atel

Financial Report 2005

Key figures for 2005

Atel Group

	+/– variance 2004–2005 in % (based on CHF)	2004 CHF mn.	2005 CHF mn.	2004 EUR mn.	2005 EUR mn.
Energy sales (GWh)	8.4	90 581	98 166	90 581	98 166
Net turnover	24.9	6 867	8 580	4 459	5 543
Energy	28.8	5 452	7 020	3 540	4 535
Energy Services	10.3	1 418	1 564	921	1 010
Earnings before interest, tax, depreciation and amortisation (EBITDA)	0.3	735	737	477	476
Depreciation (2004 incl. goodwill depreciation)	19.0	–242	–196	–157	–127
Earnings before interest and tax (EBIT)	9.7	493	541	320	349
in % of net turnover	–12.5	7.2	6.3	7.2	6.3
Net profit Atel Group	21.1	341	413	221	267
in % of net turnover	–4.0	5.0	4.8	5.0	4.8
Net investments	225.0	92	299	60	193
Shareholders' equity incl. minorities	16.1	2 123	2 464	1 379	1 585
in % of total assets	–1.7	34.3	33.7	34.3	33.7
Total assets	18.3	6 186	7 317	4 017	4 705
Employees*	6.3	7 872	8 368	7 872	8 368
plus trading in standardised products					
in GWh	37.9	108 761	149 982	108 761	149 982
in CHF mn. or EUR mn.	64.6	5 035	8 289	3 269	5 355

* Average number of full-time equivalent employees

Per share information

	+/– variance 2004–2005 in %	2004 CHF	2005 CHF
Nominal value	–	100	100
Share price at 31.12.	14.8	1 650	1 895
Highest	36.7	1 660	2 270
Lowest	68.4	980	1 650
Net profit Atel Group	27.4	106	135
Sharesholders' equity incl. minorities (Percentage of Atel shareholders)	17.0	664	777
Dividend	16.7	24	28
Average trading volume/day		478	137

Amendments to International Financial Reporting Standards (IFRS)

Explanations on changes and other adjustments made to the balance sheet and income statement are stated from page 30.

Dates

27 April 2006	2006 Annual General Meeting
May 2006	Quarterly results 1/06
August 2006	Interim report 2006
November 2006	Quarterly results 3/06
February 2007	Press announcement on 2006 annual results
March 2007	Balance sheet media conference
26 April 2007	2007 Annual General Meeting

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Units

Currency

CHF	Swiss francs
CZK	Czech krone
EUR	Euro
HRK	Croatian krone
HUF	Hungarian forint
NOK	Norwegian krone
PLN	Polish zloty
ROL	Rumanian 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)
MWe	electrical megawatts
MWth	thermal megawatts

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Review of the years 2001–2005 for the Atel Group

Income statement

CHF mn.	2001	2002	2003	2004	2005
Net turnover	3 620	3 700	5 285	6 867	8 580
Variance in % over prior year	9.0	2.2	42.8	29.9	24.9
Variance in % in same scope of consolidation	10.2	0.8	14.1	31.2	24.4
Other operating income	117	124	196	211	216
Total operating result	3 737	3 824	5 481	7 078	8 796
Operating expenses before depreciation	–3 185	–3 229	–4 804	–6 343	–8 059
Earnings before interest, tax, depreciation and amortisation (EBITDA)	552	595	677	735	737
Depreciations	–303	–307	–256	–242	–196
Earnings before interest and tax (EBIT)	249	288	421	493	541
Financial income/costs	–18	–57	–51	–49	–33
Income taxes	–66	–61	–98	–103	–95
Net profit Atel Group	165	170	272	341	413
Variance in % over prior year	22.2	3.0	60.0	25.4	21.1
in % of net turnover	4.6	4.6	5.1	5.0	4.8
Minority interests in net profit	–9	–5	–20	–24	–8
Net profit attributable to Atel Shareholders	156	165	252	317	405
Employees*	7 823	7 890	8 105	7 872	8 368

* Average number of full-time equivalent employees

Balance sheet

CHF mn.	2001	2002	2003	2004	2005
Total assets	4 575	5 070	6 315	6 186	7 317
Assets					
Fixed assets	2 590	3 022	3 895	3 868	4 074
Current assets	1 985	2 048	2 420	2 318	3 243
Equity and liabilities					
Total equity incl. minorities	1 533	1 638	1 908	2 123	2 464
in % of total assets	33.5	32.3	30.2	34.3	33.7
Liabilities	3 042	3 432	4 407	4 063	4 853

Per share information

CHF	2001	2002	2003	2004	2005
Nominal value	100	100	100	100	100
Share price at 31.12.	850	805	980	1 650	1 895
Highest	1 000	915	980	1 660	2 270
Lowest	735	775	730	980	1 650
Group profit	52	55	83	106	135
Shareholders' equity	484	512	597	664	777
Dividend	20	20	22	24	28
Average trading volume/day	190	85	94	478	137

Changes in International Financial Reporting Standards (IFRS)

Various changes to the IFRS accounting regulations took effect on 1.1.2005, and Atel introduced these during the period under review. These changes had some retroactive effect on the previous year's results and key figures as well as the earnings per share. Explanations of the changes can be found in the notes to the accounting principles on which the consolidated Financial Statements are based, on page 30.

Atel Group Financial Commentary

Significant rises in both turnover and earnings

The performance of the Atel Group in 2005 was encouraging. Higher volumes in energy trading and distribution combined with rising energy prices to effect a significant increase in turnover: results were ahead of expectations. The performance of sales trading and distribution throughout Europe was especially impressive. Trading also achieved excellent results. In the Energy Services segment the GAH and AIT groups both performed appreciably better at operating level. The rise in earnings also resulted from changes in accounting standards and from positive financial and tax effects. The earnings generated are all the more remarkable against the backdrop of protracted production stoppages, higher transport costs and other extraordinary negative factors. The Atel Group's electricity sales rose by 8% to 98 billion kWh. Consolidated turnover rose by 25% to some CHF 8.6 billion, consolidated earnings before interest and tax (EBIT) by 10% to CHF 541 million, and Group profit by 21% to CHF 413 million. During the reporting year the Atel Group also conducted futures transactions of 150 billion kWh (+38%) to the value of CHF 8.3 billion (+65%) in the form of standard products. This generated trading profits of CHF 41 million as of the reporting date, including a mark-to-market valuation of future positions. This positive earnings performance once more resulted in an encouraging increase in the corporate value.

Successful business activity and relatively low capital spending further consolidated the quality of the balance sheet – and particularly the equity-capital base – at a healthy level, thus helping to achieve our aim of financial consolidation.

In 2006 we intend to continue to grow in the Energy segment by expanding trading and sales throughout Europe, and through selective acquisitions of production capacities. We also intend to maintain the increased profitability of the Energy Services segment. We therefore expect the Atel Group as a whole to increase turnover again in 2006. Advancing liberalisation and the slow-down in energy price rises will make it challenging to repeat the encouraging operating earnings achieved in 2005.

Changes to the International Financial Reporting Standards (IFRS)

A number of changes to the IFRS accounting standards came into effect on 1.1.2005, and Atel introduced these in the reporting period. Details of the effects of these and of other changes to the Atel Group's consolidated financial statements for 2004 and 2005, can be found from page 30.

Growth in trading and sales throughout Europe

Southern/Western Europe: above-average growth

The Italy market region once again generated significantly improved earnings in the reporting period, on substantially higher sales and turnover. The sales company in Italy exploited the liquidity on the electricity exchange and the high price level in the regulated energy market to profitable effect. The strategy of operating local production facilities has again been vindicated, broadening the customer structure. Stoppages at individual power stations lasting several months had a negative effect. In addition there was a requirement for increase provisions on trade receivables. In a difficult market, the France region also achieved a significant increase in turnover as against the previous year.

Northern/Eastern Europe: high level maintained

The Central/Eastern Europe region reported earnings above the previous year's level, thanks to an encouraging increase in turnover and the high availability of the Csepel and Kladno power stations. Performance was assisted by the stable cost-structure of the region's generating facilities, and also by the proceeds of selling CO_2 certificates that were surplus to production requirements. In contrast, trading company Entrade – which is active throughout Eastern Europe – suffered a painful fall in earnings in the year under review after many years' successful development. Entrade is currently being reorganised and its management integrated into that of the Central/Eastern Europe market region. The Northern Europe region further expanded its customer base, which led to a new growth spurt – with a corresponding increase in sales volumes and turnover.

Switzerland: earnings hit by production shortfalls

Supply and sales in Switzerland recorded above-average volumes in the first half of the year owing to low temperatures. This trend was maintained in the second half, though to a lesser extent. Conversely there were negative effects from the protracted stoppage at Leibstadt, below-average production at the hydroelectric power stations and higher transport costs. Earnings were also depressed by price erosion in the sales business. There was an encouraging rise in the market value of energy generated in Switzerland in consequence of increased demand and price rises throughout Europe.

Trading: continued successful development

With its European orientation, Trading had another extraordinarily good year. Its rise in earnings was particularly due to increased trading volumes with standard products, and to its successful positioning in the spot market. Opportunities that presented themselves were taken to profitable effect. The optimum management of available power-station capacities also made a significant contribution to the improvement in earnings. In addition, trading in gas, coal and CO_2 certificates was commenced or expanded in the year under review. Access was also obtained to new electricity exchanges, and new products launched on the central European exchanges PNX (France), Nordpool (Norway), ICE (Great Britain) and ENDEX (Netherlands), significantly consolidating the presence on these exchanges. This positive overall development was counterbalanced, however, by increasing restrictions in cross-border energy trading and rising transport costs.

Improved productivity in the Energy Services segment

The Energy Services segment experienced a slight reduction in market tension, in Germany as well as in Switzerland. This led to an increase in new orders and in turnover, though there was no reduction in the pressure on margins. The current consolidated financial statements were also affected by unforeseen expenditure on structural reorganisation. In these exacting circumstances the GAH Group in Germany and the AIT Group in Switzerland both generated operating earnings substantially ahead of the previous year's figures. All business fields in which the two corporate groups are active contributed to this positive development. The divestment of activities in building services was successfully completed, and the GAH Group's activities were more closely focused. The segment's earnings were depressed by provisions on capitalised loss carry forwards and other negative tax effects in connection with this realignment. Even so, segment earnings were significantly ahead of the previous year.

Atel Group: high growth in turnover

The Atel Group's consolidated net turnover in 2005 was 24.4% up on the previous year in local-currency terms, adjusted for changes in the scope of consolidation. Growth in Swiss-franc terms was 24.9%, on turnover of around CHF 8.6 billion. In sales volume terms the rise was smaller: 8% to 98 billion kWh. Futures transactions with a total volume of 150 billion kWh (+38%), to the value of CHF 8.3 billion (+65%), were conducted in the form of standard products. Trading in standard-products generated net profit of around CHF 41 million (2004: CHF 15 million), which as in the previous year was allocated to turnover.

The main factors behind this latest substantial increase in turnover were higher price levels in the energy markets, increased trading volumes and higher energy sales in the Italy, Central/Eastern Europe, Germany and France market regions.

Even though there was only a slight improvement in economic activity, the Energy Services business also significantly increased its turnover. On a comparable basis, i.e. in local-currency terms with the same scope of consolidation, the segment increased turnover by around 9%.

Special factors affecting operating profit

Operating earnings from market activities were very encouraging, making up for the substantial extraordinary negative factors – notably production stoppages in Leibstadt and Italy, production shortfalls at Swiss hydroelectric power stations, increased transport costs, and increased provisions for bad debt and supplementary claims by suppliers. On the other hand goodwill amortisation, which had totalled CHF 69 million the previous year, was discontinued due to a change of the respective IFRS accounting standards. Consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) totalled CHF 737 million, maintaining the previous year's high level. Operating earnings (EBIT), in contrast, were up by around 10% to CHF 541 million.

Improved financial and investment earnings

Thanks to good liquidity levels the stock of debt outstanding was reduced, therefore external interest charges were lower. In addition, a number of projects were refinanced on more favourable terms. Major contributions to the positive financial result came also from beneficial foreign-currency movements.

The tax charge rose, but by a smaller percentage than earnings. The reduction in expenses is mainly attributable to the release of provisions for deferred income taxes, which, based on a change in estimates, resulted in a surplus to the requirements at the year's end.

Group profit: another record

The Group reported profits of CHF 413 million, an increase of CHF 72 million or 21%. This increase partly reflects successful operating and financial business activity, partly a number of special factors and changed accounting principles.

Increase in total assets

Fixed assets rose by around CHF 200 million in the year under review. Much of the increase related to the integration of the Moravske Teplarny power station in the eastern Czech Republic. Current assets also increased, by CHF 925 million: partly because accounts receivable rose in the year under review in consequence of the sharp rise in turnover by around CHF 350 million, and partly because of the valuation at fair value of derivatives by around CHF 390 million. Most of the increase in this item is due to increased contract volumes and higher prices. Cash and cash equivalents, including term deposits and securities, totalled CHF 913 million on 31.12.2005. Around CHF 180 million of this relates to the collateralisation of market-price and credit risks arising from energy-trading transactions on electricity exchanges and from bilateral margining agreements with specific counterparties. As it is affected by market-price movements, this item is liable to strong fluctuation.

On the liability side, debt capital mostly reflects the effects of changes in current assets. Growth in turnover increased trade payables as well as receivables. A similar situation applies to fair values of derivatives, which rose in the same proportion as on the asset side. Overall, net current assets were reduced by a total of CHF 128 million. The low level of capital spending and satisfactory annual profit enabled financial liabilities to be reduced by CHF 155 million (in local currencies). Furthermore there was also an increase in shareholders' equity. Despite a rise in total assets to around CHF 1.1 billion, the capital ratio was maintained at 33.7% – about the same as the previous year. In accordance with our financial objectives, net debt as a percentage of shareholders' equity fell to 32.1% (previous year: 48.4%). This represents further progress in the financial consolidation of the Group.

Outlook

In the Energy business we intend to continue the expansion of our trading and sales activities in all markets. We therefore expect further growth in sales volumes and turnover in 2006, in Trading above all, in Italy, Germany, France and Eastern Europe. On the other hand we expect increased competition, only moderate price rises, limited volatility, probably falling margins – and a further increase in transit costs in consequence of additional restrictions and grid bottlenecks. We shall continue during the current year to seek – and, where appropriate, take – strategically appropriate, commercially attractive opportunities to reinforce our generating capacities. In the Energy Services- business, after the good operating earnings achieved in 2005, we intend to reinforce the consolidation already achieved and to take selected opportunities to continue the development of the segment on a profitable basis. The healthy state of order books at the start of the year and the reorganisation measures already completed are a firm foundation for achieving our objectives.

Subject to extraordinary events we expect the Atel Group as a whole to increase both sales volumes and turnover in 2006. Advancing liberalisation and the slow-down in energy price rises will make it very ambitious to repeat the encouraging operating earnings achieved in 2005.

Consolidated Income Statement

CHF mn.	Notes	restated* 2004	2005
Net turnover	30	**6 867**	**8 580**
Proportionate earnings of associated companies		60	74
Capitalised cost		11	11
Other operating income	2	140	131
Total operating result		**7 078**	**8 796**
Energy and goods purchased	3	–5 338	–7 002
Materials and external services		–85	–98
Personnel expenses	4	–639	–673
Other operating expenses		–281	–286
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**735**	**737**
Amortisation of goodwill	5	–69	–
Depreciation	5	–173	–196
Earnings before interest and tax (EBIT)		**493**	**541**
Financial income/costs	6	–49	–33
Earnings before income tax		**444**	**508**
Income tax	7	–103	–95
Net profit Atel Group	8	**341**	**413**
Minority interests in net profit		–24	–8
Net profit attributable to Atel Shareholders		**317**	**405**
Earnings per share in CHF	8	**106**	**135**

* Details to adjustments see page 30

Consolidated Balance Sheet

Assets

CHF mn.	Notes	restated* 31.12.2004	31.12.2005
Tangible fixed assets	9	1 917	2 077
Intangible assets	10, 11	560	490
Investments in associated companies	12	625	1 201
Long-term financial assets	13, 23	654	199
Deferred income tax assets	7	112	107
Fixed assets		**3 868**	**4 074**
Inventory	15	72	102
Trade and other receivables	14	1 367	1 721
Time deposits	23	169	24
Cash	16, 23	590	852
Securities under current assets	17, 23	52	37
Derivative financial instruments	23	32	423
Assets of disposal group classified as held for sale	24	–	58
Accrued assets		36	26
Current assets		**2 318**	**3 243**
Total assets		**6 186**	**7 317**

Equity and Liabilities

CHF mn.	Notes	restated* 31.12.2004	31.12.2005
Issued capital	18	304	304
Share premium		14	14
Treasury shares		–46	–46
Retained earnings		1 744	2 086
Shareholders' equity attributable to Atel Shareholders		**2 016**	**2 358**
Shareholders' attributable to minority interests		107	106
Shareholders' equity incl. minorities		**2 123**	**2 464**
Provisions	19	641	570
Deferred income tax liabilities	7	299	303
Long-term financial liabilities	20	1 635	1 592
Other long-term liabilities	21	15	11
Non-current liabilities		**2 590**	**2 476**
Current income tax liabilities		46	49
Short-term financial liabilities		203	111
Other short-term liabilities	22	929	1 437
Derivative financial instruments	23	32	414
Liabilities directly associated with the assets classified as held for sale	24	–	60
Accrued liabilities		263	306
Current liabilities		**1 473**	**2 377**
Total liabilities		**4 063**	**4 853**
Total equity and liabilities		**6 186**	**7 317**

* Details to adjustments see page 30

Statement of Changes in Equity

CHF mn.	Issued capital	Share premium	Treasury shares	Translation differences	Retained earnings	Shareholders' equity attributable to Atel Shareholders	Shareholders' equity attributable to minority interests	Total Shareholders' equity
Shareholders' equity 31.12.2003	**304**	**14**	**–1**	**16**	**1 478**	**1 811**	**97**	**1 908**
Effect of first time application of new and revised IAS and IFRS rules and regulations (after tax)					5	5		5
Shareholders' equity 1.1.2004	**304**	**14**	**–1**	**16**	**1 483**	**1 816**	**97**	**1 913**
Change in currency translation				–5		–5	–2	–7
Total recorded earnings and expenses within equity				**–5**		**–5**	**–2**	**–7**
Profit for the year					317	317	24	341
Total profit				**–5**	**317**	**312**	**22**	**334**
Dividend payment					–67	–67	–12	–79
Purchase/sale of Treasury shares			–45			–45		–45
Shareholders' equity 31.12.2004	**304**	**14**	**–46**	**11**	**1 733**	**2 016**	**107**	**2 123**
Change in currency translation				9		9		9
Total recorded earnings and expenses within equity				**9**		**9**		**9**
Profit for the year					405	405	8	413
Total profit				**9**	**405**	**414**	**8**	**422**
Dividend payment					–72	–72	–3	–75
Change in minority interests						0	–6	–6
Shareholders' equity 31.12.2005	**304**	**14**	**–46**	**20**	**2 066**	**2 358**	**106**	**2 464**

Atel's Board of Directors is proposing to the 2006 Annual General Meeting for the 2005 financial year a dividend of CHF 28 per registered share on the shares in circulation, totalling CHF 84 million. For further details, please refer to page 78 "Appropriation of Retained Earnings".

Consolidated Cash Flow Statement

CHF mn.	restated* 2004	2005
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**735**	**737**
Adjustments for:		
Capitalised costs	–11	–11
Addition, appropriation and release of provisions	–94	–46
Profit/loss from sale of fixed assets	–14	–1
Other income/expenses not affecting payments	14	–2
Proportionate earnings of associated companies	–60	–74
Dividend yield from associated companies and financial holdings	37	29
Interest payments	–79	–65
Interest receipts	16	15
Other financial expenses	–20	–9
Other financial income	3	3
Income tax paid	–64	–86
Change in net current assets (excluding short-term financial claims/liabilities)	–220	128
Cash flow from operating activities	**243**	**618**
Tangible fixed and intangible assets		
Investments	–130	–167
Disposals	32	5
Subsidiaries		
Acquisitions	–	–110
Disposals	–	–2
Change in shareholding proportions	–	–17
Associated companies		
Investments	–2	–
Disposals	34	–
Long-term financial assets		
Investments	–32	–10
Disposals/repayments	6	2
Change in time deposits	–168	144
Acquisition/disposal of securities under current assets	–20	22
Cash flow from investment activities	**–280**	**–133**
Dividend payments	–67	–72
Dividends paid to minority interests	–12	–3
Purchase/sale of Treasury shares	–45	–
Increase in financial liabilities	323	81
Repayment of financial liabilities	–394	–236
Cash flow from financing activities	**–195**	**–230**
Change resulting from currency translation	**1**	**7**
Change in cash and cash equivalents	**–231**	**262**
Statement:		
Cash and cash equivalents on 1.1.	821	590
Cash and cash equivalents on 31.12.	590	852
Change	**–231**	**262**

Free cash flow

CHF mn.	2004	2005
Cash flow from operating activities	243	618
Replacement investments in fixed assets	–81	–89
Sales of tangible and intangible assets	32	5
Free cash flow	**194**	**534**

* Details to adjustments see page 30

Atel accounting principles

Atel accounting principles

Accounting principles for the consolidated financial statements

The consolidated financial statements of Atel Group were prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards Board (IASB) guidelines as well as the applicable Swiss statutory regulations. The financial statements give a true and fair view of the Atel Group's financial position, results of operation and cash flows. The financial statements are based on historic costs, except for specific items such as financial instruments, as well as financial assets that are eligible for disposal. These items are reported at their market value. The Board of Directors approved the consolidated financial statements on 9 February 2006 for presentation to the Annual General Meeting on 27 April 2006.

New and revised accounting and valuation policies

Group accounting and valuation policies are essentially the same as those applied in the prior year. In 2005 and in line with the guidelines, the following IFRS and revised IAS standards were applied for the first time, which are relevant for the consolidated financial statements of Atel.

New standards: IFRS 3 Business Combinations, IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and the Interpretation IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

Revised IAS standards: IAS 1 Presentation of financial statements, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IAS 16 Property, Plant and Equipment, IAS 19 Employee Benefits, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates, IAS 31 Interests in Joint Ventures, IAS 36 Impairment of Assets, IAS 38 Intangible Assets, IAS 32 Financial Instruments: Disclosure and Presentation, IAS 39 Financial Instruments: Recognition and Measurement.

Where changes have been made in the presentation of the current reporting, comparative data taken over from the prior year has been reclassified as required in the consolidated income statement, balance sheet and notes to the consolidated financial statements. The key effects on the 2005 annual financial statements of changes in accounting and valuation policies are described on page 30.

Basis of consolidation

The Atel Group's consolidated financial statements include the consolidated financial statements of Aare-Tessin Ltd. for Electricity, based in Switzerland, and its subsidiaries. The financial statements of the subsidiaries were prepared for the same reporting year using the same uniform accounting standards as those applied by the parent company. Group internal balances, transactions, profits and expenses are fully eliminated.

Subsidiaries are companies in which Atel directly or indirectly holds more than 50% of the voting rights and thus exercises control. 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.

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. Atel's share in the assets, liabilities, income and expenses of these companies is shown under note 12 on pages 45/46.

Under accounting standard IAS 39, all other investments are presented under assets in the "Financial holdings" caption at fair value.

The scope of consolidation and all significant investments, including details of the consolidation method applied and further information, are listed from page 66.

Forreign currencies

The consolidated financial statements are prepared in Swiss francs, which is the Group's functional and presentation currency. The functional currency for each Group company is defined in accordance with the company's activities. Transactions in foreign currencies are accounted for at the current exchange rate of the transaction date in the company's functional currency. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency using the year-end rate. The resulting exchange differences are recorded in the income statement.

On the balance sheet date, assets and liabilities of the subsidiaries are translated into Swiss francs using the year-end exchange rates. Income statement items are translated using the weighted average exchange rate for the reporting period. The foreign exchange differences are shown as a separate position in the equity. In a disposal situation of a subsidiary, the related accumulated foreign exchange differences are recognised in the income statement of the relevant period.

Intercompany transactions

Goods and services are invoiced between Group companies at the contractually agreed transfer or market prices. Shareholders are invoiced at full cost for power produced by joint ventures, on the basis of existing joint venture contracts.

Sales revenue

Sales revenue from goods and services is reported in the Income statement upon performance. Energy transactions realised for purposes of trading are reported under net turnover using the net method (recording of net trading profit). Turnover from construction contracts is accounted for using the percentage-of-completion method, where income is accounted for based on the stage of completion.

Income taxes

Income taxes are calculated on the annual profits contained in the income statement at the current or soon to be announced current tax that is applicable to the individual companies. Income tax expenses constitute the amount of current and deferred income tax.

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

Deferred tax assets are reported if their realisation is probable. Tax assets not capitalized are disclosed.

The effects of timing differences are shown in note 7 on page 41.

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. 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.

Discontinued operations and disposal groups

An asset is held for disposal if the balance sheet value is achieved via disposal of the asset rather than through continued use thereof. The asset must be available for disposal, and it must be likely that the disposal will be realised within the coming 12 months. The same applies for a group of assets (disposal group) and the related liabilities, if they are to be disposed in a single transaction.

Atel recognises long term assets held for disposal and disposal groups with the lower than book value or fair value, less the cost of disposal. These assets or group of assets are not depreciated any more as long as they are recognised for disposal. These assets and liabilities are presented in the balance sheet sepearately from the other assets and liabilities of the Group.

A component of the Group, that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale is classified as discontinued operation. The net result from the discontinued operations is reported separately in the consolidated income statement.

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 impairment
Power plants	25–80 years
Transmission facilities	15–40 years
Plant equipment, machinery and vehicles	3–20 years
Facilities under construction	only if impairment already identifiable

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

The costs of regular and major overhauls are recorded in the book value of the fixed assets as replacements, if the relevant criteria for capitalisation are met. Repairs, maintenance and ordinary upkeep of buildings and operational plants are recognised as expenses.

The book value of a fixed asset is written off at its disposal or if no further economic benefit is expected. Profit or loss from asset disposals is recorded in the income statement.

The residual value and the useful life of an asset is reviewed at a minimum at the end of each financial year and is adapted if necessary.

Business combinations and goodwill

Business combinations are recorded using the purchase method. Acquisition costs include the indemnification that is paid at the acquisition of assets, liabilities, or contingent liabilities of a company acquired. Such indemnification includes cash payments, the market value of assets disposed of, as well as any incurred or assumed obligation on the transaction date. Acquisition costs also include any expenses that are directly attributable to the acquisition. The acquired net asset comprises identifiable assets, obligations and contingent liability and is recorded at its market value.

Goodwill is the difference between acquisition costs and the market value of the Group's interest in the acquired net asset. Goodwill and fair value adjustments for net assets are recorded in the assets and liabilities of the acquired company in its local currency. Goodwill is not depreciated, but is reviewed for impairment on each balance sheet date. Goodwill can also result from interests in associated companies and represents the difference between the acquisition cost of the investment and the share of the market value of the identifiable net asset. This goodwill is capitalised in the investments in associates.

Intangible assets

Intangible assets are recorded on initial recognition at acquisition and production cost, less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. The useful life of the intangible assets currently accounted for ranges from 3 to 15 years.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Power subscription rights

Power subscription rights are recorded under intangible assets and are tested for impairment like all other intangible assets. They include prepayments for rights to long-term power purchases including capitalised interest. Depreciation is charged from the beginning of power subscription on a straight-line basis over the term of the contract.

Impairment of tangible and intangible assets

Tangible and intangible assets are reviewed at least annually for evidence of impairment. This is done in particular where, as a result of changed circumstances or of events, it becomes likely that the book values are over-valued. 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. Intangible assets with infinite useful life are tested for impairment on an annual basis.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The value in use is calculated based on the estimated future cash flows (discounted cash flow method). If the asset does not generate cash inflows that are independent of those from other assets, the estimation of the recoverable amount for the single asset is made at level of the cash-generating unit, to which the asset can be assigned.

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 recorded only at the value which would have been realised on the basis of ordinary amortization, without impairment.

The annual review of impairment is overseen centrally by the Group's head office.

Impairment of goodwill

Goodwill is assigned to the relevant cash generating units, which constitute the Group's identifiable regional sales, service and production activities. Goodwill is reviewed annually for impairment. Where the recoverable amount of the cash-generating unit, which is the higher of the two amounts fair value less costs to sell and value in use, is less than the carrying amount, an impairment loss is recognised. The impairment review method for cash generating units is described in note 11. Previously recorded impairment losses are not reversed if the recoverable value of goodwill recovers.

Investments in associates and joint ventures

An associate is an entity in which Atel has significant influence in its financial and business related decision-making process and which is neither a subsidiary nor a joint venture. In similar circumstances, companies in which Atel holds an investment of less than 20% are also recognised as associate using the equity method. This is particularly relevant in cases where Atel is represented in the decision-making bodies, e.g. board of directors, and participates in the definition of business and financial policies or if there is an exchange of market related information.

A joint venture is a jointly controlled entity, whereby Atel and one or several partners undertake an economic activity that is subject to joint control through a contractual arrangement. Based on this definition, joint ventures are recognised in the consolidation using the equity method regardless their investment quota. Atel currently holds investments between 9 to 54 percent in joint ventures.

The financial statements of the associates and joint ventures are prepared using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Inventory

Inventories consists of fuel for power generation and material inventory required for operating activities. The inventory of fuel (oil, gas and coal) includes all direct purchasing costs. They are accounted for using the weighted average cost method, or net realisable value. Acquisition cost include all expenses incurred for purchase and transport to the warehouse.

The material inventory is stated at the lower cost of acquisition or manufacturing costs or net realisable value. Production costs include all direct material and manufacturing costs, as well as overhead costs incurred in transporting inventories to their current location and converting them to their current state.

Leasing

The Group's current leasing transactions are of negligible importance.

Construction contracts

Customer-specific construction contracts in the Energy Services segment are accounted for using the percentage-of-completion method, and are classified as receivables and recorded in sales revenue and accounts receivable. 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 for particular contracts or contract groups, revenue is only recognised to the extent that contract costs incurred are probably recoverable. Provisions cover any expected losses from construction contracts. Revenues from contracts in progress are accounted for based on written confirmations from the customers.

Provisions

Provisions cover all liabilities (legal or factual) 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. The discount rates are pre-tax interest rates that reflect current market expectations in regard to the interest effect and the risks specific to the liability.

Pension funds

The Atel Group operates various statutory pension funds in line with legal requirements.

In the Energy segment, the consolidated Group companies in Switzerland are members of a legally independent collective industry welfare scheme which is based on the Swiss defined benefit plan and fulfils the characteristics of a defined benefit plan according to IAS 19.

Employees of foreign subsidiaries in the Energy segment are essentially covered by state social welfare schemes or independently defined contribution pension plans in line with the relevant country's common practice.

In the Energy Services segment, Group companies within the Atel Installationstechnik Group in Switzerland are attached to multi-employer pension schemes which are fully reinsured. Consequently, these pension plans were classified in the past as defined contribution pension plans in accordance with IAS 19. A review of the contracts governing these pension plans revealed that Atel is subject to factual obligations under the amended Swiss Federal Occupational Retirement, Survivors' and Disability Pensions Act (BVG). These contracts now qualify as defined benefit plans. Consequently, Atel Installationstechnik calculates for the first time its pension obligations in accordance with IAS 19, except for small business units which were not included in the IAS 19-based evaluation for lack of significance. The possibility of integrating these business units into Atel Installationstechnik's pension plan is reviewed in 2006.

The first time consideration of these pension plans as defined benefit plans under IAS 19 is indicated in the overview in the Annex as a "pension plan modification".

Employees of foreign subsidiaries in the Energy Services segment of Atel Installationstechnik are covered by 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 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.

Pension plan obligations for defined benefit plans are calculated using the projected unit credit method. This actuarial valuation method takes into account not only currently identifiable pension benefits but also anticipated future salary increases and increased retirement benefits. Actuarial gain and loss calculations resulting from periodic recalculations are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised on a straight line basis over the expected average remaining working lives of the employees participating in the plans. This method is known as the "corridor method".

All plans are financed by employee and employer contributions. Past and future employer contributions to defined contribution plans are recognised directly in the income statement.

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.

Segment related information

The Energy segment includes the generation, transfer, distribution and sale of energy. The Energy Services segment includes technical and facilities construction services. Segments such as real estate and financing that do not fall within the scope of the other segments are presented under "Others". Segmentation is based on group internal reporting.

Income, expenses and net earnings for individual segments arising from intra-segment transactions include transactions between divisions and regions that were realised and recorded under market conditions. All transactions and inventories were eliminated in the consolidation.

Energy segment sales mainly consist of energy sales from trade and distribution transactions. Sales also include the net result from energy trading. Sales in the Energy Services segment are recognised as revenue from construction contracts.

Financial instruments

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

Fair value measurement

The carrying amount of cash, receivables and short-term liabilities corresponds to their fair value resulting from their short maturity.

Loans and financial investments that are quoted on a stock exchange or wherever an active market exists, are valued at the market value applicable as at the 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 and liabilities

Under accounting standard IAS 39, financial assets are classified as follows and are valuated uniformly in the following categories:

- assets or liabilities measured at fair value through profit and loss
- financial assets held-to-maturity
- originated loans and receivables
- financial assets available for sale

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

Assets or liabilities measured at fair value through profit and loss

Financial assets held for trading are primarily acquired for the purposes of earning a profit from short term fluctuations in value. Derivatives are classified as financial assets or liabilities held for trading. Furthermore, financial assets or liabilities can be allocated to this category.

At inception, energy related financial instruments held for trading are accounted for at fair value, and any change in the value is reported in the net turnover of the relevant reporting period. Other derivative financial instruments held for trading and those allocated to this category are reported at fair value, and any change in the value is recorded in the financial income or expense.

Cash and cash equivalents contains cash, post and bank accounts, on call deposits and other deposits maturing in a maximum of 90 days. The securities include mainly marketable securities, all of which are classified as available for sale. Securities are measured at market value, and value fluctuations are recorded in the income statement of the relevant period.

Equity instruments acquired by the Atel Group (own shares) are deducted from the equity. The purchase or sale of such instruments is not recorded in the income statement.

Financial assets held-to-maturity

Financial assets held-to-maturity have a fixed maturity that Atel plans to retain until they mature. These assets are remeasured at cost or amortised cost. Financial investments whose maturity is not determinated are not included in this category.

Originated Loans and receivables

Originated loans and receivables are created by the Group by providing loans, goods or services to third parties. These loans and receivables are remeasured at cost or amortised cost using the effective interest rate method. Gains and losses are recorded in the income statement when the financial asset or liability is disposed, impaired or amortized.

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

Financial assets available for sale

All other financial assets are assigned to the financial assets available for sale.

Financial liabilities

Financial liabilities comprise short and long term liabilities that are reported at their amounts at maturity, as well as the attendant time limits. The liabilities reported do not differ significantly from the amortised costs ("amortised cost method").

Impairment and uncollectability of financial assets

On each balance sheet date, a determination is made as to whether there is any evidence of impairment for individual financial assets or any group thereof.

For financial assets that are accounted for at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Any loss is recorded in the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed in the income statement. The reversal is recognised to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

For financial assets that are accounted for at cost, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Any loss is recorded in the income statement. Decreases in impairment losses are not reversed.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss.

Hedge accounting

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

Estimation uncertainty

Pursuant to IFRS, in preparing the consolidated financial statements, Group management is required to make estimates and assumptions – particularly relating to the measurement of impairment and the calculation of provisions as well as to the valuation of investments and financial assets – with regard to factors that could potentially have an impact on reported assets, liabilities, income and expenses. These estimates and assumptions are based on historical data, past experience and the best possible assessment of future evolutions. They serve as a basis for reporting assets and liabilities whose measurement does not derive from other sources. The actual values may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis, and any changes in them are adjusted and reported in the period in which they are identified.

Value of fixed assets, intangible assets and goodwill

The book values of fixed assets, intangible assets and goodwill for the Atel Group as of the balance sheet date 31 December 2005 was approximately CHF 2.6 billion. The values of these assets are reviewed annually for impairment. This assessment is made on the basis of estimated future cash flows resulting from use and from possible sale of the assets. The actual cash flows may differ significantly from these estimates. Other factors such as changes in the planned useful life or the technical aging of facilities may result in an impairment or a shorter useful life.

Changes in accounting policy

Changes in presentation

As of business year 2005, Atel began reporting "proportionate earnings of associated companies" within the operational result (formerly within "financial income/cost"). In 2005, this change resulted in an increase in the Total operating result and in Earnings before interest and tax (EBIT) amounting to CHF 74 million (2004: CHF 60 million). There was no impact on net profit due to this reclassification. Prior years' statistical values and key figures were adjusted accordingly.

Material changes in accounting policies due to the application of new and revised accounting standards

The main effects on the consolidated financial statements of Atel Group of changes in accounting policies are as follows:

IFRS 3 Business combinations

Goodwill acquired in a business combination is no longer amortised using the straight line method, but tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. In accordance with the relevant accounting standards, these changes were made prospectively. In business year 2004 the ordinary amortisation of goodwill totalled CHF 69 million, which were no longer accounted for in the 2005 reporting period. The discontinued amortisation of goodwill resulted in a CHF 23.01 increase in earnings per share for 2005.

IFRS 5 Non-current assets held for sale and discontinued operations

This standard governs (inter alia) the measurement and presentation of assets and liabilities of disposal groups classified as held for sale. This new accounting standard mainly resulted in the separate presentation of "Assets of disposal group classified as held for sale" and "Liabilities of disposal group classified as held for sale".

IAS 28 Investments in associates
IAS 31 Interests in joint ventures

The goodwill of CHF 46 million assigned to investments in associates as of 31 December 2004 was reclassified to "Investments in associates" pursuant to the revised accounting standards.

Likewise pursuant to the revised standards, the financial statements of an associate and a joint venture have to be prepared using uniform IFRS accounting policies when these financial statements are used by the investor in applying the equity method for the preparation of its consolidated financial statements. This change was applied retrospectively. Jointly controlled investments in power stations prepared a reconciliation from local Swiss GAAP ARR to IFRS as of 1 January 2004. The reconciliation included the retrospective application of all IFRS accounting standards and of the interpretations published by the International Financial Reporting Interpretations Committee (IFRIC). This change reduced Atel Group's consolidated equity as at 1 January 2004 by CHF 10 million. Likewise affected by this change were the items Investments in associates (a CHF 10 million decrease), non-current Provisions (a CHF 3 million increase) and Deferred income tax liabilities (a CHF 3 million decrease). The use of the revised IAS 28/31 standard had a positive impact on operating expenses (Energy and goods purchased) amounting to CHF 2 million in business year 2004 and CHF 25 million in business year 2005. Thus in business year 2004, the consolidated cash flow statement was affected by reduced operating activities of CHF 2 million without any impact on cash due to the increased EBITDA. The retrospectively applied revised standard increased 2004 earnings per share by CHF 0.51 (2005: CHF 6.42 per share).

IAS 19 Employee benefits

The revised IAS 19 was published in December 2004 and is applicable for annual periods beginning on 1 January 2006. Atel elected to adopt the revised standard earlier for the business year 2005. The application of IAS 19 has resulted in considerably enlarged disclosures. In addition, Atel reclassified certain comparable prior year's financial information. These reclassifications had no effect on the consolidated income statement or the personnel expenses of the prior business year.

IAS 39 Recognition and measurement of financial instruments

Atel has been applying all provisions of IAS 39 since 2001. The changes to this standard that took effect as of 1 January 2005 were applied retrospectively. The modified procedure for measuring the fair value of financial assets retrospectively increased consolidated equity as of 1 January 2004 by CHF 15 million, Long-term financial assets by CHF 20 million, and Deferred income tax liabilities by CHF 5 million. The revised standard had no effect on the consolidated income of business year 2004.

Application of the revised IAS 39 resulted in the classification of all financial liabilities that could fall due within 12 months within current liabilities. Current liabilities comprise also financial liabilities which are due, but an agreement to refinance is completed after the balance sheet date, as well as all mortgages. The carrying amounts of the prior year's balance sheet as of 31 December 2004 were reclassified accordingly, which resulted in a reclassification of mortgages amounting to CHF 20 million from long-term financial liabilities to short-term financial liabilities.

In mid 2005, the IASB published a further revision of IAS 39 in regard to the "fair value option" (designation of financial instruments at fair value through profit and loss). Atel has applied the revised accounting standard for selected financial assets as of 1 January 2005, which resulted in the recognition of earnings totalling CHF 16 million for the reporting period. The additional revisions IAS 39 in regard of the "fair value option" are applicable for annual periods beginning on 1 January 2006. Atel did not apply these additional revisions prior to this date. The application of the fair value option resulted in a CHF 5.34 increase in earnings per share in 2005.

IAS 1 Presentation of financial statements
IAS 27 Consolidated and separate financial statements

Pursuant to the revised standards, minority interests are presented within the Group's consolidated equity rather than in a separate balance sheet caption. The retrospective application of the revised standard resulted in an increase in the Group's consolidated equity in an amount equivalent to the minority interests. Consolidated equity and the related balance sheet key figures from the prior year were adjusted retrospectively.

Effects of changes in accounting estimates

Pursuant to the requirements of IFRS, Atel periodically reviews its estimates. A review of these estimates necessitated an adjustment of the measurement of the deferred income tax liabilities. This was because, pursuant to Swiss tax regulations, income tax is payable on capital gains realised on disposals of investments during the period in which the transitional 1997–2006 regulations were in effect. A reassessment realised by Atel management led to the conclusion that certain investments were unlikely to be disposed of during the aforementioned period, i.e. prior to 31 December 2006. This modified estimate led to a reversal of an unused deferred income tax liability and a reduction in income tax expenses amounting to CHF 24 million in business year 2005.

Correction of presentation errors in the prior year

Atel enters for a substantial proportion of its power sales and purchase contracts into standard European Federation of Energy Traders (EFET) contracts, which contain provisions pertaining to a netting agreement and govern the settlement of payments among the parties. This contract stipulates that where a contractual party is both a customer and supplier during any billing period, accounts receivable and accounts payable on the stipulated date are netted and the payment is to be effected on a net basis. In-depth analysis have shown that accounts receivable and accounts payable pursuant to the netting agreement have to be presented net as at the balance sheet date. The result of the net presentation was a retrospective decrease in accounts receivable and accounts payable of CHF 629 million as of 31 December 2004 (1 January 2004: CHF 317 million). The comparable amount as of 31 December 2005 amounted to CHF 882 million.

A review of the presentation of deferred income taxes (deferred tax assets and deferred tax liabilities) revealed that an amount of CHF 35 million had been presented net rather than gross in the consolidated balance sheet. The presentation was retrospectively corrected in the consolidated balance sheet as of 31 December 2004. This corresponding amount was CHF 30 million as of 1 January 2004.

In the consolidated cash flow statement revised allocation principles required reclassifications within the cash flow from operating activities. These reclassifications had no effect on items not pertaining to cash flow from operating activities.

A foreign trading affiliate of the Atel Group reported part of the turnover from its 2004 energy transactions for purposes of trading as a gross rather than a net amount. These transactions were measured accurately, however. In the comparable information for the business year 2005, Net turnover and Energy and goods purchased have been retrospectively adjusted by a decrease of CHF 88 million. Likewise, the respective figures have been adjusted accordingly in the segment reporting for the Energy business segment for business year 2004.

Financial risk management

General principles

The Atel Group is exposed in its operations to strategic and operational risks especially energy price, interest rate, credit, currency and liquidity risks. All strategic and operational risks are recorded and assessed during the annual group-wide business risk assessment process and then allocated to defined risk responsible individuals for management and monitoring. Internal audit reviews the implementation of decisions taken. Risk limits are attributed to energy price risks, interest rate, credit, currency and liquidity risks and compliance with these limits is constantly monitored and adjusted in the broad context of the company's overall risk capacity.

Atel's energy risk policy set forth the guiding principles for the Atel Group's energy activities. These principles comprise guidelines for entering into, measuring, managing and limiting business risk in energy business and lays down the organisation and responsibilities for risk management. The principles are aimed at providing a reasonable balance between the business risks entered into, earnings and risk-bearing shareholders' equity.

Atel's financial risk policy set 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 policies are aimed at reducing financial risk in relation to the hedging costs and risk being accepted.

Energy price risk

Price risk in the energy business arises 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 consolidated income statement under financial income and cost. The interest rate exposure is minimised via long term financing as well as by staggering the maturity periods of financial liabilities.

Credit risk

The Atel Group's credit risk management centres on constantly monitoring outstanding due from counterparties and carrying out creditworthiness analyses of new contracting parties. In its 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, their geographical distribution and consolidation of positions.

Financial assets reported in the balance sheet constitute the maximum default risk to which the Atel Group was exposed as at the balance sheet date. This risk is minimised by setting credit limits for specific counterparties.

Currency risk

The Atel Group endeavours to minimise currency risk by offsetting operating income and expenses in foreign currencies. Any surplus is hedged by means of currency contracts (forward transactions, options) in accordance with the Group's financial risk policy.

Net investment in foreign subsidiaries is likewise subject to risk arising from currency fluctuation, although differences in inflation rates tend to cancel out these changes over the long term. For this reason, Atel does not hedge investments in foreign subsidiaries.

Currency risk resulting from the generation or purchase of energy is contractually passed on to the counterparties, wherever possible. If this is not or only partially possible, currency forward contracts and options are used in accordance with Atel's financial risk policy for a maximum hedging period of 24 months. Generally, currency risk is centralised in Atel AG. Euro related currency risk is regarded as acceptable, and is expected to be equalised by interest rate differences, and thus the euro related currency risk is not hedged.

Currency risk associated with balance sheet items in foreign currencies (translation risk) is not hedged.

Liquidity risk

A large number of receivables in the European energy industry are offset and are subject to fixed payment deadlines, thus avoiding peaks in liquidity requirements. Margin agreements are commonly realised on energy commodity exchanges and among large energy traders so as to reduce the counterparty risk. Due to energy price fluctuations substantial outstanding debts can arise short-term. Atel manages these liquidity requirements by maintaining sufficient liquidity and by obtaining guaranteed credit lines from first class banks.

Notes to the Consolidated Financial Statements

1 Exchange rates

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

Unit	Conversion date 31.12.2004	Conversion date 31.12.2005	Average 2004	Average 2005
1 USD	1.13	1.31	1.24	1.25
1 EUR	1.54	1.555	1.54	1.548
100 HUF	0.63	0.62	0.61	0.63
100 CZK	5.07	5.36	4.85	5.20
100 PLN	37.79	40.35	34.15	38.56
100 NOK	18.72	19.42	18.45	19.33

2 Other operating income

The position includes the release of provisions totalling CHF 25 million (prior year: CHF 51 million).

3 Energy and goods purchased

CHF mn.	2004	2005
Purchase of electricity from third parties	3 746	5 277
Purchase of electricity from associated companies (joint ventures)	354	342
Purchase of electricity from associated companies (other companies)	52	14
Other power purchase	445	556
Expenditure on goods	741	813
Total	**5 338**	**7 002**

4 Personnel expenses

CHF mn.	2004	2005
Wages and salaries	505	545
Cost of staff pensions for defined benefit pension plans	21	13
Cost of staff pensions for defined contribution pension plans	9	5
Other staff expenses	104	110
Total	**639**	**673**

Average head count

	2004	2005
Number of equivalent full-time employees	7 263	7 763
Apprentices	609	605
Total	**7 872**	**8 368**

Head count at balance sheet date

	31.12.2004	31.12.2005
Number of equivalent full-time employees	7 411	8 012
Apprentices	599	637
Total	**8 010**	**8 649**

5 Depreciation and impairment

CHF mn.	2004	2005
Depreciation on tangible fixed assets	118	140
Depreciation on power subscription rights	51	51
Depreciation/Impairment on goodwill	69	–
Depreciation/Impairment on other intangible assets	4	5
Total	**242**	**196**

In 2004/2005 no reduction of values were determined. Additional information on the impairments on goodwill can be found in note 11.

6 Financial income/expenses

CHF mn.	2004	2005
Interest income	17	15
Interest expenses (including interest on provisions; note 19)	–91	–82
Dividend income from financial holdings	3	–
Exchange rate profits (losses) net	–6	20
Other financial income (expenses) net	28	14
Total	**–49**	**–33**

7 Income taxes

Income taxes charged to the financial statement

CHF mn.	2004	2005
Current income taxes	81	89
Deferred income taxes	22	6
Total	**103**	**95**

Reconciliation

CHF mn.	2004	2005
Earnings before income tax	444	508
Expected income tax rate (weighted average)	24.7%	26.8%
Income taxes at the expected rate	109	136
Causes for additional/reduced tax expenses:		
Effect of non-tax-deductible expenses	5	14
Effect of prior years	19	–3
Effects of tax-exempted earnings	–19	–23
Tax credits due to official compensation measures	–16	–
Release of provision concering deferred taxes due to changes in estimates	–	–24
Impairment on losses carry forward	4	15
Effect of use of losses carry forward	–	–11
Effect of changes of tax rates	–	–4
Other influences	1	–5
Total income tax	**103**	**95**
Actual income tax rate (weighted average)	23.3%	18.7%

The change of the expected tax rate from 24.7% to 26.8% was mainly due to changes of the quota that the subsidiaries in different countries contribute to the total earnings of the group.

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

CHF mn.	31.12.2004	31.12.2005
Unused tax loss carry forward	20	14
Tangible fixed assets	54	49
Other fixed assets	1	1
Current assets	0	5
Provisions and liabilities	37	38
Total deferred income tax assets	**112**	**107**
Tangible fixed assets	71	67
Other fixed assets	171	152
Current assets	26	62
Provisions and liabilities	31	22
Total deferred income tax liabilities	**299**	**303**
Net liability deferred income taxes	**187**	**196**

As per 31.12.2005, several subsidiaries have carry forward tax deductible losses totalling CHF 138 million at their disposal (prior year: CHF 163 million), which can be offset against taxable earnings in future years.

Assets from deferred taxes are only included if it is more likely than not to realise the related tax credits. The group has tax credits of CHF 86 million (prior year: CHF 97 million), which are not accounted for in the balance sheet.

Losses carry forward can be offset in the following years:

CHF mn.	31.12.2005
Within 1 year	2
Within 2-4 years	21
After 4 years	63
Total	**86**

8 Earnings per share

	2004	2005
Total shares issued at a nominal value of CHF 100	3 036 000	3 036 000
Less treasury shares	–37 855	–37 855
Shares in circulation	2 998 145	2 998 145
Net profit of Atel shareholders in CHF mn.	317	405
Earnings per share in CHF	**105.73**	**135.08**

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

9 Tangible fixed assets

CHF mn.	Properties	Power stations	Trans-mission plants	Other tangible fixed assets	Plants under construc-tion	Total
Gross value as of 31.12.2004	**222**	**1 657**	**1 197**	**252**	**26**	**3 354**
Change in scope of consolidation	4	102		–1		105
Investments	5	13	59	38	36	151
Capitalised income from work performed in-house			3		8	11
Reclassifications	5		11		–16	0
Disposals	–4		–18	–31	–1	–54
Difference from currency translation	6	37	–1	2		44
Gross value as of 31.12.2005	**238**	**1 809**	**1 251**	**260**	**53**	**3 611**
Accumulated depreciation as of 31.12.2004	**65**	**546**	**635**	**191**	**0**	**1 437**
Change in scope of consolidation				–2		–2
Depreciations	16	48	49	27		140
Disposals	–3		–18	–29		–50
Difference from currency translation	1	8	–1	1		9
Accumulated depreciation as of 31.12.2005	**79**	**602**	**665**	**188**	**0**	**1 534**
Net value as of 31.12.2004	157	1 111	562	61	26	1 917
Net value as of 31.12.2005	**159**	**1 207**	**586**	**72**	**53**	**2 077**

On the balance sheet date there were contractual obligations for establishment and purchase of tangible assets amounting to CHF 114 million.

10 Power subscription rights and intangible assets

CHF mn.	Power subscription rights	Goodwill	Other intangible assets	Total
Gross value as of 31.12.2004	**626**	**540**	**144**	**1 310**
Reclassification to investments in associated companies, effect revised IAS 28		–46		–46
Reclassification accumulated depreciation, effect new IFRS 3		–402		–402
Gross values 01.01.2005	**626**	**92**	**144**	**862**
Investments			16	16
Addition from acquisitions		5		5
Addition from change in share of holdings		8		8
Disposals			–2	–2
Difference from currency translations		3	1	4
Gross value as of 31.12.2005	**626**	**108**	**159**	**893**
Accumulated depreciation as of 31.12.2004	**267**	**402**	**81**	**750**
Reclassification to gross value, effect new IFRS 3		–402		–402
Accumulated depreciation as of 01.01.2005	**267**	**0**	**81**	**348**
Depreciations	51		5	56
Disposals			–2	–2
Difference from currency translations			1	1
Accumulated depreciation 31.12.2005	**318**	**0**	**85**	**403**
Net value as of 31.12.2004	359	138	63	560
Net value as of 31.12.2005	**308**	**108**	**74**	**490**

The book value of other intangible assets with an infinite useful life was CHF 45 million on 31 December 2005. These assets are mainly transmission rights to fixed assets held by third parties whereby Atel enjoys an unlimited period of use according to current assessments. The category of intangible assets with an infinite useful life is allocated to the cash generating unit "Transmission installations Switzerland" in the energy segment.

11 Reviewing the value of goodwill and intangible assets

For testing the recoverability of goodwill and intangible assets with infinite useful lives, the allocation to cash generating units has been assigned as follows:

CHF mn.	Econ. value (EV)	Discount rate	31.12.2005
Energy segment			
Production Central/Eastern Europe	EV	7.2%	92
Trading Central/Eastern Europe	EV	7.4%	8
Grid Switzerland	EV	6.7%	45
Energy services segment			
Region Southern-/Western-Europe	EV	5.0%	7
Region Northern-/Eastern-Europe	EV	6.4%	1
Total			**153**

The amount attained in reviewing goodwill and intangible assets with an infinite useful life for value impairment is based on the value in use. This represents the present value of estimated cash flows per cash generating unit. The cash flows and growth rates are based on the current business plans approved by management. The plans were established on the basis of historical values and comprise a planning period of 5 years. From the sixth year the cash flows were extrapolated. No growth rate was assumed for the latter.

12 Investments in associated companies and joint ventures

CHF mn.	Joint Ventures*	Other companies	Total
Book value as of 31.12.2004	**367**	**266**	**633**
Effect revised IAS 31	–8		–8
Reclassification Goodwill, effect revised IAS 28		46	46
Book value as of 1.1.2005	**359**	**312**	**671**
Reclassification financial investments		473	473
Investments			
Disposals			
Dividend	–18	–11	–29
Proportional reported earnings by these companies	20	54	74
Effect of transition for IFRS group financial statement and other valuation adjustments charged/credited to energy expenses	11		11
Difference from currency translations		1	1
Book value as of 31.12.2005	**372**	**829**	**1 201**

* 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 periodically and any significant changes in value accounted for in the income statement of the relevant period. The transition effects and valuation adjustments item charged/credited to energy expenses includes the valuation differences recorded from local and IFRS statements amounting to CHF 25 million. It also includes the effects from the change to the book values of power station holdings, to the value of CHF –14 million. The change to the book values is in relation to the 1999 valuation of the overall power station holdings mentioned. The amount of the change is dependent on the actual and expected cash flows per power station holding in the remaining operation or concession period.

Atel holds 16% of the Edipower holding. Economically, 20% of the output is used. Previously the holding was included on the balance sheet at fair value under financial holdings. In 2005, influence on business and financial decision-making was increased on the key decision-making bodies. To reflect this altered situation, the holding was reclassified from financial investments to associated companies in the fourth quarter of 2005.

The pro-rata market value of listed companies at 31 December 2005 was CHF 564 million (31 December 2004: CHF 480 million). The book value of these companies on the balance sheet date was CHF 294 million (CHF 280 million).

Key figures for associated companies and joint ventures

CHF mn.	Joint ventures Gross values 2004	Gross values 2005	Share Atel-Group 2004	Share Atel-Group 2005	Other companies Gross values 2004	Gross values 2005	Share Atel-Group 2004	Share Atel-Group 2005
Fixed assets	9 038	9 274	2 803	2 899	5 361	24 009	502	2 531
Current assets	455	531	139	151	1 510	4 710	179	494
Long-term liabilities	7 350	7 327	2 351	2 313	2 571	17 500	235	1 694
Short-term liabilities	496	756	121	238	1 706	5 271	180	502
Income	1 348	1 331	394	390	3 054	6 204	419	842
Expenses	–1 278	–1 259	–375	–370	–2 621	–5 690	–378	–788
Profit	70	72	19	20	433	514	41	54

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 340 million.

For the owners of nuclear installations there is also a limited supplementary payment obligation towards the decommissioning fund, to cover the eventuality of an individual primary contributor being unable to make their payment. There is also a limited supplementary payment obligation towards the waste disposal fund.

The unplanned value adjustment to power station investments in the consolidated accounts for the Atel Group in the 1999 financial year are not included in the statement of gross and pro-rata values for the joint ventures.

From 2005 all significant companies have been valued according to IFRS standards. Where no IFRS financial statements were available, reconciliation accounts have been drawn up. The previous year's figures have been adjusted accordingly.

The closing date of the accounts for some associated companies differs from that of the Group. Published accounts are available from these companies from 30 September, and these are included in the Atel Group statements. It is not feasible to draw up interim accounts for these companies; these companies (joint ventures) generally produce annual results without significant fluctuation. Significant transactions and events which take place between 30 September and 31 December are taken into account in the Group statements.

13 Long-term financial investments

CHF mn.	Financial investments	Loans receivable	Total
Book value as of 31.12.2004	**619**	**15**	**634**
Effect of revised IAS 39	20		20
Book value as of 1.1.2005	**639**	**15**	**654**
Change in holdings			
Reclassification to investments in associated companies	–473		–473
Investments	2	8	10
Changes to market value	16		16
Reclassifications	–5	–1	–6
Disposals	–1	–1	–2
Book value as of 31.12.2005	**178**	**21**	**199**

The reclassification to holdings in associated companies is explained in note 12.

14 Receivables

CHF mn.	31.12.2004	31.12.2005
Trade receivables	995	1 346
Turnover prior to invoicing	84	111
Other receivables	288	264
Total	**1 367**	**1 721**

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

CHF mn.	31.12.2004	31.12.2005
Turnover prior to invoicing (gross)	401	493
Advances received from customers	–317	–382
Turnover prior to invoicing (net)	**84**	**111**

15 Inventory

The inventory on the balance sheet consist mainly of fuels (oil, gas, coal) with a book value of CHF 69 million (previous year: CHF 48 million) and auxiliary and operating materials amounting to CHF 33 million (CHF 24 million).

16 Cash

CHF mn.	31.12.2004	31.12.2005
Cash at hand	327	553
Time deposits with a maturity of under 90 days	263	120
Margining-agreements (securities from counterparts)	–	179
Total	**590**	**852**

The margining agreements counter-item is recognised under short-term liabilities. Cash at hand includes liquid assets of CHF 65 million for planned maintenance work and debt servicing payments in connection with project financing, and CHF 98 million for security payments to energy trading exchanges and network operators.

17 Securities

This position contains only marketable securities.

18 Equity

Share capital

The share capital of CHF 304 million is fully paid up.

The share register contains the following details of share ownership:

in %	Stakes
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 of Solothurn, Solothurn	5.0
Public	6.7
Treasury shares	1.2

Treasury shares

Holdings of treasury shares at 37 855 shares, with a nominal value of CHF 4 million, were unchanged against the previous year.

19 Provisions

CHF mn.	Contractual risks	Annual costs liabilities	Pension provisions	Other provisions	Total
Total long-term provisions as of 31.12.2004	**219**	**139**	**156**	**124**	**638**
Effect of revised IAS 31		3			3
Total long-term provisions as of 1.1.2005	**219**	**142**	**156**	**124**	**641**
Short term provisions	35	25	9	46	115
Provisions as of 1.1.2005	**254**	**167**	**165**	**170**	**756**
Change in scope of consolidation				–3	–3
Additions			4	54	58
Interest	9				9
Appropriations		–26	–8	–45	–79
Released provisions not required	–10		–1	–14	–25
Difference from currency translation			1	1	2
Reclassification disposal group held for sale				–33	–33
Provisions as of 31.12.2005	**253**	**141**	**161**	**130**	**685**
Less short-term provisions	–37	–21	–9	–48	–115
Total long-term provisions as of 31.12.2005	**216**	**120**	**152**	**82**	**570**

The provision for contractual risks covers liabilities and recognisable risks from the international energy business on the balance sheet date. The item covers liabilities for expected compensation payments and for contracts for procurement and supply of energy incurring a charge to the accounts. As currently predicted, the outflow of funds from the total on the balance sheet date will take place within the following periods:

within 12 months	CHF 37 million
within 1–5 years	CHF 140 million
after 5 years	CHF 76 million

The provision for annual cost liabilities covers excessive outflows of funds – in market comparisons – for energy purchases from power station investments. The cash outflow extends until the end of the concession period of each of the power plants.

The other provisions mainly include liabilities in relation to personnel, liabilities arising from restructuring programmes and general operational liabilities such as guarantees from service provisions or the threatened losses from pending contracts. As currently predicted, the outflow of funds from the total on the balance sheet date will take place within the following periods:

within 12 months	CHF 48 million
within 1–5 years	CHF 82 million

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

20 Long-term financial liabilities

CHF mn.	31.12.2004	31.12.2005
Bonds at amount repayable	700	700
Loans payable	935	892
Total	**1 635**	**1 592**

Bonds outstanding on the balance sheet date

	Term	Earliest repayment date	Interest rate %	31.12.2004	31.12.2005
Fixed-interest bond Aare-Tessin Ltd. for Electricity	1997/2009	06.03.09	4 1/4	200	200
Fixed-interest bond Aare-Tessin Ltd. for Electricity	1997/2009	30.10.07	4	200	200
Fixed-interest bond Aare-Tessin Ltd. for Electricity	2003/2013	16.09.13	3 1/8	300	300

The net market value of the fixed-interest bonds outstanding as of the balance sheet date amounted to CHF 737.4 million.

The weighted interest paid on the bonds issued, relating to the nominal value at the balance sheet date, amounted to 3.70% (2004: 3.70%).

Loans payable

CHF mn.	31.12.2004	31.12.2005
Maturing within 1 to 5 years	236	236
Maturing later than 5 years	699	656
Total	**935**	**892**

The net market value at the balance sheet date of loans payable amounted to CHF 899 million.

The weighted interest paid on loans payable relating to the nominal value at the balance sheet date amounted to 4.35% (2004: 4.44%). Loans repayable within 360 days amounted to CHF 96 million are recorded under short-term financial liabilities (31.12.2004: CHF 183 million).

21 Other long-term liabilities

This item refers principally to third-party plant utilisation rights.

22 Other short-term liabilities

CHF mn.	31.12.2004	31.12.2005
Trade liabilities	586	994
Other liabilities	333	415
Advances from customers	10	28
Total	**929**	**1 437**

23 Financial instruments held at fair value

Book value of financial assets and liabilities:

CHF mn.	31.12.2004	31.12.2005
Financial assets		
Cash at hand including time deposits	759	876
Securities under current assets	52	37
Financial investments	639	178
Derivative financial instruments*	32	422
Currency and interest rate derivatives	–	1
Total	**1 482**	**1 514**
Financial liabilities		
Derivative financial instruments*	29	396
Currency and interest rate derivatives	3	18
Total	**32**	**414**

* Contract volumes see note 30

24 Assets and disposal groups classified as held for sale

On 1 January 2005 Atel adopted IFRS 5. This led to a change in accounting whereby assets and liabilities held for sale were reclassified on the balance sheet. The assets and liabilities of the GAH subsidiary "GA-tec Gebäude- und Anlagentechnik GmbH" consist of the following main items on the balance sheet date:

Assets

CHF mn.	31.12.2005
Trade accounts receivables	46
Other receivables	12
Cash at hand	–
Total	**58**

Liabilities

CHF mn.	31.12.2005
Trade accounts payable	19
Provisions	33
Other payables	8
Total	**60**

25 Transactions with related parties

Motor-Columbus AG, Baden, owns a majority stake in Atel, with 58.5%. Motor-Columbus in turn is controlled by UBS AG which has a stake of 55.6%. These companies are described below as parent companies. EDF Electricité de France International owns 20% of Motor-Columbus; transactions with EDF are shown below in the column "other related companies". With regard to the relationship with associated companies and partner plants we refer to the accounting principles. The transactions between the Group and the pension funds for staff are set out in note 26.

2005

Amount of transactions between the group and related companies

CHF mn.	Parent companies	Associated companies	Joint venture	Other related companies
Total income				
Electricity turnover	30	186	0	758
Other income from services	0	2	6	0
Operating expenses				
Electricity purchases	0	–14	–342	–1 014
Other services expenses	–2	–12	0	0
Financial result				
Interest income	2	0	0	0
Interest expenses	0	0	0	0

Scope of outstanding positions with related companies on the balance sheet date

CHF mn.	Parent companies	Associated companies	Joint venture	Other related companies
Receivables				
Trade accounts receivables	3	16	1	88
Long-term financial accounts receivables	0	0	0	0
Short-term financial accounts receivables	264	0	0	0
Other receivables	0	0	0	0
Liabilities				
Trade accounts payable	0	2	21	99
Long-term financial liabilities	0	0	4	0
Short-term financial liabilities	3	0	0	0
Other short-term liabilities	0	0	0	0

2004

Amount of transactions between the group and related companies

CHF mn.	Parent companies	Associated companies	Joint venture	Other related companies
Total income				
Electricity turnover	35	121	0	654
Other income from services	0	2	9	0
Operating expenses				
Electricity purchases	0	–52	–354	–957
Other services expenses	–2	–14	0	0
Financial result				
Interest income	0	0	0	0
Interest expenses	0	0	0	0

Scope of outstanding positions with related companies on the balance sheet date

CHF mn.	Parent companies	Associated companies	Joint venture	Other related companies
Receivables				
Trade accounts receivables	3	22	1	66
Long-term financial accounts receivables	0	0	0	0
Short-term financial accounts receivables	19	0	0	0
Other receivables	0	0	0	0
Liabilities				
Trade accounts payable	0	1	13	79
Long-term financial liabilities	0	0	4	0
Short-term financial liabilities	0	0	0	0
Other short-term liabilities	0	0	0	0

Members of the Board of Directors and management in key positions

In the 2005 financial year the Board of Directors of Atel received remuneration of CHF 2 million (previous year: CHF 2 million). Remuneration for management in the same period totalled CHF 6 million (CHF 5 million).

26 Pension fund liabilities

The notes "as a result in change of plan" in the tables below are related to the values of the pension fund of the subsidiaries of installation technology companies in Switzerland.

Pension expense recognised in profit and loss

CHF mn.	2004	2005
Current service cost	6	10
Interest cost	19	22
Expected return on plan assets	–11	–16
Actuarial (loss)/gain recognised in current year (§ 92 f)	9	0
Actuarial (loss)/gain recognised in current year (§ 58 A)	0	15
Past service cost	–2	–15
Effect of curtailment and settlements in § 58 (b)	0	–3
Expenses recognised in profit and loss	**21**	**13**

Comparison of estimated and actual return on plan assets

CHF mn.	2004	2005
Expected return on plan assets	11	16
Actuarial gain/(loss) on plan assets	–3	35
Actual return on plan assets	**8**	**51**

Experience adjustments

CHF mn.	2005
Defined Benefit Obligation at 31.12. with assumptions 1.1.	607
Fair value of plan assets at 31.12. with assumptions 1.1.	463
Experience adjustments on defined Benefit Obligation	1
Experience adjustments on fair value of plan assets	35

Reconciliation of the amount recognised in the balance sheet

CHF mn.	2004	2005
Present value of funded defined Benefit Obligation	297	453
Fair value of plan assets	283	463
Underfund/(Overfund)	14	–10
Present value of unfunded defined Benefit Obligations	165	183
Unrecognised actuarial gains/(losses)	–22	–26
Amounts not recognised because of § 58(b)-limitation	0	4
Rounding	0	1
Liability recognised in balance sheet	**157**	**152**
thereof recognised as separate asset	–8	–9
thereof recognised as separate liability	165	161

Reconciliation of defined benefit obligation

CHF mn.	2004	2005
Defined benefit obligation at 1.1.	**429**	**462**
Defined benefit obligation at 1.1. as a result of change in plan	**0**	**112**
Interest cost	19	22
Current service cost	6	10
Contributions by plan participants	3	8
Past service cost	–2	0
Benefits paid	–8	–26
Business combination	7	0
Actuarial loss on obligation	10	47
Currency translation adjustment	–2	1
Defined benefit obligation at 31.12.	**462**	**636**

Reconciliation of the fair value of plan assets

CHF mn.	2004	2005
Fair value of plan assets at 1.1.	**271**	**282**
Fair value of plan assets at 1.1. because of change in plan	**8**	**127**
Expected return on plan assets	11	16
Contribution by the employer	14	20
Contribution by plan participants	2	8
Benefits paid	–8	–26
Actuarial gain/(loss) on plan assets	–16	35
Fair value of plan assets at 31.12.	**282**	**462**

Plan assets at fair value consist of

CHF mn.	2004	2005
Equity instruments of the company	0	0
Equity instruments – third party	130	178
Debt instruments of the company	0	0
Debt instruments – third party	92	202
Properties used by the company	0	0
Properties not used by the company	38	52
Others	22	30
Total plan assets at fair value	**282**	**462**

Long-term income is shown based on the investment strategy of the pension funds and the expected returns from the individual asset classes over the average remaining service period.

Actuarial assumptions

in %	2004	2005
Discount rate	4.53%	3.72%
Expected rate of return on plan assets	4.00%	4.00%
Future salary increases	2.00%	1.90%
Future pension increases	1.00%	0.59%

Best estimate of contributions

CHF mn.	2005	2006
Contribution by the employer	14	20
Contribution by plan participants	3	8

27 Contingent liabilities and guarantee obligations

The total amount of guarantee obligations in favour of third parties on the balance sheet date is CHF 776 million (2004: CHF 958 million).

CHF mn.	31.12.2004	31.12.2005
Guarantee obligations in favour of third parties		
Commercial guarantees of banks and insurance companies	416	643
Commercial guarantees	172	115
Financial guarantees (Edipower)	370	18
Total	**958**	**776**
Capital contribution liabilities		
For Edipower	308	249
Others	16	0
Total	**324**	**249**

There are also obligations arising from option agreements for increasing existing holdings. As part of the financing of Edipower, the industrial investors (AEM Milano, AEM Torino, Atel and Edison) have jointly agreed to purchase the stakes of the financial investors in the medium term.

For other obligations in connection with stakes in joint ventures, see note 12.

28 Pledged assets

CHF mn.	31.12.2004	31.12.2005
Properties secured by mortgages	20	15
Power stations	443	943
Financial holdings	473	0
Total	**936**	**958**

The power plants of Csepel, ECKG and Novel 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.

29 Post balance sheet date events

On 31 January 2006, Aare-Tessin Ltd. for Electricity issued a bond for CHF 250 million paying 2.625%, with a duration of 12 years.

On 6 January 2006, Atel Installationstechnik closed of the acquisition of engineering firm Indumo. The acquisition adds net assets in the magnitude of CHF 1 million. Indumo has annual turnover of around CHF 12 million. The purchase was made from existing liquidity.

The agreement relating to the sale of the GAH subsidiary GA-tec, Heidelberg, was signed by the relevant parties on 20 February 2006. The sale involves an outflow of funds of CHF 15 million in 2006.

30 Segment reporting

2005: Information by business activity

CHF mn.	Energy	Energy services	Other	Transactions between the segments and other effects	Total
Income from energy sales/order completion	6 979	1 559	1		8 539
Net profit of trading standard products financial energy transactions	41				41
Total turnover third parties	**7 020**	**1 559**	**1**	**0**	**8 580**
Turnover from internal transactions		5	2	–7	0
Total turnover	**7 020**	**1 564**	**3**	**–7**	**8 580**
thereof with related and associated companies	974				974
EBITDA	629	97	5	6	737
Significant non-cash expenses	–30	–37			–67
Planned depreciations	–163	–32	–1		–196
EBIT	466	65	4	6	541
Segment profit	**365**	**25**	**20**	**3**	**413**
Gross assets (total assets)	7 151	805	663	–1 302	7 317
Book values associated companies	1 201				1 201
Profits from associated companies	74				74
Liabilities	4 616	626	52	–441	4 853
Net investments in tangible fixed and intangible assets	112	39	11		162
Number of employees as of balance sheet date	1 451	7 198			8 649

Information by geographic region

CHF mn.	Switzerland	Southern/ Western Europe	Northern/ Eastern Europe	Other regions	Total
External turnover	1 195	2 911	4 460	14	8 580
Gross assets (total assets)	2 894	1 734	2 470	219	7 317
Net investments in tangible fixed and intangible assets	100	13	49		162
Number of employees as of balance sheet date	3 084	179	5 386	0	8 649

The trading result in the energy segment includes profits and losses from realised energy trading financial transactions, and value adjustments of unrealised energy trading financial transactions valued at market value. Outstanding financial energy trading transactions on the balance sheet date 31.12.2005 have a contract volume of 4.960 TWh (31.12.2004: 1.240 TWh). Replacement values are listed separately on the balance sheet.

2004: Information by business activity

CHF mn.	Energy	Energy services	Other	Transactions between the segments and other effects	Total
Income from energy sales/order completion	5 437	1 414	1		6 852
Net profit of trading standard products and financial energy transactions	15				15
Total turnover third parties	**5 452**	**1 414**	**1**		**6 867**
Turnover from internal transactions		4	2	–6	0
Total turnover	**5 452**	**1 418**	**3**	**–6**	**6 867**
thereof with related and associated companies	810				810
EBITDA	714	44	1	–24	735
Significant non-cash expenses	–22	–70			–92
Planned depreciations	–219	–23			–242
EBIT	495	21	1	–24	493
Segment profit	**344**	**13**	**18**	**–34**	**341**
Gross assets (total assets)	6 092	790	628	–1 324	6 186
Book values associated companies	625				625
Profits from associated companies	60				60
Liabilities	3 849	616	43	–445	4 063
Net investments in tangible fixed and intangible assets	83	15			98
Number of employees as at balance sheet date	1 152	6 858			8 010

Information by geographic region

CHF mn.	Switzerland	Southern/ Western Europe	Northern/ Eastern Europe	Other regions	Total
External turnover	1 078	2 332	3 453	4	6 867
Gross assets (total assets)	2 695	1 425	1 821	245	6 186
Net investments in tangible fixed and intangible assets	66	19	13		98
Number of employees as at balance sheet date	2 716	362	4 932		8 010

31 Business combinations

On 22 December 2005, Atel acquired a 100% stake in the Czech thermal power station Moravske Teplarny, and on 1 July 2005 a 100% stake in the Czech company Elektroline a.s. The results from Moravske are shown in the energy segment, those of Elektroline in the energy services segment. The purchase price paid was CHF 116 million. The purchase price was allocated to balance sheet items as follows:

CHF mn.	Moravske Teplarny	Elektroline
Tangible fixed assets	104	5
Intangible assets	0	0
Deferred income tax assets	6	0
Cash	5	1
Other current assets	2	5
Short and long-term financial liabilities	0	–1
Other short and long-term liabilities	–11	–5
Minority interests	0	0
Net assets acquired	**106**	**5**
Present value of net assets	106	5
Goodwill purchased through acquisition	0	5
Net cash flow from acquisition:		
Acquired cash from subsidiaries	5	1
Acquisition costs	–106	–10
Net cash flow	–101	–9

The goodwill acquired corresponds to expected synergies from the addition to existing business activities and the additional benefits from expansion into new market regions.

Since their integration into the Atel Group, the companies acquired have contributed CHF 7 million in turnover and a profit of CHF 1 million.

If the companies had been acquired at 1 January 2005, they would have increased consolidated turnover by CHF 49 million and would have increased the net profit for the Group by CHF 9 million. In the 2004 financial year, inclusion of these companies would have raised turnover by CHF 47 million and net profit for the Group by CHF 6 million.

32 Disposal of business units

In the third quarter of 2004 the Supervisory Board of GAH decided on a strategic refocusing of the GAH group (GAH is an activity in the energy services segment, in the northern/eastern Europe region). The "GAH 2005" project entailed focusing from four to two areas of business. This also included plans to sell a group of four subsidiaries. When the project was implemented, three units were sold, on 31 December 2005; the units were de-consolidated on the balance sheet date.

CHF mn.	31.12.2005
Tangible fixed assets	2
Intangible assets	0
Deferred income tax assets	0
Cash	10
Other current assets	31
Short and long-term financial liabilities	–6
Other short and long-term liabilities	–21
Minority interests	0
Net assets disposed	**16**

Sale of these subsidiaries involved the following cash flows:

Net cash flow from disposal groups:	
Cash of disposed subsidiaries	10
Disposal price	8
Net cash flow	–2

Scope of Consolidation

Energy segment

Trading, sales, supply and services

	Domicile	Currency	Issued capital mn.	Direct proportion of holding in % (voting rights)	Consolidation method	Nature of business	Year-end date
Aare-Tessin Ltd. for Electricity	Olten	CHF	303.60	100.0	V	SU	31.12.
Atel Energia S.r.l.	Milano/IT	EUR	20.00	98.0	V	SU	31.12.
Atel Energie AG[1]	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 Energia SA[2]	Barcelona/ES	EUR	0.10	100.0	V	SU	31.12.
Atel Hellas S.A.	Perissos Athens/GR	EUR	0.15	76.0	V	SU	31.12.
Atel Polska Sp. z o.o.[1]	Warsaw/PL	PLN	4.00	100.0	V	SU	31.12.
Atel Energia Kft.[1]	Budapest/HU	HUF	600.00	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	96.7	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	936.24	5.2	E	SU	31.12.
Energipartner AS	Oslo/NO	NOK	5.00	100.0	V	S	31.12.
Atel Austria GmbH[4]	Vienna/AT	EUR	0.235	100.0	V	SU	31.12.
Atel Energy GmbH[1][3]	Niedergösgen	CHF	0.40	100.0	V	T	31.12.
Atel Energy s.r.o.	Prague/CZ	CZK	5.42	100.0	V	T	31.12.
Atel Energy d.o.o.	Zagreb/HR	HRK	0.02	100.0	V	T	31.12.
Atel Energy d.o.o.	Ljubljana/SI	SIT	8.15	100.0	V	T	31.12.
Atel Energy 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	V	T	31.12.
Atel Energy Romania S.R.L.	Bucharest/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	G	31.12.
SAP SA	Locarno	CHF	2.06	99.4	V	S	31.12.
Rätia Energie AG	Poschiavo	CHF	3.41	24.6	E	B	31.12.

1) Integration of Entrade Poland, Hungary and Germany into the respective distribution company in 2006
2) New foundation
3) Change of name of all Entrade subsidiaries into Atel Energy
4) Former Multipower Beteiligungs- und Energiemanagement GmbH

Generation and transmission

	Domicile	Currency	Issued capital mn.	Direct proportion of holding in % (voting rights)	Consolidation method	Nature of business	Year-end date
Atel Hydro AG	Olten	CHF	53.00	100.0	V	G	31.12.
Atel Hydro Ticino SA	Airolo	CHF	3.00	100.0	V	G	31.12.
Csepeli Aramtermelö Kft.	Budapest/HU	HUF	4 930.10	100.0	V	G	31.12.
Csepeli Erömü Kft.	Budapest/HU	HUF	856.00	100.0	V	G	31.12.
Csepel Energia Kft.	Budapest/HU	HUF	20.00	100.0	V	S	31.12.
ECK Generating s.r.o.	Kladno/CZ	CZK	2 936.10	89.0	V	G	31.12.
Energeticke Centrum Kladno, spol. s.r.o.	Kladno/CZ	CZK	238.63	89.0	V	G	31.12.
Energetika Kladno s.r.o	Kladno/CZ	CZK	0.10	100.0	V	S	31.12.
Kladno GT s.r.o	Kladno/CZ	CZK	0.20	100.0	V	G	31.12.
Moravske Teplarny s.r.o.1)	Zlin/CZ	CZK	1 494.50	100.0	V	G	31.12.
Atel Centrale Termica Vercelli S.r.l.	Milano/IT	EUR	10.33	95.0	V	G	30.09.
Novel S.p.A.	Milano/IT	EUR	23.00	51.0	V	G	30.09.
AT O&M S.r.l.	Milano/IT	EUR	0.25	88.0	V	G	31.12.
Aarewerke AG	Klingnau	CHF	16.80	10.0	E	G	30.06.
Blenio Kraftwerke AG	Olivone	CHF	60.00	17.0	E	G	30.09.
Edipower S.p.A.	Milano/IT	EUR	1 441.30	16.0	E	G	31.12.
Electra-Massa AG	Naters	CHF	40.00	11.5	E	G	31.12.
Electricité d'Emosson SA	Martigny	CHF	140.00	50.0	E	G	30.09.
Engadiner Kraftwerke AG	Zernez	CHF	140.00	22.0	E	G	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	G	31.12.
Kernkraftwerk Leibstadt AG	Leibstadt	CHF	450.00	27.4	E	G	31.12.
Kraftwerk Ryburg-Schwörstadt AG	Rheinfelden	CHF	30.00	25.0	E	G	30.09.
Kraftwerke Gougra AG	Siders	CHF	50.00	54.0	E	G	30.09.
Kraftwerke Hinterrhein AG	Thusis	CHF	100.00	9.3	E	G	30.09.
Kraftwerke Zervreila AG	Vals	CHF	50.00	30.0	E	G	30.09.
Maggia Kraftwerke AG	Locarno	CHF	100.00	12.5	E	G	30.09.
Kraftwerk Aegina AG	Ulrichen	CHF	12.00	50.0	E	G	30.09.

* Of which CHF 290.0 million paid up
1) Acquired as of 12.12.2005; first consolidation (Balance sheet 31.12.2005)

Grid

	Domicile	Currency	Issued capital mn.	Direct proportion of holding in % (voting rights)	Consolidation method	Nature of business	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.
swissgrid	Laufenburg	CHF	15.00	22.1	E	S	31.12.

Energy Services segment

Energy Services Southern/Western Europe

	Domicile	Currency	Issued capital mn.	Direct proportion of holding in % (voting rights)	Consolidation method	Nature of business	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 AG	Zürich	CHF	2.50	100.0	V	S	31.12.
Mauerhofer + Zuber SA	Renens	CHF	1.70	100.0	V	S	31.12.
Elektroline a.s.[1)]	Prag/CZ	EUR	0.17	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 Gebäudetechnik AG	Zürich	CHF	7.85	100.0	V	S	31.12.
Atel Gebäudetechnik West AG	Olten	CHF	5.90	100.0	V	S	31.12.
Atel Impianti SA	Savosa	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.
Atel Impianti Mgmt S.p.A.	Milano/IT	EUR	0.10	100.0	V	S	31.12.

1) Acquired as of 01.07.2005

Energy Services Northern/Eastern Europe

	Domicile	Currency	Issued capital mn.	Direct proportion of holding in % (voting rights)	Consoli-dation method	Nature of busi-ness	Year-end date
Holding and Management							
GAH Anlagentechnik Heidelberg GmbH	Heidelberg/DE	EUR	25.00	100.0	V	H	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.
Energy supply and communication 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.
GA-com Telekommunikations und Telematik GmbH	Bietigheim-Bissingen/DE	EUR	0.78	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	100.0	V	S	31.12.
Energy and Technical Facilities Management							
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	0.50	100.0	V	S	31.12.
Kraftszer Kft.	Budapest/HU	HUF	198.00	90.0	V	S	31.12.
Franz Lohr GmbH	Ravensburg/DE	EUR	1.28	90.1	V	S	31.12.
GA-tec Gebäude- u. Anlagentechnik GmbH[1)]	Heidelberg/DE	EUR	2.56	100.0	V	S	31.12.
Other holdings							
Apparatebau Wiesloch GmbH	Wiesloch/DE	EUR	0.26	100.0	V	S	31.12.

1) Held for sale

Other companies

Holding and finance companies

	Domicile	Currency	Issued capital mn.	Direct proportion of holding in % (voting rights)	Consoli-dation method	Nature of busi-ness	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	1.15	100.0	V	S	31.12.
Atel Management Services Ltd.	St. Helier/Jersey	EUR	0.10	100.0	V	S	31.12.
Atel Re, Ltd.	Guernsey/GB	EUR	3.00	100.0	V	S	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.
Atel Hungaria Kft	Budapest/HU	HUF	80.00	100.0	V	H	31.12.
Atel MT s.r.o.	Prague/CZ	CZK	0.20	100.0	V	H	31.12.
Atel Italia Holding s.r.l.	Milano/IT	EUR	0.25	100.0	V	H	31.12.

Financial holdings

	Domicile	Currency	Issued capital mn.	Direct proportion of holding in % (voting rights)	Consoli-dation method	Nature of busi-ness	Year-end date
Energie électrique du Simplon SA	Simplon Dorf	CHF	8.00	1.7	F	G	31.03.
European Energy Exchange	Leipzig/DE	EUR	20.00	2.0	F	S	31.12.
Groupe CVE-Romande Energie	Morges	CHF	28.5	10.0	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.
VenCap9 LLC	Cayman Islands	USD	357.00*	0.9	F	S	31.12.

* Fund capital

Nature of business

T Trading
SU Sales and supply
G Generation
S Services
H Holding
B Power exchange company

Consolidation method

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

Report of the Group Auditors

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To the General Meeting of

Aare-Tessin Ltd for Electricity, Olten

Zurich, 24 February 2006

Report of the group auditors

As group auditors, we have audited the consolidated financial statements (income statement, balance sheet, statement of changes in equity, cash flow statement and notes / pages 11 to 70) of Aare-Tessin Ltd for Electricity for the year ended 31 December 2005.

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

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (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 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

Alessandro Miolo
Certified Accountant
(in charge of the audit)

Michael Baeriswyl
Certified Accountant

Offices in Aarau, Baden, Basel, Berne, Geneva, Lausanne, Lucerne, Lugano, St.Gallen, Zug, Zurich.
Member of the Swiss Chamber of Auditors.

Income Statement

CHF	Notes	2004	2005
Energy sales (GWh)		69 401	75 868
Net turnover		**3 687 904 566**	**4 942 091 621**
Capitalised cost		1 299 758	2 193 104
Other operating income		28 005 673	41 830 721
Total operating result		**3 717 209 997**	**4 986 115 446**
Energy purchased		–3 245 853 125	–4 582 424 330
Materials and external services		–16 998 002	–16 300 740
Personnel expenses		–48 735 711	–56 313 640
Depreciation		–243 960 523	–105 331 880
Other operating expenses		–44 319 243	–66 919 061
Operating expenses		**–3 599 866 604**	**–4 827 289 651**
Earnings before interest and tax		**117 343 393**	**158 825 795**
Financial income		180 510 721	117 004 115
Financial expenses		–112 702 360	–67 561 193
Non-operational income		2 071 624	424 993
Non-operational expenses		–3 723 425	–56 687
Taxes		–45 338 953	–50 436 076
Profit on ordinary activities		**138 161 000**	**158 200 947**
Extraordinary income	2	2 417 219	1 517 157
Profit of the year		**140 578 219**	**159 718 104**

Balance Sheet

Assets

CHF	Notes	restated* 31.12.2004	31.12.2005
Tangible fixed assets	3		
Operating plants		1 626 606	1 276 167
Plants under construction		7 348 653	11 814 946
Land and buildings		10 445 627	9 461 068
Plant, equipment, machinery and vehicles		1	1
Power subscriptions rights	4	358 735 360	307 487 449
Intangible assets	4	1	1
Financial assets	5		
Investments		910 335 848	914 520 772
Loans		489 745 986	649 812 452
Fixed assets		**1 778 238 082**	**1 894 372 856**
Receivables and other current assets	6		
Trade receivables		368 906 466	609 050 648
Other receivables		497 249 635	311 516 346
Accrued assets		14 828 858	8 763 546
Cash and cash equivalents		207 961 290	413 394 793
Treasury shares	7	45 968 370	45 968 370
Current assets		**1 134 914 619**	**1 388 693 703**
Total assets		**2 913 152 701**	**3 283 066 559**

Liabilities

CHF	Notes	restated* 31.12.2004	31.12.2005
Issued capital		303 600 000	303 600 000
Legal reserves			
General reserves		124 320 000	130 020 000
Reserve for Treasury shares		46 000 000	46 000 000
Equalisation reserve		297 600 000	360 600 000
Retained earnings		162 477 923	181 520 027
Shareholders' equity	8	**933 997 923**	**1 021 740 027**
Provisions		**359 674 251**	**312 300 719**
Bonds	9	700 000 000	700 000 000
Loans payable	10	203 500 000	200 000 000
Usage rights of third parties		26 252 670	26 252 670
Long-term liabilities		**929 752 670**	**926 252 670**
Short-term liabilities	11		
Trade payables		241 804 695	502 468 946
Other liabilities		250 221 427	281 897 742
Accrued liabilities		197 701 735	238 406 455
Short-term liabilities		**689 727 857**	**1 022 773 143**
Total liabilities		**2 913 152 701**	**3 283 066 559**

* Details to adjustments see notes 6/11

Notes to the Financial Statements

1 Introductory remarks

Aare-Tessin Ltd. for Electricity'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 663b of the Swiss Code of Obligations. Fully consolidated subsidiaries, associate companies as well as other financial investments listed on page 66 are regarded as Group companies under Art. 663a of the Swiss Code of Obligations.

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 31.12.2005 amounted to CHF 38 487 thousand (2004: CHF 29 673 thousand).

4 Power subscriptions 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. Depreciation commences from the date of delivery over the remaining term of contract.

5 Financial assets

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

A list of major investments can be found from page 66.

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 30 967 thousand.

Loans receivable are stated at nominal value. The position contains loans to Group companies of CHF 648 925 thousand.

6 Trade receivables and other current assets

Trade receivables 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 tax credits in Switzerland and abroad as well as time deposits at banks falling due in more than 90 days. For the first time in 2005, trade receivables (including third parties and group companies) who act at the same time as suppliers were offset against trade payables, provided that a netting agreement between the contractual parties had been concluded. The netted receivables and payables amounted to CHF 890 573 thousand. Prior year was updated by the effect of the netting agreement (CHF 642 076 thousand).

CHF th.	31.12.2004	31.12.2005
Group companies	220 090	310 469
Third parties	646 066	610 098
Total	**866 156**	**920 567**

7 Treasury shares

Information on movement in the balance of treasury shares is given in explanatory note 18 to the consolidated annual financial statements on page 49.

8 Shareholder's equity

The movements in shareholder's equity were as follows.

CHF th	Share capital	General reserve	Reserve for Treasury shares	Equalisation reserve	Retained earnings	Total Equity
Equity 31.12.2003	**303 600**	**119 120**	**900**	**304 700**	**131 892**	**860 212**
Allocations		5 200		38 000	–43 200	0
Dividends paid					–66 792	–66 792
Reclassification			45 100	–45 100		0
Profit for the financial year					140 578	140 578
Equity 31.12.2004	**303 600**	**124 320**	**46 000**	**297 600**	**162 478**	**933 998**
Allocations		5 700		63 000	–68 700	0
Dividends paid					–71 976	–71 976
Reclassification						0
Profit for the financial year					159 718	159 718
Equity 31.12.2005	**303 600**	**130 020**	**46 000**	**360 600**	**181 520**	**1 021 740**

Please refer to note 18 of the consolidated financial statements on page 49 for details on the shareholder structure and further details on capital.

9 Bonds

Information on bonds issued by Aare-Tessin Ltd. for Electricity is shown in note 20 of the consolidated financial statements on page 52.

10 Loans

CHF th Loans payable maturing within 1-5 years	31.12.2004	31.12.2005
Group companies	3 500	0
Third parties	200 000	200 000
Total	**203 500**	**200 000**

The weighted interest paid which is related to the face value and balance sheet date amounted to 3.09% (2004: 3.59%).

11 Short-term liabilities

Trade payables include liabilities in respect of joint undertakings and other power suppliers as well as general creditors. Short-term financial liabilities and tax debts payable are stated in the balance sheet under other liabilities. For the first time in 2005, trade payables (including third parties and group companies) who act at the same time as suppliers were offset against trade receivables, provided that a netting agreement between the contractual parties had been concluded. The netted receivables and payables amounted to CHF 890 573 thousand. Prior year was updated by the effect of the netting agreement (CHF 642 076 thousand).

CHF th.	31.12.2004	31.12.2005
Group companies	23 918	115 931
Third parties	468 108	668 436
Total	**492 026**	**784 367**

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

12 Contingent liabilities and guarantee obligations

Guarantee statements in favour of group companies and third parties amounted to CHF 628 470 thousand as at 31.12.2005 (2004: CHF 707 757 thousand).

CHF th.	31.12.2004	31.12.2005
Guarantee obligations		
Bank guarantees	52 670	158 530
Loan commitment guarantees	197 790	290 560
Guarantees	85 797	160 830
Financial guarantees (Edipower)	371 500	18 550
Total	**707 757**	**628 470**

13 Pledged Assets

As of 31 December 2005, assets have been pledged as security for the company’s own commitments amounting CHF 530 256 thousand (2004: CHF 528 621 thousand).

Appropriation of Retained Earnings

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

Profits for the 2005 financial year as per income statement of	159 718 104 CHF
Balance carried forward amounting to	21 801 923 CHF
Total	**181 520 027 CHF**

be appropriated as follows:

Dividend on dividend-bearing share capital of 299 900 000 CHF of 28 CHF per registered share	83 972 000 CHF
Allocation to the general reserve (Art. 671 Section 2 point 3 Swiss Code of Obligations)	6 900 000 CHF
Allocation to the equalisation reserve	70 000 000 CHF
Balance to be brought forward	20 648 027 CHF

Distribution of dividend

If this proposal is accepted, the gross dividend for the 2005 financial year, i.e. before the deduction of Swiss federal withholding tax, will amount to CHF 28 per share.

The dividend will be paid after Swiss federal withholding tax of 35% has been deducted, from 3 May 2006, against presentation of the coupon.

Report of the Statutory Auditors

ERNST & YOUNG

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To the General Meeting of

Aare-Tessin Ltd for Electricity, Olten

Zurich, 24 February 2006

Report of the statutory auditors

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes / pages 72 to 78) of Aare-Tessin Ltd for Electricity for the year ended 31 December 2005.

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

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

In our opinion, the accounting records and financial statements 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

Alessandro Miolo Certified Accountant (in charge of the audit)	Michael Baeriswyl Certified Accountant

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