RÄTIA ENERGIE

ANNUAL REPORT 2006

RÄTIA ENERGIE

Annual report

At a glance

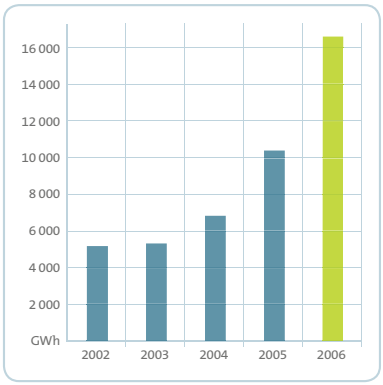
Summary

- Renewed sharp rise in total operating revenue – up 97 % to around CHF 1.7 billion.
- 61 % growth in energy sales to 16 635 GWh..
- Outstanding 64 % increase in operating income (EBIT, excluding special items).
- 28 % increase in balance sheet total to around CHF 1.8 billion.
- Commissioning of the 400 MW gas-fired combined-cycle power plant in Teverola, the largest of Rätia Energie's generating plants.
- Full takeover of the Italian sales company Dynameeting.
- The Grisons cantonal government approves licenses to further operate and expand plants in the Upper Poschiavo district. Environmental protection organisations file an appeal.
- The fully renovated Küblis power plant goes on stream again.
- Construction of the Taschinas power plant in Prättigau has been approved, and the project is now under way.
- Completion and commissioning of the fully renovated system control centre in Robbia (Poschiavo), enabling all major power facilities of the Rätia Energie Group to be controlled remotely.
- Preparations under way to open up the market in south-eastern Europe (energy trading and sales).

Share information

Share capital	2 783 115 bearer shares		at CHF 1.00	CHF 2.8 million
	625 000 participation certificates (PC)		at CHF 1.00	CHF 0.6 million
CHF				
Share price			2005	2006
Bearer shares		High	390	615
		Low	284	374
PC		High	339	485
		Low	249	339
Dividend	2003	2004	2005	2006 *)
Bearer share	1.50 + 1.50	4.00	4.50	4.50
PC	1.50 + 1.50	4.00	4.50	4.50

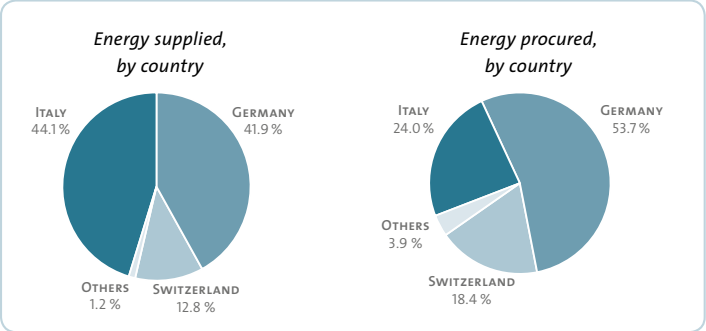
*) 2006 dividend subject to decision by the Annual General Meeting.
There are no restrictions on transferability or voting rights.



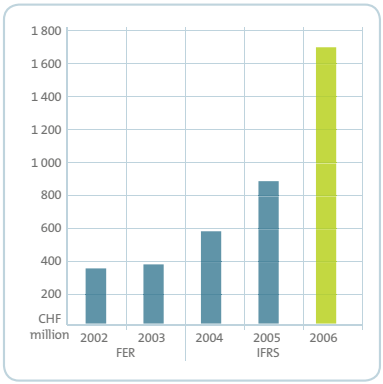
Energy sales

Energy balance sheet

GWh	2005	2006	Change
Contracts > 1 year		934	
Contracts ≥ 1 month ≤ 1 year		10 400	
Spot < 1 month		2 074	
Total trading	9 436	13 408	+ 42 %
Supply or sales	754	2 917	+ 387 %
Pumps, own use, losses	156	310	+ 99 %
Energy sales	**10 346**	**16 635**	**+ 61 %**
Contracts > 1 year		1 406	
Contracts ≥ 1 month ≤ 1 year		10 647	
Spot < 1 month		2 842	
Total trading	9 135	14 895	+ 63 %
Own production	356	857	+ 240 %
Energy from participations	855	883	+ 3 %
Energy procurement	**10 346**	**16 635**	**+ 61 %**



Germany is characterised by the high liquidity of the power market and the dominant role of the EEX Exchange in Leipzig (does not correspond to the geographic reality).



Total operating revenue

Financial highlights

CHF m	2005	2006	Change
Total operating revenue	877	1 723	+ 97 %
EBIT (excluding special items *)	65	107	+ 64 %
EBIT (including special items *)	110	101	- 8 %
Group profit , including minority interests:	**81**	**75**	**- 7 %**
Balance sheet total	1 423	1 823	+ 28 %
Equity	**622**	**700**	**+ 13 %**

*) 2005: primarily reversal of provisions for market risks.
2006: primarily impairment of tangible assets.

Report of the Board of Directors and Executive Board

Strong growth in sales and striking improvement in performance

Rätia Energie posted a massive 97 % increase in total operating revenue in 2006 to around CHF 1.7 billion, up from CHF 877 million. EBIT (operating income before interest and income taxes) was CHF 101 million (previous year: CHF 110 million), and group profit was CHF 75 million (previous year: CHF 81 million).

It should be noted, however, that special items improved performance in 2005 and decreased performance in 2006: A total of CHF 45 million in provisions for market risks was reversed in 2005, and in 2006 there were impairments (net of other special items) totalling CHF 6 million. After inclusion of these effects, the 2006 result jumped by CHF 42 million to CHF 107 million, up from CHF 65 million in 2005, a very sharp increase of around 64 %.

Rätia Energie considers this result outstanding, especially in view of the narrower margins in the trading business due to greater market transparency and the costs of cross-border auctions. The company is therefore in a very healthy position for the future.

Luzi Bärtsch
Chairman of the Board of Directors

Significant increase in energy sales

Energy sales again increased very sharply: Rätia Energie sold 16 635 GWh of power or 61 % more than in 2005. Dramatic increases resulted from higher volumes in the trading business (+ 42 %) and at the same time higher prices. Demand was very high throughout Europe in 2006 and prices also rose. In addition, Rätia Energie participated in the financial trade of power products for the first time on a large scale. And the Rätia Energie Group also sold more energy in the supply and end-user business. Above all, integration of the Italian sales company Dynameeting S.p.A. led to extraordinarily strong growth (+ 387 %) in supply and distribution. Dynameeting specialises in customers that are small and medium-sized enterprises (SME) and has a market share of about 10 % in that segment. The company sold about three terawatt hours of power in Italy in 2006.

Sales of certified renewable energy again increased – by 70 % to 1 273 GWh. The demand for green power in Europe continued to rise.

The Rätia Energie Group boosted its own power production by 240 % in 2006 to 857 GWh, despite lower precipitation levels. This was due to the recommissioning of the Küblis power plant and the first weeks of operation of the new gas-fired combined-cycle power plant in Teverola. 2006 was also a dry year. Total hydroelectric power production in the canton of Grisons was there-

fore about one quarter below the longstanding average expected production figure.

Production capacities expanded

Various major projects were successfully completed in 2006. A total of CHF 121 million was invested in tangible fixed assets (property, plant and equipment) in 2006. Construction of the 400 MW gas-fired combined-cycle plant in Teverola, Italy, was completed on schedule and within the budget. The technical specifications were even exceeded. This plant, in which Rätia Energie holds a 61 % interest and Hera (Bologna) a 39 % stake, went on line in mid-December 2006 as scheduled. The new power plant is playing a significant role in the Group's efforts to meet the steady increase in energy demand by increasing its own production. The plant also greatly improves opportunities for further growth in the Italian end-user business.

Another important focus in 2006 was the completion of the totally renovated Küblis Hydroelectric Plant. The second of the two new generating units was put into operation in the spring of 2006. The Group's own energy production rose accordingly, since the plant had previously been off line for about ten months during construction.

The renovation and startup of the new power system control centre in Robbia (Poschiavo) in the spring of 2006 played a key role in improving performance of the Group's own plants. The modern control centre makes it possible to do away with shift operation in Prättigau. All of Rätia Energie's Swiss production facilities are now remote-controlled from Poschiavo.

Karl Heiz
Chief Executive Officer

New organisation and mission statement

The Rätia Group has experienced very strong growth in recent years, both nationally and internationally. The Board of Directors therefore decided to modify the organisational structure accordingly in order to create additional capacities for strategic projects, increase proximity to customers and enhance the Group's performance. The new matrix organisation, which involves a group-based and country-based structure, goes into effect in 2007. This lays the foundation for further growth and a strategic orientation to the needs of liberalised markets.

Rätia Energie relies on an efficient infrastructure and a modern form of organisation and places great value on a living corporate culture. A new mission statement underscores what the Rätia Energie Group stands for. It is determined to focus on the needs and requirements of its customers, shareholders, employees and

Report of the Board of Directors and Executive Board

the environment. Consistent proximity to customers, sustainable enhancement of corporate value, a mode of operation based on trust, team spirit and entrepreneurial thinking, and actively taking responsibility for society and the environment: These basic attitudes shape our corporate culture.

Outlook

Rätia Energie will continue its efforts in its three key markets: Italy, Switzerland and Germany. The most important goals are to consolidate the expansion steps already taken, improve profitability in all markets, and strengthen customer relationships. Rätia Energie is also preparing to enter new markets that will be developed gradually. The greatest potential is in Central and Eastern Europe, where the expansion of the European Union will lead to further economic growth.

It is apparent that 2007 will be a difficult and challenging year. Rätia Energie is expecting sales to be in line with last year's results. It will be hard to duplicate the 2006 performance ever again. The warm weather in the winter of 2006-2007 led to a drop in prices. In addition, there are uncertainties relating to CO_2 prices and the costs of cross-border auctions. However, the new Teverola power plant and stronger sales activities are expected to make substantial contributions to overall results and further strengthen the Group's market position.

Luzi Bärtsch
Chairman of the Board of Directors

Karl Heiz
Chief Executive Officer

Teverola – a quantum leap forward

Work progressed quickly, and by December everything was ready: the 400 MW gas-fired combined-cycle power plant in Teverola near Naples, Italy, finally went on line. Construction of the plant was a joint project of Rätia Energie, which acted as project manager, and its Italian partner Hera. The plant will generate about 2 800 GWh of electric power per year – approximately the same amount that the city of Zürich consumes annually. A total of about CHF 400 million was invested in the new facility.

Strengthening market position

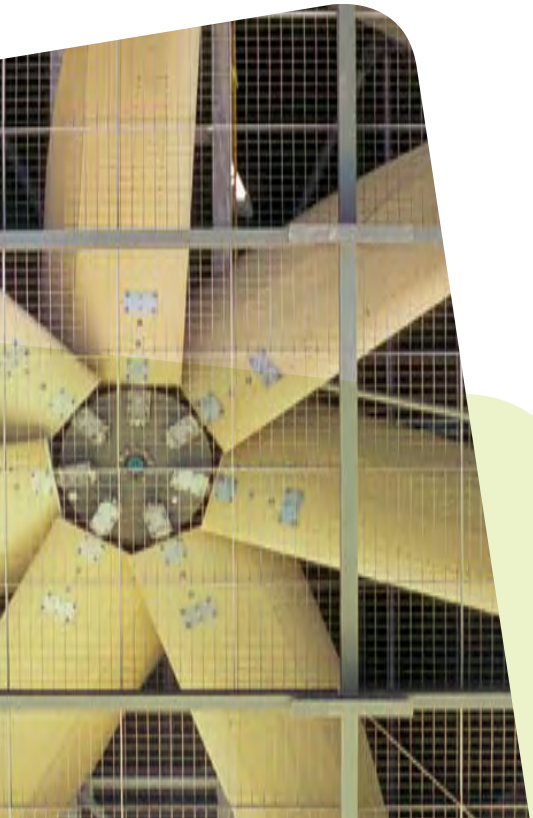
These figures alone attest to the fact that Teverola means a quantum leap forward for Rätia Energie. The new power plant is by far the largest of the Group's power generation facilities. The 1 700 GWh of power that the Rätia Energie Group will receive based on its 61 % majority stake will more than double its own production.

The startup of this plant will strengthen Rätia Energie's position in the Italian market. Besides the continuing development of Rezia Energia Italia and the acquisition in 2006 of the sales company Dynameeting S.p.A., Rätia Energie has also been able to boost growth in both power generation and sales.

On line after two and a half years

The Teverola gas-fired combined-cycle power plant has a type 9FA gas turbine and a type 15A steam turbine manufactured by General Electric. This combination, together with the heat recovery steam generator, ensures a high level of efficiency, about 56 %. Construction of the plant began in June 2004. The gas turbine was delivered and installed in October 2005, and the first firing took place in May 2006. Subsequent functional tests and adjustments were carried out on schedule, and energy began to be delivered to the grid at mid-year in conjunction with in-service tests. After successful trial operation and commissioning, the plant's owners took over the plant on 18 December 2006.

The large-scale photos in this annual report all show the new plant in Teverola. Michael Bühler, the photographer, has succeeded in portraying not only the force and energy that the plant radiates but also the fascinating beauty of a powerful technology.



Strategic thrust

Rätia Energie is a vertically integrated, nationally and internationally active electric power company based in the canton of Grisons in Switzerland. It is involved in the entire value chain – power generation, trade, transmission, distribution and sales. Rätia Energie Group provides a number of related services. A clear geographic focus, comprehensive expertise and local offices in close proximity to the market allow Rätia Energie to operate flexibly in all areas of activity and remain very close to its customers.

Strengthening core markets and developing new markets

Italy, Germany and Switzerland continue to be the key markets for Rätia Energie. The strategic goal is to increase market penetration in those countries in the areas of production, energy trading and sales. In Italy, Rätia Energie came closer to this goal in 2006 by starting up the gas-fired combined-cycle power plant in Teverola near Naples and by acquiring the sales company Dynameeting S.p.A.

In addition to its strong presence in its core markets, Rätia Energie is working on gradually expanding its business activities into new markets. Many promising opportunities are opening up, especially in the countries of Eastern Europe. The economies of those countries are growing, driven by the progressive expansion of the European Union. This generates a rising demand for energy and related services. Rätia Energie therefore feels that it has a good chance to play a profitable role in the dynamic growth of these markets. This applies particularly to energy trading. A project has been initiated to develop a trading and sales organisation in the south-eastern area of Europe.

Rätia Energie is among the pioneers in the sale of green power products. This segment is being further expanded. The diversified production is based primarily on hydropower and wind power.

Increasing the Group's own production

Rätia Energie intends to continue to expand its own power generation operations in its core markets. Energy trading and sales will be supported by a satisfactory production base within the Rätia Energie Group. In Switzerland, the focus is on plans for hydroelectric projects, chiefly in the Prättigau and Poschiavo districts. The Group's projects for increasing its own energy production in Italy will involve the thermal sector primarily. In Germany as well, Rätia Energie's goal is to develop its own capacities.

Growth in the supply area

Rätia also intends to grow in the area of electricity supply and sales. With its acquisition of Dynameeting S.p.A., it has created good conditions in Italy for developing new business. Sales activities are being increased in Germany. And Rätia Energie's goal in Switzerland is to grow through additional cooperative ventures and acquisitions.

A direct line to our customers

Always well connected with power

Any company that is involved in the lively business of energy trading, supplies discerning customers and provides innovative products – like Rätia Energie – must be totally on the ball and well connected at all times. This is symbolised in Teverola at the point where the power leaves the plant and is fed into the grid.

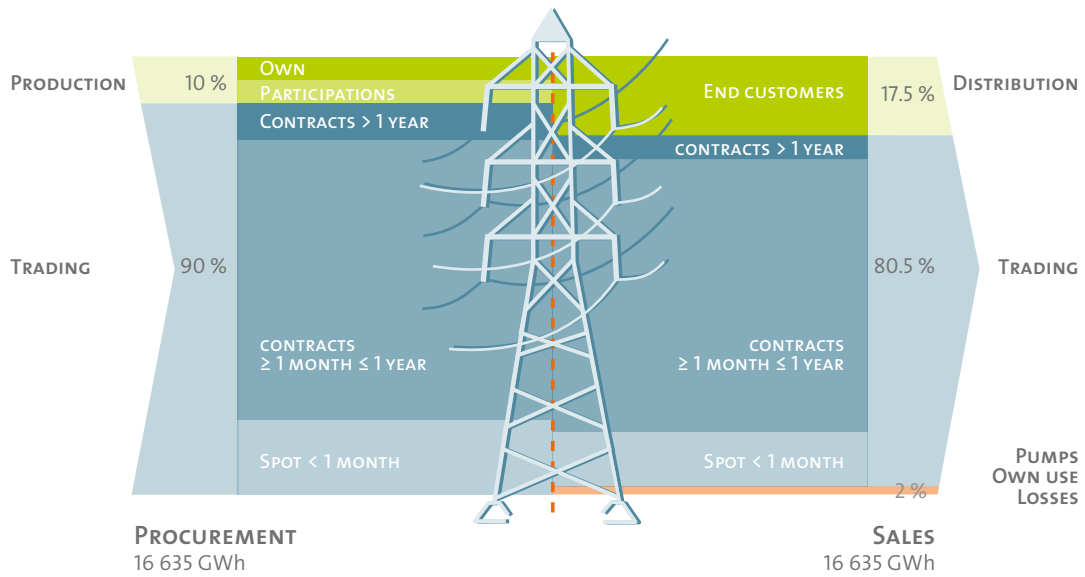
Energy management

Increasing quantities, declining margins, a greater number of market players, more transparent markets, cross-border auctions and an increasing number of new instruments: Energy trading is becoming more and more challenging and fraught with risk but it also provides new opportunities. Rätia Energie has adapted to these changes, is able to act quickly and flexibly while at the same time remaining risk-aware and profit-oriented, and relies on a balanced mix of long-, medium- and short-term commitments in both procurement and sales.

Increase in energy sales

Energy sales at Rätia Energie in 2006 also rose dramatically – by 61 % to 16 635 GWh (see diagram). Net sales rose 100 % to CHF 1 674 billion. The key sales markets continued to be Italy (44.1 %), Germany (41.9 %) and Switzerland (12.8 %), while other countries accounted for 1.2 % of sales. Nearly 3 000 GWh of electricity was sold in the Group's own supply area or through local resellers, and around 13 408 GWh was sold through national and international trading. The trading business is based largely on contracts with terms ranging between one month and one year (77.5 %), while 7.0 % of the business involves contracts with terms in excess of one year. Spot market trades, which are more short-term in nature, account for the remaining 15.5 % of the trading business. On the procurement side, 1 740 GWh of the energy comes from the company's own generating plants and from participations (857 GWh from own production and 883 GWh from participations). Rätia Energie procured 14 895 GWh through energy trading. Of this total, 9.4 % was secured by long-term contracts (with terms in excess of one year), 71.5 % was based on

Energy balance sheet for 2006



medium-term agreements, and 19.1 % of the energy was purchased on the short-term spot market.

First auctions ever between Germany and Switzerland

In the area of energy prices, 2006 was characterised on the whole by lateral movement at a high price level, despite a continuing rising trend. The prices toward the end of the year tended to be lower than in the first half of the year. The extremely mild temperatures in the autumn and winter months were a big factor in this price decline. The number of «heating degree days» throughout Central Europe in the second half of the year was lower than figures for previous years. However, prices for both electricity and for oil and other forms of energy fluctuated quite erratically during the year.

Prices for CO_2 emission certificates also proved again to be quite volatile. In contrast to the previous year, the lowest prices were paid toward the end of the year – droppeding after May from around EUR 30 per tonne to around EUR 6.5 per tonne. The long-term prices under National Allocation Plan II are approximately EUR 15/t CO_2.

The auctions for cross-border high-voltage grid capacities between Germany and Switzerland, which were held for the first time at the end of 2005 and beginning of 2006, initially caused a certain degree of jumpiness in the market. The highly seasonal prices from January to April and again in November and December rose significantly due to higher consumption in the winter. In the summer months the prices tended toward zero, as expected. During the course of the year the overall result was a certain degree of stabilisation. The maximum prices of EUR 11/MWh paid in January 2006 (monthly auction) were not duplicated again during the entire year. The transit prices averaged EUR 4 for the year as a whole. The differing transit conditions at Switzerland's borders with Germany, Italy and Austria require careful coordination.

Rätia Energie, based in Poschiavo, works with all the important electricity exchanges in Europe.

Because of the price situation, electricity was again imported for the first time in a long while from Italy to Germany, France and Switzerland in January and February 2006. This followed many years in which trade was conducted almost exclusively in a north-south direction.

Overall, trading has become much more complex. New cost factors and uncertainties create pressures on the margins.

Entry into the trade in energy derivatives

Derivative instruments are becoming increasingly important in energy trading, as in other areas. Rätia Energie began to be active in this field in 2006. It opened its own trading positions and participated in financial trading of electricity products. The objective was to generate additional margins. A total volume of 1 141 GWh was traded, and a profit of CHF 3.9 million was generated from the trade in energy derivatives (realised and unrealised) in 2006.

Fully integrated in Italy

In Italy, Rätia Energie achieved its strategy of full vertical integration after acquiring the sales company Dynameeting and starting up the Teverola gas-fired combined-cycle power plant (see the section on production and transmission). Dynameeting S.p.A. and

The Teverola gas-fired combined-cycle power plant strengthens the position of Rätia Energie in the Italian market.

its 200 agents sell electricity to small and medium-sized business customers and has a market share of around 10 % in this segment. The company serviced 20 000 purchase points throughout Italy and sold approximately 3 TWh of electric power. Sales revenues totalled over CHF 400 million. The Dynameeting strategy aims to achieve a high level of customer loyalty through excellent service, creating a cushion against price competition for large customers. The integration of Dynameeting into the Rätia Energie Group is making good progress.

Renewable energy in demand

Swisshydro AG continues to be very successful. A joint venture of Rätia Energie and Azienda Elettrica Ticinese (AET), Swisshydro boosted sales of electric power derived from renewable resources, selling around 1.1 TWh. One factor is that the demand for certificates is rising, especially in Germany and the UK. Another factor is that the new system of power labelling in Switzerland has led to high demand on the part of various municipal utilities who want to offer their customers electric power from renewable sources.

Expanding production

Investments in power generation and transmission are an important basis for trade and sales. The familiar scenario based on hydropower and new renewable energies is being expanded by venturing into new dimensions, as symbolised by the heat recovery steam generator and stack of the Teverola gas-fired combined-cycle plant.

Venturing into new dimensions

Production and transmission

Rätia Energie continued to expand its production portfolio in 2006. The startup of the gas-fired combined-cycle power plant in Teverola more than doubles the Rätia Energie Group's own production. In addition, optimisation and renovation of the power plants in Prättigau played a big role. Furthermore, important decisions were made in regard to future expansion of the Grisons hydropower network.

Teverola on stream and on schedule

Rätia Energie is venturing into new dimensions with its 400 MW power plant in Teverola near Naples, Italy. It is expected to generate 2 800 GWh of electric power annually, and Rätia Energie will be entitled to 1 700 GWh of this amount based on its 61 % majority stake. This will more than double the Group's own production levels. Construction of the plant, which cost around EUR 250 million, took approximately two and a half years and was completed both on schedule and within the budget. The plant's planned performance was even exceeded. After the first firing on 21 May 2006 the plant began test operation, supplying the first kilowatt-hour of power to the grid on 23 June 2006. And on 18 December 2006 the gas-fired combined-cycle plant began regular operation. Rätia Energie is therefore the first Swiss investor to build and commission a new gas-fired combined-cycle power plant of this size in Italy.

New developments in Prättigau

Despite the importance of the Teverola power plant, investments made in domestic hydropower also deserve special mention. The fully renovated and modernised Küblis power plant went into operation again in the spring of 2006 after a break of approximately ten months. Rätia Energie invested a total of CHF 58 million in upgrading the power plant – a strong sign of its commitment to the canton of Grisons and domestic power production. The heart of the plant is formed by two new turbogenerator units with a capacity of 22 MW each that replaced seven outdated units. The west wing of the historic plant in Küblis will be renovated and expanded. It will contain up-to-date workplaces for approximately 30 employees: offices, workshops, warehouse and a grid support centre.

The penstock of the Schlappin power plant in the Prättigau district and the associated powerhouse were also renovated.

Taschinas power plant to be built

Crucial decisions were made in 2006 that will pave the way for the construction of the new Taschinas power plant – also in Prättigau. Investments totalling close to CHF 50 million are planned for water catchment, penstock and an underground powerhouse in Grüsch. The plant will produce 38 million kilowatt-hours of electricity per year. In 2006 the three municipalities affected by the plant – Seewis, Fanas and Grüsch – approved the necessary amendments to existing contracts. The amended contracts give the municipalities the right to 30 % of the electric power produced by the plant, which will be sold at cost. The project approval process will be carried out in 2007. This will be followed by calls for tenders, and Rätia Energie expects construction to begin in 2008.

Robbia control centre: economical operation and up-to-date workplaces thanks to the latest technology.

Further development in Poschiavo

In August 2006 the Grisons government approved licences for further operation and optional expansion of the existing plants in the Upper Poschiavo district. The licences have not yet taken effect since environmental organisations have filed appeals.

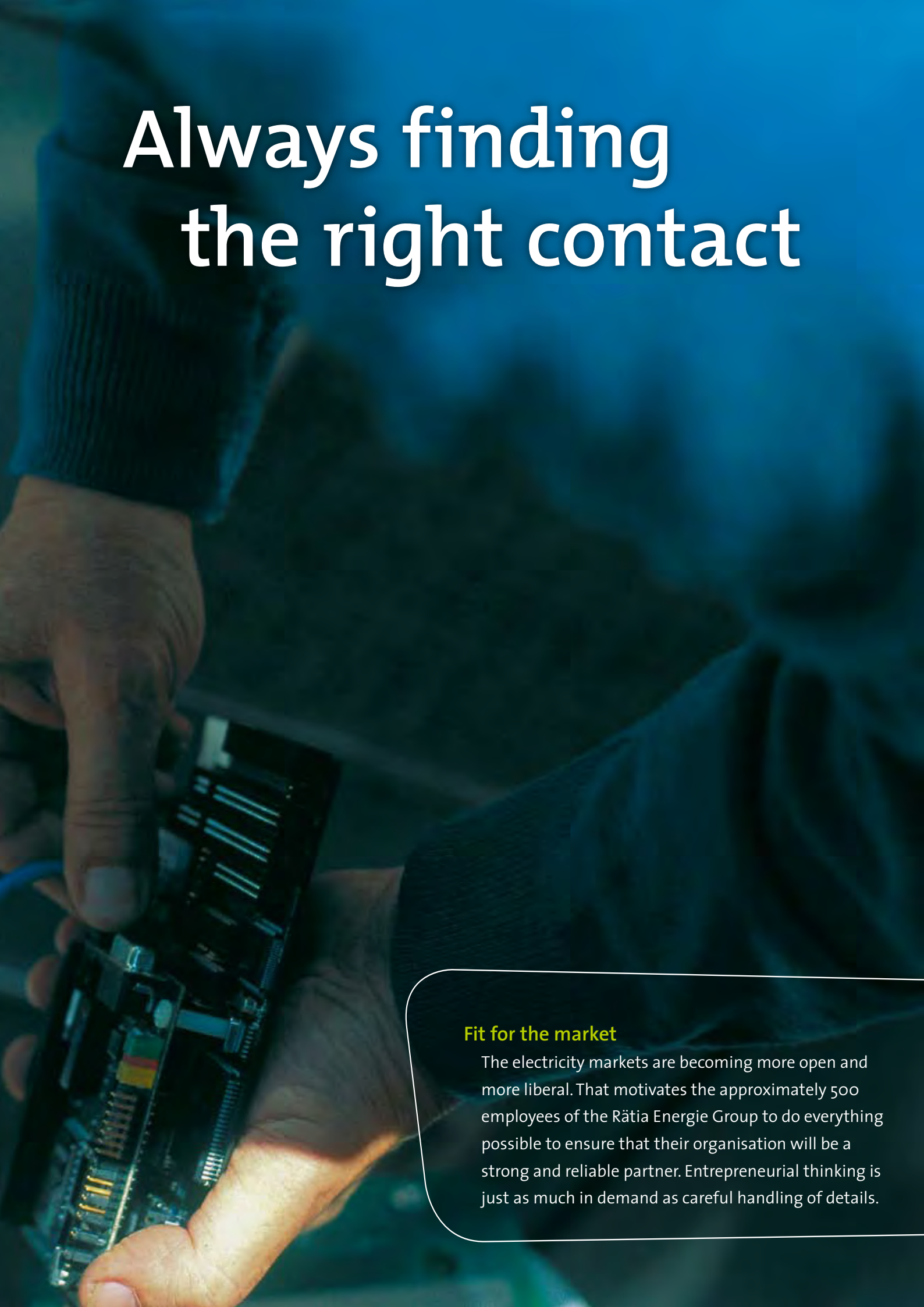
The environmental fund of PurePower Graubünden completed its first major renaturation project: Biotopes in the Le Prese plain in the Poschiavo district were networked and made accessible to fish. They were completed in the autumn of 2006 and opened to the public.

There continues to be great public interest in the generating plants in Upper Poschiavo. Rätia Energie welcomed over 1 800 visitors to these plants in 2006.

The new Robbia control centre, which went into operation in the spring of 2006, will result in significant increases in efficiency. It will enable Rätia Energie to expand automation of production and power system operation. Shift operation can be eliminated in the Prättigau plants in 2007. In the future these plants will be controlled from Robbia (Poschiavo).

Additional production

Commissioning of the plant in Teverola, renovation of the power station in Küblis and the decisions paving the way for further expansion in the Prättigau district represent important steps taken in 2006 to strengthen the production portfolio. In accordance with corporate strategy, Rätia Energie is also heavily involved in expanding its own production facilities. Appropriate projects are on the drawing boards both in Switzerland and abroad. They involve thermal power generation and also the creation of additional capacities in hydropower and other areas of renewable energy. These projects focus on the key markets of Switzerland, Italy and Germany. The transmission network will also be systematically expanded. There are plans to erect a 4.5 kilometre merchant line between Campocologno in the Poschiavo district and the neighbouring Italian city of Tirano.



Always finding the right contact

Fit for the market

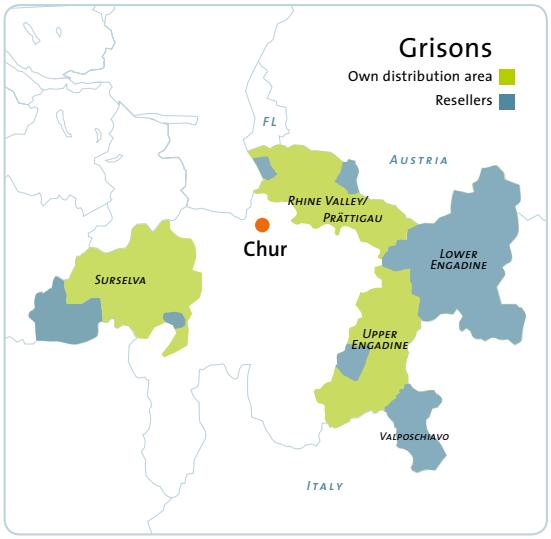
The electricity markets are becoming more open and more liberal. That motivates the approximately 500 employees of the Rätia Energie Group to do everything possible to ensure that their organisation will be a strong and reliable partner. Entrepreneurial thinking is just as much in demand as careful handling of details.

Networks and supply

New modern pricing models with attractive options for customers will be introduced in 2007 to replace non-uniform, complicated systems in the Group's traditional supply area. The preliminary work on these models was completed in 2006 and will form the basis for further improvements in marketability. This, together with the power labelling system communicated to customers in the autumn of 2006, represents an effort to achieve greater transparency.

Fit for the market

Customer contacts following the initial mailing of the power labelling materials show that the system promotes understanding of the relationships in the electric power industry. The work on the power labelling project proved to be very complex. But the new information tool has proved to be very effective. It has also promoted interest in PurePower Graubünden, which was able to acquire new green power customers.



In 2006 Rätia Energie developed the basis for a new up-to-date pricing system, which is scheduled to be introduced in April 2007. The real innovation is that retail customers will be able to choose between two pricing models for the first time ever. The goal is for customers to be able to optimise their costs based on their personal consumption habits. Rätia Energie will also differentiate in the future only between retail customers and large-scale customers (with annual consumption exceeding 60 000 kWh). The prices will be standardised and structured so as to be simple, transparent, market-based and in accordance with principles similar to the polluter-pays principle. At the same time that the new models are being introduced, the average prices will be raised 2 % in the Surselva district and 6 % in the rest of the supply area because of increased production and procurement costs.

In addition, Rätia Energie will continue work on the energy data management system (EDMS) project. Part of this project involves remote meter reading for large-scale customers. With EDMS Rätia Energie can be a strong partner for smaller power system operators and suppliers and offer them new services.

Rätia Energie is currently involved in negotiations with a number of local resellers regarding new contracts to replace expired energy delivery agreements. Several new contracts have already been signed. Rätia Energie places great importance on the continuation of traditional healthy partnerships.

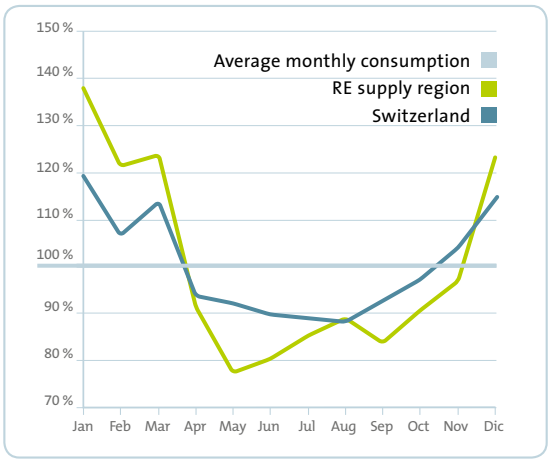
New service to mountain communities

Rätia Energie takes its supply role seriously and makes every effort to ensure that its customers are reliably supplied with electricity. This applies even to isolated, thinly populated areas. For example, the power supply to two Walser communities in the Prättigau district was improved in conjunction with renovation of the 3.5 km long Schlappin penstock near Klosters and rehabilitation of the water supply system in Pusserein (Schiers). Capacity bottlenecks were eliminated, in particular.

Now the isolated village of Pusserein in the Prättigau district also has a modern power supply system.

Tourism increases peak demand

Rätia Energie is making great efforts to provide standard and peak energy to meet customer requirements. This is a special challenge in the tourism regions because the consumption curves there differ greatly from the curves of other regions. Although the demand for power always increases during the winter months due to the lower temperatures, it jumps even more in the popular winter sports resort towns during this season. This is because mountain railways and snow-making equipment are always in operation and because many electrical heating systems are operating as well. This is very apparent in the Rätia Energie sales results (see graph). The curves differ strikingly from curves describing total consumption throughout Switzerland. Another factor is that the weekend share of consumption – especially in the high tourist season – is also much greater than in urban areas in Central Switzerland, for example.



Sharp increase in consumption during high season in winter in the Upper Engadine, Prättigau and Upper Surselva tourist regions (green) compared with the national demand (blue).

Full steam ahead with the right twist

Principles as orientation points

Teverola is producing a lot of steam. And a motivated team in the new plant is now getting the hang of it. The corporate objectives, mission statement and code of conduct ensure that the Rätia Energie Group is moving in the right direction.

Significant shareholdings

Rätia Energie Klosters AG (REK)

Rätia Energie AG holds 99.8 % of the shares in REK and is responsible for managing the company. In the year under review, REK produced 219 GWh of electricity from its own power plants. The volume supplied to customers in the Prättigau, Rhine Valley and Upper Engadine regions totalled 327 GWh. REK posted total operating revenue of CHF 68 million.

Gruppo aurax

Rätia Energie purchased 95.5 % of the aurax shares in the summer of 2004 through a public offer. aurax ag is a holding company: its subsidiaries supply the Upper Surselva region with electricity and are active in the areas of communications networks and electrical installations. In 2006 the aurax Group sold 166 GWh of electricity in this supply region, which has around 21 000 connections, and generated revenue of CHF 30 million. Total operating revenue, including from installation business and other services, amounted to CHF 50 million.

Swisshydro AG

Rätia Energie is co-owner with Azienda Elettrica Ticinese (AET) of Swisshydro AG. With a 65 % stake in the company, Rätia Energie is responsible for business management. The company sells hydroelectric power to wholesalers throughout Europe. Energy sales reached 1 108 GWh in 2006. Swisshydro posted total operating revenue of CHF 22.3 million.

Rezia Energia Italia S.p.A.

Rezia Energia Italia S.p.A. further consolidated its position in the Italian market in 2006 by selling a total of 4 299 GWh of energy and generating net sales revenue of CHF 505 million.

Energia Sud S.r.l.

Rätia Energie has a 67 % stake in Energia Sud S.r.l. through Rezia Energia Italia S.p.A. Eleven wind turbines with a total capacity of 9 MW were put into operation in the Basilicata region In December 2004. The wind farm produced some 11 GWh of eco-power in the year under review.

SET S.p.A.

Rätia Energie acquired SET in 2004. SET is the project company that constructed the gas-fired combined-cycle power plant in Teverola, Italy. which went into operation at the end of 2006. The plant's installed capacity is 400 MW. In December 2004 39 % of the company's shares were sold to Hera, a listed Italian power supplier based in Bologna. Rätia Energie has a 61 % interest in SET. Approximately CHF 400 million was invested in the project. The plant produced 298 GWh of electricity in 2006.

Dynameeting S.p.A.

This company, which has 32 employees, sells electricity to medium-sized consumers in Italy through a network of 200 agents. By the end of 2006, the company was wholly owned by Rätia Energie. Rätia Energie initially controlled only 35 % of the shares in Dynameeting S.p.A., but on 1 March 2006 it acquired the remaining shares in Dynameeting S.p.A. by taking over Ubiwork S.p.A. Rätia Energie supplied about two-thirds of the electricity sold. Net sales revenues in 2006 totalled over CHF 400 million (since 1 March). Energy sales totalled 2 983 GWh.

Grischelectra AG (GEAG)

Rätia Energie has an 11 % interest in GEAG, a company established for the purpose of utilising the energy from participations and the annual cost energy to which the canton of Grisons and the licensed municipalities are entitled. The major producer in the GEAG package is Engadiner Kraftwerke AG, which generates 202 GWh. In 2006 Rätia Energie marketed the entire GEAG energy package totalling 464 GWh. This energy will be available to Rätia Energie until the year 2030.

AKEB Aktiengesellschaft für Kernenergie-Beteiligungen (AKEB)

Rätia Energie has a 7 % interest in AKEB. AKEB's energy comes from the French power plants in Bugey and Cattenom and the Leibstadt nuclear power plant. A portion of the AKEB energy to which Rätia Energie is entitled as shareholder was assigned to third parties, but it still purchased a total of 256 GWh from AKEB in 2006.

Elementerra GmbH

Elementerra GmbH, in which Rätia Energie has a 70 % stake, provides municipal power suppliers in Germany with innovative sales and marketing services. In addition, it markets the PurePower St. Moritz electricity brand through selected municipal plants. Total operating revenue in 2006 was EUR 478 000. In early 2006, Elementerra received the 2nd place Handelsblatt Sales Award, a distinguished prize for sales achievements.

Kraftwerke Hinterrhein AG

Rätia Energie has a 6.5 % interest in Kraftwerke Hinterrhein AG. This partner plant produced 803 GWh of electricity in 2006. Rätia Energie purchases a total of 19.3 % of the company's entire production. In addition to the 60 GWh of energy to which it is entitled as shareholder, Rätia Energie also markets the share of the canton of Grisons in the energy generated by Kraftwerke Hinterrhein AG.

The company operates three power plants – Ferrera, Bärenburg and Sils i.D. – and the licences run for another 37 years.

Elektrizitätswerk Tamins AG (EW Tamins)

Rätia Energie's 22 % share in this utility company was entered in the share ledger in 2006.

Mission statement

Rätia Energie's basic corporate principles and policies encapsulated stated in the mission statement, which was newly formulated in the year under review. The mission statement explains what the Rätia Energie Group stands for. It ensures a uniform focus throughout the company on the satisfaction of the company's stakeholders.

Customers, shareholders, employees and the environment: Rätia Energie's mission is based on these four pillars. And with this focus in mind, the company will also be able to ensure profitability and future growth. All of these goals can only be achieved when teams and individuals work together on many different tasks and in different markets.

Rätia Energie's code of conduct, which is based on the value system incorporated in the mission statement, was formulated in 2006. It governs the conduct of all employees.

Rätia Energie – a strong partner for ...

Customers

We offer reliable and competitive power supply and services to our customers, and innovative, competitive energy products and services to our trading partners throughout Europe.

We measure ourselves against our customers' standards, satisfaction and loyalty.

Shareholders

We strive to achieve healthy profitable growth in order to increase corporate value sustainably and preserve independence and freedom of action.

We measure ourselves against our shareholders' standards, satisfaction and loyalty.

Employees

We strive to maintain a performance-oriented and entrepreneurial culture of trust. Our goal is that our activities offer meaning and personal freedom and that our employees be rewarded and promoted according to performance.

We measure ourselves against the commitment and loyalty of our employees.

Environment

We act responsibly and fairly with respect to society and the environment and provide frank and open information to the public.

We measure ourselves against the public response.

Corporate Governance

Basic principles

This section complies with the structure of the SWX Corporate Governance Directive and contains key information on corporate governance in the Rätia Energie Group. The information is also available in the «Governance» section of the corporate website at www.REpower.ch/Investor.

The principles of corporate governance are laid down in the Articles of Association (German text available at www.REpower.ch/RE under the heading «Statuten») and in the Organisational Regulations and related Assignment of Authority and Responsibility. 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 located in Bruise in the canton of Grisons, and its mailing address is Poschiavo. Rätia Energie AG is a vertically integrated electric power company with activities along the entire value chain (power generation, trading, transmission, sales and supply). It is organised in five divisions or business units: Production and Transmission, Energy Management, Networks and Supply, Surselva, and Finance and Services.

Production and Transmission. The Production and Transmission division includes the plants for generating electrical energy and the transmission network in Switzerland. It is also responsible for managing the Group's affiliated thermal and hydraulic companies in Switzerland and abroad.

Energy Management. The Energy Management division includes energy trading, the Italian business sector (transit business, subsidiaries in Italy and generating plants in Italy), the German business sector, sales (of renewable energies specifically), marketing and communications.

Networks and Supply. The Network and Supply division includes the end-user business (supply) in Prättigau, the Rhine Valley, Engadine and the Poschiavo district; operation of the related distribution networks and maintenance of the transmission networks.

Surselva. The Surselva division includes the end-user business (supply) in the Surselva region and operation of the related distribution network, the communications network business and the electrical installation business.

Finance and Services. The Finance and Services division includes accounting, controlling, human resources and other services and also takes care of the Group's IT needs. In addition, it supports the business procedures related to electricity trading.

Individual activities, in principle, are always managed by Rätia Energie AG, rather than being carried out under the aegis of separate legal structures. However, if management by Rätia Energie AG is impossible or inefficient for legal, fiscal or regulatory reasons, or if new legal entities are acquired, then management is handled by legally independent subsidiaries. An overview of holdings is given on pages 74 and 75, and additional information on significant shareholdings is provided on pages 30 and 31. Rätia Energie Klosters AG, Swisshydro AG, Rätia Energie Immobilien AG, Energia Sud S.r.l. and SWIBI AG do not have their own staff, and thus these companies are managed under special operating and management agreements. Rätia Energie Immobilien AG is managed by its directors, who are in turn employees of Rätia Energie AG. Rezia Energia Italia S.p.A., Dynameeting S.p.A., Energia Sud S.r.l. and SET S.p.A. in Italy and Elementerra GmbH in Germany all have designated managing directors. The Executive Board 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 organised as companies that are independent of Rätia Energie. Rätia Energie AG generally represents these holdings on the Board of Directors

Rätia Energie bearer shares and participation certificates are listed on the SWX Swiss Exchange. The transfer of shares is not subject to any restrictions, except as relates to the mandatory offer requirement under Swiss securities law in the event of a public takeover. The canton of Grisons holds 46.0 % of the shares and voting rights, while Aare-Tessin AG für Elektrizität (Atel) and Elektrizitäts-Gesellschaft Laufenburg AG (EGL) hold 24.6 % and 21.4 %, respectively. Rätia Energie was notified in two disclosures in 2006 about changes in the ownership of Aare-Tessin AG für Elektrizität (Atel), namely that the group that has an indirect interest in Rätia Energie AG through Atel has changed. The related disclosures are available for inspection at the SWX website: www.swx.ch. The principal shareholders are subject to a shareholders' agreement. There are no cross-shareholdings.

Capital structure

The share capital (equity information supplementing the balance sheet is given on pages 60, 81 and 103 of the financial statements) of Rätia Energie AG consists of 2 783 115 bearer shares (security number 1640583) and 625 000 participation certificates (security number 1640584) with a par value of CHF 1 each. Each bearer share entitles the holder to one vote at the Annual General Meeting of Shareholders. Each share has a dividend entitlement of equal value. There are no restrictions on preferential rights or voting rights. No authorised or conditional capital, convertible bonds, options or listed debenture bonds exist. Rätia Energie AG has no outstanding participation certificates. Based on the stock exchange prices for shares and participation certificates, the company had a market capitalisation of CHF 1.96 billion at the end of 2006.

Corporate Governance

Board of Directors

Members

The members of the Board of Directors are listed on pages 44 to 47 of the Annual Report. No member of the Board of Directors of Rätia Energie AG performs operational management tasks for the company. The members of the Board of Directors do not sit on the Executive Board of Rätia Energie AG or any other Group company. In the three fiscal years that preceded the year under review, no member of the Board of Directors was entrusted with any management functions in the Rätia Energie Group. Business relations with board members, which are limited in number, are restricted to clarification of legal or business matters and are regarded as immaterial by both parties. Some members of the Board of Directors perform senior management functions for the principal shareholders Atel and EGL or their affiliated companies. Normal business relations exist with these companies. Aside from electricity trading transactions with Atel and EGL, both companies as well as the EGL affiliate 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 have also been granted to other Swiss electricity providers under the same terms and conditions. The trading relations and financial obligations arising from these transport rights are disclosed in the financial review.

Election and term of office

The members of the Board of Directors are elected by the Annual General Meeting to concurrent three-year terms so that the entire board is replaced every three years (total renewal principle). In total renewal elections, the members of the Board of Directors are generally elected together as a group in one ballot. Newly elected members assume the term of office of their respective predecessor. The last regular election was held at the 2005 Annual General Meeting. The Board of Directors currently consists of twelve members, which is the maximum permissible number according to the Articles of Association. Re-election is possible. According to the Organisational Regulations, members of the Board of Directors must give up their seats on the board at the Annual General Meeting following the end of the year in which they reach 70 years of age.

Internal organisation

The Board of Directors is self-constituting and elects its Chairman, Vice Chairman and Secretary. The Secretary need not be a member of the Board of Directors. There is also a Board Committee that performs the duties of a nomination, compensation and audit committee, in addition to other responsibilities. The Board of Directors appoints the Board Committee from among its own members. The Chairman and Vice Chairman automatically serve on the Board Committee by virtue of their office. The 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 44 and 45 of the Annual Report. In addition to its duties as nomination, compensation and audit committee, the Board Committee advises the Board of Directors on business that comes before it and gives recommendations. Finally, it also has the authority to make final decisions on certain types of business (see Assignment of Authority and Responsibility for the Board of Directors and Executive Board).

Board Committee as audit committee.

The Board Committee, in its capacity as audit committee, evaluates the efficacy of the external audit and the functional effectiveness of the risk management processes. It may commission the external auditors or other external consultants to carry out special audits for the purpose of internal control. In this connection, the committee gave PricewaterhouseCoopers a mandate in 2006 to audit the internal control system of the Rätia Energie Group. The Board Committee is also reviewing the status of company compliance with various standards. For example, the committee awarded Ernst & Young in 2006 a mandate to audit the status of compliance in the Italian business sector. The committee critically reviews the financial statements of the individual Group companies, the consolidated financial statements, and the interim financial statements intended for publication. It discusses the financial statements with the Chief Financial Officer and, if the committee deems it necessary, with the manager of the external audit. Finally, the committee decides if it can recommend to the Board of Directors that the individual and consolidated financial statements be presented to the Annual General Meeting for approval. It evaluates the services and fees of the external auditors and verifies their independence. It determines whether the auditing activity is compatible with any existing consulting mandates.

Board Committee as compensation committee.

The Board Committee, in its capacity as compensation committee, deals with compensation policies – primarily with compensation at senior management level. It has the authority to define the terms and conditions of the contracts of employment for the Executive Board members. It ensure that the company offers total compensation that is performance-based and in line with market conditions so that it can recruit and retain individuals that have the necessary skills and mindset.

Board Committee as nomination committee.

The nomination committee handles the preparations for electing and re-electing individuals to the Board of Directors based on the shareholder structure and for electing the Chief Executive Officer, the CEO's deputy and the other members of the Executive Board.

The Chairman of the Board of Directors, together with the Secretary to the Board and the Chief Executive Officer, draws up the agendas for the meetings of the Board of Directors and the Board Committee. The members of these two boards generally receive proposals relating to each agenda item ten days in advance of meetings; these proposals must include background documentation as well as an evaluation and a motion by the Executive Board and the Board Committee. The Board of Directors meet as often as business requires but twice a year at a minimum; meetings are called by the Chairman or by the Vice Chairman if the Chairman is prevented from doing so. The Board of Directors must be convened whenever one of its members or the Chief Executive Officer requests a meeting in writing, specifying the reason. In the year under review the Board of Directors met four times and the Board Committee ten times. The normal meeting duration for both bodies is a half day.

The members of the Executive Board generally attend the meetings of the Board of Directors and the Board

Committee and explain the proposals. The Board of Directors is deemed to have a quorum if the majority of its members are present. The Board of Directors passes resolutions by a majority vote. The Chairman does not have the deciding vote in the case of a tie. Minutes are taken of the business and resolutions of the Board of Directors and submitted to the Board for approval at its next meeting. The Board Committee and Board of Directors follow the same procedures.

Assignment of authority and responsibility to the Board of Directors and Executive Board

The types of authority granted to the Board of Directors and the Executive Board are defined in the Organisational Regulations and the related Assignment of Authority and Responsibility. These documents were revised and updated in 2006. The Board of Directors is responsible for the overall direction and strategic orientation of the Rätia Energie Group and for supervising the Executive Board. It reviews and determines on an annual basis the objectives and strategy of Rätia Energie and its affiliated companies, corporate policy in all sectors, and makes decisions regarding short- and long-term corporate planning (budget and medium-term planning). It deals furthermore with the organisational structure, accounting structure, financial controls and financial planning, appointment and release of the individuals entrusted with management and representation (namely the Chief Executive Officer, the CEO's deputy and the other members of the Executive Board), preparation of the Annual Report, and preparations for the Annual General Meeting and implementation of its resolutions. The Board of Directors has delegated overall operational management of the Rätia Energie Group to the Chief Executive Officer (CEO). The CEO chairs the Executive Board and has delegated certain management functions to the members of the Executive Board. Some types of business or transactions must be presented to the Board of Directors and/or the Board Committee for a decision in accordance with the Assignment of Authority and Responsibility (Annex to the Organisational Regulations). The Assignment of Authority and Responsibility can be viewed at www.REpower.ch/investor.

Information and control systems relating to the Executive Board

At each meeting of the Board of Directors and the Board Committee, the Chief Executive Officer (CEO) and members of the Executive Board report on current business developments, important business transactions and the status of major projects. Aside from these meetings, any member of the Board of Directors may ask the CEO to provide information about the course of business and also, if the Chairman agrees, about individual transactions. Supervision and control of the Executive Board is handled by approving mandatory annual and medium-term planning and on the basis of detailed quarterly reporting comparing actual and target figures. Quarterly reporting includes data on energy sales volume, energy sales revenue and energy procurement, on the income statement and balance sheet, on risks in energy trading and on key projects. The Board of Directors also receive quarterly reports on key projects. Such reports were prepared in 2006 on the construction project for a gas-fired combined-cycle power plant in Teverola and on the renovation of the Küblis power plant in Prättigau. Annual and medium-term planning covers corporate objectives, key

projects and financial planning. In addition, risk management and auditors' reports support the assessment of business management and the risk situation.

Executive Board

Karl Heiz	Chief Executive Officer
Felix Vontobel*	Head of Production and Transmission
Martin Gredig**	Head of Finance and Services
Peter Frauenfelder**	Head of Finance and Services
Hans Gujan	Head of Networks and Supply
Giovanni Jochum	Head of Energy Management
Rino Caduff	Head of Surselva

* Vice President of the Executive Board.
** Peter Frauenfelder is serving as CFO on an ad interim basis from August 2006 to July 2007 because Martin Gredig is completing advanced training abroad during this period. He will return to his position as CFO of the Rätia Energie Group on 1 August 2007.

The list on pages 48 and 49 provides detailed information about the members of the Executive Board (name, age, position, nationality, date the individual joined the company, educational and professional background, and other activities and interests).

Management agreements

Rätia Energie AG has not signed any management agreements with companies or individuals outside the Group.

Compensation, shareholdings and loans

Nature and method for determining compensation

Under the Articles of Association, incumbent members of the Board of Directors shall receive compensation based on their workload and responsibilities. This con-

sists of a fixed compensation plus meeting expenses. The compensation is not dependent on the level of company performance. The compensation shall be set by the Board of Directors.

The compensation of the members of the Executive Board shall be composed of a fixed base salary plus a variable bonus, which can amount to up to 40 % of the annual base salary if operating targets are met. Both components shall be defined annually by the Board Committee in its capacity as compensation committee. The bonus depends on whether the financial targets of the Rätia Energie Group and personal performance objectives are met. The CEO shall make a proposal to the Board Committee in its capacity as compensation committee, and the Committee shall make the final decision. Individual performance shall be evaluated at the end of the reporting period in a meeting with the individual's superior based on the objectives agreed upon at the beginning of the fiscal year.

Compensation for incumbent members of governing bodies and maximum total compensation

A total of CHF 777 000 was paid to members of the Board of Directors of the Rätia Energie Group in 2006. The highest compensation paid to any member of the Board of Directors totalled CHF 168 348. A total of CHF 2 496 277 was paid to the Executive Board. The compensation covers all benefits including insurance premiums and social insurance contributions.

Share ownership

Members of the Board of Directors own a total of 448 shares and members of the Executive Board 93 shares in Rätia Energie AG.

Compensation to former members of governing bodies

No compensation was paid to former members of governing bodies.

Share allotments, options, loans and additional fees and remuneration

No loans or shareholding or option programmes exist for members of the governing bodies. A fee of CHF 30 909 was paid to the law firm of a member of the Board of Directors for legal services.

Shareholders' rights of participation

Shareholders' rights to assets and participation are in accordance with the law and the Articles of Association. None of the provisions of the Articles of Association deviate from statutory provisions. with the exception of the placement of an item of business on the agenda of the Annual General Meeting of Shareholders. In order to do so, a shareholder or several shareholders must hold at least CHF 100 000 of share capital and submit a written request at least 50 days prior to the Annual General Meeting.

One shareholder or several shareholders who together hold at least 10 % of the share capital may request in writing that an Extraordinary General Meeting be convened, provided that the request states the proposals and the item of business. An ordinary general meeting of shareholders shall take place every year, no more than six months after the end of the fiscal year.

Each 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.

Changes of control and defensive measures

The mandatory offer requirement under Swiss securities law applies, since the Articles of Association do not include any provision relating to the mandatory offer requirement. The contracts of employment for members of the Executive Board do not contain any clauses pertaining to change of control. Rätia Energie does not provide a «golden parachute» for senior management. There are no long-term contractual commitments with members of the Board of Directors or the Executive Board. There are no agreements stipulating severance payments.

Auditors

Since 1996, PricewaterhouseCoopers based in Chur, Switzerland, has been appointed annually by the General Meeting of Shareholders as the statutory auditors and group auditors. The lead auditor has been responsible for the mandates since 2003. PricewaterhouseCoopers was paid a total fee of CHF 487 679 for their auditing services for the Group and CHF 249 528 for other consulting services. The Board Committee is responsible for supervising and controlling the auditors.

Supervision and control instruments relating to the auditors

The Board Committee, in its capacity as audit committee and on behalf of the Board of Directors, supervises the credentials, independence and performance of the statutory and group auditors and their lead auditors. It obtains information at least once a year from the audit managers and the Executive Board concerning planning, implementation and results of the audit work. The Board of Directors is informed about the audit findings in a management letter from the external auditors, which is accompanied by comments by the Executive Board. Representatives of the external auditors attended three meetings of the Board Committee and one meeting of the Board of Directors in fiscal year 2006.

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 semi-annual reports, at the annual press conference and the Annual General Meeting of Share-

holders. Important developments are communicated via press releases. The website www.REpower.ch, which is regularly updated, serves as an additional source of information.

Important changes since the balance sheet date

The Board of Directors of Rätia Energie instituted a new organisational structure for the Rätia Energie Group on 1 April 2007. The duties and responsibilities within the Group will be carried out in the future by a group- and country-based organisation. A Group Executive Board has been newly formed. The members of the Executive Board, which is headed by the CEO Karl Heiz, include Felix Vontobel (Plants & Systems Division and Vice President), Giovanni Jochum (Market Division), Martin Gredig (Finance and Services Division) and Hans Gujan (Corporate Development). The corporate division Finance and Services will be headed by Peter Frauenfelder until summer 2007 on an ad interim basis. In addition, new country organisations have been formed for the key markets of Switzerland, Italy and Germany. These organisations handle operations with the goal of maintaining a consistent focus on customer and market requirements. The country heads are part of the expanded Executive Board. The head of the country organisation for Switzerland is Rino Caduff. It includes the following areas on a national level: production, network, sales (including supply), and finance and services. Installation and communications activities are also included for the canton of Grisons. The markets in Italy (country head: Dr. Fabio Bocchiola) and Germany (country head: Dr. Bernd Kiefer) are organised analogously. Competencies are strengthened at all levels.

Board of Directors (elected until the 2008 Annual General Meeting)

Luzi Bärtsch (1939)

Swiss citizen, dipl. ing. ETH

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

Professional career

Previous
- Ems-Chemie AG, management position, served several years on Executive Board (1971 to 1986)
- Member of Executive Council of canton of Grisons (1987 to 1998)

Current
- Consulting and Board of Director mandates, since 1999

Other activities and functions

Positions on boards of major companies, organisations and foundations
- Chairman of the Board, Grischelectra AG, Rätia Energie Klosters AG and aurax ag

Dr. Reto Mengiardi (1939)

Swiss citizen, Dr. iur.,
Lawyer nd notary

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

Professional career

Previous
- Lawyer and notary until 1979
- Member of Executive Council of canton of Grisons (1979 to 1990)

Current
- Lawyer and notary since 1991

Other activities and functions

Positions on boards of 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 Board, aurax ag, Grischelectra AG, Hilti AG, and Holcim (Switzerland) AG

Kurt Baumgartner (1949)

Swiss citizen, lic. rer. pol.

Member of the Board since 1993
Member of the Board Committee

Professional career

Previous
- Various positions, particularly in strategic and operational planning and in controlling. sales and business development, for Aare-Tessin AG für Elektrizität (Atel) (1975 to 1991)

Current
- Member of the Executive Board of Aare-Tessin AG für Elektrizität(Atel) and Head of Financial Services (CFO) since 1992

Other activities and functions

Positions on boards of major companies, organisations and foundations
- Chairman of the Board of Pensionskasse Energie, a pension fund
- Member of the Board, AEK Energie AG, Kernkraftwerk Gösgen-Däniken AG and Kernkraftwerk Leibstadt AG
- Member of the Council of EEX (European Energy Exchange)

Emanuel Höhener (1945)

Swiss citizen, dipl. ing. ETH and C.ENG

Member of the Board since 2001
Member of the Board Committee

Professional career

Previous
- Top management positions (Managing Director and CEO) in the capital goods industry in Switzerland and abroad (Sulzer International, New Sulzer Diesel and Georg Fischer DISA) (1980 to 2000)

Current
- CEO of Elektrizitäts-Gesellschaft Laufenburg AG (EGL) since 2000
- Member of the Executive Board of Axpo Holding AG since 2003

Other activities and functions

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

Permanent positions with important interest groups
- Member of the Board of Swisselectric (association of Swiss grid companies)
- Member of the Board of Governors of the Association of Institutional Sponsors of the Swiss Institute for International Economics and Applied Economic Research at the University of St. Gallen

Jörg Aeberhard (1953)

Swiss citizen, lic. iur., lawyer and notary

Member of the Board since 2000

Professional career

Previous
- Head of Legal Services for Aare-Tessin AG für Elektrizität (Atel) (1983-1997)

Current
- Head of Hydraulic Production at Atel since 1997

Other activities and functions

Positions on boards of major companies, organisations and foundations
- Chairman of the Board, Atel Hydro AG, Atel Hydro Ticino SA, Electricité d'Emosson SA, FM Gougra SA and FM Electra Massa SA
- Member of the Board, Rätia Energie Klosters AG, aurax ag, Engadiner Kraftwerke AG and Kraftwerke Hinterrhein AG

Christoffel Brändli (1943)

Swiss citizen, mag. oec. HSG

Member of the Board since 1996

Professional career

Previous
- Member of Executive Council of canton of Grisons (1983 to 1994)

Current
- Business consultant since 1994

Other activities and functions

Permanent positions with important interest groups
- President of Santésuisse

Official functions and political offices
- Member of the Council of States of the Swiss Parliament

Board of Directors (elected until the 2008 Annual General Meeting)

Rudolf Hübscher (1947)
Swiss citizen, High school teacher

Member of the Board since 2000

Professional career
Current
- Mayor of Klosters-Serneus since 1994
- High school teacher since 1971

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

Member of the Board since 2000

Professional career
Previous
- Mayor of Poschiavo (1989 to 2002)

Current
- Self-employed since 2003

Rolf W. Mathis (1956)
Swiss citizen, dipl. Masch. Ing. ETH, Wirtsch.-Ing. STV

Member of the Board since 2003

Professional career
Previous
- BBC (ABB), design engineer (1979 to 1982)
- Defence Services Group, project engineer and section head (1982 to 1987)
- Various positions at Von Roll Betec AG, last position as Head of Business Unit (1990 to 1998)

Current
- Member of the Executive Board of Axpo Holding AG since 2001
- Member of the Executive Board of Nordostschweizerische Kraftwerke AG Head of Hydraulic Energy since 1998

Other activities and functions
Positions on boards of major companies, organisations and foundations
- Vice Chairman of the Board of Kraftwerke Hinterrhein AG
- Member of the Board, aurax ag, Elektrizitäts-Gesellschaft Laufenburg AG, Centralschweizerische Kraftwerke AG, and Engadiner Kraftwerke AG

Permanent positions with important interest groups
- Member of the Executive Board of Schweizerischer Wasserwirtschaftverband (Swiss Water Management Association)
- Member of the Energy Policy & Generation Committee of Eurelectric

Dr. Aluis Maissen (1937)

Swiss citizen, Dr. rer. pol., lic. rer. publ. HSG

Member of the Board since 1999

Professional career

Previous
- Member of Executive Council of Canton of Grisons (1989 to 1998)

Current
- Business consultant, retired since 1998

Other activities and functions

Positions on boards of major companies, organisations and foundations
- Vice Chairman of the Board of aurax ag
- Member of the Board of Grischelectra AG

Jean-Claude Scheurer (1946)

Swiss citizen, dipl. Elektro-Ing. FM

Member of the Board since 2004

Professional career

Previous
- Various positions in global sales of electrotechnical systems and machinery for Micafil AG, Philips AG, Feller AG, Weber Protection AG (1974 to 1993)
- Technical staff member of Energy Management & Contracts Group Elektrizitäts-Gesellschaft Laufenburg AG (EGL) (1993 to 1996)
- Head of EGL Western Europe (1996 to 2002)
- Head of EGL Southern Europe (2002 to 2003)

Current
- Member of the Executive Board of Elektrizitäts-Gesellschaft Laufenburg AG (EGL), Head of Markets & Development since 2003

Other activities and functions

Positions on boards of major companies, organisations and foundations
- Chairman of the Board of EGL Grid AG
- Member of the Board, Electricité de Strasbourg, AKEB Aktiengesellschaft für Kernenergie-Beteiligungen and EGL Italia S.p.A.

Antonio Matteo Taormina (1948)

Swiss and Italian citizen, dipl. Math. ETHZ

Member of the Board since 1999

Professional career

Previous
- Project manager at EIR Würenlingen (1973 to 1978)
- Managing Director at Nuclear Assurance Corporation (1978 to 1987)
- Managing Director at KBF Zürich (1987 to 1998)
- Director of Maggia Kraftwerke AG and Blenio Kraftwerke AG (1988 to 1999)

Current
- Member of the Executive Board of Aare-Tessin AG für Elektrizität (Atel), Head of Energy Southern/Western Europe since 1999

Other activities and functions

Permanent positions with important interest groups
- Vice Chairman of the Board of Società Elettrica Sopracenerina SA
- Member of the Board, Kernkraftwerk Gösgen-Däniken AG, AEM Milano S.p.A. and Edipower S.p.A.

Executive Board

Karl Heiz (1943)
Swiss citizen, dipl. ing. ETH, MBA

Since 1987: Kraftwerke Brusio / Ratia Energie
Since 1988: Director of Kraftwerke Brusio
Since 2000: CEO of Rätia Energie

Previous senior positions
- Various positions at IBM Switzerland (1969 to 1974) and Nestlé (1975 to 1986), last position as market manager in South Korea (1985 to 1986)

Other activities and functions

Positions on boards of major companies, organisations and foundations
- Vice Chairman of the Board, Grischelectra AG
- Member of the Board, Kraftwerke Hinterrhein AG, AKEB Aktiengesellschaft für Kernenergie-Beteiligungen and Familienzulagen-Ausgleichskasse Schweizerischer Elektrizitätswerke

Permanent positions with important interest groups
- President of the Association of Electricity Exporters
- Member of the Executive Board, Association of Swiss Electricity Suppliers (VSE) and Association of Grisons Electricity Plants

Felix Vontobel (1958)
Swiss citizen, dipl. Elektro-Ing. FH

Since 1987: Kraftwerke Brusio / Ratia Energie
Since 1992: Deputy Director of Kraftwerke Brusio
Since 2000: Vice President of the Executive Board of Rätia Energie
Head of Production and Transmission

Previous senior positions
- Commissioning engineer at BBC (ABB) (1982 to 1985)
- Project manager and commissioning engineer for biotechnology research and production systems at Bioengineering AG (1985 to 1987)

Martin Gredig (1965)
Swiss citizen, lic. oec. publ.

Since 1999: Kraftwerke Brusio / Rätia Energie
Since 2000: Member of Executive Board of Rätia Energie
Head of Finance and Services, service abroad from 1 August 2006 to 31 July 2007

Previous senior positions
- Bank employee with Union Bank of Switzerland (1986 to 1994)
- Assistant to the Executive Board of Bank SoBa (1994 to 1995)
- Head of Controlling at SoBa (1996 to 1999)

Peter Frauenfelder (1961)
Swiss citizen, lic. oec. HSG

Member of the Executive Board of Rätia Energie
Head of Finance and Services ad interim
from 1 August 2006 to 31 July 2007

Previous senior positions
- Publishing director, Ringier AG (1994 to 1997)
- Managing Director, Bertelsmann Fachinformation (1997 bis 1998)
- Independent management consultant, last position as acting CFO at EGL, since 1998

Hans Gujan (1946)
Swiss citizen, dipl. Elektro-Ing. HTL

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

Giovanni Jochum (1964)
Swiss citizen, lic. oec. HSG

Since 1993: Kraftwerke Brusio / Rätia Energie
Since 1998: Deputy Director of Kraftwerke Brusio
Since 2000: Member of the Executive Board, Rätia Energie
Head of Energy Management

Previous senior positions
- Auditor with Revisuisse Price Waterhouse (1989 bis 1992)

Rino Caduff (1949)
Swiss citizen, dipl. Elektro-Ing. HTL, further training in business administration

Since 1978: EWBO / aurax
Since 1991: Member of the Executive Board, EWBO / aurax
Since 2004: Member of the Executive Board, Rätia Energie
Head of Surselva

Previous senior positions
- Member of city council, Ilanz (1990 to 2002) (part-time position)
- Mayor of Ilanz (2002 bis 2005) (part-time position)

Other activities and functions

Positions on boards of major companies, organisations and foundations
- Member of the Board of Elektrizitätswerk Tamins AG (ew tamins)

Permanent positions with important interest groups
- Member of the Executive Board of Vereinigung Bündnerischer Elektrizitätswerke (Association of Grisons Electricity Plants
- Member of Executive Board, Korporation Konzessionsgemeinden KW Zervreila (KWZ)

Financial Review

Consolidated financial statements of the Rätia Energie Group

Financial statements of Rätia Energie AG

Consolidated Financial Statements of the Rätia Energie Group

Comments on the consolidated financial statements

Encouraging Group profit

In 2006 Rätia Energie practically doubled total operating revenue to end the year at CHF 1.7 billion, CHF 846 million above the 2005 figure. This strong rise is attributable to intensive expansion of national and international trading operations as well as to the higher price level. Another significant contributor to revenue growth in the year under review was the full takeover of Dynameeting S.p.A..

In 2006 the Group also concluded speculative energy contracts (held for trading), which in accordance with IAS 39 are recognised at net value under total operating revenue. The focus here is on achieving a trading margin rather than on physical delivery. The transactions are derivative by nature and therefore of a financial character. The quantities underlying energy derivatives transactions invoiced are not included in net sales; only the net result of energy derivatives trading is recognised in sales. There are two components of profits from energy derivatives trading. On the one hand, the effectively realised gains or losses from completed transactions are recognised in the income statement. On the other hand, unrealised valuation gains or losses on the future cash flows of open contracts, resulting from remeasurement to fair value, are recognised in the income statement. In the year under review the result from trading was CHF 3.9 million. Energy procurement costs also performed strongly in 2006, rising by 128 % to close on CHF 1.5 billion. Here, too, the main drivers were higher trading volumes, the subsidiary Dynameeting S.p.A. and higher electricity price levels.

Licence fees declined year-on-year, primarily due to the absence of additional costs of CHF 4.8 million for new licences. Driven by business expansion, expenses for personnel, materials and third-party services as well as other operating expenses rose by 19 %.

At CHF 101 million, income before interest and income taxes (EBIT) is CHF 9 million or 8 % below the prior-year figure due to a sharp rise in depreciation and impairments for tangible fixed assets. Impairments in the amount of CHF 18.9 million were made in the year under review, mainly due to the planned early replacement of power plant installations and grids in Switzerland. This special effect corresponds to 1.1 % of the property, plant and equipment recorded gross in the balance sheet.

A comparison of the 2005 and 2006 operating results adjusted for special effects shows an EBIT of CHF 65 million for 2005 as opposed to CHF 107 million for 2006, representing a sharp rise of 64 %.

The financial result increased by 81 % year-on-year, primarily due to gains on securities, positive replacement costs for interest swaps, and exchange rate gains.

At CHF 75 million, Group profit including minority interests is 7 % higher than the previous-year figure. Given the above-mentioned special effects, this may

be viewed as a highly positive result, and a clear indication of the sustained profitability produced by the Group's declared growth strategy.

Successful implementation of projects

Important projects were brought to a successful conclusion in the year under review.
In March 2006 the Italian sales company Dynameeting S.p.A. of Milan was fully taken over, thereby achieving the Rätia Energie Group's aim of securing a foothold also in the end customer segment of the important Italian market: a key milestone in view of the Italian market's advanced stage of liberalisation. Acquisition of Dynameeting S.p.A. contributed more than CHF 400 million to the Group's revenue growth.

In December 2006 the gas-fired combined-cycle power plant of the Group's subsidiary SET S.p.A. was commissioned in Teverola according to plan. The project was successfully completed on budget, on schedule and in terms of performance. As a result, the Rätia Energie Group is now additionally well-positioned in terms of production facilities to meet the future challenges of the Italian electricity market. Since the second half of 2006 the Rätia Energie Group has held a 61 % stake in SET S.p.A, with the remaining 39 % held by multi-utility Hera S.p.A. based in Bologna.

Renovation work on production facilities in Prättigau, and in particular the Küblis power plant, was successfully completed in the year under review. The plants are now controlled by the fully refurbished operating centre in Robbia near Poschiavo. This project has achieved the synergy effects identified in 2000 following the merger to create Rätia Energie AG.

Contrary to expectations, environmental organisations have lodged objections against licensing of the plants in upper Poschiavo. A reversion waiver compensation of CHF 23 million will become payable if the licence is granted. As in the previous year, this position is disclosed under current provisions.

With the consent of the EWT Board of Directors, the 22 % stake in Elektrizitätswerk Tamins (EWT), purchased in January 2005, was registered in the share ledger. The holding is therefore recorded for the first time in the IFRS financial statements according to the equity method.

The growth strategy will be further pursued through new projects.
In December 2006 the Group acquired a holding in real estate company Immobiliare Saline S.r.l., which owns industrial real estate in Italy. In this context a project company, SEI S.p.A., was founded with the mid-term aim of planning and constructing another power plant on the acquired land in conjunction with partners.

In the course of the year under review, additional project companies RES S.p.A. and SEA S.p.A. were acquired or founded respectively. The purpose of these

Consolidated Financial Statements of the Rätia Energie Group

companies is to evaluate additional production facilities in the field of renewable energies and thermal energy, and see their construction through to completion. These projects are still in the initial phase.

Integration of the aurax Group is proceeding according to plan. Following the partial sale of Telegrischa AG in 2005, 66 % of the shares in aurax informatica ag and hesaplan ag respectively were sold to third parties in 2006. These holdings are therefore also measured at equity in the financial statements.

Solid financial structure

Non-current assets rose year-on-year by CHF 125 million to CHF 1.15 billion, mainly due to the Teverola gas-fired combined cycle power plant, the Küblis power plant, the new switching station in Robbia, and acquisition of Immobiliare Saline S.r.l.. The intangible assets disclosed for the first time in the 2006 financial statements cover intangible values such as customer relations and brand rights as well as goodwill related to the acquisition of Dynameeting S.p.A..

Current assets rose by CHF 275 million, partly due to the higher receivables of Dynameeting S.p.A. on account of its high revenue. Receivables rose also due to volume- and price-driven increases in revenue.

Energy derivative trading transactions and net receivables from counterparties are capitalised as assets in the balance sheet at their positive fair values. Valued transactions that lead to a net liability due to counterparties are accounted for as a liability in the balance sheet. In the case of a master netting agreement with a counterparty, the positive and negative fair values of the transactions with these counterparties are netted.

Despite capital expenditure and the acquisition of various holdings, cash and cash equivalents are sound at CHF 135 million.

Non-current liabilities were higher primarily due to borrowing made with a view to financing capital expenditure. Other non-current liabilities cover compensation paid for transport rights to the Bernina line, as well as provisions for reversion waiver compensation, pension fund provisions and green certificates for electricity deliveries to Italy. Current provisions were reduced, while other current liabilities rose (as with receivables, primarily due to the acquisition of Dynameeting S.p.A. and as a result of trading operations).

The balance sheet total increased by 28 % to CHF 1.8 billion. Equity amounts to CHF 700 million, corresponding to a ratio of 38 %. This will continue to provide a solid base for the Rätia Energie Group's growth strategy.

Consolidated Financial Statements of the Rätia Energie Group

Consolidated income statement

CHF thousands	Notes	2005	2006
Net sales		838 413	1 678 099
Own work capitalised		8 906	7 783
Other operating income		29 211	36 870
Total operating revenue	1	**876 530**	**1 722 752**
Energy procurement		- 639 164	- 1 458 222
Concession fees		- 15 872	- 11 118
Personnel expenses	2	- 46 052	- 50 525
Material and third-party services		- 19 209	- 24 837
Other operating expenses		- 18 831	- 25 000
Income before interest, income taxes, depreciation and amortisation		**137 402**	**153 050**
Depreciation and impairment	3	- 27 351	- 52 001
Income before interest and income taxes		**110 051**	**101 049**
Financial income	4	14 078	19 773
Financial expense	5	- 6 732	- 6 449
Share of result attributable to associates and partner plants	6	- 530	- 1 831
Income before income taxes		**116 867**	**112 542**
Income taxes	7	- 35 490	- 37 204
Group profit including minority interests		**81 377**	**75 338**
Share of Group profit attributable to Rätia Energie shareholders and participants		81 881	76 000
Share of Group profit attributable to minority interests		- 504	- 662
Earnings per share (undiluted)	8	CHF 24.11	CHF 22.38

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	**31.12.2005**	**31.12.2006**
Property, plant and equipment	9	976 596	1 067 748
Intangible assets	10	-	32 924
Investments in associates and partner plants	6	26 487	28 372
Other financial assets		22 534	18 236
Deferred tax assets	7	1 091	4 297
Non-current assets		**1 026 708**	**1 151 577**
Inventories	11	12 300	15 186
Receivables	12/22	260 662	447 045
Prepaid expenses and accrued income		3 507	2 246
Securities and other financial instruments	13	55 063	71 460
Cash and cash equivalents	14	64 445	135 418
Current assets		**395 977**	**671 355**
Total assets		**1 422 685**	**1 822 932**

Liabilities and shareholders' equity CHF thousands	Notes	**31.12.2005**	**31.12.2006**
Share capital	15	2 783	2 783
Participation capital	15	625	625
Treasury shares	15	- 11	- 13
Capital reserves		17 732	17 732
Retained earnings (including Group profit)		556 782	622 851
Accumulated translation adjustments		316	3 516
Equity excluding minority interests		**578 227**	**647 494**
Minority interests		43 442	52 885
Equity		**621 669**	**700 379**
Non-current provisions	17/18	78 903	79 711
Deferred tax liabilities	7	128 555	115 190
Non-current financial liabilities	16	260 841	356 135
Other non-current liabilities	19	61 291	59 891
Non-current liabilities		**529 590**	**610 927**
Current income tax liabilities		30 713	67 963
Current financial liabilities	13	7 425	14 929
Current provisions	17/18	38 594	30 767
Other liabilities	20/22	178 183	384 669
Deferred income and accrued expenses	21	16 511	13 298
Current liabilities		**271 426**	**511 626**
Borrowings		**801 016**	**1 122 553**
Total liabilities and shareholders' equity		**1 422 685**	**1 822 932**

Consolidated Financial Statements of the Rätia Energie Group

Changes in consolidated equity

CHF thousands	Share capital	Participation capital	Treasury shares	Capital reserves	Retained earnings	Accumulated translation adjustments	Total Group equity	Minority interests	Total shareholders' equity
Equity at 1 January 2005	**2 783**	**625**	**- 13**	**17 702**	**488 045**	**230**	**509 372**	**44 560**	**553 932**
Effect of currency translations						86	86	233	319
Total income and expense for the period recognised in equity						**86**	**86**	**233**	**319**
Group profit					81 881		81 881	- 504	81 377
Total recognised income and expense for the period					**81 881**		**81 811**	**- 504**	**81 377**
Dividend (excl. treasury shares)					- 13 632		- 13 632	- 30	- 13 662
Share-based payment (non-recurring)			2		488		490		490
Purchase/sale of treasury shares				30			30		30
Buyout of minority interests							0	- 817	- 817
Equity at 31 December 2005	**2 783**	**625**	**- 11**	**17 732**	**556 782**	**316**	**578 227**	**43 442**	**621 669**
Effect of currency translations						3 200	3 200	1 338	4 538
Change in consolidation					*) 3 505		3 505	107	3 612
Total income and expense recognised directly in equity					**3 505**	**3 200**	**6 705**	**1 445**	**8 150**
Group profit					76 000		76 000	- 662	75 338
Total recognised income and expense for the period					**79 505**	**3 200**	**82 705**	**783**	**83 488**
Dividends (excl. treasury shares)					- 15 284		- 15 284	- 27	- 15 311
Purchase/sale of treasury shares			- 2		- 670		- 672		- 672
Buyout of minority interests					2 518		2 518	- 2 535	- 17
Capital increase, minority interests							0	11 222	11 222
Equity at 31 December 2006	**2 783**	**625**	**- 13**	**17 732**	**622 851**	**3 516**	**647 494**	**52 885**	**700 379**

*) Upward valuation of the holding in Dynameeting S.p.A. at fair value (Note 23).

Consolidated cash flow statement

CHF thousands		Notes	2005	2006
Group profit including minority interests			81 377	75 338
Depreciation and impairment			27 351	52 001
Own work capitalised			- 8 906	- 7 783
Change in provisions			- 94 849	- 7 128
Change in deferred taxes			8 458	- 22 021
Share of results attributable to associates			530	1 831
Accumulation of non-current liabilities			-	111
Dividends from associates and partner plants			338	403
Other income and expenses not affecting liquidity			- 2 878	- 16 595
Change in inventories			- 6 006	- 2 505
Change in receivables			- 117 582	- 119 317
Change in prepaid expenses and accrued income			- 1 665	1 652
Change in liabilities			89 564	173 399
Change in deferred income and accrued expenses			- 7 641	- 3 598
Cash flow from operating activities			**- 31 909**	**125 788**
Property, plant and equipment :	- Investments		- 211 298	- 121 015
	- Disposals		4 641	10 120
Group companies:	- Acquisitions	23	- 372	- 15 100
	- Disposals		-	21
Investments in associates and partner plants:	- Investments		-	- 4
	- Disposals		-	4
Long-term financial assets:	- Investments		- 3 447	- 963
	- Disposals		-	-
Change in securities			30 044	- 4 391
Cash flow from investing activities			**- 180 432**	**- 131 328**
Additions to non-current financial liabilities			153 408	82 307
Repayment of financial liabilities			- 4 748	- 2 986
Third-party purchase of transport rights (other non-current liabilities)		19	25 077	-
Dividend payments			- 13 662	- 15 311
Purchase of treasury shares			-	- 937
Sale of treasury shares			34	265
Capital increase through minority interests			-	11 222
Cash flow from financing activities			**160 109**	**74 560**
Translation adjustments			**214**	**1 953**
Change in cash and cash equivalents			**- 52 018**	**70 973**
Cash and cash equivalents at 1 January			116 463	64 445
Cash and cash equivalents at 31 December			**64 445**	**135 418**
Additional information:				
Interest received			1 543	2 500
Interest paid			- 3 075	- 4 871
Income tax paid			- 18 617	- 20 026

Consolidated 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, trading, transmission and distribution. The business activities and main operations are described in detail in this annual report.

The 2006 consolidated financial statements of the Rätia Energie Group were authorised by the Board of Directors on 28 March 2007, and are subject to the approval of the Annual General Meeting on 6 June 2007.

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). They 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 comply with Swiss 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 and derivative financial instruments, for which IFRS requires alternative valuation methods. These are explained in the following principles of accounting and valuation.

New and revised accounting and valuation methods

The accounting and valuation methods used correspond to the methods applied in the previous year, with the following exceptions:

In the year under review the Rätia Energie Group adopted the following new and revised IFRS Standards and Interpretations. This has had no impact on the Group financial statements but in some cases has resulted in additional disclosures.

IAS 19: (revised) – Employee Benefits
IAS 21: (revised) – The Effects of Changes in Foreign Exchange Rates
IFRIC 4 Determining whether an Arrangement contains a Lease

Furthermore, the new or revised standards and interpretations IAS 39, IFRS 1 , 4, 6 and IFRIC 5, 6 were assessed and have no significant impact on the Group's assets and liabilities or financial position. IASB and IFRIC have also issued other revised or new standards and interpretations but these will only be adopted in subsequent financial years.

IAS 1: Presentation of Financial Statements (for financial years beginning on or after 1 January 2007)

IFRS 7 Financial Instruments: Disclosures (for financial years beginning on or after 1 January 2007)
IFRS 8 Operating Segments (for financial years beginning on or after 1 January 2009)
IFRIC 12 Service Concession Arrangements (for financial years beginning on or after 1 January, 2008)

The Rätia Energie Group is currently examining their impact. However, since this analysis is still ongoing, the potential impact cannot yet be determined. The new standards and interpretations will, however, result in additional disclosures.

Moreover, interpretations IFRIC 7, 8, 9, 10 and 11 have been issued, and the Group expects them to result in no significant changes in its assets and liabilities or financial position.

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 associated companies («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 propor-

Consolidated Financial Statements of the Rätia Energie Group

tion of equity attributable to minority shareholders or companies, as well as their share in the results of consolidated companies, are disclosed. Income arising from intragroup 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. Foreign currencies were converted at the exchange rate of EUR/CHF 1.6097 on the balance sheet date and an average rate of EUR/CHF 1.5729. Translation differences are accounted for in equity. If a Group company is sold, the corresponding accumulated translation differences are charged to income.

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 proper-

ty, 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 production cost less accumulated depreciation and impairment losses recognised. The acquisition or production 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.

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 the type of facility and licence period
Grids	15 - 40 years
Land	Unlimited; impairments are recognised immediately
Buildings	30 - 60 years
Plant and business equipment	3 - 20 years
Assets under construction	Reclassification on going into operation, impairments are recognised immediately

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 recorded immediately. Interest on borrowings related to construction is capitalised along with other production costs.

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 calcu-

lated 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 financial 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 at the time of acquisition.

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 investments 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 36, 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 is performed.

The estimated useful lives for individual categories are within the following parameters:

Customer relations	15 years
Brands	15 years
Miscellaneous intangible assets	3-5 years

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.

Investments in associates and partner plants (joint ventures)
Companies over which Rätia Energie exerts a signifi-

cant influence but not overall control are measured using the equity method. 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 and other financial instruments, 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.

Due to their short-term nature, the carrying amounts of cash and cash equivalents, receivables and current 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 determined are measured at acquisition cost.

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 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 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.

Energy derivatives

Contracts in the form of forwards, futures or forward transactions conducted with the intention of achieving a trading profit or margin (held for trading) are treated as financial instruments in accordance with IAS 39 and designated as energy derivatives. On the balance sheet date, all open derivative financial instruments from energy trading transactions are measured at fair value and the positive and negative replacement values recognised under assets and liabilities. Current transactions are recorded at net positive and negative replacement value if provided for by the contracts and if charging is legally permitted. Realised and unrealised gains from these transactions are disclosed net as «Income from energy derivatives trading» (Note 1).

Inventories

Inventories comprise materials used for operating purposes (e.g. operating materials, replacement parts and consumables) as well as electricity certificates. Inventories are measured at the lower of acquisition/production cost or net realisable value. Acquisition/production costs are measured at the weighted 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 estimate 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.

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 cover current financial liabilities, other liabilities, deferred income and accrued expenses, and non-current 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 non-current 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 Pensionskasse Energie (PKE) and Profond pension fund, 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, provid-

ed 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.

Apart from the above pension plans, there are no long-term employee benefits provided by 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 financial statements.

Share-based payment
In principle, 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 (Note 15). No share-based payments were made in 2006.

Finance and operating leases
In the reporting period and 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 taxes
Income taxes cover current and deferred income taxes. Current income taxes are calculated based on the current tax rates on the earnings of 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.

Loss carry-forwards 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.

Energy transactions conducted for the purpose of managing the Group's own energy production plants, as well as energy procurement contracts for the physical supply of energy to customers, are treated as «own use» transactions in accordance with IAS 39 and set-

tled gross under «Revenue from energy sales» (Note 1) and «Energy procurement».

Energy transactions conducted for the purpose of achieving a trading margin are treated as «held-for-trading» in accordance with IAS 39 and settled net under «Profit from energy derivatives trading» (Note 1).

On the balance sheet date, all open derivative financial instruments from energy trading transactions are measured at fair value and the positive and negative replacement values are recognised under assets and liabilities. Realised and unrealised income from these transactions is disclosed net as «Income from energy derivative trading» (Note 1).

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.

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 interest and income taxes 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 in the responsible bodies.

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.

Consolidated Financial Statements of the Rätia Energie Group

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 non-current 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, gains and value fluctuations are recorded under financial income and expenses.

Currency risks
Goods and services are paid for and sold by Rätia Energie 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.

Liquidity risks
The Rätia Energie Group consistently monitors the risk of liquidity shortfalls. Cash flow forecasts are used to anticipate future liquidity performance in order to respond in good time in the event of over- or under-liquidity, taking into account the maturity terms defined by financial institutions as well as the financial assets.

Consolidated Financial Statements of the Rätia Energie Group

Rätia Energie Group Companies

Fully consolidated companies at 31 December 2006

Company	Head office	Currency	Share capital	Holding	Closing date	Purpose
Rätia Energie AG	Poschiavo	CHF	3 408 115	100.00 %	31.12	H/P/E
Rätia Energie AG	Klosters	CHF	16 000 000	99.84 %	31.12	C/P
Swisshydro AG	Poschiavo	CHF	500 000	65.00 %	31.12	E
Rätia Energie AG	Poschiavo	CHF	50 000	100.00 %	31.12	RE
Rezia Energia Italia S.p.A.	Milano	EUR	120 000	100.00 %	31.12	E
Energia Sud S.r.l.	Milano	EUR	1 500 000	67.00 %	31.12	P
Elementerra GmbH	Iserlohn	EUR	50 000	70.00 %	31.12	C
SET S.p.A.	Milano	EUR	120 000	61.00 %	31.12	P
aurax ag	Waltensburg	CHF	5 000 000	95.54 %	31.12	H
aurax connecta ag	Ilanz	CHF	100 000	95.54 %	31.12	S
aurax consulta ag	Ilanz	CHF	700 000	95.54 %	31.12	RE
aurax electro ag	Ilanz	CHF	250 000	95.54 %	31.12	D
aurax energia ag	Ilanz	CHF	250 000	95.54 %	31.12	C
Secu AG	Klosters	CHF	100 000	100.00 %	31.12	S
Alvezza SA	Disentis	CHF	500 000	54.46 %	31.12	RE
Ovra electrica Ferrera SA 1)	Trun	CHF	3 000 000	46.81 %	31.12	P
SWIBI AG	Landquart	CHF	500 000	100.00 %	31.12	S
Ubiwork S.p.A.	Milano	EUR	164 000	100.00 %	31.12	H
Dynameeting S.p.A.	Milano	EUR	100 000	100.00 %	31.12	C
Società Elettrica Ascoli S.p.A.	Milano	EUR	120 000	100.00 %	31.12	P
Immobiliare Saline S.r.l.	Milano	EUR	10 000	100.00 %	31.12	RE
SEI S.p.A.	Milano	EUR	120 000	92.50 %	31.12	PC
RES S.p.A.	Milano	EUR	120 000	51.00 %	31.12	PC

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.

Companies included according to the equity method at 31 December 2006

Associates	Head office	Currency	Share capital	Holding	Closing date	Purpose
GrischaVision AG	Chur	CHF	1 000 000	33.00 %	31.12.	S
aurax informatica ag	Ilanz	CHF	100 000	34.00 %	31.12.	S
hesaplan ag	Ilanz	CHF	100 000	34.00 %	31.12.	S
EW Tamins AG	Tamins	CHF	900 000	22.00 %	31.12.	C

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.	H
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen	Luzern	CHF	90 000 000	7.00 %	30.09.	H

Key:

E Energy business
P Production
C Customer (supply/sales)
H Holding or purchase rights
RE Real estate
S Services
PC Project Company

Consolidated Financial Statements of the Rätia Energie Group

Notes

1 Total operating revenue CHF thousands	2005	2006
Revenue from energy sales	838 413	1 674 197
Income from energy derivatives trading 1)	-	3 902
Total net revenue	**838 413**	**1 678 099**
Own work capitalised	**8 906**	**7 783**
Revenue from the disposal of associates and Group companies	-	102
Gain from the sale of property, plant and equipment	3 031	8 123
Revenue from other operating activities	26 180	28 645
Other operating income 2)	**29 211**	**36 870**
Total	**876 530**	**1 722 752**

1) Income from energy trading	-	129 971
Expenditure from energy trading	-	- 126 069
Profit from energy derivatives trading	**-**	**3 902**

2) Other operating income primarily covers income from services of the aurax Group.

2 Personnel expenses CHF thousands		
Wages and salaries	37 167	39 630
Social insurance contributions	5 473	6 585
Pension costs	2 270	2 814
Other personnel costs	1 142	1 496
Total	**46 052**	**50 525**

Headcount at 31 December		
Full-time equivalent	417	475
Trainees	63	63
Total	**480**	**538**

Average	2005	2006
Full-time equivalent	407	446
Trainees	65	63
Total	**472**	**509**

3 Depreciation and impairment

CHF thousands		
Depreciation/impairment on property, plant and equipment	27 351	51 202
Depreciation on intangible assets	-	799
Total	**27 351**	**52 001**

4 Financial income

CHF thousands		
Income from financial assets	6	868
Interest received on cash investments, cash and cash equivalents	12 740	9 823
Exchange rate gains and losses (net)	1 318	8 750
Other financial income	14	332
Total	**14 078**	**19 773**

5 Financial expenses

CHF thousands		
Interest paid on non-current liabilities	3 790	4 970
Other interest expenses	2 626	1 077
Other financial expenses	316	402
Total	**6 732**	**6 449**

Consolidated Financial Statements of the Rätia Energie Group

Notes to the consolidated financial statements

6 Investments in associates and partner plants CHF thousands	2005	2006
Carrying amounts at 1 January	**27 354**	**26 487**
Investments	-	4
Reclassification of securities (registration in EW Tamins share ledger)	-	3 598
Recognition of negative goodwill in income statement	-	521
Disposals	-	- 4
Dividends	- 337	- 403
Share of the results	- 530	- 1 831
Carrying amounts at 31 December	**26 487**	**28 372**

Key figures for associates CHF thousands	2005 Gross values	2006 Gross values	2005 RE share	2006 RE share
Assets	44 662	37 541	15 441	9 480
Borrowings	- 46 408	- 20 114	- 16 036	- 5 697
Income	393 014	17 330	137 514	676
Expenses	- 393 621	- 16 586	- 137 716	- 458
Profit/loss	- 607	744	- 202	218

The holding in associate GrischaVision is fully amortised. The proportionate loss therefore has no impact on the Rätia Energie Group results.

Key figures for partner plants CHF thousands	2005 Gross values	2006 Gross values	2005 RE share	2006 RE share
Non-current assets	752 489	739 738	51 266	50 379
Current assets	66 456	38 802	4 627	2 704
Non-current liabilities	- 299 432	- 363 057	- 20 367	- 24 764
Current liabilities	- 132 500	- 62 503	- 9 040	- 4 216
Income	319 455	239 189	23 373	17 728
Expenses	- 326 664	- 268 142	- 23 903	- 19 777
Profit/loss	- 7 209	- 28 953	- 530	- 2 049

7 Income tax CHF thousands	2005	2006
Income tax charged to the annual financial statements		
Current income tax	27 032	59 225
Deferred income tax	8 458	- 22 021
Total	**35 490**	**37 204**
Income tax charged to equity		
Tax expenses on changes in equity	7	13
Total	**7**	**13**
Transitional statement		
Profit before income taxes	116 867	112 542
Expected income tax rate	29.00 %	29.00 %
Income tax at expected tax rate	33 891	32 637
Tax effect from tax-free income	-	- 455
Tax effect from non-tax-deductible expenses	1 175	1 444
Tax effect from income taxed at other rates	352	1 207
Tax losses in the current year for which no deferred tax assets were formed	199	4
Tax losses charged for which no deferred tax assets were formed	- 275	- 428
Tax burden/relief subsequently calculated for previous years	100	1 365
Other	48	1 430
Income tax charged to the income statement	**35 490**	**37 204**
Effective income tax rate	30.37 %	33.06 %

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 increase in the effective income tax rate is largely due to the higher profitability of Group companies as well as the higher average tax rates for acquisitions.

Deferred income tax by origin of difference CHF thousands	**31.12.2005**	**31.12.2006**
Deferred tax assets		
Property, plant and equipment	-	3
Other non-current assets	31 408	28 173
Current assets	161	135
Provisions	1 683	500
Liabilities	18 666	18 263
Loss carry-forwards / tax credits	1 998	3 257
Total	**53 916**	**50 331**
Deferred tax liabilities		
Property, plant and equipment	140 193	136 493
Other non-current assets	-	4 983
Current assets	5 573	12 750
Provisions	31 667	6 626
Liabilities	3 947	372
Total	**181 380**	**161 224**
Of which the following are disclosed in the balance sheet as:		
Deferred tax liabilities	128 555	115 190
Deferred tax assets	- 1 091	- 4 297
Net deferred tax obligation	**127 464**	**110 893**

Deferred income tax assets and liabilities due from or payable to the same tax authorities are netted in the balance sheet.

There are no notable additional tax obligations anticipated as a result of dividend payments made to Group companies and associates. 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 carry-forwards

On 31 December 2006, individual subsidiaries had tax loss carry-forwards of TCHF 12 245 (previous year: TCHF 8 340) which they can charge in future periods as taxable profit. Deferred tax assets are recorded only to the extent that it is probable that the tax credits can be realised.
On the balance sheet date the Group had deferred tax assets of TCHF 969 (31 December 2005: TCHF 2 540) unrecognised. These are due on the following dates:

Unrecognised tax loss carry-forwards	**2005**	**2006**
CHF thousands		
Due in 1 year	227	0
Due in 2-3 years	267	0
Due in 4-7 years	2 046	928
No due date	-	41
Total	**2 540**	**969**

8 Earnings per share

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
Less treasury shares (annual average)	- 11 788	- 11 817
Less treasury participation certificates (annual average)	-	- 837
Average number of shares in circulation	**3 396 327**	**3 395 461**
Share of Group profit attributable to Rätia Energie shareholders and participants	81 881	76 000
Earnings per share (undiluted)	CHF 24.11	CHF 22.38
There are no factors resulting in a dilution of earnings per share		
Dividend	TCHF 15 337	TCHF 15 337 *)
Dividend per share	CHF 4.50	CHF 4.50 *)

*) 2006 dividend subject to approval by the Annual General Meeting of Shareholders.

Consolidated Financial Statements of the Rätia Energie Group

9 Property, plant and equipment CHF thousands	Power plants	Grids	Construction in progress	Property and buildings	Other property, plant and equipment	Total
Gross values at 1 January 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
Translation adjustments			1 104		2	1 106
Gross values at 31 December 2005	**388 711**	**723 127**	**407 612**	**62 350**	**26 598**	**1 608 398**
Accumulated depreciation and impairments at 1 January 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
Translation adjustments						0
Accumulated depreciation and amortisation at 31 December 2005	**- 250 109**	**- 331 456**	**0**	**- 32 148**	**- 18 089**	**- 631 802**
Net values at 31 December 2005	**138 602**	**391 671**	**407 612**	**30 202**	**8 509**	**976 596**
Incl. security pledged for debts						4 384
Gross values at 1 January 2006	**388 711**	**723 127**	**407 612**	**62 350**	**26 598**	**1 608 398**
Own work capitalised			7 783			7 783
Additions	48 378	12 389	9 758	32 658	17 832	121 015
Disposals	- 50 967	- 11 979	- 1 283	- 2 952	- 1 753	- 68 934
Reclassification	378 995	37 336	- 416 563		232	0
Change in consolidation			242	2 983	- 357	2 868
Translation adjustments	658	17	11 764	31	18	12 488
Gross values at 31 December 2006	**765 775**	**760 890**	**19 313**	**95 070**	**42 570**	**1 683 618**
Accumulated depreciation and impairments at 1 January 2006	**- 250 109**	**- 331 456**	**0**	**- 32 148**	**- 18 089**	**- 631 802**
Depreciation and amortisation	- 7 166	- 20 089	- 1 070	- 694	- 3 285	- 32 304
Impairments	- 14 463	- 4 395			- 40	- 18 898
Disposals	51 192	11 933	1 059	776	1 977	66 937
Change in consolidation					279	279
Translation adjustments	- 61	- 17			- 4	- 82
Accumulated depreciation and amortisation at 31 December 2006	**- 220 607**	**- 344 024**	**- 11**	**- 32 066**	**- 19 162**	**- 615 870**
Net values at 31 December 2006	**545 168**	**416 866**	**19 302**	**63 004**	**23 408**	**1 067 748**
Incl. security pledged for debts						3 836

Insured value of property, plant and equipment: MCHF 1 456 (previous year: MCHF 974) In the year under review no interest on borrowings was capitalised (2005: TCHF 4 955) for construction in progress.

Impairment of property, plant and equipment
In 2006 impairments of CHF 18.9 million were made, primarily due to parts replaced as a result of damage, faults and defects as well as parts which became surplus due to their replacement in facilities replaced early for economic reasons.

10 Intangible assets

CHF thousands	Goodwill	Customer relations	Brand	Misc. intangible assets	Total
Gross values at 1 January 2006	-	-	-	-	-
Acquisition of a subsidiary (note 23)	18 237	9 713	3 744	1 787	33 481
Translation adjustments				242	242
Gross values at 31 December 2006	**18 237**	**9 713**	**3 744**	**2 029**	**33 723**
Accumulated depreciation and impairments at 1 January 2006	-	-	-	-	-
Depreciation and amortisation	-	- 324	- 201	- 274	- 799
Accumulated depreciation and amortisation at 31 December 2006	**-**	**- 324**	**- 201**	**- 274**	**- 799**
Net values at 31 December 2006	**18 237**	**9 389**	**3 543**	**1 755**	**32 924**

Acquisitions during the year under review

Intangible assets refer to assets acquired in 2006 as part of the acquisition of Dynameeting S.p.A.. In addition to goodwill, these comprise the following assets:

Customer relations:

This position reflects the value of long-standing relations with important customers of Dynameeting S.p.A.. The remaining amortisation period is around 14 years.

Brand:

This position reflects the value of the «Dynameeting» brand. The remaining amortisation period is around 14 years.

No other value adjustments were made in 2006 apart from ordinary depreciation and amortisation over the useful life.

Goodwill impairment

The goodwill acquired within the context of the merger was fully assigned to Dynameeting as a cash-generating unit for the purpose of impairment testing.

Dynameeting cash-generating unit

The recoverable amount of Dynameeting as a cash-generating unit is determined by calculating the value in use, using cash forecasts based on five-year financial plans approved by the Group Executive Board. The discount rate used in the cash flow forecasts was 9.6 %. Cash flows subsequent to this five-year period are extrapolated using a growth rate.

Basic assumptions underlying the calculation of value in use

The material assumptions underlying the calculation of the value in use for the cash-generating unit concern the performance of the EBIT margin, the growth rate and the discount rate. The EBIT margin is determined based on average values in previous years, adjusted by the expected increase in efficiency and taking into account expected price developments. The discount rate reflects the Executive Board's estimation of the specific risks which can be assigned to the cash-generating unit. The discount rate was obtained taking into account the return on a 10-year federal bond at the beginning of the budget period. The growth rate is based on sector-specific market research which is in the public domain.

The Group Executive Board is of the opinion that no reasonable change in any of the basic assumptions made to determine the value in use of the cash-generating unit could result in any significant increase in the carrying value of the recoverable amount.

Consolidated Financial Statements of the Rätia Energie Group

11 Inventories CHF thousands	31.12.2005	31.12.2006
Green electricity certificates	7 726	7 856
Material inventories	4 574	7 330
Total	**12 300**	**15 186**

12 Receivables CHF thousands		
Trade accounts receivable		
Third parties	231 456	430 117
Related parties	27 587	5 115
Value adjustments	- 692	- 2 302
Other receivables	2 311	14 115
Total	**260 662**	**447 045**

The increase in other receivables is mainly attributable to receivables from the Italian VAT authorities.

13 Securities and other financial instruments	31.12.2005	31.12.2006
CHF thousands		
Listed bonds	36 165	36 436
Listed shares	17 924	21 114
Unlisted shares	974	862
Positive replacement values - energy derivatives	-	13 048
Total	**55 063**	**71 460**
incl. security pledged for debts	51 828	58 966

Listed securities are measured at market prices. Unlisted securities for which the market value cannot be reliably determined are measured at acquisition value.

Derivative financial instruments

The following table lists the replacement values and contract volumes of all derivative financial instruments and energy trading transactions open on the balance sheet date. The replacement value corresponds to the fair value of the open derivative financial instruments. Positive replacement values represent receivables and therefore an asset. Negative replacement values represent obligations and therefore a liability. The contract volume corresponds to the basic value or contract volume of the underlying instrument.

Forward contracts cover forward and futures transactions with flexible profiles. The replacement value is obtained from the fluctuation in price compared to the closing price. Price fluctuations for forward contracts are recorded by adjusting the replacement values since there is no daily financial settlement of fluctuations in value.

CHF thousands	31.12.2005	31.12.2006
Positive replacement values	-	13 048
Negative replacement values	-	11 420
Contract volume for contingent assets	-	419 243
Contract volume for contingent liabilities	-	389 455

Derivative financial instruments are used to hedge credit and market risks. If the counterparty fails to fulfil its obligations arising from the derivative contract, the counterparty risk for the company corresponds to the positive replacement value of the derivative. An obligation by the company towards the counterparty exists in the event of a negative replacement value. In this case the counterparty bears the repayment risk. These risks related to the use of derivative financial instruments are minimised by imposing high requirements on contract partners' creditworthiness.

The current financial liabilities of TCHF 14 929 include negative replacement values of TCHF 11 420.

Consolidated Financial Statements of the Rätia Energie Group

14 Cash and cash equivalents CHF thousands	31.12.2005	31.12.2006
Sight funds	58 381	120 654
Cash invested for less than 90 days	6 064	14 764
Total	**64 445**	**135 418**
Incl. security pledged for debts	347	288

The average interest rate for credit in CHF was 1.00 % (2005: 0.50 %) and for credit in EUR 2.40 % (2005: 1.25 %).

Cash and cash equivalents are held in the following currencies:

Swiss francs	26 325	67 186
Euros (converted)	38 120	68 232
Total	**64 445**	**135 418**

15 Share capital CHF thousands			
Share capital	2 783 115 at par value of CHF 1	2 783	2 783
Participation certificates	625 000 at par value of CHF 1	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 %

Participation certificates carry no voting rights at the Annual General Meeting but are subject to the same provisions as shares. The number of share and participation certificates remained unchanged.

Treasury shares and participation certificates

In the year under review no bearer shares (2005: 100) and 563 participation certificates (2005: none) were sold at market rates and 1 558 participation certificates (2005: none) and 668 bearer shares (2005: none) were acquired. 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 2006 the number of treasury shares amounted to 12 104 bearer shares (2005: 11 436) at a total par value of TCHF 12 and 995 participation certificates (2005: none) at a total par value of TCHF 1.

16 Non-current financial liabilities				31.12.2005	31.12.2006
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	10 000
Bank loan	04.07.2016	3.36 %		-	50 000
Bank loan	28.11.2007	4.38 %		-	4 000
Loans				**60 000**	**114 000**
Kraftwerk Ferrera AG	28.11.2007	4.38 %		4 000	0
aurax ag	09.01.2008	4.00 %		1 840	1 840
Kraftwerk Ferrera AG	27.06.2009	3.25 %		500	0
SET S.p.A.	04.10.2014	var.; 4.1 % in 2006	a	190 989	232 182
Mortgages				**197 329**	**234 022**
Investment loan aurax ag	31.12.2015	0.00 %	b	1 366	1 366
Investment loan aurax ag	31.12.2020	0.00 %	b	1 910	1 910
Investment loan aurax ag	31.12.2015	0.00 %	b		305
Loan aurax ag	open-ended	3.75 %		236	236
Residual purchase obligation Dynameeting	28.02.2009	4.20 %		-	4 296
Other financial liabilities				**3 512**	**8 113**
Total				**260 841**	**356 135**
Financial liabilities are carried in the following currencies					
Swiss francs				69 852	119 657
Euros (converted)				190 989	236 478
Total				**260 841**	**356 135**

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 have a term until 30.6.2014, during which time their nominal value fluctuates between MEUR 25 and MEUR 55. The positive replacement value of the swaps at 31.12.2006 of TCHF 3 040 (2005: negative replacement value TCHF 641) 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 3.90 % (2005: 3.60 %).
The fair value of non-current financial liabilities amounted to TCHF 353 402 (2005: TCHF 269 051).

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17 Pension fund obligation at 31 December CHF thousands	2005	2006
Development of plan liabilities and assets		
Present value of plan liabilities on 1 January	141 784	156 417
Change in consolidation	0	510
Acquired pension entitlements	3 959	4 926
Interest expense	4 962	5 501
Benefits paid	- 3 139	- 11 222
Actuarial losses on plan assets	8 851	7 300
Currency (gains)/losses	-	23
Present value of plan liabilities on 31 December	**156 417**	**163 455**
Fair value of plan assets on 1 January	124 801	142 952
Anticipated income on plan assets	4 992	5 718
Employer contributions	2 909	3 550
Employee contributions	1 659	1 895
Benefits paid	- 3 139	- 11 222
Actuarial gains on plan assets	11 730	7 157
Fair value of plan assets on 31 December	**142 952**	**150 050**
Recognised pension liabilities		
Fair value of plan assets portion	142 952	150 050
Present value of pension obligation	- 156 417	- 162 711
Excess of liabilities	**- 13 465**	**- 12 661**
Present value of pension obligation excluding plan assets	0	- 744
Unrecorded actuarial gains	- 2 879	- 2 735
Recognised pension liabilities	**- 16 344**	**- 16 140**
Pension expense recorded under personnel expenses		
Acquired pension entitlements	3 959	4 926
Interest on future pension entitlements	4 962	5 501
Anticipated income on plan assets	- 4 992	- 5 718
Employer contributions	- 1 659	- 1 895
Net pension costs for the period	**2 270**	**2 814**

Change in defined-benefit pension obligation	2005	2006
At 1 January	**- 16 983**	**- 16 344**
Change in consolidation	0	- 510
Translation adjustments for foreign plans	0	- 22
Net pension costs for the period	- 2 270	- 2 814
Employer contributions paid	2 909	3 550
At 31 December	**- 16 344**	**- 16 140**
Effective return on plan assets	15.30 %	9.30 %
Calculation principles:		
Discount rate	3.00 %	3.00 %
Expected return on plan assets	4.00 %	5.00 %
Rate of increase in future compensation levels	2.50 %	2.50 %
Rate of increase in future pension contribution	0.50 %	0.50 %
Breakdown of assets, other information		
Liquid assets	3.20 %	2.60 %
Time deposits	29.90 %	32.00 %
Shareholdings	51.80 %	49.40 %
Real estate	12.40 %	13.30 %
Other	2.70 %	2.70 %
Total	**100.00 %**	**100.00 %**

The Group does not apply the option in Sections 93A-D of IAS 19 of recording actuarial gains and losses in advance under equity.

Demographic factors

The most important demographic assumptions concern the mortality rate. Mortality rates are applied which take into account the historic trend and expected changes such as an increase in life expectancy. The mortality tables used for the largest Group staff pension fund, which covers all employees in Switzerland, are based on the technical principles of the EVK 2000 (Federal Insurance Fund 2000).

Consolidated Financial Statements of the Rätia Energie Group

18 Provisions	2005	2006	Contract risks	Reversion provisions	Restructuring provisions	Pension provisions	Other provisions
At 1 January	**212 346**	**117 497**	**18 945**	**71 503**	**1 703**	**16 344**	**9 002**
Provisions made	15 041	6 100	4 362	1 000		315	423
Provisions used	- 65 844	- 388			- 388		
Provisions reversed	- 45 639	- 14 502	- 6 670		- 1 073	- 980	- 5 779
Interest	1 593	1 771		1 771			
Change in consolidation	-	-				461	- 461
At 31 December	**117 497**	**110 478**	**16 637**	**74 274**	**242**	**16 140**	**3 185**
Expected maturity up to 1 year	38 594	30 767	6 000	23 025	242	1 500	-
Current provisions	**38 594**	**30 767**	**6 000**	**23 025**	**242**	**1 500**	**-**
Expected maturity within 2- 5 years	20 204	26 185	4 500	13 500		5 000	3 185
Expected maturity more than 5 years	58 699	53 526	6 137	37 749		9 640	
Non-current provisions	**78 903**	**79 711**	**10 637**	**51 249**	**-**	**14 640**	**3 185**

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.

On 7 November 2005, the Italian government notified Rätia Energie and other electricity companies of its retroactive decision (to 2004) whereby documentation on deliveries of environmentally friendly electricity (green certificates) from Switzerland would no longer be accepted. In the year under review, certificates for the 2004 period were retroactively re-accepted, rendering the provision applicable. On the balance sheet date the 2005 and 2006 certificates had not been recognised by Italy and were therefore reset.

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. 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.

Restructuring provisions

The provision for restructuring covers future expenses for restructuring measures. Restructuring measures relating to the operational merger of Rätia Energie AG with Rätia Energie Klosters AG in 2000 were largely released following completion in the year under review of work to automate power plant operations and the abolition of shift operations in Prättigau, the costs of which were lower than anticipated.

Pension provisions

Note 17 provides information on the provision for pension fund obligations.

Other provisions

Other provisions cover operating obligations as well as obligations arising from regulatory requirements. In the year under review provisions of CHF 1.5 million for transmission grid emissions were reversed following completion of an additional measure to reduce emissions.

19 Other non-current liabilities	31.12.2005	31.12.2006
CHF thousands		
Prepayment of transport rights	61 291	59 891
Total	**61 291**	**59 891**

The Bernina line was partly financed by revenue from transport rights. In 2005 the last instalment of CHF 25 million was paid. Prepayments for transit rights through the Bernina line are reversed over the same period as the line is amortised.

20 Other liabilities	31.12.2005	31.12.2006
CHF thousands		
Trade accounts payable		
Third parties	168 371	353 308
Related parties	8 131	27 610
Other liabilities	1 681	3 751
Total	**178 183**	**384 669**

21 Deferred income and accrued expenses		
CHF thousands		
Deferred interest	1 145	1 112
Deferred annual leave and overtime	4 079	3 378
Deferral of capital and other taxes, charges and levies	2 291	6 423
Other deferrals	8 996	2 385
Total	**16 511**	**13 298**

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22 Transactions with related parties

CHF thousands	Energy sales		Energy procurement		Receivables at 31 December		Liabilities at 31 December	
	2005	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
Canton of Grisons *)	-		-		0		0	
Aare-Tessin AG für Elektrizität (Atel)	12 589	23 986	14 276	52 336	10 774	1 404	1 017	21 384
Elektrizitäts-Gesellschaft Laufenburg AG (EGL)	24 522	27 695	33 979	45 482	9 590	3 340	5 463	6 221
Main shareholders with significant influence	**37 111**	**51 681**	**48 255**	**97 818**	**20 364**	**4 744**	**6 480**	**27 605**
Kraftwerke Hinterrhein AG	4 767	4 032	5 675	6 326	450	371	12	5
Grischelectra AG	250	4	32 334	32 383	-	-	1 639	3 226
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen	-	-	15 444	13 852	-	-	-	-
GrischaVision AG	-	-	-	-	-	-	-	-
Dynameeting S.p.A. (till 28.2.2006)	35 921	6 678	307	6 700	6 773	-	-	-
Associates and partner plants	**40 938**	**10 714**	**53 760**	**59 261**	**7 223**	**371**	**1 651**	**3 231**

Transactions with the principal shareholders and associates are recorded at market prices. Energy transactions with partner plants are recorded at annual costs.

*) 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 2006 the Board of Directors received compensation amounting to TCHF 777 (2005: TCHF 506). Compensation paid to the Executive Board, including all social and supplementary benefits, amounted to TCHF 2 496 (2005: TCHF 2 191). No loans, securities, advances or credits exist for members of the Board of Directors or Executive Board. No severance payments were made.

Other related parties

Staff pension plans: See Note 17.

23 Business combinations (IFRS 3)

Acquisition of Ubiwork S.p.A. and Dynameeting S.p.A.

On 1 March 2006 Rätia Energie AG purchased 100 % of shares in Ubiwork S.p.A., Milan, which contains the 65 % holding in Dynameeting S.p.A.. The sole asset of Ubiwork S.p.A. is the Dynameeting holding. As a result of the acquisition, the Rätia Energie Group has a 100 % holding in Dynameeting S.p.A., a company active in the supply of electricity to small and medium sized enterprises in Italy. The acquisition was recognised in accordance with IFRS 3. The 2006 annual results include the consolidated income statement and cash flow statement of both companies from the date of acquisition.
The fair values of identifiable net assets and liabilities on the date of acquisition are as follows:

CHF thousands	Fair value	Carrying amount
Property, plant and equipment	66	66
Intangible assets	15 061	113
Other financial assets	3 844	3 844
Receivables	53 495	53 495
Prepaid expenses and accrued income	376	376
Cash and cash equivalents	7 869	7 869
Identifiable assets	**80 711**	**65 763**
Non-current financial liabilities	337	337
Non-current provisions	109	109
Deferred tax liabilities	4 988	55
Other liabilities	61 417	61 417
Current financial liabilities	3 126	3 126
Deferred income and accrued expenses	80	80
Identifiable liabilities	**70 057**	**65 124**
Net assets acquired	**10 654**	**639**
Of which acquisition of a 65 % holding	6 925	
Goodwill from acquisitions	18 237	
Acquisition costs	**25 162**	

The total costs of TCHF 25 162 covers a cash payment, a deferred purchase price payable in three years, and acquisition costs:

Acquisition costs	
Cash consideration	20 566
Deferred purchase price	4 186
Costs related to the acquisition	410
Acquisition costs	**25 162**
Cash flow related to the acquisition	
Cash and cash equivalents transferred from the acquisition	7 869
Cash consideration	- 20 566
Costs related to the acquisition	- 410
Net cash outflow related to the acquisition	**- 13 107**

Between the date of acquisition and 31 December 2006 the company charge on Group profit was TCHF 324. Had the transaction taken place at the beginning of the year (1 January 2006), Group profit would have been some TCHF 398 lower and sales around TCHF 91 418 higher. Goodwill related to the acquisition mainly reflects the value of expected buyer-specific synergies and the workforce taken over.

Other changes in the basis of consolidation

In 2006 Rätia Energie AG made further acquisitions which were recorded in the financial statements as business combinations. Since none of these individual acquisitions had a significant impact on the annual accounts, they were disclosed in aggregate. On 21 February 2006 Rätia Energie AG acquired 100 % of the shares in Società Electrica di Ascoli S.r.l. (SEA). SEA is planning to build a 100 MW gas-fired combined-cycle power plant in Ascoli. The plant is still at the project stage. On 4 April 2006 Rätia Energie AG acquired 51 % of the share capital in RES S.p.A. (RES), with the intention of developing new initiatives in the field of renewable energies in conjunction with a partner. On 13 October 2006 Rätia Energie AG acquired 100 % of the shares in Immobiliare Saline S.r.l. (IS), a real estate company with operating properties in Italy.
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	4 609	1 074
Inventories	6	1
Cash and cash equivalents	193	193
Identifiable assets	**4 808**	**1 268**
Deferred tax liabilities	1 231	0
Liabilities	826	24
Current financial liabilities	472	472
Identifiable liabilities	**2 529**	**496**
Net assets acquired	2 279	772
Share of minority interests in the fair value of net assets	- 93	
Acquisition costs	**2 186**	

The acquisition cost was TCHF 2 186, paid in cash. No costs directly related to the acquisition were incurred.

Acquisition costs	
Cash consideration	2 186
Acquisition costs	**2 186**

Cash flow related to the acquisition	
Cash and cash equivalents transferred from the acquisition	193
Cash consideration	- 2 186
Net cash outflow related to the acquisition	**- 1 993**

From the date of acquisition until 31 December 2006 the above companies contributed some TCHF 117 to Group profit. Had the transaction taken place at the beginning of the year (1 January 2006), it would have had virtually no effect on Group profit and sales.

24 Contingent liabilities and guarantee obligations

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

The Rätia Energie Group is involved in various legal disputes arising from day-to-day business operations. However, as things stand at present these are not expected to give rise to any significant risks and costs. The Executive Board has made the requisite provisions based on currently available information and estimates.

There are no other contingent liabilities or guarantee obligations.

25 Events occurring after the balance sheet date

No significant events occurred after 31 December 2006.

Report of the Group Auditors

PricewaterhouseCoopers

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Report of the group auditors
to the general meeting of
Rätia Energie AG
Poschiavo

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes) as presented on **pages 57 to 95** of Rätia Energie AG for the year ended 31 December 2006.

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

Our audit was conducted in accordance with Swiss Auditing Standards 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 accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

PricewaterhouseCoopers AG

Bruno Räss
Auditor in charge

Roger Roth

Chur, 29 March 2007

2006 Financial Statements of Rätia Energie AG

Income statement

CHF thousands	2005	2006
Net sales	658 159	1 164 248
Other operating income	21 786	22 106
Total operating revenue	**679 945**	**1 186 354**
Energy procurement	- 557 835	- 1 060 701
Material and third-party services	- 5 649	- 6 897
Personnel expenses	- 28 465	- 30 006
Concession fees	- 3 364	- 5 286
Depreciation and amortisation	- 12 589	- 20 657
Other operating expenses	- 12 566	- 16 884
Operating income before interest and taxes	**59 477**	**45 923**
Financial income	11 703	17 125
Financial expense	- 5 957	- 4 662
Non-operating income	523	574
Non-operating expenses	- 399	- 431
Income before taxes	**65 347**	**58 529**
Gains on the sale of assets	648	6 292
Extraordinary income	24 911	60 977
Extraordinary expenses	- 3 000	0
Profit before taxes	**87 906**	**125 798**
Taxes	- 24 933	- 49 203
Net income for the year	**62 973**	**76 595**

2006 Financial Statements of Rätia Energie AG

Balance sheet

Assets CHF thousands	Notes	**31. 12.2005**	**31. 12.2006**
Property, plant and equipment		86 560	77 798
Intangible assets	1	23 119	21 577
Financial assets	2	133 377	232 734
Non-current assets		**243 056**	**332 109**
Inventories		557	613
Trade accounts receivable	3	145 324	172 760
Other receivables	3	187 144	159 130
Prepaid expenses and accrued income	4	34 753	81 096
Capital assets in current assets		54 798	68 794
Cash and cash equivalents		36 396	55 223
Current assets		**458 972**	**537 616**
Total assets		**702 028**	**869 725**

Liabilities and shareholders' equity CHF thousands	Notes	**31. 12.2005**	**31. 12.2006**
Share capital		2 783	2 783
Participation capital		625	625
Reserves for treasury shares		1 306	2 024
Other legal reserves		52 276	52 276
Other reserves		155 656	204 937
Unappropriated retained earnings		71 921	83 179
Equity	5	**284 567**	**345 824**
Provisions	6	**195 213**	**133 033**
Non-current liabilities	7	**60 000**	**114 000**
Trade accounts payable	8	78 866	112 671
Other current liabilities	8	11 000	8 379
Deferred income and accrued expenses	9	72 382	155 818
Current liabilities		**162 248**	**276 868**
Borrowings		**417 461**	**523 901**
Total liabilities and shareholders' equity		**702 028**	**869 725**

2006 Financial Statements of Rätia Energie AG

Notes

1 Intangible assets CHF thousands	31.12.2005	31.12.2006
Reversion waiver compensation	30 825	30 825
Value adjustment	- 7 706	- 9 248
Total	**23 119**	**21 577**

2 Financial assets CHF thousands		
Shareholdings	101 588	151 912
Long-term prepayments	11 746	10 273
Loans to Group companies	0	50 000
Other financial assets	20 043	20 549
Total	**133 377**	**232 734**

3 Receivables CHF thousands		
Of which:		
- Related parties (shareholders)	14 055	4 749
- Group companies	210 681	191 119
- Other receivables	107 732	136 022
Total	**332 468**	**331 890**

4 Prepaid expenses and accrued income CHF thousands		
Of which:		
- Group companies	8 571	47 921
- Other	26 182	33 175
Total	**34 753**	**81 096**

5 Equity CHF thousands	31.12.2005	31.12.2006
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	1 306	2 024
Reserves from merger and contributions in kind	40 276	40 276
Other legal reserves	12 000	12 000
Other reserves	155 656	204 937
Reserves	**209 238**	**259 237**
Retained earnings carried forward	8 948	6 584
Net income for the year	62 973	76 595
Unappropriated retained earnings	**71 921**	**83 179**
Total	**284 567**	**345 824**

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 %
Elektrizitäts-Gesellschaft Laufenburg AG, Laufenburg (EGL)	21.4 %

Treasury shares

In the year under review no bearer shares (2005: 100) and 563 participation certificates (2005: none) were sold at market rates and 668 bearer shares (2005: none) and 1 558 participation certificates (2005: none) were acquired. On 31 December 2006 the number of treasury shares amounted to 12 104 bearer shares (2005: 11 436) at a total par value of TCHF 12 and 995 participation certificates (2005: none) at a total par value of TCHF 1.

2006 Financial Statements of Rätia Energie AG

Notes to the financial statements

6 Provisions CHF thousands	31.12.2005	31.12.2006
For reversion	25 375	25 375
For reversion waiver compensation	30 825	30 825
For contract risks	132 545	71 975
Other risks	6 468	4 858
Total	**195 213**	**133 033**

7 Non-current liabilities CHF thousands				
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	10 000
Bank loan	4.38 %	1999-2007	-	4 000
Bank loan	3.36 %	2006-2016	-	50 000
Total			**60 000**	**114 000**

8 Current liabilities CHF thousands		
Of which:		
- Related parties (shareholders)	6 476	27 690
- Group companies	21 029	4 534
- Other obligations	62 361	88 826
Total	**89 866**	**121 050**

9 Deferred income and accrued expenses CHF thousands		
Of which:		
- Related parties (shareholders)	14	2 410
- Group companies	-	26 929
- other	72 368	126 479
Total	**72 382**	**155 818**

Liabilities to pension funds: TCHF 162 (2005: TCHF 149).

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

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 963 million (2005: CHF 484 million).

Provision policy

Risks related to delivery and sales contracts are regularly assessed in line with market developments. Following a reassessment, provisions of CHF 62 million were released

Net release of hidden reserves

In the year under review, hidden reserves decreased by CHF 34.8 million (before deferred taxes).

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.

General pledge agreements have been signed with banks in order to optimise liquidity. On the balance sheet date, this included a security deposit totalling CHF 53 million. The related credit agreements had not been exercised on the balance sheet date.

Letters of intent and financing agreements of more than CHF 354 million (EUR 220 million) were concluded in 2006 (2005: CHF 233 million, EUR 150 million).

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

Shareholdings

The list on pages 74 and 75 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 of the Code of Obligations.

Appropriation of retained earnings

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

Profit for 2006	CHF	76 594 615
Retained earnings carried forward	CHF	6 584 695
Unappropriated retained earnings	**CHF**	**83 179 310**
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	- 60 000 000
Balance carried forward	**CHF**	**7 842 792**

Provided the Annual General Meeting votes in favour of this proposal, the dividend of CHF 4.50 per share less 35 % withholding tax will be payable from 11 June 2007, on presentation of Coupon No. 4 for a bearer share with a par value of CHF 1 or Coupon No. 4 for a participation certificate with a par value of CHF 1.

Poschiavo, 28 March 2007

For the Board of Directors:

Luzi Bärtsch
Chairman of the
Board of Directors

Report of the Auditors

PricewaterhouseCoopers

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Report of the statutory auditors
to the 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) as presented on **pages 99 to 107** of Rätia Energie AG for the year ended 31 December 2006.

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

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

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

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

PricewaterhouseCoopers AG

Bruno Räss
Auditor in charge

Hans Martin Meuli

Chur, 29 March 2007

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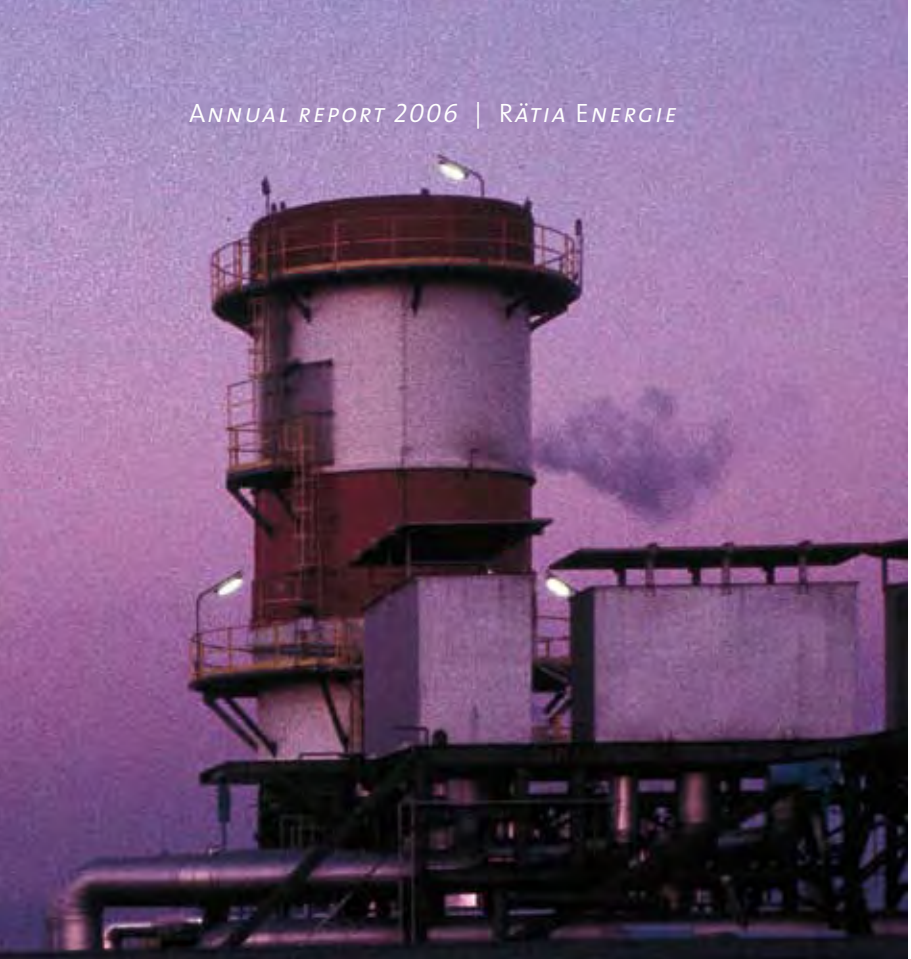

Key dates

6 June 2007	**Annual General Meeting**
29 August 2007	**First Half Year Results**
23 May 2008	**Annual General Meeting**

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In the event of differing interpretations, the German text is definitive.

14.05 – 500/E

Rätia Energie

Rätia Energie AG
Rätia Energie Klosters AG
aurax ag
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Dynameeting S.p.A.
Swisshydro AG
Elementerra GmbH
SET S.p.A.
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PURE GRAUBÜNDEN POWER

PURE St. Moritz POWER

swisshydro