RÄTIA ENERGIE

ANNUAL REPORT 2008

Rätia Energie

Investments in new connections

Electricity connects. And good connections are essential for all users of electricity. That's why Rätia Energie builds new connections. That goes for all communication media in the wider sense. And especially in the sense of connectivity as depicted on the front cover: Hard at work building the new 150-kV line over the Julier Pass.

Annual report

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At a glance

- Best net income ever
- Total operating revenue: CHF 1.971 billion (+ 6 %)
- Operating income: CHF 185 million (+ 153 %)
- Higher profit: CHF 94 million (+ 26 %)
- Energy sales: 12,582 GWh
- Income from energy derivative trading: CHF 39.5 million
- Volatile energy prices
- First successful full year in Central/Eastern Europe
- Hydropower: Construction started on Taschinas / Chlus and Tomül concession projects further pursued
- Thermal power plants: projects further refined
- Construction started on Campocologno-Tirano merchant line

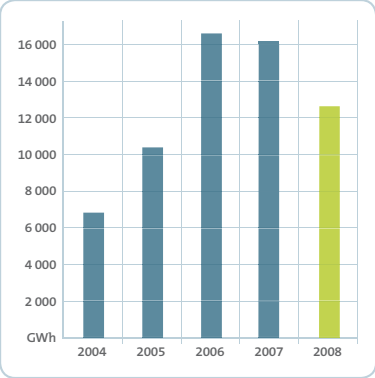
Share Information

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**		**2007**	**2008**
Bearer shares	High	769	691
	Low	590	352
Participation certificates (PC)	High	560	519
	Low	430	278

Dividend	**2004**	**2005**	**2006**	**2007**	**2008** *)
Bearer shares	4.00	4.50	4.50	5.50	7.00
Participation certificates (PC)	4.00	4.50	4.50	5.50	7.00

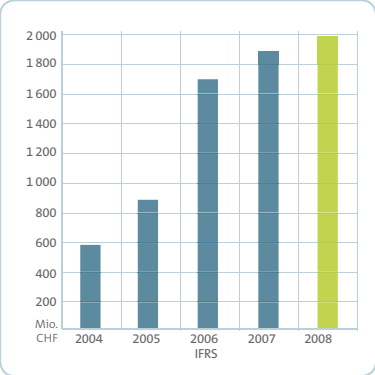
*) 2008 dividend subject to decision by the Annual General Meeting. There are no restrictions on transferability or voting rights.



Energy sales

Energy balance sheet

GWh	2007	2008	Change
Contracts > 1 year	1 204	1 214	+ 1 %
Contracts ≥ 1 month ≤ 1 year	6 198	2 983	- 52 %
Spot < 1 month	4 802	4 120	- 14 %
Total trading	12 204	8 317	- 32 %
Supply or sales	3 605	3 914	+ 9 %
Pumps, own use, losses	332	351	+ 6 %
Energy sales	**16 141**	**12 582**	**- 22 %**
Contracts > 1 year	1 401	1 868	+ 33 %
Contracts ≥ 1 month ≤ 1 year	7 354	3 068	- 58 %
Spot < 1 month	3 565	4 168	+ 17 %
Total trading	12 320	9 105	- 26 %
Own production	2 828	2 401	- 15 %
Energy from participations	993	1 076	+ 8 %
Energy procurement	**16 141**	**12 582**	**- 22 %**
Trading in energy derivatives (Held for Trading)	**7 074 GWh**	**18 227 GWh**	**+158 %**



Total operating revenue

Financial highlights

CHF million	2007	2008	Veränderung
Total operating revenue	1 863	1 971	+ 6 %
EBIT	73	185	+ 153 %
Group profit including minority interests	**75**	**94**	**+ 26 %**
Balance sheet total	1 898	2 185	+ 15 %
Equity	**768**	**824**	**+ 7 %**

Report of the Board of Directors and Executive Board

Excellent 2008 results

In 2008 the Rätia Energie Group grew total operating revenue by 6 % to almost CHF 2 billion and achieved a marked increase in operating result and Group profit. Rätia Energie recorded its best ever operating income before interest and income taxes (EBIT), which rose by CHF 112 million or 153 % to CHF 185 million. This excellent result is largely attributable to positive developments in the trading business. Better margins were achieved in the international business, with the result from energy derivatives trading alone growing from CHF 4.5 million to CHF 39.5 million. These trading positions, which are measured on the balance sheet date, are subject to a market price risk which is continually monitored and assessed by Rätia Energie. The positions will impact liquidity in the coming months. The good results were also boosted by good water levels for generating facilities in Switzerland, as well as the market-driven operation of the Teverola power plant in Southern Italy.

The significantly weaker euro resulted in a net charge of CHF 15 million to the financial result, while additional borrowing increased the interest on borrowings to CHF 31 million. Following the release in 2007 of provisions for deferred tax obligations due to the reduction in capital gains tax in the canton of Graubünden, taxes in 2008 were accounted for in full. In summary, the Rätia Group has exceeded its good prior-year result, growing profit by 26 % from CHF 75 million to CHF 94 million.

The Board of Directors will propose to the Annual General Meeting an increase of CHF 1.50 in dividend per bearer share and participation certificate to CHF 7.00.

Luzi Bärtsch
Chairman of the Board of Directors

With equity of CHF 824 million (+ 7 %) and an equity ratio of 38 %, the Rätia Energie Group has an extremely sound financial basis on which to pursue further growth.

Increase in financial trading

In 2008 Rätia Energie sold around 12.6 terawatt hours (TWh) of electricity, increasing the volume of physically traded electricity by 32 %. The scope of financial trading transactions was also significantly extended in 2008, with the contract volume for held-for-trading business reaching 18 terawatt hours (+ 158 %) . Rätia Energie intends to continue both types of trading in selected key markets in fu-

ture. The drive to expand trading into new areas and step up existing business activities will be further pursued in 2009, in a bid to increase trading activities and improve market analysis, risk management and controlling. In addition, collaboration between RE's trading centres in Switzerland, Italy and the Czech Republic is being enhanced through new communication systems as well as risk management and trading systems.

Energy supply and distribution grew by a further 9 %, with Rätia Energie Group electricity sales up 9 % to 3.9 TWh, primarily due to the sales company Dynameeting in Italy. This Italian subsidiary is responsible for almost 80 % of the RE Group's electricity sales. While Swiss sales stagnated, the first customers were acquired in Germany for the medium-sized consumer segment.

Kurt Bobst
CEO

Progress in strategic projects

Rätie Energie pressed ahead with its growth strategy in 2008, as witnessed by the sizeable increase in operating result and Group profit. Good progress was made in many strategic projects, with Central/Eastern European activities being stepped up and the market position in Italy strengthened. 2008 also saw significant progress in a number of projects related to production, and Rätia Energie took advantage of new trading opportunities while simultaneously expanding risk management.

Outlook: Good prospects for the future

Having recorded excellent results in 2008, Rätia Energie expects to end 2009 with a good, albeit slightly lower, operating result and good Group profit on a par with the year under review, provided the economic and political environment, which at present is difficult and impossible to quantify, does not undergo any drastic changes. As a vertically integrated electricity company active in the certificate and gas business, Rätia Energie is well-positioned even in difficult times. The Group's proprietary production facilities, expanding sales in Italy and Switzerland and a highly motivated, skilled workforce, provide solid backing for good future prospects.

Economic uncertainty and extensive regulation driven by a political agenda are necessitating a highly flexible approach on the part of market players, particularly in Switzerland. For Rätia Energie, maximum scope for action, access to European markets and readiness to adapt rapidly and systematically are key criteria for a successful future.

Whether state regulation in various countries will be kept within reasonable boundaries is not yet clear. Rätia Energie will need to tackle the related challenges. In Switzerland, preparations for market liberalisation and its implementation by politicians and official authorities were accompanied by inauspicious omens. Rätia Energie supports liberal and open markets in which it aims to trade prudently and responsibly in line with its guiding principles, in the firm belief that this is the best way to safeguard the interests of the company, the general public, shareholders and the community alike.

Balanced electricity mix

In addition to the ultimate structure of the regulatory framework, decisions on the optimal production mix are key to Rätia Energie's future business operations. Yet the political trends in some of Rätia Energie's markets are polarising. While Germany remains committed to an exit from nuclear energy, Italy is discussing ways of reversing the exit strategy. Political opinion on electricity generated by thermal power plants (gas and coal fired) is also divided. In Switzerland there are even calls for the state to intervene in the foreign activities of Swiss electricity utilities and prohibit them from investing in certain technologies.

Rätia Energie takes the view that pitting production technologies against each other is not the right approach, and that a mix of different types of technologies is required to ensure sufficient, reliable supplies. A combination of technologies is the only way to produce a cost-effective, ecologically acceptable and sufficient volume of electricity that also takes into account the specific characteristics of various European regions. In this context Rätia Energie is committed to renewable hydro power – one of the Group's core competencies. Likewise, wind power will also play an important role in Rätia Energie's portfolio, and thermal plants as well as interests in nuclear power plants will also be accorded a place. With this in mind, Rätia Energie is also working on projects that aim to build ultra-modern thermal power plants.

Rätia Energie in good shape

Despite difficult conditions and the continued existence of legal uncertainty in some markets, Rätia Energie believes it is well equipped to make an active contribution to future energy supplies in carefully selected key markets. It is the Group's declared objective to further penetrate the medium-sized customer segment in Italy and Germany, and the successful launch of gas sales in Italy in 2008 will help us to achieve this goal. Rätia Energie is now a firmly established player in Central/Eastern Europe: a position which will be underpinned over the next few years as activities are expended right along the value chain.

A vote of thanks

As in previous years, Rätia Energie enjoyed the support of a great many partners in 2008: The Board of Directors and Executive Board would like to take this opportunity to thank them all for the good working relationship. Special thanks go also to all our employees, whose hard work and dedication are the most important criteria for success.

Luzi Bärtsch
Chairman of the Board of Directors

Kurt Bobst
CEO

Focus on people

Investing in staff development

Motivated and professional employees are our most valuable resource. This is why Rätia Energie invests in staff development and attaches great importance to training. As shown here in a course for Dynameeting agents in Milan.

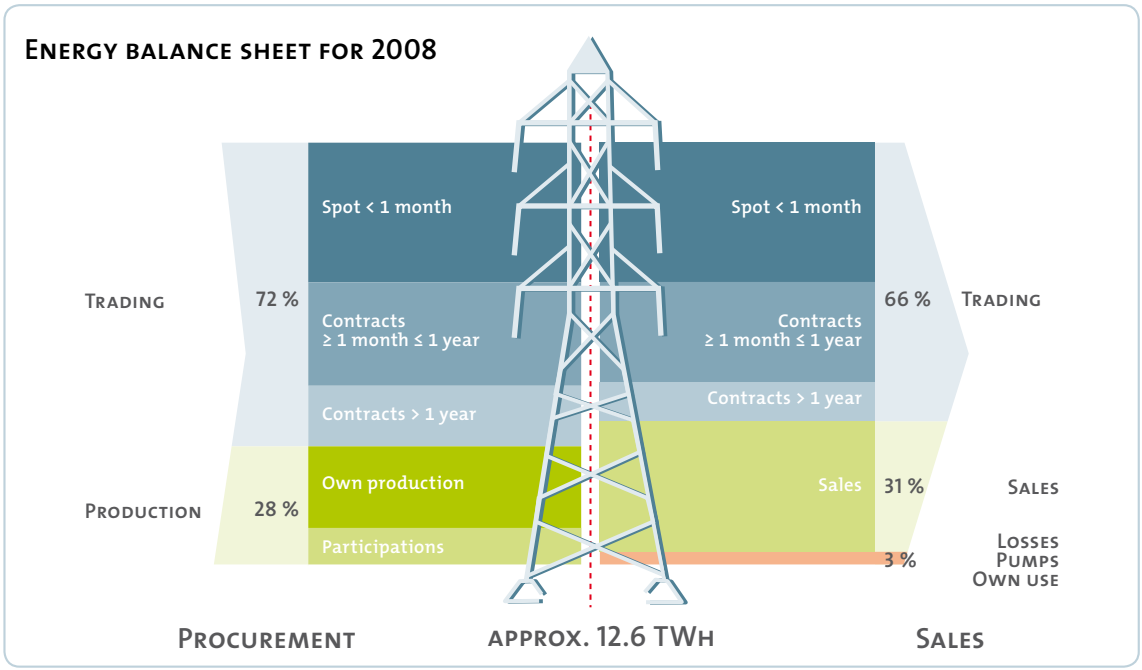
Market Division

The 2008 electricity year was marked by exceptionally high price volatility on the electricity markets. The year started with prices at a relatively low level, but towards mid-year, in line with the sharp rise in crude oil and coal prices, electricity prices reached a record high only to fall just as sharply again towards the end of the year. Along the way there were also exceptionally sharp short-term peaks and troughs. All in all, the prevailing mood on the markets was one of extreme nervousness. The chart on page 15 compares the volatile movements in electricity prices versus the prices of selected commodities.

These strong price movements presented major challenges to Trading, Risk Management and Controlling, which they tackled successfully. While major fluctuations in prices resulted in a value adjustment which also impacted the half-year results, corrective measures paid off in the second half-year, enabling various market opportunities to be exploited successfully.

More "held for trading"

In 2008 Rätia Energie's turnover of electricity amounted to almost 12.6 terawatt hours, 8.3 TWh of which was traded and close to 4 TWh used for supply and distribution. The volume of physically traded electricity fell by 32 per cent in 2008, due primarily to changed market conditions which also impacted the ratio between short-, medium- and long-term contracts. The volume of energy traded also fell due to several contracts which are coming to an end. Conversely, transactions in energy derivatives (held for trading) underwent strong



Sales through distribution activities are secured by energy from in-house production and participations.

growth in view of the liquid nature of the markets. The volume of electricity traded in these transactions increased year-on-year by over 150 per cent to around 18 TWh and with a gross margin of at least CHF 39 million made a substantial contribution to the year-end results. Rätia Energie expects this business to gain in importance in the future, and is accordingly planning to obtain accreditation on further energy exchanges. The held-for-trading business generates lower margins than the physical trading business.

Rising prices

Preparations for the forthcoming liberalisation of the electricity market dominated activities in the supply and sales business in Switzerland in the year under review. In a first step, large customers with annual consumption volumes of more than 100,000 kilowatt hours are now free to choose their electricity supplier as from 2009. These changes were accompanied by discussions regarding the general increase in energy prices, the outcome of which was an unfortunate political situation in which the rise in prices was incorrectly attributed to market liberalisation. Customer churn from existing basic-service suppliers to a free market player was kept within narrow boundaries, since the market prices were virtually indistinguishable from the tariffs currently charged by suppliers with a basic provision mandate. Rätia Energie takes the view that the free market should also be allowed to flourish in the energy sector, and that state intervention should be kept to a minimum.

In view of the global economic and financial crisis, price increases which had accrued in the course of 2008 were partially rolled back. Nevertheless, electricity and energy remain scarce commodities and are unlikely to become any cheaper. In many cases electricity is used as a substitute for other forms of energy, for example in heating systems, transportation or many industrial processes. Even if total energy consumption is reduced or at best stabilised through careful management, there is little chance that electricity consumption will fall in the long term. On the contrary, demand will rise.

It must therefore be assumed that energy prices in Europe will continue to rise in the medium term, with the associated impact on Swiss end customer prices which to date have been comparatively low. In line with its commitment to work with its customers to address this emerging trend, Rätia Energie maintains a continual dialogue with large Swiss customers. In view of the new price models introduced in 2007, based on the polluter-pays principle and harmonised in all the regions in which the Group operates, Rätia Energie saw no need to adjust prices for Swiss retail customers in 2009.

Deregulated markets also pave the way for more individual solutions and new products. In this context, Rätia Energie is able to draw on its experience of the already liberalised Italian and German markets, where RE subsidiaries deliver innovative products and services to meet the needs of their customers. Although the various markets differ widely in terms of status and situation, know-how is transferred between the different RE country organisations. Good experience was also acquired with the entry into the Italian market for control energy. This market will gain in importance with the growth in power generation from new renewable energy sources.

First full year of operations in Eastern Europe

Rätia Energie has successfully established itself in Central/Eastern Europe: 2008 was the first full trading year following the start of operations in the autumn of 2007. Rätia Energie has already become a key market player in this region, e.g. in the Czech Republic, Slovakia, Hungary and Romania, and intends to further expand this position. With this in mind, activities in the other countries in this region are also being stepped up. The mid-term strategy is to act as a vertically integrated company in these markets and operate as an asset-based trader. The task is therefore to develop proprietary production capacities and build up business with large customers and resellers.

First gas sales

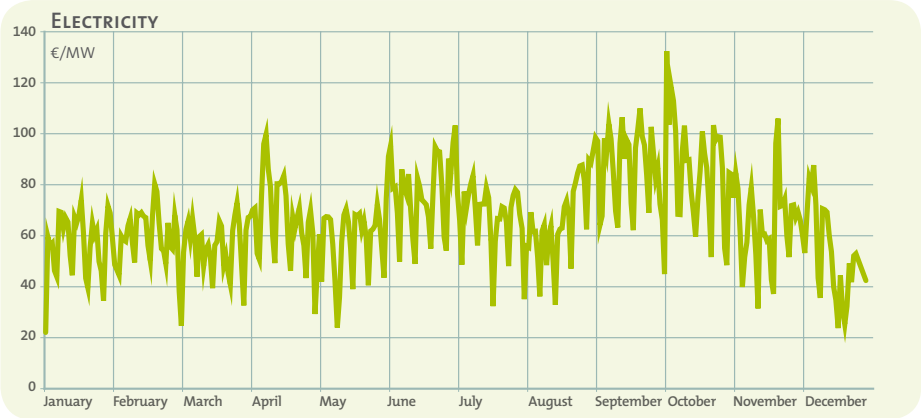
The Rätia Energie Group acquired its first gas customers in Italy in the course of 2008, delivering around 50 million cubic meters of gas to some 1000 buyers. In so doing, RE's subsidiary Dynameeting is catering to the needs of its SME customers for a one-stop solution for electricity and gas.

Swiss hydropower in demand

Demand for hydroelectricity and green energy is unabated. Including certificates, Rätia Energie's subsidiary Swisshydro sold 1793 GWh (+54.4 %) of electricity in 2008. Rätia Energie and its subsidiaries also sell proprietary green energy products on the market in Switzerland, Italy and Germany. RE is one of the European pioneers in this field and believes there is further potential to be tapped.

Shared trading platform

In the year under review the Rätia Energie Group made a concerted effort to set up a shared platform for the three trading floors in Poschiavo, Milan and Prague. The "Up-Trade" project, in which more than CHF 10 million is being invested, will enter the implementation stage in 2009 and become fully operational towards mid-2010. The aim of the project is to optimise collaboration between the three trading floors. Processes and internal procedures are to be simplified, and the conditions created for further development of trading activities (electricity, gas, CO2, green energy and other products). Controls and risk management are also being further developed. In view of increasing risks and ever more volatile markets, greater focus will be placed on analysis and research – areas which are accorded major importance by Rätia Energie and which will also be expanded. The same applies to trading and communication software, which is being enhanced with new applications. In 2008 trading also saw an increase in personnel, with further growth in headcount planned in the course of 2009. In mid-2009 the trading team in Poschiavo will move to a brand-new modern trading floor.



Electricity: spot prices, EEX base day rates.

CO_2: 2009 forward prices.

Coal: AP 2.

Oil: ICE Brent crude oil front month.

The diagram illustrates the high volatility of electricity prices in the course of 2008 (above) versus the prices of several commodities. Note the parallel price trend with a marked peak at end-June and the similar parallel in the price trend towards year-end.

Investments in production

Not only do power plants and grids need to be regularly serviced; from time to time they also need to undergo comprehensive renovation. The Küblis power plant was recently carefully renovated and upgraded to the latest state-of-the-art standards. A sound investment in the future.

State-of-the-art

Assets Division

The declared objective of Rätia Energie is to further expand its proprietary production assets within the boundaries of assured sales. In 2008 promising progress was achieved in various projects. The corporate strategy of Rätia Energie aims for a mix of technologies adjusted for the markets served by the Group. Renewable energies play a pivotal role in this mix. In Switzerland and south-east Europe the focus is on hydropower plants, while in Italy and Germany Rätia Energie is working on conventional thermal power plant projects as well as new wind farms.

Good hydrological year

Following several below-average years, 2008 was a good year in hydrological terms, resulting in favourable production conditions. The average volume of precipitation for the year, measured in Robbia (Poschiavo), was around one quarter above the 25-year mean. Moreover, in December reservoirs were around 90 per cent full: well above the level in previous years.

Despite this, the volume of proprietary production for 2008 fell by around 15 per cent year-on-year to 2,401 GWh. The reason for this decline was a change in the operating regime at the Teverola gas-fired combined-cycle power plant, prompted by gas and electricity price trends. In 2008 the facility was in operation for 6,282 hours and produced 1,797 GWh of electrical energy: around 20 per cent below the prior-year volume. This plant, which has been in operation since the end of 2006, is to be made more flexible in 2009 so that it can be deployed increasingly for the provision of control power. Production was also down at the Campocologno power plant due to comprehensive renovations in early 2008 which necessitated a three-month shutdown. The main work involved renewing the internal anti-corrosion system for the pressure pipe.

Investments in the grid

On 30 December 2008, the Federal Electricity Commission (ElCom) confirmed the special status of the 380-kV Bernina line up to the end of January 2011. This has simultaneously extended Rätia Energie's usage rights to this transit line, which it built and commissioned in 2005, until the end of January 2011. Work commenced in 2008 on the construction of a new 150kV connection between Campocologno and Tirano. The Italian regulator granted the partners Edison, Rätia Energie and the municipality of Tirano a capacity of 150 MW for a period of ten years. At the end of 2008 an ordinance created the legal framework for exemption from grid access in Switzerland. Rätia Energie's share of the investment amounts to around CHF 14 million. The 150 kV line over the Julier Pass between Bivio and Silvaplana was renovated over a period of three months in the autumn of 2008. The work was completed on schedule, and the new line went into operation before the onset of winter.

Interesting hydropower projects

When developing projects for power plants for electricity generated from renewable energy sources, the priority for Rätia Energie is on hydropower. With this in mind, Rätia Energie forged ahead with various projects in 2008. In autumn work began on construction of the 10-MW Taschinas power plant, which is scheduled for connection to the grid in spring 2011.

Further progress was also made in the Chlus project: this 40-MW facility with a planned production volume of around 160 GWh will utilise the gradient between Küblis and Landquart. In 2008 Rätia Energie drew up plans with the aim of submitting a licence project in 2009. A decision on the Tomül project (6.5 MW) is expected from the municipality of Vals in the course of 2009. Concessions for continuing use and expansion of the plants in Upper Poschiavo are also pending with the Federal Court. In 2008 talks were held with the involved parties to discuss possible project amendments or alternatives to the concession project. Based on the outcome of these talks, a petition was submitted to the Federal Court for a temporary suspension of the proceedings. The petition was granted, and the talks are being continued.

Thermal power plants

Rätia Energie is involved in various projects in Italy and Germany with a view to expanding its proprietary production capacity in these countries. RE is aiming to acquire a minority stake in a project of Süd-WestStrom Kraftwerk GmbH & Co. KG in Brunsbüttel to build a highly efficient, latest-generation coal-fired power plant with a total installed capacity of 1,800 MW in two blocks. Rätia Energie will acquire up to one quarter of the shares in this project. A similar project is being pursued by RE subsidiary SEI S.p.A. in Saline Joniche (Italy). The permit procedure aimed for in 2008 was suspended and subsequently recommenced. Due to expectations of delays, an impairment of CHF 16.4 million was recognised in accordance with IFRS ac-

Wind power is also gaining in importance at Rätia Energie: The Corleto Perticara wind farm (photo) will remain a fixture in the RE portfolio as the only plant of this type.

counting standards. Project development is ongoing, and the permit procedure is being further pursued. While both projects are the subject of political discussion, they comply with the latest environmental standards and are in keeping with the climate policy objectives of the countries concerned. Moreover, they will contribute to energy security in these countries, where thermal production will continue to play a key role in future.

Wind power with potential

Rätia Energie has a majority stake in a wind farm in Corleto Perticara (Italy), and intends to further expand the share of wind power in its production portfolio for Italy and Germany. Even now, together with controllable hydropower and in conjunction with conventional facilities, wind power makes an important contribution to electricity supplies in Europe. Yet its potential is far from exhausted. For this reason, Rätia Energie is pursuing relevant projects with the priority on Italy and Germany. For instance, the regional authorities in Lucera (Apulia) are expected to issue a positive assessment of the environmental compatibility of a wind farm project with fourteen 2-MW wind turbines. Agreements have already been signed with 60 per cent of the landowners in the region, and there are plans to expand capacity by another 10 turbines.

The weir at Klosters acts as a water catchment for the Küblis power plant. This is also where the allocation of water to Landquart is regulated.

Growth drives the need for more spac

e

Investments in new workplaces

Things are on the way up at Rätia Energie. A new building will soon be ready for occupation at the company's headquarters in Poschiavo. The positioning of the facade element with the RE logo symbolises the Group's growth.

Finance and Services Division

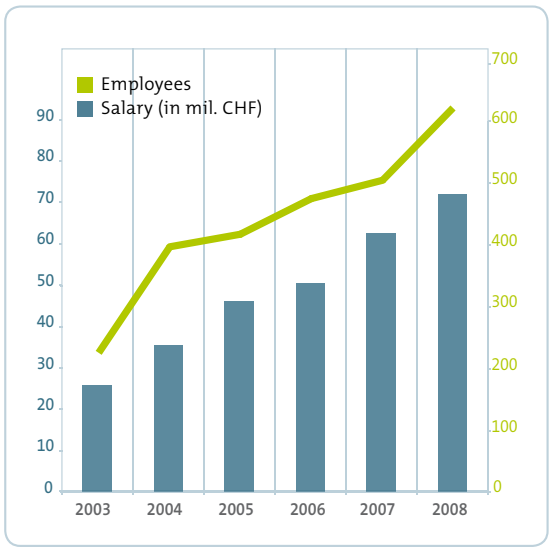
In 2007 Rätia Energie aligned the Group organisation in order to keep pace with the company's continuing growth, internationalisation and increasingly complex risks. The move was prompted, among other things, by a need to strengthen management capacities in order to tackle strategic challenges, accelerate Group-wide integration and provide the Group with a more effective structure for addressing the major challenges facing it. In 2008 the principles governing the harmonisation and standardisation of business were examined, revised and implemented in the support functions relevant for realisation of the Group's strategy. Developments on the financial markets also called for special efforts on the part of Rätia Energie, for instance in the area of Group-wide controlling and risk management.

Risk management and controlling stepped up

The move to expand risk management has proved well worth while, particularly in light of the international financial crisis and highly volatile price movements on the energy markets. The downturn in the financial markets has had little impact on Rätia Energie. Between spring and summer the company disposed of a number of securities positions such as shares and bonds. Currency conversion rates were closely monitored, and thanks to active currency management the results benefited from a gain on currency translations. Counterparty risks are managed by monitoring bank ratings and the creditworthiness of customers. Rätia Energie is also committed to ensuring sufficient liquidity in order to maintain a high level of financial leverage even in the more difficult financial climat.

Group accounting standards

Accounting and treasury activities were further integrated as part of the continuing move to implement the new Group organisation adopted in 2007. A Group accounting manual provides the basis for close collaboration between functions entrusted with accounting, so as to ensure that Group standards are applied consistently across all country organisations of the RE Group. Treasury was also restructured in line with the new organisation in the year under review. Here, too, internal agreements, clear assignment of authorities and responsibilities and consistent monitoring of limits ensure that the same principles are applied Group-wide.



In recent years the Rätia Energie Group has seen a strong and steady rise in payroll and employee numbers.

IT successfully outsourced

Outsourcing of standard IT systems to an external partner was completed at the end of 2008. This partner is now responsible for business-related IT operations at all company locations and ensuring the high availability of all systems. A help desk provides 24/7 year-round user assistance. System stabilisation, further development and IT security are accorded high priority. The outsourcing has freed up Group IT capacities for strategic IT functions. Here too the goal of applying universal standards across the Group was achieved.

New challenges in Switzerland

The electricity market in Switzerland is undergoing phased liberalisation. Since the beginning of 2009, large customers with an annual consumption volume of more than 100,000 kilowatt hours have been free to choose their electricity supplier. This liberalisation process necessitated intensive efforts on the part of Swiss energy suppliers during the lengthy preparation phase. Rätia Energie succeeded in completing the requisite preparations – for instance IT upgrades, separation of grid and energy costs and prices, grid access for third parties and billing – on schedule and is now ready for further steps towards full market liberalisation. At the same time Rätia Energie's subsidiary SWIBI was further developed to enable it to deliver its energy data management services, as well as remote metering for measurement and billing, increasingly to other energy suppliers. SWIBI staff numbers were increased by transferring personnel from Rätia Energie to the subsidiary. SWIBI also entered into a partnership with elog Energielogistik AG of St. Gallen. Rätia Energie is currently SWIBI's largest customer, but it also serves around a dozen energy suppliers in south-eastern Switzerland. Thanks to its realignment, SWIBI is now well placed to expand not only its customer base but also its geographical reach. There are also plans to offer third parties a stake in SWIBI.

Growing workforce

The growth of the Rätia Energie Group is also manifested in the higher number of employees. At the end of 2008 the Group had a workforce of 618, of which 454 in Switzerland, 121 in Italy, 24 in Central/Eastern Europe (Prague, Ljubljana, Bucharest, Zagreb and Sarajevo) and 19 in Germany. In addition the Group operates a network of 400 agents selling electricity in Italy, and employs 66 trainees in Switzerland. Due to this growth in headcount, the Rätia Energie Group is also stepping up its activities in the field of further training and career development.

Investments in transmission

Sometimes you have to achieve new heights to create something new. Like the team depicted here, building the new 150kV line over the Julier Pass. This link will perform an important task, ensuring the unrestricted flow of electricity for many years to come.

Teamwork at its peak

Rätia Energie is driving progress

Investments in new power plants in key markets, power lines, overhauls and maintenance, new premises for a growing workforce: over the past six years Rätia Energie has made investments totalling more than CHF 600 million, roughly half in Switzerland and half in Italy. The main beneficiary of these investments in Switzerland was the canton of Graubünden. This investment drive will be sustained at a high level over the next few years, despite the global financial crisis and a difficult economic climate. Interesting projects will be further pursued in all key markets, and will play their part in ensuring Group profitability and adding value both in the locations earmarked as well as in Rätia Energie's home territory. They give rise to contracts that benefit local trade and industry and help to boost employment.
The photographs in this annual report depict some examples of Rätia Energie's investment activities.

Where do the funds go?

Power plants: More than CHF 60 million was invested in renovation work on the Küblis power plant and other associated facilities in Prättigau. The plant is now state-of-the-art since the renovations were completed in 2006. The new concession for the Prättigau facilities entailed a payment of CHF 67 million, to be followed by another CHF 37 million at the beginning of 2012. This investment will enable the use of water for electricity generation for another 80 years. Rätia Energie built a modern gas-fired combined-cycle power plant in Teverola near Naples, in which some CHF 400 million was invested. Also in Italy, CHF 15 million was invested in the wind farm which went into operation in 2004. November 2008 saw the start of construction work on the Taschinas hydropower plant, in which around CHF 60 million is being invested. Over the next few years, new power plants based on a range of different technologies are to be built in all of Rätia Energie's key markets. Swiss hydropower will be a key priority, with major investments planned in Prättigau and Poschiavo in particular. Together with proprietary projects or holdings in thermal power plants and wind farms, these investments in Rätia Energie's own production portfolio are important for the Group's further successful development.

Power lines: An efficient, well-maintained line network is essential for security of electricity supplies. Rätia Energie is also strongly involved in this area. The 380-kV Bernina line, which went into operation in 2005 and has significantly expanded cross-border capacities to Italy, represented a major investment spread over several years. The same purpose will be served by the 150-kV merchant line currently being built between Campocologno (Switzerland) and Tirano (Italy), in which Rätia Energie and partners are investing more than CHF 25 million. Likewise, around CHF 10 million was invested in the total renovation of the 150-kV line over the Julier Pass in 2008. Transmission and distribution also necessitate the provision and upkeep of substations and transformers.

Modern infrastructures: The growing headcount at Rätia Energie is driving the need to provide modern workplaces with state-of-the-art equipment, and – in the case of many locations - new premises. Existing premises in Milan were completely refurbished to cater to the needs of Rezia Energia Italia and Dynameeting. The building now offers a modern working environment for more than 100 employ-

ees, complete with training facilities and meeting rooms. The head office in Poschiavo is undergoing structural renovations, primarily in the form of a new building for around 60 workplaces, which will be ready for occupation in mid-2009.

Overhauls and maintenance: Careful maintenance and regular overhauls ensure the safe, reliable operation of all facilities. Rätia Energie invests substantial sums of money in such efforts. A typical example in 2008 was the renovation of the Monte Scala – Campocologno pressure line, which was given a new anti-corrosion coating along the length of its interior. Preparations are also underway to renovate the pressure tunnels that connect Lake Davos with the Klosters power plant.

Electricity – and Rätia Energie – are driving progress

Electricity is the engine that drives the economy and the community. Electricity provides the basis for development and progress, comfort, mobility and dynamic growth. As the above examples show, this is true not only of the product, but also for the electricity business as a whole. When it comes to investments, Rätia Energie – the only integrated, internationally active electricity company in the canton of Graubünden – is just as true to its maxim of “Strong roots in Graubünden – at home throughout Europe”.

Nature and technology working in harmony

Investments in new power plants

Harnessing energy from water is a core competence at Rätia Energie. When technology and nature work hand-in-hand, the result is a highly ecological form of energy generation. The waters of the River Taschinas in the Prättigau will also soon be harnessed: this is where the water catchment is being built for the new Taschinas power plant.

Significant shareholdings

Rätia Energie Klosters AG (REK)

Rätia Energie AG holds 99.9 % of the shares in REK and is responsible for managing the company. In the year under review, REK produced 245 GWh of electricity (+ 4.7 %) from its own power plants. The volume supplied to customers in the Prättigau, Rhine Valley and Upper Engadine regions totalled 341 GWh (+ 5.2 %). REK recorded total operating revenue of CHF 83 million.

Rätia Energie Ilanz AG

Rätia Energie Ilanz AG and the aurax group of companies supply the Upper Surselva region with electricity and are active in the fields of communications networks, electrical installations and grid services. In the year under review, 159 GWh of electricity (+ 3.9 %) were delivered to around 21,000 withdrawal points in the supply region, generating net sales of CHF 32 million (+ 6.7 %). Including installation business and other services, total operating revenue amounted to CHF 63 million.

SWIBI AG

SWIBI specialises in the provision of various services for energy supply companies and has its registered office in Landquart. The company offers its customers services in the field of energy data management, metering and billing.

Rezia Energia Italia S.p.A.

Rezia Energia Italia S.p.A. further consolidated its position in the Italian market in 2008. It is also active in the gas business. The total volume of energy sold amounted to 5,117 GWh (- 16.9 %), generating net sales of CHF 848 million (+ 15.5 %).

Dynameeting S.p.A.

This company with a staff of 51 sells electricity to medium-sized consumers throughout Italy via a network of some 400 agents, and is a fully-owned subsidiary of Rätia Energie. In 2008 the company recorded net sales in excess of CHF 785 million and an energy volume of 3,644 GWh (+ 14.5 %). Dynameeting also supplies many of its customers with gas.

RE Trading CEE s.r.o.

RE Trading CEE s.r.o. (Prague, Czech Republic) has been operating since 2007. At the end of the year under review the company had more than 19 employees and had turned over 6,322 GWh in wholesale electricity in Eastern Europe (held for trading), generating gross income of CHF 35 million. Primarily for regulatory reasons, Rätia Energie has created other companies in nine Central/Eastern European countries (including Slovenia, Romania, Hungary and Poland). Subsidiaries are also operated in Ljubljana (Slovenia), Bucharest (Romania), Zagreb (Croatia) and Sarajevo (Bosnia and Herzegovina).

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. The plant went into operation at the end of 2006 with an installed capacity of 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 and is responsible for its management. The plant produced 1,797 GWh of electricity in 2008, some of which was sold on the control energy market.

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 green power in the year under review.

Grischelectra AG (GEAG)

Rätia Energie has a stake of around 11 % in GEAG, a company established for the purpose of utilising the energy from shareholdings and the annual cost energy to which the Canton of Graubünden and the licensed municipalities are entitled. The major producer in the GEAG package is Engadiner Kraftwerke AG, which generates 263 GWh. In 2008 Rätia Energie marketed the entire GEAG energy package totalling 642 GWh (+ 19.1 %). This energy will now be available to Rätia Energie until 2040.

Kraftwerke Hinterrhein AG

Rätia Energie has a 6.5 % interest in Kraftwerke Hinterrhein AG. This partner plant produced 1,458 GWh of electricity in 2008 (+ 5.0 %). Rätia Energie purchases a total of 19.3 % of the company's entire production volume. In addition to the 95 GWh of energy to which it is entitled as shareholder, Rätia Energie also markets the share of the energy to which the Canton of Graubünden is entitled, which is generated by Kraftwerke Hinterrhein AG and transferred to Grischelectra. The company operates three power plants – Ferrera, Bärenburg and Sils i.D. – and the concessions are valid for another 35 years.

AKEB Aktiengesellschaft für Kernenergie-Beteiligungen (AKEB)

Rätia Energie has a 7 % stake in AKEB. AKEB's energy comes from the French nuclear power plants in Bugey and Cattenom, as well as from the Leibstadt power plant. The portion from the Leibstadt nuclear power plant to which Rätia Energie is entitled as a shareholder was assigned to third parties, with the result that it purchased a total of 243 GWh from AKEB in 2008.

Corporate Governance

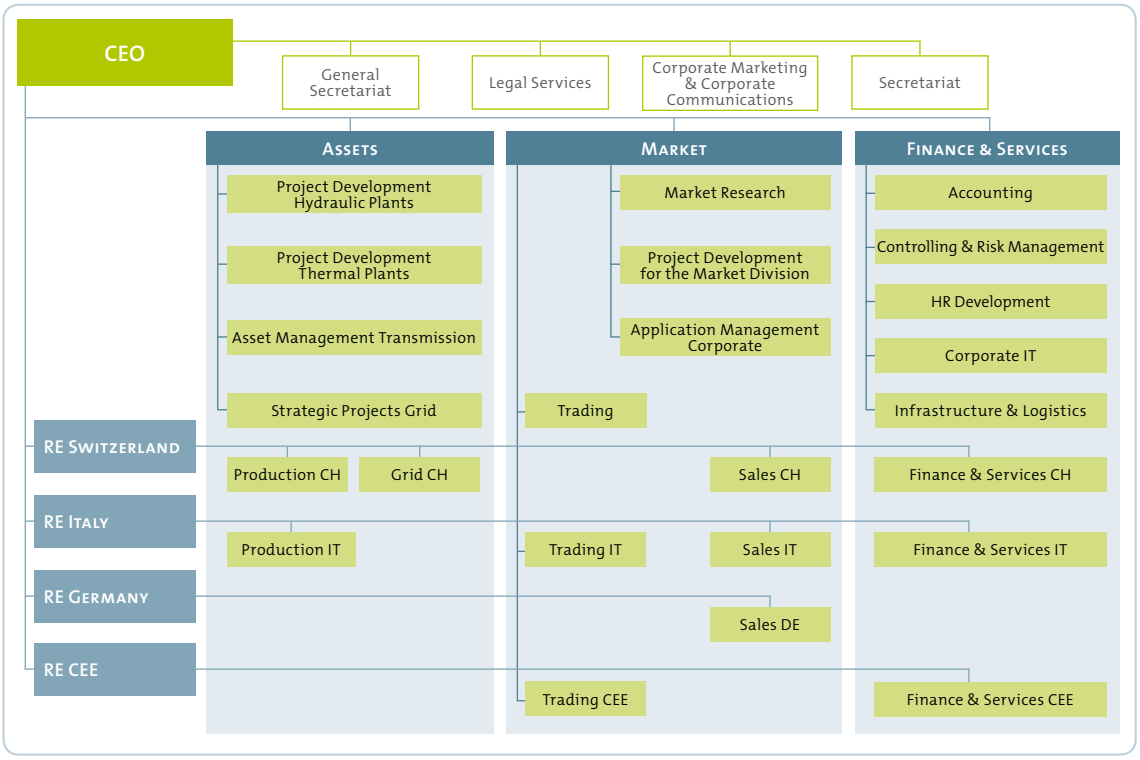
Basic Principles

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

The principles of corporate governance are laid down in the Articles of Association (English text available at www.repower.com/en/ch/raetia-energie-gruppe/organisation/corporate-governance under "Articles of Association of Rätia Energie AG) 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 in Brusio in the Canton of Graubünden, and its mailing address is in Poschiavo. Rätia Energie AG is a vertically integrated electric power company with activities along the entire value chain (power generation, trading, transmission, sales and distribution). The business operations of the Rätia Energie Group are carried out in divisions and country organisations. There are three divisions and four country organisations.



Organisational structure of the RE Group

The **Assets Division** coordinates the management of plants and systems relating to the production, transmission and distribution of electrical energy in the individual country organisations, implements and evaluates new assets relating to the production of electrical energy and the transmission system, operates the transmission system and devotes its activities to the general development and expansion of production facilities for the RE Group.

The **Market Division** manages energy trading in Switzerland, Italy and other selected European markets as well as trading in renewable energies, and conducts market analyses. It is also responsible for expanding energy trading in Switzerland, Italy and selected European markets, as well as building up sales in selected European markets and overseeing the related projects. The division also coordinates the sales activities of the country organisations.

The **Finance and Services Division** manages the functions Group Accounting, Corporate Treasury, Group Controlling and Risk Management, Corporate IT, HR Development, Real Estate and the Mergers & Acquisitions Department.

Country organisation Switzerland (RE Switzerland): RE Switzerland is responsible for sales of electrical energy and the operational management of both plants and systems to produce electrical energy as well as the distribution grid (operation and maintenance) in Switzerland; RE Switzerland also maintains Rätia Energie's transmission system in Switzerland.

Country organisation Italy (RE Italy): RE Italy is responsible for sales of electrical energy and gas, as well as the operational management (operation and maintenance) of plants and systems for the production of electrical energy in Italy.

Country organisation Germany (RE Germany): RE Germany is responsible for sales of electrical energy in Germany.

Country organisation Eastern Europe (RE CEE): RE CEE is responsible for the operating business in Central and Eastern European markets.

The individual activities are managed by Rätia Energie AG rather than under the aegis of separate legal structures. However, if management by Rätia Energie AG is deemed impossible or inefficient for legal, fiscal or regulatory reasons, or if new legal entities are acquired (for example through acquisition), management is handled by legally independent subsidiaries. An overview of holdings is given on pages 80 and 81, and additional information on significant shareholdings is provided on pages 32 and 33. Since Rätia Energie Klosters AG, Swisshydro AG, Rätia Energie Immobilien AG and Energia Sud S.r.l. do not have their own staff, these companies are managed under special operating and management agreements. Rezia Energia Italia S.p.A., Dynameeting S.p.A., Energia Sud S.r.l., SET S.p.A., RE Trading CEE s.r.o, Deuto Energie GmbH AG, SWIBI AG and Elementerra GmbH 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 independently of Rätia Energie. As a rule, Rätia Energie is represented on the Board of Directors of these holdings.

Rätia Energie bearer shares and participation certificates are listed on the SIX Swiss Exchange. There are no restrictions on the transfer of shares, except as relates to the mandatory offer requirement under Swiss securities law in the event of a public takeover. The Canton of Graubünden 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. The principal shareholders are committed to one another through a shareholders' agreement. No cross-shareholdings exist.

Capital structure

The share capital (equity information supplementing the balance sheet is given on pages 4 and 94 of the financial statements) of Rätia Energie AG consists of 2,783,115 bearer shares (Securities No. 1640583) and 625,000 participation certificates (Securities No. 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 1.32 billion at the end of 2008.

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 on that of any other Group company. In the three fiscal years preceding the year under review, no member of the Board of Directors was entrusted with any executive functions within 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 executive functions for the principal shareholders Atel and EGL or their affiliated companies. Normal business relations exist with these companies.

Election and term of office

The members of the Board of Directors are elected by the Annual General Meeting for a three-year term. The election procedure is based on the principle of total renewal whereby the members are generally elected collectively as a group in a single ballot. Newly elected members assume the term of office of their respective predecessor. As the last regular election was held at the 2008 Annual General Meeting, the term of office of all members of the Board of Directors will expire at the 2011 Annual General Meeting. The Board of Directors currently consists of twelve members, which is the maximum permissible number under the Articles of Association. Reelection 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 auditing 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. 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 all 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. The Board Committee also reviews the status of company compliance with various standards (annual compliance report). 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 concerning compensation at senior management level. It has the authority to define the terms and conditions of contracts of employment for Executive Board members. It ensures that the company offers competitive, performance-based total compensation packages in order to attract and retain individuals with the necessary skills and attributes.

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 CEO of the Rätia Energie Group, the deputy CEO, the other members of the Executive Board as well as the country heads.

The Chairman of the Board of Directors, together with the Secretary to the Board and the CEO, draws up the agendas for meetings of the Board of Directors and the Board Committee. Members of these two boards generally receive proposals relating to each agenda item eight days in advance of meetings; these proposals include background documentation as well as an

evaluation and a motion by the Executive Board and the Board Committee. The Board of Directors meets as often as business requires but at least twice a year; 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 CEO requests a meeting in writing, specifying the reason. In the year under review the Board of Directors met five times and the Board Committee six times. The normal meeting duration for both bodies is half a day.

Members of the Executive Board generally attend 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 a casting vote. Minutes are taken of the business and resolutions of the Board of Directors and are 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. 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 the Rätia Energie Group as well as the corporate policy in all sectors, and makes decisions regarding short- and long-term business planning (annual and medium-term planning). It also deals with the organisational structure, accounting structure, internal control system and financial planning, the appointment and discharge of the persons entrusted with management and representation (namely the CEO, deputy CEO and the other members of the Executive Board), preparation of the Annual Report, 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 CEO. The CEO 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.com/en/ch/raetia-energie-gruppe/organisation/corporate-governance.

Information and control instruments vis-à-vis 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 ap-

proving 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, revenue and procurement, the income statement and balance sheet (including expected values for the most important key figures, namely energy sales, total operating revenue, operating income, profit, investments, property, plant and equipment, balance sheet total, equity, return on equity and EBIT margin), risks in energy trading (market risks and counterparty risks) and key projects. The Board of Directors also receives quarterly reports and final performance reports on key projects, as well as – if specifically requested – status reports on individual business activities. A performance report was drawn up in the year under review on the introduction of new ERP (Enterprise Resource Planning) software. In the year under review, status reports on sales in Italy and sales activities in Germany were requested and noted. 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. Rätia Energie has a risk management system which is described in detail in a concept issued by the Board of Directors. The Board of Directors establishes the risk strategy during the first six months of each year. Significant risks must be brought to the attention of the Board of Directors at least once a year, with quarterly updates to advise the Board of Directors of any changes in these risks. A detailed description of the risk and financial risk management policies of the Rätia Energie Group can be found on pages 74 to 79.

Executive Board of the RE Group

Kurt Bobst	CEO (Chairman of the Executive Board of the RE Group)
Felix Vontobel	Head of Assets / Deputy CEO
Martin Gredig	Head of Finance and Services (CFO)
Giovanni Jochum	Head of Market

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

Compensation, shareholdings and loans

Nature and method of determining compensation

Under the Articles of Association, incumbent members of the Board of Directors receive compensation based on their workload and responsibilities. This consists of a fixed compensation plus meeting expenses. The compensation is not dependent on company performance and is set by the Board of Directors.

Compensation for members of the Executive Board comprises a fixed basic salary plus a variable bonus, which can amount to up to 40 % of the annual basic salary if operating targets are met, as well as a profit-based bonus which is set at the end of a three-year assessment period. The fixed basic salary and the variable bonus are defined annually by the Board Committee in its capacity as compensa-

tion committee. The bonus depends on whether the financial targets of the Rätia Energie Group and personal performance objectives are met. EBIT, EVA (Economic Value Added) and the net debt/EBITDA figures of the Rätia Energie Group serve as common goals and are weighted to account for 50 % of the bonus determined. Between five and seven personal performance goals are set for each member of the Executive Board and also account for 50 % of the bonus determined.

The aim of the profit-based bonus, which was first implemented for the 2007 financial year, is to drive the company's medium-term strategic direction and sustainably enhance corporate value. It will be paid out at the end of a three-year period (the first period being from 2007 to 2009) and, should 100 % of the target figure be reached, can account for 30 % of the fixed basic salary in the third year of the assessment period. The performance targets are based on the cumulative strategic key figures of the Rätia Energie Group (EBIT/EVA) and were determined at the beginning of the assessment period. The Board of Directors based its decisions on the Executive Salary Study Switzerland (Kadersalärstudie Schweiz) as well as the knowledge and experiences of its members in the electricity sector.

The CEO submits to the Board Committee, in its capacity as compensation committee, a proposal as to how the individual compensation components are to be determined; the Committee makes the final decision. Individual performance is 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. All compensation components take the form of compensation in cash. The Board Committee must brief the Board of Directors on the progress of the bonus-setting and compensation process. This is done by means of minutes to be submitted immediately following meetings on such matters, as well as a verbal briefing by the Chairman of the Board of Directors at the next meeting of the Board of Directors. During the financial year, two meetings were held by the Board Committee in its capacity as compensation committee for the purpose of setting compensation. Members of the Executive Board and the remaining members of the Board of Directors may neither attend nor participate in any meetings of the Board Committee in its capacity as compensation committee. However, the CEO and the CFO are called on in an advisory capacity for certain parts of these meetings.

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 in this regard. 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. No severance payments have been agreed.

Auditors

The Board Committee is responsible for supervising and controlling the 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 907,207 for their auditing services for the Group and CHF 219,902 for other consulting services.

Supervision and control instruments vis-à-vis 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 auditors in charge. 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 auditors draw up for the Board of Directors a comprehensive report on accounting practices, internal controls, the performance and results of the audit, the findings of which must be commented on by the Executive Board. Representatives of the external auditors attended one meeting of the Board of Directors in the 2008 financial year.

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 Shareholders. Important developments are communicated via press releases (link to request press releases by e-mail: www.repower.com/investornews). The website www.REpower.com, which is regularly updated, serves as an additional source of information.

Events after the balance sheet date

No significant changes have arisen since the balance sheet date.

Annual General Meeting 2008.

Board of Directors

Board of Directors (elected until the 2011 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 – 1986)
- Member of Executive Council of Canton of Graubünden (1987 – 1998)

Current
- Consulting and Board of Director mandates, since 1999

Other activities and functions
Positions on boards of major corporations, 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 and 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 Graubünden (1979 – 1990)

Current
- Lawyer and notary since 1991

Other activities and functions
Positions on boards of major corporations, organisations and foundations
- Chairman of the Board of Engadiner Kraftwerke AG
- Vice Chairman of the Board of Rätia Energie Klosters AG
- Member of the Boards of Directors of aurax ag, Grischelectra AG 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, primarily in strategic and operational planning, controlling, sales and business development, Aare-Tessin AG für Elektrizität (Atel), from 1975 to 1991

Current
- Member of the Executive Board of Alpiq Holding AG and Head of Financial Services (CFO) since 1992

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

Dr. Guy Bühler (1964)

Swiss citizen, Dr. ès sciences économiques

Member of the Board since 2008
Member of the Board Committee

Professional career

Previous
- Head of Spot Trading, Elektrizitäts-Gesellschaft Laufenburg AG (EGL) (1994 to 2002)
- Head of Trading, Deriwatt (2003 – 2004)
- Head of Strategy, Asset Management and Tolling, EGL (2005 – 2007)

Current
- Member of the Executive Board of EGL and Head of Assets since 2007

Other activities and functions

Positions on boards of major corporations, organisations and foundations
- Chairman of the Boards of AKEB Aktiengesellschaft für Kernenergie-Beteiligungen and ENAG Energiefinanzierungs AG
- Member of the Board of Directors of Kernkraftwerk Leibstadt AG

Jörg Aeberhard (1953)

Swiss citizen; lic. iur.,

Lawyer and notary

Professional career

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

Current
- Head of Hydraulic Production at Atel since 1997

Other activities and functions

Positions on boards of major corporations, organisations and foundations
- Member of the Boards of Directors of Rätia Energie Klosters AG, aurax ag Engadiner Kraftwerke AG and Kraftwerke Hinterrhein AG

Christoffel Brändli (1943)

Swiss citizen, mag. oec. HSG

Member of the Board since 1996

Professional career

Previous
- Member of Executive Council of Canton of Graubünden (1983 – 1994)

Current
- Business consultant since 1994

Other activities and functions

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

Rudolf Hübscher (1947)

Schweizer; Reallehrer

Mitglied des Verwaltungsrates seit 2000

Professional career

Previous
- Mayor of Klosters-Serneus (1994 – 2008)

Current
- Secondary 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 - 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 – 1982)
- Defence Services Group, project engineer and section head (1982 – 1987)
- Various positions at Von Roll Betec AG, latterly as Head of Business Unit (1990 – 1998)

Current
- Member of the Executive Board of Nordostschweizerische Kraftwerke AG and Head of Hydraulic Energy since 1998

Other activities and functions

Positions on boards of major corporations, organisations and foundations
- Chairman of the Boards of Directors of Kraftwerke Hinterrhein AG and Kraftwerke Vorderrhein AG (KVR)
- Member of the Boards of Directors of aurax ag, Blenio Kraftwerke AG, Grande Dixence SA, Force Motrice de Mauvoisin SA and Kraftwerke Zervreila AG

Permanent positions with important interest groups
- Member of the Executive Board of Schweizerischer Wasserwirtschaftverband (Swiss Water Management Association)

Dr. Martin Schmid (1969)

Swiss citizen, Dr. iur., lawyer

Member of the Board since 2008

Professional career

Previous
- Assistant at the Institute for Financial Science and Financial Law/IFF, University of St. Gallen, part-time positions with PricewaterhouseCoopers and part-time free-lance lawyer (1997 – 2002)
- Member of Cantonal Executive Council, Head of the Department for Justice, Security and Health (2003 – 2008)

Current
- Member of Cantonal Executive Council, Head of Department of Finance and Municipalities since 2008

Other activities and functions

Positions on boards of major corporations, organisations and foundations
- Vice Chairman of the Board of Kraftwerke Hinterrhein AG
- Member of the Steering Committee of the Conference of Cantonal Governments

Permanent positions with important interest groups
- Chairman of the Association of Alpine States (Arge Alp)

Official functions and political offices
- Member of Executive Council of the Canton of Graubünden

Dr. Hans Schulz (1959)

German citizen, Dr. Ing. Mechanical Engineering, Certified Industrial Engineer

Member of the Board since 2008

Professional career

Previous

- Head of Coating Division of Balzers and Leybold (later renamed Coating Services Division (Balzers) of Unaxis), Head of Balzers Thin Films Division, from 1999 member of the extended Executive Board of Unaxis (1996 – 2005)
- Member of Executive Board of Nordostschweizerische Kraftwerke, Head OF NOK Grid, Head of NOK Trading and Sales (2006 – 2007)

Current

- CEO of EGL

Other activities and functions

Positions on boards of major corporations, organisations and foundations

- Member of the Boards of Directors of Elektrizitätswerk des Kantons Schaffhausen AG, Nordostschweizerische Kraftwerke AG and Centralschweizerische Kraftwerke AG
- Member of the Executive Board of Axpo Holding AG

Permanent positions with important interest groups

- Member of the Executive Board of Swisselectric

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 – 1978)
- Managing Director of Nuclear Assurance Corporation (1978 – 1987)
- Managing Director of KBF Zürich (1987 – 1998)
- Director of Maggia Kraftwerke AG and Blenio Kraftwerke AG (1998 – 1999)

Current

- Member of the Executive Board of Atel Holding AG and Head of Energy Western Europe Division 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 Boards of Kernkraftwerk Gösgen-Däniken AG, A2A S.p.A. and Edipower S.p.A.

Executive Board

Kurt Bobst (1965)

Swiss citizen, federally certified controller

CEO since 2008

Previous senior positions

- Head of Administration at SABAG Hägendorf (1985 – 1992)
- Head of Financial Accounting at Atel (1992 – 1995)
- Business consultant at PwC and A.T. Kearney (1995 – 2001)
- Head of Business Area Consulting at Pöyry Energy, CEO of Pöyry Energy AG Switzerland (2002 – 2008)

Other activities and functions

Positions on boards of major corporations, organisations and foundations

- Vice Chairman of the Board, Grischelectra AG
- Member of the Boards of Directors of Kraftwerke Hinterrhein AG and AKEB Aktiengesellschaft für Kernenergie-Beteiligungen

Permanent positions with important interest groups

- Member of the Executive Board, Association of Swiss Electricity Suppliers (VSE)

Felix Vontobel (1958)

Swiss citizen, dipl. Elektroingenieur FH

Since 1987: Kraftwerke Brusio / Rätia Energie
Since 1992: Deputy Director of Kraftwerke Brusio
Since 2000: Deputy CEO
Head of Assets

Previous senior positions

- Commissioning engineer at BBC (ABB) (1982 – 1985)
- Project manager and commissioning engineer for biotechnology research and production installations at Bioengineering AG (1985 – 1987)

Martin Gredig (1965)

Swiss citizen, lic. oec. publ.

Since 1999: Kraftwerke Brusio/Rätia Energie
Since 2000: Member of the Executive Board, Rätia Energie
Head of Finance and Services (CFO)

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

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 Market

Previous senior positions
- Auditor with Revisuisse Price Waterhouse (1990 – 1992)

Notes

Notes

Investments in electricity exchanges

Transcending boundaries, opening up new horizons and capitalising on opportunities: these are the trading maxims to which Rätia Energie is committed. In keeping with these principles, a number of promising projects have been launched such as the new merchant line between Switzerland and Italy. Here in Tirano, where Switzerland's Poschiavo River flows into Valtelllina in Italy, the switching station for the line is being built.

Markets that transcend borders

RÄTIA ENERGIE

Financial Report

Consolidated Financial Statements of the Rätia Energie Group

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Consolidated Financial Statements

Comments on the consolidated financial statements

Group profit significantly higher

Rätia Energie posted excellent results in the year under review. At CHF 94 million, Group profit was the highest recorded since the Rätia Energie Group's foundation. Total operating revenue increased by 6 % to CHF 1.971 billion compared to CHF 1.863 billion in 2007. This increase is attributable on the one hand to developments in international electricity trading, and on the other hand to consistent implementation of the Group's growth strategy which resulted in a significant improvement in the trading and annual results not only Switzerland and Italy but also in the East European market, where Rätia Energie has been active since 2007. The operating result rose by CHF 112 million year-on-year to CHF 185 million.

The result generated by the energy business was CHF 126 million higher at CHF 385 million (2007: CHF 259 million). The financial year was characterised by a highly volatile market environment. Energy derivatives trading was further consolidated, generating a net result of CHF 39 million: an increase of CHF 35 million compared to 2007. In addition to the encouraging growth in international electricity trading, Rätia Energie successfully tackled the challenges presented by the electricity market. The trading activities which were launched in the Czech Republic in 2007 were strengthened in Central/Eastern Europe in the year under review. In Switzerland, the Group's proprietary power plants in Poschiavo and Prättigau benefited from good water levels.

Operating expenses rose by CHF 21 million to CHF 176 million (2007: CHF 155 million), primarily due to higher personnel expenses directly related to the Rätia Energie Group's growth strategy. In addition, the position "Concession fees" contains a provision for the reversion waiver in Prättigau, as a result of an agreement with the concession municipalities to replace the results-related compensation spread over the concession term with a one-off payment to be billed in 2011.

Depreciation and amortisation also covered value adjustments of CHF 16 million on power plant projects for which the probability of implementation was downgraded.

The financial result was impacted by currency factors. Whereas deferred income tax liabilities were reduced in 2007 as a result of a tax rate adjustment in the canton of Graubünden, the tax calculation for 2008 contains no special factors.

Group profit including minority interests was significantly higher than the prior-year result of CHF 75 million, ending the year at CHF 94 million: the best result ever recorded by the Rätia Energie Group.

Sustainable balance sheet structure

Non-current assets increased by CHF 26 million to CHF 1.181 billion (2007: CHF 1.155 billion). Due to the lower value of the euro, the effect of currency factors on property, plant and equipment amounted to CHF 48 million. Other financial assets rose by CHF 60 million due to a prepayment for long-term electricity purchases.

Current assets ended the year around CHF 260 million higher, mainly due to increases in inventories

(+ CHF 10 million), receivables (+ CHF 78 million), cash and cash equivalents (+ CHF 19 million) and positive replacement values related to the energy derivatives business, as well as a reduction of CHF 51 million in securities and other financial instruments. At 31 December 2008 the Rätia Energie Group had liquid assets amounting to CHF 171 million (2007: CHF 153 million).

Non-current liabilities rose by CHF 29 million, with provisions increasing by CHF 18 million and deferred tax liabilities by CHF 11 million. Current liabilities were CHF 202 million higher. This increase is attributable, among other things, to negative replacement values amounting to CHF 179 million from energy derivatives trading.

Total assets increased by 15 % to CHF 2.2 billion. At CHF 824 million, equity continues to provide a solid financial basis for the Rätia Energie Group's growth strategy, corresponding to a ratio of 38 %.

Consolidated Financial Statements

Consolidated Income statement

CHF thousands	Note	2007	2008
Net sales		1 826 351	1 926 549
Own costs capitalised		9 561	12 053
Other operating income		27 487	32 431
Total operating revenue	1	**1 863 399**	**1 971 033**
Energy procurement		- 1 566 726	- 1 541 398
Concession fees		- 13 780	- 7 029
Personnel expenses	2	- 62 490	- 72 072
Material and services		- 41 640	- 44 932
Other operating expenses		- 37 420	- 51 653
Income before interest, income taxes, depreciation and amortisation		**141 343**	**253 949**
Depreciation/amortisation and impairment	3	- 68 673	- 68 902
Income before interest and income taxes		**72 670**	**185 047**
Financial income	4	28 014	33 581
Financial expenses	5	- 31 384	- 83 555
Share of results of associates and partner plants	6	934	39
Income before income taxes		**70 234**	**135 112**
Income taxes	7	4 767	- 40 954
Group profit including minority interests		**75 001**	**94 158**
Share of Group profit attributable to Rätia Energie shareholders and participants		73 961	96 404
Share of Group profit attributable to minority interests		1 040	- 2 246
Earnings per share (undiluted)	8	CHF 21,78	CHF 28,40

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

Consolidated Financial Statements

Consolidated Balance Sheet

Assets CHF thousands	Note	**31.12.2007**	**31.12.2008**
Property, plant and equipment	9	1 091 205	1 041 341
Intangible assets	10	14 133	14 539
Investments in associates and partner plants	6	28 756	31 017
Other financial assets	11	18 379	78 582
Deferred tax assets	7	3 238	15 867
Non-current assets		**1 155 711**	**1 181 346**
Inventories	12	14 804	25 294
Receivables	13/25	471 029	549 117
Prepaid expenses and accrued income	24	7 539	11 031
Securities and other financial instruments	14	54 619	3 447
Positive replacement values, energy derivatives	15	41 597	243 660
Cash and cash equivalents	16	152 665	171 391
Current assets		**742 253**	**1 003 940**
Total assets		**1 897 964**	**2 185 286**

Liabilities and shareholders' equity CHF thousands	Note	**31.12.2007**	**31.12.2008**
Share capital	17	2 783	2 783
Participation capital	17	625	625
Treasury shares		- 12	- 16
Capital reserves		17 732	17 732
Fair value adjustment of financial instruments		- 113	- 1 604
Retained earnings (including Group profit)		682 119	758 044
Accumulated translation differences		7 717	- 5 098
Shareholders' equity excluding minority interests		**710 851**	**772 466**
Minority interests		57 228	51 606
Shareholders' equity		**768 079**	**824 072**
Non-current provisions	19/20	72 163	90 770
Deferred tax liabilities	7	81 363	92 122
Non-current financial liabilities	18	381 375	382 836
Other non-current liabilities	21	58 491	57 091
Non-current liabilities		**593 392**	**622 819**
Current income tax liabilities		31 458	30 654
Current financial liabilities	23	47 327	74 978
Negative replacement values, energy derivatives	15	34 032	213 073
Current provisions	19/20	28 725	2 650
Other current liabilities	22/25	374 055	392 137
Deferred income and accrued expenses	24	20 896	24 903
Current liabilities		**536 493**	**738 395**
Liabilities		**1 129 885**	**1 361 214**
Total liabilities and shareholders' equity		**1 897 964**	**2 185 286**

Consolidated Financial Statements

Changes in consolidated equity

CHF thousands	Share capital	Participa-tion capital	Treasury shares	Capital reserves	Fair value adj. for fin. instr.	Retained earnings	Accu-mulated translation differences	Total Group equity	Minority interests	Total share-holders' equity
Equity at 1 January 2007	**2 783**	**625**	**- 13**	**17 732**		**622 851**	**3 516**	**647 494**	**52 885**	**700 379**
Effect of currency translations							4 201	4 201	1 313	5 514
Fair value adjustment of financial instruments					- 113			- 113	- 72	- 185
Total income and expense recognised directly in equity					**- 113**		**4 201**	**4 088**	**1 241**	**5 329**
Group profit						73 961		73 961	1 040	75 001
Total recognised income and expense for the period					**- 113**	**73 961**	**4 201**	**78 049**	**2 281**	**80 330**
Dividends (excl. treasury shares)						- 15 282		- 15 282	- 76	- 15 358
Purchase/sale of treasury shares			1			566		567		567
Purchase/sale of minority interests						23		23	- 23	
Capital increase, minority interests									2 161	2 161
Equity at 31 December 2007	**2 783**	**625**	**- 12**	**17 732**	**- 113**	**682 119**	**7 717**	**710 851**	**57 228**	**768 079**
Effect of currency translations							- 12 815	- 12 815	- 5 203	- 18 018
Fair value adjustment of financial instruments					- 1 491			- 1 491	- 953	- 2 444
Total income and expense expense for the period					**- 1 491**		**- 12 815**	**- 14 306**	**- 6 156**	**- 20 462**
Group profit						96 404		96 404	- 2 246	94 158
Total recognised income and Eexpense for the period					**- 1 491**	**96 404**	**- 12 815**	**82 098**	**- 8 402**	**73 696**
Dividends (excl. treasury shares)						- 18 657		- 18 657	- 76	- 18 733
Purchase/sale of treasury shares			- 4			- 1 822		- 1 826		- 1 826
Changes in consolidation									1 118	1 118
Purchase/sale of minority interests									293	293
Capital increase, minority interests									1 445	1 445
Equity at 31 December 2008	**2 783**	**625**	**- 16**	**17 732**	**- 1 604**	**758 044**	**- 5 098**	**772 466**	**51 606**	**824 072**

Consolidated Cash Flow Statement

CHF thousands		2007	2008
Group profit including minority interests		75 001	94 158
Depreciation/amortisation and impairment		68 673	68 902
Own costs capitalised		- 9 561	- 12 053
Change in provisions		- 9 628	- 7 264
Change in deferred taxes		- 33 211	- 504
Share of results of associates and partner plants		- 934	- 39
Compound interest from non-current liabilities		437	620
Dividends from associates and partner plants		374	344
Other income and expenses not affecting cash		- 2 522	3 875
Change in inventories		670	- 12 194
Change in receivables		- 20 287	- 93 910
Change in prepaid expenses and accrued income		- 5 243	- 3 793
Change in liabilities		- 52 864	50 636
Change in deferred income and accrued expenses		7 415	4 256
Change in replacement values of energy derivatives		- 5 937	- 23 022
Change in securities		4 687	47 911
Cash flow from operating activities		**17 070**	**117 923**
Property, plant and equipment:	- Additions	- 51 002	- 53 233
	- Disposals	596	2 238
Intangible assets:	- Additions	- 69	- 3 743
	- Disposals	-	17
Group companies:	- Acquisitions	-	- 1 760
	- Disposals	-	1 223
Investments in associates and partner plants:	- Investments	- 93	- 2 844
	- Disposals	269	-
Non-current financial assets:	- Investments	- 674	- 63 615
	- Disposals	202	-
Cash flow from investing activities		**- 50 771**	**- 121 717**
Additions to financial liabilities		65 861	93 966
Repayment of financial liabilities		- 4 511	- 41 976
Dividend payments		- 15 358	- 18 733
Purchase of treasury shares		- 2 094	- 2 705
Sale of treasury shares		2 661	879
Capital increase through minority interests		2 161	1 445
Cash flow from financing activities		**48 720**	**32 876**
Translation differences		**2 228**	**- 10 356**
Change in cash and cash equivalents		**17 247**	**18 726**
Cash and cash equivalents at 1 January		135 418	152 665
Cash and cash equivalents at 31 December		**152 665**	**171 391**
Additional information. Cash flow from operating activities covers:			
Interest received		5 010	4 158
Interest paid		- 16 599	- 19 067
Income taxes paid		- 54 810	- 35 500

Consolidated Financial Statements

Notes to the consolidated financial statements

Consolidated accounting principles

Company information

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

The 2008 consolidated financial statements of the Rätia Energie Group were authorised by the Board of Directors on 6 April 2009, and are subject to the approval of the Annual General Meeting on 12 May 2009.

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 consolidated financial statements are drawn up in Swiss francs (CHF). With the exception of items designated otherwise, all figures are in rounded in thousands of francs (CHF thousands).
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 other valuation methods. These are explained in the following principles of accounting and valuation.

New and revised accounting and valuation principles

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

In the year under review the Rätia Energie Group assessed the following new IFRIC interpretations which were found to have no impact on the Group's financial statements.

IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 12 Service Concession Arrangements
IFRIC 13 Customer Loyalty Programmes (for financial years beginning on or after 1 July 2008)
IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 16 Hedges of a Net Investment in a Foreign Operation

Moreover, the IASB and IFRIC have 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 2009)
IAS 23 Borrowing Costs (for financial years beginning on or after 1 January 2009)
IAS 27 Group and Separate Individual Financial

Statements (for financial years beginning on or after 1 July 2009)

IAS 32 Financial Instruments: Presentation (for financial years beginning on or after 1 January 2009)

IAS 39 Qualifying Hedged Items (for financial years beginning on or after 1 January 2009)

IFRS 2 Share-based Payment (for financial years beginning on or after 1 January 2009)

IFRS 3 Business Combinations (for financial years beginning on or after 1 July 2009)

IFRS 8 Operating Segments (for financial years beginning on or after 1 January 2009)

IFRS 15 Agreements for the Construction of Real Estate (for financial years beginning on or after 1 January 2009)

IFRIC 17 Distributions of Non-cash Assets to Owners (for financial years beginning on or after 1 July 2009)

IFRIC 18 Transfers of Assets from Customers (for financial years beginning on or after 1 July 2009)

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.

Scope of consolidation

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

Minority holdings in associates whose financial and business policies Rätia Energie Group is unable to control, 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). Investments in associates and partner plants are accounted for using the equity method on the basis of the share of equity. 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 subject to an annual impairment test. A negative difference is recognised in 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.

Consolidated Financial Statements

Notes to the consolidated financial statements

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

For internal billing between Group companies the agreed billing prices, which are based on market prices, apply. 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 functional currency in which the financial statements are drawn up. Foreign currency transactions are converted using the Group company's functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to the functional currency at the closing rate 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 functional currency for the main foreign Group companies is the euro. Assets and liabilities of Group companies are translated into Swiss francs at the closing rate on the balance sheet date. Income statement items are translated using the average exchange rate for the year. When translating foreign currencies, euros were translated at the closing rate of CHF/EUR 1.4796 (previous year: 1.6553) and an average rate of CHF/EUR 1.5867 (previous year: 1.6427). Positions in other currencies are insignificant and were translated using the rates published by the Federal Tax Administration. Translation differences between the exchange rate on the balance sheet date and the average rate are recognised in equity. If a Group company is sold, the corresponding accumulated translation differences are recognised in the income statement.

Accounting and valuation principles

Basis
Within the context of preparing the consolidated financial statements, the Board of Directors and Executive Board of Rätia Energie make estimates and valuations which have an impact on the recognised 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 experience and the best possible assumptions on future developments. Actual developments may differ from the assumptions made.

The estimates and valuations are periodically reviewed. Any 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, to identify impairment of assets, to estimate

useful lives and the residual value of property, plant and equipment and intangible assets, and to recognise provisions. The carrying amounts are disclosed in the balance sheet.

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 location and condition necessary for the intended use. 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 concession period in the case of energy production facilities. Residual values are taken into account 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 property, plant and equipment. The resulting gain or loss (difference between the net selling price and the net carrying amount of the derecognised asset) is recognised in the income statement 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 concession period
Grids	15 - 40 years
Land	Indefinite; any impairments are recognised immediately
Buildings	30 - 60 years
Plant and business equipment	3 - 20 years
Assets under construction	Reclassification to the corresponding category when available for use; any 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 recognised directly in the income statement. Costs for regular major overhauls are capitalised and depreciated.

Assets under construction cover property, plant and equipment not yet completed. During the construction phase these items are not depreciated unless impairment is recognised immediately. Under certain conditions, interest on borrowings related to construction is capitalised along with other production costs.

Property, plant and equipment are tested on each balance sheet date for indications of impairment. If indications of impairment are identified, the recoverable amount is measured and an impairment test is

Consolidated Financial Statements

Notes to the consolidated financial statements

performed. If the recoverable amount (the higher of the fair value less costs to sell and the value in use) is below the carrying amount, the asset's carrying amount is reduced to the recoverable amount. The value in use is calculated based on the estimated future cash flows over a five-year period and extrapolated projections for subsequent years, discounted using an appropriate 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 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 recognised in the income statement at the time of acquisition.

Goodwill is also calculated on acquired investments in associates and partner plants, and corresponds to the difference between the acquisition cost of the investment 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 recognised in the income statement in the reporting period.

Intangible assets

Intangible assets are recognised at acquisition cost and have either a definite or an indefinite useful life. Intangible assets with a finite useful life are amortised using the straight-line method over their useful lives. On each balance sheet date they are tested for indications of impairment. If indications of impairment are 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 ranges:

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

Intangible assets with an indefinite useful life are not amortised but tested annually for indications of impairment. If events or circumstances indicate that a definite or indefinite useful life needs to be revised, this revised estimate is carried out and recognised in the current period.

Investments in associates and partner plants (joint ventures)

Companies over which Rätia Energie exerts a significant influence but not 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 investments in power plants in which the shareholders are obliged to purchase electricity at cost in proportion to their investment.

The inclusion of significant 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 for partner plants is 30 September and hence differs from the closing date for Rätia Energie. 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 (anticipatory positions only), and other financial assets. All financial assets are initially recognised at fair value. Purchases are recorded on the settlement date. For subsequent valuation, financial assets are classified according to IAS 39.

Cash and cash equivalents as well as prepaid expenses and accrued income (anticipatory) fall into the category "Loans and receivables" and are carried at amortised cost. Due to their short-term nature, the carrying amounts are assumed to be the fair values.

Securities and other financial instruments disclosed in current assets fall into the category "held for trading". These are measured at fair value whereby corresponding gains or losses are recognised in the income statement.

Non-marketable fixed-income investments are allocated to the category "Loans and receivables" and carried at amortised cost. Long-term prepayments for the purchase of green electricity certificates are allocated to the category "designated at fair value through profit and loss" in order to avoid measurement inconsistencies. The position is measured using a valuation model based on observable market data. All other financial assets are classified as "available for sale" and recognised at fair value. Marketable fixed-income securities are measured at market value on the balance sheet date. Marketable shares and other equity securities for which an active market exists are measured at market value on the balance sheet date. The unrealised value adjustments of financial assets available for sale are recognised in equity. In the event of disposal or other derecognition, the value adjustments accumulated in equity since such assets were purchased are transferred to financial income in the current reporting period. In the event of a significant or prolonged decline in the fair value of an available-for-sale equity instrument below its acquisition cost, this is recognised as an impairment.

Financial assets not recognised at market values are tested for impairment on each balance sheet date. If

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there is objective evidence that an impairment loss has occurred, such as insolvency, payment default or other significant financial difficulties of the issuer or debtor, an impairment calculation is performed. For interest-bearing 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 other assets carried at amortised 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. Unlike the value adjustment above, an impairment is always recognised in the income statement immediately after it is identified.

Financial assets are no longer recognised if the rights, obligations, opportunities and risks associated with the ownership of an asset are transferred in full.

Energy derivatives

Contracts in the form of forward transactions (forwards and futures) conducted with the intention of achieving a trading profit or margin (held for trading) are treated as derivative financial instruments in accordance with IAS 39 and recognised 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 are recognised under assets and liabilities. Open contracts are measured on the basis of market data from electricity exchanges (e.g. EEX, D-Leipzig). For contracts for which no liquid market exists, a measurement model is used.

Current transactions are recognised at net positive and negative replacement value if provided for by the contracts, if offsetting is legally permitted and the intention to offset exists. Realised and unrealised income from these transactions is recognised net as "Income from energy derivative trading".

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 and 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.

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 reimburse-

ment 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 consist of current and non-current financial liabilities, other current liabilities as well as deferred income and accrued expenses (anticipatory positions only). Financial liabilities are initially recognised in the balance sheet at their fair value. The subsequent measurement is conducted based on the rules of the "Other liabilities" category; this does not include the negative replacement values of energy derivatives. The negative replacement values of energy derivatives are measured in the same way as positive replacement values of energy derivatives.

Non-current financial liabilities are recognised at amortised cost using the effective interest method. Interest rate swaps exist to hedge the company's interest rate risk (hedge accounting) relating to the variable-rate loan in respect of the construction of the gas-fired combined-cycle power plant in Teverola. These interest rate swaps are used to hedge cash flows and the change in value is recognised in equity as a market value adjustment of financial instruments.

Other current liabilities as well as deferred income and accrued expenses are also recognised at amortised cost. The negative replacement values of energy derivatives contained in current financial liabilities are measured at fair value through profit and loss. All other current financial liabilities are recorded at amortised cost.

Other non-current liabilities

Other non-current liabilities include installation usage rights granted to third parties. The rights of use granted are contractual obligations which are fulfilled exclusively by permitting a third party to use installations. These are non-financial liabilities. The liabilities are amortised over the period of use of the corresponding installations using the straight-line method.

Pension plans

On the balance sheet date, employees of Rätia Energie in Switzerland were members of the PKE Pensionskasse Energie (PKE) and the Profond pension fund, both of which are legally independent 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 the respective employees and their projected salaries until retirement, and is recognised annually in 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

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maturity. Actuarial gains and losses are recognised as income and expenses over the expected average remaining working lives of employees, provided they exceed the greater of 10 % of the present value of the defined benefit obligation and 10 % of the fair value of any plan assets (corridor approach).

Employees in foreign Group companies are insured under state pension plans, which are independent of the Group.
Apart from the above pension plans, there are no significant 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 recognised in the balance sheet. Existing contingent liabilities and guarantee obligations are disclosed on the balance sheet date in the Notes to the consolidated financial statements.

Share-based payments
There are no employee share participation programmes or other forms of share-based payments.

Finance and operating leases
In the reporting period and the previous period there were no finance leases. IT outsourcing, which was implemented in the year under review, entails an operating lease for IT hardware. The related future minimum leasing payments are disclosed in the Notes to the consolidated financial statements (Note 29). There are no other significant operating leases. Payments for operating lease transactions are recognised as expenses on a straight-line basis 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 recognised 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, i.e. 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 value of this asset or liability for tax purposes.

Deferred tax assets related to loss carryforwards are recognised only to the extent that it is probable that taxable profit will be available against which the tax loss carryforward can be utilised.

Revenue
Revenue covers sales and services to third parties after deducting price discounts and value added tax. Revenue is recognised in the income statement when delivery or service fulfilment has been performed.

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 settled gross under "Revenue from energy sales" (Note 1) and "Energy procurement".

Energy transactions conducted with the intention 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 "Profit from energy derivatives trading" (Note 1).

Interest on borrowings

Interest on borrowings is recorded as expenses in the period to which it relates. 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

Rätia Energie is a vertically integrated company. With the exception of trading transactions which are treated differently in accordance with IFRS, there is no segmentation of activities and internal Group reporting is carried out along these lines. Since activities outside the energy sector account for less than 10 % of sales, assets and income, the company does not report by segment. Accordingly, the standardised management information is also not broken down by segment.

Capital management

Capital management practices are based on the Rätia Energie Group's overall strategic goals. The most important goals of capital management are:

- Optimised use of capital, taking risk and returns into account
- Timely availability of sufficient liquidity

Strategic parameters are calculated and monitored for the purpose of measuring these goals (total operating revenue, return on equity and equity ratio). Targets for the strategic parameters are determined by the Board of Directors. The Board of Directors also specifies the risk targets to be monitored by the Executive Board. No changes have been made to the strategic alignment of Rätia Energie since the previous year.

Rätia Energie's capital is managed while taking the Group's financial development and risk structure into account. To manage this capital, the Group can, for instance, borrow or repay capital, carry out capital increases or reductions, or change its dividend policy. The Rätia Energie Group is not subject to any prescribed regulatory minimum capital requirements.

The most important key figures for capital management are return on equity and the equity ratio. When

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calculating the return on equity (excluding minority interests), Group profit excluding minority interests is measured against equity without minority interests. The equity ratio (including minority interests) describes the relationship between equity including minority interests and total assets.

The target figure for return on equity (without minority interests) is >10 % and the equity ratio must be kept within the 35-45 % range. In principle, these key figures also have an impact on Rätia Energie's credit rating and thus its borrowing costs.

Return on equity and the equity ratio were calculated as at 31 December 2007 and 31 December 2008, as follows:

	31.12.2007	31.12.2008
Group profit including minority interests in TCHF	75 001	94 158
Group profit excluding minority interests in TCHF	73 961	96 404
Equity including minority interests in TCHF	768 079	824 072
Equity excluding minority interests in TCHF	710 851	772 466
Total assets in TCHF	1 897 964	2 185 286
Return on equity (excluding minority interests) in %	10,4	12,5
Equity ratio (including minority interests) in %	40,5	37,7

The 2.1 % increase in return on equity is attributable to the disproportionately higher Group profit compared to equity. The equity ratio declined by 2.8 % due to the higher increase in total assets compared to equity. The targets for both key figures were met.

Risk management and financial risk management

Basis

The operating activities of Rätia Energie are exposed to market, counterparty and transaction risks arising from the energy sector as well as liquidity risks. Risk management aims to limit the risks specified through operational and financial activities. Financial risks are managed by the Executive Board within the framework of the strategic parameters and risk targets determined by the Board of Directors. The guidelines issued by the Board of Directors on "Risk Management in the Energy Sector" 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. The Board of Directors and the Executive Board define risk limits in accordance with the company's risk capability. These limits are regularly reviewed for each risk category. Special measures are taken to manage risks related to personal safety, information technology and the

energy business (transaction, market and counterparty risks). Risk management has not changed since the previous year.

Market risks

Rätia Energie is exposed to various market risks within the scope of its business activities. The most important of these are energy price risk, interest rate risk and currency risk.

Energy price risks

Energy transactions are conducted for the main purpose of covering physical delivery contracts, purchasing energy, and selling and optimising the company's own production volumes. Within this risk policy, energy derivatives are used for trading. Energy price risks include risks arising from price volatility, changes in the price level, and changing correlations between markets and production times. Compliance with trading limits and the risk situation of the portfolio are monitored by Risk Management and reported to the Risk Management Committee. Under the leadership of the Head of Finance and Services, the Risk Management Committee assesses the risk situation in the energy sector at least once a month. The Board of Directors and the Executive Board are kept informed about the risk situation by reports submitted by the Risk Management Committee on a quarterly basis and in the case of extraordinary events.

Interest rate risk

Interest rate risks primarily concern changes in interest rates on non-current interest-bearing liabilities. In the event that the agreed interest rate is variable, changes in interest rates represent an interest rate risk. 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 continuously reviewed. Derivative financial instruments – and in particular interest rate swaps – are used and, under certain conditions, recognised as hedging relationships (hedge accounting). Another interest rate risk exists with regard to variable-rate positions of current assets, in particular in the case of sight deposits. This risk is minimised by pursuing an active cash management policy.

Currency risks

Energy, goods and services are procured and sold by the Rätia Energie Group almost exclusively in Swiss francs or euros. The foreign Group companies conduct nearly all transactions in their functional currency. These transactions are not subject to currency risks. There is, however, a risk of currency fluctuation on those positions of Rätia Energie AG which are denominated in euros. The currency risk is largely eliminated by netting receivables and liabilities in the foreign currency as agreed. Forward trading transactions are conducted to reduce the currency risk. Net investments in foreign Group companies are also exposed to exchange rate fluctuations. However, these

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long-term commitments are not hedged since the differences in inflation rates and exchange rate fluctuations should offset each other over the long term.

Counterparty risks

Credit risks

Credit risks arise if customers cannot meet their obligations as agreed, or the intrinsic value of financial assets is endangered in some other way. The credit risk is permanently monitored by checking outstanding payments by counterparties and by carrying out credit checks on contractual parties. Rätia Energie enters into significant business relationships only with counterparties who are creditworthy and whose solvency has been confirmed by a credit check.

The maximum credit risk exposure on the closing date is equal to the carrying amounts of the recognised financial assets. Since existing netting agreements have already been recognised, no other major agreements which would reduce the maximum default risk exist on the balance sheet date.

Supplier default risks

Supplier default risks arise if suppliers cannot meet their supply obligations as agreed and a replacement can only be purchased at less favourable terms. Limits are set on purchase volumes to avoid risk concentration and to minimise supplier default risks. Observance of these limits is permanently monitored. Rätia Energie enters into significant business relationships only with counterparties who can guarantee supply readiness.

Liquidity risks

Liquidity risks arise if Rätia Energie cannot meet its obligations as agreed or is unable to do so under economically feasible conditions. The Rätia Energie Group permanently 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 of financial liabilities as well as the financial assets. At the balance sheet date, financial liabilities exist with the following due dates (amounts represent the contractual, undiscounted cash flows):

CHF thousands	**31.12.2007**	**31.12.2008**
Up to 3 months	476 617	681 849
From 3 to 12 months	64 592	59 911
From 1 to 5 years	225 111	246 537
Over 5 years	226 706	209 370

These financial liabilities are expected to be covered by financial assets (carrying values of balance sheet items) which are expected to become available or which can be liquidated during the following periods:

CHF thousands	**31.12.2007**	**31.12.2008**
Up to 3 months	719 910	967 615
Over 3 months	18 379	78 582

Cash and cash equivalents as well as securities under current assets are available for the purpose of liquidity management. At the balance sheet date, Rätia Energie also has the following bank credit lines which have been secured yet remain unused:

CHF thousands	**31.12.2007**	**31.12.2008**
Unused general credit lines	75 000	106 000
Additional unused credit lines for the purpose of issuing guarantees	84 000	33 000

Sensitivity analyses

On the balance sheet date, Rätia Energie performs a sensitivity analysis for each market risk category to determine the potential impact of various scenarios on net income and equity. During this analysis, the impact of individual factors is investigated, meaning that mutual interdependencies of individual risk variables are not taken into consideration. These same methods and assumptions were used to perform the 2007 and 2008 analyses. The following scenarios were analysed for each of the individual market risk categories:

Energy price risks

When establishing energy price risks, a distinction is made between positions held for own use and those held for trading purposes. With regard to those positions held for own use, a potential price change on the balance sheet date will not have an impact on net income or equity since these positions are not measured at fair value. When considering positions held for trading purposes, scenarios are assumed in which energy prices are 10 euros higher and lower per MWh (2007: 5 euros).

CHF thousands	**31.12.2007**	**31.12.2008**
Impact on net income and equity at a higher energy rate	- 3 504	- 19 584
Impact on net income and equity at a lower energy rate	3 504	19 584

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Interest rate risk

In the sensitivity analysis for interest rate risk, an impact is only seen in positions for which the agreed interest rate is variable. All loans are recognised at amortised cost, i.e. for positions for which the agreed interest rate is fixed, changes in interest rates will have no impact on the balance sheet item.

The 2008 analysis was performed for interest rates which are both 150bp (2007: 100 bp) higher and lower.

CHF thousands	**31.12.2007**	**31.12.2008**
Impact on net income and equity at a higher interest rate	- 1 034	- 800
Impact on net income and equity at a lower interest rate	1 034	800

Hedging relationships (hedge accounting) were recognised for a portion of the interest rate risk. The corresponding effective hedge was recognised via equity and had no impact on the income statement. The impact of a shorter-term change in interest rates on the valuation of the long-term hedging instrument is insignificant and was not taken into consideration in the sensitivity calculation.

Currency risks

Currency risks exist mainly in connection with euro positions for receivables and trade accounts payable, cash and cash equivalents, as well as non-current financial liabilities.

The analysis is performed using euro exchange rates which are 10 % (2007: 5 %) higher and lower than the closing rate. The closing rate of the year under review was CHF/EUR 1.4796 (2007: CHF/EUR 1.6553).

	31.12.2007		**31.12.2008**	
	CHF/EUR	**TCHF**	**CHF/EUR**	**TCHF**
Impact on net income and equity at a higher exchange rate	1.7381	4 614	1.6276	10 939
Impact on net income and equity at a lower exchange rate	1.5725	- 4 614	1.3316	- 10 939

Estimation uncertainties

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 estimated in accordance with IAS 36 and, if

necessary, an impairment is recognised. Estimates of the useful life and residual value of property, plant and equipment are reviewed annually based on technical and economic developments, and revised as necessary.

Provisions are recognised taking into account the best possible estimate of the amount and date of the probable cash outflow.

The Electricity Supply Act (StromVG) and the Electricity Supply Ordinance (StromVV) came into force in 2008. Under the terms of the Electricity Supply Act, the high-voltage grid (220/380KV) must be transferred to the national grid company (swissgrid) within five years. In the year under review the high-voltage grids of Rätia Energie AG were fully integrated in the newly founded subsidiary RE Transportnetz AG. Since the value which swissgrid will accord to the high-voltage grid cannot be reliably estimated at this point in time, the future value on transfer to the national grid is subject to a high degree of uncertainty.

In the year under review Dynameeting S.p.A. received the revised invoices for 2005 and 2006 from the Italian state companies Terna and GSE (Gestore Servizi Elettrici). Additional revised invoices are possible but their amounts cannot be reliably estimated (Note 28).

Trade accounts receivable are measured at Group level by applying individual value adjustments and lump-sum value adjustments based on their maturity structure and empirical values. This risk was taken into account due to the difficult market environment. Effective losses on receivables may deviate from these estimates.

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Rätia Energie Group Companies

Fully consolidated companies at 31 December 2008

Company	Head office	Currency	Issued capital	Holding	Closing date	Purpose
Rätia Energie AG	Poschiavo	CHF	3 408 115	-	31.12.	H/P/E
Swisshydro AG	Poschiavo	CHF	500 000	65.00 %	31.12.	E
Rätia Energie Klosters AG	Klosters	CHF	16 000 000	99.87 %	31.12.	C/P
Rätia Energie Immobilien AG	Poschiavo	CHF	50 000	100.00 %	31.12.	R
aurax ag	Waltensburg	CHF	5 000 000	95.60 %	31.12.	H
aurax consulta ag	Ilanz	CHF	700 000	95.60 %	31.12.	R
aurax connecta ag	Ilanz	CHF	100 000	95.60 %	31.12.	S
Rätia Energie Ilanz AG	Ilanz	CHF	250 000	95.60 %	31.12.	C/P
Ovra electrica Ferrera SA [1)]	Trun	CHF	3 000 000	46.84 %	31.12.	P
SWIBI AG	Landquart	CHF	500 000	100.00 %	31.12.	S
aurax electro ag	Ilanz	CHF	250 000	95.60 %	31.12.	S
Alvezza SA (in liquidation)	Disentis	CHF	500 000	59.27 %	31.12.	R
Vulcanus Projekt AG	Poschiavo	CHF	100 000	60.00 %	31.12.	PC
RE Transportnetz AG	Poschiavo	CHF	100 000	100.00 %	31.12.	G
Elbe Beteiligungs AG	Poschiavo	CHF	1 000 000	100.00 %	31.12.	H
Rezia Energia Italia S.p.A.	Milan	EUR	2 000 000	100.00 %	31.12.	E
SET S.p.A.	Milan	EUR	120 000	61.00 %	31.12.	P
Dynameeting S.p.A.	Milan	EUR	4 000 000	100.00 %	31.12.	C
Energia Sud S.r.l.	Milan	EUR	925 439	67.00 %	31.12.	P
RE Italia S.p.A.	Milan	EUR	164 000	100.00 %	31.12.	H
SEA S.p.A.	Milan	EUR	120 000	100.00 %	31.12.	PC
Immobiliare Saline S.r.l.	Milan	EUR	10 000	100.00 %	31.12.	R
SEI S.p.A.	Milan	EUR	120 000	57.50 %	31.12.	PC
RES S.p.A.	Milan	EUR	120 000	51.00 %	31.12.	PC
REI Produzione S.p.A.	Milan	EUR	120 000	100.00 %	31.12.	H
REN S.r.l.	Milan	EUR	100 000	100.00 %	31.12.	PC
REC S.r.l.	Milan	EUR	10 000	100.00 %	31.12.	PC

Company	Head office	Currency	Issued capital	Holding	Closing date	Purpose
TGK Skavica S.r.l.	Milan	EUR	250 000	62.00 %	31.12.	PC
Elementerra GmbH	Menden	EUR	50 000	70.00 %	31.12.	C
Deuto Energie GmbH	Menden	EUR	25 000	100.00 %	31.12.	C
RE Trading CEE s.r.o.	Prag	CZK	1 500 000	100.00 %	31.12.	E
RE Energija d.o.o.	Zagreb	HRK	366 000	100.00 %	31.12.	E
RE ENERGIJA d.o.o.	Ljubljana	EUR	50 000	100.00 %	31.12.	E
RETIA ENERGIJA DOOEL Skopje	Skopje	EUR	20 000	100.00 %	31.12.	E
RAETIA ENERGIJA d.o.o. BEOGRAD	Belgrade	EUR	20 000	100.00 %	31.12.	E
RE Energija d.o.o. Sarajevo	Sarajevo	BAM	1 000 000	100.00 %	31.12.	E
RE ENERGIE S.r.l.	Bucharest	RON	165 000	100.00 %	31.12.	E
Raetia Energia Sp.z.o.o.	Warsaw	PLN	75 000	100.00 %	31.12.	E
RE Magyarország kft.	Budapest	HUF	50 000 000	100.00 %	31.12.	E
RE Energy Slovakia s.r.o.	Bratislava	SKK	1 500 000	100.00 %	31.12.	E

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 2008

Company	Head office	Currency	Issued capital	Holding	Closing date	Purpose
EW Tamins AG	Tamins	CHF	900 000	22.00 %	31.12.	C
EL.IT.E. S.p.A.	Milan	EUR	3 888 500	46.55 %	31.12.	G

Partner plants	Head office	Currency	Issued 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	Lucerne	CHF	90 000 000	7.00 %	30.09.	H

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

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Note

1 Total operating revenue CHF thousands	2007	2008
Revenue from energy sales	1 821 934	1 887 070
Profit from energy derivatives trading [1)]	4 417	39 479
Total net revenue	**1 826 351**	**1 926 549**
Own costs capitalised	**9 561**	**12 053**
Income from the sale of associates and Group companies	521	601
Gain from the sale of property, plant and equipment	119	477
Revenue from other operating activities	26 847	31 353
Other operating income [2)]	**27 487**	**32 431**
Total	**1 863 399**	**1 971 033**
1) Income from energy derivatives trading	596 804	1 705 139
Expenses energy derivatives trading	- 592 387	- 1 665 660
Profit from energy derivatives trading	**4 417**	**39 479**

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

2 Personnel expenses CHF thousands	2007	2008
Wages and salaries	51 314	60 447
Social insurance contributions	8 197	8 586
Pension costs	1 256	280
Other personnel costs	1 723	2 759
Total	**62 490**	**72 072**
Headcount at 31 December		
Full-time equivalent employees	503	618
Trainees	60	66
Total	**563**	**684**
Average		
Full-time equivalent employees	486	581
Trainees	61	64
Total	**547**	**645**

3 Depreciation/amortisation and impairment CHF thousands	2007	2008
Depreciation/impairment on property, plant and equipment	48 477	67 067
Amortisation/impairment on intangible assets	20 196	1 835
Total	**68 673**	**68 902**

4 Financial income CHF thousands	2007	2008
Income from other financial assets	1 631	563
Income from current financial assets	16 697	5 635
Exchange rate gains	9 686	27 383
Total	**28 014**	**33 581**

Financial income applies to the following positions and measurement categories:

Balance sheet position	Detailed position	IAS 39 measurement category	2007	2008
Other financial assets	Prepaid green electricity certificates	At fair value through profit or loss (designated)	345	162
Other financial assets	Non-current securities	Available for sale	1 286	401
Receivables	Trade accounts receivable	Loans and receivables	9 686	-
Liabilities	Trade accounts payable	Other financial liabilities	-	26 586
Securities and other financial instruments	Other securities and financial instruments	Held for trading	11 770	597
Cash and cash equivalents	Sight funds and cash invested for less than 90 days	Loans and receivables	4 927	5 835
Total			**28 014**	**33 581**

Interest income for recognised financial assets which were not measured at fair value amounts to TCHF 5,038 (previous year: TCHF 4,350). No income was earned during the 2008 financial year (or the previous year) from fiduciary or similar activities. The increase in liabilities is primarily attributable to exchange rate effects.

Income from energy derivatives trading is included under total operating revenue (see Note 1).

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5 **Financial expenses** CHF thousands	2007	2008
Expenses for current financial assets	3 506	9 527
Interest paid on non-current liabilities	18 827	31 255
Expenses for current liabilities	1 462	176
Exchange rate losses	7 589	42 597
Total	**31 384**	**83 555**

Financial income applies to the following positions and measurement categories:

Balance sheet position	Detailed position	IAS 39 measurement category	2007	2008
Securities and other financial instruments	Other securities and financial instruments	Held for trading	3 126	5 891
Receivables	Trade accounts receivable	Loans and receivables	-	16 485
Cash and cash equivalents	Sight funds and cash invested for less than 90 days	Loans and receivables	380	3 636
Non-current financial liabilities	Loans and other financial liabilities	Other financial liabilities	16 983	30 031
Current financial liabilities	Other current financia liabilities	Other financial liabilities	1 462	26 071
Other current liabilities	Trade accounts payable	Other financial liabilities	7 589	217
Non-current provisions	Provisions for contract risks, reversions and other provisions	n/a	1 844	1 224
Total			**31 384**	**83 555**

Interest expense for recognised financial liabilities which were not measured at fair value amounts to TCHF 28,119 (previous year: TCHF 18,307). Bank fees for recognised financial assets and liabilities which were not measured at fair value amount to TCHF 135 (previous year: TCHF 273).

Income from energy derivatives trading is icluded under total operating revenue (see Note 1).

6 Investments in associates and partner plants CHF thousands	2007	2008
Carrying amounts at 1 January	**28 372**	**28 756**
Investments	93	2 844
Disposals	- 269	-
Dividends	- 374	- 344
Effect of currency translations	-	- 278
Share of the results	934	39
Carrying amounts at 31 December	**28 756**	**31 017**

Key figures for associates Company	2007 Gross values	2008 Bruttowerte	2007 Gross values	2008 RE share
Assets	27 294	39 090	6 078	10 913
Liabilities	- 6 577	- 12 596	- 1 453	- 3 733
Income	13 195	14 101	2 915	3 581
Expenses	- 10 485	- 13 586	- 2 316	- 3 553
Profit/loss	2 710	515	599	28

Key figures for partner plants	2007 Gross values	2008 Gross values	2007 RE share	2008 RE share
Non-current assets	716 219	677 551	48 763	46 078
Current assets	46 849	106 974	3 265	7 590
Non-current liabilities	- 346 664	- 364 170	- 23 616	- 24 867
Current liabilities	- 63 023	- 71 146	- 4 282	- 4 964
Income	301 039	352 111	22 092	25 725
Expenses	- 295 935	- 351 639	- 21 757	- 25 714
Profit/loss	5 104	472	335	11

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7 Income taxes CHF thousands	2007	2008
Income taxes charged to the income statement		
Current income taxes	28 444	38 118
Deferred income taxes	- 33 211	2 836
Total	**- 4 767**	**40 954**
Income taxes charged to equity		
Income taxes on changes in equity	70	- 1 297
Total	**70**	**- 1 297**
Transitional statement		
Profit before income taxes	70 234	135 112
Expected income tax rate	29.00 %	19.00 %
Income taxes at expected tax rate	20 368	25 671
Tax effect from non-tax-deductible expenses	2 972	4 350
Tax effect from income taxed at other rates	3 314	3 560
Value adjustment of previously capitalised deferred taxes on tax-loss carryforwards or temporary differences	5	-
Subsequent capitalisation of previously unrecognised deferred taxes on tax-loss carryforwards or temporary differences	-	254
Tax due on tax-loss carryforwards for which deferred taxes were recognised	-	45
Tax losses in the current year for which no deferred tax assets were recognised	408	3 126
Tax losses charged for which no deferred tax assets were recognised	- 414	- 324
Tax rate changes [1)]	- 32 039	- 277
Tax burden/relief subsequently recognised for previous years	- 61	3 404
Other	680	1 145
Income taxes charged to the income statement	**- 4 767**	**40 954**
Effective income tax rate	- 6.79 %	30.31 %

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.

1) Largely due to the changed tax rate introduced by the canton of Graubünden on 1 January 2008, there is limited scope for comparison with the effective (negative) prior-year tax rate.

Deferred income taxes by origin of difference CHF thousands	**31.12.2007**	**31.12.2008**
Deferred tax assets		
Other non-current assets	16 721	15 013
Current assets	-	1
Provisions	8	42
Liabilities	30 781	38 607
Loss carryforwards / tax credits	1 794	5 981
Total	**49 304**	**59 644**
Deferred tax liabilities		
Property, plant and equipment	93 415	82 667
Other non-current assets	4 588	5 428
Current assets	23 786	30 394
Provisions	5 620	17 277
Liabilities	20	133
Total	**127 429**	**135 899**
Of which the following are disclosed in the balance sheet as:		
Deferred tax assets	- 3 238	- 15 867
Deferred tax liabilities	81 363	92 122
Net deferred tax liabilities	**78 125**	**76 255**

There are no notable additional tax liabilities anticipated as a result of dividend payments made to Group companies and associates. The Rätia Energie Group does not provide for deferred taxes chargeable on possible future payments of retained earnings by Group companies, since these are regarded as permanently reinvested.

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Tax loss carryforwards

At 31 December 2008, individual Group companies had tax loss carryforwards totalling TCHF 60,616 (31.12.2007: TCHF 8,018) which they can settle in future periods with 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 unrecognised tax loss carryforwards of TCHF 4,179 (31.12.2007: TCHF 1,377), since the future utilisation of these amounts for tax purposes is not probable. These are due on the following dates:

Unrecognised tax loss carryforwards CHF thousands	**31.12.2007**	**31.12.2008**
Due within 1 year	-	1 204
Due in 1-3 years	47	154
Due in 3-7 years	1 204	2 558
Due after 7 years or no due date	126	263
Total	**1 377**	**4 179**

8 Earnings per share	**2007**	**2008**
Total bearer shares issued at a par value of 1 CHF	2 783 115 pieces	2 783 115 pieces
Total participation certificates issued at a par value of 1 CHF	625 000 pieces	625 000 pieces
Less treasury bearer shares (annual average)	- 12 016 pieces	- 12 098 pieces
Less treasury participation certificates (annual average)	- 1 040 pieces	- 2 052 pieces
Average number of shares in circulation	**3 395 059 pieces**	**3 393 965 pieces**
Shareholders and participants share in Rätia Energie Group profit	TCHF 73 961	TCHF 96 404
Earnings per share (undiluted)	CHF 21.78	CHF 28.40
There are no factors resulting in a dilution of earnings per share.		
Dividend	TCHF 18 745	TCHF 23 857 *)
Dividend per share	CHF 5.50	CHF 7.00 *)

*) 2008 dividend subject to approval by the Annual General Meeting.

9 Property, plant and equipment

CHF thousands

	Power plants	Grids	Assets under construction	Property and buildings	Other tangible assets	Total
Gross values at 1 January 2007	**765 775**	**760 890**	**19 313**	**95 070**	**42 570**	**1 683 618**
Own costs capitalised	-	-	9 561	-	-	9 561
Additions	2 024	10 488	18 632	8 746	11 112	51 002
Disposals	- 5 134	- 16 429	- 7	- 2 356	- 2 259	- 26 185
Reclassification	11 251	5 022	- 17 831	1 386	172	-
Change in consolidation	-	-	-	-	-	-
Translation differences	11 218	-	99	1 004	419	12 740
Gross values at 31.12.07	**785 134**	**759 971**	**29 767**	**103 850**	**52 014**	**1 730 736**
Accumulated depreciation and impairments at 1 January 2007	**- 220 607**	**- 344 024**	**- 11**	**- 32 066**	**- 19 162**	**- 615 870**
Depreciation	- 22 556	- 19 448	- 82	- 2 437	- 3 954	- 48 477
Impairments	-	-	-	-	-	-
Disposals	5 135	16 437	-	2 280	1 178	25 030
Change in consolidation	-	-	-	-	-	-
Translation differences	- 179	-	- 1	- 5	- 29	- 214
Accumulated depreciation at 31 December 2007	**- 238 207**	**- 347 035**	**- 94**	**- 32 228**	**- 21 967**	**- 639 531**
Net values at 31 December 2007	**546 927**	**412 936**	**29 673**	**71 622**	**30 047**	**1 091 205**
Incl. security pledged for debts						6 698
Gross values at 1 January 2008	**785 134**	**759 971**	**29 767**	**103 850**	**52 014**	**1 730 736**
Own costs capitalised	-	-	12 053	-	-	12 053
Additions	82	957	50 443	43	1 708	53 233
Disposals	- 158	- 3 675	- 1 660	- 1 789	- 699	- 7 981
Reclassification	10 144	9 420	- 28 624	8 232	828	-
Change in consolidation	-	-	4 261	-	-	4 261
Translation differences	- 43 070	-	- 1 083	- 5 107	- 1 986	- 51 246
Gross values at 31 December 2008	**752 132**	**766 673**	**65 157**	**105 229**	**51 865**	**1 741 056**
Accumulated depreciation and impairments at 1 January 2008	**- 238 207**	**- 347 035**	**- 94**	**- 32 228**	**- 21 967**	**- 639 531**
Depreciation	- 24 124	- 18 660	-	- 2 564	- 5 314	- 50 662
Impairments	-	-	- 16 405	-	-	- 16 405
Disposals	-	2 815	94	104	337	3 350
Change in consolidation	-	-	-	-	-	-
Translation differences	3 086	-	-	146	301	3 533
Accumulated depreciation at 31 December 2008	**- 259 245**	**- 362 880**	**- 16 405**	**- 34 542**	**- 26 643**	**- 699 715**
Net values at 31 December 2008	**492 887**	**403 793**	**48 752**	**70 687**	**25 222**	**1 041 341**
Incl. security pledged for debts						3 054

The pledged fixed assets were put up as collateral for the aurax Group's investment loans and mortgages as listed in Note 18. Insured value of property, plant and equipment: MCHF 1,562 (previous year: MCHF 1,476). In the year under review, no interest on borrowings for construction in progress was capitalised (2007: TCHF 50).

Impairment of property, plant and equipment

In 2008 impairments totalling CHF 16.4 million were made, primarily due to suspension of the permit procedure for the planned coal-fired power plant in Saline Joniche (Calabria).

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10 Intangible assets CHF thousands	Gooodwill	Customer relations	Brand	Misc. intangible assets	Total
Gross values at 1 January 2007	**18 237**	**9 713**	**3 744**	**2 029**	**33 723**
Additions	-	-	-	69	69
Translation differences	887	312	121	65	1 385
Gross values at 31 December 2007	**19 124**	**10 025**	**3 865**	**2 163**	**35 177**
Accumulated amortisation and impairments at 1 January 2007	**-**	**- 324**	**- 201**	**- 274**	**- 799**
Amortisation	-	- 677	- 261	- 134	- 1 072
Impairments	- 19 124	-	-	-	- 19 124
Translation differences	-	- 31	- 12	- 6	- 49
Accumulated amortisation at 31 December 2007	**- 19 124**	**- 1 032**	**- 474**	**- 414**	**- 21 044**
Net values at 31 December 2007	**-**	**8 993**	**3 391**	**1 749**	**14 133**
Gross values at 1 January 2008	**-**	**10 025**	**3 865**	**2 163**	**16 053**
Additions	-	-	-	3 743	3 743
Disposals	-	-	-	- 17	- 17
Translation differences	-	- 954	- 360	- 262	- 1 576
Gross values at 31 December 2008	**-**	**9 071**	**3 505**	**5 627**	**18 203**
Accumulated amortisation and impairments at 1 January 2008	**-**	**- 1 032**	**- 474**	**- 414**	**- 1 920**
Amortisation	-	- 666	- 254	- 915	- 1 835
Impairments	-	-	-	-	-
Translation differences	-	45	17	29	91
Accumulated amortisation at 31 December 2008	**-**	**- 1 653**	**- 711**	**- 1 300**	**- 3 664**
Net values at 31 December 2008	**-**	**7 418**	**2 794**	**4 327**	**14 539**

Intangible assets acquired

Intangible assets refer mainly to assets acquired in 2008 as part of the acquisition of Dynameeting S.p.A. This primarily involves the following balance sheet positions:

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 12 years.

Brand:
This position reflects the value of the “Dynameeting” brand. The remaining amortisation period is around 12 years.

Miscellaneous intangible assets

Additions in the year under review mainly relate to capitalisation of the new ERP software now in use throughout the Group. The average remaining amortisation period is 4 years.

11 Other financial assets CHF thousands	31.12.2007	31.12.2008
Prepaid green electricity certificates	11 711	11 152
Prepaid long-term electricity procurement agreements	-	59 430
Other non-current securities	6 668	8 000
Total	**18 379**	**78 582**

Prepayments for green electricity certificates are initially recognised at fair value through profit or loss (designated). The fair value of prepaid green electricity certificates is determined using a valuation model which takes into account current selling prices received from third parties as well as expected future price developments. Prepayments for long-term electricity procurement agreements are amortised on the basis of the physical delivery of electricity and are held solely for this purpose. All other non-current securities are classified as "available for sale" and recognised at fair value. This concerns unlisted shares or equity securities for which there is no active market and hence for which the market value cannot be reliably determined. The fair value corresponds to the acquisition value less impairments.

12 Inventories CHF thousands	31.12.2007	31.12.2008
Green electricity certificates	6 544	15 094
Material inventories	8 260	10 200
Total	**14 804**	**25 294**

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13 Receivables CHF thousands	31.12.2007	31.12.2008
Trade accounts receivable		
Third parties	428 710	443 654
Related parties (see Note 25)	11 084	14 738
Allowances for doubtful accounts	- 10 431	- 12 360
Other receivables	41 666	103 085
Total	**471 029**	**549 117**
Receivables are carried in the following currencies:		
Swiss francs	51 869	31 736
Euros (translated)	419 160	517 381
Total	**471 029**	**549 117**

All receivables fall into the category "Loans and receivables" and are measured at amortised cost. The total sum of receivables as at 31 December 2008 (and 31 December 2007) falls due within one year. Due to their short-term nature, the carrying amounts are assumed to be fair values. Trade accounts receivable include the following overdue and non-impaired amounts:

Less than 30 days overdue	8 063	29 331
31-60 days overdue	6 001	13 101
61-90 days overdue	2 900	5 477
91-180 days overdue	7 307	17 025
181-360 days overdue	8 896	9 734
More than 360 days overdue	12 998	12 342

The total amount of receivables which are neither impaired nor overdue is TCHF 352,158 (TCHF 378,479 at 31 December 2007). There are no indications that would necessitate allowances for these receivables.

Allowances for doubtful accounts amounted to:

	2007	2008
At 1 January	2 302	10 431
Additions	10 387	10 041
Disposals	- 2 292	- 7 647
Translation differences	34	- 465
At 31 December	**10 431**	**12 360**
Of which		
Individual allowances	10 128	12 228
Collective allowances	303	132

In the case of highly dubious positions, individual allowances are determined based on internal and external credit ratings. In addition, collective allowances are calculated based on historical accounts receivable losses and current information. Neither collateral nor any other credit enhancements are available for doubtful receivables.

14 Securities and other financial instruments CHF thousands	31.12.2007	31.12.2008
Marketable bonds and bond funds	33 967	-
Marketable equities and equity funds	17 465	3 200
Other securities	436	247
Interest rate swaps	2 751	-
Total	**54 619**	**3 447**
Of which pledged as collateral for debts	10 000	-

All securities and other financial instruments fall into the category "held for trading" and are measured at fair value. In the year under review the measurement of interest rate swaps resulted in a negative replacement value (Note 23).

15 Positive/negative replacement values, energy derivatives CHF thousands	31.12.2007	31.12.2008
Positive replacement values	41 597	243 660
Negative replacement values	34 032	213 073
Contract volume for contingent assets	1 255 850	2 550 723
Contract volume for contingent liabilities	1 296 645	2 394 342

The above 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. The contract volume for contingent assets corresponds to the future energy procured measured at contract terms. The contract volume for contingent liabilities corresponds to the future energy supplied measured at contract terms.

Replacement values of energy derivatives are related to forward contracts which are measured at fair value. 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.

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 credit risk. These risks related to the use of derivative financial instruments are minimised by imposing high requirements on contract partners' creditworthiness.

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16 Cash and cash equivalents CHF thousands	31.12.2007	31.12.2008
Sight funds	152 176	143 158
Cash invested for less than 90 days	489	28 233
Total	**152 665**	**171 391**
Of which pledged as collateral for debts	-	10 000

All positions fall into the category "Loans and receivables" and are measured at amortised cost.

The average interest rate for positions in CHF was 1.6 % (2007: 1.6 %) and 3.5 % for positions in EUR (2007: 3.2 %).

Cash and cash equivalents are held in the following currencies:		
Swiss francs	39 688	88 704
Euros (translated)	112 977	81 118
Other currencies (translated)	-	1 569
Total	**152 665**	**171 391**

All positions are freely disposable or are due within 90 days. The carrying amounts correspond approximately to the fair values.

17 Share capital CHF thousands		31.12.2007	31.12.2008
Share capital	2 783 115 at a par value of CHF 1	2 783	2 783
Participation capital	625 000 at a par value of CHF 1	625	625
Share and participation capital		**3 408**	**3 408**

Existing shareholders and their direct share of voting rights:		
Canton of Graubünden	46.00 %	46.00 %
Aare-Tessin AG für Elektrizität, Olten (Atel)	24.60 %	24.60 %
Elektrizitäts-Gesellschaft Laufenburg AG, Laufenburg (EGL)	21.40 %	21.40 %
Other (free float)	8.00 %	8.00 %

Participation certificates carry no voting rights at the Annual General Meeting but are subject to the same provisions as shares. The number of shares and participation certificates is unchanged compared with the previous year.

Treasury shares and participation certificates
In the year under review, 1 bearer share (2007: 97) and 1,812 participation certificates (2007: 5,695) were sold at market rates and 5,769 participation certificates (2007: 4,700) and 150 bearer shares (2007: none) were acquired. At 31 December 2008 the number of treasury shares amounted to 12,156 bearer shares (2007: 12,007) with a total par value of TCHF 12 and 3,957 participation certificates (2007: none) with a par value of TCHF 4.

18 Non-current financial liabilities CHF thousands	Currency	Due date	Interest	31.12.2007	31.12.2008
Note	CHF	02.07.2009	4.350 %	15 000	-
Note	CHF	02.07.2011	4.500 %	15 000	15 000
Note	CHF	10.04.2017	3.625 %	-	15 000
Note	CHF	30.03.2018	3.660 %	-	25 000
Note	CHF	20.03.2023	3.625 %	-	10 000
Bank loan	CHF	12.12.2020	3.100 %	10 000	10 000
Bank loan	CHF	04.07.2016	3.360 %	50 000	50 000
Bank loan	CHF	28.05.2010	3.375 %	-	25 000
Bank loan (SET) [1]	EUR	30.06.2014	variable	182 084	133 164
Bank loan (SET) [1]	EUR	31.07.2015	5.020 %	91 041	81 378
Loans				**363 125**	**364 542**
Mortgage loan (aurax Group)	CHF	31.03.2013	variable	1 482	1 445
Mortgages				**1 482**	**1 445**
Investment loan (aurax Group) [2]	CHF	31.12.2015	0.000 %	1 213	1 062
Investment loan (aurax Group) [2]	CHF	31.12.2020	0.000 %	2 550	2 550
Investment loan (aurax Group) [2]	CHF	31.12.2015	0.000 %	373	327
Residual purchase obligation Dynameeting	EUR	28.02.2009	4.200 %	4 733	-
Loan (aurax Group)	CHF	open-ended	3.750 %	256	-
Loan (Vulcanus)	CHF	31.12.2011	0.000 %	-	160
Loan (SET)	EUR	31.12.2014	variable	7 643	7 125
Loan (SEI)	EUR	31.12.2011	variable	-	5 625
Other financial liabilities				**16 768**	**16 849**
Total				**381 375**	**382 836**
Financial liabilities are carried in the following currencies					
Swiss francs				95 874	155 544
Euros (translated)				285 501	227 292
Total				**381 375**	**382 836**

All non-current financial liabilities fall into the category “Other financial liabilities” and are recognised at amortised cost using the effective interest method.

In the case of positions which do not directly affect Rätia Energie AG, the relevant Group companies are indicated. The weighted average interest rate based on the nominal value on the balance sheet date was 4.7 % (2007: 4.4 %). The fair value of non-current financial liabilities amounted to TCHF 406,980 (2007: TCHF 387,239).

Rätia Energie has complied with all credit and loan agreements in full.

1) Interest rate swaps are agreed and hedge accounting applied to hedge the variable-interest SET bank loan.

2) In accordance with IAS 20.37, the amortised cost of interest-free investment loans from the Swiss Confederaton is equal to the nominal value.
Mortgage assignments were pledged as security for the investment loan of TCHF 2,550 and the aurax Group’s mortgage. The fixed assets pledged in this connection are disclosed in Note 9.

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19 Pension fund obligation CHF thousands	2007	2008
Development of plan liabilities and assets		
Present value of plan liabilities on 1 January	163 455	164 255
Service costs	5 689	5 828
Interest expense	4 923	5 352
Benefits paid	- 5 028	- 6 613
Actuarial gains/losses on plan assets	- 4 807	- 1 825
Currency gains/losses	23	- 126
Present value of plan liabilities at 31 December	**164 255**	**166 871**
Fair value of plan assets on 1 January	150 050	167 905
Expected return on plan assets	7 502	8 396
Employer contributions	2 948	4 670
Employee contributions	1 864	2 289
Benefits paid	- 5 028	- 6 613
Actuarial gains/losses on plan assets	10 569	- 29 564
Fair value of plan assets at 31 December	**167 905**	**147 083**
Recognised pension liabilities		
Fair value of plan assets	167 905	147 083
Present value of pension obligation	- 163 202	- 165 727
Shortfall/surplus	**4 703**	**- 18 644**
Present value of pension obligation excluding plan assets	- 1 053	- 1 144
Unrecognised actuarial gains/losses	- 18 120	9 814
Recognised pension liabilities	**- 14 470**	**- 9 974**
Pension expense recognised under personnel expenses		
Service costs	5 689	5 828
Interest expenses	4 923	5 352
Expected return on plan assets	- 7 502	- 8 396
Recognised actuarial gains/losses (outside the corridor)	10	- 215
Employee contributions	- 1 864	- 2 289
Net pension costs for the period	**1 256**	**280**

	2007	2008
Change in defined benefit pension obligation		
At 1 January	- 16 140	- 14 470
Translation differences from foreign plans	- 22	106
Net pension costs for the period	- 1 256	- 280
Employer contributions paid	2 948	4 670
At 31 December	**- 14 470**	**- 9 974**
Effective return on plan assets	11.40 %	- 13.40 %
Effective income from plan assets	18 071	- 21 168
Calculation principles:		
Discount rate	3.25 %	3.25 %
Expected return on separated assets	5.00 %	4.50 %
Expected rate of increase in future compensation levels	2.50 %	2.50 %
Expected rate of increase in future pension contribution	0.50 %	0.25 %
Breakdown of assets, other information		
Liquid assets	0.50 %	0.20 %
Time deposits	36.10 %	38.10 %
Shareholdings	47.70 %	42.40 %
Real estate	13.00 %	16.60 %
Other	2.70 %	2.70 %
Total	**100.00 %**	**100.00 %**

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 Federal Insurance Fund 2000.

Disclousures of current and prior periods:

	31.12.2005	31.12.2006	31.12.2007	31.12.2008
Present value of pension obligation	156 417	163 455	164 255	166 871
Fair value of plan assets	142 952	150 050	167 905	147 083
Plan surplus/deficit	- 13 465	- 13 405	3 650	- 19 788
Experience adjustments				
- of pension obligation	8 851	7 300	2 569	1 902
- of plan assets	11 729	7 157	10 569	- 29 564
Adjustment to pension fund obligation based on changed assumptions			- 7 376	- 3 727

Employer contributions for 2009 are estimated at TCHF 4,787 (previous year: TCHF 3,022).

Consolidated Financial Statements

Notes to the consolidated financial statements

20 Provisions CHF thousands	2007	2008	Contract risks	Reversion provisions	Pension provisions	Other provisions
At 1 January	**110 478**	**100 888**	**4 200**	**79 168**	**14 470**	**3 050**
Provisions made	3 635	3 767	-	604	-	3 163
Provisions used	- 2 792	- 5 108	-	-	- 4 496	- 612
Provisions reversed	- 12 277	- 9 397	- 1 550	- 7 403	-	- 444
Interest	1 844	620	-	620	-	-
Interest rate adjustment	-	2 650	-	2 650	-	-
At 31 December	**100 888**	**93 420**	**2 650**	**75 639**	**9 974**	**5 157**
Expected maturity up to 1 year	28 725	2 650	2 650	-	-	-
Current provisions	**28 725**	**2 650**	**2 650**	**-**	**-**	**-**
Expected maturity within 2- 5 years	16 550	64 146	-	58 989	-	5 157
Expected maturity more than 5 years	55 613	26 624	-	16 650	9 974	-
Non-current provisions	**72 163**	**90 770**	**-**	**75 639**	**9 974**	**5 157**

Contract risks
Provisions for contract risks cover obligations and risks identified on the balance sheet date and relating to the energy business.

In 2005, the Italian government notified Rätia Energie and other electricity companies of its retroactive decision to no longer accept documentation on deliveries of environmentally friendly electricity (green certificates) from Switzerland. However, green certificates up to and including 2004 were subsequently recognised and other certificates for the years from 2005 have been successively recognised. In the year under review the provision of TCHF 1,550 was reversed (previous year: TCH 5,315 reversal).

Reversion provisions
Reversion provisions were made for future payments of compensation for reversion waivers. The level and/or date of the outflow of funds cannot be determined at the present time. In 2011 provisions of CHF 37 million in total will become payable to the canton of Graubünden and the municipalities as a one-off payment for the Prättigau plants in lieu of future performance-related compensation. In this context, provisions totalling CHF 7.4 million were reversed in the year under review. Provisions of CHF 23 million exist for the reversion waiver compensation payable for the power plants in Upper Poschiavo.

Pension provisions
Note 19 provides information on the provision for pension fund obligations.

Other provisions
Other provisions cover miscellaneous minor risks in various Group companies, which are individually regarded as insignificant.

21 Other non-current liabilities CHF thousands	31.12.2007	31.12.2008
Prepayment received for transport rights		
Third parties	22 285	21 752
Related parties	36 206	35 339
Total	**58 491**	**57 091**

The Bernina line was partly financed by third and related parties. These transport rights were granted in return for rights of use for the Bernina line. This liability is amortised through the provision of energy transport services. Energy transport services will be provided on a pro rata basis throughout the line's useful life and the liabilities will be reduced accordingly.

22 Other current liabilities CHF thousands	31.12.2007	31.12.2008
Trade accounts payable		
Third parties	345 778	348 311
Related parties (see Note 25)	8 715	15 414
Other liabilities	19 562	28 412
Total	**374 055**	**392 137**
Other current liabilities are carried in the following currencies:		
Swiss francs	20 317	9 230
Euros (translated)	353 738	382 907
Total	**374 055**	**392 137**

All positions fall into the category "Other financial liabilities" and are recognised at amortised cost They are due within one year. The carrying amounts are assumed to be fair values.

Consolidated Financial Statements

Notes to the consolidated financial statements

23 Current financial liabilities CHF thousands	31.12.2007	31.12.2008
Current financial liabilities		
Third parties	44 830	67 136
Related parties (see Note 25)	2 312	3 916
Negative replacement values - interest rate swaps	185	3 926
Total	**47 327**	**74 978**

All current financial liabilities owed to third parties and related parties fall into the category "Other financial liabilities" and are recognised at amortised cost. Due to their short-term nature, the carrying amounts are assumed to be fair values. The negative replacement values of energy derivatives are held for trading and are recognised at fair value. The negative replacement values of interest rate swaps are held for hedge accounting purposes and are recognised at fair value. The value adjustment of TCHF - 3,741 (of which TCHF - 1,459 apply to minority interests) was recognised in equity (fair value adjustment of financial instruments) after taking into account deferred income taxes of TCH 1,297 (of which TCH 506 apply to minority interests) without affecting income. The maturity dates of the interest rate swaps are the same as the maturity dates for loan interest and will generate cash flows, expenses and income from 2009 to 2014. Current financial liabilities in respect of third parties include the residual purchase obligation of Dynameeting amounting to TCH 4,439.

24 Prepaid expenses, accruals and deferred income
CHF thousands

Prepaid expenses and accrued income	31.12.2007	31.12.2008
Credits from current taxes (prepayment)	4 156	-
Prepaid social security premiums (prepayment)	969	-
Change in accrued income (accrual)	-	6 700
Prepayment of energy and transport rights (prepayment)	-	1 889
Other prepayments	2 414	2 442
Total	**7 539**	**11 031**

The accrued position falls into the category "Loans and receivables", are measured at amortised cost and are due within one year. The carrying amounts are assumed to be fair values.

Deferred income and accrued expenses	31.12.2007	31.12.2008
Accrued interest	1 851	3 341
Accrued annual leave and overtime	3 805	6 279
Accrued other personnel expenses	2 367	3 814
Accrued capital, other taxes, charges and levies	8 992	7 775
Other accrued expenses	3 881	3 694
Total	**20 896**	**24 903**

All positions are accruals and fall into the category “Other financial liabilities”. They are measured at amortised cost and are due within one year. The carrying amounts are assumed to be fair values.

Consolidated Financial Statements

Notes to the consolidated financial statements

25 Transactions with related parties

CHF thousands

	Energy sales		Energy procurement		Receivables at 31 December		Current liabilities at 31 December		Other non-current liabilities at 31 December	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
Canton of Graubünden *)	-	84	-	-	-	18	-	-	-	-
Aare-Tessin AG für Elektrizität (Atel)	36 992	24 110	32 489	66 169	4 108	2 102	2 117	4 361	22 578	22 037
Elektrizitäts-Gesellschaft Laufenburg AG (EGL)	38 161	75 738	79 745	94 117	6 640	12 534	6 589	9 936	13 628	13 302
Main shareholders with significant influence	**75 153**	**99 932**	**112 234**	**160 286**	**10 748**	**14 654**	**8 706**	**14 297**	**36 206**	**35 339**
Kraftwerke Hinterrhein AG	3 405	958	6 745	5 576	336	84	9	1 117	-	-
Grischelectra AG	-	-	31 624	35 631	-	-	2 312	3 916	-	-
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen	-	-	14 217	15 249	-	-	-	-	-	-
EL.IT.E S.p.A.	-	-	-	-	-	-	-	-	-	-
Associates and partner plants	**3 405**	**958**	**52 586**	**56 456**	**336**	**84**	**2 321**	**5 033**	**-**	**-**

Transactions with principal shareholders and associates are recognised at market prices. Energy transactions with partner plants are recognised at annual cost.

*) In its role as shareholder, the canton of Graubünden 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 recognised under transactions with related parties. Significant energy transactions with the canton of Graubünden are conducted via Grischelectra AG, which is listed above as a related party.

Members of the Board of Directors and Executive Board

In 2008 the Board of Directors received compensation amounting to TCHF 710 (2007: TCHF 775). TCHF 123 was paid to a member of the Board of Directors for additional services rendered (2007: THCF 177). Compensation paid to the Executive Board, including all social and supplementary benefits, amounted to TCHF 2,865 (2007: TCHF 2,435). This compensation affects only short-term employee benefits. No loans, securities, advances or credits exist for members of the Board of Directors or the Executive Board. No severance payments were made. In the 2007 financial year, a profit-sharing model entered into force for members of the Executive Board which could lead to bonus payments in 2010. At 31 December 2008, this profit-sharing model had given rise to obligations amounting to TCHF 136 (2007: none) which were accounted for in the annual financial statements in the respective period. The disclosure requirements of the Swiss Code of Obligations have been taken into consideration in the Notes to the Rätia Energie AG financial statements.

Other related parties

Pension plans: The relationships are presented in Note 19.

26 Additional disclosures regarding financial statements

CHF thousands

Balance sheet position	Detailed position	Measurement category*	Valuation**	Carrying amount 2007	Fair value 2007	Carrying amount 2008	Fair value 2008
Assets							
Other financial assets	Prepaid green elect. certs.	FVTPL	FVPL	11 711	11 711	11 152	11 152
	Other non-current securities	AFS	AcC	6 668	6 668	8 000	8 000
Receivables	Trade accounts receivable	L&R	AC	429 363	429 363	446 032	446 032
	Other receivables instruments	L&R	AC	41 666	41 666	103 085	103 085
Securities and financial instruments	Shares, bonds, other secs.	HFT	FVPL	51 868	51 868	3 447	3 447
	Derivative financial	HFT	FVPL	2 751	2 751	-	-
Positive replacement values, energy derivatives	Derivative financial instruments	HFT	FVPL	41 597	41 597	243 660	243 660
Cash and cash equivalents	Sight funds and cash invested	L&R	AC	152 665	152 665	171 391	171 391
Prepaid expenses and accrued income	Accrued income	L&R	AC	-	-	6 700	6 700
Liabilities							
Non-current financial liabilities	Bank and mort. loans, other non-current financial liabilities	OL	AC	381 375	387 239	382 836	406 980
Current financial liabilities	Current financial liabilities	OL	AC	47 142	47 142	71 052	71 052
	Derivative financial instruments	HFT	FVPL	185	185	3 926	3 926
Negative replacement values, energy derivatives	Derivative financial instruments	HFT	FVPL	34 032	34 032	213 073	213 073
Other current liabilities	Trade accounts receivable	OL	AC	354 493	354 493	363 725	363 725
	Other liabilities	OL	AC	19 562	19 562	28 412	28 412
Deferred income and accrued expenses	Accrued expenses	OL	AC	20 896	20 896	24 903	24 903

*) Measurement categories under IFRS:
FVTPL: Fair value through profit or loss (designated)
AFS: Available for sale
L&R: Loans and receivables
HFT: Zu Handelszwecken gehalten
OL: Other financial liabilities

**) Valuations under IAS 39:
FVPL: Fair value through profit or loss
AcC: Acquisition costs (see Note 11)
AC: Amortised cost

Consolidated Financial Statements

Notes to the consolidated financial statements

27 Business combinations (IFRS 3)

Acquisition of TGK SKAVICA S.r.l.

On 2 July 2008, the Group company REI Produzione S.p.A. acquired a 62 % stake in TGK SKAVICA S.r.l., a project company headquartered in Milan. The aim of the company is to obtain a concession for a hydroelectric power plant in Albania, as well as oversee its construction and future operation.

The fair value of identifiable net assets and liabilities on the date of acquisition was as follows:

CHF thousands	Fair value	Carrying amount
Intangible assets	-	180
Assets under construction	4 314	-
Other receivables	32	32
Identifiable assets	**4 346**	**212**
Current financial liabilities	135	135
Deferred tax liabilities	1 364	-
Other liabilities	8	8
Identifiable liabilities	**1 507**	**143**
Net assets acquired	2 839	69
Of which, acquisition of 62 %	1 760	
Acquisition costs	**1 760**	

Acquisition costs amount to TCH 1,760 and are broken down as follows:

Acquisition costs	
Cash consideration	1 606
Costs related to the acquisition	154
Acquisition costs	**1 760**
Cash flow related to the acquisition	
Cash consideration	- 1 606
Costs related to the acquisition	- 154
Net cash outflow related to the acquisition	**- 1 760**

Between the date of acquisition and 31 December 2008 the company's results reduced Group profit by TCHF 40. Had the transaction taken place at the beginning of the year (1 January 2008), Group revenue would not have been affected but Group profit would have been TCHF 30 lower.

The purchase agreement stipulates additional purchase price obligations contingent on future project implementation. The amount of these additional purchase price obligations is contingent on the timely achievement of various milestones and may amount to a maximum of EUR 6.5 million. The probability of occurrence of these events cannot be reliably determined at present.

2007 financial year
No business combinations occurred in the previous year.

28 Contingent liabilities and guarantee obligations

In 2008 the Group company Dynameeting S.p.A. received definitive invoices amounting to EUR 6.4 million from Terna and GSE, companies held by the Italian government. These invoices concern the financial years up to and including 2006 and were charged to expenses in their entirety in 2008. To date, Dynameeting has received no revised invoices for 2007 and 2008. Receipt of such revised invoices for 2007 and 2008 is possible and the amount cannot be reliably estimated. Consequently no provisions have been made nor accruals allocated in this regard.

The Rätia Energie Group is involved in various other 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, guarantee obligations or other future obligations.

29 Obligations related to operating leases

In the year under review, IT hardware was obtained under operating lease as part of the move to outsource some standardised IT services The relevant contracts have a term of three years with the option to extend for another three years. A purchase option applies only in the event of premature unscheduled contract termination. Future minimum lease payments for the residual contract term amount to CHF 3.3 million, of which CHF 1.2 million falls due within one year.

30 Risk assessment

Risk management is a fundamental component of the Rätia Energie Group's business activities. The Group operates an established risk management process. The main risks relevant to the company are regularly identified and assessed, and their probability of occurrence and impact is measured. The Board Committee and Executive Board assess and monitor the identified risks, and regularly brief the Board of Directors. The Board of Directors or Board Committee defines measures to avoid, mitigate, transfer or control these risks. These measures are then permanently monitored.

Further details on risk management and financial risk management are provided on pages 74 to 79 of the Consolidated Financial Statements.

31 Events after the balance sheet date

No significant events occurred after 31 December 2008.

Report of the Auditors

PricewaterhouseCoopers

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Report of the statutory auditor
to the general meeting of
Rätia Energie AG
Poschiavo

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Rätia Energie AG, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 59 to 105), for the year ended 31 December 2008.

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

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

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

PricewaterhouseCoopers

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2008 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.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Bruno Räss	Roger Roth
Audit expert	Audit expert
Auditor in charge	

Chur, 6 April 2009

2008 Financial Statements of Rätia Energie AG

Income statement

CHF thousands	2007	2008
Net sales	1 472 126	2 339 091
Other operating income	24 791	32 879
Total operating revenue	**1 496 917**	**2 371 970**
Energy procurement	- 1 364 757	- 2 141 261
Material and third-party services	- 6 196	- 8 250
Personnel expenses	- 34 276	- 38 784
Concession fees	- 4 931	- 7 340
Depreciation and amortisation	- 12 189	- 12 207
Other operating expenses	- 20 187	- 22 692
Operating expenses	**- 1 442 536**	**- 2 230 534**
Operating income before interest and taxes	**54 381**	**141 436**
Financial income	26 951	15 054
Financial expense	- 6 063	- 35 894
Non-operating income	541	134
Non-operating expenses	- 453	-
Income before taxes	**75 357**	**120 730**
Gains on the sale of assets	42 104	713
Depreciation / financial assets	- 19 124	-
Extraordinary income	2 220	2 015
Extraordinary expenses	- 2	- 77
Profit before taxes	**100 555**	**123 381**
Taxes	- 20 229	- 26 659
Net income for the year	**80 326**	**96 722**

2008 Financial Statements of Rätia Energie AG

Balance sheet

Assets CHF thousands	Note	**31.12.2007**	**31.12.2008**
Property, plant and equipment		80 111	86 040
Intangible assets	1	20 036	20 443
Financial assets	2	258 353	390 986
Non-current assets		**358 500**	**497 469**
Inventories		675	740
Trade accounts receivable	3	178 671	264 877
Other receivables	3	206 337	124 270
Prepaid expenses and accrued income	4	24 742	25 422
Capital assets in current assets		50 113	3 954
Cash and cash equivalents		56 657	118 318
Current assets		**517 195**	**537 581**
Total assets		**875 695**	**1 035 050**

Liabilities and shareholders' equity CHF thousands	Note	**31.12.2007**	**31.12.2008**
Share capital		2 783	2 783
Participation capital		625	625
Reserves for treasury shares		1 632	3 494
Other legal reserves		52 276	52 276
Other reserves		265 329	313 467
Unappropriated retained earnings		88 169	116 146
Equity	5	**410 814**	**488 791**
Provisions	6	**123 150**	**120 920**
Non-current liabilities	7	**110 000**	**165 000**
Trade accounts payable		120 467	170 465
Other current liabilities		16 978	18 148
Deferred income and accrued expenses		94 286	71 726
Current liabilities	8	**231 731**	**260 339**
Liabilities		**464 881**	**546 259**
Total liabilities and shareholder's equity		**875 695**	**1 035 050**

2008 Financial Statements of Rätia Energie AG

Notes to the financial statements

1 Intangible assets CHF thousands	31.12.2007	31.12.2008
Reversion waiver compensation	30 825	30 825
Value adjustment	- 10 789	- 12 330
Software	-	1 948
Total	**20 036**	**20 443**

2 Financial assets CHF thousands		
Shareholdings	176 960	248 566
Long-term prepayments	10 911	66 520
Loans to Group companies	50 000	50 488
Other financial assets	20 482	25 412
Total	**258 353**	**390 986**

3 Receivables CHF thousands		
Of which:		
Related parties (shareholders)	10 648	13 911
Group companies	225 360	211 075
Other receivables	149 000	164 161
Total	**385 008**	**389 147**

4 Prepaid expenses and accrued income CHF thousands		
Of which:		
Group companies	16 208	13 969
Other	8 534	11 453
Total	**24 742**	**25 422**

5 Equity CHF thousands	31.12.2007	31.12.2008
Share capital at beginning of year	2 783	2 783
Par value repayments	-	-
Share capital at end of year **2,783,115 bearer shares at a par value of CHF 1 per share**	**2 783**	**2 783**
Participation capital at beginning of year	625	625
Par value repayments	-	-
Participation capital at end of year **625,000 bearer shares at a par value of CHF 1 per share**	**625**	**625**
Share capital	**3 408**	**3 408**
Reserves for treasury shares	1 632	3 494
Reserves from merger and contributions in kind	40 276	40 276
Other legal reserves	12 000	12 000
Other reserves	265 329	313 467
Reserves	**319 237**	**369 237**
Retained earnings carried forward	7 843	19 424
Net income for the year	80 326	96 722
Unappropriated retained earnings	**88 169**	**116 146**
Equity	**410 814**	**488 791**

Share capital

Significant shareholders as defined by the Swiss Code of Obligations (OR) 663 c (share of capital and voting rights):

Canton of Graubünden	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, 1 bearer share (2007: 97) and 1,812 participation certificates (2007: 5,695) were sold at market conditions and 150 bearer shares (2007: none) and 5,769 participation certificates (2007: 4,700) were acquired. At 31 December 2008 the number of treasury shares amounted to 12,156 bearer shares (2007: 12,007) at a total par value of CHF 12 and 3,957 participation certificates (2007: none) with a par value of TCHF 4.

2008 Financial Statements of Rätia Energie AG

Notes to the financial statements

6 Provisions CHF thousands	31.12.2007	31.12.2008
For reversion	25 375	25 375
For reversion waiver compensation	30 825	30 825
For contract risks	64 500	62 950
Other risks	2 450	1 770
Total	**123 150**	**120 920**

7 Non-current liabilities CHF thousands			31.12.2007	31.12.2008
Note	3.750 %	2002-2008	20 000	-
Note	4.350 %	2001-2009	15 000	15 000
Note	4.500 %	2001-2011	15 000	15 000
Note	3.625 %	2008-2023	-	10 000
Note	3.660 %	2008-2018	-	25 000
Note	3.625 %	2008-2017	-	15 000
Bank loan	3.360 %	2006-2016	50 000	50 000
Bank loan	3.375 %	2008-2010	-	25 000
Bank loan	3.100 %	2005-2020	10 000	10 000
Total			**110 000**	**165 000**

8 Current liabilities CHF thousands	31.12.2007	31.12.2008
Of which:		
Related parties (shareholders)	8 644	14 069
Group companies	10 854	50 454
Deferred income and accrued expenses	94 286	71 726
Other obligations	117 947	124 090
Current liabilities	**231 731**	**260 339**

Liabilities to pension funds: TCHF 223 (2007: TCHF 177)

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

Other information

Non-current assets

The fire insurance value for property is CHF 53 million (2007: 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 976 million (2007: CHF 976 million).

Shareholdings

The list on pages 80 and 81 of the consolidated financial statements summarises the main interests held directly or indrectly by Rätie Energie AG.

Provision policy

Risks related to delivery and sales contracts are regularly assessed in line with market developments.

Net release of hidden reserves

In the year under review there was no net release of hidden reserves (2007: CHF 6.1 million).

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, Swisshydro AG, Poschiavo, aurax ag, Waltensburg, aurax connecta ag, Ilanz, aurax consulta ag, Ilanz, aurax electro ag, Ilanz, Rätia Energie Ilanz AG, Ilanz, SWIBI AG, Landquart, Vulcanus Projekt AG, Poschiavo, Elbe Beteiligungs AG, Poschiavo, RE Transportnetz AG, Poschiavo and Ovra electrica Ferrera SA, Trun.

The general pledge agreements concluded with banks and totalling CHF 10 million (2007: CHF 10 million) are appropriately covered.

Letters of intent and financing agreements amounting to EUR 296 million (CHF 438 million) were concluded in favour of Group companies (2007: EUR 281 million = CHF 465 million).

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

Information on risk assessment process and related measures (RMS)

Rätia Energie is fully integrated in the risk assessment and management process at Group level. The main risks relevant for Rätia Energie AG are directly incorporated in the risk management process at Group level, where they are comprehensively managed, controlled and monitored Group-wide. Explanations on risk assessment at Group level are provided in the Notes to the Consolidated Financial Statements on page 105.

2008 Financial Statements of Rätia Energie AG

Notes to the financial statements

Other information

Disclosures in accordance with Art. 663b[bis] of the Swiss Code of Obligations:

Board of Directors CHF		Tot. compensation 2007	Tot. compensation 2008	Compensation [1]	Compensation for additional services [2]
Luzi Bärtsch, Chairman		161 800	151 800	151 800	-
Dr. Reto Mengiardi, Vice Chairman		291 298	226 738	103 800	122 938
Jörg Aeberhard [3]		53 692	48 500	48 500	-
Kurt Baumgartner [3]		81 776	72 000	72 000	-
Christoffel Brändli		33 000	31 000	31 000	-
Dr. Guy Bühler [3]	from 23.05.08		41 100	41 100	-
Emanuel Höhener	until 23.05.08	90 384	36 000	36 000	-
Rudolf Hübscher		37 000	35 000	35 000	-
Guido Lardi		37 000	35 000	35 000	-
Dr. Aluis Maissen	until 23.05.08	41 600	14 450	14 450	-
Rolf W. Mathis [3]		47 236	41 300	41 300	-
Jean-Claude Scheurer [3]	until 23.05.08	39 812	14 450	14 450	-
Dr. Martin Schmid [3]	from 23.05.08		24 550	24 550	-
Dr. Hans Schulz [3]	from 23.05.08		28 350	28 350	-
Antonio Taormina [3]		37 660	33 000	33 000	-
Total		**952 258**	**833 238**	**710 300**	**122 938**

1) The compensation amount includes a Board of Directors fee and meeting expenses.
2) Compensation for legal assessment and advice provided in the 2008 financial year. These services.
3) In line with the instructions of the members of the Board of Directors concerned, the compensation or Board of Directors fee will be transferred to the employer in full.

Disclosures in accordance with Art. 663b^{bis} of the Swiss Code of Obligations:

Executive Board CHF	Total comp. 2007	Total comp. 2008	Gross salaries (fixed)	Gross salaries (variable)	Retirement provision and other services
Karl Heiz, CEO until 30 June 2008	598 808	496 957	190 200	105 520	201 237
Kurt Bobst, CEO from 01 July 2008		438 840	185 835	85 280	167 725
Other members of the Executive Board	1 835 897	1 929 471	933 170	516 038	480 263
Total	**2 434 705**	**2 865 268**	**1 309 205**	**706 838**	**849 225**

A profit-sharing model entered into effect in 2007 for members of the Executive Board, which could lead to bonus payments in 2010. The model is explained in the section on corporate governance. Based on the accumulated results up to 31 December 2008, there are obligations of CHF 136,000 (2007: none) arising from this profit-sharing model, which are recorded in the annual financial statements in the respective period.

Presentation of compensation to the Executive Board was refined in the interests of transparent reporting. Total compensation is comparable with the previous year.

No other compensation or loans exist in accordance with Art. 663b^{bis} of the Code of Obligations.

2008 Financial Statements of Rätia Energie AG

Notes to the financial statements

Disclosures in accordance with Art. 663c of the Swiss Code of Obligations at 31 December of the financial year:

Board of Directors	Shares 2007	Shares 2008	PC 2007	PC 2008
Luzi Bärtsch, Chairman	5	5	-	-
Dr. Reto Mengiardi, Vice Chairman	5	5	-	-
Jörg Aeberhard	25	25	-	-
Kurt Baumgartner	-	-	-	-
Christoffel Brändli	14	14	-	-
Dr. Guy Bühler		-		-
Emanuel Höhener	3		-	
Rudolf Hübscher	5	5	-	-
Guido Lardi	25	53	-	-
Dr. Aluis Maissen	100		-	
Rolf W. Mathis	5	5	-	-
Jean-Claude Scheurer	220		-	
Dr. Martin Schmid		-		-
Dr. Hans Schulz		-		-
Antonio Taormina	-	-	-	-

Executive Board	Shares 2007	Shares 2008	PC 2007	PC 2008
Karl Heiz	5		-	
Kurt Bobst		-		-
Felix Vontobel	50	50	-	-
Martin Gredig	5	5	-	-
Hans Gujan	6		-	
Giovanni Jochum	25	25	50	145

There are no other factors requiring disclosure under the terms of Arts. 663b and 633c of the Swiss 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 2008	CHF	96 721 916
Retained earnings carried forward	CHF	19 424 516
Unappropriated retained earnings	**CHF**	**116 146 432**
Dividend on share capital of CHF 2.8 million	CHF	- 19 481 805
Dividend on participation capital of CHF 0.6 million	CHF	- 4 375 000
Allocation to other reserves	CHF	- 70 000 000
Balance carried forward	**CHF**	**22 289 627**

Subject to the approval of the Annual General Meeting, the dividend of CHF 7.00 per share less 35 % withholding tax will be payable from 15 May 2009 on presentation of Coupon No. 6 for a bearer share with a par value of CHF 1, or Coupon No. 6 for a participation certificate with a par value of CHF 1.

Poschiavo, 6 April 2009

For the Board of Directors:

Luzi Bärtsch
Chairman of the Board of Directors

Report of the Auditors

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Report of the statutory auditor
to the general meeting of
Rätia Energie AG
Poschiavo

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Rätia Energie AG, which comprise the balance sheet, income statement and notes (pages 109 to 119), for the year ended 31 December 2008.

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

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

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

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

PricewaterhouseCoopers

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Bruno Räss
Audit expert
Auditor in charge

Hans Martin Meuli
Audit expert

Chur, 6 April 2009

Addresses and key dates

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Rätia Energie

Key dates

12 May 2009	Annual General Meeting
25 August 2009	First Half Year Results
10 May 2010	Annual General Meeting

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