RÄTIA ENERGIE

ANNUAL REPORT 2005

RÄTIA ENERGIE
GRUPPO

Annual report

At a glance	4
Report of the Board of Directors and Executive Board	6
Strategic thrust	8
Energy management	12
Significant shareholdings	16
Corporate Governance	20
Financial review	35
Addresses and Key Dates	100

At a glance

Facts

- Strong performance: CHF 877 million total operating revenue. Operating income: CHF 110 million. Group profit including minority interests: CHF 81 million.
- Change in accounting principles: First-time adoption of International Financial Reporting Standards (IFRS) for presentation of the Rätia Energie financial statements.
- Expansion of trading business: Energy sales up 50 % to 10 346 Gigawatt hours (GWh).
- Commissioning of the 380-kV transit line over the Bernina Pass to Italy on 20 January 2005.
- Construction work on the 400-MW gas-fired combined cycle power plant in Teverola near Naples on schedule.
- Integration of aurax, Ilanz.
- Electricity delivery agreement: Rätia Energie to deliver 438 GWh a year over the next 20 years to Südwestdeutsche Stromhandels GmbH.
- Entry into force of new 80-year licences for Prättigau power plants on 25 October 2005.
- Commissioning of the 380-kV switching station in Robbia (Poschiavo) in November 2005.
- Upgrading of production facilities in Prättigau: Commissioning of first machine group in the Küblis power plant in December 2005.

Energy balance sheet

GWh	2004	2005	Change
Traded	6 116	9 436	+ 54 %
Supplied	663	754	+ 14 %
Pump, own consumption, losses	100	156	+ 56 %
Energy sales	**6 879**	**10 346**	**+ 50 %**
Own production	598	356	- 41 %
Energy from participations	1 701	855	- 50 %
Traded	4 580	9 135	+ 99 %
Energy procurement	**6 879**	**10 346**	**+ 50 %**

Financials

CHF m	2004 *)	2005 *)	Change
Total operating revenue	567	877	+ 55 %
Income before financing and income taxes	136	110	- 19 %
Group profit including minority interests	**118**	**81**	**- 31 %**
Balance sheet total	1 185	1 423	+ 20 %
Equity	554	622	+ 12 %

*) Includes one-off special factors which affect comparability (see Financial review, page 35).

Share information

Capital stock	2 783 115	Bearer shares	à CHF 1.-	CHF 2.8 m
	625 000	Participation certificates (PC)	à CHF 1.-	CHF 0.6 m

Share price		2004	2005
CHF			
Bearer shares	High	300	390
	Low	221	284
Participation certificates	High	256	339
	Low	177	249

Dividend	2005*)	2004	2003	2002
CHF				
Bearer shares	4.50	4.00	1.50 + 1.50	1.48
Participation certificates	4.50	4.00	1.50 + 1.50	1.48

*) 2005 dividend subject to decision by the Annual General Meeting.

There are no restrictions on transferability or voting rights.

Report of the Board of Directors and Executive Board

Another good year

The Rätia Energie Group posted another good result in 2005, recording net income of CHF 81 million (- 31 %). The financial statements of Rätia Energie were drawn up for the first time in accordance with International Financial Reporting Standards (IFRS). At CHF 110 million, income before financing and income taxes was 19 % lower than in 2004, when other operating income was positively impacted by substantial one-off gains from company transactions. Excluding these one-off special factors and the reversal of provisions, 2004 profit before financing and income taxes would have amounted to CHF 62 million compared to CHF 77 million in 2005.

Energy sales of 10 346 GWh (+ 50 %) increased total operating revenue to CHF 877 million (+ 55 %). The Group performed strongly in international electricity trading (+ 54 %), and regional electricity supplies also improved (+14 %) due to the consolidation of aurax.

Good results from trading business

Energy sales rose by 50 % due to growth in short-term spot trading as well as long-term transactions. Italy alone accounted for 45 % of energy sales. Lower precipitation levels than in previous years resulted in lower production from the Group's own plants. Rätia Energie purchased additionally required energy on international trading markets.

Bernina line – a milestone

The new 380-kv line over the Bernina Pass was inaugurated in suitable style in Rome on 20 January 2005. The line will make an important contribution to energy security in Switzerland and Italy, and represents not only a milestone in cross-border trading but also a key success factor for Rätia Energie. The new business opportunities being opened up by the Bernina line will offset the increasingly challenging conditions facing the international electricity business. The new switching station in Robbia (Poschiavo) has been supplementing the 380-kv line connection since November 2005, providing a key technical element in the international transmission grid.

Expansion of production in Switzerland and Italy

2005 was dominated by two major projects: renovation of the production facilities in Prättigau and ongoing work on construction of the 400 MW gas-fired combined cycle power plant in Teverola near Naples, which started in June 2004.

Renovation of the production facilities in Prättigau is on schedule; an important phase was completed in December 2005 when the first of two new machine groups in the Küblis station went into operation. Happily, the new licences for hydro power usage in Prättigau also came into force on 25 October 2005, ensuring a source of renewable, flexible energy production for the next 80 years.

Construction of the 400 MW gas-fired combined cycle power plant in Teverola is also on target. The plant is

scheduled to go live at the end of 2006. The gas turbine was installed in September 2005, and one month later the connection to the Italian gas network was in place. In view of the good progress being made in this construction project, Rätia Energie has decided not to sell its 10 % stake in the project company, as previously planned, and will therefore remain the principal shareholder. Hera of Bologna has a 39 % stake in the power plant.

Integration of aurax

In 2004 Rätia Energie acquired 94.8 % of the shares in aurax ag of Ilanz, thereby also acquiring the majority holding in aurax subsidiaries. The operational fusion is at an advanced stage, creating a solid platform on which to strengthen the Group's market position in the liberalised market. aurax's subsidiaries were realigned and some have been merged with other Rätia Energie Group companies. Terms and conditions of employment were standardised, and the first synergies have been leveraged in the administrative area.

Strategic thrust

Rätia Energie is aiming for further growth over the next few years, in terms of both electricity supplies and trading. International electricity trading offers the best opportunities in this regard. The geographical focus will continue to be on Switzerland, Italy and Germany, and opportunities for expansion into selected new markets are being examined. The company's own production plants and line capacities provide a solid base for trading and supply and will be consistently expanded. Rätia Energie is also planning to expand its own sales organisations in key markets.

2006 priorities

Due to changing boundary conditions and a changing regulatory framework, it will be virtually impossible to achieve 2006 results on a par with the outstanding results of 2005. Auctions for cross-border grid capacities make for additional complexity as well as higher costs and risks. Moreover, pressure on margins for international electricity trading is likely to increase.

Rätia Energie is addressing these changes by systematically stepping up its production, trading and sales activities at home and abroad. Even in this challenging environment the prospects look bright for Rätia Energie. Strategic projects already implemented or under way, as well as the company's sound financial structure, will drive further profitable growth.

Luzi Bärtsch
Chairman of the Board of Directors

Karl Heiz
CEO

Strategic thrust

Rätia Energie is a vertically integrated electricity company that adds value from power plant to electrical socket, by generating, transporting and delivering electricity.

Electricity generation, trading and delivery

The national and international trading business currently accounts for the lion's share of profit, and healthy growth in this area will continue to contribute to Rätia Energie's business success. The fact that trading activities can rely on the company's own production and transmission facilities as well as participations and long-term purchase contracts is an important factor in this context. Through its Group companies, Rätia Energie has carved out an attractive market position in Italy which it intends to expand even further. Rätia Energie also continually examines investment opportunities in other European countries. The company has established a name for itself as a marketer of energy with ecological added value. Rätia Energie is also aiming to boost its profile in the eco-power market by increasing deliveries of renewable energies and stepping up marketing activities.

The Group supplies electricity to more than half the households in the canton of Grison, either directly (50 000 customers) or indirectly (25 000) via resellers. Rätia Energie is also seeking to further expand its supply activities through joint ventures and investments in south-east Switzerland and neighbouring regions.

Growth in Europe

Rätia Energies offers municipal and community plants, industrial companies and trading partners in Switzerland and abroad bespoke solutions that draw on its wealth of experience in international trading. This core competence is continually being enhanced, guaranteeing partners reliable and cost-effective solutions. Rätia Energie sees further major potential in this business: in terms of peak load energy, regulating energy and ecological differentiation

In view of the limited nature of growth opportunities in Switzerland, Rätia Energie has set itself the goal of becoming a flexible, competent provider on the enlarged European market. Tailor-made offerings, competence in the energy business and customer focus will support the company's efforts towards this goal. Its presence on several European energy exchanges, coupled with consistent investment in production capacities, provide a promising springboard for capturing these new markets.

Municipal plants and wholesalers throughout Europe are served by the Group company Swisshydro AG, which caters to requirements for certified hydroelectricity.

Expansion of in-house production

Given the dynamic market environment and the nature of trading on energy exchanges, in-house production facilities are of critical importance to the company's

trading activities. The project in Upper Poschiavo will provide Rätia Energie with significant potential to increase its own hydroelectricity production capacities.

The company has also penetrated the wind energy market in Italy, building a wind power plant in the Basilicata region in conjunction with the Group company Energia Sud S.r.l. And in Teverola, Rätia Energie is currently building a gas-fired combined cycle power plant. Thanks to its high-level flexibility, the company's own production portfolio provides the ideal basis for maintaining an active, profitable presence on the Italian market for many years to come.

Competent partner

Rätia Energie is familiar with the supply business from its own activities. This expertise and familiarity with the market make the company an ideal electricity supplier for resellers. Thanks to a proven track record in the operation of power plants, grid and computer centres, Rätia Energie can offer these services to other electricity plants. With its marketing know-how and experience with certified Grisons PurePower, Rätia Energie makes an interesting partner for resellers. Grisons PurePower is also sold as a certified product to customers outside the company's own supply region, and offered on licence to regional electricity plants.

Strong roots in Graubünden – at home throughout Europe

Energy management

Rätia Energie's energy management activities primarily cover the marketing of electricity in Switzerland and neighbouring countries. The company plans to deploy its own facilities as well as energy from participations and contracts for the Poschiavo and Milan sites, optimised through trading on energy exchanges and OTC trading. Access to its own reservoirs, flexible production operations and in-house transport capacities provide Rätia Energie with additional business opportunities.

Energy market in flux

Electricity prices in Europe rose sharply in the year under review, largely due to higher prices for fuels such as oil and natural gas as well as for CO_2 emission certificates. In 2004 the average price of a barrel of oil was USD 36.04, compared to USD 50.71 in 2005. The price of CO_2 emission certificates rose from EUR 6.6 per EUA (EU Emission Allowance) in early 2005 to EUR 29 per EUA in July, while the average price in December was EUR 21 per EUA.

In early 2005, electricity prices in Switzerland were on a par with those in Germany. One megawatt-hour (MWh) of electricity cost EUR 34 in both countries. In December 2005 the average daily price of electricity in Germany was EUR 63 per MWh, whereas in Switzerland the price was some EUR 10 more. The reason for this price difference was mainly grid congestion between Germany and Switzerland. A monthly auction for capacity allocation at the German border was held for the first time on 12 December 2005. Energy traders paid EUR 11 per MWh in order to secure transport capacity between Germany and Switzerland for the month of January 2006.

Political influence and speculation entail additional major risks and increase the complexity of the situation. Mindful of this, Rätia Energie is active on several markets, trading on various exchanges and drawing on the findings of market analyses drawn up in-house.

Energy sales up

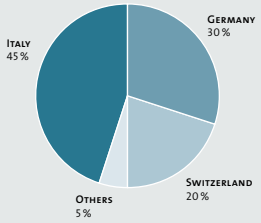
In the year under review Rätia Energie recorded a 50 % increase in energy sales to 10 346 GWh, thanks to

growth in international trading activities and delivery over the 380-kV line over the Bernina Pass to Italy. This has increased net revenue from sales by 83 % year-on-year to CHF 838 million. The company also saw growth in short-term spot trading as well as longer-term transactions. Italian trading activities accounted for much of this growth, with Rätia Energie selling 45 % of its energy to this important market, followed by 30 % in Germany, 20 % in Switzerland and 5 % in the rest of Europe.

Energy sales

	GWh
Trading	9 436
Supply or sales	754
Pumps, own use, losses	156
Energy sales	**10 346**

Energy supplied by country



Due to price volatility and the strong upward price trend, more and more power suppliers and municipal plants are interested in diversifying their procurement portfolio through long-term contracts. For instance, in autumn 2006 Rätia Energie signed a two-year energy supply agreement with municipally-owned Südwestdeutsche Stromhandels GmbH.

The Group company Swisshydro expanded its business in renewable energies, increasing volume from 592 GWh to 767 GWh and expanding Rätia Energie's position in the eco-power segment.

Diversified procurement

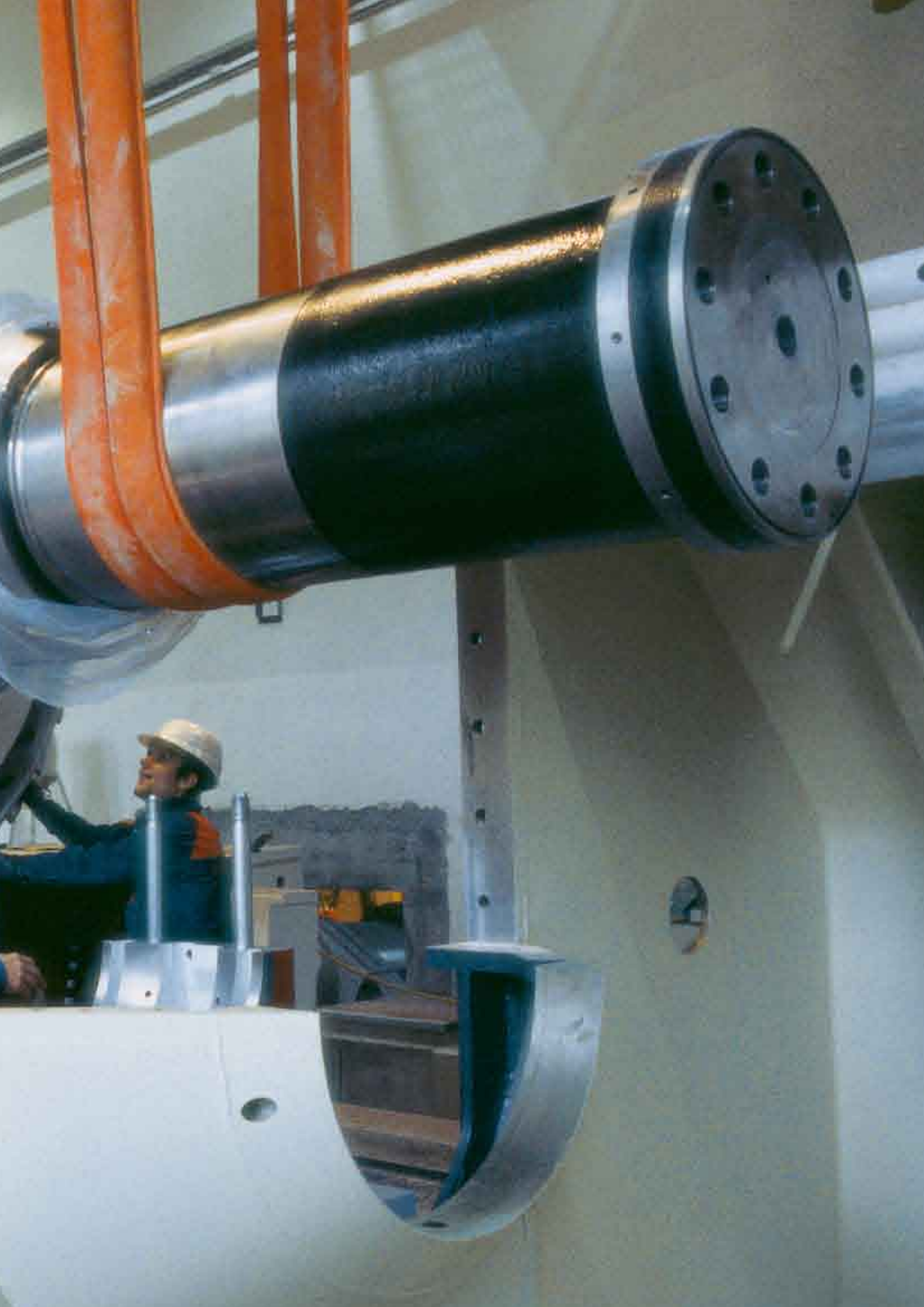
A third consecutive year of extremely dry weather, coupled with renovation work at the Küblis power plant, resulted in lower production from the company's own plants: 242 GWh down on the previous year. This led to a corresponding rise in electricity purchases on international markets – and on energy exchanges in particular.

Energy procurement

	GWh
Own production	356
Energy from partecipations	855
Trading	9 135
Energy procurement	**10 346**

Rätia Energie purchased 41 % of electricity for selling purposes from Germany, 11 % from Italy, 2 % from Austria and 5 % from France. Switzerland accounted for the remaining 41 %.

70 tons of innovative tecnology



Significant shareholdings

Rätia Energie Klosters AG (REK)

Rätia Energie AG holds 99.8 % of the shares in REK and is responsible for business management. In the year under review REK produced 81 GWh of electricity from its own power plants. The volume delivered to customers in Prättigau, Rheintal and Upper Engadine amounted to 318 GWh. REK recorded total operating revenue of CHF 66 million in 2005.

aurax Group

In summer 2004 Rätia Energie purchased 95.5 % of shares in aurax in a public offer. aurax ag is a holding company: Its subsidiaries supply the Surselva region with electricity and are active in the fields of communications networks, electrical installation and IT. In the year under review, 164 GWh of electricity were delivered to around 21 000 connections in the supply region, generating revenue of CHF 30 million. Including the installation business and other services, total operating revenue amounted to CHF 50 million.

Swisshydro AG

Rätia Energie is a co-owner with Azienda Eletrica Ticinese (AET) of Swisshydro AG. With a 65 % stake in the company, Rätia Energie is responsible for business management. The company delivers hydroelectricity to wholesalers throughout Europe and in the year under review recorded a sales volume of 767 GWh and total operating revenue of CHF 28 million.

Rezia Energia Italia S.p.A.

In the year under review Rezia Energia Italia S.p.A. further enhanced its position in the Italian market, posting energy sales of 1 752 GWh and net revenue of CHF 208 million.

Energia Sud S.r.l.

Rätia Energie owns 65 % of Energia Sud S.r.l. via Rezia Energia Italia S.p.A. In December 2004 eleven wind turbines with a capacity of 9 MW were put into operation in the Bilicata region. The wind farm produced some 16 GWh of eco-power in the year under review.

SET S.p.A. (SET)

In 2004 Rätia Energie acquired SET, a project company set up to construct a gas-fired combined cycle power plant in Teverola, Italy. The power plant is currently under construction and is scheduled to go into operation at the end of 2006 with a capacity of 400 MW.

In December 2004 39 % of the shares in the company were sold to Hera, a listed Italian power supplier based in Bologna. Rätia Energie owns 51 % of SET, while 10 % remains with the Merloni Group. Rätia Energie has a right to purchase the 10 % stake held by the Merloni Group and intends to exercise this right once the power plant goes into operation. By the end of the year under review, CHF 330 million had been invested in the CHF 400 million project.

Dynameeting S.p.A.

The company with its 30-strong workforce distributes electricity to medium-sized consumers in Italy via a network of 200 agents. In the year under review, Rätia Energie held a 35 % stake in this company. Following the purchase on 1 March 2006 of all shares in Ubiwork S.p.A., Rätia Energie AG acquired the remaining shares in Dynameeting S.p.A. To date, Rätia Energie has delivered around two-thirds of the volume of electricity sold. In 2005 the company recorded net revenue of CHF 400 million. Since the company is still in the early stages of development, profit remained modest at CHF 132 000.

Elementerra GmbH

Elementerra GmbH, in which Rätia Energie holds a 70 % stake, markets the PurePower St Moritz electricity brand in Germany and recorded energy sales of 4 GWh in the year under review.

Kraftwerke Hinterrhein AG

Rätia Energie owns 6.5 % of the shares in Kraftwerke Hinterrhein AG. In 2005 the partner plant produced 1 098 GWh of electricity, of which Rätia Energie purchased 58 GWh in proportion to its holding. The company operates three power plants in Ferrera, Bärenburg and Sils i.D.; the licences run for another 38 years. In addition to its own share of energy, Rätia Energie also purchases the share of energy produced by Kraftwerke Hinterrhein AG apportioned to the canton of Grisons via Grischelectra AG – in 2005 this accounted for 19.3 % of the total production volume.

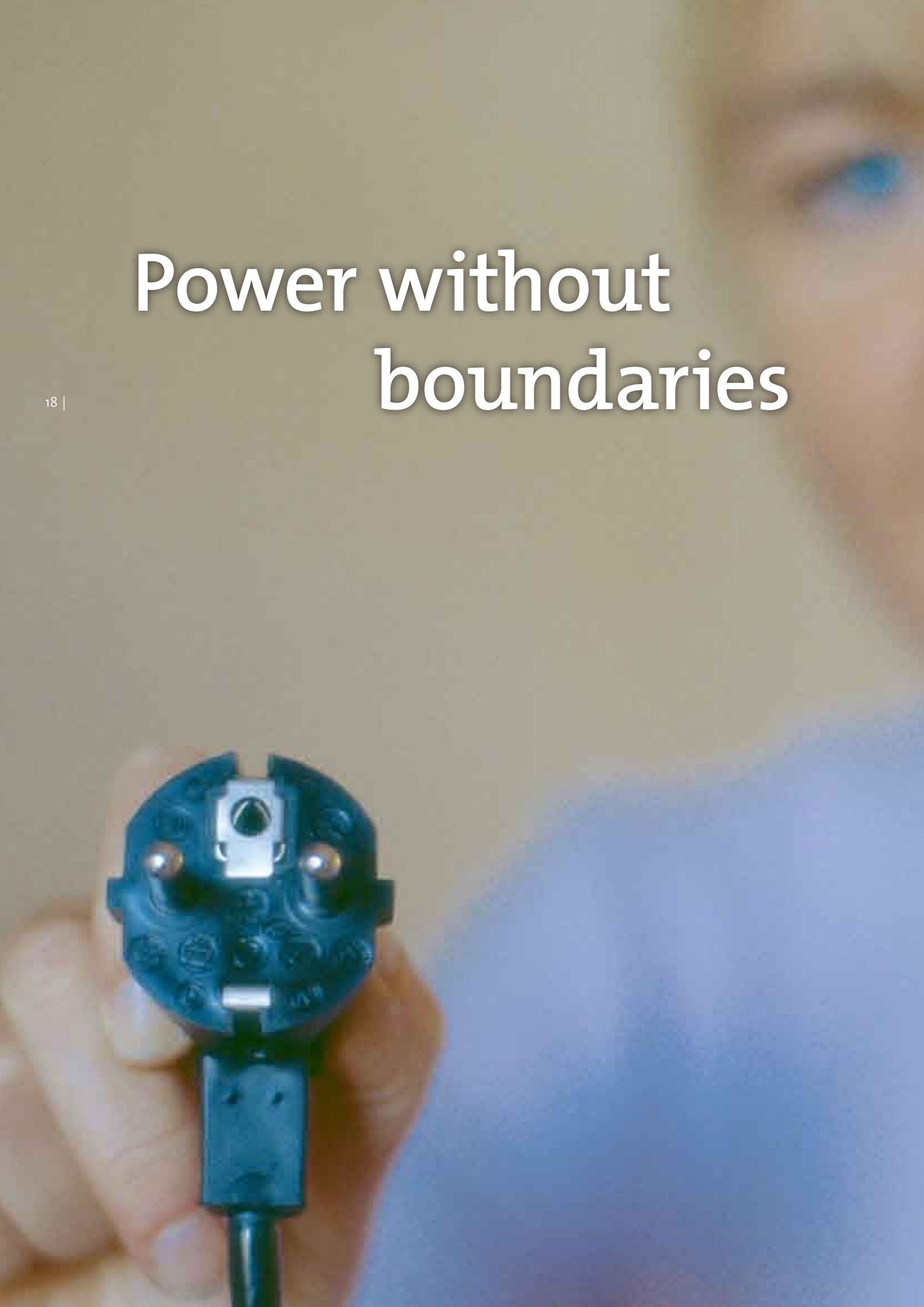
Grischelectra AG (GEAG)

Rätia Energie holds an 11 % stake in GEAG, which was established for the purpose of exploiting the holding as well as the annual energy costs available to the concession communities. The main producer of the GEA package is Engadiner Kraftwerke, AG which accounts for 194 GWh. In 2005 Rätia Energie sold the entire GEQ energy package of 444 GWh. This energy is available to Rätia Energie up to the year 2030.

AKEB Aktiengesellschaft für Kernenergie-Beteiligungen (AKEB)

Rätia Energie's share in AKEB amounts to 7 %. A proportion of AKEnergie's energy generated by the French power plants in Bogey and Catena and the Leibstadt nuclear power plant, was sold by Rätia Energie to third parties, resulting in a purchase of 248 GWh from this holding in the year under review.

Power without boundaries



Corporate Governance

General

This section complies with the SWX guidelines on layout and contains key information on the corporate governance adopted by the Rätia Energie Group. Information is also available in the "Governance" section on the website at www.REpower.ch/Investor.

The principles of corporate governance are laid down in the Articles of Association (which may be viewed under "Statute" at www.REpower.ch/RE), the Organisation Regulations and the associated regulations on competences. The Board of Directors and Executive Board regularly review these principles and revise them as and when required.

Group structure and shareholders

The Rätia Energie Group consists of Rätia Energie AG and its holdings. The registered office of Rätia Energie AG is Bruise, canton of Grisons, while its mailing address is Poschiavo. Rätia Energie AG is a vertically integrated electricity company active along the entire value chain (electricity generation, trading, transmission and supply). The individual activities are managed by Rätia Energie AG and, in principle, are not carried out under the aegis of separate legal structures. However, wherever management by Rätia Energie AG is impossible or inefficient for legal, fiscal or regulatory reasons, or if new legal entities are acquired, legally autonomous subsidiaries are managed. A list of holdings is given on pages 66 and 67, and additional information on significant shareholdings is provided on pages 16 and 17. Since Rätia Energie Klosters AG, Swisshydro AG, Rätia Energie Immobilien AG, Energia Sud S.r.l. and SWIBI AG do not have their own staff, operating and business management agreements exist with these companies. The business of Rätia Energie Immobilien AG is managed by its directors who are employees of Rätia Energie AG. Rezia Energia Italia S.p.A., Energia Sud S.r.l. and SET S.p.A. as well as Elementerra GmbH in Germany have designated managing directors. The management of Rätia Energie AG is represented on the supervisory boards of these companies. Companies in which Rätia Energie holds less than 50 % of the shares are independently organised by Rätia Energie. As a rule, Rätia Energie AG represents these holdings on the Board of Directors.

Rätia Energie bearer shares and participation certificates are listed on the SWX Swiss Exchange. With the exception of changes in control as defined by the stock exchange law, the transfer of shares is not subject to any restrictions. 46.0 % of the shares and hence voting rights are held by the canton of Grisons, 24.6 % by Aare-Tessin AG für Elektrizität (Atel) and 21.4 % by Elektrizitäts-Gesellschaft Laufenburg AG (EGL). The principal shareholders are subject to a shareholders' agreement. There are no cross-shareholdings.

Capital structure

In accordance with the stock market prices for shares and participation certificates, the company had a stock market value of CHF 1.3 billion at the end of 2005.

The par value reductions on bearer shares (security number 1640583) and participation certificates (security number 1640584) in return for cash amounted to: CHF 20 at 5 July 2001, CHF 10 Franken at 5 August 2002 and CHF 5 at 11 August 2003.

In parallel with the last par value reduction, shares and participation certificates were subjected to a 1:5 share split. Rätia Energie AG stock capital is now divided into 2 783 115 bearer shares and 625 000 participation certificates at a par value of CHF 1 each.

No authorised or conditional capital, convertible bonds, options or listed debenture bonds exist. Rätia Energie AG has no outstanding bonus certificates

Board of Directors

Members

The composition of the Board of Directors is listed on pages 26 to 29. No member of the Board of Directors of Rätia Energie AG performs management tasks for the company. No member of the Board of Directors is a member of the Executive Board of Rätia Energie AG or any other Group company. The few business relations with board members are limited to the clarification of legal or operational issues and are regarded as immaterial by both parties. Members of the Board of Directors perform senior management functions for the principal shareholders Atel and EGL or their parent company. Normal business relations exist with these companies. In addition to electricity trading with Atel and EGL, both companies as well as the EGL parent NOK have been granted capacity on the Bernina line during its useful life in exchange for a cash consideration and other transport rights. The same rights, subject to the same terms and conditions, were also granted to other Swiss electricity providers. The trading relations and financial obligations arising from these assigned transport rights are disclosed in the financial report. No member of the Board of Directors of Rätia Energie serves on the boards of listed companies which are represented on the board of Rätia Energie. Membership of boards of other listed companies is indicated in the information on individual members of the Board of Directors.

Corporate Governance

Election and term of office

Members of the Board of Directors are elected by the Annual General Meeting for a period of three years in accordance with the principle of total renewal. Newly elected members take over their predecessors' term of office. The last ordinary election process was carried out at the 2005 Annual General Meeting. The Board of Directors currently consists of twelve members, which corresponds to the maximum permissible number in accordance with the Articles of Association. According to the Organisation Regulations, members of the Board of Directors must surrender their mandate at the Annual General Meeting in the year in which they reach their 70th birthday.

Internal organisation

The Board of Directors is self-constituting. It appoints the Chairman, the Vice-Chairman and the Secretary, who need not be a member of the Board of Directors. A Board Committee performs, among other things, the tasks of a nomination, compensation and audit committee. The composition is determined based on the size of the company and the prevailing circumstances. From among its own members the Board of Directors appoints the Board Committee, on which the Chairman and Vice Chairman automatically serve by virtue of their office. Members of the Board Committee are elected for the same term of office as the Board of Directors. The four members of the Board Committee are listed on pages 26 and 27 of the Annual Report. In addition to its tasks as Nomination, Compensation and Audit Committee, the Board Committee advises the Board of Directors on business proposals and issues recommendations. Finally, the Board Committee is authorised to decide on the acquisition and disposal of holdings up to a limit of CHF 1.5 million.

Together with the Secretary and the President of the Executive Board, the Chairman of the Board of Directors draws up the agenda for meetings of the Board of Directors and Board Committee. As a rule, the members of these two boards receive documentation relating to each item on the agenda as a basis for decisions; this includes background information as well as an evaluation with a proposal by the Executive Board and the Board Committee. In the year under review the Board of Directors convened four times and the Board Committee eight times.

Members of the Executive Board generally attend meetings of the Board of Directors and the Board Committee to provide explanations to the proposals. The Board of Directors reaches decisions by a majority of votes. The Chairman does not have a casting vote. The discussions and decisions of the Board of Directors are recorded and the minutes submitted for approval at the next meeting. The Board Committee and Board of Directors follow the same procedures.

Regulation of competences between Board of Directors and Executive Board

The Board of Directors bears responsibility for the company's strategic direction and overall management. In accordance with the Organisation Regulations, the Executive Board is responsible for the operational management of the company. To this end the Executive Board is assigned varying levels of financial authority. Supervision and control of the operational management is the responsibility of the Board of Directors.

Information and control instruments vis-à-vis the Executive Board

At each meeting of the Board of Directors and Board Committee, the Chief Executive Officer (CEO) and members of the Executive Board report on ongoing business, important events and the status of large projects. At any time outside these meetings, each member of the Board of Directors may ask the CEO to provide information on business performance as well as, with the Chairman's consent, on individual transactions. Supervision and control of the Executive Board is exercised by authorising binding annual and mid-term planning and on the basis of detailed quarterly reports containing actual and target figures. Annual and mid-term planning covers corporate objectives, key projects and financial planning. Risk management and auditors' reports support the assessment of business management and the risk situation.

Management agreements

Rätia Energie AG has signed no management agreements with companies or natural persons outside the Group.

Compensation, shareholdings and loans

The Board of Directors receives a fixed fee plus meeting and travel expenses. In the year under review a total of CHF 505 943 was paid to members of the Board of Directors. The highest compensation paid to one member of the Board was CHF 112 139. A total of CHF 2 191 105 was paid to the Executive Board. The compensation covers all benefits including insurance contributions and social benefits. Compensation for the Board of Directors and Executive Board is fixed by the Board Committee.

Members of the Board of Directors own a total of 448 shares in Rätia Energie AG, and members of the Executive Board 93 shares. No loans, shareholdings or option programmes exist for members of the governing bodies.

A fee of CHF 96 031 was paid to the law firm of a member of the Board of Directors for legal services.

No compensation was paid to former members of governing bodies.

Shareholders' rights

Shareholders' assets and codetermination rights are in accordance with the law and the Articles of Association. There are no statutory regulations which deviate from the provisions under law, with the exception of the regulation governing the placing of an item on the agenda for the Annual General Meeting of Shareholders. For this purpose a shareholder must hold at least CHF 100 000 of share capital and submit a written proposal at least 50 days prior to the Annual General Meeting.

One or more shareholders who together hold at least 10 % of the share capital may request in writing the convocation of an Extraordinary General Meeting, stating the proposals and the topic for discussion. An ordinary general meeting of shareholders takes place every year no more than six months after the end of the financial year.

Every shareholder may be represented at the General Meeting by another shareholder by proxy. Each share entitles the holder to one vote at the General Meeting.

Since Rätia Energie AG shares are bearer shares, only the principal shareholders are known to the company.

Changes of control and defensive measures

The obligation to submit a public offer is subject to the stock exchange law. The Articles of Association contain no ruling governing such an obligation. The contracts of employment of members of the Executive Board contain no change of control clauses. Rätia Energie provides no "golden parachute" for senior management.

Auditors

Since 1996 PricewaterhouseCoopers of Chur have been appointed annually by the General Shareholders' Meeting as the statutory and Group auditors. The lead auditor has been responsible for the mandate since 2003. PricewaterhouseCoopers received CHF 371 401 for their Group-wide auditing services and CHF 47 645 for other consulting services. The Board Committee is responsible for supervising and controlling the auditors.

Supervision and control instruments vis-à-vis the auditors

The Board Committee supervises the credentials, independence and performance of the statutory and Group auditors and their lead auditors on behalf of the Board of Directors. It regularly obtains information from the responsible auditors and the Executive Board concerning planning, implementation and results of the audit work.

Information policy

Rätia Energie provides its shareholders, potential investors and other stakeholder groups with comprehensive, timely and regular information in the form of annual and half-yearly reports, annual press conferences and the General Shareholders' Meeting. Important developments are communicated via press releases. The website www.REpower.ch is regularly updated and serves as an additional source of information.

Events occurring after the balance sheet date

As a result of acquiring all shares in Ubiwork S.p.A. on 1 March 2006, Rätia Energie took over Dynameeting S.p.A., in which it previously held a 35 % stake (see Significant Shareholdings, page 16).

Board of Directors (elected until the 2008 General Shareholders' Meeting)

Luzi Bärtsch (1939)

Swiss; dipl. Ing. ETH

Member of the Board of Directors since 2000.
Chairman of the Board and the Board Committee

Professional career

Formerly
- Ems-Chemie AG, management function, served several years on the Executive Board
- Cantonal Councillor, Grisons

Present
- Consulting and Board of Director mandates

Other activities and interests

Functions in major companies, organisations and foundations
- Chairman of the Boards of Directors of Grischelectra AG, Rätia Energie Klosters AG and aurax ag

Dr. Reto Mengiardi (1939)

Swiss; Dr. iur.,
lawyer and notary

Member of the Board of Directors since 1978.
Vice Chairman of the Board and the Board Committee

Professional career

Formerly
- Cantonal Councillor, Grisons

Present
- Lawyer and notary

Other activities and interests

Functions in major companies, organisations and foundations
- Chairman of the Board of Engadiner Kraftwerke AG
- Vice Chairman of the Board of Rätia Energie Klosters AG
- Member of the Boards of Directors of aurax ag, Grischelectra AG, Hilti AG and Holcim (Switzerland) AG

Kurt Baumgartner (1949)

Swiss; lic. rer. pol

Member of the Board of Directors since 1993.
Member of the Board Committee

Professional career

Formerly
- Various functions, in particular in strategic and operational planning and controlling. sales and business development for Aare-Tessin AG für Elektrizität (Atel)

Present
- Member of the Executive Board of Aare-Tessin AG für Elektrizität(Atel) and Head of Financial Services (CFO)

Other activities and interests

Functions in major companies, organisations and foundations
- President of Energie Pension Fund

Emanuel Höhener (1945)

Swiss; dipl. Ing. ETH and C.ENG

Member of the Board of Directors since 2001.
Member of the Board Committee

Professional career

Formerly
- Senior management positions (Managing Director and CEO) in the capital goods industry in Switzerland and abroad (Sulzer International, New Sulzer Diesel and Georg Fischer DISA)

Present
- CEO of Elektrizitäts-Gesellschaft Laufenburg AG (EGL)
- Member of the Executive Board of Axpo Holding AG

Other activities and interests

Functions in major companies, organisations and foundations
- Chairman of the Board of Kernkraftwerk Leibstadt AG
- Member of the Boards of Rätia Energie Klosters AG, EGL Grid AG, EGL Italia S.p.A., Centralschweizerische Kraftwerke AG and Nordostschweizerische Kraftwerke AG

Permanent functions within important interest groups
- Member of the Board of Swisselectric (association of Swiss grid companies)
- Member of the Board of the Association of Sponsors of the Swiss Institute for International Economics and Applied Economic Research, University of St. Gallen

Jörg Aeberhard (1953)

Swiss; Dr. iur., lawyer and notary

Member of the Board of Directors since 2000

Professional career

Present
- Head of Hydraulic Production, Atel

Other activities and interests

Functions in major companies, organisations and foundations
- Member of the Boards of Directors of Rätia Energie Klosters AG, aurax ag, Engadiner Kraftwerke AG and Kraftwerke Hinterrhein AG

Christoffel Brändli (1943)

Swiss; mag. oec. HSG

Member of the Board of Directors since 1996

Professional career

Formerly
- Cantonal Councillor, Grisons

Present
- Business consultant

Other activities and interests

Permanent functions within important interest groups
- President of Santésuisse and the "Graubünden Ferien" tourist organisation

Official functions and political mandates
- State Councillor

Board of Directors (elected until the 2008 General Shareholders' Meeting)

Rudolf Hübscher (1947)
Swiss; secondary-school teacher

Member of the Board of Directors
since 2000

Professional career
Present
- Mayor of Klosters

Other activities and interests
Official functions and political mandates
- Member of the Cantonal Council of Grisons (legislative)

Guido Lardi (1939)
Swiss; secondary-school teacher phil I

Member of the Board of Directors
since 2000

Professional career
Formerly
- Mayor of Poschiavo

Present
- Self-employed

Other activities and interests
Functions in major companies, organisations and foundations
- Member of the Board of the Graubündner Kantonalbank

Dr. Aluis Maissen (1937)
Swiss; Dr. rer. pol., lic. rer. publ. HSG

Member of the Board of Directors
since 1999

Professional career
Formerly
- Cantonal Councillor, Grisons
- Editor and fiduciary

Present
- Business consultant / retiree

Other activities and interests
Functions in major companies, organisations and foundations
- Chairman of the Board of Rhätische Bahn (RhB)
- Vice Chairman of the Board of aurax ag
- Member of the Board of Grischelectra AG

Rolf W. Mathis (1956)
Swiss; dipl. Masch. Ing. ETH, Wirtschng. STV

Member of the Board of Directors
since 2003

Professional career
Formerly
- Various functions with BBC, Gruppe für Rüstungsdienste and Von Roll Betec AG

Present
- Member of the Executive Board of Axpo Holding AG
- Member of the Executive Board of Nordostschweizerische Kraftwerke AG, Head of Hydraulic Energy

Other activities and interests
Functions in major companies, organisations and foundations
- Vice Chairman of the Board of Kraftwerke Hinterrhein AG
- Member of the Boards of aurax ag, Elektrizitäts-Gesellschaft Laufenburg AG, Centralschweizerische Kraftwerke AG and Engadiner Kraftwerke AG

Permanent functions within important interest groups
- Member of the Board of the Swiss Water Industry Association
- Member of the Energy Policy & Generation Committee, Eurelectric

Jean-Claude Scheurer (1946)
Swiss; dipl. Elektro-Ing. FM

Member of the Board of Directors
since 2004

Professional career
Formerly
- Various functions in international sales of electrotechnical installations and equipment for Micafil AG, Philips AG, Feller AG and Weber Protection AG

Present
- Member of the Executive Board of Elektrizitäts-Gesellschaft Laufenburg AG (EGL), Head of Markets & Development

Other activities and interests
Functions in major companies, organisations and foundations
- Chairman of the Board of EGL Grid AG
- Member of the Boards of Electricité de Strasbourg, AKEB Aktiengesellschaft für Kernenergie-Beteiligungen and EGL Italia S.p.A.

Antonio Matteo Taormina (1948)
Swiss/Italian; dipl. Math. ETHZ

Member of the Board of Directors
since 1999

Professional career
Formerly
- Various functions at EIR Würenlingen, Nuclearassurance Corporation, KBF Zürich, Maggia Kraftwerke AG and Blenio Kraftwerke AG

Present
- Member of the Executive Board of Aare-Tessin AG für Elektrizität (Atel), Head of Energy Southern/Western Europe

Other activities and interests
Permanent functions within important interest groups
- Vice Chairman of the Board of Società Elettrica Sopracenerina SA
- Member of the Boards of AEM Milano S.p.A. and Edipower S.p.A

La direzione

Karl Heiz (1943)
Swiss; dipl. Ing. ETH, MBA

Since 1987 Kraftwerke Brusio / Rätia Energie
Since 1988 Director of Kraftwerke Brusio
Since 2000 President of the Executive Board of Rätia Energie

Senior positions formerly held
- Various functions at IBM Switzerland and Nestlé, latterly as Head of South Korea Market

Other activities and interests
Functions in major companies, organisations and foundations
- Vice Chairman of the Board of Grischelectra AG
- Member of the Boards of Kraftwerke Hinterrhein AG, AKEB Aktiengesellschaft für Kernenergie-Beteiligungen and Familienzulagen-Ausgleichskasse Schweizerischer Elektrizitätswerke

Permanent functions within important interest groups
- Chairman of the Association of Electricity Exporters
- Member of the Board of the Association of Swiss Electricity Suppliers (VSE) and the Association of Grisons Electricity Plants

Felix Vontobel (1958)
Swiss; dipl. Elektroingenieur FH

Since 1987 Kraftwerke Brusio / Rätia Energie
Since 1992 Vice Director of Kraftwerke Brusio
Since 1992 Vice Director of Kraftwerke Brusio
Head of Production and Transmission

Senior positions formerly held
- Commissioning engineer with BBC (ABB)
- Project manager and commissioning engineer for biotechnology research and production installations at Bioengineering AG

Martin Gredig (1965)
Swiss; lic. oec.publ.

Since 1999 Kraftwerke Brusio / Rätia Energie
Since 2000 member of the Executive Board of Rätia Energie
Head of Finance and Services

Senior positions formerly held
- Banker with Union Bank of Switzerland
- Assistant to the Executive Board of Bank SoBa
- Head of Controlling at SoBa

Hans Gujan (1946)
Swiss; dipl. Elektroingenieur HTL

Since 1981 Bündner Kraftwerke
Since 1991 member of the Executive Board of Bündner Kraftwerke
Since 2000 member of the Executive Board of Rätia Energie
Head of Networks and Supply

Giovanni Jochum (1964)
Swiss; lic. oec. HSG

Since 1993 Kraftwerke Brusio / Rätia Energie
Since 1998 Vice Director of Kraftwerke Brusio
Since 2000 member of the Executive Board of Rätia Energie
Head of Energy Management

Senior positions formerly held
- Auditor with Revisuisse Price Waterhouse

Rino Caduff (1949)
Swiss; dipl. Elektroingenieur HTL, further training in business administration

Since 1978 EWBO / aurax
Since 1991 member of the Executive Board of EWBO / aurax
Since 2004 member of the Executive Board of Rätia Energie
Head of Surselva

Senior positions formerly held
- Mayor of Ilanz until mid-2005

Other activities and interests
Permanent functions within important interest groups
- Member of the Board of the Association of Grisons Electricity Plants


HA RAGGIUNTO L'ALTEZZA
ALLO
VALLE

Corporate Governance

The Executive Board of Rätia Energie

l. to r.:
Giovanni Jochum, Hans Gujan, Karl Heiz, Felix Vontobel, Martin Gredig, Rino Caduff

Financial review

Consolidated financial statements Rätia Energie Group

Comments on the consolidated financial statements	36
Consolidated income statement	41
Consolidated balance sheet	42
Changes in consolidated equity	44
Consolidated cash flow statement	45
Notes to the consolidated financial statements	46
Change from Swiss GAAP FER to IFRS	46
Consolidated accounting principles	56
Rätia Energie Group companies	66
Notes	68
Report of the Group auditors	86

Financial statements of Rätia Energie AG

Income statement	89
Balance sheet	90
Notes to the financial statements	92
Appropriation of retained earnings	96
Report of the statutory auditors	98

Consolidated financial statements of the Rätia Energie Group

Comments on the consolidated financial statements

International Financial Reporting Standards (IFRS). The change from Swiss GAAP FER (FER) accounting principles necessitated a review of the principles of measurement. This has strengthened equity, once more confirming the Group's sound financial base. At CHF 118 million, profit for 2004 was higher than under the previous presentation method since, according to International Financial Reporting Standards (IFRS), negative goodwill had to be recognised in income. In 2005 the Group once more posted a very good result, recording profit of CHF 81 million.

International Financial Reporting Standards (IFRS)

The change to IFRS necessitated comprehensive reviews and, in some cases, amendments to the accounting and valuation methods. Power plants and distribution grids were revalued since it was not possible to apply reliable historical values. Installations revertible on expiry of the licence, in accordance with the law on the use of hydro power, remain available to Rätia Energie for several decades and are therefore capitalised at full value. Consequently, compensation for waiving the reversion in this context, which under SWISS GAAP FER was capitalised as intangible assets, was no longer recorded. This resulted in an overall adjustment of CHF 175 million in non-current assets. Taken together with non-IFRS-conformant provisions, this resulted in a strengthening of equity to CHF 622 million at 31 December 2005.

The IFRS restatement of the income statement resulted in a much higher profit of CHF 118 million in 2004. Value adjustments made in the opening balance sheet resulted in lower gains on disposals. However, this was more than offset since, in contrast to FER, IFRS requires negative goodwill to be recognised in income. Details of the acquisition of aurax and SET (project company for the 400-MW combined cycle power plant in Teverola) are disclosed in the Notes. Other significant transactions included the sale of the ENA holding and of the 39 % stake in SET. The Notes contain detailed information on the conversion of the income statement from FER to IFRS.

The change in accounting principles has further enhanced the quality and transparency of the financial statements, and significantly improved comparability.

Outstanding results for 2005

The Rätia Energie Gruppe recorded a 55 % rise in total operating revenue to CHF 877 million in 2005, thanks to increased sales efforts and higher electricity prices. At CHF 639 million, energy procurement expenses were significantly higher due to price rises. This was offset by the reversal of provisions of CHF 45 million for contract risks due to much higher market prices.

However, it was necessary to set aside new provisions of CHF 12 million related to the recognition of certified electricity. At CHF 110 million, income before financing and income tax was lower than in 2004, when other operating income was positively impacted by substantial one-off gains from company transactions. Excluding these one-off special factors and the reversal of provisions, 2004 income before financing

and income tax would have amounted to CHF 62 million compared to CHF 77 million in 2005.

The increase in depreciation and amortisation was primarily attributable to the opening of the new Bernina line in January 2005. Whereas there were no direct tax consequences arising from the negative goodwill of CHF 48 million recorded under other operating income in 2004, a tax rate of 30 % was applied in the year under review, resulting in income tax of CHF 35 million. Group profit including minority interests amounted to CHF 81 million, which may be regarded as a very good result.

Projects on schedule

The new cross-border 380-V line over the Bernina Pass was successfully put into operation in January 2005. Commissioning of the high-voltage installations resulted in their reclassification from assets under construction to grids. In the year under review the revenue generated by this strategically and commercially important line was offset for the first time by depreciation and amortisation. In addition there was a reduction in compensation to partners to whom Rätia Energie granted transport rights for the entire useful life of the line, recorded under liabilities.

In line with the growth strategy, Rätia Energie is building a new 400-MW gas-fired combined cycle power plant in Teverola near Naples, Italy. The work was begun in summer 2004 and the plant is scheduled to go on-stream at the end of 2006. Progress and costs to date are in line with the original plans. However, gas prices have risen since the decision was made to build the power plant. The rise in electricity prices is nevertheless sufficient to compensate for the CO_2 taxes and the increased price of the requisite "green certificates" (Italian certificates for the promotion of renewable energy production). An updating of the business plan confirmed the original key figures estimated for the project. Rätia Energie currently holds a 51 % stake in the project company SET and intends to acquire another 10 %, whose energy portion has already been pledged to Rätia Energie. 39 % of the shares in SET are held by Hera, an electricity supplier based in Bologna.

Following settlement of an appeal lodged in connection with the Prättigau licence procedure, the new licence came into force in October 2005. This resulted in a liability of CHF 65 million plus interest as compensation for waiving the reversion of plants to the canton of Grisons and the licensing communities, and was paid along with the licence fees in December. Rätia Energie now holds the water rights for 80 years and must pay for these via the statutory water rates and taxes in respect of hydroelectric plants. From 2011, another CHF 47 million is due as compensation for the reversion waiver. This will be paid out in annual instalments dependent on income.

Further progress was also made in the licence procedure for plants in Upper Poschiavo. Approval of the new eight-year licence is expected in 2006, granting permission to expand the production and pump capacity of these plants. When the licence comes into force, some CHF 23 million will be payable in return for the reversion waiver. This amount is included in the balance sheet as a

Consolidated financial statements of the Rätia Energie Group

provision and was reclassified as a short-term provision in view of the probability of occurrence.

Around CHF 58 million was invested in upgrading the production facilities in the Prättigau plant. In December 2005, the first machine group was commissioned on schedule. The second group will go on-stream in March 2006. Despite severe weather damage to individual construction sites, progress and the project budget were on target.

In January 2005 Rätia Energie paid CHF 3 million for 22 % of the shares in Elektrizitätswerk Tamins AG. Previously, Rätia Energie was unable to be registered in the share ledger and represented on the company's Board of Directors. Due to this lack of influence, this holding was not consolidated in accordance with IFRS but recognised as a financial asset at acquisition cost.

Integration of aurax is progressing well, and administrative synergies have already been exploited thanks to streamlining and combining various areas. Additional opportunities for optimisation were identified in the technical area and will be implemented over the next few months. The aurax subsidiary Telegrischa was dissolved in the year under review through a combination of part-disposal, closure of the trading unit and fusion of the remaining units with aurax connecta ag. The installation testing companies RE Secura AG, Klosters, and secu ag, Ilanz, were merged to create Secu AG, based in Klosters. Measures were initiated in other aurax subsidiaries and strategic objectives were defined in order to enhance profit potential.

Sound financial base

Property, plant and equipment increased as a result of an extensive investment programme, which is largely funded from the company's own financial resources. Non-current assets have risen by 23 % to more than one billion francs Despite investments and payment of the compensation for the reversion waiver in the Prättigau plant, the year under review also saw an increase in current assets, with securities as well as cash and cash equivalents rising by CHF 82 million, with higher receivables on the cut-off date due to above-average electricity sales in December. At CHF 64 million, cash and cash equivalents as well as easy-to-liquidate securities of CHF 55 million provide a good liquidity base for business activities and additional expansion initiatives.

Long-term liabilities were higher, primarily due to progress made on the Teverola project which is 50 % co-funded by banks. Other long-term liabilities consist of compensation paid for transport rights related to the new Bernina line. Short-term provisions declined mainly due to payment of compensation for the reversion waiver in the Prättigau. Other liabilities are dependent on the cut-off date and result from above-average electricity sales in December.

The balance sheet total rose by 20 % to CHF 1 423 million, of which equity accounts for CHF 622 million or 44 %. In terms of capital intensity and risks, this is regarded as extremely sound and provides a good basis for Rätia Energie's growth strategy.

Positive outlook despite difficult market

In view of the more challenging market environment expected in 2006 , the year-end result is unlikely to be on a par with 2005. Nevertheless, Rätia Energie expects the result to be good. The new conditions governing auctions for cross-border grid capacities make for additional complexity as well as higher costs and risks. Regulations related to market liberalisation are resulting in more difficult conditions for transmission and trading, as a result of which revenue from the high-voltage grid is expected to be lower. Moreover, pressure on margins for international electricity trading is likely to increase. In Switzerland, policymakers and regulators are making their own contribution to this challenging framework. Given this uncertain environment, Rätia Energie's strategy is to operate as a vertically integrated electricity provider active along the entire value chain. With this in mind, the company maintains an appropriate balance between sales, trading and production activities so as to ensure high flexibility and continually optimise its earning capabilities. The plant in Teverola will contribute substantially to revenue and income from 2007. Thanks to additional strategic projects and a sound financial base, the prospects for enhancing corporate value even further look good.

Consolidated financial statements of the Rätia Energie Group

Consolidated income statement

CHF thousands	Notes	2004	2005
Net sales		457 839	838 413
Capitalized internal services		8 536	8 906
Other operating income	1	100 273	29 211
Total operating revenue		**566 648**	**876 530**
Energy procurement		- 324 785	- 639 164
Concessionary fees		- 16 435	- 15 872
Personnel expenses	2	- 35 371	- 46 052
Material and third-party services		- 14 264	- 19 209
Other operating expenses		- 18 483	- 18 831
Income before financing, income tax depreciation and amortisation		**157 310**	**137 402**
Depreciation and impairment	3	- 21 339	- 27 351
Income before financing and income tax		**135 971**	**110 051**
Financial income	4	12 957	14 078
Financial expenses	5	- 7 684	- 6 732
Income attributable to associates and partner plants	6	3 012	- 530
Income before income tax		**144 256**	**116 867**
Income taxes	7	- 26 231	- 35 490
Group profit including minority interests		**118 025**	**81 377**
Rätia Energie shareholders and participants		118 073	81 881
Minority interests		- 48	- 504
Earnings per share (undiluted)	8	CHF 35.17	CHF 24.11

There were no factors resulting in a dilution of earnings per share.

Consolidated financial statements of the Rätia Energie Group

Consolidated balance sheet

Assets CHF thousands	Notes	**31.12.2004**	**31.12.2005**
Property, plant and equipment	9	784 247	976 596
Holdings in associates and partner plants	6	27 354	26 487
Other financial assets		20 897	22 534
Deferred tax assets	7	209	1 091
Non-current assets		**832 707**	**1 026 708**
Inventories	10	6 294	12 300
Receivables	11/22	143 080	260 662
Prepaid expenses and accrued income		1 842	3 507
Securities	12	85 107	55 063
Cash and cash equivalents	13	116 463	64 445
Current assets		**352 786**	**395 977**
Total assets		**1 185 493**	**1 422 685**

Liabilities CHF thousands	Notes	**31.12.2004**	**31.12.2005**
Share capital	14	2 783	2 783
Participation capital	14	625	625
Treasury shares		- 13	- 11
Capital reserves		17 702	17 732
Retained earnings (including Group profit)		488 045	556 782
Accumulated translation adjustments		230	316
Minority interests		44 560	43 442
Equity		**553 932**	**621 669**
Long-term provisions	16/17	112 346	78 903
Deferred tax liabilities	7	119 152	128 555
Long-term financial liabilities	15	111 514	260 841
Other long-term liabilities	18	37 614	61 291
Non-current liabilities		**380 626**	**529 590**
Liabilities from current income tax		22 291	30 713
Short-term financial liabilities		7 451	7 425
Short-term provisions	16/17	100 000	38 594
Other liabilities	19/22	97 041	178 183
Deferred income and accrued expenses	20	24 152	16 511
Current liabilities		**250 935**	**271 426**
Total liabilities		**631 561**	**801 016**
Total liabilities and equity		**1 185 493**	**1 422 685**

Consolidated financial statements of the Rätia Energie Group

Changes in consolidated equity

CHF thousands	Share capital	Partici-pation capital	Treasury shares	Capital reserves	Retained earnings	Accum. translation adjust-ments	Total Group equity	Minority interests	Total equity
Equity at 1. 1. 2004	**2 783**	**625**	**- 80**	**5 902**	**380 056**	**0**	**389 286**	**1 114**	**390 400**
Stock-for-stock transaction for acquisition of aurax			12	3 343			3 355		3 355
Purchase of treasury shares			- 2				- 2		- 2
Sale of treasury shares			57				57		57
Income from trading in treasury shares (after tax)				8 457			8 457		8 457
Dividend (excl. treasury shares)					- 10 084		- 10 084		- 10 084
Influence on currency translations						230	230		230
Minority interests – change in consolidation								19 383	19 383
Minority interests – capital increase								24 111	24 111
Group profit					118 073		118 073	- 48	118 025
Equity at 31. 12. 2004	**2 783**	**625**	**- 13**	**17 702**	**488 045**	**230**	**509 372**	**44 560**	**553 932**
Share-based payment (non-recurring)			2		488		490		490
Dividend (excl. treasury shares)					- 13 632		- 13 632	- 30	- 13 662
Buyout of minority interests								- 817	- 817
Income from trading in treasury shares (after tax)				30			30		30
Influence on currency translations						86	86	233	319
Group profit					81 881		81 881	- 504	81 377
Equity at 31. 12. 2005	**2 783**	**625**	**- 11**	**17 732**	**556 782**	**316**	**578 227**	**43 442**	**621 669**

Consolidated cash flow statement

CHF thousands		Notes	2004	2005
Group profit including minority interests			118 025	81 377
Depreciation and impairment			21 339	27 351
Capitalized internal services			- 8 536	- 8 906
Change in provisions		21	23 619	- 94 849
Change in deferred taxes			8 635	8 458
Share of results attributable to associates			- 3 012	530
Dividends from associates and partner plants			309	338
Other income and expenses not affecting liquidity			- 75 562	- 2 878
Change in inventories			- 1 607	- 6 006
Change in receivables			- 21 918	- 117 582
Change in prepaid expenses and accrued income			- 401	- 1 665
Change in liabilities			55 618	89 564
Change in deferred income and accrued expenses			- 9 259	- 7 641
Cash flow from operating activities			**107 250**	**- 31 909**
Property, plant and equipment:	- Investments		- 191 851	- 211 298
	- Disposals		4 151	4 641
Group companies:	- Acquisitions	23	- 72 901	- 372
	- Disposals		11 748	-
Holdings in associates and partner plants:	- Investments		-	-
	- Disposals		34 864	-
Long-term financial assets:	- Investments		0	- 3 447
	- Disposals		7 849	0
Change in securities			23 004	30 044
Cash flow from investing activities			**- 183 136**	**- 180 432**
Additions to long-term financial liabilities			42 629	153 408
Repayment of long-term financial liabilities			- 272	- 4 748
Third-party purchase of transport rights (other long-term liabilities)		18	18 807	25 077
Dividend payments			- 10 084	- 13 662
Purchase of treasury shares			- 530	-
Sale of treasury shares			11 735	34
Capital increase through minority interests			24 111	-
Cash flow from financing activities			**86 396**	**160 109**
Currency translation adjustments			**- 105**	**214**
Change in cash and cash equivalents			**10 405**	**- 52 018**
Cash and cash equivalents at 1 January			106 058	116 463
Cash and cash equivalents at 31 December			**116 463**	**64 445**
Additional information:				
Interest received			461	1 543
Interest paid			- 2 863	- 3 075
Income tax paid			- 17 542	- 18 617

Consolidated financial statements of the Rätia Energie Group

Change from Swiss GAAP FER to IFRS

Explanations on the change from Swiss GAAP FER to International Financial Reporting Standards (IFRS)

At its meeting on 25 November 2003, the Board of Directors of Rätia Energie AG decided to change the accounting principles of the Rätia Energie Group from Swiss GAAP FER to IFRS. The financial statements in this 2005 annual report have been drawn up for the first time in accordance with IFRS. The change to IFRS was made retroactively to 1 January 2004, by performing adjustments and corrections which are recorded under equity (restatement). The following provides an explanation of the effect of the change from Swiss GAAP FER to IFRS accounting principles on the financial position, results of operations and the cash flows of the Rätia Energie Group.

Change of equity from Swiss GAAP FER to IFRS CHF thousands	Notes	01. 01. 2004	31. 12. 2004
Equity according to Swiss GAAP FER (incl. minority interests)		**237 376**	**349 542**
Property, plant and equipment	a	219 591	272 946
Intangible assets	b	- 118 740	- 110 745
Holdings in associates and partner plants	c	27 850	10 087
Other financial assets	d	3 406	2 405
Deferred tax assets	e	241	209
Receivables	f	1 641	- 818
Capital assets in current assets/securities	g	6 212	1 320
Provisions	h	64 350	73 204
Deferred tax liabilities	i	- 50 097	- 73 665
Deferred income and accrued expenses	j	4 498	5 336
Treasury shares	k	- 5 928	0
Minority interests	l	0	24 111
Equity according to IFRS		**390 400**	**553 932**

Explanatory Notes on IFRS restatement of equity at 1 January 2004 and 31 December 2004

		CHF thousands
a	Since the historic acquisition costs are no longer available, when changing to IFRS the Rätia Energie Group opted to measure property, plant and equipment at fair value. This gave rise to the following adjustments:	
	- Power plants: Upward valuation due to revaluation (based on an independent third-party valuation)	33 414
	- Grids: Upward valuation due to revaluation (based on valuation using standard industry values)	168 308
	- Assets under construction: Increase in production costs due to full capitalisation (own work capitalised)	12 395
	- Property and buildings: Upward valuation due to internal revaluation based on official estimates	5 474
	Change in property, plant and equipment at 1.1.2004	**219 591**
	- Property, plant and equipment belonging to the aurax Group was measured at fair value in accordance with IFRS 3. This resulted in an upward valuation	33 159
	- Due to measurement in accordance with IFRS 3, assets under construction were adjusted following the takeover of SET S.p.A.	24 611
	- Under IFRS, depreciation and amortisation have increased compared with Swiss GAAP FER	- 6 809
	- Increased in own work capitalised	2 909
	- Sale of properties: Income adjustment due to revaluation	- 515
	Change in property, plant and equipment at 31.12.2004	**272 946**

From 1.1.2004, the fair values recorded according to IFRS represent the acquisition/production costs in the consolidated financial statements. The total fair value for property, plant and equipment at 1.1.2004 was TCHF 409 934. This resulted on 1.1.2004 in an increase of TCHF 219 591 in the previous net carrying amount.

b	Intangible assets were fully derecognised during the changeover to IFRS:	
	- Compensation for reversion waivers were recognised under Swiss GAAP FER as intangible assets. They are not classified as such under IAS 38 and were derecognised. On the other hand, revertible property, plant and equipment was recorded at fair value as at 1.1.2004.	- 118 701
	- Company foundation costs recorded under Swiss GAAP FER cannot be capitalised under IFRS.	- 39
	Change in intangible assets at 1.1.2004	**- 118 740**
	- Depreciation and amortisation on intangible assets recorded in the 2004 financial statements under Swiss GAAP FER were reversed	8 041
	- Changes in company foundation costs recorded in the 2004 financial statements under Swiss GAAP FER were reversed	- 46
	Change in intangible assets at 31.12.2004	**- 110 745**

Consolidated financial statements of the Rätia Energie Group

Notes to the consolidated financial statements

Explanatory Notes on IFRS restatement of equity at 1 January 2004 and 31 December 2004

		CHF thousands
c	Under Swiss GAAP FER, holdings in associates and partner plants were recorded in the Rätia Energie Group consolidated financial statements on the basis of their Swiss GAAP FER financial statements, using the equity method. The change in these statements to IRFS resulted in the following adjustments:	
	- Adjustment to IFRS of equity value of AKEB Aktiengesellschaft für Kernenergie-Beteiligungen	10 500
	- IFRS adjustment of equity value of ENAG Energiefinanzierungs AG	17 350
	Change in holdings in associates and partner plants at 1.1.2004	**27 850**
	- Effect of the disposal of a 16 % holding in ENAG Energiefinanzierungs AG	- 19 755
	- IFRS adjustment of equity value of AKEB Aktiengesellschaft für Kernenergie-Beteiligungen	2 204
	- Other adjustments	- 212
	Change in holdings in associates and partner plants at 31.12.2004	**10 087**
d	Financial assets were adjusted as follows:	
	Change in loan to ENAG Energiefinanzierungs AG at acquisition value at 1.1.2004	**3 406**
	- Effect of reclassification of remaining share in ENAG Energiefinanzierungs AG	- 1 001
	Change in financial assets at 31.12.2004	**2 405**
e	Deferred tax assets were adjusted as follows:	
	Capitalisation of deferred taxes on loss carryforwards at 1.1.2004	**241**
	- Use of deferred tax assets in 2004	- 32
	Change in deferred tax assets at 31.12.2004	**209**
f	Lump-sum allowances for doubtful accounts were made under Swiss GAAP FER based on empirical values. Under IFRS, doubtful accounts are valued on an individual basis, resulting in the following adjustments:	
	- The allowance for bad debts (Delkredere) at 1.1.2004 was adjusted in accordance with IFRS principles of measurement.	1 870
	- Other adjustments	- 229
	Change in receivables at 1.1.2004	**1 641**
	- IFRS adjustment to allowances for bad debts (del credere) at 31.12.2004	- 1 163
	- Other adjustments	- 1 296
	Change in receivables at 31.12.2004	**- 818**
g	Under Swiss GAAP FER, strategically held securities were measured at historical acquisition cost. Under IFRS these must be measured at fair value, resulting in the following adjustments:	
	Capital assets under current assets/securities were measured at fair value at 1.1.2004	**6 212**
	- Adjustment to fair value at 31.12.2004	- 4 892
	Change in capital assets under current assets/securities at 31.12.2004	**1 320**

Explanatory Notes on changes to IFRS in the statement on changes in equity at 1 January 2004 and 31 December 2004

		CHF thousands
h	Provisions were adjusted as follows:	
	- A provision related to revertible property, plant and equipment was released under IFRS. This was accounted for in the revaluation of property, plant and equipment at 1.1.2004.	25 375
	- Adjustment primarily due to discounting effects not disclosed under Swiss GAAP FER (TCHF 11 883) as well as adjustments to various provisions (TCHF 8 252) which do not comply with IFRS requirements	20 135
	- Correction in the method for calculating provisions in line with IFRS requirements; see Note 24: Correction of errors and changes in estimates (IAS 8)	33 000
	- All pension funds were treated as defined contribution plans under Swiss GAAP FER. With the change to IFRS, various pension funds were classified as defined benefit plans. Rätia Energie opted to record all actuarial gains and losses at 1.1.2004 (in accordance with IAS 19)	- 14 160
	Change in provisions at 1.1.2004	**64 350**
	- Provisions for pension fund obligations in respect of the acquired aurax Group were measured for initial consolidation under IFRS in the course of the purchase	- 3 887
	- Adjustment to pension liabilities to values at 31.12.2004 in accordance with IAS	1 064
	- Effect of provisions adjusted at 1.1.2004	11 677
	Change in provisions at 31.12.04	**73 204**
i	The adjustments made to carrying amounts under IFRS resulted in temporary valuation differences for which the corresponding deferred tax effects were recorded:	
	Tax effect of change at 1.1.2004	**- 50 097**
	- Tax effect of adjustments	- 23 568
	Change in deferred tax liabilities at 31.12.2004	**- 73 665**
j	Deferred income and accrued expenses were adjusted as follows:	
	- Effect of recalculation of tax liability	4 518
	- Other adjustments	- 20
	Change in deferred income and accrued expenses at 1.1.2004	**4 498**
	- Adjustment due to recalculation of tax liability	- 582
	- Other adjustments	1 420
	Change in deferred income and accrued expenses at 31.12.2004	**5 336**
k	Treasury shares were disclosed as securities under Swiss GAAP FER but must be recorded under IFRS as reductions to equity, and were accordingly reclassified	
	Change in treasury shares at 1.1.2004	**- 5 928**
l	At the end of 2004 the capital in the Group company SET S.p.A. was increased by means of an equity-type non-repayable loan. As already disclosed in the 2005 half-year financial statements according to Swiss GAAP FER, this loan must be classified as equity:	
	Change in minority interests at 31.12.2004	**24 111**

Consolidated financial statements of the Rätia Energie Group

Notes to the consolidated financial statements

Change in income statement from Swiss GAAP FER to IFRS CHF thousands	Notes	Swiss GAAP FER 2004	Reclassification	IFRS Adjustments and corrections	IFRS 2004
Net sales	a	459 002		- 1 163	457 839
Own work capitalised	b	5 627		2 909	8 536
Other operating income	c	18 986	55 421	25 866	100 273
Total operating revenue		**483 615**	**55 421**	**27 612**	**566 648**
Energy procurement	d	- 305 966	- 37 230	18 411	- 324 785
Concessionary fees		- 14 862		- 1 573	- 16 435
Personnel expenses	e	- 36 435		1 064	- 35 371
Material and third-party services		- 14 200	- 34	- 30	- 14 264
Other operating expenses	f	- 17 553	- 563	- 367	- 18 483
Income before financing, income taxes amortisation and depreciation		**94 599**	**17 594**	**45 117**	**157 310**
Depreciation and impairment	g	- 22 571		1 232	- 21 339
Income before financing and income taxes		**72 028**	**17 594**	**46 349**	**135 971**
Financial income	h	17 772	- 658	- 4 157	12 957
Financial expenses	i	- 7 259	- 150	- 275	- 7 684
Share of results attributable to associates and partner plants	j	0	808	2 204	3 012
Income before income taxes		**82 541**	**17 594**	**44 121**	**144 256**
Income taxes	k	- 26 461	416	- 186	- 26 231
Ordinary pre-tax result		**56 080**	**18 010**	**43 935**	**118 025**
Non-operating income	l	1 498	- 1 498		-
Non-operating expenses	l	- 581	581		-
Extraordinary income	l/i	56 323	- 54 323	- 2 000	-
Extraordinary expenses	l	- 37 230	37 230		-
Group profit including minority interests		**76 090**	**-**	**41 935**	**118 025**
Group profit attributable to shareholders and stakeholders of Rätia Energie		76 360		41 713	118 073
Group profit attributable to minority interests		- 270		222	- 48

Explanatory Notes on restatements in the 2004 income statement

a IFRS adjustment to the change in the allowance for bad debts (see Note f on adjustments to equity).

b Increase in own work capitalised (see Note a on adjustments to equity).

c IFRS reclassification primarily affects items which were disclosed as Extraordinary income under Swiss GAAP FER. IFRS adjustments mainly concern the following items:
- TCHF 51 070 for the purchase of the aurax Group. Under Swiss GAAP FER negative goodwill was recorded directly in equity. Under IFRS 3, this must be disclosed in the income statement (see Note 23 in the Notes to the consolidated financial statements);
- TCHF 23 160 relates to the IFRS adjustment of the gain on the sale of the ENA holding and the associated partner loan at 31.12.2004 (see Note c and d on adjustments to equity).

d IFRS reclassification primarily affects items which were disclosed as Extraordinary expenses under Swiss GAAP FER.
IFRS corrections primarily concern the change in provisions (see h on adjustments to equity).

e IFRS adjustments primarily concern the pension liabilities under IAS 19 (see Note on adjustments to equity).

f IFRS reclassification and IRFS adjustments result primarily from the classification of taxes and income from real estate.

g IFRS adjustment results from higher depreciation and amortisation (TCHF6 809) due to the upward valuation of property, plant and equipment under IFRS and the elimination of depreciation and amortisation on intangible assets (TCHF 8 041) (see Notes a and b on adjustments to equity).

h IFRS adjustments results from the elimination of gains on sales of securities, which were adjusted to fair value with the change to IFRS at 1.1.2004. The item also contains adjustments to fair value at 31.12.2004 (see Note g on adjustments to equity).

i IFRS adjustment due to the discounting effects resulting from adjustments to provisions (see Note h on adjustments to equity).

j IFRS reclassification and IFRS adjustments result from the revaluations of holdings in associates (see Note c on adjustments to equity).

k With the change to IFRS, capital taxes were reclassified under Other operating expenses. In addition, revaluation of taxes necessitated a corresponding IFRS adjustment.

l IFRS reclassification: Non-operating and extraordinary items are disclosed under ordinary income. The main items affected are the Swiss GAAP FER gain on the sale of ENAG (see also Note c on adjustments to equity) and the formation of provisions.

Consolidated financial statements of the Rätia Energie Group

Notes to the consolidated financial statements

Change in balance sheet statement from Swiss GAAP FER to IFRS CHF thousands	Notes	Swiss GAAP FER 31.12.2004	Reclassification	Adjustments and corrections IFRS	IFRS 31.12.2004
Assets					
Property, plant and equipment	a	473 687	37 614	272 946	784 247
Intangible assets	b	110 745		- 110 745	-
Holdings in associates and partner plants	c		17 267	10 087	27 354
Other financial assets	d	36 752	- 18 260	2 405	20 897
Deferred tax assets				209	209
Non-current assets		**621 184**	**36 621**	**174 902**	**832 707**
Inventories	e	7 257	- 963		6 294
Accounts receivable	e/f	123 698	20 200	- 818	143 080
Prepaid expenses and accrued income	e	21 873	- 20 031		1 842
Securities	e/g	82 880	907	1 320	85 107
Cash and cash equivalents	e	115 583	880		116 463
Current assets		**351 291**	**993**	**502**	**352 786**
Total assets		**972 475**	**37 614**	**175 404**	**1 185 493**
Liabilities and shareholders' equity					
Share capital		2 783			2 783
Participation capital		625			625
Treasury shares		- 1 017		1 004	- 13
Capital reserves		53 102	- 31 483	- 3 917	17 702
Retained earnings (including Group profit)		287 726	30 811	169 508	488 045
Accumulated translation adjustments		- 672	672	230	230
Minority interests	h	6 995	24 111	13 454	44 560
Equity	i	**349 542**	**24 111**	**180 279**	**553 932**
Long-term provisions	j	222 352	- 36 802	- 73 204	112 346
Deferred tax liabilities	k	45 487		73 665	119 152
Long-term financial liabilities	h	138 076	- 26 562		111 514
Other long-term liabilities	a		37 614		37 614
Non-current liabilities		**405 915**	**- 25 750**	**461**	**380 626**
Liabilities from current income tax	l		22 291		22 291
Short-term financial liabilities		5 000	2 451		7 451
Short-term provisions	j	65 000	35 000		100 000
Other liabilities	l	72 364	24 677		97 041
Deferred income and accrued expenses	l/m	74 654	- 45 166	- 5 336	24 152
Current liabilities		**217 018**	**39 253**	**- 5 336**	**250 935**
Total liabilities		**622 933**	**13 503**	**- 4 875**	**631 561**
Total liabilities and equity		**972 475**	**37 614**	**175 404**	**1 185 493**

Explanatory Notes on material restatements in the balance sheet at 31 December 2004

a With the change to IFRS, property, plant and equipment was measured at fair value as at 1.1.2004, resulting in an IFRS adjustment. Property, plant and equipment belonging to the companies acquired in 2004 were also measured at fair value in accordance with IFRS (for details, see Note a on adjustments to equity).

IFRS reclassification concerns prepayments for transport rights by entities with transit rights to the Bernina line (see Note 18), which are recorded at gross values under IFRS. Under Swiss GAAP FER they were recorded at net values under property, plant and equipment.

b With the change to IFRS, intangible assets were derecognised at 1.1.2004 (for details, see Note b on adjustments to equity).

c Holdings in associates and partner works are separately disclosed under IFRS. IFRS adjustment due to equity values based on IFRS (for details, see Note c on adjustments to equity).

d Financial assets held for trading or for short-term investment were reclassified under current assets. The carrying amounts of associates were disclosed separately under IFRS. Disclosure of the value of the holding in ENAG Energiefinanzierungs AG from 31.12.2004 under Other financial assets since, after selling a 1 share in the company and standing down from the ENAG Board of Directors, Rätia Energie no longer has significant control over the company.

e Various items under current assets were reclassified in accordance with the revised accounting principles.

f The allowance for doubtful accounts (del credere) at 31.12.2004 was adjusted to IFRS (for details, see Note f on adjustments to equity).

g Under IFRS, capital assets included under current assets/securities must be measured at fair value (for details, see Note g on adjustments to equity).

h At the end of 2004, capital in the Group company SET S.p.A. was increased by TCHF 24 111 by means of an equity-type non-repayable loan. As presented in the 2005 half-year financial statements drawn up in accordance with Swiss GAAP FER, this loan must be classified as equity.

i Details of changes in equity are reported in the section on adjustments to equity.

j With the change to IFRS, provisions were adjusted/corrected (Note h on adjustments to equity).

k With the change to IFRS deferred tax liabilities were recalculated and adjusted.

l Various items under short-term liabilities were reclassified in line with IFRS accounting principles, including TCHF 22 291 in current income taxes.

m With the change to IFRS, deferred income and accrued expenses were adjusted (Note j on adjustments to equity).

Consolidated financial statements of the Rätia Energie Group

Change in cash flow statement from Swiss GAAP FER to IFRS CHF thousands		Notes	Swiss GAAP FER 2004	Reclassification	Adjustments and corrections IFRS	IFRS 2004
Group profit including minority interests			76 090		41 935	118 025
Depreciation and impairment of property, plant and equipment			14 530		6 809	21 339
Amortisation of intangible assets			8 041		- 8 041	-
Write-offs for financial investments			1 701		- 1 701	-
Capitalized internal services				- 5 627	- 2 909	- 8 536
Change in provisions		a	- 25 994	65 000	- 15 387	23 619
Change in deferred taxes			4 566		4 069	8 635
Share of results attributable to associates and partner plants					- 3 012	- 3 012
Dividends from associates and partner plants					309	309
Other income and expenses not affecting liquidity		b			- 75 562	- 75 562
Change in inventories			- 1 850		243	- 1 607
Change in receivables			- 45 368		23 450	- 21 918
Change in prepaid expenses and accrued income			- 8 891		8 490	- 401
Change in securities		c	69 037	- 69 037		-
Change in liabilities		a/d	103 963	- 39 933	- 8 412	55 618
Change in deferred income and accrued expenses		d	5 855	- 25 067	9 953	- 9 259
Cash flow from operating activities			**201 680**	**- 74 664**	**- 19 766**	**107 250**
Property, plant and equipment:	- Investments		- 202 058	5 627	4 580	- 191 851
	- Disposals				4 151	4 151
Intangible assets:	- Investments		- 46		46	-
Group companies:	- Acquisitions	e	- 35 623		- 37 278	- 72 901
	- Disposals	e			11 748	11 748
Holdings in associates and partner plants:	- Investments					-
	- Disposals	e			34 864	34 864
Financial assets:	- Investments					-
	- Disposals	e	34 406		- 26 557	7 849
Change in securities		c		18 059	4 945	23 004
Cash flow from investing activities			**- 203 321**	**23 686**	**- 3 501**	**- 183 136**
Additions to long-term financial liabilities		f	66 740	- 24 111		42 629
Repayment of financial liabilities					- 272	- 272
Third-party purchase of transport rights (other long-term liabilities)		g			18 807	18 807
Dividend payments			- 10 084			- 10 084
Purchase of treasury shares				- 530		- 530
Sale of treasury shares			6 382	530	4 823	11 735
Capital increase through minority interests		f		24 111		24 111
Cash flow from financing activities			**63 038**	**-**	**23 358**	**86 396**

Change of cash flow statement from Swiss GAAP FER to IFRS CHF thousands	Notes	Swiss GAAP FER 2004	Reclassification	Adjustments and corrections IFRS	IFRS 2004
Cash flow from operating activities		**201 680**	**- 74 664**	**- 19 766**	**107 250**
Cash flow from investing activities		**- 203 321**	**23 686**	**- 3 501**	**- 183 136**
Cash flow from financing activities		**63 038**	**-**	**23 358**	**86 396**
Currency translation adjustments		**- 14**		**- 91**	**- 105**
Change in cash and cash equivalents		**61 383**	**- 50 978**	**-**	**10 405**
Cash and cash equivalents at 1 January	c	54 200	51 858		106 058
Cash and cash equivalents at 31 December		**115 583**	**880**	**-**	**116 463**
Additional information:					
Interest received				461	461
Interest paid				- 2 863	- 2 863
Income tax paid				- 17 542	- 17 542

Explanatory Notes to material restatements in the 2004 cash flow statement

The explanatory Notes on changes in the cash flow statement are limited to matters which have not already been accounted for in IFRS considerations on equity, the income statement and the balance sheet.

a IFRS reclassification concerns a short-term reversion provision of TCHF 65 000, which was disclosed under Swiss GAAP FER as a short-term financial liability.

b IFRS adjustment concerns gains on the sale of real estate and transactions contained in Group profit and not affecting liquidity, as well as gains on transactions involving Group companies.

c Under IFRS, securities were recorded as cash flows from investing activities. TCHF 51 858 in call money (sight funds) with a term to maturity of less than three months was reclassified under cash and cash equivalents.

d Current income tax liabilities of TCHF 25 067 were reclassified from deferred income and accrued expenses to liabilities.

e IFRS adjustments result from the separate presentation of acquisitions of the aurax Group and 90 % of SET S.p.A. (see Note 23) as well as the sale of 16 % of the equity in ENAG Energiefinanzierungs AG (for details, see Note c on adjustments to equity) and 39 % of Group company SET S.p.A.

f Reclassification concerns a capital increase in SET S.p.A. from minority interests (for details, see Note l on adjustments to equity).

g Under IFRS, prepayments for transit rights to the Bernina line (see Note 18) are recorded at gross value.

Consolidated annual financial statements of the Rätia Energie Group

Notes to the consolidated financial statements

Consolidated Accounting Principles

Information on the company

Rätia Energie AG, Poschiavo, is a listed stock corporation with registered office in Switzerland. Rätia Energie is a vertically integrated group active in Switzerland and abroad in the fields of electricity production, management, transmission and distribution. The business activities and main operations are described in detail in the annual report.

The consolidated financial statements of the Rätia Energie Gruppe for the 2005 financial year were approved by the Board of Directors on 22 March 2006 for submission to the General Shareholders' Meeting on 17 May, 2006.

Principles of consolidation

Basis

The consolidated financial statements of the Rätia Energie Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB). The provide a true and fair view of the financial position, the results of operations and the cash flows of the Rätia Energie Group. All current standards and interpretations were applied in preparing the consolidated financial statements, which also comply with Swiss company law.

The statements were drawn up in Swiss francs (CHF). With the exception of the designated items, all figures are in thousands of francs, rounded (TCHF).

The consolidated financial statements were prepared on the basis of historical acquisition costs. Exceptions are specific items, for example securities or non-consolidated financial assets, for which IFRS requires alternative valuation methods. These are explained in the following principles of accounting and valuation.

Scope of consolidation

The consolidated financial statements cover the annual statements of Rätia Energie AG and all Swiss and foreign companies in which Rätia Energie directly or indirectly holds 50 % or more of the voting rights or over which Rätia Energie is able to exercise operational and financial control. These companies are fully consolidated and designated as Group companies. Their financial year ends on 31 December.

Minority holdings in associates whose financial and business policies Rätia Energie Group is unable to dictate but over which it is able to exert a significant influence are accounted for in the consolidated financial statements using the equity method. Jointly-managed partner plants (joint ventures) are also accounted for in the consolidated financial statements using the equity method

Consolidation method

Fully consolidated companies are included in the consolidated financial statements in their entirety (assets, liabilities, income and expenses). Holdings in associates and partner plants are accounted for using the equity method on the basis of the share of equity.

The income statement contains the Rätia Energie Group's share in the results of associates and partner plants. If these companies and partner plants apply accounting and valuation principles that deviate from those adopted by the Rätia Energie Group, appropriate adjustments are made in the consolidated financial statements.

Business combinations are accounted for using the purchase method. The acquisition costs are calculated by measuring the purchased net assets at fair value on the date of acquisition. A positive difference is capitalised as goodwill and subjected to an annual impairment test. A negative difference is charged to the income statement as negative goodwill on the date of acquisition. Group companies are deconsolidated from the date on which they are sold or no longer controlled by the Rätia Energie Group.

Intragroup transactions

All intragroup transactions (receivables and payables, income and expenses) are eliminated and the proportion of equity attributable to minority shareholders or companies as well as their share in the results of consolidated companies are disclosed. Income arising from intra-Group transactions and holdings is eliminated and charged to income.

The agreed billing prices are applied for internal billing between Group companies. Electricity purchased by partner plants is billed to the Rätia Energie Group on the basis of existing partner contracts – irrespective of market prices – at actual cost.

Currency translations

The consolidated financial statements are drawn up and presented in Swiss francs. Each Group company defines its own reporting currency in which the single-company accounts are drawn up. Foreign currency transactions are recorded in the Group company's reporting currency at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the reporting currency at the exchange rate valid on the balance sheet date. Currency translation differences are charged to income. Non-monetary foreign currency positions measured at fair value are converted at the rate on the balance sheet date in order to determine the fair value.

The reporting currency for Group companies in Italy and Germany is the euro. Assets and liabilities of Group companies are converted to Swiss francs at the valid exchange rate on the balance sheet date. Income statement items are converted at the average exchange rate for the year. Translation differences are accounted for in equity. If a Group company is sold, the corresponding accumulated translation differences are charged to income.

Changes in principles of accounting and valuation

The first-time preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) necessitated changes in the principles of accounting and valuation compared to the consolidated statements drawn up at 31 December

Consolidated financial statements of the Rätia Energie Group

2004 in accordance with Swiss GAAP FER standards. The changes from Swiss GAAP FER to IFRS are explained on pages 46 to 55 under «Change from Swiss GAAP FER to IFRS».

The following principles of accounting and valuation were consistently applied for the reporting period and, as required by IFRS 1, also for the opening balance sheet at 1 January 2004.

Accounting and valuation principles

Basis

Within the context of preparing the consolidated financial statements, the Board of Directors and Executive Board of Rätia Energie is obliged to make estimates and valuations which have an impact on the presentation of assets and liabilities as well as income and expenses. This concerns the valuation of assets and liabilities for which no other source (e.g. market prices) is available. Estimates and valuations are based on past findings and the best possible assumptions on future developments. Actual developments may differ from the assumptions made.

The estimates and valuations are periodically reviewed. Changes result in a revised valuation of the relevant assets and liabilities and revisions are made and disclosed in the period in which they occur.

Estimates and valuations are carried out in particular in order to identify impairment of assets, to estimate useful lives and the residual value of property, plant and equipment, and recognition of provisions. Non-current assets are subjected to annual impairment tests. Future cash flows are estimated in order to determine whether there are indications of impairment on the carrying amount on the balance sheet date. Estimates of the useful life and residual value of property, plant and equipment are reviewed annually based on technical and economic developments, and revised as necessary. Provisions are recognised taking into account the best possible estimate of the amount and date of the probable cash outflow.

Property, plant and equipment

Property, plant and equipment are recorded at acquisition or manufacturing cost less accumulated depreciation and impairment losses recognised. The acquisition or manufacturing cost of property, plant and equipment covers the purchase price including any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operation in the manner intended. Significant individual components are recorded and depreciated separately.

Depreciation is calculated using the straight-line method based on the estimated technical and economic life of an asset or at most over the licence period in the case of energy production facilities. Residual values are accounted when determining useful lives. The useful lives and residual values are reviewed annually. If an asset is sold or is no longer able to provide future economic benefits, it is derecognised from non-current assets. The resultant gain or loss (difference between the net selling price and the net carrying amount of the derecognised asset) is charged to income in the period in which the asset is derecognised.

With the change to IFRS, property, plant and equipment was measured at fair value as at 1 January 2004. Details of the financial effect are provided under the section on changes in equity from Swiss GAAP FER to IFRS (pages 46 to 49).

The estimated useful lives are calculated in accordance with the recommendations of the Association of Swiss Electricity Companies and are within the following ranges for each category.

Category	Useful life
Power plants	20-80 years, depending on type of facility and licence period
Grids	15 - 40 years
Land	unlimited, impairment is immediately recognised
Fabbricati	30 - 60 years
Operating and business facilities	3 - 20 years
Assets under construction:	Reclassification on going into operation, impairment is immediately recognised

Investments in upgrades or improvements to plant and equipment are capitalised if they significantly extend the useful life, increase the original capacity or substantially enhance the quality of production. Repairs, maintenance and regular servicing of buildings and operating installations are directly charged to expenses. Costs for regular major overhauls are capitalised and written down.

Assets under construction cover property, plant and equipment not yet completed. During the construction phase these items are not written down unless impairment is immediately recorded. Interest on borrowings related to construction is capitalised along with other manufacturing costs.

Due to their short-term nature, the carrying amounts of cash and cash equivalents, receivables and short-term liabilities correspond to the fair value.

Financial interests in companies listed on the stock exchange or for which a market is assumed to be active are measured at market value on the balance sheet date. Other items for which no active market exists or whose fair value cannot be reliably measured are measured at acquisition cost.

On each balance sheet date property, plant and equipment are tested for indications of impairment. If indications of impairment are identified, the recoverable amount is measured and an impairment test is performed. If the recoverable amount (the higher of the net selling price and the value in use) is below the carrying amount, the asset's carrying amount is reduced to the recoverable amount. The value in use is calculated based on the estimated future cash flows over a five-year period and extrapolated projections for subsequent years, discounted using a reasonable rate of interest before tax. If the reasons for a previously recognised impairment no longer exist, the impairment is reversed at most to what the carrying amount cost would have been had the impairment not been recognised.

Goodwill from business combinations

Business combinations are included in the Group finan-

Consolidated financial statements of the Rätia Energie Group

cial statements using the purchase method. Goodwill corresponds to the difference between the acquisition costs and the fair value of the acquired company's identifiable assets, liabilities and contingent liabilities on the date of acquisition. Acquisition costs cover all considerations given to acquire the purchased company, including transaction costs directly attributable to the purchase. If the acquisition cost is lower than the fair value, goodwill is negative and is charged to income in the reporting period.

Goodwill is also calculated on acquiring holdings in associates and partner plants, and corresponds to the difference between the acquisition cost of the holding and the fair value of the identifiable net assets. This form of goodwill is disclosed under holdings in associates and partner plants.

Goodwill is allocated in order to determine the intrinsic value of a cash-generating unit on the date of acquisition. A cash-generating unit corresponds to the lowest level of the company whose goodwill is monitored for internal management purposes. Goodwill is tested for impairment at least once a year.

If the carrying amount of the unit is higher than the recoverable amount in accordance with IAS 37, an impairment is charged to income in the reporting period.

Intangible assets

Intangible assets are recorded at acquisition cost and have either a limited or unlimited useful life.
Intangible assets with a limited useful life are written down using the straight-line method over their useful lives. On each balance sheet date they are examined for any indication of impairment. If such indication is identified, the recoverable amount of the intangible asset is determined in the same way as for property, plant and equipment, and an impairment test performed.

Intangible assets with an unlimited useful life are not written down but examined annually for indications of impairment. If events or circumstances suggest that a limited or unlimited useful life needs to be revised, this revised estimated is carried out and disclosed in the current period.

Holdings in associates and partner plants (joint ventures)

Companies over which Rätia Energie exerts a significant influence but not overall control are measured at equity. Jointly managed partner plants (joint ventures) are measured according to the same method and included in the consolidated financial statements. Partner plants constitute holdings in power plants in which the shareholders are obliged to purchase electricity at cost in proportion to their shareholding.

The including of major associates and partner plants requires financial statements to be drawn up in accordance with IFRS. Where such financial statements are not available, transitional statements must be drawn up. The closing date of partner plants is 30 September and hence differs from the closing date for Rätia Energie financial statements. Important events occurring between the closing date for these partner plants and

the closing date for Rätia Energie are accounted for in the consolidated financial statements.

Financial assets

Financial assets cover cash and cash equivalents, securities, receivables, prepaid expenses and accrued income, and other financial assets. All financial assets have been recorded for the first time at acquisition cost. Purchases are recorded on the settlement date. For subsequent valuation, financial assets are classified according to IAS 39.

Financial assets at fair value through profit or loss are primarily acquired with the intention of achieving a profit from short-term fluctuations. They are measured at fair value and the profit or loss is recorded in the income statement on the balance sheet date.

Financial assets measured at fair value through profit or loss include cash and cash equivalents, postal and bank account balances as well as cash invested for a maximum period of 90 days. This category also covers derivative financial instruments. Rätia Energie has opted not to adopt the voluntary hedge accounting under IAS 39.

Financial assets held to maturity cover financial assets with a fixed term to maturity, which Rätia Energie intends and is able to hold to maturity. These assets are carried at amortised cost using the effective interest method less impairments.

Receivables and loans cover receivables to and loans granted by Rätia Energie with fixed or determinable payments. These are measured at amortised cost using the effective interest method. Receivables and loans with a short term to maturity are measured at acquisition cost less impairments, corresponding to the fair value on the balance sheet date.

All other financial assets are classified as available-for-sale financial assets and measured at fair value on initial recognition, although not all value adjustments are recorded under equity. In the event of disposal, impairment or other derecognition, the gains and losses accumulated in equity since such assets were purchased are reclassified as financial income in the current reporting period.

Financial assets are tested for impairment on each balance sheet date. If there is objective evidence that an impairment loss has occurred, such as insolvency, payment default or other significant financial difficulties, an impairment is charged to income. For assets carried at amortised cost, the impairment is measured as the difference between the carrying amount and the lower present value of estimated future cash inflows, discounted at the asset's original effective interest rate. For assets carried at acquisition cost, the impairment is measured as the difference between the carrying amount and the present value of estimated future cash inflows, discounted at the current market rate of return for a similar financial asset. If a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity, an impairment that was recognised in equity is removed from equity and recognised in the income statement in the reporting period. In this case the impairment corresponds to the difference between the

acquisition cost of the available-for-sale financial asset and the current fair value.

Financial assets are no longer derecognised when the contractual right to compensation from the asset has expired or the contractual rights have been sold.

Inventories

Inventories comprise materials used for operating purposes (e.g. operating materials, spare parts and consumables) as well as electricity certificates. Inventories are measured at the lower of acquisition/manufacturing cost or net realisable value. Acquisition/manufacturing costs are measured at the weighted moving average. The net realisable value corresponds to the estimated selling price less the estimated costs necessary to make the sale.

Treasury shares and participation certificates

Treasury shares and participation certificates are deducted from equity. Under IFRS, no gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of an entity's own equity instruments. Consideration paid or received is recognised directly in equity.

Provisions

Provisions are recognised for obligations (legal or constructive) resulting from a past event, when it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimated can be made of the amount of the obligation. If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party (e.g. due to an insurance policy), the reimbursement is recognised when it is virtually certain that reimbursement will be received. If the interest effect is a significant influencing factor, estimated future cash flows are discounted to determine the provision amount.

The provisions are recognised at the discounted cash outflow expected on the balance sheet date. Provisions are reviewed annually and revised in line with current developments. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Financial liabilities

Financial liabilities consist of liabilities from trade accounts payable, short-term financial liabilities, deferred income and accrued expenses, and long-term financial liabilities.

All financial liabilities are initially recognised at acquisition cost i.e. the proceeds retained after deducting the cost of the transaction. After initial recognition, financial liabilities are disclosed at amortised cost in accordance with IAS 39. Differences between the initial amount and the maturity amount are amortised in income over the term of the credit instrument using the effective interest method. Financial liabilities held for trading are measured at fair value. Changes in values are recorded in the financial result of the relevant reporting period.

Other long-term liabilities

Assigned rights of use i.e. payments received from third parties for the right to use installations and purchase electricity, are recorded under liabilities. The

payments are written down over the period of use using the straight-line method.

Staff pension plans
On the balance sheet date, employees of Rätia Energie in Switzerland were members of the PKE Pensionskasse Energie (PKE) and Winterthur-Columna, both of which are legally autonomous pension funds based on defined benefits or defined contributions.

The costs and obligations of the Group arising from defined benefit pension plans are calculated using the projected unit credit method, In line with actuarial calculations made on the balance sheet date, the total cost of a pension plan is based on the years of service rendered by employees who are members of the pension plan and their projected salaries until retirement, and charged annually to the income statement. Pension obligations are measured according to the fair value of estimated future pension benefits, using the interest rates on government bonds with a similar residual term to maturity. Actuarial gains and losses are recognised as income and expenses over the expected average remaining working lives of employees, provided they exceed the greater of 10 % of the present value of the defined benefit obligation and 10 % of the fair value of any plan assets.

Employees in foreign Group companies are insured with state pension plans which are independent of the Group.

Contingent liabilities
Potential or existing liabilities for which the probability of an outflow of funds is considered remote are not disclosed in the balance sheet. The existing liability is disclosed as a contingent liability in the Notes to the consolidated annual financial statements.

Share-based payment
There are no employee participation programmes. To commemorate the 100th anniversary of Rätia Energie, all employees as well as members of the Board of Directors received five shares in the company (see Note 14).

Finance and operating leases
In the reporting period or the previous period there were no finance leases and only insignificant operating leases.

Payments for operating lease transactions are recorded as expenses on a straight-line method over the lease term

Income tax
Income taxes covers current and deferred income taxes. Current income taxes are calculated based on the current tax rates on the earnings of the individual Group companies.

Deferred taxes are recorded in the Group financial statements based on the differences between the taxable value of the assets and liabilities and their carrying amounts. Deferred income taxes are calculated under IFRS using the balance sheet liability method based on temporary differences. Temporary differences are differences between the taxable value of an asset or liability and its carrying amount in the balance sheet. The taxable value of an asset or liability is the fair value of this asset or liability for tax purposes.

Consolidated financial statements of the Rätia Energie Group

Loss carryforwards related to deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised.

Sales revenue

Revenue covers sales and services to third parties after deducting price discounts, sales tax and value added tax. Revenue is disclosed in the income statement under trade accounts receivable.

Interest on borrowings

Interest on borrowings is recorded as expenses in the period in which it becomes payable. Interest on borrowings directly related to the acquisition or construction of an asset over a longer term is capitalised. The capitalised interest is calculated based on the amount effectively paid in the period between the date of acquisition or start of construction and the date on which the asset was used.

Segment reporting

As a vertically integrated company, Rätia Energie is primarily active in the production and distribution of electricity. These activities are not broken down, as reflected in internal Group reporting. Since activities outside the energy sector account for less than 10 % of sales, assets and income, the company does not report by business area.

Notes to the consolidated financial statements Risk management

Basis

The operating activities of Rätia Energie are exposed to energy price, interest, credit, currency and other risks. Financial risks are managed by the Executive Board within the framework of the strategic parameters laid down by the Board of Directors (total operating revenue, income before financing and income tax in proportion to total operating revenue, return on equity and equity ratio) and risk targets. The Board of Directors and Executive Board define risk limits in accordance with the company's risk capability. These limits are regularly reviewed for each of the risk categories (currently thirteen). Special measures are taken to manage risks related to personal safety, information technology and the energy business (transaction, market and counterparty risks). In addition, risks related to the forthcoming regulation of electricity grids (transmission and distribution) are hedged through active participation on the responsible committees.

Transaction, market and credit risks in the energy business

The guidelines on "Risk Management in the Energy Business" set down the principles governing the Rätia Energie Group's risk policy. They cover directives on the entry into, assessment, management and limitation of business risks in the energy sector and define the organisation and responsibilities. The aim is to ensure a reasonable balance between business risks entered into, earnings and risk-bearing equity.

Energy transactions are conducted for the sole purpose of covering delivery contracts, purchasing pumped energy and selling and optimising the company's own production volumes. No arbitrage transactions have been conducted.

Market risks in the energy sector include risks arising from price volatility, changes in the price level, and changing correlations between markets and production times. Within the risk policy, derivative financial instruments are used on a case-by-case basis to hedge physical electricity transactions.

The credit risk is continually monitored by checking outstanding payments by counterparties and by carrying out credit checks on contractual parties. Rätia Energie maintains significant business relationships only with counterparties who are creditworthy and whose solvency has been confirmed by a credit check.

Interest rate risks

Interest rate risks primarily concern changes in interest rates on long-term interest-bearing liabilities. Due to the long investment horizon for capital-intensive power plants and grids, Rätia Energie primarily obtains long-term financial loans with phased terms to maturity. The interest situation and hedging options are consistently reviewed. Derivative financial instruments – and in particular interest rate swaps – are used and their costs, income and value fluctuations are recorded under financial income and expenses.

Currency risks

Goods and services are paid for and sold by Rätia Energy in Swiss francs or euros. The currency risk is largely eliminated by charging operating income and expenses in the foreign currency Spot trading transactions are conducted to reduce the currency risk. Net investments in foreign Group companies are also exposed to exchange rate fluctuations. However, these long-term engagements are not hedged since the differences in inflation rates and exchange rate fluctuations should offset each other over the long term.

Consolidated financial statements of the Rätia Energie Group

Rätia Energie Group Companies

Fully consolidated companies at 31 December 2005

Company	Head office	Currency	Capital stock	Holding	Closing date	Purpose
Rätia Energie AG	Poschiavo	CHF	3 408 115	100.00 %	31.12.	H/P/T
Rätia Energie Klosters AG	Klosters	CHF	16 000 000	99.84 %	31.12.	C/P
aurax ag	Waltensburg	CHF	5 000 000	95.54 %	31.12.	H
Rezia Energia Italia S.p.A.	Milano	EUR	120 000	100.00 %	31.12.	T
Swisshydro AG	Poschiavo	CHF	500 000	65.00 %	31.12.	T
Elementerra GmbH	Iserlohn	EUR	50 000	70.00 %	31.12.	C
SET S.p.A.	Milan	EUR	120 000	51.00 %	31.12.	P
Energia Sud S.r.l.	Milano	EUR	1 500 000	67.00 %	31.12.	P
Ovra electrica Ferrera SA [1]	Trun	CHF	3 000 000	46.81 %	31.12.	P
aurax electro ag	Ilanz	CHF	250 000	95.54 %	31.12.	S
aurax energia ag	Ilanz	CHF	250 000	95.54 %	31.12.	C
aurax connecta ag	Ilanz	CHF	100 000	95.54 %	31.12.	S
aurax informatica ag	Ilanz	CHF	100 000	95.54 %	31.12.	S
SWIBI AG	Landquart	CHF	500 000	100.00 %	31.12.	S
Secu AG [2]	Klosters	CHF	100 000	100.00 %	31.12.	S
hesaplan ag [3]	Ilanz	CHF	100 000	49.68 %	31.12.	S
Rätia Energie Immobilien AG	Poschiavo	CHF	50 000	100.00 %	31.12.	R
aurax consulta ag	Ilanz	CHF	700 000	95.54 %	31.12.	R
Alvezza SA	Disentis	CHF	500 000	54.46 %	31.12.	R

[1] Ovra electrica Ferrera SA, Trun, is a power plant company in which the local community holds a 51 % stake. The Rätia Energie Group bears full operating responsibility for this company via aurax ag, and sells 100 % of the energy output on the market. The Rätia Energie Group therefore exercises overall control, hence Ovra electrica Ferrera SA is fully consolidated.

[2] Merger of RE Secura AG, Klosters, with secu ag, Ilanz.

[3] hesaplan ag is fully consolidated since the share of voting rights amounts to 52 %.

T Trading
P Production
C Customer (supply)
H Holding or purchase rights
R Real estate
S Services

Equity-valued companies at 31 December 2005

Associates	Head office	Currency	Share capital	Holding	Closing date	Purpose
GrischaVision AG	Chur	CHF	1 000 000	33.00 %	31.12.	S
Dynameeting S.p.A.	Milano	EUR	100 000	35.00 %	31.12.	C

The 22 % stake in Elektrizitätswerk Tamins AG acquired in 2005 was not valued at equity due to inability to exercise influence (pending registration in share ledger).

Partner plants	Head office	Currency	Share capital	Holding	Closing date	Purpose
Kraftwerke Hinterrhein AG	Thusis	CHF	100 000 000	6.50 %	30.09.	P
Grischelectra AG (paid-in share capital 20 %, CHF 200 000)	Chur	CHF	1 000 000	11.00 %	30.09.	PP
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen	Lucerne	CHF	90 000 000	7.00 %	30.09.	PP

T Trading
P Production
C Customer (supply)
H Holding or purchase rights
R Real estate
S Services

Consolidated financial statements of the Rätia Energie Group

NOTES

1 Other operating income CHF thousands	2004	2005
Income from the sale of associates and Group companies	22 072	-
Income from the purchase of Group companies (negative goodwill)	49 311	-
Gain from the sale of property, plant and equipment	8 122	3 031
Income from other operating activities	20 768	26 180
Total	**100 273**	**29 211**

Income from other operating activities primarily covers income from services rendered by the aurax Group.

2 Personnel expenses CHF thousands	2004	2005
Wages and salaries	29 390	37 167
Social benefits	3 273	5 473
Pension costs	2 075	2 270
Other personnel expenses	633	1 142
Total	**35 371**	**46 052**
Headcount at 31.12		
Full-time equivalent	397	417
Trainees	66	63
Total	**463**	**480**
Average		
Full-time equivalent	312	407
Trainees	39	65
Total	**351**	**472**

3 Depreciation and impairment	2004	2005
CHF thousands		
Depreciation on property, plant and equipment	21 339	27 351
Impairment of property, plant and equipment	-	-
Total	**21 339**	**27 351**

4 Financial income	2004	2005
CHF thousands		
Income from financial assets	7	6
Interest received on cash investments, cash and cash equivalents	12 927	12 740
Exchange rate gains and losses (net)	-	1 318
Other financial income	23	14
Total	**12 957**	**14 078**

5 Financial expenses	2004	2005
CHF thousands		
Interest paid on long-term liabilities	3 108	3 790
Other interest expenses	3 636	2 626
Exchange rate gains and losses (net)	423	-
Other financial expenses	517	316
Total	**7 684**	**6 732**

Consolidated financial statements of the Rätia Energie Group

6 Holdings in associates and partner plants CHF thousands	2004	2005
Carrying amounts at 1 January	**61 917**	**27 354**
Investments	-	-
Reclassification to securities	- 2 404	-
Disposals	- 34 862	-
Dividends	- 309	- 337
Share of the results	3 012	- 530
Translation adjustments	-	-
Carrying amounts at 31 December	**27 354**	**26 487**

Disposals and reclassifications in 2004 result from the sale of a 16 % share in ENAG.

Key figures for associates CHF thousands	2004 Gross values	2005 Gross values	2004 RE share	2005 RE share
Assets	49 255	44 662	17 051	15 441
Borrowings	- 49 646	- 46 408	- 17 180	- 16 036
Income	137 923	393 014	48 236	137 514
Expenses	- 137 973	- 393 621	- 48 243	- 137 716
Profit/loss	- 50	- 607	- 7	- 202

Holdings in associates are fully amortised. The proportionate loss therefore has no impact on the Rätia Energie Group results.

Key figures for partner plants CHF thousands	2004 Gross values	2005 Gross values	2004 RE share	2005 RE share
Non-current assets	767 259	752 489	52 271	51 266
Current assets	36 262	66 456	2 544	4 627
Non-current liabilities	- 322 414	- 299 432	- 22 076	- 20 367
Current liabilities	- 81 710	- 132 500	- 5 387	- 9 040
Income	470 283	319 455	61 153	23 373
Expenses	- 431 277	- 326 664	- 58 141	- 23 903
Profit/loss	39 006	- 7 209	3 012	- 530

7 Income tax CHF thousands	2004	2005
Income tax charged to annual financial statements		
Current income tax	17 596	27 032
Deferred income tax	8 635	8 458
Total	**26 231**	**35 490**
Income tax charged to equity		
Tax expenses on changes in equity	2 694	7
Total	**2 694**	**7**
Transitional statement		
Income before income tax	144 256	116 867
Expected income tax rate	29.00 %	29.00 %
Income tax at expected tax rate	41 834	33 891
Tax effect from tax-free income	- 18 675	-
Tax effect from non-tax-deductible expenses	2 019	1 175
Tax effect from income taxed at other rates	648	352
Tax losses in the current year for which no deferred tax assets have been formed	397	199
Charged tax losses on which no deferred tax assets have been formed	-	- 275
Tax burden/relief subsequently calculated for previous years	- 60	100
Other	68	48
Income tax charged to the financial statements	**26 231**	**35 490**
Effective income tax rate	18.18 %	30.37 %

The expected income tax rate is determined based on a weighted average tax rate that takes into account the expected applicable tax rate on earnings of the individual Group companies in the respective tax jurisdictions. The higher effective income tax rate compared with the previous year is largely attributable to the elimination of tax-exempt income.

Consolidated financial statements of the Rätia Energie Group

Deferred income tax by origin of difference CHF thousands	**31.12.2004**	**31.12.2005**
Deferred tax assets		
Property, plant and equipment	-	-
Other non-current assets	32 738	31 408
Current assets	-	161
Provisions	15 943	1 683
Liabilities	11 248	18 666
Loss carryforwards / tax credits	1 522	1 998
Total	**61 451**	**53 916**
Deferred tax liabilities		
Property, plant and equipment	136 058	140 193
Other non-current assets	98	-
Current assets	3 275	5 573
Provisions	18 916	31 667
Liabilities	22 047	3 947
Total	**180 394**	**181 380**
of which the following is disclosed in the balance sheet as:		
Deferred tax liabilities	119 152	128 555
Deferred tax assets	- 209	- 1 091
Net deferred tax obligation	**118 943**	**127 464**

No major additional tax obligations are anticipated as a result of dividend payments in respect of Group companies, associates and partner plants. The Rätia Energie Group does not recognise provisions for taxes levied on possible future payments of retained earnings by Group companies, since these are regarded as permanently reinvested.

Tax loss carryforwards

On 31 December 2005, in individual Group companies had tax loss carryforwards of TCHF 8 340 (previous year: TCHF 7 068) which they can charge in future periods as taxable profit. On the balance sheet date the Group had deferred tax assets of TCHF 2 540 (31.12.2004: TCHF 2 723) unrecognised. These are due on the following dates:

Unrecognised tax loss carryforwards	**2004**	**2005**
CHF thousands		
Due in 1 year	3	227
Due in 2-3 years	227	267
Due in 4-7 years	2 493	2 046
Total	**2 723**	**2 540**

8 Earnings per share	**2004**	**2005**
Total bearer shares issued at a par value of 1 CHF	2 783 115	2 783 115
Total participation certificates issued at a par value of 1 CHF	625 000	625 000
Minus treasury shares (year average)	- 18 539	- 11 788
Minus treasury participation certificates (year average)	- 32 664	-
Average number of shares in circulation	**3 356 912**	**3 396 327**
Shareholders and participants' share in Rätia Energie Group profit	TCHF 118 073	TCHF 81 881
Earnings per share (undiluted)	CHF 35.17	CHF 24.11
There are no factors which result in a dilution of earnings per share.		
Dividend	TCHF 13 632	TCHF 15 337 *)
Dividend per share	CHF 4.00	CHF 4.50 *)

*) 2005 dividend subject to the approval of the General Shareholders' Meeting.

Consolidated financial statements of the Rätia Energie Group

9 Property, plant and equipment CHF thousands	Power plants	Grids	Assets under costruction	Land and buildings	Other Property, plant and equipment	Total
Gross values at 1 January 2004	**331 741**	**385 404**	**79 322**	**37 047**	**9 912**	**843 426**
Own work capitalised			8 536			8 536
Additions	1 520	11 525	176 237	301	2 268	191 851
Disposals	-	- 89		- 718		- 807
Reclassification	- 89		107		- 18	0
Change in consolidation	33 510	232 518	47 780	24 392	9 528	347 728
Translation adjustments	0		- 126		- 2	- 128
Gross values at 31.12.04	**366 682**	**629 358**	**311 856**	**61 022**	**21 688**	**1 390 606**
Cumulated depreciation and impairment at 1 January 2004	**- 228 499**	**- 177 130**	**-**	**- 19 917**	**- 7 946**	**- 433 492**
Depreciation and amortisation	- 5 235	- 13 269	-	- 528	- 2 307	- 21 339
Impairments						0
Disposals					142	142
Reclassification	- 62	61			1	0
Change in consolidation	- 10 240	- 123 625		- 11 827	- 5 978	- 151 670
Translation adjustments						0
Cumulated depreciation and amortisatio at 31 December 2004	**- 244 036**	**- 313 963**	**0**	**- 32 272**	**- 16 088**	**- 606 359**
Net values at 31 December 2004	**122 646**	**315 395**	**311 856**	**28 750**	**5 600**	**784 247**
incl. security pledged for debts						4 124
Gross values at 01.01.2005	**366 682**	**629 358**	**311 856**	**61 022**	**21 688**	**1 390 606**
Own work capitalised			8 906			8 906
Additions	826	48 352	155 040	1 264	5 816	211 298
Disposals	- 459	- 520	0	- 1 631	- 908	- 3 518
Reclassification	21 662	45 937	- 69 294	1 695		0
Change in consolidation						0
Translation adjustments			1 104		2	1 106
Gross values at 31.12.05	**388 711**	**723 127**	**407 612**	**62 350**	**26 598**	**1 608 398**
Cumulated depreciation and impairment at 01.01.2005	**- 244 036**	**- 313 963**		**- 32 272**	**- 16 088**	**- 606 359**
Depreciation and amortisation	- 6 073	- 18 012		- 700	- 2 566	- 27 351
Impairments						0
Disposals		519		824	565	1 908
Change in consolidation						0
Translation adjustments						0
Cumulated depreciation and amortisation at 31.12.05	**- 250 109**	**- 331 456**	**0**	**- 32 148**	**- 18 089**	**- 631 802**
Net values at 31.12.2005	**138 602**	**391 671**	**407 612**	**30 202**	**8 509**	**976 596**
incl. security pledged for debts						4 384

Insured value of property, plant and equipment: MCHF 974 (previous year: MCHF 869).
In the year under review TCHF 4 955 (2004: TCHF 1 559) was capitalised as interest on borrowings.

10 Inventories	31.12.2004	31.12.2005
CHF thousands		
Electricity certificates	-	7 726
Material inventories	6 294	4 574
Total	**6 294**	**12 300**

11 Receivables	31.12.2004	31.12.2005
CHF thousands		
Trade accounts receivable		
Third parties	128 040	231 456
Related parties	17 718	27 587
Value adjustments	- 4 820	- 692
Other receivables	2 142	2 311
Total	**143 080**	**260 662**

12 Securities	31.12.2004	31.12.2005
CHF thousands		
Listed bonds	60 073	36 165
Listed shares	22 721	17 924
Unlisted shares	2 313	974
Total	**85 107**	**55 063**
incl. security pledged for debts	62 982	51 828

Consolidated financial statements of the Rätia Energie Group

13 Cash and cash equivalents CHF thousands	31.12.2004	31.12.2005
Sight funds	114 766	58 381
Cash invested for less than 90 days	1 697	6 064
Total	**116 463**	**64 445**
incl. security pledged for debts	14 895	347

The average interest rate for credit in CHF was 0.50 % (2004: 0.25 %) and for credit in EUR 1.25 % (2004: 1.00 %).

Cash and cash equivalents are held in the following currencies:

Swiss francs	57 697	26 325
Euro (converted)	58 766	38 120
Total	**116 463**	**64 445**

14 Share capital CHF thousands			31.12.2004	31.12.2005
Share capital	2 783 115 pezzi	a CHF 1 nominale	2 783	2 783
Participation certificates	625 000 pezzi	a CHF 1 nominale	625	625
Share capital			**3 408**	**3 408**

Existing shareholders and their direct share of voting rights:		
Canton of Grisons	46.0 %	46.0 %
Aare-Tessin AG für Elektrizität, Olten (Atel)	24.6 %	24.6 %
Elektrizitäts-Gesellschaft Laufenburg AG, Laufenburg (EGL)	21.4 %	21.4 %
Other (free float)	8.0 %	8.0 %

Treasury shares and participation certificates

In the year under review 100 bearer shares (2004: 0) and no participation certificates (2004: 57 375) were sold at market rates and no shares were acquired (2004: 1 903 bearer shares). In 2005 every employee received five shares to commemorate the 100th anniversary of the Rätia Energie Group. In total this amounted to 1 306 shares The market value on the handover date was TCHF 490, which was charged to personnel expenses. On 31 December 2005 the number of treasury shares held amounted to 11 436 bearer shares (2004: 12 842) with a par value of TCHF.

15 Long-term financial liabilities				31.12.2004	31.12.2005
CHF thousands	Due date	Interest rate			
Note	19.07.2008	3.75 %		20 000	20 000
Note	02.07.2009	4.35 %		15 000	15 000
Note	02.07.2011	4.50 %		15 000	15 000
Fixed advance	12.12.2020	3.10 %		-	10 000
Loans				**50 000**	**60 000**
aurax ag	31.08.2006	3.80 %		2 000	-
Kraftwerk Ferrera AG	27.11.2006	2.75 %		800	-
Alvezza SA	31.12.2006	2.65 %		1 130	-
Kraftwerk Ferrera AG	28.11.2007	4.38 %		4 000	4 000
aurax ag	09.01.2008	4.00 %		1 840	1 840
Kraftwerk Ferrera AG	27.06.2009	3.25 %		500	500
SET	04.10.2014	var.; 3.17 % nel 2005	a	49 576	190 989
Mortgages				**59 846**	**197 329**
Investment credit	31.12.2015	0.00 %	b	1 517	1 366
Investment credit	31.12.2020	0.00 %	b	-	1 910
Loan	senza scadenza	3.75 %		151	236
Other financial liabilities				**1 668**	**3 512**
Total				**111 514**	**260 841**
Financial liabilities are carried in the following currencies:					
Swiss francs				61 938	69 852
Euro (converted)				49 576	190 989
Total				**111 514**	**260 841**

a The SET mortgage was taken out for a maximum of MEUR 169. Annual repayments between MEUR 10 and MEUR 20 have been agreed from 2008. The last instalment will be paid in 2014. SET partners Rätia Energie and Hera must at all times account for 55 % of the power plant's entire financing. A mortgage was granted on the power plant to secure the bank loan, and in addition guarantees were issued by Rätia Energie AG and Hera. SET partners are entitled to cancel the loan agreement unilaterally once the power plant goes into operation.

As security for the SET mortgage loan, Rätia Energie has agreed on interest rate swaps which convert variable interest rates to fixed rates. The swaps expire on 30.6.2014. The nominal value of the swaps during the term fluctuates between MEUR 25 and MEU 55. The negative replacement value of TCHF 641 for swaps at 31 December 2005 was charged to income.

b Interest-free mortgage loans from the Swiss Confederation are valued at nominal value.
The weighted average interest rate based on the nominal value on the balance sheet was 3.60 % (2004: 3.52 %). The fair value of long-term financial liabilities amounted to TCHF 269 051 (2004: TCHF 123 742).

Consolidated financial statements of the Rätia Energie Group

16 Pension fund obligation at 31.12 CHF thousands	2004	2005
Market value of plan assets portion	124 801	142 952
Fair value of pension obligation	141 784	156 417
Underfunding	**- 16 983**	**- 13 465**
Unrecorded actuarial gains	0	- 2 879
Total	**- 16 983**	**- 16 344**

Pension expenses		
Acquired pension entitlements	3 273	3 959
Interest on future pension entitlements	4 506	4 962
Anticipated income on plan assets	- 4 506	- 4 992
Employer contributions	- 1 198	- 1 659
Total	**2 075**	**2 270**

Change in defined benefit pension obligation		
Pension obligation at 1 January	- 14 160	- 16 983
Change in consolidation	- 3 887	-
Pension expenses	- 2 075	- 2 270
Employer contributions paid	3 139	2 909
Pension obligation at 31 December	**- 16 983**	**- 16 344**

Calculation principles:		
Discount rate	3.50 %	3.00 %
Anticipated return on separated assets	4.00 %	4.00 %
Rate of increase in future compensation levels	2.50 %	2.50 %
Rate of increase in future pension contribution	0.50 %	0.50 %
Effective return on plan assets	7.40 %	15.30 %

	2004	2005	Contract risks	Reversion provisions	Restructuring visions	Pension provisions	Other provisions
17 Provisions							
At 1 January	**184 841**	**212 346**	**52 000**	**134 910**	**2 467**	**16 983**	**5 986**
Provisions made	34 104	15 041	11 945				3 096
Provisions used	- 138	- 65 844		- 65 000	- 764		- 80
Provisions released	- 12 115	- 45 639	- 45 000			- 639	
Interest	1 768	1 593		1 593			
Change in consolidation	3 886	-					
At 31 December	**212 346**	**117 497**	**18 945**	**71 503**	**1 703**	**16 344**	**9 002**
Expected maturity up to 1 year	100 000	38 594	13 069	23 025	500	2 000	
Short-term provisions	**100 000**	**38 594**	**13 069**	**23 025**	**500**	**2 000**	**0**
Expected maturity within 25 years	15 000	20 204	3 371	1 628	1 203	5 000	9 002
Expected maturity more than 5 years	97 346	58 699	2 505	46 850		9 344	
Long-term provisions	**112 346**	**78 903**	**5 876**	**48 478**	**1 203**	**14 344**	**9 002**

Contract risks

The provision for contract risks covers obligations and risks identified on the balance sheet date and relating to the energy business. It is used on the one hand for onerous contracts which result in above-average outflows of funds for energy procurement and cannot be offset by corresponding sales contracts. On the other hand the provision is used to cover future below-average inflows of funds for energy sales contracts if these cannot be offset by a corresponding procurement contract. Due to Rätia Energie's long position on long-term contracts, CHF 19 million in provisions was still required to cover contract risks despite the sharp rise in electricity prices at the end of 2005, resulting in CHF 45 million in provisions released to income in the year under review.

On 7 November 2005, the Italian government notified Rätia Energie and other electricity companies of its retroactive decision to no longer accept documentation on deliveries of environmentally friendly electricity (green certificates) from Switzerland. Following an in-depth analysis, the Executive Board estimated the related contract risk to be around CHF 12 million. This estimate is based on the market price for green certificates.

Reversion provisions

Reversion provisions were made for future payments of compensation for reversion waivers. The level and date of the outflow of funds cannot be determined at this point in time. A new licence came into force in October 2005 for the Prättigau power plants, as a result of which the first instalment of the reversion waiver compensation of CHF 65 million became due and was paid. From 2011 another CHF 47 million in total will become payable in annual instalments, the amount of which depends on business performance and results. Provisions of CHF 23 million exist for the reversion waiver compensation payable for the power plants in Upper Poschiavo. This amount will become payable when the new licence comes into force. Rätia Energie expects the licence to be approved by the canton of Grisons government in the course of 2006.

Restructuring provisions

The provision for restructuring covers future expenses for restructuring measures. These concern in particular the operational merger of Rätia Energie AG with Rätia Energie Klosters AG in 2000. The merger and automation of power plant activities will result in a discontinuation of shift operations in the Prättigau in 2007, and hence has personnel implications.

Pension provisions

Note 16 provides information on the provision for pension fund obligations.

Other provisions

Other provisions cover operating obligations arising from regulatory requirements such as regulations on power plant overhauls. In the year under review, provisions of CHF 3 million were made with regard to transmission grid emissions.

Consolidated financial statements of the Rätia Energie Group

18 Other long-term liabilities CHF thousands	31.12.2004	31.12.2005
Prepayment of transport rights	37 614	61 291
Total	**37 614**	**61 291**

The Bernina line is partly financed by entities with transport rights. In 2005 the last instalment of CHF 25 million was paid (2004: CHF 19 million). Prepayments for transit rights to the Bernina line are disclosed in the same period as the line is written down.

19 Other liabilities CHF thousands	31.12.2004	31.12.2005
Trade accounts payable		
Third parties	86 962	168 371
Related parties	7 862	8 131
Other liabilities	2 217	1 681
Total	**97 041**	**178 183**

20 Deferred income and accrued expenses CHF thousands	31.12.2004	31.12.2005
Deferred interest	9 557	1 145
Deferred annual leave and overtime	3 357	4 079
Deferred capital, other taxes, charges and levies	3 209	2 291
Other deferrals	8 029	8 996
Total	**24 152**	**16 511**

21 Change in provisions (see Note 17)

In the year under review CHF 65 million was paid by way of reversion waiver compensation. The provision set aside for this purpose was used. This decreased cash flow from operating activities as disclosed in the cash flow statement.

22 Transactions with related parties

CHF thousands	Energy sales		Energy procurement		Receivables at 31 December		Liabilities at 31 December	
	2004	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**
Canton Grisons *)	-	-	-	-	0	0	0	0
Aare-Tessin AG für Elektrizität (Atel)	35 946	12 589	9 620	14 276	37	10 774	485	1 017
Elektrizitätsgesellschaft Laufenburg AG (EGL)	57 710	24 522	44 884	33 979	7 450	9 590	6 561	5 463
Principal shareholder exercising considerable influence	**93 656**	**37 111**	**54 504**	**48 255**	**7 487**	**20 364**	**7 046**	**6 480**
Kraftwerke Hinterrhein AG	1 738	4 767	5 215	5 675	5 007	450	-	12
Grischelectra AG	379	250	31 597	32 334	-	-	816	1 639
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen	-	-	14 481	15 444	-	-	-	-
GrischaVision AG	-	-	-	-	-	-	-	-
Dynameeting S.p.A.	25 322	35 921	-	307	5 224	6 773	-	-
Associates and partner plants	**27 439**	**40 938**	**51 293**	**53 760**	**10 231**	**7 223**	**816**	**1 651**

Transactions with principal shareholders and associates are conducted at market prices. Energy is procured from partner plants at cost .

*) In its role as shareholder, the canton of Grisons constitutes a related party. However, acts of jurisdiction (levying of taxes, licence fees, charges etc.) are carried out on a legal basis and are therefore not recorded under transactions with related parties. Significant energy transactions with the canton of Grisons are conducted via Grischelectra AG, which is listed above as a related party.

Members of the Board of Directors and Executive Board

In 2005 the Board of Directors received compensation amounting to TCHF 506 (2004: TCHF 591). Compensation paid to the Executive Board, including all social and supplementary benefits, amounted to TCHF 2 191 (2004: TCHF 1 630). No loans, securities, advances or credits exist for members of the Board of Directors or Executive Board. No severance pay or share-based payments have been made.

Other related parties

Staff pension plans: See Note 16.

Consolidated financial statements of the Rätia Energie Group

23 Business combinations (IFRS 3)

Purchase of aurax ag

On 15 July 2004, Rätia Energie purchased 94.8 % of the shares in aurax ag of Waltensburg, an unlisted company in the canton of Grisons which is active in the fields of electricity supplies, electrical installation, telecommunications and IT.
The fair value of identifiable net assets and liabilities on the date of acquisition was as follows:

CHF thousands	Fair value	Carrying amount
Property, plant and equipment	147 338	114 833
Financial assets	2 720	2 720
Inventories	2 549	2 549
Receivables	11 618	11 618
Prepaid expenses and accrued income	175	175
Securities	212	212
Cash and cash equivalents	5 388	5 388
Identifiable assets	**170 000**	**137 495**
Long-term financial liabilities	21 336	21 336
Long-term provisions	3 885	3 885
Deferred tax liabilities	34 235	24 809
Liabilities	3 526	3 526
Short-term financial liabilities	612	612
Deferred income and accrued expenses	4 320	4 320
Identifiable liabilities	**67 914**	**58 488**
Net assets acquired	**102 086**	**79 007**
Share of existing minority interests in acquired net assets	- 1 855	
Share of acquired net assets excluding minority interests	**100 231**	
5.2 % dshare of new minority interests in acquired net assets	- 5 212	
Negative goodwill from acquisition	- 49 311	
Acquisition cost	**45 708**	

The negative goodwill was charged to other operating income. The acquisition cost was TCHF 45 708, comprising a cash consideration/share transfer as well as costs directly related to the acquisition. A total of 11 981 Rätia Energie treasury shares was used for the transaction. The fair value of CHF 280 per share corresponds to the market value of the shares on the date of acquisition.

Acquisition cost	
Shares used at fair value	3 355
Cash consideration	41 011
Costs related to the acquisition	1 342
Acquisition cost	**45 708**
Cash flow related to the acquisition	
Cash and cash equivalents transferred from the acquisition	5 388
Cash consideration	- 41 011
Costs related to the acquisition	- 1 342
Net cash outflow related to the acquisition	**- 36 965**

From the date of acquisition until 31 December 2004, the company contributed TCHF 1 301 to Group profit. Had the transaction taken place at the beginning of the year (1.1.2004), Group profit would have been some TCHF 714 higher and sales around TCHF 24 295 higher.
Uncertainty surrounding the forthcoming liberalisation of the electricity market, the aurax Group's decentral geographical location and critical size as well as its loss-making business operations made it difficult to go it alone. This resulted in negative goodwill of CHF 49 million after adjusting to IFRS

Purchase of SET S.p.A.

On 19 April 2004, Rätia Energie AG purchased 90.0 % of the shares in SET S.p.A., an unlisted company based in Milan, Italy, which was founded for the purpose of building a 400-MW gas-fired combined cycle power plant in Teverola. The new power plant is scheduled to go into operation at the end of 2006.
The fair value of identifiable net assets and liabilities on the date of acquisition was as follows:

CHF thousands	Fair value	Carrying amount
Property, plant and equipment	48 720	11 416
Receivables	2 335	2 335
Identifiable assets	**51 055**	**13 751**
Deferred tax liabilities	11 239	- 1 071
Liabilities	1 046	1 046
Short-term financial liabilities	272	272
Identifiable liabilities	**12 557**	**247**
Net assets acquired	38 498	13 504
Share of minority interests in the fair value of net assets	- 2 562	
Acquisition cost	**35 936**	

The acquisition cost was TCHF 35 936, paid in cash. No costs directly related to the acquisition were incurred.

Acquisition cost	
Cash consideration	35 936
Acquisition cost	**35 936**

Cash flow related to the acquisition	
Cash and cash equivalents transferred from the acquisition	0
Cash consideration	- 35 936
Net cash outflow related to the acquisition	**- 35 936**

From the date of acquisition until 31 December 2004, SET S.p.A. narrowed Group profit by TCHF 605 due to costs which cannot be capitalised, and because the 400-MW gas-fired combined cycle power plant generates no revenue during the construction phase. Had the transaction taken place at the beginning of the year (1.1.2004), it would have had virtually no effect on the profit and sales of the Rätia Energie Group.
The difference between the carrying amount and net assets of the company, measured at fair value on the date of acquisition, corresponds to the effective value of the 400-MW plant currently under construction.

Consolidated financial statements of the Rätia Energie Group

24 Changes in accounting estimates and errors (IAS 8)

Under Swiss GAAP FER, an in-depth review of provisions for risks related to long-term delivery and purchase obligations was conducted every two years. Onerous contracts consists of an obligation to purchase from the ENAG holding until 2024 and to take over the entire Grischelectra energy package until 2030. The change to IFRS necessitated a review of the valuation model for calculating contract risks, which has affected the consistency of financial statements drawn up in accordance with Swiss GAAP FER. IFRS requires risks to be continually assessed. The previous model was standardised. Prices for the valuation model were corrected by adjusting them in line with an independent reference scenario, so as to take better account of the price difference between peak and base load also for hydroelectricity contracts. The discount rate of 6.2 % (WACC) used in financial statements drawn up in accordance with Swiss GAAP FER was replaced under IFRS by a reference interest rate on borrowing. With regard to IFRS adjustments to equity values in the balance sheet position «Holdings in associates and partner plants», the new model no longer takes account of tied-up capital. The revised model resulted in the following adjustments and corrections to provisions for contract risks:

CHF thousands	
Provision for purchase obligations (Swiss GAAP FER) at 31.12.2003	**63 000**
Correction to reference price with differentiation between peak and base load prices	- 26 000
Adjustment of discount rate of 6.2 % to reference interest rate on borrowing	4 000
Adjustment of model following elimination of capital commitment	- 11 000
Provision for contract risks (IFRS) at 1.1.2004	**30 000**

Calculation of contract risks at 1 January 2004 necessitated a correction of CHF 33 million, resulting in a lower balance sheet position for long-term provisions and an increase of CHF 33 million in equity.

Provision for contract risks (IFRS) at 1.1.2004		**30 000**
Under previous model (Swiss GAAP FER)	38 000	
IFRS correction: Under new model	- 5 000	
Formation of provision for contract risks in 2004	**33 000**	**33 000**
Release under previous model (Swiss GAAP FER)	- 1 000	
IFRS correction: Release under new model	- 10 000	
Release of provision for contract risks in 2004	**- 11 000**	**- 11 000**
Provisions for contract risks (IFRS) at 31.12.2004		**52 000**

At 31 December 2004, long- and short-term provisions of CHF 52 million were required for contract risks. Following the IFRS correction, these provisions were CHF 5 million lower and released provisions were CHF 10 million higher than under Swiss GAAP FER. The effect on the income statement was to reduce the energy procurement position by CHF 15 million in 2004.

25 Contingent liabilities and guarantee obligations

The Rätia Energie Group has issued no guarantees in favour of third parties.

The Group is involved in various legal disputes in the course of its day-to-day business. The Executive Board has made the requisite provisions based on currently available information and estimates.

There are no other contingent liabilities or guarantee obligations.

26 Events occurring after the balance sheet date

On 1 March 2006, Rätia Energie purchased a 100 % stake in Ubiwork S.p.A., thereby taking over Dynameeting S.p.A, a company in which it had previously held a 35 % stake. Ubiwork and Dynameeting were therefore fully consolidated from 1 March 2006. The effects on the financial position and results of operations of the Rätia Energie Group could not be conclusively determined by the time the 2005 consolidated annual financial statements had been drawn up. Dynameeting posted revenue of some CHF 400 million in 2005. Since Dynameeting was already receiving some two thirds of its electricity supplies from Rätia Energie, the acquisition will result in 2006 in an estimated increase of around 1 000 GWh in sales, driving total operating revenue up by CHF 100 million. On the acquisition date, Dynameeting employed 235 personnel, largely consisting of agents who sell on commission to customers with an annual consumption volume of more than 100 000 kWh. Since the company is still in the early stages of development, profit remained modest at CHF 132 000.

Report of the Group Auditors

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AG
Gartenstrasse 3
Postfach 40
7001 Chur
Telefon +41 58 792 66 00
Fax +41 58 792 66 10

Report of the Group Auditors
to the Annual General Meeting of
Rätia Energie AG
Poschiavo

As Group auditors, we have audited the consolidated financial statements (balance sheet, income statement, cash flow statement, statement of changes in equity and notes) on pages **41 to 85** of Rätia Energie AG for the year ended 31 December 2005.

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

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

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

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

PricewaterhouseCoopers AG

Bruno Räss

Roland Hug

Chur, 22 March 2006

Financial statements of Rätia Energie AG

Income statement

CHF thousands	2004	2005
Net sales	358 158	658 159
Other operating income	19 820	21 786
Total operating revenue	**377 978**	**679 945**
Energy procurement	- 253 370	- 557 835
Material and third-party services	- 6 198	- 5 649
Personnel expenses	- 25 806	- 28 465
Concession fees	- 4 188	- 3 364
Depreciation and amortisation	- 7 204	- 12 589
Other operating expenses	- 12 533	- 12 566
Operating income before financing and taxes	**68 679**	**59 477**
Financial income	23 995	11 703
Financial expenses	- 5 828	- 5 957
Non-operating income	504	523
Non-operating expenses	- 334	- 399
Income before tax	**87 016**	**65 347**
Gains from the sale of Non-current assets	45 793	648
Extraordinary income	0	24 911
Extraordinary expenses	- 51 508	- 3 000
Annual income before tax	**81 301**	**87 906**
Taxes	- 19 587	- 24 933
Net income for the year	**61 714**	**62 973**

Financial statements of Rätia Energie AG

Balance sheet

Assets CHF thousands	Notes	31. 12.2004	31. 12.2005
Property, plant and equipment		100 123	86 560
Intangible assets	1	24 660	23 119
Financial assets		171 256	133 377
Non-current assets		**296 039**	**243 056**
Inventories		562	557
Trade accounts receivable	2	48 188	145 324
Other receivables	2	95 955	187 144
Prepaid expenses and accrued income	3	11 707	34 753
Capital assets in current assets		82 613	54 798
Cash and cash equivalents		71 504	36 396
Current assets		**310 529**	**458 972**
Total assets		**606 568**	**702 028**

Liabilities and shareholders' equity CHF thousands	Notes	**31. 12.2004**	**31. 12.2005**
Share capital		2 783	2 783
Participation capital		625	625
Reserves for treasury shares		1 387	1 306
Other legal reserves		52 276	52 276
Other reserves		105 575	155 656
Unappropriated retained earnings		72 580	71 921
Equity	4	**235 226**	**284 567**
Provisions	5	**205 836**	**195 213**
Long-term liabilities	6	**50 000**	**60 000**
Liabilities from accounts payable		21 494	78 866
Other short-term trade accounts payable		38 885	11 000
Deferred income and accrued expenses		55 127	72 382
Short-term liabilities	7	**115 506**	**162 248**
Debt capital		**371 342**	**417 461**
Total liabilities and shareholders' equity		**606 568**	**702 028**

Financial statements of Rätia Energie AG

Notes

1 Intangible assets CHF thousands	31.12.2004	31.12.2005
Escheat waiver compensation	30 825	30 825
Value adjustment	- 6 165	- 7 706
Total	**24 660**	**23 119**

2 Receivables CHF thousands	31.12.2004	31.12.2005
of which:		
- related parties (shareholders)	7 518	14 055
- Group companies	75 589	210 681
- Other receivables	61 037	107 732
Total	**144 144**	**332 468**

Receivables in respect of the canton of Grisons which are not explicitly attributable to its status as a Rätia Energie shareholder are not separately disclosed for cost reasons.

3 Prepaid expenses and accrued income CHF thousands	31.12.2004	31.12.2005
of which:		
- Group companies	479	8 571
- other	11 228	26 182
Total	**11 707**	**34 753**

4 Equity CHF thousands	31.12.2004	31.12.2005
Share capital: 2 783 115 bearer shares at a par value of CHF 1	2 783	2 783
Participation capital: 625 000 participation certificates at a par value of CHF 1	625	625
Share capital	**3 408**	**3 408**
Reserves for treasury shares	1 387	1 306
Reserves from merger and contributions in kind	40 276	40 276
Other legal reserves	12 000	12 000
Other reserves	105 575	155 656
Reserves	**159 238**	**209 238**
Retained earnings carried forward	10 866	8 948
Net income for the year	61 714	62 973
Unappropriated retained earnings	**72 580**	**71 921**
Total	**235 226**	**284 567**

Significant shareholders as defined by the Swiss Code of Obligations (OR) 663 c:

Canton of Grisons	46.0 %
Aare-Tessin AG für Elektrizität, Olten (Atel)	24.6 %
Elektrizitätsgesellschaft Laufenburg AG, Laufenburg (EGL)	21.4 %

Treasury shares

In the year under review 100 bearer shares (2004: 0) and no participation certificates (2004: 57 375) were sold at market rates and no shares were acquired (2004: 1 903 bearer shares). In 2005 every employee received five shares to commemorate the 100th anniversary of the Rätia Energie Group. In total this amounted to 1 306 shares The market value on the handover date was TCHF 490, which was charged to personnel expenses. On 31 December 2005 the number of treasury shares amounted to 11 436 bearer shares (2004: 12 842) with a par value of TCHF 11.

Financial statements of Rätia Energie AG

Notes to the financial statements

5 Provisions CHF thousands	31.12.2004	31.12.2005
for reversion	25 375	25 375
for compensation for reversion waiver	30 825	30 825
contract risks	140 600	132 545
Other risks	9 036	6 468
Total	**205 836**	**195 213**

6 Long-term liabilities CHF thousands			31.12.2004	31.12.2005
Note	3.75 %	2002-2008	20 000	20 000
Note	4.35 %	2001-2009	15 000	15 000
Note	4.50 %	2001-2011	15 000	15 000
Fixed advance	3.10 %	2005-2020	-	10 000
Total			**50 000**	**60 000**

7 Short-term liabilities CHF thousands	31.12.2004	31.12.2005
of which:		
- related parties (shareholders)	7 047	6 476
- Group companies	29 798	21 029
- Deferred income and accrued expenses	55 126	72 382
- Other obligations	23 535	62 361*)
Total	**115 506**	**162 248**

*) Includes liabilities of TCHF 149 in respect of pension plans.

Liabilities towards the canton of Grisons which are not explicitly attributable to its status as s shareholder of Rätia Energie are not disclosed separately for cost reasons.

Other information

Non-current assets

The fire insurance value for property is CHF 47 million.

An additional property insurance covers all the relevant risks of the Rätia Energie Group's Swiss companies. The insurance covers the value of property, plant and equipment excluding real estate and land to the value of CHF 484 million (2004: CHF 386 million).

Provision policy

Risks related to delivery and sales contracts are regularly assessed in line with market development. Following a reassessment, provisions of CHF 11 million were released.

Sureties, guarantee obligations and pledges in favour of third parties

Joint liability for VAT Group taxation with Rätia Energie Klosters AG, Klosters, Rätia Energie Immobilien AG, Poschiavo, and Secu AG, Klosters.

Securities at a par value of CHF 50 000 are set aside for licence obligations.

General pledge agreements have been with banks in order to optimise liquidity. On the balance sheet date CHF 1 million was recorded in bank balances and CHF 52 million in securities. The related credit agreements were not exercised on the balance sheet date.

Patronage and financing agreements of more than CHF 233 million (EUR 150 million) were concluded in 2005 (2004: CHF 46 million, EUR 30 million).

No other sureties, guarantee obligations, pledge agreements or leasing obligations exist.

Shareholdings

The list on pages 66 and 67 provides summarises the main interests held directly or indirectly by Rätia Energie AG.

There are no other factors requiring disclosure under the terms of Art. 663b and c OR.

Appropriation of retained earnings

The Board of Directors proposes the following appropriation of retained earnings to the General Shareholders' Meeting:

Profit for 2005	CHF	62 973 232
Retained earnings carried forward	CHF	8 947 981
Unappropriated retained earnings	**CHF**	**71 921 213**
Dividend on share capital of CHF 2.8 million	CHF	- 12 524 018
Dividend on participation capital of CHF 0.6 million	CHF	- 2 812 500
Allocation to other reserves	CHF	- 50 000 000
Balance carried forward	**CHF**	**6 584 695**

Provided the General Shareholders' Meeting votes in favour of this proposal, the dividend of CHF 4.50 per share less 35 % withholding tax will be payable from 22 May, 2006, on presentation of coupon No. 3 for a bearer share with a par value of CHF 1 or coupon NO. 3 for a participation certificate with a par value of CHF 1.

Poschiavo, 22 March 2006

For the Board of Directors:

Luzi Bärtsch
Chairman of the Board
of Directors

Report of the Auditors

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AG
Gartenstrasse 3
Postfach 40
7001 Chur
Telefon +41 58 792 66 00
Fax +41 58 792 66 10

Report of the Statutory Auditors
to the Annual General Meeting of
Rätia Energie AG
Poschiavo

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) on pages **89 to 97** of Rätia Energie AG for the year ended 31 December 2005.

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

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

In our opinion, the accounting records and financial statements as well as the proposed appropriation of retained earnings comply with Swiss law and the company's articles of association.

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

PricewaterhouseCoopers AG

PricewaterhouseCoopers AG

Bruno Räss

Roland Hug

Chur, 22 March 2006

Addresses and key dates

Rätia Energie
Via da Clalt 307
CH-7742 Poschiavo

Tel +41 81 839 71 11
Fax +41 81 839 72 99

Rätia Energie
Talstrasse 10
CH-7250 Klosters

Tel +41 81 423 77 77
Fax +41 81 423 77 99

Rätia Energie
Quadratscha 36
CH-7503 Samedan

Tel +41 81 839 75 00
Fax +41 81 839 75 99

Rätia Energie
Glennerstrasse 22
CH-7130 Ilanz

Tel +41 81 926 26 26
Fax +41 81 926 26 30

aurax
Glennerstrasse 22
CH-7130 Ilanz

Tel +41 81 926 26 26
Fax +41 81 926 26 30

Rezia Energia Italia S.p.A.
Viale Bianca Maria, 15
IT-20122 Milano

Tel +39 02 764 56 60
Fax +39 02 764 56 630

Dynameeting S.p.A.
Viale Bianca Maria, 15
IT-20122 Milano

Tel +39 02 764 56 60
Fax +39 02 764 56 630

info@REpower.ch
www.REpower.ch

Key dates

17 May 2006	**General Shareholders' Meeting**
28 August 2006	**First Half-Year Results**
6 June 2007	**General Shareholders' Meeting**

Rätia Energie
Josefstrasse 225
CH-8005 Zürich

Tel +41 81 839 70 00
Fax +41 81 839 70 99

Swisshydro AG
Via da Clalt 307
CH-7742 Poschiavo

Tel +41 81 839 71 11
Fax +41 81 839 72 99

elementerra GmbH
Stefanstrasse 3
DE-58638 Iserlohn

Tel +49 2371 152 554
Fax +49 2371 783 360

Rätia Energie Gruppo

Rätia Energie AG
Rätia Energie Klosters AG
aurax AG
Rezia Energia Italia S.p.A.
Dynameeting S.p.A.
Swisshydro AG
Elementerra GmbH
SET S.p.A.
Energia Sud S.r.l.
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Rätia Energie Immobilien AG
aurax consulta AG
Alvezza SA

Publishing details

Published by:	**Rätia Energie**	Poschiavo
Concept / Design:	**Trimarca**	Chur
Editorial team:	**Rätia Energie**	Poschiavo
	PR & Kommunikation	Chur
Photos:	**Michael Bühler**	Zürich
	Rätia Energie	Poschiavo
	Trimarca	Chur
Images/Graphics:	**Scantop**	Sargans

The 2005 Annual Report is available in German, Italian and English.
In the event of differing interpretations, the German text is definitive.

05.07 – E

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