2019

Year ended 31 December 2019

Alpiq Ltd. Group

(Part of the Alpiq Group)

2019 Key Financial Figures

Alpiq Ltd. Group

CHF million	Results of operations before exceptional items 2019	2018	% change	Results under IFRS 2019	2018	% change
Net revenue	4,042	5,293	−23.6	4,075	5,238	−22.2
Earnings before interest, tax depreciation and amortisation (EBITDA)	45	115	−60.9	97	−37	> 100.0
Depreciation, amortisation and impairment	−58	−76	−23.7	−306	−90	> 100.0
Earnings before interest and tax (EBIT)	−13	39	> −100.0	−209	−127	−64.6
Net income				−111	−114	2.6

	31 Dec 2019	31 Dec 2018	% change
Total assets (CHF million)	4,602	6,179	−25.5
Total equity (CHF million)	2,488	2,548	−2.4
As % of total assets	54.1	41.2	
Number of employees (full-time equivalents)	1,018	1,352	−24.7

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Alpiq Ltd. Group Performance and Outlook

Introductory remarks

As announced, the operational EBITDA of the Alpiq Ltd. Group in the financial year 2019 is down on the previous year. The climate-friendly Swiss power production exceeded the previous year slightly but still closed the year with a loss, despite the market premium for large-scale hydropower plants in Switzerland. International power production and energy trading delivered particularly good results.

Looking towards an increasingly decarbonised, digitalized and decentralised energy world, Alpiq sold its two Czech brown coal-fired power plants Kladno and Zlín for strategic reasons. Alpiq thus no longer operates any coal-fired power plants. By phasing out coal, Alpiq has reduced the CO2 emissions of its power plant portfolio by more than 60 %.

With net revenue before exceptional items of CHF 4.0 billion (down CHF 1.3 billion on the previous year), Alpiq Ltd. Group generated EBITDA before exceptional items of CHF 45 million (down CHF 70 million) and EBIT before exceptional items of CHF – 13 million (down CHF 52 million).

To measure and present its operating performance, Alpiq also uses alternative performance measures through to the level of "Earnings before interest and tax (EBIT)". Alpiq makes adjustments to the IFRS results for exceptional items, which Alpiq does not consider part of the results of operations. These performance measures do not have a standardised definition in IFRS. This can therefore limit comparability with such measures as defined by other companies. These measures are presented in a pro forma statement in order to give a deeper understanding of how Alpiq's management measures the performance of the Group. However, they are no substitute for IFRS performance measures. In the balance sheet and cash flow statement, Alpiq does not use any alternative performance measures.

The exceptional items for the financial year 2019 amount to a total of CHF – 196 million on EBIT level. Impairments in connection with the sale of the two Czech coal-fired power plants, the resulting loss on sale, the increase in the provision for onerous energy contracts and costs for restructuring measures and litigation are responsible for the negative exceptional items totalling CHF – 345 million. This is counterbalanced by positive exceptional items amounting to CHF 111 million relating to the performance of the fund shares for the decommissioning and waste disposal of the Kernkraftwerk Gösgen-Däniken AG and Kernkraftwerk Leibstadt AG nuclear power plants, which was positive due to the advantageous 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 can therefore not be recognized in the reporting year, this results in a period shift under earnings due to accounting reasons. As Alpiq does not consider these effects, which came to CHF 38 million in 2019, 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.

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.

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

			2019			2018
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	**4,042**	**33**	**4,075**	**5,293**	**– 55**	**5,238**
Own work capitalised and change in costs incurred to fulfil a contract	3		3	4		4
Other operating income	39	2	41	67		67
Total revenue and other income	**4,084**	**35**	**4,119**	**5,364**	**– 55**	**5,309**
Energy and inventory costs	– 3,781	71	– 3,710	– 4,985	– 87	– 5,072
Employee costs	– 165	2	– 163	– 176	– 16	– 192
Other operating expenses	– 93	– 56	– 149	– 88	6	– 82
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**45**	**52**	**97**	**115**	**– 152**	**– 37**
Depreciation, amortisation and impairment	– 58	– 248	– 306	– 76	– 14	– 90
Earnings before interest and tax (EBIT)	**– 13**	**– 196**	**– 209**	**39**	**– 166**	**– 127**
Share of results of partner power plants and other associates			– 8			– 20
Finance costs			– 50			– 43
Finance income			42			35
Earnings before tax			**– 225**			**– 155**
Income tax expense			114			41
Net income			**– 111**			**– 114**

1 Includes effects from business disposals as well as 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. While power production in Europe as well as the energy trading, industrial and large-customer business in Southern and Western Europe were successful, power production in Switzerland was operating at a loss on account of the 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 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 EBITDA contribution of the Generation Switzerland business division is higher than in the previous year, but still in deficit. The higher market premium for hydropower is having a positive effect. On the other hand, the extremely high hydraulic inflows resulting from great snow volumes and the warm spring seen in the first half of 2018 were not matched in 2019. In the area of nuclear power, the production volumes were lower compared to the previous year mainly due to long-term purchase contracts which expired in 2018. By contrast, the Leibstadt nuclear power plant recorded higher production in 2019 than in the previous year when the maintenance work had to be extended beyond schedule.

The Thermal Power Generation business unit produces electricity and heat in thermal power plants in Hungary, Italy and Spain. Following the sale of the two coal-fired power plants Kladno and Zlín in Czechia in August 2019, the power plant portfolio contains gas-fired combined-cycle power plants and quick-start gas-fired turbines. Thanks to their high electric efficiency and flexibility, gas-fired combined-cycle power plants are among the most efficient conventional power plants. They contribute to grid stability and offer additional services such as heat for the district heating supply. In addition to short-term power plant scheduling, these flexible power plants are used by the respective grid operators in all three countries to balance the grids. The electricity produced is sold on the European electricity trading market via the Digital & Commerce business division or third parties.

The EBITDA contribution of the Thermal Power Generation business unit is noticeably down on the previous year, but still made a significant contribution to the Alpiq Ltd. Group's result of operations. The lower result was due to three reasons. Firstly, the agreement between the Csepel gas-fired combined-cycle power plant and the Hungarian state energy supply company, MVM, which was due to expire at the end of 2018, could be extended. However, the price had to be renegotiated on the basis of current market conditions and is lower, as expected. Secondly, the acquisition of 33.3 % interest of Eviva in the gas-fired combined-cycle power plant San Severo at the end of 2018 resulted in a loss of income from tolling agreements. Thirdly, the coal-fired power plants Kladno and Zlín were sold and therefore made no contribution to earnings after September 2019.

Digital & Commerce

The Digital & Commerce business division comprises the optimisation of Alpiq's own power plants as well as the optimisation of decentralised generation units and the production of electricity from third parties' renewable energies. The business division also covers trading activities with standardised and structured products for electricity and gas as well as emission allowances and certificates. In addition, the business division focuses on further developing products and services with artificial, self-learning intelligence in order to optimise and connect all energy management systems in future with the help of digitalisation.

The EBITDA contribution of the Digital & Commerce business division was virtually on a par with the previous year. The optimisation in Italy is significantly above the previous year, particularly due to higher income from ancillary services. Together with the positive development from the optimisation measures in Spain, this compensated for the lower results of optimisation of the hydropower and nuclear portfolio in Switzerland. The trading activities in Eastern Europe developed particularly positively in a year-on-year comparison. In the Energy Retail business unit, the expansion into the German and Czech markets was driven forward and the strategy for the French market was developed further. In France, Alpiq was voted best supplier in the French electricity market for industrial customers for the third consecutive time.

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

At 31 December 2019, total assets amounted to CHF 4.6 billion compared to CHF 6.2 billion at the end of 2018. Non-current assets decreased by around CHF 0.7 billion compared to the previous year. For one thing, this is attributable to amortisation and impairment losses and, for another, to the sale of Alpiq Generation (CZ) s.r.o., which holds the two coal-fired power plants Kladno and Zlín. Furthermore, the non-current term deposit was reclassified in full to current assets. This is because the Supreme Court in Bucharest ruled at the beginning of 2019 that the tax waiver imposed by ANAF is not enforceable until a court decision has been reached. Current assets decreased due to declined positive replacement values of derivatives, which chiefly stems from lower commodity prices and changed volatilities.

Equity stood at CHF 2.5 billion at 31 December 2019 and is CHF 60 million lower than at the end of 2018. The negative net income of CHF – 111 million is partially offset by positive other comprehensive income of CHF 51 million. The equity ratio amounted to a solid 54.1 % (31 December 2018: 41.2 %).

Liabilities were reduced by CHF 1.5 billion. Non-current liabilities decreased by around CHF 300 million compared to December 31, 2018. The decrease mainly relates to repayments of loans from Alpiq Holding Ltd., reclassifications from non-current to current financial liabilities and other liabilities due to maturity as well as decreased deferred income tax liabilities as a result of the sale of Alpiq Generation (CZ) s.r.o. In contrast, non-current provisions for onerous contracts increased by CHF 61 million, largely due to the onerous contract relating to the future procurement of energy from the Nant de Drance pumped storage power plant. Current liabilities declined by CHF 1.2 billion mainly because of decreased negative replacement values of derivative financial instruments.

Cash flow from operating activities declined year-on-year from CHF – 61 million to CHF – 107 million. Although the EBITDA was positive at CHF 97 million (previous year: CHF – 37 million), the increase in net working capital had a negative impact on the operating cash flow. Cash flow from investing activities increased by CHF 300 million and stands at CHF 404 million. The sale of Alpiq Generation (CZ) s.r.o and the change in term deposits are mainly responsible for this increase. The funds from the sale were used in particular to further reduce gross debt, as reflected in the cash flow from financing activities, showing a cash outflow of CHF 290 million. Thereof, CHF 274 million was used to repay financial liabilities. Overall, cash and cash equivalents decreased by CHF 9 million to CHF 496 million.

Outlook

2020 is characterised by the COVID-19 pandemic. In the currently challenging environment, the electricity and CO2 prices hedged in Swiss francs are having a positive effect on Alpiq Ltd. Group's earnings in 2020. Intending to strengthen the Energy Strategy 2050, in April 2020 the Swiss Federal Council started the consultation procedures for the revised Energy Act. Expiring funding measures shall be extended and adapted to the competitive environment. Simultaneously, the Swiss Federal Council emphasised its intention to liberalise the electricity market, set the future direction and commissioned the Federal Department of the Environment, Transport, Energy and Communications (DETEC) to prepare specified changes in the Electricity Supply Act. However, the framework conditions for the Swiss energy industry are currently still unfavourable. In the area of hydropower, the Swiss Parliament decided to continue the water tax regime until the end of 2024, which places a disproportionately high burden on hydropower. In the area of nuclear power, in line with the revision of the Swiss Federal Ordinance on the Decommissioning Fund and the Waste Disposal Fund (SEFV) in November 2019, the Swiss Federal Council decided among others to lower the real yield from 2.0 % to 1.6 %. For operating companies Kernkraftwerk Gösgen-Däniken AG and Kernkraftwerk Leibstadt AG, this will result in higher refinancing needs. In the international business, Alpiq generally continues to expect stable contributions from the energy trading and large customer business as well as European electricity production. The impact of the COVID-19 pandemic on Alpiq Ltd. Group cannot be estimated to its full extent yet. Alpiq is part of a climate-friendly energy future and aims to play an active role in shaping it, in Switzerland and Europe.

Consolidated Financial Statements of the Alpiq Ltd. Group

Consolidated Income Statement

CHF million	2019	2018 (adjusted)
Net revenue	**4,075**	**5,238**
Own work capitalised and change in costs incurred to fulfil a contract	3	4
Other operating income	41	67
Total revenue and other income	**4,119**	**5,309**
Energy and inventory costs	–3,710	–5,072
Employee costs	–163	–192
thereof wages and salaries	–129	–139
thereof pension costs and other employee costs	–34	–53
Other operating expenses	–149	–82
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**97**	**–37**
Depreciation, amortisation and impairment	–306	–90
Earnings before interest and tax (EBIT)	**–209**	**–127**
Share of results of partner power plants and other associates	–8	–20
Finance costs	–50	–43
Finance income	42	35
Earnings before tax	**–225**	**–155**
Income tax expense	114	41
Net income	**–111**	**–114**
Attributable to non-controlling interests	1	14
Attributable to equity investors of Alpiq Ltd.	–112	–128

For explanations on changes in presentation, please refer to page 23.

Consolidated Statement of Comprehensive Income

CHF million	2019	2018
Net income	**– 111**	**– 114**
Cash flow hedges (group companies)	42	50
Income tax expense	– 9	– 11
Net of income tax	33	39
Cash flow hedges (partner power plants and other associates)	1	1
Net of income tax	1	1
Currency translation differences	27	– 37
Net of income tax	27	– 37
Items that may be reclassified subsequently to the income statement, net of tax	**61**	**3**
Remeasurements of defined benefit plans (group companies)	2	– 14
Income tax expense	0	3
Net of income tax	2	– 11
Remeasurements of defined benefit plans (partner power plants and other associates)	– 15	32
Income tax expense	3	– 6
Net of income tax	– 12	26
Items that will not be reclassified to the income statement, net of tax	**– 10**	**15**
Other comprehensive income	**51**	**18**
Total comprehensive income	**– 60**	**– 96**
Attributable to non-controlling interests	0	17
Attributable to equity investors of Alpiq Ltd.	– 60	– 113

Consolidated Balance Sheet

Assets

CHF million	31 Dec 2019	31 Dec 2018
Property, plant and equipment	354	860
thereof land and buildings	105	108
thereof power plants	186	737
thereof transmission assets	6	6
thereof other plant and equipment	5	4
thereof assets under construction and prepayments	15	5
thereof right-of-use assets	37	
Intangible assets	48	63
thereof energy purchase rights	7	9
thereof other intangible assets	39	47
thereof assets under development and prepayments	2	7
Investments in partner power plants and other associates	864	904
Non-current term deposits		144
Other non-current assets	962	1,012
thereof loans receivable	862	862
thereof financial investments	1	1
thereof other non-current assets	99	149
Deferred income tax assets	97	36
Non-current assets	**2,325**	**3,019**
Inventories	58	68
Derivative financial instruments	580	1,309
Receivables	942	1,159
thereof trade receivables	616	793
thereof other receivables	326	366
Prepayments and accrued income	187	95
Current term deposits	14	24
Cash and cash equivalents [1]	496	505
Current assets	**2,277**	**3,160**
Total assets	**4,602**	**6,179**

1 Cash and cash equivalents include foreign subsidiaries' bank accounts with a total balance of EUR 36 million, translated CHF 39 million, (previous year: EUR 52 million, translated CHF 59 million), which are pledged in accordance with regulations in local finance agreements and which may only be used to cover their own needs for cash and cash equivalents. These funds are therefore not freely available in full for the Alpiq Ltd. Group.

Equity and liabilities

CHF million	31 Dec 2019	31 Dec 2018 (adjusted)
Share capital	304	304
Share premium	64	64
Retained earnings	2,107	2,167
Equity attributable to equity investors of Alpiq Ltd.	**2,475**	**2,535**
Non-controlling interests	13	13
Total equity	**2,488**	**2,548**
Non-current provisions	359	302
thereof provisions for onerous contracts	329	268
thereof provisions for decommissioning own power plants	5	5
thereof provisions for warranties	1	4
thereof other provisions	24	25
Deferred income tax liabilities	123	177
Defined benefit liabilities	44	46
Non-current financial liabilities	163	433
thereof loans payable	126	433
thereof lease liabilities	37	
Other non-current liabilities	134	203
Non-current liabilities	**823**	**1,161**
Current income tax liabilities	15	19
Current provisions	30	50
Current financial liabilities	34	33
thereof loans payable	29	33
thereof lease liabilities	5	
Other current liabilities	578	879
thereof trade payables	408	595
thereof other payables	170	284
Derivative financial instruments	432	1,233
Accruals and deferred income	202	256
Current liabilities	**1,291**	**2,470**
Total liabilities	**2,114**	**3,631**
Total equity and liabilities	**4,602**	**6,179**

For explanations on changes in presentation, please refer to page 23.

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 1 January 2019	**304**	**64**	**4**	**– 420**	**2,583**	**2,535**	**13**	**2,548**
Net income for the period					– 112	– 112	1	– 111
Other comprehensive income			34	28	– 10	52	– 1	51
Total comprehensive income			**34**	**28**	**– 122**	**– 60**		**– 60**
Equity at 31 December 2019	**304**	**64**	**38**	**– 392**	**2,461**	**2,475**	**13**	**2,488**

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 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 [1]					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 note 3

Consolidated Statement of Cash Flows

CHF million	2019	2018
Earnings before tax	**– 225**	**– 155**
Adjustments for:		
Depreciation, amortisation and impairment	306	90
Gain on sale of non-current assets	– 2	
Share of results of partner power plants and other associates	8	20
Financial result	8	8
Other non-cash income and expenses	59	9
Change in provisions (excl. interest)	33	– 65
Change in defined benefit liabilities and other non-current liabilities	– 11	14
Change in fair value of derivative financial instruments	– 26	21
Change in net working capital (excl. derivatives, current financial assets / liabilities and current provisions)	– 240	24
Other financial income and expenses	– 8	– 7
Income tax paid	– 9	– 20
Net cash flows from operating activities	**– 107**	**– 61**
Property, plant and equipment and intangible assets		
Investments	– 39	– 34
Proceeds from disposals		1
Subsidiaries		
Proceeds from disposals [1]	265	– 1
Associates		
Proceeds from disposals	2	28
Loans receivable and financial investments		
Investments	– 1	– 1
Change in current and non-current term deposits	133	63
Dividends from partner power plants, other associates and financial investments	14	18
Interest received	30	30
Net cash flows from investing activities	**404**	**104**
Dividends paid to non-controlling interests		– 1
Proceeds from financial liabilities	3	2
Repayment of financial liabilities	– 274	– 113
Interest paid	– 19	– 24
Net cash flows from financing activities	**– 290**	**– 136**
Currency translation differences	**– 16**	**– 12**
Change in cash and cash equivalents	**– 9**	**– 105**
Analysis:		
Cash and cash equivalents at 1 January	505	610
Cash and cash equivalents at 31 December	496	505
Change	**– 9**	**– 105**

1 For more details, see note 3

Notes to the Consolidated Financial Statements

1 Impairment losses and provisions

2019: Allocation of impairment losses and provisions

The two sold Czech coal-fired power plants Kladno and Zlín in the Generation International business division had to be impaired by CHF 239 million. For detailed explanations, refer to note 3. In the Digital & Commerce business division, an impairment loss of CHF 7 million had to be recognised in assets under development and of CHF 2 million in other intangible assets, as software cannot be used to the extent originally expected. Furthermore, the provision for onerous contracts had to be increased. The increase mainly relates to two contracts. The provision for the onerous contract relating to the future procurement of energy from the Nant de Drance pumped storage power plant had to be increased by CHF 55 million and the provision for an onerous contract abroad had to be increased by CHF 4 million.

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 former 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 in 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. 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.

2 Contingent liabilities

After the tax audit on the Bucharest branch of Alpiq Energy SE, Prague, in September 2017 the Romanian tax authority ANAF (Agenția Națională de Administrare Fiscală) issued the final tax assessment notice to Alpiq in the amount of RON 793 million or CHF 180 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 is being contested on account of its merits and the amount assessed, as Alpiq is 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. Alpiq filed an objection with ANAF against the tax assessment in 2017. Alpiq received a decision from ANAF at the end of June 2018. In the main matter, ANAF supported its own view and dismissed the objection with regard to an amount of RON 589 million or CHF 134 million as being without merit. With regard to an amount of RON 204 million or CHF 46 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. Alpiq contested the decision on the appeal made by ANAF by making use of the legal means of appeal at its disposal. On 29 January 2019, the Supreme Court in Bucharest decided that ANAF's tax assessment of RON 589 million or CHF 134 million is not enforceable until a first-instance 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, which amounted to EUR 130 million or CHF 147 million at 31 December 2018 and was posted net of expected credit losses (IFRS 9) to the item "Non-current term deposits", is again freely available for Alpiq to use. The bank guarantee and pledged bank account were rescinded on 14 February 2019. On 3 September 2019, the court of appeal in Bucharest also endorsed Alpiq's request that the tax assessment is not enforceable until a last-instance court decision has been reached. This ruling is legally binding. Alpiq is demanding reimbursement of the costs arising from the bank guarantee and other expenses from ANAF and therefore filed a corresponding claim at the court of appeal in Bucharest in autumn 2019. 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 information regarding commitments in connection with partner power plants, please refer to note 4.3 in the Annual Report 2019 (pages 121 ff.) of Alpiq Holding Ltd.

3 Group companies and investments sold

2019

Transactions under common control

In 2019, Alpiq made a change to the group structure which resulted in the following disposal at Alpiq Ltd. Group:

	Place of incorporation	Direct ownership interest in %
Eole Jura SA	Muriaux, CH	30.0

The transaction was concluded at book value of CHF 1 million by granting a short-term loan receivable.

Other changes

The sale of Alpiq Generation (CZ) s.r.o., which holds the two thermal power plants Kladno and Zlín, to Sev.en Zeta a.s. (CZ) was closed on 30 August 2019. The purchaser Sev.en Zeta a.s. (CZ) belongs to the Sev.en Energy Group. The sale price amounted to CHF 280 million, which resulted in a net inflow of cash and cash equivalents of CHF 265 million. Since 15 May 2019, the assets and liabilities of the company have been recognised as "Assets held for sale" or "Liabilities held for sale". The recoverable amount of Alpiq Generation (CZ) s.r.o. was calculated directly before classification as "Assets held for sale" or "Liabilities held for sale". A pre-tax rate of 5.34 % was applied. The measurement resulted in an impairment loss on property, plant and equipment of CHF 186 million. In the first half of 2019, Alpiq updated the assumptions regarding the planning period, which represent a significant basis for calculating the value in use. This also included findings from the binding offer phase of the sales process as well as current development in the area of CO2 prices and the climate discussion in Europe. The impairment loss is largely attributable to the fact that Alpiq on the one hand increased its estimate regarding the future development of CO2 prices and other costs and, on the other, lowered its assumptions regarding the expected term and earnings prospects of the two power plants. Following reclassification, another impairment loss of CHF 53 million was recognised on assets held for sale in order to reduce the carrying amount to the sale price less costs to sell. After reclassification of the cumulative currency translation losses in the amount of CHF 54 million, the transaction resulted in a loss on disposal totalling CHF 53 million. The loss is presented in "Other operating expenses".

2018

Transactions under common control

In 2018, Alpiq made changes to the group structure which resulted in the following disposals at Alpiq Ltd. Group:

	Place of incorporation	Direct ownership interest in %
Alpiq InTec Italia S.p.A.	Milan, IT	51.0
Blenio Kraftwerke AG	Blenio, CH	17.0
Kraftwerk Ryburg-Schwörstadt AG	Rheinfelden, CH	13.5
Kraftwerke Hinterrhein AG	Thusis, CH	9.3
Kaftwerke Zervreila AG	Vals, CH	21.6
Maggia Kraftwerke AG	Locarno, CH	12.5

These transactions in the amount of CHF 82 million were concluded by granting short-term financial assets.

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

4 Significant group companies and investments

Group companies	Place of incorporation	Direct ownership interest in %
Alpiq Ltd.	Olten, CH	100.0
Aero Rossa S.r.l.	Milan, IT	100.0
Alpiq Csepel Kft.	Budapest, HU	100.0
Alpiq Energia Bulgaria EOOD	Sofia, BG	100.0
Alpiq Energía España S.A.U.	Madrid, ES	100.0
Alpiq Energia Italia S.p.A.	Milan, IT	100.0
Alpiq Energie France S.A.S.	Neuilly-sur-Seine, FR	100.0
Alpiq Energy SE	Prague, CZ	100.0
Alpiq Hydro Italia S.r.l.	Milan, IT	90.0
Alpiq Italia S.r.l.	Milan, IT	100.0
Alpiq Retail CZ s.r.o. [1]	Prague, CZ	100.0
Alpiq Retail France S.A.S. [1]	Neuilly-sur-Seine, FR	100.0
Alpiq Services CZ s.r.o.	Prague, CZ	100.0
Alpiq Solutions France S.A.S.	Neuilly-sur-Seine, FR	100.0
Alpiq Wind Italia S.r.l.	Milan, IT	100.0
Arclight Ltd.	Olten, CH	100.0
En Plus S.r.l. [2]	Milan, IT	100.0
Enpower 3 S.r.l.	Milan, IT	100.0
Novel S.p.A.	Milan, IT	51.0
Po Prostu Energia Spólka Akcyjna	Warsaw, PL	100.0

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. At 31 December 2019, Eviva S.p.A. was still listed in the share register of En Plus S.r.l.

Partner power plants and other associates	Place of incorporation	Direct ownership interest in %
Kernkraftwerk Gösgen-Däniken AG	Däniken, CH	40.0
Kernkraftwerk Leibstadt AG	Leibstadt, CH	27.4
Kernkraftwerk-Beteiligungsgesellschaft AG (KBG) [1]	Bern, CH	33.3
Nant de Drance SA	Finhaut, CH	39.0
Unoenergia S.r.l.	Biella, IT	28.0

1 Agreement expires in 2041

Joint venture	Place of incorporation	Direct ownership interest in %
Hydrospider Ltd	Opfikon, CH	45.0

5 Financial risk management

For comprehensive information on financial risk management, please refer to the Annual Report 2019 (pages 99 ff.) of Alpiq Holding Ltd.

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 and SIC) 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 on the accounting principles in accordance with the Alpiq Group Accounting Manual.

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 11 May 2020.

Amendments, standards and interpretations adopted for the first time in 2019

At 1 January 2019, the following amendments to the International Financial Reporting Standards (IFRS) entered into force and were applied by the Alpiq Ltd. Group:

- Amendments to IAS 19 Employee Benefits
- Amendments to IAS 28 Investments in Associates
- Amendments to IFRS 9 Financial Instruments
- IFRIC 23: Uncertainty over Income Tax Treatments
- IFRS 16: Leases
- Annual improvements to IFRSs (2015 – 2017 Cycle)

The annual improvements made to IFRSs in the 2015 – 2017 cycle and the amendments to IAS 19, IAS 28 and IFRS 9 have no significant impact on the Alpiq Ltd. Group.

IFRIC 23: Uncertainty over Income Tax Treatments

The application of IFRIC 23 does not have any effects on the measurement of tax liabilities. Uncertain tax liabilities, which were previously recognised in provisions and at 31 December 2018 amounted to CHF 8 million (31 December 2017: CHF 9 million), were reclassified to “Current income tax liabilities”. The comparative figures from 31 December 2018 were adjusted accordingly. As a result, non-current liabilities decreased by CHF 8 million and current liabilities increased by the same amount. A third balance sheet has not been presented on the grounds of immateriality.

IFRS 16: Leases

The new standard regulates the recognition, measurement and presentation of leases. The Alpiq Ltd. Group applied IFRS 16 for the first time at 1 January 2019 using the modified retrospective approach. As a result, in accordance with the transitional provisions, no adjustments were made to the figures of the comparative period and the corresponding adjustments were recognised in the opening balance sheet at 1 January 2019.

With the introduction of IFRS 16, the lessee no longer makes the distinction between operating leases and finance leases. This means that generally for all leases the right-of-use assets and the liabilities for future lease payments are recognised in the balance sheet. The standard provides for exemptions for short-term and low-value leases, although the Alpiq Group does not make use of them. In the statement of cash flows, at 1 January 2019 lease payments are no longer disclosed as "Net cash flows from operating activities" but instead as "Net cash flows from financing activities" under the items "Repayment of financial liabilities" and "Interest paid".

In connection with the first-time application of IFRS 16, leases that were classified as finance leases under IAS 17 have been reclassified as follows: at 1 January 2019, the carrying amounts of the leased assets and the corresponding finance liabilities have been recognised as new carrying amounts of the right-of-use assets and lease liabilities as of the time of first-time application. This was solely a reclassification within the balance sheet positions "property, plant and equipment" (CHF 27 million) and "financial liabilities" (CHF 32 million) and did not result in any measurement adjustments.

Leases that were classified as operating leases under IAS 17 have also been recognised as right-of-use assets and lease liabilities in connection with the first-time application of IFRS 16. The right-of-use assets have been recognised in the amount of the lease liability, plus any restoration obligations and initial direct costs, adjusted for the amount of prepaid or accrued lease payments recognised in the balance sheet at 31 December 2018. This led to an increase of CHF 16 million in property, plant and equipment at 1 January 2019.

The lease liabilities recognised at 1 January 2019 represent the present value of the future lease payments remaining over the residual term, discounted at a borrowing rate applicable for the country, the term and the currency. The lease obligation relating to operating leases amounted to CHF 17 million as at 1 January 2019.

The introduction of IFRS 16 did not have any significant effects for the Alpiq Ltd. Group as the lessor under operating leases, since the regulations for lessors remain largely unchanged.

IFRSs effective in future periods

Standards and interpretations published by the IASB which will become effective in future periods are disclosed in the Annual Report 2019 (page 85) of Alpiq Holding Ltd.

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. In addition to the effects from the first-time application of IFRIC 23 and IFRS 16 mentioned above, the structure of the notes and line items in some tables have been adjusted to make them more readable and user-friendly. The previous-year figures have been adjusted accordingly. Moreover, transactions between Alpiq Ltd. and Alpiq Suisse Ltd. amounting to CHF 28 million were presented in the line item "Other operating income" last year as in the internal reporting. Since these transactions qualify as revenue in accordance with IFRS 15 this presentation error was corrected. Therefore, net revenue 2018 increased by CHF 28 million and other operating income decrease by such amount. This reclassification did not have any further impact.

Basis of consolidation

The consolidated financial statements of the Alpiq Ltd. Group comprise the consolidated financial statements of Swiss domiciled Alpiq Ltd. and its subsidiaries prepared by using consistent accounting policies. All intragroup balances, transactions, income and expenses are eliminated in full.

Subsidiaries are companies that are controlled by Alpiq Ltd., either directly or indirectly. Such companies are consolidated at the date control is obtained. Companies are deconsolidated or recognised under "Investments in partner power plants and other associates" or under "financial investments" when control over the company is lost.

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. All other investments are recognised at fair value and included in non-current assets as "financial investments".

Transactions under common control

A common control business combination is a combination in which all of the businesses 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 cash flows resulting from such transactions are stated as a separate item under net cash flows 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.

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 company in the Group is determined by the economic environment in which it operates. Transactions in foreign currencies are recorded in the group company'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 company's net investment in that foreign operation. The resulting 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 rate 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 and 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.

Unit	Closing rate at 31 Dec 2019	Closing rate at 31 Dec 2018	Average rate for 2019	Average rate for 2018
1 EUR	1.085	1.127	1.113	1.155
1 USD	0.966	0.984	0.994	0.978
100 CZK	4.272	4.381	4.335	4.504
100 HUF	0.328	0.351	0.342	0.362
100 PLN	25.498	26.198	25.893	27.115
100 RON	22.693	24.164	23.447	24.815

Other accounting policies

Specific accounting policies used for the preparation of the different line items of the income statement, statement of comprehensive income as well as the balance sheet are disclosed in the Annual Report 2019 (pages 90 ff.) of Alpiq Holding Ltd.

Significant estimation uncertainties and judgments

The preparation of the consolidated financial statements requires the management to exercise judgment and make estimates and assumptions. These can significantly affect recognised assets and liabilities, reported income and expenses and disclosures. Estimates and assumptions are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances. Actual amounts may differ from these estimates. Any revisions to estimates and assumptions are recognised and disclosed in the period in which they are identified.

Net revenue

Contractual penalties – for example, for deviations between the delivered and contractually agreed-upon quantity of energy – represent a variable price component in energy sales, which are only included in estimating the transaction price when they are highly probable, which normally can only be determined towards the end of the delivery period. The point in time when such variable price components are recognised requires significant judgment.

Income tax

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. 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.

Non-current assets

The calculation of the useful life, residual value and recoverable amount involves estimates. At every reporting date, a test is performed to determine whether there is any indication that items of property, plant and equipment, intangible assets as well as investments in partner power plants and other associates are impaired. If there is any indication of impairment, the recoverable amount is determined for the asset. 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). This is based on business plans as approved by management for the next three financial years as well as further influencing factors announced after the plans have been approved. These plans are based on historical empirical data as well as current market expectations and therefore contain significant estimation uncertainties and assumptions. These largely relate 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. The estimates made are reviewed periodically using external market data and analyses. To calculate the terminal values, the cash flows were inflated by a growth rate of 2.0 % (previous year: 2.0 %). This growth rate corresponds to the long-term average growth that Alpiq expects and represents a forecast. The discount rates that have been applied reflect the current market estimate for the specific risks to be allocated to the assets and represent a best estimate. Actual results can differ from these estimates, assumptions and forecasts, resulting in significant adjustments in subsequent periods. 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.

Leasing

The determination of the lease term as a basis for the expected future payments may require various estimates from management regarding the future use of the leased asset. Extension options are only taken into account in the contractual term if it is reasonably certain that the option will be exercised. Termination options are only taken into account if it is reasonably certain that the option will not be exercised. Alpiq takes into account all relevant factors that create an economic incentive to exercise the option. Alpiq has internally defined the following limits to determine the contractual term for callable leases with an unlimited term: for buildings, car parks and power plants a maximum of ten years, and for all others such as furniture, IT equipment and vehicles a maximum of two years.

Financial assets and liabilities at amortised cost

Regarding expected credit losses, Alpiq analyses historical credit losses and derives an estimate of expected credit losses taking into account the economic conditions and information obtained externally. The estimates are reviewed and analysed periodically. However, actual results can differ from these estimates, resulting in significant adjustments in subsequent periods.

Provisions and contingent liabilities

The amount of the provisions for onerous contracts depends on various assumptions, relating in particular to the development of wholesale prices on European forward markets and forecasts of medium- and long-term energy prices, long-term interest rates and currency translation effects (EUR to CHF). These assumptions associated with uncertainties are made at the reporting date, some of which can result in significant adjustments in subsequent periods.

Provisions for pending obligations from litigation are based on the information available in each case and the estimate made by management as to the outcome of the litigation. Depending on the actual outcome, the effective cash outflow can differ significantly from the provisions. Details regarding the legal case with the Romanian tax authority ANAF are disclosed in note 2.

Pension schemes

The calculation of the recognised defined benefit liabilities is based on statistical and actuarial assumptions which are disclosed in the Annual Report 2019 (page 145) of Alpiq Holding Ltd. 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 a significant impact on the defined benefit liabilities recognised in future reporting periods.

Compensation for the 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 Ltd 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 depend on proceedings, the duration and outcome of which are still uncertain, and may therefore deviate from the provisional contribution values.

Furthermore, in the 2016 financial year 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 the additional compensation on account of the ruling in 2016 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.

7 Events after the reporting period

On 9 February 2020, the Solothurn electorate accepted the new business tax reform. The canton's implementation of the Federal Act on Tax Reform and Old Age and Survivors' Insurance Funding (TRAF) led to, among other things, the gradual reduction in the effective corporate income tax rate from 21 % to 15 % as of 2022. For the tax period 2020, the effective tax rate amounts to 16 %. At 1 January 2020, the reduction in the effective corporate income tax rate will result in a decrease in net tax liabilities of CHF 29 million. This was not taken into account in the 2019 consolidated financial statements as the changes to legislation had not yet been substantively enacted at the reporting date.

Since the beginning of 2020, Corona Virus (COVID-19) has spread over the world and forced governments to implement strict precautionary measures. COVID-19 has not led to significant restrictions in the operations of Alpiq Ltd. Group yet. The spread and precautionary measures of the governments however have far-reaching global impacts on the economies and as such the macroeconomic environment of Alpiq Ltd. Group. These consequences may materially affect the significant estimation uncertainties disclosed in note 6:

- Recoverable amount of non-current assets
- Provisions for onerous contracts
- Recoverability of deferred tax assets
- Determination of defined benefit liabilities

Furthermore, developments of the financial markets drive the development of decommissioning and waste disposal funds for nuclear power plants which influence future electricity procurement costs. In addition, changes in the markets resulting from the pandemic can have a significant impact on the future valuation of derivative financial instruments.

At the authorisation date of the consolidated financial statements of Alpiq Ltd. Group, the effects from the pandemic on the financial positions, financial performance and financial cash flows cannot be determined yet. The impact will become clearer in the coming months as the crisis evolves.

Report of the independent Auditor

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To the Board of Directors of

Alpiq Ltd., Olten

Zurich, 11 May 2020

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 2019 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 27) for Alpiq Ltd. Group as of 31 December 2019 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.

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 26), 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.

Ernst & Young Ltd

Martin Gröli	Max Lienhard
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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