2016

Year ended 31 December 2016

Alpiq Ltd. Group

(Part of the Alpiq Group)

Financial Highlights 2016

Alpiq Ltd. Group

CHF million	% Change 2015-2016 (results of operations)	Results of operations before exceptional items 2016	Results of operations before exceptional items 2015	Results under IFRS 2016	Results under IFRS 2015
Net revenue	–13.3	4,397	5,069	4,397	5,069
Earnings before interest, tax, depreciation and amortisation (EBITDA)	–19.9	254	317	659	–92
Depreciation, amortisation and impairment	17.9	–115	–140	–271	–154
Earnings before interest and tax (EBIT)	–21.5	139	177	388	–246
Net income	69.4	122	72	531	–268
Number of employees at the reporting date	25.7			1,594	1,268

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Alpiq Ltd. Group Performance and Outlook

Introductory remarks

The operating business of the Alpiq Ltd. Group was down year-on-year, as expected given the prolonged demanding wholesale market conditions. With net revenue of CHF 4.4 billion (previous year: – 13.3 %), the Group generated CHF 254 million of EBITDA (– 19.9 %), and CHF 139 million of EBIT (– 21.5 %), both before exceptional items. Net income, also before exceptional items, recorded a positive development and came to CHF 122 million in comparison to CHF 72 million in the previous year. The persistently low wholesale prices on the European electricity markets as well as the unscheduled downtime at the Leibstadt nuclear power plant had a negative effect on earnings development compared to the previous year. To a certain extent, the negative effects were cushioned by the advantageous positioning of the flexible power plant portfolio on the market, the positive contributions of the international power plant portfolio and systematic cost management.

The portfolio rationalisation was successfully continued in the past financial year with the disposal of non-strategic investments and assets. In March, the interest in Romande Energie Commerce SA was sold. The interests in the regional supply companies AEK Energie AG and Alpiq Versorgungs AG were sold in the summer. After the Board of Directors at Swissgrid approved the share transfer at the end of October and ongoing proceedings were dropped, the interest in Swissgrid AG was successfully sold. Alpiq Group received a total cash inflow of CHF 557 million from the step-by-step sale of the interest in Swissgrid AG as well as the shareholder loan. The announced sale of the gas-fired combined-cycle power plant Csepel in Hungary will be advanced further.

The exceptional items for the 2016 financial year amount to a total of CHF 375 million before or CHF 409 million after income taxes. Mainly due to the anticipated development of electricity prices, which are expected to remain low, the company had to recognise additional impairment losses and provisions. While electricity prices are low, their hourly profile is significantly more volatile than in the previous period. In particular, the highly flexible pumped storage power plants benefit from this. For this reason, a provision for the future procurement of energy from the Nant de Drance SA pumped storage power plant was reduced. The funds for the nuclear decommissioning and waste disposal of the Gösgen-Däniken AG and Leibstadt AG nuclear power plants performed positively in comparison to the previous year on account of the developments on the capital markets, decreasing the energy procurement costs for energy purchasers. Other material exceptional items are the book profits or losses from disposals.

After exceptional items, the Alpiq Ltd. Group, including its minority interests, generated a net income of CHF 531 million. To allow transparent presentation and demarcation of the aforementioned exceptional items, the consolidated income statement is also presented as a pro forma statement. The following commentary on the financial performance of the Alpiq Group relates to an operational view, in other words, earnings development before exceptional items.

2016: Consolidated income statement (pro forma statement before and after exceptional items)

			2016			2015
CHF million	Results of operations before exceptional items	Exceptional items [1]	Results under IFRS	Results of operations before exceptional items	Exceptional items [1]	Results under IFRS
Net revenue	**4,397**		**4,397**	**5,069**		**5,069**
Own work capitalised	5		5	5		5
Other operating income	95	177	272	115	7	122
Total revenue and other income	**4,497**	**177**	**4,674**	**5,189**	**7**	**5,196**
Energy and inventory costs	–3,901	229	–3,672	–4,534	–405	–4,939
Employee costs	–154		–154	–150		–150
Other operating expenses	–188	–1	–189	–188	–11	–199
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**254**	**405**	**659**	**317**	**–409**	**–92**
Depreciation, amortisation and impairment	–115	–156	–271	–140	–14	–154
Earnings before interest and tax (EBIT)	**139**	**249**	**388**	**177**	**–423**	**–246**
Share of results of partner power plants and other associates	17	10	27	–48	62	14
Net finance costs	–19	116	97	–61	1	–60
Earnings before tax	**137**	**375**	**512**	**68**	**–360**	**–292**
Income tax expense	–15	34	19	4	20	24
Net income	**122**	**409**	**531**	**72**	**–340**	**–268**

1 Include impairment losses and provisions, effects from business disposals and other exceptional items

Alpiq Ltd. Group: results of operations (before exceptional items)

The Alpiq Ltd. Group maintained its operating position in a market environment that remains extremely challenging and achieved solid operating results. Adjusted to reflect the aforementioned exceptional items, results of operations at EBITDA level were down by CHF 63 million year-on-year.

In spite of further cost reductions, the result of Generation was down significantly year-on-year due to the negative development of Swiss power generation. The lower wholesale prices and production volumes, mainly attributable to the unscheduled downtime at the Leibstadt nuclear power plant, in which Alpiq holds a one-third interest, had a negative impact on earnings. The lower costs only partly countered the negative development of prices and volumes. Production from international thermal power plants was above the previous year's level following the sale of the unprofitable Bayet gas-fired combined-cycle power plant in France and the leveraging of opportunities in the market for ancillary services. Thanks to the higher production levels in Italy and the cost savings generated, the regulated, new renewable energies exceeded the level of the previous year.

After the disposal of Alpiq Versorgungs AG, Commerce & Trading was as a whole slightly under the previous year's level. Swiss and international power plant management closed at a higher figure than in the previous year on account of the successful use of the flexible power plant portfolio. Eastern and South-Eastern Europe were down on the previous year.

The financial result is up on the previous year. Positive currency effects improved the financial result as well as interest income due to the higher liquidity.

Generation

Generation encompasses all Alpiq power plants based domestically and abroad.

With the announced sale of the gas-fired combined-cycle power plant Csepel in Hungary, Alpiq will further streamline its product portfolio.

The EBITDA contribution of Generation was down year-on-year. The main reason for this change on the previous year is the Swiss production, which was down significantly compared to the previous year. This is attributable to the low wholesale prices and the lower production volumes, particularly as a result of the unscheduled extension of the maintenance work at the Leibstadt nuclear power plant in the fourth quarter. Alpiq systematically hedges the power it generates in Switzerland against price and currency fluctuations for future periods. The decrease therefore reflects the lower price level of hedges. While the additional cost-saving measures are having a positive effect, they are unable to fully compensate for the negative effects. Production volumes in the area of hydropower are down year-on-year as a result of fewer inflows, while production in nuclear energy is also significantly below the level of the previous year. This is mainly due to the unscheduled extension of the maintenance work at the Leibstadt nuclear power plant in the last quarter of 2016. Production from international thermal power plants was above the previous year's level. In particular, this can be attributed to the sale of the unprofitable Bayet gas-fired combined-cycle power plant in France at the end of 2015. Operationally, the division benefited from opportunities in the market for ancillary services in the Czech Republic and Spain. These were countered by unscheduled downtime at the power plants in Italy.

The regulated, new renewable energies considerably exceeded the level of the previous year, particularly as a result of the greater levels of production. The new renewable energies benefited from cost savings.

Commerce & Trading

Commerce & Trading pools all trading, origination and marketing activities in Switzerland, Germany, Italy, Spain, France, Scandinavia, Eastern and South-Eastern Europe as well as proprietary trading and asset-related optimisation. Registered on most European energy exchanges and platforms, this area offers not only trading with electricity, gas and other commodities and certificates, but also a broad range of structured products. Commerce & Trading is supplemented by grid-connected demand response services, which were bundled in the Energy Solutions support unit.

Alpiq has driven ahead with the transformation of the Commerce & Trading business division by selling its interests in Romande Energie Commerce SA, AEK Energie AG and Alpiq Versorgungs AG as well as with the establishment of the Energy Solutions support unit and the first concluded business transactions in the new markets.

As at the end of December, electricity prices on the spot markets in Switzerland and France were only down slightly on the previous year. This was mainly attributable to unscheduled downtime at nuclear power plants in the fourth quarter, which related to mandatory inspections of the steam generators in several French power plants as well as the extension of maintenance work at the units in Leibstadt and Beznau 1 in Switzerland. The long period of dry weather in the Alps at the end of the year also bolstered prices. The drastic reduction of base-load offerings in the countries concerned in the final quarter of the year led to several price peaks and made a significant contribution to the fact that spot prices as at year-end were only marginally below the previous year's level. By contrast, the Italian and Spanish spot prices fell considerably. Gas prices at a record low in the first three quarters of the year had a negative effect on electricity prices.

2016 was a turbulent year on the forward markets for fuels and electricity. After dropping substantially in the first quarter, prices recovered noticeably in the second half of the year. Brent oil prices peaked at the end of the year, not least because of the agreement between OPEC and non-OPEC countries to restrict production in the first half of 2017. The increase in coal prices was largely influenced by a strong increase in imports in the Pacific region. This can mostly be attributed to China, where there has been a strong decrease in coal mining capacities and additional regulatory limitations to production have been imposed. Increased fuel prices were not the only factor driving the recovery of forward prices on the electricity markets. Low availability of nuclear power plants and the uncertainty surrounding the timing of when production can restart in France, Belgium, the Czech Republic and Switzerland also supported prices in the final quarter of the year. However, the market considers this increase to be temporary. Forward prices are expected to bottom out in calendar years 2018 and 2019 and are well below the production costs of most power plants in Switzerland.

The EBITDA contribution of Commerce & Trading was down year-on-year. Swiss and international power plant management closed at a higher figure than in the previous year. Eastern and South-Eastern Europe were down on the previous year.

Optimisation results in Switzerland were up compared with the previous year. This is primarily thanks to the use of price volatilities, which led to the successful optimisation of the hydropower and nuclear portfolio.

The management of international assets also reports a year-on-year rise. Contributing factors include positive contributions from the optimisation of assets in Spain and the ancillary services market in Italy. By successfully managing the natural gas portfolio, the company was able to offset the removal of the optimisation of the Bayet gas-fired combined-cycle power plant in France due to the disposal.

Group financial position and cash flow statement (after exceptional items)

Total assets amounted to CHF 6.0 billion as at the 31 December 2016 reporting date, compared with CHF 6.3 billion at the end of 2015. The reduction in non-current assets is a result of recognised impairment losses, depreciation and the common control business combinations. Current assets, however, increased compared to 31 December 2015. This is primarily attributable to higher receivables in connection with derivatives in the trading business as well as the receivable due from Swissgrid AG from the higher compensation for the transmission grid. The available liquidity including current term deposits stays at CHF 1.9 billion (previous year: CHF 0.7 billion). The significant increase is mainly due to the disposals of the interests in AEK Energie AG, Alpiq Versorgungs AG and Swissgrid AG as well as due to the common control business combinations. The reduction in assets held for sale is as well due to the divestments.

Equity stood at CHF 2.7 billion as at 31 December 2016, above the level of the previous year (CHF 2.6 billion). This is particularly due to the Group's positive results. On the other hand, the repurchase of non-controlling interests as part of the Swissgrid transaction as well as the common control business combinations had a negative effect on equity. The equity ratio amounted to a solid 45.4 % (42.2 %) as at 31 December 2016.

Due to a reduction of a provision for onerous contracts, current and non-current provisions showed a significant decrease. Deferred income also decreased as a result of the payments of liabilities related to investments in nuclear power plants, which were recognised in December 2015 due to a change in method. The nuclear power plants Kernkraftwerk Gösgen-Däniken AG (KKG) and Kernkraftwerk Leibstadt AG (KKL) had decided to recognise their entitlements to the state decommissioning and waste disposal funds on the basis of fair values. This led to a liability for Alpiq in the amount of CHF 151 million. By contrast, the remaining current liabilities increased. A significant reason for the increase is the higher liabilities in connection with derivatives in the trading business.

Cash flow from operating activities decreased year-on-year from CHF 266 million to CHF 11 million. The lower operating result and the aforementioned payments to the KKG and KKL partner power plants have a negative effect on the cash flow from operating activities. The cash flow from investing activities is dominated by the disposal of AEK Energie AG, Alpiq Versorgungs AG and Swissgrid AG. Part of the funds resulting from these was invested in term deposits. The cash flow from financing activities is mainly characterised by the repurchase of non-controlling interests during the settlement of the Swissgrid transaction. Overall, cash and cash equivalents increased by CHF 279 million to CHF 0.9 billion.

Outlook

The regulatory framework conditions continue to distort competition in Switzerland. Here, Alpiq operates as a pure electricity producer on a free market. Without access to bound end customers, the company is therefore missing monopolist's income as well as regulated income from distribution grids.

Results of operations for 2017 will firstly be influenced by negative currency effects as a result of expiring hedges that were concluded on the minimum EUR exchange rate before the decision taken by the Swiss National Bank. Secondly, the shutdown at the Leibstadt nuclear power plant will continue to negatively impact earnings. Thirdly, earnings will continue to be influenced by the extremely challenging market environment and low wholesale prices.

Against this background, Alpiq will drive forward the implementation of structural measures, comprising the process to open up to 49 % of the hydropower portfolio, disposals of non-strategic assets and stringent cost management.

Consolidated Financial Statements of the Alpiq Ltd. Group

Consolidated Income Statement

CHF million	2016	2015
Net revenue	**4,397**	**5,069**
Own work capitalised	5	5
Other operating income	272	122
Total revenue and other income	**4,674**	**5,196**
Energy and inventory costs	– 3,672	– 4,939
Employee costs	– 154	– 150
thereof wages and salaries	– 121	– 116
thereof pension costs and other employee costs	– 33	– 34
Other operating expenses	– 189	– 199
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**659**	**– 92**
Depreciation, amortisation and impairment	– 271	– 154
Earnings before interest and tax (EBIT)	**388**	**– 246**
Share of results of partner power plants and other associates	27	14
Interest expense	– 35	– 48
Interest income	47	2
Other net finance income	85	– 14
Earnings before tax	**512**	**– 292**
Income tax expense	19	24
Net income	**531**	**– 268**
Attributable to non-controlling interests	3	3
Attributable to equity investors of Alpiq Ltd.	528	– 271

Consolidated Statement of Comprehensive Income

CHF million	2016	2015
Net income	**531**	**–268**
Cash flow hedges (subsidiaries)	9	20
Income tax expense	–1	–8
Net of income tax	8	12
Cash flow hedges (partner power plants and other associates)	1	–3
Income tax expense		
Net of income tax	1	–3
Currency translation differences	–29	–60
Items that may be reclassified subsequently to the income statement, net of tax	**–20**	**–51**
Remeasurements of defined benefit plans (subsidiaries)	5	–9
Income tax expense	–1	2
Net of income tax	4	–7
Remeasurements of defined benefit plans (partner power plants and other associates)	14	–34
Income tax expense	–4	7
Net of income tax	10	–27
Items that will not be reclassified to the income statement, net of tax	**14**	**–34**
Other comprehensive income	**–6**	**–85**
Total comprehensive income	**525**	**–353**
Attributable to non-controlling interests	3	8
Attributable to equity investors of Alpiq Ltd.	522	–361

Consolidated Balance Sheet

Assets

CHF million	31 Dec 2016	31 Dec 2015
Property, plant and equipment	884	2,571
thereof land and buildings	114	78
thereof power plants	749	2,453
thereof transmission assets	8	6
thereof other plant and equipment	5	5
thereof assets under construction	8	29
Intangible assets	98	344
thereof goodwill	19	262
thereof energy purchase rights	26	
thereof other intangible assets	53	82
Investments in partner power plants and other associates	618	675
Other non-current financial assets	252	131
thereof loans receivable	3	3
thereof financial investments	2	3
thereof other non-current assets	247	125
Deferred income tax assets	12	16
Non-current assets	**1,864**	**3,737**
Inventories	43	39
Trade and other receivables	1,237	896
thereof trade receivables	803	554
thereof other receivables	434	342
Current term deposits and financial assets	1,057	69
Cash and cash equivalents	861	582
Derivative financial instruments	682	485
Prepayments and accrued income	145	114
Current assets	**4,025**	**2,185**
Assets held for sale	**103**	**355**
Total assets	**5,992**	**6,277**

Equity and liabilities

CHF million	31 Dec 2016	31 Dec 2015
Share capital	304	304
Share premium	64	14
Retained earnings	2,380	2,342
Equity attributable to equity investors of Alpiq Ltd.	**2,748**	**2,660**
Non-controlling interests	– 28	– 11
Total equity	**2,720**	**2,649**
Non-current provisions	398	609
thereof provisions for onerous contracts	365	590
thereof provisions for decommissioning own power plants	8	10
thereof provisions for warranties	4	
thereof other provisions	21	9
Deferred income tax liabilities	100	250
Defined benefit liabilities	62	63
Non-current financial liabilities [1]	628	955
Other non-current liabilities	318	136
Non-current liabilities	**1,506**	**2,013**
Current income tax liabilities		1
Current provisions	75	139
Current financial liabilities	58	108
Other current liabilities	773	551
thereof trade payables	650	454
thereof other payables	123	97
Derivative financial instruments	664	411
Accruals and deferred income	178	348
Current liabilities	**1,748**	**1,558**
Total liabilities	**3,254**	**3,571**
Liabilities held for sale	**18**	**57**
Total equity and liabilities	**5,992**	**6,277**

1 For more details, see note 2

Consolidated Statement of Changes in Equity

CHF million	Share capital	Share premium	Cashflow hedge reserve	Currency translation differences	Retained earnings	Attributable to equity investors of Alpiq Ltd.	Non-controlling interests	Total equity
Equity at 31 December 2014	**304**	**14**	**–27**	**–321**	**3,115**	**3,085**	**–17**	**3,068**
Net income for the period					–271	–271	3	–268
Other comprehensive income			9	–65	–34	–90	5	–85
Total comprehensive income			**9**	**–65**	**–305**	**–361**	**8**	**–353**
Effects of common control business combinations [1]				–13	–46	–59		–59
Dividends							–7	–7
Change in non-controlling interests					–5	–5	5	
Equity at 31 December 2015	**304**	**14**	**–18**	**–399**	**2,759**	**2,660**	**–11**	**2,649**
Net income for the period					528	528	3	531
Other comprehensive income			9	–29	14	–6		–6
Total comprehensive income			**9**	**–29**	**542**	**522**	**3**	**525**
Effects of common control business combinations [1]				–3	–391	–394	107	–287
Dividends					–50	–50	–1	–51
Capital contribution		50				50		50
Change in non-controlling interests					–40	–40	–126	–166
Equity at 31 December 2016	**304**	**64**	**–9**	**–431**	**2,820**	**2,748**	**–28**	**2,720**

1 See explanatory notes on page 25

The capital contribution as well as the dividends as part of the common control business combinations were concluded without exchange of cash and cash equivalents.

Consolidated Statement of Cash Flows

CHF million	2016	2015
Earnings before tax	**512**	**–292**
Depreciation, amortisation and impairment	271	154
Change in net working capital (excl. current financial assets/liabilities)	–307	257
Share of results of partner power plants and other associates	–27	–14
Financial result	–97	60
Other non-cash income and expenses	–319	116
Income tax paid	–22	–15
Net cash flows from operating activities	**11**	**266**
Property, plant and equipment and intangible assets	–33	–43
Subsidiaries		
Common control business combinations [1]	–18	4
Proceeds from disposals	265	55
Associates		
Proceeds from disposals	394	95
Other non-current financial assets		
Investments	–4	–2
Proceeds from disposals/repayments	17	109
Change in current term deposits and financial assets	–227	31
Dividends from partner power plants, other associates and financial investments	22	48
Interest received	44	3
Net cash flows from investing activities	**460**	**300**
Dividends paid to non-controlling interests	–3	–7
Proceeds from financial liabilities	114	2
Repayment of financial liabilities	–100	–279
Change in non-controlling interests	–162	
Interest paid	–38	–45
Net cash flows from financing activities	**–189**	**–329**
Currency translation differences	**–3**	**–29**
Change in cash and cash equivalents	**279**	**208**
Analysis:		
Cash and cash equivalents at 1 January	582	374
Cash and cash equivalents at 31 December	861	582
Change	**279**	**208**

1 See explanatory notes on page 25

The amounts reported above also include cash flows from “Assets and liabilities held for sale”.

1 Impairment losses and provisions

Mainly due to the anticipated development of electricity prices, which are expected to remain low, the company had to recognise additional impairment losses during the first half of 2016. In addition, the Group had to increase a provision for an onerous contract abroad by CHF 38 million.

While electricity prices are low, their hourly profile is significantly more volatile than in the previous period. In particular, the highly flexible pumped storage power plants benefit from this. For this reason, the provision for the onerous contract relating to the future procurement of energy from the Nant de Drance SA pumped storage power plant was reduced by CHF 263 million.

2016: Allocation of impairment losses and provisions

CHF million	Intangible assets	Property, plant and equipment	Total
Power Generation Switzerland	– 117		– 117
Renewable Energy France			
Renewable Energy Italy	– 1	– 38	– 39
Total impairment losses for assets	**– 118**	**– 38**	**– 156**
Provision for onerous contracts			225
Liabilities for purchase and supply contracts			– 3
Total impairment losses and provisions			**66**

2015: Allocation of impairment losses and provisions

CHF million	Property, plant and equipment	Total
Power Generation Hungary	– 9	– 9
Power Generation Italy	– 6	– 6
Other impairment charges	– 1	– 1
Total impairment losses for assets	**– 16**	**– 16**
Provision for onerous contracts		– 259
Total impairment losses and provisions		**– 275**

2 Non-current financial liabilities

CHF million	31 Dec 2016	31 Dec 2015
Bonds [1]		130
Loans payable	628	825
Total	**628**	**955**

1 The prior year value reflects the bond issued by Electricité d'Emosson SA. See note 7

Loans payable

CHF million	31 Dec 2016	31 Dec 2015
Maturing between 1 and 5 years	226	286
Maturing in more than 5 years	402	539
Total	**628**	**825**

Loans of CHF 30 million (CHF 108 million) maturing within 360 days are recorded as current financial liabilities at the reporting date on 31 December 2016.

3 Assets held for sale

As at the 31 December 2015 reporting date, the entire package of the non-strategic interest in Swissgrid AG as well as the interests in the regional energy suppliers Alpiq Versorgungs AG (96.7 %) and AEK Energie AG (38.7 %) were recognised as “Assets held for sale” due to the related intention to sell them.

On 28 April 2016, Alpiq sold its 38.7 % interest in AEK Energie AG to BKW, which was already a shareholder. The transaction was completed on 29 June 2016.

On 7 July 2016, Alpiq completed the sale of its 96.7 % equity interest in Alpiq Versorgungs AG to a syndicate consisting of EBM Netz AG, Städtische Betriebe Olten (sbo) and UBS Clean Energy Infrastructure Switzerland.

In the first half of 2016, the 24.1 % equity interest in Alpiq Grid Beteiligungs AG held by Alpiq Suisse Ltd. has been transferred to Alpiq Ltd. On 8 November 2016, Alpiq concluded the sale of the non-strategic interest in Swissgrid AG (30.3 %). The sale to BKW Netzbeteiligung AG was executed after the Board of Directors at Swissgrid approved the share transfer at the end of October and ongoing proceedings were dropped. As a result of this transaction, Alpiq received a further CHF 146 million. The book profit generated by Alpiq Grid Beteiligungs AG from the sale of the Swissgrid shares is included in “Other net finance income”. The disposal proceeds are recognised in the cash flow from investing activities. The 49.9 % interest in Alpiq Grid Beteiligungs AG held by IST3 Investmentstiftung was repurchased upon completion of the transaction. This transaction relates to the purchase of non-controlling interests and the book loss generated is posted directly to equity and recognised under net cash flows from financing activities.

In the first half of 2016, Alpiq resolved to sell several non-strategic minority investments of Generation.

On 22 September 2016, Alpiq also communicated its resolution on the planned sale of the gas-fired combined-cycle power plant in Hungary. This affects the two companies belonging to Generation: Alpiq Csepel Kft. (100 %) and Alpiq Csepeli Szolgáltató Kft. (100 %).

Assets

CHF million	31 Dec 2016	31 Dec 2015
Property, plant and equipment	38	209
Intangible assets		4
Investments in partner power plants and other associates	52	114
Other non-current financial assets		2
Deferred income tax assets	2	
Inventories	7	8
Trade and other receivables	4	12
Prepayments and accrued income		6
Total assets held for sale	**103**	**355**

Equity and liabilities

CHF million	31 Dec 2016	31 Dec 2015
Non-current provisions	8	
Deferred income tax liabilities	5	37
Other non-current liabilities		6
Other current liabilities	4	4
Accruals and deferred income	1	10
Total liabilities held for sale	**18**	**57**

As at 31 December 2016, currency translation losses of CHF 47 million related to assets held for sale are recorded in equity.

4 Events after the reporting period

There have been no events after the 31 December 2016 reporting date that require disclosure.

5 Significant accounting policies

Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Alpiq Ltd. Group have been prepared in accordance with the Alpiq Group Accounting Manual, which is designed to comply with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB). The consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the Alpiq Ltd. Group. They have been prepared on a historical cost basis, except for certain items such as financial instruments that have been measured at fair value in some instances. The notes provide selected explanatory information. Alpiq Ltd. Group is a subgroup of Alpiq Group. Alpiq Ltd. is fully held by Alpiq Holding Ltd. The consolidated financial statements were authorised for issue by the Board of Directors of Alpiq Ltd. on 28 June 2017.

Adoption of new and revised accounting standards

As of 1 January 2016, no new or revised standards or IFRIC interpretations came into force as part of International Financial Reporting Standards (IFRS) that are of significance for the Alpiq Ltd. Group.

IFRS effective in future periods

The IASB has published the following new standards and amendments of relevance for Alpiq:

– IAS 7, amendments:	Information about Changes in Financial Liabilities (1 January 2017)
– IFRS 9:	Financial instruments (1 January 2018)
– IFRS 15:	Revenue recognition (1 January 2018)
– IFRS 16:	Leases (1 January 2019)

Alpiq is currently examining the potential effect of these new and amended standards and interpretations. Based on the analysis so far, Alpiq expects the following impact on the consolidated financial statements:

IFRS 9 governs the classification, measurement and impairment of financial instruments as well as hedge accounting. On the one hand, there will be fewer measurement categories for financial assets and some amendments to the recognition of changes in value. On the other hand, the expected credit loss model will have to be applied in future, meaning that anticipated losses have to be recognised in the future as well. Alpiq does not expect these changes to have a significant effect on the consolidated financial statements. Alpiq is not affected by the amendments to the recognition of hedge accounting because the method currently used by Alpiq can continue to be used as it is.

IFRS 15 defines when and how much revenues is to be recognised and replaces the rulings previously contained in various standards and interpretations. Alpiq does not expect these to result in any significant changes. For energy transactions, only own use transactions fall within the scope of IFRS 15. The associated revenue recognition will still be recorded at the time of delivery. Once the detailled analyses are complete, Alpiq will decide whether to apply the full retrospective method or the modified retrospective method for first-time adoption.

IFRS 16 regulates the recognition, measurement, presentation and disclosure requirements in the financial statements for leases. The changes mean that the contractual rights and liabilities related to most lease agreements have to be recognised. Potential effects on Alpiq's consolidated financial statements from the future adoption of IFRS 16 are still being examined.

Alpiq has not voluntarily adopted any new or amended standards and interpretations early.

Basis of consolidation

The consolidated financial statements of the Alpiq Ltd. Group comprise the consolidated financial statements of Alpiq Ltd., domiciled in Switzerland, and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intragroup balances, transactions, income and expenses are eliminated in full.

Subsidiaries are entities that are controlled by the Alpiq Ltd. Group, either directly or indirectly. Such entities are consolidated as at the date control was obtained. Companies are deconsolidated or recognised under investments in associates or under financial investments when control over the entity ends.

Investments in partner power plants and other associates in which the Alpiq Ltd. Group has significant influence are included in the consolidated financial statements by applying the equity method.

In accordance with IAS 39, all other investments are recognised at fair value and included in non-current assets as financial investments.

All significant companies included in the consolidation are shown starting on page 35, with an indication of the consolidation method applied and other information.

Foreign currency translation

The consolidated financial statements are presented in Swiss francs (CHF), which is both the functional currency of Alpiq Ltd. and its reporting currency. The functional currency of each entity in the Group is determined by the economic environment in which it operates. Transactions in foreign currencies are recorded in the Group entity's functional currency at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the closing exchange rate on the reporting date. The resultant currency translation differences are recognised in the income statement.

Receivables and loans due from foreign operations for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, part of the entity's net investment in that foreign operation. The resultant translation differences are recognised separately in other comprehensive income as part of the foreign currency translation differences and reclassified from equity to the income statement on disposal of the net investment in the foreign operation.

The assets and liabilities of subsidiaries are translated into Swiss francs at the closing exchange rate at the balance sheet date. Income statement items are translated at the average exchange rates for the reporting period. Currency translation differences are recognised as a separate item in other comprehensive income. On disposal of a subsidiary or loss of control, on disposal of an associate or partner power plant, or the loss of significant influence, the cumulative currency translation differences relating to that subsidiary are recognised in the income statement in the period in which the subsidiary is disposed of, or control ceases.

The following exchange rates were used for currency translation:

Unit	Closing rate at 31 Dec 2016	Closing rate at 31 Dec 2015	Average rate for 2016	Average rate for 2015
1 EUR	1.074	1.084	1.090	1.068
1 GBP	1.254	1.476	1.336	1.471
1 USD	1.019	0.995	0.986	0.963
100 CZK	3.974	4.010	4.033	3.913
100 HUF	0.347	0.343	0.350	0.345
100 NOK	11.819	11.283	11.735	11.950
100 PLN	24.350	25.411	24.989	25.526
100 RON	23.659	23.950	24.277	24.018

Intra-group transactions

Goods and services provided between Group entities are invoiced at contractually agreed transfer or market prices. Electricity generated by partner power plants is invoiced to shareholders at full cost under the existing partner power plants agreements.

Revenue recognition

Energy transactions for the management of the Group's own production portfolio for the purpose of the receipt or delivery of energy in accordance with Alpiq's expected purchase, sale or usage requirements and contracts for physical delivery of energy to customers are recognised as own use transactions pursuant to IAS 39. Accordingly, revenue is recognised gross under net revenue on the delivery date, as well as under energy and inventory costs.

Hedges exceeding the volume of own use transactions arising from the extended management activities of the production portfolio as well as energy transactions concluded for trading purposes with the intention of generating profits from short-term market price volatility constitute derivative financial instruments, and after initial recognition are measured at fair value. Changes in value in such energy transactions are recognised in net revenue applying the net method (net gains and losses from trading).

Income tax expense

Income tax is calculated on taxable earnings using the tax rates that have been enacted by the end of the reporting period. Income tax expense represents the sum of current and deferred income tax.

Deferred taxes are recognised due to the differing recognition of certain income and expense items in the Group's annual internal accounts and the annual tax accounts. Deferred tax arising from temporary differences is calculated applying the balance sheet liability method. Deferred tax is not recognised for differences associated with investments in Group companies, which will not reverse in the foreseeable future, and where the timing of the reversal is controlled by the Group.

Deferred tax assets are recognised when it is probable that they will be realised. Unrecognised tax loss carryforwards are disclosed.

Borrowing costs

Borrowing costs are generally expensed in the period in which they are incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for use are capitalised. Capitalised interest is calculated on the actual amount paid in the period from the date of acquisition or start of construction until the utilisation of the asset.

Discontinued operations and non-current assets held for sale

An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. The asset must be available for immediate sale in its present condition, and the sale must be highly probable within the next 12 months. The same applies to a group of assets and related liabilities, if they are to be disposed of together in a single transaction (disposal group).

The Alpiq Ltd. Group measures non-current assets and disposal groups classified as held for sale at the lower of carrying amount and fair value less costs of disposal. These assets or disposal groups, once classified as held for sale, are no longer depreciated or amortised. The assets and liabilities are presented separately on the balance sheet from the Group's other assets and liabilities.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and any impairment losses. Depreciation is applied straight-line over the estimated useful lives of each class of asset, or to the expiry date of power plant licences. The useful lives of the various classes of assets range as follows:

Buildings	30 – 60 years
Land	only in case of impairment
Power plants	20 – 80 years
Transmission assets	15 – 40 years
Machinery, equipment and vehicles	3 – 20 years
Assets under construction	if impairment is already evident

Obligations to restore land and sites after licence expiry or decommissioning are accounted for individually in accordance with the contract terms. Estimated restoration costs (including decommissioning costs) are included in the cost of acquisition and manufacture, and are recognised as a provision. Replacements and improvements are capitalised if they substantially extend the useful life, increase the capacity or substantially improve the quality of output of assets.

Costs relating to regular and major overhauls are recognised as a replacement in the carrying amount of the item of property, plant and equipment if the recognition criteria for capitalisation are met. Repairs, maintenance and ordinary upkeep of buildings and operating facilities are expensed as incurred.

The carrying amount of an item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected. Any gain or loss arising on disposal of the asset is recognised in the income statement.

The residual value and useful life of an asset are reviewed at least at each financial year-end, and adjusted where required.

Business combinations and goodwill

Business combinations are accounted for by applying the acquisition method. The cost of an acquisition comprises the consideration transferred to acquire the assets, liabilities and contingent liabilities of the acquiree. The consideration is measured as the cash paid, the fair value of the assets transferred, and liabilities incurred or assumed, on the acquisition date. The net assets acquired, comprising identifiable assets, liabilities and contingent liabilities, are recognised at their acquisition-date fair values. Costs incurred in connection with a business combination are expensed as incurred.

Where the Group does not acquire 100 % ownership, non-controlling interests are recognised as a component of consolidated equity. For each business combination, Alpiq measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Non-controlling interests over which the Alpiq Ltd. Group holds options (call options) or has granted options (written put options) are only recognised as non-controlling interests if the exercise price is based on fair value, however. Corresponding call options are recognised at fair value, and corresponding put options at the present value of the exercise price.

The Group treats the acquisition of non-controlling interests as a pure equity transaction. Any difference between purchase consideration and net assets acquired is taken to retained earnings.

Goodwill represents the difference between the cost of acquisition and the fair value of the Group's share of the identifiable net assets acquired. Goodwill and fair value adjustments to net assets are recognised in the acquiree's assets and liabilities, in the acquiree's functional currency. Goodwill is not amortised, but is tested for impairment at least annually. Goodwill may also arise from investments in associates, and corresponds to the difference between the cost of investment and the Group's share of the fair value of the identifiable net assets. Such goodwill forms part of the carrying amount at which the associate is recognised.

Investments in associates and partner power plants

An associate is an entity over which the Alpiq Ltd. Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee, and that is neither a subsidiary nor a joint arrangement. Where appropriate, companies may likewise be accounted for as associates in the consolidated financial statements by applying the equity method, even if the ownership interest is less than 20 %. This applies especially where the Alpiq Ltd. Group is represented in the authoritative decision-making bodies, such as the board of directors, and participates in operating and financial policymaking, or where market-relevant information is exchanged. The equity method is also applied to assess companies over which Alpiq – despite having a related ownership interest of 50 % or greater – has no control, as a result of restrictions in articles of association, contracts and organisational rules. Partner power plants over which Alpiq has no control are classified as associates and accounted for using the equity method.

A joint arrangement is the joint control of a joint venture or a joint operation. Specific delineation is made on the basis of specific rights and duties of the parties involved with respect to the assets, liabilities, income and expenditure associated with the joint arrangement. The assets, liabilities, income and expenses of joint operations are recognised proportionally, whereas joint ventures are included in the consolidated financial statements applying the equity method.

The financial statements of associates and joint arrangements are prepared applying uniform accounting policies as a matter of principle. Companies that apply different accounting standards for the preparation of their local financial statements also prepare statements of reconciliation according to IFRS.

Common control business combinations

A common control business combination is a combination in which all of the business that are to be combined are ultimately controlled by the same party, both before and after the business combination, where this control is not temporary in nature.

In the case of combinations of businesses under common control, the Alpiq Ltd. Group applies the pooling of interests method. The combinations are recognised as of the key date of the transaction in question, without any adjustment made to prior-year figures. The application of the pooling of interests method results in the difference between the payment transferred and the net assets received being booked directly to equity by the buyer as well as by the seller. The Alpiq Ltd. Group reports these equity effects as "Effects of common control business combinations". The inflows of funds resulting from such transactions are stated as a separate item under income from investment activities.

Transfer of investments in associates and joint arrangements

Transfer of investments in associates and joint arrangements between companies under common control are accounted for using the pooling of interest method, equal to the accounting treatment of common control business combinations.

Intangible assets

Intangible assets are initially measured at cost, and are subsequently carried at cost less any accumulated amortisation and impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised straight-line over their useful economic lives, and assessed for impairment whenever indications exist that they may be impaired. The amortisation period and amortisation method are reviewed at least at each financial year-end.

Energy purchase rights

Energy purchase rights are recognised as intangible assets on the balance sheet. They comprise prepayments for rights to purchase energy in the long-term, including capitalised interest. Write-downs to energy purchase rights are applied in line with the scope of the energy purchases made each year in relation to the total energy purchase quantity agreed contractually.

This item also includes long-term energy purchase agreements acquired in business combinations.

Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are reviewed at least annually to determine whether any indications of impairment exist. In particular, this assessment is performed when changes in circumstances or events indicate that carrying amounts may not be recoverable. If the asset's carrying amount exceeds its estimated recoverable amount, it is written down to its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs of disposal, and its value in use. Value in use is calculated by discounting 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 recoverable amount of the individual asset is estimated for the cash-generating unit to which the asset belongs.

An impairment loss previously recognised for an asset is reversed in the income statement if the impairment no longer exists, or has decreased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised. The annual impairment test is monitored centrally within the Group.

Impairment of goodwill

Goodwill is allocated to the cash-generating units to which the goodwill relates. These generally represent the identifiable regional sales, service and production activities. Goodwill is tested for impairment annually. If the recoverable amount of the cash-generating unit, i.e. the higher of the unit's fair value less costs of disposal and its value in use, is less than the carrying amount, an impairment loss is recognised.

Inventories

Inventories mainly include fuels (gas and coal) to generate electricity, CO2 emission allowances and stocks of materials to produce goods and services. Inventories are stated at the lower of cost (calculated applying the FIFO method or the average cost method) and net realisable value. Cost includes all expenditures incurred in acquiring the inventories and in bringing them to their storage location. Production cost comprises all direct material and manufacturing costs, and those overheads that have been incurred in bringing the inventories to their present location and condition.

Accounting for CO2 emission allowances

Allocated CO2 emission allowances are initially recognised at nominal value (nil value). CO2 emission allowances purchased to meet the Group's generation requirements are initially recognised under inventories at cost. A liability is recognised when CO2 emissions exceed the emission allowances that were allocated originally, plus those purchased subsequently. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held. The portion exceeding the CO2 emission allowances held is recognised at fair value at the reporting date. Changes in the liability are recognised as energy costs.

Emission allowances held for trading (to optimise the energy portfolio, for example) are measured at fair value at the reporting date, and recognised under inventories.

Leases

Under IAS 17, leases are classified as either finance or operating leases. Transactions that substantially transfer all the risks and rewards incidental to ownership of the leased item to the Alpiq Ltd. Group as the lessee, and where it consequently acquires economic ownership, are treated as finance leases. At the start of the lease, the leased asset is capitalised at the lower of its fair value or the present value of the minimum lease payments, and a corresponding liability is recognised. The finance lease liabilities are reported on the balance sheet under current and non-current financial liabilities.

The leased asset is depreciated over its useful economic life. If it is insufficiently certain at the start of the lease that the Alpiq Ltd. Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and the asset's useful life. In subsequent periods, the liability is recognised applying the effective interest method.

All other leases that do not substantially transfer all the risks and rewards of ownership to the Alpiq Ltd. Group are treated as operating leases, and are not recognised on the balance sheet. The lease payments are expensed straight-line over the lease term. In total, operating leases held by the Alpiq Ltd. Group are currently immaterial.

Provisions

Provisions cover all (legal or constructive) obligations arising from past transactions or events that are known at the balance sheet date and likely to be incurred, but are uncertain as to timing and/or amount. Provisions are measured at the best estimate of the expenditure required to settle the obligation.

Provisions are measured at the level of the expected cash outflow, discounted to the balance sheet date. Provisions are reviewed at each reporting date, and adjusted to reflect current developments. The discount rates applied are pretax rates that reflect current market assessments of the time value of money and risks specific to the liability.

Pension schemes

The Group operates a number of pension schemes as required by law.

Swiss consolidated Group companies in the Generation, Commerce & Trading business divisions, as well as in the Group Centre, participate in a legally independent pension scheme which meets the criteria of a defined benefit plan in accordance with IAS 19.

Employees of foreign subsidiaries are generally covered by state social security schemes, or independent defined contribution pension plans in accordance with national practices. These plans meet the criteria of a defined contribution plan according to IAS 19.

The defined benefit obligation is calculated annually by independent pension experts using the projected unit credit method. This accrued benefit method prorated on service recognises not only the known benefits and benefits accrued at the reporting date, but also expected future salary and pension increases. Generation tables are used in order to reflect mortality rates. These are based on the latest mortality data from pension funds, and take account of future changes in mortality over time. The discount factor applied, or as the case may be, the projected interest rate for retirement assets, is based on the market yields on high quality corporate bonds on the reporting date. The net interest result is recognised directly in finance costs / income; any remaining employee benefit costs are included in employee costs. Actuarial gains and losses are recognised in other comprehensive income as part of equity in the period in which they occur. Past service costs are recognised directly in the income statement as employee costs.

All plans are funded by both employer and employee contributions, as a rule. Employer contributions paid or owed to pension schemes that provide defined contribution pension plans are recognised directly in the income statement.

Share-based payments

The Alpiq Ltd. Group generally settles share-based payments in cash. Cash-settled share-based payments are measured at fair value on each balance sheet date applying a recognised valuation model. The expense is recognised in the income statement over the vesting period, with a corresponding liability also being recognised.

Contingent liabilities

Potential or existing liabilities for which an outflow of resources is not considered probable are not recognised on the balance sheet.

Financial instruments

Financial instruments include cash and cash equivalents, term deposits, investments in securities, derivative financial instruments, financial investments, receivables and current and non-current financial liabilities.

Financial assets and liabilities

In accordance with the applicable rules under IAS 39, financial assets and liabilities are classified as follows, and measured uniformly according to their classification:

– Financial assets or liabilities at fair value through profit or loss
– Loans and receivables,
– Available-for-sale financial assets
– Other financial liabilities

Financial assets and liabilities are initially recognised at fair value (plus or less transaction costs, respectively, except in the case of assets or liabilities at fair value through profit or loss). Purchases and sales of financial assets at normal market conditions are recognised on the trade date.

Financial assets or liabilities at fair value through profit or loss

Financial assets classified as held for trading are acquired principally for the purpose of generating a profit from short-term price fluctuations. Derivatives are also classified as assets or liabilities held for trading. In addition, financial assets or liabilities can be included in this category if the IAS 39 criteria are met.

After initial recognition, derivative financial instruments held for trading in the energy business are carried at fair value, with fair value changes being recognised in net revenue in the period in which they occur. For a few positions where no quoted price in an active market is available, fair value is determined using a price curve model. Other derivatives held for trading and other financial instruments designated in this category are subsequently recognised at fair value, with fair value changes being recognised in finance income or finance costs.

Financial investments where investment and disposal decisions are based on changes in fair value are classified as financial assets or liabilities at fair value through profit or loss. This type of allocation is in accordance with the financial risk policy of the Alpiq Ltd. Group.

Loans and receivables

Loans and receivables comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost applying the effective interest method, as a rule. Gains and losses are recognised in the income statement when the financial asset or financial liability is derecognised or impaired.

Liquid assets are also allocated to the loans and receivables category. These comprise cash at banks, cash in postal checking accounts, demand deposits and term deposits with a maturity of 90 days or less on initial recognition.

Receivables are recognised at nominal value, less any valuation allowances required. Trade receivables from and trade payables to the same counterparties are offset, provided that a netting agreement has been reached with the counterparties, and payment is made on a net basis.

Available-for-sale financial assets

All other financial assets are classified as available for sale. Changes in the fair value of items classified as available for sale are recognised in other comprehensive income, and are only transferred to the income statement upon disposal thereof.

Other financial liabilities

These liabilities include current and non-current payment obligations, which are stated at amortised cost, as well as accruals and deferred income.

Impairment and uncollectibility of financial assets

The Group assesses on each reporting date whether any objective evidence exists that a financial asset or a group of financial assets has become impaired.

For assets carried 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. The amount of any loss is recognised in the income statement. An impairment loss previously recognised for an asset is reversed through the income statement if the impairment no longer exists, or has decreased. An impairment loss is reversed only if the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised.

For assets carried at 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 current market rate of return for a similar financial asset. Losses are recognised in the income statement.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, a loss (measured as the difference between acquisition cost and the current fair value) is reclassified from equity and to the income statement. By contrast, with debt instruments, any subsequent reversal of an impairment loss to an equity instrument is not recognised in the income statement.

Hedge accounting

Alpiq uses energy, foreign currency and interest-rate derivatives to hedge exposure to fluctuations in the cash flows of highly probable forecast transactions (cash flow hedges).

Before designating a new hedging instrument, the Group conducts a thorough analysis of the risk situation, describes the effect of the hedging instrument, and documents the objectives and strategy for undertaking the hedge, together with the methods that will be applied to assess and measure its effectiveness on an ongoing basis. The designation of a new hedging instrument is authorised formally. Hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the entire reporting period.

The effective portion of the gain or loss on a hedging instrument is recognised directly in other comprehensive income, while any ineffective portion is recognised immediately in the income statement.

Amounts recognised in other comprehensive income are transferred to the income statement in the period when the hedged transaction affects the income statement.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to the income statement. When the hedging instrument expires, is sold, terminated or exercised without replacement or rollover, or when the hedge no longer meets hedge accounting criteria, amounts previously recognised in other comprehensive income remain in equity as a separate component until the hedged transaction occurs.

Estimation uncertainty

Key assumptions and sources of estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires the management to make estimates and assumptions that affect recognised assets and liabilities and reported income and expenses. Estimates and assumptions are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances. They serve as the basis for the recognition of assets and liabilities whose measurement is not derived from market data. Actual outcomes can differ from such estimates. Estimates and assumptions are reviewed on an ongoing basis. Any revisions to estimates and assumptions are recognised and disclosed in the period in which they are identified.

Impairment of non-current assets

The carrying amount of property, plant and equipment, intangible assets including goodwill and investments in partner power plants and other associates of the Alpiq Ltd. Group amounted to CHF 1.6 billion at 31 December 2016 (previous year: CHF 3.6 billion). These assets are tested for impairment annually. To assess whether an impairment exists, the expected future cash flows are calculated on the basis of historical empirical data and current market expectations. The fair value that is calculated in this manner comprises mainly estimates relating to wholesale prices on European forward markets and forecasts of medium- and long-term energy prices, foreign currencies (especially EUR/CHF and EUR/USD exchange rates), inflation rates, discounting rates, regulatory conditions and investment activities relating to the company. Estimates of external factors are reviewed periodically using external market data and market analyses. Actual results can differ from these estimates, resulting in significant adjustments in subsequent periods.

Provisions

As of 31 December 2016, the carrying amount of the provision for onerous contracts amounted to CHF 365 million (previous year: CHF 590 million). This position covers existing obligations and identifiable risks from the energy trading and sales business at the balance sheet date. The amount of the provision required was calculated based on a likely outflow of resources associated with the performance of the contracts. The valuations are made and reviewed periodically applying the discounted cash flow method over the term of the contractual obligations. Significant valuation inputs that are subject to certain degrees of uncertainty, and can consequently result in some material subsequent adjustments, particularly include assumptions relating to future changes in market prices, long-term interest rates and currency translation effects (EUR into CHF).

Pension schemes

The calculation of the recognised defined benefit liabilities is based on statistical and actuarial assumptions. Such assumptions can differ substantially from actual circumstances due to changes in market conditions and the economic environment, higher or lower exit rates, longer or shorter lives of plan participants and other estimated factors. Such deviations may have an impact on the defined benefit liabilities recognised in future reporting periods.

Transfer of the Swiss high-voltage grid

On 3 January 2013, Alpiq transferred its share in the Swiss high-voltage grid to national grid operator Swissgrid AG based on provisional contribution values. Final measurement will be part of a measurement or purchase price adjustment (second measurement adjustment). To this end, any non-appealable rulings for all proceedings relevant for the measurement must be complete for all former owners of the transmission grid. The final contribution values may deviate from the provisional contribution values. The duration and outcome of the proceedings are still uncertain.

As disclosed in note 7, Alpiq receives higher compensation for transferring its share in the Swiss high-voltage grid on account of the ruling by the Swiss Federal Electricity Commission (ElCom) on the measurement method. The final amount of this additional compensation cannot be determined until the proceedings on the margin differences and the second measurement adjustment are complete. This is expected to result in a further positive effect on earnings for Alpiq.

6 Financial risk management

For full information on financial risk management, please refer to the Annual Report 2016 (pages 91 ff.) of Alpiq Holding Ltd.

7 Changes in subsidiaries and investments

2016: Acquisitions and disposals from common control business combinations

Alpiq made some changes to the group structure with regard to the planned opening of the Swiss hydropower portfolio to investors.

Acquisitions

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in %
Alpiq EcoPower France S.A.S.	Toulouse/FR	EUR	0.47	100.0 %
Alpiq Grid Beteiligungs AG	Olten	CHF	0.10	24.1 %
Alpiq InTec Italia S.p.A.	Milan/IT	EUR	7.60	51.0 %
Eole Jura SA	Muriaux	CHF	4.00	30.0 %
ETRANS AG	Laufenburg	CHF	7.50	14.5 %
Kernkraftwerk Leibstadt AG	Leibstadt	CHF	450.00	5.0 %
Xamax AG	Olten	CHF	0.20	100.0 %

Disposals

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in %
Alpiq Hydro Aare AG	Boningen	CHF	53.00	100.0 %
Alpiq Suisse AG	Lausanne	CHF	145.00	20.0 %
Electra-Massa AG	Naters	CHF	20.00	11.5 %
Electricité d'Emosson SA	Martigny	CHF	140.00	50.0 %
Energie Electrique du Simplon SA (E.E.S.)	Simplon	CHF	8.00	1.9 %
Engadiner Kraftwerke AG	Zernez	CHF	140.00	22.0 %
HYDRO Exploitation SA	Sion	CHF	13.00	5.0 %
Kraftwerke Gougra AG	Siders	CHF	50.00	54.0 %

The transactions in the context of the common control business combinations in the net amount of CHF 0.8 billion were concluded by granting short-term financial assets.

2016: Acquisition and disposal of companies

Acquisitions

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in %
Alpiq Grid Beteiligungs AG	Olten	CHF	0.10	49.9 %

Disposals

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in %
Alpiq Versorgungs AG (AVAG)	Olten	CHF	50.00	96.7 %
AEK Energie AG	Solothurn	CHF	6.00	38.7 %
Romande Energie Commerce SA	Morges	CHF	15.00	11.8 %

On 3 January 2013, Alpiq transferred its share in the Swiss high-voltage grid to national grid operator Swissgrid AG as part of a share deal. As a result, the two Alpiq grid companies were deconsolidated. On 20 October 2016, the Swiss Federal Electricity Commission (ElCom) passed a new ruling on the measurement method for grids that had already been transferred. Based on an estimate by Alpiq, disposal proceeds of CHF 81 million were recorded under “Other operating income” in the 2016 financial year. The interest components of CHF 14 million were posted to interest income. A payment on account was made in the first quarter of 2017.

Subsidiaries and Investments at 31 December 2016

Power generation, trading, services, sales, supply

	Place of incorporation	Licence expiry	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consoli- dation method	Busi- ness activ- ity	Reporting date
Alpiq Ltd.	Olten		CHF	303.60	100.0	F	SU	31 Dec
Aero Rossa S.r.l.	Aragona/IT		EUR	2.20	100.0	F	G	31 Dec
Alpiq Csepel Kft.	Budapest/HU		HUF	4,930.10	100.0	F	G	31 Dec
Alpiq Csepeli Szolgáltató Kft.	Budapest/HU		HUF	20.00	100.0	F	S	31 Dec
Alpiq Energia Bulgaria Ltd.	Sofia/BG		BGN	0.20	100.0	F	T	31 Dec
Alpiq Energía España S.A.U.	Barcelona/ES		EUR	20.00	100.0	F	SU	31 Dec
Alpiq Energia Italia S.p.A.	Milan/IT		EUR	13.00	100.0	F	SU	31 Dec
Alpiq Energie France S.A.S.	Paris/FR		EUR	14.00	100.0	F	SU	31 Dec
Alpiq Energija BH d.o.o.	Sarajevo/BA		BAM	1.50	100.0	F	T	31 Dec
Alpiq Energija Hrvatska d.o.o.	Zagreb/HR		HRK	0.02	100.0	F	T	31 Dec
Alpiq Energija RS d.o.o. Beograd	Belgrade/RS		RSD	137.75	100.0	F	T	31 Dec
Alpiq Energy Albania SHPK	Tirana/AL		ALL	17.63	100.0	F	T	31 Dec
Alpiq Energy Hellas S.A.	Athens/GR		EUR	0.06	95.0	F	T	31 Dec
Alpiq Energy SE	Prague/CZ		CZK	172.60	100.0	F	T	31 Dec
Alpiq Energy Skopje DOOEL	Skopje/MK		MKD	20.34	100.0	F	T	31 Dec
Alpiq Energy Ukraine LLC	Kiev/UA		UAH	1.16	100.0	F	T	31 Dec
Alpiq Generation (CZ) s.r.o.	Kladno/CZ		CZK	2,975.00	100.0	F	G	31 Dec
Alpiq Hydro Italia S.r.l.	Milan/IT		EUR	0.73	90.0	F	G	31 Dec
Alpiq InTec Italia S.p.A.	Milan/IT		EUR	7.60	51.0	F	S	31 Dec
Alpiq RomEnergie S.R.L.	Bucharest/RO		RON	2.49	100.0	F	SU	31 Dec
Alpiq RomIndustries S.R.L.	Bucharest/RO		RON	4.61	100.0	F	SU	31 Dec
Alpiq Solutions France SAS	Paris/FR		EUR	0.05	100.0	F	SU	31 Dec
Alpiq Turkey Enerji Toptan Satis Limited Sirketi	Istanbul/TR		TRY	7.92	100.0	F	T	31 Dec
Alpiq Vercelli S.r.l.	Milan/IT		EUR	0.01	100.0	F	G	30-Sep
Alpiq Wind Italia S.r.l.	Verona/IT		EUR	0.01	100.0	F	G	31 Dec
Atel Energy Romania S.R.L.	Bukarest/RO		RON	0.18	100.0	F	T	31 Dec
Blenio Kraftwerke AG	Blenio	2042	CHF	60.00	17.0	E	G	30 Sep
EESP European Energy Service Platform GmbH [1]	Berlin/DE		EUR	0.03	50.0	E	SU	31 Dec
En Plus S.r.l.	Milan/IT		EUR	25.50	66.7	F	G	31 Dec
Energie Biberist AG	Biberist		CHF	5.00	25.0	E	G	31 Dec
Enpower 3 S.r.l.	Aragona/IT		EUR	0.04	100.0	F	G	31 Dec
Eole Jura SA	Muriaux		CHF	4.00	30.0	E	G	31 Dec
ETRANS Ltd.	Laufenburg		CHF	7.50	33.3	E	S	31 Dec
Flexitricity Ltd.	Edinburgh/UK		GBP	1.00	100.0	F	S	31 Mar
Kernkraftwerk Gösgen-Däniken AG	Däniken		CHF	350.00 [2]	40.0	E	G	31 Dec
Kernkraftwerk Leibstadt AG	Leibstadt		CHF	450.00	32.4	E	G	31 Dec
Kraftwerk Ryburg-Schwörstadt AG	Rheinfelden	2070	CHF	30.00	13.5	E	G	30 Sep
Kraftwerke Hinterrhein AG	Thusis	2042	CHF	100.00	9.3	E	G	30 Sep
Kraftwerke Zervreila AG	Vals	2037	CHF	50.00	21.6	E	G	31 Dec

Maggia Kraftwerke AG	Locarno	2035/2048	CHF	100.00	12.5	E	G	30 Sep
Kraftwerk Aegina AG	Obergoms		CHF	12.00	50.0	E	G	30 Sep
Nant de Drance SA	Finhaut		CHF	330.00	39.0	E	G	31 Dec
Novel S.p.A.	Milan/IT		EUR	23.00	51.0	F	G	30-Sep
PoProstu Energia Spólka Akcyjna [1]	Warsaw/PO		PLN	0.20	100.0	F	SU	31 Dec
PPC Bulgaria JSCo	Sofia/BG		BGN	1.20	15.0	E	T	31 Dec
Sodexo Energy Services GmbH	Heidelberg/DE		EUR	0.03	51.0	F	SU	31 Dec
Unoenergia S.r.l.	Biella/IT		EUR	0.11	40.0	E	G	31 Dec
Xamax AG	Olten		CHF	0.20	100.0	F	S	31 Dec
3SP S.r.l. [1]	Milan/IT		EUR	0.01	100.0	F	G	31 Dec

1 New company established.
2 Of which CHF 290 million paid in

Holding and finance companies

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consoli-dation method	Busi-ness activ-ity	Reporting date
Alpiq Blue Energy AG	Olten	CHF	1.00	100.0	F	H	31 Dec
Alpiq Ecopower France S.A.S.	Toulouse/FR	EUR	0.58	100.0	F	H	31 Dec
Alpiq Grid Beteiligungs AG	Olten	CHF	0.10	100.0	F	H	31 Dec
Alpiq Italia S.r.l.	Milan/IT	EUR	0.25	100.0	F	H	31 Dec
Alpiq Re (Guernsey) Ltd.	Guernsey/UK	EUR	3.00	100.0	F	S	31 Dec

Business activity

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

Consolidation method

F Fully consolidated
E Equity accounted

Report of the independent Auditor

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To the Management of

Alpiq Ltd., Olten

Zurich, 28 June 2017

Report of the independent auditor on the financial information prepared on sub consolidation level of the Alpiq Ltd. Group

As independent auditor and in accordance with your instructions, we have audited the financial information prepared on sub consolidation level of the Alpiq Ltd. Group, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes ("specified forms" – pages 10 to 36) as of 31 December 2016. These specified forms have been prepared solely for the purpose to enable Alpiq Ltd. Group to present its financial results on sub consolidation level.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and presentation of the specified forms in accordance with the requirements of Alpiq's Financial Accounting Manual (significant accounting policies are summarized on pages 19 to 32), which is designed to comply with International Financial Reporting Standards ("IFRS"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the specified forms that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

Building a better working world

Opinion

In our opinion the accompanying specified forms for the Alpiq Ltd. Group as of 31 December 2016 have been prepared, in all material respects, in accordance with the Alpiq Group Accounting Manual, which is designed to comply with International Financial Reporting Standards (“IFRS”).

Ernst & Young Ltd

Martin Gröli	Mathias Zeller
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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