



**ALPIQ**

**2011**

Annual Report

# 2011 Financial Highlights

## Alpiq Group

CHF million	% Change 2010 – 2011 (results of operations)	2010	2011		
			Results of operations	Impairment charges	After impair- ment charges
Energy sales (TWh)	31.8	145,569	191,886		191,886
Net revenue	-0.9	14,104	13,984	-23	13,961
Profit before interest, tax, depreciation and amortisation (EBITDA)	-23.2	1,472	1,131	-1,095	36
Depreciation, amortisation and impairment	-15.3	-502	-579	-650	-1,229
Profit before interest and tax (EBIT)	-43.1	970	552	-1,745	-1,193
As % of net revenue		6.9	3.9		-8.5
Group profit/(loss) for the year	-60.0	645	258	-1,604	-1,346
As % of net revenue		4.6	1.8		-9.6
Net capital expenditure	14.0	587	669		669
Total equity	0.4	7,779	7,809	-1,604	6,205
As % of total assets		42.1	41.0		35.6
Total assets	3.0	18,473	19,030	-1,584	17,446
Employees <sup>1</sup>	-0.2	11,033	11,009		11,009
Plus trading in standardised products					
In TWh	17.2	291,162	341,131		341,131
In CHF million	12.4	23,348	26,237		26,237

<sup>1</sup> Average number of full-time equivalents.

## Per share data

CHF	% Change 2010 – 2011	2010	2011
Par value	0.0	10	10
Share price at 31 December	-52.8	360	170
High	-15.9	453	381
Low	-55.8	339	150
Net profit/(loss)	> -100.0	23	-49
Dividend <sup>1</sup>	-77.0	8.70	2.00

<sup>1</sup> To be proposed to the Annual General Meeting on 26 April 2012.

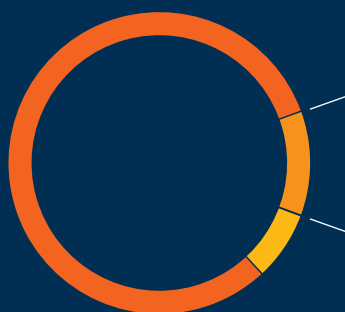
The financial summary 2007 – 2011 is shown on pages 148 and 149.

### Power stations in 2011

	MWe	MWe	GWhe	GWhe
<b>Hydroelectric power stations</b>		<b>3,032</b>		<b>5,500</b>
Switzerland	2,876		5,047	
Italy	156		453	
<b>Small hydroelectric power stations, wind farms, solar power stations</b>		<b>189</b>		<b>323</b>
Switzerland	14		38	
Bulgaria	73		83	
France	13		34	
Italy	82		144	
Norway	7		24	
<b>Nuclear power stations</b>		<b>776</b>		<b>6,207</b>
Switzerland	776		6,207	
<b>Conventional thermal power stations</b>		<b>3,598</b>		<b>9,459</b>
Switzerland	55		396	
Czech Republic	484		1,677	
France	408		554	
Germany	56		46	
Hungary	403		1,831	
Italy	1,361		3,458	
Spain	831		1,497	
<b>Total installed Alpiq capacity<sup>1</sup></b>		<b>7,595</b>		<b>21,489</b>

<sup>1</sup> Excluding long-term contracts.

### 2011 energy procurement (excl. speculative transactions)



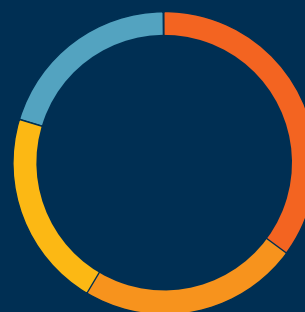
#### Procurement

Market	81%	156,055 GWh
In-house generation	11%	21,489 GWh
Long-term contracts	8%	14,342 GWh
<b>Total</b>		<b>191,886 GWh</b>

#### Generation

Conventional thermal	44%	9,459 GWh
Nuclear	29%	6,207 GWh
Hydroelectric	25%	5,500 GWh
New renewables	2%	323 GWh
<b>Total</b>		<b>21,489 GWh</b>

### 2011 energy sales (excl. speculative transactions)



Switzerland	36%	68,335 GWh
Western Europe	23%	44,313 GWh
Central Europe	21%	40,433 GWh
Trading	20%	38,805 GWh
<b>Total</b>		<b>191,886 GWh</b>



### **Alpiq: rooted in Switzerland – active across Europe**

Alpiq Holding Ltd. is Switzerland's leading energy trading company and largest energy service provider with a European focus. The Alpiq Group was formed in early 2009 through the merger of two energy pioneers, Atel Holding Ltd. and Energie Ovest Suisse SA (EOS). Operating in Switzerland and Europe, it has subsidiaries in more than 20 countries and generated consolidated revenue of around CHF 14 billion for 2011. Alpiq is engaged in power generation and transmission, energy sales and trading, and energy services. The company is responsible for supplying about one-third of Switzerland's electricity needs.

# 2011 Annual Review

During 2011, the energy sector was faced with far-reaching changes and unforeseeable events whose effects hit Alpiq particularly hard due to its business profile. We responded with a comprehensive restructuring programme aimed primarily at rapidly cutting costs and reducing debt.

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## Alpiq Takes Decisive Action

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2011 was a very difficult year for Alpiq, with profit well below expectations and a gloomy outlook. Realising the way things were going, Alpiq took corrective action. We are now doing our utmost to get the company back on track.

“The economic slowdown in Europe has led to surplus capacity. We are feeling the effects of this and are taking action.”

Like the rest of the energy sector in Switzerland and Europe, Alpiq found itself faced with changes in the market and underlying conditions during 2011. Its business profile meant that Alpiq was particularly hard hit by these changes. With EBITDA of CHF 1.1 billion (down 23%), EBIT of CHF 552 million (down 43%) and Group profit of CHF 258 million for the year (down 60%), the results of operations were much lower than a year earlier. Due to impairment charges of more than CHF 1.7 billion, Alpiq had to post its first ever net loss.

Alpiq recognised the significance of these changes, and our Board of Directors and Executive Board responded by launching a comprehensive restructuring programme that will focus Alpiq on its core business, while significantly streamlining its organisation and reducing costs and debt. Further information can be found on pages 7 to 9.

On 30 September 2011, CEO Giovanni Leonardi decided to resign from his post. The Board of Directors accepted this decision and appointed Hans E. Schweickardt to head the Executive Board ad interim. At the same time, the Board of Directors designated Deputy Chairman Christian Wanner as Lead Director. The Board of Directors would like to thank Giovanni Leonardi for his commitment throughout his years of service, first to Atel and later to Alpiq.

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### Disaster in Japan

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In December 2010, Alpiq entered into an agreement with Axpo and BKW to collaborate on the construction of two new nuclear power stations to replace ageing facilities. For all parties involved, this represented a milestone along the road to ensuring security of electricity supply in Switzerland. Following the earthquake, tsunami and reactor disaster in Fukushima, the situation changed radically. Just a short time later, Federal Councillor Leuthard suspended general licensing procedures and ordered an analysis of the situation. But that was not the end of the matter: after



**Hans E. Schweickardt,**  
Chairman and CEO a.i.

“Many energy companies both abroad and in Switzerland are being compelled to restructure.”

the Federal Council decided at the end of May 2011 to phase out nuclear energy, their lead was followed in the months after by Switzerland’s National Council and Council of States.

Over the next two to three years, the rationale for ending nuclear power generation and the resultant new energy policy will need to be validated and a sound legal framework put in place. However, until the Swiss electorate has expressed its wishes regarding the new energy policy, it cannot be considered to be set in stone. At all events, policymakers face a huge challenge in creating a framework for long-term, reliable and economically viable electricity supply.

### **Economic conditions**

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Depressed prices and narrow spreads in the energy markets were compounded by low water flow and severely affected our operating results for 2011, while profit was additionally eroded by the impairment charges and provisions recognised. One of the consequences of the financial and economic crisis was the strong Swiss franc, which has weighed on Alpiq’s results since the beginning of 2011. Despite the Swiss National Bank’s intervention to peg the franc’s exchange rate against the euro, the low value of the euro will continue to have a negative impact on our business this year as well.

### **Projects**

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At the same time, we also have a number of positive events to report for 2011. Together with several partners, Alpiq started work on expanding the FMHL pumped storage power station at Veytaux on Lake Geneva in April to raise its capacity to 480 MW. The Nant de Drance pumped storage station in the canton of Valais recorded a milestone with the construction of the water catchment in Lac d’Emosson and received approval to increase output from 600 to 900 MW. Alpiq made a significant contribution to the security of power supply in Switzerland by modernising the Lavorgo substation in Ticino. Success stories were also seen in other countries: building work started on the new 135 MW unit at the Kladno power station in the Czech Republic, and the two gas-fired combined cycle facilities at Bayet in France and San Severo in Italy came into commercial operation. In Spain, the acquisition of the Plana del Vent gas-fired combined cycle power station was completed, while the Vetrocom wind farm in Bulgaria was successfully expanded to 72.5 MW.

“We are now concentrating on our core business, cutting costs and streamlining our organisation.”

## Looking to the future

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By restructuring and making drastic cuts, we have set the stage for Alpiq's future success. Energy efficiency will play a major role in Switzerland's future energy policy. This is an area where we are already operating successfully through Alpiq InTec. Alpiq has a unique advantage that will enable it to gain a larger share of this attractive growth market, and we fully intend to exploit these opportunities. We will also continue to maintain and expand our attractive power generation assets in Switzerland as far as possible. Here, Alpiq will concentrate on renewable energy and pumped storage power stations. In our trading activities, emphasis is on marketing energy we have generated ourselves. Where profitable, we aim to keep our power plant portfolio in Europe and expand it selectively, with particular focus on renewable energy. We will continue to be committed to a reliable electricity supply at competitive prices and do our utmost to promote energy efficiency and low-carbon power generation.

## Outlook

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At present, it is unclear how conditions in the energy markets are going to shape up. As Alpiq is very dependent both on the marketplace and on exports and operates in a volatile environment, the current situation is hitting the company particularly hard. We do not expect these constraints to change before 2014. We will make use of the intervening time to lay the foundations for future profitable growth. To achieve this, we need the support of our employees, shareholders, customers and partners. I would like to take this opportunity to extend my thanks to them all.

## 2012 Annual General Meeting

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As part of our restructuring measures, the Board of Directors has decided to move the head office of Alpiq Holding Ltd. from Neuchâtel to Lausanne. General meetings of shareholders will continue to be held alternately in Lausanne and Olten. Our Annual General Meeting will take place on 26 April 2012 at the Palais de Beaulieu in Lausanne.

For the Board of Directors and Executive Board



Hans E. Schweickardt  
Chairman and CEO a.i.



## Reorganising to Strengthen Alpiq in the Long Run

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The effects of the incidents in Fukushima and the economic crisis hit the company hard in 2011. Only a year ago, it was impossible to imagine that the environment in which the energy sector operates and Alpiq's situation would change so radically. Alpiq was therefore cautiously optimistic about the future when it reported its 2010 results, even though the market environment was difficult. But last year, Alpiq was confronted with a strong Swiss franc, the events in Fukushima and ensuing uncertainty about the future direction of energy policy, coupled with lower margins. When Alpiq's profit outlook continued to deteriorate distinctly in summer 2011, the Board of Directors and Executive Board took decisive action with a plan to comprehensively restructure the company. This consists of three pillars: focusing on our core business, significantly cutting costs and debt, and streamlining our organisation. Once successfully implemented, all this will strengthen Alpiq in the long term.

Energy efficiency is of pivotal importance for the future of the energy sector, offering vast growth potential for Alpiq in particular.

## Focus on core business

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By focusing on its core business, Alpiq is devoting its attention to its core market of Switzerland and to profitable niche markets within Europe. This means continuing to develop an attractive portfolio of power generation assets as appropriate. Here, Alpiq is concentrating on hydropower in Switzerland and on cost-effective power stations, long-term contracts and new renewable energy sources in Europe. In addition, Alpiq is focusing on marketing the energy produced in its generation facilities. The company is thus endeavouring to achieve the best possible management and marketing of its own power stations and long-term contracts in liquid and semi-liquid markets. Alpiq is concentrating its wholesale activities in Central Europe on both efficient procurement and lucrative niche markets and products. Sales business, which is not very profitable over the long term, is going to be reduced.

Alpiq is confining its sales activities to Switzerland, France, Italy and Romania. The focus here is on equity-holding sales partners and selected sales partners in Switzerland, together with wholesale and major end-users in France, Italy and Romania.

Energy efficiency operations have gained importance since energy efficiency is of pivotal importance for the future of the energy sector. For Alpiq in particular, energy efficiency offers vast growth potential as it can combine business in energy with energy services, an area where Alpiq InTec has been operating successfully for some time now and is one of the largest providers in Switzerland.

## Reducing debt

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Alpiq is seeking to increase its financial flexibility and consequently needs to cut operating costs rapidly and sustainably. Net debt is to be reduced by some CHF 1.5 to 2 billion by the end of 2014 through disposals, such as the sale of the Alpiq Anlagetechnik Group and our interests in Edipower, and by restructuring and focusing capital expenditure.

This has also entailed impairment charges and provisions, which had a negative impact of CHF 1.7 billion on the results for 2011. These apply in particular to assets used in the Group's international business.

The cost-cutting measures adopted also involve a reduction of 450 jobs in the Energy segment and Corporate Centre. Some 170 jobs will be affected in Switzerland. This downsizing is an inevitable result of restructuring.

## Organisational changes

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The sweeping restructuring measures also affect our organisation. By changing the structure of the organisation, Alpiq is simplifying its complexity, streamlining processes, reducing interfaces and speeding up decision-making.

Adjustments have been made in all business divisions. On 4 November 2011, Alpiq dissolved the Energy Services business division and transferred the Alpiq InTec Group to the Energy Switzerland business division, thus reinforcing Alpiq's energy efficiency activities. The adjustment of our business model will also bring changes in our trading operations. The Trading & Services business division has been renamed Optimisation & Trading, which now groups together all Alpiq's optimisation and trading activities for liquid and semi-liquid markets. The Optimisation business unit for

Opportunities for implementing projects for renewable energy sources are greater in Europe than in Switzerland.

Switzerland has been transferred from the Energy Switzerland business division to the Optimisation & Trading business division. The Optimisation Switzerland and Asset Trading business units have been replaced by two new units: Portfolio Optimisation & Trading Switzerland and Portfolio Optimisation & Trading International. The Proprietary Trading business unit has been dissolved. The new head of the Optimisation & Trading business division ad interim is Erik Saether, who was previously in charge of the Market Nordic business unit.

In July 2011, Alpiq merged the Energy Western Europe and Energy Central Europe business divisions to form the Energy International business division. The Market Europe West and Market Italy units were combined to create the new Market Western Europe business unit. Sales business in Germany was closed down. In addition, the Renewable Energy Sources (RES) business unit was integrated into the Energy International business division because the opportunities for implementing RES projects are greater in Europe than in Switzerland. Also in July 2011, the Business Development and Management Services functional divisions were merged to form the Management Services functional division. The Energy Controlling & Settlement functional unit was dissolved and its activities split among the Energy Switzerland and Optimisation & Trading business divisions and the Financial Services functional division. The distribution of responsibilities between the Corporate Centre and the divisions will be reviewed as part of a project launched at the beginning of 2011.

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### **Project team in charge of restructuring**

To ensure that restructuring is achieved effectively and successfully, Alpiq set up a project team in autumn 2011. In close cooperation with the management and headed by Günter Pfeiffer, an economist and expert in change processes, the team is developing solutions and implementing them. Günther Pfeiffer has been responsible for several successful restructuring programmes in the past.

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### **Outlook**

Alpiq's Board of Directors and Executive Board are confident that the ongoing restructuring programme will prove a success. They are convinced that the measures adopted will have the desired effect despite the prevailing adverse climate and that Alpiq will succeed in becoming a healthy, growing company that generates value once again.

## Further Expansion of Power Generation Assets

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The European economy was overshadowed by the debt crisis and the sharp slowdown in economic activity that accompanied it. The European electricity markets were also significantly impacted by the reactor accidents at Japan's Fukushima facility and the closure of eight nuclear power stations in Germany. In addition, unrest in North Africa and flooding in Australia had ramifications for the oil and coal markets. All these factors increased uncertainty in the electricity markets, while the risk of further regulatory intervention also grew. The situation was aggravated by exchange rate difficulties arising from a weak euro and strong Swiss franc. Alpiq's power generation capacities were further expanded, especially with the addition of new gas-fired combined cycle power stations. Our European operations were reorganised and their focus sharpened during the Alpiq Group's restructuring.

## Market Western Europe

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### Market France

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The French energy market experienced some fundamental changes during 2011. The TARTAM (Tarif réglementé transitoire d'ajustement du marché) transitional tariff was abolished and, at the same time, the NOME Act came into effect together with the ARENH mechanism. The NOME Act essentially replaces TARTAM, while the ARENH mechanism grants certified providers regulated access to electricity from EDF's existing nuclear power stations. In spring, Alpiq Energie France launched its first sales campaign under the new regulations and renewed 150 contracts. It was found that the new rules are putting pressure on margins and increasing competition in the large consumer segment.

Wholesale prices mostly remained stable throughout the year. The French government approved an increase in electricity rates for major industrial customers. Alpiq succeeded in further growing its sales business and substantially increased the volume of energy sold. Delivering some 15 TWh of electricity, Alpiq is one of the principal alternative providers to large customers in France.

The Bayet gas-fired combined cycle power station (3CB) started operating in June, further strengthening Alpiq's position in the French market. The new generation facility is also an important asset in view of the fact that regulation of wholesale prices is to be abolished from 2015. In addition, Alpiq received the necessary permits for a gas-fired combined cycle station in Monchy-au-Bois (3CA). In 2011, Alpiq also commenced preparations to obtain hydroelectric licences.

### Market Spain

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During 2011, Alpiq bolstered its position as Spain's largest alternative provider, doubling customer numbers and supplying more than 5.7 TWh in total. Our customer base of small and medium-sized enterprises (SMEs) continued to grow.

The acquisition of the Plana del Vent gas-fired combined cycle power station was the central event in our power generation operations. The deal to purchase a 400 MW unit and use the second 400 MW unit for two years was completed in spring, after which the facility was integrated into Alpiq's energy portfolio. The Spanish government has passed legislation to subsidise domestic coal for electricity generation. As yet, no decisions have been taken as to possible compensation for gas-fired combined cycle facilities. This regulatory intervention, the depressed spark spreads, the narrower difference between peak and off-peak prices and the reduced contribution from ancillary services resulted in profit falling below expectations.

### Market Italy

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The economic situation in Italy was difficult, with the energy sector suffering from excess capacities and heavy pressure on margins. Overall energy production in Italy saw a shift in the shares of the various types of power generation during 2011. This was caused by a decline in the output of large hydroelectric stations and a marked increase in new renewable energy. New wind and solar facilities represent a huge challenge for grid stability and have led to a continued drop in prices and to

smaller differences between peak and base load prices. At times, the MGP price (day-ahead market) on Italy's IPEX power exchange fell to almost the level of generation costs, with spark spreads continuing to narrow.

The Italian government's austerity bills triggered a degree of unease in the energy sector. The plan to extend the so-called "Robin Tax" by raising company tax (IRES) by 4% affects all Alpiq companies in Italy, now including those that invest in generating renewable energy. Added to that, the reactor disaster in Japan led to a referendum putting a stop to the mooted plans to reintroduce nuclear power generation in Italy.

Despite these difficult conditions, Market Italy held up well during the reporting year. Import business under the long-term contract that expired at the end of 2011 performed very successfully. Furthermore, a large number of contracts with bulk customers were renewed during the year, and new contracts were also acquired, including one for supplying electricity to power the world's largest boring machine, which is currently being used in the construction of a tunnel in the Apennines. Another notable highlight was the tender won for supplying electricity to the public administration of Northern Italy. Performance was also boosted by the successful renegotiation of gas contracts and by higher sales of renewable energy certificates (RECS). On the other hand, the margin in local sales business narrowed in comparison with the previous year.

An important project was brought to a successful conclusion when the gas-fired combined cycle plant in San Severo came online. The 400 MW power station belongs to EnPlus, which is 60%-owned by Alpiq. The Novara gas-fired combined cycle facility achieved an excellent high level of availability, while the plant in Vercelli had to be taken off line in the second half of the year for maintenance work that had been brought forward.

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### Portfolio strategically streamlined

As part of its reorganisation measures, Alpiq decided to discontinue its German sales operations, which had overlapped in part with its trading activities. Alpiq Energy Deutschland AG in Dusseldorf was closed during the reporting year as one of the measures to streamline the portfolio.

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### Market Central Europe

On 1 July, the Market Central Europe North and Market Central Europe South business units were combined to form the new Market Central Europe unit. This reorganisation was completed by the end of 2011 and means that the wholesale portfolio for all 16 Central European countries is being managed on a joint basis.

For the new business unit, 2011 was dominated by a number of unforeseen external events that significantly impacted electricity prices across Europe. Added to the external factors already mentioned, water flow in the Balkans was exceptionally low, which led to higher prices in south-eastern Europe during the second half of the year in particular. Hidroelectrica, for instance, a Romanian hydroelectric generator and one of the largest suppliers to the Central European business unit, had to cut its electricity deliveries by up to 70%.

The aforementioned events in the first quarter triggered price volatility, with reduced supplies of hydropower in south-eastern Europe meaning that higher prices had to be paid for energy from other sources. The situation was exacerbated by the extreme weakness of the euro against the Swiss franc. All of this ultimately led to a significant drop in regional portfolio revenue, which affected not only wholesale trading but also sales. By reacting flexibly and restructuring its wholesale trading portfolio, the Market Central Europe business unit was able to minimise the negative impact on profit as far as possible. Nevertheless, it still found it impossible to reach the targets that had been set.

Steps to concentrate activities on our core business in Central Europe were already initiated during the year. These include expanding cross-border wholesale trading and optimising the entire portfolio. It is also necessary to enter into long-term procurement agreements and step up collaboration with local state-owned enterprises in the principal markets of Central Europe. Initial successes were already recorded, for instance in Turkey, the Ukraine and Baltic countries.

## **Power Generation International**

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On 1 July 2011, work commenced on combining the Power Generation West and Power Generation Central Europe business units into the new Power Generation International business unit. The consolidation of these two units had largely been completed by the end of 2011.

The devaluation of the euro against the Swiss franc also had negative effects here. Nonetheless, the Czech and Hungarian power stations managed to neutralise them almost totally thanks to a very high level of availability and higher proceeds from marketing the electricity generated. As a result, they beat the financial targets in euros and virtually reached them in full after translation into Swiss francs.

The new San Severo and Bayet gas-fired combined cycle power stations also had to be commissioned in a difficult market environment. These two new 400 MW facilities generated a positive EBIT contribution in their first year of operation, although profits are lower than expected because of the depressed spark spreads. Commissioned on schedule and without encountering any major problems, their technical operation has been trouble-free for the most part. After they came online, attention was focused on optimising the two power stations. In Spain, the Plana del Vent gas-fired combined cycle facility was integrated into Alpiq's energy portfolio. However, profits from this power station also remained below expectations for the reasons already explained.

The liquid markets were characterised by low energy prices, high gas prices and only a slight difference between peak and base load prices. Little can be expected to change in this respect over the year ahead. This will make it equally challenging to achieve our commercial targets with the power generation portfolio. A number of initiatives were taken last year with the aim of improving the profitability of the Plana del Vent gas-fired combined cycle power station, in particular. Operations in the semi-liquid markets in the Czech Republic and Hungary were better secured with long-term contracts. In both countries, good positioning and consistent optimisation in recent years have paid off.

At the Czech coal-fired power station in Kladno, replacement of the old K3 power generation unit with a state-of-the-art 135 MW unit is proceeding as planned (K7 project). At the beginning of May 2011, the Swiss ambassador attended the official celebrations to mark the start of construction work on K7. Other milestones were also reached in the months that followed, with the completion of the boiler house foundations and chimney, start of work on the new cooling tower and a temporary solution for supplying heat to the city of Kladno.

### **Renewable Energy Sources (RES)**

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The new RES business unit started operating on 1 January 2011. All Alpiq's activities related to wind power and small-scale hydroelectric power are grouped together in this unit under the umbrella of Alpiq EcoPower Ltd., a new company established. Following the reorganisation of the Alpiq Group, the RES business unit has been part of the Energy International business division since 4 November last year.

The RES business unit operates some 35 power stations in five European countries, with an installed capacity in excess of 200 MW. In addition, RES has a project pipeline of more than 1,000 MW. Alpiq has put an appropriate RES strategy in place in order to achieve the 1,000 MW capacity target by 2020. Furthermore, the legal and staffing structure and the main processes of the new unit have been defined.

Alpiq brought Phase II of the Vetrocom wind farm in Bulgaria into operation in 2011. The expanded wind facility now has a total installed capacity of 72.5 MW. In Switzerland, Alpiq's first Swiss wind farm came online after five months of construction and three months of testing. The three wind turbines at Le Peuchapatte in the canton of Jura generate around 12 million kWh a year, which is equivalent to the annual consumption of some 3,000 households. Construction of the small Tambobach hydroelectric facility in Splügen proceeded according to plan and within budget. Other wind energy projects and small hydroelectric power stations are in the pipeline, although conditions for implementing them in Switzerland are difficult. Despite the planned turnaround in energy policy, projects for wind farms and small-scale hydroelectric facilities are hampered by strong political opposition and extensive regulatory requirements.



## Good Results Underpinned by a Solid Foundation

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Like the rest of the energy sector, the Energy Switzerland business division experienced a turbulent year in 2011. The reactor disaster in Fukushima brought considerable changes to the markets and energy environment. Our Swiss business came under pressure on a number of fronts. Difficult market conditions, regulatory interventions, a new energy policy and meteorological phenomena such as a winter with little snow and the very dry weather in spring, autumn and winter are just some of the adverse factors we had to contend with. This makes it all the more encouraging that we still posted good results. This was first and foremost due to the solid foundation in our Swiss business: a broad-based generation portfolio of hydroelectric and nuclear power facilities, coupled with strong positioning in the market. And with the expansion of our energy efficiency activities, the Energy Switzerland business division is well equipped to perform successfully even in the changed markets.

## Market Switzerland

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The Market Switzerland business unit held up well in the face of a turbulent environment and managed to maintain a high level of profitability despite a number of adverse factors.

### Exploiting future energy opportunities

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Political debate focused on energy issues. The decision by the Federal Council and Parliament to phase out nuclear power clearly signifies a radical reorientation of energy supply in Switzerland, which will bring opportunities for our Market Switzerland business unit. The year thus saw an increase in demand for ecological products such as so-called green certificates.

Energy efficiency services are also playing an ever larger role. With the acquisition of Zurich-based Xamax AG, the business unit gained more expertise in energy data gathering and optimisation. In the last quarter, the AIT Group was transferred to the Energy Switzerland business division, and new customers were already won during the year by combining power supplies with services focused on energy efficiency.

### Lower energy prices, higher cost pressures

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Developments in Europe also had a noticeable effect on the Swiss energy market, with the slowing economy in the euro zone leading to low market prices. This also impacted both customers and demand. Greater cost pressure and low market prices increased readiness to change energy suppliers, which presented opportunities for sales. Stronger demand for long-term contracts (2 to 10 years) was seen.

The Federal Supreme Court put a brake on liberalisation of the market with its landmark judgement on basic service provision (Stahl Gerlafingen AG). In an ultimate ruling, it overturned ElCom's prior decision and determined that companies with power consumption in excess of 100 MWh a year can also take advantage of basic service provision at regulated prices and are not compelled to buy their electricity in the open market. Purchases solely in the open market are not envisaged before 2014. This means that no noticeable effects can be expected from the initial phase of liberalisation, which will last until the end of 2013.

## Nuclear & Thermal Power Generation

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The Federal Council's suspension of general licence applications for new nuclear power stations and Parliament's decision to phase out nuclear power dominated the year for the Nuclear & Thermal Power Generation business unit.

### New energy policy

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The general license application for the nuclear power station planned in Niederamt (KKN) was suspended by the Federal Council, and existing nuclear facilities are to be allowed to operate until the end of their safe service lives. In addition, the Federal Nuclear Safety Inspectorate (ENSI) issued more stringent safety requirements for Swiss nuclear stations and mandated that they undergo a "stress test" to be conducted throughout Europe. The reports required by ENSI were submitted on schedule and in full by our joint venture plants in Gösgen and Leibstadt, and ENSI has

confirmed the high safety level of these two nuclear facilities. In addition, lessons must be learnt from the events in Japan. Appropriate retrofitting and investments will ensure that the safety and reliability of our nuclear stations is maintained.

The Swiss government's new energy policy makes it necessary from a medium and long-term perspective to develop a suitably modified strategy for the business unit. The framework for this must be established now. As base load energy, nuclear power is critical to ensuring a reliable electricity supply in Switzerland. Alpiq currently accounts for 25.5% of the nuclear energy generated in Switzerland. This position will be expanded through long-term delivery contracts with EDF.

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#### **Encouraging power generation segment**

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After operating for 21 years with no emergency reactor shutdowns, the Gösgen nuclear power station demonstrated an extremely high safety level and maximum availability as a result of continuous investments in retrofitting. Electricity output amounted to almost 8 TWh as planned for the year.

With a good operating year and ongoing measures to enhance safety and efficiency, the Leibstadt nuclear power station generated nearly 9.5 TWh, its highest output since coming online in 1984.

Conventional thermal generation operations focused on the development of the Chavalon gas-fired power station project for EOS Holding SA. The Monthel combined heat and power facility finished its second full year of production since being commissioned in 2009. Last year, additional potential for optimising the plant was identified, which will be evaluated by its operator, CIMO, during 2012.

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#### **Hydro Power Generation**

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Renewable forms of energy generation, and especially hydropower, have gained wide political support. With Switzerland's plans to phase out nuclear energy, the role of hydroelectric power has become considerably stronger again. On the one hand, it is intended that hydropower should provide an even larger share of the electricity supplied in Switzerland in future. On the other, pumped storage power stations will be indispensable for reserve capacity and for stabilising the grid given the massive increase in new renewable energy that is likely to occur. To ensure security of supply, it is now necessary to improve the general framework for this key form of energy. Alpiq will be taking part in both the technical and political debates.

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#### **Difficult power generation conditions**

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2011 was one of the driest years since meteorological records have been kept. As a result, hydroelectric output declined again compared with the year before. After a dry spring, some of the run-of-river stations recorded all-time lows in autumn. However, high levels of melt water enabled the storage power stations to compensate partially for the lack of precipitation. Kraftwerke Gougrou AG transferred operation of its facilities to HYDRO Exploitation SA with effect from 1 October.

Although hydroelectric power enjoys basic market demand, it too was affected by excess capacity and the consequential low energy prices. Pumped storage power stations are to be increasingly geared to the needs of flexible balancing energy.

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**FMHL+ launched**

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Various new and expansion projects were commenced or continued during the reporting year. These included the FMHL+ project on Lake Geneva, which Alpiq has been pursuing with partners (Romande Energie, Groupe E, the City of Lausanne) since spring 2011. The plan is to double the capacity of the Force Motrices Hongrin-Léman SA storage power station to 480 MW by adding two more turbine sets. In spring, work commenced on constructing a new cavern right by the Château de Chillon.

In the summer, Nant de Drance SA (in which Alpiq holds a 54 % stake, the Swiss Federal Railways 36 % and Valais-based energy services provider FMV 10 %) received the go-ahead from the licensing authorities to increase output from the Nant de Drance pumped storage power station from its original 600 MW to 900 MW. After overcoming various geological obstacles, building work on the pumped storage facility between the Emosson and Vieux-Emosson reservoirs is proceeding according to plan. An important milestone was achieved with the construction of a water catchment area in Lac d'Emosson in September. The first of two 1,700-tonne inlet/outlet structures was submerged in place while the lake was full.

Renewal of machinery in Gougria SA's Navizence powerhouse also proceeded according to plan. First brought online in 1908, the power station is being totally modernised to significantly improve energy efficiency. The same goes for the Salanfe generation facility, where two groups of machinery were completely renewed and their output of twice 30 MW was boosted to twice 35 MW. In addition, the 1.1 kilometre long 65 kV line to the Vernayaz substation was laid underground. Other major refurbishment projects were continued during the year at the Fionnay facility and various plants in Ticino and Graubünden. Feasibility studies were also completed for RhôDix, the pumped storage facility planned for Grande Dixence.

Grande Dixence, the world's largest gravity dam, celebrated its 50<sup>th</sup> anniversary in September in the presence of many guests from the world of politics, business and industry. August saw the inauguration of the new Serra arch dam belonging to Energie Electrique du Simplon SA. This structure consists of 4,000 m<sup>3</sup> of concrete and replaces the old dam, which had to be demolished because of chemical disintegration of the concrete.

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**Reversion: uncertain future**

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A new international licence was issued for the Ryburg-Schwörstadt power station. To compensate for the reversion waiver, Axpo and Alpiq each transferred 11.5 % of their interests to the canton of Aargau. The licence for the power station on the Aare River at Klingnau (Aargau) expires in 2015. Alpiq is a member of a consortium bidding for a new licence.

Experts presented a strategy for hydroelectric power in the canton of Valais. In particular, this covers the regulation of reversion after initial licences expire. The intention is to ensure that the added value resulting from electricity generation benefits the canton itself as far as possible. Considerable changes in partnerships are to be expected for a new licensing period. Alpiq is following the energy strategies of the mountain cantons with great interest and will take a variety of measures to position itself as an energy partner for the future.

## **Grid**

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The activities of our Grid business unit were dominated to a significant extent by the upcoming transfer of the transmission system to Swissgrid.

### **Transfer of the transmission system to Swissgrid**

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To ensure orderly and timely handover of Alpiq's transmission network to the national grid company, Swissgrid, the Grid business unit continued four projects that had been launched in 2010:

An agreement in principle and due diligence procedures were successfully completed for the GO! project dealing with the nationwide transfer of the transmission system to Swissgrid. Negotiations on the asset contribution agreement, including financing of Swissgrid, are ongoing. Intensive work also continued on the complex "Prevention of interruptions, secure operation and integration" sub-project.

During the year, the project to transfer ancillary services to the new company, Alpiq EnerTrans AG, saw service agreements reached between Alpiq EnerTrans AG and the transmission network companies (Alpiq Grid Ltd Lausanne and Alpiq Grid Ltd. Gösgen) regarding local operation, maintenance and project work. The other internal projects are focusing on expanding the system control centre in Olten and transferring it to Swissgrid, as well as concentrating management of Alpiq Switzerland's power generation scheduling at the system control centre in Lausanne.

A factor of considerable importance in determining how much of the transmission system Alpiq has to transfer to Swissgrid and the financing issues involved will be the decision pending from the Federal Supreme Court (BGer) concerning the factual definition of the transmission system.

In summer 2011, the Federal Administrative Court (BVGer) upheld an appeal by Alpiq against the ElCom ruling concerning the definition of the transmission system. It found that all spur lines, regardless of whether they are used for the power stations to generate or to distribute electricity, are part of the transmission network, as are all 220 kV and 380 kV lines in general, and declared the ElCom ruling of 11 November 2010 to the contrary to be inconsistent with the Federal Electricity Supply Act (StromVG). Third parties have lodged an appeal with the Federal Supreme Court against the decision of the Federal Administrative Court. As a result, it is still not clear whether the spur lines connecting to the Romanel-Method, Galmiz-Kerzers-Mühleberg, Mettlen-Plattischachen distribution networks, those connecting to the Serra-Gondo and Chamoson-Fionnay GD power stations and the grid connection from Nant de Drance constitute part of the transmission system and will therefore need to be transferred to Swissgrid as well.

### **Focus on line construction projects**

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Rising consumption and decentralised feed-in of renewable energy are steadily increasing the loads in the transmission system. As a result, ever more bottlenecks are occurring both in Switzerland and other countries and also limit feed-in at times. It is essential for the network to be suitably expanded, especially in the light of the new energy policy. However, projects to build new networks and/or expand existing ones are subject to ever greater political opposition.

One example of this is the high-voltage line planned between Chamoson and Chippis in the canton of Valais. In July 2010, the Federal Office of Energy (FOE) granted Alpiq approval to build the roughly 28 kilometre long 380 kV line overhead. Objections were lodged with the Federal Administrative Court. The opponents demand that all or some sections of the line be laid underground, which would considerably increase the engineering complexity. The canton of Valais has commissioned a study to compare the use of overhead and underground lines. The Federal Administrative Court carried out an on-site inspection with Alpiq and opponents and has heard all the evidence. Its decision is expected in spring 2012.

In 2011, after publication of planning proposals, the Federal Office of Energy approved the joint 380/220/132/65 kV line to be built by Alpiq and the Swiss Federal Railways along the Bitsch/Massaboden–Filet/Mörel-Ulrichen sections. Objections were also raised against this project. Another major project in the business division concerned grid connections for the FMHL+ and Nant de Drance projects. After lengthy negotiations with Swissgrid, an agreement on the topology of the grid connections for both projects was finally reached at the end of the year. The future division of costs depends largely on what decision is reached by the Federal Supreme Court in respect of the transmission system definition and spur lines (see above).

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#### **New Lavorgo substation**

Alpiq has replaced the substation at Lavorgo (canton of Ticino) with a new facility. The new 380/220 kV switching station serves as a hub in Switzerland's transmission system and makes a major contribution to security of supply. It links the power stations in Ticino with consumer centres both north and south of the Alps via the north-south axis. In addition, it connects French-speaking Switzerland to this north-south axis via the transmission lines in the canton of Valais.

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#### **Alpiq InTec Group**

Low interest rates and immigration kept capital spending in the Swiss construction sector high. As a result, the order books were healthy and capacities within the Alpiq InTec Group were well utilised throughout the year. The only negative trend was a decline in capital spending in the pharmaceutical and biotech segments. Market prices remained under pressure, which was particularly evident for large-scale projects.

The financial and debt crisis in Italy led to a slowdown in construction activity in the north of the country, especially in the Triveneto region. As a result, the tender volume was lower, although the metropolis of Milan was less severely affected.

Order intake for energy supply and transport technology was at about the same level as in the previous year. Only the Czech Republic showed a noticeable drop in investment in public transport.

By acquiring Albin Baeriswyl AG in Fribourg, Robert Schellenberg AG in Winterthur and Meister + Brülisauer Haustechnik AG in Ettenhausen, the Alpiq InTec Group bolstered its leading position in Switzerland's building services sector.

Alpiq EnerTrans AG, a new company established, started operating on 1 January 2011, which allowed high-voltage network assets and service activities to be split.

## **Boom in energy efficiency**

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Activities dedicated to installations and charging infrastructure for electric mobility were successfully launched in 2011, with exclusive agreements being signed with well-known partners. The same can be reported for energy efficiency services. A number of vehicle manufacturers have announced new electric cars for 2012, which will give the electric mobility business an added boost. With a view to making a name for itself as a complete solutions provider, the Alpiq InTec Group established Alpiq E-Mobility Ltd. last year to operate exclusively in the electric mobility sector. This reflects the continued solid performance in this area during the past year.

The Swiss government's new energy policy gave fresh impetus to solar thermal and photovoltaic systems. Solar technologies could benefit massively if the cap on cost-covering remuneration for feed-in to the grid were to be lifted.

The opening of the North installation site (Rynächt) of the AlpTransit Gotthard project marked another important milestone. In autumn 2011, cable pulling began on schedule in the world's longest rail tunnel. While work on this historic project again continued according to plan throughout 2011, AlpTransit Gotthard Ltd. is trying to shorten construction time by a year and have the tunnel finished by 2016. The Alpiq InTec Group will also put in a bid for the railway infrastructure in the Ceneri base tunnel in the call for tenders announced for the first quarter of 2012.

## Sharp Price Swings in a Complex Environment

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The Optimisation & Trading business division experienced an eventful year. At times, the trading environment was volatile, so marketing of the Group's own assets proved challenging. The situation was exacerbated by a number of macroeconomic and political factors that frequently played a greater role in driving prices than energy fundamentals did. Complexity was increased even more by new regulatory requirements. Against this backdrop, it was not possible to achieve all the ambitious goals we had set. The Alpiq Group's restructuring will clearly sharpen the focus of trading operations.



The financial year witnessed macroeconomic and political events that drove trading activities and frequently played a greater role than energy fundamentals did. Other significant factors included the economic slowdown and the growing importance of new renewable energy sources.

With the closure of several Japanese nuclear reactors following the devastating earthquake, shipments of liquefied natural gas (LNG) to Japan increased. Gas prices also rose as a result of heightened demand due to gas-fired power stations compensating for the output from reactors taken out of operation. This was compounded by interruptions in supplies of both natural gas and crude oil owing to the upheavals in the Arab world. These factors forced up the prices of natural gas and crude oil during the first quarter of 2011. Although prices in the European electricity markets temporarily spiked following the shutdown of German nuclear generation facilities in the wake of the Fukushima disaster, power prices for 2011 as a whole remained low. The main reasons for this were surplus capacity in several European countries and a marked drop in demand caused by restrained economic growth and the debt crisis.

The electricity markets were also affected by the steadily growing output from new renewable energy sources, especially solar power. In Germany and Italy, incentive programmes triggered a veritable boom in solar energy facilities, bringing the installed solar power generation capacity in Germany, for instance, to some 17 GW at the end of 2011. This put severe pressure on prices for peak load energy.

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## Proprietary Trading

Proprietary Trading reacted swiftly to the closure of German nuclear power stations. As the medium and long-term direction of energy supply after Fukushima was still unclear in many countries, risk positions were reduced accordingly. This proved to be the correct decision since electricity prices showed no clear trend for several months. As the immediate effects of phasing out nuclear power on market pricing were overestimated at first, prices have tended to fall since spring. This trend was then reinforced by the mild autumn weather, so success has primarily been driven by short positions in recent months.

During the restructuring of the Alpiq Group, speculative proprietary trading will be greatly reduced, with these activities being refocused and integrated into our other trading operations.

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## Asset Trading

Asset Trading also had to contend with an adverse operating environment and was faced with changes in the energy markets. These included narrower differences between peak and off-peak electricity prices, low spark spreads, a weak euro against the Swiss franc, excess generation capacity and small final consumption levels. Asset Trading performance also reflected the impact of delayed CO<sub>2</sub> compensation in Italy and the negative financial effects of old contracts.

It was only much broader market coupling and rising liquidity on intraday platforms that gave a new boost to asset-backed trading. Alpiq benefited substantially from this thanks to the high level of flexibility in its hydroelectric power stations and the strong presence and positioning of its spot trading teams. While the business

unit successfully capitalised on the opportunities arising in this time frame, the medium- and long-term markets were volatile and negatively impacted Alpiq's asset marketing and hedging activities. When the new San Severo, Plana de Vent and Bayet gas-fired combined cycle power stations came online in Italy, Spain and France, Asset Trading started marketing their output.

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## Optimisation

The Optimisation business unit, which is responsible for maximising the value of Alpiq's Swiss energy portfolio, faced a number of challenges in 2011 as energy prices fell across the board and the difference between peak and base load prices narrowed. The latter was due in part to the growing share of new renewable energy in Europe. With the economic slowdown, surplus generation capacity and the strong Swiss franc, prices came under additional pressure. The closure of eight nuclear power stations in Germany also had an impact on prices. A winter with very little snow coupled with below-average rainfall adversely affected the output of hydro-electric facilities. In addition, various scheduled overhauls negatively impacted the power generation portfolio. At regulatory level, notable changes were seen in ancillary services, which led to a reduction in the prices of these services.

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## Shared platforms

Internally, the Optimisation team worked on a variety of system-based integration tasks, including a Group-wide trading and risk management system that vastly improved efficiency in this area. The same applies to the range and provision of ancillary services, where processes and responsibilities were optimised. The previous two balance groups (former EOS and former Atel) were also combined into a joint balance group. With the Alpiq Group's planned restructuring, the Optimisation business unit will undergo organisational changes within the new Optimisation & Trading business division that now groups together both Asset Trading and Optimisation operations.

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## Middle Office & Operations

In conjunction with Corporate IT and Back and Front Office, Middle Office successfully completed the consolidation of the trading systems. While improving reporting, this has significantly increased the transparency of both performance and trading risks. Scheduling consolidated its activities in Olten and reorganised its operations by setting up an electricity and a gas team.

The Alpiq Group's restructuring plans include a modification of its business model. Middle Office & Operations will be kept very busy implementing this and began work immediately after the restructuring was announced on 4 November. The aim is to substantially reduce costs, which will be accomplished through measures such as streamlining the organisation, processes and systems.

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## Finance & Services

By the end of 2011, Alpiq Trading Ltd. had entered into 60 framework agreements and now has licences to trade in electricity, gas and certificates in virtually every country in Western Europe.

After the financial crisis of 2008/2009, the European Union introduced new regulations for the financial markets. Previously, energy trading had been largely unaffected by financial market regulations. Under the current draft of the Markets in Financial Instruments Directive (MiFID II), all OTC forwards (standardised commodity derivatives with physical delivery) are now to qualify as financial instruments within the EU. This means that energy companies trading in such products will be subject to the same regulations as financial services providers in future. As the discussions currently stand, energy traders will only be able to benefit from an exemption from these regulations if their business in financial products is classed as an ancillary activity. Trading in financial products is understood to be an ancillary activity only if the capital employed in or revenue generated by trading in financial products on the Group's own account or as a service to others represents a small percentage of the revenue from or equity capital for the Group's main business.

Soon to be finalised, the new European Market Infrastructure Regulation (EMIR) provides for compulsory central clearing of OTC derivatives, together with mandatory reporting of relevant trading data. This also applies to institutions outside the financial sector that exceed a certain threshold, yet to be determined.

The Regulation on Energy Market Integrity and Transparency (REMIT) came into force at the beginning of 2012. This set of sector-specific rules is designed to ensure the integrity and transparency of wholesale energy markets. It prohibits insider trading and market manipulation and lays down a number of rules, particularly governing the course of action to follow and the obligation to provide information in the event of unplanned power station outages. To encourage transparency, REMIT additionally requires that all participants in the wholesale energy markets submit comprehensive reports of trading data and fundamentals (availability of electricity generation capacity) from 2013 onwards.

It is already evident that these changes in the financial markets will have a massive impact on both structure and costs in the European energy sector.

## Sale Initiated

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The Alpiq Anlagentechnik Group (AAT) experienced a turbulent year in 2011. Economic growth was hampered by the emerging debt crisis, while the events in Japan led the German government to launch a new energy concept, including an early phase-out of nuclear power. Against this background, the direction in Industrial and Power Plant Engineering has changed and new areas of business have developed. Energy Supply Technology turned in a good performance. Restructuring of the Alpiq Group has brought with it preparations to sell off AAT. The necessary action was commenced in 2011 and is in the process of being implemented.

The German economy lost momentum during 2011, with the euro crisis leading to only sluggish growth in the fourth quarter. Real GDP increased by 2.9% in 2011 as a whole (2010: 3.6%), while the forecasts for 2012 are extremely conservative with growth anticipated at a mere 0.4%.

In addition to economic factors, political decisions also affected the environment in which the Alpiq Anlagentechnik Group (AAT Group) operates. The results of the German government's energy concept developed in response to the nuclear accidents at Fukushima in Japan are now known and primarily include:

- closure of the country's seven oldest nuclear power stations as well as the Krümmel nuclear plant;
- the remaining nine nuclear power stations to be phased out between 2015 and 2022;
- accelerated licensing procedures for renewable energy facilities and conventional power stations.

While the government's new energy concept did not yet have any direct effects in 2011 because the AAT Group had a sufficient backlog of unfilled orders, the full ramifications over the medium term still cannot be predicted. However, the opportunities look good, for example in constructing new large-scale power stations, engineering renewable energy and decentralised power generation facilities, and expanding power supply systems. Added to that, planning work in the nuclear sector may well increase in future as nuclear power stations are dismantled.

## **Industrial and Power Plant Engineering (IPPE)**

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The number of major IPPE projects grew at a lower rate than in the previous year. Domestic demand was subdued, especially for large-scale power stations, energy and environmental engineering, and chemical/petrochemical plant engineering. Here the AAT Group is focusing on the growth anticipated in other European countries, in particular across Eastern Europe. Due to the accelerated nuclear phase-out, demand for nuclear engineering is generally declining. Nevertheless, additional opportunities are arising for IPPE in this area with its expertise in planning decommissioning and dismantling projects and in radiation safety. Whether new gas-fired, combined cycle (gas and steam) and coal-fuelled facilities can compensate for the absence of nuclear power in Germany remains to be seen and is currently under discussion by politicians. Capital spending on smaller power stations (combined cycle, combined heat and power and biomass facilities) decreased last year as a result of the energy suppliers' uncertainty following the change in Germany's energy policy. Demand for industrial piping and plant engineering and industrial power supply equipment (semiconductor and automotive industry, etc.) benefited from the favourable economic climate, at least in the first half of the year. The European markets continue to offer potential for business.

Despite this generally subdued environment, the IPPE business secured several major contracts, including ones to manufacture and assemble high-pressure piping at the Rotterdam and Neurath power stations. Work on the Alpiq Group's K7 brown coal power generating unit in the Czech city of Kladno proceeded according to plan. Worth EUR 240 million, this project is the largest single contract ever awarded to the AAT Group.

## Energy Supply Technology (EST)

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Demand in core distribution business for power utilities rose substantially in 2011 as it was the base year for determining grid charges for the coming five-year period. Growth in demand was also seen for overhead lines and high-voltage cabling for transmission networks.

Notable sales highlights were the four contracts received for linking up offshore wind farms, comprising the onshore grid connections via high-voltage direct current transmission cables and high-voltage cabling, including planning and routing work. Demand in the offshore wind energy market continued to be strong overall. Another major contract came from the “German Unity Project 8.2” – a cross-selling project for technical infrastructure (electrical, telecommunications and safety equipment) for the new stretch of ICE railway line between Halle/Leipzig and Erfurt. The contract was awarded by Vienna-based Purr GmbH, which won the tender from the German Federal Railways to serve as the general contractor for superstructure and railway infrastructure. This is the first combined large-scale project shared by GA Netztechnik, GA-EAN and Frankenluk under the leadership of GA Netztechnik. Demand for cabling systems, railway infrastructure and TKT networks (for example for improvements to motorway, railway, radio and broadband networks) remained at a good level.

As in the past, transmission network infrastructure projects suffered from licensing problems, which delayed construction plans even though there was a clear technical need for them. One ray of hope is the intended acceleration in capital spending, fuelled in part by amendments to the German Energy Act (EnWG-ÄndG) and the Grid Expansion Acceleration Act (NABEG).

This year, the AAT Group’s business will again depend primarily on capital spending by energy utilities in Germany and CEE countries. Demand for transmission networks can be expected to grow as European energy infrastructure undergoes expansion. The same goes for the offshore wind farm market. Investment in distribution networks is likely to decline slightly following the rise sparked by the 2011 base year. Engineering operations for large-scale power stations are focusing on the realisation of current projects. At present, there are no projects for new coal-fired or nuclear generating facilities at the award stage in Germany, but there are in other European countries. In energy and environmental engineering, the AAT Group will concentrate on participating in the growth expected in decentralised energy supply. However, no notable capital investment projects are anticipated in this area during the current year.

One of the most significant strategic events for EST business was the establishment of GA-Linel (a new operation to enter the market for transmission network business in northern Italy) headquartered in Bressanone, Italy. GA Linel is a joint venture between GA-HLB (holding a 51% interest) and Italian-based LINEL S.R.L. (holding a 49% interest). The new company formed is engaged in high-voltage line construction and currently employs a workforce of around 20. In addition, GA-EAS formed GA Bauleistungen GmbH, domiciled in Rutesheim, on 1 May 2011. This new company is a provider of civil engineering services for pipeline construction and currently employs close on 30 people.

## **Stabilisation and qualitative growth**

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For the AAT Group, 2011 revolved around the implementation of its qualitative growth strategy. Revenue, profit and the EBIT margin all increased substantially in comparison with 2010, while a variety of measures further improved AAT's strategic positioning in the market. IPPE business focused on implementing the stabilisation strategy designed to maintain its high level of revenue, profit and profitability. The qualitative growth strategy was once again in the forefront for EST operations. All this allowed both areas of business to improve their capacity to strengthen their positioning and exploit their opportunities even more effectively in the marketplace.

## **AAT Group to be sold**

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The Alpiq Group's restructuring will involve a number of disposals. One of the principal moves will be the planned sale of the AAT Group. Preparations for this began in the second half of 2011 and are still being implemented.

## A Year of Reorganisation

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The Corporate Centre was involved in the restructuring of the Alpiq Group at a variety of levels. The aim of Financial Services, for example, is to bolster Alpiq's financial flexibility. Corporate IT has carried out its own reorganisation and will now map Alpiq's new processes and structures. The planned job cuts resulting from the restructuring is a major issue for Human Resources. And Corporate Communications is supporting the restructuring process with appropriate internal and external communications. The reorganisation of the Alpiq Group will also entail significant changes for the Corporate Centre. The plan is to transfer functions to the operational divisions and for the Corporate Centre to concentrate on Group steering functions. Having been prepared in 2011, the reorganisation will take place this year.



## Financial Services

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Financial Services benefited from favourable interest rates by entering into various financing arrangements that helped to improve our debt profile. One sign of successful liquidity management is last summer's CHF 475 million bond placement.

The strong Swiss franc called for flexibility, especially in hedging. Financing the Group in times of trouble-stricken financial markets and weak economic activity was a very challenging task. In particular, the uncertain political situation following the disaster in Japan and the negative trends in the energy markets combined with regulatory factors to increase pressure on earnings. This called for a variety of measures to enhance efficiency. Risk management was especially important in view of the uncertain, negative and volatile market movements, since the market conditions in 2011 meant that counterparty risk increased substantially in some cases. The successful implementation of the new risk policy approved by the Board of Directors at the end of 2010 was therefore an important move.

Internally, Financial Services played an important role in developing the restructuring programme for the Alpiq Group, including preparations to tailor financial processes to the new organisation and optimised business model. The objective is to put comprehensive measures in place to ensure the maximum possible financial flexibility. In addition to the planned disposals, financial measures also included the recognition of impairment charges on Alpiq's assets in the 2011 financial statements. Financial Services formulated an appropriate proposal and submitted it to the Board of Directors.

For Corporate Settlement, 2011 was dominated by the decentralisation of activities, initiated as part of the restructuring programme. The main Settlement & Reporting processes also underwent a number of improvements throughout the year.

Future developments in the currency and financial markets will continue to influence the Alpiq Group's financing in 2012, and reorganisation projects will define the future structure and areas of activity of Financial Services. The adjusted business model could well lead to changes in risk management processes. At regulatory level, reporting requirements, liquidity management and capital requirements will be significantly impacted primarily by the new EU Directives.

## Management Services

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On 1 July 2011, Corporate IT was transferred from the Financial Services functional division to the Management Services functional division. To improve the interface with business operations, the new function of a Business Line Manager was introduced for each business and functional division. Corporate IT was also reorganised to create clear areas of responsibility, streamline IT processes and achieve greater cost efficiency. Reorganisation of the Alpiq Group and the necessary adjustments in the organisation and processes will keep Corporate IT very busy in the current year.

Also in 2011, Corporate Human Resources (HR) continued its initiatives to position Alpiq better in the higher education segment. A survey among tertiary-level graduates ranked Alpiq as the best employer in the Energy & Power sector. Restructuring the Alpiq Group will also entail the loss of some 450 jobs. Corporate HR is deeply involved in these processes and played a leading role in the consultation

procedure laid down by law and in putting together a severance plan. We are doing everything in our power to ensure that this downsizing has as little impact as possible on the employees affected and is completed by the end of 2012.

The nuclear disaster in Japan was a central issue for Corporate Communications. On the day following the earthquake, the internal Japan task force commenced work under the direction of the CEO. Its principal objectives were to analyse the situation, coordinate communications in the industry, issue consistent internal and external communications and put security measures in place (after the letter bomb attack on Swissnuclear).

In 2011, Corporate Public Affairs activities centred on the intensive political discussion on phasing out nuclear power. As long as the contours of future energy supply remain unclear, Alpiq's tasks include helping politicians and the general public to come to an informed opinion and explaining the contradictions, expense and drawbacks involved in changing energy policy. Whether the radical and costly transformation of European energy supply that is mooted will actually take place is still open. In Switzerland, a final decision can only come after a referendum. Also open is Switzerland's future place within the European energy supply system. As Alpiq is directly affected by this, we are committed to finding fair and balanced solutions, which will strengthen security of supply in Switzerland and maintain Alpiq's competitiveness in the international marketplace.

Expansion of Compliance Support was continued in 2011. A staff training campaign was launched following the 2010 revision of Alpiq's Code of Conduct. The Compliance Support department provided instruction for employees throughout the Group with an online training course. An active policy management system was also established in 2011.

In addition to contractual preparations to transfer the transmission system to Swissgrid as part of the GO! project, Corporate Legal was primarily responsible for the ongoing ElCom case concerning the transmission network, together with other important legal proceedings. Intensive legal support was also necessary in respect of the disposals that had been decided on. Adoption of the investment management tool led to improvements in updating and compiling reports for management.

On 1 July, the Business Development functional division was transferred to the new Corporate Strategy & Development functional unit. This also entailed a reorganisation of the functional unit, with long-term market analyses and market forecasting being incorporated into the activities of the Strategy Development and Market Intelligence team. In addition, the functional unit now has a team for special projects and a new team of experts for organisational development and process optimisation within the Alpiq Group.

The profitability difficulties faced by Alpiq made it necessary to re-evaluate the corporate strategy both with regard to geographical focus and to what is offered in the individual regions and at each stage along the value chain. Intensive and painstaking preparatory work was done for this strategic realignment. The functional unit is therefore deeply involved in analysing new trends and technologies and their business potential (e.g. electric mobility, smart grid, combined heat and power generation, RES, photovoltaic power and demand side management).

## Transparency and Fairness

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Alpiq is committed to transparent and accountable corporate governance. Effective management and control systems, an open information policy and ethical principles guarantee transparency and fairness. Alpiq's principles and rules of corporate governance are defined in the company's Articles of Association, Organisational Regulations, Executive Board Regulations, Group Guidelines, the organisational chart and the assignment of subsidiaries, associates and investments. This report describes the related practices and complies with the structure and content of the Corporate Governance Disclosure Guidelines issued by the SIX Swiss Exchange. Unless otherwise stated, the information reflects the status at 31 December 2011.

## Group structure and shareholders

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The management structure of the Alpiq Group has changed considerably since the Annual Report 2010 was published. In a first stage of reorganisation, the number of business and functional units was reduced by one unit each on 1 July 2011. In a second stage, further significant organisational changes were implemented as part of a comprehensive restructuring programme. This report will therefore describe these changes and the new and considerably simplified Group structure as things stood on 31 December 2011.

The division into the Energy and Energy Services segments was abolished on 4 November 2011, and the Energy Services segment was dissolved. Heidelberg-based Alpiq Anlagentechnik AG (AAT), which was originally part of the Energy Services segment, is being maintained as a pure financial investment until it is sold, which will probably be in 2012. Alpiq InTec Ltd. (AIT), domiciled in Zurich, was transferred to the Energy Switzerland business division, while retaining an operational and cost structure tailored to its activities.

Since 31 December 2011, the streamlined Alpiq Group has consisted of three operational business divisions: Energy Switzerland (ECH), Energy International (EINT) and Optimisation & Trading (O&T). The Corporate Centre consists of the Financial Services (FS) and Management Services (MS) functional divisions.

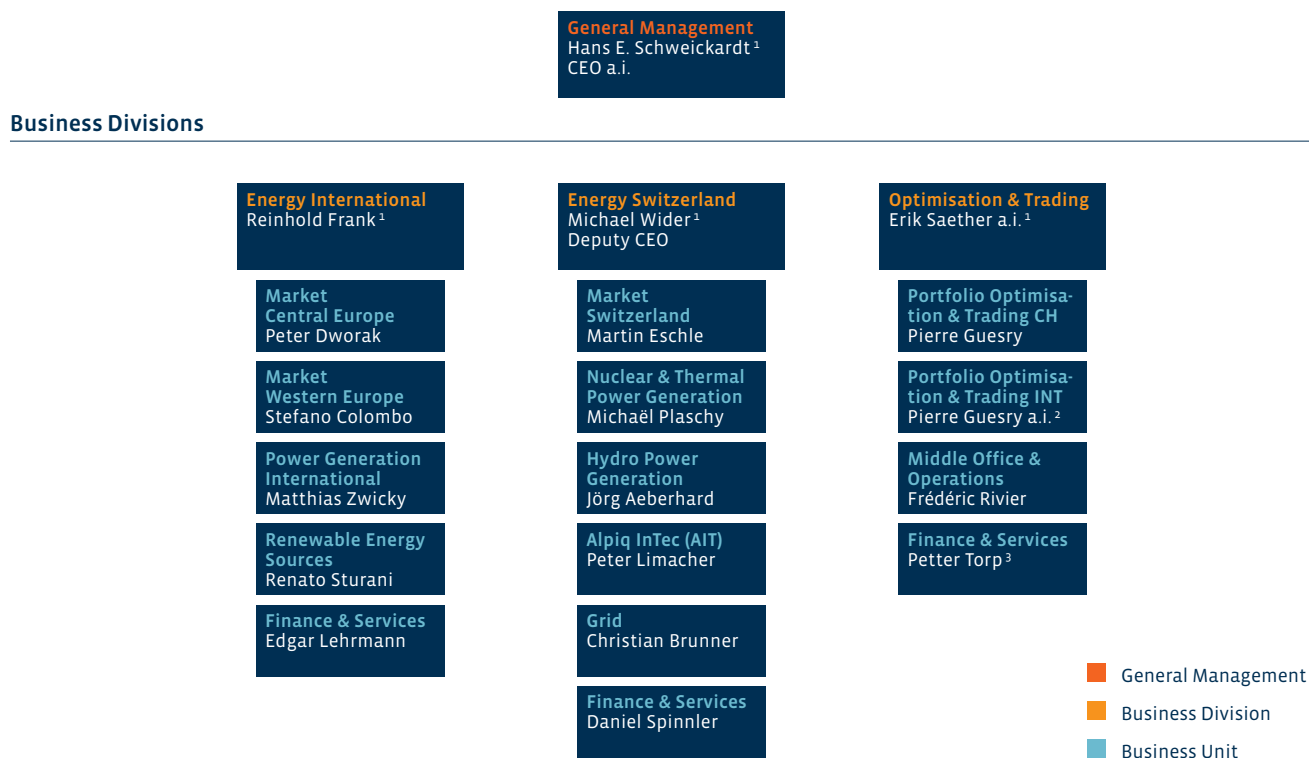
The ECH division is responsible for technical optimisation of our Swiss power generation portfolio, for managing long-term Swiss contracts and for sales activities across Switzerland. It comprises the Market Switzerland, Nuclear & Thermal Power Generation and Hydro Power Generation business units. The Grid business unit will continue to exist until transmission system activities are transferred to Swissgrid, when it will be dissolved. Since 4 November 2011, the AIT Group has been a business unit within the ECH division. The Finance & Services business unit groups the functions decentralised from the Corporate Centre.

The EINT business division is responsible for technical optimisation of the international power generation portfolio, for managing long-term international contracts and for international sales and wholesale activities. It consists of the Market Central Europe, Market Western Europe and Power Generation International business units. International sales activities are concentrated in France, Italy and Romania and on profitable niche markets. The Renewable Energy Sources (RES) business unit was also transferred to EINT as part of the restructuring programme and is responsible for Group-wide projects related to new renewable energy. The Finance & Services business unit groups the functions decentralised from the Corporate Centre.

The O&T business division is responsible for optimising the Group's portfolio, ensures sole market access for the Alpiq Group and provides internal services for the other divisions. It comprises the Portfolio Optimisation & Trading CH, Portfolio Optimisation & Trading INT and Middle Office & Operations business units. The Finance & Services business unit groups the functions decentralised from the Corporate Centre.

The Corporate Centre's activities are combined in Alpiq Management Ltd. The Corporate Centre comprises the Financial Services (FS) and Management Services (MS) functional divisions. The FS division covers Corporate Accounting & Reporting, Corporate Taxes, Corporate Planning & Controlling, Corporate Treasury & Insurance,

## Organisation at 31 December 2011



## Functional Divisions



<sup>1</sup> Member of the Executive Board.

<sup>2</sup> Since 3 Jan 2012 (until 31 Dec 2011: Thomas Ruckstuhl).

<sup>3</sup> Since 1 Jan 2012 (until 31 Dec 2011: N.N.).

Corporate Risk Management. The MS functional unit comprises Corporate Strategy & Development, Corporate Human Resources, Corporate Legal, Corporate Communications, Corporate Public Affairs and Corporate IT. Internal Audit, Compliance Support and the General Secretariat report to the Chairman of the Board.

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### Stock exchange listing

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At 31 December 2011, the parent company, Alpiq Holding Ltd. domiciled in Neuchâtel, had a share capital of CHF 271,898,730 divided into 27,189,873 registered shares of CHF 10 each. The registered shares are listed on the SIX Swiss Exchange under ISIN code CH0034389707. At the end of the year, the company had a market capitalisation of CHF 4,622,278,410 (calculated at the closing price on 30 December 2011 x number of shares = CHF 170 x 27,189,873 registered shares).

Società Elettrica Sopracenerina SA (SES) domiciled in Locarno, which has a share capital of CHF 16,500,000, of which Alpiq holds 60.9%, is also listed on the SIX Swiss Exchange (ISIN code CH0004699440). At the end of 2011, the company had a market capitalisation of CHF 210,650,000 (191.50 x 1,100,000).

The principal consolidated Group companies are listed in the Financial Report on pages 141 to 147. Significant shareholders of record are shown in the Financial Report on page 118 and presented below.

Acquirers of majority shareholdings in Alpiq Holding Ltd. are not required to make a public tender offer pursuant to the Swiss Stock Exchange and Securities Trading Act (opting out). A consortium or shareholder agreement exists between EOS Holding (Lausanne), EDF Alpes Investissements Sàrl (EDFAI, Martigny) and the Swiss consortium of minority shareholders, consisting of EBM (Genossenschaft Elektra Birseck, Münchenstein), EBL (Genossenschaft Elektra Baselland, Liestal), the canton of Solothurn, IBAarau AG, AIL (Aziende Industriali di Lugano SA) and WWZ (Wasserwerke Zug AG). The consortium agreement governs the merger between Aare-Tessin Ltd. for Electricity and the operational units of EOS Holding SA as well as the interest held by EDF (50%) in the electricity purchase rights of Emosson SA, which was completed on 27 January 2009. The agreement also governs matters concerning Alpiq's Corporate Governance and mutual pre-emption rights of the partners in the consortium.

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### Cross-shareholdings

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There are no longer any cross-shareholdings.

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### Capital structure

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#### Share capital

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At 31 December 2011, the share capital of Alpiq Holding Ltd. was unchanged at CHF 271,898,730, divided into 27,189,873 fully paid up registered shares of CHF 10 each.

Alpiq Holding Ltd. has no conditional or additional authorised capital.

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#### Changes in equity

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Statements of Changes in Equity are presented in the Financial Report, on pages 72 and 73 in the Alpiq Group's consolidated financial statements and on page 157 in

the company financial statements of Alpiq Holding Ltd. Statements of Changes in Equity for 2009 can be found in the Annual Report 2010 of Alpiq Holding Ltd., in the Alpiq Group's consolidated financial statements on pages 70 and 71 and the company financial statements of Alpiq Holding Ltd. on page 157 of the Financial Report.

## Shares

Every share represented at the Annual General Meeting of Alpiq Holding Ltd. carries one vote. There are no restrictions on transferability or voting rights. The company has no participation certificates, bonus certificates or convertible bonds outstanding.

## Shareholders at 31 December 2011

Alpiq Holding Ltd.	31.38	EOS Holding
	25.00	EDFAI
	13.63	EBM
	7.12	EBL
	5.60	Canton of Solothurn
	2.30	EnBW
	2.12	AIL
	2.00	IBAAarau
	0.91	WWZ
	9.94	Various (free float)

Percentage ownership interests.

## Board of Directors

The Board of Directors is responsible for the overall guidance and strategic direction of the Alpiq Group as well as for supervising the Executive Board.

### Directors

The Board of Directors consists of 13 members, none of whom exercises any executive functions within the company, with the sole exception of the Chairman, who additionally assumed the position of CEO ad interim when the previous CEO resigned at the end of September 2011. During this time, Christian Wanner is assuming the role of lead director. The Directors are listed below as well as on pages 44 and 45 of this Annual Report.

### Other activities and interests

Biographical details, professional backgrounds and information about other activities of Directors can be found on Alpiq's website at [www.alpiq.com/bod](http://www.alpiq.com/bod).

Directors are elected for a three-year term of office and are eligible for re-election. If a Director is elected mid-term, he completes his predecessor's term.

The Board of Directors constitutes itself. Every year it appoints the Chairman and Deputy Chairman from among its members, as well as a Secretary who need not be a member of the Board.

The Board of Directors met nine times last year, for an average of just under five hours per meeting. The Chairman determines the agenda for Board meetings after consultation with the CEO. Any Director may make a written request for a particular item to be included on the agenda. In advance of meetings, the Directors receive documentation that enables them to prepare for items on the agenda.

Members of the Executive Board normally attend meetings of the Board of Directors in an advisory capacity. They leave the meeting if the Chairman so directs.

The Board of Directors passes its resolutions by a majority of the voting members present. In the event of a tie, the Chairman has the casting vote. Should conflicts of interest arise, the relevant Board member(s) must leave the meeting. Minutes are kept of the Board's deliberations and resolutions. The minutes are distributed to Directors and approved at the following Board meeting. Between meetings, any Director may ask the CEO for information about the company's business and, with the Chairman's authorisation, about individual transactions. To the extent required for the performance of his duties, any Director may ask the Chairman to arrange for him to inspect books and files.

#### Board of Directors at 31 December 2011

Name	First elected	Elected until
Hans E. Schweickardt, Neerach, Switzerland, Chairman	2006	2012
Christian Wanner, Messen, Switzerland, Deputy Chairman	2006	2012
Pierre Aumont, Paris, France	2007	2013
Dr. Hans Büttiker, Dornach, Switzerland	2006	2012
Claude Lässer, Marly, Switzerland	2009	2012
Frédéric Mayoux, Paris, France	2011	2012
Daniel Mouchet, Veyrier, Switzerland	2009	2012
Prof. Guy Mustaki, Pully, Switzerland	2009	2012
Dr. Jean-Yves Pidoux, Lausanne, Switzerland	2009	2012
Dr. Alex Stebler, Nunningen, Switzerland	2006	2012
Urs Steiner, Laufen, Switzerland	2006	2012
Philippe Torrion, Marseille, France	2011	2012
Stéphane Tortajada, Paris, France	2011	2012

#### Control and supervisory mechanisms

The Executive Board reports annually to the Board of Directors on strategic, medium-term and annual targets and on progress towards their achievement. During the year, the Executive Board reports quarterly and at each meeting on performance, progress in achieving targets, and other important developments. The Board of Directors also receives a summary monthly report on key financial figures, an assessment of the risk situation and ongoing internal audits. Furthermore, the Directors receive a written quarterly report showing detailed financial information and the principal activities and projects of the various business and functional divisions.

The external auditors submit a Management Letter to the Board of Directors and give an oral presentation of the results and findings of their audit and of their



future key audit areas. Internal Audit submits an annual audit programme to the Board of Directors for its approval, and subsequently reports periodically on its findings and recommendations as well as on their implementation. The Board of Directors receives an annual written report on the situation and developments in Group-wide risk management and its most important constituents. The report presents principles and limits, details compliance with them and contains information on planned expansion moves.

The Board of Directors also has three committees: the Audit and Risk Committee (ARC), the Nomination and Remuneration Committee (NRC) and the Sounding Board (SB), which was established at the end of August 2011.

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#### **Audit and Risk Committee (ARC)**

The ARC consists of Stéphane Tortajada, who took over as committee chairman from Marc Boudier after the Annual General Meeting on 28 April 2011, Dr. Jean-Yves Pidoux (member), Dr. Alex Stebler (member) and Urs Steiner (member).

The role of the ARC is to support the Board of Directors in carrying out its supervisory duties, particularly with regard to monitoring and assessing the performance and independence of the internal and external auditors, the control system, interim and annual accounting, risk management, compliance and corporate governance.

The ARC submits proposals to the Board of Directors for its approval and, at each meeting of the Board, reports orally on its activities, resolutions, conclusions and recommendations. If the ARC fails to reach consensus on matters within its remit, the decision is made by the full Board of Directors. Minutes of ARC meetings are circulated among the Directors for their information. The ARC also submits an annual accountability report to the Board of Directors, summarising the ARC's activities during the year.

As a rule, the Chairman, CEO, CFO and Head of Corporate Internal Audit attend meetings of the ARC. Depending on the agenda, other unit heads and representatives of the external auditors also attend. Last year, the ARC met six times for an average of three and a half hours per meeting. On these occasions, the ARC deliberated in depth on the programme initiated for restructuring the company and on impairment charges, debt and measures to ensure liquidity.

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#### **Nomination and Remuneration Committee (NRC)**

The NRC consists of Guy Mustaki (committee chairman), Pierre Aumont, (member), replacing Marc Boudier who stepped down at the Annual General Meeting on 28 April 2011, Dr. Hans Büttiker (member) and Christian Wanner (member).

The role of the NRC is to support the Board of Directors in fulfilling its supervisory duties with regard to succession planning for the Board of Directors and Executive Board, as well as formulating the remuneration policy and defining the contractual terms and conditions of employment for the CEO, Executive Board and heads of business/functional units.

The NRC submits proposals to the Board of Directors for its approval and, at each meeting of the Board, reports orally on its activities, resolutions, conclusions and recommendations. Minutes of NRC meetings are circulated among the Directors

for their information. As a rule, the Chairman, CEO and Head of Corporate Human Resources attend meetings of the NRC. Last year, the NRC met 11 times for an average of two and a half hours per meeting. The reorganisation commenced on 1 July 2011, the CEO's resignation at the end of September 2011 and the restructuring measures approved by the Board of Directors on 3 November 2011 led to an increase in the work performed by the NRC.

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#### **Sounding Board (SB)**

The SB consists of Hans E. Schweickardt (committee chairman), Guy Mustaki (member), Stéphane Tortajada (member) and Christian Wanner (member). At its meeting on 26 August 2011, the Board of Directors decided to temporarily set up this additional Board committee to provide the Executive Board with close support during the ongoing restructuring process and to prepare the Board's resolutions in this connection. The SB already met seven times during the reporting year for an average of about two hours per meeting. As a rule, these meetings are attended by the CFO, other Executive Board members directly involved in the restructuring process and project managers.

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#### **Division of responsibilities**

The Board of Directors has delegated responsibility for the Alpiq Group's overall operational management to the CEO. The CEO presides over the Executive Board and has delegated some of his management responsibilities to members of the Executive Board.

The Organisational Regulations and Executive Board Regulations govern the authority and division of responsibilities between the Board of Directors and the CEO or Executive Board.

As part of the Group Guidelines, the CEO has issued regulations, applicable throughout the Group, governing the assignment of authority and responsibilities.

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#### **Information and control mechanisms vis-à-vis the Executive Board**

The Executive Board keeps the Board of Directors informed of important events on an on-going basis. Financial reports are prepared quarterly. Each month the Board of Directors also receives information on the key financial figures and current risk situation. Regular audits by Corporate Internal Audit supplement the information and control mechanisms.

As a rule, members of the Executive Board attend meetings of the Board of Directors to supply any information it may require. They leave the meeting if the Chairman so directs.

Risk management monitors business, market, credit and financial risks. The Board of Directors receives an annual written report on the situation and developments in Group-wide risk management and its most important constituents. The report presents principles and limits, details compliance with them and contains information on planned expansion moves. A central Risk Management Committee reporting to the CFO proposes limits for specific areas based on the results of its analyses. The Executive Board is responsible for assigning the related risk categories.

The overall limit for the Group is set annually by the Board of Directors. The Risk Management Committee monitors compliance with the defined limits and principles.

Corporate Internal Audit, which reports directly to the Chairman of the Board, provides independent and objective auditing and advisory services aimed at adding value and improving business processes. It supports the organisation in achieving its objectives by using a systematic and targeted approach to evaluate the effectiveness of risk management, control mechanisms, and management and monitoring processes and by helping to improve them. Corporate Internal Audit is a management tool for the Board of Directors and its various committees, particularly for the ARC and CEO. Corporate Internal Audit is intended to assist the Board of Directors and Executive Board in performing their monitoring and control functions. At the ARC's request, the Board of Directors annually approves the audit plans drawn up by Corporate Internal Audit and the summary report. Individual audit reports are submitted to the Chairman and (in summary form) to the ARC and are tabled for discussion at each meeting. Corporate Internal Audit engages an advisor independent of the external auditors for its work.

Since 4 November 2011, the Compliance Support unit has also reported directly to the Chairman of the Board. The main role of Compliance Support is to raise awareness of potential compliance risks, provide coaching for staff in compliance matters, manage the whistle-blower system, give advice on issues pertaining to compliance and implement the policy management system. In doing this, Compliance Support assists the Board of Directors and the Executive Board in ensuring that the company and its employees act in accordance with rules and regulations.

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## **Executive Board**

The Executive Board consists of six members. Heinz Saner and Antonio Taormina left the Executive Board as a result of the reorganisation commenced on 1 July 2011. Herbert Niklaus and Peter Heydecker also left the Executive Board with the restructuring initiated on 4 November 2011; the latter was replaced by Eric Saether (ad interim). Since 30 September 2011, the Chairman of the Board, Hans E. Schweickardt, has additionally served as CEO ad interim. The members of the Executive Board are listed on pages 46 and 47 of this Annual Report. Biographical details and information about other activities and interests can be found on Alpiq's website at [www.alpiq.com/executive-board](http://www.alpiq.com/executive-board). No management contracts exist.

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## **Remuneration, shareholdings and loans**

Principles, objectives and remuneration paid to Executive Board members and Directors are disclosed in the separate Remuneration Report on pages 48 to 51.

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## **Shareholders' participation rights**

Every share represented at the Annual General Meeting carries one vote. There are no restrictions on transferability or voting rights. The only quotas applicable at the Annual General Meeting are those set out in the Swiss Code of Obligations. Annual General Meetings are convened in accordance with the rules set out in the Swiss Code of Obligations.

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## Agenda

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Shareholders' participation rights are governed by law and by the company's Articles of Association. The Articles of Association can be downloaded from the company's website at [www.alpiq.com/corporate-governance](http://www.alpiq.com/corporate-governance).

Shareholders may request that a particular item to be included on the agenda at least 50 days prior to the Annual General Meeting, provided they represent shares with an aggregate par value of at least CHF 1 million. Registered shares must be entered in the share register at least one week before the Annual General Meeting in order for shareholders to be eligible to vote.

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## Change of control and defensive measures

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### Mandatory tender offer

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Purchasers of majority shareholdings in Alpiq Holding Ltd. are not required to make a public tender offer pursuant to the Swiss Stock Exchange and Securities Trading Act (opting out). The Articles of Association do not provide for any other defensive measures.

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### Change-of-control clauses

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The Executive Board members' employment contracts contain no change-of-control clauses.

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## Auditors

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Ernst & Young Ltd, Zurich, has served as statutory auditors of Atel Holding Ltd/ Alpiq Holding Ltd. since 2002. The statutory and Group auditors are appointed by the Annual General Meeting for a one-year term of office. Their performance and fees are reviewed annually. Ernst & Young Ltd's current lead audit partner has performed this function since 2006. For last year, Ernst & Young Ltd received fees of approximately CHF 6.38 million for its services as statutory and Group auditors. Of this amount, approximately CHF 4.32 million was paid for audit services, approximately CHF 0.27 million for audit-related services, approximately CHF 0.42 million for tax services and approximately CHF 1.37 million for transaction support.

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### External audit information mechanisms

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The Audit and Risk Committee (ARC) is the supervisory body for the external auditors. The external auditors report to the ARC at least once a year on the audits they have conducted and the resultant findings and recommendations. The ARC agrees audit plans with the external auditors in advance and assesses their work. The external auditors submit a Management Letter to the full Board of Directors once a year. The ARC may at any time invite the external auditors to attend its meetings, and did so on two occasions last year. The ARC has decided that the auditors should attend more meetings in the future.

## **Information policy**

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Alpiq provides its shareholders, potential investors and all other stakeholders with comprehensive, timely and regular information through its annual, interim and quarterly reports, annual media and financial analyst conferences, and Annual General Meetings. Our communication channels also include our regularly updated website at [www.alpiq.com](http://www.alpiq.com) as well as media releases on important events. Contact addresses are listed on the website at [www.alpiq.com/contact](http://www.alpiq.com/contact). Key dates for the current financial year are shown on page 167.

## **2011 Annual General Meeting**

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At the 3<sup>rd</sup> Annual General Meeting of Alpiq Holding Ltd. held on 28 April 2011, the 445 shareholders present approved the 2010 consolidated financial statements of the Alpiq Group as well as the 2010 Annual Report and company financial statements of Alpiq Holding Ltd. and voted in favour of the Board of Directors' proposal to pay a dividend of CHF 8.70 per registered share of Alpiq Holding Ltd. The acts of the Board of Directors were ratified. In place of Marc Boudier, Philippe Huet and Guillaume de Forceville, who stepped down in 2011, Frédéric Mayoux, Philippe Torrion and Stéphane Tortajada were elected to the Board of Directors for the remaining term of office until 2012. The auditors were reappointed for another year.

# Board of Directors

**1 Hans E. Schweickardt**  
**Chairman**

- Dipl. El.-Ing. ETHZ, Alpiq CEO a.i.
- Swiss national
- Chairman of Grande Dixence SA, Sion/Kernkraftwerk-Beteiligungsgesellschaft AG (KKG), Bern; Dep. Chairman of Swisselectric, Bern; Supervisory Board member of the European Energy Exchange (EEX), Leipzig/Board Committee member of economiesuisse, Zurich

**2 Christian Wanner**  
**Deputy Chairman, Lead Director**

- Farmer, Member of Solothurn Cantonal Government
- Swiss national
- Director of Schweizer Rheinsalinen AG, Pratteln; Chairman of Finance Directors' Conference; Chairman of ch Stiftung, Solothurn/Institute of Federalism, Fribourg

**3 Pierre Aumont**  
**Director**

- Engineering degree, Ecole Centrale (Paris)
- French national
- Management member of Electricité de France (EDF)

**4 Hans Büttiker**  
**Director**

- Dr. sc. tech., Dipl. El.-Ing. ETHZ, Solothurn Cantonal MP, CEO of EBM, Münchenstein
- Swiss national
- Chairman of Kleinkraftwerk Birseck AG, Münchenstein; Director of Kraftwerk Birsfelden AG, Birsfelden/Kraftwerk Augst AG, Augst

**5 Claude Lässer**  
**Director**

- Lic. rer. pol., former Fribourg State Councillor
- Swiss national
- Chairman of Groupe E Ltd, Fribourg; Director of EOS Holding SA, Lausanne/Banque Cantonale de Fribourg, Fribourg/Schweizer Rheinsalinen AG, Pratteln

**6 Frédéric Mayoux**  
**Director**

- Master of Law (European Community Law), Diploma in International Relations, Head of Customers and Sales, Optimisation & Trading with Electricité de France (EDF)
- French national
- Director of Powernext, Paris

**7 Daniel Mouchet**  
**Director**

- Architect
- Swiss national
- Chairman of Services industriels de Genève, Vernier/Gaznat SA, Lausanne; Dep. Chairman of Hydro Exploitation SA, Sion; Director of EOS Holding SA, Lausanne/Grande Dixence SA, Sion

**8 Guy Mustaki**  
**Director**

- Solicitor, Professor at Lausanne University
- Swiss national
- Chairman of Romande Energie Holding SA, Morges/EOS Holding SA, Lausanne; Director of Grande Dixence SA, Sion

**9 Jean-Yves Pidoux**  
**Director**

- PhD in Sociology and Anthropology, Vaud Cantonal MP, Lausanne City Councillor
- Swiss national
- Director of Romande Energie Holding SA, Morges/EOS Holding SA, Lausanne/Grande Dixence SA, Sion/Gaznat SA, Lausanne/RhôneEole SA, Collonges

**10 Alex Stebler**  
**Director**

- Dr. oec.
- Swiss national
- Chairman of EBM (Genoss. Elektra Birseck), Münchenstein/EBM Trirhena AG, Münchenstein/Stebler Co Limited, Nunningen

**11 Urs Steiner**  
**Director**

- Energy engineer, HTL; CEO of EBL, Liestal
- Swiss national
- Chairman of Geopower Basel AG, Basel/Waldenburgerbahn AG, Waldenburg/IREL AG, Liestal/EBL Telecom AG, Liestal; Director of Kraftwerk Birsfelden AG, Birsfelden/Infel Ltd, Zurich

**12 Philippe Torrión**  
**Director**

- Ecole Polytechnique, Ecole Nationale Supérieure des Mines
- French national
- Head of Optimisation & Trading with Electricité de France (EDF)

**13 Stéphane Tortajada**  
**Director**

- Engineer, ENPC; M.A. (DESS) in Corporate Finance/Internat. Financial Markets, EDF Group Head of Finance and Investments
- French national
- Chairman of SOFILO/GGF/EDEV; Director of British Energy Group Plc/EDF Trading/EDF International/EDF Energies Nouvelles; Supervisory Board member of Dalkia Holding

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# Executive Board

**1 Hans E. Schweickardt**  
**CEO a.i.**

- Dipl. El.-Ing. ETHZ
- Swiss national
- Born 1945
- Joined the Atel Group in 2003, CEO a.i. since 2011
- Chairman of Grande Dixence SA, Sion/Kernkraftwerk-Beteiligungsgesellschaft AG (KBG), Bern; Dep. Chairman of Swisselectric, Bern; Supervisory Board member of the European Energy Exchange (EEX), Leipzig/ Board Committee member of economiesuisse, Zurich

**2 Michael Wider**  
**Head of Energy Switzerland, Deputy CEO**

- Lic. iur., MBA
- Swiss national
- Born 1961
- Joined the Alpiq Group in 2003, member of the Executive Board since 2009
- Chairman of HYDRO Exploitation SA, Sion/ Nant de Drance SA, Finhaut; Director of Società Elettrica Sopracenerina SA, Locarno/ Repower AG, Brusio/AEK Energie AG, Solothurn/Kernkraftwerk Gösgen-Däniken AG, Däniken/Grande Dixence SA, Sion/swissgrid Ltd, Laufenburg/RESUN AG, Aarau; Board member of Swisselectric, Bern/VSE, Aarau

**3 Kurt Baumgartner**  
**Head of Financial Services, CFO**

- Lic. rer. pol.
- Swiss national
- Born 1949
- Joined the Alpiq Group in 1975, member of the Executive Board since 1992
- Chairman of PKE Pensionskasse Energie, Zurich; Director of Repower AG, Brusio/AEK Energie AG, Solothurn/Kernkraftwerk Gösgen-Däniken AG, Däniken

**4 Reinhold Frank**  
**Head of Energy International**

- Dipl. Ing., Dipl. Wirtsch.-Ing.
- German national
- Born 1955
- Joined the Alpiq Group in 2006 as a member of the Executive Board

**5 Benoît Revaz**  
**Head of Management Services**

- Lic. iur., MSCOM (Executive Master of Science in Communications Management)
- Swiss national
- Born 1971
- Joined the Alpiq Group in 2004, member of the Executive Board since 2009

**6 Erik Saether**  
**Head of Optimisation & Trading a.i.**

- BBA, Norwegian School of Economics
- Norwegian national
- Born 1954
- Joined the Alpiq Group in 2009, member of the Executive Board since 2011



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# Remuneration Report

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## Principles and objectives

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Applying the principles of good corporate governance, Alpiq provides competitive remuneration and a performance- and value-based bonus system designed to motivate senior management to sustainably enhance shareholder value.

Alpiq's remuneration guidelines and bonus systems provide for management salaries commensurate with the tasks and responsibilities, taking into account the economic situation, results of operations and the company's future outlook. Accordingly, the total remuneration packages for members of the Executive Board and heads of business and functional units consist of:

1. fixed, non-performance-related components;
2. short-term performance-related bonus payments based on a financial year; and
3. long-term performance-related bonus payments spread over several reporting periods.

## Market-compliant remuneration

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To ensure that the remuneration of members of the Executive Board, heads of business and functional units and Directors is in line with standard market practice, Alpiq regularly engages an independent external consultancy firm to review the total pay packages relative to the market environment. This includes an analysis of the level and structure of salaries, using as a benchmark the changes in the results of listed Swiss and European electricity and energy companies with similar structures and operations and of a similar size. The last such external review was conducted in August/September 2009.

## Disclosures

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As required by Section IV of the Swiss Code and Section 5 of the SIX Swiss Exchange Corporate Governance Disclosure Guidelines, Alpiq discloses the following information:

- content and method of determining remuneration;
- remuneration to current members of governing bodies;
- remuneration to former members of governing bodies;
- additional fees and remuneration;
- loans to members of governing bodies.

No share award or share option schemes are provided for members of Alpiq's governing bodies.

## **A. Executive Board members' remuneration**

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### **Principles**

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Employment contracts, terms and conditions of employment and remuneration of members of the Executive Board are approved and regularly reviewed by the Nomination and Remuneration Committee (NRC) appointed by Alpiq's Board of Directors. The NRC sets the objectives for the Chief Executive Officer (CEO) and approves those set for the Executive Board as proposed by the CEO.

Details of bonus payments are set out in the bonus regulations, which the NRC approves at the request of the CEO. In 2011, members of the Executive Board received remuneration in accordance with the bonus regulations that have been in force since 1 January 2011.

### **Bonus entitlement**

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Under the terms of the bonus regulations, the CEO and the heads of business and functional divisions are entitled to a bonus. If a member of the Executive Board performs a dual function, the bonus is based on the higher function only.

The Chairman of the Board took on the additional role of Chief Executive Officer ad interim from 30 September 2011. At Executive Board level, Herbert Niklaus performed a dual function as Head of the Energy Services business division and General Manager of the Alpiq Anlagentechnik business unit based in Heidelberg, while Michael Wider performed a dual function as Head of the Energy Switzerland business division and General Manager ad interim of the Market Switzerland business unit until 31 August 2011.

### **Structure of remuneration**

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In 2011, Executive Board members were paid remuneration comprising a fixed, non-performance-related base salary and a variable, performance-related salary. The variable salary, in turn, consists of a short-term performance-related component (short-term bonus, STB) and a long-term performance-related component (long-term incentive, LTI). While payment of the STB is based on personal and financial objectives, payment of the LTI is linked to the long-term increase in shareholder value.

### **Short-term bonus (STB)**

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The aim of this short-term bonus component is to motivate Executive Board members and provide rewards for business performance based on annual results.

Payment of 30% of the nominal value of the STB is based on the achievement of up to six personal performance objectives (qualitative components). These include, for example, the fulfilment of clearly defined, measurable project and efficiency targets and the achievement of milestones, but not financial targets.

70% of the payment is dependent on achieving the EBITDA targets (profit before interest, tax, depreciation and amortisation) set by the NRC at the beginning of the financial year (quantitative/financial component).

The quantitative component is calculated using the target EBITDA (100%) set by the NRC. If the target EBITDA is achieved, the financial component amounts to 100%

of the defined proportion of the nominal value. No additional payment of the quantitative component is made if EBITDA exceeds the EBITDA cap set by the NRC. The quantitative component of the STB is also subject to a benchmark coefficient which can increase or reduce the amount paid out. To this end, EBITDA achieved is compared with that of Alpiq's competitors. If EBITDA is below the EBITDA floor set by the NRC, the quantitative component of the STB is not paid out.

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#### **Long-term incentive (LTI)**

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The aim of the LTI is to motivate Executive Board members to contribute to enhancing Alpiq's medium- to long-term shareholder value in the interests of sustainable management. Actual payment is therefore made only three years after the LTI has been granted. Economic Value Added (EVA) is used as an indicator of sustainable growth in shareholder value. The LTI is paid in cash.

The nominal value of the LTI is defined by the NRC at the beginning of the financial year. Payment of the LTI is based on reaching the defined EVA targets after three years. Every year the NRC determines the target EVA figures on the basis of Alpiq's corporate plans approved by the Board of Directors. If the sum of the defined EVA targets is reached after three years, 100% of the nominal value is paid out as an LTI. No additional payment is made if EVA exceeds the EVA cap set by the NRC. The amount paid out as an LTI can be additionally increased or reduced by applying the EBITDA benchmark coefficient. To this end, the EBITDA achieved in each year is compared with the levels of Alpiq's competitors (see also STB).

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#### **Capping and other regulations**

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The amount of the base salary and the two bonus components, STB and LTI, may not exceed three times the base salary of any Executive Board member. Amounts in excess of this ceiling are not paid out.

Irrespective of this rule, the NRC is however authorised to grant special bonuses to individuals in exceptional cases.

In justifiable exceptional cases, the NRC may also decide that the CEO (at the request of the Chairman of the Board) or the head of a business or functional division (at the request of the CEO) should be paid no bonus (STB and/or LTI).

The bonus payment constitutes taxable income and is therefore subject to all social security and insurance charges (AHV/IV/ALV/EO).

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#### **Amount of remuneration**

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In 2011, remuneration paid to the Executive Board totalled CHF 8.5 million (CHF 12 million), of which regular remuneration accounted for CHF 6.3 million (CHF 10.1 million) and pension benefits for CHF 2.2 million (CHF 1.9 million). Amounts in brackets relate to the previous year. Last year, the ratio of fixed salary (totalling CHF 5.251 million) to variable components (totalling CHF 1.041 million) was 83% to 17%. Details of remuneration are set out on pages 162 and 163 in the Financial Report.

Since 30 September 2011, Hans E. Schweickardt has served as CEO ad interim. For this function, he did not receive any additional remuneration, nor did he participate in the bonus programme for the Executive Board.

## **B. Directors' remuneration**

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In 2011, remuneration paid to Alpiq Directors totalled CHF 3.9 million (CHF 3.6 million), of which regular remuneration accounted for CHF 3.7 million (CHF 3.4 million) and pension benefits for CHF 0.2 million (CHF 0.2 million). Amounts in brackets relate to the previous year.

Hans E. Schweickardt is regularly employed full-time as Chairman of Alpiq Holding Ltd. All additional emoluments for other services to the Alpiq Group accrue to the company.

Directors' remuneration comprises fees, expenses and other benefits. These components are non-performance-related. Details of payments made to Directors are provided on pages 160 and 161 in the Financial Report.



# Financial Report 2011

Our operating results were well down on the year before due to the adverse impact of the changed market and underlying conditions, coupled with the strong Swiss franc. By reducing costs, Alpiq managed to mitigate the strong negative trend somewhat, but large impairment charges and provisions led to a bottom-line loss. The restructuring programme put in place will improve financial flexibility.

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# Alpiq Group Financial Review

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## Preliminary notes

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Alpiq announced a comprehensive restructuring programme in November 2011, including a cost-reduction programme with job cuts, the sale or closure of sales operations and various asset disposals. This package of measures necessitated the recognition of impairment charges and provisions that reduced profit for 2011. Additional impairment losses also had to be recognised on the power generation assets in Italy, France, Spain and Germany. The impairment of these facilities is due to the effects of the financial and economic crisis, surplus power generation capacity in Europe and the resulting low electricity prices and margins. In addition, the cost of capital rates used for valuation rose over the past twelve months in view of the great increase in country risks. Impairment losses and provisions charged against operating profit (EBIT) totalled CHF 1.745 billion.

In order to disclose exceptional items transparently and show them separately, the consolidated income statement is presented below as a pro forma statement. The financial review of the Alpiq Group and its business divisions that follows relates to operations, i.e. discusses performance before impairment charges and provisions.



## Consolidated income statement for 2011 (pro forma statement before and after impairment charges)

CHF million	2010	2011		2011
		Results of operations	Impairment charges	After impairment charges
<b>Net revenue</b>	<b>14,104</b>	<b>13,984</b>	<b>- 23</b>	<b>13,961</b>
Share of profit of associates	97	44	- 823	- 779
Own work capitalised	50	102		102
Other operating income	131	103		103
<b>Total revenue and other income</b>	<b>14,382</b>	<b>14,233</b>	<b>- 846</b>	<b>13,387</b>
Energy and inventory costs	- 11,440	- 11,619	- 113	- 11,732
Employee costs	- 986	- 986	- 30	- 1,016
Plant maintenance costs	- 42	- 80		- 80
Other operating expenses	- 442	- 417	- 106	- 523
<b>Profit before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>1,472</b>	<b>1,131</b>	<b>- 1,095</b>	<b>36</b>
Depreciation, amortisation and impairment	- 502	- 579	- 650	- 1,229
<b>Profit/(loss) before interest and tax (EBIT)</b>	<b>970</b>	<b>552</b>	<b>- 1,745</b>	<b>- 1,193</b>
Net finance costs	- 156	- 181		- 181
<b>Profit/(loss) before income tax</b>	<b>814</b>	<b>371</b>	<b>- 1,745</b>	<b>- 1,374</b>
Income tax expense	- 169	- 113	141	28
<b>Group profit/(loss) for the year</b>	<b>645</b>	<b>258</b>	<b>- 1,604</b>	<b>- 1,346</b>
Attributable to non-controlling interests	- 7	- 16	37	21
Attributable to owners of Alpiq Holding	638	242	- 1,567	- 1,325
<b>Earnings per share in CHF</b>	<b>23</b>	<b>9</b>	<b>- 58</b>	<b>- 49</b>

On page 67 onwards, the consolidated financial statements for the year ended 31 December 2011 are presented in accordance with IFRS accounting rules, including exceptional items.

### Alpiq Group results of operations

The 2011 financial year was characterised by profound distortions in the financial, currency and commodities markets, the repercussions of the tragic accident in Fukushima and the ensuing uncertainty surrounding the future direction of energy policy and the energy industry. A persistent glut of power generation capacity, exacerbated by government incentives to expand renewable energy sources, relatively high fuel prices and the sluggish trend in demand for energy continued to drive down the prices and margins for electricity, which had been low anyway. In particular, the price differentials between peak and base load energy and the spreads on electricity generated by thermal power stations remained very narrow, or continued to fall, and hit Alpiq hard. This erosion was significantly aggravated by the movements of the Swiss franc and regulatory changes in many European countries. Added to that, water flow in Switzerland was well below the long-term average, and the decommis-

sioning and waste disposal costs of nuclear power stations increased appreciably. The positive effect of deals secured at higher prices and margins in previous years also continued to diminish. A considerable drop in demand was seen in supply business due to the generally warm temperatures.

Performance was positively impacted by the excellent availability of the power generation interests in Switzerland and France and the very good availability of the thermal power stations in the Czech Republic and Hungary. Profit was also boosted by management of the long-term contract between France and Italy, which expired at the end of 2011, coupled with the sales activities of various units. In addition, the new gas-fired combined cycle power stations commissioned in Italy and France delivered their first contributions to profit. Once again, the German and Swiss energy services businesses also made a solid and substantial contribution to profit.

However, as the negative factors significantly outweighed the positive ones on balance, the operating results were considerably down on the previous year. Having already begun to show in 2010 and becoming more pronounced from the beginning of the 2011 financial year, the slowdown in performance was duly announced by Alpiq. To improve the situation, measures to cut costs and ameliorate results were already taken in 2010 and reinforced in early 2011, thus mitigating the decline in profits. However, the negative fallout from the disaster in Fukushima and the soaring Swiss franc started to gain increasing momentum and take on unexpected proportions in early summer 2011. The most tangible slump was seen in the third and fourth quarters of 2011, reflecting the appreciation of the Swiss franc in the months of May to September 2011.

Alpiq responded by initiating another, more sweeping programme of measures in August 2011 so as to curb further erosion of profits. These measures were announced in early November 2011. In future, the Group will focus on its profitable core business and improve efficiency by streamlining its organisation and retrenching costs by some CHF 100 million by the end of 2012. At the same time, debt is going to be reduced substantially by cutting back on capital spending and disposing of operations, while eliminating impairment risks from the statement of financial position.

Although the Group generated consolidated revenue of CHF 13.984 billion and virtually matched the year-earlier figure (CHF 14.104 billion), EBITDA fell by 23% to CHF 1,131 million (2010: CHF 1,472 million) and EBIT dropped by 43% to CHF 552 million (CHF 970 million).

Net finance costs were up 16% year on year to approximately CHF 181 million. The net amount was adversely impacted by increased interest expense due to higher borrowings as well as changes in the fair value of interest rate hedges and the lower amount of capitalised interest on long-term capital projects. This was offset in part by net foreign exchange gains.

Compared with the previous year, income tax expense decreased by 33.1% to CHF 113 million. The average tax rate rose to 30.5% in 2011 (2010: 20.8%), primarily because some of the losses of foreign Group companies could not be offset against tax. Furthermore, the Alpiq Group's tax expense still reflects the effect of various European governments' moves to extend their tax base and raise tax rates.

Consolidated Group profit for the year, including non-controlling interests, came in at CHF 258 million compared to CHF 645 million a year earlier.

## **Group financial position**

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At the reporting date on 31 December 2011, total assets amounted to approximately CHF 17.4 billion compared to CHF 18.5 billion a year earlier. As Alpiq plans to sell or discontinue various operations within the next 12 months, certain items had to be reclassified in the statement of financial position. For this reason, non-current and current assets of CHF 1.8 billion and liabilities of CHF 0.7 billion associated with these operations<sup>1</sup> are reported as "assets held for sale" and "liabilities held for sale" in the statement of financial position at 31 December 2011.

Compared with 31 December 2010, total assets were down by approximately CHF 1.0 billion during the reporting period, primarily because of the impairment charges of CHF 1.5 billion recognised on non-current assets. In addition, depreciation and amortisation charges of CHF 0.6 billion were recognised for property, plant and equipment and intangible assets. At the same time, a total amount of CHF 0.7 billion was spent on the Eolo Tempio Pausania (ETP) wind farm, the completion of the San Severo and Bayet gas-fired combined cycle power stations, the Plana del Vent acquisition and replacements of property, plant and equipment.

Current assets declined by approximately CHF 0.5 billion, largely due to the reclassifications mentioned above. Excluding the impact of these items, the change was CHF 0.2 billion, mainly as a result of higher receivables.

The decrease of approximately CHF 1.6 billion in equity is primarily attributable to the loss of CHF 1.3 billion for the period remaining after impairment charges and to the dividends of CHF 0.2 billion paid in spring 2011. The equity ratio stood at 35.6% at the reporting date, compared to 42.1% a year earlier. Borrowings were up due to the funds required for ongoing capital expenditure and to strengthen the liquidity base. Including liquid assets and term deposits, net debt was approximately CHF 4.7 billion. The ratio of net debt to EBITDA before impairment charges rose to 4.1<sup>2</sup> (2010: 2.7) because of the above-mentioned capital expenditure commitments already entered into in previous years.

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<sup>1</sup> For details, please refer to page 65.

<sup>2</sup> Including loan to Edipower as part of the cash position.

## Energy Switzerland, Energy Western Europe, Energy Central Europe and Trading & Services business divisions

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### Market conditions

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2011 was dominated by specific dramatic events and their later repercussions, in some cases brought about by regulatory measures. As the euro and debt crisis spread, the value of the Swiss franc kept rising during the reporting period. In September, the Swiss National Bank reacted and set a minimum exchange rate of CHF 1.20 against the euro. Furthermore, the severe reactor accident in Japan had lasting ramifications for the energy markets. After an initial surge, electricity prices fell and, in some cases, remained at lower levels than before the nuclear disaster over the year as a whole. The continuing mild weather, further expansion of renewable energy, an uncertain economic outlook and the slump in the prices of CO<sub>2</sub> certificates caused the prices of most electricity products to slide steadily. The decision taken in 2010 to extend the lives of German nuclear power stations was reversed in mid-2011 and several plants were taken out of operation, thus reducing power generation capacity by 8 GW. Despite this turn of events, the low margins of gas-fired power stations hardly improved, but the margins of bituminous coal-fired power stations did widen slightly. Following on from the year before, the peak/off-peak spreads continued to narrow.

### Performance of the units

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The Energy Switzerland business division did not manage to repeat the good results reported a year earlier. Its operations suffered from the unfavourable market and pricing structure in the energy sector and from significantly lower hydroelectric output caused by the weather conditions and operational constraints. Operating profit (EBIT) was CHF 355 million for the reporting period as compared to CHF 516 million in the previous year.

Marketing of output from Swiss facilities and under long-term contracts was affected by the sideways price movements in the energy markets and narrower price differentials between peak and base load power due to shifts in energy supply. This was compounded by the strong Swiss franc, which weighed on margins because most electricity trading is conducted in euros. Attractive hedging transactions like those in past years when prices reached all-time highs could not be realised again as electricity prices remained low.

Annual output from all of Alpiq's Swiss power generation sources dropped from 11,010 GWh to 10,330 GWh. The hydroelectric power stations generated considerably less electricity than a year earlier because of the low precipitation levels in spring and autumn, exacerbated by operational constraints arising from work to expand and upgrade generating facilities. This was only compensated in part by increased output from French nuclear plants. The Swiss nuclear power stations operated without incident and generated about the same volumes as in previous years. Construction work on the Nant de Drance and FMHL+ pumped storage facilities in the cantons

of Valais and Vaud proceeded according to plan. However, the project costs for the Niederamt replacement nuclear power station had to be written off and the activities stopped because the general licensing procedures were suspended.

Swiss supply and sales operations also failed to match the previous year's results. Demand was significantly down on 2010 due to the warm temperatures in winter and spring, causing the total sales volume in Switzerland to decline from 9,505 GWh to 8,374 GWh. At the same time, the energy efficiency business was expanded further, with the acquisition of Xamax AG and the combined market presence with the Alpiq InTec Group opening up new business opportunities.

The two transmission network companies, Alpiq Grid Ltd. Gösgen and Alpiq Grid Ltd Lausanne, performed in line with expectations, making further progress towards transferring ownership of the transmission system to swissgrid Ltd, which is scheduled for mid-2012.

The Energy Western Europe business division delivered an increase in both sales volume and revenue in a year-on-year comparison. While the expansion of sales business drove significant growth in the volume sold in France, Spain and Italy, additional volumes were generated as a result of the management and optimisation of the power stations commissioned in Spain, France and Italy during the first half of the year. Nevertheless, the business division's operating profit was considerably down from a year earlier. The main reasons for this deterioration were the declining margins in Italian sales business, lower revenues from trading CO<sub>2</sub> allowances and negative profit contributions from some power generation facilities. In 2011, the business division earned operating profit (EBIT) of CHF 131 million versus CHF 190 million in the previous year.

Performance in the Market Italy business unit was mixed. Imports under the long-term contract that expired at the end of 2011 were very successful. Falling demand for energy and an increasing glut of conventional power generation capacity, exacerbated by substantial growth in renewable energy sources, resulted in low spark spreads and a persistent reduction in the price differentials between peak and base load products. This prevented the power stations from being managed profitably, which continued to weigh on the local business results. Unlike the previous year, the unit was unable to offset these negative drivers in 2011 because the local sales margins declined as market prices increased. In addition, a repetition of the very high revenues recorded a year earlier from trading CO<sub>2</sub> allowances was not possible.

Market Europe West, comprising activities in France and Spain, expanded its sales volume significantly. While competition increased in the face of new legislation for the French energy sector, Alpiq managed to make up for the reduced margins and bolster its position as the principal alternative electricity provider in France by continuing to grow its sales business with industrial consumers. Although the sales

volume also rose in Spain, the results from sales business remained low because of the slowdown in the local economy.

Alpiq has decided to discontinue sales activities in the Nordic market. The results for 2011 showed a year-on-year improvement, driven in part by the effects of the comprehensive restructuring process and the measures put in place during 2010.

For the Power Generation West business unit, comprising the power generation assets in Italy, France and Spain, the year was dominated by the commissioning of additional production capacities amid a challenging market environment. These facilities were brought online without any major problems and, for the most part, on schedule. So far, their technical operation has also been trouble-free. Operation of the new San Severo power station in Italy delivered a positive contribution to profit. In contrast, regulatory changes and distortions in the markets meant that the profit contribution from the Plana del Vent gas-fired combined cycle power station in Spain was lower than expected. In the meantime, a number of initiatives have been taken with the aim of improving the profitability of this generation facility. A positive contribution to profit also came from the new 400 MW Bayet gas-fired combined cycle power station (3CB).

Late in the year, Alpiq announced plans to dispose of its 20% interest in Italian power generator Edipower, held since 2002. Having significantly helped to expand business in Italy, this stake has come under considerable economic pressure in recent years.

Profit in the Central Europe business division reflected the enduring effects of the market volatility seen in the first quarter. Losses came about due to the sudden surge in wholesale market prices triggered by the accident in Japan at a time when Alpiq held a considerable short position. Added to that, sales business in Romania suffered from considerably higher procurement costs due to the difficult water flow situation. Conversely, power generation operations at the plants in the Czech Republic and Hungary even managed to beat the previous year's results in local currency and excluding the impact of exceptional items (provisions reversed in 2010). However, most of this successful operating performance was neutralised by the ever strengthening Swiss franc. Operating profit (EBIT) reached CHF 57 million versus CHF 151 million a year earlier.

Rising prices in the first quarter led to significant losses in the Market Central Europe business unit due to short positioning of the portfolio. Although counteractive measures were taken immediately and prevented further major erosion, it was no longer possible to offset the negative effects of the first quarter. Exceptionally poor water flow in Romania meant that less electricity could be purchased from hydro-electric power stations, consequently driving up market prices. As a result, the Romanian sales units were compelled to purchase energy from other sources at considerably higher prices.

The Power Generation Central business unit topped the previous year's operating profit in local currency, driven by the higher contribution from the Czech power generation units. The Kladno and Zlín coal-fired power stations offset the lower revenues from ancillary services in the Czech Republic somewhat due to the recovery in local spreads and the higher proportion of deliveries to local industrial customers. Heat supplies remained at the year-earlier level overall. At the same time, Csepel's electricity output was well up as the power station was increasingly used to regulate the Hungarian grid. In contrast, Spreetal's results suffered from the lower spark spreads in the German market.

Construction of the new power generating unit in Kladno (K7) to replace the current K3 unit is going according to plan. The unit is expected to be commissioned at the beginning of 2014.

As part of the ongoing restructuring programme, the Market Germany business unit was dissolved and the Düsseldorf operation closed down at the end of 2011.

The Trading & Services business division was faced with adverse and uncertain market conditions during the reporting year, with few opportunities arising in the wholesale markets. Profits from marketing electricity generated in Switzerland were negatively affected by the unfavourable market environment and the ramifications of the political decisions on continued operation of nuclear facilities in Germany. The strong Swiss franc weighed on all cross-border trading operations and eroded profits. In 2011, the business division generated an operating loss (EBIT) of CHF 42 million compared to a profit of CHF 36 million a year earlier.

In the market segments where the Proprietary Trading business unit operates, the futures prices remained low early in the year and moved only in a narrow range. This meant there were few opportunities for Proprietary Trading. The incidents in Japan triggered a spike in wholesale electricity prices, which Proprietary Trading anticipated early and successfully capitalised on. Market price expectations continuously dropped again during the second half of the year. Further gains were realised due to adept positioning in the trading markets. As part of Alpiq's restructuring programme and the resultant downsizing of Proprietary Trading, open market positions were significantly reduced in November. While this meant that the business unit's profit remained below expectations, its gross margin was higher than a year earlier.

The Asset Trading business unit felt the effects of a variety of adverse market developments in marketing the electricity generated in Switzerland. In a long-term comparison, the increasing supply of energy from renewable sources, in particular solar power, had a negative impact on prices for high-peak hours. In addition, margins were weighed down by the narrower price differences in cross-border electricity trading and intermittent increases in prices for off-peak hours following the shutdown of several German nuclear power stations. This was compounded by reduced avail-

ability of hydroelectric generation capacity compared with the year before due to upgrading of power stations and lower water flow, coupled with the expiration of long-term hedging contracts on attractive terms. Added to that, the strong Swiss franc had a very negative impact on the business unit's results.

Marketing of the Group's share of output from the new San Severo, Plana del Vent and Bayet gas-fired combined cycle power stations commissioned in Italy, Spain and France bolstered the unit's portfolio year on year and delivered positive contributions on balance.

Nevertheless, the Asset Trading results are lower than expected and significantly down on the good year-earlier levels overall.

## Energy Services business division

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### Market conditions

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Last year, conditions in the Swiss energy services market were mixed. The Building Services business benefited from satisfactory demand spurred by still low mortgage rates and brisk construction activity in Switzerland. However, while the tender volume remained high, prices were under heavy pressure for large-scale projects and in economic centres. The Transport Technology business again saw a good and stable market for rail and urban transport, fuelled by continued public spending. The other Transport Technology operations inside and outside Switzerland were faced with a more difficult economic environment during 2011.

In the wake of Germany's political decision to phase out nuclear power early, demand declined in some segments of the Industrial and Power Plant Engineering markets. In nuclear engineering, demand for conventional power station activities remained subdued because of the energy supply companies' uncertainty in the face of the changing energy policy. Capital spending on large-scale power stations continued to be low. Demand for services related to supply technology picked up again, buoyed by the sustained economic rebound. All the markets for Energy Supply Technology performed well. Capital spending on power distribution networks increased substantially, underpinned by the positive impact of 2011 being the base year for determining grid charges. The market for transmission systems continued to recover, with demand significantly boosted by the offshore wind energy market, in particular. However, demand for high-voltage overhead lines still suffered from the ongoing licensing problems.

### Performance of the units

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The Energy Services business division was reorganised during the reporting period. A new business unit established for Renewable Energy Sources (RES), which groups together all Alpiq's activities involving new renewable energy, was integrated into



the business division on 1 January 2011. As a result, this business division consisted of the Alpiq InTec Group (AIT), Alpiq Anlagentechnik Group (AAT) and Renewable Energy Sources Olten (RES) business units in 2011.

The business division generated revenue of CHF 2.213 billion for 2011, a slight improvement over the previous year. Revenue in the Swiss AIT business unit increased modestly, while the volume of revenue earned by German-based AAT was also up in local currency. The RES business unit focused mainly on capital spending and continuing to develop activities across Europe. Despite the considerably stronger Swiss franc, the business division grew consolidated operating profit (EBIT) to CHF 122 million (2010: CHF 102 million).

The AIT business unit earned considerably higher revenue than a year earlier. This growth was primarily driven by strong demand and high capacity utilisation in Switzerland. Order intake for Building Services reached a high level, with operating profits and margins slightly up on the previous year. To bolster its market position in Switzerland, this business acquired Albin Baeriswyl SA, Robert Schellenberg AG and Meister + Brülisauer Haustechnik AG, all installation companies with a strong regional presence. The Transport Technology business improved slightly on the previous year's results, supported by public spending on rail and urban transport in Switzerland. Work on the Alp Transit Gotthard flagship project has proceeded according to plan.

For 2011, the AAT business unit posted a significant year-on-year upturn in revenue in local currency. This revenue growth was fuelled in particular by the execution of large-scale projects acquired a year earlier, coupled with rising demand for project planning and construction of power distribution networks. Nevertheless, order intake during 2011 remained below the previous year's high level. Overall, the AAT Group delivered a positive business and profit performance. In the wake of Germany's political decision, the Industrial and Power Plant Engineering business saw a decline in demand for nuclear engineering, while demand for the construction of new conventional power stations remained sluggish. During 2011, the Energy Supply Technology business benefited from the continued recovery in the market for power supply and distribution networks, coupled with strong demand in the offshore wind energy market. By winning and executing contracts for onshore cabling of four wind power facilities and other major projects, this business achieved a satisfactory improvement in profit with good capacity utilisation and stable prices. GA Linel S.r.l. was incorporated in Bressanone, Italy, to start operations in high-voltage line construction across northern Italy.

In the RES business unit, the main focus for 2011 was not only on operations but also on setting up the organisation and integrating new interests and new power generation assets acquired. Following a change in ownership structure, Alpiq Wind Italia S.r.l. (formerly Eolo Tempio Pausania S.r.l.), operating a wind farm in Italy, has been fully consolidated in Alpiq's financial statements since March of the reporting year.

Furthermore, Phase I of Vetrocom Ltd.'s wind farm in Bulgaria generated electricity for its first full year. Phase II built by Vetrocom Ltd. was also commissioned in the fourth quarter of 2011. In Switzerland, the business unit built up the generating capacity of small-scale hydroelectric power stations and brought the Eole Jura SA wind farm into operation. In Scandinavia, majority interests were acquired in two small hydroelectric facilities, Sevre Kraftverk AS and Madland Kraftverk AS. With the increased output from all these sources, profits were higher. In total, 188 MW of capacity was online at the end of 2011, of which wind power accounted for 162 MW.

## Outlook

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In view of the difficult underlying conditions, Alpiq does not expect any improvement in the short term. We anticipate that the Swiss franc will remain strong, coupled with a continuing glut of power generation capacity, a subdued trend in demand and low electricity prices. In addition, revenue will drop noticeably as high-margin deals secured in the past expire. Furthermore, our results will reflect the absence of profit contributions from operations sold.

For 2012, it is likely that the operating results will again be down on those for 2011. Alpiq does not anticipate a significant improvement in the key business conditions over the medium term either. However, the measures taken have paved the way to improve profits in the medium term and reduce debt. Liquidity is ensured by the refinancing arrangements entered into during 2011 as well as firmly committed, undrawn credit facilities available at short notice. Exchange rate risks in 2012 have already been hedged to a large extent.

The comprehensive restructuring programme put in place by Alpiq has laid the foundation to ensure sustainable growth in revenue and earnings, while securing the some 6,000 jobs within the Group. The impairment charges recognised in the 2011 financial statements will significantly and sustainably eliminate risks from Alpiq's statement of financial position. By rapidly and successfully implementing the measures initiated, Alpiq will be well and flexibly positioned in the medium term.

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# Impact of Planned Disposals on the 2011 Financial Statements

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The financial statements presented on page 67 onwards have been prepared in accordance with IFRS principles. They include impairment charges and provisions.

For 2011, Alpiq has applied IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” because the initiated sale of the AAT business unit qualifies as a disposal of a business segment and has been classified as discontinued operations. For this reason, the respective amounts from continuing and discontinued operations are presented in separate columns in the consolidated financial statements for 2011 and the comparative information for 2010.

Furthermore, Alpiq has decided to dispose of its sales operations in the Nordic, German and Spanish markets, in particular, by sale or closure. The operations of the two transmission network companies, Alpiq Grid Ltd Lausanne and Alpiq Grid Ltd. Gösgen, will be transferred to swissgrid Ltd in mid-2012 as required by the Federal Electricity Supply Act (StromVG) and applicable Ordinance (StromVV). In addition, the sale of the 20% investment in Edipower was finalised in February 2012, and the interest will be transferred to the purchaser during the first half of 2012. Under IFRS standards, the above-mentioned sales operations and Edipower should not be reported as discontinued operations.

In the consolidated statement of financial position at 31 December 2011, the assets and liabilities of AAT, those of the sales operations and transmission network companies to be disposed of and the carrying amount of Edipower are classified together and presented separately as “assets held for sale” and “liabilities held for sale”.

This segregation gives readers of the financial statements transparent information about discontinued operations. Alpiq’s financial statements for 2011 have been heavily impacted by impairment charges and provisions. To allow a clearer comparison of performance, an additional pro forma income statement excluding the impact of impairment charges and provisions is presented on the following page 66.

# Pro Forma: Consolidated Income Statement

(before restructuring provisions and impairment charges)

CHF million	Continuing operations 2010	Discontinued operations 2010	Total for 2010	Continuing operations 2011	Discontinued operations 2011	Total for 2011
<b>Net revenue</b>	<b>12,794</b>	<b>1,310</b>	<b>14,104</b>	<b>12,664</b>	<b>1,320</b>	<b>13,984</b>
Share of profit of associates and joint ventures	97		97	44		44
Own work capitalised	48	2	50	101	1	102
Other operating income	117	14	131	86	17	103
<b>Total revenue and other income</b>	<b>13,056</b>	<b>1,326</b>	<b>14,382</b>	<b>12,895</b>	<b>1,338</b>	<b>14,233</b>
Energy and inventory costs	-10,649	-791	-11,440	-10,804	-815	-11,619
Employee costs	-659	-327	-986	-676	-310	-986
Plant maintenance costs	-42		-42	-80		-80
Other operating expenses	-328	-114	-442	-298	-119	-417
<b>Profit before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>1,378</b>	<b>94</b>	<b>1,472</b>	<b>1,037</b>	<b>94</b>	<b>1,131</b>
Depreciation, amortisation and impairment	-469	-33	-502	-549	-30	-579
<b>Profit before interest and tax (EBIT)</b>	<b>909</b>	<b>61</b>	<b>970</b>	<b>488</b>	<b>64</b>	<b>552</b>
Net finance costs	-148	-8	-156	-174	-7	-181
<b>Profit before income tax</b>	<b>761</b>	<b>53</b>	<b>814</b>	<b>314</b>	<b>57</b>	<b>371</b>
Income tax expense	-154	-15	-169	-94	-19	-113
<b>Group profit for the year</b>	<b>607</b>	<b>38</b>	<b>645</b>	<b>220</b>	<b>38</b>	<b>258</b>
Attributable to non-controlling interests	-7		-7	-16		-16
Attributable to owners of Alpiq Holding	600	38	638	204	38	242
<b>Earnings per share in CHF</b>	<b>22</b>	<b>1</b>	<b>23</b>	<b>8</b>	<b>1</b>	<b>9</b>

See page 65 for explanatory notes on continuing and discontinued operations; prior year comparatives have been restated retrospectively.

# Consolidated Financial Statements of the Alpiq Group

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# Consolidated Income Statement

CHF million	Note	Continuing operations 2010	Discontinued operations 2010	Total for 2010	Continuing operations 2011	Discontinued operations 2011	Total for 2011
<b>Net revenue</b>	29	<b>12,794</b>	<b>1,310</b>	<b>14,104</b>	<b>12,641</b>	<b>1,320</b>	<b>13,961</b>
Share of profit of associates and joint ventures	13	97		97	-779		-779
Own work capitalised	2, 10	48	2	50	101	1	102
Other operating income		117	14	131	86	17	103
<b>Total revenue and other income</b>		<b>13,056</b>	<b>1,326</b>	<b>14,382</b>	<b>12,049</b>	<b>1,338</b>	<b>13,387</b>
Energy and inventory costs	3	-10,649	-791	-11,440	-10,917	-815	-11,732
Employee costs	4	-659	-327	-986	-706	-310	-1,016
Plant maintenance costs		-42		-42	-80		-80
Other operating expenses	5	-328	-114	-442	-404	-119	-523
<b>Profit before interest, tax, depreciation and amortisation (EBITDA)</b>		<b>1,378</b>	<b>94</b>	<b>1,472</b>	<b>-58</b>	<b>94</b>	<b>36</b>
Depreciation, amortisation and impairment	6	-469	-33	-502	-1,199	-30	-1,229
<b>Profit/(loss) before interest and tax (EBIT)</b>		<b>909</b>	<b>61</b>	<b>970</b>	<b>-1,257</b>	<b>64</b>	<b>-1,193</b>
Net finance costs	7	-148	-8	-156	-174	-7	-181
<b>Profit/(loss) before income tax</b>		<b>761</b>	<b>53</b>	<b>814</b>	<b>-1,431</b>	<b>57</b>	<b>-1,374</b>
Income tax expense	8	-154	-15	-169	47	-19	28
<b>Group profit/(loss) for the year</b>		<b>607</b>	<b>38</b>	<b>645</b>	<b>-1,384</b>	<b>38</b>	<b>-1,346</b>
Attributable to non-controlling interests		-7		-7	21		21
Attributable to owners of Alpiq Holding		600	38	638	-1,363	38	-1,325
<b>Earnings per share in CHF</b>	9	<b>22</b>	<b>1</b>	<b>23</b>	<b>-50</b>	<b>1</b>	<b>-49</b>

See note 32 for information about continuing and discontinued operations; prior year comparatives have been restated retrospectively.

# Consolidated Statement of Comprehensive Income

CHF million	2010	2011
<b>Group profit/(loss) for the year</b>	<b>645</b>	<b>-1,346</b>
Cash flow hedges taken to equity	-3	-14
Income tax expense	5	11
Net of income tax	2	-3
IAS 39 effects of share of changes in equity of associates	-6	-23
Income tax expense	1	2
Net of income tax	-5	-21
Exchange differences on translation of foreign operations <sup>1</sup>	-551	41
<b>Other comprehensive (expense)/income for the year, net of income tax</b>	<b>-554</b>	<b>17</b>
<b>Total comprehensive income/(expense) for the year</b>	<b>91</b>	<b>-1,329</b>
Attributable to non-controlling interests	8	25
Attributable to owners of Alpiq Holding	99	-1,304

1 2011: See notes 1 and 13 for information about the effects of recycling included in this item.

# Consolidated Statement of Financial Position

## Assets

CHF million	Note	31 Dec 2010	31 Dec 2011
Property, plant and equipment	10	5,678	4,900
Intangible assets	11, 12	2,312	1,964
Investments in associates and joint ventures	13	5,573	4,420
Other non-current financial assets	14	148	130
Deferred income tax assets	8	82	40
<b>Non-current assets</b>		<b>13,793</b>	<b>11,454</b>
Inventories	15	116	111
Trade and other receivables	16	2,347	1,999
Term deposits		126	324
Cash and cash equivalents	17	1,182	876
Current asset investments	18	4	4
Derivative financial instruments		775	722
Prepayments and accrued income		130	118
<b>Current assets</b>		<b>4,680</b>	<b>4,154</b>
<b>Assets held for sale</b>	32		<b>1,838</b>
<b>Total assets</b>		<b>18,473</b>	<b>17,446</b>



## Equity and liabilities

CHF million	Note	31 Dec 2010	31 Dec 2011
Share capital	19	272	272
Share premium		4,431	4,431
Retained earnings		2,879	1,338
<b>Equity attributable to owners of Alpiq Holding</b>		<b>7,582</b>	<b>6,041</b>
Non-controlling interests		197	164
<b>Total equity</b>		<b>7,779</b>	<b>6,205</b>
Provisions	20	267	180
Deferred income tax liabilities	8	1,647	1,546
Long-term borrowings	21	4,463	4,525
Other non-current liabilities	22	382	231
<b>Non-current liabilities</b>		<b>6,759</b>	<b>6,482</b>
Current income tax liabilities		93	42
Short-term borrowings		789	1,331
Other current liabilities	23	1,811	1,386
Derivative financial instruments		747	706
Accruals and deferred income		495	566
<b>Current liabilities</b>		<b>3,935</b>	<b>4,031</b>
<b>Total liabilities</b>		<b>10,694</b>	<b>10,513</b>
Liabilities held for sale	32		728
<b>Total equity and liabilities</b>		<b>18,473</b>	<b>17,446</b>

## Consolidated Statement of Changes in Equity

CHF million	Share capital	Share premium	Unrealised gains and losses under IAS 39	Foreign currency translation reserve	Retained earnings	Attributable to owners of Alpiq Holding	Non-controlling interests	Total equity
<b>Equity at 31 December 2009</b>	<b>272</b>	<b>4,431</b>	<b>- 9</b>	<b>- 178</b>	<b>3,204</b>	<b>7,720</b>	<b>210</b>	<b>7,930</b>
Profit for the period					638	638	7	645
Other comprehensive income			- 1	- 538		- 539	- 15	- 554
<b>Total comprehensive income</b>			<b>- 1</b>	<b>- 538</b>	<b>638</b>	<b>99</b>	<b>- 8</b>	<b>91</b>
Dividends					- 237	- 237	- 5	- 242
<b>Equity at 31 December 2010</b>	<b>272</b>	<b>4,431</b>	<b>- 10</b>	<b>- 716</b>	<b>3,605</b>	<b>7,582</b>	<b>197</b>	<b>7,779</b>

CHF million	Share capital	Share premium	Unrealised gains and losses under IAS 39	Foreign currency translation reserve	Retained earnings	Attributable to owners of Alpiq Holding	Non-controlling interests	Total equity
<b>Equity at 31 December 2010</b>	<b>272</b>	<b>4,431</b>	<b>- 10</b>	<b>- 716</b>	<b>3,605</b>	<b>7,582</b>	<b>197</b>	<b>7,779</b>
Loss for the period					- 1,325	- 1,325	- 21	- 1,346
Other comprehensive income			- 22	43		21	- 4	17
<b>Total comprehensive income / (expense)</b>			<b>- 22</b>	<b>43</b>	<b>- 1,325</b>	<b>- 1,304</b>	<b>- 25</b>	<b>- 1,329</b>
Dividends					- 237	- 237	- 8	- 245
<b>Equity at 31 December 2011</b>	<b>272</b>	<b>4,431</b>	<b>- 32</b>	<b>- 673</b>	<b>2,043</b>	<b>6,041</b>	<b>164</b>	<b>6,205</b>

Alpiq's Board of Directors proposes that the Annual General Meeting on 28 April 2012 approve a dividend of CHF 2.00 per registered share for the 2011 financial year (2010 financial year: CHF 8.70). This represents a total payout of CHF 54 million (CHF 237 million). For more details, please refer to the "Board of Directors' Proposal" on page 164.

# Consolidated Statement of Cash Flows

CHF million	Note	2010	2011
<b>Profit/(loss) before interest and tax (EBIT)</b>		<b>970</b>	<b>-1,193</b>
Adjustments for:			
Own work capitalised	2, 10	-50	-102
Depreciation, amortisation and impairment	1, 6	502	1,229
Movements in provisions	20	-98	81
Gain/loss on sale of non-current assets		-19	-8
Non-cash gains and losses on investments in associates and joint ventures credited/charged to energy costs	13	123	122
Non-cash change in other non-current and current liabilities	22, 23	-175	-170
Non-cash change in fair value of derivative financial instruments		-134	-21
Other non-cash income and expenses		-2	3
Share of profit of associates	13	-97	779
Dividends from financial investments and associates	7, 13	61	71
Interest paid		-157	-155
Interest received		11	14
Other finance costs		-1	-24
Other finance income		5	55
Income tax paid		-254	-146
Changes in working capital (excl. current financial assets/liabilities)		-103	-134
<b>Net cash flows from operating activities</b>		<b>582</b>	<b>401</b>
Property, plant and equipment and intangible assets			
Purchases	10, 11	-484	-432
Proceeds from sale		58	32
Subsidiaries			
Acquisitions	30	-29	-270
Associates			
Acquisitions	13	-59	-1
Proceeds from disposal	13	5	27
Other non-current financial assets			
Purchases	14	-107	-40
Proceeds from sale/repayments	14	29	15
Change in term deposits		277	-199
Purchases/proceeds from sale of current asset investments		14	-1
<b>Net cash flows used in investing activities</b>		<b>-296</b>	<b>-869</b>

Dividends paid	- 237	- 237
Dividends paid to non-controlling interests	- 5	- 8
Proceeds from borrowings	202	1,236
Repayment of borrowings	- 402	- 683
<b>Net cash flows (used in)/ from financing activities</b>	<b>- 442</b>	<b>308</b>
<b>Effect of exchange rate changes</b>	<b>- 26</b>	<b>- 9</b>
<b>Change in cash and cash equivalents</b>	<b>- 182</b>	<b>- 169</b>
<b>Analysis:</b>		
Cash and cash equivalents at 1 January	1,364	1,182
Cash and cash equivalents at 31 December	1,182	1,013
<b>Change</b>	<b>- 182</b>	<b>- 169</b>

The amounts reported above include cash flows from both continuing and discontinued operations.

Cash flows from discontinued operations are disclosed separately in note 32. The balance of CHF 1,013 million in cash and cash equivalents at 31 December 2011 that is reported in the consolidated statement of cash flows above also includes CHF 137 million in cash and cash equivalents attributable to operations held for sale.

# Group Accounting Policies

## Significant accounting policies

### Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Alpiq Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRIC) issued by the International Accounting Standards Board (IASB) and comply with Swiss law. They are designed to give a true and fair view of the financial position, results of operations and cash flows of the Alpiq 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 consolidated financial statements were authorised for issue by the Board of Directors of the Alpiq Group on 16 February 2012 and are subject to approval by shareholders at the Annual General Meeting on 26 April 2012.

### Adoption of new and revised accounting standards

The Alpiq Group has adopted the following International Financial Reporting Standards (IFRS) and IFRIC interpretations which became effective on 1 January 2011:

- IAS 24 amendments: Related Party Disclosures (1 January 2011)
- IAS 32 amendments: Financial Instruments: Classification and Accounting for Rights Issues (1 February 2010)
- IFRIC 14 amendments: Prepayments of a Minimum Funding Requirement (1 January 2011)
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (1 July 2010)

In addition to the above changes, a number of other minor amendments to standards have also been approved and adopted as mandatory by the IASB and IFRIC. The majority of these amendments became effective from 1 January 2011. Alpiq had not early adopted the new and revised standards and interpretations.

The adoption of these new rules had no material impact on the results and financial position of the Alpiq Group.

## IFRS and IFRIC interpretations effective in future periods

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The International Accounting Standards Board (IASB) has issued the following new standards and amendments:

- IAS 1 amendments: Presentation of Items of Other Comprehensive Income (1 July 2012)
- IAS 12 amendments: Income Taxes – Deferred Tax: Recovery of Underlying Assets (1 January 2012)
- IAS 19 amendments: Employee Benefits (1 January 2013)
- IAS 27 rev.: Separate Financial Statements (1 January 2013)
- IAS 28 rev.: Investments in Associates and Joint Ventures (1 January 2013)
- IAS 32 amendments: Offsetting Financial Assets and Financial Liabilities (1 January 2014)
- IFRS 7 amendments: Transfers of Financial Assets (1 July 2011)
- IFRS 7 amendments: Disclosures – Offsetting Financial Assets and Financial Liabilities (1 January 2013)
- IFRS 9: Financial Instruments (1 January 2015)
- IFRS 10: Consolidated Financial Statements (1 January 2013)
- IFRS 11: Joint Arrangements (1 January 2013)
- IFRS 12: Disclosure of Interests in Other Entities (1 January 2013)
- IFRS 13: Fair Value Measurement (1 January 2013)

Alpiq is currently assessing the potential effects of adopting these new and revised standards and interpretations. Based on an initial analysis, the following new or revised standards are expected to have an impact on Alpiq's consolidated financial statements.

In May 2011, the IASB issued the new IFRS 11 "Joint Arrangements", which will be mandatory for financial years beginning on 1 January 2013. The new IFRS 11 provides guidance on accounting for arrangements where an entity has joint control over a joint venture or a joint operation. The main difference from IAS 31 "Interests in Joint Ventures" is that IFRS 11 no longer focuses on the legal form of a jointly controlled operation. Under the new standard, the classification depends on the specific rights and obligations of the parties involved in respect of the assets and liabilities and corresponding revenue and expenses relating to the joint arrangement. An entity must account for its interest in the assets, liabilities, revenue and expenses of joint operations. Joint ventures must be accounted for using the equity method. Alpiq is currently analysing the contractual agreements for joint ventures in the light of IFRS 11. The Group will apply the new standard retrospectively from the 2013 financial year.

Amendments to IAS 19 “Employee Benefits” were issued in June 2011. The impact of the amended standard on the Alpiq Group will be as follows:

The corridor approach will be eliminated in future, and actuarial gains and losses will be recognised outside profit and loss in other comprehensive income as part of equity in the period in which they occur. At the reporting date on 31 December 2011, actuarial losses amounted to CHF 144 million (2010: CHF 103 million). The volatility of consolidated equity is expected to be higher in future periods. “Interest cost” and “expected return on plan assets”, the key parameters/performance drivers used so far, will be replaced with a net interest amount that is calculated by applying the discount rate to the net pension plan liability or net pension plan asset. Based on the figures for 2011, the unrecognised losses of about CHF 140 million would result in an increase in retirement benefit obligations and a decrease in equity of about CHF 110 million (net of deferred income tax) at 31 December 2012. Employee costs would increase by about CHF 10 million (based on the figures for 2011). The Alpiq Group is currently assessing the full impact of the amendments, including the new requirements relating to risk assessment of pension plans. Alpiq will apply the revised standard retroactively from 1 January 2013.

Furthermore, prior year comparatives in the consolidated income statement, statement of financial position and notes to the consolidated financial statements have been reclassified or extended, where necessary, to conform to changes in presentation in the current reporting period. Where material, notes have been provided. Changes in presentation also include changes in organisational terms.

### **Basis of consolidation**

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

Subsidiaries are entities that are directly or indirectly controlled by the Alpiq Group (generally accompanying a shareholding of more than 50% of the voting rights). These entities are consolidated from the date of acquisition. Entities are de-consolidated from the date that control ceases and, if appropriate, reported as investments in associates or financial investments up to the date of disposal.

Investments in associates in which the Alpiq Group has significant influence are accounted for in the consolidated financial statements using the equity method. Jointly controlled entities (joint ventures) in the Energy segment are included in the consolidated financial statements using the same method. The Alpiq Group’s share of the assets, liabilities, income and expenses of such entities is disclosed in note 13 to the consolidated financial statements.



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

All significant companies included in the consolidation are shown on pages 141 ff. with an indication of the consolidation method applied and other information.

### Foreign currency translation

The consolidated financial statements are presented in Swiss francs, which is both the functional currency of Alpiq Holding Ltd. and the presentation currency. The functional currency of each entity in the Group is determined by the economic environment in which it operates. Transactions in foreign currencies are recorded in the Group entity’s functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the closing rate of exchange ruling at the reporting date. The resulting exchange differences are recognised in the income statement.

The assets and liabilities of subsidiaries are translated into Swiss francs at the closing rate of exchange prevailing at the reporting date. Income and expense items are translated at the weighted average exchange rates for the reporting period. The exchange differences arising on translation are recognised as a separate component of equity. On disposal of a subsidiary or loss of control and on disposal of an associate or joint venture or loss of significant influence, the cumulative translation differences relating to that subsidiary are recognised in the income statement in the period in which the subsidiary is disposed of or control ceases.

The consolidated financial statements are presented in Swiss francs. The following exchange rates were used for currency translation:

Unit	Closing rate at 31 Dec 2010	Closing rate at 31 Dec 2011	Average rate for 2010	Average rate for 2011
1 USD	0.94	0.94	1.04	0.89
1 EUR	1.250	1.216	1.382	1.234
100 CZK	4.99	4.71	5.46	5.02
100 HUF	0.45	0.39	0.50	0.44
100 NOK	16.03	15.68	17.27	15.84
100 PLN	31.46	27.27	34.62	30.06
100 RON	29.34	28.12	32.86	29.14

### **Intra-group transactions**

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

### **Revenue recognition**

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Revenue from the sale of goods and services is recognised in the income statement when the goods or services are delivered. The Group recognises energy contracts entered into for trading purposes with the intention of profiting from short-term volatility in market prices on a net basis in revenue (net gains and losses from trading). Revenue from construction contracts is generally recognised using the percentage-of-completion method by reference to the stage of completion of the contract activity.

### **Income tax**

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Income tax is calculated on taxable profits using tax rates that have been enacted by the reporting date and are applicable to the individual companies' financial statements. Income tax expense represents the sum of current and deferred income tax.

Deferred income tax is provided on temporary differences between the recognition of certain income and expense items for financial reporting and for income tax purposes. Deferred tax arising from temporary differences is calculated using the balance sheet liability method. Deferred tax is not recognised for differences associated with investments in subsidiaries, associates and interests in joint ventures that will not reverse in the foreseeable future and where the timing of the reversal is controlled by the Group.

Deferred tax assets are recognised when it is probable that they will be realised. Unrecognised tax benefits of tax loss carry-forwards are disclosed.

The effects of the recognition of temporary differences are presented in note 8 to the consolidated financial statements.

### **Borrowing costs**

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

### **Discontinued operations and non-current assets held for sale**

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An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must

be available for immediate sale in its present condition, and the sale must be highly probable within the next 12 months. The same applies to a group of assets and associated liabilities that are to be disposed of together in a single transaction (disposal group).

The Alpiq Group measures non-current assets and disposal groups classified as held for sale at the lower of carrying amount and fair value less costs to sell. These assets or disposal groups, once classified as held for sale, are no longer depreciated or amortised. The assets and liabilities are presented separately from other Group assets and liabilities in the statement of financial position.

A component of the Group's business is classified as a discontinued operation if it represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated income statement.

### **Property, plant and equipment**

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

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

Obligations to restore land and sites after licence expiry or decommissioning are accounted for individually in accordance with the terms of contract. Replacements and improvements are capitalised if they substantially extend the useful life, increase the capacity or substantially improve the quality of output of assets.

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

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

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

### **Business combinations and goodwill**

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

Where the Group does not acquire 100% ownership, the non-controlling interests are recognised as a component of consolidated equity. For each business combination, Alpiq measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. However, non-controlling interests over which the Alpiq Group holds options (call options) or has granted options (written put options) are only recognised as non-controlling interests when the strike price is based on fair value. Such call options are recorded at fair value. Written put options on non-controlling interests are recognised as a liability at the present value of the expected cash outflows.

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

Goodwill represents the difference between the cost of acquisition and the fair value of the Group's share of the identifiable net assets acquired. Goodwill and fair value adjustments to net assets are recognised in the acquiree's assets and liabilities in that company's local currency. Goodwill is not amortised but is tested for impairment at least annually. Goodwill may also arise upon investments in associates, being the difference between the cost of investment and the Group's share of the fair value of the identifiable net assets. Such goodwill is recognised in investments in associates.

### **Intangible assets**

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over their useful economic lives and assessed for impairment whenever there is an indication that they may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. The useful lives of the intangible assets currently recognised range from 3 to 15 years.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The useful life of an asset is reviewed in each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment.

### **Energy purchase rights**

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Energy purchase rights are recorded as intangible assets in the statement of financial position and are tested for impairment like other intangible assets. They comprise prepayments for rights to purchase energy in the long term, including capitalised interest. These assets are amortised on a straight-line basis from the commencement of the energy purchases over the term of the contracts.

This item also includes long-term energy purchase agreements acquired in business combinations, which are subsequently identified, measured and recognised in a purchase price allocation.

### **Impairment of property, plant and equipment and intangible assets**

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Property, plant and equipment and intangible assets are reviewed at least annually to determine whether there is any indication of impairment. In particular, this assessment is performed when changes in circumstances or events indicate that the carrying amounts may not be recoverable. Where the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down to the value considered to be recoverable based on the estimated future discounted cash flows. The recoverable amount of intangible assets with indefinite useful lives is reviewed annually.

The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is calculated by discounting the estimated future cash flows (discounted cash flow method). If the asset does not generate cash inflows that are independent of those from other assets, the recoverable amount of the individual asset is estimated for the cash-generating unit to which the asset belongs.

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

The annual impairment review is monitored centrally within the Group.

### **Impairment of goodwill**

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Goodwill is allocated to the cash-generating units to which the goodwill relates. These generally represent the identifiable regional sales, service and production activities. Goodwill is tested for impairment annually. If the recoverable amount of the

cash-generating unit, i.e. the higher of the unit's fair value less costs to sell and its value in use, is less than the carrying amount, an impairment loss is recognised. The method used for testing cash-generating units for impairment is disclosed in note 12.

### **Investments in associates and joint ventures**

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An associate is an entity over which the Alpiq Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee and that is neither a subsidiary nor a joint venture. Where appropriate, companies may likewise be accounted for in the consolidated financial statements as associates using the equity method even if the ownership interest is less than 20%. This applies especially where the Alpiq Group is represented in the authoritative decision-making bodies, e.g. the Board of Directors, and participates in the operating and financial policies or where market-relevant information is exchanged.

A joint venture is an entity jointly controlled with one or more other venturers under a contractual arrangement. Due to these circumstances, joint ventures are accounted for in the consolidated financial statements using the equity method regardless of the Group's ownership interest in them. The Alpiq Group's interests in joint ventures currently range from 8% to 60%.

The financial statements of associates and joint ventures are generally prepared using uniform accounting policies. Companies that apply different accounting standards for the preparation of their local financial statements also prepare reconciliations to IFRS.

### **Inventories**

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

### **Leases**

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In total, the Group's leases are currently immaterial.

### **Construction contracts**

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Work performed for customers under construction contracts in the Energy Services business division is recorded using the percentage-of-completion method, and the amount to be recognised as an asset is included in receivables and sales revenue. The stage of completion is measured by reference to the extent of work performed to date, i.e. according to the costs already incurred. Contract costs are recognised as expenses in the period in which they are incurred.

When the stage of completion or the outcome of contracts or groups of contracts cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Provision is made for any losses expected to be incurred on construction contracts. For contracts in progress, the revenue agreed in the contract and any subsequent variations confirmed by the customer in writing are recognised as contract revenue.

### **Provisions**

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

Provisions are recognised at an amount equal to the expected cash outflows discounted at the reporting date. Provisions are reviewed annually at the reporting date and adjusted to reflect current developments. The discount rates used are pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the liability.

### **Accounting for CO<sub>2</sub> emission allowances**

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Allocated CO<sub>2</sub> emission allowances are initially recognised at nominal value (nil value). CO<sub>2</sub> emission allowances purchased to meet the Group's generation requirements are initially recorded at cost within intangible assets. A liability is recognised when CO<sub>2</sub> emissions exceed the emission allowances originally allocated. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held. That portion exceeding the CO<sub>2</sub> emission allowances held is recognised at fair value at the reporting date. Changes in the liability are recorded as energy costs.

Emission allowances held for trading, for example to optimise the energy portfolio, at the reporting date are measured at fair value and recorded in inventories.

### **Pension schemes**

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

Swiss consolidated Group companies in the Energy Switzerland and Trading & Services business divisions participate in a legally independent pension scheme of the Swiss defined benefit type that meets the criteria of a defined benefit plan under IAS 19.

Employees of foreign subsidiaries in the Energy Central Europe and Energy Western Europe business divisions are generally covered by state social security schemes or separate defined contribution pension plans in accordance with national practices.

Swiss Group companies belonging to Alpiq InTec in the Energy Services business division participate in a legally independent pension scheme that is fully reinsured. The pension plans under this scheme are classified as defined benefit plans under IAS 19.

Employees of foreign companies belonging to Alpiq InTec are covered by state social security schemes.

The German AAT Group exclusively operates a pension scheme where the employer has a constructive obligation to pay benefits, i.e. there is no legally independent pension scheme. For this reason, provisions are made in the company's statement of financial position. These provisions are calculated in accordance with annual actuarial valuations of the existing benefit obligation. Benefits are paid directly by the company. Under IAS 19, a constructive obligation to pay benefits under German law constitutes an unfunded plan and is reported as a net liability in the statement of financial position. As there are no separate plan assets to meet the obligation, the actual payments are deducted from the provision in the statement of financial position.

The defined benefit obligation is calculated using the projected unit credit method. This accrued benefit method prorated on service recognises not only the known benefits and benefits accrued at the reporting date but also expected future salary and pension increases. Actuarial gains and losses arising from the periodic revaluations are recognised as income or expense for each individual plan on a straight-line basis over the average remaining service lives of the employees when the actuarial gains and losses at the beginning of the reporting year exceed 10% of the higher of the fair value of plan assets and the defined benefit obligation at that date. This method is called the corridor method.

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

### **Contingent liabilities**

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Potential or existing liabilities where it is not considered probable that an outflow of resources will be required are not recognised in the statement of financial position. However, the nature and extent of liabilities existing at the reporting date is disclosed as a contingent liability in the notes to the consolidated financial statements.

### **Segment information**

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The reportable segments under IFRS 8 consist of the four Energy Switzerland, Energy Western Europe, Energy Central Europe and Trading & Services business divisions and the Energy Services business division. The Executive Board evaluates each of these separately for the purpose of assessing performance and allocating resources. The CEO has ultimate responsibility. The key measure of performance used for internal



management and assessment of the Alpiq Group is operating profit (EBIT). Operating costs comprise energy purchase and generation costs as well as all other operating costs, including employee benefits and services used. Amounts derived from management reporting require no adjustment for financial reporting as the same accounting policies are used for internal and external reporting.

### **Financial instruments**

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Financial instruments include cash and cash equivalents, term deposits, investments in securities, derivative financial instruments, financial investments, receivables, and short-term and long-term payables and borrowings.

### **Financial assets and liabilities**

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

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

Financial assets and liabilities are recognised initially at fair value. All regular way purchases and sales of financial assets are recognised on the trade date.

#### **Financial assets or liabilities at fair value through profit or loss**

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

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

Financial investments where investment and disposal decisions are based on changes in fair value are classified as “at fair value through profit or loss”. Such a classification is in line with the Alpiq Group’s financial risk management policy.

Current asset investments include both securities held for trading and those classified as available-for-sale. All securities are recorded at fair value. Changes in the fair

value of securities held for trading are recognised in the income statement in the period in which they occur.

Own equity instruments which are reacquired by Alpiq Holding (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase or sale of the Group's own equity instruments.

#### Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed maturities that the Group has the positive intention and ability to hold to maturity. They are measured at amortised cost. Investments intended to be held for an indefinite period of time are not included in this category.

#### Loans and receivables

Originated loans and receivables are financial assets created by the Group by providing loans, goods or services to third parties. As a rule, they are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the financial asset or financial liability is derecognised or impaired, as well as through the amortisation process.

The category of loans and receivables also includes cash and cash equivalents. These comprise cash at banks and in postal accounts, demand deposits and term deposits with a maturity of 90 days or less.

Receivables are recognised at nominal value, less provision for impairment. Trade receivables from customers who are also suppliers are offset against the respective trade payables where netting agreements are in place.

#### Available-for-sale financial assets

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

#### Financial liabilities

Financial liabilities include short-term and long-term payment obligations, which are stated at amortised cost, as well as accruals and deferred income.

#### Impairment and uncollectibility of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

For assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The

amount of any loss is recognised in the income statement. A previously recognised impairment loss is reversed in the income statement if the impairment no longer exists or has decreased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

For assets carried at cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Losses are recognised in the income statement. If, in a subsequent period, the fair value increases, these impairment losses are not reversed.

When a decline in the fair value of available-for-sale financial assets has been recognised in equity rather than profit and loss and there is objective evidence of impairment, a loss (measured as the difference between acquisition cost and the current fair value) is removed from equity and recognised in the income statement. Whereas impairment losses on debt instruments are reversed through the income statement, any subsequent increase in the fair value of equity instruments after impairment is not recognised in the income statement.

#### **Hedge accounting**

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Alpiq uses energy and interest rate derivatives to hedge exposure to variability in cash flows that is attributable to highly probable forecast transactions (cash flow hedges).

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

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

Amounts taken to equity are transferred to the income statement in the period when the hedged transaction affects profit or loss.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. When the hedging instrument expires or is sold, terminated or exercised without re-

placement or rollover, or when the hedge no longer meets the criteria for hedge accounting, amounts previously recognised in equity remain in equity as a separate component until the hedged transaction occurs.

## Estimation uncertainty

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### Key assumptions and sources of estimation uncertainty

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The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions, in particular in assessing impairment and measuring provisions, that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses. The estimates and assumptions are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances. They form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from market data. Actual outcomes could differ from those estimates.

Estimates and assumptions are reviewed on an ongoing basis. Any revisions to estimates and assumptions are recognised and disclosed in the period in which they are identified.

### Impairment of long-term assets

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The carrying amount of the Alpiq Group's property, plant and equipment, intangible assets (including goodwill) and investments in associates was approximately CHF 11.3 billion at 31 December 2011 (2010: CHF 13.6 billion). These assets are tested for impairment annually. Determining whether assets are impaired requires estimates of future cash flows expected from the use, growth rates, discount rates and eventual sale of the assets. Actual outcomes may vary materially from these estimates. Other factors, such as changes in scheduled useful lives of assets or technical obsolescence of plant, may shorten the useful lives or result in an impairment loss.

### Provisions

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At 31 December 2011, the carrying amount of the provision for contract risks and losses presented in note 20 was CHF 63 million (2010: CHF 126 million). This covers risks and liabilities that were known at the balance sheet date and relate to existing long-term energy purchase and supply contracts in Switzerland and other countries. The amount of the provision required was calculated based on a likely outflow of resources associated with the performance of the contracts. The valuations are made and reviewed periodically using the discounted cash flow method over the term of the contractual obligations entered into. Significant inputs used in the valuations, which are subject to certain uncertainties and hence may cause some material adjustments in subsequent periods, are especially the assumptions regarding future changes in market prices, long-term interest rates and the effects of currency translation (EUR into CHF).

## Pension schemes

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The calculation of the recognised defined benefit assets and liabilities is based on statistical and actuarial assumptions in accordance with IAS 19. The assumptions may 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 the plan participants and to other estimated factors. Such deviations may have an impact on the pension scheme assets and liabilities recognised in future reporting periods. The principal assumptions are disclosed in note 25.

## Changes in the presentation of the financial statements

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Alpiq regularly reviews the presentation of its financial reporting to assess transparency, clarity and accuracy. Where material adjustments or corrections are necessary, prior year figures are restated. In this Financial Report, the following changes have been made since the previous year.

### Changes in the presentation of the consolidated income statement

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As a result of new power generation facilities commissioned and acquired during the reporting period, the costs of plant maintenance have increased significantly. These costs were previously included in “other operating expenses”. Starting from the 2011 financial year, such costs are now reported as “plant maintenance costs”. The prior year presentation and figures have been adjusted accordingly, with CHF 24 million reclassified from “inventory costs” and CHF 18 million from “other operating expenses” to “plant maintenance costs”.

### Correction of prior year disclosure errors

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An in-depth review of the information presented in the notes has shown that the approach previously used to disclose commercial guarantees and performance bonds in favour of third parties resulted in an overstated amount. The analysis revealed that, in the previous year, there were no guarantees in respect of associates or third parties that require disclosure under IFRS.

Alpiq is jointly and severally liable for all consortia in the form of ordinary partnerships involving Group companies. This fact was not disclosed last year.

The change in presentation has had no impact on the consolidated income statement or statement of financial position.

## Acquisitions and disposals of fully consolidated companies

Year-on-year changes in the Group resulting from acquisitions and disposals were as follows:

Acquisitions	Ownership interest	Consolidated since	Business division
Xamax AG, Embrach / CH	100.0%	23 Aug 2011	Energy Switzerland
UB Nant de Drance AG, Olten / CH	100.0%	8 Dec 2011	Energy Switzerland
Alpiq Wind S.r.l., Verona / IT	100.0%	8 Mar 2011	Energy Services
GA Bauleistungen GmbH, Rutesheim / DE	100.0%	1 May 2011	Energy Services
Tysvær Vindpark AS, Rogaland / NO	100.0%	29 May 2011	Energy Services
Madland Kraftverk AS, Billingstad / NO	100.0%	1 Jul 2011	Energy Services
Sevre Kraftverk AS, Nesbyen / NO	90.0%	1 Jul 2011	Energy Services
Sabloal Energie Eoliana S.R.L., Oradea / RO	100.0%	7 Jul 2011	Energy Services
Albin Baeriswyl SA, Fribourg / CH <sup>2</sup>	100.0%	22 Jul 2011	Energy Services
GA Linel S.r.l., Bressanone / IT	51.0%	1 Sep 2011	Energy Services
Meister + Brülisauer Haustechnik AG, Aadorf / CH <sup>1</sup>	100.0%	8 Sep 2011	Energy Services
Robert Schellenberg AG, Winterthur / CH <sup>1</sup>	100.0%	8 Sep 2011	Energy Services

1 Integrated into Alpiq InTec East Ltd.

2 Integrated into Alpiq InTec Romandie Ltd.

As a result of these acquisitions, the Alpiq Group's consolidated revenue increased by CHF 97 million year on year. Details of the assets acquired and liabilities assumed are disclosed in note 30. The impact on non-current assets (notes 10 and 11) and on the disclosures of retirement benefit obligations (note 25) is presented as "acquisition / disposal of subsidiaries".

Disposals	Ownership interest	De-consolidated on	Business division
Biogas neu Kosenow GmbH & Co KG, Hamburg / DE	100.0%	30 Jun 2011	Energy Switzerland
Alpiq Denmark A/S, Ålborg / DK	100.0%	31 Oct 2011	Energy Western Europe

## Financial risk management

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### General policies

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The Alpiq Group's operating activities expose it to strategic and operational risks, and in particular credit, liquidity and market risks (energy price risk, interest rate risk and foreign currency risk). During the annual business risk assessment process, strategic and operational risks throughout the Group are recorded and assessed and then assigned to the identified risk owners for management and monitoring. The Corporate Risk Management functional unit monitors the implementation of the measures. Exposure limits are set for credit, liquidity and market risks (energy price risk, interest rate risk, foreign currency risk), with compliance monitored on an ongoing basis, and adjusted in the context of the company's overall risk-taking capacity.

The principles of the Group's risk management policy are established by the Board of Directors. The Executive Board is responsible for their development and implementation. The Risk Management Committee (RMC) monitors compliance with the principles and policies. The Corporate Risk Management (CRM) functional unit in the Financial Services functional division is responsible for managing risks and reports to the CFO. The CRM provides methods and tools for implementing risk management and also assists the business divisions, functional divisions and business units in their risk management activities. The CRM coordinates the activities and reporting with line management through to unit manager level and ensures timely reporting to the Board of Directors, Executive Board and RMC.

Principles for managing risks in the Alpiq Group's energy business are set out in the Group Risk Policy. They comprise guidelines on the incurrence, measurement, management and limitation of exposure to business risks in energy business and specify the organisation and responsibilities for risk management. The objective is to maintain a reasonable balance between the business risks incurred, earnings and risk-bearing equity.

The Group's Financial Risk Policy defines the substance, organisation and system for risk management within the Alpiq Group. The units responsible manage their financial risks within the framework of the risk management policy and limits defined for their areas of activity. The objective is to reduce financial risks, bearing in mind the hedging costs and risks being incurred.

The Group Risk Policy, including its significant components, was comprehensively reviewed during 2010 and revised in line with best practice. The Board of Directors approved the revised policy in December 2010.

## Capital management

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Across the Alpiq Group, capital is managed in line with the Group's overall financial strategy. The strategy is focused on the Group's reported consolidated equity and net debt to EBITDA ratio. As the framework for managing its capital structure, the Board of Directors has defined an equity ratio of at least 35 %, on which it is seeking to generate a return on equity of 7 % to 9 %. At the reporting date on 31 December 2011, the equity ratio was 35.6 % (2010: 42.1 %). Based on the reported results, the return on equity is not meaningful for the reporting year (2010: 8.3 %).

The Group's policy is for debt capital to be raised centrally by Alpiq Holding Ltd. The domestic capital market is the main source of financing. Alpiq Holding Ltd. held 83 % of the Group's total borrowings at 31 December 2011 (2010: 80 %). The level of these borrowings must bear a reasonable proportion to earnings to ensure a strong credit rating in line with industry norms. The ratio of net debt to EBITDA should not exceed 3 times, but should range from 2.0 to 2.5 times in the medium term. Based on the reported results, this ratio is not meaningful for 2011 (2012: 2.7 times).

The above-mentioned limits and targets are fully consistent with the covenants under financing arrangements entered into.

During the budgeting and planning process, the Board of Directors is advised annually of the planned performance of the targets set. The ratio of net debt to EBITDA at the end of the reporting period exceeded the Group's internal target, however. In order to restore financial equilibrium again, Alpiq intends to reduce net debt by some CHF 1.5 to 2.0 billion by the end of 2014, in the course of the restructuring programme announced on 4 November 2011, by focusing capital expenditure and through disposals and transfers.



## Financial instruments

### Carrying amounts and fair values of financial assets and liabilities

CHF million	Note	Carrying amount at 31 Dec 2010	Fair value at 31 Dec 2010	Carrying amount at 31 Dec 2011	Fair value at 31 Dec 2011
<b>Financial assets at fair value through profit or loss</b>					
Securities held for trading	18	4	4	4	4
Positive fair values of derivatives					
Currency and interest rate derivatives		41	41	36	36
Energy derivatives		734	734	686	686
<b>Total financial assets at fair value through profit or loss (excl. financial assets designated in this category)</b>		<b>779</b>	<b>779</b>	<b>726</b>	<b>726</b>
Financial assets designated in this category					
Financial investments		24	24	14	14
<b>Available-for-sale financial assets</b>					
Financial investments		9	9	13	13
<b>Loans and receivables</b>					
Cash and cash equivalents	17	1,182	1,182	876	876
Term deposits		126	126	324	324
Trade receivables	16	1,809	1,809	1,588	1,588
Unbilled revenue	16	128	128		
Other financial receivables	16	386	386	381	381
Loans receivable	14	115	115	103	103
<b>Total loans and receivables</b>		<b>3,746</b>	<b>3,746</b>	<b>3,272</b>	<b>3,272</b>
<b>Total financial assets</b>		<b>4,558</b>	<b>4,558</b>	<b>4,025</b>	<b>4,025</b>
<b>Financial liabilities at fair value through profit or loss</b>					
Negative fair values of derivatives					
Currency and interest rate derivatives		49	49	54	54
Energy derivatives		698	698	652	652
<b>Total financial liabilities at fair value through profit or loss</b>		<b>747</b>	<b>747</b>	<b>706</b>	<b>706</b>
<b>Other financial liabilities</b>					
Trade payables	23	1,117	1,117	961	961
Bonds	21	2,608	2,810	3,081	3,291
Loans payable	21	1,855	1,855	1,444	1,444
Other financial liabilities, incl. put options		1,388	1,388	1,593	1,593
<b>Total other financial liabilities</b>		<b>6,968</b>	<b>7,170</b>	<b>7,079</b>	<b>7,289</b>
<b>Total financial liabilities</b>		<b>7,715</b>	<b>7,917</b>	<b>7,785</b>	<b>7,995</b>

At the reporting date, the Alpiq Group measured the following assets and liabilities at fair value. The fair value hierarchy shown below was used to classify the financial instruments:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: valuation technique based on quoted prices in active markets that have a significant effect on the fair value

Level 3: valuation techniques using inputs that are not derived from quoted prices in active markets and have a significant effect on the fair value.

CHF million	31 Dec 2011	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>				
Securities held for trading	4	2	2	
Currency and interest rate derivatives	36	36		
Energy derivatives	686		686	
Financial investments	14	8	6	
<b>Financial liabilities measured at fair value</b>				
Currency and interest rate derivatives	54	54		
Energy derivatives	652		652	

CHF million	31 Dec 2010	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>				
Securities held for trading	4	1	3	
Currency and interest rate derivatives	41	41		
Energy derivatives	734	2	732	
Financial investments	33	25	8	
<b>Financial liabilities measured at fair value</b>				
Currency and interest rate derivatives	49	49		
Energy derivatives	698		698	

During the reporting periods ended 31 December 2011 and 31 December 2010, there were no transfers between Level 1 and Level 2 and no transfers out of Level 3.

## Expense / income related to financial assets and liabilities

CHF million	Income statement 2010	Equity 2010	Income statement 2011	Equity 2011
<b>Net gains / losses</b>				
On financial assets and liabilities at fair value through profit or loss	57	5	- 51	- 1
On financial assets designated in this category	20			
On loans and receivables	- 8		- 1	
<b>Interest income and expense</b>				
Interest income on financial assets not measured at fair value	27		18	
Interest expense on financial liabilities not measured at fair value	- 167		- 173	

In 2011, an impairment loss of CHF 3 million (2010: CHF 9 million) was recognised in respect of trade receivables. No impairment loss was recorded for other financial instruments. More information about movements in the provision for impairment is presented in the “ageing analysis of trade receivables”.

### Hedging activities (hedge accounting)

#### Forward commodity contracts

At 31 December 2011, the Alpiq Group recognised forward contracts to hedge the price risk of future deliveries in respect of small to medium-sized end customers in Spain. These transactions are conducted because the necessary energy cannot be purchased in the local market.

The instruments used to hedge the cash flows of contractual commitments to deliver electricity proved to be highly effective. Therefore, an unrealised loss of CHF 15 million (2010: gain of CHF 43 million), with a related deferred tax asset of CHF 4 million (deferred tax liability of CHF 13 million), was included in equity at 31 December 2011 in respect of these contracts.

For a physical electricity delivery where the purchase price is referenced to a coal index, hedge accounting has been applied for the contracts to hedge fluctuations in price. The derivatives used to hedge the price fluctuations proved to be highly effective. The unrealised loss included in equity at 31 December 2011 was CHF 5 million, with a related deferred tax asset of CHF 1 million.

#### Interest rate swaps

At 31 December 2011, the Group held 16 interest rate swaps used to fix the interest rates under a project financing facility. The hedge strategy eliminates potential financial risks arising from an increase in the variable interest rates on which the financing is based. The hedge relationship for hedging interest payments (cash flows) has proved to be highly effective. The unrealised loss of CHF 14 million (2010: CHF 4 million), with a related deferred tax asset of CHF 5 million (CHF 1 million), was included in equity at 31 December 2011.

### Foreign currency hedges

The foreign currency hedge related to the acquisition of a power generation facility in Spain, which was completed at the end of April 2011, was terminated. The unrealised loss of CHF 17 million, with a related deferred tax asset of CHF 1 million, that had been recognised in equity at the end of 2010 was removed from equity.

The exposure to EUR/CHF foreign currency risk arising from agreed payment flows for a major contract in the Energy Services business division was hedged. The hedge was highly effective. The unrealised gain of CHF 4 million (2010: loss of CHF 9 million), with a related deferred tax liability of CHF 1 million (deferred tax asset of CHF 3 million), was included in equity at 31 December 2011.

Other foreign currency exposures arising from transactions such as the sale of Swiss power generation capacities in the euro zone were hedged based on the expected transaction volumes. The hedge proved to be highly effective. The unrealised gain of CHF 5 million, with a related deferred tax liability of CHF 1 million, was included in equity at 31 December 2011.

Hedges that are recognised in equity and not in profit or loss, including deferred tax, consist of:

CHF million	Assets 2010	Liabilities 2010	Assets 2011	Liabilities 2011
Forward commodity contracts	11			- 4
Interest rate swaps		- 9		- 18
Foreign currency hedges		- 23	4	- 4

The amounts recognised in equity at 31 December 2011 are transferred to the income statement over the life of the hedge relationship as energy and commodities are purchased under the underlying contract and to non-current assets in the case of foreign currency hedges. The hedge ineffectiveness recognised immediately in the income statement during the reporting year was immaterial.

### Credit risk management

Credit risk management deals with potential losses arising from the inability of business partners to meet their contractual obligations to the Alpiq Group. Energy credit risk management in the Energy segment encompasses all business units and subsidiaries that have a significant trading volume with external counterparties. It involves regular monitoring of outstanding receivables from counterparties and expected future changes as well as an analysis of the creditworthiness of new and existing counterparties. Besides energy derivatives recorded as financial instruments, it also covers contracts entered into for physical receipt or delivery.

Credit risk is primarily managed using credit limits set by reference to ratings. The Alpiq Group classifies counterparties or groups of counterparties (with similar risk characteristics) in risk categories (AAA–CCC) based on the probability of default. Once established, these ratings are used as the basis for setting the credit limits. The limits may be increased if collateral, such as guarantees, advances or insurance cover, is provided. The ratings of active counterparties are reviewed periodically and the credit limits adjusted, where appropriate.

Binding minimum requirements apply in selecting customers. Particular requirements are approved credit limits, appropriate guarantees and a valid contractual basis. It is policy in energy business to enter into contracts only with counterparties who meet the criteria of the Group Risk Policy. Outstanding credit exposures are monitored and managed on an ongoing basis using a formalised process.

Credit exposure in the Energy Services business division is managed and monitored on a decentralised basis, mainly focusing on receivables management. The local operational management is periodically provided with comprehensive reporting containing all the necessary information required for assessing the outstanding receivables.

Under IFRS 7, the total carrying amount of financial assets recognised represents the Alpiq Group's maximum exposure to credit risk at the reporting date. Calculated accordingly, the maximum credit exposure was CHF 4,025 million at 31 December 2011 (31 December 2010: CHF 4,558 million). For a detailed summary, we refer to the fair values presented in the table of "carrying amounts and fair values of financial assets and liabilities". Credit risk is reduced by collateral held as security and by contractual agreements for netting all receivables and payables with the same counterparty, even those not recognised under IAS 39. Conversely, the credit risk is increased by costs incurred by the Alpiq Group in closing out outstanding positions on more unfavourable terms.

The Alpiq Group's exposure to concentrations of risk is minimised due to the number of customers spread across diverse geographical areas and the consolidation of positions. As in the previous year, there were no significant concentrations of risk at the reporting date.

Cash and term deposits are placed with banks that have a rating of at least "A" from an internationally recognised rating agency. The investments are limited in amount, widely diversified and staggered over time. The limits are reviewed monthly and when particular circumstances require. No write-offs have been necessary to date.

## Collateral

A substantial portion of the energy contracts entered into by the Alpiq Group are based on agreements containing a netting arrangement. Receivables and payables are only presented net in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis. Furthermore, additional collateral, such as guarantees, variation margin payments or insurance cover, is collected where necessary.

As in the previous year, no collateral was collected and converted into financial assets.

## Ageing analysis of trade receivables

CHF million	31 Dec 2010	31 Dec 2011
Carrying amount before impairment	1,858	1,620
Impaired	49	32
Provision at beginning of year	52	49
Reclassified as "assets held for sale"		-17
Charge for the year	9	3
Amounts written off as uncollectible	-3	
Unused amounts reversed	-1	-2
Exchange differences	-8	-1
Provision at end of year	49	32
Not impaired	1,809	1,588
Not past due	1,538	1,300
1 - 90 days past due	225	262
91 - 180 days past due	14	10
181 - 360 days past due	13	7
Over 360 days past due	19	9

In the reporting year (and previous year), an insignificant amount of trade receivables was written off directly under a certificate of unpaid debts, for which no provision had been made because there was no indication of impairment.

The Alpiq Group holds collateral (bank guarantees) with an estimated fair value of CHF 88 million (2010: CHF 97 million) as security for impaired and for past due but not impaired trade receivables.

At the reporting date, there were no indications that debtors owing unimpaired receivables would not be able to meet their payment obligations.

## Liquidity risk

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In European energy trading, a substantial portion of the receivables are offset and settled on specified dates, reducing the maximum liquidity requirements. Margin agreements are commonly used on energy commodity exchanges and among large energy traders so as to reduce the counterparty risk. As a result, movements in energy prices can lead to substantial outstanding debts in the short term. The Alpiq Group manages these variable liquidity requirements by using an early warning system, maintaining sufficient liquid resources and obtaining committed credit facilities from first-rate banks. Corporate Treasury in the Financial Services functional division is responsible for Group-wide cash and liquidity management under the direction of the CFO. Its role is to forecast, monitor, provide and optimise liquidity throughout the Group on a monthly rolling basis.

The contractual maturities of financial liabilities are presented below. The counterparty's redemption option has been taken into account even if redemption currently seems unlikely. Where it is intended to refinance loans at the end of the contract term, but refinancing has not yet been contractually secured, a cash outflow on maturity is assumed. Accordingly, actual cash flows may differ significantly from the contractual maturities.

Cash flows from derivatives are presented on a gross basis when the amounts are actually settled gross. To reflect the actual liquidity risk arising from such financial instruments, the cash inflows from derivatives are shown on a separate line in addition to the cash outflows.

**2011: Maturity analysis of financial liabilities**

CHF million	Carrying amount	Cash flows					Total
		< 1 month	1-3 months	4-12 months	1-5 years	> 5 years	
<b>Non-derivative financial liabilities</b>							
Trade payables	961	-719	-222	-20			-961
Bonds	3,081		-31	-61	-1,842	-1,667	-3,601
Loans payable	1,444	-2	-5	-35	-961	-701	-1,704
Other financial liabilities	1,593	-33	-783	-765	-23	-15	-1,619
<b>Derivative financial instruments</b>							
Net carrying amount of derivative financial instruments	16						
Net carrying amount of energy derivatives	34						
Gross cash inflows		2,465	4,652	17,290	6,847		31,254
Gross cash outflows		-2,474	-4,627	-17,285	-7,000		-31,386
Net carrying amount of interest rate/currency derivatives	-18						
Gross cash inflows		538	771	570	399	102	2,380
Gross cash outflows		-532	-770	-584	-446	-132	-2,464

**2010: Maturity analysis of financial liabilities**

CHF million	Carrying amount	Cash flows					Total
		< 1 month	1-3 months	4-12 months	1-5 years	> 5 years	
<b>Non-derivative financial liabilities</b>							
Trade payables	1,117	-868	-197	-47	-5		-1,117
Bonds	2,608		-31	-53	-1,599	-1,459	-3,142
Loans payable	1,855	-7	-12	-38	-1,655	-384	-2,096
Other financial liabilities	1,388	-71	-213	-1,076	-26	-26	-1,412
<b>Derivative financial instruments</b>							
Net carrying amount of derivative financial instruments	28						
Net carrying amount of energy derivatives	36						
Gross cash inflows		1,493	2,818	10,480	4,762	1	19,554
Gross cash outflows		-1,532	-2,812	-10,650	-4,671		-19,665
Net carrying amount of interest rate/currency derivatives	-8						
Gross cash inflows		739	446	202	258	76	1,721
Gross cash outflows		-752	-434	-213	-295	-65	-1,759

The potential outflow of resources arising from guarantees is shown in note 26.



## Market risk

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The Alpiq Group's exposure to market risk primarily comprises energy price risk, interest rate risk and currency price risk. These risks are monitored on an ongoing basis and managed using various derivative financial instruments.

Market risk is measured within the framework of a Group-wide risk policy setting out rules on the incurrence, measurement, limitation and monitoring of risks. Compliance with these risk limits is monitored on an ongoing basis by the Risk Management Committee based on regular reporting by the Corporate Risk Management functional unit.

### Energy price risk

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Energy price risk refers to potential price fluctuations that could have an adverse impact on the Alpiq Group. These can arise from factors such as variations in price volatility, market price movements or changing correlations between markets and products. Energy liquidity risks also belong in this category. These occur when an open energy position cannot be closed out or can only be closed out on very unfavourable terms due to a lack of market bids.

Derivative financial instruments are used to hedge underlying physical transactions in line with the risk policy.

### Interest rate risk

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The Alpiq Group is exposed to risks arising from volatility in interest rates. Under its financial policy, liquid assets are invested on a short-term basis, while the necessary funding is obtained on a long-term basis. This means that a change in interest rates for assets has a direct impact on finance income. A change in interest rates for liabilities does not significantly affect finance costs due to the long-term nature of the financing arrangements. However, substantial differences may arise between the carrying amounts and fair value of settled financial transactions.

### Foreign currency risk

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The Alpiq Group seeks to mitigate foreign currency risk by offsetting operating income and expenses denominated in foreign currencies. Any net balance remaining is hedged by foreign exchange contracts (forward contracts, options) in accordance with the Group's financial policy.

Net investments in foreign subsidiaries are also exposed to changes in foreign exchange rates, but the difference in inflation rates should offset these changes over the long term. For this reason, investments in foreign subsidiaries are not hedged.

Foreign currency risk arising from energy generation or purchasing is contractually transferred to the counterparty wherever possible. Where this is not possible or is only partially possible, forward currency contracts and currency options with a hedging horizon of up to 24 months are used to manage exposure in line with the Group's financial policy. Foreign currency risk is generally monitored centrally. Due to the sharp depreciation against the Swiss franc, the foreign currency risk arising from euro exposures is hedged. Hedging is carried out centrally based on the aggregate euro exposures across the Group. Changes in the market and amounts are monitored on an ongoing basis and the hedges adjusted according to the foreign currency risk.

Translation risk (risk arising on translation of assets and liabilities in annual financial statements) is not hedged.

#### Equity price risk

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The Alpiq Group holds a number of minor financial investments that are recognised at fair value and are susceptible to equity price fluctuations. As a rule, they are not hedged.

#### Sensitivity analysis

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An analysis of market risk exposures is presented below, showing how profit would have been affected by reasonably possible changes in the relevant risk variable. The 2011 analysis revealed that the possible impact on equity would have been +/- CHF 9 million from interest rate derivatives (2010: +/- CHF 3 million), +/- CHF 23 million from foreign currency hedges (2010: +/- CHF 22 million) and +/- CHF 15 million (+/- CHF 30 million) from hedging transactions related to energy and energy services business.

Foreign currency risk sensitivity is based on financial instruments held at the reporting date. The reasonably possible changes in the relevant risk variable were determined based on historical fluctuations (over one year). A variation by +/- 1 standard deviation around the calculated mean is considered to be reasonably possible.

The exposure to equity price movements is based on the weighted average 180-day volatility of the current securities portfolio during 2011. Sensitivity to interest rate risk is measured by stress testing based on the six-month Euribor.

The possible annual percentage changes in the fair values of energy derivatives are determined from the commodity market prices for electricity, gas, coal and oil over the past three years. The sensitivities are calculated using the maximum deviations from the mean to a confidence level of 99%.

Each type of risk is quantified assuming that all other variables remain constant.

CHF million	+/- Change 2010	+/- Effect on profit for 2010 (before tax)	+/- Change 2011	+/- Effect on profit for 2011 (before tax)
Energy price risk	99.3 %	35.7	94.6 %	32.3
EUR/CHF currency risk	11.5 %	1.8	15.0 %	209.2
EUR/USD currency risk	13.8 %	9.2	11.2 %	41.1
EUR/CZK currency risk	7.2 %	1.3	6.5 %	1.0
EUR/HUF currency risk	13.1 %	3.1	11.4 %	3.0
EUR/NOK currency risk	8.5 %	3.4	7.5 %	7.8
EUR/PLN currency risk	12.9 %	2.8	10.0 %	5.1
EUR/RON currency risk	12.3 %	0.2	4.8 %	0.2
USD/CHF currency risk	12.3 %	0.2		
GBP/CHF currency risk			15.5 %	0.5
CHF/RON currency risk	12.4 %	9.5		
Interest rate risk	1.0 %	43.1	1.0 %	61.7
Equity price risk	15.6 %	5.9	5.6 %	1.0

# Notes to the Consolidated Financial Statements

## 1 Restructuring and impairment charges

As explained in the introduction to the Financial Review on page 54, Alpiq's Board of Directors adopted a restructuring programme to focus the Group on its core business, streamline the organisation and reduce costs and debt. As a consequence, a comprehensive impairment test was also performed. For this purpose, the parameters used to calculate the recoverable amounts of power generation assets and energy purchase agreements were reviewed and revised. Key assumptions on which management has based its assessment include external market forecasts of future electricity and gas prices in the wholesale and end-user markets, business-related capital spending, the regulatory environment, and expected growth rates and cost of capital. The recoverable amount used to determine any impairment loss of an asset or cash-generating unit is primarily estimated based on its value in use and, in the case of associates, on fair value less costs to sell.

Allocation of impairment losses and provisions:

CHF million		Property, plant and equipment	Intangible assets	Goodwill	Associates	Assets held for sale	Total
Power Generation Switzerland	Energy Switzerland	80					80
Power Generation Central Europe	Energy Central Europe	10			3		13
Power Generation Italy	Energy Western Europe	108	15		435		558
Power Generation France	Energy Western Europe	227					227
Power Generation Spain	Energy Western Europe	60	18	27			105
Sales Central Europe	Energy Central Europe		39				39
AIT business unit	Energy Services		2				2
Other impairment charges	Energy Western Europe					78	78
Holding company, Corporate Centre and other	Holding company				385		385
	Corporate Centre	64					64
<b>Total impairment of assets</b>		<b>549</b>	<b>74</b>	<b>27</b>	<b>823</b>	<b>78</b>	<b>1,551</b>
Employee restructuring costs							30
Provision for loss-making contracts							104
Suspended projects and other provisions							60
<b>Total restructuring and impairment charges</b>							<b>1,745</b>

The item “associates” comprises impairment losses as well as the cumulative translation differences of CHF 138 million relating to Edipower that had been recognised in equity and were recycled to the income statement (also see note 32).

During the reporting period, there were no significant cash out expenses in connection with the restructuring programme.

## 2 Own work capitalised

The increase in own work capitalised is primarily due to the construction work on the Group's K7 power generation project in the Czech Republic.

## 3 Energy and inventory costs <sup>1</sup>

CHF million	2010	2011
Electricity purchased from third parties	8,461	8,665
Electricity purchased from joint ventures (partner stations) <sup>2</sup>	655	585
Electricity purchased from associates (other companies)	480	110
Other energy purchases	710	1,048
Cost of inventories	343	396
<b>Total before restructuring programme</b>	<b>10,649</b>	<b>10,804</b>
Restructuring programme		113
<b>Total</b>	<b>10,649</b>	<b>10,917</b>

## 4 Employee costs <sup>1</sup>

CHF million	2010	2011
Wages and salaries	542	557
Defined benefit pension costs	23	30
Defined contribution pension costs	5	4
Other employee costs	89	85
<b>Total before restructuring plan</b>	<b>659</b>	<b>676</b>
Restructuring plan		30
<b>Total</b>	<b>659</b>	<b>706</b>

<sup>1</sup> The figures presented exclude discontinued operations (see note 32); prior year comparatives have been restated retrospectively.

<sup>2</sup> Including effects of IFRS reconciliation (note 13 on page 115).

**Average number of employees**

	2010	2011
Employees (full-time equivalents)	5,744	5,615
Apprentices	491	483
<b>Total</b>	<b>6,235</b>	<b>6,098</b>

**Number of employees at the reporting date**

	31 Dec 2010	31 Dec 2011
Employees (full-time equivalents)	5,999	5,672
Apprentices	488	478
<b>Total</b>	<b>6,487</b>	<b>6,150</b>

**5 Other operating expenses <sup>1</sup>**

Other operating expenses of CHF 404 million from continuing operations during 2011 (2010: CHF 328 million) include transfers of CHF 106 million to restructuring provisions.

**6 Depreciation, amortisation and impairment <sup>1</sup>**

CHF million	2010	2011
Depreciation of property, plant and equipment	257	294
Amortisation of energy purchase rights	168	166
Amortisation of other intangible assets	44	89
Impairment of property, plant and equipment and intangible assets		650
<b>Total</b>	<b>469</b>	<b>1,199</b>

Information about impairment testing of goodwill and intangible assets is disclosed in note 12.

<sup>1</sup> The figures presented exclude discontinued operations (see note 32); prior year comparatives have been restated retrospectively.

## 7 Net finance costs <sup>1</sup>

CHF million	2010	2011
Interest income	11	11
Interest expense (incl. interest on provisions and other non-current liabilities)	-177	-181
Capitalised borrowing costs	14	5
Dividend income from financial investments	1	1
Foreign exchange gains/(losses), net	-1	10
Other finance income/(costs), net	4	-20
<b>Total</b>	<b>-148</b>	<b>-174</b>

## 8 Income tax expense

### Income tax recognised in equity and not in profit or loss

CHF million	2010	2011
Current income tax	0	0
Deferred income tax	-10	13
<b>Total</b>	<b>-10</b>	<b>13</b>

### Income tax expense charged to the income statement <sup>1</sup>

CHF million	2010	2011
Current income tax	208	74
Deferred income tax	-54	-121
<b>Total</b>	<b>154</b>	<b>-47</b>

<sup>1</sup> The figures presented exclude discontinued operations (see note 32); prior year comparatives have been restated retrospectively.

## Reconciliation

CHF million	2010	2011
Profit/(loss) before income tax from continuing operations	761	-1,431
Profit before income tax from discontinued operations	53	57
<b>Total profit/(loss) before income tax</b>	<b>814</b>	<b>-1,374</b>
Expected income tax rate (weighted average)	24.6%	24.7%
Income tax at the expected income tax rate	200	-339
Increase/(decrease) in income tax expense due to:		
Effect of non-deductible expenses for tax purposes	9	185
Effect of adjustments in respect of prior periods	-9	-5
Effects of income exempt from tax	-30	-15
Effect of valuation of tax loss carry-forwards	-3	141
Effect of changes in tax rates		5
Other effects	2	
<b>Total income tax expense</b>	<b>169</b>	<b>-28</b>
Attributable to continuing operations	154	-47
Attributable to discontinued operations	15	19
Effective income tax rate	20.8%	2.0%

The expected income tax rate only changed insignificantly year on year.

## Deferred tax assets and liabilities by origination of temporary differences

CHF million	31 Dec 2010	31 Dec 2011
Tax losses not yet used	17	21
Property, plant and equipment	12	7
Current assets	10	16
Provisions and liabilities	43	36
<b>Total gross deferred tax assets</b>	<b>82</b>	<b>80</b>
Property, plant and equipment	511	539
Other non-current assets	882	856
Current assets	100	30
Provisions and liabilities	154	161
<b>Total gross deferred tax liabilities</b>	<b>1,647</b>	<b>1,586</b>
<b>Net deferred tax liability</b>	<b>1,565</b>	<b>1,506</b>
Tax assets recognised in the statement of financial position	82	40
Tax liabilities recognised in the statement of financial position	1,647	1,546



At 31 December 2011, several subsidiaries had tax loss carry-forwards totalling CHF 527 million (2010: CHF 213 million) that are available for offset against future taxable profits.

Deferred tax assets are recognised for tax loss carry-forwards only to the extent that realisation of the related tax benefit is probable. The Alpiq Group has not recognised the tax benefit of tax loss carry-forwards of CHF 468 million (2010: CHF 149 million).

These tax loss carry-forwards expire in the following periods:

CHF million	31 Dec 2010	31 Dec 2011
Within 1 year		1
Within 2 – 3 years	49	23
After 3 years	100	444
<b>Total</b>	<b>149</b>	<b>468</b>

## 9 Earnings per share

	Continuing operations 2010	Discontinued operations 2010	2010	Continuing operations 2011	Discontinued operations 2011	2011
Weighted average number of shares outstanding			27,189,873			27,189,873
Net profit/(loss) attributable to owners of Alpiq Holding (CHF million)	600	38	638	-1,363	38	-1,325
<b>Earnings per share (CHF)</b>	<b>22.06</b>	<b>1.40</b>	<b>23.46</b>	<b>-50.13</b>	<b>1.40</b>	<b>-48.73</b>

There are no circumstances that could have a dilutive effect on earnings per share.

## 10 Property, plant and equipment

CHF million	Land and buildings	Power generation assets	Transmission assets	Other plant and equipment	Assets under construction	Total
<b>Gross carrying amount at 31 December 2009</b>	<b>382</b>	<b>4,178</b>	<b>1,659</b>	<b>460</b>	<b>977</b>	<b>7,656</b>
Acquisition/disposal of subsidiaries	2			1		3
Additions	20	89	36	91	225	461
Own work capitalised		1	5	1	43	50
Capitalised borrowing costs (3.1% interest)					14	14
Transfers	12	132	19	12	-179	-4
Disposals	-5	-7	-80	-28	-6	-126
Exchange differences	-16	-200	-1	-41	-111	-369
<b>Gross carrying amount at 31 December 2010</b>	<b>395</b>	<b>4,193</b>	<b>1,638</b>	<b>496</b>	<b>963</b>	<b>7,685</b>
Acquisition/disposal of subsidiaries	15	358		1	11	385
Additions	4	77	25	92	212	410
Own work capitalised			3	13	86	102
Capitalised borrowing costs (3.1% interest)					5	5
Transfers	3	694	5	7	-743	-34
Disposals	-4	-7	-27	-23	-43	-104
Reclassified as "assets held for sale"	-70		-826	-220	-122	-1,238
Exchange differences	-4	-58		-8	-11	-81
<b>Gross carrying amount at 31 December 2011</b>	<b>339</b>	<b>5,257</b>	<b>818</b>	<b>358</b>	<b>358</b>	<b>7,130</b>
<b>Accum. depreciation at 31 December 2009</b>	<b>77</b>	<b>818</b>	<b>772</b>	<b>257</b>	<b>0</b>	<b>1,924</b>
Depreciation charge for the year	12	154	54	61	4	285
Transfers		-4	-1	1		-4
Disposals		-7	-54	-27	-4	-92
Exchange differences	-7	-74		-25		-106
<b>Accum. depreciation at 31 December 2010</b>	<b>82</b>	<b>887</b>	<b>771</b>	<b>267</b>	<b>0</b>	<b>2,007</b>
Depreciation charge for the year	10	183	54	72		319
Impairment	5	447		62	35	549
Transfers		3	-4			-1
Disposals		-1	-23	-22	-35	-81
Reclassified as "assets held for sale"	-25		-374	-135		-534
Exchange differences	-1	-22		-6		-29
<b>Accum. depreciation at 31 December 2011</b>	<b>71</b>	<b>1,497</b>	<b>424</b>	<b>238</b>	<b>0</b>	<b>2,230</b>
Net carrying amount at 31 December 2010	313	3,306	867	229	963	5,678
<b>Net carrying amount at 31 December 2011</b>	<b>268</b>	<b>3,760</b>	<b>394</b>	<b>120</b>	<b>358</b>	<b>4,900</b>

At the reporting date, the Group had contractual commitments of CHF 33 million (2010: CHF 75 million) for the construction and acquisition of property, plant and equipment.

## 11 Energy purchase rights and intangible assets

CHF million	Energy purchase rights	Goodwill	Other intangible assets	Total
<b>Gross carrying amount at 31 December 2009</b>	<b>2,148</b>	<b>681</b>	<b>558</b>	<b>3,387</b>
Acquisition / disposal of subsidiaries		5	1	6
Additions	15	16	8	39
Transfers			-11	-11
Disposals			-16	-16
Exchange differences	-28	-43	-30	-101
<b>Gross carrying amount at 31 December 2010</b>	<b>2,135</b>	<b>659</b>	<b>510</b>	<b>3,304</b>
Acquisition / disposal of subsidiaries		67	91	158
Additions			22	22
Transfers			-10	-10
Disposals	-627		-10	-637
Reclassified as "assets held for sale"		-35	-218	-253
Exchange differences	-5	-9	-11	-25
<b>Gross carrying amount at 31 December 2011</b>	<b>1,503</b>	<b>682</b>	<b>374</b>	<b>2,559</b>
<b>Accum. amortisation at 31 December 2009</b>	<b>654</b>	<b>0</b>	<b>148</b>	<b>802</b>
Amortisation charge for the year	168		49	217
Transfers				0
Disposals			-11	-11
Exchange differences	-12		-4	-16
<b>Accum. amortisation at 31 December 2010</b>	<b>810</b>	<b>0</b>	<b>182</b>	<b>992</b>
Amortisation charge for the year	166		94	260
Impairment	39	27	35	101
Transfers			-11	-11
Disposals	-627		-9	-636
Reclassified as "assets held for sale"			-105	-105
Exchange differences	-3	-1	-2	-6
<b>Accum. amortisation at 31 December 2011</b>	<b>385</b>	<b>26</b>	<b>184</b>	<b>595</b>
Net carrying amount at 31 December 2010	1,325	659	328	2,312
<b>Net carrying amount at 31 December 2011</b>	<b>1,118</b>	<b>656</b>	<b>190</b>	<b>1,964</b>

No borrowing costs were capitalised in 2010 and 2011.

The plant usage rights with indefinite useful lives and a value of CHF 45 million that were included in the carrying amount of "other intangible assets" a year earlier were reclassified to "assets held for sale" at 31 December 2011 at their previous carrying value.

## 12 Impairment testing of goodwill, intangible assets and other assets

Goodwill and intangible assets with indefinite useful lives have been allocated to the following cash-generating units for impairment testing purposes:

CHF million	Pre-tax discount rate at 31 Dec 2010	Post-tax discount rate at 31 Dec 2010	Carrying amount at 31 Dec 2010	Pre-tax discount rate at 31 Dec 2011	Post-tax discount rate at 31 Dec 2011	Carrying amount at 31 Dec 2011
Power Generation Switzerland	5.7%	4.9%	380	7.3%	5.4%	380
Power Generation Central Europe	9.7%	8.1%	99	11.0%	9.7%	95
Power Generation Spain				8.3%	7.7%	0 <sup>1</sup>
Sales Central Europe	12.7%	10.3%	62	12.7%	11.6%	60
Sales Italy	11.8%	7.1%	7	10.7%	7.1%	0 <sup>2</sup>
Sales Spain	10.9%	7.8%	2	15.5%	9.2%	0 <sup>2</sup>
Sales Nordic	8.3%	6.2%	6	8.6%	7.0%	0 <sup>2</sup>
Renewable Energy Sources Switzerland	5.7%	5.0%	17	6.5%	4.4%	17
Renewable Energy Sources Italy	10.1%	7.8%	14	8.7%	7.1%	51
Renewable Energy Sources Bulgaria	12.7%	11.5%	4	9.6%	8.7%	4
Grid Switzerland	5.1%	4.0%	45	5.1%	4.0%	0 <sup>2</sup>
AIT business unit	7.2%	5.7%	48	7.5%	6.2%	49
AAT business unit	9.4%	6.6%	20	10.6%	7.4%	0 <sup>2</sup>
<b>Total</b>			<b>704</b>			<b>656</b>

1 Full impairment loss recognised at 31 December 2011.

2 Part of the disposal group reclassified at the reporting date on 31 December 2011 (see note 32).

Due to the structural changes in the Alpiq Group's organisation, the cash-generating units were redefined. These changes had no impact on the recoverable amount of goodwill.

In impairment testing of goodwill and intangible assets with indefinite useful lives, the recoverable amount of all the units above was based on their value in use in 2010 and 2011. This represents the present value of the estimated future cash flows for each cash-generating unit. The following assumptions used in the value in use calculations are subject to estimation uncertainty: discount rate, cash flows and growth rates. The cash flow projections and growth rates are based on the most recent financial budgets approved by management based on past experience and covering a five-year period. Cash flows for the sixth year and beyond (except for Power Generation Spain, see below) were extrapolated using a zero growth rate. Discount rates reflect current market assessments of the risks specific to each cash-generating unit.

Impairment tests of property, plant and equipment and intangible assets with finite useful lives were also performed using the same methods, except that the budgets and forecasts covered the full useful lives of the assets. The following discount rates were applied: Power Generation Italy (pre-tax discount rate: 9.7%; post-tax rate: 7.1%), Power Generation France (7.7%; 6.5%), Power Generation Spain (8.3%; 7.7%),

Power Generation Central Europe (9.2%; 6.7%) and a power station in Switzerland (7.0%; 6.2%) that is not part of the Power Generation Switzerland cash-generating unit.

For the units listed above, an analysis of sensitivity to changes in the material parameters has shown that the values in use of the individual cash-generating units exceed their current carrying amounts.

### 13 Investments in associates and joint ventures

CHF million	Joint ventures (partner stations)	Associates	Total
<b>Carrying amount at 31 December 2009</b>	<b>3,842</b>	<b>1,988</b>	<b>5,830</b>
Additions	57	2	59
Dividend	-24	-36	-60
Share of profit	25	72	97
IAS 39 effects taken to equity		-6	-6
Effects charged / credited to energy costs			
IFRS reconciliation for consolidation	-24		-24
PPA impact of EOS	-99		-99
Disposals	-5		-5
Exchange differences		-219	-219
<b>Carrying amount at 31 December 2010</b>	<b>3,772</b>	<b>1,801</b>	<b>5,573</b>
Acquisition / disposal of subsidiaries		3	3
Additions		1	1
Dividend	-32	-38	-70
Share of profit	25	25	50
IAS 39 effects taken to equity		-10	-10
Effects charged / credited to energy costs			
IFRS reconciliation for consolidation	-20		-20
PPA impact of EOS	-102		-102
Impairment <sup>1</sup>		-685	-685
Reclassification		-51	-51
Disposals	-5	-22	-27
Reclassified as "assets held for sale"		-245	-245
Exchange differences		3	3
<b>Carrying amount at 31 December 2011</b>	<b>3,638</b>	<b>782</b>	<b>4,420</b>

<sup>1</sup> Also see note 1 on pages 106 and 107.

In the reporting year, the 35.5% interest in S.E.R.H.Y. S.A.S., Société d'études et de réalisations hydroélectriques, St-Amans-Soult/FR, was sold. As a result, cumulative translation losses of CHF 6 million recognised in equity were transferred to the income statement and expensed against profit of associates.

All significant associates and joint ventures are valued in accordance with uniform IFRS principles. Reconciliations are prepared in cases where no financial statements prepared under IFRS are available.

The reporting date of a few associates and joint ventures is different from that of the Group. The most recent available financial statements of these companies have been used for the Alpiq Group consolidation. Adjustments have been made in the consolidated financial statements for the effects of significant transactions and events that occurred between the most recent financial statements and 31 December.

The market value of the Group's interests in other companies listed on a stock exchange was CHF 588 million at 31 December 2011 (31 December 2010: CHF 765 million). The carrying amount of these companies was CHF 539 million at the reporting date (CHF 913 million). The Alpiq Group continuously monitors movements in the market value of the listed companies. If the carrying amount of individual companies significantly exceeds the Group's share of their market value for a prolonged period, the Group performs an impairment test based on current medium-term plans (value in use analysis).

#### Summarised financial information of associates and joint ventures (Alpiq Group share)

CHF million	Joint ventures (partner stations)		Associates	
	2010	2011	2010	2011
Non-current assets	6,690	7,013	2,739	1,159
Current assets	266	254	885	725
Non-current liabilities	2,872	3,324	845	643
Current liabilities	312	305	978	459
Revenue	670	633	1,944	1,194
Expenses	-645	-608	-1,872	-1,175

Under joint venture agreements in force, the shareholders of joint ventures are required to pay the annual costs attributable to their percentage ownership interests (incl. interest and repayment of liabilities). The Alpiq Group's share of the regular annual costs in 2011 was CHF 565 million (2010: CHF 631 million).

In addition, nuclear power plant owners are required to pay limited additional contributions to the decommissioning and waste disposal fund in the event that any one primary contributor is unable to make its payments.

## 14 Other non-current financial assets

CHF million	Financial investments	Loans receivable	Total
<b>Carrying amount at 31 December 2009</b>	<b>35</b>	<b>43</b>	<b>78</b>
Additions	1	106	107
Changes in fair value	-2		-2
Disposals	-1	-28	-29
Exchange differences		-6	-6
<b>Carrying amount at 31 December 2010</b>	<b>33</b>	<b>115</b>	<b>148</b>
Additions	8	32	40
Reclassifications	-9	-32	-41
Disposals	-5	-10	-15
Exchange differences		-2	-2
<b>Carrying amount at 31 December 2011</b>	<b>27</b>	<b>103</b>	<b>130</b>

## 15 Inventories

At the reporting date, inventories primarily included fuels (gas and coal) carried at an amount of CHF 70 million (2010: CHF 76 million) as well as consumables and supplies valued at CHF 41 million (CHF 40 million).

## 16 Trade and other receivables

CHF million	31 Dec 2010	31 Dec 2011
Trade receivables	1,809	1,588
Prepayments to suppliers	24	30
Unbilled revenue	128	
Other receivables	386	381
<b>Total</b>	<b>2,347</b>	<b>1,999</b>

Trade receivables from customers who are also suppliers are offset against the respective trade payables where netting agreements with the counterparties are in place. Receivables and payables offset under netting agreements amounted to CHF 2,546 million (2010: CHF 1,942 million).

Unbilled revenue related to construction contracts is reported as follows by reference to the stage of completion, less advances received:

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CHF million	31 Dec 2010	31 Dec 2011
Unbilled revenue (gross)	887	604
Advances received from customers	- 759	- 646
<b>Unbilled revenue (net)</b>	<b>128</b>	<b>- 42</b>

The excess of CHF 42 million remaining after offsetting prepayments at 31 December 2011 is recognised as a liability in “advances from customers”.

## 17 Cash and cash equivalents

CHF million	31 Dec 2010	31 Dec 2011
Cash at bank and in hand	1,081	840
Term deposits with a maturity of 90 days or less	101	36
<b>Total</b>	<b>1,182</b>	<b>876</b>

Cash at bank and in hand includes CHF 8 million (2010: CHF 15 million) restricted as collateral to energy trading exchanges and transmission system operators. The balances at 31 December 2011 exclude amounts attributable to assets held for sale.

## 18 Current asset investments

This item comprises only securities held for trading.

## 19 Equity

### Share capital

The share capital of CHF 271.9 million (2010: CHF 271.9 million) consists of 27,189,873 registered shares of CHF 10 each (27,189,873 registered shares) and is fully paid up. Shareholders registered in the share register were:

%	Ownership interest at 31 Dec 2010	Ownership interest at 31 Dec 2011
EOS HOLDING SA (EOSH)	31.4	31.4
EDF Alpes Investissements Sàrl (EDFAI)	25.0	25.0
EBM (Genossenschaft Elektra Birseck)	13.6	13.6
EBL (Genossenschaft Elektra Baselland)	7.1	7.1
Canton of Solothurn	5.6	5.6
EnBW Energie Baden-Württemberg	2.3	2.3
Aziende Industriali di Lugano (AIL)	2.1	2.1
IBAAarau (IBA)	2.0	2.0
Wasserwerke Zug (WWZ)	0.9	0.9
Free float	10.0	10.0



## 20 Provisions

CHF million	Contract risks and losses	Retirement benefit provisions	Other provisions	Total
<b>Balance of non-current provisions at 31 December 2010</b>	<b>54</b>	<b>147</b>	<b>66</b>	<b>267</b>
Current provisions	72	7	56	135
<b>Total provisions at 31 December 2010</b>	<b>126</b>	<b>154</b>	<b>122</b>	<b>402</b>
Arising during the year	13	9	185	207
Unwinding of discount	2	1	3	6
Utilised	-36	-7	-36	-79
Unused amounts reversed	-42		-5	-47
Reclassified as "liabilities held for sale"		-120	-28	-148
Exchange differences		-3		-3
<b>Total provisions at 31 December 2011</b>	<b>63</b>	<b>34</b>	<b>241</b>	<b>338</b>
Less current provisions	-16	-1	-141	-158
<b>Balance of non-current provisions at 31 December 2011</b>	<b>47</b>	<b>33</b>	<b>100</b>	<b>180</b>
<b>Expected cash outflows</b>				
Within 12 months	-16	-1	-141	-158
Within 1 – 5 years	-47	-4	-100	-151
After 5 years		-29		-29
<b>Total</b>	<b>-63</b>	<b>-34</b>	<b>-241</b>	<b>-338</b>

The provision for contract risks and losses covers existing obligations and identifiable risks arising from energy trading and sales business as determined at the reporting date. This item provides for compensation payments and liabilities expected in connection with long-term energy purchasing and supply.

The other provisions primarily cover liabilities relating to personnel, obligations arising from restructuring programmes and general operating liabilities, such as warranties relating to the provision of services or potential losses from pending transactions.

Current provisions are recorded as accruals.

## 21 Long-term borrowings

CHF million	31 Dec 2010	31 Dec 2011
Bonds at amortised cost	2,608	3,081
Loans payable	1,855	1,444
<b>Total</b>	<b>4,463</b>	<b>4,525</b>

### Bonds outstanding at the reporting date

CHF million	Term	Earliest redemption date	Effective interest rate %	Carrying amount at 31 Dec 2010	Carrying amount at 31 Dec 2011
Alpiq Holding Ltd. CHF 200 million face value, 3 % fixed rate	2009 / 2014	10 Feb 2014	3.201	199	199
Alpiq Holding Ltd. CHF 25 million face value, 3 3/8 % fixed rate	2008 / 2014	30 Oct 2014	3.559	25	25
Alpiq Holding Ltd. CHF 150 million face value, 3 3/8 % fixed rate	2008 / 2014	30 Oct 2014	3.600	149	149
Alpiq Holding Ltd. CHF 250 million face value, 3 1/4 % fixed rate	2009 / 2015	3 Jul 2015	3.447	248	248
Alpiq Holding Ltd. CHF 250 million face value, 4 % fixed rate	2009 / 2017	10 Feb 2017	4.174	248	248
Alpiq Holding Ltd. CHF 160 million face value, 3 7/8 % fixed rate	2008 / 2018	30 Oct 2018	4.022	158	158
Alpiq Holding Ltd. CHF 40 million face value, 3 7/8 % fixed rate	2008 / 2018	30 Oct 2018	4.020	40	40
Alpiq Holding Ltd. CHF 500 million face value, 3 % fixed rate	2009 / 2019	25 Nov 2019	3.181	493	494
Alpiq Holding Ltd. CHF 300 million face value, 3 1/8 % fixed rate <sup>1,2</sup>	2003 / 2013	16 Sep 2013	3.125	300	300
Alpiq Holding Ltd. CHF 250 million face value, 3 1/4 % fixed rate <sup>2</sup>	2008 / 2015	25 Mar 2015	3.547	247	248
Alpiq Holding Ltd. CHF 250 million face value, 2 5/8 % fixed rate <sup>2</sup>	2006 / 2018	1 Mar 2018	2.790	247	248
Alpiq Holding Ltd. CHF 125 million face value, 2 7/8 % fixed rate <sup>2</sup>	2006 / 2014	22 Sep 2014	3.107	124	124
Alpiq Holding Ltd. CHF 250 million face value, 1 3/8 % fixed rate	2011 / 2016	20 Sep 2016	1.553	–	248
Alpiq Holding Ltd. CHF 225 million face value, 2 1/4 % fixed rate	2011 / 2021	20 Sep 2021	2.399	–	222
Emosson SA CHF 130 million face value, 2 1/4 % fixed rate <sup>1</sup>	2005 / 2017	26 Oct 2017	2.250	130	130

1 The bond issue is measured at face value, which approximates amortised cost. As a result, the reported nominal and effective interest rates are identical.

2 Bonds issued by Alpiq Ltd. and Alpiq Suisse Ltd. which were transferred to Alpiq Holding Ltd. in December 2010 by way of substitution of issuer.

The market value of fixed rate bonds outstanding at the reporting date was CHF 3,291 million (2010: CHF 2,810 million). The weighted interest rate on bonds issued at the reporting date, relative to face value, was 2.96 % (2010: 3.17 %).

## Loans payable

CHF million	31 Dec 2010	31 Dec 2011
Maturing between 1 and 5 years	1,517	848
Maturing in more than 5 years	338	596
<b>Total</b>	<b>1,855</b>	<b>1,444</b>

The market value of loans payable was CHF 1,444 million at the reporting date (2010: CHF 1,855 million). The weighted interest rate on loans payable at the reporting date, relative to nominal value, was 2.90% (3.09%). Loans of CHF 1,331 million maturing within 360 days are recorded as short-term borrowings at the reporting date on 31 December 2011 (31 December 2010: CHF 789 million).

## 22 Other non-current liabilities

CHF million	31 Dec 2010	31 Dec 2011
Written put options	7	3
Other non-current payables	375	228
<b>Total</b>	<b>382</b>	<b>231</b>
<b>Maturities</b>		
Between 1 and 5 years	352	212
More than 5 years	30	19
<b>Total</b>	<b>382</b>	<b>231</b>

## 23 Other current liabilities

CHF million	31 Dec 2010	31 Dec 2011
Trade payables	1,117	961
Other payables	532	364
Advances from customers	162	61
<b>Total</b>	<b>1,811</b>	<b>1,386</b>

Trade payables to suppliers who are also customers are offset against the respective trade receivables where netting agreements with the counterparties are in place. Payables and receivables offset under netting agreements amounted to CHF 2,546 million (2010: CHF 1,942 million).

## 24 Related party transactions

EOS Holding and EDFAI have significant influence over the Alpiq Group and are referred to below as “other related companies”. For information about the relationship with associates and joint ventures, please refer to the accounting policies. Details of transactions between the Group and its employee pension schemes are presented in note 25.

### 2011: Transactions between the Group and related companies

CHF million	Associates	Joint ventures (partner stations)	Other related companies
<b>Total revenue and other income</b>			
Revenue from energy sales	788	41	482
Other service revenue	-647	42	
<b>Operating expenses</b>			
Energy costs	-110	-565	-1,030
Other service costs	-67	-1	-1
<b>Finance income and costs</b>			
Interest income		3	
Interest expense			-21

### Outstanding balances with related companies at the reporting date

CHF million	Associates	Joint ventures (partner stations)	Other related companies
<b>Receivables</b>			
Trade receivables	29	17	36
Non-current financial receivables	3	56	
Current financial receivables	269		
Other receivables	1		
<b>Payables</b>			
Trade payables	35	6	29
Non-current financial payables		3	320
Current financial payables		40	300
Other current liabilities			

At the end of 2011, the Alpiq Group had contractual power off-take arrangements with joint ventures. Electricity is purchased according to the ownership interest, but no volumes have been contractually agreed upon. Power generation capacity depends on optimum utilisation of the power stations. The associate's power generation costs are borne on a cost-plus basis.

Outstanding non-financial energy trading contracts with other related parties at 31 December 2011 had a contract volume of 144 TWh (2010: 78 TWh) and a gross value of CHF 9 million (CHF 5 million).

For information about outstanding non-financial energy trading transactions with joint ventures, please refer to note 13.

### **Directors and key management personnel**

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In 2011, Directors of the Alpiq Group received aggregate remuneration of CHF 3.9 million (2010: CHF 3.6 million). As in the previous year, no termination benefits were paid. Remuneration paid to the Executive Board in the same period totalled CHF 8.5 million (CHF 12.0 million), of which regular remuneration accounted for CHF 6.3 million (CHF 10.1 million) and pension benefits for CHF 2.2 million (CHF 1.9 million). As in the previous year, no termination benefits were paid.

**2010: Transactions between the Group and related companies**

CHF million	Associates	Joint ventures (partner stations)	Other related companies
<b>Total revenue and other income</b>			
Revenue from energy sales	861	67	412
Other service revenue	71	34	
<b>Operating expenses</b>			
Energy costs	-480	-631	-1,216
Other service costs	-75	-1	-2
<b>Finance income and costs</b>			
Interest income		3	
Interest expense			-22

**Outstanding balances with related companies at the reporting date**

CHF million	Associates	Joint ventures (partner stations)	Other related companies
<b>Receivables</b>			
Trade receivables	89	15	13
Non-current financial receivables	2	56	
Current financial receivables	1	5	
Other receivables	4	11	1
<b>Payables</b>			
Trade payables	59	27	54
Non-current financial payables			520
Current financial payables		40	200
Other current liabilities			

## 25 Retirement benefit obligations

### Net benefit expense recognised in the income statement

CHF million	2010	2011
Current service cost	29	35
Interest cost	37	35
Expected return on plan assets	- 35	- 37
Actuarial (gains)/ losses recognised in the year (§ 92 f)		3
Past service cost		3
<b>Net benefit expense<sup>1</sup></b>	<b>31</b>	<b>39</b>

1 CHF 9 million (2010: CHF 8 million) attributable to discontinued operations.

### Difference between the expected and actual return on plan assets

CHF million	2010	2011
Expected return on plan assets	35	37
Actuarial gains/(losses) on plan assets	- 5	- 39
<b>Actual return on plan assets</b>	<b>30</b>	<b>- 2</b>

### Amounts for the current and previous four reporting periods

CHF million	2007	2008	2009	2010	2011
Present value of defined benefit obligation	757	780	1,048	1,156	1,075
Fair value of plan assets	633	580	865	915	912
Deficit/(surplus) in all plans	124	200	183	241	163
Deficit/(surplus) in funded plans only	- 34	57	36	116	163
Experience adjustments on plan liabilities	3	42	10	12	- 9
Experience adjustments on plan assets	10	- 107	52	- 5	- 39

**Retirement benefit obligations recognised in the statement of financial position**

CHF million	31 Dec 2010	31 Dec 2011
Present value of funded defined benefit obligation	1,031	1,075
Fair value of plan assets	915	912
Deficit/(surplus)	116	163
Present value of unfunded defined benefit obligation	125	
Unrecognised actuarial gains/(losses)	- 103	- 144
<b>Net liability in the statement of financial position</b>	<b>138</b>	<b>19</b>
Recognised asset	- 16	- 15
Recognised liability	154	34

**Changes in the present value of the defined benefit obligation**

CHF million	2010	2011
<b>Defined benefit obligation at 1 January</b>	<b>1,048</b>	<b>1,156</b>
Interest cost	37	35
Current service cost	29	35
Contributions by plan participants	17	17
Past service cost		3
Benefits paid	- 46	- 50
Acquisition/disposal of subsidiaries	6	
Other movements	4	
Actuarial (gains)/ losses	84	13
Reclassified as "liabilities held for sale"		- 131
Exchange differences	- 23	- 3
<b>Defined benefit obligation at 31 December</b>	<b>1,156</b>	<b>1,075</b>

**Changes in the fair value of plan assets**

CHF million	2010	2011
<b>Fair value of plan assets at 1 January</b>	<b>865</b>	<b>915</b>
Expected return on plan assets	35	37
Contributions by employer	40	34
Contributions by plan participants	17	17
Benefits paid	- 46	- 50
Acquisition/disposal of subsidiaries	5	
Other movements	4	
Actuarial gains/(losses)	- 5	- 39
Reclassified as "liabilities held for sale"		- 2
<b>Fair value of plan assets at 31 December</b>	<b>915</b>	<b>912</b>



## Analysis of the fair value of plan assets

CHF million	31 Dec 2010	31 Dec 2011
Equity instruments of third parties	356	320
Debt instruments of third parties	376	385
Property not occupied by the company	128	136
Other	55	71
<b>Total fair value of plan assets</b>	<b>915</b>	<b>912</b>

The long-term rate of return was determined based on the investment strategy of the pension funds and the expected return on each asset class over the average remaining service lives of employees.

## Actuarial assumptions used in the calculations

%	2010	2011
Discount rate	3.01	2.87
Expected rate of return on plan assets	4.00	3.50
Future salary increases	1.87	1.36 <sup>1</sup>
Future pension increases	0.22	0.00 <sup>1</sup>

<sup>1</sup> Continuing operations only.

## Expected contributions by the employer and plan participants for the next period

CHF million	2011	2012
Contributions by employer	36	27 <sup>1</sup>
Contributions by plan participants	16	16 <sup>1</sup>

<sup>1</sup> Continuing operations only.

## 26 Contingent liabilities and guarantees

At the reporting date, there were no obligations arising from performance bonds, guarantees or similar contingent liabilities in respect of associates or third parties.

Alpiq is jointly and severally liable for all consortia in the form of ordinary partnerships involving Group companies. Apart from holding interests in several ordinary partnerships, Alpiq is leading the Transtec Gotthard consortium.

For other commitments relating to interests in joint ventures, we refer to note 13.

## 27 Pledged assets

CHF million	31 Dec 2010	31 Dec 2011
Mortgaged property	4	3
Interests in generation facilities	677	52
<b>Total</b>	<b>681</b>	<b>55</b>

The power generation facilities of Novel S.p.A., Milan/IT and En Plus S.r.l., Milan/IT are funded through common project financing arrangements with banks. The related borrowings are recorded in the consolidated statement of financial position. The Alpiq Group has pledged its equity interests in these power stations to the financing banks. In the previous year, the interest in Edipower was also pledged to the banks as security for its Edipower credits.

## 28 Events after the reporting period

In February 2012, the sale of the 20% interest in Edipower S.p.A., Milan/IT, to Delmi S.p.A., Milan/IT, for EUR 200 million, which was announced in October 2011, was finalised. Completion will be in the first half of 2012.

## 29 Segment information

The Alpiq Group's segment reporting is based on the Group's internal organisational and management structure and the internal financial information reported to the chief operating decision maker. This is consistent with the requirements of IFRS 8, the so-called "management approach".

The reportable segments under IFRS 8 consist of five business divisions, reflecting the management structure at 1 January 2011. The Executive Board evaluates each of the business divisions separately for the purpose of assessing performance and allocating resources. The CEO has ultimate responsibility. The key measure of performance used for internal management and assessment of the Alpiq Group is segment profit (EBIT). Operating costs comprise energy purchase and generation costs as well as all other operating costs, including employee benefits and services used. Amounts derived from management reporting require no adjustment for financial reporting as the same accounting policies are used for internal and external reporting. From 1 January 2011, Alpiq combined all operations related to new renewable energy in the Renewable Energy Sources business unit, assigning them to the management and profit responsibility of the Energy Services business division. Prior year segment information has been restated for comparability.

- The Energy Switzerland business division comprises power generation in power stations owned by the Group or operated by joint ventures as well as sales to end customers and sales partners in Switzerland. All transmission network activities are also included in this business division.
- The Energy Central Europe business division combines energy generation and energy sales in Germany, Poland, the Czech Republic, Hungary and other East European countries.
- The Energy Western Europe business division includes energy generation, energy sales, trading and distribution in the Italian, French, Spanish and Nordic markets.
- The Trading & Services business division includes the Swiss and European trading activities in electricity, gas, other commodities and certificates.
- The Energy Services business division consists of the operations of the two energy services groups, Alpiq InTec (AIT) and Alpiq Anlagentechnik (AAT), and the Renewable Energy Sources (RES) business unit operating since 1 January 2011. The Swiss AIT Group focuses mainly on Building Services and Transport Technology in Switzerland and Italy, while the German AAT Group primarily engages in the core businesses of Industrial and Power Plant Engineering, and Energy Supply and Communications Technology across much of Europe. The RES business unit groups together the combined new renewable energy operations, especially in small hydroelectric and wind power facilities, in Switzerland and across Western and Central Europe.

Business division profit is reconciled to the Alpiq Group's consolidated figures in "Group holding company, Corporate Centre, other and consolidation". This includes results of investments which cannot be directly allocated to the divisions (financial and non-strategic investments), the activities of the corporate headquarters, including Group-wide IT, consolidation adjustments and eliminations, as well as items of expense and income that cannot be influenced at business division level. A list of the items is shown on page 131.

The segment information to be reported for the 2012 financial year will be adjusted to reflect the new organisational and management structure at 31 December 2011 (see page 35).

## 2011: Information by operating segment

CHF million	Energy Switzerland business division	Energy Central Europe business division	Energy Western Europe business division	Trading & Services business division	Energy Services business division	Group holding company, Corporate Centre, other and consolidation	Alpiq Group	Discontinued operations	Continuing operations
External revenue from energy sales/ construction contracts	2,330	2,898	3,657	2,916	2,213	- 44	13,970	1,320	12,650
Revenue from energy and financial derivatives									
– Proprietary trading				17			17		17
– Hedges	46	- 17	7	- 12		- 27	- 3		- 3
Impairment charges and provisions	- 23						- 23		- 23
<b>Total external net revenue</b>	<b>2,353</b>	<b>2,881</b>	<b>3,664</b>	<b>2,921</b>	<b>2,213</b>	<b>- 71</b>	<b>13,961</b>	<b>1,320</b>	<b>12,641</b>
Inter-segment transactions	1,082	117	563	1,520	58	- 3,340	0		
<b>Total net revenue</b>	<b>3,435</b>	<b>2,998</b>	<b>4,227</b>	<b>4,441</b>	<b>2,271</b>	<b>- 3,411</b>	<b>13,961</b>	<b>1,320</b>	<b>12,641</b>
Other income	71	8	6	1	23	96	205	18	187
Share of profit of associates	26	2	9		1	6	44		44
Impairment of associates <sup>1</sup>		- 3	- 435			- 385	- 823		- 823
<b>Total revenue and other income</b>	<b>3,532</b>	<b>3,005</b>	<b>3,807</b>	<b>4,442</b>	<b>2,295</b>	<b>- 3,694</b>	<b>13,387</b>	<b>1,338</b>	<b>12,049</b>
Operating costs	- 2,927	- 2,890	- 3,989	- 4,484	- 2,108	3,296	- 13,102	- 1,244	- 11,858
Impairment charges and provisions	- 57	- 43	- 98	- 3	- 5	- 43	- 249		- 249
<b>EBITDA before impairment charges and provisions</b>	<b>628</b>	<b>118</b>	<b>253</b>	<b>- 42</b>	<b>187</b>	<b>- 13</b>	<b>1,131</b>	<b>94</b>	<b>1,037</b>
<b>EBITDA after impairment charges and provisions</b>	<b>548</b>	<b>72</b>	<b>- 280</b>	<b>- 45</b>	<b>182</b>	<b>- 441</b>	<b>36</b>	<b>94</b>	<b>- 58</b>
Depreciation and amortisation	- 273	- 61	- 122		- 65	- 58	- 579	- 30	- 549
Impairment of property, plant and equipment and intangible assets	- 80	- 49	- 455		- 2	- 64	- 650		- 650
<b>EBIT before impairment charges and provisions</b>	<b>355</b>	<b>57</b>	<b>131</b>	<b>- 42</b>	<b>122</b>	<b>- 71</b>	<b>552</b>	<b>64</b>	<b>488</b>
<b>EBIT after impairment charges and provisions</b>	<b>195</b>	<b>- 38</b>	<b>- 857</b>	<b>- 45</b>	<b>115</b>	<b>- 563</b>	<b>- 1,193</b>	<b>64</b>	<b>- 1,257</b>
Number of employees at the reporting date	487	694	468	178	8,967	414	11,208	5,058	6,150
Property, plant and equipment	3,003	677	563		521	136	4,900		
Intangible assets	1,508	202	41		213		1,964		
Investments in associates	3,743				228	449	4,420		
<b>Total non-current assets</b>	<b>8,254</b>	<b>879</b>	<b>604</b>	<b>0</b>	<b>962</b>	<b>585</b>	<b>11,284</b>		
Net capital expenditure on property, plant and equipment and intangible assets	- 90	- 78	- 111		- 80	- 41	- 400		

1 The item "impairment of associates" comprises impairment losses as well as the cumulative translation differences of CHF 138 million relating to Edipower that had been recognised in equity and were recycled to the income statement (also see note 32).

Revenue from trading in energy and financial derivatives comprises realised net gains and losses from settled contracts and unrealised changes in the fair value of unsettled contracts.

Outstanding financial energy trading contracts with third parties at 31 December 2011 had a contract volume of 2.635 TWh (31 December 2010: 5.577 TWh). The gross values of these contract volumes at 31 December 2011 were 918.7 TWh (2010: 791.8 TWh) or CHF 66 billion (CHF 39 billion).

There was no revenue from transactions with a single external customer amounting to 10% or more of the Alpiq Group's consolidated net revenue.

The reconciliation of the business divisions' operating profit (EBIT) to the Alpiq Group's consolidated figures includes not only the results of the holding company, Corporate Centre and other, but also positive CHF 65 million (2010: positive CHF 67 million) from the reversal of unused provisions (primarily for contract risks), positive CHF 6 million (positive CHF 51 million) for the share of profit of non-strategic associates and negative CHF 90 million (negative CHF 86 million) for intra-group services, as well as consolidation adjustments.

## 2010: Information by operating segment (restated)

CHF million	Energy Switzerland business division	Energy Central Europe business division	Energy Western Europe business division	Trading & Services business division	Energy Services business division	Group holding company, Corporate Centre, other and consolidation	Alpiq Group	Discontinued operations	Continuing operations
External revenue from energy sales/ construction contracts	3,306	3,179	3,368	2,129	2,138	- 53	14,067	1,310	12,757
Revenue from energy and financial derivatives									
– Proprietary trading				6			6		6
– Hedges	2	9	7	15		- 2	31		31
<b>Total external net revenue</b>	<b>3,308</b>	<b>3,188</b>	<b>3,375</b>	<b>2,150</b>	<b>2,138</b>	<b>- 55</b>	<b>14,104</b>	<b>1,310</b>	<b>12,794</b>
Inter-segment transactions	275	129	181	730	4	- 1,319	0		
<b>Total net revenue</b>	<b>3,583</b>	<b>3,317</b>	<b>3,556</b>	<b>2,880</b>	<b>2,142</b>	<b>- 1,374</b>	<b>14,104</b>	<b>1,310</b>	<b>12,794</b>
Other income	76	5	8	1	18	73	181	16	165
Share of profit of associates	32	1	11		1	52	97		97
<b>Total revenue and other income</b>	<b>3,691</b>	<b>3,323</b>	<b>3,575</b>	<b>2,881</b>	<b>2,161</b>	<b>- 1,249</b>	<b>14,382</b>	<b>1,326</b>	<b>13,056</b>
Operating costs	- 2,887	- 3,104	- 3,318	- 2,840	- 2,007	1,246	- 12,910	- 1,232	- 11,678
<b>EBITDA</b>	<b>804</b>	<b>219</b>	<b>257</b>	<b>41</b>	<b>154</b>	<b>- 3</b>	<b>1,472</b>	<b>94</b>	<b>1,378</b>
Depreciation and amortisation	- 288	- 68	- 67	- 5	- 52	- 22	- 502	- 33	- 469
<b>EBIT</b>	<b>516</b>	<b>151</b>	<b>190</b>	<b>36</b>	<b>102</b>	<b>- 25</b>	<b>970</b>	<b>61</b>	<b>909</b>
Number of employees at the reporting date	605	734	460	168	9,060	416	11,443	4,956	6,487
Property, plant and equipment	3,865	762	773		210	68	5,678		
Intangible assets	1,815	138	239		116	4	2,312		
Investments in associates	4,194	808	3		2	566	5,573		
<b>Total non-current assets</b>	<b>9,874</b>	<b>1,708</b>	<b>1,015</b>	<b>0</b>	<b>328</b>	<b>638</b>	<b>13,563</b>		
Net capital expenditure on property, plant and equipment and intangible assets	- 91	- 161	- 92		- 49	- 33	- 426		

## 2011: Information by geographical area

CHF million	Switzerland	Italy	Germany	France	Poland	Spain	Czech Republic	Other countries	Alpiq Group
External revenue <sup>1</sup>	2,925	2,490	2,698	1,921	487	637	310	2,493	13,961
Property, plant and equipment <sup>2</sup>	3,171	513	5	282		106	525	298	4,900
Intangible assets <sup>2</sup>	1,605	102	12	24	8	32	27	154	1,964
Investments in associates <sup>2</sup>	4,078	337						5	4,420
<b>Total non-current assets</b>	<b>8,854</b>	<b>952</b>	<b>17</b>	<b>306</b>	<b>8</b>	<b>138</b>	<b>552</b>	<b>457</b>	<b>11,284</b>

<sup>1</sup> CHF 12,641 million attributable to continuing operations and CHF 1,320 million to discontinued operations.

<sup>2</sup> Excluding assets held for sale.

## 2010: Information by geographical area (restated)

CHF million	Switzerland	Italy	Germany	France	Poland	Spain	Czech Republic	Other countries	Alpiq Group
External revenue <sup>1</sup>	2,545	2,427	2,769	2,227	861	480	405	2,390	14,104
Property, plant and equipment	3,893	443	111	477		1	482	271	5,678
Intangible assets	1,874	88	18	77	8	4	28	215	2,312
Investments in associates	4,379	1,166	3	19				6	5,573
<b>Total non-current assets</b>	<b>10,146</b>	<b>1,697</b>	<b>132</b>	<b>573</b>	<b>8</b>	<b>5</b>	<b>510</b>	<b>492</b>	<b>13,563</b>

<sup>1</sup> CHF 12,794 million attributable to continuing operations and CHF 1,310 million to discontinued operations.

Net revenue from external customers by country is allocated based on the customer's country of domicile. Non-current assets consist of property, plant and equipment, intangible assets and investments in the respective countries. Those countries in which Alpiq generated the most net revenue in the reporting period and/or previous year are presented separately in this segment information. Net revenue generated in other countries is aggregated under "Other countries".

## 30 Business combinations

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### Business combinations in 2011

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In 2011, the following companies were acquired and included in the consolidated financial statements:

- Energy Switzerland business division:
  - 23 Aug 2011 100 % of Xamax AG, Embrach/CH
  
- Energy Western Europe business division:
  - 31 Mar 2011 100 % of ANALP Gestion S.A.U., Barcelona/ES
  
- Energy Services business division:
  - 8 Mar 2011 100 % of Alpiq Wind S.r.l., Verona/IT
  - 29 May 2011 100 % of Tysvær Vindpark AS, Rogaland/NO
  - 1 Jul 2011 100 % of Madland Kraftverk AS, Billingstad/NO
  - 1 Jul 2011 90 % of Sevre Kraftverk AS, Nesbyen/NO
  - 7 Jul 2011 100 % of Sabloal Energie Eoliana S.R.L., Oradea/RO
  - 22 Jul 2011 100 % of Albin Baeriswyl SA, Fribourg/CH
  - 8 Sep 2011 100 % of Meister + Brülisauer Haustechnik AG, Aadorf/CH
  - 8 Sep 2011 100 % of Robert Schellenberg AG, Winterthur/CH



The acquisition costs totalled CHF 396 million. Fair values have been allocated as follows in the statement of financial position:

CHF million	Energy Western Europe business division	Energy Services business division	Energy Switzerland business division		
	Power Generation Spain	Renewable Energy Sources Italy	Renewable Energy Sources Other		
		AIT	Sales Switzerland		
Property, plant and equipment	180	184	23		
Intangible assets	73	2	12		4
Financial assets		3			
Deferred income tax assets		2			
Cash and cash equivalents		31	1		1
Other current assets		29	1	6	
Short- and long-term borrowings		-102	-24	-1	
Other current and non-current liabilities		-29		-3	
Deferred income tax liabilities	-21	-38	-4		-1
<b>Net assets</b>	<b>232</b>	<b>82</b>	<b>9</b>	<b>2</b>	<b>4</b>
Non-controlling interests					
<b>Net assets acquired</b>	<b>232</b>	<b>82</b>	<b>9</b>	<b>2</b>	<b>4</b>
Goodwill arising on acquisition	28	38		1	
Net cash flow on acquisition:					
Cash and cash equivalents acquired with subsidiaries		31	1		1
Acquisition costs	-260	-120	-9	-3	-4
Deferred consideration liabilities	4				
Previously held equity interests at fair value		59			
Cash flows in prior periods		29	1		
<b>Net cash flow</b>	<b>-256</b>	<b>-1</b>	<b>-7</b>	<b>-3</b>	<b>-3</b>

#### Alpiq Wind S.r.l., Verona/IT

With effect from March 2011, Alpiq acquired the remaining 51% equity interest in Eolo Tempio Pausania S.r.l together with the Ramacca wind farm for a consideration of CHF 61 million in cash. The acquisition costs of CHF 120 million consist of this purchase consideration and the remeasurement of the previously held equity interest. The resulting net cash outflow was CHF 1 million. Goodwill represents that portion of the purchase consideration that cannot be allocated to other categories of assets, primarily comprising synergies expected from integrating the wind farm into Alpiq's power generation and sales portfolio and from optimising cost and process structures. From the date of acquisition, the contribution to revenue was CHF 22 million and the contribution to consolidated Group profit/(loss) was approximately CHF 5 million for 2011. The transaction costs were immaterial and were recognised in the income statement

## ANALP Gestion S.A.U., Barcelona/ES

At the end of March 2011, Alpiq acquired a 100% interest in the Plana del Vent power station. This comprises the purchase of a 400 MW generating unit of the gas-fired Plana del Vent facility and the right to use a second unit for 24 months, with a purchase option at the end of the two-year period. A consideration of CHF 260 million was paid in cash for the acquisition. The goodwill recognised on the acquisition is attributable to synergies expected to arise from optimised support of sales activities in Spain and to putting established Group processes in place. From the date of acquisition, the contribution to revenue was approximately CHF 63 million and the contribution to consolidated Group profit/(loss) was CHF 1 million for 2011. The transaction costs in 2011 amounted to approximately CHF 1 million and were recognised in the income statement.

## Other acquisitions

The other acquisitions were insignificant to the consolidated results of the Alpiq Group. Revenue from the date of acquisition totalled CHF 12 million. The transaction costs were immaterial and were recognised in the income statement.

## Business combinations in 2010

In 2010, the following companies were acquired and included in the consolidated financial statements:

- Energy Services business division:
  - 1 Apr 2010: 100% of aurax electro ag, Ilanz/CH<sup>1</sup>
  - 1 Jul 2010: 100% of JM-montáže s.r.o., Brno/CZ

The acquisition costs totalled CHF 13 million. Fair values have been allocated as follows in the statement of financial position:

CHF million	Energy Services business division	
	AIT	AAT
Property, plant and equipment	1	2
Intangible assets		1
Cash and cash equivalents	2	2
Other current assets	1	4
Other current and non-current liabilities	-1	-5
<b>Net assets acquired</b>	<b>3</b>	<b>4</b>
Goodwill arising on acquisition	2	4
Net cash flow on acquisition:		
Cash and cash equivalents acquired with subsidiaries	2	2
Acquisition costs	-5	-8
<b>Net cash flow</b>	<b>-3</b>	<b>-6</b>

<sup>1</sup> The company was integrated into Alpiq InTec East Ltd., Zurich/CH in the reporting period.

The goodwill acquired is attributable to synergies expected to arise from integration with existing operations and additional benefits from expansion into existing geographical markets and the development of new products. From the date of integration into the Alpiq Group, the businesses contributed CHF 18 million to revenue and CHF 1 million to Group profit for the year. If the acquisitions had taken place on 1 January 2010, consolidated revenue would have been CHF 28 million higher and Group profit for the year would have been CHF 1 million higher. Had the businesses been included in the 2009 financial year, the Group's revenue would have increased by CHF 28 million and the contribution to Group profit for the year would have been below the materiality threshold.

In 2010, final payments totalling CHF 20 million were made in respect of businesses acquired in the first half of 2009. Of this amount, CHF 4 million had already been included in the prior year's purchase price allocation.

### 31 Business disposals

Alpiq Denmark A/S, Ålborg / DK and Biogas neu Kosenow GmbH & Co KG, Hamburg / DE were disposed of during the reporting period. Total Energi ASA, Florø / NO, an energy supply utility in Norway, was sold in the previous year.

The assets and liabilities at the date of disposal were as follows:

CHF million	2010	2011
Property, plant and equipment		2
Intangible assets (incl. goodwill)	1	
Cash and cash equivalents	2	
Other current assets	1	
Short- and long-term borrowings		-2
Other current and non-current liabilities	-2	
<b>Net assets disposed of</b>	<b>2</b>	<b>0</b>

In 2011, the cash flows arising on the disposal of these subsidiaries were insignificant:

#### Net cash flow on disposal

CHF million	2010	2011
Cash and cash equivalents disposed of with subsidiary	2	
Consideration received	2	
<b>Net cash flow</b>	<b>0</b>	<b>0</b>

## 32 Discontinued operations and assets held for sale

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As part of the ongoing comprehensive restructuring programme, Alpiq decided to sell its AAT business unit. Alpiq has also decided to dispose of its sales operations in the Nordic, German and Spanish markets, in particular, by sale or closure. The operations of the two transmission network companies, Alpiq Grid Ltd Lausanne and Alpiq Grid Ltd. Gösgen, will be transferred to swissgrid ltd in mid-2012 as required by the Federal Electricity Supply Act (StromVG) and applicable Ordinance (StromVV).

In a press release issued on 25 October 2011, EDF and Alpiq announced that they had signed a letter of intent for the sale of Alpiq's 20% interest in Italian energy company Edipower S.p.A., Milan/IT. On signing this letter of intent, Alpiq lost its significant influence over Edipower. The cumulative translation differences relating to Edipower that had been recognised in equity were recycled to the income statement and expensed against profit of associates. The sale of the 20% investment in Edipower was finalised in February 2012, and the interest will be transferred to the purchaser during the first half of 2012.

In the consolidated statement of financial position at 31 December 2011, the assets and liabilities of AAT, those of the sales operations and transmission network companies to be disposed of and the carrying amount of Edipower are classified as disposal groups or assets held for sale and presented separately as "assets held for sale" and "liabilities held for sale".

AAT has additionally been classified as discontinued operations. For this reason, the respective amounts from continuing and discontinued operations (AAT) are presented in separate columns in the consolidated income statement for 2011 and the comparative information for 2010.

The carrying amounts of assets and liabilities classified as “held for sale” are as follows:

### Assets

CHF million	31 Dec 2011
Property, plant and equipment	704
Intangible assets	148
Investments in associates	245
Deferred income tax assets	43
Inventories	11
Trade and other receivables	510
Cash and cash equivalents	137
Derivative financial instruments	32
Prepayments and accrued income	8
<b>Total assets held for sale</b>	<b>1,838</b>

### Liabilities

CHF million	31 Dec 2011
Provisions	148
Deferred income tax liabilities	47
Other non-current liabilities	3
Current income tax liabilities	2
Short-term borrowings	25
Other current liabilities	449
Derivative financial instruments	30
Accruals and deferred income	24
<b>Total liabilities held for sale</b>	<b>728</b>

Impairment losses recognised on assets held for sale are disclosed in note 1 on page 106.

Income and expense relating to disposal groups and assets held for sale that are recognised in equity rather than profit or loss comprise foreign currency translation losses of CHF 49 million as well as losses of CHF 4 million on cash flow hedges.

Cash flows from discontinued operations are as follows:

CHF million	2010	2011
Net cash flows (used in)/from operating activities	-1	20
Net cash flows from investing activities	6	108
Net cash flows from/(used in) financing activities	6	-2
Effect of exchange rate changes	-12	-5
<b>Change in cash and cash equivalents from discontinued operations</b>	<b>-1</b>	<b>121</b>
Cash and cash equivalents in assets held for sale		137

# Subsidiaries and Investments

## Holding and finance companies

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consolidation method	Business activity	Reporting date
Alpiq Holding Ltd.	Neuchâtel	CHF	271.90	100.0	F	H	31 Dec
Alpiq Deutschland GmbH	Heidelberg / DE	EUR	10.00	100.0	F	H	31 Dec
Alpiq Finance Ltd.	St. Helier / JE	EUR	1.15	100.0	F	S	31 Dec
Alpiq Finanzbeteiligungen Ltd.	Oltén	CHF	0.10	100.0	F	H	31 Dec
Alpiq Re (Guernsey) Ltd.	Guernsey / GB	EUR	3.00	100.0	F	S	31 Dec
MC Venture Finance N.V.	Curaçao / AN	USD	0.01	100.0	F	S	31 Dec
Motor-Columbus Ltd.	Oltén	CHF	2.00	100.0	F	S	31 Dec

## Energy Switzerland, Energy International and Trading & Services business divisions

### Trading, sales, supply, power generation and services

	Place of incorporation	Licence expiry	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consolidation method	Business activity	Reporting date
Aare-Tessin Ltd. for Electricity	Oltén		CHF	0.05	100.0	F	S	31 Dec
Aarewerke AG	Klingnau	2015	CHF	16.80	10.1	E	G	30 Jun
AEK Energie AG	Solothurn		CHF	6.00	38.7	E	SU	31 Dec
AlpEnergie Suisse S.à.r.l.	Lausanne		CHF	0.02	100.0	F	S	31 Dec
Alpiq Ltd.	Oltén		CHF	303.60	100.0	F	SU	31 Dec
Alpiq (CZ) s.r.o.	Prague / CZ		CZK	0.10	100.0	F	S	31 Dec
Alpiq Csepel Kft.	Budapest / HU		HUF	4,930.10	100.0	F	G	31 Dec
Alpiq Csepeli Erőmű Kft.	Budapest / HU		HUF	856.00	100.0	F	G	31 Dec
Alpiq Csepeli Szolgáltató Kft.	Budapest / HU		HUF	20.00	100.0	F	S	31 Dec
Alpiq EcoPower Ltd.	Oltén		CHF	0.50	100.0	F	S	31 Dec
Alpiq EcoPower Italia Ltd.	Oltén		CHF	0.50	100.0	F	S	31 Dec
Alpiq EcoPower Scandinavia AS	Oslo / NO		NOK	50.00	100.0	F	G	31 Dec
Alpiq EcoPower Switzerland Ltd.	Oltén		CHF	25.00	100.0	F	G	31 Dec

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Alpiq Energía España S.A.U.	Barcelona/ES	EUR	17.50	100.0	F	SU	31 Dec
Alpiq Energia Italia S.p.A.	Milan/IT	EUR	20.00	100.0	F	SU	31 Dec
Alpiq Energie Deutschland AG	Düsseldorf/DE	EUR	0.50	100.0	F	SU	31 Dec
Alpiq Energie France S.A.S.	Paris/FR	EUR	0.50	100.0	F	SU	31 Dec
Alpiq Energija BH d.o.o.	Sarajevo/BA	EUR	0.00	100.0	F	SU	31 Dec
Alpiq Energija Hrvatska d.o.o.	Zagreb/HR	HRK	0.02	100.0	F	T	31 Dec
Alpiq Energija Lietuva UAB	Vilnius/LT	LTL	0.01	100.0	F	T	31 Dec
Alpiq Energija RS d.o.o. Beograd	Belgrade/RS	RSD	139.00	100.0	F	T	31 Dec
Alpiq Energy Albania SHPK	Tirana/AL	ALL	17.63	100.0	F	SU	31 Dec
Alpiq Energy SE	Prague/CZ	EUR	0.16	100.0	F	SU	31 Dec
Alpiq Energy Skopje DOOEL	Skopje/MK	MKD	4.92	100.0	F	T	31 Dec
Alpiq Energy Ukraine LLC	Kiev/UA	UAH	1.16	100.0	F	T	31 Dec
Alpiq EnerTrans AG	Niedergösgen	CHF	0.25	100.0	F	S	31 Dec
Alpiq Eurotrade S.à r.l.	Luxembourg/LU	EUR	1.48	100.0	F	T	31 Dec
Alpiq Generation (CZ) s.r.o. <sup>1</sup>	Kladno/CZ	CZK	2,975.00	100.0	F	G	31 Dec
Alpiq Hydro Aare AG	Boningen	CHF	53.00	100.0	F	G	31 Dec
Alpiq Hydro Italia S.r.l. <sup>2</sup>	Milan/IT	EUR	0.73	90.0	F	G	31 Dec
Alpiq Hydro Ticino SA	Airolo	CHF	3.00	100.0	F	G	31 Dec
Alpiq le Bayet S.A.S.	St-Paul-sur-Isère/FR	EUR	0.04	100.0	F	G	31 Dec
Alpiq Nature S.A.S.	Toulouse/FR	EUR	0.50	70.0	F	T	31 Dec
Alpiq Norway AS	Oslo/NO	NOK	5.00	100.0	F	S	31 Dec
Alpiq Production France Management S.A.S.	Paris/FR	EUR	0.10	100.0	F	G	31 Dec
Alpiq Produzione Italia Management S.r.l.	Milan/IT	EUR	0.25	100.0	F	G	31 Dec
Alpiq RomEnergie S.R.L.	Bucharest/RO	RON	2.49	100.0	F	SU	31 Dec
Alpiq RomIndustries S.R.L.	Bucharest/RO	RON	4.61	100.0	F	SU	31 Dec
Alpiq Solutions France SAS	Paris/FR	EUR	0.05	100.0	F	SU	31 Dec
Alpiq Spreetal GmbH	Düsseldorf/DE	EUR	1.00	100.0	F	G	31 Dec
Alpiq Suisse Ltd.	Lausanne	CHF	145.00	100.0	F	SU	31 Dec
Alpiq Sweden AB	Stockholm/SE	SEK	1.25	100.0	F	S	31 Dec
Alpiq Swisstrade Ltd.	Olten	CHF	5.00	100.0	F	T	31 Dec
Alpiq Trading Ltd. <sup>3</sup>	Olten	CHF	500.00 <sup>4</sup>	100.0	F	T	31 Dec
Alpiq Turkey Enerji Toptan Satis Limited Sirketi	Istanbul/TR	TRY	1.00	100.0	F	SU	31 Dec
Alpiq Vercelli S.r.l.	Milan/IT	EUR	10.33	95.0	F	G	30 Sep
Alpiq Versorgungs AG (AVAG)	Olten	CHF	50.00	96.7	F	SU	31 Dec
Aare Energie AG (a.en)	Olten	CHF	2.00	50.0	E	S	31 Dec
Alpiq Wind Italia S.r.l. <sup>5</sup>	Verona/IT	EUR	0.01	100.0	F	G	31 Dec
ANALP Gestion S.A.U.	Barcelona/ES	EUR	55.00	100.0	F	G	31 Dec
Atel Bulgaria Ltd.	Sofia/BG	BGN	0.20	100.0	F	T	31 Dec
Atel Energy Romania S.R.L.	Bucharest/RO	RON	0.00	100.0	F	T	31 Dec
Atel Hellas S.A.	Ambelokipi Athens/GR	EUR	0.15	90.2	F	SU	31 Dec
A2A S.p.A.	Brescia/IT	EUR	1,629.11	5.0	E	SU	31 Dec
Biella Power S.r.l.	Milan/IT	EUR	1.00	60.0	F	G	31 Dec
Birs Wasserkraft AG	Grellingen	CHF	0.10	100.0	F	G	31 Dec
Blenio Kraftwerke AG	Blenio	2042 CHF	60.00	17.0	E	G	30 Sep



CEPE Les Gravières SAS	Vergigny / FR		EUR	0.04	100.0	F	G	31 Dec
CERS Holding SAS	Paris / FR		EUR	0.50	15.0	E	G	31 Dec
CISEL Informatique SA	Matran		CHF	1.20	20.0	E	S	31 Dec
Cleuson-Dixence Construction SA	Sion		CHF	0.11	31.8	E	S	31 Dec
Cleuson-Dixence <sup>6</sup>	Sion	2044	CHF	0.00	31.8	E	G	31 Dec
Contact Consul EOOD	Sofia / BG		BGN	0.30	100.0	F	S	31 Dec
Cotlan AG	Glarus Süd		CHF	0.10	100.0	F	G	31 Dec
Csepel III Erőmű Kft.	Budapest / HU		HUF	180.12	100.0	F	G	31 Dec
ecoSWITCH AG	Crailsheim / DE		EUR	0.50	45.0	E	S	31 Dec
ECS Elektrarna Cechy-Stred a.s.	Prague / CZ		CZK	90.00	49.0	E	S	31 Dec
Edipower S.p.A.	Milan / IT		EUR	1,441.30	20.0	E	G	31 Dec
Electra-Massa AG	Naters	2048	CHF	40.00	34.5	E	G	31 Dec
Electricité d'Emosson SA	Martigny		CHF	140.00	50.0	F	G	31 Dec
Elgenes Kraftverk AS	Voss / NO		NOK	0.10	34.0	E	G	31 Dec
En Plus S.r.l.	Milan / IT		EUR	25.50	60.0	F	G	31 Dec
Energ.it S.p.A.	Cagliari / IT		EUR	1.00	100.0	F	SU	31 Dec
Energiakolmio Oy	Jyväskylä / FI		EUR	0.01	100.0	F	S	31 Dec
Energie Biberist AG	Biberist		CHF	5.00	25.0	E	G	31 Dec
Energie Electrique du Simplon SA (E.E.S.)	Simplon		CHF	8.00	81.9	F	G	31 Dec
Engadiner Kraftwerke AG	Zernez	2050 / 2074	CHF	140.00	22.0	E	G	30 Sep
Entegra Wasserkraft AG	St. Gallen		CHF	2.01	75.0	F	G	31 Dec
Eole Jura SA	Muriaux		CHF	4.00	100.0	F	G	31 Dec
Force Motrices Hongrin-Léman S.A. (FMHL)	Château-d'Oex	2051	CHF	30.00	39.3	E	G	31 Dec
Forces Motrices de Fully SA (FMDF)	Fully	2085	CHF	0.80	28.0	E	G	31 Dec
Forces Motrices de Martigny-Bourg SA	Martigny	2080	CHF	3.00	18.0	E	G	31 Dec
Geitåni Kraftverk AS	Voss / NO		NOK	0.10	13.6	E	G	31 Dec
Forces Motrices de Conches SA	Ernen	2045 / 2055	CHF	30.00	26.0	E	G	31 Dec
Grande Dixence SA	Sion	2044	CHF	300.00	60.0	E	G	31 Dec
HYDRO Exploitation SA	Sion		CHF	13.00	27.6	E	S	31 Dec
Hydro-Solar Energie AG	Niederdorf		CHF	0.10	65.0	F	G	31 Dec
Isento AG	Thal		CHF	0.25	100.0	F	G	31 Dec
Kernkraftwerk Gösgen-Däniken AG	Däniken		CHF	350.00 <sup>7</sup>	40.0	E	G	31 Dec
Kernkraftwerk Leibstadt AG	Leibstadt		CHF	450.00	32.4	E	G	31 Dec
Nuclear Power Plant Niederramt Ltd.	Oltén		CHF	0.10	100.0	F	G	31 Dec
Kernkraftwerk-Beteiligungsgesellschaft AG (KBG)	Bern	2020 / 2032	CHF	150.00	33.3	E	G	31 Dec
KohleNusbaumer SA	Lausanne		CHF	0.10	35.0	E	S	31 Dec
Kraftwerk Havelland GmbH	Leipzig / DE		EUR	1.00	100.0	F	G	31 Dec
Kraftwerk Ryburg-Schwörstadt AG	Rheinfelden	2070	CHF	30.00	13.5	E	G	30 Sep
Kraftwerke Gougra AG	Sierre	2039 / 2084	CHF	50.00	54.0	E	G	30 Sep
Kraftwerke Hinterrhein AG	Thusis	2042	CHF	100.00	9.3	E	G	30 Sep
Kraftwerke Zervreila AG	Vals	2037	CHF	50.00	21.6	E	G	31 Dec
M&A Rinnovabili S.r.l.	Aragona / IT		EUR	5.00	30.0	E	G	31 Dec
Madland Kraftverk AS	Billingsstad / NO		NOK	0.10	100.0	F	G	31 Dec
Maggia Kraftwerke AG	Locarno	2048	CHF	100.00	12.5	E	G	30 Sep

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Kraftwerk Aegina AG	Obergoms		CHF	12.00	50.0	E	G	30 Sep
Monthel Ltd.	Monthey		CHF	15.00	100.0	F	G	31 Dec
Nant de Drance SA	Finhaut		CHF	50.00	54.0	E	G	31 Dec
Novel S.p.A.	Milan/IT		EUR	23.00	51.0	F	G	30 Sep
Reisæter Kraftverk AS	Ullensvang/ NO		NOK	0.10	20.0	E	G	31 Dec
Repower AG	Brusio		CHF	3.41	24.6	E	PE	31 Dec
Romande Energie Commerce SA	Morges		CHF	15.00	11.8	E	S	31 Dec
Romande Energie Holding SA	Morges		CHF	28.50	10.0	E	S	31 Dec
Sabloal Energie Eoliana S.R.L.	Oradea/ RO		RON	0.20	100.0	F	G	31 Dec
Salanfe SA	Vernayaz		CHF	18.00	100.0	F	G	31 Dec
Scanenergy AS	Billingsstad/ NO		NOK	37.50	10.0	E	G	31 Dec
Sevre Kraftverk AS	Nesbyen/ NO		NOK	0.10	90.0	F	G	31 Dec
Società Elettrica Sopracenerina SA	Locarno		CHF	16.50	60.9	F	SU	31 Dec
Calore SA	Locarno		CHF	2.00	50.0	E	G	31 Dec
SAP SA	Locarno		CHF	2.06	99.4	F	S	31 Dec
Société des Forces Motrices du Grand-St.-Bernard SA	Bourg-St-Pierre	2040	CHF	10.00	25.0	E	G	31 Dec
Stølsdalselva Kraftverk AS	Jondal/ NO		NOK	0.50	8.0	E	G	31 Dec
Tysvær Vindpark AS	Rogaland/ NO		NOK	0.10	100.0	F	G	31 Dec
Unoenergia S.r.l. <sup>8</sup>	Biella/IT		EUR	0.11	40.0	E	G	31 Dec
Vetrocom Ltd.	Sofia/ BG		BGN	136.91	100.0	F	G	31 Dec
Vetrocom Services AD	Sofia/ BG		BGN	0.10	65.0	F	G	31 Dec
Wasserkraftwerke Weinfelden AG	Weinfelden		CHF	5.00	49.0	E	G	31 Dec
Xamax AG	Olten		CHF	0.20	100.0	F	S	31 Dec
3CA SAS	Paris/ FR		EUR	0.50	100.0	F	G	31 Dec
3CB SAS	Paris/ FR		EUR	134.00	100.0	F	G	31 Dec

1 Merged with Alpiq Zlín s.r.o.

2 Merged with Alpiq Narzole S.r.l. and Idrovalsesia S.r.l.

3 Merged with EOS Trading SA and Avenir SA.

4 Of which CHF 300 million paid in.

5 Eolo Tempio Pausania S.r.l. renamed Alpiq Wind Italia S.r.l.

6 Simple partnership.

7 Of which CHF 290 million paid in.

8 Uno Energia S.p.A. integrated into Fonsnova Energia S.r.l., subsequently renamed Unoenergia S.r.l.

## Grid

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consolidation method	Business activity	Reporting date
Alpiq Grid Ltd. Gösgen	Niedergösgen	CHF	130.00	100.0	F	S	31 Dec
Alpiq Grid Ltd Lausanne	Lausanne	CHF	0.20	100.0	F	S	31 Dec
ETRANS Ltd	Laufenburg	CHF	7.50	33.3	E	S	31 Dec
swissgrid ltd	Laufenburg	CHF	15.00	32.6	E	S	31 Dec

## Holding and management companies

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consolidation method	Business activity	Reporting date
Alpiq Central Europe Ltd	Niedergösgen	CHF	0.40	100.0	F	H	31 Dec
Alpiq Hydro France S.A.S.	Toulouse / FR	EUR	7.79	100.0	F	H	31 Dec
Alpiq Italia S.r.l.	Milan / IT	EUR	0.25	100.0	F	H	31 Dec
Alpiq Management Ltd.	Olten	CHF	10.00	100.0	F	S	31 Dec
Alpiq Management Services Ltd.	St. Helier / JE	EUR	0.10	100.0	F	S	31 Dec
Alpiq Nordic AS	Oslo / NO	NOK	1.00	100.0	F	H	31 Dec
Alpiq Western Europe S.à r.l.	Luxembourg / LU	EUR	1.00	100.0	F	H	31 Dec

## Energy Services business division

### AIT business unit

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consolidation method	Business activity	Reporting date
<b>Holding and management companies</b>							
Alpiq InTec Ltd.	Olten	CHF	30.00	100.0	F	H	31 Dec
Alpiq InTec Management Ltd.	Zurich	CHF	0.10	100.0	F	S	31 Dec
Alpiq InTec Management S.r.l.	Milan / IT	EUR	1.00	100.0	F	S	31 Dec
<b>Transport Technology</b>							
Elektroline a.s.	Prague / CZ	EUR	0.17	100.0	F	S	31 Dec
K+M Fahrleitungstechnik GmbH	Issenbüttel / DE	EUR	0.03	100.0	F	S	31 Dec
Kummler + Matter Ltd	Zurich	CHF	2.50	100.0	F	S	31 Dec
Mauerhofer et Zuber SA	Renens	CHF	1.70	100.0	F	S	31 Dec
<b>Building Services and Facility Management</b>							
Advens AG	Winterthur	CHF	0.10	100.0	F	S	31 Dec
Albin Baeriswyl SA	Fribourg	CHF	0.20	100.0	F	S	31 Dec
Alpiq Burkhalter Bahntechnik AG	Zurich	CHF	0.25	50.0	E	S	31 Dec
Alpiq EcoServices Ltd.	Zurich	CHF	0.10	100.0	F	S	31 Dec
Alpiq Infra Ltd.	Zurich	CHF	0.10	100.0	F	S	31 Dec
Alpiq InTec (FL) AG	Schaan / LI	CHF	0.10	100.0	F	S	31 Dec
Alpiq InTec Milano S.p.A.	Milan / IT	EUR	3.10	100.0	F	S	31 Dec
Alpiq InTec East Ltd.	Zurich	CHF	7.85	100.0	F	S	31 Dec
Alpiq InTec Romandie Ltd.	Meyrin	CHF	1.00	100.0	F	S	31 Dec
Alpiq InTec Ticino Ltd.	Lugano	CHF	2.70	100.0	F	S	31 Dec
Alpiq InTec Verona S.p.A.	Verona / IT	EUR	2.00	100.0	F	S	31 Dec
Alpiq InTec West Ltd.	Olten	CHF	5.90	100.0	F	S	31 Dec
Alpiq Process Automation Ltd.	Strengelbach	CHF	0.20	100.0	F	S	31 Dec
Robert Schellenberg AG	Winterthur	CHF	0.15	100.0	F	S	31 Dec

## AAT business unit

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consolidation method	Business activity	Reporting date
<b>Holding and management company</b>							
Alpiq Anlagentechnik GmbH	Heidelberg/DE	EUR	25.00	100.0	F	H	31 Dec
<b>Energy Supply Technology (EST)</b>							
Elektro Stiller GmbH	Ronnenberg/DE	EUR	0.43	100.0	F	S	31 Dec
Frankenluk AG	Bamberg/DE	EUR	2.81	100.0	F	S	31 Dec
Frankenluk Energieanlagenbau GmbH	Bamberg/DE	EUR	1.28	100.0	F	S	31 Dec
GA Austria GmbH	Alkoven/AT	EUR	0.04	100.0	F	S	31 Dec
GA Bauleistungen GmbH	Rutesheim/DE	EUR	0.03	100.0	F	S	31 Dec
GA Energieanlagenbau Nord GmbH	Hohenwarsleben/DE	EUR	2.00	100.0	F	S	31 Dec
GA Energieanlagenbau Süd GmbH	Fellbach/DE	EUR	2.56	100.0	F	S	31 Dec
GA Energo technik s.r.o. <sup>1</sup>	Plzeň/CZ	CZK	32.00	78.3	F	S	31 Dec
GA Slovensko s.r.o.	Bratislava/SK	EUR	0.01	100.0	F	S	31 Dec
GA Hochspannung Leitungsbau GmbH	Walsrode/DE	EUR	2.50	100.0	F	S	31 Dec
GA Linel S.r.l.	Bressanone/IT	EUR	0.10	51.0	F	S	31 Dec
GA Netztechnik GmbH	Bietigheim-Bissingen/DE	EUR	1.30	100.0	F	S	31 Dec
GA Magyarország Kft.	Törökbálint/HU	HUF	102.38	100.0	F	S	31 Dec
Martin Bohsung GmbH	Landau/DE	EUR	0.03	100.0	F	S	31 Dec
<b>Industrial and Power Plant Engineering (IPPE)</b>							
Caliqua Anlagentechnik GmbH	Vienna Neudorf/AT	EUR	0.19	100.0	F	S	31 Dec
ECM Ingenieur-Unternehmen für Energie- und Umwelttechnik GmbH	Munich/DE	EUR	0.05	100.0	F	S	31 Dec
FINOW Rohrsysteme GmbH	Eberswalde/DE	EUR	0.50	100.0	F	S	31 Dec
Ingenieurbüro Kiefer & Voß GmbH	Erlangen/DE	EUR	0.08	100.0	F	S	31 Dec
Kraftanlagen Energie- und Umwelttechnik GmbH	Heidelberg/DE	EUR	0.10	100.0	F	S	31 Dec
Kraftanlagen Hamburg GmbH	Hamburg/DE	EUR	0.77	100.0	F	S	31 Dec
Kraftanlagen Heidelberg GmbH	Heidelberg/DE	EUR	0.50	100.0	F	S	31 Dec
Kraftanlagen München GmbH	Munich/DE	EUR	5.00	100.0	F	S	31 Dec
Kraftanlagen Power Plants GmbH	Munich/DE	EUR	1.00	100.0	F	S	31 Dec
Kraftanlagen Romania S.R.L.	Ploiesti/RO	RON	2.04	100.0	F	S	31 Dec
Kraftszer Vállalkozási Kft.	Budapest/HU	HUF	198.00	90.0	F	S	31 Dec
<b>Other</b>							
GAH Pensions GmbH	Heidelberg/DE	EUR	0.26	100.0	F	S	31 Dec

<sup>1</sup> Merged with JM-montáže s.r.o.

## Financial investments

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	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consolidation method	Business activity	Reporting date
Capital Recovery Syndication Trust	St. Helier/JE	USD	2.66 <sup>1</sup>	9.8	FV	S	31 Dec
European Energy Exchange	Leipzig/DE	EUR	40.05	4.5	C	S	31 Dec
New Energies Invest Ltd	Basel	CHF	43.00	0.6	FV	S	31 Dec
Nordic Power Trading I Fund	Oslo/NO	NOK	1.04 <sup>1</sup>	10.7	FV	S	31 Dec
Powernext SA	Paris/FR	EUR	11.74	5.0	C	S	31 Dec
VenCap9 LLC	Cayman Islands/KY	USD	357.00 <sup>1</sup>	0.9	FV	S	31 Dec

<sup>1</sup> Fund capital.

### Business activity

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

### Consolidation method

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- F Fully consolidated
- E Equity accounted
- FV Fair value
- C Cost method

# Alpiq Group Financial Summary 2007 – 2011

## Income statement

CHF million	2007	2008	2009	2010	Before impairment charges 2011	After impairment charges 2011
Net revenue	13,452	12,897	14,822	14,104	13,984	13,961
Other operating income	247	390	312	278	249	- 574
Total revenue and other income	13,699	13,287	15,134	14,382	14,233	13,387
Operating expenses before depreciation and amortisation	- 12,446	- 12,006	- 13,589	- 12,910	- 13,102	- 13,351
Profit before interest, tax, depreciation and amortisation (EBITDA)	1,253	1,281	1,545	1,472	1,131	36
Depreciation and amortisation	- 248	- 280	- 481	- 502	- 579	- 1,229
Profit/(loss) before interest and tax (EBIT)	1,005	1,001	1,064	970	552	- 1,193
Net finance costs	- 7	- 85	- 164	- 156	- 181	- 181
Income tax expense	- 220	- 183	- 224	- 169	- 113	28
Group profit/(loss) for the year	778	733	676	645	258	- 1,346
Attributable to non-controlling interests	- 315	- 10	- 10	- 7	- 16	21
Attributable to owners of Alpiq Holding	463	723	666	638	242	- 1,325
Employees <sup>1</sup>	9,034	9,944	10,629	11,033	11,009	11,009

<sup>1</sup> Average number of full-time equivalents.

2007 and 2008: figures of the former Atel Group excluding EOS and Emosson.

## Statement of financial position

CHF million	2007	2008	2009	2010	After impairment charges 2011
Total assets	9,381	10,566	20,099	18,473	17,446
Assets					
Non-current assets	5,356	5,884	14,302	13,793	11,454
Current assets	4,025	4,682	5,797	4,680	4,154
Assets held for sale					1,838
Equity and liabilities					
Total equity	3,621	3,830	7,930	7,779	6,205
As % of total assets	38.6	36.2	39.5	42.1	35.6
Liabilities	5,760	6,736	12,169	10,694	10,513
Liabilities held for sale					728

## Per share data <sup>1</sup>

CHF	2007	2008	2009	2010	2011
Par value	20	10	10	10	10
Share price at 31 December	605	535	430	360	170
High	605	765	567	453	381
Low	371	376	328	339	150
Weighted average number of shares outstanding (in thousands)	12,326	21,261	26,749	27,190	27,190
Net profit/(loss)	38	34	25	23	-49
Dividend		10.00	8.70	8.70	2.00
Reduction in par value	10.00				

<sup>1</sup> All figures stated to reflect the share split in November 2007.

2007 and 2008: figures of the former Atel Group excluding EOS and Emosson.



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To the General Meeting of  
**Alpiq Holding Ltd., Neuchâtel**

Zurich, 29 February 2012

## Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Alpiq Holding Ltd., which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes (pages 68 - 147), for the year ended 31 December 2011.

### *Board of Directors' responsibility*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consoli-



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

*Opinion*

In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

**Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd



Alessandro Miolo  
Licensed audit expert  
(Auditor in charge)



Roger Müller  
Licensed audit expert



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# Statutory Financial Statements of Alpiq Holding Ltd.

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## **Income statement**

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Total revenue earned by Alpiq Holding Ltd. was approximately CHF 200 million lower year on year, primarily due to the planned reduction in dividend income from subsidiaries. Net finance costs reflect the impact of higher interest expense and the negative change in the fair value of interest rate and foreign currency hedges.

In 2011, there was no need for Alpiq Holding Ltd. to recognise any impairment charges in view of the low carrying amounts of investments.

## **Statement of financial position**

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Total assets were up by approximately CHF 450 million or 6%. This growth was due to higher borrowings, raised primarily to cover the Group's funding needs for capital investment projects. The changes in other assets and liabilities were within the normal range.

# Income Statement

CHF	Note	2010	2011
<b>Revenue</b>			
Finance income	2	142,378,347	207,652,381
Dividend income	3	698,384,399	456,206,662
Other income		48,416,373	46,346,101
Exceptional income		21,484,034	3,239,665
<b>Total revenue</b>		<b>910,663,153</b>	<b>713,444,809</b>
<b>Expenses</b>			
Finance costs	4	200,496,739	370,893,855
Tax expense		6,265,599	1,473,591
Other expenses		35,929,526	40,980,168
Depreciation and amortisation		4,940,412	5,164,765
<b>Total expenses</b>		<b>247,632,276</b>	<b>418,512,379</b>
<b>Profit for the year</b>		<b>663,030,877</b>	<b>294,932,430</b>

# Statement of Financial Position

## Assets

CHF	Note	31 Dec 2010	31 Dec 2011
Intangible assets		19,761,651	14,821,238
Investments	5	5,314,293,163	6,090,061,621
Loans receivable	6	971,858,879	1,583,523,454
<b>Non-current assets</b>		<b>6,305,913,693</b>	<b>7,688,406,313</b>
Short-term receivables	7	62,777,423	64,901,501
Prepayments and accrued income		665,752	703,414
Investments in securities		5,367,665	9,421,450
Cash and cash equivalents		1,214,572,245	274,164,837
<b>Current assets</b>		<b>1,283,383,085</b>	<b>349,191,202</b>
<b>Total assets</b>		<b>7,589,296,778</b>	<b>8,037,597,515</b>

## Equity and liabilities

CHF	Note	31 Dec 2010	31 Dec 2011
Share capital		271,898,730	271,898,730
Share premium		3,565,537	3,565,537
Capital contribution reserve		1,273,584,745	1,273,584,745
General reserve		53,332,560	53,332,560
Retained earnings		829,970,160	888,350,695
<b>Equity</b>	8	<b>2,432,351,732</b>	<b>2,490,732,267</b>
<b>Provisions</b>		<b>32,176,646</b>	<b>40,778,516</b>
Bonds	9	2,500,000,000	2,975,000,000
Loans payable	10	1,185,000,000	805,000,000
<b>Non-current liabilities</b>		<b>3,685,000,000</b>	<b>3,780,000,000</b>
Short-term payables	11	1,317,992,899	1,581,258,527
Accruals and deferred income		121,775,501	144,828,205
<b>Current liabilities</b>		<b>1,439,768,400</b>	<b>1,726,086,732</b>
<b>Total equity and liabilities</b>		<b>7,589,296,778</b>	<b>8,037,597,515</b>

# Notes to the Company Financial Statements

## 1 Preliminary note

The financial statements of Alpiq Holding Ltd. have been prepared in accordance with the requirements of Swiss corporation law. The notes below also include the disclosures required by Art. 663b and 663b bis of the Swiss Code of Obligations. The subsidiaries and investments listed on pages 141 ff., and the companies they control, are considered to be Group companies for the purposes of Art. 663a of the Swiss Code of Obligations.

## 2 Finance income

CHF thousand	2010	2011
Interest income from Group companies and shareholders	92,369	55,289
Interest income from third parties	944	1,349
Other finance income from Group companies and shareholders	5,164	4,683
Other finance income from third parties	20	5,706
Foreign exchange gain	43,881	140,625
<b>Total</b>	<b>142,378</b>	<b>207,652</b>

## 3 Dividend income

Dividend income comprises dividends received from subsidiaries.

## 4 Finance costs

CHF thousand	2010	2011
Interest expense to Group companies and shareholders	33,685	24,714
Interest expense to third parties	74,902	108,637
Other finance costs to Group companies and shareholders	19	
Other finance costs to third parties	7,259	24,787
Foreign exchange loss	84,632	212,756
<b>Total</b>	<b>200,497</b>	<b>370,894</b>

## 5 Investments

A list of the principal subsidiaries and investments is presented on pages 141 ff.

At the reporting date, there were capital contribution commitments amounting to CHF 200 million.

## 6 Loans receivable

This item mainly includes long-term loans receivable from Group companies and a CHF 300 million subordinated loan provided to a Group company.

## 7 Short-term receivables

CHF thousand	31 Dec 2010	31 Dec 2011
Due from Group companies and shareholders	36,135	62,593
Due from third parties	26,642	2,309
<b>Total</b>	<b>62,777</b>	<b>64,902</b>

Short-term receivables comprise short-term financial receivables as well as VAT and withholding tax receivables.

## 8 Equity

CHF thousand	Share capital	Share premium	Capital contribution reserve	General reserve	Retained earnings	Total equity
<b>Balance at 31 December 2009</b>	<b>271,899</b>	<b>3,565</b>	<b>1,273,585</b>	<b>53,333</b>	<b>403,491</b>	<b>2,005,873</b>
Dividends					- 236,552	- 236,552
Profit for the year					663,031	663,031
<b>Balance at 31 December 2010</b>	<b>271,899</b>	<b>3,565</b>	<b>1,273,585</b>	<b>53,333</b>	<b>829,970</b>	<b>2,432,352</b>
Dividends					- 236,552	- 236,552
Profit for the year					294,932	294,932
<b>Balance at 31 December 2011</b>	<b>271,899</b>	<b>3,565</b>	<b>1,273,585</b>	<b>53,333</b>	<b>888,350</b>	<b>2,490,732</b>

### Additional authorised capital

As in the previous year, Alpiq Holding Ltd. had no additional authorised capital at the reporting date on 31 December 2011.

### Major shareholders

The major shareholders of Alpiq Holding Ltd. are disclosed in note 19 to the consolidated financial statements.

### Treasury shares

Information about treasury shares is disclosed in the “Consolidated Statement of Changes in Equity” in the consolidated financial statements.

## 9 Bonds

CHF thousand	Term	Earliest redemption date	Interest rate %	Face value at 31 Dec 2010	Face value at 31 Dec 2011
Fixed rate bond issued by Alpiq Holding Ltd. <sup>1</sup>	2003 / 2013	16 Sep 2013	3 1/8	300,000	300,000
Fixed rate bond issued by Alpiq Holding Ltd.	2009 / 2014	10 Feb 2014	3	200,000	200,000
Fixed rate bond issued by Alpiq Holding Ltd. <sup>1</sup>	2006 / 2014	22 Sep 2014	2 7/8	125,000	125,000
Fixed rate bond issued by Alpiq Holding Ltd.	2008 / 2014	30 Oct 2014	3 3/8	25,000	25,000
Fixed rate bond issued by Alpiq Holding Ltd.	2008 / 2014	30 Oct 2014	3 3/8	150,000	150,000
Fixed rate bond issued by Alpiq Holding Ltd. <sup>1</sup>	2008 / 2015	25 Mar 2015	3 1/4	250,000	250,000
Fixed rate bond issued by Alpiq Holding Ltd.	2009 / 2015	3 Jul 2015	3 1/4	250,000	250,000
Fixed rate bond issued by Alpiq Holding Ltd.	2011 / 2016	20 Sep 2016	1 3/8	-	250,000
Fixed rate bond issued by Alpiq Holding Ltd.	2009 / 2017	10 Feb 2017	4	250,000	250,000
Fixed rate bond issued by Alpiq Holding Ltd. <sup>1</sup>	2006 / 2018	1 Mar 2018	2 5/8	250,000	250,000
Fixed rate bond issued by Alpiq Holding Ltd.	2008 / 2018	30 Oct 2018	3 7/8	160,000	160,000
Fixed rate bond issued by Alpiq Holding Ltd.	2008 / 2018	30 Oct 2018	3 7/8	40,000	40,000
Fixed rate bond issued by Alpiq Holding Ltd.	2009 / 2019	25 Nov 2019	3	500,000	500,000
Fixed rate bond issued by Alpiq Holding Ltd.	2011 / 2021	20 Sep 2021	2 1/4	-	225,000

<sup>1</sup> Bonds issued by Alpiq Ltd. and Alpiq Suisse Ltd. which were transferred to Alpiq Holding Ltd. in December 2010 by way of substitution of issuer.

The weighted interest rate on bonds issued at the reporting date, relative to face value, was 2.99% (2010: 3.22%).



## 10 Loans payable

CHF thousand	31 Dec 2010	31 Dec 2011
Shareholders	520,000	320,000
Due to Group companies	10,000	10,000
Due to third parties	655,000	475,000
<b>Total</b>	<b>1,185,000</b>	<b>805,000</b>

The loans are repayable within 1 to 9 years. The weighted average interest rate at the reporting date was 2.93 % (2010: 3.00 %).

## 11 Short-term payables

CHF thousand	31 Dec 2010	31 Dec 2011
Shareholders	300,000	300,000
Due to Group companies	765,785	503,837
Due to third parties	252,208	777,422
<b>Total</b>	<b>1,317,993</b>	<b>1,581,259</b>

Short-term payables due to third parties include loans repayable within 12 months, VAT liabilities, social security contributions and unclaimed dividends.

## 12 Contingent liabilities

Guarantees in favour of Group companies and third parties totalled CHF 1,284 million at 31 December 2011 (31 December 2010: CHF 1,428 million).

### 13 Disclosure of remuneration and interests of Directors, Executive Board members and related parties

The remuneration policies for Directors and Executive Board members are set out in the remuneration report on pages 48 ff.

#### Remuneration paid to current Directors and Committee members and those who left the Board in the reporting year as recognised in the 2011 financial statements

CHF thousand		Fixed remuneration	Expenses	Pension benefits (pension scheme, social security)
Hans E. Schweickardt	Chairman/SB Chairman since 25 Aug 2011	968.6	47.5	96.1
Christian Wanner	Deputy Chairman/NRC member/SB member since 25 Aug 2011	288.0	18.0	16.1
Pierre Aumont	Director/NRC member since 28 Apr 2011	204.0	13.0	
Hans Büttiker	Director/NRC member	221.0	13.5	18.5
Claude Lässer	Director	166.0	12.0	5.4
Frédéric Mayoux	Director since 28 Apr 2011	110.7	8.0	
Daniel Mouchet	Director	167.8	12.0	
Guy Mustaki	Director/NRC Chairman/SB member since 25 Aug 2011	283.0	17.0	40.0
Jean-Yves Pidoux	Director/ARC member	205.0	13.5	
Alex Stebler	Director/ARC member	205.0	13.5	23.4
Urs Steiner	Director/ARC member	205.0	13.5	
Philippe Torrion	Director since 28 Apr 2011	90.7	8.0	
Stéphane Tortajada	Director since 28 Apr 2011/ARC Chairman since 28 Apr 2011/SB member since 25 Aug 2011	185.7	11.8	
<b>Total for Directors serving on 31 December 2011</b>		<b>3,300.5</b>	<b>201.3</b>	<b>199.5</b>
Marc Boudier	Deputy Chairman until 28 Apr 2011/ARC Chairman until 28 Apr 2011/NRC member until 28 Apr 2011	101.0	6.7	
Guillaume de Forceville	Director until 28 Apr 2011	55.3	4.0	
Philippe V. Huet	Director until 28 Apr 2011	51.3	4.0	
<b>Total for Directors</b>		<b>3,508.1</b>	<b>216.0</b>	<b>199.5</b>

ARC = Audit and Risk Committee

NRC = Nomination and Remuneration Committee

SB = Sounding Board

Remuneration comprises Directors' fees, attendance fees and fees for service on the NRC, ARC and/or SB. The fees were not increased compared to 2010; the higher remuneration in 2011 was due to more meetings held because of the current restructuring.

Hans E. Schweickardt is regularly employed full-time as Chairman of Alpiq Holding Ltd. All additional emoluments for other services to the Alpiq Group accrue to the company. Since 30 September 2011, Hans E. Schweickardt has served as CEO ad interim. For this function, he did not receive any additional remuneration, nor did he participate in the bonus programme for the Executive Board.

**Remuneration paid to current Directors and Committee members and those who left the Board in the reporting year as recognised in the 2010 financial statements**

CHF thousand		Fixed remuneration	Expenses	Pension benefits (pension scheme, social security)
Hans E. Schweickardt	Chairman	902.6	39.0	108.6
Marc Boudier	Deputy Chairman / ARC Chairman / NRC member	267.0	20.0	
Christian Wanner	Deputy Chairman / NRC member	217.0	16.5	7.6
Pierre Aumont	Director	166.0	12.0	
Hans Büttiker	Director / NRC member	197.0	13.5	14.6
Guillaume de Forceville	Director	158.0	12.0	
Philippe V. Huet	Director	158.0	12.0	
Claude Lässer	Director	166.0	12.0	5.3
Daniel Mouchet	Director	164.8	12.0	
Guy Mustaki	Director / NRC Chairman	212.0	15.5	28.8
Jean-Yves Pidoux	Director / ARC member	197.0	13.5	
Alex Stebler	Director / ARC member	201.0	13.5	22.7
Urs Steiner	Director / ARC member	201.0	13.5	
<b>Total for Directors serving on 31 December 2010</b>		<b>3,207.4</b>	<b>205.0</b>	<b>187.6</b>
Giuliano Zuccoli	Director until 30 Mar 2010	32.5	3.0	3.5
<b>Total for Directors</b>		<b>3,239.9</b>	<b>208.0</b>	<b>191.1</b>

ARC = Audit and Risk Committee

NRC = Nomination and Remuneration Committee

Remuneration comprises Directors' fees, attendance fees and fees for service on the NRC and/or ARC.

Hans E. Schweickardt was already regularly employed full-time as Chairman of Alpiq Holding Ltd. in 2010. In the same period, all additional emoluments for other services to the Alpiq Group accrued to the company. Compared with the information published in the previous year's report, the disclosures of remuneration paid have been restated to conform to the presentation adopted for 2011.

### Remuneration paid to Executive Board members as recognised in the 2011 company financial statements

CHF thousand	Gross salary (fixed)	Gross salary (bonus)	Benefits in kind (car and other)	Pension benefits (pension scheme, accident)
Total for Executive Board	4,863.0	1,041.2	83.9	2,158.9
Highest paid member, Giovanni Leonardi (CEO until 29 Sep 2011) <sup>1</sup>	1,050.0	88.3	16.9	275.3

<sup>1</sup> Since 30 September 2011, Hans E. Schweickardt has served as CEO ad interim. For this function, he did not receive any additional remuneration, nor did he participate in the bonus programme for the Executive Board.

All the amounts disclosed include contractual payments up to the year end for the Executive Board members who left the company during the reporting period. The payments for Giovanni Leonardi, Herbert Niklaus and Peter Heydecker have been included until the end of their contracts on 31 December 2012. The amounts for 2012 comprise CHF 1,110,000 in fixed salaries, CHF 684,000 in bonuses, CHF 19,000 in benefits in kind, CHF 261,000 in pension benefits and CHF 78,000 in expense allowances.

Each member of the Executive Board was paid an additional annual expense allowance of CHF 24,000, and the highest paid member (CEO) received CHF 30,000. Expense allowances for the Executive Board totalled CHF 304,000.

The results of operations determine the amount of bonuses reported. The bonuses for 2011 will be paid in May 2012 after the Annual General Meeting. The amounts disclosed above include bonus adjustments relating to prior year bonus calculations and payments, comprising CHF 2,700,300 deducted for the whole Executive Board and CHF 533,700 deducted for the CEO.

### Remuneration paid to Executive Board members as recognised in the 2010 company financial statements

CHF thousand	Gross salary (fixed)	Gross salary (bonus)	Benefits in kind (car and other)	Pension benefits (pension scheme, accident)
Total for Executive Board	3,025.0	6,794.5	59.4	1,885.2
Highest paid member, Giovanni Leonardi (CEO)	525.0	1,228.7	6.3	242.3

Each member of the Executive Board was paid an additional expense allowance of CHF 24,000, and the highest paid member (CEO) received CHF 30,000. Expense allowances paid to the Executive Board totalled CHF 222,000.

The amounts shown above include bonus payments made retrospectively for the previous year: CHF 1,034,500 for the whole Executive Board and CHF 253,700 for the CEO.

## Shares held by Directors and Executive Board members

		Number 2010	Number 2011
Hans E. Schweickardt	Chairman / CEO a.i. since 30 Sep 2011	200	200
Hans Büttiker	Director	501	501
Alex Stebler	Director	268	269
Urs Steiner	Director	19	21
Giovanni Leonardi	CEO until 29 Sep 2011	300	1)
Benoît Revaz	Executive Board member	72	72
Heinz Saner	Executive Board member until 30 Jun 2011	8	1)
Antonio M. Taormina	Executive Board member until 30 Jun 2011	40	1)
Michael Wider	Executive Board member	52	52
<b>Total</b>		<b>1,460</b>	<b>1,115</b>

1) Not determined.

## 14 Risk assessment

The risks of Alpiq Holding Ltd. are assessed within the Group-wide risk management framework for the Alpiq Group. The Alpiq Group implements a comprehensive risk management system that includes a periodic assessment of the risks of each Group company. Based on the risk identification carried out annually by Group management, the likelihood of the significant risks occurring and their impact are evaluated. These risks are avoided, mitigated or hedged by taking appropriate measures decided by the Board of Directors of Alpiq Holding Ltd. In order to be able to respond flexibly to changes in the risk environment, Group management may commission ad hoc in-depth risk analyses. The latest risk assessment was approved by the Board of Directors on 15 December 2011.

## Board of Directors' Proposal

### Appropriation of retained earnings

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

CHF	
Profit for 2011 reported in the income statement	294,932,430
Retained earnings brought forward	593,418,265
<b>Total</b>	<b>888,350,695</b>
be appropriated as follows:	
Transfer to general reserve	0
Balance to be carried forward	888,350,695

### Transfer from statutory reserves (capital contribution reserves) to distributable reserves and payment of a dividend, exempt from withholding tax, out of reserves

The Board of Directors proposes that the 2012 Annual General Meeting approve a dividend of CHF 2.00 (dividend for 2010: CHF 8.70) per registered share in the form of a return of capital contributions without deduction of withholding tax. If this proposal is approved by shareholders, dividend payments will total CHF 54,379,746.

CHF	
Transfer from capital contribution reserves to distributable reserves	54,379,746
<b>Withholding tax-exempt dividend of CHF 2.00 per registered share</b>	<b>- 54,379,746</b>

Subject to approval of this proposal, the dividend will be paid from 4 May 2012 in accordance with the instructions recorded in the share register.



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To the General Meeting of  
**Alpiq Holding Ltd., Neuchâtel**

Zurich, 29 February 2012

## **Report of the statutory auditor on the financial statements**

As statutory auditor, we have audited the accompanying financial statements of Alpiq Holding Ltd., which comprise income statement, statement of financial position and notes (pages 154 - 164), for the year ended 31 December 2011.

### *Board of Directors' responsibility*

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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



*Opinion*

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

**Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

A handwritten signature in black ink, appearing to read 'A. Miolo', is positioned above the name of the auditor in charge.

Alessandro Miolo  
Licensed audit expert  
(Auditor in charge)

A handwritten signature in black ink, appearing to read 'R. Müller', is positioned above the name of the licensed audit expert.

Roger Müller  
Licensed audit expert



## Measures

### Currency

ALL	Albanian lek
BGN	Bulgarian lev
CHF	Swiss franc
CZK	Czech koruna
DKK	Danish krone
EUR	Euro
HRK	Croatian kuna
HUF	Hungarian forint
LTL	Lithuanian lita
MKD	Macedonian denar
NOK	Norwegian krone
PLN	Polish zloty
RON	Romanian leu
RSD	Serbian dinar
SEK	Swedish krona
TRY	Turkish lira
UAH	Ukrainian hryvnia
USD	US dollar

mn.	million
bn.	billion

### Energy

kWh	Kilowatt hours
MWh	Megawatt hours (1 MWh = 1,000 kWh)
GWh	Gigawatt hours (1 GWh = 1,000 MWh)
TWh	Terawatt hours (1 TWh = 1,000 GWh)
TJ	Terajoules (1 TJ = 0.2778 GWh)

### Power

kW	Kilowatts (1 kW = 1,000 Watts)
MW	Megawatts (1 MW = 1,000 kW)
GW	Gigawatts (1 GW = 1,000 MW)
MWe	Electrical megawatts
MWth	Thermal megawatts

## Financial Calendar

26 April 2012:

Annual General Meeting

May 2012:

2012 first-quarter results

August 2012:

Interim Report

November 2012:

2012 third-quarter results

March 2013:

Release of 2012 annual results

Annual media conference

25 April 2013:

Annual General Meeting

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## Published by

Alpiq Holding Ltd., [www.alpiq.com](http://www.alpiq.com)

Printing: Dietschi AG, Olten

The Annual Report 2011 is published in German, French and English.

## Photos

Cover: Vieux Emosson Lake

Page 2: Zurich Hardbrücke station

## Online Annual Report

[reports.alpiq.com](http://reports.alpiq.com)



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