Head office:
Aare-Tessin Ltd. for Electricity
Bahnhofquai 12
CH-4601 Olten
Tel. +41 62 286 71 11
Fax +41 62 286 73 73
www.atel.ch

atel

Financial Report 2003

Key Figures for 2003

Atel Group

	+/– variance 2002–2003 in % (based on CHF)	2002 CHF mn.	2003 CHF mn.	2002 EUR mn.	2003 EUR mn.
Energy sales (GWh)	71.2	40 000	68 476	40 000	68 476
Net turnover	42.8	3 700	5 285	2 517	3 477
Energy	69.6	2 263	3 839	1 539	2 526
Energy Services	4.8	1 465	1 535	997	1 010
Cash flow	6.1	490	520	333	342
in % of net turnover	–25.7	13.2	9.8	13.2	9.8
Group profit	60.0	170	272	116	179
in % of net turnover	10.9	4.6	5.1	4.6	5.1
Net investments	33.0	455	605	310	398
Free Cash Flow	52.2	316	481	215	316
Shareholders' equity	16.5	1 555	1 811	1 072	1 161
in % of balance sheet total	–6.5	30.7	28.7	30.7	28.7
Balance sheet total	24.6	5 070	6 315	3 497	4 048
Number of employees*	2.7	7 890	8 105	7 890	8 105
plus trading in standardised products					
in GWh	40.9	47 300	66 627	47 300	66 627
in CHF mn. or EUR mn.	42.2	1 908	2 714	1 300	1 786

* Average number of full-time equivalent employees

Per share information

	+/– variance 2002–2003 in %	2002 CHF	2003 CHF
Nominal value	–	100	100
Share price at 31.12.	21.7	805	980
Highest	7.1	915	980
Lowest	–5.8	775	730
Group profit	50.9	55	83
Shareholders' equity	16.6	512	597
Dividend	10.0	20	22
Average trading volume/day	10.6	85	94

Table of Contents

* Atel Ltd. is used in the following as the abbreviation for Aare-Tessin Ltd. for Electricity

Review of the Years 1999–2003 for the Atel Group

Income statement

CHF mn.	1999	2000	2001	2002	2003
Net turnover*	1 922	3 320	3 620	3 700	5 285
Variance in % over prior year	6.0	72.7	9.0	2.2	42.8
Variance in % in same scope of consolidation	3.5	6.8	10.2	0.8	14.1
Other operating income	61	78	90	91	135
Total operating result	1 983	3 398	3 710	3 791	5 420
Operating expenses	–1 862	–3 227	–3 488	–3 536	–5 060
Earnings before interest and taxes (EBIT)	121	171	222	255	360
Financial income/expenses	12	16	9	–24	10
Income taxes	–26	–52	–66	–61	–98
Group profit including minority interest	107	135	165	170	272
Variance in % over prior year	5.9	26.2	22.2	3.0	60.0
in % of net turnover	5.6	4.1	4.6	4.6	5.1
Minority interests	–5	–10	–9	–5	–20
Net profit	102	125	156	165	252
Employees**	2 316	7 765	7 823	7 890	8 105

* Excluding trading in standardised products; definition of turnover amended see page 17
** Average number of full-time equivalent employees

Balance sheet

CHF mn.	1999	2000	2001	2002	2003
Total assets	3 576	4 232	4 575	5 070	6 315
Assets					
Fixed assets	2 530	2 819	2 590	3 022	3 895
Current assets	1 046	1 413	1 985	2 048	2 420
Liabilities					
Shareholders' equity	1 292	1 364	1 468	1 555	1 811
in % of total assets	36.1	32.2	32.1	30.7	28.7
Minority interests	54	66	65	83	97
Liabilities	2 230	2 802	3 042	3 432	4 407

Statement of cash flow

CHF mn.	1999	2000	2001	2002	2003
Cash flow	550	465	540	490	520
Variance net current assets	–6	63	74	–80	3
Cash flow from operating activities	544	528	614	410	523
Cash flow from investment activities	–220	–408	–110	–455	–605
Cash flow from financing activities	–252	187	–346	13	224
Variance in cash and cash equivalents	72	307	158	–32	142
Free cash flow	453	421	595	316	481

Per share information

CHF	1999	2000	2001	2002	2003
Nominal value	100	100	100	100	100
Share price at 31.12.	800	890	850	805	980
Highest	960	930	1 000	915	980
Lowest	756	750	735	775	730
Group profit	34	41	52	55	83
Shareholders' equity	426	449	484	512	597
Dividend	18	20	20	20	22
Average trading volume/day	140	160	190	85	94

Atel Group Financial Commentary

Controlled growth

2003 financially was a successful year for the Atel Group. Turnover and earnings from energy business were at record levels, as Atel followed its corporate strategy of steadily expanding trading and sales. Energy service business faced a tough, competitive environment. Consolidated turnover rose 43 % to CHF 5.3 billion and consolidated earnings 60 % to CHF 272 million. The company's value increased yet again and the conditions for its continued prosperity were enhanced. Furthermore, Atel processed 66.6 TWh (+40.9 %) valued at CHF 2.7 billion (+42.2 %) in the form of standard products in 2003, emphatically confirming Atel's position as Switzerland's leading energy service provider and major market partner in Europe.

Good liquidity levels and excellent creditworthiness meant that Atel was able to finance the purchase of the power stations and trading companies in Central and Eastern Europe and the repayment of bridging loans at Italian power station company Edipower in a cost-effective way. The charge to the balance sheet arising from the various acquisitions should be reduced over the medium term. The professionalism of Risk Management in energy business was particularly impressive in the reporting year. Despite some extreme fluctuations in liquidity and prices as well as a sharp increase in the number and complexity of transactions undertaken, the portfolio was kept under control in risk terms. The management of liquidity and price risk has since been enhanced through the systematic management of credit risk.

In 2004, Atel intends to consolidate the strong and successful growth of the past few years both in financial and organisational terms. We have no plans to make any large acquisitions. The ongoing and largely organic expansion of our European sales and trading operations as well as the expected recovery in energy service markets mean that we can expect growth in sales and operating earnings to be similar to 2003 levels.

Long-term funding of production facilities secured

Italy: Edipower, Novel and ACTV

As part of its strategic objective of becoming established as a local producer in Italy, Atel was part of the Edipower consortium that acquired Eurogen's power stations in 2002. Its original stake in Edipower's capital was 13.3 % and 16.7 % in its power interests. Other shareholders were AEM Milano and AEM Torino (urban utilities) with 13.3 % each, Edison Italy with 40 % and various financial investors with 20 %. The industrial shareholders also acquired proportionate options on the financial investors' participations which are exercisable by 2007 at the latest. Once they have been exercised in full, Atel's capital stake will increase to 16.7 %.

In autumn 2003, the original acquisition financing structure was replaced with a long-term project financing scheme. At the same time the shareholding structures were amended. In order to secure the project financing and to achieve attractive funding cost, a Tolling Agreement was signed between Edipower, the industrial shareholders and their distribution companies, and the share capital of Edipower was doubled through a further injection from shareholders. At the same time, AEM Milano and Atel both increased their shareholding to 16 % each (energy interests 20 %) at the expense of AEM Torino. The industrial sponsors' rights to acquire the shares of the financial shareholders have been amended accordingly; once these options have been fully exercised, Atel's capital interest will rise to 20 % by 2007 at the latest. The project financing scheme was signed in September 2003. The corresponding bank loans are secured with sponsor guarantees and covenants that are standard for this type of financing.

At the same time, Edipower's repowering programme was reviewed and operations rationalised even more. The measures helped lower costs, investment needs and probably increase output. Now that the repowering has been completed, Atel has access to around 1600 MW spread over nine locations.

In addition to Edipower, Atel is close to completing its own Novel and Vercelli power station projects in Northern Italy which are due for commissioning in the first half of 2004. Both power stations are being financed over the long-term, Vercelli by shareholders and Novel as part of a project finance programme.

Central and Eastern Europe: Csepel, ECKG and Entrade

At the beginning of 2003, the process of acquiring trading company Entrade and power station companies Csepel and ECKG was completed through the purchase of more shares in ECKG. All three companies were fully consolidated into the balance sheet and income statement in 2003. Atel took over the existing and generally favourable long-term project financing for Csepel, whereas negotiations were started to restructure ECKG's previous project financing which is due to be replaced in the first quarter of 2004. These measures secure the financial basis of these production facilities in a sustainable and effective way.

Investments feature prominently in the balance sheet

Overall, investment operations plus the related borrowings and consolidation inflows feature prominently in the 2003 balance sheet. As a result, liabilities have notably increased in absolute and relative terms and the equity ratio has decreased. Atel also took on guarantee obligations and pledge liabilities, as is standard practice in international project financing. These obligations are offset by value-added facilities and attractive earnings potential secured over the long-term.

Significant growth in turnover

The Atel Group's consolidated net turnover increased year-on-year by 41.2% in local currencies and by 42.8% in Swiss francs to CHF 5.3 billion. With the same scope of consolidation, i.e. excluding the 2003 acquisitions, turnover in Swiss francs would have been 15.3% (+14.1% in local currencies). Furthermore, Atel processed 66.6 TWh (+40.9%) valued at CHF 2.7 billion (+42.2%) in the form of standard products in 2003.

Energy business turnover from existing operations and acquisitions exceeded expectations. External turnover increased by 70% to CHF 3.8 billion. This was notably due to the inclusion of new operations in Central and Eastern Europe (CHF 1 billion) but strong internal growth also played a part thanks to increased trading and sales activities in Italy, Germany and France. Average market prices went far beyond prior year's levels which also helped to push up turnover figures.

Energy service business was dominated by the continuing weak economic situation in Germany and Switzerland, with market and competitive conditions deteriorating considerably again in 2003. Nevertheless, the Energy Services segment increased turnover by 3% (in local currency) to CHF 1.5 billion. Turnover was boosted mainly by Swiss business in the railway and traffic technology sectors, while turnover in Germany was around the prior year's levels.

Sharp rise in EBIT

Consolidated earnings before interest and taxes (EBIT) increased in the reporting period to CHF 360 million which is around 40% higher than a year ago. The operating margin reached 6.8% which is close to the high level of 2002 (6.9%). This sharp rise was due mainly to the significant contribution to earnings posted by the first-time consolidated companies in Central and Eastern Europe in the Energy segment. The rise was also generated by the earning power of existing energy business that ended the year up on 2002 in operating terms due to the portfolio's excellent positioning and management. Furthermore, provisions and value adjustments in the Energy segment totalling CHF 36 million released through the elimination of process risks, were credited to operating income.

Operating expenses in the Energy Services segment were dominated by the one-time effects of restructuring measures within the German GAH Group. Even without this item, consolidated contribution to earnings would have been around 25% lower year-on-year due to weak demand and pressure on margins. Planned goodwill depreciation of CHF 81 million (prior year: CHF 108 million) was charged to consolidated operating expenses. Goodwill stemmed from the acquisition of urban utilities and expansion of energy service business in prior years as well as from the purchase of production facilities and trading business in Central and Eastern Europe in 2002 and 2003.

Improved financial and investment earnings

The resources needed to fund acquisitions and power station projects are reflected in the financial results, with net interest expenses rising by CHF 45 million. However considerable exchange rate gains from the strong euro were booked to financial investments. The positive market valuation of financial investments also helped improve financial earnings. Income from investments rose CHF 21 million thanks to the excellent earnings outlook of associated companies.

The consolidated tax charge was balanced out proportionately by the rise in earnings, with the weighted tax rate at 26.5%. The tax charge for the reporting period contains value adjustments on deferred tax loss carry-forwards capitalised in prior years. The Group has opted for cautious accounting principles to avoid future earnings risks.

Record Group profits

Reported Group profits of CHF 272 million, representing an increase of CHF 102 million or 60%, reflect successful operations, including special effects. On an adjusted basis, i.e. without the first-time consolidation effects, the increase would have been 26%.

Generated cash flow of CHF 520 million was CHF 30 million or 6% higher than in 2002. The change was due to various factors, such as a reduced inflow of funds through the ending of a lucrative contract in energy business at the end of 2002 and developments in the Energy Services. By contrast, energy business operations and the contribution of the newly acquired companies had a positive effect on the result.

Significant investment in power stations

Capital expenditure of CHF 605 million in total (prior year: CHF 455 million) was largely dominated by the acquisition of a stake in the ECKG power stations and the capital advance of around CHF 380 million to Edipower. A further CHF 130 million was spent realising the Novel and Vercelli power station projects and acquiring grid facilities. Replacement capital investment on power stations, transmission facilities and fixed assets in the Energy Services segment totalled CHF 73 million. Acquisitions, the capital advance and other investments were financed in full out of existing resources and generated cash flow.

Total assets at 31 December 2003 increased by 25% to CHF 6.3 billion. This was primarily due to the purchase and integration of ECKG's balance sheet, but also to a CHF 300 million bond and increase in loan assets and short-term liabilities. The increase in reported assets and liabilities stems from the rise in turnover volume of energy business. Cash and cash equivalents, including short and long-term time deposits, totalled around CHF 830 million at balance sheet date (2002: CHF 710 million). These resources were available for the CHF 200 million bond that matured on 16 February 2004 as well as for liquidity levels required for maintaining operations.

On the liabilities side, the change in financial liabilities contains other borrowings of CHF 271 million raised on the capital market and repayments of CHF 359 million in addition to the aforementioned first-time consolidation effects and the bond. The ratio of net indebtedness to equity, including minority interests, stood at 58% on the accounting date (prior year: 40%). The ratio of shareholders' equity to total assets fell from 30.7% to 28.7% due to expansion of the balance sheet.

Consolidated Income Statement

Outlook

Turnover growth and stable earnings

After strong external growth, the main focus of 2004 will be to strengthen financial resources and balance sheet structures as well as optimise organisation and procedures. In energy business, we are looking to increase turnover by marketing the power supplied by Edipower and continue expanding sales and trading activities. In terms of prices, we expect less volatility and lower margins. We will continue to concentrate closely on margin-oriented marketing.

In our Energy Services segment, we are expecting positive stimulus from the economic upturn and restructuring which should help increase turnover and earnings.

In 2004, barring any exceptional events, we expect for the whole Atel Group a rise in net turnover and operating earnings at around the same levels as in 2003.

CHF mn.	Notes	2002	2003
Net turnover*	26	**3 700**	**5 285**
Capitalised cost		15	17
Other operating income	2	76	118
Total operating result		**3 791**	**5 420**
Energy and goods purchased	3	–2 380	–3 839
Materials and external services		–36	–88
Personnel expenses	4	–597	–624
Depreciation	5	–307	–256
Other operating expenses		–216	–253
Operating expenses		**–3 536**	**–5 060**
Earnings before interest and taxes		**255**	**360**
Income from investments	6	41	62
Financial income/expenses	7	–65	–52
Profit before income taxes		**231**	**370**
Income taxes	8	–61	–98
Group profit including minority interest		**170**	**272**
Minority interest		–5	–20
Net profit	9	**165**	**252**
Earnings per share in CHF	9	**55**	**83**

* Excluding trading in standardised products; definition of turnover amended see page 17

Consolidated Balance Sheet

Assets

CHF mn.	Notes	31.12.2002	31.12.2003
Tangible fixed assets	10	1 331	1 929
Intangible assets	11	750	650
Investments in associated companies	12	641	661
Long-term financial investments	13	240	588
Deferred income taxes	8	60	67
Fixed assets		**3 022**	**3 895**
Inventory		41	38
Debtors	14	1 254	1 498
Time deposits		28	2
Cash and cash equivalents	15	685	827
Accrued assets		40	55
Current assets		**2 048**	**2 420**
Total assets		**5 070**	**6 315**

Liabilities

CHF mn.	Notes	31.12.2002	31.12.2003
Share capital		304	304
Share premium		14	14
Treasury shares		–35	–1
Retained earnings		1 272	1 494
Shareholders' equity	16*	**1 555**	**1 811**
Minority interests		**83**	**97**
Provisions	17	753	733
Deferred income taxes	8	187	228
Long-term financial liabilities	18	1 079	1 599
Other long-term liabilities	19	6	6
Long-term liabilities		**2 025**	**2 566**
Liabilities from current income taxes		28	29
Short-term financial liabilities		251	333
Other short-term liabilities	20	905	1 220
Accrued liabilities		223	259
Short-term liabilities		**1 407**	**1 841**
Liabilities		**3 432**	**4 407**
Total liabilities and shareholders' equity		**5 070**	**6 315**

* As well as page 13

Statement of Changes in Equity

CHF mn.	Share capital	Share premium	Treasury shares	Translation differences	Retained earnings	Total
Shareholders' equity 31.12.2001	**304**	**14**	**–19**	**–12**	**1 181**	**1 468**
Dividend payment					–60	–60
Net profit					165	165
Purchase/sale of Treasury shares			–16			–16
Earnings from the purchase/sale of Treasury shares (after tax)					1	1
Changes in currency translation				–3		–3
Shareholders' equity 31.12.2002	**304**	**14**	**–35**	**–15**	**1 287**	**1 555**
Dividend payment					–60	–60
Net profit					252	252
Purchase/sale of Treasury shares			34			34
Earnings from the purchase/sale of Treasury shares (after tax)					–1	–1
Changes in currency translation				31		31
Shareholders' equity 31.12.2003	**304**	**14**	**–1**	**16**	**1 478**	**1 811**

The Board of Directors proposes to the Annual General Meeting 2004 for the 2003 financial year a dividend of CHF 22 per share, totaling CHF 67 million on the dividend-bearing capital stock (shares in circulation). For futher details we reference to page 58.

Consolidated Cash Flow Statement*

CHF mn.	2002	2003
Profit after tax	**170**	**272**
Adjustments for:		
Depreciation	307	256
Change in deferred income tax charged to the income statement	20	46
Change in provisions	12	18
Other income/expenses not affecting payments	–19	–72
Cash flow	**490**	**520**
Change in net current assets**	–53	3
Reclassifications due to movements in percentage holdings	–27	–
Cash flow from operating activities* **	**410**	**523**
Tangible fixed and intangible assets		
Investments	–101	–207
Disposals, purchase price adjustments on acquisitions	7	31
Acquisition of subsidiaries (less acquired cash)	–161	–109
Associated companies		
Investments	–5	–5
Disposals	4	–
Long-term financial assets		
Investments	–199	–322
Disposals	–	7
Cash flow from investment activities	**–455**	**–605**
Change in capital minority interests	–11	–
Dividend payments	–60	–60
Dividends paid to minority interests	–6	–7
Purchase/sale of Treasury shares	–15	33
Increase in financial liabilities	26	571
Repayment of financial liabilities	–75	–359
Change in time deposits	156	25
Changes resulting from currency translation	–2	21
Cash flow from financing activities	**13**	**224**
Change in cash and cash equivalents	**–32**	**142**
Statement		
Cash and cash equivalents on 1.1.	717	685
Cash and cash equivalents on 31.12.	685	827
Change	**–32**	**142**

* See note 27, page 45

** Excl. short-term financial deposits or liabilities

*** Cash flow from operating activities includes:
– Interest receipts of CHF 19 million (prior year: CHF 17 million) and interest payments of CHF 56 million (prior year: CHF 26 million)
– Dividend yield from financial investments of CHF 1 million (prior year: CHF 8 million)
– Income tax paid of CHF 23 million (prior year: CHF 19 million)

Free cash flow

CHF mn.	2002	2003
Cash flow from operating activities	410	523
Capital expenditure	–101	–73
Sale of tangible fixed and intangible assets	7	31
Free cash flow	**316**	**481**

Group Accounting Policies

General principles

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The financial statements give a true and fair view of the Atel Group's financial position, result of operations and cash flows. The Board of Directors authorised the consolidated financial statements on 26 February 2004 for presentation to the Annual General Meeting on 29 April 2004.

No changes were made to the principles of valuation and consolidation compared to the prior year.

Basis of consolidation

Scope of consolidation

The consolidated financial statements are based on the individual financial statements of all Atel Group companies consolidated as at 31 December. Group companies are included in the scope of consolidation from the date of acquisition. Companies are deconsolidated or reported under financial assets if the Group no longer controls the business or disposes of it.

The scope of consolidation includes, apart from Atel Ltd., Group companies in which Atel directly or indirectly holds more than 50% of the voting rights and thus exercises control.

Investments in associated companies in which Atel exercises a significant interest but does not control the company, are included in the consolidation using the equity method. Joint ventures in the Energy segment, operated under common control with partner companies, are included in the consolidated financial statements on the same basis. The financial statements of associated companies have been prepared on the basis of local accounting principles which may partly differ from those of the Atel Group.

Atel's share in the assets, liabilities, income and expenses of these companies is shown under explanatory note 12 on pages 32/33.

Under the new accounting standard IAS 39, other investments are presented under assets in the “Financial holdings” caption at fair value (see notes “Fair value” on page 22).

All significant investments, including details of the consolidation method applied and further information, are listed from page 47.

Method of consolidation

Consolidation and the recording of goodwill are performed using the purchase method (re-evaluation method). On this basis, the costs of acquisition of a consolidated Group company are offset against re-evaluated equity at the time of acquisition. Any surplus is capitalized as goodwill and charged to the income statement as depreciation over the estimated useful life of the asset.

Intercompany transactions

Shareholders are invoiced at full cost for the power produced by the joint ventures, on the basis of existing joint venture contracts.

Other goods and services are invoiced between Group companies at the contractually agreed transfer or market prices. All positions and transactions and unrealised gains and losses arising from intercompany transactions are eliminated in consolidation.

Foreign currencies

Balance sheets and income statements of Group companies which do not report in Swiss francs are converted into Swiss francs at year-end exchange rates or average exchange rates for the year and any resulting differences are charged to shareholders’ equity.

In the individual company accounts, foreign-currency transactions are converted at the current exchange rate, and at the hedging rate where covered by forward foreign exchange contracts. Gains and losses realized and unrealized, arising up to the balance sheet date from the valuation of assets and liabilities in foreign currencies, are recorded in the income statement.

Valuation and accounting policies

Sales revenue

Sales revenue from goods and services is reported in the income statement upon performance. Turnover from construction contracts is accounted for using the percentage-of-completion method, where income is accounted for based on the stage of completion.

Trading in standardised products are reported in the net turnover using the net method (recording of net trading performance).

Income taxes

Income taxes are calculated on the annual profits contained in the income statement at the current tax rates applicable to the individual companies.

Deferred income taxes are calculated on temporary differences arising between the tax basis of assets on liabilities and their carrying value in the consolidated financial statements. The resulting deferred tax is provided for using the balance sheet liability method. Deferred tax is only reported on valuation differences in holdings in Group companies if it is likely to be reversed in the foreseeable future.

Deferred tax assets are reported if their realisation is probable. The effects of timing differences are shown in note 8 on page 30.

Borrowing costs

Interest is charged in principle as expenditure in the period for which it is due. Interest directly related to the long-term acquisition or construction of a plant is capitalised. The capitalised interest is calculated on the basis of the amount actually paid in the period from the beginning of the acquisition or construction operation up to commissioning of the plant.

Impairment of tangible assets

The value of tangible fixed assets and other assets, including goodwill, other intangible assets and financial instruments, is periodically reassessed. This is done in particular where as a result of changed circumstances or of events it becomes likely that the book values are overvalued. If the carrying value exceeds the estimated realisable value, it is written off to the value which appears realisable on the basis of discounted, expected future earnings. A value impairment charge from a prior period is reversed if the value is no longer impaired or if the impairment is reduced. Reversals are taken to the income statement. The only item not reversed is goodwill.

Tangible fixed assets

Tangible assets are recorded at cost, less planned depreciation using the straight-line method over the estimated useful life of the assets for each category of plant, or to the end of the operating life of a power plant. Estimated useful life periods for the individual categories of property, plant and equipment are within the following ranges:

Buildings	30–50 years
Land	only in case of loss of value
Power stations	25–80 years
Transmission plants	15–40 years
Plant equipment, machinery and vehicles	3–20 years
Plants under construction	as soon as loss of value is apparent

Interest for long-term investment projects is capitalised during the construction phase.

The obligation to restore land and sites once a licence has expired or a facility is no longer in use, is included on an individual basis in accordance with contractual provisions.

Repairs, maintenance and ordinary upkeep of buildings and operating plants are recognised as an expense.

Investments in the renovation or improvement of plants are capitalized if they significantly extend their useful life, increase capacity or substantially improve the quality of production performance.

Gains or losses from the disposal of property, plant and equipment are recorded in the income statement.

Power subscription rights

Power subscription rights include prepayment for rights to long-term power purchases including capitalized interest. Depreciation is charged from the beginning of power subscription on a straight-line basis over the term of the contract.

Intangible assets

Intangible assets essentially include purchased intangible assets such as goodwill and third-party plant usage rights. Depreciation is charged over the estimated economic lifetime; for goodwill, however, over a period of 3 to 10 years.

Leasing

Costs incurred in connection with operating leasing are charged to the income statement as incurred.

Tangible fixed assets leased under financial leasing are capitalized at the lower of the market value or the estimated present value of the underlying lease payments. Depreciation is charged on a straight-line basis over the expected useful life of the asset.

Construction contracts

Customer-specific construction contracts in the Energy Services segment have been accounted for using the percentage-of-completion method and classified as receivables and reported under sales revenue. The stage of completion is determined by the amount of expenses already incurred. Construction costs are recognised as expenses in the period in which they are incurred.

If the stage of completion or the result cannot be reliably estimated on particular contracts or contract groups, revenue is only recognised as contract costs which can probably be brought in.

Provisions cover any expected losses from construction contracts.

Revenues from contracts in progress are accounted for based on written confirmations from the customers.

Inventory

Material inventory required for operating activities is stated at the lower of acquisition or manufacturing costs or net realizable value.

Debtors

Receivables from goods and services plus other receivables are recorded at nominal value minus any required provisions.

Cash and cash equivalents

Cash and cash equivalents contains cash, post and bank accounts, on call deposits and other deposits maturing in a maximum of 90 days, plus marketable securities.

Liabilities

Liabilities include short and long-term debts recorded in the balance sheet at the repayable amount and the allocation of accrued expenses. Reported liabilities do not vary significantly from the amortized cost method.

Provisions

Provisions cover all liabilities apparent at the balance sheet date which are based on past transactions or events and which are probable but where the payment date and amount are uncertain. The amount is determined using the best estimate of the expected value outflow.

Provisions are recorded at the balance sheet date on the basis of the probable present value outflow at the balance sheet date. Provisions are reassessed annually at the balance sheet date and adjusted taking into account current developments. An exception to this is the pension provisions for which accounting standard IAS 19 is applied.

Pension funds

Atel Ltd. and the Group companies in the Energy segment are members of a legally independent collective industry welfare scheme which is based on the Swiss defined benefit plan. Pension liabilities are calculated using the projected unit credit method. This system takes into account not only the pensions and accrued assets on the set date, but also expected future increases in salary and pension. Foreign subsidiaries in the Energy segment are essentially covered by state social welfare schemes or independent defined contribution pension plans.

In the Energy Services segment the Group companies within the Atel Installationstechnik Group in Switzerland are attached to multi-employer pension schemes which are fully reinsured. The companies have neither moral nor legal obligations arising from future pension entitlements of employees. For this reason no actuarial calculations have not been carried out for these companies. Companies within the Installationstechnik Group in Italy are insured through state social welfare schemes.

The pension scheme of the German GAH Group only uses the so-called implementation method of direct commitment, i.e. there is no legally independent pension plan. Therefore, provisions have been set up in the company’s balance sheet. These provisions are based on actuarial calculations of existing pension commitments which are reviewed annually. Pension benefits are paid directly by the company. Under the accounting standard IAS 19, a direct pension commitment under German law is a so-called “unfunded plan” and reported as a net liability. As there are no separately held assets with which to meet the liabilities, the actual payments are charged against the provisions.

Contingent liabilities

Potential or existing liabilities where a cash outflow is not regarded as probable, are not recorded in the balance sheet. Contingent liabilities existing at balance sheet date are shown in the notes to the consolidated financial statements.

Financial instruments

Financial instruments are cash and cash equivalents, securities, derivative financial instruments, financial holdings, receivables as well as short and long-term financial liabilities.

Fair value measurement

The carrying amount of cash and cash equivalents, securities and short-term liabilities corresponds to their fair value as a result of their short maturity.

Loans and financial investments that are quoted at a stock exchange or wherever an active market exists, are valued at the market value applicable at balance sheet date. Other positions where no active market exists or where the cost of determining the fair value is disproportionate, are reported at the cost of acquisition.

Financial assets

Under accounting standard IAS 39, financial assets are classified as follows and measured uniformly per category:
– Financial assets or debts held for trading,
– financial assets held-to-maturity,
– originated loans and receivables, and
– financial assets available for sale.

Financial assets "held for trading" are usually acquired in order to make a profit from short-term fluctuations in price or dealer's margin. Financial investments "held-to-maturity" are financial assets with fixed maturities that Atel intends to hold to maturity. Originated loans and receivables are created by the Group by providing loans, goods or services to third parties. All other financial investments are classified as financial assets available for sale.

At inception, all financial assets are measured at cost, including transaction costs. The buying or selling of a financial asset is reported on the settlement date.

Financial assets "held for trading" are remeasured at fair value and any gains or losses are included in the income statement of the period in which they arise.

Financial assets "held-to-maturity" and "originated loans and receivables" are remeasured at cost or amortised cost using the effective interest rate method, less any impairment losses.

Financial assets "available for sale" are remeasured at fair value and any gains or losses are included in the income statement of the period in which they arise.

Derivative financial instruments

At inception, all derivative financial instruments are measured at cost, including transaction costs.

Derivative financial assets of the Energy business are remeasured at fair value and any gains or losses are included in the operating result in the income statement of the period in which they arise.

Other derivative financial instruments are remeasured at fair value and any gains or losses are included in the financial result in the income statement of the period in which they arise.

Hedge accounting

In the reporting period, the Atel Group has not entered into any hedging transactions for which hedge accounting was applied.

Financial risk management

General principles

The Atel Group is exposed in its operations to electricity price risk, interest rate, credit and currency risk. Risk limits are attributed to individual risk categories and compliance with these limits is constantly monitored and adjusted in the broad context of the company's overall risk capacity.

The energy risk policy sets out the principles of risk policy for the Atel Group's Energy business. It contains guidelines on entering into, measuring, managing and limiting business risk in Energy business and lays down the organisation and responsibilities of risk management. The policy is aimed at providing a reasonable balance between the business risks entered into, earnings and risk-bearing shareholders' equity.

Financial risk policy sets out the context of financial risk management within the Atel Group in terms of content, organisation and systems. The responsible units manage their financial risks within the framework of the risk policy and limits defined for their area. The policy is aimed at reducing financial risk in relation to the hedging costs and risks being accepted.

Energy price risk

Price risks in Energy business arise among others from price volatility, changing market prices or changing correlations between markets and products.

Derivative financial instruments are used in accordance with the risk policy as a means of hedging physical underlying transactions.

Interest rate risk

As the Atel Group is exposed to the risk of fluctuating interest rates on capital markets, it uses interest rate swaps as a hedging mechanism. The differences arising from these transactions are continuously reported in the income statement under financial income and expenses.

Credit risk

The Atel Group's credit risk management centres on constantly monitoring outstandings due from counterparties and carrying out creditworthiness analyses of new contracting parties. In Energy business, the Atel Group only assumes liabilities with counterparties that fulfil the criteria laid out in its energy risk policy. The danger of concentration risk for the Atel Group is minimised by the number of customers and their geographical distribution.

Financial assets reported in the balance sheet represent the maximum default risk to which the Atel Group was exposed at balance sheet date.

Notes to the Consolidated Financial Statements

Currency risks

In order to minimise currency risk, the Atel Group tries to offset operating income and expenses in foreign currencies. Any surplus is hedged through currency contracts (forward transactions, options) within the framework of financial risk policy.

Net investment in foreign subsidiaries is also subject to exchange rate changes, but the difference in inflation rate should cancel out these changes over the longer term. For this reason, Atel does not hedge investment in foreign subsidiaries.

1 Exchange rates

The consolidated financial statements are presented in Swiss francs. For currency conversions the following exchange rates were applied:

Unit	Conversion date 31.12.2002	Conversion date 31.12.2003	Average 2002	Average 2003
1 USD	1.39	1.24	1.56	1.34
1 EUR	1.45	1.56	1.47	1.52
100 HUF	0.62	0.60	0.60	0.60
100 CZK	4.61	4.81	4.75	4.77

2 Other operating income

The position includes the release of provisions totalling CHF 36 million.

3 Energy and goods purchased

CHF mn.	2002	2003
Electricity purchased from third-parties	1 252	2 551
Electricity purchased from associated companies (joint ventures)	351	365
Other power purchase	–	149
Value diminution financial assets (Financial holdings in energy business)	23	–
Expenditure on goods	754	774
Total	**2 380**	**3 839**

4 Personnel expenses

CHF mn.	2002	2003
Wages and salaries	501	512
Cost of staff pensions for final salary plans	17	20
Cost of staff pensions for defined contribution pension plans	11	10
Other staff expenses	68	82
Total	**597**	**624**

Average head count

	2002	2003
Number of full-time equivalent employees	7 208	7 436
Apprentices	682	669
Total	**7 890**	**8 105**

Head count at balance sheet date

	31.12.2002	31.12.2003
Number of full-time equivalent employees	7 163	7 455
Apprentices	707	675
Total	**7 870**	**8 130**

5 Depreciation

CHF mn.	2002	2003
Tangible fixed assets	75	109
Power subscription rights	113	51
Goodwill	108	81
Other intangible assets	4	4
Financial assets	7	11
Total	**307**	**256**

6 Income from investments

CHF mn.	2002	2003
Income from investments in associated companies	33	61
Dividend yield from financial holdings	8	1
Total	**41**	**62**

7 Financial income/expenses

CHF mn.	2002	2003
Interest income	20	12
Interest expenses	–48	–85
Exchange rate differences net	–10	13
Other financial income (expenses) net	–27	8
Total	**–65**	**–52**

8 Income taxes

Principal components of income tax expenses

CHF mn.	2002	2003
Current income taxes	41	52
Deferred income taxes	20	46
Total	**61**	**98**

Reconciliation

CHF mn.	2002	2003
Group profits before income taxes	231	370
Applicable income tax rate (weighted average)	32.0 %	25.7 %
Theoretical income tax expenditure	74	95
Effects of non-tax-deductible expenses	0	2
Investment deduction	–11	–12
Other influences	–2	13
Total income taxes	**61**	**98**
Income tax rate paid (weighted average rate)	26.4 %	26.5 %

The position "other influences" includes in the year 2003 mainly the adjustments of past periods to the applicable income tax rate.

Deferred tax credits and liabilities in accordance with the origin of the temporary differences

CHF mn.	31.12.2002	31.12.2003
Unused tax losses	–37	–44
Tangible fixed assets	15	17
Other fixed assets	93	130
Current assets	47	53
Provisions and liabilities	9	5
Total deferred tax assets/liabilities	127	161
of which taxes disclosed in the balance sheet:		
deferred tax liabilities	187	228
deferred tax assets	–60	–67
Net liability deferred taxes	127	161

The Group revised at balance sheet date the recoverability of the unused tax losses. From that resulted an impairment of CHF 12 million for the year 2003 (2002: CHF 0 million). The remaining amount is deductible without time limitation.

9 Earnings per share

	2002	2003
Total shares issued at a nominal value of CHF 100	3 036 000	3 036 000
Less Treasury shares (2003: as per 27.02.2004)	–40 000	–
Shares in circulation	2 996 000	3 036 000
Net profit Atel Group in CHF mn.	165	252
Earnings per share in CHF	**55.07**	**83.00**
Dividend per share or proposed dividend in CHF	20.00	22.00

There are no circumstances which could lead to a dilution of earnings per share.

10 Tangible fixed assets

CHF mn.	Properties	Power stations	Trans-mission plants	Other tangible fixed assets	Plants under con-struction	Total
Gross value as at 31.12.2002	**219**	**871**	**1 139**	**234**	**67**	**2 530**
Change in scope of consolidation		519		4		523
Investments	3	29	52	27	94	205
Capitalised income from work performed in-house					17	17
Reclassifications	3		–8	1	–5	–9
Disposals	–13	–2	–18	–26	–9	–68
Changes in currency translation	5	50		12	11	78
Gross value as at 31.12.2003	**217**	**1 467**	**1 165**	**252**	**175**	**3 276**
Accumulated depreciation as at 31.12.2002	**57**	**385**	**576**	**181**	**0**	**1 199**
Change in scope of consolidation		75		3		78
Depreciation	4	36	43	22	4	109
Reclassifications	1		–10	1		–8
Disposal	–2	–2	–16	–24	–4	–48
Changes in currency translation	2	6		9		17
Accumulated depreciation as at 31.12.2003	**62**	**500**	**593**	**192**	**0**	**1 347**
Net value as at 31.12.2002	162	486	563	53	67	1 331
Net value as at 31.12.2003	**155**	**967**	**572**	**60**	**175**	**1 929**

11 Power subscription rights and intangible assets

CHF mn.	Power subscription rights	Goodwill	Other intangible assets	Total
Gross value as at 31.12.2002	**626**	**522**	**106**	**1 254**
Change in scope of consolidation			1	1
Investments		44	2	46
Disposals		–21	–1	–22
Gross value as at 31.12.2003	**626**	**545**	**108**	**1 279**
Accumulated depreciation as at 31.12.2002	**165**	**268**	**71**	**504**
Change in scope of consolidation				–
Depreciation	51	81	4	136
Disposals		–11		–11
Accumulated depreciation as at 31.12.2003	**216**	**338**	**75**	**629**
Net value as at 31.12.2002	461	254	35	750
Net value as at 31.12.2003	**410**	**207**	**33**	**650**

12 Investments in associated companies

CHF mn.	Joint ventures*	Other companies	Total
Book value as at 31.12.2002	**398**	**243**	**641**
Change in scope of consolidation		–3	–3
Investments		5	5
Disposals		–4	–4
Dividend	–18	–7	–25
Proportion of profits	2	37	39
Difference from currency translation		8	8
Book value as at 31.12.2003	**382**	**279**	**661**

* In its 1999 annual report, Atel revalued its power station holdings (joint ventures) using the discounted cash flow method, under which every plant was valued separately from 1.1.1999 until the end of the concession. The valuation resulted in an extraordinary value adjustment of CHF 600 million. The value of power station holdings is reviewed annually and any significant changes in value accounted for in the income statement of the relevant period.

Key data on associated companies

Joint ventures

CHF mn.	Gross value 2002	Gross value 2003	Attributable to Atel Group 2002	Attributable to Atel Group 2003
Fixed assets	7 019	6 943	2 062	2 047
Current assets	773	707	247	234
Long-term liabilities	4 875	5 352	1 472	1 614
Short-term liabilities	1 188	572	331	160
Income	1 326	1 341	391	395
Expenses	–1 257	–1 271	–372	–376
Profit	69	70	19	19

Values are based on local accounting principles (Swiss Gaap ARR) applicable to the joint ventures. The extraordinary provisions applied in the consolidated 1999 annual financial statements to investments in power stations have not been included in this table.

Other companies

CHF mn.	Attributable to Atel Group 2002	Attributable to Atel Group 2003
Fixed assets	381	550
Current assets	144	149
Long-term liabilities	109	196
Short-term liabilities	173	221
Income	287	307
Expenses	–274	–270
Profit	13	37

The shareholders in the joint ventures are obliged on the basis of existing joint venture contracts to pay the annual costs based on their investments (including interest on and repayment of liabilities). For the Atel Group, the proportion of ordinary annual costs amounts on average to approximately CHF 365 million.

In addition, all owners and operators of nuclear power plants are required to make additional payments – based on the several liability concept as one mutually supportive group – for any difference arising between their individual decommission fund account and the actual contributions made to the fund.

13 Long-term financial investments

CHF mn.	Non-consolidated holdings	Financial holdings	Total
Gross value as at 31.12.2002	**258**	**3**	**261**
Investments	319	3	322
Change in fair value (market values)	26		26
Reclassifications	15		15
Disposals	–17	–1	–18
Changes in currency translation	3		3
Gross value as at 31.12.2003	**604**	**5**	**609**
Accumulated depreciation as at 31.12.2002	**21**	**0**	**21**
Depreciation	11		11
Disposals	–11		–11
Accumulated depreciation as at 31.12.2003	**21**	**0**	**21**
Net value as at 31.12.2002	237	3	240
Net value as at 31.12.2003	**583**	**5**	**588**

14 Debtors

CHF mn.	31.12.2002	31.12.2003
Trade debtors	950	1184
Turnover prior to invoicing	120	101
Other debtors	184	213
Total	**1254**	**1498**
of which credit balances with associated companies	19	21

Turnover prior to invoicing of construction contracts is reported as follows depending on their level of completion, less advances received:

CHF mn.	31.12.2002	31.12.2003
Turnover prior to invoicing (gross)	540	484
Advances received from customers	–420	–383
Turnover prior to invoicing (net)	**120**	**101**
Amounts retained by customers contained in turnover prior to invoicing	–	–

15 Cash and cash equivalents

CHF mn.	31.12.2002	31.12.2003
Cash at bank and cash in hand	249	401
Time deposits with a maturity of under 90 days	398	420
Other liquid assets	38	6
Total	**685**	**827**

"Other liquid assets" contains marketable securities.

16 Shareholders' equity

Share capital

The share register contains the following details of share ownership:

in %	Capital and voting rights
Motor-Columbus AG, Baden	58.5
Elektra Birseck, Münchenstein	14.9
Elektra Baselland, Liestal	7.9
Azienda Energetica Municipale S.p.A., Milano	5.8
Canton Solothurn, Solothurn	5.0
Public and Treasury shares	7.9

Treasury shares

In the financial year 45 660 registered shares were sold at their market value and 3007 shares bought. On 31.12.2003 the balance of Treasury shares held was 1092 registered shares at nominal value of CHF 0.1 million. Until 27 February 2004 the remainder of the stock has been sold.

17 Provisions

CHF mn.	Contractual risks	Annual costs liabilities	Pension provisions	Other provisions	Total
Total long-term provisions at 31.12.2002	**235**	**194**	**138**	**186**	**753**
Short-term provisions		29		7	36
Provisions at 31.12.2002	**235**	**223**	**138**	**193**	**789**
Change in scope of consolidation				15	15
Allocations	30		15	84	129
Appropriations		–27	–10	–38	–75
Released provisions not required				–36	–36
Changes in currency translation			10	5	15
Provisions at 31.12.2003	**265**	**196**	**153**	**223**	**837**
Less short-term provisions		–30		–74	–104
Total long-term provisions at 31.12.2003	**265**	**166**	**153**	**149**	**733**

The provisions for contractual risks serve to cover the existing and foreseeable risks and liabilities on the balance sheet date in the international electricity trading business. From todays view the major cash outflow on the stock of provisions will take place within the next 5–15 years.

The provision for annual costs liabilities covers the outflow of funds for energy supplies from power stations investments which is above the market norm. The cash outflow ranges until the end of the concession period of each of the power plants.

Other provisions primarily cover liabilities relating to staff, liabilities from restructuring programmes and general operational liabilities.

The short-term provisions are classified as accrued liabilities in the balance sheet.

18 Long-term financial liabilities

CHF mn.	31.12.2002	31.12.2003
Bonds at amount repayable	600	700
Loans payable	479	899
Total	**1079**	**1599**

Bonds, outstanding on the balance sheet date

	Term	Earliest repayment date	Interest rate %	31.12.2002	31.12.2003
Fixed-interest bond Atel Ltd.	1996/2006	16.02.04	4	200	200*
Fixed-interest bond Atel Ltd.	1997/2009	06.03.09	4 1/4	200	200
Fixed-interest bond Atel Ltd.	1997/2009	30.10.07	4	200	200
Fixed-interest bond Atel Ltd.	2003/2013	16.09.13	3 1/8	–	300

* Repayment on 16 February 2004; shown in balance sheet as per 31.12.2003 under short-term financial liabilities

The net market value of fixed-interest bonds outstanding as at the balance sheet date amounted to CHF 934 million.

The weighted interest paid on bonds issued, relating to the nominal value at the balance sheet date, amounted to 3.76% (2002: 4.18%).

Loans payable

CHF mn.	31.12.2002	31.12.2003
Maturing within 1 to 5 years	199	379
Maturing later than 5 years	280	520
Total	**479**	**899**
Of which long-term liabilities owing to associated companies	5	3

The weighted interest paid on loans payable, relating to the nominal value at the balance sheet date, amounted to 4.45% (2002: 3.95%). Loans repayable within 360 days are recorded under short-term liabilities.

19 Other long-term liabilities

This position primarily represents third-party plant utilisation rights.

20 Other short-term liabilities

CHF mn.	31.12.2002	31.12.2003
Trade creditors	707	974
Other creditors	175	237
Advances from customers	23	9
Total	**905**	**1220**
Of which short-term liabilities owing to associated companies	49	36

21 Pension fund liabilities

Reconciliation of liabilities recognized in the balance sheet:

CHF mn.	31.12.2002	31.12.2003
Present value of pension obligations financed through a fund	248	277
Fair value of proportion of plan assets	–239	–271
Surplus/deficit not recognized in balance sheet	**9**	**6**
Present value of unfunded pension obligations	138	153
Unrecognized actuarial gains/(losses)	–9	–6
Net pension liability from defined benefit plans recognized in balance sheet (see note 17)	**138**	**153**

According to the by-laws of the pension fund institution of Atel Ltd. and the other consolidated group companies located in Switzerland of the segment Energy, a revision of the by-laws must be undertaken if the actuarial loss calculated on a Swiss static basis exceeds 10% and there is no prospect of reduction thereof. Resolutions to increase the contributions or to reduce the benefits can only be taken jointly, i.e. jointly by both all employers connected to the multi-emloyer scheme and the employee representatives. In particular, the employer contributions are fixed; the employers are not risk carriers and did not enter into any obligation to make additional contributions in excess of the fixed contributions.

Due to these facts, the company does not recognize the theoretical pension deficit calculated in accordance with IFRS. The principle of not recognizing the difference is also applied in case of a surplus. However, the funds available to the employer as at the balance sheet date – such as employers' contributions reserves – of CHF 6 million (2002: CHF 6 million) have been capitalised.

The plan assets do not include any shares issued by the company or any property occupied by group companies.

The following weighted average assumptions were used as a basis for the actuarial calculations:

in %	Switzerland 2002	Switzerland 2003	Germany 2002	Germany 2003
Discount rate	4.0	4.0	6.0	5.5
Expected return on plan assets	4.0	4.0	6.0	5.5
Expected increase in wages	2.0	2.0	2.5	1.0
Expected increase in pensions	1.0	1.0	1.5	1.0

Composition of net pensions expenses

CHF mn.	2002	2003
Personnel welfare entitlements acquired (current service cost)	13	13
Interest cost on future pension fund entitlements	18	18
Expected return on plan assets	–11	–9
Unrecognized deficit	–1	0
Cost of plans	**19**	**22**
Employee contributions	–2	–2
Pension expenses (charged to the income statement)	**17**	**20**

The actual return on plan assets amounted to + CHF 27 million in 2003 (2002: – CHF 19 million).

Movements in the net amount recognised in the balance sheet

CHF mn.	2002	2003
Opening net liability at 1.1.	141	138
Expense as above	17	20
Contributions paid by employer	–3	–5
Difference from currency translation	–3	10
Benefits paid	–14	–10
Closing net liabiliy at 31.12.	**138**	**153**

22 Related parties

Motor-Columbus AG, Baden is Atel's majority shareholder with a 58.5 % holding; there are currently no significant transactions between Motor-Columbus AG and Atel Ltd.

23 Contingent liabilities and guarantee obligations

In connection with its ordinary business operations, the Atel Group is involved in various legal disputes. Management has created what it judges to be the necessary provisions in the annual financial statements on the basis of the information currently available and in consultation with Atel's legal representatives.

The total amount of guarantees in favour of third parties is CHF 840 million as per balance sheet date (2002: CHF 690 million). Of this, CHF 421 million are obligations under outstanding bank L/Cs. and CHF 375 million relates to guarantees in connection with the acquisition and financing of Edipower. Further capital injection obligations amount to CHF 370 million, of which CHF 343 million are related to Edipower.

Outstanding option structures oblige Atel Ltd. to increase certain existing shareholdings. The industrial investors of Edipower (Atel, AEM Milano, AEM Torino and Edison) have committed to take-over the Edipower-stakes of the financial investors over a mid-term period.

24 Pledget assets

CHF mn.	2002	2003
Properties secured by mortgages	39	38
Power stations	167	306
Financial holdings	195	481
Total	**401**	**825**

The power plants of Csepel and ECKG are funded by common project financing schemes. The outstanding debt under these project financings is reported in the consolidated balance sheet. The shares in the project companies are pledged in favour of the financing banks. The shares in Edipower are equally pledged as security in favour of the Edipower banks.

25 Post balance sheet date events

At the end of January 2004 the agreements for a long-term project financing scheme for the gas fired power plant of Novel S.p.A (Italy) have been signed. At the same time also the agreements for the long-term refinancing of the power plant ECKG (Czech Republic) have been signed.

26 Segment reporting

The Energy segment covers the operations of the Atel Group involving the production, transmission, trading in and distribution of energy. Operations involving technical and construction services come under the Energy Services segment. The Other column relates to operations not included in the other segments. This relates primarily to real estate and finance companies. The segments are based on internal reporting within the Group.

Transactions between the segments: income, expenditure and profits in the individual segments include transactions between the divisions or regions, carried out and charged at market prices. All transactions and inventory have been eliminated by consolidation.

Turnover reported in the Energy Services segment relates to order income from construction contracts.

2003: Information by business activity

CHF mn.	Energy	Energy Services	Other	Earnings/ sales between the segments	Total
Income from energy sales/ order completion	3 806	1 535	3	–92	5 252
Trading income standard products and financial energy transactions	33				33
Total turnover	3 839	1 535	5	–94	5 285
Profits by segment	327	12	3	–70	272
Cash flow	533	28	1	–42	520
Gross assets (balance sheet total)	6 246	753	673	–1 357	6 315
Book value of associated companies	661				661
Profits from associated companies	39				39
Liabilities	4 228	604	35	–460	4 407
Net investment in tangible fixed and intangible assets	161	19	–4		176
Number of employees as at balance sheet date	1 092	7 038			8 130

Information by geographic region

CHF mn.	Switzerland	EU-area	Other regions	Total
External turnover	859	3 579	847	5 285
Gross assets (balance sheet total)	2 753	2 456	1 106	6 315
Net investment in tangible fixed and intangible assets	30	116	30	176
Number of employees as at balance sheet date	2 636	5 034	460	8 130

2002: Information by business activity

CHF mn.	Energy	Energy Services	Other	Earnings/ sales between segments	Total
Income from energy sales/ order completion	2 258	1 465	3	–31	3 695
Trading income standard products and financial energy transactions	5				5
Total turnover	2 263	1 465	3	–31	3 700
Profits by segment	211	26	1	–68	170
Cash flow	475	51	1	–37	490
Gross assets (balance sheet total)	4 655	766	315	–666	5 070
Book value of associated companies	641				641
Profits from associated companies	33				33
Liabilities	2 941	623	34	–166	3 432
Net investment in tangible fixed and intangible assets	71	23			94
Number of employees as at balance sheet date	610	7 260			7 870

Information by geographic region

CHF mn.	Switzerland	EU-area	Other regions	Total
External turnover	865	2 634	201	3 700
Gross assets (balance sheet total)	2 649	1 887	534	5 070
Net investment in tangible fixed and intangible assets	29	65		94
Number of employees as at balance sheet date	2 695	5 159	16	7 870

Trading income in the Energy segment also contains the change in value of financial energy transactions carried at market value. Transactions of this nature in standardised products amounted to CHF 2714 million in 2003 (prior year: CHF 1908 million).

27 Cash flow statement

The cash flow statement is divided into cash flow from operating activities, investment activities and financing activities. The effects of the change in the scope of consolidation have been eliminated.

Other income and expenditure not affecting payments consists essentially of capitalised own services and non-cash equity accounting as well as changes in the market value of financial holdings.

28 Changes in scope of consolidation

By the acquisition or first-time consolidation of subsidiaries, the following assets and liabilities have been taken over.

CHF mn.	2002	2003
Fixed assets	312	445
Cash and cash equivalents	62	19
Other current assets	106	26
Short- and long-term financial liabilities	–256	–353
Other liabilities	–120	–44
Minority interests	–11	–10
Acquired net assets	**93**	**83**

In the reporting period 2003 CHF 114 million (2002: CHF 221 million) has been paid for acquisitions with existing cash. In the years 2002 and 2003 no subsidiaries has been sold.

Because of the intention to sell in 2004 the STC Atel S.p.A., Forlì, the subsidiary has been deconsolidated an reclassified into current assets at balance sheet date (31.12.2003).

Report of the Group Auditors

Report of the group auditors to the General Meeting of the Shareholders of Aare-Tessin Ltd. for Electricity

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, statement of changes in equity, statement of cash flows and notes/pages 11 to 45 of Aare-Tessin Ltd. for Electricity for the year ended 31 December 2003.

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

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

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

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

Ernst & Young Ltd.

Thomas Stenz   Alessandro Miolo

Zurich, 27 February 2004

Holdings

Energy segment

Trading, sales, supply and services

	Domicile	Currency	Share capital mn.	Direct proportion of holding in % (voting rights)	Consolidation method	Nature of business	Year-end date
Atel Energia S.r.l.	Milano/IT	EUR	20.00	98.0	V	Su	31.12.
Atel Energie AG	Düsseldorf/DE	EUR	0.50	100.0	V	Su	31.12.
ecoSWITCH AG	Crailsheim/DE	EUR	0.50	45.0	E	S	31.12.
EGT Energiehandel GmbH	Triberg/DE	EUR	1.00	50.0	E	Su	31.12.
Atel Energie SAS	Paris/FR	EUR	0.50	100.0	V	Su	31.12.
Atel Hellas S.A.	Athens/GR	EUR	0.15	76.0	V	Su	31.12.
Atel Polska Sp. z o.o.	Warsaw/PL	PLN	4.00	100.0	V	Su	31.12.
Atel Trading	Olten	CHF	5.00	100.0	V	T	31.12.
Atel Versorgungs AG	Olten	CHF	50.00	100.0	V	Su	31.12.
Aare Energie AG (a.en)	Olten	CHF	2.00	50.0	E	S	31.12.
AEK Energie AG	Solothurn	CHF	6.00	38.7	E	Su	31.12.
Azienda Energetica Municipale S.p.A.	Milano/IT	EUR	929.62	5.2	E	Su	31.12.
Azienda Energetica Municipale S.p.A.	Torino/IT	EUR	461.74	3.8	E	Su	31.12.
Energipartner AS	Oslo/NO	NOK	1.50	100.0	V	S	31.12.
Entrade GmbH	Schaffhausen	CHF	0.40	75.0	V	T	31.12.
Entrade s.r.o.	Prague/CZ	CZK	5.42	100.0	V	T	31.12.
Entrade d.o.o.	Zagreb/HR	HRK	0.02	100.0	V	T	31.12.
Entrade d.o.o.	Ljubljana/SI	SIT	8.15	100.0	V	T	31.12.
Entrade Deutschland GmbH	Berlin/DE	EUR	0.10	100.0	V	T	31.12.
Entrade Hungary Kft.	Budapest/HU	HUF	50.00	100.0	V	T	31.12.
Entrade Poland Sp. z o.o.	Warsaw/PL	PLN	0.05	100.0	V	T	31.12.
Entrade Slovakia s.r.o.	Bratislava/SK	SKK	0.20	100.0	V	T	31.12.
Prva regulacna s.r.o., v likvidaci	Kosice/SK	SKK	0.20	100.0	E	T	31.12.
Entrade Romania S.R.L.	Bucuresti/RO	ROL	2.00	100.0	V	T	31.12.
Società Elettrica Sopracenerina SA	Locarno	CHF	27.50	59.5	V	Su	31.12.
Calore SA	Locarno	CHF	2.00	50.0	E	P	31.12.
SAP SA	Locarno	CHF	10.32	99.4	V	S	31.12.
Rätia Energie AG	Poschiavo	CHF	6.82	24.6	E	B	31.12.

Production

	Domicile	Currency	Share capital mn.	Direct proportion of holding in % (voting rights)	Consoli-dation method	Nature of busi-ness	Year-end date
Atel Hydro AG	Olten	CHF	53.00	100.0	V	P	31.12.
Atel Hydro Ticino SA	Airolo	CHF	3.00	100.0	V	P	31.12.
Csepeli Aramtermelö Kft.	Budapest/HU	HUF	4930.10	100.0	V	P	31.12.
Csepeli Erömü Kft.	Budapest/HU	HUF	856.00	100.0	V	P	31.12.
Csepel Energia Kft.	Budapest/HU	HUF	20.00	100.0	V	S	31.12.
ECK Generating s.r.o.	Kladno/CZ	CZK	2936.10	89.0	V	P	31.12.
Energeticke Centrum Kladno, spol. s.r.o.	Kladno/CZ	CZK	238.63	89.0	V	P	31.12.
Energetika Kladno s.r.o.	Kladno/CZ	CZK	0.10	100.0	V	S	31.12.
Atel Centrale Termica Vercelli S.r.l.	Milano/IT	EUR	10.33	95.0	V	P	30.09.
Novel S.p.A.	Milano/IT	EUR	23.00	51.0	V	P	30.09.
Aarewerke AG	Klingnau	CHF	16.80	10.0	E	P	30.06.
Blenio Kraftwerke AG	Olivone	CHF	60.00	17.0	E	P	30.09.
Edipower S.p.A.	Milano/IT	EUR	1441.30	16.0	F	P	31.12.
Electra-Massa AG	Naters	CHF	40.00	11.5	E	P	31.12.
Electricité d'Emosson SA	Martigny	CHF	140.00	50.0	E	P	30.09.
Engadiner Kraftwerke AG	Zernez	CHF	140.00	22.0	E	P	30.09.
Energie Biberist AG	Biberist	CHF	5.00	25.0	E	Su	31.12.
Kernkraftwerk Gösgen-Däniken AG	Däniken	CHF	350.00*	40.0	E	P	31.12.
Kernkraftwerk Leibstadt AG	Leibstadt	CHF	450.00	27.4	E	P	31.12.
Kraftwerk Ryburg-Schwörstadt AG	Rheinfelden	CHF	30.00	25.0	E	P	30.09.
Kraftwerke Gougra AG	Siders	CHF	50.00	60.0	E	P	30.09.
Kraftwerke Hinterrhein AG	Thusis	CHF	100.00	9.3	E	P	30.09.
Kraftwerke Zervreila AG	Vals	CHF	50.00	30.0	E	P	30.09.
Maggia Kraftwerke AG	Locarno	CHF	100.00	12.5	E	P	30.09.
Kraftwerk Aegina AG	Ulrichen	CHF	12.00	50.0	E	P	30.09.

* of which CHF 290.0 million paid up

Grid

	Domicile	Currency	Share capital mn.	Direct proportion of holding in % (voting rights)	Consoli-dation method	Nature of busi-ness	Year-end date
Atel Transmission Ltd.	Olten	CHF	130.00	100.0	V	S	31.12.
ETRANS AG	Laufenburg	CHF	7.50	18.8	E	S	31.12.

Energy Services segment

Energy Services Southern/Western Europe

	Domicile	Currency	Share capital mn.	Direct proportion of holding in % (voting rights)	Consoli-dation method	Nature of busi-ness	Year-end date
Holding and Management							
Atel Installationstechnik Ltd.	Olten	CHF	30.00	100.0	V	H	31.12.
Atel Installationstechnik Management Ltd.	Zürich	CHF	0.10	100.0	V	S	31.12.
Energy Supply Technology							
Kummler+Matter Ltd. [a]	Zürich	CHF	2.50	100.0	V	S	31.12.
Mauerhofer+Zuber Ltd.	Renens	CHF	1.70	100.0	V	S	31.12.
Building Services/Technical Facilities Management							
Atel Bornet SA	Vernier	CHF	1.00	100.0	V	S	31.12.
Atel Building Technology Ltd. [b]	Zürich	CHF	9.95	100.0	V	S	31.12.
Atel Building Technology West Ltd. [c]	Olten	CHF	6.95	100.0	V	S	31.12.
Atel Elettroimpianti SA	Bellinzona	CHF	2.70	100.0	V	S	31.12.
Atel Sesti S.p.A.	Milano/IT	EUR	3.10	100.0	V	S	31.12.
EcoEnergy S.r.l.	Milano/IT	EUR	0.10	51.0	V	S	31.12.

a) Merged with HESO Herzog+Sonderegger AG, Aarau, as of 1.1.2004

b) Name change of Atel Elektroanlagen K+M AG, Zurich, as of 1.1.2004, i.e. merger with
Atel Com AG, Zurich
Atel Elektrosanitär AG, St. Gallen
BWB Gebäudetechnik Luzern AG, Lucerne
Atel Security+Automation SA, Zurich

c) Name change of Atel Elektroanlagen AG, Olten, as of 1.1.2004, i.e. merger with
Atel Gebäudetechnik AG, Basel
Albert Amherd AG, Brig-Glis

Energy Services Northern/Eastern Europe

	Domicile	Currency	Share capital mn.	Direct proportion of holding in % (voting rights)	Consolidation method	Nature of business	Year-end date
Holding and Management							
GAH Beteiligungs AG	Heidelberg/DE	EUR	25.00	100.0	V	H	31.12.
Energy Supply Technology							
Ges. für elektrische Anlagen Energieanl.bau GmbH	Hohenwarsleben/DE	EUR	1.53	100.0	V	S	31.12.
Ges. für elektrische Anlagen Leitungsbau Nord GmbH	Hannover/DE	EUR	0.51	100.0	V	S	31.12.
Ges. für elektrische Anlagen Leitungsbau Süd GmbH	Fellbach/DE	EUR	2.56	100.0	V	S	31.12.
Elektro Stiller GmbH	Ronnenberg/DE	EUR	0.43	100.0	V	S	31.12.
Frankenluk AG	Bamberg/DE	EUR	2.81	100.0	V	S	31.12.
Frankenluk Energieanlagenbau GmbH	Bamberg/DE	EUR	1.28	100.0	V	S	31.12.
Franz Lohr GmbH	Ravensburg/DE	EUR	1.28	90.1	V	S	31.12.
Communications Technology							
GAH-Communications GmbH	Backnang/DE	EUR	0.78	100.0	V	S	31.12.
GA-com Telekommunkations und Telematik GmbH	Bietigheim-Bissingen/DE	EUR	0.75	100.0	V	S	31.12.
te-com Telekommunikations-Technik GmbH	Backnang/DE	EUR	0.51	100.0	V	S	31.12.
Digi Communication Systeme GmbH	Gifhorn/DE	EUR	0.77	80.2	V	S	31.12.
Industrial/Plant Technology							
Kraftanlagen Anlagentechnik München GmbH	München/DE	EUR	3.58	100.0	V	S	31.12.
ECM Ing.unternehmen für Energie- und Umweltt. GmbH	München/DE	EUR	0.05	100.0	V	S	31.12.
Kraftanlagen Fertigungsbetrieb GmbH	Lutherstadt Wittenberg/DE	EUR	0.03	100.0	V	S	31.12.
Kraftanlagen Nukleartechnik GmbH	Heidelberg/DE	EUR	0.41	100.0	V	S	31.12.
KEU GmbH	Krefeld/DE	EUR	0.51	100.0	V	S	31.12.
Kalfrisa SA	Zaragoza/ES	EUR	0.56	53.12	V	S	31.12.
Kraftszer Kft.	Budapest/HU	HUF	198.0	90.0	V	S	31.12.
Building Services/Technical Facilities Management							
GA-tec Gebäude- u. Anlagentechnik GmbH	Heidelberg/DE	EUR	2.56	100.0	V	S	31.12.
Kraftanlagen Hamburg GmbH	Hamburg/DE	EUR	0.77	100.0	V	S	31.12.
Kraftanlagen Heidelberg GmbH	Heidelberg/DE	EUR	0.10	100.0	V	S	31.12.
Other holdings							
Dr. Herfeld GmbH	Neuenrade/DE	EUR	0.03	100.0	V	S	31.12.
Dr. Herfeld GmbH & Co. KG	Neuenrade/DE	EUR	0.51	51.0	V	S	31.12.

Other companies

Holding and finance companies

	Domicile	Currency	Share capital mn.	Direct proportion of holding in % (voting rights)	Consolidation method	Nature of business	Year-end date
Atel Holding Deutschland GmbH	Heidelberg/DE	EUR	10.00	100.0	V	H	31.12.
Atel Finance Ltd.	St. Helier/Jersey	EUR	1.50	100.0	V	S	31.12.
Atel Energia Kft.	Budapest/HU	HUF	80.00	100.0	V	H	31.12.
Atel Csepel Rt.	Budapest/HU	HUF	20.00	100.0	V	H	31.12.
Atel Bohemia s.r.o.	Prague/CZ	CZK	0.20	100.0	V	H	31.12.
Multipower Beteiligungs- und Energiemanagement GmbH	Wien/AT	EUR	0.235	100.0	V	H	31.12.

Financial holdings

	Domicile	Currency	Share capital mn.	Direct proportion of holding in % (voting rights)	Consolidation method	Nature of business	Year-end date
Colenco Power Engineering AG	Baden	CHF	6.00	10.0	F	S	31.12.
Energie électrique du Simplon SA	Simplon Dorf	CHF	8.00	1.7	F	P	31.03.
European Energy Exchange	Leipzig/DE	EUR	20.00	2.0	F	S	31.12.
Groupe CVE-Romande Energie	Morges	CHF	28.5	9.2	F	S	31.12.
Powernext SA	Paris/FR	EUR	10.00	5.0	F	S	31.12.
Capital Recovery Syndication Trust	Jersey	USD	2.66*	9.8	F	S	31.12.
MC Partners II C.V.	Curaçao	USD	38.40*	15.6	F	S	31.12.
Preferential Equity Investors II LLC	Cayman Islands	USD	357.00*	0.9	F	S	31.12.

* Fund Capital

Nature of business

T Trading
Su Sales and supply
P Production
S Service
H Holding
B Power exchange company

Consolidation method

V Fully consolidated
E Equity method
F Fair value (current market value)

Income Statement

CHF	Notes	2002	2003
Energy sales (GWh)*		38 637	51 038
Net turnover*		**2 089 804 807**	**2 770 586 988**
Capitalised cost		684 466	451 846
Other operating income		26 028 116	23 949 036
Total operating result		**2 116 517 389**	**2 794 987 870**
Power expenses		–1 619 455 789	–2 362 913 137
Materials and external services		–19 126 755	–14 778 847
Personnel expenses		–35 820 750	–38 637 407
Depreciation		–343 757 742	–244 386 796
Other operating expenses		–47 069 900	–61 408 822
Operating expenses		**–2 065 230 936**	**–2 722 125 009**
Earnings before interest and taxes		**51 286 453**	**72 862 861**
Financial income		126 913 005	185 845 697
Financial expenses		–84 680 296	–112 659 820
Non-operational income		2 578 759	740 798
Non-operational expenses		–135 656	–220 646
Taxes		–30 907 000	–37 904 677
Profit on ordinary activities		**65 055 265**	**108 664 213**
Extraordinary income	2	4 090 296	1 419 513
Profit for the year		**69 145 561**	**110 083 726**

* Excluding trading in standardised products; definition of turnover amended see page 17

Balance Sheet

Assets

CHF	Notes	31.12.2002	31.12.2003
Tangible fixed assets	3		
Operating plants		2 271 644	2 014 306
Plants under construction		1 750 035	4 124 665
Land and buildings		12 109 367	10 652 864
Plant, equipment, machinery and vehicles		1	1
Power subscription rights	4	461 231 172	409 983 266
Intangible assets	4	1	1
Financial assets	5		
Investments		559 176 576	1 082 329 032
Loans		618 406 133	504 910 028
Fixed assets		**1 654 944 929**	**2 014 014 163**
Debtors and other current assets	6		
Trade debtors		595 091 762	721 392 630
Other debtors		185 461 030	187 852 674
Accrued assets		14 819 477	18 410 992
Cash and cash equivalents		412 592 569	491 033 050
Treasury shares	7	35 728 868	880 893
Current assets		**1 243 693 706**	**1 419 570 239**
Total assets		**2 898 638 635**	**3 433 584 402**

Liabilities

CHF	Notes	31.12.2002	31.12.2003
Share capital		303 600 000	303 600 000
Legal reserves			
General reserves		114 620 000	119 120 000
Reserve for Treasury shares		35 730 000	900 000
Equalisation reserve		269 870 000	304 700 000
Retained earnings		86 227 978	131 891 704
Shareholders' equity	8	**810 047 978**	**860 211 704**
Provisions		**402 514 200**	**393 533 032**
Bonds	9	600 000 000	700 000 000
Loans payable	10	109 200 000	303 500 000
Usage rights of third parties		27 918 170	27 918 170
Long-term liabilities		**737 118 170**	**1 031 418 170**
Short-term liabilities	11		
Debtors and other current assets		448 462 557	659 152 656
Other liabilities		306 029 275	325 985 967
Accrued liabilities		194 466 455	163 282 873
Short-term liabilities		**948 958 287**	**1 148 421 496**
Total liabilities		**2 898 638 635**	**3 433 584 402**

Notes to the Financial Statements

1 Introductory remarks

Atel Ltd.'s annual financial statements have been prepared in accordance with the provisions of Swiss law. The following explanatory notes also contain information required under Art. 663 b of the Swiss Code of Obligations. Fully consolidated subsidiaries, associated companies as well as other financial investments listed on page 47 are regarded as Group companies under the terms of OR Art. 663 a.

2 Extraordinary income

Extraordinary income covers profits from the sale of properties.

3 Tangible fixed assets

The fire insurance value of operating plants and buildings as at 31.12.2003 amounted to: CHF 24 659 thousand (2002: CHF 40 170 thousand).

4 Power subscription rights and intangible assets

Power subscription rights include the remaining value of prepayments for the rights to long-term power purchases. The interest on the prepayments is capitalised from the due date until the time the power is actually delivered, thus affecting the income statement. Depreciation commences from the date of delivery over the remaining term of the contract.

The remaining value of plant usage rights belonging to third parties is stated in the balance sheet under intangible assets; these remaining values are depreciated over their useful life.

5 Financial assets

Investments are stated in the balance sheet at cost, taking into account any value adjustments required.

A list of major investments can be found on page 47.

Shareholders in the joint ventures are obliged to pay annual costs incurred for their proportional interests, including interest on and repayment of liabilities. At year-end, liabilities for capital expenditures amounted to CHF 26 568 thousand.

Loans receivable are stated at nominal value. The position contains loans to Group companies of CHF 503 974 thousand.

6 Debtors and other current assets

Trade debtors are stated in the balance sheet at the invoiced amount. A corresponding provision has been created to cover the risk and deducted accordingly. Other receivables comprise mainly credit balances due from the Federal Tax Office and time deposits at banks falling due in more than 90 days.

CHF th.	31.12.2002	31.12.2003
Group companies	96 091	129 937
Third party	684 462	779 308
Total	**780 553**	**909 245**

7 Treasury shares

Information on movement in the balance of Treasury shares is given in explanatory note 16 to the consolidated annual financial statements on page 35.

8 Shareholders' equity

The movements in shareholders' equity were as follows:

CHF th.	Share capital	General reserve	Reserve for Treasury shares	Equalisation reserve	Retained earning	Total
Closing balance 31.12.2001	**303 600**	**110 020**	**18 740**	**286 860**	**81 903**	**801 123**
Allocations		4 600			–4 600	0
Dividends paid					–60 220	–60 220
Reclassification			16 990	–16 990		0
Profit for the financial year					69 145	69 145
Closing balance 31.12.2002	**303 600**	**114 620**	**35 730**	**269 870**	**86 228**	**810 048**
Allocations		4 500			–4 500	0
Dividends paid					–59 920	–59 920
Reclassification			–34 830	34 830		0
Profit for the financial year					110 084	110 084
Closing balance 31.12.2003	**303 600**	**119 120**	**900**	**304 700**	**131 892**	**860 212**

Please refer to note 16 of the consolidated financial statements on page 35 for details on the shareholder structure and further details on capital.

9 Bonds

Information on bonds issued by Atel Ltd. is shown in note 18 of the consolidated financial statements on page 37.

10 Loans payable

CHF th. Loans payable maturing within 1–5 years	31.12.2002	31.12.2003
Group companies	8 000	3 500
Third party	101 200	300 000
Total	**109 200**	**303 500**

The weighted interest paid which is related to the face value and balance sheet date amounted to 2.98% (2002: 3.85%).

11 Short-term liabilities

Trade creditors include liabilities in respect of joint undertakings and other power suppliers as well as general creditors. Short-term financial liabilities are stated in the balance sheet under other liabilities.

CHF th.	31.12.2002	31.12.2003
Group companies	57 757	70 281
Third party	696 735	914 858
Total	**754 492**	**985 139**

Accruals consist of accruals and deferrals from interest and tax, and from unpaid trade invoices.

12 Contingent liabilities

Guarantee statements and letters of responsibility to third parties in favour of Group companies amounted to CHF 595 000 thousand as at 31.12.2003 (2002: CHF 537 900 thousand).

Appropriation of Retained Earnings

The Board of Directors proposes to the Annual General Meeting that retained earnings, comprising:

profits for the 2003 financial year as per income statement of	110 083 726 CHF
balance carried forward amounting to	21 807 978 CHF
Total	**131 891 704 CHF**

be appropriated as follows:

Dividend of CHF 22 per share on the registered share capital of CHF 303 600 000	66 792 000 CHF
Allocation to the general reserve (Art. 671 Section 2, Point 3, Swiss Code of Obligations)	5 200 000 CHF
Allocation to the equalisation reserve	38 000 000 CHF
Balance to be brought forward	21 899 704 CHF

Distribution of dividend

If this proposal is accepted, the gross dividend for the 2003 financial year, i.e. before the deduction of Swiss federal withholding tax, will amount to CHF 22 per share.

The dividend will be paid after Swiss federal withholding tax of 35 % has been deducted, from 30 April 2004, against presentation of the coupon.

Report of the Statutory Auditors

Report of the statutory auditors to the General Meeting of the Shareholders of Aare-Tessin Ltd. for Electricity

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes/ pages 52 to 58) of Aare-Tessin Ltd. for Electricity for the year ended 31 December 2003.

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

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

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

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

Ernst & Young Ltd.

Thomas Stenz Alessandro Miolo

Zurich, 27 February 2004

Dates

29 April 2004	2004 Annual General Meeting
August 2004	2004 Interim report
March 2005	Press announcement on 2004 annual results
6 April 2005	2005 Balance Sheet Media and Financial Analysts Conference
28 April 2005	2005 Annual General Meeting

Contact

Corporate Communications
Rolf Schmid
Tel. +41 62 286 71 11
Fax +41 62 286 76 69
info@atel.ch

Investor Relations
Kurt Baumgartner, CFO
Tel. +41 62 286 71 11
Fax +41 62 286 76 67
investors@atel.ch

Units

Currency

CHF	Swiss franc
CZK	Czech krone
EUR	Euro
HRK	Croatian kuna
HUF	Hungarian forint
NOK	Norwegian krone
PLN	Polish zloty
ROL	Romanian leu
SIT	Slovenian tolar
SKK	Slovakian krone
USD	US dollar
th.	thousand
mn.	million
bn.	billion

Energy

kWh	kilowatt hour
MWh	megawatt hour (1 MWh = 1000 kWh)
GWh	gigawatt hour (1 GWh = 1 million kWh)
TWh	terawatt hour (1 TWh = 1 billion kWh)
TJ	terajoule (1 TJ = 0,2778 GWh)

Power

kW	kilowatt (1 kW = 1000 watts)
MW	megawatt (1 MW = 1000 kilowatts)
GW	gigawatt (1 GW = 1000 megawatts)

Published by:
Aare-Tessin Ltd. for Electricity, Olten

Concept, design and text:
BrandNew AG, Zürich

Typesetting and lithography:
Hürlimann Medien AG, Zürich

Printing:
Dietschi AG, Olten

The Annual Report 2003 is published in German, French, Italian and English. The Financial Report 2003 is published in German and English. The German original text is authoritative.