



Annual Report 2010

Creos Luxembourg S.A.

Registered as a société anonyme (public limited company) under
Luxembourg law with capital of EUR 198,851,260
Luxembourg Trade and Companies' Register B 4513

Annual General Meeting of 11 May 2010

Reports presented to the annual general meeting of shareholders by
the Board of Directors and the independent auditors

Reports and annual accounts for the 2010 financial year



Index

I	Introduction	7
1	Group Structure	10
2	Mission and Values	11
3	Key Figures	12
4	Corporate Governance Bodies of the Company	13
5	Message by Chairman & Managing Director and CEO	14
II	Management Report	17
1	Financial Results - Creos Luxembourg S.A	18
2	Internal Organisation	20
3	Evolution of Energy Demand: Networks	21
4	Technical Activity	28
5	Non-Discriminatory Treatment of Customers	48
6	The Environment	49
7	Human Resources	52
8	Health, Safety and Environment (HSE)	54
9	Creos Deutschland GmbH	55
III	Annual Accounts	61
1	Balance Sheet	62
2	Profit and Loss Account	64
3	Notes to the Annual Accounts	66
4	Independent Auditor's Report	76



The dispatching facility at Heisdorf, electricity and natural gas networks



I Introduction

Creos Luxembourg Regional Centres

Electricity Service

The Grand Duchy of Luxembourg is fed with electricity via two connections to the 220 kV high tension network in Germany from substations at Quint and Bauler. Electricity is routed to 220/65 kV transformer substations at Flébour, Roost, Heisdorf, Bertrange and Schifflange, for distribution at 65 kV to some 64 65/20 kV distribution substations and certain clients.

Remote control and management of the high and medium tension network is by Dispatching, located at Heisdorf.

The majority of professional and residential clients are fed at 20 kV and 400 V. For proximity reasons and for speed of intervention, operation of the low and medium-tension networks (20 kV and 400 V) has been spread geographically between several Regional Centres: Schifflange for the south of the country, the 'Elektrizitéitswierk' centre for the City of Luxembourg, Heisdorf for the central region (except the City of Luxembourg) and Wiltz for the north of the Grand Duchy.

The tasks of these Centres include the construction, operation, maintenance and breakdown service of the 20 kV and 400 V networks in their region of activity.



Natural Gas Service

Luxembourg is supplied with natural gas via the interconnected network extending throughout Europe. The principal natural gas producers are Russia, Norway and the Netherlands. The Luxembourg network has connection points with Germany, Belgium and France.

Remote control of the grid is carried out by the Dispatching located in Heisdor.

By virtue of the Creos high-pressure pipeline, natural gas is distributed to some sixty communes in the Grand Duchy. The natural gas is reduced to medium or low pressure in pressure reducing stations. Distribution pipelines are operated at a pressure of 20 to 50 mbar.

The Contern Centre brings together the low and medium-pressure services of the former Luxgaz. It sees to the planning, realisation, operation, maintenance and breakdown service of the natural gas distribution networks in 46 communes around the country served by Creos.

The Rue Bouillon Centre in Hollerich, integrated into Creos since 1 January 2011, is responsible for the planning, realisation, operation, maintenance and breakdown service of the Creos network in the City of Luxembourg.

In this Annual Report you will find snapshots of the various Creos Regional Centres as well as the trades of the qualified personnel, from reading electricity and natural gas meters, through overhauling, repairing and maintaining electricity networks and natural gas pipelines to connecting to electricity and natural gas.

We wish you good reading.

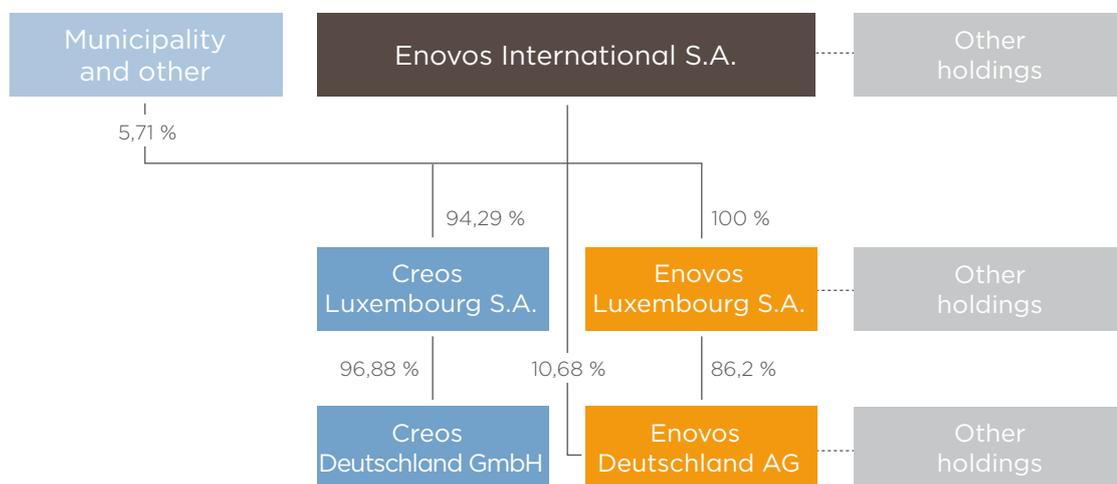


Creos Centre Directors.

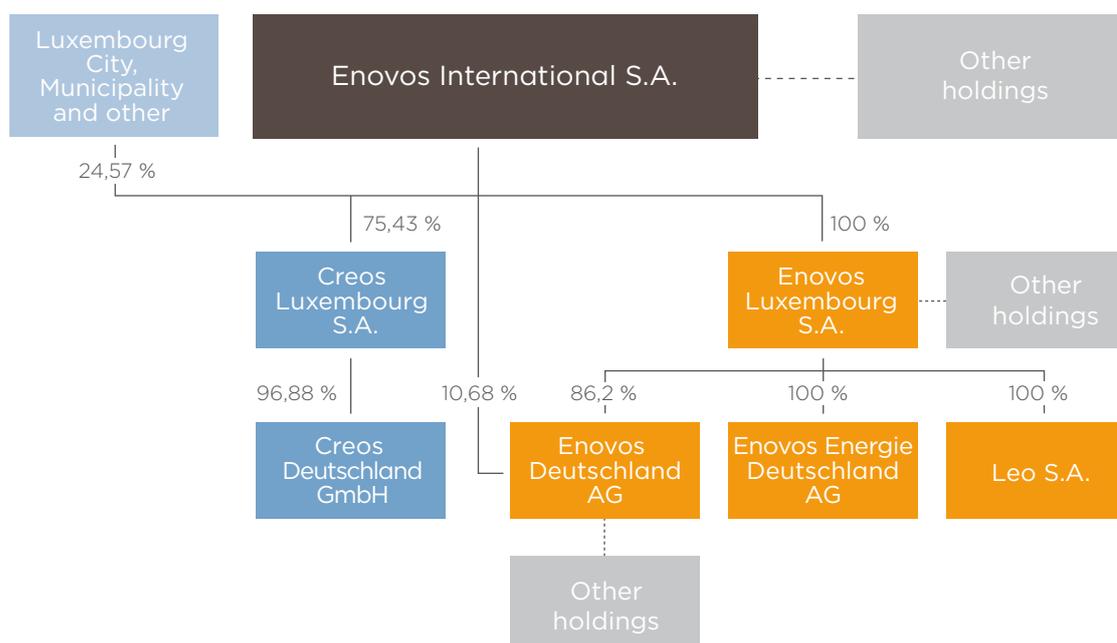
From left to right: Henri Besenius, Marco Oms, Pascal Van Dyck, Jean-Jacques Kieffer, Yves Mathay, Pierre Wilmes, Marco Ensich, Louis Philippe, Georges Reuter. (Absent: Marco Schon)

1 Structure of the Enovos Group

as at 31 December 2010



as at 1 January 2011



2 Mission and Values

The Creos mission is, reliably and at competitive prices, to ensure the transport and distribution of energy through the electricity supply and distribution networks and the natural gas pipelines in the Grand Duchy of Luxembourg.

The company performs that task in a non-discriminatory manner fulfilling its obligations to protect the environment.

Creos is aware that certain values are vital to the performance of its tasks. Indeed, its desire is to create an image in the minds of citizens based on the quality of the services it provides.

To that end, it calls upon the skills and efficiency of its personnel for whom it endeavours to establish motivating working conditions guaranteeing their health and safety.



The pipeline centre at the dispatching facility in Heisdorf

3 Key Figures

Key Figures for Creos Luxembourg S.A. (under Lux GAAP)		2010	2009
Net turnover :	€	161,227,339	157,117,467
EBITDA :	€	74,213,380	68,192,286
EBIT :	€	41,755,757	36,111,782
Net profit for the year :	€	22,795,117 ⁽¹⁾	47,710,524
Electricity:			
Electricity flow :	GWh	4,875,4	4,646,9
Electricity network peak :	MW	763,3	739,6
Total network length :	Km	7,587,2	7,524,5
Natural gas :			
Total gas network capacity :	Nm ³ /h	274,500	275,360
Gas network peak :	Nm ³ /h	272,078	270,996
Volume transported :	GWh	15,459.0	14,376.4
Network length :	Km	1,368.8 ⁽²⁾	410.7
Workforce (end of year) :		436 ⁽³⁾	393

⁽¹⁾ Net profit in 2010 includes an exceptional charge of EUR 13,452,645 resulting from integration of the activities of Luxgaz Distribution S.A in 2010 (cf. Note 19 to the financial statements). In 2009, it included the proceeds of a disposal of the holding in the reinsurance company Watt Re S.A. for an amount of EUR 19,077,244.

⁽²⁾ Including the distribution network of Luxgaz Distribution S.A. integrated in 2010.

⁽³⁾ After integration of the personnel of Luxgaz Distribution S.A.

The financial year corresponds to the calendar year.

4 Corporate Governance Bodies of the Company

Corporate Governance Bodies of the Company as at 31 December 2010



Etienne Schneider
Chairman and
Managing Director



Romain Becker
Managing Director
and CEO

Board of Directors of Creos Luxembourg S.A. as at 1 January 2011

Etienne Schneider	Chairman and Managing Director
Nico Wietor	Vice-Chairman of the Board
Guy Arend	Member of the Board
Romain Becker	Managing Director and CEO
Patrick Colling	Member of the Board
Fernand Felzinger	Member of the Board
Manfred Fess	Member of the Board
Stephan Kamphues	Member of the Board
Thierry Kuffer *	Member of the Board
Marc Leonhard	Member of the Board
Roland Michel	Member of the Board
Jacques Mischo	Member of the Board
Georges Molitor	Member of the Board
René Reiter	Member of the Board
Christiane Schaul *	Member of the Board
Jean Schiltz *	Member of the Board
Claude Seywert	Member of the Board
Patrick Thein	Member of the Board
François Thoumsin	Member of the Board
Tom Eischen	Government Commissioner for Energy

* Mr Kuffer, Mrs Schaul and Mr Schiltz have been members of the board of directors since 1 January 2011 and represent the City of Luxembourg.

5 Messages from the Chairman and Managing Director and the CEO

Ensuring the high security of supply and distribution whilst remaining competitive, throughout the past year the network management company Creos Luxembourg S.A. and its German subsidiary Creos Deutschland GmbH performed their principal task without failing in their duty.

**Etienne Schneider,
Chairman & Managing Director**



Creos bases its image on the quality of the services it provides. This widely praised philosophy was transposed into reality day after day thanks to the skill, efficiency and commitment of the 700 members of staff.

In addition to the eagerness to perform this principal task with the diligence of a professional manager, 2010 was a year for the creation of synergies in the interests of our customers.

The purchase by Creos Luxembourg S.A. of the natural gas networks of Luxgaz Distribution S.A. enabled the company to strengthen its transport network with a distribution network, to the benefit of its end users.

The integration of the electricity and natural gas networks of the City of Luxembourg and its teams into Creos Luxembourg S.A. is aimed at achieving a sharing of resources in order to optimise the planning and management of the networks in the interests of all customers. The synergies arising will thus contribute to guaranteeing the quality of services in performing the public service task entrusted to Creos.

The contribution of the networks of the City of Luxembourg will strengthen the position of the Creos public shareholder structure. This development is logical in that the main task of the network manager is to provide a public service, i.e. to guarantee the long-term supply of energy to the country and its capital.

At another level, and in view of the regulation of the energy markets on a national and a European scale, Creos has introduced considerable adaptation and harmonisation processes. These EU Directives aim to ensure market transparency and to guarantee reasonably priced supplies.

Preparing for the future

All the studies relating to the evolution of energy demand in Europe predict an increase in the consumption of natural gas and above all electricity over coming years. As a consequence, Creos Luxembourg S.A. must face the challenge of ensuring energy supply through the strengthening of its networks in collaboration with neighbouring countries.

Increased reliance on alternative energies, achieved in particular with vast farms on the North Sea, subjects the European distribution network to new demands and necessitates a considerable strengthening of European interconnections.

Particular attention will be paid to the development of so-called “intelligent” electricity distribution networks (smart grids) which, on the basis of the latest information technologies, will optimise distribution in order better to balance supply and demand.

In this regard, the gradual replacement of classic meters by “intelligent” meters (smart meters) will encourage end users to optimise their energy consumption and therefore to reduce their bills. Thanks to these efforts and to an ambitious investment programme, the Enovos Group is contributing to the reduction of greenhouse gas emissions whilst realising its vision for the electricity sector, namely to be “carbon exempt” by 2050.

To achieve that end, and to meet the needs of European energy policy, renewable energy sources must by 2020 represent 20% of final energy consumption, CO₂ emissions must be reduced by 20%, and energy efficiency must be improved by 20%.

The challenge is clear, and can serve as a framework for our development programmes: energy infrastructures must be modernised, electricity networks are to be transformed into smart grids, and the supply of natural gas must be strengthened and diversified.

Romain Becker,
Managing Director and CEO





The regional natural gas Centre in Contern





II Management Report



1 Financial Results of Creos Luxembourg S.A.

Summary of the Annual Accounts (according to Lux GAAP)

Turnover reached 161.2 M€ in 2010, up 2.6% on 2009. This increase is principally explained by integration of the network activity of Luxgaz Distribution S.A. in May 2010, and its favourable effect on turnover in the order of 3.5 M€.

The current operating result (EBITDA) was 74.2 M€ in 2010, up 8.8% on 2009.

In 2010, net income was 22.8 M€, down on 2009 (47.7 M€), following a net exceptional charge of 13.5M€ resulting from the Luxgaz Distribution S.A. merger transaction, whilst in 2009 it included the proceeds of a disposal of the holding in the reinsurance company Watt Re S.A. for an amount of 19 M€.

The Board of Directors proposes to the General Meeting of Shareholders that a dividend be paid of 2.30 euros per share.



Outlook

An Extraordinary General Meeting of Creos Luxembourg S.A. was held on 6 January 2001 and approved the contribution of the electricity and natural gas networks of the City of Luxembourg S.A. to Creos Luxembourg S.A. The City of Luxembourg thus became a 20% shareholder of our company, alongside Enovos International S.A. (75.43%), the State of Luxembourg (2.28%), other communes (2.18%) and the Federation of Artisans (0.10%).

The turnover of Creos Luxembourg will therefore increase in 2011 by one third in comparison with 2010 and an additional 180 people will join the workforce of Creos Luxembourg S.A. from the City of Luxembourg to manage network activities.

On the other hand, the company does not foresee any technical or financial development likely to affect its economic balance.

The center of Mersch

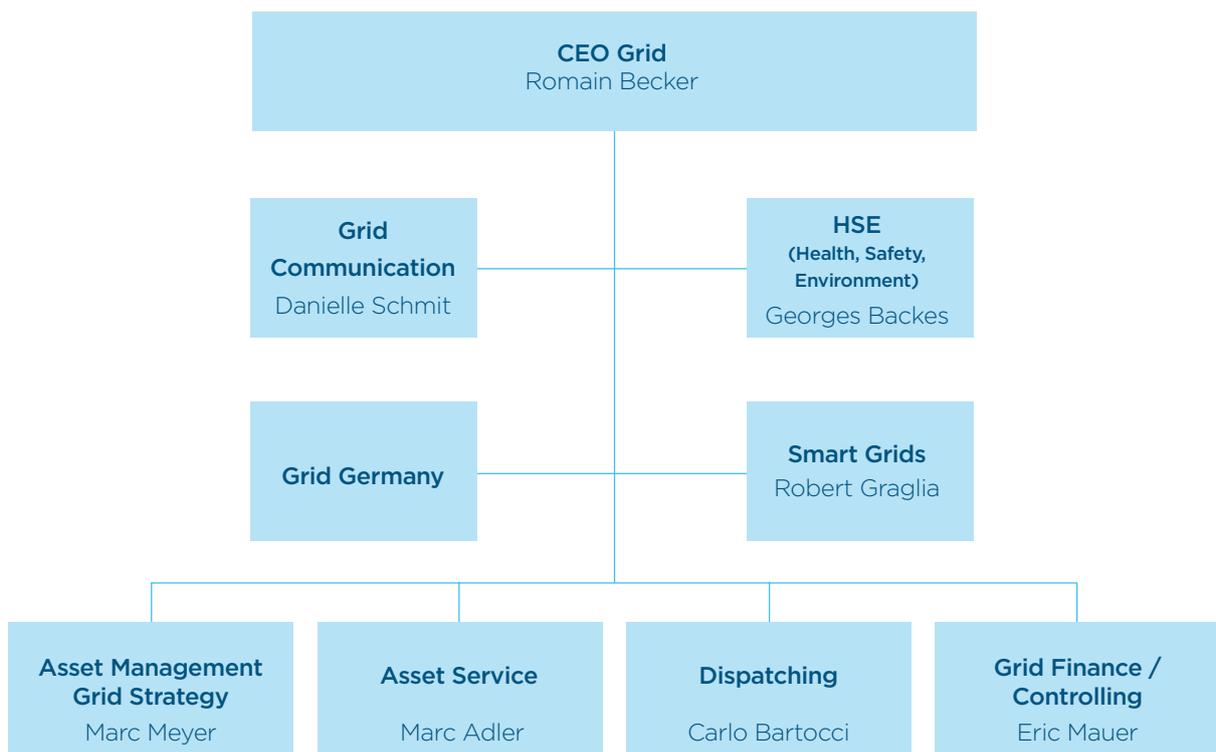




Coordination Committee.
 From left to right: Marc Meyer, Eric Mauer, Romain Becker, Carlo Bartocci, Marc Adler.

2 Internal Organisation

As at 1 January 2011





Administrative Coordination Committee.

From left to right:
Paul Hoffmann, Georges Backes, Danielle Schmit, Tania Lanners, Robert Graglia.

3 Evolution of Energy Demand

Internally the year 2010 was marked above all by the negotiations and the preparatory work on integrating the Luxgaz natural gas networks, as well as the electricity and natural gas networks of the City of Luxembourg into Creos. The two operations are described in more detail in the preface to the present annual report. They involve an extension of our energy network management activities and are a significant step forward in establishing a single national network manager.

Furthermore, the evolution of energy demand during the year 2010 shows the signs of a clear recovery of economic activity, and this was confirmed by other statistics like GDP evolution, industrial activity, the number of cross-border workers and even car sales. In particular, demand for electricity is a good indicator of economic activity, because there is a close correlation between the evolution of GDP and electricity demand. After a decline of that demand (excluding the steel industry) of 2.7% in 2009, we observed a rise of 4.9% in 2010 to a level of consumption above that in 2008, before the economic crisis.

Electricity

Consumption up 4.9%

Total electricity injected on a national basis,

- by 220 kV interconnection lines,
- with self-production recorded by clients, or
- by home production sources connected to the Creos networks or those of the local resale distributors,

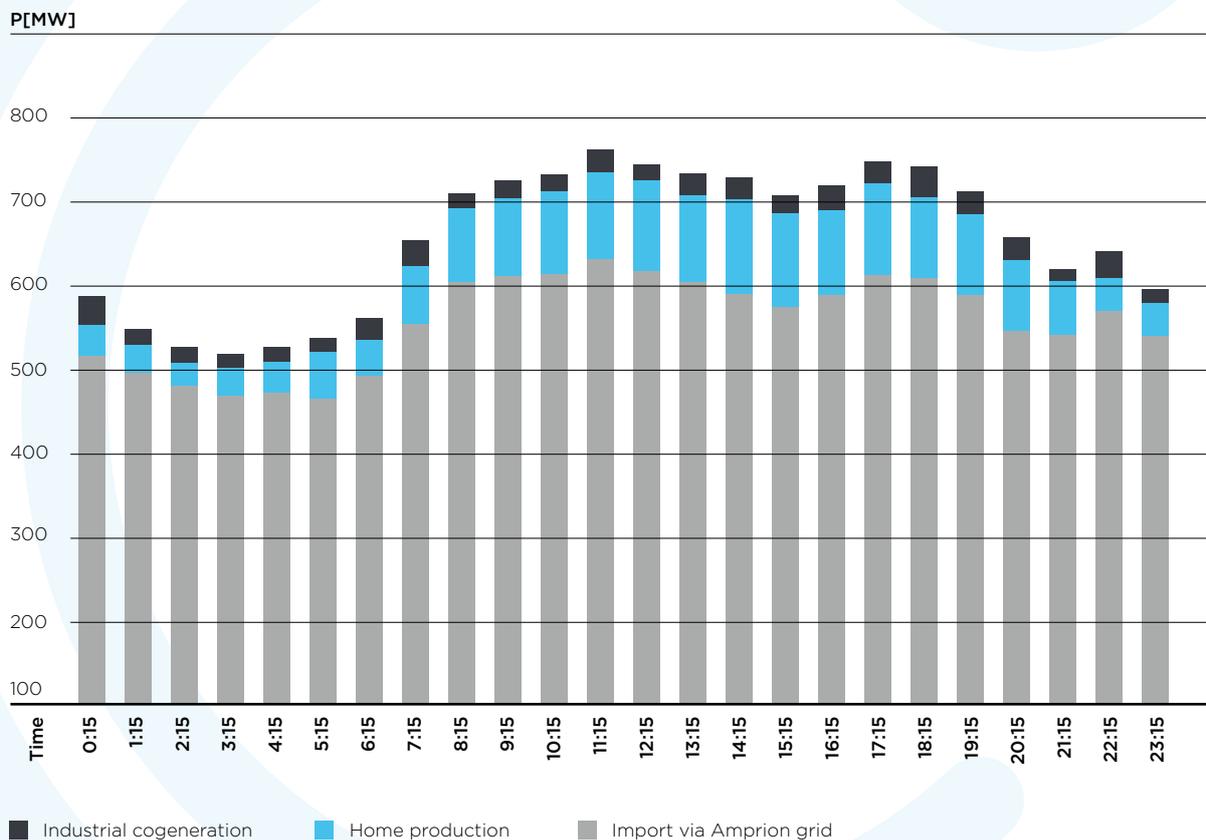
amounted in 2010 to **4,875.4 GWh** (4,646.9 GWh in 2009), representing an increase of national consumption, excluding the SOTEL network, of **4.9 %**.

National peak

In 2010 the peak calculated on a national basis was **763.3 MW**, against 739.6 MW in 2009. This peak was recorded on 16 December 2010 at 12:00.

The duration of utilisation for the year 2010 was **6,544 hours**. The maximum rate of use of the network was therefore **74.7%**.

Evolution de la charge nationale au cours de la journée du 16.12.2010

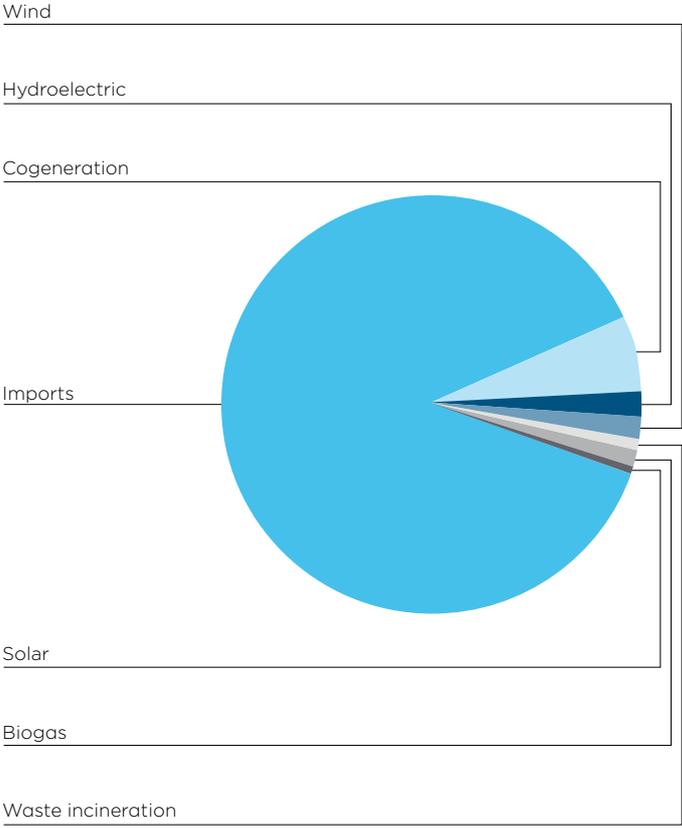


Electricity Situation of the Creos Luxembourg Network

Injections into the network (including local networks)

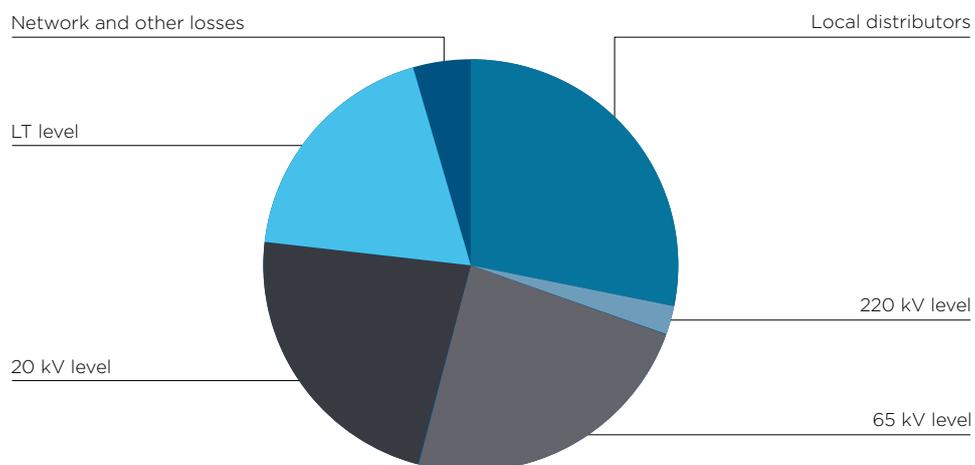
	GWh	%
Cross-border exchanges		
Imports (*)	4,248.9	87.1
Home production		
Cogeneration	346.2	7.1
Hydroelectric	96.1	2.1
Wind	55.0	1.1
Waste incineration	54.9	1.1
Biogas	53.7	1.1
Solar	20.6	0.4
Total injection	4,875.4	

(*) including 100 MW quota supplied by Twinerg via the German network



Total electricity consumption

	GWh	%
Consumption		
Local distributors	1,247.5	25.7
220 kV level	88.0	1.8
65 kV level	1,206.4	24.7
20 kV level	1,190.5	24.4
LT level	1,009.4	20.7
Network and other losses	133.6	2.7
Total consumption	4,875.4	



Total electricity demand in Creos networks

(in GWh)	2010	2009	Variation
Final customers			
Industrial sector	1,294.4	1,208.1	7.1 %
Commercial sector	1,190.5	1,103.2	7.2 %
Residential and small business	1,009.4	958.4	5.3 %
Local distributors	1,247.5	1,261.2	- 1.1 %
Network and other losses	133.6	116.0	15.2 %
Total	4,875.4	4,646.9	4.9 %

Natural gas

Volumes transported :

The economic recovery is reflected in the evolution of natural gas demand, 7.5% up on the previous year.

	2010	2009
Total capacity reserved on the transport network	274,500 Nm ³ /h	275,360 Nm ³ /h
Network peak between January and December	272,078 Nm ³ /h	270,996 Nm ³ /h
Total volume routed in the network (January and December)	15,459,045 GWh	14,376,441 GWh

Overall natural gas demand has evolved as follows :

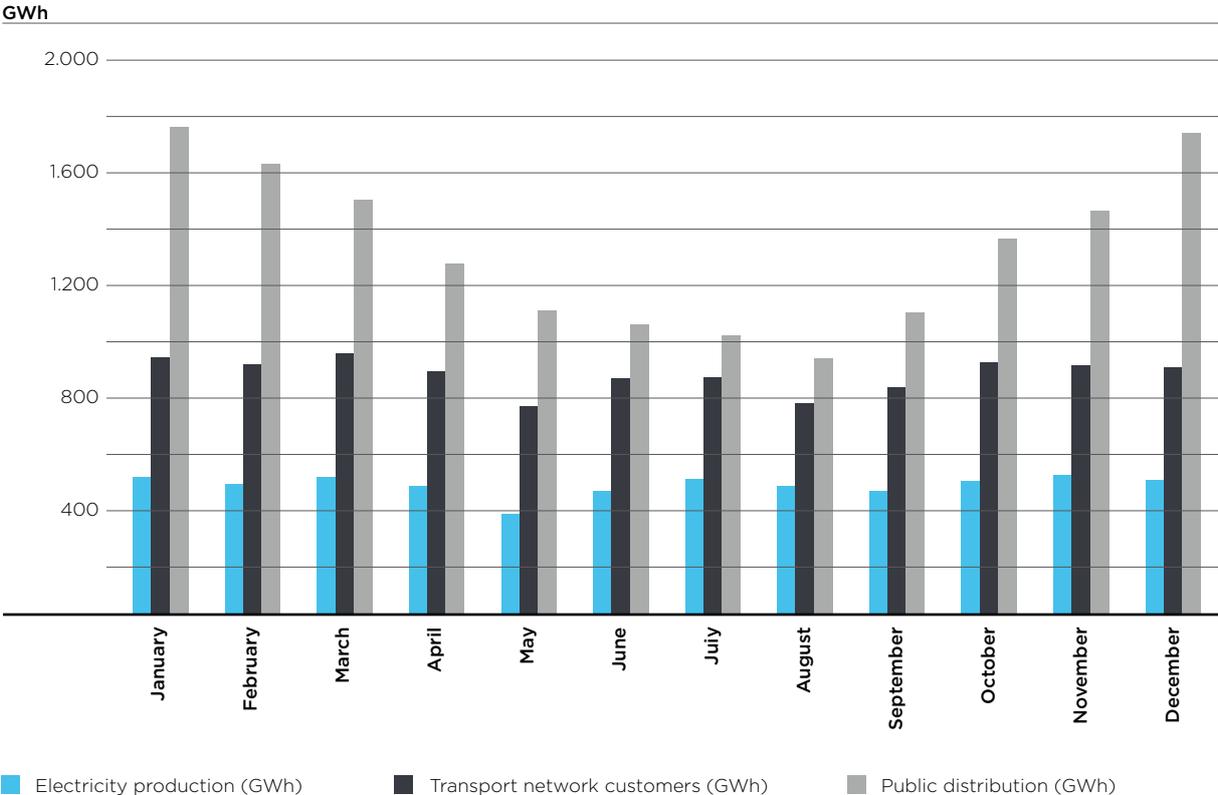
(in GWh)	2010	2009
Final customers		
Industrial sector	4,567.3	4,137.2
Large scale electricity production	5,223.4	5,153.4
Local utilities	5,668.2	5,085.8
- of which Creos (Luxgaz)	(1,366.2)	(1,182.2)
Total	15,459.0	14,376.4



Natural gas expansion lines, Rue Bouillon, Hollerich.

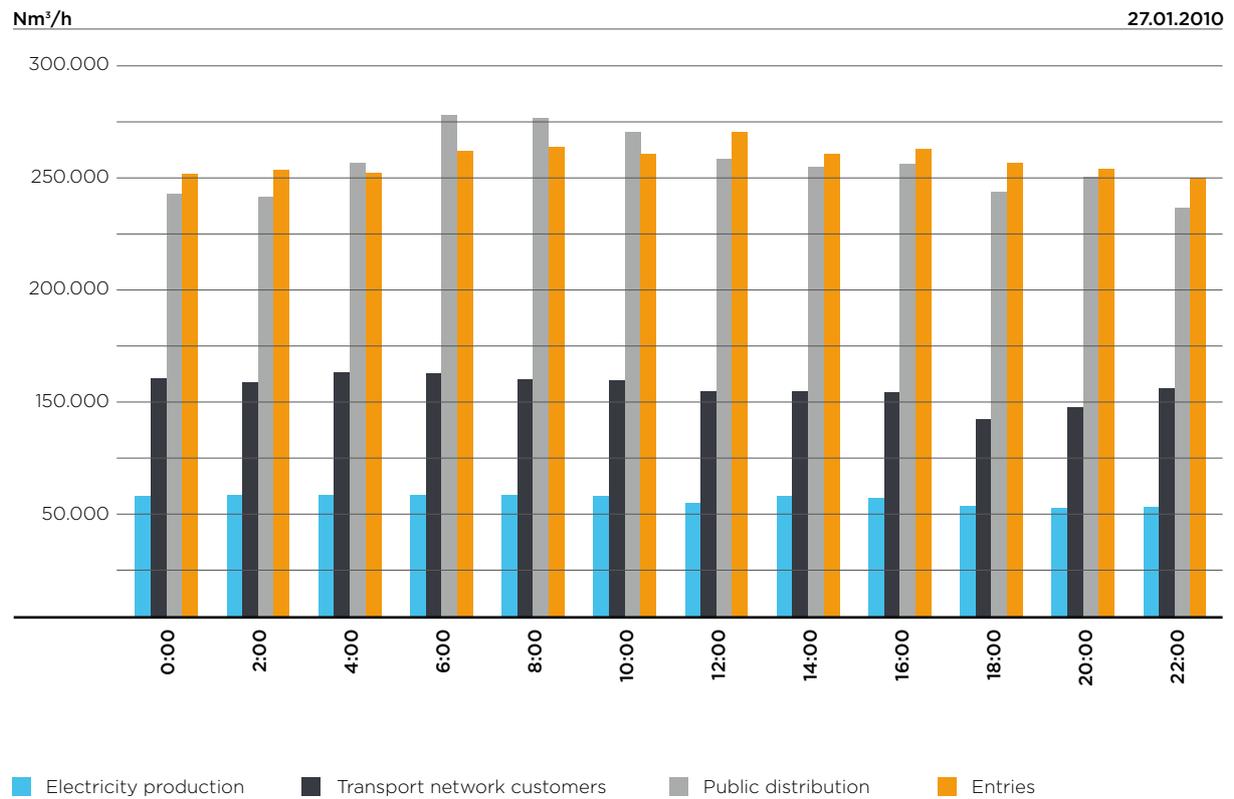
Evolution of consumption in 2010 per sector (transport)

Consumption 2010



Annual peak 27 January 2010

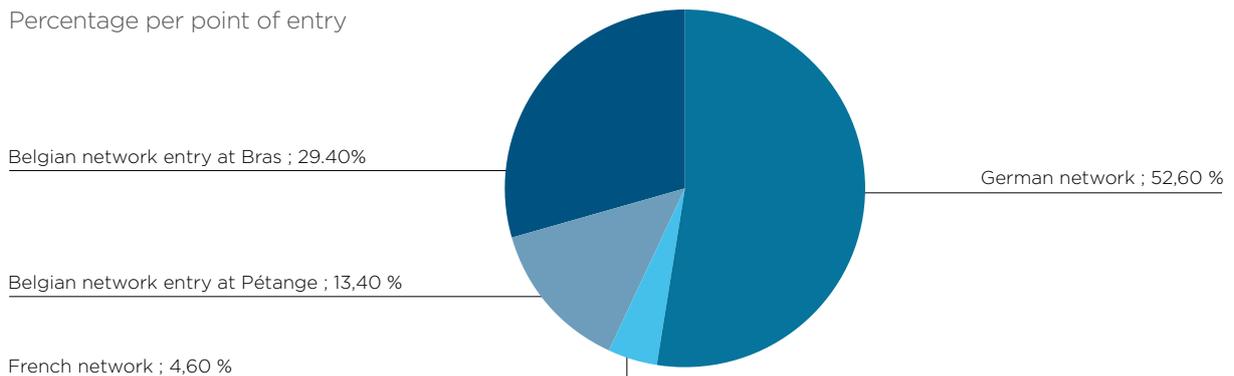
Day of annual peak



2010 annual consumption peak was 272,083 Nm³/h.

Distribution of flows per point of entry

Percentage per point of entry



4 Technical Activity

Electricity

Work carried out in 2010

Creos has to look after and to develop an electricity infrastructure capable of satisfying the energy demands of a constantly increasing population, as well as a state-of-the-art high technology industry which is extremely exacting when it comes to the quality of supply.

It should be pointed out that particular effort was dedicated to strengthening the high-tension infrastructure, above all in the south and south-east of the country. Infrastructures were adapted to the specific conditions of those regions.

The 220 kV network

The 220 kV 3-phase line SCHIFFFLANGE - TGV - SOTEL - OXYLUX

Work on the link between the TGV power station and the Sotel substation, with a view to establishing a 220 kV Schiffflange-Oxylux-Schiffflange loop, is ongoing and its completion is planned for the end of 2012.

The Schiffflange substation

At the 220/65/20 kV Schiffflange substation, work to renew low-current parts is ongoing and should be completed by the end of December 2010.

The Heisdorf substation

Replacement of the transformers on the 220/65 kV transformer spans at the 20/65/20 kV Heisdorf substation is continuing until the end of January 2011.

Creos Dispatching at Heisdorf

At Dispatching, studies and preparatory work has begun for the extension and adaptation of the

pipeline centre for the SCADA networks as from the beginning of 2011 and this work will continued until 2012.

The 220 kV loop around the City of Luxembourg

Studies are under way with a view to completing a 220 kV loop around the City of Luxembourg; these studies relate to completion of the 220 kV lines from Heisdorf to Itzig/Blooren and from Itzig/Blooren to Berchem.

The same applies to studies into the installation of a new 220/65 kV transformer and distribution substation at Itzig/Blooren.

Increasing the transport capacity of 220 kV over-ground lines

Studies and preparatory work are in progress with a view to increasing the transport capacity of the 220 kV Bertrange - Bascharage line, currently operated at 65 kV entering the Bertrange substation, and these should be completed during the first quarter 2011.

Reserve pipelines between Esch/Alzette and the French border

Work was commenced on 6 April 2010, to install a reserve pipeline between Esch s/Alzette and the French border, within the context of Sotel completing a 220 kV link with the French network. These pipelines will enable an interconnection with the French network to be completed later.

The 65 kV network

The northern region

Work relating to the extension of the 65/20 kV substation in Roullingen by the installation of a power transformer unit was completed in July 2010.

Studies into the 65 kV Lentzweiler - Troisvierges and Roullingen - Lentzweiler lines are ongoing with a view to completing the loop around the north of the country.

Work on partially burying the 65 kV 1-phase aerial line from Roost to Colmar/Industries is ongoing and will continue until 2012.

The eastern region

Studies are ongoing in relation to establishing a 65/20 kV transformer and distribution substation in the audiovisual zone in Betzdorf, with the aim of supplying electricity to the new P&T DATACENTER in Betzdorf.

Studies and preparatory work are in progress on the 65 kV dual-circuit Wecker/Biwer - Betzdorf line with a view to connection to the new sheathed 65/20 kV substation in the audiovisual zone in Betzdorf.

Studies and preparatory work are continuing on renewal of the 65 kV Junglinster-Freckeisen line.

The western region

Studies are ongoing into the construction of a 65 kV line between the 65/20 kV substations in Koerich and Rédange, with a view to closing the western 65 kV loop.

Studies are under way into fitting out a 65/20 kV transformer and distribution substation in Windhof, and also with a view to renewing the Bascharage - Windhof aerial line.

The south-eastern region

Work relating to the renewal of the 65 kV 3-phase line between Riedgen and Aspelt was completed in August 2010.

Work to increase the transport capacity of the 65 kV 1-phase line between Itzig and Erpeldange was completed in April 2010.

Work relating to the renewal of the 65 kV 1-phase line between Itzig/Blooren and Aspelt was commenced in November 2009 and completed in October 2010.

Studies are ongoing with a view to the installation of a new 65/20 kV transformer and distribution substation as part of the construction of a new 65/220 kV transformer and distribution substation at Itzig/Blooren.

The southern region

Work on constructing a second 65/20 kV transformer unit at the 65/20 kV substation in Lamadelaine was completed in June 2010.

Work on the underground construction of a dual-circuit 65 kV line from Bascharage to Woiwer, from the 65/20 kV substation in Bascharage is continuing until 2011.

Work on constructing a second 65/20 kV transformer unit at the 65/20 kV "Gavaldange" substation in Dudelange was commenced in June 2010.

Work is ongoing on the underground construction of a 65 kV dual-circuit line from Ehlerange to Belval/AGORA. In December 2010 Creos took over from SIDOR the 65 kV aerial 1-phase line from Schifflange to Sidor.

Work is in progress on installing a new reserve pipeline in the Route d'Esch in Ehlerange with a view to the construction of the 65 kV Ehlerange - Paafewee and Ehlerange - Sanem loop lines.

Increasing the transport capacity of 65 kV lines

This work consisted inter alia of raising several pylons in order to enable optimum exploitation and all security of the line itself under load and at high exterior temperatures. This work was completed in April 2010 on the 65 kV line from Itzig/Blooren to Erpeldange.

Replacing conductors and insulator chains on 65 kV lines

This work enables technical line security to be safeguarded and forms part of a programme encompassing the entire 65 kV network.

Studies and preparatory work are in progress with a view to replacing conductors and insulator chains on the 65 kV Potaschbiert - Grevenmacher/Pietert line as well as the 65 kV Schiffflange - Sidor line, in order to complete the work in 2011.

Modernisation of the 65/20 kV transformer substations

Work to modernise the equipment in the various 65/20 kV transformer substations began in September 2010.

The 20 kV network

The extension of the medium-tension network was continued with new loop lines and the creation of additional 20 kV outlets from 220/65/20 kV and 65/20 kV substations. These investments enable the number of clients affected by any incident to be reduced.

As part of the renewal and extension of the medium-tension network, 36 new 20,000/400 V transformer substations were constructed, with 12 replacing old substations. These are frequently projects implemented with and on the request of communal administrations, which ask for the repla-

cement of old substations on beams with armoured boxes in reinforced concrete or the like. CREOS furthermore confirms its undertaking gradually to reduce the proportion of aerial medium and low-tension lines.

All new medium-tension lines have been placed underground, the rate of medium-tension cabling amounting at present to 55.3%.

The low-tension network

Creos has reinforced and modernised its networks in many villages by placing low-tension networks underground. Globally, the network has increased by 45.8 km.

All of these new lines are underground. At the end of 2010 the rate of such cabling was 92.8%.

The collaboration between Creos and the communes is developing positively. All sites are systematically coordinated with the distributors of natural gas, the Bridges and Highways Department, the Post and Telecommunications Organisation and so on, in order to achieve a maximum reduction in the costs of burying lines and any inconvenience caused to inhabitants.

As for low tension, 3,084 new 3-phase connections were established in 2010.

Miscellaneous investments

The meter modernisation programme was continued with the aim of installing load curve meters with all high and medium-tension customers.

Tests are in progress in various regions with a view to the installation of a new generation of smart meters, vital for future smart grids.

Evolution of the different networks

Network evolution		01/01/2010	31/12/2010
Transformer substations of 20,000 to 400/230 V:	(number)	2,087	2,098
Low-tension lines (400/230 V):	aerial (km)	327.4	324.2
	underground (km)	4,150.7	4,199.7
	Totals (km)	4,478.1	4,523.9
	Underground rate	92.7 %	92.8 %
Medium-tension lines (20 kV):	aerial (km)	1,147.7	1,130.1
	underground (km)	1,358.3	1,398.3
	Totals (km)	2,506.0	2,528.4
	Underground rate	54,2 %	55,3 %
High-tension lines: 65 kV 3-phase:	aerial (km)	178.1	187.8
	underground (km)	9.5	10.4
High-tension lines: 65 kV 1-phase:	aerial (km)	223.0	206.8
	underground (km)	2.2	2.2
High-tension lines: 220 kV (1):	aerial (km)	122.4	122.5
	underground (km)	5.2	5.2
Total	(km)	7,524.5	7,587.2

1) including Schifflange-Bascharage-Bertrange (18.7 km) temporarily operated at 65 kV

Underground cables

Creos has undertaken to make particular efforts to place networks underground in villages and their surroundings when renewing lines, or when carrying out new work.

As a consequence of that undertaking, the length of aerial lines has been reduced as follows in relation to the reference date of 31 December 1992 :

Total length of the aerial network :	Variation compared to 31.12.1992 :
End of 1992: 2,496 km	0 km
End of 2010: 1,978 km	- 518 km

Transformer and distribution substations

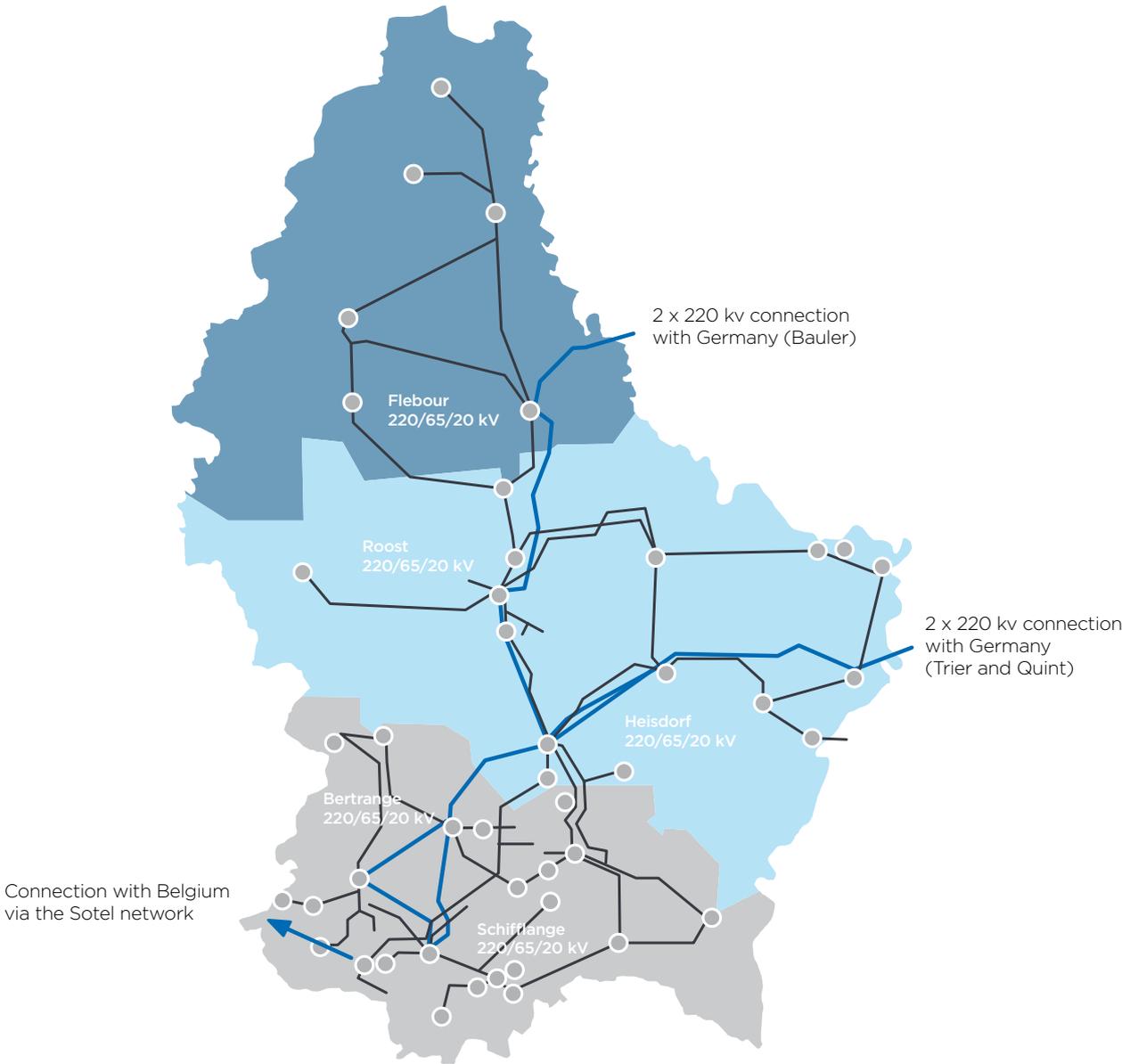
	Creos substations number	Client substations number	Total
220/65/20 kV	6	2	8
65/20 kV	33	29	62
20/0.4 kV	2,098	1,246	3,344

The number and power of transformers installed in those substations

	Belonging to Creos		Belonging to clients		Total
	Number	Power	Number	Power	
220/65 kV	13	1,980 MVA	4	220 MVA	2,200 MVA
65/20 kV	59*	1,614 MVA	74	1,210 MVA	2,824 MVA
20/0.4 kV	2,098	923.50 MVA	1,510	850 MVA	1,889.50 MVA

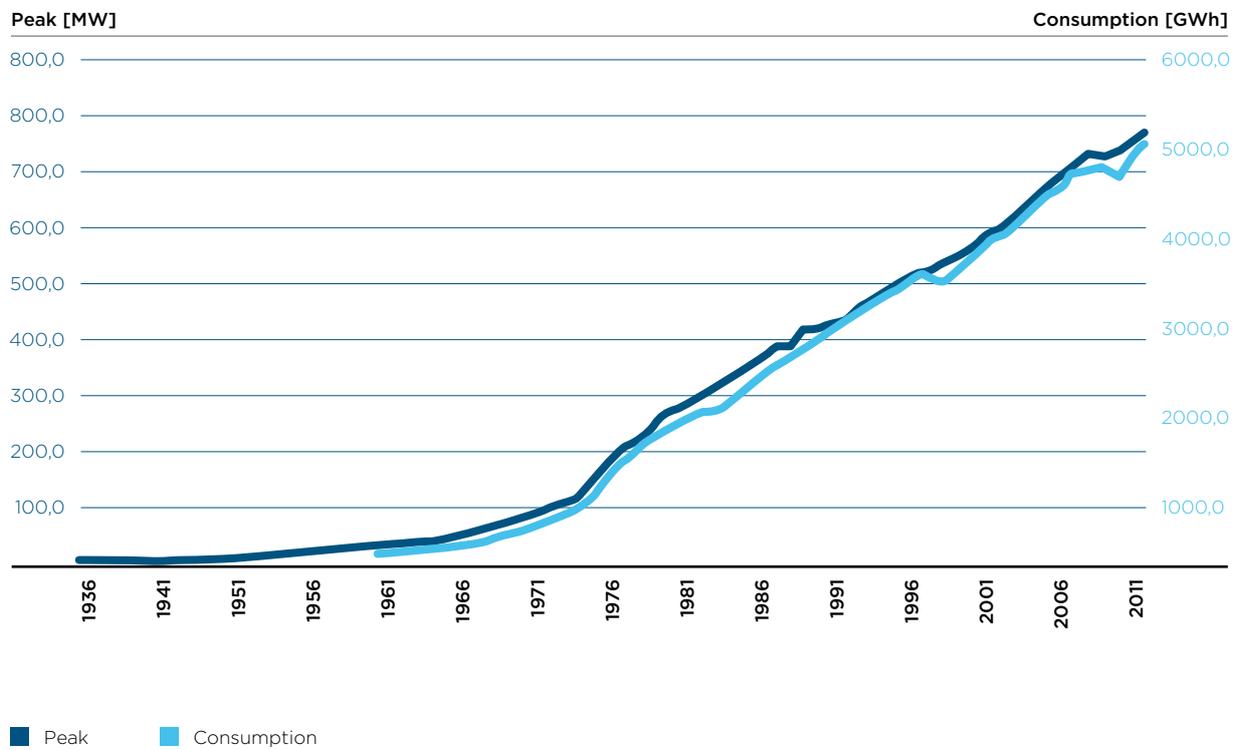
* without reserve transformers

The high-tension electricity network

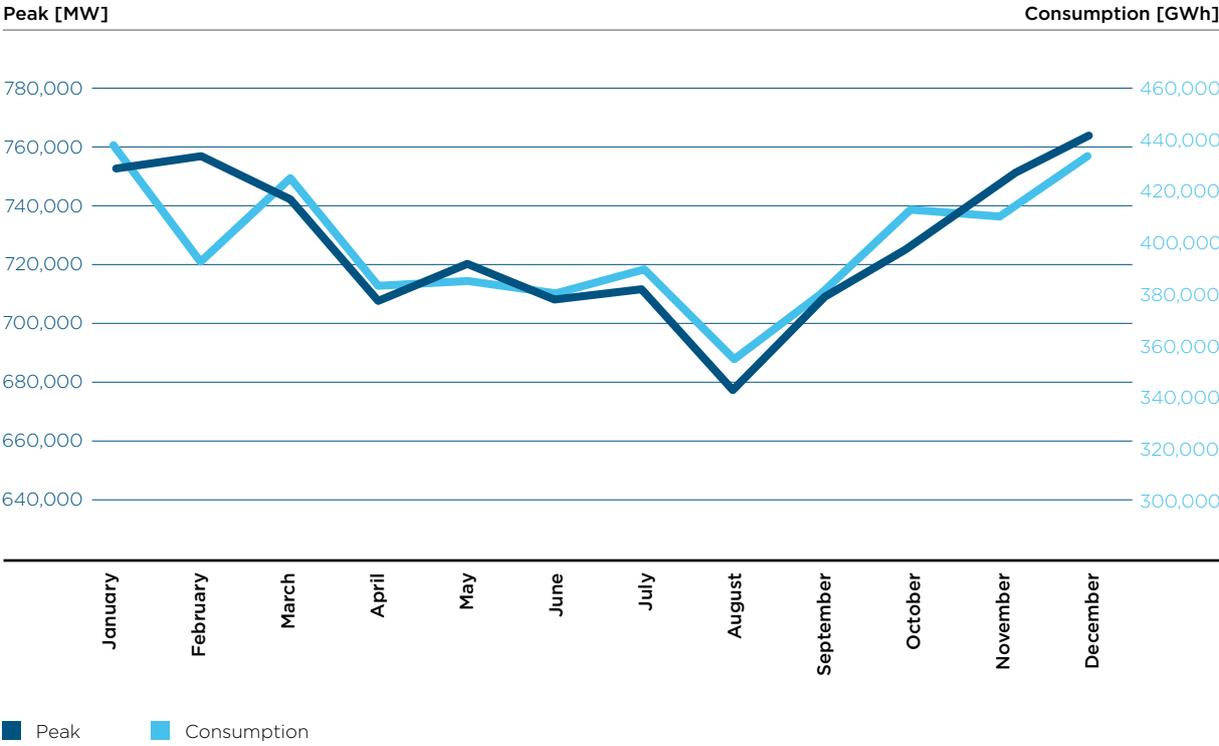


Grid peak and demand from 1935 to 2010

Grid peak and demand of the network managed by CREOS Luxembourg



Evolution over the year 2010



Statistics on electricity flows

Any supplier must group together its customers in a regulation zone managed by the Creos balance coordinator in a virtual entity called the “balance perimeter”. Balance perimeters enable suppliers to profit from the simultaneity of all their customers and to ensure the supply of electricity. As a balance coordinator, Creos Luxembourg coordinates energy exchanges between balance perimeters as well as exchanges with neighbouring regulation zones.

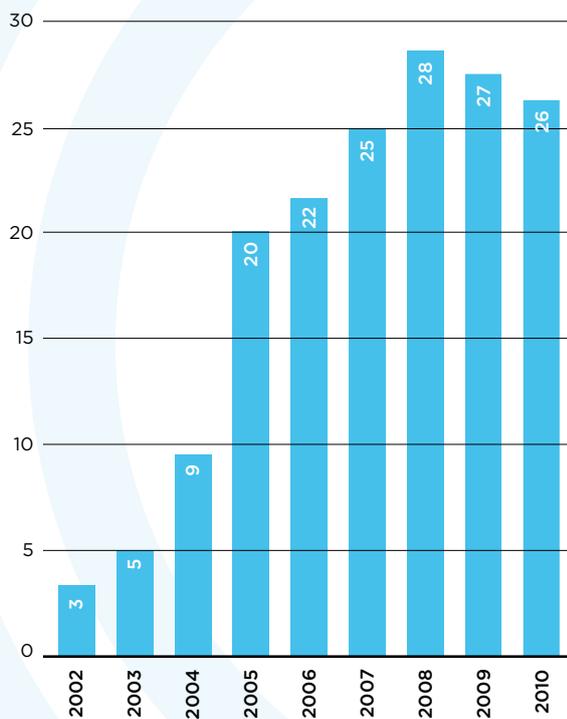
Suppliers are economically responsible for the balance between energy exchanges in their balance perimeter(s). In that regard they must make a daily estimate of the consumption of their balance perimeter for the following day, in order to guarantee adequate supply with the aid of energy exchanges with other balance perimeters.

These energy exchanges are the object of “nominations”, listing exchanges with other balance perimeters for each ¼-hour period of the following day.

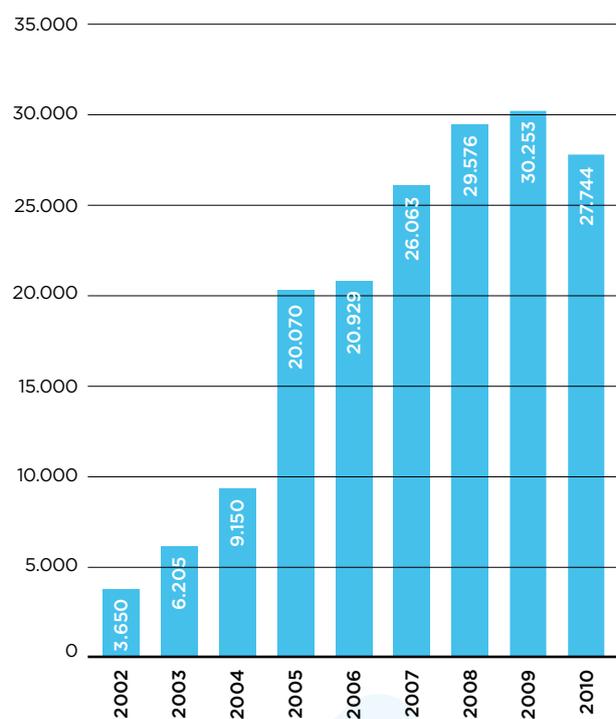
As for the control area, spreads between nominations and real client consumption are balanced by the balance coordinator by way of adjustment energy. The balance coordinator establishes a monthly adjustment balancing statement for each balance perimeter. Associated costs are invoiced to each supplier.

The number of balance perimeters was **26** for the year 2010. In total, **27,744** nominations relating thereto were processed by the balance coordinator in 2010.

Evolution of the number of balance perimeters



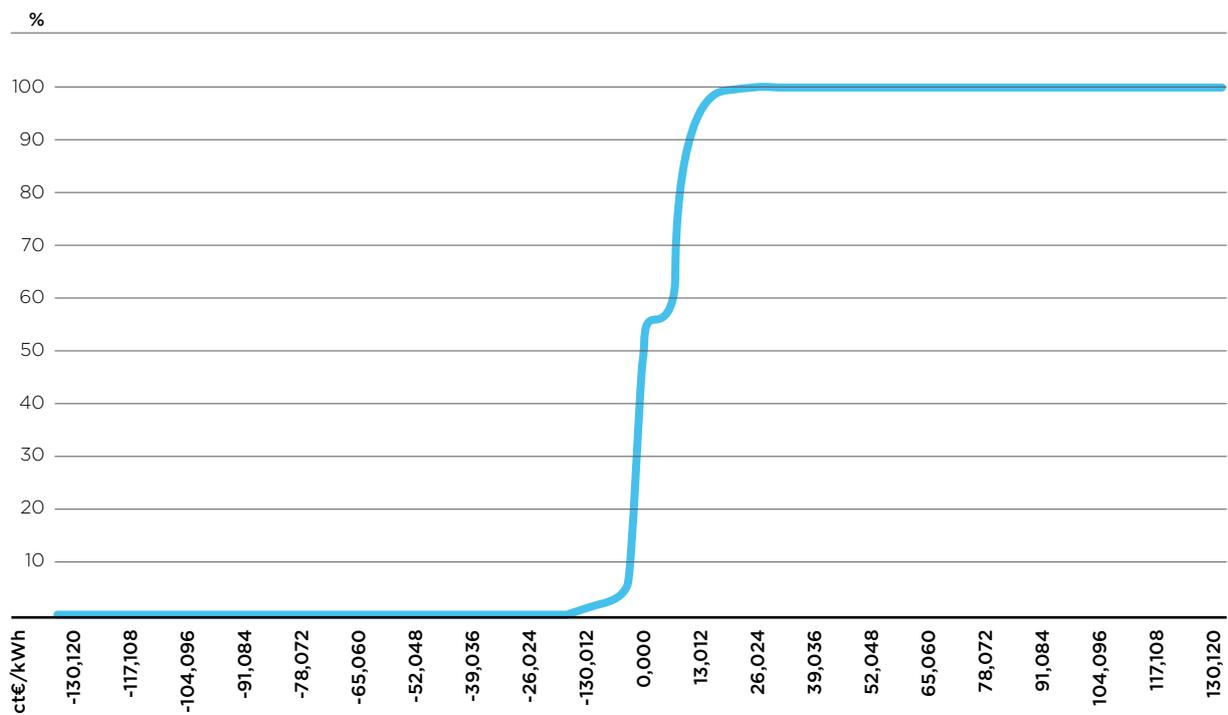
Evolution of the number of nominations



The price of balancing energy in 2010

The energy price adjustment varied between **-130.12 ct€/kWh** and **130.12 ct€/kWh** in 2010. The maximum price was recorded on **25 January 2010 between 08:45 and 09:00 o'clock a.m.**. The average price adjustment is **4.42 c€/kWh**.

Frequency of energy balance prices:



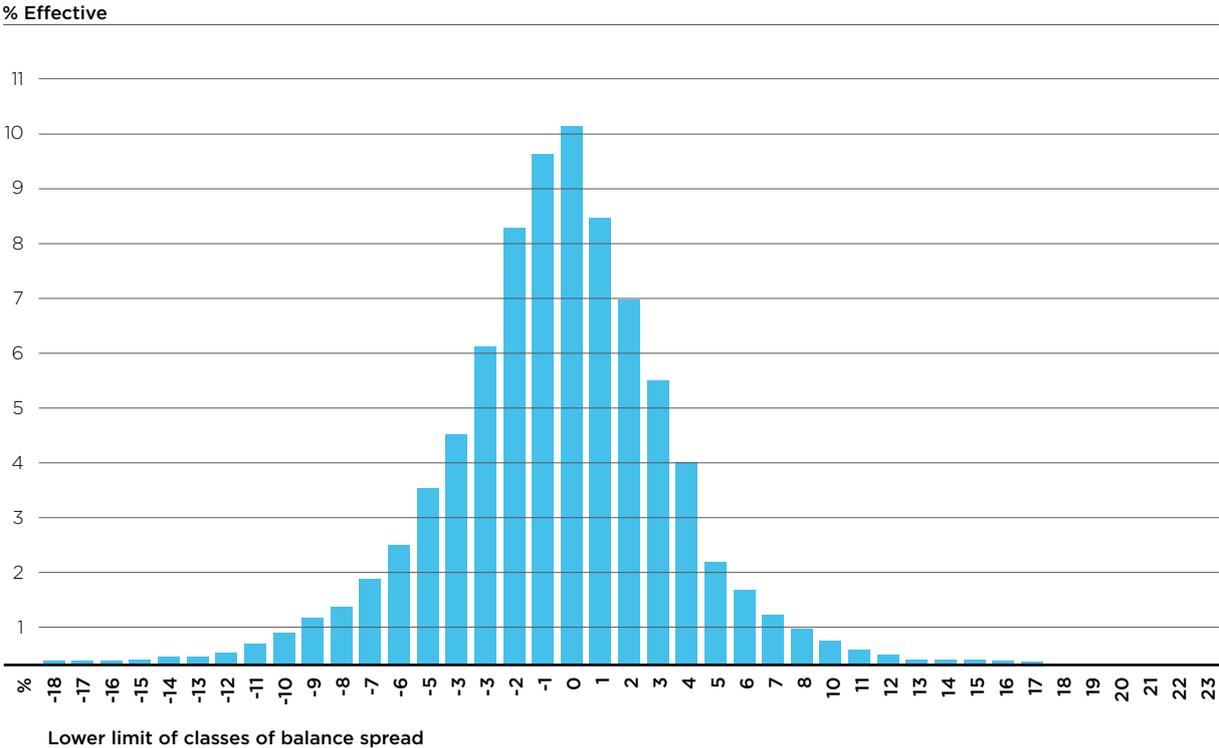
Characteristic values of the price frequency:

Frequency	Price
18 %	< 0.00 ct€/kWh
56 %	< 2.60 ct€/kWh
73 %	< 9.11 ct€/kWh
90 %	< 11.71 ct€/kWh
97 %	< 14.31 ct€/kWh
100 %	< 130.12 ct€/kWh

Balancing statement for the Creos control area

The combination of cross-border nominations was **4,243.5 GWh** in 2010. Real consumption measured on cross-border lines was **4,248.9 GWh** during the same period. The adjustment energy contributed to cover spreads in the control area was therefore **5.4 GWh**.

Distribution of balance spreads in 2010

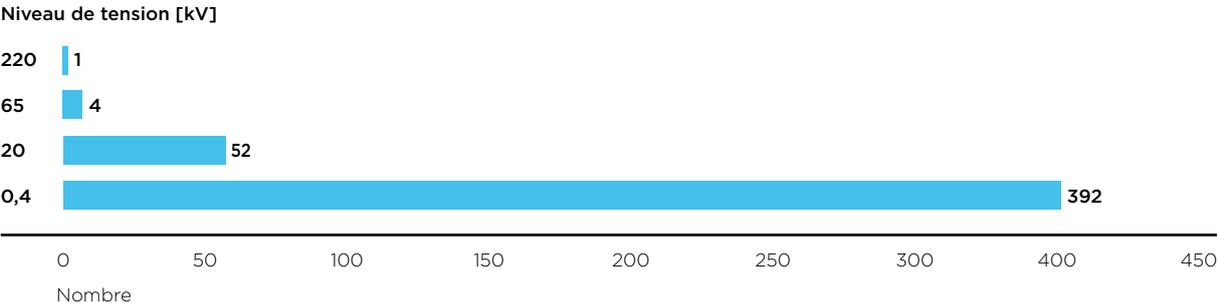


The average balance spread was **0.17 %** compared to the cross-border nomination, for a standard spread of **3.87 %**. The extreme values were **-17.5 %** for the negative spread and **24.2 %** for the maximum positive spread. The spread distribution shows a clear trend towards negative spreads.

Reliability of the electricity grid

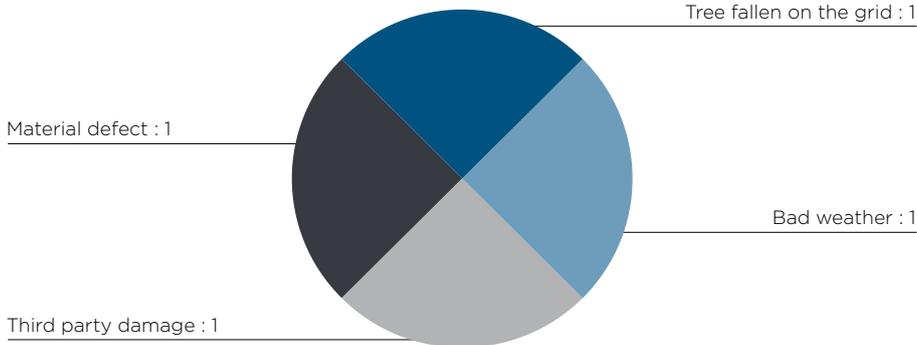
Our aim is provide our customers with a reliable and high-quality electricity network, and we endeavour to reduce any interruption of current or electrical incident to a strict minimum. The chart below represents the total number and duration of interruptions of current occurring in 2010.

Interruptions of the network of Creos Luxembourg S.A. in 2010 (220 kV, 65 kV, 20kV and 0.4kV)

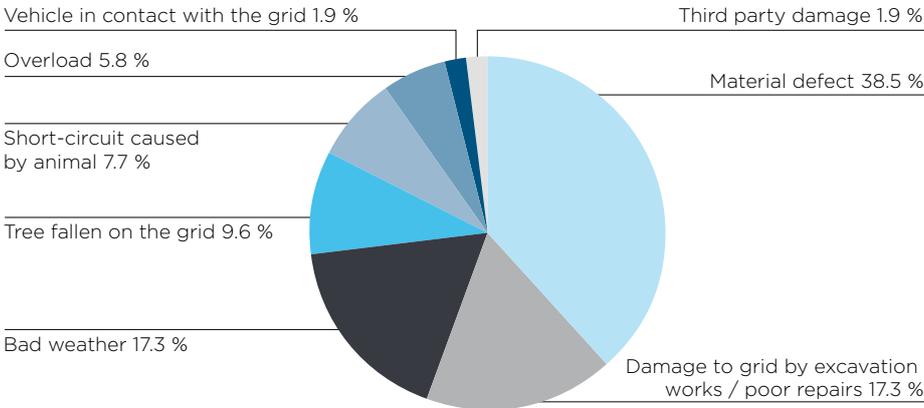


Causes of interruptions at the different tension levels:

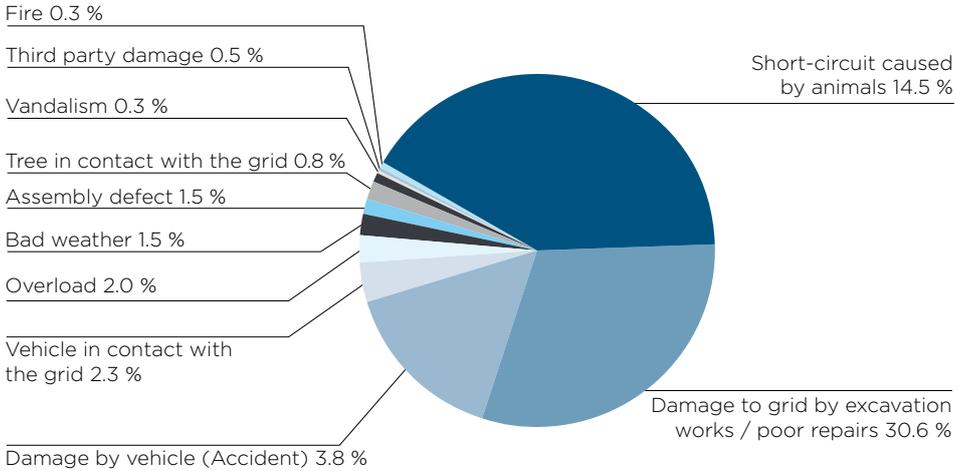
Level 65 kV:



Level 20 kV :

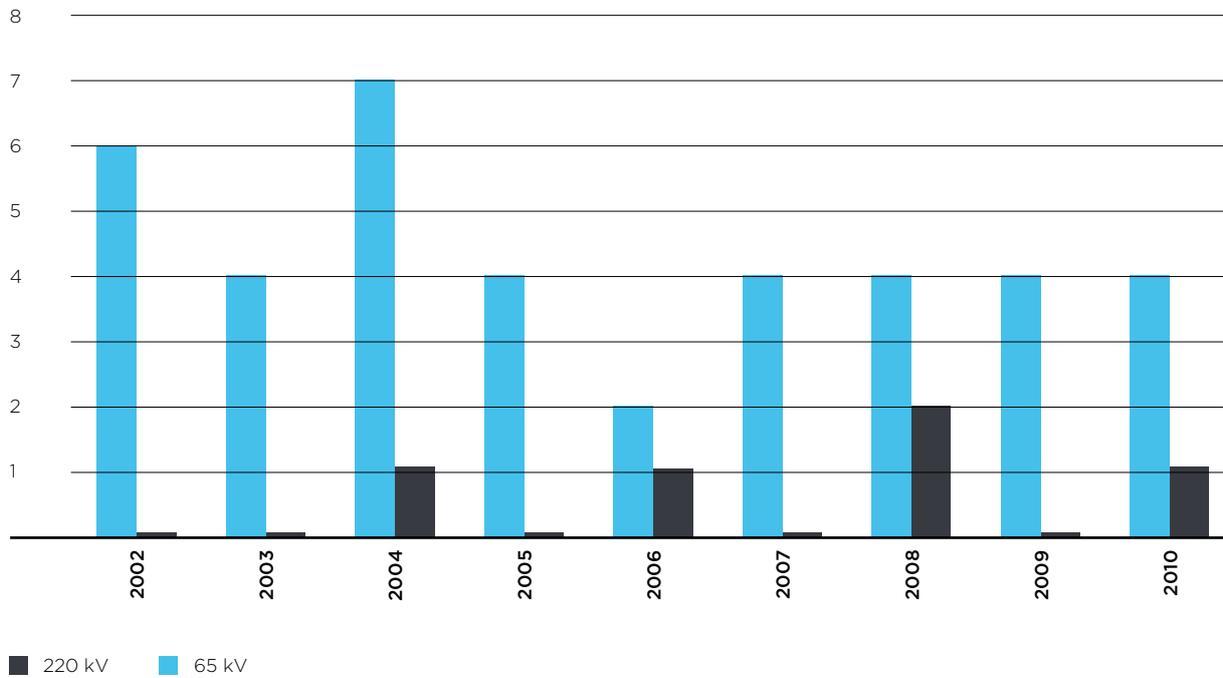


Level LV :



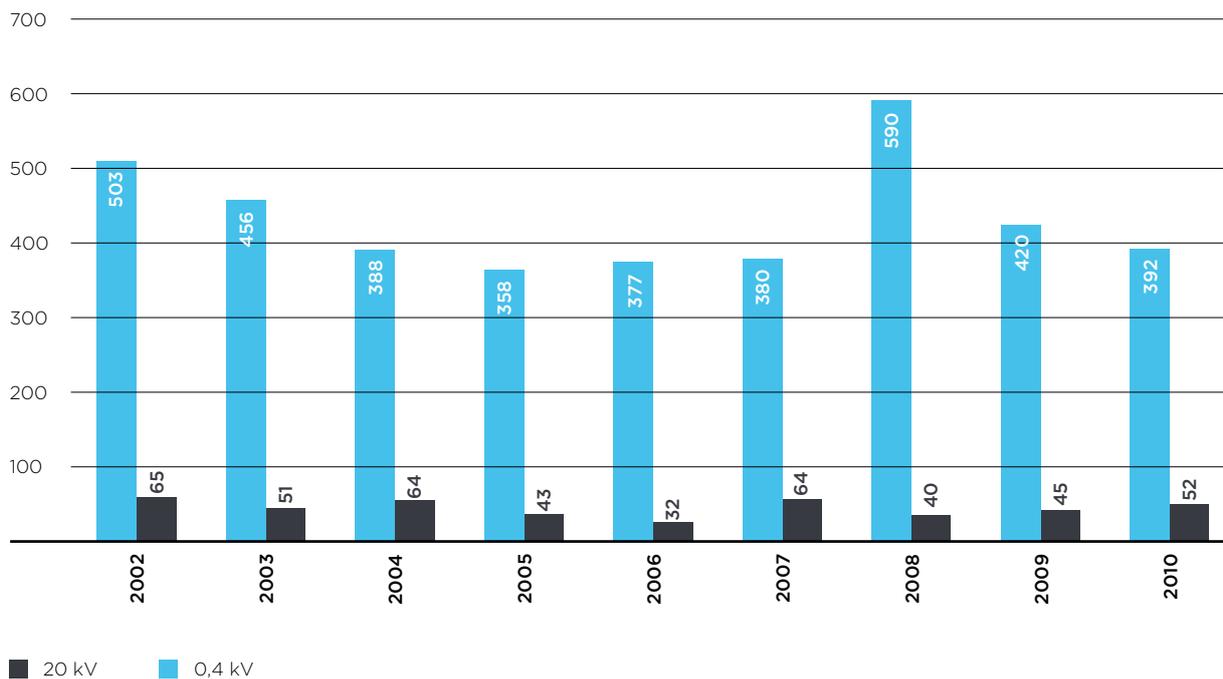
Perceptible interruptions 220 kV and 65 kV (> 3 min) between 2002 and 2010

Number of interruptions



Perceptible interruptions 20 kV and 0.4 kV (> 3 min) between 2002 and 2010

Number of interruptions



Natural gas

Progress made on the major works planned in the investment programme 2010

Transport network

The constant modernisation of our equipment involved the replacement in 2010 of our pressure reduction station in Noertzange. In fact, Creos replaced the external aerial valves with a motorised valve set and rebuilt a second substation in collaboration with SUDGAZ (maximum injection capacity: 9,000 Nm³/h).

The new substation on the bio-methane site in Kehlen, which serves to inject biogas into the transport network was commissioned in October 2010. After an initial trial phase, biogas production began in December 2010.

Evolution of the natural gas transport network

PN (nominal pressure)	Change in 2010 in km	Total as at 31/12/10
PN80/67.5	0	212.95 km
PN40	0	50.27 km
PN25	0	2.39 km
PN16	0	34.46 km
PN4	0.560	120.00 km
Total	0.560	412.07 km

Pressure reduction stations on the transport network as at 31.12.2010:

Border stations:	4
- Active stations (with remote transmission)	64
- Passive stations (without remote transmission)	67
Total	135



Distribution network

Since the merger with Luxgaz Distribution on 1 May 2010, Creos has also been the manager of a large distribution network in 43 communes.

On the distribution network, the work carried out in 2010 enabled several main pipelines to be commissioned, with the siting of new pressure reduction stations in Steinfort, Rameldange, Dondelange and Ellange and the medium-pressure pipeline between Rameldange and Ernster. In addition, 27 km of distribution pipelines were installed in 2010.

As at 31 December 2010, the length of the distribution network was 957.2 km of pipelines in place, with 922.3 km in service and 34.9 km under air pressure.

Two new pressure reduction stations were installed during 2010.

In all, 932 connections were made in 2010.

Evolution of the natural gas distribution network

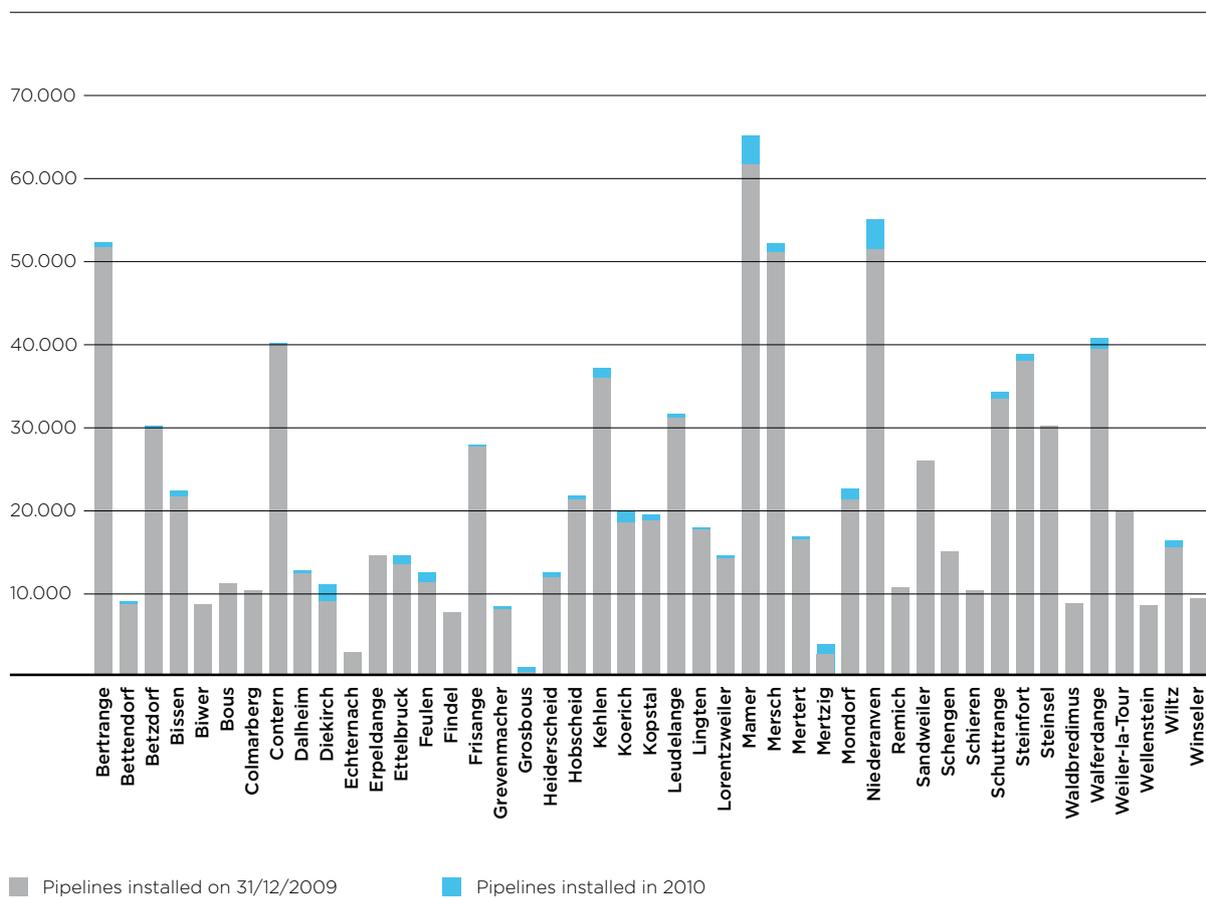
Pressure	Changes in 2010 (+/-) [km]	Total as at 31/12/10 [km]
High pressure (HP)	0	212.95 km
Medium pressure (MP)	5.7	146.7
Low pressure (LP)	21.3	810.5
Total	27	957.2

The natural gas network



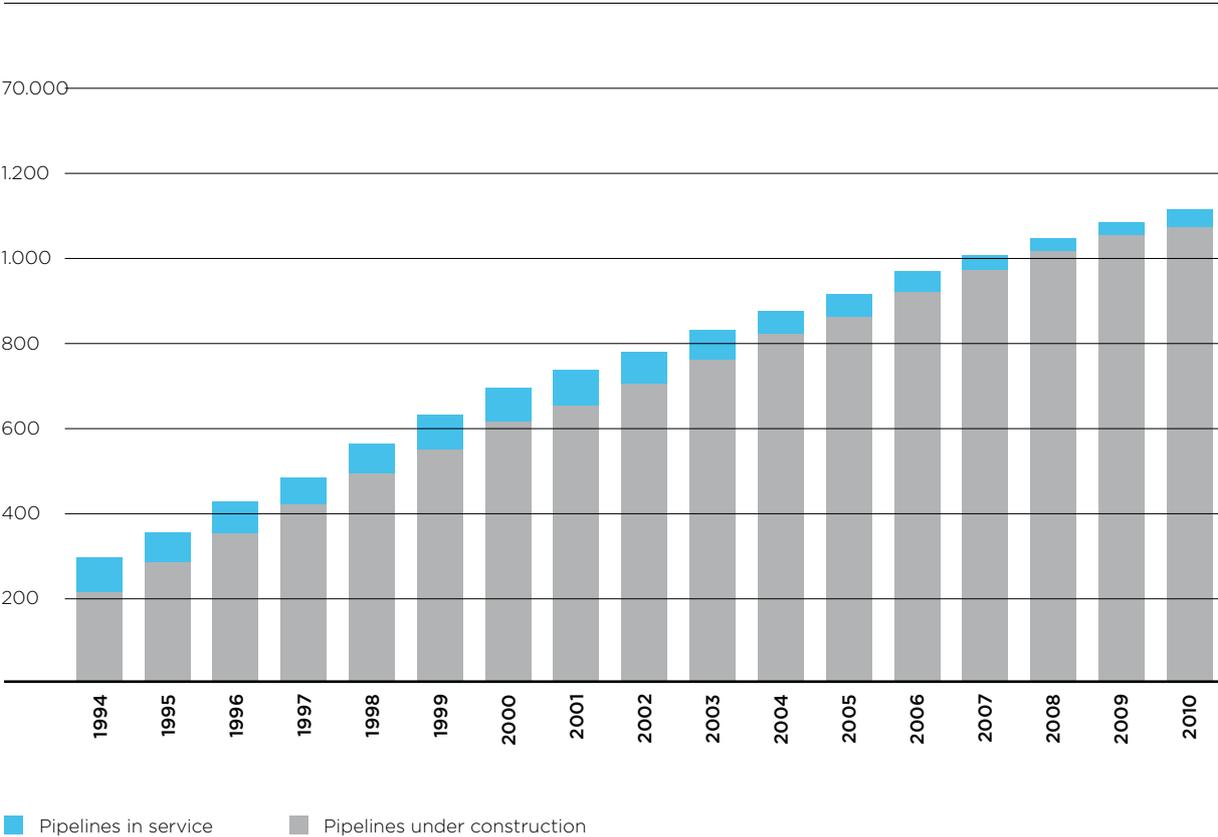
Evolution of the natural gas distribution network

Statistics 2010 - Pipelines installed by communes

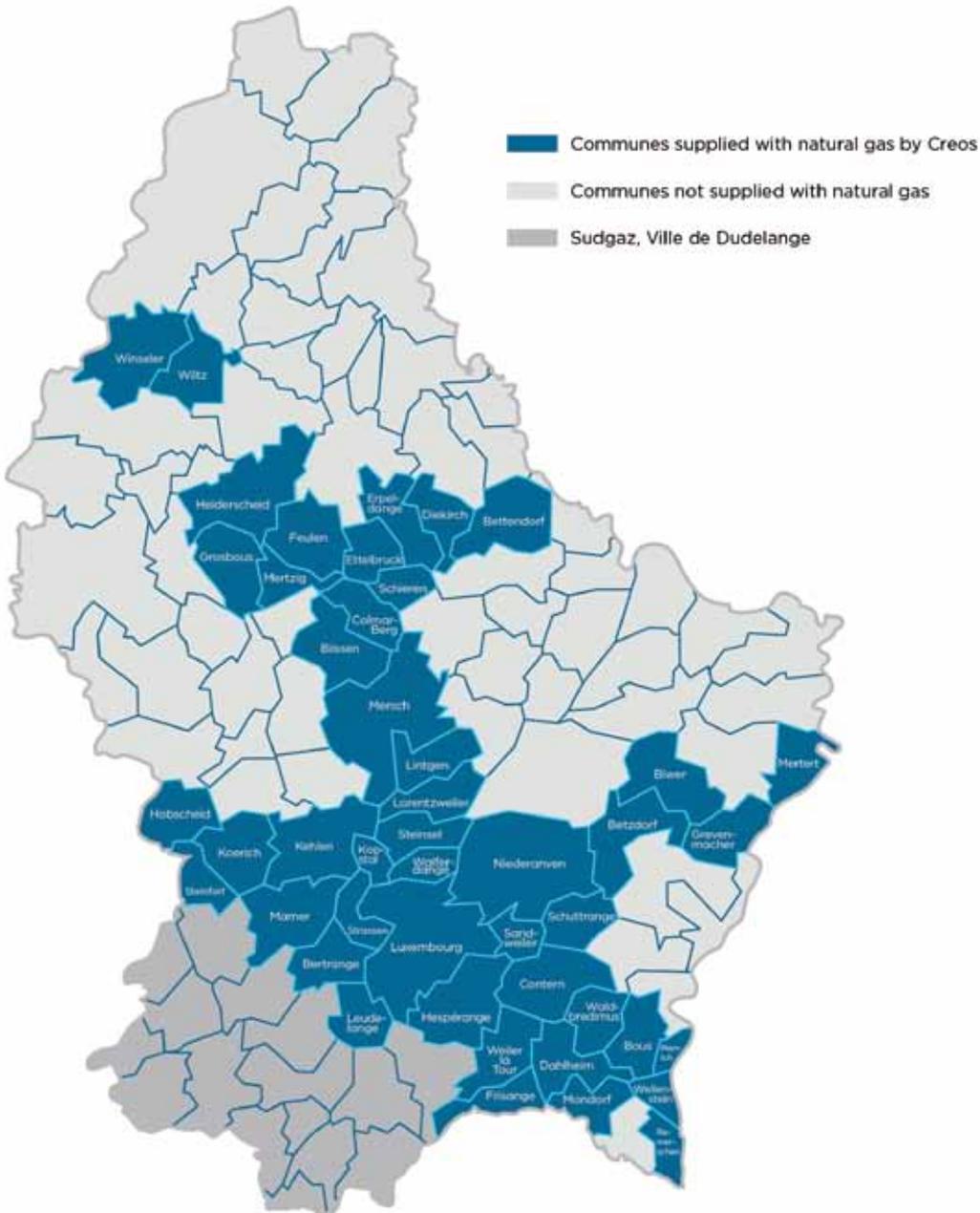


Length of the natural gas distribution network

Pipelines in service



The communes served by the Creos natural gas distribution network



5 Non-Discriminatory Treatment of Customers

With the integration of Luxgaz Distribution, Creos Luxembourg broadens its activity as manager of the natural gas distribution network.

The Law of 1 August 2007 relating to “the organisation of the electricity market” requires that the network manager, part of a vertically integrated organisation, respects certain minimal criteria guaranteeing the independence of its management activity vis-à-vis other Group activities such as the production and/or supply of electricity. The manager is asked to establish and monitor a programme of undertakings containing the appropriate measures to exclude any discriminatory practice in the treatment of different network users.

Within Creos Luxembourg S.A., the “Regulation Management” section of the “Grid Strategy” department has been designated as the department responsible for monitoring the non-discrimination programme.

This programme determines all the measures necessary to guarantee the non-discriminatory and confidential treatment of data and the obligation of the personnel of Creos Luxembourg S.A., responsible for network management tasks:

- Creos Luxembourg, as manager of the electricity and gas network in Luxembourg, is solely responsible for the management and has competent and qualified personnel numbering 436 as at 31 December 2010.
- It is guaranteed that any employee of Creos Luxembourg has no responsibility in relation to purchase, sale or production within the Enovos group.
- For all other activities, irrespective of the network (“Shared Services”), confidentiality clauses have been concluded between Enovos International and Creos Luxembourg.
- The measures taken by Creos Luxembourg guarantee the confidential treatment of data relating to network customers. If the data are published, non-discriminatory treatment is guaranteed.
- Reciprocal undertakings have been made by the Enovos group and Creos Luxembourg. The personnel of each of them only have access to the databases of the said companies to which they report according to the description of the function of the work stations for which the rights of access are clearly defined and delimited.
- The personnel concerned undertake to take all steps necessary to maintain the confidentiality of the data of which they gain knowledge in performing their various tasks and to protect persons with regard to the processing of personal data. Those data are in no case to be divulged to third parties.
- Any personnel hired within the said companies are subject to the fulfilment of these undertakings.

6 The Environment

Energy is a key factor in modern life. It is vital to the good operation of our economy and the well-being of our civilisation. Nevertheless, the electricity and gas industry has an impact on the environment through the consumption of energy resources and the production of waste, greenhouse gas emissions and the visual aspect of installations.

Running electricity lines underground

Considerations regarding the protection of people and their environment as well as the beauty of sites are major constraints to any economic activity today. Creos Luxembourg S.A. undertakes to take increased care in analysing the need for new works, including a study of any alternatives, and their integration into the landscape.

Creos Luxembourg S.A. is endeavouring gradually to reduce the proportion of aerial medium and low-tension lines. Particular effort is made to run these lines underground in villages and their direct surroundings. These works are frequently carried out in collaboration with communal administrations.

Following this environmental policy, the percentage of underground lines increased from 1980 to 2010 by 15.3% to 55.3% for medium-tension and from 47.4% to 92.8% for low-tension, placing us in a leading position in Europe for the burying of electricity lines.



Integration of high and medium-tension substations into the environment

High-tension substations

A high-tension transformer substation does not integrate easily into an urban setting.

Nevertheless, Creos Luxembourg S.A. has shown that such integration is feasible with the construction of its new generation of armoured substations in Ingeldorf, Grevenmacher, Contern, Junglinster, Kayl and Rédange.

In all these projects, particular attention has been paid to the integration of these industrial sites into their local environment. As these installations are compact and discreet, the environment and the landscape are preserved. The area used for a new armoured substation represents only one fifth of that used for a classic outside substation.



The Regional Electricity Centre in Wiltz

Rather than hiding substations, the choice has been taken to make them clear, thus creating a positive contact with neighbours. The surroundings of buildings will be laid out with native planting.

As for safety, Creos Luxembourg S.A. has invested in all the necessary precautionary measures to guarantee optimum protection in the case of fire, intrusion and bad weather.

To ensure environmental protection, transformer premises have also been soundproofed and equipped with secure tanks to capture any oil leaks.

Within villages, the installation of new medium-tension substations is exclusively sheathed in brickwork, with substations prefabricated in

concrete or steel and integrated into bus stops or post boxes inside a building.

In addition, on request from the communal administrations, Creos is replacing old substations on beams with sheathed substations. Indeed, the number of substations on beams has been reduced from 881 in 1989 to 659 in 2010.

When constructing our new offices in Roost, Creos paid particular attention to the rational use of energy. Indeed the new building will meet the criteria of sustainable development. Here Creos will also ensure the optimum integration of the building into its environment.

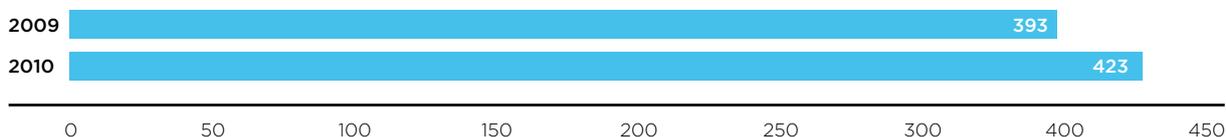


7 Human Resources

Evolution of workforce and key figures

The average workforce over the financial year was 423 for Creos Luxembourg S.A., compared to an average workforce of 610 for the Enovos group in Luxembourg.

Creos Luxembourg S.A.



The increase of the Creos workforce results in particular from the integration of 33 employees in May 2010 from the company Luxgaz Distribution S.A. into Creos Luxembourg S.A.

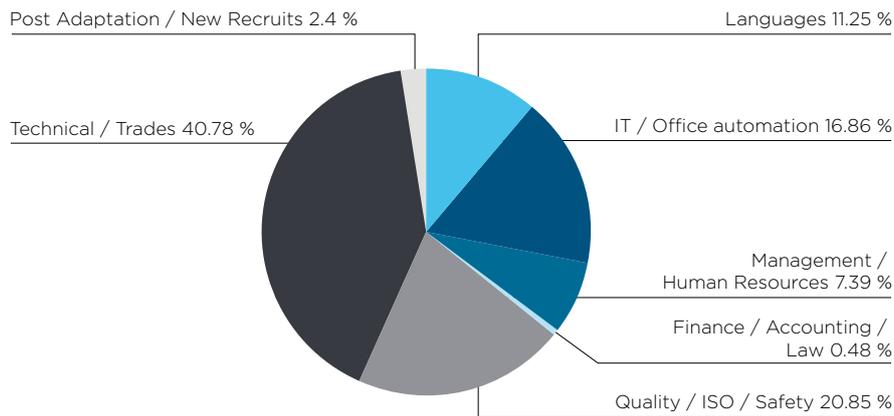
The group remained present on the labour market in 2010, recruiting new members of staff with participation at various events such as at the recruitment show organised by the University of Luxembourg. In 2010, Creos Luxembourg S.A. recruited 18 people under indefinite-term contracts, including 1 industrial engineer, 8 BAC and 9 CATP energy electricians.

The total percentage of people working part-time in 2010 was almost 1.65% of the total workforce of Creos Luxembourg S.A. The percentage of women was 7.70%.

Ongoing professional training

In order to ensure the transfer of knowledge, know-how and ability, as part of the integration process, the development of skills and the acquisition of complementary skills, the training budget was not reduced in 2010. The management and development of skills remain vital aspects of the group's human resources strategy. The percentages given in the following table indicate the importance of expenditure allocated to the major fields of training. Investment in expenditure dedicated to professional training represents 2.40% of the overall payroll.

Breakdown of training costs by categories	%
1. Languages	11.25
2. IT / Office automation	16.86
3. Management / Human Resources	7.39
4. Finance / Accounting / Law	0.48
5. Quality / ISO / Safety	20.85
6. Technical / Trades	40.78
7. Post Adaptation / New Recruits	2.40
Total	100.00



The network of internal trainers plays a vital role in facilitating the transfer of knowledge, know-how and ability during integration and finishing courses. 51% of all training is by internal trainers and 49% by external trainers.

Beyond these multidisciplinary training actions, there was a fourth session of the private PC project, with 322 participants. It offers an opportunity to acquire first-class equipment under advantageous conditions combined with a help-desk service and an appropriate training programme.

It is thus that we would like to congratulate and to thank all of our qualified and skilled staff for their commitment and their performance throughout 2010 and for their dedication to implementation of the substantial changes made over the year.

Calibration unit, Regional Natural Gas Centre, Hollerich.



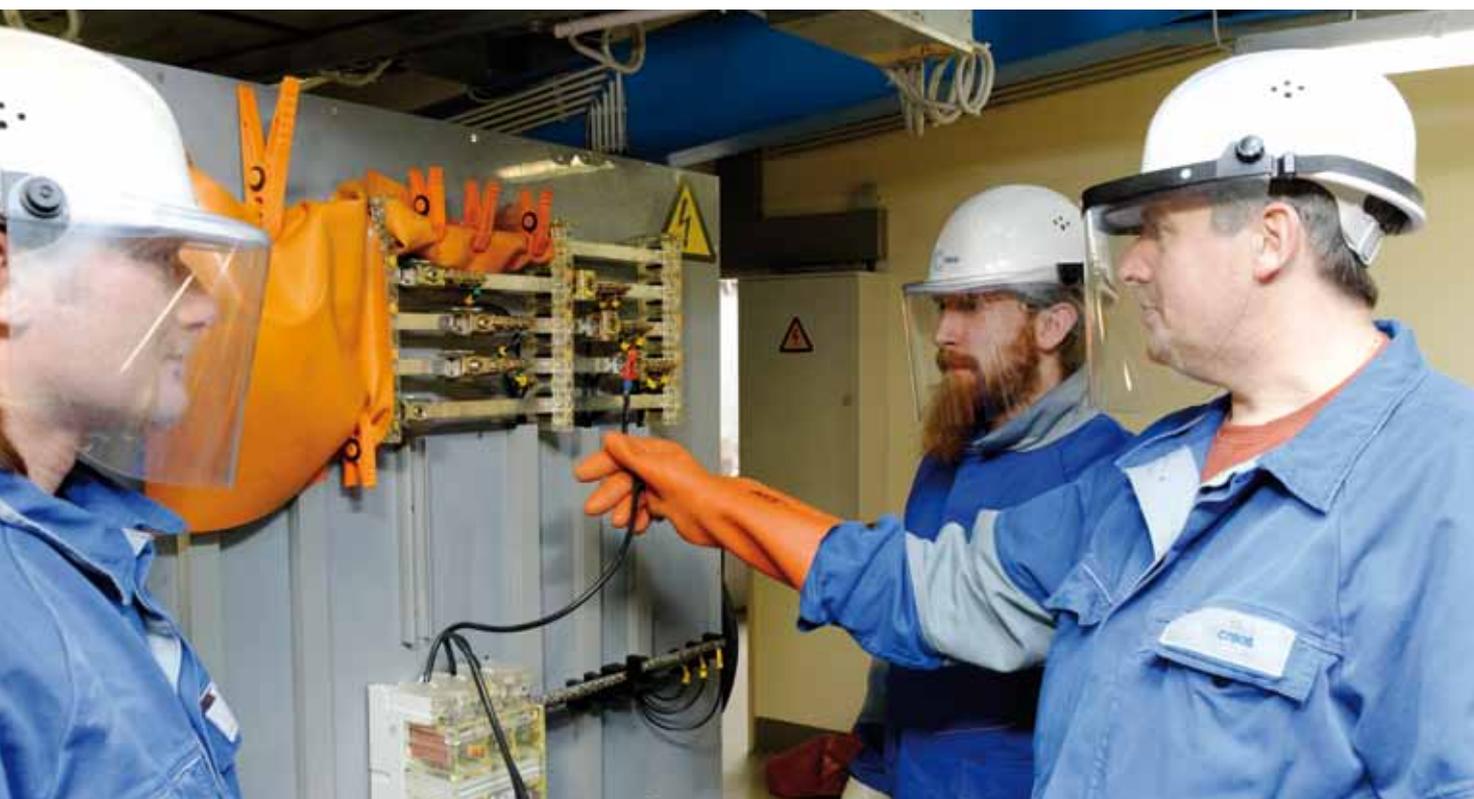
8 Health, Safety and Environment (HSE)

During 2010, Creos Luxembourg recorded no serious accident. 29 minor accidents were noted and 14 accidents resulting in the loss of more than three days work. The principal causes were accidents on the way to or from work (30.2%), handling tools (18.6%), falling or over-stretching on site (9.3%). Only one accident at work was in relation to electrical work, but without serious consequence.

In order to guarantee the safety and health of our members of staff, the following training was organised in 2010:

- “Schaltberechtigung” for low, medium and high-tension
- Fork-lift driving licences
- Handling truck cranes and securing loads
- First aid
- Initiation in the use of extinguishers.

In collaboration with the human resources department, a project entitled “Healthcare at Work”, to improve the health and well-being of members of staff at work, was extremely successful in 2010 and will be continued in 2011.



Training in high tension work.

9 Creos Deutschland GmbH

General Development in 2010

The revenue cap derived from the framework of the incentive regulation guidelines and supervised by the Federal Network Agency is adjusted annually. In 2010 variations in the consistent component of the revenue cap increased considerably. But at the beginning of 2011 these special effects will decline to the 2009 level.

Gas transported through the grid in 2010 amounted to 31.985 billion kWh, representing an increase of 11% above the previous year.

With the third EU internal market legislative package leading to extensive unbundling requirements, in case Creos Deutschland might be defined as a TSO and not a DSO, a considerable effort has been made to avoid identification as a TSO. BMWi (Federal Minister of Economy and Technology) was contacted and mutual correspondence focussed on identifying criteria, to separate Creos Deutschland and grid operators with a similar background clearly from the others involved.

Due to the forthcoming budget approval for the second regulation period between 2013 and 2017, an all-out effort was made by Creos Deutschland to generate an advantageous but economically justifiable cost basis. A further decisive factor for defining the new upper revenue limit is the efficiency value. This value will be significantly influenced by the decision as to what type of grid operator Creos Deutschland will be defined. Under these circumstances, it is even more important for Creos Deutschland to achieve the status of a DSO.

Last but not least, the cooperation with VSE AG and Stadtwerke Saarbrücken AG has now commenced. In May 2010, the documentation departments of each company moved together in an office building held by VSE AG, making combined work possible and speeding up the cooperation process.

Results Creos Deutschland GmbH

The results are shown in detail below:

	2010	2009
	K€	K€
Revenues (incl. inventories movements and capitalised assets)	69,355	60,227
Material costs	30,755	24,354
Personnel costs	8,605	8,885
Depreciations	5,426	5,511
Other operating expenses	9,355	10,002
Financial result	-105	187
Revenue from ordinary activities	15,109	11,662
Extraordinary result	-873	2,926
EBT	14,236	14,588
Taxes	3,970	4,690
Net profit	10,266	9,898

Creos Deutschland GmbH

Personnel

As a result of further restructuring and due to rising statutory requirements, Creos Deutschland also increased its number of employees in 2010. The average number of employees was 90. Creos also had 3 trainees and 8 apprentices.

Outlook

Due to the massive requirements threatening Creos Deutschland as a possible result of being classified in the sense of the third EU internal market legislative package, Creos Deutschland is seeking to be identified as a DSO. In connection with the new energy market law the BMWi stated that classification as either a DSO or a TSO will be achieved by considering the technical criteria "market spanning operator" or displaying "cross-border transfer points". There is no other detail on how further criteria are to be applied and it will be important actively to monitor developments in the near future.

A tremendous challenge for Creos Deutschland in 2011 will be the successful application of grid fees based on grid cost in 2010. In discussions with the regulator Bundesnetzagentur (BNetzA), the aim will be to achieve an accepted cost level of close to 100%. In a second phase, these finally accepted costs will be subject to an efficiency percentage, which is developed in a benchmark produced in comparison with similar grid operators. The finally accepted costs and the achieved benchmark percentage will together determine the basis for the initial revenue cap level of the second incentive regulation period beginning in 2013.

The cooperation with VSE AG and Stadtwerke Saarbrücken AG will continue to progress as the dispatching departments move together in a shared office building at the beginning of 2011. After these initial phases have been completed work can improve, making future savings possible within the cooperation. In a second phase an expansion of services is planned.

A major component of the Creos Deutschland strategy for the coming years is its continuous reinvestment programme, which inter alia will ensure a secure supply of gas in the region. The "Agenda 2020+" programme is supported by advice provided by the engineering company Fichtner. Recent developments have forced Creos Deutschland to supplement this programme with revised technical requirements which also have extensive influence on the design of the grid in its final stage of development. No matter what steps are necessary to achieve an ideal design of an efficient grid, it is crucial that the Federal Network Agency (BNetzA) recognizes the investment budgets annually applied for to cover the capital costs in accordance with § 23 of the Incentive Regulation Ordinance (ARegV).

Board of Directors of Creos Luxembourg S.A.

Mr Mischo, representing the communes, indicated his intention to terminate his mandate as Director. The Commune Coordination Committee will make a proposal on this subject.

Auditor

The mandate of Auditor expired at the end of 2010. The Board of Directors will make a proposal on this subject.

Strassen, 14 April 2011
The Board of Directors

Constructing high tension lines.





The Regional Electricity Centre in Schiffflange



III Annual Accounts



Balance sheet as at 31 December 2010

ASSETS	Notes	2010	2009
Fixed assets		€	€
Intangible fixed assets	note 4		
Tangible fixed assets	note 5		
Land and buildings		41,823,291	38,770,883
Plant and machinery		195,568,628	189,631,521
Reevaluation reserve		1,431,068	2,862,136
Other fixtures and fittings, tools and equipment		1,661,9019	1,618,449
Payments on account and tangible assets in course of construction		30,469,134	22,651,922
Financial assets	note 6		
Shares in affiliated undertakings		43,664,078	42,000,000
Participating interests		430,000	430,000
Loans to undertakings with which the company is linked by virtue of participating interests		-	-
Total Fixed Assets		315,048,100	297,964,911
Current assets	note 7		
Inventories			
Raw materials and consumables		3,417,755	2,628,895
Work in progress for third parties		6,729,566	6,559,386
Payments on account		12,922	297,912
Receivables			
Trade receivables			
- becoming due and payable within one year		7,704,623	7,163,053
- becoming due and payable after more than one year		-	-
Amounts owed by affiliated undertakings			
- becoming due and payable within one year	note 8	55,631,947	89,165,082
- becoming due and payable after more than one year		858,618	858,618
Amounts owed by undertakings with which the company is linked by virtue of participating interests			
- becoming due and payable within one year		386,575	-
- becoming due and payable after more than one year		-	-
Other receivables			
- becoming due and payable within one year		4,617,299	7,565,126
- becoming due and payable after more than one year		-	-
Cash at bank, cash in postal cheque accounts, cheques and cash in hand			
Cash at bank		10,391,941	5,219,226
Total Current Assets		89,751,245	119,458,651
Prepayments and accrued income		4,364,309	8,098,130
Total Assets		409,163,654	425,521,692

The accompanying notes form an integral part of the annual accounts.

LIABILITES	Notes	2010	2009
Shareholders' equity	note 9	€	€
Subscribed capital		159,081,000	150,000,000
Share premium		33,182,513	0
Revaluation reserve		1,431,068	2,862,136
Legal reserve		15,000,000	13,546,748
Reserves		62,000,000	38,750,000
Profit or loss brought forward		2,884,378	3,724,121
Profit or loss for the financial year		22,795,117	47,710,524
Total Equity		296,374,076	256,593,529
Provisions for liabilities and charges			
Provisions for pensions and similar obligations	note 10	31,143,166	30,411,541
Provisions for taxation	note 14	18,095,965	11,833,194
Other provisions		849,579	
Total Provisions		50,088,709	42,244,735
Liabilities			
Amounts owed to credit institutions			
- becoming due and payable within one year		1,234,714	991,574
- becoming due and payable after more than one year		2,365,186	2,974,722
Payments received on account of orders in so far as			
- becoming due and payable within one year		4,908,775	5,091,939
- becoming due and payable after more than one year		-	-
Trade creditors			
- becoming due and payable within one year		17,540,044	9,882,402
- becoming due and payable after more than one year		-	-
Amounts owed to affiliated undertakings			
- becoming due and payable within one year		22,634,397	20,887,795
- becoming due and payable after more than one year	note 11	-	85,000,000
Amounts owed to undertakings with which the company is linked by virtue of participating interests			
- becoming due and payable within one year		207,148	86,702
- becoming due and payable after more than one year		-	-
Tax and social security			
Tax		1,443,105	737,247
Social security		1,542,459	272,465
Other creditors			
- becoming due and payable within one year		675,042	845,285
- becoming due and payable after more than one year		-	-
Total		52,550,869	126,683,428
Prepayments and accrued income		10,150,000	-
Total Liabilities		409,163,654	425,521,692

The accompanying notes form an integral part of the annual accounts.

Profit and Loss account from 1 January to 31 December 2010

EXPENSES	Notes	2010	2009
Supplies		€	€
a) Cost of sales		31,568,393	32,578,839
b) Other external charges		24,244,579	21,791,348
Staff costs	note 12		
a) Wages and salaries		32,751,884	33,926,612
b) Social security costs		3,601,273	3,738,278
c) Pension plans		2,359,639	3,083,135
Value adjustments in respect of tangible and intangible fixed assets	note 13	32,457,623	32,080,505
Value adjustments in respect of current assets		2,702,315	2,282,988
Interest and similar charges			
a) with regard to affiliated undertakings		-	346,222
b) other interest payable and similar charges		1,334,905	350,825
Tax on profit from ordinary activities	note 14	11,800,000	9,779,619
Other taxes		88,090	248,985
Extraordinary expenses		41,082,795	-
Profit for the period		22,795,117	47,710,524
Total Expenses		206,786,611	187,917,880

The accompanying notes form an integral part of the annual accounts.

INCOME	Notes	2010	2009
		€	€
Net turnover	note 15	161,227,339	157,117,467
Work performed by the undertaking for its own purposes and capitalised		9,187,116	8,268,968
Other operating income	note 16	137,115	211,197
Income from participating interests			
a) with regard to affiliated undertakings	note 17	7,275,907	21,313,307
b) other income from participating interests		-	-
Other interest and similar income			
a) with regard to affiliated undertakings		291,287	38,040
b) other interest and similar income		59,715	724,061
Write-back of value adjustments to current assets		977,982	244,839
Extraordinary income		27,630,150	-
Total Income		206,786,611	187,917,880

The accompanying notes form an integral part of the annual accounts.

Proposed appropriation of net profit

The profit available for appropriation of EUR 32,179,495 includes the net profit for the year of EUR 22 795 117, the reversal of the blocked reserve (wealth tax) of EUR 6,500,000 and the profit brought forward of EUR 2,884,378.

The board of Directors proposes to the Annual Shareholder's Meeting to be held on 10 May 2011 the following appropriation of net profit:

Dividend of 2,30 euros per share*	22,867,895
Allocation to the legal reserve (5 % of net profit)	1,139,756
Allocation to the blocked reserve	4,500,000
Amount carried forward	3,671,844
	32,179,495

* Number of shares : 9,942,563 shares

Notes to the annual accounts

Note 1 - General

Creos Luxembourg S.A. was incorporated in Luxembourg under the name of Cegedel S.A. on 25 April 1928. The company is registered under RCS No. B4513. In the context of the operations described below, the company was renamed Creos Luxembourg S.A. in 2009.

Following a business combination in 2009 of the grid activities of Cegedel S.A. and Soteg S.A., and the integration of the grid activities of Luxgaz Distribution S.A. in 2010 (see Note 19), the main activities of Creos Luxembourg S.A. are to operate in Luxembourg electricity and gas transport and distribution networks. Creos Luxembourg S.A. holds a 96.88% participation in Creos Deutschland GmbH, a result of the merger in 2009 of Saar Ferngas Transport GmbH in Germany with the network activities of Saar Ferngas AG.

Annual accounts

The company's financial year runs from 1 January to 31 December each year. The company's accounts are consolidated into the Enovos group annual accounts.

Note 2 - Authorisations

Following the two European Directives 2003/54 and 55 of 26 June 2003 concerning common rules for the internal markets in electricity and natural gas, and the laws that transposed those directives into national laws, namely the laws of 1 August 2007 regarding the organization of the electricity and natural gas markets, transport and distribution grid management activities have been legally separated from the other activities of electric or gas power generation and sale.

In the context of the restructuring, all the authorizations have been granted according to this legal framework.

Note 3 - Accounting policies

General principles

The annual accounts have been prepared in accordance with Luxembourg legislation and regulations and generally accepted accounting principles. The company improved the presentation for 2010 and as a consequence comparative figures have been reclassified accordingly.

Foreign currency conversion

With the exception of fixed assets, assets and liabilities denominated in foreign currencies are converted at the exchange rates in effect at the end of the year. Transactions denominated in foreign currencies are recorded at the exchange rates on the transaction day. Realised exchange gains and realised and unrealised exchange losses are recognised in the income statement. Unrealised exchange gains are not recognised.

Intangible fixed assets

Intangible fixed assets are booked at their acquisition price or at cost and are depreciated over their estimated useful life.

Tangible fixed assets

Tangible fixed assets are recorded at their acquisition price or at cost.

Value adjustments for electricity assets are made in accordance with the following principles:

- Buildings, plant and equipment that are not part of the grid: straight-line depreciation based on the coefficients laid down in Article 30 of the Concession Agreement of 11 November 1927 and in the Agreement of 8 September 1998.
- Buildings, plant and equipment that are part of the grid: depreciation using the declining-balance method based on coefficients equal to double those referred to above for investments completed before 1990, and to triple those referred to above for investments completed thereafter.
- Other equipment, machines and furniture: straight-line depreciation over one year
- Revaluation surpluses: straight-line depreciation until fiscal year 2011. The corresponding item on the liabilities side is the revaluation reserve, which is depreciated at the same rate.

Value adjustments for gas assets are made in accordance with the following principles:

- Buildings, plant and equipment: straight line depreciation in accordance with the estimated useful life of the assets acquired.

Tangible fixed assets in the course of construction are valued at cost, based on the direct costs of the company, and are reviewed for impairment annually.

Financial assets

Shares in affiliated undertakings and participating interests are recorded in the balance sheet at their acquisition cost. Loans to affiliated undertakings and loans to undertakings with which the company is linked by virtue of participating interests are included at their nominal value. In the case of an impairment that the Board of Directors considers as permanent in nature, value adjustments are recorded to these long-term investments to apply the lower value to be assigned to them on the balance sheet date. These value adjustments are not maintained when the reasons for making them have ceased to exist.

Inventories

Raw materials and consumables are valued at the lower of purchase price calculated on the basis of weighted average cost or market value. Value adjustments are recorded when the estimated realisable value of stocks is lower than the weighted average cost. The value adjustments are not maintained if the reasons for recording them have ceased to exist.

Receivables are recorded at their nominal value. Value adjustments are recorded when there is a risk that all or part of the amounts concerned may not be recovered. These value adjustments are not maintained if the reasons for recording them have ceased to exist.

Provisions for liabilities and charges

The aim of provisions for liabilities and charges is to cover clearly defined charges and liabilities which, on the balance sheet date, are either probable or certain but for which the amount or date of occurrence cannot be determined. A review is carried out at year-end to determine the provisions to be recorded for the company's liabilities and charges. Provisions recorded in previous years are reviewed annually and those no longer needed are released.

Net turnover

Net turnover relates to transportation and distribution of electricity and gas provided as part of the company's ordinary activities, net of discounts, value-added tax and other taxes directly linked to sales.

Income from participating interests

Dividend income is recorded when dividends are declared.

Note 4 - Intangible fixed assets

There were no movements in the year.

	IT software licences	Advance payments made and new intangible fixed assets	TOTAL 2010	TOTAL 2009
	€	€	€	€
Gross values at beginning of year	12,454,772	-	12,454,772	17,757,922
Additions during year	-	-	-	98,767
Disposals during year	-	-	-	-703,138
Transfer of property	-	-	-	-4,698,779
Gross values at end of year	12,454,772	-	12,454,772	12,454,772
Value adjustments at beginning of year	-12,454,772	-	-12,454,772	-14,327,614
Allowances for year	-	-	-	-121,772
Amounts released for year	-	-	-	1,994,614
Value adjustments at end of year	-12,454,772	-	-12,454,772	-12,454,772
Net value at end of year	-	-	-	-

Note 5 - Tangible fixed assets

Movements for the year were as follows :

	Land and buildings	Machinery, plant and equipment	Revaluation surplus	Other equipment, machines and furniture	Payments on account and tangible assets in course of construction	TOTAL 2010	TOTAL 2009
	€	€	€	€	€	€	€
Gross values at beginning of year	54,520,514	682,700,927	44,870,289	43,159,378	22,651,922	847,903,030	755,545,459
Additions during year	731,278	-2,740,369	-	708,054	37,070,007	35,768,970	28,249,985
Disposals during year	-	-186,958	-	-762,001	-	-948,959	-5,496,575
Transfer of property	4,309,013	45,440,358	-	1,356,332	-29,252,795	21,852,908	69,604,162
Gross values at end of year	59,560,805	725,213,958	44,870,289	44,461,763	30,469,134	904,575,949	847,903,030
Value adjustments at beginning of year	-15,749,632	-493,069,405	-42,008,153	-41,540,929	-	-592,368,119	-518,336,325
Allowances for year	-1,308,742	-29,578,379	-1,431,068	-1,570,502	-	-33,888,691	-33,389,800
Amounts released for year	-679,140	-6,997,546	-	311,569	-	-7,365,117	-40,641,994
Value adjustments at end of year	-17,737,514	-529,645,330	-42,439,221	-42,799,862	-	-633,621,927	-592,368,119
Net value at end of year	41,823,291	195,568,628	1,431,068	1,661,901	30,469,134	270,954,022	255,534,911

In 2010, Creos Luxembourg S.A. acquired EUR 13,623,745 of fixed assets in the context of the merger with Luxgaz Distribution S.A. (see also Notes 9 and 19). These movements are included in the items "Transfer during the year" and "Amounts released for year".

Note 6 - Financial assets

Movements for the year were as follows :

	Investments in affiliated undertakings	Participating interests	TOTAL 2010	TOTAL 2009
	€	€	€	€
Gross values at beginning of year	42,000,000	430,000	42,430,000	81,902,796
Additions during year	16,640,784	-	86,140,784	56,941,406
Reduction of equity	-	-	-	-29,969,000
Merger	-	-	-69,500,000	-100,000
Transfer	-	-	-	-65,105,202
Disposals during year	-14,976,706	-	-14,976,706	-1,240,000
Gross values at end of year	43,664,078	430,000	44,094,078	42,430,000

After the merger with Luxgaz Distribution S.A., Creos Luxembourg S.A. contributed the Luxgaz Distribution S.A. sales activities to a new company named Luxgas S.à r.l. for a total value of EUR 16,640,784. Creos Luxembourg S.A. subsequently sold 90% of Luxgas S.à r.l. to Enovos Luxembourg S.A. (see also Note 19).

The company holds at least 20% of the capital in the following undertakings (audited figures):

Company name	Headquarters	Proportion of capital held	Last year-end	Shareholders' equity at year-end	Of which profit for the year	Participation net value
		%		€	€	€
Creos Deutschland GmbH	Sarrebrücken (Germany)	96.88	31/12/2010	38,548,114	10,266,490	42,000,000

The company further holds a participation of 8.3% in CASC CWE S.A. (Capacity Allocation Service Company CWE S.A.) for a net book value of EUR 430 000 and a participation of 10% in Luxgas S.à r.l. for a net book value of EUR 1 664 078.

Note 7 - Current assets

Trade receivables relate mainly to revenues from transportation and distribution of electricity and gas.

The value of current assets was adjusted as follows :

	Cumulative total		Of which net allocation (amounts released) for the year	
	31/12/2010 €	31/12/2009 €	2010 €	2009 €
Adjustments to the value of receivables	5,042,276	2,867,943	2,174,333	2,282,988
Adjustments to the value of short-term investments	-	-	-	-244,839

Value adjustments are recorded in the income statement under «Value adjustments in respect of current assets» for allowances and under «Write-backs of value adjustments to current assets» for write-backs.

Note 8 - Amounts owed by affiliated undertakings

Creos Luxembourg S.A. has entered into a cash pooling agreement with Enovos International S.A. which, as at 31 December 2010, owed a cash amount of EUR 35,372,899 to the company (2009: 71,228,702). This amount is recorded under the item "Amounts owed by affiliated undertakings".

Note 9 - Shareholders' equity

As at 31 December 31st, 2010, the company's subscribed capital was EUR 159,081,000. The capital is fully paid-up and represented by 7 949 005 shares without designation of a nominal value.

	31/12/2009	Distribution of dividends	Appropriation of profit	Profit of year	Other		31/12/2010
					Increase	Decrease	
		€	€	€	€	€	
Subscribed capital	150,000,000				9,081,000 ³⁾		159,081,000
Share premium	-				33,182,513 ³⁾		33,182,513
Revaluation reserve	2,862,136					-1,431,068 ¹⁾	1,431,068
Legal reserve	13,546,748		1,453,252 ²⁾				15,000,000
Other reserves :	38,750,000		23,250,000				62,000,000
Special reserve	-		22,000,000 ²⁾				22,000,000
Blocked reserve	38,750,000		1,250,000 ²⁾				40,000,000
Profit brought forward	3,724,121		-839,743 ²⁾				2,884,378
Profit for the year	47,710,524	-23,847,015 ²⁾	-23,863,509	22,795,117			22,795,117
Total	256,593,529	-23,847,015	-	22,795,117	42,263,513	-1,431,068	296,374,076

1) Amortisation of revaluation reserve (see also Notes 5 and 13).

2) Decision of the ordinary general meeting of shareholders of 11 May 2010.

The legal reserve comprises a mandatory allocation amounting to at least one twentieth of the net profits for the year, up to a ceiling of one tenth of the subscribed capital. This reserve is not available for distribution.

The amount allocated to the blocked reserve is equal to five times the amount of the wealth tax credit. The total reserve amounts to EUR 40,000,000, and breaks down as follows: EUR 6,500,000 for 2005, EUR 7,000,000 for 2006, EUR 9,000,000 for 2007, EUR 9,500,000 for 2008 and 8,000,000 EUR for 2009. The amount allocated for 2004, EUR 6,750,000, was released to retained earnings as at 31 December 2010 (Note 14).

3) Decision of the extraordinary general meeting of shareholders of 1 July 2010: integration of gas grid activities of Luxgaz Distribution S.A. against issuing 449,005 new shares for EUR 9,081,000 and a share premium of EUR 33,182,513.

Note 10 – Provisions for pensions and similar obligations

Under a supplementary pension scheme, Creos Luxembourg S.A. has contracted a defined benefit scheme for staff members who started their employment with the company before 1 January 2001. The company is committed to pay a lump sum on the retirement of each employee. The amount reported in the balance sheet is based on the following assumptions:

- retirement age taken into account for financing: 60 years
- yearly discount rate of 4.2%
- estimated wage at time of retirement.

Actuarial profits and losses are immediately recognised in the income statement.

In addition, in a defined contribution pension scheme for staff members who joined the company after 1 January 2001, the company pays a contribution to an insurance company that is recorded under expenses for the year. For 2010, expenses for the pension scheme amount to EUR 361 621 (2009: EUR 418,765).

Note 11 – Amounts owed to affiliated undertakings

In 2009, Enovos International S.A. granted a loan to Creos Luxembourg S.A. of a nominal amount of EUR 85,000,000. The loan was bearing interest at market rates. The loan was fully repaid on 31 October 2010.

Note 12 – Staff costs

At the end of the year, the company had 436 employees (2009: 393).

Note 13 – Value adjustments in respect of tangible and intangible fixed assets

Value adjustments booked in the income statement break down as follows:

	2010	2009
Value adjustments in respect of intangible fixed assets (see note 4)	-	121,772
Value adjustments in respect of tangible fixed assets (see note 5)	33,888,690	33,389,800
Depreciation of revaluation reserve (see notes 5 and 9)	-1,431,068	-1,431,067
	32,457,623	32,080,505

Note 14 – Tax on profit from ordinary activities

Creos Luxembourg S.A. is subject to all taxes applicable to companies in Luxembourg and the tax provisions have been provided in accordance with the relevant laws. In accordance with paragraph 8a of the Law dated 16 October 1934 as amended, Creos Luxembourg S.A. will opt for the reduction of the net wealth tax due for the year 2010 by setting up a special reserve equal to five times the amount of the net wealth tax reduced (Note 9). Provisions for taxation on the liabilities side of the balance sheet cover preceding years from 2006 to 2008 and 2010. For 2009, an amount of EUR 215,897 is recorded in other receivables.

Note 15 – Net turnover

Net sales for the period 1 January to 31 December 2010 break down as follows:

	2010	2009
	€	€
Sales grid power	114,490,074	113,841,884
Sales grid gas	18,958,454	14,960,779
Other revenue	27,778,811	28,314,803
Total	161,227,339	157,117,467

Note 16 – Other operating income

Other operating income in 2010 mainly includes rental revenues.

Note 17 – Income from participating interests with regard to affiliated undertakings

This item includes in 2010 the dividends paid by Creos Deutschland GmbH for an amount of EUR 6 587 527, by Luxgaz Distribution S.A. for an amount of EUR 463,050 and by CASC CWE S.A. for an amount of EUR 225,330. This item includes in 2009 the revenue realised from the disposal of the participation in Watt Re S.A., a reinsurance company for an amount of EUR 19,077,244.

Note 18 – Remuneration paid to members of the administrative and supervisory bodies

Remuneration paid to members of the administration and supervisory bodies totalled EUR 383,800 (2009: EUR 438,094). No advances or loans were granted to members of the administrative and supervisory bodies, and no commitment was given on their behalf in respect of any form of guarantee.

Note 19 – Note on Luxgaz Distribution S.A. transaction

In connection with the integration of the Luxgaz Distribution S.A. activities into those of Creos Luxembourg S.A., the following operations have been realised in 2010:

- during the extraordinary general meeting of Creos Luxembourg S.A. on 18 March 2010, 60.81% of shares in Luxgaz Distribution S.A. were brought into Creos Luxembourg S.A. through an increase in capital and share premium (see Note 9);
- on 14 April 2010, Enovos Luxembourg S.A. sold to Creos Luxembourg S.A. 39.19% of shares in Luxgaz Distribution S.A. for an amount of EUR 27,236,486. Luxgaz Distribution S.A. was then merged into Creos Luxembourg S.A., transaction that resulted in a merger loss of EUR 41,082,795, amount booked under extraordinary expenses in 2010;
- on 21 May 2010, the sales activities of Luxgaz Distribution S.A. were brought into a newly founded company, Luxgas S.à r.l., and 90% of the shares of Luxgas S.à r.l. were subsequently sold to Enovos Luxembourg S.A., resulting in a capital gain of EUR 27,630,150, amount booked under extraordinary income in 2010.

Note 20 – Off-balance-sheet commitments and litigations

There was a disagreement over the invoices that have been issued by Amprion GmbH (formerly RWE Transportnetz Strom GmbH) to Cegedel Net S.A. (merged in 2009 into Creos Luxembourg S.A.) since January 2005 corresponding to the transmission in Germany of quantities concerning electricity supply from Twinerg S.A. to Cegedel S.A.. In February 2011, the two parties concluded an agreement by which Creos Luxembourg S.A. will pay EUR 3,800,000 to settle the issue with Amprion. The management of Creos Luxembourg S.A. considers that the ultimate resolution of this issue will require further negotiations with all the parties involved.

As from 1 January 2009, the transport costs due by Creos Luxembourg S.A. to Amprion GmbH (formerly RWE Transportnetz Strom GmbH) have been re-invoiced to Twinerg S.A., according to an agreement signed on 12 November 2008.

Note 21 – Post-balance-sheet events

On 6 January 2011 was held an extraordinary general meeting of Creos Luxembourg S.A. which approved the contribution of the gas and electricity networks of the City of Luxembourg to Creos Luxembourg S.A. This contribution was made by issuing new shares of Creos Luxembourg S.A., the City of Luxembourg thus becoming a new shareholder of Creos Luxembourg S.A. with a 20% participation. In this context, in 2010 the City of Luxembourg paid an amount of EUR 10,150,000 to the company. The percentages of ownership of the other shareholders in Creos Luxembourg S.A. became through this transaction 75.43% for Enovos International S.A., 2.28% for the State of Luxembourg, 2.18% for the Municipalities, and 0.10% for the “Fédération des Artisans”.

Following this contribution, the operations of electricity and gas grids of the City of Luxembourg have been integrated with those of Creos Luxembourg S.A. The turnover of Creos Luxembourg S.A. in 2011 will hence increase by about one third compared to 2010 and an additional staff of about 180 people will be made available to Creos Luxembourg S.A. by the City of Luxembourg for operating the network activities.

4 Independent Auditor's report

To the shareholders of Creos Luxembourg S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Creos Luxembourg S.A., which comprise the balance sheet as at 31 December 2010 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for preparing and presenting the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, as well as the internal control it deems necessary to permit the establishment and presentation of the annual accounts with no material misstatement, whether due to fraud or error.

Responsibility of the Independent Auditor

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Audit Standards as adopted for Luxembourg by the Financial Sector Supervisory Commission. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the Auditor, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control in force in the entity relevant to the entity's preparation and fair presentation of the annual accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

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 annual accounts give a true and fair view of the financial position of Creos Luxembourg S.A. as of 31 December 2010, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

ERNST & YOUNG S.A.
Limited Company
Auditor

Jeannot WEYER
Luxembourg, 14 April 2011

Energy in motion



Creos Luxembourg Annual Report is published in both French and English.
Only the French version may be considered the original; others are simply free translations.

We would like to thank all those involved in the preparation and publication of this Annual Report.

Publication team:

Coordination:

Grid Communication Department Creos Luxembourg S.A.

Design and artwork:

Brain&More, Agence en communication

Photos:

Photo Visions s.à r.l. - Carlo Hommel
Archives Creos

Printers:

Imprimerie Faber, Mersch



Creos Luxembourg S.A.
Electricity and natural gas grid operator
2, rue Thomas Edison L-1445 Strassen
Postal address : L-2084 Luxembourg
Tel. : 2624-1 Fax : 2624-5100
info@creos.net
creos.net