of the Board of Directors, is responsible for approving counterparties and credit limits.

DERIVATIVE FINANCIAL INSTRUMENTS

At the end of the operation, all derivative financial instruments are measured at transaction cost. Electricity trading financial derivatives are revalued at fair value and gains or losses included under operating result in the profit and loss account for the period during which they occur.

Other derivative financial instruments are revalued at fair value and the gains or losses included in the financial result of the profit and loss account for the period during which they occur.

SCOPE OF CONSOLIDATION

	Registered Office	Capital	Activity	Control		Interest	
				2005	2004	2005	2004
SUBSIDIARIES							
Energie Electrique du Simplon SA	Simplon-Dorf	8,000	P	78.8 ¹⁾	78.2	78.8 ¹⁾	78.2
Centrale Thermique de Vouvry SA	Vouvry	1,000	P	95.0	95.0	95.0	95.0
AlpEnergie Suisse Sàrl	Lausanne	20	S	100.0	100.0	100.0	100.0
Salanfe SA	Vernayaz	18,000	P	100.0	100.0	100.0	100.0
JOINT VENTURES							
Grande Dixence SA	Sion	300,000	P,H	60.0	60.0	60.0	60.0
Cleuson-Dixence, société simple	Sion	-	P	31.8 ²⁾	31.8 ²⁾	72.7	72.7
Forces Motrices Hongrin-Léman SA	Château-d'Oex	30,000 ³⁾	P	39.3	39.3	39.3	39.3
Electra-Massa	Naters	40,000	P	23.0	23.0	23.0	23.0
Forces Motrices de Conches SA	Lax	30,000	P	41.0	41.0	41.0	41.0
Société des Forces Motrices du Grand-St-Bernard	Bourg-St-Pierre	10,000 ³⁾	P	25.0	25.0	25.0	25.0
Centrales Nucléaires en Participations SA	Berne	150,000	P	33.3	33.3	33.3	33.3
Hydro-Rhône SA	Sion	100	P	30.0	30.0	30.0	30.0
Forces Motrices de Martigny-Bourg SA ⁸⁾	Martigny	3,000	P	18.0	18.0	18.0	18.0
Centrale Nucléaire de Leibstadt SA ⁸⁾	Leibstadt	450,000	P	5.0	5.0	5.0	5.0
Forces Motrices de Fully SA ⁴⁾	Fully	800	P	28.0	0.0	28.0	0.0
ASSOCIATED COMPANIES							
Stucky SA ⁵⁾	Lausanne	750	S	0.0	39.0	0.0	39.0
AlpEnergie Italia SpA ⁶⁾	Milan	EUR 1,000	M	0.0	50.0	0.0	50.0
Etrans SA ⁸⁾	Laufenbourg	7,500	T	14.5	14.5	14.5	14.5
Swissgrid SA ⁷⁾⁸⁾	Laufenbourg	15,000	T	13.97	16.0	13.97	16.0

P Production
T Transport
M Marketing/sales
S Services
H Holding

- 1) Acquisition of 0.563% of EES shares at arm's length price.
- 2) Simple partnership 68.2 % owned by GRANDE DIXENCE SA.
- 3) Share capital reduction in 2004.
- 4) Company incorporated 1 July 2005 by contribution in kind.
- 5) Disposal of 34% of our shares on 22 November 2005. At 31 December 2005, this company was no longer consolidated.
- 6) Company sold in 2005.
- 7) Company incorporated in December 2004. Sale of 2.03% of the shares to EWZ at par value in 2005. The company is not yet in operation.
- 8) Joint ventures CENTRALE NUCLÉAIRE DE LEIBSTADT SA and FORCES MOTRICES DE MARTIGNY-BOURG SA, and associates ETRANS SA and SWISSGRID SA, in which the Group, because of contractual rights, has a significant influence with less than 20% of the voting power, are included in the accounts using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 NET TURNOVER

	2005	2004
Energy sales and transmission to		
- Third parties	797,174	496,490
- Shareholders	484,660	417,934
- Joint ventures and associated companies	23,152	42,205
- Other related parties	31	-
Profit on trading operations	38,963	7,972
	1,343,980	964,601
Electricity trading activity		
Sales	1,121,416	690,600
Purchases	(1,085,119)	(678,861)
Adjustments for contracts open at the end of the period	2,666	(3,767)
Profit on trading operations	38,963	7,972

2 OTHER OPERATING INCOME

	Note	2005	2004
Capitalized costs	11,12	4,711	4,650
Changes in work in progress		2,230	(7,446)
Gains on sales of tangible and intangible fixed assets		-	180
Gains on sales of joint ventures and associated companies		1,466	-
Release of provisions	22	635	2,440
Other operating income from			
- Third parties		11,673	11,790
- Shareholders		1,889	3,626
- Non-consolidated companies		12	-
- Joint ventures and associated companies		1,782	2,101
- Other related parties		583	1,098
		24,981	18,439

3 ENERGY PURCHASES

	2005	2004
Energy purchases from		
- Third parties	(791,119)	(543,561)
- Shareholders	(135,412)	(85,219)
- Joint ventures	(223,040)	(225,869)
	(1,149,571)	(854,649)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 MATERIALS AND SERVICES

	2005	2004
Materials and services acquired from		
- Third parties	(7,730)	(12,835)
- Shareholders	(536)	(751)
- Non-consolidated companies	(704)	-
- Joint ventures and associated companies	(636)	(468)
- Other related parties	(8,773)	(8,318)
	(18,379)	(22,372)

5 STAFF COSTS

	Note	2005	2004
Wages, salaries, other		(17,535)	(17,660)
Pension costs	22	-	(151)
Voluntary pension payments	22	(1,170)	(450)
Other social security costs		(2,285)	(2,143)
Other staff costs		(1,033)	(410)
		(22,023)	(20,814)

On the balance sheet date, the Group had 159 full time equivalent employees (previous year: 163).

6 DEPRECIATION

	Note	2005	2004
Ordinary depreciation of			
- Tangible fixed assets	11	(20,695)	(24,713)
- Intangible fixed assets	12	(20,520)	(19,940)
Impairment of			
- tangible fixed assets	11	-	(11,374)
- intangible fixed assets	12	-	(45)
		(41,215)	(56,072)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 OTHER OPERATING COSTS

	2005	2004
Royalties and special tax on hydro power	(9,273)	(9,926)
Pumping and restoration power	(484)	(761)
Disbursements, travel and entertainment expenses	(1,242)	(1,185)
Insurance	(1,025)	(1,031)
Capital tax and other taxes	(4,121)	(2,935)
Administrative expenses paid to		
- Third parties	(10,435)	(7,488)
- Shareholders	(125)	(596)
- Non-consolidated companies	(192)	-
- Joint ventures and associated companies	(1,276)	(808)
- Other related parties	(9,840)	(8,307)
Other operating expenses paid to		
- Third parties	(1,612)	(651)
- Shareholders	(425)	(327)
- Non-consolidated companies	(2)	-
- Joint ventures and associated companies	-	(10)
- Other related parties	-	(22)
Losses on sales of tangible and intangible fixed assets	-	(53)
Losses on disposal of joint ventures and associates	(1,137)	-
	(41,189)	(34,100)

This section includes restructuring costs in connection with the creation of a new powerhouse in Western Switzerland (Project "Pôle Suisse occidentale").

8 INCOME FROM OTHER FINANCIAL ASSETS

	2005	2004
	-	-
Other profits from disposals	-	10
Other investment income	7	7
	7	17

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 NET FINANCIAL COSTS

	Note	2005	2004
Interest income		1,442	1,903
Interest costs		(25,138)	(21,092)
Exchange rate differences, net		(541)	(401)
Bank charges, commission, other		(128)	(253)
		(24,365)	(19,843)
Components of interest income			
Interest from loans to			
- Third parties		53	369
- Shareholders		2	6
- Non-consolidated companies		4	-
- Joint ventures and associated companies		281	528
- Other related parties		18	82
Interest income from cash and cash equivalents		436	664
Capitalized interest	11,12	648	254
		1,442	1,903
Components of interest costs			
Interest on bonds		(12,411)	(12,395)
Interest on bank financing and mortgages		(1,104)	(1,108)
Interest on other borrowings from			
- Third parties		(4,430)	(4,368)
- Shareholders		(5,584)	(2,886)
- Non-consolidated companies		(1)	-
- Joint ventures and associated companies		(7)	(6)
- Other related parties		(20)	(32)
Impact of discounting of provisions and other long-term liabilities	21,23	(1,012)	(297)
Impairment of other derivative financial instruments	26	(569)	-
		(25,138)	(21,092)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 TAXES

	2005	2004
Income tax		
Current tax	(12,089)	(1,246)
Deferred tax	(2,104)	(5,849)
	(14,193)	(7,095)
Components of current tax		
Tax on profits of the period	(12,093)	(471)
Tax resulting from prior periods	4	(775)
	(12,089)	(1,246)
Components of deferred tax		
Equity accounted holdings	692	8,510
Tangible fixed assets	161	(4,622)
Intangible fixed assets	(232)	(207)
Other assets	(85)	353
Provisions	(1,748)	3,990
Other liabilities	(892)	1,286
Special contributions	-	(15,159)
	(2,104)	(5,849)
Breakdown of tax charge		
Group average tax rate	22.56%	21.65%
Group earnings before tax (EBT)	72,451	42,946
Income tax at the Group's average rate	(16,345)	(9,297)
Income and expenses with no tax impact	2,150	2,977
Current tax for prior periods	-	(775)
Other	2	-
	(14,193)	(7,095)
	31.12.2005	31.12.2004
Deferred tax recorded in the balance sheet		
Deferred tax liabilities	(144,219)	(147,630)
	(144,219)	(147,630)
Components of deferred tax recorded in the balance sheet		
Equity accounted holdings	(49,343)	(50,034)
Tangible fixed assets	(6,007)	(6,169)
Intangible fixed assets	780	1,012
Other assets	(3,876)	(3,791)
Provisions	409	2,158
Other liabilities	(392)	1,780
Shareholders' equity	(23)	(6,819)
Special contributions	(85,767)	(85,767)
	(144,219)	(147,630)
Deferred tax on expenses and income recognised in shareholders' equity		
Fair value of available-for-sale financial instruments	(23)	-
Additional payments	-	(6,819)
	(23)	(6,819)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 TANGIBLE FIXED ASSETS

	Buildings and land	Production facilities	Transmission facilities	Other	Current projects	Total
Gross amounts at 01.01.2004	83,418	409,487	605,895	59,242	12,266	1,170,308
Investments	-	-	37	1,095	20,527	21,659
Capitalized costs	-	-	-	-	3,002	3,002
Capitalized interest	-	-	254	-	-	254
Disposals	(3,746)	(120)	(3,885)	(5,805)	(11,306)	(24,862)
Transfers	1,691	216	4,202	143	(6,252)	0
Transfer to WIP (third party shares)	-	-	-	-	(665)	(665)
Gross amounts at 31.12.2004	81,363	409,583	606,503	54,675	17,572	1,169,696
Accumulated depreciation at 01.01.2004	(21,939)	(321,335)	(207,721)	(47,982)	0	(598,977)
Ordinary depreciation	(910)	(2,974)	(15,301)	(5,505)	-	(24,690)
Impairment	-	-	(4,928)	-	(6,469)	(11,397)
Disposals	3,308	120	3,885	5,805	6,469	19,587
Accumulated depreciation at 31.12.2004	(19,541)	(324,189)	(224,065)	(47,682)	0	(615,477)
Net amounts at 31.12.2004	61,822	85,394	382,438	6,993	17,572	554,219
Gross amounts at 01.01.2005	81,363	409,583	606,503	54,675	17,572	1,169,696
Investments	-	286	1,564	-	19,354	21,204
Capitalized costs	-	-	-	-	2,799	2,799
Capitalized interest	-	-	-	-	571	571
Disposals	-	(4,795)	(1,455)	(2,143)	(4,035)	(12,428)
Transfers	393	10,457	8,059	6,407	(25,316)	0
Gross amounts at 31.12.2005	81,756	415,531	614,671	58,939	10,945	1,181,842
Accumulated depreciation at 01.01.2005	(19,541)	(324,189)	(224,065)	(47,682)	0	(615,477)
Ordinary depreciation	(673)	(3,311)	(14,100)	(2,611)	-	(20,695)
Disposals	-	4,795	1,455	2,143	-	8,393
Accumulated depreciation at 31.12.2005	(20,214)	(322,705)	(236,710)	(48,150)	0	(627,779)
Net amounts at 31.12.2005	61,542	92,826	377,961	10,789	10,945	554,063

As at every financial year end, the recoverable amount of the production facilities has been estimated. Necessary impairments are stated under cumulated depreciation. No impairment for these items has been required during the two financial years under review.

On the balance sheet date, the fire insurance value of buildings, machinery and equipment was CHF 724 m (previous year CHF 732 m).

Capitalised interest is computed at an interest rate of 4% (6.5% in 2004).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 INTANGIBLE FIXED ASSETS

	Acquired rights of use	Energy drawing rights	Other	Current projects	Total
Gross amounts 01.01.2004	38,518	835,096	3,134	2,321	879,069
Investments	-	-	60	2,940	3,000
Capitalized costs	-	-	-	1,648	1,648
Disposals	(45)	-	(814)	(354)	(1,213)
Transfers	-	-	814	(814)	0
Gross amounts at 31.12.2004	38,473	835,096	3,194	5,741	882,504
Accumulated depreciation at 01.01.2004	(14,311)	(555,031)	(3,134)	0	(572,476)
Ordinary depreciation	(816)	(18,250)	(874)	-	(19,940)
Impairment	(45)	-	-	-	(45)
Disposals	45	-	814	-	859
Accumulated depreciation at 31.12.2004	(15,127)	(573,281)	(3,194)	0	(591,602)
Net amounts at 31.12.2004	23,346	261,815	0	5,741	290,902
Gross amounts at 01.01.2005	38,473	835,096	3,194	5,741	882,504
Investments	-	-	-	3,079	3,079
Capitalized costs	-	-	-	1,912	1,912
Capitalized interest	-	-	-	77	77
Disposals	-	-	-	(558)	(558)
Transfers	-	-	6,259	(6,259)	0
Gross amounts at 31.12.2005	38,473	835,096	9,453	3,992	887,014
Accumulated depreciation 01.01.2005	(15,127)	(573,281)	(3,194)	0	(591,602)
Ordinary depreciation	(816)	(18,250)	(1,454)	-	(20,520)
Accumulated depreciation at 31.12.2005	(15,943)	(591,531)	(4,648)	0	(612,122)
Net amounts at 31.12.2005	22,530	243,565	4,805	3,992	274,892

As at every financial year end, the recoverable amount of the energy drawing rights has been estimated. Necessary impairments are stated under accumulated depreciation.

No impairment has been recorded during the two financial years under review.

Capitalised interest is computed at an interest rate of 4% (6.5% in 2004).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 JOINT VENTURES

	Note	31.12.2005	31.12.2004	
Holdings in joint ventures		600,551	606,789	
Liabilities towards joint ventures	23	(2,590)	(5,395)	
		597,961	601,394	
		GRANDE DIXENCE SA and CLEUSON-DIXENCE ¹⁾	Other joint ventures assets ³⁾	Other joint ventures liabilities ³⁾
				Total
Net amounts at 01.01.2004		395,240	160,024	(6,935)
Investment		58,481	-	-
Group share of profit ⁴⁾		(3,282)	2,623	2,552
Current account movements ²⁾		(3,163)	-	-
Dividends		-	(3,134)	(1,012)
Net amounts at 31.12.2004		447,276	159,513	(5,395)
Net amounts at 01.01.2005		447,276	159,513	(5,395)
Investment		-	224	-
Group share of profit ⁴⁾		(3,287)	110	3,818
Current account movements ²⁾		(778)	-	-
Dividends		-	(2,507)	(1,012)
Net amounts at 31.12.2005		443,211	157,340	(2,589)

1) GRANDE DIXENCE SA, in which the Group holds 60 % of the voting power, is stated in the balance sheet using the equity method because the Group does not have exclusive control over this company's financial and operating policies. In fact, the Group must obtain a qualified majority for certain important decisions concerning contracts and the articles of association.

CLEUSON-DIXENCE is also accounted for using the equity method for the same reasons. GRANDE DIXENCE SA in fact owns 15/22nds of CLEUSON-DIXENCE shares while the Group owns only 7/ 22nds directly. Although the CLEUSON-DIXENCE simple partnership is not a company in the legal sense, the Group has not integrated it by proportionate consolidation as recommended by IAS 31.30, opting rather for the alternative equity method permitted by IAS 31.38.

2) Because of its legal status, CLEUSON-DIXENCE does not have any equity capital. Its funding comes entirely from its owners. Consequently, the current account between the simple partnership and the Group is stated in the balance sheet as an interest accounted for using the equity method.

3) Joint ventures are accounted for using the equity method. The Group's share of net assets, restated to the Group's accounting standards, is stated in assets under investments. A negative share is presented in liabilities.

Negative net assets are mainly due to an impairment that is recognized when the recoverable amount of the production and supply assets is estimated in accordance with the Group's accounting standards. Under these circumstances, and given its obligation to cover their expenses, the Group states its commitments to the joint ventures as liabilities.

4) Because the Group has a contractual obligation to cover the expenses of the joint ventures in return for energy drawn, the Group's share of net earnings, restated in accordance with the Group's accounting standards, is included in energy purchases from joint ventures because it represents a surplus or shortfall in income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GRANDE DIXENCE SA AND CLEUSON-DIXENCE CONSOLIDATED KEY FIGURES

	Restated gross amounts 2005	Restated gross amounts 2004	Group share 2005	Group share 2004
Tangible fixed assets	1'385'745	1'403'476	960'361	972'209
Intangible fixed assets	8'476	14'169	8'476	10'305
Financial assets	20'543	18'649	12'328	11'191
Current assets	22'928	17'657	13'953	10'656
Long-term liabilities	(738'167)	(738'022)	(442'900)	(442'813)
Short-term liabilities	(180'605)	(189'626)	(109'007)	(114'272)
Net assets	518'920	526'303	443'211	447'276
Income from joint ventures	131'834	143'004	89'107	88'210
Operating expenses and other operating income	(141'857)	(63'363)	(92'394)	(33'011)
Net result ¹⁾	(10'023)	79'641	(3'287)	55'199

On 12 December 2000, the penstock of the Cleuson-Dixence scheme which brings the water from the Grande Dixence dam to the Bieudron power plant burst. Returning the plant to full working order will require the complete reconstruction of the pressure shaft and other work. Restoration design and engineering works started in 2004 and continued through 2005. Following the accident, the Group began civil proceedings against the consortium contracted to supply and deliver the shaft lining, believing it to be responsible for the accident, and is claiming the cost of reconstruction plus loss of earnings. However, the conclusions of the criminal investigation, as yet unknown, and the bankruptcy of one of the three consortium partners represent major uncertainties. Under these circumstances, the Group has fully depreciated the penstock for an amount of CHF 132 m but has decided not to recognize the indemnification claim in the balance sheet.

1) Because of the shareholders' obligation to cover the expenses of the joint ventures, the net profits, restated in accordance with the Group's accounting standards, represent either a surplus or a shortfall in income that is set against the Group's energy purchases. The corporate financial statements of the joint ventures are not in deficit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

KEY FIGURES FOR OTHER JOINT VENTURE ASSETS

	Restated gross amounts 2005	Restated gross amounts 2004	Group share 2005	Group share 2004
Tangible fixed assets	488,287	493,120	169,758	172,798
Intangible fixed assets	525,592	578,968	175,196	192,987
Financial assets	3,257	287	1,105	116
Current assets	116,369	100,724	39,112	32,746
Long-term liabilities	(528,807)	(610,420)	(180,004)	(207,995)
Short-term liabilities	(144,820)	(96,888)	(48,233)	(31,138)
Goodwill acquired by the Group	-	-	406	406
Net assets	459,878	465,791	157,340	159,920
Income from joint ventures	349,639	333,363	116,927	109,855
Operating expenses and other operating income	(348,162)	(322,083)	(116,817)	(107,242)
Depreciation of goodwill acquired by the Group	-	-	-	(12)
Negative goodwill acquired by the Group	-	-	-	22
Net result ¹⁾	1,477	11,280	110	2,623

KEY FIGURES FOR OTHER JOINT VENTURE LIABILITIES

	Restated gross amounts 2005	Restated gross amounts 2004	Group share 2005	Group share 2004
Tangible fixed assets	1,412,982	1,484,806	70,649	74,240
Financial assets	807,031	656,000	40,352	32,800
Current assets	285,521	223,897	14,278	11,197
Long-term liabilities	(2,323,291)	(2,363,378)	(116,384)	(118,388)
Short-term liabilities	(229,525)	(104,729)	(11,484)	(5,244)
Net assets	(47,282)	(103,404)	(2,589)	(5,395)
Income from joint ventures	445,734	501,356	22,287	25,068
Operating expenses and other operating income	(369,362)	(450,315)	(18,469)	(22,516)
Net result ¹⁾	76,372	51,041	3,818	2,552

1) Because of the shareholders' obligation to cover the expenses of the joint ventures, the net profits, restated in accordance with the Group's accounting standards, represent either a surplus or a shortfall in income that is set against the Group's energy purchases. The corporate financial statements of the joint ventures are not in deficit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INVESTMENTS IN ASSOCIATED COMPANIES

	31.12.2005	31.12.2004
Movements		
Net amount at the start of the period	6,245	3,440
Group share of profit	224	576
Investments	-	2,405
Disposals	(2,850)	-
Dividends	(196)	(163)
Currency translation	11	(13)
Net amount at the end of the period	3,434	6,245

KEY FIGURES

	Group share 2005	Group share 2004
Tangible fixed assets	1,613	1,739
Intangible fixed assets	1,537	1,441
Financial assets	-	350
Current assets	7,085	22,813
Long-term liabilities	(3,920)	(2,479)
Short-term liabilities	(2,881)	(17,619)
Net assets	3,434	6,245
Operating income	5,859	10,245
Operating profit (EBIT)	351	578
Net profit	204	409

15 OTHER FINANCIAL ASSETS

	31.12.2005	31.12.2004
Other investments	276	173
Long-term loans to		
- Shareholders	-	250
- Joint ventures and associated companies	5,034	5,756
	5,310	6,179

Other investments are recorded in the balance sheet at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 INVENTORY AND WORK IN PROGRESS

	31.12.2005	31.12.2004
Goods and materials	67	76
Work in progress	5,624	2,281
	5,691	2,357

17 RECEIVABLES ARISING FROM DELIVERIES AND SERVICES

	31.12.2005	31.12.2004
Receivables from		
- Third parties	87,628	64,672
- Shareholders	78,857	51,656
- Joint ventures and associated companies	2,955	1,993
- Other related parties	148	4
Bad debt provision	(500)	(500)
	169,088	117,825

18 OTHER RECEIVABLES AND ACCRUALS

	Note	31.12.2005	31.12.2004
VAT, withholding tax and other refundable tax		211	4,700
Pension fund receivables		113	102
Prepaid benefits and services		114	83
Derivative financial assets	26	2,572	-
Accrued interest from			
- Joint ventures and associated companies		90	244
Short-term loans (advances) to			
- Third parties		82	14
- Joint ventures and associated companies		3,504	1,788
- Other related parties		896	-
Other receivables and accruals from			
- Third parties		8,455	2,386
- Shareholders			49
- Joint ventures and associated companies		2,955	4,966
- Other related parties		3	251
		18,995	14,583

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 EQUITY

SHARE CAPITAL

At 31 December 2005, the company's fully paid-up share capital was KCHF 145,000 divided into 1,450,000 registered shares each with a par value of CHF 100.-.

The Annual General Meeting can convert the registered shares to bearer shares, and vice versa, at any time.

In accordance with the EOS articles of association, shareholders wishing to dispose of all or part of their shares must first inform the Board of Directors. The latter informs the other shareholders in order to give them an opportunity to acquire the holding at sale. A share transfer is only valid if it has been approved by the Board of Directors and recorded in the Share Register

ADDITIONAL PAYMENTS

Additional capital payments are the difference between the issue price and the par value of the paid-up capital shares. These payments are not distributable to shareholders.

ACCUMULATED PROFIT

Accumulated profit includes all legal, statutory and free reserves resulting from profits made by Group companies.

DIVIDENDS

The Board of Directors has not proposed the payment of dividends during the two financial periods under review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 FINANCIAL LIABILITIES

					31.12.2005	31.12.2004
Long-term financial liabilities					438,264	570,367
Short-term financial liabilities					157,948	87,101
					596,212	657,468
	Effective		Fair value		Effective	
	rate	Term	2005	rate		
Bonds						
- CHF 300 m at 4%, due 10.02	4.20%	1998-2009	316,203	322,648	298,264	297,853
Borrowings from financial institutions						
- Bank	5.00%	2000-2007	10,360	10,736	10,000	10,000
- Bank	4.34%	2000-2008	10,449	10,722	10,000	10,000
- Insurance	3.22%	1999-2006	-	5,114	-	5,000
- Insurance	3.54%	1998-2008	113,532	115,717	110,000	110,000
- Insurance	4.44%	2000-2010	10,825	11,029	10,000	10,000
Borrowing from shareholder 1)						
- Tranche 1	3.40%	2002-2011	-	40,332	-	40,884
- Tranche 2	2.55%	2004-2011	-	80,664	-	86,630
Other debts towards						
- Third parties		At sight	5,056	53	5,056	53
- Shareholders		At sight	152,057	86,069	152,057	86,069
- Joint ventures and associates		At sight	835	82	835	82
- Other related parties		At sight	-	897	-	897
Total financial liabilities			619,317	684,063	596,212	657,468

1) Loan, or prepayment converted to EOS HOLDING share capital on 26 October 2005. Because it is interest free the loan has been discounted at the capital market rate applicable on the date it was drawn and the discount impact has been recorded under shareholders' equity. The discount was deducted from shareholders' equity on the conversion date (see note on fair value variation).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 PROVISIONS

	31.12.2005	31.12.2004	
Long-term provisions	24,789	23,898	
Short-term provisions	2,087	2,807	
	26,876	26,705	
	Dismantling	Other	Total
At 01.01.2004	23,898	4,384	28,282
Allocations	-	-	0
Appropriations	-	-	0
Released provisions	-	(1,874)	(1,874)
Discounting impact	-	297	297
At 31.12.2004	23,898	2,807	26,705
At 01.01.2005	23,898	2,807	26,705
Allocations	-	891	891
Appropriations	-	-	0
Released provisions	-	(720)	(720)
Discounting impact	-	-	0
At 31.12.2005	23,898	2,978	26,876

The dismantling provision is earmarked for the dismantling of the CENTRALE THERMIQUE DE VOUVRY SA facility. The dismantling of the plant has been indefinitely deferred.

Other provisions cover risks connected with the operation of our facilities. The costs of repair work to the Fully plant make up most of the sums mentioned under this heading. The Fully plant will come back into service during 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 EMPLOYEE BENEFITS

	Pensions	Early retirement	Voluntary pensions	Total
At 01.01.2004	6,644	5120	6,930	18,694
Contributions paid	(1,352)	(266)	(674)	(2,292)
Net cost stated in profit and loss account	151	-	340	491
Released provisions	(237)	(2,005)	-	(2,242)
At 31.12.2004	5,206	2,849	6,596	14,651
At 01.01.2005	5,206	2,849	6,596	14,651
Contributions paid	(1,457)	-	(714)	(2,171)
Net cost stated in profit and loss account	-	-	1,170	1,170
Released provisions	(526)	(109)	-	(635)
At 31.12.2005	3,223	2,740	7,052	13,015

The employee benefits provision represents the Group's financial commitment to the CPE. It is the portion of the scheme asset shortfall recognized in the accounts (see below).

Early retirement pensions are the Group's liability towards serving members of staff. The liability towards employees who have taken early retirement is transferred to the CPE. Early retirement pensions are granted to all employees from the age of 60.

Voluntary pensions are the Group's liability in respect of former employees. They are made up of the indexing of retirement pensions that the CPE does not offer and membership of the health insurance scheme.

	31.12.2005	31.12.2004
Pension liabilities stated in the balance sheet		
Fair value of pension plan assets	206,863	180,116
Discounted value of pension liability	(201,001)	(202,350)
Asset surplus/(shortfall)	5,862	(22,234)
Unrecognized actuarial gains and losses	(9,042)	(17,028)
Asset surplus/(shortfall) recognized in accounts	(3,180)	(5,206)

The CPE rate of coverage, calculated in accordance with current Swiss accounting rules, was 117.5% on 31 December 2005 (2004: 102%).

	31.12.2005	31.12.2004
Pension charges recognized in the profit and loss account		
Current service cost	2,278	2,898
Employee contributions	(971)	(901)
Interest cost	7,083	7,032
Expected return on pension plan assets	(9,006)	(9,211)
Transfer (from) / to unrecognized pension plan assets surplus	90	96
Release of provision	526	237
Net cost of Group pension liability	0	151
Effective return on pension plan assets - (Loss)	31,807	(6,420)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The transfer (from) / to unrecognized pension plan assets surplus is made up of expected asset return surpluses and of contributions in excess of the net cost of the pensions paid by the Group. Pension plan asset surpluses are not stated in the balance sheet.

MAIN ACTUARIAL ASSUMPTIONS

Discount rate	3.5%	3.5%
Expected rate of return on pension plan assets	5.0%	5.0%
Future increase in salaries	1.5%	1.5%
Future increase in pension benefits	1.0%	1.0%

23 OTHER LONG-TERM LIABILITIES

	Note	31.12.2005	31.12.2004
Liabilities due to joint ventures	13	2,590	5,395
Financial option in favor of a shareholder	27	15,000	15,000
		17,590	20,395

The fair value of the option is measured at the end of each accounting period. Fair value is determined from the information available over a 5 year horizon. In prior years, no movement was recorded for this liability, its value not being significantly different from that computed at the end of 2003. During 2005, KCHF 1,148 of the liability was appropriated, KCHF 135 allocated to it and the discounting impact, which appears in financial costs, amounted to KCHF 1,012.

24 LIABILITIES ARISING ON PURCHASES AND SERVICES

	31.12.2005	31.12.2004
Liabilities due to		
- Third parties	88,837	53,104
- Shareholders	15,524	2,018
- Non-consolidated companies	507	-
- Joint ventures and associated companies	2,193	3,466
- Other related parties	1,282	2,899
	108,343	61,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 OTHER SHORT-TERM LIABILITIES AND ACCRUALS

	Note	31.12.2005	31.12.2004
VAT, advance tax and other tax payable		2,940	2,350
Liabilities in respect of pension institutions		3	-
Salaries and other social security costs payable		384	417
Overtime and holidays payable		1,082	1,094
Derivative instruments (liabilities)	26	569	47
Accrued interest owed to			
- Third parties		12,887	12,888
Other debt and transitional amounts owed to			
- Third parties		24,773	13,224
- Shareholders		5,142	7,663
- Joint ventures and associates		3,065	2,229
- Other related parties		15,979	282
		66,824	40,194

26 DERIVATIVE INSTRUMENTS

ENERGY TRADING CONTRACTS

	Positive amounts	Negative amounts	Net amounts
Transactions open at 31.12.2004			
Forward contracts	7,245	(6,148)	1,097
Option contracts	-	(1,144)	(1,144)
Capacity contracts	-	-	0
	7,245	(7,292)	(47)
Transactions open at 31.12.2005			
Forward contracts	82,800	(89,467)	(6,667)
Option contracts	9,620	-	9,620
Capacity contracts	515	(896)	(381)
	92,935	(90,363)	2,572

DERIVATIVE FINANCIAL INSTRUMENTS

	Positive amounts	Negative amounts	Net amounts
Transactions open at 31.12.2005			
Interest rate swap bonds 25 million	-	(154)	(154)
Interest rate swap bonds 50 million	-	(415)	(415)
	0	(569)	(569)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 RELATED PARTY TRANSACTIONS

SHAREHOLDERS

The Group carries on an essential part of its business with its shareholders. The Group buys and sells short and long-term electricity from and to them, supplies them with power transmission services and obtains 'associated' services (top-up power

supply and provision of services) on their behalf. In addition, some shareholders have entrusted the Group with the management of commercial and/or trading portfolios. All these services are provided between the parties at arm's length prices.

Agreements with shareholders

In March 2001, EOS, a subsidiary undertaking of EOS HOLDING, signed with its then "shareholder-clients" (EEF, RE, SIG, SIL), now all EOS HOLDING shareholders rather than direct EOS shareholders, a framework agreement and a series of agreements that took effect on 1 October 2001. These agreements contain the arrangements that are intended to ensure the financial continuity of the company under a long-term plan approved by its "shareholder-clients".

Under the framework agreements, from the effective date of 1 October 2001 and for a further period of six years (that is, until 30 September 2007), the "shareholder-clients" are bound to purchase fixed quantities of energy each year on predefined terms and to grant non-interest-bearing convertible loans or prepayments of CHF 155 m. In accordance with the decision of the Extraordinary Meeting of Shareholders on 26 October 2005, these receivables were converted into share capital by the par issue of 1,550,000 new registered shares of CHF 100.

Under the other agreements, from 1 October 2007 to 31 December 2030, the "shareholder-clients" will be entitled to purchase electricity from EOS at a price equivalent to the average cost of producing the energy and in quantities not exceeding a total of 1,500 GWh p.a. Where applicable, the cumulative difference accrued over the years between the EOS average sale price, excluding sales at average production cost to the "shareholder-clients", and the average cost of production for the electricity drawn, shall not exceed the sum corresponding to the special contributions paid by the "shareholder-clients" during the period between 1 October 2001 and 30 September 2004, i.e. a total of CHF 380 m..

This supply option is deemed a purchase right that will be created when the right is exercised and will only be extinguished by the physical supply of electricity. It is consequently a future obligation to deliver energy.

As it is not possible to say whether the "shareholder-clients" will make use of their right to buy or under what conditions the option may be exercised, no commitment has been recorded in the financial statements.

In July 2005, EOS signed a long-term energy supply contract with the EOS HOLDING shareholders in order to enhance their security of supply and, for EOS, to limit the risks from fluctuating prices on part of its production. The contract will come into effect for deliveries starting 1 October 2007 and will automatically end on the scheduled date of termination, i.e. 31 December 2015. The contract was drawn up on the basis of the arm's length terms applicable at the time and also includes clauses to safeguard against any dramatic changes in the market conditions.

Financial option

The Group has granted SIG a right to draw power and energy on the basis of its interest in the production of electricity by the joint venture company, FORCES MOTRICES HONGRIN-LÉMAN SA. This right enables SIG to purchase, at production cost, 20 % of the joint venture's average contribution in kind. The right to draw terminates on 30 September 2051 when the current concessions held by FORCES MOTRICES HONGRIN-LÉMAN SA expire. In March 2003, the energy supply was converted into a financial option. The option may be exercised as soon as the hourly spot market price of the Leipzig Power Exchange (EEX) exceeds the production cost (the option strike price). At 31 December 2004 and 2005, the financial option was estimated to be CHF 15 m; it is recorded under other long-term liabilities and is set out in Note 21.

Relations with EOS Holding

Part of the Group's management functions are carried out by the management of EOS HOLDING, which coordinates the business activities of EOS and AVENIS TRADING. EOS HOLDING also makes a financial contribution to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Other transactions

JOINT VENTURES

The Group buys a large portion of its energy from its joint venture companies. The Group enjoys a right to draw power and energy from these companies in proportion to its investment. In return, it has a corresponding contractual obligation to cover their expenses in proportion to its stake.

Accounting and financial information pertaining to the joint ventures is presented in Note 13.

ASSOCIATED COMPANIES

STUCKY SA has been awarded contracts. The co-management and co-ordination of the national and international VHV transmission networks has been delegated to ETRANS SA. All these companies invoice their services at arm's length prices.

Accounting and financial information for the associated companies is presented in Note 14.

OTHER RELATED PARTIES

Other related parties comprise the companies directly owned by EOS HOLDING.

EOS has contracted AVENIS TRADING to carry out direct sales and energy portfolio management for the Group. EOS provides some support functions for the business activities of AVENIS TRADING. All these services are invoiced at arm's length prices.

Since mid-2003, HYDRO EXPLOITATION SA has taken over the operating personnel of the Group's hydro power plants and carries out the maintenance and operation of these facilities. Contracts have been awarded to CLEUSON-DIXENCE CONSTRUCTION SA (CDC) and CISEL INFORMATIQUE SA. All these companies invoice their services at arm's length prices.

REMUNERATION OF EXECUTIVE MANAGEMENT AND BOARD OF DIRECTORS

The Board of Directors of the EOS HOLDING Group received a remuneration of CHF 1.2 m during the period under review (CHF 1 m the previous year). The Executive Management received a remuneration of CHF 2.7 m (CHF 2.4 m the previous year).

The members of the Executive Management and the members of the Board of Directors are the same as for EOS HOLDING Group.

28 UNCERTAINTY OF ACCOUNTING ESTIMATES

GENERATION AND SUPPLY ASSETS

At each balance sheet date, the recoverable amount of the generating and supply assets held by the Group is estimated. This amount is based on assumptions about future estimated electricity prices.

The probable opening of the Swiss market, changes to Swiss and European legislation and the volatility of European market prices could have a marked influence on the level of impairment recognized for these assets. No adjustment has been recorded during the two periods under review, the average price of electricity long term being considered stable.

The breakdown of these assets and their carrying amounts are:

	Notes	31.12.2005	31.12.2004
• Tangible fixed assets (production facilities)	11	92,826	85,394
• Intangible fixed assets (energy usage and drawing rights)	12	266,095	285,161
• Joint ventures	13	579,961	601,394

29 FUTURE LIABILITIES AND CONTINGENT LIABILITIES

The Group does not have any commitment other than those listed in the section on related party transactions (Notes 13 and 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 EVENTS AFTER THE BALANCE SHEET DATE

On 29 September 2005, EOS signed the agreements to acquire the 16.4% of MOTOR-COLUMBUS shares hitherto owned by UBS. The selling price was CHF 4,600 per MOTOR-COLUMBUS share and the total cost amounted to KCHF 381,308.

The Swiss and European competition authorities analysed the purchase and approved the buyers' application without imposing special conditions. The consortium is composed on the ATEL Swiss minority shareholders – EBM (ELEKTRA BIRSECK, MÜNCHENSTEIN), EBL (ELEKTRA BASELLAND, LIESTAL), the canton of Solothurn, IBAarau – and, now, AIL (AZIENDE INDUSTRIALI DI LUGANO SA) and WWZ (WASSERWERKE ZUG AG). EOS HOLDING in Lausanne, the French utility company EDF and ATEL are the other partners in the consortium. The contracts were completed on 23 March 2006.

The partners agreed to combine MOTOR-COLUMBUS and ATEL into a new company after the finalisation of the transaction in the first half of 2006. Then the new company, together with the trading operations and assets of EOS, will be combined into a new holding structure. The registered office for the holding company will be in Neuchâtel whilst the "Energie Suisse" business unit will be in Lausanne. Similarly, EDF firmly intends to study all the options for optimizing its Swiss assets within the new company. In all likelihood, these steps will be taken over the next two years.



■ Ernst & Young Ltd
Assurance & Advisory
Business Services
Place Chauderon 18
P.O. Box
CH-1002 Lausanne

■ Phone +41 58 286 51 11
Fax +41 58 286 51 01
www.ey.com/ch

To the general meeting of
Energie Ouest Suisse (EOS), Lausanne

Lausanne, April 6, 2006

Report of the group auditors

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes) of Energie Ouest Suisse (EOS) for the year ended December 31, 2005.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Pierre Delaloye
Swiss Certified Fiduciary
(in charge of the audit)

Pierre-Alain Coquoz
Swiss Certified Accountant

■ Offices in Aarau, Baden, Basel, Berne, Geneva, Lausanne, Lucerne, Lugano, St.Gallen, Zug, Zurich.
■ Member of the Swiss Chamber of Auditors.

IV. 2005 CORPORATE FINANCIAL STATEMENTS

	<u>Page(s)</u>
Profit and loss account	40
Proposed appropriation of balance sheet profit	41
Balance sheet	42-43
Notes	44-47
Auditors' report	48

Note:

In the following tables and commentary, figures are given in thousands of Swiss francs (KCHF) unless otherwise indicated.

PROFIT AND LOSS ACCOUNT

	2005	2004
Net turnover	1,292,370	1,033,088
Other operating income	18,822	15,618
Total operating income	1,311,192	1,048,706
Energy purchases	(1,111,359)	(860,769)
Materials and services	(12,944)	(27,954)
Personnel expenses	(23,132)	(16,786)
Depreciation	(43,768)	(49,019)
	(34,330)	(28,616)
Total operating expenses	(1,225,533)	(983,143)
Earnings before interest and tax (EBIT)	85,659	65,563
	7,938	6,795
	(20,172)	(18,032)
Net financial cost	(12,234)	(11,237)
Earnings before tax (EBT)	73,425	54,326
Income tax	(11,487)	-
Profit before exceptional income and charges	61,938	54,326
Extraordinary income from realization of assets	3,092	1,240
Exceptional drawdown of provisions	49,305	130,930
Other exceptional income	9	237
Total exceptional income	52,406	132,407
Exceptional appropriations to provisions	(5,166)	-
Other exceptional expenses	(616)	(103,720)
Total exceptional expenses	(5,782)	(103,720)
Net profit	108,562	83,012

PROPOSED APPROPRIATION OF BALANCE SHEET PROFIT

	2005	2004
Carry forward at beginning of period	65,134	2,422
Profit for the period	108,562	83,012
Balance sheet profit	173,696	85,434
Dividend CHF 7.00 per share (CHF 14.00 per share in 2004)	(10,150)	(20,300)
Allocated to general reserve	-	-
Balance carried forward	163,546	65,134

BALANCE SHEET

	31.12.2005	31.12.2004
ASSETS		
Plants in operation	668,867	661,161
Buildings	51,451	51,705
Current projects	8,826	16,413
Total tangible fixed assets	729,144	729,278
Third party energy usage and energy drawing rights etc.	269,552	295,387
Other tangible fixed assets	4,805	-
Projects under development	3,992	-
Total intangible fixed assets	278,349	295,387
Shareholdings	315,333	316,085
Loans to Group companies	5,034	5,756
Total financial assets	320,367	321,839
Total fixed assets	1,327,861	1,346,505
Work in progress and services to be charged	5,624	2,281
<i>Receivables from sales and services to :</i>		
Clients	72,612	49'948
Related companies / shareholders	78,810	51'652
Group companies	3,291	5'031
<i>Other receivables from :</i>		
Third parties	697	896
Group companies	8,592	7'252
Cash and securities	79,739	79,479
<i>Transitional assets in respect of :</i>		
Third parties	11,203	7'231
Related companies / shareholders	-	7
Group companies	3,845	6'078
Total current assets	264,413	209,857
Total assets	1,592,274	1,556,362

BALANCE SHEET

	31.12.2005	31.12.2004
LIABILITIES		
Share capital	145'000	145,000
General statutory reserve	72'500	72,500
Special reserve	11'689	11,689
<i>Balance sheet profit :</i>		
Carry forward at start of period	65,135	2,422
Profit for the period	108,562	83,012
Total shareholders' equity	402'886	314,624
Amortization provision for right of restitution	2'080	2,800
Other provisions	409'430	451,748
Total provisions	411'510	454,548
Bonds and similar items	410'000	410,000
Loans to related companies / shareholders	-	155,000
Other liabilities towards related companies / shareholders	15'000	15,000
Loans to Group companies	2'650	2,650
Total long-term liabilities	427'650	582,650
<i>Purchases and services payable to :</i>		
Suppliers	88,178	51,361
Related companies / shareholders	15,586	2,021
Group companies	3,691	11,282
<i>Other debt in respect of :</i>		
Third parties	12,047	1,105
Related companies / shareholders	152,057	86,099
Group companies	15,227	14,830
<i>Transitional liabilities in respect of :</i>		
Third parties	26,909	21,902
Related companies / shareholders	5,779	4,308
Group companies	19,126	5
Accrued interest	11'628	11,628
Total short term liabilities	350'228	204,540
Total liabilities	1'592'274	1,556,362

NOTES

Shareholding			31.12.2005	31.12.2004
Company	Activity	Share capital	Percentage held	Percentage held
*) Grande Dixence SA, Sion	Electricity production	300,000	60%	60%
*) Cleuson-Dixence, société simple	Electricity production	p.m.	31.82%	31.82%
*) Salanfe SA, Vernayaz	Electricity production	18,000	100%	100%
*) Société des Forces Motrices du Grand Saint-Bernard SA, Bourg-Saint-Pierre	Electricity production	10,000	25%	25%
*) Electra-Massa SA, Naters	Electricity production	40,000	23.03%	23.03%
*) Forces Motrices de Conches SA, Lax	Electricity production	30,000	41%	41%
*) Forces Motrices Hongrin-Léman SA, Château-d'Oex	Electricity production	30,000	39.30%	39.286%
*) Hydro-Rhône SA, Sion	Electricity production	100	30%	30%
Energie Electrique du Simplon SA, Simplon-Dorf	Electricity production	8,000	78.82%	78.24%
*) Centrale Thermique de Vouvry SA, Vouvry	Electricity production	1,000	95%	95%
*) Centrales Nucléaires en Participation SA, Berne	Electricity production	150,000	33.33%	33.33%
*) Centrale Nucléaire de Leibstadt SA, Leibstadt	Electricity production	450,000	5%	5%
Stucky SA, Lausanne	Engineering services	750	0%	39%
AlpEnergie Italia S.p.A., Milan	Representation and Energy marketing	EUR 1,000	0%	50%
AlpEnergie Suisse Sàrl, Lausanne	Energy services	20	100%	100%
Etrans, Laufenburg	Swiss VHV grid management	7,500	14.47%	14.47%
*) Forces Motrices de Martigny-Bourg SA, Martigny-Bourg	Electricity production	3,000	18%	18%
Forces Motrices de Fully SA, Fully	Electricity production	800	28%	0%
Swissgrid AG, Laufenburg	Swiss VHV grid management	15,000	13.97%	16.00%

*) See third party guarantee obligations

Integration of the CLEUSON-DIXENCE simple partnership

Each element of the assets, liabilities, costs and income of CLEUSON-DIXENCE is integrated separately into the EOS accounts on the basis of the latter's 7/22nd shareholding.

Third party guarantee obligations

In the joint ventures *), EOS, like the other partners, has undertaken to take delivery of its share of energy and to cover the costs of these companies in proportion to its shareholding, unless otherwise agreed.

In particular, the annual costs of these companies include interest and depreciation and provisions needed in connection with the repayment of bonds.

Fire insurance for fixed assets	31.12.2005	31.12.2004
	626,893	634,673

A significant part of the fixed assets is not insured against fire because of the inherent characteristics of these assets (concrete walls, tunnels, various shafts and high voltage lines).

NOTES

Bonds		31.12.2005	31.12.2004
4 % 1998/2009	Maturity date 10.02.2009	300,000	300,000
		300,000	300,000

EOS shareholders		31.12.2005		31.12.2004	
Name	Nominal value of share total	% of capital	Nominal value of share total	% of capital	
EOS HOLDING, Lausanne	145,000	100.000%	144,990	99.993%	
Municipalité de Sion, Sion	0	0.000%	0	0.000%	
Commune de Martigny, Martigny	0	0.000%	10	0.007%	
	145,000	100.000%	145,000	100.000%	

Contingent liabilities

There are no other contingent liabilities apart from those listed under transactions with EOS shareholders.

Pension liabilities

The company's personnel is affiliated to the CPE, Caisse Pension Energie, in Zurich, a collective provident fund for the sector. Employees are insured under a Swiss defined benefits pension plan.

The CPE's articles of association stipulate that if the technical balance sheet has a deficit of more than one tenth of the liabilities and no improvement is foreseeable, the contributions must be increased and/or anticipated future benefits reduced by an amendment to the articles of association in order to rebalance the CPE's accounts.

The CPE rate of coverage, calculated in accordance with current Swiss standards, was 117.5% at 31 décembre 2005. The pension fund therefore has a positive balance.

	31.12.2005	31.12.2004
Debt in respect of pension funds	11,487.25	0.00

Derivative instruments

Details of these derivative instruments can be found in Note 26 of the annual report. They apply only to EOS.

NOTES

Transactions with EOS HOLDING shareholders

In March 2001, EOS, a subsidiary undertaking of EOS HOLDING, signed with its then "shareholder-clients" (EEF, RE, SIG, SIL), now all EOS HOLDING shareholders, a framework agreement and a series of agreements that took effect on 1 October 2001. These agreements contain the arrangements that are intended to ensure the continuity of the company under a long-term plan accepted by its shareholders.

Under the framework agreements, from their entry into effect on 1 October 2001 and for a period of six years (that is, until September 2007), the "shareholder-clients" have an obligation to purchase fixed quantities of energy each year on predefined terms and to grant non-interest-bearing convertible loans or prepayments of up to CHF 155 m. In accordance with the decision of the Extraordinary Meeting of Shareholders on 26 October 2005, these receivables were converted into share capital by the par issue of 1,550,000 new registered shares each with a value of CHF 100.-.

Under the other agreements, from 1 October 2007 to 31 December 2030, the "shareholder-clients" will be entitled to purchase electricity from EOS at a price equivalent to the average cost of producing the energy and in quantities not exceeding 1,500 GWh p.a. Where applicable, the cumulative difference accrued over the years between the EOS average selling price, excluding sales at average production cost to the "shareholder-clients", and the average cost of production for the electricity drawn shall not exceed the sum corresponding to the special contributions paid by the "shareholder-clients" during the period between 1 October 2001 and 30 September 2004, i.e. a total of CHF 380 m.

This supply option is deemed a purchase right that will be created when the right is exercised and will only be extinguished by the physical supply of electricity; it is consequently a future obligation to deliver energy.

As it is not possible to say whether the "shareholder-clients" will make use of their right to buy or under what conditions the option may be exercised, no commitment has been recorded in the financial statements.

In July 2005, EOS signed a long-term energy supply contract with the EOS HOLDING shareholders in order to enhance their security of supply and, for EOS, to limit the risks associated with fluctuating prices on part of its production. The contract will come into effect for deliveries starting 1 October 2007 and will automatically end on the scheduled date of termination, i.e. 31 December 2015. The contract was drawn up on the basis of the arm's length terms applicable at the time and also includes clauses to safeguard against any marked change in these terms.

NOTES

Additional information

On 12 December 2000, the penstock of the Cleuson-Dixence scheme which brings the water from the Grande Dixence dam to the Bieudron power plant burst. Returning the plant to full working order will require the complete reconstruction of the pressure shaft and other work. Restoration design and engineering works started in 2004 and continued through 2005. Following the accident, the Group began civil proceedings against the consortium contracted to supply and deliver the shaft lining, believing it to be responsible for the accident, and is claiming the cost of reconstruction plus loss of earnings. However, the conclusions of the criminal investigation, as yet unknown, and the bankruptcy of one of the three consortium partners represent major uncertainties. Under these circumstances, the Group has fully depreciated the penstock for an amount of CHF 132 m but has decided not to recognize the indemnification claim in the balance sheet.

AUDITORS' REPORT



■ Ernst & Young Ltd
Assurance & Advisory
Business Services
Place Chauderon 18
P.O. Box
CH-1002 Lausanne

■ Phone +41 58 286 51 11
Fax +41 58 286 51 01
www.ey.com/ch

To the general meeting of
Energie Ouest Suisse (EOS), Lausanne

Lausanne, April 6, 2006

Report of the statutory auditors

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Energie Ouest Suisse (EOS) for the year ended December 31, 2005.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



Pierre Delaloye
Swiss Certified Fiduciary
(in charge of the audit)



Pierre-Alain Coquoz
Swiss Certified Accountant

■ Offices in Aarau, Baden, Basel, Berne, Geneva, Lausanne, Lucerne, Lugano, St.Gallen, Zug, Zurich.
■ Member of the Swiss Chamber of Auditors.