ALPIQ

2020

Financial Report of the Alpiq Ltd. Group (Part of the Alpiq Group)

Financial Report

Key Financial Figures

CHF million	Results of operations before exceptional items 2020	2019 (adjusted)[1]	% change	Results under IFRS 2020	2019	% change
Net revenue	3,834	4,041	– 5	3,892	4,075	– 4
Earnings before interest, tax, depreciation and amortisation (EBITDA)	207	46	350	236	97	143
Depreciation, amortisation and impairment[2]				– 16	– 306	– 95
Earnings before interest and tax (EBIT)				220	– 209	> 100
Net income				211	– 111	> 100

1 Since 2020, results of operations before exceptional items without e-mobility business. The comparative figures from 2019 have been adjusted.
2 In 2020, including reversals of impairment losses

	31 Dec 2020	31 Dec 2019	% change
Total assets (CHF million)	4,870	4,593	6
Total equity (CHF million)	2,702	2,488	9
As % of total assets	55.5	54.2	
Number of employees (full-time equivalents)	1,139	1,018	12

Financial Review

Introductory remarks

The Alpiq Ltd. Group generated an EBITDA before exceptional items of CHF 207 million in the 2020 financial year, which is up on the previous year as announced. All business divisions made positive contributions to earnings. Swiss power production was up on the previous-year period as expected, on account of the hedged wholesale prices. Despite the phase-out of coal in the previous year, thermal power production closed positively, however, as expected did not reach the previous-year level. Energy trading exceeded the previous year result.

On 9 February 2021, the Swiss Federal Electricity Commission (ElCom) issued rulings on the margin differences in 2011 and 2012 as well as the regulatory values of the plants of the former company Alpiq Grid Ltd. Gösgen and Alpiq Grid Ltd Lausanne at the end of 2012, which have a positive effect on the amount of compensation to be paid for the shares in the Swiss high-voltage grid transferred from Alpiq to Swissgrid Ltd on 3 January 2013. In this context, additional sales proceeds of CHF 39 million and interest of CHF 11 million were recognised in the consolidated financial statements of 2020.

To measure and present its operating performance, Alpiq also uses alternative performance measures through to the level of "Earnings before interest, tax, depreciation and amortisation (EBITDA)". 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 2020 amount to a total of CHF 29 million on EBITDA level. Thereof, CHF 60 million arose from fair value changes of energy derivatives that were entered into in connection with hedges for future power production. 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. The exceptional items recorded in energy and inventory costs amount to CHF - 89 million. Thereof, CHF - 108 million relate to an increase in the provisions for onerous energy contracts. This negative amount was counterbalanced by the positive exceptional item amounting to CHF 20 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. The difference between the return actually generated by the funds and the return budgeted by the nuclear power plants of 2.75 % is classified and recorded as an exceptional item. In 2020, the exceptional items relating to the effects from business disposals are mainly related to the additional compensation for the transfer of Alpiq's share in the Swiss high-voltage grid to national grid operator Swissgrid Ltd back in January 2013. At that time share price was based on provisional contribution values. At present, Alpiq does not have all the information required to provide an accurate calculation of the final compensation amount. Based on the information available, Alpiq used judgments to estimate the fair value of the final compensation amount expected.

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

	2020			2019		
CHF million	Results of operations before exceptional items	Exceptional items[1]	Results under IFRS	Results of operations before exceptional items (adjusted)[2]	Exceptional items (adjusted)[1/2]	Results under IFRS
Net revenue	**3,834**	**58**	**3,892**	**4,041**	**34**	**4,075**
Own work capitalised and change in costs incurred to fulfil a contract	3		3	3		3
Other operating income	38	47	85	39	2	41
Total revenue and other income	**3,875**	**105**	**3,980**	**4,083**	**36**	**4,119**
Energy and inventory costs	– 3,419	– 89	– 3,508	– 3,780	70	– 3,710
Employee costs	– 169	8	– 161	– 164	1	– 163
Other operating expenses	– 80	5	– 75	– 93	– 56	– 149
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**207**	**29**	**236**	**46**	**51**	**97**
Depreciation, amortisation and impairment[3]			– 16			– 306
Earnings before interest and tax (EBIT)			**220**			**– 209**
Share of results of partner power plants and other associates			– 12			– 8
Finance costs			– 36			– 50
Finance income			47			42
Earnings before tax			**219**			**– 225**
Income tax expense			– 8			114
Net income			**211**			**– 111**

1 Includes effects from business disposals as well as the performance of the fund shares for the decommissioning and waste disposal of 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, reversals of impairment losses as well as restructuring costs.
2 Due to Alpiq's decision to no longer pursue the e-mobility business, the EBITDA effects from this business are now classified as exceptional items in internal reporting. The previous year's figures were adjusted to improve comparability. As a result, the Alpiq Ltd. Group's EBITDA before exceptional items increased by CHF 1 million in 2019 from CHF 45 million to CHF 46 million.
3 In 2020, including reversals of impairment losses

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

As announced, the Alpiq Ltd. Group generated results of operations that were up on the previous year due to hedged electricity prices from previous years, higher production volumes and successfully realised market opportunities in trading. Thus, all business divisions present a positive EBITDA contribution.

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, investments in the Gösgen and Leibstadt nuclear power plants as well as the Nant de Drance pumped storage power plant project. 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 no longer in deficit as it was last year. The main drivers of this favourable development are the hedged electricity prices from previous years, which increased compared to the same period in the previous year, strict cost management and high availability of the plants. Higher production volumes compared to the previous year also had a positive influence on earnings.

The Generation International business division comprises power production of wind power plants and small-scale hydropower plants. It also covers the production of electricity and heat in thermal power plants in Hungary, Italy, Spain and, until 30 August 2019, Czechia. The power plant portfolio is made up of gas-fired combined-cycle power plants and gas-fired turbine power plants. Power is sold on the European electricity trading market via the Digital & Commerce business division or via third parties. The power plants are used by the respective grid operators to balance the grids.

The EBITDA contribution of the Generation International business division is down on the previous year, but still made a positive contribution to the Alpiq Ltd. Group's result of operations. On the one hand, income of the Italian wind power plants was below the previous-year level on account of lower production volumes due to weather conditions and lower energy prices. On the other hand the income from thermal power plants primarily decreased as a result of the two Czech brown coal-fired power plants Kladno and Zlín not contributing to earnings anymore. Also, the contribution to earnings of the Spanish gas-fired combined-cycle power plant Plana del Vent was down on the previous year due to unexpected required repairs. By contrast, the thermal plants in Italy recorded an encouraging development. This was partly attributable to increased availability and investments in greater flexibility performed at an earlier stage.

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, it includes direct marketing and energy management for industrial and business customers to help these meet their cost efficiency and sustainability goals. Digital & Commerce specifically utilises digitalisation and technologies such as artificial intelligence, connectivity, the Internet of Things and blockchain to further develop products and services for customer and business partners, always with a view to increasing customer benefits and creating value.

The EBITDA contribution of the Digital & Commerce business division is up on the previous year. Despite the challenging market conditions in connection with the COVID-19 pandemic, market opportunities were successfully leveraged in Asset Trading and Merchant Trading. In the context of the optimisation of the hydropower portfolio in Switzerland and the optimisation in Italy, higher earnings were generated than in the previous year. Optimised trading strategies in Merchant Trading benefited from sharply rising prices. Alpiq continued to invest in the expansion of its industrial and commercial customer business.

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

Overall, the balance sheet shows a very stable and almost unchanged picture compared to the previous year. On the one hand, this is due to the fact that the replacement values of derivatives did not change significantly. On the other hand, there were no major investments / divestments on the asset side and no major changes in the financing structure on the liabilities side.

At 31 December 2020, total assets amounted to CHF 4.9 billion compared to CHF 4.6 billion at the end of 2019. Non-current assets remained at the same level as in the previous year while current assets increased slightly mainly due to higher receivables and current term deposits. Equity stood at CHF 2.7 billion at 31 December 2020 and is CHF 0.2 billion higher than at the end of 2019. With a net income of CHF 211 million and other comprehensive income of CHF 3 million Alpiq Ltd. Group shows a positive result in 2020. Net income in the previous year was about CHF 322 million lower mainly because of depreciation, amortisation and impairment expenses, which, in the current financial year, were largely offset by the reversal of impairments. The equity ratio amounts to a solid 55.5 % as at 31 December 2020 (31 December 2019: 54.2 %). Total liabilities amounted to CHF 2.2 billion and thus are CHF 0.1 billion higher than in the previous year, since provisions and other current liabilities slightly increased.

Cash flows from operating activities increased year-on-year from CHF - 107 million to CHF 120 million. This favourable development was mainly due to the smaller increase in net working capital than in the previous year and improved earnings. While in the previous year the sale of Alpiq Generation (CZ) s.r.o and the change in term deposits were responsible for positive cash flows from investing activities of CHF 404 million, in the current year cash flows from investing activities amount to CHF - 59 million. With the funds from the sale gross debt was reduced resulting in a cash flow from financing activities of CHF - 290 million in the previous year. In the current year total cash flows from financing activities amount to CHF - 39 million reflecting interest payments and repayments of financial liabilities. Overall, cash and cash equivalents increased by CHF 17 million to CHF 513 million.

Outlook

For the 2021 financial year, Alpiq expects positive results of operations that are down on the previous year. While the electricity and CO_2 prices on the wholesale markets hedged in Swiss francs will also have a positive effect on Alpiq's earnings in 2021, the annual results for 2020 contain one-off effects that had an above-average positive influence on earnings. In 2021, an extended overhaul of the Leibstadt nuclear power plant will have a major impact on earnings. Furthermore, the effects of the COVID-19 pandemic cannot yet be fully assessed at present.

In 2020, the path for future growth has been paved. Alpiq has clearly defined its role in a low emission, digital energy future: as an European electricity producer and energy service provider with Swiss roots, we want to and will make a reliable contribution to a better climate and an improved security of supply.

Consolidated Financial Statements of the Alpiq Ltd. Group

Consolidated Income Statement

CHF million	2020	2019
Net revenue	**3,892**	**4,075**
Own work capitalised and change in costs incurred to fulfil a contract	3	3
Other operating income	85	41
Total revenue and other income	**3,980**	**4,119**
Energy and inventory costs	– 3,508	– 3,710
Employee costs	– 161	– 163
thereof wages and salaries	– 132	– 129
thereof pension costs and other employee costs	– 29	– 34
Other operating expenses	– 75	– 149
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**236**	**97**
Depreciation, amortisation and impairment [1]	– 16	– 306
Earnings before interest and tax (EBIT)	**220**	**– 209**
Share of results of partner power plants and other associates	– 12	– 8
Finance costs	– 36	– 50
Finance income	47	42
Earnings before tax	**219**	**– 225**
Income tax expense	– 8	114
Net income	**211**	**– 111**
Attributable to non-controlling interests	1	1
Attributable to equity investors of Alpiq Ltd.	210	– 112

1 In 2020, including reversals of impairment losses

Consolidated Statement of Comprehensive Income

CHF million	2020	2019
Net income	**211**	**– 111**
Cash flow hedges (group companies)	– 16	42
Income tax expense	4	– 9
Net of income tax	– 12	33
Cash flow hedges (partner power plants and other associates)	– 2	1
Net of income tax	– 2	1
Currency translation differences	– 5	27
Net of income tax	– 5	27
Items that may be reclassified subsequently to the income statement, net of tax	**– 19**	**61**
Remeasurements of defined benefit plans (group companies)	12	2
Income tax expense	2	
Net of income tax	14	2
Remeasurements of defined benefit plans (partner power plants and other associates)	12	– 15
Income tax expense	– 4	3
Net of income tax	8	– 12
Items that will not be reclassified to the income statement, net of tax	**22**	**– 10**
Other comprehensive income	**3**	**51**
Total comprehensive income	**214**	**– 60**
Attributable to non-controlling interests	1	
Attributable to equity investors of Alpiq Ltd.	213	– 60

Consolidated Balance Sheet

Assets

CHF million	31 Dec 2020	31 Dec 2019 (adjusted)[2]
Property, plant and equipment	399	354
thereof land and buildings	102	105
thereof power plants	199	186
thereof transmission assets	6	6
thereof other plant and equipment	4	5
thereof assets under construction and prepayments	54	15
thereof right-of-use assets	34	37
Intangible assets	42	48
thereof energy purchase rights	6	7
thereof other intangible assets	30	39
thereof assets under development and prepayments	6	2
Investments in partner power plants and other associates	839	855
Other non-current assets	913	962
thereof loans receivable	862	862
thereof financial investments	1	1
thereof other non-current assets	50	99
Deferred income tax assets	78	97
Non-current assets	**2,271**	**2,316**
Inventories	65	58
Derivative financial instruments	651	580
Receivables	1,095	942
thereof trade receivables	711	616
thereof other receivables	384	326
Prepayments and accrued income	175	187
Current term deposits	100	14
Cash and cash equivalents[1]	513	496
Current assets	**2,599**	**2,277**
Total assets	**4,870**	**4,593**

1 Cash and cash equivalents include foreign subsidiaries' bank accounts with a total balance of EUR 37 million, translated CHF 40 million, (previous year: EUR 36 million, translated CHF 39 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.

2 See "Correction of presentation errors" section in note 6

Equity and liabilities

CHF million	31 Dec 2020	31 Dec 2019 (adjusted)[1]
Share capital	304	304
Share premium	64	64
Retained earnings	2,320	2,107
Equity attributable to equity investors of Alpiq Ltd.	**2,688**	**2,475**
Non-controlling interests	14	13
Total equity	**2,702**	**2,488**
Non-current provisions	453	350
thereof provisions for onerous contracts	429	320
thereof provisions for decommissioning own power plants	5	5
thereof provisions for warranties	1	1
thereof other provisions	18	24
Deferred income tax liabilities	98	123
Defined benefit liabilities	28	44
Non-current financial liabilities	133	163
thereof loans payable	99	126
thereof lease liabilities	34	37
Other non-current liabilities	71	134
Non-current liabilities	**783**	**814**
Current income tax liabilities	14	15
Current provisions	20	30
Current financial liabilities	37	34
thereof loans payable	32	29
thereof lease liabilities	5	5
Other current liabilities	670	578
thereof trade payables	424	408
thereof other payables	246	170
Derivative financial instruments	465	432
Accruals and deferred income	179	202
Current liabilities	**1,385**	**1,291**
Total liabilities	**2,168**	**2,105**
Total equity and liabilities	**4,870**	**4,593**

1 See "Correction of presentation errors" section in note 6

Consolidated Statement of Changes in Equity

CHF million	Share capital	Share premium	Cash flow hedge reserves	Currency translation differences	Retained earnings	**Attributable to equity investors of Alpiq Ltd.**	Non-controlling interests	Total equity
Equity at 1 January 2020	**304**	**64**	**38**	**– 392**	**2,461**	**2,475**	**13**	**2,488**
Net income for the period					210	**210**	1	**211**
Other comprehensive income			– 14	– 5	22	**3**		**3**
Total comprehensive income			**– 14**	**– 5**	**232**	**213**	**1**	**214**
Equity at 31 December 2020	**304**	**64**	**24**	**– 397**	**2,693**	**2,688**	**14**	**2,702**

CHF million	Share capital	Share premium	Cash flow hedge reserves	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**

Consolidated Statement of Cash Flows

CHF million	2020	2019
Earnings before tax	**219**	**– 225**
Adjustments for:		
Depreciation, amortisation and impairment	16	306
Gain on sale of non-current assets		– 2
Share of results of partner power plants and other associates	12	8
Financial result	– 11	8
Other non-cash income and expenses	– 43	59
Change in provisions (excl. interest)	78	33
Change in defined benefit liabilities and other non-current liabilities	– 15	– 11
Change in fair value of derivative financial instruments	– 58	– 26
Change in net working capital (excl. derivatives, current financial assets / liabilities and current provisions)	– 59	– 240
Other financial income and expenses	– 9	– 8
Income tax paid	– 10	– 9
Net cash flows from operating activities	**120**	**– 107**
Property, plant and equipment and intangible assets		
Investments	– 34	– 39
Subsidiaries		
Proceeds from disposals [1]		265
Associates		
Proceeds from disposals		2
Loans receivable and financial investments		
Investments	– 75	– 1
Change in current and non-current term deposits	1	133
Dividends from partner power plants, other associates and financial investments	14	14
Interest received	35	30
Net cash flows from investing activities	**– 59**	**404**

1 See note 3

CHF million	2020	2019
Proceeds from financial liabilities	6	3
Repayment of financial liabilities	– 35	– 274
Interest paid	– 10	– 19
Net cash flows from financing activities	**– 39**	**– 290**
Currency translation differences	**– 5**	**– 16**
Change in cash and cash equivalents	**17**	**– 9**
Reconciliation:		
Cash and cash equivalents at 1 January	496	505
Cash and cash equivalents at 31 December	513	496
Change	**17**	**– 9**

Notes to the Consolidated Financial Statements

1 Impairment losses, reversals of impairments and provisions

2020

In the Generation International business division, impairment losses of CHF 17 million had to be recognised on the assets of the Italian company Alpiq Wind Italia S.r.l. The main reasons behind these impairment losses are forecasts of falling electricity prices and a higher discount rate. The recoverable amount was calculated using a pre-tax discount rate of 6.77 %. On the other hand, Alpiq has recognized a reversal of the impairment losses of CHF 52 million on the thermal power plant San Severo in Italy, which also belongs to the Generation International business division. The profits generated and the future prospects demonstrate that the performance potential has increased for the long term. The recoverable amount was calculated using a pre-tax discount rate of 9.62 %.

The non-current provisions mainly comprise the present value of the onerous contracts in place on the reporting date. The increase relates to two contracts. For one, 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 97 million. This was due to less volatility in the hourly profile, lower short-term and long-term market prices, the still-weak CHF / EUR exchange rate and the fact that the full industrial commissioning of the power plant is now expected at the end of December 2021 and not at the end of September 2021, as assumed last year. For another, lower market prices meant that the Group had to increase a provision for an onerous contract outside Switzerland by CHF 11 million.

2019

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 on this, please 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 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.

2 Contingent liabilities

After the tax audit on the Bucharest branch of Alpiq Energy SE, Prague, the Romanian tax authority ANAF (Agenţia Naţională de Administrare Fiscală) issued the final tax assessment notice to Alpiq in the amount of RON 793 million or CHF 176 million for value added tax, corporate income tax and penalties (including late payment penalties) for the period of 2010 to 2014 in September 2017. 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 131 million as being without merit. With regard to an amount of RON 204 million or CHF 45 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. Multiple hearings concerning this matter were held in 2020. In addition, the independent expert appointed by the court submitted his expert report to the court. However, ANAF made further accusations, which were contested by Alpiq. The next hearing will take place end of May 2021.

On 29 January 2019, the Supreme Court in Bucharest decided that ANAF's tax assessment of RON 589 million or CHF 131 million is not enforceable until a first-instance court decision has been reached. 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. This was partially endorsed in a first-instance ruling and Alpiq was awarded an immaterial amount of compensation for damages due to ANAF's illegal safety measures. The claim for damages will be tried in civil proceedings.

For information regarding commitments in connection with partner power plants, please refer to note 4.3 of the notes to the consolidated financial statements in the Annual Report 2020 of Alpiq Holding Ltd.

3 Group companies and investments sold

2020

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. It was not possible to provide a final calculation of the value of individual assets at this point in time, as proceedings relevant for the measurement were still pending. Furthermore, in the 2016 financial year, Alpiq received higher compensation for transferring its share in the Swiss high-voltage grid on account of the new ruling by the Swiss Federal Electricity Commission (ElCom) on the measurement method.

On 9 February 2021, ElCom issued rulings on the margin differences of the former company Alpiq Grid Ltd. Gösgen and Alpiq Grid Ltd Lausanne in 2011 and 2012. It also issued a ruling on their regulatory values at 31 December 2012. In March 2021, these rulings became legally binding. The second measurement adjustment will be made to offset the remaining difference between the amount already compensated at the transfer date and the amount ordered by the court ruling. In addition, the final value is calculated in accordance with the new ruling in 2016. The calculations for all parties providing in-kind contributions are carried out by the same independent company. Provided that neither Alpiq nor Swissgrid file an appeal against these rulings, Alpiq expects the result of the valuations in the second half of 2021.

At present, Alpiq does not have all the information required to provide an accurate calculation of the final compensation amount. This matter is therefore subject to estimation uncertainty. Based on the information available and considering the fact that the calculations carried out by an independent company are still pending when the 2020 consolidated financial statements are approved by the Board of Directors of Alpiq Ltd., Alpiq used judgments to estimate the fair value of the final compensation amount expected (including interest). In this context, additional sales proceeds of CHF 39 million, including margin differences in 2011 and 2012, were recorded under "Other operating income". Interest components of CHF 11 million were recognised as interest income. The final compensation amount (including interest) will not be known until all calculations have been completed by the independent valuation company. This is expected to result in a further positive effect on earnings for Alpiq.

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 discount rate of 5.34 % was applied. The measurement resulted in an impairment loss on property, plant and equipment of CHF 186 million. 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”.

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 Finland Oy [1]	Vantaa, FI	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.	Prague, CZ	100.0
Alpiq Retail France S.A.S.	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 2020, 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 note 3.1 of the notes to the consolidated financial statements in the Annual Report 2020 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 owned by Alpiq Holding Ltd. The consolidated financial statements were authorised for issue by the Board of Directors of Alpiq Ltd. on 18 May 2021.

Amendments, standards and interpretations adopted for the first time in 2020

At 1 January 2020, the following amendments to the International Financial Reporting Standards (IFRS) entered into force and were applied by the Alpiq Ltd. Group:

- Amendments to the Conceptual Framework for Financial Reporting
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase 1
- Amendments to IFRS 16: COVID-19-Related Rent Concessions (early adopted)

These amendments had no significant impact on the Alpiq Ltd. Group.

IFRSs effective in future periods

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

Standard / interpretation	Effective at	Adoption planned from
Amendments to IFRS 9, IAS 39 und IFRS 7: IBOR Reform and its Effects on Financial Reporting – Phase 2	1 Jan 2021	1 Jan 2021
Amendments to IAS 16: Proceeds before intended Use	1 Jan 2022	1 Jan 2022
Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract	1 Jan 2022	1 Jan 2022
Amendments to IAS 1: Classification of Liabilities as Current or Non-Current	1 Jan 2023	1 Jan 2023
Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	1 Jan 2023	1 Jan 2023
Amendments to IAS 8: Definition of Accounting Estimates	1 Jan 2023	1 Jan 2023
IFRS 17: Insurance Contracts	1 Jan 2023	1 Jan 2023
Amendments to IFRS 10 and IAS 28: Sale of Assets by an Investor or Contribution to their Associate or Joint Venture	indefinite	indefinite

Based on previous analyses, Alpiq does not expect the aforementioned changes in standards to have any significant effect on the consolidated financial statements of the Alpiq Ltd. Group.

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 2020	Closing rate at 31 Dec 2019	Average rate for 2020	Average rate for 2019
1 EUR	1.080	1.085	1.070	1.113
1 USD	0.880	0.966	0.939	0.994
100 CZK	4.116	4.272	4.049	4.335
100 HUF	0.297	0.328	0.305	0.342
100 PLN	23.690	25.498	24.103	25.893
100 RON	22.188	22.693	22.124	23.447

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 2020 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 note 6.3 of the notes to the consolidated financial statements in the Annual Report 2020 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. Furthermore, in the 2016 financial year Alpiq received higher compensation for transferring its share in the Swiss highvoltage grid on account of the ruling by the Swiss Federal Electricity Commission (ElCom) on the measurement method. In March 2021, the rulings on the margin differences and regulatory values issued by ElCom became legally binding, however, the final calculations in accordance with the new rulings are still pending, resulting in significant estimation uncertainties in connection with this transfer. Detailed information is disclosed in note 3.

Impact of the COVID-19 pandemic on Alpiq

The coronavirus and the disease it causes (COVID-19) have been spreading on a global scale since the beginning of 2020, forcing governments to take drastic protective measures. Thus far, the pandemic has not led to any substantial restrictions on the operating activities of the Alpiq Ltd. Group. However, the spread of COVID-19 and the protective and stimulation measures taken by governments and central banks are having far-reaching effects on the macroeconomic environment of all industries across the globe and thus also on Alpiq. These effects were assessed at 31 December 2020 and taken into account in the 2020 consolidated financial statements of Alpiq Ltd. Group, although the effects of COVID-19 cannot be estimated separately from other market fluctuations:

- The COVID-19 pandemic caused wholesale electricity prices to drop in 2020, hitting short-term prices particularly hard. In addition to this, electricity consumption was also lower. Medium and long-term forward prices have more or less recovered in the meantime and are now at a similar level to that seen before the pandemic. Alpiq had to increase its provisions for onerous contracts and recognise impairment losses at the reporting date. Alpiq's revenue in 2020 was also negatively affected to a limited extent.
- The development of the financial markets had a significant impact on the performance of the decommissioning and waste disposal funds for nuclear power plants, which in turn has an impact on Alpiq's energy procurement costs. The assets of the pension funds were also impacted, which had an influence on the defined benefit liabilities. Exchange losses incurred during the year were compensated for by the end of 2020.

At the time of approval of the consolidated financial statements by the Board of Directors of Alpiq Ltd., the financial impact of the pandemic on the financial position, financial performance and cash flows of the Group cannot yet be fully assessed and estimated, as the effective impact will only become apparent as the situation develops over the coming months. This could have a significant impact, in particular on the following assumptions made by management regarding estimation uncertainties:

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

Furthermore, the development of the financial markets in particular has a significant impact on the performance of the decommissioning and waste disposal funds for nuclear power plants, which in turn has an impact on Alpiq's energy procurement costs. In addition, the market changes caused by the pandemic may have an effect on the future measurement of derivative financial instruments. Alpiq regularly monitors the development of the pandemic as well as its effects on the aforementioned estimation uncertainties, and takes the necessary measures.

Correction of presentation errors

Alpiq determined that the carrying amount of the investment in Nant de Drance SA was overstated by CHF 9 million, both at 1 January 2019 and at 31 December 2019, due to an error in the application of the equity method prior to the 2019 financial year. As a result, the provision for the onerous contract relating to the future procurement of energy from the Nant de Drance pumped storage power plant was also overstated by the same amount.

The balance sheet was adjusted accordingly. As a result, the equity ratio increased from 54.1 % to 54.2 % at 31 December 2019 (1 January 2019: increase from 41.2 % to 41.3 %). This correction did not impact the consolidated income statement or consolidated statement of cash flows.

CHF million	31 Dec 2019 (reported)	Correction	31 Dec 2019 (restated)
Investments in partner power plants and other associates	864	– 9	855
Remaining non-current assets	1,461		1,461
Non-current assets	**2,325**	– 9	**2,316**
Current assets	**2,277**		**2,277**
Total assets	**4,602**	– 9	**4,593**
Total equity	**2,488**		**2,488**
Non-current provisions	359	– 9	350
Remaining non-current liabilities	464		464
Non-current liabilities	**823**	– 9	**814**
Current liabilities	**1,291**		**1,291**
Total liabilities	2,114	– 9	2,105
Total equity and liabilities	**4,602**	– 9	**4,593**

7 Events after the reporting period

On 9 February 2021, the Swiss Federal Electricity Commission (ElCom) issued rulings on the margin differences of the former company Alpiq Grid Ltd. Gösgen and Alpiq Grid Ltd Lausanne in 2011 and 2012, which became legally binding in March 2021 and which have a positive effect on the amount of compensation to be paid for the shares in the Swiss high-voltage grid transferred from Alpiq to Swissgrid Ltd on 3 January 2013. For more information about this matter, please refer to note 3.

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To the Board of Directors of

Alpiq Ltd., Olten

Zurich, 18 May 2021

Independent auditor's report on the audit of the consolidated financial statements of Alpiq Ltd. Group

Opinion

In accordance with the terms of our engagement, we have audited the consolidated financial statements of Alpiq Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020 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.

In our opinion the consolidated financial statements (pages 8 to 25) are prepared in all material respects in accordance with the basis of preparation as outlined in Note 6 of the consolidated financial statements.

Basis for opinion

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

We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) of 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.

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

Other information
The Board of Directors is responsible for the other information in the financial report of the Alpiq Ltd. Group. The other information comprises all information included in the financial report of the Alpiq Ltd. Group, but does not include the consolidated financial statements and our independent auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information in the financial report of the Alpiq Ltd. Group and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the financial report of the Alpiq Ltd. Group and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the basis of preparation as outlined in Note 6 of the consolidated financial statements and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the 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 the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements 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 consolidated financial statements.

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A further description of our responsibilities for the audit of the consolidated financial statements 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	Max Lienhard
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