ANNUAL REPORT 2006

(1 JANUARY 2006 TO 31 DECEMBER 2006)

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

1. Key figures

Financials

Consolidated figures, m CHF		2006	2005
Total operating income		1,912	1,373
Trading results		24	39
EBIT		83	97
(% of total operating revenue)		4.3%	7.1%
Net profit		48	58
(% of total operating revenue)		2.5%	4.2%
Cash flow		75	110
Balance sheet assets	Tangible assets	547	554
	Intangible assets	262	275
	Financial assets	629	617
	Current assets	309	280
	Total assets	1,747	1,726
Balance sheet liabilities	Shareholders' equity	769	739
	Liabilities	977	988
	Total liabilities	1,747	1,726
Total indebtedness net of cash and cash equivalents		510	510
Ratios			
Net debt to equity ratio		40 : 60	41 : 59
Indebtedness as % of total balance sheet value net of cash and cash equivalents		30.6%	31.1%

Supply and delivery in 2006

Deliveries and sales		Production and purchases	
Contract deliveries to shareholders	4,680 GWh	Total hydropower CH	2,642 GWh
Deliveries to other Swiss clients	622 GWh	Total thermal power CH (Leibstadt)	464 GWh
Pumping energy and restitutions, losses	975 GWh	Power purchase agreements	3,696 GWh
Sales and trading	51,993 GWh	Purchases and trading	51,468 GWh
Total	**58,270 GWh**	**Total**	**58,270 GWh**

2006 Trading

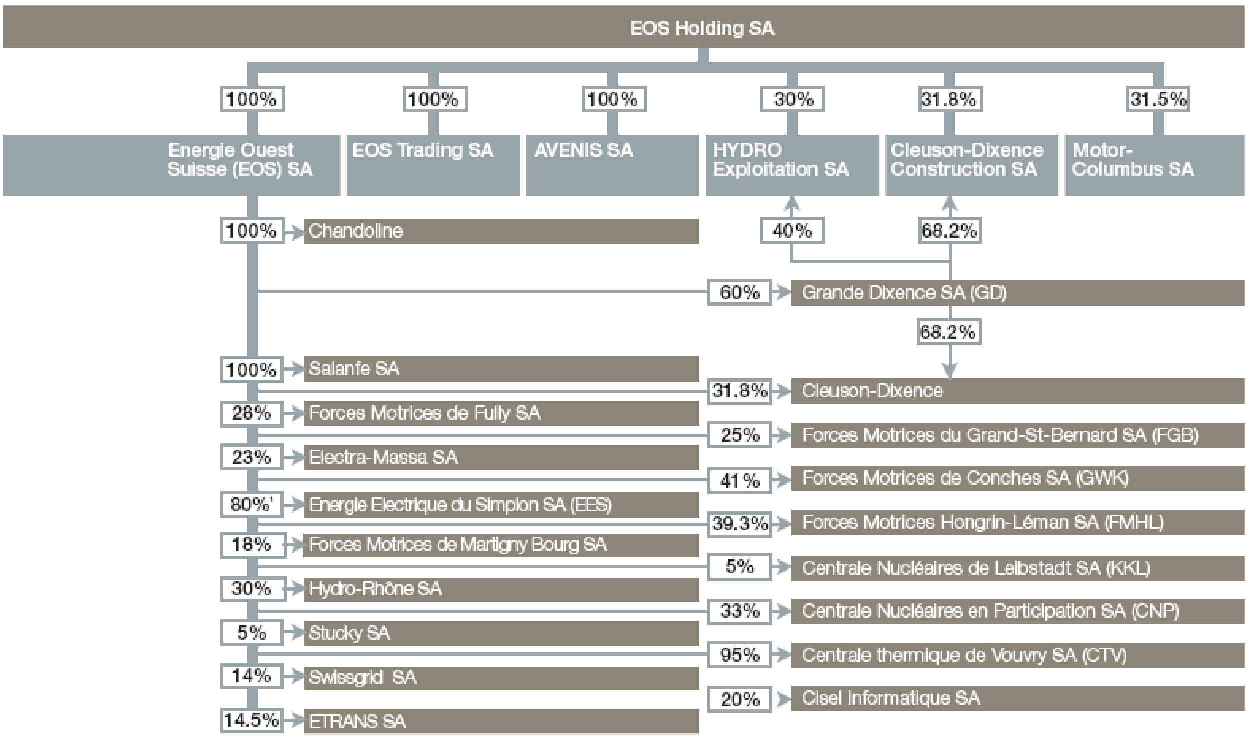
		CHF millions	
Sales	30,726 GWh	2,451	
Purchases	30,726 GWh	(2,418)	
Mark to market (open positions)		(9)	
Total volume	**61,452 GWh**	**24**	**Profit on trading operations**

2. Structure

Shareholders

EOS HOLDING owns 100 % of the share capital of EOS.

EOS Group



Notes

[1] After the public offer made by EOS in the summer of 2006 for the bearer shares of ÉNERGIE ÉLECTRIQUE DU SIMPLON SA, the EOS stake in the Haut-Valais company is now 80 % (compared with 78.24 % at 31.12.2005). The delisting of the shares was executed on the 29th of December 2006.

2. Structure

Corporate bodies

Board of Directors

	TERM OF OFFICE BEGINS	TERM OF OFFICE ENDS AT AGM CALLED TO RECEIVE THE ACCOUNTS
Dominique Dreyer *	2002	2007
Chairman, lawyer Fribourg		
GUY MUSTAKI *	2006	2007
Vice-Chairman, Chairman of Romande Energie Holding SA, Pully		
DANIEL BRÉLAZ	2002	2007
Mayor of the City of Lausanne, Lausanne		
JEAN DESCHENAUX */***	2005	2007
Company director, Fribourg		
DANIEL MOUCHET *	2003	2007
Chairman of Services Industriels de Genève, Carouge		
HUBERT BARDE ***	2003	2007
Member of the board of Romande Energie Holding SA, Le Mont-sur-Lausanne		
JEAN-JACQUES MONNEY ***	2002	2007
Vice-Chairman of Services Industriels de Genève, Rolle		
JEAN PRALONG **	2002	2007
Chairman of FMV SA, St-Martin		
JEAN-YVES PIDOUX ***	2006	2007
Lausanne City Councillor, Lausanne		
DANIEL SCHMUTZ **	2002	2007
Member of the Board of Romande Energie Holding SA, La Tour-de-Peilz		
PIERRE STEPHAN **	2002	2007
Vice-chairman of Groupe E SA, Fribourg		

Company secretary (not a member of the Board) : BENOÎT REVAZ

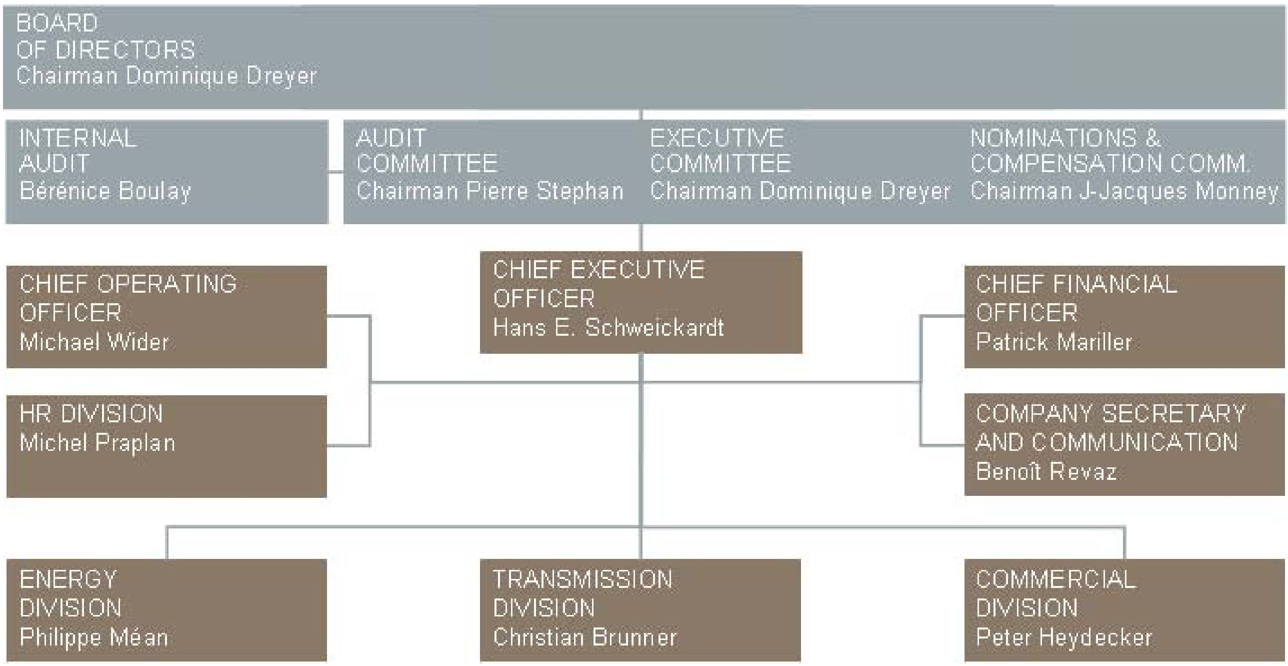
*   Member of the Executive Committee
**   Member of the Audit Committee
***   Member of the Nominations and Compensation Committee

Auditors

ERNST & YOUNG SA, LAUSANNE

2. Structure

Organisational chart



3. 2006 Consolidated accounts

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

Commentary

The Group concentrated until end 2005 on strengthening its financial position by reducing its debt. In 2006, this policy gave way to a strategy focused on growth. This aims to develop the position of EOS on the Swiss and European markets and thus create the necessary conditions for the strong growth of the Group, both in terms of turnover and profitability.

2006 Profit and loss account

Operating income has risen by 40 % compared with the figure in the 2005 report and stands at CHF 1.9 bn (CHF 1.4 bn in 2005). This increase illustrates the development and diversification of the Group's commercial activities, both in terms of creating value from its production portfolio in Switzerland and on the European wholesale markets and in terms of the development of its sales. Earnings from trading were CHF 23.9 m (CHF 38.8 m in 2005), for a transaction volume of CHF 2.4 bn.

With growth of 47 %, energy sales reflect what has been done to optimise the generating fleet, which is one of the most flexible in Europe.

Other operating income was higher in 2005 due to exceptional items.

Materials and services rose 12 % to CHF 20.6 m. The rise is connected with maintenance of our facilities in order to guarantee maximum availability of the generating and transmission assets.

The increase in personnel expenses is a consequence of the continued expansion of our workforce as part of our strategic approach focusing on growth and new markets, for example the wholesale market in Britain, and the gas sector.

Depreciation is higher because of new investments, especially in connection with the improvement of the high and very high voltage (VHV) network in Western Switzerland.

Other operating expenses, essentially comprising administrative costs, have increased compared with the previous financial year. The rise is mainly due to the increase in fees paid to other related parties (AVENIS, EOS TRADING).

Earnings before interest and tax stand at CHF 83.1 m (CHF 96.9 m in 2005). These earnings before interest and tax are still impacted by the current conditions of delivering electricity to the shareholders of EOS HOLDING. The framework agreement and other agreements governing these supplies expire on 30 September 2007 however.

In 2006, EOS' interest costs remained stable overall. In 2005, they included the accounting effect of the interest-free loan from the shareholders (CHF 155 m). The loan had been transferred to EOS HOLDING in 2005 to be converted to share capital.

Net profit is CHF 47.8 m, down 18 % in comparison with 2005 (CHF 58.3 m).

Balance sheet

The balance sheet total is stable at CHF 1.7 bn. Shareholders' equity in the balance sheet has risen a little more to 44 % as opposed to 42.8 % in 2005. During the period under review, EOS paid a dividend of CHF 10 m.

The increase in joint venture interests reflects the start of the work to restore the CLEUSON-DIXENCE plant (CHF 65.1 m in 2006, EOS' share of 7/22nds being CHF 20.7 m of that).

2006 was marked by the issuing of a bond of CHF 125 m with an eight-year maturity and coupon of 2.875 % and the establishing of committed credit facilities amounting to CHF 260 m with four banks, for periods through to the end of 2012. This new loan, and available cash flow, enabled the short-term liability towards EOS HOLDING to be repaid.

Consequently, short-term liabilities have decreased by CHF 141 m.

Cash flow

Cash-flow before changes in working capital was CHF 76.8 m in 2006, compared with CHF 110.5 m in 2005. However, because of the development of our commercial business, working capital requirements increased by CHF 60.5 m, whereas this item decreased by CHF 15 m in 2005.

Reclassifications and restatements

The financial statements presented in 2005 have been subjected to restatements and reclassifications, resulting overall in an increase in net profit of KCHF 70 and a rise in shareholders' equity of KCHF 6,010. These corrections are described on page 20.

Consolidated profit and loss account

	Note	2006 KCHF	2005 *Restated* KCHF
Net turnover	1	1,892,510	1,343,980
Share of profit of joint ventures and associated companies	13,14	2,398	956
Other operating income	2	17,382	24,981
Total operating income		**1,912,290**	**1,369,917**
Energy purchases	3	(1,693,169)	(1,150,212)
Materials and services	4	(20,648)	(18,378)
Personnel expenses	5	(24,275)	(22,023)
Depreciation	6	(42,611)	(41,215)
Other operating expenses	7	(48,488)	(41,189)
Total operating expenses		**(1,829,191)**	**(1,273,017)**
Earnings before interest and tax (EBIT)		**83,099**	**96,900**
Share in profits of associated companies	8	7	7
Interest income	9	2,464	1,442
Net financial cost	9	(26,392)	(25,807)
Earnings before tax (EBT)		**59,178**	**72,542**
Income taxes	10	(11,347)	(14,214)
Net Group profit		**47,831**	**58,328**
- attributable to parent company shareholders		47,664	58,198
- attributable to minority shareholders		167	130

Consolidated balance sheet

	Note	31.12.2006	31.12.2005 *Restated*
		KCHF	KCHF
ASSETS			
Tangible fixed assets	11	546,842	554,063
Intangible fixed assets	12	261,689	274,892
Investments (joint ventures)	13	619,521	608,402
Investments (associated companies)	14	3,392	3,434
Other long-term financial assets	15	6,325	5,310
Total fixed assets		**1,437,769**	**1,446,101**
Inventory and work in progress	16	1,748	5,691
Receivables arising from deliveries and services	17	175,414	169,088
Other receivables and accruals	18	53,428	18,996
Cash and cash equivalents		78,556	86,598
Total current assets		**309,146**	**280,373**
Total assets		**1,746,915**	**1,726,474**
LIABILITIES			
Share capital	19	145,000	145,000
Additional contributions	19	37,935	37,935
Accumulated profits	19	584,903	554,261
Equity attributable to parent company		**767,838**	**737,196**
Equity attributable to minority shareholders		1,593	1,667
Total shareholders' equity		**769,431**	**738,863**
Long-term financial liabilities	20	571,737	438,264
Provisions	21	23,230	24,789
Employee benefits	22	11,719	13,015
Other long-term liabilities	23	14,870	17,590
Deferred tax liabilities	10	143,764	145,990
Total long-term liabilities		**765,320**	**639,648**
Short-term financial liabilities	20	16,822	157,948
Liabilities arising from purchases and services	24	126,849	108,343
Current tax payable		9,630	12,760
Other short-term liabilities and accruals	25	58,266	66,824
Provisions	21	597	2,087
Total short-term liabilities		**212,164**	**347,962**
Total liabilities		**977,484**	**987,610**
Total liabilities & shareholders' equity		**1,746,915**	**1,726,473**

Consolidated cash flow statement

	Note	2006 KCHF	2005 *Restated* KCHF
Earnings before interest and tax (EBIT)		**83,099**	**96,900**
Adjustments for :			
- Depreciation	6	42,611	41,215
- Gains and losses on disposals	2,7	32	(329)
- Variation in provisions		(4,345)	(1,465)
- Other items		(6,434)	(6,432)
Share in profits of joint ventures and associates	13,14	(2,398)	(956)
Dividends received from joint ventures and associates	13,14	3,704	3,715
Variation in working capital		(61,997)	15,192
Interest paid		(24,810)	(20,197)
Tax paid		(14,700)	(1,970)
Cash flow from operations		**14,762**	**125,673**
Tangible and intangible fixed assets			
- Investments	11,12	(22,945)	(24,283)
- Disposals		6,362	4,593
Acquisition of minority shareholders’ interests		(1,070)	(437)
Acquisition of a subsidiary		(20)	-
Associated companies and joint ventures			
- Investments	13,14	-	(224)
- Disposals / transfer of property rights		-	3,179
- Reimbursements	13	(14,703)	778
Other financial assets			
- Investments		(1,946)	-
- Dividends received		7	7
Financial loans granted and repaid		(548)	(83)
Interest received		1,611	948
Cash flow from investing activities		**(33,252)**	**(15,522)**
Other financial assets			
- Loans		125,000	70,847
- Reimbursements		(104,530)	(160,000)
Dividends paid		(10,150)	(20,299)
Dividends paid to minority shareholders		(106)	(114)
Cash flow from financing		**10,214**	**(109,566)**
Unrealized exchange rate differences		**234**	**30**
Decrease in cash and cash equivalents		**(8,042)**	**615**
Cash at the beginning of the period		86,598	85,983
Cash and cash equivalents at the end of the period		**78,556**	**86,598**

Consolidated statement of changes in equity

	Share capital	Additional contributions	Accumulated profits	Variation of financial instruments' revaluation	Currency translation	Total Group equity	Minority interests	Total shareholders' Equity
At 1.01.2005	**145,000**	**37,935**	**505,878**	**23,395**	**(11)**	**712,197**	**1,715**	**713,912**
Correction to provision discounting			6,010			6,010		**6,010**
Restated shareholders' equity	**145,000**	**37,935**	**511,888**	**23,395**	**(11)**	718,207	**1,715**	**719,922**
Change in fair value of financial instruments available for sale 1)				80		80		**80**
Convertible loan discounting effect 3)			4,395	(23,395)		(19,000)		**(19,000)**
Currency translation					11	11		**11**
Net profit for the year			58,198			58,198	130	**58,328**
Total income and expenses for the period			**62,593**	**(23,315)**	**11**	**39,289**	**130**	**39,419**
Acquisition of minority shares 2)						0	(65)	**(65)**
Dividends paid to minority shareholders						0	(113)	**(113)**
Dividends paid			(20,300)			(20,300)		**(20,300)**
At 31.12.2005	**145,000**	**37,935**	**554,181**	**80**	**0**	**737,196**	**1,667**	**738,863**
At 1.01.2006	**145,000**	**37,935**	**554,181**	**80**	**0**	**737,196**	**1,667**	**738,863**
Change in fair value of financial instruments available for sale 1)				(5)		(5)		**(5)**
Change in fair value of hedging instruments				(6,867)		(6,867)		**(6,867)**
Net profit for the year			47,664			47,664	167	**47,831**
Total income and expenses for the period			**47,664**	**(6,872)**		**40,792**	**167**	**40,959**
Acquisition of minority shares 2)						0	(135)	**(135)**
Dividends paid to minority shareholders						0	(106)	**(106)**
Dividends paid			(10,150)			(10,150)		**(10,150)**
At 31.12.2006	**145,000**	**37,935**	**591,695**	**(6,792)**	**0**	**767,838**	**1,593**	**769,431**

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

2) EES minority shares (1.183 % in 2006 and 0.563 % in 2005.)

3) Impact of the reversal discounting effect on non-interest-bearing convertible loans following their transfer to EOS HOLDING.

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 (part of Groupe Romande Energie Holding SA, Morges) 28.72 %
- Services Industriels de Genève (SIG), Geneva 23.02 %
- Groupe E SA, Fribourg 22.33 %
- Ville de Lausanne (SIL), Lausanne 20.06 %
- FMV SA , Sion 5.87 %

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 2006 accounting period were approved by the Board of Directors of EOS on 21 March 2007.

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) of the IASB.

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.

The following new standards, amendments to the standards and interpretations are mandatory for consolidated accounts for the financial year ending 31 December 2006 :

IAS 19 – Employee benefits

The Group decided not to take the option of accounting for all actuarial variances as they occur in the statement of income and expenses booked against shareholders' equity and is continuing to account for the depreciation of actuarial variances outside the corridor in the profit and loss account. Additional information to be disclosed concerning the defined benefits schemes must be given in the Annex ; the accounts have been restated as a result.

IAS 39 – "Fair value option" Amendment

This Amendment changes the definition of financial instruments in the fair-valued-through-profit-and-loss category and limits the possibility for classifying financial instruments in that category. The Amendment has no impact on the Group's consolidated accounts because the Group has not classified any financial instrument in that category.

IAS 39 – "Cashflow hedge accounting of forecast intragroup transactions" Amendment

This Amendment does not apply to the Group.

IAS 39 and IFRS 4 – "Financial guarantee contracts" Amendment

This Amendment does not apply to the Group.

IAS 21 – "Net investment in a foreign operation" Amendment

This Amendment does not apply to the Group.

IFRS 6 – Exploration for and evaluation of mineral resources

This Standard does not apply to the Group.

IFRIC 4 – Determining whether an arrangement contains a lease

The Group has reviewed its contracts. Some of them must be accounted for as leases in accordance with IAS 17 "Leases". However these are deemed to be simple leases and their accounting treatment has no impact on related expenses recognized in the accounts.

IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This Interpretation does not apply to the Group.

IFRIC 6 – Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

This Interpretation does not apply to the Group.

The following new standards, amendments to the standards and interpretations have been published but are not applicable to 2006 and have not been adopted ahead of time.

IFRS 7 – Financial Instruments : Disclosures & IAS 1 – Amendments re capital disclosure

Following the adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their size and nature and the extent of the risks they generate. More precisely, the Group will have to disclose the fair value of its financial instruments and details of its risk exposure. There will be no impact on published net assets and earnings. The Group will apply IFRS 7 and the IAS 1 Amendment as of 1 January 2007

IFRIC 7 – On applying the restatement approach under IAS 29

This Interpretation does not apply to the Group.

IFRIC 8 – Scope of IFRS 2

This Interpretation does not apply to the Group.

IFRIC 9 – Reassessment of embedded derivatives

This Interpretation does not apply to the Group.

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. 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.

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 fair value less costs to sell 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 useful lives, each element is accounted for separately and depreciated over its useful life.

The useful 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 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, is depreciated over a period of one to five years, starting from the time when it was 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 is 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 amortized 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.

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.

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.

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.

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.

ENERGY PRICE- RELATED RISKS

The energy trading business is exposed to risks from changes in the energy prices on the European wholesale markets. These risks arise from energy price on the spot and forward markets, from a change in price differentials between markets and products and from a possible deterioration 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 senior management. To that end, spot and forward deals are spread across portfolios that have exposure limits ; these limits are monitored daily by an independent Risk Management Department in the organization.

COUNTERPARTY RISKS

The majority of forward contracts on the European wholesale markets are over the counter arrangements with other market counterparties. These physical and financial contracts are only entered into with counterparties on the energy markets who meet strict financial criteria. A credit line is established for each counterparty, based on financial solidity. If the financial solidity of the counterparty is not adequate, the Group requires guarantees : bank guarantees from top-quality European banking establishments, joint guarantee from the parent company or cash margin calls calculated on the basis of the exposure. 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 or if necessary the amount of the guarantee obtained. .

INTEREST RATE RISKS

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.

FOREIGN EXCHANGE RISKS

Practically all the international energy trades are denominated in EUR. The Group is exposed to foreign exchange risks to the extent that there are differences between the amounts received and paid in EUR. These flows offset each other to a very large extent. In order to reduce its residual exposure to foreign exchange risk, the Group uses derivative financial instruments to moderate the effects of exchange rate variation.

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 validation of counterparties and their credit limits and the management of the limits of exposure to the price risk associated with the selling of energy for each portfolio are the responsibility of the Risk Management Committee, which applies the energy trading economic risk management policy established by the Board of Directors and its Audit Committee.

DERIVATIVE FINANCIAL INSTRUMENTS

The scope of application of derivative financial instruments has been defined by the Group in accordance with the provisions and principles of IAS 39.

In particular, forward purchase and sale contracts with physical delivery of energy or commodities are deemed to be excluded from the scope of application of IAS 39, if these contracts have been concluded as part of the "normal" business of the Group. This qualification is respected if the following conditions are met :

- systematic physical delivery ;
- the contracts cannot be assimilated to option sales within the meaning of the Standard. In the particular case of electricity sales contracts, the contract can be substantially assimilated to a fixed term sale or is likened to a capacity sale.

In accordance with the principles of IAS 39, the Group analyses all its contracts - whether financial or non-financial - in order to identify whether any derivative instruments are embedded. Any component in a contract that affects the flows of the contract concerned in a similar way to that of an autonomous financial derivative meets the definition of an embedded derivative.

If the conditions provided for in the Standard are met, an embedded derivative is recognised separately in the accounts, on the date on which the contract is established.

Derivative financial instruments are fair valued. Changes in the fair value of these derivatives are recorded in the profit and loss account unless designated as hedging instruments in a cash flow hedge. In the latter case, changes in the value of the hedging instruments are recognized directly under shareholders' equity, with the exception of the ineffective part of the hedges.

The Group uses derivative instruments to hedge its foreign exchange and interest rate risks as well as those connected with certain commodities contracts. The criteria adopted by the Group to define a derivative instrument as a hedging operation are those provided in IAS 39:

- the hedging operation must hedge the changes in the fair value or cash flows of the hedged item attributable to the hedged risk and the effectiveness of the hedge (degree of offsetting the changes in value of the hedging instrument with those of the item hedged or the future transaction) is within a range of 80 % to 125 % ;
- for cash flow hedging operations, the future transaction, the item hedged, must be highly probable ;
- the effectiveness of the hedge is measured reliably ;
- the hedging operation is supported by adequate documentation from its inception.

The Group uses the following types of hedge:

(a) Fair value hedge

This is a hedge of the exposure to changes in fair value of an asset or liability recognized in the balance sheet or a firm commitment to buy or sell an asset The change in fair value of the hedged item attributable to the hedged component is recognized in profit or loss and offset by mirror changes in fair value of the hedging instrument, with only the ineffective part of the hedge impacting earnings.

(b) Cash flow hedge

This is the hedging of future transactions that are highly probable where changes in the cash flow generated by the hedged item are offset by changes in the value of the hedging instrument.

Cumulative changes in fair value are recorded under shareholders' equity for the effective part and under profit or loss for the ineffective part (corresponding to the surplus from variability in the value of the hedging instrument compared with the change in fair value of the hedged item). When the cash flow hedged materialises, the amounts recorded up to that point under shareholders' equity are placed in the profit and loss account, mirroring the hedged item flows.

The hedging relationship comes to an end when

- a derivative instrument ceases to be an effective hedging instrument ;
- a derivative instrument reaches maturity, is sold, cancelled or exercised ;
- the hedged item has reached maturity, has been sold or repaid ;
- A future transaction is no longer considered to be highly probable.

RECLASSIFICATIONS AND RESTATEMENTS

Reclassification of the Group’s share of the profit of joint ventures and associated companies

As of 2006, the Group decided to present its share of the results of joint ventures and associated companies in a special line under operating income. Previously, these results appeared under "income from financial assets" for the share of the profit from associated companies and under "energy purchases" for profit from joint ventures.

In order to provide a better comparison, the figures for 2005 have therefore been reclassified without impacting Group net profit.

Restatement of CNP (CENTRALES NUCLÉAIRES EN PARTICIPATION) accounts

Until 31 December 2005, the sums under provisions in the CNP joint venture accounts was calculated in economic terms as objectively as possible, but without taking into account the time effect. The time effect is significant, given that these provisions have maturities of between 1 and 10 years. This therefore represents a significant error within the meaning of IAS 8, and in accordance with this Standard, the accounts have been restated retrospectively, i.e. to 1 January 2005.

The 3.5 % discount rate impacted consolidated shareholders’ equity by KCHF 6,010 at 1 January 2005, impacted the level of investments in joint ventures by KCHF 7,851 at 31 December 2005, and deferred taxes by KCHF 1,772. Consolidated earnings for 2005 were also corrected by KCHF 70.

Scope of consolidation

	Registered office	Capital	Activity	Control 2006	Control 2005	Interest 2006	Interest 2005
SUBSIDIARIES							
Energie Electrique du Simplon SA	Simplon-Dorf	8,000	P	80.0 1)	78.8 2)	80.0 1)	78.8 2)
Centrale Thermique de Vouvry SA	Vouvry	1,000	P	95.0	95.0	95.0	95.0
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 3)	31.8 3)	72.7	72.7
Forces Motrices Hongrin-Léman SA	Château-d'Oex	30,000	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	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
Forces Motrices de Martigny-Bourg SA 5)	Martigny	3,000	P	18.0	18.0	18.0	18.0
Centrale Nucléaire de Leibstadt SA 5)	Leibstadt	450,000	P	5.0	5.0	5.0	5.0
Forces Motrices de Fully 4)	Fully	800	P	28.0	28.0	28.0	28.0
ASSOCIATED COMPANIES							
Etrans SA 5)	Laufenburg	7,500	T	14.5	14.5	14.5	14.5
Swissgrid SA 5)	Laufenburg	15,000	T	13.9	13.9	13.9	13.9

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

1) Acquisition in 2006 of 1.183 % of EES shares at arm's length price.
2) Acquisition in 2005 of 0.563 % of EES shares at arm's length price.
3) Simple partnership 68.2 % owned by GRANDE DIXENCE SA.
4) Company incorporated 1 July 2005 by contribution in kind.
5) 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.

1 NET TURNOVER

	2006	2005
Energy sales and transmission to		
- Third parties	1,254,305	797,174
- Shareholders	582,893	484,660
- Joint ventures and associated companies	31,428	23,152
- Other related parties	20	31
Profit on trading operations	23,864	38,963
	1,892,510	**1,343,980**
Electricity trading activity		
Sales	2,451,252	1,121,416
Purchases	(2,418,125)	(1,085,119)
Adjustments for contracts open at the end of the period	(9,263)	2,666
Profit on trading operations	**23,864**	**38,963**

2 OTHER OPERATING INCOME

	Note	2006	2005
Capitalized costs	11,12	4,902	4,711
Changes in work in progress		(665)	2,230
Gains on sales of tangible and intangible fixed assets		278	-
Gains on sales of joint ventures and associated companies		-	1,466
Release of provisions	22	239	635
Other operating income from			
- Third parties		5,785	11,673
- Shareholders		3,393	1,889
- Non-consolidated companies		-	12
- Joint ventures and associated companies		1,689	1,782
- Other related parties		1,761	583
		17,382	**24,981**

3 ENERGY PURCHASES

	2006	2005
Energy purchases from		***Retraité***
- Third parties	(1,280,787)	(791,119)
- Shareholders	(185,645)	(135,412)
- Joint ventures	(226,737)	(223,681)
	(1,693,169)	**(1,150,212)**

4 MATERIALS AND SERVICES

	2006	2005
Materials and services acquired from		
- Third parties	(8,711)	(7,730)
- Shareholders	(1,886)	(536)
- Non-consolidated companies	-	(704)
- Joint ventures and associated companies	-	(636)
- Other related parties	(10,051)	(8,772)
	(20,648)	**(18,378)**

5 Personnel expenses

	Note	2006	2005
Wages, salaries, other		(18,562)	(17,535)
Pension costs	22	(759)	-
Voluntary pension payments	22	(49)	(1,170)
Other social security costs		(2,970)	(2,285)
Other staff costs		(1,935)	(1,033)
		(24,275)	**(22,023)**

On the balance sheet date, the Group had 160 full time equivalent employees (previous year 159).

6 Depreciation

	Note	2006	2005
Ordinary depreciation of			
- Tangible fixed assets	11	(22,001)	(20,695)
- Intangible fixed assets	12	(20,610)	(20,520)
		(42,611)	**(41,215)**

7 Other operating expenses

	2006	2005
Royalties and special tax on hydro power	(9,969)	(9,273)
Pumping and restoration power	(645)	(484)
Disbursements, travel and entertainment expenses	(1,311)	(1,242)
Insurance	(1,055)	(1,025)
Capital tax and other taxes	(4,157)	(4,121)
Administrative expenses paid to		
- Third parties	(13,051)	(10,435)
- Shareholders	(1,501)	(125)
- Non-consolidated companies	-	(192)
- Joint ventures and associated companies	(1,398)	(1,276)
- Other related parties	(12,017)	(9,840)
Other operating expenses paid to		
- Third parties	(2,625)	(1,612)
- Shareholders	(449)	(425)
- Non-consolidated companies	-	(2)
Losses on sales of tangible and intangible fixed assets	(310)	-
Losses on disposal of joint ventures and associates	-	(1,137)
	(48,488)	**(41,189)**

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

8 INCOME FROM OTHER FINANCIAL ASSETS

	2006	2005
Other investment income	7	7
	7	**7**

9 NET FINANCIAL COSTS

	Note	2006	2005
Interest income		2,464	1,442
Interest income		**2,464**	**1,442**
Interest costs		(25,080)	(25,138)
Exchange rate differences, net		(566)	(541)
Bank charges, commission, other		(746)	(128)
Financial costs		**(26,392)**	**(25,807)**
Components of interest income			
Interest from loans to			
- Third parties		502	68
- Shareholders		88	2
- Non-consolidated companies		426	4
- Joint ventures and associated companies		6	281
- Other related parties		-	3
Interest income from cash and cash equivalents		692	436
Capitalized interest	11,12	732	648
Variation of fair value of other derivative financial instruments	26	18	-
		2,464	**1,442**
Components of interest costs			
Interest on bonds		(13,464)	(12,411)
Interest on bank financing and mortgages		(769)	(1,104)
Interest on other borrowings from			
- Third parties		(4,967)	(4,430)
- Shareholders		(4,849)	(5,584)
- Non-consolidated companies		-	(1)
- Joint ventures and associated companies		(12)	(7)
- Other related parties		(86)	(20)
Impact of discounting of provisions and other long-term liabilities	21	(923)	(1,012)
Variation of fair value of other derivative financial instruments	26	(10)	(569)
		(25,080)	**(25,138)**

10 TAXES

	2006	2005 *Restated*
Income tax		
Current tax	(11,571)	(12,089)
Deferred tax	224	(2,125)
	(11,347)	**(14,214)**
Components of current tax		
Tax on profits of the period	(11,571)	(12,093)
Tax resulting from prior periods	-	4
	(11,571)	**(12,089)**
Components of deferred tax		
Equity accounted holdings	352	671
Tangible fixed assets	161	161
Intangible fixed assets	(232)	(232)
Other assets	11	(85)
Provisions	(74)	(1,748)
Other liabilities	6	(892)
	224	**(2,125)**
Breakdown of tax charge		
Group average tax rate	22.52%	22.56%
Group earnings before tax (EBT)	60,111	72,542
Income tax at the Group’s average rate	(13,539)	(16,366)
Income and expenses with no tax impact	2,080	2,150
Other	112	2
	(11,347)	**(14,214)**

	31.12.2006	31.12.2005 *Retraité*
Deferred tax recorded in the balance sheet		
Deferred tax liabilities	(143,764)	(145,990)
	(143,764)	**(145,990)**
Components of deferred tax recorded in the balance sheet		
Equity accounted holdings	(50,762)	(51,114)
Tangible fixed assets	(5,846)	(6,007)
Intangible fixed assets	548	780
Other assets	(3,865)	(3,876)
Provisions	335	409
Other liabiities	(386)	(392)
Shareholders’ equity	1,979	(23)
Special contributions	(85,767)	(85,767)
	(143,764)	**(145,990)**
Deferred tax on expenses and income recognised in shareholders’ equity		
Fair value of available-for-sale financial instruments	(22)	(23)
Fair value of financial hedging instruments	2,001	-
	1,979	**(23)**

11 TANGIBLE FIXED ASSETS

	Buildings and land	Production facilities	Transmission facilities	Other	Current projects	Total
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)**	**-**	**(615,477)**
Ordinary depreciation	(673)	(3,311)	(14,100)	(2,611)	-	(20,695)
Impairment	-	-	-	-	-	0
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**
Gross amounts at 01.01.2006	**81,756**	**415,531**	**614,671**	**58,939**	**10,945**	**1,181,842**
Investments	-	-	123	277	17,095	17,495
Capitalized costs	-	-	-	-	2,781	2,781
Capitalized interest	-	-	-	-	600	600
Disposals	-	(1,024)	(1,183)	(76)	(4,979)	(7,262)
Transfers	250	2,208	8,979	1,539	(12,976)	0
Depreciation	-	-	-	-	(7)	(7)
Gross amounts at 31.12.2006	**82,006**	**416,715**	**622,590**	**60,679**	**13,459**	**1,195,449**
Accumulated depreciation at 01.01.2006	**(20,214)**	**(322,705)**	**(236,710)**	**(48,150)**	**0**	**(627,779)**
Ordinary depreciation	(723)	(3,778)	(15,157)	(2,336)	-	(21,994)
Disposals	-	714	376	76	-	1,166
Accumulated depreciation at 31.12.2006	**(20,937)**	**(325,769)**	**(251,491)**	**(50,410)**	**0**	**(648,607)**
Net amounts at 31.12.2006	**61,069**	**90,946**	**371,099**	**10,269**	**13,459**	**546,842**

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 686 m (CHF 724 m the previous year).

Capitalised interest is computed at an interest rate of 4 % (4 % in 2005).

12 INTANGIBLE FIXED ASSETS

	Acquired rights of use	Energy drawing rights	Other	Current projects	Total
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 at 01.01.2005	**(15,127)**	**(573,281)**	**(3,194)**	**-**	**(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**
Gross amounts at 01.01.2006	**38,473**	**835,096**	**9,453**	**3,992**	**887,014**
Change in scope of consolidation	-	-	3	-	3
Investments	-	-	-	5,450	5,450
Capitalized costs	-	-	-	2,121	2,121
Capitalized interest	-	-	-	132	132
Disposals	(898)	-	-	(35)	(933)
Transfers	667	-	5,307	(5,974)	0
Depreciation	-	-	-	(420)	(420)
Gross amounts at 31.12.2006	**38,242**	**835,096**	**14,763**	**5,266**	**893,367**
Accumulated depreciation at 01.01.2006	**(15,943)**	**(591,531)**	**(4,648)**	**0**	**(612,122)**
Change in scope of consolidation	-	-	(2)	-	(2)
Ordinary depreciation	(786)	(18,249)	(1,155)	-	(20,190)
Disposals	636	-	-	-	636
Accumulated depreciation at 31.12.2006	**(16,093)**	**(609,780)**	**(5,805)**	**0**	**(631,678)**
Net amounts at 31.12.2006	**22,149**	**225,316**	**8,958**	**5,266**	**261,689**

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 % (4 % en 2005).

13 INVESTMENTS IN JOINT VENTURES

	Note	31.12.2006	31.12.2005 *Restated*
Investments in joint ventures		619,521	608,402
Liabilities towards joint ventures	23	(270)	(2,590)
		619,251	**605,812**

	Grande Dixence SA and Cleuson-Dixence 1)	**Other joint ventures assets 2)** *Restated*	**Other joint ventures liabilities 2)**	**Total**
Net amounts at 01.01.2005	**447,276**	**167,272**	**(5,395)**	**609,153**
Investment	-	224	-	224
Group share of profit 3)	(3,287)	201	3,818	732
Reimbursement	(778)	-	-	(778)
Dividends	-	(2,507)	(1,012)	(3,519)
Net amounts at 31.12.2005	**443,211**	**165,190**	**(2,589)**	**605,812**
Net amounts at 01.01.2006	**443,211**	**165,190**	**(2,589)**	**605,812**
Investment	14,703		-	14,703
Group share of profit 3)	(2,316)	4,572	-	2,256
Reimbursement	-	-	-	0
Dividends	-	(3,520)	-	(3,520)
Transfer 4)	-	(2,319)	2,319	0
Net amounts at 31.12.2006	**455,598**	**163,923**	**(270)**	**619,251**

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.

Similarly, 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.

Because of its legal status, 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.

2) 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.

3) The Group has decided to present its share of profit from joint ventures in the "share of profits of joint ventures and associates" under operating income instead of in "energy purchases". In order to give a better comparison, the 2005 figure of KCHF 732 has therefore been reclassified.

4) The equity holding in KERNKRAFTWERK LEIBSTADT AG was recognized as an asset on 31 December 2006.

GRANDE DIXENCE SA AND CLEUSON-DIXENCE CONSOLIDATED KEY FIGURES

	Gross amounts 2006	Gross amounts 2005	Group share 2006	Group share 2005
Tangible fixed assets	1,428,435	1,385,745	991,631	960,361
Intangible fixed assets	11,143	8,476	8,104	8,476
Financial assets	20,291	20,543	12,555	12,328
Current assets	5,298	22,928	3,330	13,953
Long-term liabilities	(713,543)	(738,167)	(428,126)	(442,900)
Short-term liabilities	(217,768)	(180,605)	(131,896)	(109,007)
Net assets	**533,856**	**518,920**	**455,598**	**443,211**
Income from joint ventures	132,841	131,834	81,387	89,107
Operating expenses and other operating income	(140,122)	(141,857)	(83,703)	(92,394)
Net result 1)	**(7,281)**	**(10,023)**	**(2,316)**	**(3,287)**

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. Bringing the plant back into service will require the complete reconstruction of the pressure shaft lining and other work amounting to an investment of about CHF 365 m before building loan interests. The design and engineering work involved started in 2004 and should be completed in 2010. 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 appropriate damages. 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) The Group has decided to present its share of profit from the joint ventures in "share of profits of joint ventures and associated companies" under operating income instead of under "energy purchases". The corporate financial statements of the joint ventures do not show a deficit.

KEY FIGURES FOR OTHER JOINT VENTURE ASSETS

	Gross amounts 2) 2006	**Gross Amounts 2005 *Restated***	**Group share 2006**	**Group Share 2005 *Restated***
Tangible assets	2,305,468	488,287	260,402	169,758
Intangible assets	472,215	525,592	157,403	175,196
Financial assets	947,052	3,257	47,438	1,105
Current assets	274,536	116,369	35,803	39,112
Long-term liabilities	(3,225,151)	(505,266)	(293,625)	(172,154)
Short-term liabilities	(270,865)	(144,820)	(43,904)	(48,233)
Goodwill acquired by the Group	-	-	406	406
Net assets	**503,255**	**483,419**	**163,923**	**165,190**
Income from joint ventures	817,678	349,639	133,315	116,297
Operating expenses and other operating income	(723,009)	(347,889)	(128,743)	(116,096)
Amortisation of goodwill acquired by the Group	-	-	-	-
Negative goodwill acquired by the Group	-	-	-	-
Net profit 1)	**94,669**	**1,750**	**4,572**	**201**

KEY FIGURES FOR OTHER JOINT VENTURE LIABILITIES

	Gross amounts 2006	**Gross amounts 2005**	**Group share 2006**	**Group share 2005**
Tangible assets	-	1,980,715	-	99,036
Financial assets	-	818,972	-	40,949
Current assets	8	208,807	2	10,442
Long-term liabilities	(878)	(2,826,251)	(263)	(141,532)
Short-term liabilities	(30)	1,980,715	(9)	99,036
Net assets	**(900)**	**(47,282)**	**(270)**	**(2,589)**
Income from joint ventures	5	445,734	2	22,287
Operating expenses and other operating income	(5)	(369,362)	(2)	(18,469)
Net profit (loss) 1)	**0**	**76,372**	**0**	**3,818**

1) The Group has decided to present its share of profit from the joint ventures in "share of profits of joint ventures and associated companies" under “operating income” instead of under "energy purchases". The corporate financial statements of the joint ventures do not show a deficit.

2) At 31 December 2005, the restated equity of KERNKRAFTWERK LEIBSTADT AG was negative, but at 31 December 2006 it had become positive ; the gross value of the Group’s share of this company has therefore been reclassified under the key figures of joint ventures - assets at 31 December 2006.

14 INVESTMENTS IN ASSOCIATED COMPANIES

	31.12.2006	31.12.2005
Movements		
Net amount at the beginning of the period	3,434	6,245
Group share of profit	142	224
Disposals	-	(2,850)
Dividends	(184)	(196)
Currency translation	-	11
Net amount at the end of the period	**3,392**	**3,434**

KEY FIGURES

	Group share 2006	Group share 2005
Tangible assets	1,061	1,613
Intangible assets	2,616	1,537
Current assets	7,522	7,085
Long-term liabilities	(3,197)	(3,920)
Short-term liabilities	(4,610)	(2,881)
Net assets	**3,392**	**3,434**
Operating profit	7,335	5,859
Operating profit (EBIT)	289	351
Net profit	**142**	**204**

15 OTHER FINANCIAL ASSETS

	31.12.2006	31.12.2005
Other investments	2,215	276
Long-term loans to		
- Joint ventures and associated companies	4,110	5,034
	6,325	**5,310**

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

16 INVENTORY AND WORK IN PROGRESS

	31.12.2006	31.12.2005
Goods and materials	58	67
Work in progress	1,690	5,624
	1,748	**5,691**

17 RECEIVABLES ARISING FROM DELIVERIES AND SERVICES

	31.12.2006	31.12.2005
Receivables from		
- Third parties	107,051	87,628
- Shareholders	66,373	78,857
- Joint ventures and associated companies	4,142	2,955
- Other related parties	576	148
Bad debt provision	(2,728)	(500)
	175,414	**169,088**

18 OTHER RECEIVABLES AND ACCRUALS

	Note	31.12.2006	31.12.2005
VAT, withholding tax and other refundable tax		7,374	211
Pension fund receivables		204	113
Prepaid benefits and services		35	114
Derivative financial assets	26	-	2,572
Accrued interest from			
- Joint ventures and associated companies		193	90
Short-term loans (advances) to			
- Third parties		1	82
- Shareholders		8,239	-
- Joint ventures and associated companies		11,627	3,504
- Other related parties		871	896
Other receivables and accruals from			
- Third parties		17,394	8,455
- Shareholders		17	-
- Joint ventures and associated companies		7,473	2,956
- Other related parties		-	3
		53,428	**18,996**

19 EQUITY

SHARE CAPITAL

At 31 December 2006, 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 100.00.

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

In 2006, EOS paid out of the balance sheet profit a dividend of CHF 7.00 for a total of KCHF 10,150. In 2005, EOS had paid a dividend of CHF 14.00 per share for a total of KCHF 20,300.

20 FINANCIAL LIABILITIES

	31.12.2006	31.12.2005
Long-term financial liabilities	571,737	438,264
Short-term financial liabilities	16,822	157,948
	588,559	**596,212**

	Effective rate	Term	Fair value 2006	Fair value 2005	31.12.2006	31.12.2005
Bonds						
- CHF 300 m at 4 %, due 10.09	4.20%	1998-2009	306,625	316,203	298,693	298,264
- CHF 125 m at 2.875 %, due 09.14	3.12%	2006-2014	124,105	-	123,044	-
Borrowings from financial institutions						
- Bank	5.00%	2000-2007	10,110	10,360	10,000	10,000
- Bank	4.34%	2000-2008	10,142	10,449	10,000	10,000
- Bank	3.05%	2006-2021	10,069	-	10,000	-
- Bank 1)	Libor 1M	2005-2011	10,000	-	10,000	-
- Insurance	3.54%	1998-2008	110,827	113,532	110,000	110,000
- Insurance	4.44%	2000-2010	10,425	10,825	10,000	10,000
Other debts towards						
- Third parties		A vue	58	5,056	58	5,056
- Shareholders			-	152,057	-	152,057
- Joint ventures and associates		A vue	638	835	638	835
- Other related parties			6,126	-	6,126	-
Total financial liabilities			**599,125**	**619,317**	**588,559**	**596,212**

1) These are committed credit facilities, at a variable rate of short-term interest, which may be taken up or repaid at any time by the Group until they expire. The interest rates were fixed again on 18 December 2006. Given that the expiry dates of the confirmed lines of credit are more than 1 year, they are stated under "Long-term financial liabilities".

The Group had confirmed committed credit facilities with various banks for a total of CHF 260 m at 31 December 2006.

	Total	Maturities < 1 year	Maturities 1-5 years	Maturities > 5 years
Committed credit facilities	260,000		120,000	140,000

21 PROVISIONS

	Note	31.12.2006	31.12.2005
Long-term provisions		23,230	24,789
Short-term provisions		597	2,087
		23,827	**26,876**

	Dismantling	Other	Total
At 01.01.2005	**23,898**	**2,807**	**26,705**
Allocations	-	891	891
Appropriations	-	-	0
Released provisions	-	(720)	(720)
At 31.12.2005	**23,898**	**2,978**	**26,876**
At 01.01.2006	**23,898**	**2,978**	**26,876**
Allocations	-	860	860
Appropriations	-	(2,350)	(2,350)
Released provisions	(668)	(891)	(1,559)
At 31.12.2006	**23,230**	**597**	**23,827**

The dismantling provision is earmarked for the dismantling of the CENTRALE THERMIQUE DE VOUVRY SA facility. As long as no definitive decision has been taken about the restoration of the site, the dismantling of the plant has been indefinitely deferred

The other provisions cover risks connected with the operation of our facilities. The costs of repair work to the Fully power plant make up most of the sums mentioned under this heading. The Fully power plant was restored in the course of 2006.

22 EMPLOYEE BENEFITS

	Pensions	Early retirement	Voluntary pensions	Total
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**
At 01.01.2006	**3,223**	**2,740**	**7,052**	**13,015**
Contributions paid	(1,760)	-	(738)	(2,498)
Net cost stated in profit and loss account	759	633	49	1,441
Released provisions	-	(239)	-	(239)
At 31.12.2006	**2,222**	**3,134**	**6,363**	**11,719**

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.

	31.12.2006	31.12.2005
Reconciliation of scheme liabilities		
Discounted value of pension liability at the start of the period	199,304	202,350
Interest costs	6,820	7,083
Current service cost	1,307	1,307
Contributions of plan members	887	971
Current benefits	(11,087)	(10,767)
Actuarial gains / (losses)	8,792	(1,640)
Discounted value of pension liability at the end of the period	**206,023**	**199,304**

	31.12.2006	31.12.2005
Reconciliation of scheme assets		
Fair value of assets at the start of the period	205,098	180,116
Expected return on assets	10,045	9,006
Employer's contributions	1,760	1,457
Contributions of plan members	887	971
Current benefits	(11,087)	(10,767)
Actuarial gains / (losses)	9,875	24,315
Fair value of assets at the end of the period	**216,578**	**205,098**

	31.12.2006	31.12.2005
Effective return on scheme assets		
Expected return on assets	10,045	9,006
Actuarial gains / (losses) on scheme assets	9,875	24,315
Effective return on scheme assets	**19,920**	**33,321**

Pension liabilities stated in the balance sheet	31.12.2006	31.12.2005
Discounted value of pension liability	(206,023)	(199,304)
Fair value of pension plan assets	216,578	205,098
Asset surplus/(shortfall)	10,555	5,794
Unrecognized actuarial gains and losses	(9,846)	(8,394)
Assets not recognised due to asset ceiling imposed by § 58 (b) of IAS 19	(2,931)	(623)
Asset surplus/(shortfall) recognized in accounts	**(3,180)**	**(5,206)**
of which recognised in balance sheet assets	(2,222)	(3,223)

The CPE rate of coverage, calculated in accordance with current Swiss accounting rules, was 123.8 % at 31 December 2006 (2005 : 117.5 %).

Pension charges recognized in the profit and loss account	31.12.2006	31.12.2005
Current service cost	1,307	1,307
Interest cost	6,820	7,083
Expected return on pension plan assets	(10,045)	(9,006)
Recognized actuarial gains (losses) (§ 58A)	370	(533)
Limitation effect § 58(b)	2,308	623
Net cost of Group pension liability	**760**	**(526)**

The Group expects to pay contributions amounting to KCHF 1,760 to the CPE in 2007.

Scheme asset components	31.12.2006	31.12.2005
Equity instruments – Third parties	107,260	104,395
Debt instruments – Third parties	69,637	62,145
Fixed assets neither occupied nor used	29,111	25,842
Other	10,570	12,716
Total scheme asset components	**216,578**	**205,098**

Actuarial assumptions	31.12.2006	31.12.2005
Discount rate	3.50%	3.50%
Expected rate of return on scheme assets	5.00%	5.00%
Future salaries increase	1.50%	1.50%
Future pensions increase	1.00%	1.00%
Actuarial variance record	**31.12.2006**	31.12.2005
Discounted value of pension fund liabilities according to assumptions at 1st January	**(206,023)**	(199,304)
Adjustment of liabilities according to experience	**(8,792)**	(1,640)
Fair value of fund assets according to assumptions at 1st January	**216,578**	205,098
Adjustment of fund assets according to experience	**9,875**	24,315

23 OTHER LONG-TERM LIABILITIES

	Note	31.12.2006	31.12.2005
Liabilities due to joint ventures	13	270	2,590
Financial option in favour of a shareholder	27	14,600	15,000
		14,870	**17,590**

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 2006, KCHF 1,720 of the liability was appropriated, KCHF 397allocated to it and the discounting impact, which appears in financial costs, amounted to KCHF 923 (KCHF 1,012 in 2005).

24 LIABILITIES ARISING FROM PURCHASES AND SERVICES

	31.12.2006	31.12.2005
Liabilities due to		
- Third parties	108,172	88,837
- Shareholders	7,916	15,524
- Non-consolidated companies	-	507
- Joint ventures and associated companies	7,037	2,193
- Other related parties	3,724	1,282
	126,849	**108,343**

25 OTHER SHORT-TERM LIABILITIES AND ACCRUALS

	Note	31.12.2006	31.12.2005
VAT, advance tax and other tax payable		152	2,940
Liabilities in respect of pension institutions		-	3
Salaries and other social security costs payable		716	384
Overtime and holidays payable		933	1,082
Derivative instruments (liabilities)	26	15,651	569
Accrued interest owed to			
- Third parties		13,751	12,887
Other debt and transitional amounts owed to			
- Third parties		23,262	24,773
- Shareholders		1,089	5,142
- Joint ventures and associates		437	3,065
- Other related parties		2,275	15,979
		58,266	**66,824**

26 DERIVATIVE INSTRUMENTS

ENERGY TRADING CONTRACTS

	Positive amounts	Negative amounts	Net amounts
Forward contracts	82,800	(89,467)	(6,667)
Option contracts	9,620	-	9,620
Capacity contracts	515	(896)	(381)
Transactions open at 31.12.2005	**92,935**	**(90,363)**	**2,572**
Forward contracts	58,055	(56,304)	1,751
Option contracts	-	(4,591)	(4,591)
Capacity contracts	-	(2,286)	(2,286)
Futures	-	(571)	(571)
Green energy	-	(994)	(994)
Transactions open at 31.12.2006	**58,055**	**(64,746)**	**(6,691)**

CASH FLOW HEDGE

The Group hedges future cash flows connected with predicted electricity gas and CO_2 sales and purchases.

In 2006, the impact of the commodities derivatives accounted for under shareholders' equity, was KCHF 6,866 after deferred tax.

	Positive amounts	Negative amounts	Net amounts
Gas swaps	-	(8,167)	(8,167)
CO_2 swaps	-	(793)	(793)
Transactions open at 31.12.2006	**-**	**(8,960)**	**(8,960)**

OTHER DERIVATIVE FINANCIAL INSTRUMENTS

In general, the Group uses derivative instruments in order to hedge its financial risk exposure rather than for speculative purposes. The interest rate derivatives, which are an economic hedge but do not come under IFRS hedge accounting rules, are measured at fair value and the changes in fair value are recognized in the profit and loss account.

	Positive amounts	Negative amounts	Net amounts
Interest rate swap bonds 25 million	-	(154)	(154)
Interest rate swap bonds 50 million	-	(415)	(415)
Transactions open at 31.12.2005	**0**	**(569)**	**(569)**
CAP purchases	18	(10)	8
Transactions open at 31.12.2006	**18**	**(10)**	**8**

27 RELATED PARTY TRANSACTIONS

SHAREHOLDERS

The EOS HOLDING 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 signed with its “shareholder-clients” (Groupe E, 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 financial continuity of the company under a long-term plan approved by its shareholders.

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. These receivables were passed to EOS HOLDING, which converted them to share capital in 2005.

Under the other agreement, 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. This supply option is deemed to be a purchasing right granted to the “shareholder-clients” that will only enter in force when the right is exercised ; the latter depends on future market conditions and will only be extinguished by the physical delivery of the electricity. Where applicable, the cumulative difference accrued over the years between EOS's average sale price and the average cost of production for the electricity drawn, will impact those financial years in which it occurs and 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.

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 significant 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 natural water inflows. 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 2006, the financial option was estimated to be CHF 14.6 m (CHF 15 m at 31.12.2005); it is recorded under other long-term liabilities and is set out in Note 23.

***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, AVENIS and EOS TRADING. EOS HOLDING also makes a financial contribution to the Group.

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

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

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

In mid-2003, HYDRO EXPLOITATION SA took over the operating staff of the Group's hydro power plants and the maintenance and operation of these plants. CLEUSON-DIXENCE CONSTRUCTION SA (CDC) and CISEL INFORMATIQUE SA have been awarded contracts. 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 remuneration of CHF 1.3 m during the period under review (CHF 1.2 m the previous year). The Executive Management received remuneration amounting to CHF 3.2 m (CHF 2.7 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	31.12.2006	31.12.2005
• Tangible fixed assets (production facilities)	11	90,946	96,826
• Intangible fixed assets (energy usage and drawing rights)	12	247,465	266,095
• Joint ventures	13	619,251	605,812

29 FUTURE LIABILITIES AND CONTINGENT LIABILITIES

The changes in French legislation governing the sustainable management of radioactive materials and waste have caused our French partner to claim that a sum of between CHF 0 and 30 m is due between now and 2011. However, there is no definite liability so far and no debt has been recognized by the Group.

Apart from the above point, the Group has no commitments other than those given under relations with joint ventures (Note 13).

30 PÔLE SUISSE OCCIDENTALE (PSO) PROJECT

The purchase of the 55.6 % UBS stake in MOTOR-COLUMBUS by a majority-Swiss consortium was completed on 23 March 2006. The consortium is composed of the Swiss minority shareholders of ATEL (a group comprising Ibaarau, EBM (ELEKTRA BIRSECK, MÜNCHENSTEIN), EBL (ELEKTRA BASELLAND, LIESTAL), Canton of Solothurn, WWZ (WASSERWERKE ZUG AG) and AIL (AZIENDE INDUSTRIALI DI LUGANO SA), ATEL, EOS HOLDING and EDF ALPES INVESTISSEMENTS.

Following the conclusion of the share purchase agreements, MOTOR-COLUMBUS had to make a public offer to the shareholders of ATEL, and a share exchange offer was made on 27 July 2006. On 4 September 2006, AEM Milan lodged an appeal in the Swiss Federal Supreme Court against the decision of the Swiss Federal Banking Commission concerning the filing of the share exchange offer on 27 July 2006. AEM Milan was of the opinion that this public share exchange offer did not comply with stock exchange rules. The Federal Supreme Court dismissed the AEM appeal on the 27th of February 2007.

The ATEL/MOTOR-COLUMBUS reorganization with a view to establishing a holding company, which had been announced for the beginning of 2007, has not been taken place. The business combination then planned for ATEL/MOTOR-COLUMBUS and EOS, and possibly including EDF's Swiss operation, has thus been delayed. It is still intended to complete this merger towards the end of 2007 and to be able to launch the new company, as planned, at the start of 2008. However, at this stage there is no guarantee that the timetable will be respected.

After the merger, the shareholders should be as follows : EOS HOLDING and the consortium of minority shareholders with 30 % each, EDF ALPES INVESTISSEMENTS 25 %, AEM Milan and the small shareholders 15 %.

31 EVENTS AFTER THE BALANCE SHEET DATE

None.

ERNST & YOUNG

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To the general meeting of

Energie Ouest Suisse (EOS), Lausanne

Lausanne, March 21, 2007

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, 2006.

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

4. 2006 Corporate financial statements

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

Profit and loss account

	31.12.2006 KCHF	31.12.2005 KCHF
Net turnover	1,865,649	1,292,370
Other operating income	16,071	18,822
Total operating income	**1,881,720**	**1,311,192**
Energy purchases	(1,682,592)	(1,111,359)
Materials and services	(14,643)	(12,944)
Personnel expenses	(24,121)	(23,132)
Depreciation	(44,854)	(43,768)
Other operating expenses	(40,611)	(34,330)
Total operating expenses	**(1,806,821)**	**(1,225,533)**
Earnings before interest and tax (EBIT)	**74,899**	**85,659**
Financial income	7,268	7,938
Interest costs	(24,075)	(20,172)
Total net financial cost	**(16,807)**	**(12,234)**
Earnings before tax (EBT)	**58,092**	**73,425**
Income tax	(10,963)	(11,487)
Profit before exceptional income and charges	**47,129**	**61,938**
Extraordinary income		
from realization of assets	1,080	3,092
Exceptional drawdown of provisions	4,641	49,305
Other exceptional income	0	9
Total exceptional income	**5,721**	**52,406**
Exceptional appropriations to provisions	-	(5,166)
Other exceptional expenses	(63)	(616)
Total exceptional expenses	**(63)**	**(5,782)**
Net profit	**52,787**	**108,562**

Proposed appropriation of balance sheet profit

	2006 kCHF	2005 kCHF
Carry forward at beginning of period	163,547	65,135
Profit for the period	52,787	108,562
Balance sheet profit	**216,334**	**173,697**
Dividend CHF -.- per share	-	(10,150)
(CHF 7.- per share in 2005)		
Balance carried forward	**216,334**	**163,547**

Balance sheet

	31.12.2006 kCHF	31.12.2005 kCHF
ASSETS		
Plants in operation	649,445	668,867
Buildings	51,005	51,451
Current projects	40,327	8,826
Total tangible fixed assets	**740,777**	**729,144**
Third party energy usage and energy drawing rights etc.	249,893	269,552
Other tangible fixed assets	8,958	4,805
Projects under development	5,114	3,992
Total intangible fixed assets	**263,965**	**278,349**
Shareholdings	318,368	315,333
Loans to Group companies	4,110	5,034
Total financial assets	**322,478**	**320,367**
Total fixed assets	**1,327,220**	**1,327,860**
Work in progress and services to be charged	1,690	5,624
Receivables from sales and services to :		
Clients	89,721	72,612
Related companies / shareholders	66,119	78,811
Group companies	5,581	3,291
Other receivables from :		
Third parties	1,015	697
Group companies	20,741	8,592
Cash and securities	78,081	79,739
Accrued assets in respect of :		
Third parties	25,841	11,203
Group companies	7,666	3,845
Total current assets	**296,455**	**264,414**
Total assets	**1,623,675**	**1,592,274**

Balance sheet

	31.12.2006 KCHF	31.12.2005 KCHF
LIABILITIES		
Share capital	145,000	145,000
General statutory reserve	72,500	72,500
Special reserve	11,689	11,689
Balance sheet profit :		
Carry forward at start of period	163,547	65,135
Profit for the period	52,787	108,562
Total shareholders' equity	**445,523**	**402,886**
Amortization provision for right of restitution	591	2,080
Other provisions	402,627	409,430
Total provisions	**403,218**	**411,510**
Bonds and similar items	535,000	410,000
Other liabilities towards related companies / shareholders	15,000	15,000
Other liabilities towards third parties	10,000	-
Borrowing from Group companies	2,650	2,650
Total long-term liabilities	**562,650**	**427,650**
Purchases and services payable to :		
Suppliers	106,446	88,178
Related companies / shareholders	7,944	15,586
Group companies	9,801	3,691
Other debt in respect of :		
Third parties	8,982	12,047
Related companies / shareholders	1	152,057
Group companies	29,227	15,227
Accrued liabilities in respect of :		
Third parties	31,520	26,909
Related companies / shareholders	1,675	5,779
Group companies	4,082	19,126
Accrued interest	12,606	11,628
Total short term liabilities	**212,284**	**350,228**
Total liabilities	**1,623,675**	**1,592,274**

Shareholdings

	Company	Business activity	Share capital	31.12.2006 Percentage control	31.12.2005 Percentage control
*)	Grande Dixence SA, Sion	Production of electricity	300,000	60.0%	60.0%
*)	Cleuson-Dixence, simple partnership	Production of electricity	p.m.	31.8%	31.8%
*)	Salanfe SA, Vernayaz	Production of electricity	18,000	100.0%	100.0%
*)	Société des Forces Motrices du Grand-Saint-Bernard SA, Bourg-Saint-Pierre	Production of electricity	10,000	25.0%	25.0%
*)	Electra-Massa SA, Naters	Production d'électricité	40,000	23.0%	23.0%
*)	Forces Motrices de Conches SA, Lax	Production of electricity	30,000	41.0%	41.0%
*)	Forces Motrices Hongrin-Léman SA, Château-d'Oex	Production of electricity	30,000	39.3%	39.3%
*)	Hydro-Rhône SA, Sion	Production of electricity	100	30.0%	30.0%
	Energie Electrique du Simplon SA, Simplon-Dorf	Production of electricity	8,000	80.0%	78.8%
*)	Centrale Thermique de Vouvry SA, Vouvry	Production of electricity	1,000	95.0%	95.0%
*)	Centrales Nucléaires en Participation SA, Berne	Production of electricity	150,000	33.3%	33.3%
*)	Kernkraftwerk Leibstadt AG, Leibstadt	Production of electricity	450,000	5.0%	5.0%
	AlpEnergie Suisse Sàrl, Lausanne	Energy-related service provider	20	100.0%	100.0%
	Etrans, Laufenburg	Management of Swiss UHV network	7,500	14.5%	14.5%
*)	Forces Motrices de Martigny-Bourg SA, Martigny-Bourg	Production of electricity	3,000	18.0%	18.0%
	Forces Motrices de Fully SA, Fully	Production of electricity	800	28.0%	28.0%
	Swissgrid AG , Laufenburg	Management of Swiss UHV network	15,000	14.0%	14.0%

*) See guarantee obligations towards third parties

Integration of CLEUSON-DIXENCE simple partnership

The assets, liabilities, expenses and income of CLEUSON-DIXENCE are individually integrated into the EOS accounts in proportion to its 7/22nds share of that company.

Guarantee obligations towards third parties

In the joint venture companies, marked with an asterisk, EOS, like the other partners, has undertaken to take delivery of its energy share and to cover the expenses of those companies in proportion to its investment, unless there are special agreements.

The annual expenses of these companies include in particular interest and the amortisation and provisions necessary for the repayment of bonds.

Fire insurance for fixed assets	31.12.2006	31.12.2005
	570,788	626,893

Many of the fixed assets are not insured against fire because of their nature (concrete walls, galleries, various shafts and high-voltage lines).

Bonds				31.12.2006	31.12.2005
			Maturity date		
4	%	1998/2009	10.02.2009	300,000	300,000
2 7/8	%	2006/2014	22.09.2014	125,000	-
				425,000	**300,000**

EOS shareholders		31.12.2006	31.12.2005
Name	**% of capital**	**Par value of share total**	**Par value of share total**
EOS HOLDING, Lausanne	100.0%	145,000	145,000

Contingent liabilities

With the exception of those mentioned in Notes 27 and 29 or the consolidated financial statements, there are no other contingent liabilities.

Pension liabilities	31.12.2006	31.12.2005.

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 rate of coverage, calculated in accordance with current Swiss standards, was 123.8 % at 31 December 2006.

The pension fund therefore has a positive balance.

Liabilities towards pension institutions	-	11

Derivative instruments

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

Transactions with EOS HOLDING shareholders

In March 2001, EOS signed with its “shareholder-clients” (GROUPE E, 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 financial continuity of the company under a long-term plan approved by its shareholders.

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. These receivables were passed to EOS HOLDING, which converted them to share capital in 2005.

Under the agreement, 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 EOS's average sale price, excluding sales at average production cost to the “shareholder-clients”, and the average cost of production for the electricity drawn, will impact those financial years in which it occurs and 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.

Under the 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. This supply option is deemed to be a purchasing right granted to the “shareholder-clients” that will only enter in force when the right is exercised ; the latter depends on future market conditions and will only be extinguished by the physical delivery of the electricity. Where applicable, the cumulative difference accrued over the years between EOS's average sale price and the average cost of production for the electricity drawn, will impact those financial years in which it occurs and 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.

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 significant changes in the market conditions

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. Bringing the plant back into service will require the complete reconstruction of the pressure shaft lining and other work amounting to an investment of about CHF 365 m before building loan interests. The design and engineering work involved started in 2004 and should be completed in 2010. 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 appropriate damages. 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.

Lausanne, April 2007

On behalf of the Board of Directors

Chairman :
Dominique Dreyer

Vice-Chairman :
Guy Mustaki

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To the general meeting of

Energie Ouest Suisse (EOS), Lausanne

Lausanne, March 21, 2007

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, 2006.

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 Swiss Auditing Standards, 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