ALPIQ

2018

Year ended 31 December 2018

Alpiq Ltd. Group

(Part of the Alpiq Group)

2018 Key Financial Figures

Alpiq Ltd. Group

CHF million	% Change 2017-2018 (results of operations)	Results of operations before exceptional items 2018	Results of operations before exceptional items 2017	Results under IFRS 2018	Results under IFRS 2017
Net revenue	−4.3	5,265	5,503	5,210	5,498
Earnings before interest, tax, depreciation and amortisation (EBITDA)	−46.8	115	216	−37	318
Depreciation, amortisation and impairment	17.4	−76	−92	−90	−92
Earnings before interest and tax (EBIT)	−68.5	39	124	−127	226
Net income	−28.4	58	81	−114	148
Number of employees at the reporting date [1]	−20.2			1,352	1,695

1 Full-time equivalents

Contents

Alpiq Ltd. Group Performance and Outlook

Introductory remarks

As announced, the operating business of the Alpiq Ltd. Group in the 2018 financial year was down on the previous year. The lower results are mainly due to the electricity prices from previous years that had been hedged below production costs and which continue to burden Swiss power production. Although prices have increased in the mean-time, the delayed positive impact on earnings will only be visible from 2020 onwards. International power production performed at a constantly profitable level. Optimisation results in Switzerland and Southern Europe boast a clear year-on-year increase, while trading activities in Eastern and South-Eastern Europe were negatively affected by politically distorted markets. The Group-wide focus remains on further reducing costs, increasing efficiency and optimising the structure of the balance sheet.

On 16 May 2019 Alpiq Ltd. for strategic reasons entered into an agreement with Sev.en Zeta a.s. (CZ), which belongs to the Sev.en Energy Group, for the sale of Alpiq Generation (CZ) s.r.o., which holds the two Czech coal-fired power plants, Kladno and Zlín. The sale is subject to the usual conditions for closure, particularly the approval of the Czech competition authorities. Closure is planned for the second half of 2019.

With net revenue before exceptional items of CHF 5.3 billion (down CHF 238 million on the previous year), the Group generated EBITDA before exceptional items of CHF 115 million (down CHF 101 million) and EBIT of CHF 39 million (down CHF 85 million). Also before exceptional items, the net income of CHF 58 million was down on the previous year (down CHF 23 million).

The exceptional items for the financial year 2018 amount to a total of CHF – 174 million before or CHF – 172 million after income taxes. The reduction of the provision relating to the future procurement of energy from the Nant de Drance SA pumped storage power plant, the reduction of the provision in connection with an onerous energy contract abroad and the release of provisions that were no longer required led to positive exceptional items. This was counterbalanced by negative exceptional items such as the fund shares for the decommissioning and waste disposal of the Kernkraftwerk Gösgen-Däniken AG and Kernkraftwerk Leibstadt AG nuclear power plants, which performed negatively on the back of weak developments on the international capital markets. Furthermore, fair value changes of energy derivatives that were entered into in connection with hedges for future power production are not taken into account in the results of operations. These fair value changes do not reflect the operating performance of business activities, because they are economically linked with the changes in value of production plants and long-term purchase contracts. Rising forward prices cause the future production volumes to increase in value and the corresponding hedges to lose value. According to IFRS guidelines, the fair value changes of hedges have to be recognised in the reporting year. As the future production volumes are not measured at fair value and these changes in value cannot therefore be recognised in the reporting year, resulting in a period shift under earnings due to accounting reasons. As Alpiq does not consider these effects, which came to CHF –64 million in 2018, as part of results of operations, fair value changes of energy derivatives in connection with hedges for future power production are therefore classified as exceptional items. The effect was CHF 3 million in the previous year. Other exceptional items relate to costs for the restructuring measures and a package of measures by the PKE Vorsorgestiftung Energie (Swiss defined contribution plan) to ensure its financial balance.

To allow transparent presentation and demarcation of the exceptional items, the consolidated income statement is presented as a pro forma statement, as was also the case in the previous year. The following commentary on the financial performance of the Alpiq Ltd. Group relates to an operational view, in other words, to earnings development before exceptional items.

2018: Consolidated income statement (pro forma statement before and after exceptional items)

			2018			2017
CHF million	Results of operations before exceptional items	Exceptional items [1]	Results under IFRS	Results of operations before exceptional items	Exceptional items [2]	Results under IFRS
Net revenue	**5,265**	**–55**	**5,210**	**5,503**	**–5**	**5,498**
Own work capitalised	4		4	5		5
Other operating income	95		95	106		106
Total revenue and other income	**5,364**	**–55**	**5,309**	**5,614**	**–5**	**5,609**
Energy and inventory costs	–4,985	–87	–5,072	–5,004	123	–4,881
Employee costs	–176	–16	–192	–196		–196
Other operating expenses	–88	6	–82	–198	–16	–214
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**115**	**–152**	**–37**	**216**	**102**	**318**
Depreciation, amortisation and impairment	–76	–14	–90	–92		–92
Earnings before interest and tax (EBIT)	**39**	**–166**	**–127**	**124**	**102**	**226**
Share of results of partner power plants and other associates	–13	–7	–20	16		16
Net finance costs	–7	–1	–8	–30	5	–25
Earnings before tax	**19**	**–174**	**–155**	**110**	**107**	**217**
Income tax expense	39	2	41	–29	–40	–69
Net income	**58**	**–172**	**–114**	**81**	**67**	**148**

1 Includes effects from the performance of the fund shares for the decommissioning and waste disposal of the Kernkraftwerk Gösgen-Däniken AG and Kernkraftwerk Leibstadt AG, fair value changes of energy derivatives that were entered into in connection with hedges for future power production, provisions, impairment losses as well as restructuring costs.

2 Includes effects from the performance of the fund shares for the decommissioning and waste disposal of the Kernkraftwerk Gösgen-Däniken AG and Kernkraftwerk Leibstadt AG, fair value changes of energy derivatives that were entered into in connection with hedges for future power production, provisions, impairment losses as well as restructuring costs.

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

As announced, the Alpiq Ltd. Group generated results of operations that were down on the previous year within a market environment that remains challenging. Power production in Europe as well as the energy trading, industrial, large-customer and retail business in Southern and Western Europe were very successful. Power production in Switzerland is operating at a loss on account of the aforementioned delayed effects from hedges.

Generation

The Generation Switzerland business division concentrates on the production of electricity from Swiss hydropower and nuclear power. The power plant portfolio includes run-of-river power plants, storage and pumped storage power plants using hydropower as well as interests in Kernkraftwerk Gösgen-Däniken AG and Kernkraftwerk Leibstadt AG. Moreover, the business division manages shares in HYDRO Exploitation SA and Kernkraftwerk-Beteiligungsgesellschaft AG (KBG).

The Thermal Power Generation business unit produces electricity and heat in thermal power plants in Czechia, Hungary, Italy and Spain. The power plant portfolio is made up of highly efficient gas-fired combined-cycle power plants, quick-start gas-fired turbines and brown coal power plants. These highly flexible power plants are used by the respective grid operators in all four countries to balance the grids. Power is sold on the European electricity trading market via Digital & Commerce or third parties.

The EBITDA contribution of the Generation Switzerland business division was down year-on-year, as announced. The main reasons for this are the negative effects relating to hedging prices from previous years, which are below the level of production costs. In order to protect itself against price and currency fluctuations, Alpiq systematically hedges against such fluctuations in advance for future periods on a rolling two- to three-year basis on average. This is customary sector practice in terms of the risk-bearing capacity. The increased CO2 and electricity prices on the wholesale markets and the stronger euro will have a positive effect on earnings with some delay. The increased production volumes also have a positive influence. In the reporting year, the area of hydropower benefited from higher inflows resulting from greater snow volumes last winter and the warm weather in spring. Production volumes in the area of nuclear energy closed on a par with the previous year. While on the one hand, the expiring long-term purchase agreements had a negative effect, on the other hand, the unscheduled extension of the maintenance work at the Leibstadt nuclear power plant was shorter in the reporting year. The positive volume effect compared to the previous year, the new market premium in 2018 and lower costs were not able to compensate for the negative price effect.

The EBITDA contribution of the Thermal Power Generation business unit is down on the previous year, but still made a significant contribution to the Alpiq Ltd. Group's results of operations. They generated good results from grid services thanks to continuous investments in making the plants more flexible. However, the positive development of grid services was not able to compensate for the negative price effects and the higher costs.

Digital & Commerce

The Digital & Commerce business division comprises the optimisation of the company's own power plants, decentralised generation units and power production from renewable energies from third parties as well as the trading and marketing of standardised and structured products to fulfil the various customer requirements in Europe. The dynamic changes in a complex environment are creating opportunities for completely new service-oriented business models in a digitalised energy landscape. Alpiq will leverage the potential of this growth market of the Internet of Things as well as artificial intelligence and self-learning algorithms and selectively expand the business across Europe.

Electricity prices on the forward markets rose in most countries in comparison to the previous year. This was primarily supported by the sharp increase of EUR 15 / t for emission allowances between December 2017 and September 2018, peaking in mid-September 2018 at over EUR 25 / t. This was partly attributable to the fact that the volume of allowances to be placed in the market stability reserve from 1 January 2019 was announced over the course of the year and partly to the fact that several auctions for German allowances were shifted to the following year, which resulted in continuously higher prices. Volatility was significantly higher in the final quarter of the year, mainly as a result of the cloudy economic prospects and tension surrounding the uncertain outcome of the Brexit negotiations. The prolonged period of dry weather in the summer and autumn months buoyed prices. The split of the price zone Germany / Austria in the fourth quarter of the year meant that there was a large discrepancy in individual country prices in the winter months. Prices in France, Switzerland, Italy and Spain rose by approximately 10 %. The largest increases were seen in Poland and Scandinavia. Alpiq systematically hedges its energy production against price and currency fluctuations for future periods in advance on a rolling two- to three-year basis on average. The delayed positive impact on Alpiq's earnings from increased electricity prices and exchange rates will therefore only be visible from 2020 onwards.

The EBITDA contribution of the Digital & Commerce business division was on a par with the previous year. Optimisation results in Switzerland and Southern Europe boast a clear year-on-year increase. The main contributors here are the optimisation measures in Italy and the optimisation of the hydropower and nuclear portfolio in Switzerland, while optimisation measures in Spain were down slightly on the previous year. Sales on the French market were extremely successful and closed at a significantly higher level than the previous year, whereas results from managing the gas portfolio were lower. In France, Alpiq won an award as the electricity supplier with the best service for large business consumers. Trading activities in Eastern and South-Eastern Europe were down considerably on the previous year; corrective measures have already been initiated. The lower result was influenced in particular by the phase-out of activities in Romania, risk-averse trading in Turkey on the back of the political situation as well as market distortion in Poland.

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

Total assets amounted to CHF 6.2 billion at the 31 December 2018 reporting date, compared with CHF 6.3 billion at the end of 2017. Non-current assets decreased by around CHF 200 million on the previous year. Property, plant and equipment and intangible assets decreased as a result of regular amortisation, depreciation and impairment losses. The secured bank guarantee, which was held to secure the amount stipulated by ANAF (Agenția Națională de Administrare Fiscală) in connection with a tax assessment in Romania, was reduced following a decision on the appeal issued in June 2018. Current assets are up on the previous year due to the increase in positive replacement values of derivatives, which chiefly stems from increased trading activities and greater volatilities in commodity prices. This increase was partly compensated for by the sale of Alpiq InTec Itala S.r.l.

Equity stood at CHF 2.5 billion at 31 December 2018, and is CHF 113 million lower than at the end of 2017. The decrease is mainly attributable to the negative net income and the currency translation effects. This is partly counterbalanced by the effects from hedge accounting and the remeasurement of defined benefit plans (IAS 19). The equity ratio amounted to a solid 41.2 % as at 31 December 2018 (31 December 2017: 42.1 %).

Current and non-current financial liabilities were reduced. Liabilities from defined benefit plans (IAS 19) increased on the previous year as a result of the poor performance of the plan assets and a package of measures by the PKE Vorsorgestiftung Energie to ensure its financial balance. The decrease in other non-current liabilities primarily relates to a reclassification from other non-current liabilities to other current liabilities due to maturity. Current liabilities increased significantly as a result of the increase in liabilities in connection with derivatives.

Cash flow from operating activities declined year-on-year from CHF 359 million to CHF –61 million. In addition to the lower results of operations, the change in the net working capital on the previous year also had a negative effect. The change in net working capital in the previous year contained the payment made by Swissgrid AG in January 2017 of roughly CHF 100 million. Cash flow from investing activities increased year-on-year by CHF 76 million and stood at CHF 104 million. It is shaped by the change in term deposits and current financial assets as well as the assignment of a direct interest of 5,0 % of the share capital in the Leibstadt nuclear power plant to BKW Energie AG. Cash flow from financing activities is mainly characterized by the net repayment of financial liabilities. The Group kept cash outflow to a minimum by a resolution of the Annual General Meeting not to distribute a dividend for the 2017 financial year. Overall, cash and cash equivalents (which in the previous year contained cash and cash equivalents included under "Assets held for sale") decreased by CHF 105 million to CHF 505 million.

Outlook

Alpiq expects results of operations before exceptional items in 2019 to be down on the previous year because recovering wholesale prices will only have a positive effect on earnings with a time lapse as a result of the rolling price and currency hedges. In the medium to long term, Alpiq confirms its assessment that electricity and CO2 prices on the wholesale markets will rise. From 2020 onwards, Alpiq will benefit from the upturn that is now emerging. In its international business, Alpiq currently anticipates stable contributions from the energy trading, large-customer and retail business as well as European power production.

Consolidated Financial Statements of the Alpiq Ltd. Group

Consolidated Income Statement

CHF million	2018	2017 (adjusted)
Net revenue	**5,210**	**5,498**
Own work capitalised	4	5
Other operating income	95	106
Total revenue and other income	**5,309**	**5,609**
Energy and inventory costs	–5,072	–4,881
Employee costs	–192	–196
thereof wages and salaries	–139	–151
thereof pension costs and other employee costs	–53	–45
Other operating expenses	–82	–214
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**–37**	**318**
Depreciation, amortisation and impairment	–90	–92
Earnings before interest and tax (EBIT)	**–127**	**226**
Share of results of partner power plants and other associates	–20	16
Finance costs	–43	–64
Finance income	35	39
Earnings before tax	**–155**	**217**
Income tax expense	41	–69
Net income	**–114**	**148**
Attributable to non-controlling interests	14	8
Attributable to equity investors of Alpiq Ltd.	–128	140

For more information on changes in the presentation of the financial statements, please refer to pages 22 to 24.

Consolidated Statement of Comprehensive Income

CHF million	2018	2017
Net income	**– 114**	**148**
Cash flow hedges (subsidiaries)	50	– 22
Income tax expense	– 11	2
Net of income tax	39	– 20
Cash flow hedges (partner power plants and other associates)	1	1
Net of income tax	1	1
Currency translation differences	– 37	56
Income tax expense		– 2
Net of income tax	– 37	54
Items that may be reclassified subsequently to the income statement, net of tax	**3**	**35**
Remeasurements of defined benefit plans (subsidiaries)	– 14	76
Income tax expense	3	– 15
Net of income tax	– 11	61
Remeasurements of defined benefit plans (partner power plants and other associates)	32	30
Income tax expense	– 6	– 6
Net of income tax	26	24
Items that will not be reclassified to the income statement, net of tax	**15**	**85**
Other comprehensive income	**18**	**120**
Total comprehensive income	**– 96**	**268**
Attributable to non-controlling interests	17	6
Attributable to equity investors of Alpiq Ltd.	– 113	262

Consolidated Balance Sheet

Assets

CHF million	31 Dec 2018	31 Dec 2017
Property, plant and equipment	860	941
thereof land and buildings	108	111
thereof power plants	737	814
thereof transmission assets	6	7
thereof other plant and equipment	4	4
thereof assets under construction	5	5
Intangible assets	63	72
thereof goodwill		1
thereof energy purchase rights	9	17
thereof other intangible assets	54	54
Investments in partner power plants and other associates	904	1,017
Non-current term deposits	144	202
Other non-current assets	1,012	978
thereof loans receivable	862	779
thereof financial investments	1	2
thereof other non-current assets	149	197
Deferred income tax assets	36	20
Non-current assets	**3,019**	**3,230**
Inventories	68	57
Receivables	1,159	1,294
thereof trade receivables	793	966
thereof other receivables	366	328
Current term deposits and financial assets	24	14
Cash and cash equivalents	505	599
Derivative financial instruments	1,309	901
Prepayments and accrued income	95	141
Assets held for sale		82
Current assets	**3,160**	**3,088**
Total assets	**6,179**	**6,318**

Equity and liabilities

CHF million	31 Dec 2018	31 Dec 2017
Share capital	304	304
Share premium	64	64
Retained earnings	2,167	2,313
Equity attributable to equity investors of Alpiq Ltd.	**2,535**	**2,681**
Non-controlling interests	13	– 20
Total equity	**2,548**	**2,661**
Non-current provisions	310	350
thereof provisions for onerous contracts	268	306
thereof provisions for decommissioning own power plants	5	9
thereof provisions for warranties	4	4
thereof other provisions	33	31
Deferred income tax liabilities	177	215
Defined benefit liabilities	46	18
Non-current financial liabilities [1]	433	513
Other non-current liabilities	203	274
Non-current liabilities	**1,169**	**1,370**
Current provisions	50	67
Current financial liabilities [1]	33	83
Other current liabilities	890	1,014
thereof trade payables	595	762
thereof other payables	295	252
Derivative financial instruments	1,233	855
Accruals and deferred income	256	215
Liabilities held for sale		53
Current liabilities	**2,462**	**2,287**
Total liabilities	**3,631**	**3,657**
Total equity and liabilities	**6,179**	**6,318**

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	Attribut-able to equity investors of Alpiq Ltd.	Non-controlling interests	Total equity
Equity at 31 December 2016	**304**	**64**	**– 9**	**– 431**	**2,820**	**2,748**	**– 28**	**2,720**
Net income for the period					140	140	8	148
Other comprehensive income			– 20	57	85	122	– 2	120
Total comprehensive income			**– 20**	**57**	**225**	**262**	**6**	**268**
Effects of common control business combinations				– 3	174	171		171
Dividends					– 500	– 500	– 5	– 505
Change in non-controlling interests							7	7
Equity at 31 December 2017	**304**	**64**	**– 29**	**– 377**	**2,719**	**2,681**	**– 20**	**2,661**
Impact of change in accounting standard (IFRS 9 adoption) [1]					– 5	– 5		– 5
Income taxes on impact of change in accounting standard					1	1		1
Equity at 1 January 2018	**304**	**64**	**– 29**	**– 377**	**2,715**	**2,677**	**– 20**	**2,657**
Net income for the period					– 128	– 128	14	– 114
Other comprehensive income			39	– 39	15	15	3	18
Total comprehensive income			**39**	**– 39**	**– 113**	**– 113**	**17**	**– 96**
Effects of common control business combinations [2]					5	5	– 14	– 9
Dividends							– 4	– 4
Change in non-controlling interests			– 6	– 4	– 24	– 34	34	
Equity at 31 December 2018	**304**	**64**	**4**	**– 420**	**2,583**	**2,535**	**13**	**2,548**

1 For explanations, please refer to pages 21 and 22.
2 For more details, see note 8

Consolidated Statement of Cash Flows

CHF million	2018	2017 (adjusted)
Earnings before tax	**– 155**	**217**
Depreciation, amortisation and impairment	90	92
Change in net working capital (excl. current financial assets/liabilities)	24	213
Share of results of partner power plants and other associates	20	– 16
Financial result	8	25
Other non-cash income and expenses	– 28	– 144
Income tax paid	– 20	– 28
Net cash flows from operating activities	**– 61**	**359**
Property, plant and equipment and intangible assets	– 33	– 28
Subsidiaries		
Common control business combinations [1]		– 6
Proceeds from disposals	– 1	
Associates		
Investments		– 47
Proceeds from disposals	28	1
Other non-current financial assets		
Investments	– 1	– 2
Proceeds from disposals/repayments		9
Change in term deposits and current financial assets	63	52
Dividends from partner power plants, other associates and financial investments	18	19
Interest received	30	30
Net cash flows from investing activities	**104**	**28**
Dividends		– 500
Dividends paid to non-controlling interests	– 1	– 5
Proceeds from financial liabilities	2	27
Repayment of financial liabilities	– 113	– 157
Change in non-controlling interests		
Interest paid	– 24	– 28
Net cash flows from financing activities	**– 136**	**– 663**
Currency translation differences	**– 12**	**25**
Change in cash and cash equivalents	**– 105**	**– 251**
Analysis:		
Cash and cash equivalents at 1 January	610	861
Cash and cash equivalents at 31 December	505	610
Change	**– 105**	**– 251**

1 For more details, see note 8

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

For more information on changes in the presentation of the financial statements, please refer to page 24.

Notes to the Consolidated Financial Statements

1 Impairment losses and provisions

2018: Allocation of impairment losses and provisions

Due to the positive development of electricity prices, no impairment losses had to be recognised on power plants in 2018. 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 5 million. The Group decreased a provision for an onerous contract abroad by CHF 23 million. The smart Energy East business unit operated at a loss in the 2018 financial year. In connection with this and the future profitability forecasts for trading activities in the Eastern and South-Eastern European markets, the decision was taken to merge the business units in the East and West into the Digital & Commerce business division. As a result, the goodwill of CHF 1 million allocated to the trading and sales activities in Eastern and South-Eastern Europe (Digital & Commerce business division) had to be written off in full.

2017: Allocation of impairment losses and provisions

The company did not have to recognise any impairment losses on power plants as expected electricity prices have not decreased further since the end of 2016. The hourly profile of low electricity prices is slightly more volatile than in previous periods, from which the highly flexible pumped storage power plants in particular benefit. 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 54 million. The Group had to increase a provision for an onerous contract abroad by CHF 1 million. Furthermore, the Group had to recognise an impairment loss of CHF 4 million in connection with the early return of concession rights in a small-scale hydropower plant in Italy.

2 Financial liabilities

CHF million	Loans payable	Other	Total
Non-current financial liabilities at 31 December 2017	513		513
Current financial liabilities at 31 December 2017	33	50	83
Financial liabilities at 31 December 2017	**546**	**50**	**596**
Proceeds from financial liabilities	2		2
Repayment of financial liabilities	– 63	– 50	– 113
Currency translation differences	– 19		– 19
Financial liabilities at 31 December 2018	**466**	**0**	**466**
Non-current financial liabilities at 31 December 2018	433		433
Current financial liabilities at 31 December 2018	33		33
Maturities			
Within 12 months	33		33
Within 1 - 5 years	360		360
After 5 years	73		73

CHF million	Loans payable	Other	Total
Non-current financial liabilities at 31 December 2016	628		628
Current financial liabilities at 31 December 2016	30	28	58
Financial liabilities at 31 December 2016	**658**	**28**	**686**
Proceeds from financial liabilities	5	22	27
Repayment of financial liabilities	– 157		– 157
Acquisition / disposal of subsidiaries	– 5		– 5
Reclassified to "Liabilities held for sale"	– 10		– 10
Currency translation differences	55		55
Financial liabilities at 31 December 2017	**546**	**50**	**596**
Non-current financial liabilities at 31 December 2017	513		513
Current financial liabilities at 31 December 2017	33	50	83
Maturities			
Within 12 months	33	50	83
Within 1 - 5 years	399		399
After 5 years	114		114

3 Assets held for sale

At the 31 December 2017 reporting date, Alpiq InTec Italia S.p.A. was recognised as "Assets held for sale" due to the intention to sell it.

In the second quarter of 2018, Alpiq Italia S.r.l. sold its participation in Alpiq InTec Italia S.p.A. (51 %) to Alpiq InTec Management AG.

On 30 October 2018, Alpiq announced that it is reviewing the sale of its two Czech coal power plants Kladno and Zlín. However, this did not yet meet the conditions defined by IFRS 5 to classify as "Assets held for sale" at 31 December 2018.

There were therefore no assets classified as held for sale at the 31 December 2018 reporting date.

Assets

CHF million	31 Dec 2018	31 Dec 2017
Property, plant and equipment		1
Intangible assets		4
Investments in partner power plants and other associates		1
Trade and other receivables		63
Current term deposits and financial assets		1
Cash and cash equivalents		11
Prepayments and accrued income		1
Total assets held for sale	**0**	**82**

Liabilities

CHF million	31 Dec 2018	31 Dec 2017
Non-current provisions		2
Deferred income tax liabilities		1
Non-current financial liabilities		10
Other current liabilities		40
Total liabilities held for sale	**0**	**53**

4 Contingent Liabilities

After completing the tax audit on the Bucharest branch of Alpiq Energy SE, Prague, the Romanian tax authority ANAF (Agenția Națională de Administrare Fiscală) issued Alpiq the final decision in September 2017 regarding tax assessment in the amount of RON 793 million or CHF 192 million for value added tax, corporate income tax and penalties (including late payment penalties) for the period of 2010 to 2014. The tax assessment determined by ANAF will be contested on account of its reasoning and the extent of the amount assessed, as Alpiq is firmly convinced that the activities of Alpiq Energy SE in Romania have always been carried out in accordance with the applicable Romanian and European rules and regulations. Alpiq's position is supported by current assessments provided by external legal and tax experts. In the previous year, Alpiq filed an objection with ANAF against the tax assessment. Alpiq received a decision from ANAF at the end of June 2018. In the main proceedings, ANAF supported its own view and dismissed the objection with regard to an amount of RON 589 million or CHF 142 million as being without merit. With regard to an amount of RON 204 million or CHF 49 million, it repealed the decision from the tax audit and ordered a reassessment. In one matter concerning an immaterial amount, ANAF ruled in favour of Alpiq. The decision on the appeal made by ANAF will be contested by Alpiq by making use of all available local and international legal means of appeal. The amount stipulated by ANAF has been secured by a bank guarantee. This came to RON 589 million or CHF 142 million (previous year: RON 793 million or CHF 199 million) at the reporting date. An amount of EUR 130 million or CHF 147 million (EUR 173 million or CHF 202 million) is secured with a pledged bank account, which is disclosed under "Non-current term deposits". Alpiq continues to deem it unlikely that this assessment will result in a negative outcome for the company and has therefore decided not to record a liability for the tax assessment. For disclosures about developments after the reporting date, please refer to note 5.

For information regarding commitments in connection with partner power plants, please refer to note 13 in the Annual Report 2018 (pages 113 ff.) of Alpiq Holding Ltd.

5 Events after the reporting period

On 29 January 2019, the Supreme Court in Bucharest decided that ANAF's tax assessment of RON 589 million or CHF 142 million is not enforceable until a court decision has been reached. The endorsement of Alpiq's request means that the amount stipulated by ANAF no longer has to be secured by a bank guarantee and the money pledged for this purpose is again freely available for Alpiq to use. The bank guarantee and pledged bank account were rescinded on 14 February 2019. For more information about this matter, please refer to note 4.

On 16 May 2019, Alpiq Ltd. entered into an agreement with Sev.en Zeta a.s. (CZ), which belongs to the Sev.en Energy Group, for the sale of Alpiq Generation (CZ) s.r.o., which holds the two Czech coal-fired power plants, Kladno and Zlín. Sev.en Energy is paying a purchase price of around EUR 280 million (around CHF 310 million), which will result in an estimated net inflow of cash and cash equivalents of around EUR 250 million (around CHF 280 million) to Alpiq upon closure. The impact on consolidated equity of Alpiq Ltd. Group is around EUR –180 million (around CHF –200 million). The sale is subject to the usual conditions for closure, particularly the approval of the Czech competition authorities. Closure is planned for the second half of 2019.

6 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 17 June 2019.

Adoption of new and revised accounting standards

At 1 January 2018, the following amendments to the International Financial Reporting Standards (IFRS) applied by the Alpiq Ltd. Group entered into force:

– IFRS 9: Financial Instruments
– IFRS 15: Revenue from Contracts with Customers
– IFRIC 22: Foreign Currency Transactions and Advance Consideration

The impact of the first-time application of IFRS 9 and IFRS 15 on the consolidated financial statements is detailed below. IFRIC 22 has no significant impact on the Alpiq Ltd. Group.

IFRS 9: Financial Instruments

The Alpiq Ltd. Group adopted IFRS 9 for the first time at 1 January 2018. The new standard governs the classification and measurement of financial instruments as well as hedge accounting.

Classification and measurement

IFRS 9 introduces a new classification and measurement model that takes into account the cash flows, the business model and other characteristics of financial instruments. IFRS 9 has reduced the number of measurement categories for financial assets by eliminating the measurement category “Available-for-sale financial assets”. The classification of the existing instruments using the new model was performed at the time of the first-time application at 1 January 2018. The new differentiation is made between the following measurement categories:

- Financial assets / liabilities at amortised cost
- Financial assets / liabilities at fair value through profit or loss

For the measurement of financial assets, the method used for the calculation of impairment losses was converted from the incurred credit loss model to the expected credit loss model. This means that loss allowances are recognised earlier. For more information, please refer to page 34. At the time of the first-time application of IFRS 9 at 1 January 2018, additional loss allowances on trade receivables in the amount of CHF 1 million and on term deposits in the amount of CHF 4 million were recognised in the opening balances.

In accordance with the transitional provisions of IFRS 9, no adjustments were made to the figures of the comparative period. Instead, differences of CHF 5 million were recognised between the carrying amount of financial instruments pursuant to IAS 39 and the carrying amount pursuant to IFRS 9 in the opening balance of retained earnings at 1 January 2018. The tax effect of CHF 1 million was recognised in the form of a decrease in deferred tax liabilities with the same date in the opening balance. The loss allowances recognised on other financial assets due to the first-time application of IFRS 9 are immaterial.

IFRS 15: Revenue from Contracts with Customers

The Alpiq Ltd. Group adopted IFRS 15 at 1 January 2018. The new standard defines when and how much revenue is to be recognised and replaces the rulings previously contained in various standards and interpretations. For energy transactions, only own use transactions fall within the scope of IFRS 15. The accounting policies relating to revenue recognition can be found on pages 26 and 27.

Effect from the first-time application of IFRS 15 on the consolidated financial statements

Alpiq has opted for full retrospective application of IFRS 15 in accordance with the transitional provisions. According to this method, the comparative figures are adjusted as if IFRS 15 had already been applied beforehand.

The new principal / agent regulations meant that certain transactions that had been recognised on a gross basis in revenue in the 2017 financial statements are disclosed on a net basis in the comparative figures in these financial statements. This mainly relates to transportation costs for energy such as charges for usage of grids not owned by Alpiq. In these cases, Alpiq acts as agent of the grid operator, as it collects these charges from the customer on behalf of the grid operator and passes them on to them. In addition, in some isolated cases, the disclosure of income has been shifted from the "Other operating income" item to the "Net revenue" item.

CHF million	2017 (reported)	Effect of first-time application of IFRS 15	2017 (adjusted)
Net revenue	**5,574**	**– 76**	**5,498**
Own work capitalised	5		5
Other operating income	121	– 15	106
Total revenue and other income	**5,700**	**– 91**	**5,609**
Energy and inventory costs	– 4,972	91	– 4,881
Employee costs	– 196		– 196
Other operating expenses	– 214		– 214
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**318**	**0**	**318**

Otherwise, the application of IFRS 15 did not have any impact on the EBIT, the net income or the balance sheet.

IFRS effective in future periods

The IASB and the IFRIC published the following new standards and interpretations of relevance for Alpiq:

Standard/interpretation	Effective at	Adoption planned from
IAS 19, amendments: Plan Amendment, Curtailment or Settlement	1 Jan 2019	1 Jan 2019
IFRS 9, amendments: Prepayment Features with Negative Compensation	1 Jan 2019	1 Jan 2019
IFRS 16: Leases	1 Jan 2019	1 Jan 2019
IFRIC 23: Uncertainty over Income Tax Treatments	1 Jan 2019	1 Jan 2019
Annual Improvements to IFRSs (2015 - 2017 Cycle)	1 Jan 2019	1 Jan 2019

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

IFRS 16 regulates the recognition, measurement and presentation of leases. The right to use the underlying asset and the lease liabilities representing its obligation to make lease payments from most lease agreements will be recognised in the balance sheet. At 1 January 2019, this amendment increased property, plant and equipment and financial liabilities by around CHF 15 million. The lease payments for the lease agreements concerned will no longer be recognised under "Other operating expenses", but rather as amortisation of lease liabilities. All other things being equal, this means that "Other operating expenses" will decrease by roughly CHF 5 million in 2019. The recognised contractual right-of-use assets are depreciated over the term of the lease. All things being equal, this means that depreciation will increase by roughly CHF 5 million in 2019. Interest expenses from unwinding the discount on lease liabilities will largely compensate for the difference between the items "Other operating expenses" and

"Depreciation and amortisation". As a result, IFRS 16 is not expected to have a significant impact on net income. In the statement of cash flows, the payments for the lease agreements concerned will in future be presented under net cash flows from financing activities and no longer under net cash flows from operating activities. The regulations for lessors under IFRS 16 remain largely unchanged and have no significant effects for the Alpiq Ltd. Group.

IFRIC 23, the Annual Improvements to IFRSs (2015 – 2017 Cycle) and the amendments to IAS 19 and IFRS 9 have no significant impact on the Alpiq Ltd. Group.

Changes in the presentation of the financial statements

Alpiq reviews the presentation of financial reporting in terms of transparency, comprehensibility and accuracy on an ongoing basis. Previous-year figures are adjusted in the case of significant changes or adjustments. In addition to the effects from the first-time application of IFRS 15 mentioned above, the following adjustment was made in these consolidated financial statements compared to the previous year:

Correction of a presentation error in the consolidated statement of cash flows

Alpiq determined that the payments for own work capitalised of CHF 5 million recognised under net cash flows from operating activities should have been allocated to net cash flows from investing activities in accordance with IAS 7. The statement of cash flows for 2017 has been adjusted. As a result, net cash flows from operating activities increased from CHF 354 million to CHF 359 million. Net cash flows from investing activities decreased from CHF 33 million to CHF 28 million. This correction did not impact the consolidated income statement or the balance sheet.

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 at the date control was obtained. Companies are deconsolidated or recognised under "Investments in partner power plants and other 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 IFRS 9, 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 in note 9, 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 reporting 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 as part of the gain or loss on sale 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 2018	Closing rate at 31 Dec 2017	Average rate for 2018	Average rate for 2017
1 EUR	1.127	1.170	1.155	1.112
1 GBP	1.260	1.319	1.306	1.269
1 USD	0.984	0.976	0.978	0.985
100 CZK	4.381	4.583	4.504	4.226
100 HUF	0.351	0.377	0.362	0.359
100 NOK	11.328	11.892	12.031	11.916
100 PLN	26.198	28.015	27.115	26.123
100 RON	24.164	25.120	24.815	24.326

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 agreements.

Revenue recognition

Revenue from energy supply from contracts with customers ("own use exception" pursuant to IFRS 9) is generally recognised over the period agreed for completion of performance. However, for energy supplies, Alpiq has a right to consideration that directly corresponds to the value to the customer of the energy already supplied. For such cases, Alpiq exercises the practical expedient and recognises revenue in the amount that can be billed. In single contracts, Alpiq sells the proportionate right in energy production of a power plant. Revenue from these contracts is recognised over the period that corresponds to the timing of the costs.

Revenue from standing ready to deliver ancillary services is recognised on a straight-line basis over the period in which Alpiq is available to render these services. Revenue for called ancillary services is recognised when it is delivered.

Revenue from other services from contracts with customers is recognised, on the one hand, over the time period over which the performance obligation is satisfied on a straight-line basis. On the other hand, Alpiq applies the following practical expedient: if Alpiq has a right to consideration that directly corresponds to the value to the customer, then revenue is recognised in the amount that can be billed.

Alpiq satisfies most of its performance obligations as principal. For performance obligations that Alpiq satisfies as agent, revenue is recognised net of the corresponding costs. Alpiq acts as agent in all markets for the transmission of energy and for a few other transactions.

The amount of consideration to which Alpiq expects to be entitled to for satisfying its various performance obligations may comprise fixed and variable considerations. Variable considerations are included for estimating the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Contractual penalties – for example, for deviations between the delivered and contractually agreed-upon quantity of energy – represent a variable component in energy sales, which are only included in estimating the transaction price when they are highly probable, which normally can only be determined until towards the end of the delivery period.

Alpiq exercises the practical expedient provided in IFRS 15 and, wherever possible, opts not to disclose the remaining performance obligations at the end of the reporting period. After applying this practical expedient, the remaining performance obligations disclosed at the end of the reporting period are not significant.

Alpiq applies the practical expedient and does not capitalise incremental costs of obtaining a customer contract, as far as these costs would be amortised within one year. Due to the application of this practical expedient, Alpiq did not disclose any significant inventories of such costs in intangible assets.

Income tax expense

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

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.

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	20 – 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 the property, plant or equipment.

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 from the 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. Subsequent market changes from contingent considerations are recognised in the income statement. 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), however, are only recognised as non-controlling interests if the exercise price is based on fair value. 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, or participates in operating and financial policymaking. 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. 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 on a straight-line basis 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. Amortisation of 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 with finite useful lives are reviewed at each reporting date to determine whether any indications of impairment exist. 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.

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.

The annual impairment test is monitored centrally within the Group.

Inventories

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.

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.

Provisions

Provisions cover all (legal or constructive) obligations arising from past transactions or events that are known at the reporting 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 pre-tax 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.

The Group companies in Switzerland 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. The Continuous Mortality Investigation (CMI) model with generation tables as a technical basis is used to reflect mortality rates. Mortality data according to the CMI model is calculated based on a long-term rate of change. 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.

Contingent liabilities

Potential or existing liabilities for which an outflow of resources is not considered probable are not recognised on the balance sheet. However, the nature and extent of contingent liabilities existing on the reporting date is disclosed as a contingent liability in the notes to the consolidated financial statements.

Financial instruments

Financial instruments include financial assets and financial liabilities, which are broken down into the following measurement categories:

– Financial assets/liabilities at amortised cost
– Financial assets/liabilities at fair value through profit or loss

Financial assets / liabilities at amortised cost

With the exception of trade receivables, financial assets and financial liabilities at amortised cost are initially recognised at fair value plus or less direct transaction costs. Trade receivables are measured at transaction price.

The subsequent measurement of financial assets applies the following method to calculate impairments: if there are indications of a higher default risk for specific counterparties (e.g. insolvency), individual impairment losses are recognised on the corresponding financial assets. In addition, due to the application of the expected credit loss model, losses on unsecured financial assets expected in future are also recognised. The impairment losses expected in future are determined using the publicly available probability of default, which takes into account forward-looking information as well as historical probability of default. In accordance with IFRS 9, the simplified approach is applied for trade receivables for the measurement of the expected losses by recognising the lifetime expected credit losses. For other financial assets where the credit risk has not increased significantly since initial recognition, credit losses that are expected to occur in the next 12-month period are recognised. Bonds and loans payable are generally recognised applying the effective interest method at amortised cost.

Financial assets / liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. The corresponding transaction costs are recognised immediately in the income statement.

Changes in value in energy derivatives are disclosed in net revenue in the period in which they occur. Fluctuations in value of securities are recognised through profit or loss in the financial result.

Hedge accounting

Energy, foreign currency and interest rate derivatives are used to hedge exposure to fluctuations in the cash flows of highly probable forecast transactions (cash flow hedges). In contrast to the recognition of energy derivatives, hedge accounting is used for certain foreign currency and interest rate derivatives.

Before designating a new hedging instrument, the Group conducts a thorough analysis of the risk situation by analysing the risk management strategy and objective and defines the relationship between the hedging instrument and underlying transaction. It also ensures that the effectiveness requirements are met at the beginning of the hedging relationship. The formal designation occurs by documenting the hedging relationship. The designation of a new hedging instrument is authorised formally.

The hedge ratio is adjusted if the hedge no longer fulfils the effectiveness requirements but the risk management relationship remains unchanged. The ineffective portion is then reclassified from other comprehensive income to the income statement.

Hedge accounting ends when the qualitative requirements are no longer satisfied. This includes cases where the hedging instrument expires, is sold, terminated or exercised without replacement or rollover. The amounts previously recognised in other comprehensive income remain in equity as a separate component until the hedged transaction occurs. If the future cash flows are no longer expected, amounts previously recognised in other comprehensive income are transferred to the income statement.

Estimation uncertainty and significant judgment

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 amounts may 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.

Revenue recognition

In connection with the recognition of revenue from contracts with customers, there may be significant judgment regarding the timing of when performance obligations are satisfied as well as determining the transaction price and its allocation to performance obligations. A description of areas of judgement can be found under "Revenue recognition".

Impairment of non-current assets

Property, plant and equipment and intangible assets with finite useful lives are reviewed at each reporting date to determine whether any indications of impairment exist. Goodwill is 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 mainly comprises 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, discount 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

Obligations from guarantees and warranties, restructuring, litigation or onerous contracts may arise in the course of the Alpiq Ltd. Group's operating activities. Provisions for such obligations are recognised on the basis of future cash outflows expected at the reporting date. When calculating the need to recognise a provision, assumptions must be made that are subject to a degree of uncertainty, which may then result in some significant adjustments in subsequent periods. In particular, assumptions relating to future changes in market prices, long-term interest rates and currency translation effects (EUR into CHF) may result in significant adjustments in "Provisions for onerous contracts".

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.

Furthermore, in the financial year 2016 Alpiq received 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.

Income tax expense

Assumptions are made based on local legal principles in calculating current income tax. Income taxes that are actually payable may deviate from the values originally calculated, as the definitive assessment is not finalised until years after the end of the reporting period in some cases. Furthermore, the definitive clarification of the taxation issue at the partner power plants in the cantons of Valais and Grisons is still pending. The resulting risks are identified, assessed and recognised where necessary. Deferred tax assets are calculated in part using far-reaching estimates. The underlying forecasts pertain to a period of several years and comprise, among other things, a forecast of future taxable income as well as interpretations of the existing legal basis.

7 Financial risk management

For full information on financial risk management, please refer to the Annual Report 2018 (pages 95 ff.) of Alpiq Holding Ltd.

8 Changes in subsidiaries and investments

2018: Disposals from common control business combinations

In 2018, Alpiq made the following changes to the group structure which were relevant for Alpiq Ltd. Group.

Disposals

	Place of incorporation	Currency	Issued capital in million	Direct ownership interest in %
Alpiq InTec Italia S.p.A.	Milan / IT	EUR	7.60	51.0
Blenio Kraftwerke AG	Blenio	CHF	60.00	17.0
Kraftwerk Ryburg-Schwörstadt AG	Rheinfelden	CHF	30.00	13.5
Kraftwerke Hinterrhein AG	Thusis	CHF	100.00	9.3
Kaftwerke Zervreila AG	Vals	CHF	50.00	21.6
Maggia Kraftwerke AG	Locarno	CHF	100.00	12.5

Transactions in the context of the common control business combinations in the amount of CHF 82 million were concluded by granting short-term financial assets.

2018: Other changes

At the beginning of February 2018, Alpiq Ltd. and BKW Energie AG (BKW) agreed to terminate an electricity supply contract. Under this contract, BKW had purchased 5.3 % of the electricity generated at the Leibstadt nuclear power plant (KKL) from Alpiq since it was commissioned. In return, Alpiq assigned a direct interest of 5.0 % of the share capital in the KKL to BKW. The contract was closed on 20 September 2018, reducing Alpiq Ltd.'s share in Kernkraftwerk Leibstadt AG to 27.4 %. The posting of this transaction does not have any material impact on the 2018 net income of the Alpiq Ltd. Group

9 Subsidiaries and investments at 31 December 2018

	Place of incorporation	Licence/ agreement expiry	Currency	Issued capital in million	Direct ownership interest in % (voting rights)	Consoli- dation method	Busi- ness activ- ity	Reporting date
Alpiq Ltd.	Olten		CHF	303.60	100.0	F	G/T	31 Dec
Aero Rossa S.r.l.	Milan / 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 Ecopower France S.A.S.	Toulouse / FR		EUR	0.58	100.0	F	H	31 Dec
Alpiq Energia Bulgaria Ltd.	Sofia / BG		BGN	0.20	100.0	F	T	31 Dec
Alpiq Energía España S.A.U.	Madrid / 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	1.62	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	0.56	99.4	F	T	31 Dec
Alpiq Energy SE	Prague / CZ		CZK	172.66	100.0	F	T	31 Dec
Alpiq Energija 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 Italia S.r.l.	Milan / IT		EUR	0.25	100.0	F	H	31 Dec
Alpiq Re (Guernsey) Ltd.	Guernsey / UK		EUR	6,00 [4]	100.0	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	6.61	100.0	F	SU	31 Dec
Alpiq Services CZ s.r.o.	Prague / CZ		CZK	2.50	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 Wind Italia S.r.l.	Milan / IT		EUR	0.01	100.0	F	G	31 Dec
Arclight Ltd. [1]	Olten		CHF	0.10	100.0	F	T	31 Dec
Atel Energy Romania S.R.L.	Bucharest / RO		RON	0.18	100.0	F	T	31 Dec
En Plus S.r.l. [2]	Milan / IT		EUR	25.50	100.0	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
Horizen GmbH	Brühl / DE		EUR	0.03	100.0	F	SU	31 Dec
Kernkraftwerk Gösgen-Däniken AG	Däniken		CHF	350.00 [3]	40.0	E	G	31 Dec
Kernkraftwerk Leibstadt AG	Leibstadt		CHF	450.00	27.4	E	G	31 Dec

	Place of incorporation	Licence/ agreement expiry	Currency	Issued capital in million	Direct ownership interest in % (voting rights)	Consoli- dation method	Busi- ness activ- ity	Reporting date
Kernkraftwerk-Beteiligungsgesellschaft AG (KBG)	Bern	2041	CHF	150.00	33.3	E	G	31 Dec
Nant de Drance SA	Finhaut		CHF	350.00	39.0	E	G	31 Dec
Novel S.p.A.	Milan / IT		EUR	10.00	51.0	F	G	30 Sep
Po Prostu Energia Spólka Akcyjna	Warsaw / PL		PLN	10.20	100.0	F	SU	31 Dec
PPC Bulgaria JSCo	Sofia / BG		BGN	1.20	15.0	E	T	31 Dec
Unoenergia S.r.l.	Biella / IT		EUR	0.11	28.0	E	G	31 Dec
3SP S.r.l.	Milan / IT		EUR	0.01	100.0	F	G	31 Dec

1 Newly founded
2 In the fourth quarter of 2018, Alpiq Energia Italia S.p.A. acquired the tolling-ratio of 33.3 % in En Plus S.r.l. from Eviva S.p.A. Alpiq also exercised the call option in place for this case on the share ratio of 33.3 % held by Eviva S.p.A. in En Plus S.r.l. As at 31 December 2018, Eviva S.p.A. was still listed in the share register of En Plus S.r.l.
3 Of which, CHF 290 million paid in
4 Of which, EUR 3 million paid in

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 Board of Directors of

Alpiq Ltd., Olten

Zurich, 17 June 2019

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

Opinion

In accordance with the terms of our engagement, we have audited the financial information prepared on sub consolidation level of the Alpiq Ltd. and its subsidiaries ("Alpiq Ltd. Group"), which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies ("specified forms"). These specified forms have been prepared solely for the purpose to enable Alpiq Ltd. Group to present its financial results on sub consolidation level.

In our opinion the specified forms (pages 10 to 39) for Alpiq Ltd. Group as of 31 December 2018 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").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the specified forms* section of our report.

We are independent of Alpiq Ltd. Group in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Responsibilities of the Board of Directors for the specified forms
The Board of Directors is responsible for the preparation of the specified forms in accordance with the requirements of Alpiq's Financial Accounting Manual (significant accounting policies are summarized on pages 21 to 36), which is designed to comply with International Financial Reporting Standards ("IFRS") and for such internal control as the Board of Directors determines is necessary to enable the preparation of the specified forms that are free from material misstatement, whether due to fraud or error.

In preparing the specified forms, the Board of Directors is responsible for assessing Alpiq Ltd. Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate Alpiq Ltd. Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the specified forms
Our objectives are to obtain reasonable assurance about whether the specified forms as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these specified forms.

A further description of our responsibilities for the audit of the specified forms is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Ernst & Young Ltd

Martin Gröli
Licensed audit expert
(Auditor in charge)

Max Lienhard
Licensed audit expert

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