

# 2008 ANNUAL REPORT

(1<sup>ST</sup> JANUARY 2008 TO 31 DECEMBER 2008)

1. **KEY FIGURES**
2. **COMPANY STRUCTURE**
3. **2008 CONSOLIDATED FINANCIAL STATEMENTS**
4. **2008 CORPORATE FINANCIAL STATEMENTS**

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

# 1. Key figures

## Financial data

Consolidated figures, m CHF		2008	2007
Total operating income		3,503	2,572
Trading results		38	31
EBIT		231	436
<i>% of total operating revenue</i>		(6.6%)	(16.9%)
Net profit		155	320
<i>% of total operating revenue</i>		(4.4%)	(12.5%)
Cash flow		254	125
Balance sheet assets			
	Tangible assets	544	503
	Intangible assets	442	430
	Financial assets	865	813
	Current assets	650	456
	<b>Total assets</b>	<b>2,501</b>	<b>2,202</b>
Balance sheet liabilities			
	Shareholders' equity	1,226	1,097
	Liabilities	1,275	1,105
	<b>Total liabilities</b>	<b>2,501</b>	<b>2,202</b>
Total indebtedness net of cash and cash equivalents		414	435
Ratios			
Net debt to equity ratio		25 : 75	28 : 72
Indebtedness as % of total balance sheet value net of cash and cash equivalents		18.1%	21.1%

## Supply and delivery in 2008

Deliveries and sales – EOS		Production and purchases – EOS	
Contract deliveries to shareholders	3,988 GWh	Total hydropower CH	2,978 GWh
Deliveries to other Swiss clients	863 GWh	Total thermal power CH	461 GWh
Pumping energy and restitutions, losses	565 GWh	Power purchase agreements	5,430 GWh
Sales and trading	99,407 GWh	Purchases and trading	95,954 GWh
<b>Total</b>	<b>104,823 GWh</b>	<b>Total</b>	<b>104,823 GWh</b>

## Trading 2008

		MIO CHF
Sales	69,954 GWh	6,886
Purchases	69,954 GWh	-6,896
Mark to market (open positions)		48
<b>Total volume</b>	<b>139,908 GWh</b>	<b>38 Profit on trading operations</b>

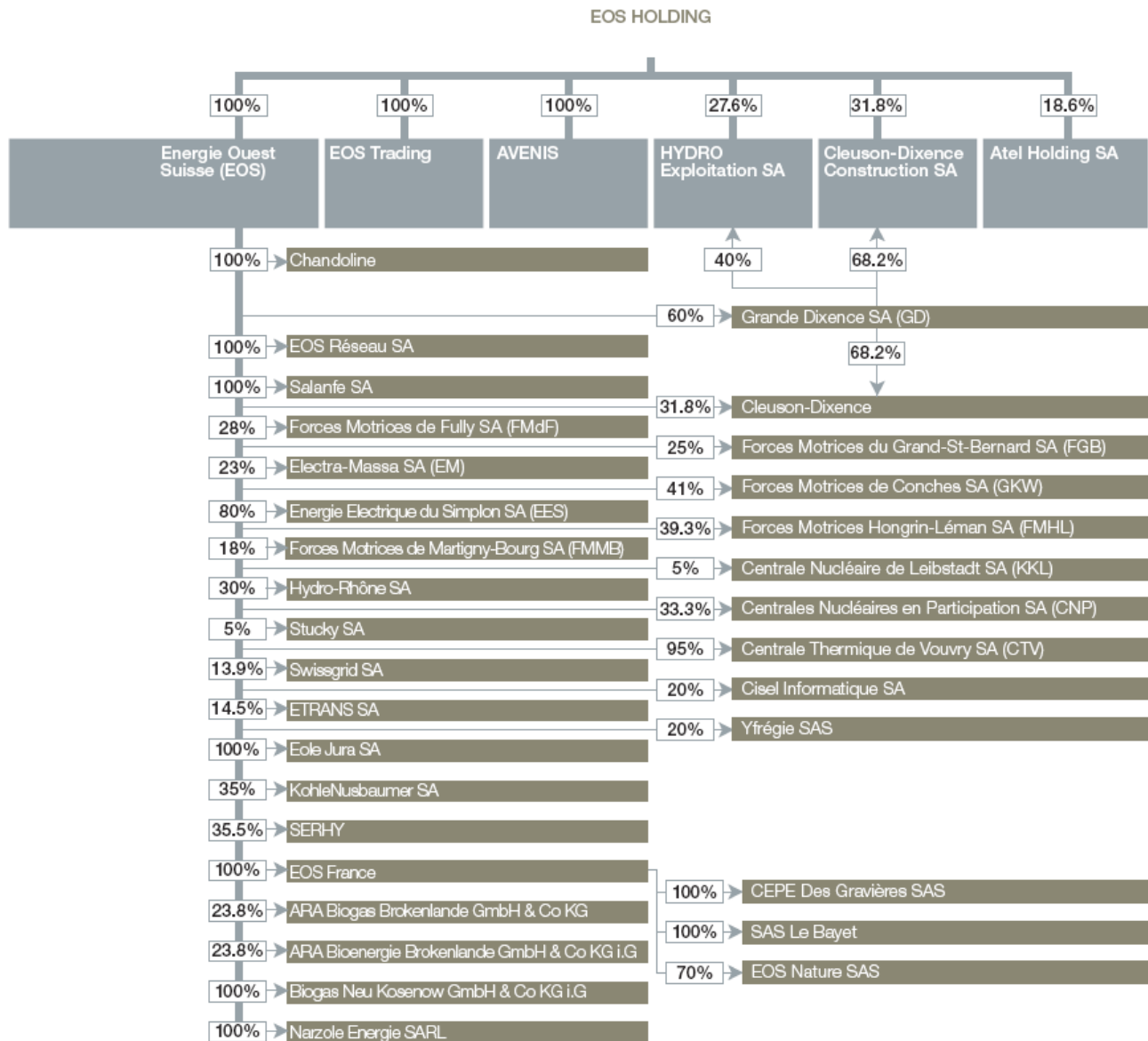
## 2. Structure

### Shareholders

At 31 December 2008, EOS Holding owns 100 % of the share capital of EOS.

From the 28 January 2009, Alpiq Holding AG owns 80% and Aare et Tessin SA pour l'Electricité owns 20% of the share capital of EOS.

### EOS Group (31.12.2008)



## 2. Structure

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### Corporate bodies

#### Board of Directors

Dominique Dreyer \*

Président, avocat, Fribourg

GUY MUSTAKI \*

Vice-président, Président du groupe Romande Energie Holding SA, Pully

DANIEL BRÉLAZ

Syndic de la Ville de Lausanne, Lausanne

MICHEL PITTET \*

Président de Groupe E, Vuisternens-devant-Romont

DANIEL MOUCHET \*

Président des Services Industriels de Genève, Veyrier

WOLFGANG MARTZ \*\*\*

Vice-président du groupe Romande Energie Holding SA, Montreux

CLAUDE HAEGI \*\*\*

Vice-président des Services Industriels de Genève, Genève

JEAN PRALONG \*\*

Président de FMV SA, St-Martin

JEAN-YVES PIDOUX \*\*\*

Conseiller municipal de la Ville de Lausanne, Lausanne

DANIEL SCHMUTZ \*\*

Administrateur de groupe Romande Energie Holding SA, La Tour-de-Peilz

PIERRE STEPHAN \*\*

Vice-président de Groupe E SA, Fribourg

Mr Michel Pittet has replaced Mr Jean Deschenaux since the 2008 Annual General Meeting.  
Mr Wolfgang Martz has replaced Mr Hubert Barde since the 2008 Annual General Meeting.

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

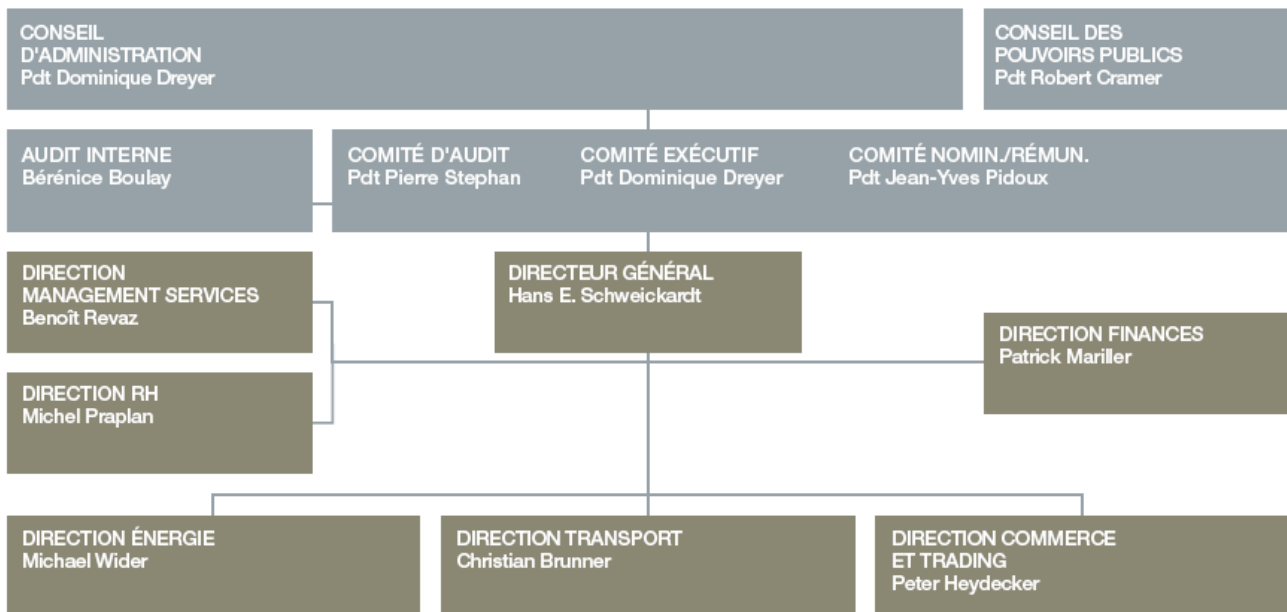
#### Auditors

ERNST & YOUNG SA, LAUSANNE

## 2. Structure

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Organisational chart (31.12.2008)



### 3. 2008 Consolidated financial statements

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**Note :**

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

# Commentary

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Following the very good results of 2007, the Group maintained its growth in 2008, which resulted in net profits of CHF 155 million (CHF 73 million in 2007, excluding the impact of the impairment reversal<sup>1</sup>). This substantial growth is the result of the measures taken in previous years to ensure the long-term financial sustainability of the Group.

The Group's commercial activities contributed to its excellent 2008 performance. EOS recorded a 56% growth in turnover (CHF 3.5 billion), mainly due to the optimised management of its hydropower generating fleet and to the added value realised by the sale of its peak energy on the electricity markets; demand for this energy is increasing as the new renewable energies develop in Europe. Despite the fall in market prices at the end of 2008, trading results rose to CHF 38 million (CHF 31 million in 2007), 20% higher than in 2007.

In 2008, the Group made a great effort to develop its generating and transmission assets. In addition to major projects such as Bieudron, FMHL +, CTV or the VHV line projects, the Group expanded its renewable energy operations for example, through the acquisition of new skills and mini hydropower and wind power plants in Switzerland and abroad.

## 2008 Profit and loss account

In 2008, the Group continued to develop its trading operations on the European wholesale markets to make optimum use of its generating fleet; this led to numerous wholesale market transactions on the various energy trading platforms in Switzerland and Europe. The result is a 56 % growth in turnover to CHF 3.5 bn (CHF 2.2 bn in 2007), and a 54% rise in energy purchases.

Income from trading operations is CHF 38 m (CHF 31 m in 2007), on a transaction volume that is also much higher, at CHF 6.9 bn.

The share of profit of joint ventures and associates is negative because of the lower value of the fund for the Leibstadt nuclear power station dismantling and waste treatment. Other operating expenses are slightly lower than the previous year.

In 2007, the "Share of profit of joint ventures and associates" and "Other operating expenses" items reflected the impact of the fixed asset impairment reversal.

The reduction in "Materials and services" costs (-7%) essentially results from a downsizing of the joint projects with other partners where the Group bills back their share, and the revenues are accounted for under other operating expenses. The cost of operating and maintaining Group installations remain substantial however, which means that maximum availability of the generating fleet and transmission facilities can be guaranteed.

As a corollary of its strong growth, the Group also developed its administrative support for the operational side. This led to an increase in wage costs, and in other operating expenses, especially management and communication tools.

Following the 2007 reversal of impairment and the resulting increase in assets, depreciation rose significantly. New investments also accounted for the variation to some extent.

Earnings before interest and tax (EBIT) stand at CHF 230.6 m (CHF 435.5 m in 2007 and CHF 116.3 m excluding the impairment reversal effect).

Financial costs are negatively impacted by the fall in the Euro against the Swiss franc during the period under review. Financial costs are stable compared with the previous year.

Tax costs vary with income. In 2007, the impairment reversal caused an increase in deferred tax.

Net Group profit is CHF 154.6 m, a big increase compared with 2007 (CHF 73.3 m excluding impairment reversal). When the effect of the impairment reversal of CHF 247.2 m is included, the published net profit for 2007 was CHF 320.4 m.

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<sup>1</sup> In 2007, EOS Holding effected an impairment reversal to the value of CHF 247.2 m.

# Commentary

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## **Balance sheet**

The balance sheet total rose to CHF 2.5 bn, an increase of 13%. Shareholders' equity accounts for 49.0% of the balance sheet total (49.8% in 2007).

Fixed assets rose by CHF 105.1 m due to investment done during the year after deduction of depreciation.

Current assets rose CHF 194 m, CHF 70 m of which was cash and cash equivalents and CHF 124 m other receivables and accruals, relating to margin calls in favour of counterparties. Given the increase in the trading volume, the level of receivables has risen.

Thanks to the double impact of the earnings for the period (CHF 155 m) and the negative change in fair value of financial instruments (CHF -23 m), shareholders' equity rose CHF 129 m (+12%).

Financial liabilities (short and long term) increased by CHF 50 m. During the year, the Group repaid a loan of CHF 110 m and drew on its credit facilities in order to finance its operating and investment activities.

Total short-term debt, excluding short-term financial liabilities, grew by CHF 136 m, and reflects the changes in the Group's business activities.

## **Cash flow**

Cash flow before variation in working capital was CHF 254 m in 2008, compared with CHF 125 m in 2007. With a capital investment level of CHF 151 m, the Group has definitely applied its growth strategy by continuing its major projects in Switzerland and developing its renewable energy activities.



# Consolidated profit and loss account

		2008	2007
	Note	kCHF	kCHF
Net turnover	1	3,497,262	2,237,932
Share of profit of joint ventures and associated companies	14,15	(22,006)	162,390
Other operating income	2	27,303	172,012
<b>Total operating income</b>		<b>3,502,559</b>	<b>2,572,334</b>
Energy purchases	3	(3,071,464)	(1,989,913)
Materials and services	4	(21,548)	(23,114)
Personnel expenses	5	(30,501)	(26,782)
Depreciation	6	(66,712)	(41,849)
Other operating expenses	7	(81,699)	(55,124)
<b>Total operating expenses</b>		<b>(3,271,924)</b>	<b>(2,136,782)</b>
<b>Earnings before interest and tax (EBIT)</b>		<b>230,636</b>	<b>435,552</b>
Income from other available-for-sale financial assets	8	27	(1,963)
Interest income	9	10,216	5,188
Financial cost	9	(43,612)	(27,291)
<b>Earnings before tax (EBT)</b>		<b>197,267</b>	<b>411,486</b>
Income taxes	10	(42,654)	(91,074)
<b>Net Group profit</b>		<b>154,613</b>	<b>320,412</b>
- attributable to parent company shareholders		153,060	319,971
- attributable to minority shareholders		1,553	441

# Consolidated balance sheet

	Note	31.12.2008	31.12.2007
		kCHF	kCHF
<b>ASSETS</b>			
Tangible fixed assets	12	544,135	502,960
Intangible fixed assets	13	441,787	429,702
Investments (joint ventures)	14	803,787	805,872
Investments (associated companies)	15	40,025	3,734
Other long-term financial assets	16	21,456	3,739
<b>Total fixed assets</b>		<b>1,851,190</b>	<b>1,746,007</b>
Inventory and work in progress	17	7,449	3,156
Receivables arising from deliveries and services	18	280,411	258,555
Tax to recover		11	-
Other receivables and accruals	19	153,559	55,760
Cash and cash equivalents		208,591	138,143
<b>Total current assets</b>		<b>650,021</b>	<b>455,614</b>
<b>Total assets</b>		<b>2,501,211</b>	<b>2,201,621</b>
<b>LIABILITIES</b>			
Share capital	20	145,000	145,000
Additional contributions	20	37,935	37,935
Accumulated profits	20	1,039,378	911,980
<b>Equity attributable to Group shareholders</b>		<b>1,222,313</b>	<b>1,094,915</b>
Equity attributable to minority shareholders		3,292	1,931
<b>Total shareholders' equity</b>		<b>1,225,605</b>	<b>1,096,846</b>
Long-term financial liabilities	21	315,083	450,413
Provisions	22	26,456	24,642
Employee benefits	23	10,088	10,615
Other long-term liabilities	24	20,670	20,270
Deferred tax liabilities	10	194,889	211,647
<b>Total long-term liabilities</b>		<b>567,186</b>	<b>717,587</b>
Short-term financial liabilities	21	307,640	122,490
Liabilities arising from purchases and services	25	192,830	193,937
Current tax payable		61,082	20,185
Other short-term liabilities and accruals	26	146,278	49,979
Provisions	22	590	597
<b>Total short-term liabilities</b>		<b>708,420</b>	<b>387,188</b>
<b>Total liabilities</b>		<b>1,275,606</b>	<b>1,104,775</b>
<b>Total liabilities and shareholders' equities</b>		<b>2,501,211</b>	<b>2,201,621</b>

# Consolidated Cash Flow Statement

		<b>2008</b>	<b>2007</b>
	<b>Note</b>	<b>kCHF</b>	<b>kCHF</b>
<b>Earnings before tax (EBT)</b>		<b>230,636</b>	<b>435,552</b>
Adjustments for:			
- Depreciation	6	66,712	41,849
- Gains and losses on disposals	2,7	-	(1,824)
- Variation in provisions		1,286	308
- Impairment reversal	11	-	(148,388)
- Other items		(18,823)	(7,421)
- Share of profit of joint ventures and associates	14,15	22,006	(162,390)
Dividends received from joint ventures and associates	14,15	4,714	3,796
Interest paid		(23,041)	(22,180)
Tax paid		(29,575)	(14,708)
<b>Cash-Flow</b>		<b>253,915</b>	<b>124,594</b>
Variation in working capital		(38,400)	(13,117)
<b>Cash flow from operations</b>		<b>215,515</b>	<b>111,477</b>
Tangible and intangible fixed assets			
- Investments	12,13	(36,765)	(18,900)
- Disposals		960	8,136
Acquisition of subsidiaries		(47,271)	-
Associated companies and joint ventures			
- Investments	14,15	(61,060)	(28,099)
Other financial assets available for sale			
- Investments		(9,638)	(214)
- Dividends received		27	35
Financial loans granted and repaid		(6,964)	667
Interest received		9,928	3,652
<b>Cash flow from investing activities</b>		<b>(150,783)</b>	<b>(34,723)</b>
Other financial liabilities			
- Loans		150,133	8,000
- Reimbursements		(133,740)	(24,332)
Dividends paid to minority shareholders		(416)	(104)
<b>Cash flow from financing activities</b>		<b>15,977</b>	<b>(16,436)</b>
<b>Unrealized exchange rate differences</b>		<b>(10,261)</b>	<b>(731)</b>
<b>Change in cash and cash equivalents</b>		<b>70,448</b>	<b>59,587</b>
Cash at the beginning of the period		138,143	78,556
<b>Cash and cash equivalents at the end of the period</b>		<b>208,591</b>	<b>138,143</b>

## Changes in Shareholders' Equity

	Share capital	Additional contributions	Accumulated profits	Variation of evaluation of financial instruments	Translation difference	Total Group equity	Minority Interests	Total Shareholders' equity
<b>At 1.01.2007</b>	<b>145,000</b>	<b>37,935</b>	<b>591,695</b>	<b>(6,792)</b>	<b>0</b>	<b>767,838</b>	<b>1,593</b>	<b>769,431</b>
Change in fair value of other financial assets available for sale <sup>1)</sup>				2		2		2
Change in fair value of financial hedging instruments				7,105		7,105		7,105
Net profit for the year			319,971			319,971	441	320,412
<b>Total income and expenses for the period</b>			<b>319,971</b>	<b>7,106</b>	<b>0</b>	<b>327,077</b>	<b>441</b>	<b>327,518</b>
Dividends paid to minority shareholders						0	(104)	(104)
<b>At 31.12.2007</b>	<b>145,000</b>	<b>37,935</b>	<b>911,666</b>	<b>314</b>	<b>0</b>	<b>1,094,915</b>	<b>1,931</b>	<b>1,096,846</b>
<b>At 1.01.2008</b>	<b>145,000</b>	<b>37,935</b>	<b>911,666</b>	<b>314</b>	<b>0</b>	<b>1,094,915</b>	<b>1,931</b>	<b>1,096,846</b>
Change in fair value of other financial assets available for sale <sup>1)</sup>				958		958		958
Change in fair value of financial hedging instruments				(24,292)		(24,292)		(24,292)
Translation differences					(2,329)	(2,329)		(2,329)
Net profit for the year			153,060			153,060	1,553	154,613
<b>Total income and expenses for the period</b>			<b>153,060</b>	<b>(23,334)</b>	<b>(2,329)</b>	<b>127,398</b>	<b>1,553</b>	<b>128,951</b>
Minority shareholders' interest coming from business combination <sup>2)</sup>						0	224	224
Dividends paid to minority shareholders						0	(416)	(416)
<b>At 31.12.2008</b>	<b>145,000</b>	<b>37,935</b>	<b>1,064,726</b>	<b>(23,020)</b>	<b>(2,329)</b>	<b>1,222,313</b>	<b>3,292</b>	<b>1,225,605</b>

1) Changes in fair value of investment net of tax.

2) Linked with the acquisition of 70% EOS Nature shares in 2008.

# Group accounting policies

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## GENERAL INFORMATION

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EOS OUEST SUISSE (EOS) is a public limited company incorporated under Swiss law and domiciled in Lausanne. At 31 December 2008, it is a wholly-owned subsidiary of EOS HOLDING. From the 28 January 2009, it is 80% owned by Alpiq Holding AG and 20% by Aare et Tessin SA pour l'Electricité.

In the notes to the consolidated financial statements, transactions with EOS HOLDING and its shareholders are shown 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 2008 accounting period were approved by the Board of Directors of EOS on 17 March 2009.

## GROUP ACCOUNTING POLICIES

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### ACCOUNTING BASIS

The consolidated accounts have been prepared in accordance with the international accounting standards 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 31.

### CHANGES IN ACCOUNTING METHODS

Since 1 January 2008, the Group has applied the following interpretation :

#### **IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

This interpretation gives directions about the measurement of the limit placed by IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how a pension fund asset or liability can be affected by laws or contractual requirements regarding minimum funding. The retrospective application of IFRIC 14 did not lead to any adjustment to the consolidated financial statements of the Group.

The application of the other amendments and interpretations mentioned below, which came into effect during the year, did not impact the accounting methods, financial performance or financial situation of the Group :

**IAS 39 (Amended) Financial Instruments : Recognition and Measurement and IFRS 7 Financial Instruments : Disclosures – Reclassification of financial assets**  
(Effective date 1 July 2008)

**IFRIC 11 IFRS 2 – Group and Treasury Share Transactions**  
(Effective date 1 March 2007)

**IFRIC 12 Service Concession. Arrangements**  
(Effective date 1 January 2008)

# Group accounting policies

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## STANDARDS AND INTERPRETATIONS PUBLISHED BUT NOT YET APPLICABLE

Certain new standards, amendments and interpretations to existing standards have been published and are applicable to the accounting periods of the Group beginning on or after 1 January 2009 or to later periods, but they have not been applied prospectively by the Group :

### Standards, amendments and interpretations applicable from 2009

#### **IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 (Amended) Consolidated and Separate Financial Statements – Cost of an investment in a subsidiary, a joint venture or an associate**

(Applicable from 01.01.2009) The amendment to IFRS 1 allows an entity to determine the « cost » of an investment in its opening IFRS balance sheet either in accordance with IAS 27 or by using a presumed cost. The amendment to IAS 27 requires all the dividends received from a subsidiary, joint venture or associate to be presented in the income statement in the separate financial statements. These new requirements only apply to the separate financial statements and consequently have no impact on the consolidated financial statements of the Group.

#### **IFRS 2 (Amended) Share-based Payment – Vesting Conditions and Cancellations**

(Applicable from 01.01.2009) The purpose of this amendment is to clarify that vesting conditions are either service conditions or performance conditions and also specifies that all cancellations, either by the entity or by other parties, must receive the same accounting treatment. This amendment has no effect on the Group because it has no share-based payment plan.

#### **IFRS 8 Operating Segments**

(Applicable from 01.01.2009) This new standard imposes a managerial approach whereby segment information must be presented on the same basis as that used for internal reporting. The expected impact of the adoption of IFRS 8 is still being assessed by the Executive Management, but it is likely that segment information must be supplied in a manner consistent with the information produced internally for key management personnel. The Group does not however anticipate any effect on its results or its financial situation.

#### **IAS 1 (Revised) Presentation of Financial Statements**

(Applicable from 01.01.2009) The changes to the standard affect mainly the presentation of the Statement of Changes in Equity. No effect on the results or the financial situation of the Group is expected following the adoption of this revised standard.

#### **IAS 23 (Revised) Borrowing Costs**

(Applicable from 01.01.2009) The amended standard excludes the possibility of recognising all borrowing costs as expenses. The adoption of this revised standard will have no impact on the Group's accounting policies because it capitalises borrowing costs on qualifying assets already.

#### **IAS 32 Financial Instruments : Presentation and IAS 1 (Amended) Presentation of Financial Statements – Puttable Instruments and Obligations arising on Liquidation**

(Applicable from 01.01.2009) This amendment requires certain puttable instruments and certain financial instruments that place the entity under an obligation to give a third party a proportion of the net assets of the entity solely on liquidation are classed under shareholders' equity rather than under liabilities. The adoption of this amendment will have no impact on the financial situation or the financial performance of the Group because it has not issued an instrument of this kind.

#### **Amendments resulting from the Annual Improvements of May 2008**

Various amendments to several standards will come into effect in 2009. The expected impact is still being assessed by the Executive Management, but no significant effect is expected on the Group's consolidated accounts.

#### **IFRIC 13 Customer Loyalty Programmes**

(Applicable from 01.07.2008) This interpretation specifies that when products or services are sold with a customer loyalty incentive, the contract is a multiple element arrangement and the consideration to be received from the customer is allocated between the components of the contract based on their fair value. The adoption of this interpretation will have no impact on the consolidated financial statements because the Group has not introduced programmes of this kind.

#### **IFRIC 15 Agreements for the Construction of Real Estate**

(Applicable from 01.01.2009) This interpretation clarifies when and how revenues and costs relating to the sale of a real estate unit must be recognised when agreement is reached between a builder and a buyer before construction is completed. It also provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The adoption of this interpretation will have no impact on the consolidated financial statements because the Group does not have such activities.

# Group accounting policies

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## **IFRIC 16 Hedges of a Net Investment in a Foreign Operation**

(Applicable from 01.10.2008) This interpretation provides guidance on the kind of risk hedged, its identification and the entity that may hold the hedging instrument. It will have no impact on the consolidated financial statements because the Group does not carry out hedging operations of this kind.

## **IFRIC 18 Transfers of Assets from Customers**

(Applicable from 01.07.2009) This interpretation applies to the accounting for transfers of tangible assets by entities that receive such transfers from their customers. It clarifies the requirements of IFRS in agreements in which an entity receives from a customer an item of property that the entity must then use either to connect the customer to a network or to provide the customer with access to a supply of goods or services (such as electricity, gas or water). The Group will apply this interpretation prospectively to transfers of assets received from customers from 1 July 2009. The expected impact is still being assessed by the Executive Management.

## **Standards, amendments and interpretations applicable to 2009 later**

### **IFRS 3 (Revised) Business Combinations**

(Applicable from 01.07.2009) The revision of this standard involves the following significant changes to the application of acquisition methods to business combinations : 1) acquisition costs will be expensed, 2) in a business combination, if the acquirer obtains control without purchasing the whole of the acquiree's equity, the remaining minority interests will be measured either at fair value, or on the basis of their proportionate share of the net identifiable assets of the acquiree, 3) if the acquirer obtains control through a business combination achieved in stages, the previously held interests in the acquiree must be remeasured at fair value and a corresponding gain or loss recorded in the profit and loss account, 4) any change in the contingent consideration of an acquisition will be recognised not in goodwill but in the profit and loss account. The Group will apply IFRS 3 (Revised) from 1 January 2010. The amendments may have a significant impact on the accounting of future business combinations.

### **IAS 27 (Amended) Consolidated and Separate Financial Statements**

(Applicable from 01.07.2009) This amendment requires the effects of any transaction with minority interests to be recognised under equity if there is no change of control. They will no longer be recognised as goodwill or as capital gains and losses. The standard also provides guidance on accounting for loss of control. Each remaining minority interest in the entity is remeasured at fair value and a loss or gain recognised in the profit and loss account. In addition, the total income must be attributed to the shareholders of the parent company and to the minority interests even if the balance of the minority interests is negative. The Group will apply this amendment from 1 January 2010. The amendments will impact the accounting of future transactions with minority interests.

### **IAS 39 (Amended) Financial Instruments : Recognition and Measurement – Eligible Hedged Items**

(Applicable from 01.07.2009) This amendment clarifies that an entity is authorised to designate a portion of the fair value or cash flow variation of a financial instrument as a hedged item. The Group will apply this amendment from 1 January 2010. No significant impact is anticipated on the financial situation or financial performance of the Group.

### **IFRIC 17 Distributions of Non-Cash Assets to Owners**

(Applicable from 01.07.2009) This interpretation applies to non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners. It deals with distributions of non-cash assets and distributions that give shareholders the choice either of receiving a non-cash asset or a cash alternative. It provides guidance on when an entity must recognise the dividend payable, how it must measure the dividend payable, and when an entity pays the dividend, how it recognises the difference between the carrying amount of the distributed assets and the carrying amount of the dividend payable. This interpretation will have no impact on the consolidated financial statements because the Group does not distribute non-cash dividends.

## **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.

# Group accounting policies

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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**

The Group consolidates newly acquired shareholdings using the purchase method. The difference between the cost and the fair value of the net assets of the company acquired appears in the balance sheet under goodwill. If 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. When 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. Unrealised 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 the subsidiaries' 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 transmission and commercialisation of electricity, net of discounts and reductions. 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 income from these operations.

## **INCOME TAXES**

Taxes on the income of the period include current and deferred taxes. The tax impact on the items recognised 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 realised. 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.



# Group accounting policies

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## 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. 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 of the asset less costs to sell, 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 cost includes the costs of replacing part of the assets when they are incurred and if the criteria for recognition are met. The costs of acquiring concessions to use the hydraulic power are included under this heading. All other repair and maintenance costs are recognized under income as they occur.

Interest on the financing of fixed assets under construction is capitalised.

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.

Depreciation is calculated using the straight-line method over the useful life of each asset. Generating assets subject to a free right of return are maximum depreciated over the life of the concessions. Fixed assets under construction and land are not depreciated. The useful life of the main tangible fixed assets is:

• 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 valued 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, purchased or developed in-house, is depreciated over a period of one to five years, starting from the time when it was brought into service. Goodwill and intangible assets with an indefinite useful life are no longer amortised but are tested annually for impairment. Interest on the financing of energy drawing rights and on current projects is capitalised.

# Group accounting policies

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## **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.

## **OTHER FINANCIAL ASSETS**

Shareholdings in which the Group holds less than 20 % of the voting rights and which are not equity-accounted are considered financial assets available for sale and are measured at fair value. All unrealized gains and losses are recorded in shareholders' equity. When an asset is sold, the realised gains and losses 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 amortised cost.

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

## **INVENTORY AND WORK IN PROGRESS**

Inventory is valued at the lower of acquisition cost or net realisable 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 valued at amortised cost. A loss on a receivable is recognised where there is objective evidence (such as likelihood of bankruptcy or significant financial difficulties on the part of the debtor) that the Group will not be able to recover the amounts due under the contractual terms of the invoice. The carrying amount of the customer receivable is reduced by recourse to the "Bad debt provision" account in the balance sheet.

## **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.

## **FINANCIAL LIABILITIES**

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.

When the time effect is significant, the expected cash flows to settle the obligation are discounted. The provision is discounted at the market rate plus, if necessary, a rate reflecting the specific risks of the liability. The increase in the provision associated with the passage of time is recognised as a financial cost.

# Group accounting policies

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## **OTHER LONG-TERM 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 amortised cost.

The financial option is measured at fair value. All unrealised gains and losses are recorded in the profit and loss accounts under energy purchases and under financial costs for the discounting effect.

## **EMPLOYEE BENEFITS**

### **Pension liability**

EOS and the Group's companies are affiliated with the Caisse Pension Energie (CPE), a legally independent, collective pension fund, based on the Swiss defined benefits scheme, for the sector.

The liabilities 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 treated in different ways.

The sum recognised as a liability or an asset under a defined benefit scheme includes the discounted value of the defined benefits obligation, less the cost of past services not yet recognised and less the fair value of the scheme assets directly used to meet the obligations. The value of an asset is limited to the sum represented by any cost of past services not yet recognised and the discounted value of any economic benefit available in the form of repayment by the scheme or decrease in future contributions to the scheme.

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.

From 1 January 2007, a cash balance pension plan was taken out for those receiving variable salaries, the contributions paid being recognised in the profit and loss account under "Pension costs"

### **Voluntary pension payments**

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 recognised 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 recognised immediately in the profit and loss account. Given that these liabilities are on average payable at more than 12 months, the contingency reserve to cover them is discounted.

## **SEGMENT REPORTING**

Segment reporting presents the various levels of corporate risk and profitability in terms of business operations and geographical location. The Group operates mainly in the energy sector, which covers electricity generation, transmission and marketing. Activities outside the energy business represent less than 10 % of turnover, earnings and consolidated net assets. No segment information is therefore required concerning these operations.

As for geographical location, the Group's operations are managed from its head office in Switzerland and include essentially the optimisation 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 (optimising) the generating assets. Turnover from end-user

# Group accounting policies

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deliveries in foreign locations accounts for less than 10 % of the total. Risks and gains are therefore generated essentially in Switzerland.

## DERIVATIVE FINANCIAL INSTRUMENTS

The Group defines the scope of application of derivative financial instruments according to the provisions and principles of IAS 39. In particular, forward purchase and sale contracts with physical delivery of energy or commodities are 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.

Consistent with IAS 39, the Group analyses all its contracts – whether financial or non-financial - to identify whether any derivative instruments are embedded. Any contract component that affects the flows of the contract like an autonomous financial derivative meets the definition of an embedded derivative.

If the conditions in the Standard are met, an embedded derivative is recognized 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 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 recognised 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 recognised 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.

# Scope of consolidation

	Registered office	Capital	Activity	Control		Interest	
				2008	2007	2008	2007
<b>MAIN SUBSIDIARIES</b>							
Energie Electrique du Simplon SA	Simplon-Dorf	8'000	P	80.0	80.0	80.0	80.0
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
EOS Réseau SA	Lausanne	200 <sup>1)</sup>	T	100.0	100.0	100.0	100.0
EOS France S.A.S <sup>2)</sup>	Toulouse (F)	EUR 7'785	H	100.0	0.0	100.0	0.0
EOS NATURE S.A.S <sup>3)</sup>	Toulouse (F)	EUR 500	C	70.0	0.0	70.0	0.0
SAS LE BAYET <sup>4)</sup>	St-Paul-s/Isère (F)	EUR 37	P	100.0	0.0	100.0	0.0
CEPE LES GRAVIERES <sup>5)</sup>	Vergigny (F)	EUR 40	P	100.0	0.0	100.0	0.0
Biogas neu Kosenow GmbH & Co KG <sup>6)</sup>	Hambourg (D)	EUR 190	P	100.0	0.0	100.0	0.0
Eole Jura SA <sup>7)</sup>	Delémont	100	P	100.0	0.0	100.0	0.0
NARZOLE ENERGIE							
UNIPERSONAL S.R.L <sup>8)</sup>	Turin (I)	EUR 10	P	100.0	0.0	100.0	0.0
<b>MAIN JOINT VENTURES</b>							
Grande Dixence SA	Sion	300'000	P, H	60.0	60.0	60.0	60.0
Cleuson-Dixence, société simple	Sion	-	P	31.8 <sup>9)</sup>	31.8 <sup>9)</sup>	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 Participation SA	Berne	150'000	P	33.3	33.3	33.3	33.3
Forces Motrices de Martigny-Bourg SA <sup>10)</sup>	Martigny	3'000	P	18.0	18.0	18.0	18.0
Centrale Nucléaire de Leibstadt SA <sup>10)</sup>	Leibstadt	450'000	P	5.0	5.0	5.0	5.0
Forces Motrices de Fully SA	Fully	800	P	28.0	28.0	28.0	28.0
<b>MAIN ASSOCIATED COMPANIES</b>							
Etrans SA <sup>10)</sup>	Laufenbourg	7'500	T	14.5	14.5	14.5	14.5
Swissgrid SA <sup>10)</sup>	Laufenbourg	15'000	T	13.9	13.9	13.9	13.9
ARA Biogaz Brokenlande GmbH & Co <sup>11)</sup>	Hambourg (D)	EUR 630	P	23.8	23.8	23.8	23.8
ARA Bioenergie Brokenlande GmbH & Co <sup>12)</sup>	Hambourg (D)	EUR 630	P	23.8	0.0	23.8	0.0
Yfrégie SAS <sup>13)</sup>	Paris (F)	EUR 25'000	P	20.0	0.0	20.0	0.0
S.E.R.H.Y. SAS société d'études et de réalisations hydroélectriques <sup>14)</sup>	St-Amans-Soult (F)	EUR 1'540	H, P, S	35.5	0.0	35.5	0.0
KohleNusbaumer SA <sup>15)</sup>	Lausanne	100	S	35.0	0.0	35.0	0.0

P Production

T Transport

M Marketing / Sales

S Service provision

H Holding

1) Company incorporated 6 December 2007. CHF 100,000 increase in share capital to CHF 200,000 on 19 June 2008.

2) Company incorporated 10 July 2008

3) Company incorporated 1 September 2008

4) Company acquired 27 June 2008

5) Company acquired 29 July 2008

6) Company in process of incorporation at 31 December 2008

7) Company incorporated 31 October 2008

8) Company acquired 14 November 2008

9) Simple partnership 68.2 % owned by GRANDE DIXENCE SA.

10) 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.

11) Company incorporated 15 October 2008.

12) Company incorporated 17 September 2008.

13) Company acquired 15 December 2008

14) Company acquired 12 February 2008

15) Company acquired 12 September 2008

# Notes to the consolidated financial statements

## 1. NET TURNOVER

	Note	2008	2007
Energy sales and transmission to			
- third parties		2,650,270	1,341,072
- shareholders		788,610	820,648
- joint ventures and associated companies		19,889	44,671
Profit on trading operations		38,493	31,541
		<b>3,497,262</b>	<b>2,237,932</b>
<b>Electricity trading activity</b>			
Sales		6,887,281	4,728,173
Purchases		(6,896,336)	(4,694,461)
Adjustments for contracts open at the end of the period	27	47,548	(2,171)
<b>Profit on trading operations</b>		<b>38,493</b>	<b>31,541</b>

## 2. OTHER OPERATING INCOME

	Note	2008	2007
Capitalized costs	12,13	4,262	4,433
Changes in work in progress		8,058	1,526
Gains on sales of assets		-	1,824
Reversal of impairment	11	-	148,388
Release of provisions	22,23	47	16
Other operating income from			
- third parties		3,695	6,353
- shareholders		5,212	5,941
- joint ventures and associated companies		2,242	1,528
- other related parties		3,787	2,003
		<b>27,303</b>	<b>172,012</b>

## 3. ENERGY PURCHASES

	2008	2007
Energy purchases from		
- third parties	(2,812,164)	(1,373,426)
- shareholders	(40,497)	(418,133)
- joint ventures	(218,803)	(198,354)
	<b>(3,071,464)</b>	<b>(1,989,913)</b>

## 4. MATERIALS AND SERVICES

	2008	2007
Materials and services obtained from		
- third parties	(13,050)	(7,925)
- shareholders	(830)	(1,874)
- joint ventures and associated companies	(855)	-
- other related parties	(6,813)	(13,315)
	<b>(21,548)</b>	<b>(23,114)</b>

# Notes to the consolidated financial statements

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## 5. PERSONNEL EXPENSES

	Note	2008	2007
Wages, salaries, other		(23,258)	(20,732)
Pension costs	23	(1,989)	(1,675)
Voluntary pension payments	23	(394)	(182)
Other social security costs		(3,123)	(2,458)
Other staff costs		(1,737)	(1,735)
		<b>(30,501)</b>	<b>(26,782)</b>

On the balance sheet date, the Group had 207.8 full time equivalent employees (172.3 the previous year).

## 6. DEPRECIATION

	Note	2008	2007
Ordinary depreciation of			
- tangible fixed assets	12	(24,878)	(20,585)
- intangible fixed assets	13	(41,834)	(21,264)
		<b>(66,712)</b>	<b>(41,849)</b>

## 7. OTHER OPERATING EXPENSES

	2008	2007
Royalties and special tax on hydropower	(9,885)	(10,223)
Pumping and restoration power	(226)	(431)
Disbursements, travel and entertainment expenses	(1,755)	(1,287)
Insurance	(1,114)	(1,062)
Capital tax, and other taxes	(4,857)	(4,992)
Administrative expenses paid to		
- third parties	(16,403)	(11,756)
- shareholders	(1,447)	(1,614)
- joint ventures and associated companies	(668)	(965)
- other related parties	(42,366)	(20,840)
Other operating expenses paid to		
- third parties	(2,866)	(1,500)
- shareholders	(112)	(454)
	<b>(81,699)</b>	<b>(55,124)</b>

# Notes to the consolidated financial statements

## 8. INCOME FROM OTHER FINANCIAL ASSETS AVAILABLE FOR SALE

	<b>2008</b>	<b>2007</b>
Other dividends	27	35
Impairment of other financial assets	-	(1,998)
	<b>27</b>	<b>(1,963)</b>

## 9. NET FINANCIAL COSTS

	<b>Note</b>	<b>2008</b>	<b>2007</b>
Interest income		10,216	5,188
<b>Interest income</b>		<b>10,216</b>	<b>5,188</b>
Interest costs		(24,973)	(25,369)
Exchange rate differences, net		(17,773)	(966)
Bank charges, commissions, other		(866)	(956)
<b>Financial cost</b>		<b>(43,612)</b>	<b>(27,291)</b>
<b>Components of interest income</b>			
Interest from loans to			
- third parties		6,554	871
- shareholders		1,539	1,299
- joint ventures and associated companies		506	517
- other related parties		203	11
Interest income from cash and cash equivalents		1,104	783
Capitalized interest	12,13	191	569
Variation of fair value of other derivative financial instruments		119	1,138
		<b>10,216</b>	<b>5,188</b>
<b>Components of interest cost</b>			
Interest on bonds		(16,300)	(16,269)
Interest on bank financing and mortgages		(1,034)	(621)
Interest on other borrowings from			
- third parties		(5,533)	(5,590)
- shareholders		(5)	(2)
- joint ventures and associated companies		(407)	(7)
- other related parties		(12)	(82)
Impact of discounting of provisions and other long-term liabilities	22,24	(1,373)	(1,799)
Variation of fair value of other derivative financial instruments		(309)	(999)
		<b>(24,973)</b>	<b>(25,369)</b>



# Notes to the consolidated financial statements

## 10. TAXES

	2008	2007
<b>Income tax</b>		
Current tax	(69,745)	(25,263)
Deferred tax	27,091	(65,811)
	<b>(42,654)</b>	<b>(91,074)</b>
<b>Components of current tax</b>		
Tax on profit for the period	(69,745)	(25,263)
	<b>(69,745)</b>	<b>(25,263)</b>
<b>Components of deferred tax</b>		
Equity-accounted holdings	6,120	(35,420)
Tangible fixed assets	155	161
Intangible fixed assets	2,921	(33,723)
Other assets	(68)	469
Provisions	4	42
Other liabilities	105	192
Special contributions	17,854	2,468
	<b>27,091</b>	<b>(65,811)</b>
<b>Breakdown of tax charge</b>		
Group average tax rate <sup>1)</sup>	22.55%	22.56%
Group earnings before tax (EBT)	197,267	411,486
Income tax at the Group's average rate	(44,479)	(92,826)
Income and expenses with no tax impact	1,825	1,424
Other		328
	<b>(42,654)</b>	<b>(91,074)</b>
	<b>31.12.2008</b>	<b>31.12.2007</b>
<b>Deferred tax recorded in the balance sheet</b>		
Deferred tax liabilities	(194,889)	(211,647)
	<b>(194,889)</b>	<b>(211,647)</b>
<b>Components of deferred tax recorded in the balance sheet</b>		
Equity-accounted investments	(80,062)	(86,182)
Tangible fixed assets	(14,207)	(5,685)
Intangible fixed assets	(38,713)	(33,175)
Other assets	(3,533)	(3,396)
Provisions	381	377
Other liabilities	(89)	(194)
Shareholders' equity	6,779	(93)
Special contributions	(65,445)	(83,299)
	<b>(194,889)</b>	<b>(211,647)</b>
<b>Deferred tax on expenses and income recorded in shareholders' equity</b>		
Fair value of financial assets available for sale	(301)	(24)
Fair value of financial hedging instruments	7,080	(69)
	<b>6,779</b>	<b>(93)</b>

1) The Group's average rate of tax depends on the size of the income from each company.

# Notes to the consolidated financial statements

## 11. REVERSAL OF IMPAIRMENT

The recoverable amount of Group assets is estimated from the value in use (discount rate 6.75 %). This is based on an average selling price curve with a "long-term" view. The curve takes into account both the wholesale market prices in Europe and the conditions of sale to customers for the long term.

However, the dual effect of the rise in market prices and the ending of the delivery of defined quantities of energy on predefined conditions to the "shareholder-clients" on 30 September 2007 led the Group to review the recoverable amount of its assets and reverse some previously recognised impairments, benefiting the 2007 results.

In 2007, this reversal impacted the profit and loss account by CHF 170.8 m under "Share of profit of joint ventures" for the impairment of investments in joint ventures and by CHF 148.4 m under "Other operating income" for the reversal of the impairment on intangible fixed assets.

## 12. TANGIBLE FIXED ASSETS

	Buildings and land	Production facilities	Transmission facilities	Other	Current projects	Total
<b>Gross amounts at 01.01.2007</b>	<b>105,134</b>	<b>416,715</b>	<b>576,750</b>	<b>60,458</b>	<b>13,457</b>	<b>1,172,514</b>
Investments	-	-	40	263	11,026	11,329
Capitalized costs	-	-	-	-	2,548	2,548
Capitalized interest	-	-	-	-	114	114
Disposals	(2)	(2,233)	(9,909)	-	(1,945)	(14,089)
Transfers	190	3,024	1,943	361	(5,517)	0
<b>Gross amounts at 31.12.2007</b>	<b>105,322</b>	<b>417,506</b>	<b>568,824</b>	<b>61,082</b>	<b>19,683</b>	<b>1,172,416</b>
<b>Accumulated depreciation at 01.01.2007</b>	<b>(30,677)</b>	<b>(325,770)</b>	<b>(250,012)</b>	<b>(50,191)</b>	<b>0</b>	<b>(656,650)</b>
Ordinary depreciation	(617)	(4,355)	(13,214)	(2,399)	-	(20,585)
Disposals	-	2,233	5,546	-	-	7,779
<b>Accumulated depreciation at 31.12.2007</b>	<b>(31,294)</b>	<b>(327,892)</b>	<b>(257,680)</b>	<b>(52,590)</b>	<b>0</b>	<b>(669,456)</b>
<b>Net amounts at 31.12.2007</b>	<b>74,028</b>	<b>89,614</b>	<b>311,144</b>	<b>8,492</b>	<b>19,683</b>	<b>502,960</b>
<b>Gross amounts at 01.01.2008</b>	<b>105,322</b>	<b>417,506</b>	<b>568,824</b>	<b>61,082</b>	<b>19,683</b>	<b>1,172,416</b>
Investments	189	184	282	1,363	24,723	26,741
Change in scope of consolidation	20	37,896	-	10	-	37,926
Capitalized costs	-	-	-	-	4,262	4,262
Capitalized interest	-	-	-	-	116	116
Disposals	-	(999)	(6,335)	-	-	(7,334)
Transfers	1,672	(4,503)	24,182	(6,289)	(15,560)	(498)
Translation differences	(1)	(1,945)	-	(3)	(4)	(1,953)
<b>Gross amounts at 31.12.2008</b>	<b>107,203</b>	<b>448,139</b>	<b>586,953</b>	<b>56,163</b>	<b>33,220</b>	<b>1,231,677</b>
<b>Accumulated depreciation at 01.01.2008</b>	<b>(31,294)</b>	<b>(327,892)</b>	<b>(257,680)</b>	<b>(52,590)</b>	<b>0</b>	<b>(669,456)</b>
Ordinary depreciation	(3,943)	(5,163)	(13,537)	(2,235)	-	(24,878)
Disposals	-	999	5,627	0	-	6,626
Transfers	56	3,339	(6,464)	3,197	-	128
Translation differences	-	38	-	-	-	38
<b>Accumulated depreciation at 31.12.2008</b>	<b>(35,181)</b>	<b>(328,679)</b>	<b>(272,054)</b>	<b>(51,628)</b>	<b>0</b>	<b>(687,542)</b>
<b>Net amounts at 31.12.2008</b>	<b>72,022</b>	<b>119,460</b>	<b>314,899</b>	<b>4,535</b>	<b>33,220</b>	<b>544,135</b>

As at every financial year end, the recoverable amount of the production facilities has been estimated. On the balance sheet date, the fire insurance value of buildings, machinery and equipment was CHF 686 m (CHF 686 m the previous year).

Capitalized interest is computed at an interest rate of 3.5 % (3.5 % in 2007).

In 2008, certain network assets were reclassified from tangible to intangible and vice versa. To enable comparison, the 2007 figures have been restated.

# Notes to the consolidated financial statements

## 13. INTANGIBLE FIXED ASSETS

	Acquired rights of use	Energy drawing rights	Other	Current projects	Total
<b>Gross amounts at 01.01.2007</b>	<b>61,176</b>	<b>835,096</b>	<b>14,763</b>	<b>5,266</b>	<b>916,301</b>
Investments	-	-	-	7,571	7,571
Capitalized costs	-	-	-	1,885	1,885
Capitalized interest	-	-	-	455	455
Transfers	-	1,649	5,755	(7,404)	0
<b>Gross amounts at 31.12.2007</b>	<b>61,176</b>	<b>836,745</b>	<b>20,518</b>	<b>7,773</b>	<b>926,212</b>
<b>Accumulated depreciation at 01.01.2007</b>	<b>(8,095)</b>	<b>(609,780)</b>	<b>(5,759)</b>	<b>0</b>	<b>(623,635)</b>
Ordinary depreciation	(774)	(18,270)	(2,220)	-	(21,264)
Impairment reversal	-	148,388	-	-	148,388
<b>Accumulated depreciation at 31.12.2007</b>	<b>(8,869)</b>	<b>(479,662)</b>	<b>(7,979)</b>	<b>0</b>	<b>(496,511)</b>
<b>Net amounts at 31.12.2007</b>	<b>52,307</b>	<b>357,083</b>	<b>12,539</b>	<b>7,773</b>	<b>429,702</b>
<b>Gross amounts at 01.01.2008</b>	<b>61,176</b>	<b>836,745</b>	<b>20,518</b>	<b>7,773</b>	<b>926,212</b>
Investments	-	-	463	9,561	10,024
Change in scope of consolidation	46,358	-	27	-	46,385
Capitalized interest	-	-	-	75	75
Disposal	(252)	-	-	-	(252)
Transfers	-	-	9,433	(9,018)	415
Translation differences	(2,720)	-	(1)	-	(2,721)
<b>Gross amounts at 31.12.2008</b>	<b>104,562</b>	<b>836,745</b>	<b>30,440</b>	<b>8,391</b>	<b>980,138</b>
<b>Accumulated depreciation at 01.01.2008</b>	<b>(8,869)</b>	<b>(479,662)</b>	<b>(7,979)</b>	<b>0</b>	<b>(496,511)</b>
Ordinary depreciation	(5,752)	(31,738)	(4,344)	-	(41,834)
Transfers	-	-	(46)	-	(46)
Translation differences	38	-	1	-	39
<b>Accumulated depreciation at 31.12.2008</b>	<b>(14,583)</b>	<b>(511,400)</b>	<b>(12,368)</b>	<b>0</b>	<b>(538,352)</b>
<b>Net amounts at 31.12.2008</b>	<b>89,979</b>	<b>325,345</b>	<b>18,072</b>	<b>8,391</b>	<b>441,787</b>

As at every financial year end, the recoverable amount of the energy drawing rights has been estimated. Capitalized interest is computed at an interest rate of 3.5 % (3.5 % in 2007).

In 2008, certain network assets were reclassified from tangible to intangible and vice versa. To enable comparison, the 2007 figures have been restated.

# Notes to the consolidated financial statements

## 14. JOINT VENTURES

	Note	31.12.2008	31.12.2007
Investments in joint ventures		803,787	805,872
Liabilities towards ventures	24	(270)	(270)
		<b>803,517</b>	<b>805,602</b>

	Grande Dixence SA and Cleuson-Dixence <sup>1)</sup>	Other joint ventures assets <sup>2)</sup>	Other joint ventures liabilities <sup>2)</sup>	Total
<b>Net amounts at 01.01.2007</b>	<b>455,598</b>	<b>163,923</b>	<b>(270)</b>	<b>619,251</b>
Investment	27,801	298	-	28,099
Group share of profit	143,029	18,835	-	161,864
Dividends	-	(3,612)	-	(3,612)
<b>Net amounts at 31.12.2007</b>	<b>626,428</b>	<b>179,444</b>	<b>(270)</b>	<b>805,602</b>
<b>Net amounts at 01.01.2008</b>	<b>626,428</b>	<b>179,444</b>	<b>(270)</b>	<b>805,602</b>
Investment	24,907	-	-	24,907
Group share of profit	(7,102)	(14,949)	-	(22,051)
Dividends	-	(4,643)	-	(4,643)
Transfer	-	(298)	-	(298)
<b>Net amounts at 31.12.2008</b>	<b>644,233</b>	<b>159,554</b>	<b>(270)</b>	<b>803,517</b>

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. Given its obligation to cover their expenses, the Group states its commitments to the joint ventures as liabilities.

# Notes to the consolidated financial statements

## GRANDE DIXENCE SA AND CLEUSON-DIXENCE CONSOLIDATED KEY FIGURES

	Gross amounts	Gross amounts	Group share	Group share
	2008	2007	2008	2007
Tangible fixed assets	1,833,275	1,743,754	1'254'756	1,189,209
Intangible fixed assets	10,118	10,631	7'359	7,732
Financial assets	21,935	21,861	13'168	13,122
Current assets	35,299	123,328	21'433	77,757
Long-term liabilities	(736,030)	(829,359)	(441'813)	(497,810)
Short-term liabilities	(347,253)	(267,779)	(210'670)	(163,582)
<b>Net assets</b>	<b>817,344</b>	<b>802,436</b>	<b>644'233</b>	<b>626,428</b>
Income from joint ventures	133,445	365,358	80'993	220,963
Operating expenses and other operating income	(149,352)	(130,893)	(88'095)	(77,934)
<b>Net income</b>	<b>(15,907)</b>	<b>234,465</b>	<b>(7'102)</b>	<b>143,029</b>

On 12 December 2000, the Cleuson-Dixence penstock, which brings water from the Grande Dixence dam to the Bieudron power plant, burst. Bringing the plant back into service requires 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. The first phase of the civil engineering work has been completed and the sheet metalworking phase began mid-2007. The project, whose size and security requirements make it exceptional, is running to time and budget. The facility is expected to be brought back into operation in 2010.

# Notes to the consolidated financial statements

## KEY FIGURES FOR OTHER JOINT VENTURE ASSETS

	Gross amounts	Gross amounts	Group share	Group share
	2008	2007	2008	2007
Tangible fixed assets	2'690'403	2,773,152	280,477	283,702
Intangible fixed assets	365'461	418,838	121,819	139,611
Financial assets	773'704	946,879	43,092	52,087
Current assets	449'997	292,789	52,509	30,684
Long-term liabilities	(3'095'860)	(3,315,305)	(265,125)	(293,812)
Short-term liabilities	(480'669)	(157,524)	(73,624)	(33,234)
Goodwill acquired by the Group	-	-	406	406
<b>Net assets</b>	<b>703'036</b>	<b>958,829</b>	<b>159,554</b>	<b>179,444</b>
Income from joint ventures	858'203	1,278,746	146,541	154,801
Operating expenses and other operating income	(1'078'105)	(794,322)	(161,490)	(135,966)
<b>Net income</b>	<b>(219'902)</b>	<b>484,424</b>	<b>(14,949)</b>	<b>18,835</b>

## KEY FIGURES OF OTHER JOINT VENTURE LIABILITIES

	Gross amounts	Gross amounts	Group share	Group share
	2008	2007	2008	2007
Tangible fixed assets	-	-	-	-
Financial assets	-	-	-	-
Current assets	10	9	3	3
Long-term liabilities	(878)	(878)	(263)	(263)
Short-term liabilities	(32)	(31)	(10)	(10)
<b>Net assets</b>	<b>(900)</b>	<b>(900)</b>	<b>(270)</b>	<b>(270)</b>
Income from joint ventures	5	5	2	2
Operating expenses and other operating income	(5)	(5)	(2)	(2)
<b>Net income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

# Notes to the consolidated financial statements

## 15. INVESTMENTS IN ASSOCIATED COMPANIES

	31.12.2008	31.12.2007
<b>Movements</b>		
Net amount at the beginning of the period	3,734	3,392
Investments	36,153	-
Group share of income	45	526
Dividends	(71)	(184)
Translation differences	(134)	-
Transfer	298	-
<b>Net amount at the end of the period</b>	<b>40,025</b>	<b>3,734</b>

## KEY FIGURES

	Group share 2008	Group share 2007
Tangible fixed assets	32,485	1,742
Intangible fixed assets	26,528	1,756
Financial assets	7	-
Current assets	30,811	25,390
Long-term liabilities	(18,068)	(555)
Short-term liabilities	(31,738)	(24,599)
<b>Net assets</b>	<b>40,025</b>	<b>3,734</b>
Operating profit	12,336	7,754
Operating profit (EBIT)	584	706
<b>Group share of net profit</b>	<b>45</b>	<b>526</b>

## 16. OTHER FINANCIAL ASSETS

	31.12.2008	31.12.2007
Other financial assets available for sale	11,309	434
Long-term loans to		
- third parties	1,842	-
- non-consolidated companies	3,305	3,305
- joint ventures and associated companies	5,000	-
	<b>21,456</b>	<b>3,739</b>

Other investments available for sale are recorded in the balance sheet at fair value. The fair value of other investments was established on the basis of the share price on the balance sheet date.

## 17. INVENTORY AND WORK IN PROGRESS

	31.12.2008	31.12.2007
Goods and materials	84	47
Work in progress	7,365	3,109
	<b>7,449</b>	<b>3,156</b>

# Notes to the consolidated financial statements

## 18. RECEIVABLES ARISING FROM DELIVERIES AND SERVICES

	31.12.2008	31.12.2007
Receivables from		
- third parties	172,731	176,088
- shareholders	104,952	80,964
- joint ventures and associated companies	3,650	2,209
- other related parties	439	549
Bad debt provision	(1,361)	(1,255)
	<b>280,411</b>	<b>258,555</b>

Breakdown of receivables outstanding on the balance sheet date :

	31.12.2008		31.12.2007	
	Receivables	Losses on receivables	Receivables	Losses on receivables
Due 0-30 days before	280,495	(548)	258,374	(548)
Due 31-121 days before	455	-	353	-
Due 121-365 days before	-	-	-	-
Due more than one year before	822	(813)	1,083	(707)
	<b>281,772</b>	<b>(1,361)</b>	<b>259,810</b>	<b>(1,255)</b>

Movement in bad debt provision :

	2008	2007
Balance at 1 January	(1,255)	(2,728)
Allocation	(106)	-
Appropriation	-	1,295
Release of provision	-	178
<b>Balance at 31 December</b>	<b>(1,361)</b>	<b>(1,255)</b>

## 19. OTHER RECEIVABLES AND ACCRUALS

	Note	31.12.2008	31.12.2007
VAT, withholding tax and other refundable tax		2,941	1,303
Pension fund receivables		68	218
Prepaid benefits and services		32	79
Derivative financial assets	27	39,819	1,377
Accrued interest from			
- joint ventures and associated companies		-	22
Short-term loans (advances) to			
- third parties		-	5
- shareholders		-	150
- joint ventures and associated companies		26,091	7,176
- other related parties		8,427	4,520
Other receivables and accruals from			
- third parties		48,368	17,790
- shareholders		-	31
- joint ventures and associated companies		27,696	16,820
- other related parties		117	6,269
		<b>153,559</b>	<b>55,760</b>



# Notes to the consolidated financial statements

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## 20. EQUITY

### SHARE CAPITAL

At 31 December 2008, the company's share capital comprised 1,450,000 fully paid-up registered shares each with a par value of CHF 100.-.

In accordance with the EOS HOLDING 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. 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, as well as the variation in the fair value of the financial instruments.

### DIVIDEND

At the extraordinary General Meeting of the 23 January 2009, it was decided to distribute a dividend of CHF 44.8 m (CHF 30.9 per share). The payment was done the 26 January 2009.

### CAPITAL MANAGEMENT

The Group's capital management policy aims to maintain and grow a solid capital base in order to support the continued development of the Group's business operations, with the following key drivers:

- Invest in new energy generation projects.
- Develop commercial affairs, especially through market diversification (types of energy and geographical location).
- Guarantee the solidity of the Group as a counterparty on the energy markets.
- Strengthen the Group to assure secure supply for western Switzerland.
- Guarantee an adequate return on capital for its shareholder.

Because the investment activity involves sizeable funding, the Group sustains at all times the quality of its financial market borrowings. To that end, the Group uses EBITDA to monitor its target balance sheet structure and interest coverage ratio.

The target balance sheet structure is expressed as the ration between equity and the balance sheet total. Shareholders' equity is equity including the equity attributable to minority shareholders. Interest is interest costs excluding discounting effects and impairment of other financial instruments.

At 31 December 2008 and 2007, the target balance sheet structure ratio and the interest coverage ratio were as follows :

	31.12.2008	31.12.2007
Target balance sheet structure ratio	49.0%	49.8%
Interest coverage ratio (excludes impairment reversals)	7.1	6.5

# Notes to the consolidated financial statements

## 21. FINANCIAL LIABILITIES

	<b>31.12.2008</b>	<b>31.12.2007</b>
Long-term financial liabilities	315,083	450,413
Short-term financial liabilities	307,640	122,490
	<b>622,723</b>	<b>572,903</b>

	Effective rate	Term	Fair Value <sup>1)</sup>		31.12.2008	31.12.2007
			2008	2007		
Bonds						
- CHF 300 million at 4%, due 02.2009	4.20%	1998-2009	301,079	301,691	299,605	299,139
- CHF 125 million at 2.875%, due 09.2014	3.12%	2006-2014	130,595	124,209	123,508	123,274
Borrowings from financial institutions						
- Bank	4.34%	2000-2008	-	10,003	-	10,000
- Bank	3.05%	2006-2021	10,415	9,416	10,000	10,000
- Bank	3.20%	2007-2022	8,486	7,482	8,000	8,000
- Insurance	3.54%	1998-2008	-	110,075	-	110,000
- Insurance	4.44%	2000-2010	10,285	10,292	10,000	10,000
- Bank	3.34%	2008-2011	104,825		99,898	
- Bank	3.34%	2008-2011	52,467		50,000	
- Bank	Euribor	2008-2018	16,177		16,177	
Other debts towards						
- third parties		At sight	-	2,490	-	2,490
- joint ventures and associated companies		At sight	-	-	-	-
- shareholders		At sight	5,535	-	5,535	-
<b>Total Group financial liabilities</b>			<b>639,864</b>	<b>575,658</b>	<b>622,723</b>	<b>572,903</b>

1) Fair value is based on the discounting of future cash flows at market rates. The Group's market rates are estimated from the government bond plus a risk premium of 0.5 %.

The Group had confirmed committed credit facilities with various banks for a total of CHF 365 m at 31 December 2008 (CHF 230 m at 31 December 2007)

	Total	Maturities		
		< 1 year	1-5 years	> 5 years
Confirmed credit facilities at 31.12.2008	365,000	-	365,000	-
Confirmed credit facilities at 31.12.2007	230,000	-	230,000	-

# Notes to the consolidated financial statements

## 22. PROVISIONS

	<b>31.12.2008</b>	<b>31.12.2007</b>
Long-term provisions	26'456	24,642
Short-term provisions	590	597
	<b>27'046</b>	<b>25,239</b>

	<b>Dismantling</b>	<b>Other</b>	<b>Total</b>
<b>At 01.01.2007</b>	<b>23,230</b>	<b>597</b>	<b>23,827</b>
Allocations	-	600	600
Appropriations	-	-	0
Released provisions	-	-	0
Discounting effects	813	-	813
<b>At 31.12.2007</b>	<b>24,043</b>	<b>1,197</b>	<b>25,239</b>
<b>At 01.01.2008</b>	<b>24,043</b>	<b>1,197</b>	<b>25,239</b>
Allocations	664	1,123	1,787
Appropriations	-	-	0
Released provisions	-	(7)	(7)
Discounting effects	26	-	26
<b>At 31.12.2008</b>	<b>24,733</b>	<b>2,313</b>	<b>27,046</b>

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. From 2007, this provision takes into account the discounting effect recognized under financial costs.

# Notes to the consolidated financial statements

## 23. EMPLOYEE BENEFITS

	<b>Pensions</b>	<b>Early retirement</b>	<b>Voluntary pensions</b>	<b>Total</b>
<b>At 01.01.2007</b>	<b>2,222</b>	<b>3,134</b>	<b>6,363</b>	<b>11,719</b>
Contributions paid	(2,223)	-	(658)	(2,881)
Net cost stated in profit and loss account	1,605	6	182	1,793
Released provisions	-	(16)	-	(16)
<b>At 31.12.2007</b>	<b>1,604</b>	<b>3,124</b>	<b>5,887</b>	<b>10,615</b>
<b>At 01.01.2008</b>	<b>1,604</b>	<b>3,124</b>	<b>5,887</b>	<b>10,615</b>
Contributions paid	(1,622)	-	(662)	(2'284)
Net cost stated in profit and loss account	956	447	394	1'797
Released provisions	-	(37)	(3)	(40)
<b>At 31.12.2008</b>	<b>938</b>	<b>3,534</b>	<b>5,616</b>	<b>10'088</b>
Amount recognized as a liability in the balance sheet	938	3,534	5,616	10,088

Pensions represents the Group's financial commitment to the CPE. It is the portion of the scheme asset shortfall or surplus 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 non-CPE retirement pensions and membership of the health insurance scheme.

	<b>31.12.2008</b>	<b>31.12.2007</b>
<b>Reconciliation of scheme liabilities</b>		
Discounted value of pension liability at the start of the period	208,047	206,023
Interest costs	7,215	7,089
Current service cost	3,080	2,800
Contributions of plan members	793	980
Current benefits	(7,692)	(10,750)
Actuarial gains / (losses)	(10,487)	1,906
<b>Discounted value of pension liability at the end of the period</b>	<b>200,956</b>	<b>208,048</b>

	<b>31.12.2008</b>	<b>31.12.2007</b>
<b>Reconciliation of scheme assets</b>		
Fair value of assets at the start of the period	224,320	216,577
Expected return on assets	11,084	10,640
Employer,s contributions	1,622	2,223
Contributions of plan members	793	980
Current benefits	(7,692)	(10,750)
Actuarial gains / (losses)	(57,826)	4,650
<b>Fair value of assets at the end of the period</b>	<b>172,301</b>	<b>224,320</b>

	<b>31.12.2008</b>	<b>31.12.2007</b>
<b>Effective return on scheme assets</b>		
Expected return on assets	11,084	10,640
Actuarial gains / (losses) on scheme assets	(57,826)	4,650
<b>Effective return on scheme assets</b>	<b>(46,742)</b>	<b>15,290</b>

# Notes to the consolidated financial statements

	31.12.2008	31.12.2007
<b>Pension liabilities stated in the balance sheet</b>		
Discounted value of pension liabilities	(200,956)	(208,048)
Fair value of pension plan assets	172,302	224,320
<b>Asset surplus / (shortfall)</b>	<b>(28,654)</b>	<b>16,272</b>
Unrecognized actuarial gains and losses	27,716	(10,563)
Amounts not recognized in accounts (§ 58(b) limitation)	-	(7,313)
<b>Asset surplus/ (shortfall) recognized in accounts</b>	<b>(938)</b>	<b>(1,604)</b>
Relating to scheme liabilities	938	1,604

The CPE rate of coverage, calculated in accordance with current Swiss accounting rules, was 99 % at 31 December 2008 (2007 : 127.9 %).

	31.12.2008	31.12.2007
<b>Pension charges recognized in the profit and loss account</b>		
Current service cost	3,080	2,800
Interest cost	7,215	7,089
Expected return on pension assets	(11,084)	(10,640)
Recognized actuarial losses / (gains) (§ 92 f.)	(168)	(96)
Recognized actuarial losses / (gains) (§ 58A)	9,227	(1,930)
§ 58(b) limitation effect	(7,314)	4,382
<b>Net cost of Group pension liability</b>	<b>956</b>	<b>1,605</b>

The Group expects to pay contributions amounting to kCHF 2,800 to the CPE in 2009.

	31.12.2008	31.12.2007
<b>Scheme asset components</b>		
Equity instruments - Third parties	69,452	104,107
Debt instruments - Third parties	69,994	83,043
Fixed assets neither occupied nor used	32,060	31,988
Other	795	5,182
<b>Total scheme asset components</b>	<b>172,301</b>	<b>224,320</b>

# Notes to the consolidated financial statements

		<b>31.12.2008</b>	<b>31.12.2007</b>	
<b>Actuarial assumptions</b>				
Discount rate		3.50%	3.50%	
Expected rate of return on scheme assets		4.00%	5.00%	
Future salaries increase		2.00%	1.50%	
Future pensions increase		0.50%	1.00%	
<b>Actuarial variance record</b>				
	<b>31.12.2008</b>	<b>31.12.2007</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
Discounted value of pension fund liabilities	209,668	(208,048)	(206,023)	(199,304)
Adjustment of liabilities according to experience	1,776	(1,906)	(8,792)	(1,640)
Fair value of fund assets	172,302	224,320	216,577	205,098
Adjustment of assets according to experience	(57,826)	4,650	9,874	24,315
<b>Payment to defined contributions plan</b>				
Defined contributions plan charges		1,033	70	

## 24. OTHER LONG-TERM LIABILITIES

	<b>Note</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Liabilities due to joint ventures	14	270	270
Financial option in favor of a shareholder	28	20,400	20,000
		<b>20,670</b>	<b>20,270</b>

The Group granted SIG a right to draw power and energy from its share of energy produced by the FORCES MOTRICES HONGRIN-LÉMAN SA joint venture. In contractual terms, the energy supply has been converted to a financial option. The option can be exercised as soon as the hourly price on the Leipzig EEX spot market exceeds the production cost price (strike price). The contract must be renewed from year to year, so that a return to the physical delivery of energy is possible within a year.

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 five-year horizon and the probability of a physical delivery of energy is taken into account. During 2008, kCHF 3,577 (kCHF 2,241 in 2007) of the liability was appropriated, kCHF 2,627 (kCHF 6,655 in 2007) allocated to it and the discounting impact, which appears in financial costs, amounted to kCHF 1,350 (kCHF 986 in 2007).

## 25. LIABILITIES ARISING FROM PURCHASES AND SERVICES

	<b>31.12.2008</b>	<b>31.12.2007</b>
Liabilities due to		
- third parties	163,312	170,492
- shareholders	13,728	14,759
- joint ventures and associated companies	5,487	4,365
- other related parties	10,303	4,321
	<b>192,830</b>	<b>193,937</b>

# Notes to the consolidated financial statements

## 26. OTHER LIABILITIES AND ACCRUALS

	Note	31.12.2008	31.12.2007
VAT, advance tax and other tax payable		3,213	368
Liabilities in respect of pension institutions		62	-
Salaries and other social security costs payable		1,456	3,652
Overtime and holidays payable		837	971
Derivative instruments (liabilities)	27	33,096	8,862
Accrued interest owed to			
- third parties		13,251	13,466
Other debt and transitional amounts owed to			
- third parties		84,592	12,739
- shareholders		4,678	2,013
- joint ventures and associated companies		5,029	1,059
- other related parties		64	6,849
		<b>146,278</b>	<b>49,979</b>

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

The tables below present the contractual or nominal amounts and the fair values of the derivative instruments at 31 December 2008 and 2007, by type of contract. The contractual or nominal amounts indicate the volume of business transacted on the balance sheet date and not the risk-exposed value. Fair values are determined from forward market prices or actuarial models that take account of forward prices and the historic hourly profile of expected prices based on the spot prices.

	Nominal amounts		Positive amounts		Negative amounts		Net amounts	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>Energy trading-related instruments</b>								
Forward contracts	(153,905)	(110,531)	511,474	156,877	(469,946)	(170,459)	41,528	(13,582)
Option contracts	16,139	37,537	1,436	8,848	(5,038)	(1,416)	(3,602)	7,432
Capacity contracts	7,319	15,475	1,340	-	(2,416)	(2,234)	(1,076)	(2,234)
Futures	5,268	34,563	2,291	5,371	(455)	(5,849)	1,836	(478)
<b>Total</b>	<b>(125,179)</b>	<b>(22,956)</b>	<b>516,541</b>	<b>171,096</b>	<b>(477,855)</b>	<b>(179,958)</b>	<b>38,686</b>	<b>(8,862)</b>
<b>Swap instruments</b>								
Forward swap contracts	42,830	(9,951)	485	1,047	(1,015)	(669)	(530)	378
<b>Total</b>	<b>42,830</b>	<b>(9,951)</b>	<b>485</b>	<b>1,047</b>	<b>(1,015)</b>	<b>(669)</b>	<b>(530)</b>	<b>378</b>
<b>Interest rate instrument</b>								
CAP	150,000	100,000	0	690	(61)	0	(61)	690
<b>Total</b>	<b>150,000</b>	<b>100,000</b>	<b>0</b>	<b>690</b>	<b>(61)</b>	<b>0</b>	<b>(61)</b>	<b>690</b>
<b>Total derivative instruments</b>	<b>67,651</b>	<b>67,093</b>	<b>517,026</b>	<b>172,833</b>	<b>(478,931)</b>	<b>(180,627)</b>	<b>38,095</b>	<b>(7,794)</b>

# Notes to the consolidated financial statements

The Group hedges future cash flows relating to predicted electricity, gas, coal and CO<sup>2</sup> purchases and sales. The fair value is the closing price on the EEX stock exchange.

In 2008, the cash flow hedges relating to future CO<sub>2</sub> purchases were assessed as being highly effective and a latent loss of KCHF 31,372 (in 2007 a latent gain of KCHF 309) for the hedging instruments, net of deferred tax liabilities, has been recognised under shareholders' equity. The amount recognised in the profit and loss account for the hedging instruments for 2008 was a profit of KCHF 3,933 before tax (a loss of KCHF 10,128 in 2007).

At 31 December 2008, the hedged risk is identified as the movement in the price of CO<sub>2</sub> certificates for 2009 to 2012, the movement of the price of coal for 2009-2010 and the EUR/USD exchange rate risks relating to these two hedges.

Derivative instruments qualifying as hedges	Nominal amounts		Positive amounts		Negative amounts		Net amounts	
	2008	2007	2008	2007	2008	2007	2008	2007
Gas swaps	81,465	-	216	-	(18,832)	-	(18,616)	-
CO2 swaps	50,814	33,278	48	520	(13,937)	(211)	(13,889)	309
EUR/USD swaps	92,409	-	2,141	-	(1,008)	-	1,133	-
<b>Total derivative instruments qualifying as hedges</b>	<b>224,688</b>	<b>33,278</b>	<b>2,405</b>	<b>520</b>	<b>(33,777)</b>	<b>(211)</b>	<b>(31,372)</b>	<b>309</b>

## 28. BUSINESS COMBINATION

In 2008, the following companies were acquired and integrated into the financial statements of the Group:

27.06.2008	100.0%	SAS LE BAYET	St-Paul-s/Isère (F)
29.07.2008	100.0%	CEPE LES GRAVIERES	Vergigny (F)
14.11.2008	100.0%	NARZOLE ENERGIE UNIPERSONAL S.R.L.	Turin (I)

The total acquisition price was CHF 48 m and has been allocated to the balance sheet as follows :

	Carrying amount (IFRS)	Fair value
Tangible fixed assets	31,036	37,924
Intangible fixed assets	-	46,385
Financial assets	2,101	2,101
Other current assets	216	216
Cash and cash equivalents	536	536
Financial liabilities (short- and long-term)	(17,751)	(17,751)
Other liabilities (short- and long-term)	(2,935)	(2,935)
Deferred tax liabilities	(741)	(18,322)
<b>Acquired net assets</b>	<b>12,461</b>	<b>48,154</b>

Net cash flow relating to acquisitions :

- Cash from investments	536
- Acquisition costs	(48,154)
<b>Net cash flow</b>	<b>(47,618)</b>

Since their integration into the Group, the companies acquired have contributed CHF 3 m to turnover and CHF 0.5 m to net income.

If these companies had been acquired at the start of the accounting period, they would have increased the consolidated turnover by CHF 5.2m (CHF 4.7 m in 2007) and net income by CHF 0.6 m (CHF 0.5 m in 2007).

In 2007, the Group did not integrate any company into its accounts.



# Notes to the consolidated financial statements

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## 29. OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT

In Its business operations, the Group is exposed to financial risks : market risks (including foreign exchange rate risks, interest rate risks, and energy price-related risks), credit risks and cash risks. The Executive Management monitors these risks regularly for changes.

The internal funding and treasury rules approved by the Board of Directors set out the financing, exchange and interest-rate cover 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.

### MARKET RISKS

#### 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. These financial derivatives involved EUR and USD-denominated commodity transactions for coal and CO<sub>2</sub>.

At 31 December 2008 and 2007, with a variation of +/-5 % between the EURO/USD and the Swiss franc, all other variables remaining constant, the impact on shareholders' equity and pre-tax profit would have been as follows :

	Shareholders' equity	Pre-tax profit
<b>31.12.2008</b>		
Euro	694	11,655
USD	931	-
<b>31.12.2007</b>		
Euro	15	5,665
USD	-	-

# Notes to the consolidated financial statements

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## 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.

At 31 December 2008 and 2007, the Group had no funding at variable rates of interest. The Group's exposure to interest rate risks from cash and derivative instruments is not significant.

## 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 changes 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 appropriate. 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 the Executive Management. To that end, spot and forward deals are spread across portfolios that have exposure limits ; these limits are monitored daily by a Risk Management Department that is an independent entity in the organization.

Value-at-Risk (VaR) is a measure of the price risk on a forward position. This measure is a way of discovering the maximum loss on a portfolio of market-listed forward or future products with statistical certainty (set by the Group at 99%) over a period of time (set at two days). In other words, the VaR calculated by Risk Management answers the question : "what is the maximum loss – with 99% confidence – that the open position under consideration could produce in two days ?" So, if a decision to liquidate a position or a portfolio were to be taken, this risk measurement is the one to use because the purchase or sale of open positions could be done using forward products.

The estimated potential loss based on instruments exposed to energy-price related risk was CHF 6.64 m at 31 December 2008 and CHF 9.19 m at 31 December 2007.

## CREDIT 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 energy market counterparties who meet strict criteria of creditworthiness. A credit line is established for each counterparty based on financial solidity. If the counterparty's financial solidity is not adequate, the Group requires guarantees : bank guarantees from first-class European banking institutions, joint guarantee from the parent company or cash margin calls to suit the exposure. Counterparty risk exposure, defined as the sum of invoices outstanding and the replacement value of the open positions, is regularly monitored and compared with the credit line previously set by the Executive Management or, if necessary, the amount of the guarantee obtained.

The amount given for financial assets shows the maximum credit exposed to credit risk .

	<b>31.12.2008</b>	<b>31.12.2007</b>
Other investments available for sale	11,309	434
Short-term receivables	280,411	258,555
Long-term loans	10,147	3,305
Cash and cash equivalents	208,591	138,143
Interest swaps - assets	-	690
Forward contracts - assets	-	378
	<b>510,458</b>	<b>401,505</b>

# Notes to the consolidated financial statements

## CASH RISK

The cash risk is defined as the risk that the Group will not be able to meet its obligations in time or at a reasonable price. Group Treasury is responsible for cash, for finance and for the management of due dates. The Group's cash situation is managed through its cash flow and committed credit facilities with various banks totaling CHF 365 m at 31 December 2008 and CHF 230 m at 31 December 2007.

The table below contains information about the due dates of financial assets and liabilities excluding trade payables and receivables at 31 December 2008 and 2007, based on non-discounted contractual payments.

31 December 2008	Due or with a due date not greater than one month	Due dates between 1 and 12 months	Due dates between 1 and 5 years	Due dates greater than 5 years	Total
<b>Assets</b>					
Financial loans	26,108	285	1,043	4,327	31,763
Derivative instruments	-	-	296,244	-	296,244
Cash flow	208,590	-	-	-	208,590
<b>Total assets</b>	<b>234,698</b>	<b>285</b>	<b>297,287</b>	<b>4,327</b>	<b>536,597</b>
<b>Liabilities</b>					
Financial liabilities	46,518	314,680	181,840	179,834	722,872
Derivative instruments	-	-	153,905	-	153,905
<b>Total liabilities</b>	<b>46,518</b>	<b>314,680</b>	<b>335,745</b>	<b>179,834</b>	<b>876,777</b>

31 December 2007	Due or with a due date not greater than one month	Due dates between 1 and 12 months	Due dates between 1 and 5 years	Due dates greater than 5 years	Total
<b>Assets</b>					
Financial loans	11,851	-	366	3,458	15,675
Derivative instruments	-	-	120,853	-	120,853
Cash flow	138,143	-	-	-	138,143
<b>Total assets</b>	<b>149,994</b>	<b>0</b>	<b>121,219</b>	<b>3,458</b>	<b>274,671</b>
<b>Liabilities</b>					
Financial liabilities	12,924	111,944	395,763	172,748	693,379
Derivative instruments	-	-	120,482	-	120,482
<b>Total liabilities</b>	<b>12,924</b>	<b>111,944</b>	<b>516,245</b>	<b>172,748</b>	<b>813,861</b>

# Notes to the consolidated financial statements

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## 30. RELATED PARTY TRANSACTIONS

### SHAREHOLDERS

The Group carries on an essential part of its business with the shareholders of EOS Holding who is, at 18 April 2009, shareholder of Alpiq Holding SA with 31.38%. The Group buys and sells short- and long-term electricity from and to them, supplies them with power transmission services and obtains “associated” services (top-up power supply and provision of services) on their behalf. In addition, some shareholders have entrusted the Group with the management of commercial and / or trading portfolios. All these services are provided between the parties at arm’s length prices.

#### **Agreements with shareholders**

In March 2001, EOS, a subsidiary of EOS HOLDING, signed with its “shareholder-clients” at that time (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 contained the arrangements intended to ensure the financial continuity of the company under a long-term plan approved by its shareholders.

Under the framework agreement, from the effective date of 1st October 2001 and for a further period of six years (that is, until 30 September 2007), the “shareholder-clients” were 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 agreements, from 1st October 2007 to 31 December 2030, the “shareholder-clients” are 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 into 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’ 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 1st October 2001 and 30 September 2004, i.e. a total of CHF 380 m. For 2008, the “shareholders-clients” exercised their right, and the price difference for the period and cumulatively at 31 December 2008 was CHF 78 m (CHF 11 m in 2007) and the balance at 31 December 2008 was CHF 291 m (CHF 369 m at 31.12.2007).

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 came into effect on 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.

#### **Right to draw power and energy from its share of the electricity production of the FORCES MOTRICES HONGRIN-LÉMAN SA joint venture.**

The Group granted SIG a right to draw power and energy from its share of energy produced by the FORCES MOTRICES HONGRIN-LÉMAN SA joint venture. 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 contractual terms, the energy supply has been converted to a financial option, renegotiable from year to year (see Note 24).

#### **Relations with EOS HOLDING**

Some of the Group’s executive leadership tasks 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.

# Notes to the consolidated financial statements

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## **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 costs.

Accounting and financial information pertaining to the joint ventures is presented in Note 14.

### **ASSOCIATED COMPANIES**

The management and co-ordination of the national and international VHV transmission networks have 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 15.

### **OTHER RELATED PARTIES**

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.

HYDRO EXPLOITATION SA is responsible for the maintenance and operation of the Group's hydropower 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 didn't received any remuneration in 2008.

## **31. UNCERTAINTY OF ACCOUNTING ESTIMATES**

At each balance sheet date, the recoverable amount of the generating and supply assets held by the Group, and of the financial option, is estimated. This amount is based on assumptions about future estimated electricity prices. At 31 December 2007, the Group reversed impairments recognized during prior periods (see Note 11).

Changes in electricity prices could have a considerable influence on the future valuation of the generation and supply assets. The composition of these assets and their carrying amounts are :

	<b>Notes</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
• Tangible fixed assets (generating facilities)	12	119,460	89,615
• Intangible fixed assets (rights of use and drawing rights)	13	415,324	409,390
• Joint ventures	14	803,517	805,602
• Financial option	24	20,400	20,000

# Notes to the consolidated financial statements

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## **32. 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 will be due between now and 2011. The discussions presently taking place with the partner make it impossible to estimate reliably the impact this may have on the Group's financial situation and no liability has therefore been recognized.

Apart from the above point, the Group has no commitments other than those given under relations with joint ventures (Note 14).

## **33. ENERGY GROUP WEST (EGW/PSO)**

The Board of Directors of Atel Holding, EOS Holding and EDF International decided in December 2008 on the business combination of Atel and EOS and to incorporate the energy drawing rights and obligations of the 50 % stake held by EDF in Emission SA. The relevant agreements were signed by all parties on 18 December 2008 after the markets closed.

The Extraordinary General Meeting of Atel Holding AG on 27 January 2009 made the following decisions in connection with the merger: (1) To change the company name from "Atel Holding AG" to "Alpiq Holding AG"; (2) To move the registered office of Alpiq Holding AG from "Olten" to "Neuenburg"; (3) To cancel the 314,286 registered Alpiq Holding AG shares held by Aare-Tessin AG für Elektrizität by reducing the capital, this capital reduction to be completed at the earliest after the statutory notice period of 2 months, and (4) To dismiss three former Boards of Directors and appoint five new Boards of Directors. The abovementioned changes to the articles of association (change of corporate name, change of registered office) and the capital increase were entered in the Trade Register of Neuenburg Canton on 28 January 2009.

At its constituent meeting on 27 January 2009, the Board of Directors of Alpiq Holding AG agreed to increase the share capital of Alpiq Holding AG from CHF 218,379,180 to CHF 275,041,590 by issuing a total of 5,666,241 fully paid-up registered shares with a par value of CHF 10. Alpiq Holding SA also carried out the resumption of the assets of EOS Holding, in particular the entirety of the share capital of EOS SA as well as her subsidiaries.

## 4. 2008 Corporate financial statements

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To the General Meeting of  
Energie Ouest Suisse (EOS), Lausanne

Lausanne, 17 March 2009

### Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Energie Ouest Suisse (EOS), which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes for the year ended 31 December 2008.

#### *Board of Directors' responsibility*

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

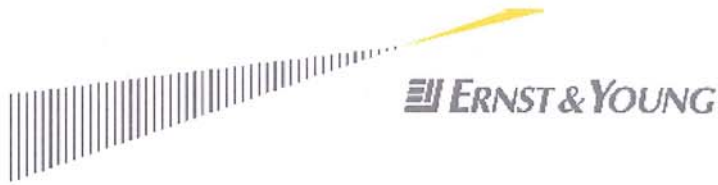
#### *Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## 4. 2008 Corporate financial statements

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2

### *Opinion*

In our opinion, the consolidated financial statements for the year ended 31 December 2008 give a true and fair view on the financial position, the result of operations and the cash flow in accordance with IFRS and comply with Swiss law.

### **Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

Ernst & Young Ltd

A blue ink signature of Pierre Delaloye, consisting of several loops and a long horizontal stroke at the end.

Pierre Delaloye  
Licensed audit expert  
(Auditor in charge)

A blue ink signature of Pierre-Alain Coquoz, featuring a large, stylized 'P' and 'A' followed by 'Coquoz'.

Pierre-Alain Coquoz  
Licensed audit expert



## 4. 2008 Corporate financial statements

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Proposed appropriation of balance sheet profit	51
Balance sheet	52-53
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Auditors' report	58-59

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

## Profit and loss account

	2008	2007
Net turnover	3,352,887	2,240,321
Other operating income	37,095	22,441
<b>Total operating income</b>	<b>3,389,982</b>	<b>2,262,762</b>
Energy purchases	(3,073,312)	(2,009,619)
Materials and purchases	(7,999)	(16,778)
Personnel expenses	(18,254)	(26,582)
Depreciation	(33,623)	(44,673)
Other operating expenses	(73,882)	(49,694)
<b>Total operating expenses</b>	<b>(3,207,070)</b>	<b>(2,147,346)</b>
<b>Earnings before interest and tax (EBIT)</b>	<b>182,912</b>	<b>115,416</b>
Interest income	34,490	8,790
Financial costs	(42,300)	(23,308)
<b>Net financial cost</b>	<b>(7,811)</b>	<b>(14,518)</b>
<b>Earnings before tax (EBT)</b>	<b>175,101</b>	<b>100,898</b>
Income tax	(54,506)	(23,141)
<b>Ordinary profit</b>	<b>120,595</b>	<b>77,757</b>
Extraordinary income		
from realisation of assets	-	1,131
Exceptional drawdown of provisions	-	182,285
Other extraordinary income	1,334	-
<b>Total extraordinary income</b>	<b>1,334</b>	<b>183,416</b>
Other extraordinary expenses	(3,637)	(92)
<b>Total extraordinary expenses</b>	<b>(3,637)</b>	<b>(92)</b>
<b>Net profit</b>	<b>118,291</b>	<b>261,081</b>

## Proposed appropriation of balance sheet profit

---

	2008	2007
Carry forward at beginning of period	477,415	216,334
Profit for the period	118,291	261,081
Dividend of the 26 January 2009 (*)	(44,787)	-
<b>Balance sheet profit</b>	<b>550,919</b>	<b>477,415</b>
Allocation to the general reserve	-	-
<b>Balance carried forward</b>	<b>550,919</b>	<b>477,415</b>

(\*) At the extraordinary General Meeting of the 23 January 2009, it was decided to distribute a dividend of CHF 44.8 m.

# Balance sheet

	31.12.2007	31.12.2007
<b>ASSETS</b>		
Plants in operation	310,984	599,487
Buildings	55,115	63,350
Current projects	97,827	70,582
<b>Total tangible fixed assets</b>	<b>463'925</b>	<b>733,419</b>
Third part energy usage and energy drawing rights etc	192,074	245,961
Other fixed assets	16,330	12,492
Projects under development	3,997	7,740
<b>Total intangible fixed assets</b>	<b>212,401</b>	<b>266,193</b>
Shareholdings	468,688	316,983
Loans to group companies	274,263	3,304
<b>Total financial assets</b>	<b>742,951</b>	<b>320,287</b>
<b>Total fixed assets</b>	<b>1,422,378</b>	<b>1,319,899</b>
Work in progress and services to be charged	4,306	3,543
<i>Receivables from sales and services to :</i>		
Third parties	153,259	160,436
Related companies / shareholders	84,666	80,598
Group companies	25,340	3,426
<i>Other receivables from :</i>		
Third parties	1,561	1,900
Group companies	50'810	12,167
Cash and securities	189,188	142,293
<i>Accrued assets in respect of :</i>		
Third parties	91,790	19,494
Group companies	13,540	20,779
<b>Total current assets</b>	<b>614,460</b>	<b>444,636</b>
<b>Total assets</b>	<b>2,033,738</b>	<b>1,764,535</b>

# Balance sheet

	<b>31.12.2008</b>	<b>31.12.2007</b>
<b>LIABILITIES</b>		
Share capital	145,000	145,000
General statutory reserve	72,500	72,500
Special reserve	11,689	11,689
<i>Balance sheet profit :</i>		
Carry forward at start of period	477,415	216,334
Profit for the period	118,291	261,081
<b>Total shareholders' equity</b>	<b>824,895</b>	<b>706,604</b>
Amortization provision for right of restitution	591	591
Other provisions	207,188	220,044
<b>Total provisions</b>	<b>207,779</b>	<b>220,634</b>
Bonds and similar items	273,406	423,273
Other liabilities towards third parties	-	-
Other liabilities towards related companies / shareholders	20,400	20,000
Borrowing from group companies	2,650	2,650
<b>Total long-term liabilities</b>	<b>296,456</b>	<b>445,923</b>
Short-term borrowings and financial liabilities		
Third parties	300,000	112,490
<i>Purchases and services payable to :</i>		
Suppliers	160,245	172,390
Related companies / shareholders	13,779	14,781
Group companies	20,720	9,668
<i>Other debt in respect of :</i>		
Third parties	44,472	18,358
Related companies / shareholders	6,160	34
Group companies	32,316	18,053
<i>Accrued liabilities in respect of :</i>		
Third parties	73,543	27,626
Related companies / shareholders	2,949	1,770
Group companies	37,608	3,599
Accrued interest	12,816	12,606
<b>Total short term liabilities</b>	<b>704,608</b>	<b>391,374</b>
<b>Total liabilities</b>	<b>2,033,738</b>	<b>1,764,535</b>

# Annex

## Shareholdings

	Registered office	Capital	Activity	Control		Interest	
				2008	2007	2008	2007
Energie Electrique du Simplon SA	Simplon-Dorf	8'000	P	80.0	80.0	80.0	80.0
* 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
EOS Réseau SA	Lausanne	200	T	100.0	100.0	100.0	100.0
EOS France S.A.S	Toulouse (F)	EUR 7'785	H	100.0	0.0	100.0	0.0
Biogas neu Kosenow GmbH & Co KG	Hambourg (D)	EUR 190	P	100.0	0.0	100.0	0.0
Eole Jura SA	Delémont	100	P	100.0	0.0	100.0	0.0
NARZOLE ENERGIE UNIPERSONAL S.R.L	Turin (I)	EUR 10	P	100.0	0.0	100.0	0.0
* Grande Dixence SA	Sion	300'000	P, H	60.0	60.0	60.0	60.0
* Cleuson-Dixence, société simple	Sion	-	P	31.8	31.8	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 Participation SA	Berne	150'000	P	33.3	33.3	33.3	33.3
* Forces Motrices de Martigny-Bourg SA	Martigny	3'000	P	18.0	18.0	18.0	18.0
* Centrale Nucléaire de Leibstadt SA	Leibstadt	450'000	P	5.0	5.0	5.0	5.0
Forces Motrices de Fully SA	Fully	800	P	28.0	28.0	28.0	28.0
Etrains SA	Laufenbourg	7'500	T	14.5	14.5	14.5	14.5
Swissgrid SA	Laufenbourg	15'000	T	13.9	13.9	13.9	13.9
ARA Biogaz Brokenlande GmbH & Co ARA Bioenergie Brokenlande GmbH & Co	Hambourg (D)	EUR 630	P	23.8	23.8	23.8	23.8
Yfrégie SAS	Hambourg (D)	EUR 630	P	23.8	0.0	23.8	0.0
S.E.R.H.Y. SAS société d'études et de réalisations hydroélectriques	Paris (F)	EUR 25'000	P	20.0	0.0	20.0	0.0
KohleNusbaumer SA	St-Amans-Soult (F)	EUR 1'540	H, P, S	35.5	0.0	35.5	0.0
	Lausanne	100	S	35.0	0.0	35.0	0.0

P Production

T Transport

C Commercialisation

S Prestations de services

H Holding

\* See guarantee obligations towards third parties

# Annex

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## Integration of CLEUSON-DIXENCE simple partnership

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

## Guarantee obligations towards third parties

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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 amortization and provisions necessary for the repayment of bonds.

<b>Fire insurance for fixed assets</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
	570,788	570,788

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

<b>Bonds</b>	<b>31.12.2008</b>	<b>31.12.2007</b>	
	Maturity date		
4 % 1998/2009	10.02.2009	300,000	300,000
2 7/8 % 2006/2014	22.09.2014	125,000	125,000
		<b>425,000</b>	<b>425,000</b>

<b>EOS shareholders</b>	<b>31.12.2008</b>	<b>31.12.2007</b>	
Name			
	<b>% du capital</b>	<b>Par value of share total</b>	<b>Par value of share total</b>
EOS HOLDING, Lausanne	100.0%	145,000	145,000
From 28 January 2009, EOS shareholders are :			
Alpiq Holding SA, Neuchâtel	80%		
Aare et Tessin SA pour l'Electricité, Olten	20%		

## Contingent liabilities

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With the exception of those mentioned in Notes 30 and 32 of the consolidated financial statements, there are no other contingent liabilities.

# Annex

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## **Pension liabilities**

**31.12.2008**

**31.12.2007**

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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 99 % at 31 December 2008.

Liabilities towards pension institutions.

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## **Derivative instruments**

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Information concerning derivative instruments is given in Note 27 to the consolidated financial statements. The disclosure relates solely to EOS.

## **Transactions with EOS HOLDING shareholders**

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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 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. . For 2008, the "shareholders-clients" exercised their right, and the price difference for the period and cumulatively at 31 December 2008 was CHF 78 m (CHF 11 m in 2007) and the balance at 31 December 2008 was CHF 291 m (CHF 369 m at 31.12.2007).

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**

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On 12 December 2000, the Cleuson-Dixence facility penstock, which brings water from the Grande Dixence dam to the Bieudron power plant, burst. Bringing the plant back into service requires complete reconstruction of the pressure shaft lining and other work amounting to an investment of about CHF 365m before building loan interest. The design and engineering work started in 2004. The first phase of the civil engineering work has been completed and the sheet-metalworking phase began mid-2007. The project, whose size and security requirements make it exceptional, is running to time and budget. The facility is expected to be brought back into operation in 2010.

Following the accident, the owners of the damaged plant (EOS and GD) began civil proceedings against the consortium that supplied and delivered the shaft lining, claiming damages equal to the cost of reconstruction and loss of earnings. However, given various circumstances, an out-of-court settlement was reached at the start of 2008 and the agreed compensation, subject to a confidentiality clause, has been recognised in the 2007 accounts.

# Auditors' report

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To the General Meeting of  
Energie Ouest Suisse (EOS), Lausanne

Lausanne, 17 March 2009

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Energie Ouest Suisse (EOS), which comprise the balance sheet, income statement and notes for the year ended 31 December 2008.

### *Board of Directors' responsibility*

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## *Opinion*

In our opinion, the financial statements for the year ended 31 December 2008 comply with Swiss law and the company's articles of incorporation.

## **Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Art. 728 Code of Obligations (CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

A blue ink signature of Pierre Delaloye, consisting of several loops and a long horizontal stroke.

Pierre Delaloye  
Licensed audit expert  
(Auditor in charge)

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