2017

Year ended 31 December 2017

Alpiq Ltd. Group

(Part of the Alpiq Group)

2017 Key Financial Figures

Alpiq Ltd. Group

CHF million	% Change 2016-2017 (results of operations)	Results of operations before exceptional items 2017	Results of operations before exceptional items 2016	Results under IFRS 2017	Results under IFRS 2016
Net revenue	27.0	5,582	4,397	5,574	4,397
Earnings before interest, tax, depreciation and amortisation (EBITDA)	−13.8	219	254	318	659
Depreciation, amortisation and impairment	20.0	−92	−115	−92	−271
Earnings before interest and tax (EBIT)	−8.6	127	139	226	388
Net income	−31.1	84	122	148	531
Number of employees at the reporting date	6.3			1,695	1,594

Contents

Alpiq Ltd. Group Performance and Outlook

Introductory remarks

Against the background of a challenging market environment, the Alpiq Ltd. Group achieved solid operating results, which, as announced, were down on the previous year.

In the traditional generation business in Switzerland, earnings were negatively impacted year-on-year by the expiring hedges that were concluded before the decision was taken by the Swiss National Bank to abolish the minimum euro exchange rate in 2015 and unscheduled downtimes at the Leibstadt nuclear power plant. The persistently low wholesale prices, which are still below production costs, were also a factor.

The Group-wide measures to reduce costs and increase efficiency were continuously and systematically pursued. With net revenue of CHF 5.6 billion (up 27 % on the previous year), the Group generated EBITDA before exceptional items of CHF 219 million (down 14 %), and EBIT of CHF 127 million (down 9 %). Also before exceptional items, the net income of CHF 84 million was down on the previous year (down 31 %).

The exceptional items for the financial year 2017 amount to a total of CHF 104 million before or CHF 64 million after income taxes. There was higher volatility in electricity prices for short-term deliveries, from which highly flexible pumped storage power plants in particular benefit. For this reason, a provision for the future procurement of energy from the Nant de Drance SA pumped storage power plant, which is under construction in Switzerland, was reduced. As in the previous year, the funds for the nuclear decommissioning and waste disposal of Kernkraftwerk Gösgen-Däniken AG and Kernkraftwerk Leibstadt AG performed positively on account of the developments on the international capital markets. Moreover, Alpiq recorded costs in connection with restructuring measures and provisions for an onerous energy agreement abroad. Alpiq also disclosed a contingent liability in the amount of CHF 199 million in the notes to the consolidated financial statements in connection with a tax audit in Romania.

After exceptional items, the Alpiq Ltd. Group, including its minority interests, generated a net income of CHF 148 million. To allow transparent presentation and demarcation of the exceptional items, the consolidated income statement is also presented as a pro forma statement, as was also the case in the previous year. The following commentary on the financial performance of the Alpiq Ltd. Group and its business divisions relates to an operational view, in other words, to earnings development before exceptional items.

2017: Consolidated income statement (pro forma statement before and after exceptional items)

CHF million	2017 Results of operations before exceptional items	2017 Exceptional items [1]	2017 Results under IFRS	2016 Results of operations before exceptional items	2016 Exceptional items [1]	2016 Results under IFRS
Net revenue	**5,582**	**-8**	**5,574**	**4,397**		**4,397**
Own work capitalised	5		5	5		5
Other operating income	121		121	95	177	272
Total revenue and other income	**5,708**	**-8**	**5,700**	**4,497**	**177**	**4,674**
Energy and inventory costs	-5,095	123	-4,972	-3,901	229	-3,672
Employee costs	-196		-196	-154		-154
Other operating expenses	-198	-16	-214	-188	-1	-189
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**219**	**99**	**318**	**254**	**405**	**659**
Depreciation, amortisation and impairment	-92		-92	-115	-156	-271
Earnings before interest and tax (EBIT)	**127**	**99**	**226**	**139**	**249**	**388**
Share of results of partner power plants and other associates	16		16	17	10	27
Net finance costs	-30	5	-25	-19	116	97
Earnings before tax	**113**	**104**	**217**	**137**	**375**	**512**
Income tax expense	-29	-40	-69	-15	34	19
Net income	**84**	**64**	**148**	**122**	**409**	**531**

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

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

Adjusted to reflect the aforementioned exceptional items, results of operations at EBITDA level were down by CHF 35 million compared to the previous year to CHF 219 million. Growth areas were able to counter the comparatively negative development year-on-year in the traditional generation business in Switzerland from the previous year, but were not able to compensate for it.

Generation

Alpiq Ltd. Group owns power plants based domestically and abroad. Generation Switzerland concentrates on the production of electricity from Swiss hydropower and nuclear power. In addition, Alpiq Ltd. Group operates thermal power plants in Europe.

Alpiq is committed to Swiss hydropower in a challenging energy policy environment and plays a significant role in securing the power supply in Switzerland in connection with the implementation of the Energy Strategy 2050. As at the end of the year, Kernkraftwerk-Beteiligungsgesellschaft AG (KBG), in which Alpiq holds a one-third interest, terminated the contract for electricity procurement from the French nuclear power plant Fessenheim.

The EBITDA contribution of Generation Switzerland was down year-on-year. The currency effects of the hedges entered into before 2015 and that have now expired have a significant impact on the previous-year comparison. Another key driver behind the fall in EBITDA was the production volumes that fell short of the previous year, both for nuclear energy and hydropower. With regard to interests in nuclear power plants, this was due to an unscheduled extension of the maintenance work and a power reduction imposed by the ENSI at the Leibstadt nuclear power plant. In addition, recommissioning was delayed following the annual overhaul in autumn. In the area of hydropower, fewer inflows led to a decrease in production volumes compared to the previous year and to lower water levels in the dams as at the end of the year. Wholesale prices, which are still below hydropower plant production costs, are also putting Alpiq's Swiss power production on the market under significant pressure. By contrast, the result of the international thermal power plant portfolio was up on the previous year. Production volumes rose significantly. Particularly, the Italian plants that had suffered from outages in the previous year closed the year at a considerably higher level than the previous year.

Digital & Commerce

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

The low availability of French nuclear power plants and the long period of dry weather across the majority of Europe were the key drivers of the spot electricity prices. The cold spell in January bolstered electricity and gas prices in particular. The spot electricity prices in Germany, France and Switzerland rose by around 20 %, prices in Italy by more than 25 % and prices in Spain by 30 %. The coal price continued to rise substantially, especially in the second half of the year, buoyed by the scarce supply situation in the Pacific region as well as the demand for coal in Europe. The price of CO2 certificates rose significantly following efforts to reform the European trading system for the period after 2020. The price rallied to EUR 8 / t in the fourth quarter of 2017. Together with the increasing geopolitical risks, OPEC's commitment to reduce production until the end of 2018 has contributed to the fact that crude oil prices have been consistently on the rise since September. Higher fuel prices also caused electricity forward products to increase.

The EBITDA contribution of the Digital & Commerce business division was up year-on-year. As a result of the successful use of price volatilities, the trading units in Eastern and Southeastern Europe closed the year considerably up on the previous year. Particularly, good results were recorded in cross-border trading. In addition, Alpiq recorded higher results by successfully managing the gas portfolio and sales activities on the French market. Results from the optimisation of the hydropower and nuclear portfolio in Switzerland and the optimisation measures in Spain and Italy did not match the excellent previous-year level, despite the price volatilities taken advantage of at the beginning of the year. Furthermore, regional energy supply company Alpiq Versorgungs AG (AVAG) made no contribution to earnings following its disposal in the previous year.

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

Total assets amounted to CHF 6.3 billion as at the 31 December 2017 reporting date, compared with CHF 6.0 billion at the end of 2016. The increase in non-current assets is a result of the common control business combinations and the decision of Alpiq not to sell the non-strategic minority interests in the Generation Switzerland business division and the gas-fired combined-cycle power plant in Hungary.

The amount stipulated in connection with a tax audit in Romania by the Romanian tax authority ANAF (Agenția Națională de Administrare Fiscală) of RON 793 million (CHF 199 million) has been secured by a bank guarantee until a legally binding assessment is issued. An amount of EUR 173 million (CHF 202 million) is secured with a pledged bank account, which is disclosed under “Non-current term deposits”. This is another reason for the increase in non-current assets. Moreover, loans receivables from Alpiq Holding Ltd. amounting to approximately CHF 0.8 billion are presented as non-current financial assets due to the fact that a repayment is not planned within the next 12 months. This reclassification is also the main reason for the significant reduction in current assets. On the other hand, there was a significant increase in trade receivables as well as positive replacement values of derivatives in the trading business. This is particularly due to higher revenue and increased trading activities.

Equity stood at CHF 2.7 billion as at 31 December 2017, and is CHF 59 million lower than the previous-year figure. The dividend payment made in 2017 was almost compensated by the positive net income in 2017, the common control business combinations and the positive effects from the remeasurement of defined benefit plans (IAS 19), which mainly relate to the positive performance of the plan assets and the slight increase in the interest rate. Moreover, the net foreign exchange gains recorded in other comprehensive income that exceed losses on cash flow hedges had a positive effect on equity. The equity ratio amounted to a solid 42.1 % as at 31 December 2017 (31 December 2016: 45.4 %).

Non-current financial liabilities were reduced on account of repayments of loans. Liabilities from defined benefit plans (IAS 19) were reduced on account of the aforementioned reasons. Due to a reduction of a provision for onerous contracts, provisions showed a significant decrease. The increase in deferred income tax liabilities (net) is mainly attributable to the utilisation of loss carryforwards and a decrease in liabilities from defined benefit plans (IAS 19). The other current liabilities increased, primarily on account of the higher trade payables and the higher liabilities in connection with derivatives in the trading business.

Cash flow from operating activities increased year-on-year by CHF 343 million to CHF 354 million. The significant reduction in net working capital of CHF 213 million stands out in this context. In addition to its consistent management, the prepayment of around CHF 100 million received from Swissgrid AG in January 2017 for the higher compensation for the transmission grid had a positive effect, among other things. As in the previous year, investments in property, plant and equipment were handled exclusively on an as-needed basis. Investments in associates rose compared to the previous year on account of the proportionate capital increase at Nant de Drance SA. Cash flow from financing activities is mainly characterised by the dividend payment in 2017 and the net repayment of financial liabilities. Overall, cash and cash equivalents (including cash and cash equivalents included under "Assets held for sale") decreased by CHF 251 million to CHF 0.6 billion.

Outlook

Alpiq expects results of operations in 2018 to be down on the previous year. This is attributable to persistently low wholesale prices, which put Swiss power production under pressure. By contrast, the newly introduced market premium will slightly ease the burden on Swiss hydropower, which makes a loss selling its energy below production costs on the market. In its international business, Alpiq anticipates positive contributions from energy trading and European power production.

In the medium to long term, Alpiq expects electricity and CO2 wholesale prices to recover slightly, which will reduce the corresponding pressure on the results of Alpiq's power production in Switzerland.

Consolidated Financial Statements of the Alpiq Ltd. Group

Consolidated Income Statement

CHF million	2017	2016
Net revenue	**5,574**	**4,397**
Own work capitalised	5	5
Other operating income	121	272
Total revenue and other income	**5,700**	**4,674**
Energy and inventory costs	–4,972	–3,672
Employee costs	–196	–154
thereof wages and salaries	–151	–121
thereof pension costs and other employee costs	–45	–33
Other operating expenses	–214	–189
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**318**	**659**
Depreciation, amortisation and impairment	–92	–271
Earnings before interest and tax (EBIT)	**226**	**388**
Share of results of partner power plants and other associates	16	27
Interest expense	–28	–35
Interest income	28	47
Other net finance income	–25	85
Earnings before tax	**217**	**512**
Income tax expense	–69	19
Net income	**148**	**531**
Attributable to non-controlling interests	8	3
Attributable to equity investors of Alpiq Ltd.	140	528

Consolidated Statement of Comprehensive Income

CHF million	2017	2016
Net income	**148**	**531**
Cash flow hedges (subsidiaries)	–22	9
Income tax expense	2	–1
Net of income tax	–20	8
Cash flow hedges (partner power plants and other associates)	1	1
Income tax expense		
Net of income tax	1	1
Currency translation differences	56	–29
Income tax expense	–2	
Net of income tax	54	–29
Items that may be reclassified subsequently to the income statement, net of tax	**35**	**–20**
Remeasurements of defined benefit plans (subsidiaries)	76	5
Income tax expense	–15	–1
Net of income tax	61	4
Remeasurements of defined benefit plans (partner power plants and other associates)	30	14
Income tax expense	–6	–4
Net of income tax	24	10
Items that will not be reclassified to the income statement, net of tax	**85**	**14**
Other comprehensive income	**120**	**–6**
Total comprehensive income	**268**	**525**
Attributable to non-controlling interests	6	3
Attributable to equity investors of Alpiq Ltd.	262	522

Consolidated Balance Sheet

Assets

CHF million	31 Dec 2017	31 Dec 2016 (restated)
Property, plant and equipment	941	922
thereof land and buildings	111	114
thereof power plants	814	787
thereof transmission assets	7	8
thereof other plant and equipment	4	5
thereof assets under construction	5	8
Intangible assets	72	98
thereof goodwill	1	19
thereof energy purchase rights	17	26
thereof other intangible assets	54	53
Investments in partner power plants and other associates	1,017	670
Non-current term deposits	202	
Other non-current financial assets	978	252
thereof loans receivable	779	3
thereof financial investments	2	2
thereof other non-current assets	197	247
Deferred income tax assets	20	14
Non-current assets	**3,230**	**1,956**
Inventories	57	50
Trade and other receivables	1,294	1,241
thereof trade receivables	966	806
thereof other receivables	328	435
Current term deposits and financial assets	14	1,057
Cash and cash equivalents	599	861
Derivative financial instruments	901	682
Prepayments and accrued income	141	145
Current assets excluding assets held for sale	**3,006**	**4,036**
Assets held for sale	82	
Current assets including assets held for sale	**3,088**	**4,036**
Total assets	**6,318**	**5,992**

For more information on changes in the presentation of the financial statements, please refer to pages 22 and 23.

Equity and liabilities

CHF million	31 Dec 2017	31 Dec 2016 (restated)
Share capital	304	304
Share premium	64	64
Retained earnings	2,313	2,380
Equity attributable to equity investors of Alpiq Ltd.	**2,681**	**2,748**
Non-controlling interests	–20	–28
Total equity	**2,661**	**2,720**
Non-current provisions	350	406
thereof provisions for onerous contracts	306	373
thereof provisions for decommissioning own power plants	9	8
thereof provisions for warranties	4	4
thereof other provisions	31	21
Deferred income tax liabilities	215	105
Defined benefit liabilities	18	62
Non-current financial liabilities [1]	513	628
Other non-current liabilities	274	318
Non-current liabilities	**1,370**	**1,519**
Current provisions	67	75
Current financial liabilities [1]	83	58
Other current liabilities	1,014	777
thereof trade payables	762	654
thereof other payables	252	123
Derivative financial instruments	855	664
Accruals and deferred income	215	179
Current liabilities excluding liabilities held for sale	**2,234**	**1,753**
Liabilities held for sale	53	
Current liabilities including liabilities held for sale	**2,287**	**1,753**
Total liabilities	**3,657**	**3,272**
Total equity and liabilities	**6,318**	**5,992**

1 For more details, see note 2

For more information on changes in the presentation of the financial statements, please refer to pages 22 and 23.

Consolidated Statement of Changes in Equity

CHF million	Share capital	Share premium	Cashflow hedge reserve	Currency translation differences	Retained earnings	Attribut-able to equity investors of Alpiq Ltd.	Non-controlling interests	Total equity
Equity at 31 December 2015	**304**	**14**	**– 18**	**– 399**	**2,759**	**2,660**	**– 11**	**2,649**
Net income for the period					528	528	3	531
Other comprehensive income			9	– 29	14	– 6		– 6
Total comprehensive income			**9**	**– 29**	**542**	**522**	**3**	**525**
Effects of common control business combinations [1]				– 3	– 391	– 394	107	– 287
Dividends					– 50	– 50	– 1	– 51
Capital contribution		50				50		50
Change in non-controlling interests					– 40	– 40	– 126	– 166
Equity at 31 December 2016	**304**	**64**	**– 9**	**– 431**	**2,820**	**2,748**	**– 28**	**2,720**
Net income for the period					140	140	8	148
Other comprehensive income			– 20	57	85	122	– 2	120
Total comprehensive income			**– 20**	**57**	**225**	**262**	**6**	**268**
Effects of common control business combinations [1]				– 3	174	171		171
Dividends					– 500	– 500	– 5	– 505
Change in non-controlling interests							7	7
Equity at 31 December 2017	**304**	**64**	**– 29**	**– 377**	**2,719**	**2,681**	**– 20**	**2,661**

1 See explanatory notes on page 28

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

Consolidated Statement of Cash Flows

CHF million	2017	2016
Earnings before tax	**217**	**512**
Depreciation, amortisation and impairment	92	271
Change in net working capital (excl. current financial assets/liabilities)	213	– 307
Share of results of partner power plants and other associates	– 16	– 27
Financial result	25	– 97
Other non-cash income and expenses	– 149	– 319
Income tax paid	– 28	– 22
Net cash flows from operating activities	**354**	**11**
Property, plant and equipment and intangible assets	– 23	– 33
Subsidiaries		
Common control business combinations [1]	– 6	– 18
Proceeds from disposals		265
Associates		
Investments	– 47	
Proceeds from disposals	1	394
Other non-current financial assets		
Investments	– 2	– 4
Proceeds from disposals/repayments	9	17
Change in term deposits and current financial assets	52	– 227
Dividends from partner power plants, other associates and financial investments	19	22
Interest received	30	44
Net cash flows from investing activities	**33**	**460**
Dividends	– 500	
Dividends paid to non-controlling interests	– 5	– 3
Proceeds from financial liabilities	27	114
Repayment of financial liabilities	– 157	– 100
Change in non-controlling interests		– 162
Interest paid	– 28	– 38
Net cash flows from financing activities	**– 663**	**– 189**
Currency translation differences	**25**	**– 3**
Change in cash and cash equivalents	**– 251**	**279**
Analysis:		
Cash and cash equivalents at 1 January	861	582
Cash and cash equivalents at 31 December	610	861
Change	**– 251**	**279**

1 See explanatory notes on page 28

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

Notes to the Consolidated Financial Statements

1 Impairment losses and provisions

2017: Allocation of impairment losses and provisions

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

2016: Allocation of impairment losses and provisions

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

2 Financial liabilities

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

3 Assets held for sale

As at the 31 December 2016 reporting date, several non-strategic minority investments in the Generation Switzerland business division as well as the gas-fired combined-cycle power plant Csepel in Hungary were recognised as "Assets held for sale" due to the intention to sell them.

In the second half of 2017, Alpiq decided not to sell the non-strategic minority interests in the Generation Switzerland business division as well as the gas-fired combined-cycle power plant Csepel in Hungary, which had been classified as held for sale as at 31 December 2016.

In addition, Alpiq resolved to sell the Engineering Services business, which comprises the Alpiq InTec Group and the Kraftanlagen Group. In connection with this, Alpiq Italia S.r.l. will sell its participation in Alpiq InTec Italia S.p.A. (51%) to Alpiq InTec Management AG.

Assets

CHF million	31 Dec 2017	31 Dec 2016
Property, plant and equipment	1	
Intangible assets	4	
Investments in partner power plants and other associates	1	
Trade and other receivables	63	
Current term deposits and financial assets	1	
Cash and cash equivalents	11	
Prepayments and accrued income	1	
Total assets held for sale	**82**	**0**

Liabilities

CHF million	31 Dec 2017	31 Dec 2016
Non-current provisions	2	
Deferred income tax liabilities	1	
Non-current financial liabilities	10	
Other current liabilities	40	
Total liabilities held for sale	**53**	**0**

As at 31 December 2017, currency translation gains of CHF 2 million related to assets held for sale are recorded in equity.

4 Contingent Liabilities

After completing the tax audit on the Bucharest branch of Alpiq Energy SE, Prague, the Romanian tax authority ANAF (Agenția Națională de Administrare Fiscală) issued Alpiq the final decision in September 2017 regarding tax assessment in the amount of RON 793 million (CHF 199 million) for value added tax, corporate income tax and penalties (including late payment penalties) for the period of 2010 to 2014. The decision by ANAF will be contested by Alpiq by making use of all available local and international legal means of appeal. The tax assessment determined by ANAF will be contested on account of its reasoning and the extent of the amount assessed, as Alpiq is firmly convinced that the activities of Alpiq Energy SE in Romania have always been carried out in accordance with the applicable Romanian and European rules and regulations. Alpiq's position is supported by current assessments provided by external legal and tax experts. Alpiq deems it unlikely that this assessment will result in a negative outcome for the company and has therefore decided not to record a liability for the tax assessment. The amount stipulated by ANAF of RON 793 million (CHF 199 million) has been secured by a bank guarantee until a legally binding assessment is issued. An amount of EUR 173 million (CHF 202 million) is secured with a pledged bank account, which is disclosed under "Non-current term deposits".

For information regarding commitments in connection with partner power plants, please refer to note 13 in the Annual Report 2017 (pages 119 ff.) of Alpiq Holding Ltd.

5 Events after the reporting period

At the beginning of February 2018, Alpiq and BKW agreed to terminate an electricity supply contract. Under this contract, BKW had purchased 5.3 % of the electricity generated at the Leibstadt nuclear power plant (KKL) from Alpiq since it was commissioned. In return, Alpiq assigned a direct interest of 5.0 % of the share capital in the KKL to BKW. Closing is planned for the third quarter of 2018. Alpiq does not expect this transaction to have a material effect on the 2018 net income of the Alpiq Ltd. Group.

On 7 May 2018, Alpiq Italia S.r.l. sold its participation in Alpiq InTec Italia S.p.A. (51%) to Alpiq InTec Management AG. For more information, please refer to note 3. On 31 May 2018, Alpiq Ltd. sold its participations in Kraftwerke Zervreila AG (21.6%) and in Kraftwerk Ryburg-Schwörstadt AG (13.5%) to Alpiq Suisse Ltd. These transactions reduce the equity of the Alpiq Ltd. Group by around CHF 10 million.

6 Significant accounting policies

Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Alpiq Ltd. Group have been prepared in accordance with the Alpiq Group Accounting Manual, which is designed to comply with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB). The consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the Alpiq Ltd. Group. They have been prepared on a historical cost basis, except for certain items such as financial instruments that have been measured at fair value in some instances. The notes provide selected explanatory information. Alpiq Ltd. Group is a subgroup of Alpiq Group. Alpiq Ltd. is fully held by Alpiq Holding Ltd. The consolidated financial statements were authorised for issue by the Board of Directors of Alpiq Ltd. on 20 June 2018.

Adoption of new and revised accounting standards

As at 1 January 2017, the following amendments to the International Financial Reporting Standards (IFRS) applied by the Alpiq Ltd. Group entered into force:

– Amendments to IAS 7 Statement of Cash Flows
– Amendments to IAS 12 Income Taxes
– Annual Improvements to IFRSs (2014 - 2016 Cycle)

Additional disclosures in connection with the changes in financial liabilities are presented in note 2 as a result of the amendments to IAS 7 Statement of Cash Flows. The other amendments have no significant impact on the Alpiq Ltd. Group.

IFRS effective in future periods

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

Standard/interpretation	Effective as at	Adoption planned from
IFRS 9: Financial Instruments	1 Jan 2018	1 Jan 2018
IFRS 15: Revenue from Contracts with Customers	1 Jan 2018	1 Jan 2018
IFRS 16: Leases	1 Jan 2019	1 Jan 2019
IFRIC 22: Foreign Currency Transactions and Advance Consideration	1 Jan 2018	1 Jan 2018
IFRIC 23: Uncertainty over Income Tax Treatments	1 Jan 2019	1 Jan 2019
Annual Improvements to IFRSs (2015-2017 Cycle)	1 Jan 2019	1 Jan 2019

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

IFRS 9 governs the classification and measurement of financial instruments as well as hedge accounting. The number of measurement categories for financial assets were reduced. For the calculation of impairment losses, the expected credit loss model will now have to be applied, meaning that anticipated losses have to be recognised in future as well. The amended guidance regarding hedge accounting focuses more strongly on a company's internal risk management system. For the Alpiq Group, the amendments relating to classification only affect disclosure. The effect from the application of the expected credit loss model will result in the recognition of additional impairment losses on financial assets of approximately CHF 5 million. These are recognised together with the resulting effects on deferred taxes in retained earnings in the opening balance as at 1 January 2018. The Alpiq Group is not affected by the amendments to the recognition of hedge accounting because the current method can continue to be applied.

IFRS 15 defines when and how much revenue is to be recognised and replaces the rulings previously contained in various standards and interpretations. For energy transactions, only own use transactions fall within the scope of IFRS 15. The revenue recognition associated with energy supplies will still be recorded at the time of delivery. The refined regulations on the principal / agent topic mean that certain transactions previously recognised on a gross basis under revenue (2017 financial year: around CHF 100 million) and in expenses (2017 financial year: around CHF 100 million) now have to be reported on a net basis under revenue. Alpiq does not anticipate any other significant changes to revenue recognition. Alpiq intends to apply the full retrospective method according to IFRS 15 for the first time.

IFRS 16 regulates the recognition, measurement and presentation of leases. The amendments mean that the contractual rights and liabilities for future lease payments from most lease agreements must be recognised in the balance sheet. This results in an increase in non-current assets and a simultaneous increase in current and non-current liabilities. Most lease payments will no longer be recognised under "Other operating expenses", but rather as amortisation of lease liabilities. The corresponding increase in "Earnings before interest, tax, depreciation and amortisation (EBITDA)" will largely be compensated for by amortisation of contractual rights and interest expenses for lease liabilities. As a result, no significant impact on net income is expected. Alpiq intends to recognise the cumulative effect of applying IFRS 16 for the first time in retained earnings (or other components of equity) in the opening balance as at 1 January 2019. Alpiq is currently conducting a group-wide detailed analysis of leases in order to assess the effects on the consolidated financial statements from the future application of IFRS 16.

IFRIC 22, IFRIC 23 and the Annual Improvements to IFRSs (2015 – 2017 Cycle) have no significant impact on the Alpiq Group.

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

Changes in the presentation of the financial statements

Alpiq reviews the presentation of financial reporting in terms of transparency, comprehensibility and accuracy on an ongoing basis. Previous-year figures are adjusted in the case of significant changes or adjustments. The following adjustments were made in these consolidated financial statements compared to the previous year:

Changes in the presentation of the consolidated balance sheet

In the second half of 2017, Alpiq decided not to sell the non-strategic minority interests in the Generation Switzerland business division and the gas-fired combined-cycle power plant in Hungary, which had been classified as held for sale as at 31 December 2016 (see note 3). In compliance with IFRS 5, "Assets held for sale" and "Liabilities held for sale" were adjusted accordingly in the balance sheet as at 31 December 2016. As a result, non-current assets as at 31 December 2016 rose by CHF 92 million and current assets decreased by CHF 92 million. Non-current liabilities rose by CHF 13 million and current liabilities decreased by CHF 13 million.

CHF million	31 Dec 2016 (reported)	Assets and liabilities no longer held for sale	31 Dec 2016 (restated)
Property, plant and equipment	884	38	922
thereof power plants	749	38	787
Intangible assets	98		98
Investments in partner power plants and other associates	618	52	670
Other non-current financial assets	252		252
Deferred income tax assets	12	2	14
Non-current assets	**1,864**	**92**	**1,956**
Inventories	43	7	50
Trade and other receivables	1,237	4	1,241
thereof trade receivables	803	3	806
thereof other receivables	434	1	435
Current term deposits and financial assets	1,057		1,057
Cash and cash equivalents	861		861
Derivative financial instruments	682		682
Prepayments and accrued income	145		145
Current assets excluding assets held for sale	**4,025**	**11**	**4,036**
Assets held for sale	103	– 103	
Current assets including assets held for sale	**4,128**	**– 92**	**4,036**
Total assets	**5,992**		**5,992**

Total equity	**2,720**		**2,720**
Non-current provisions	398	8	406
thereof provisions for onerous contracts	365	8	373
Deferred income tax liabilities	100	5	105
Defined benefit liabilities	62		62
Non-current financial liabilities	628		628
Other non-current liabilities	318		318
Non-current liabilities	**1,506**	**13**	**1,519**
Current provisions	75		75
Current financial liabilities	58		58
Other current liabilities	773	4	777
thereof trade payables	650	4	654
Derivative financial instruments	664		664
Accruals and deferred income	178	1	179
Current liabilities excluding liabilities held for sale	**1,748**	**5**	**1,753**
Liabilities held for sale	18	– 18	
Current liabilities including liabilities held for sale	**1,766**	**– 13**	**1,753**
Total liabilities	**3,272**		**3,272**
Total equity and liabilities	**5,992**		**5,992**

Basis of consolidation

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

Subsidiaries are entities that are controlled by the Alpiq Ltd. Group, either directly or indirectly. Such entities are consolidated as at the date control was obtained. Companies are deconsolidated or recognised under investments in associates or under financial investments when control over the entity ends. Investments in partner power plants and other associates in which the Alpiq Ltd. Group has significant influence are included in the consolidated financial statements by applying the equity method.

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

All significant companies included in the consolidation are shown starting on page 37, with an indication of the consolidation method applied and other information.

Foreign currency translation

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

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

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

The following exchange rates were used for currency translation:

Unit	Closing rate at 31 Dec 2017	Closing rate at 31 Dec 2016	Average rate for 2017	Average rate for 2016
1 EUR	1.170	1.074	1.112	1.090
1 GBP	1.319	1.254	1.269	1.336
1 USD	0.976	1.019	0.985	0.986
100 CZK	4.583	3.974	4.226	4.033
100 HUF	0.377	0.347	0.359	0.350
100 NOK	11.892	11.819	11.916	11.735
100 PLN	28.015	24.350	26.123	24.989
100 RON	25.120	23.659	24.326	24.277

Intra-group transactions

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

Revenue recognition

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

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

Income tax expense

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

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

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

Discontinued operations and non-current assets held for sale

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

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

Property, plant and equipment

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

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

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

Costs relating to regular and major overhauls are recognised as a replacement in the carrying amount of the item of property, plant and equipment if the recognition criteria for capitalisation are met. Repairs, maintenance and ordinary upkeep of buildings and operating facilities are expensed as incurred.
The carrying amount of an item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected. Any gain or loss arising on disposal of the asset is recognised in the income statement.

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

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

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

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

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

Investments in associates and partner power plants

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

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

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

Common control business combinations

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

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

Transfer of investments in associates and joint arrangements

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

Intangible assets

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

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

Energy purchase rights

Energy purchase rights are recognised as "Intangible assets" on the balance sheet. They comprise prepayments for rights to purchase energy in the long term, including capitalised interest. Amortisation of energy purchase rights are applied in line with the scope of the energy purchases made each year in relation to the total energy purchase quantity agreed contractually. This item also includes long-term energy purchase agreements acquired in business combinations.

Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are reviewed at least annually to determine whether any indications of impairment exist. If the asset's carrying amount exceeds its estimated recoverable amount, it is written down to its recoverable amount.

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

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

Goodwill is allocated to the cash-generating units to which the goodwill relates. These generally represent the identifiable regional sales, service and production activities.

Goodwill is tested for impairment annually. If the recoverable amount of the cash-generating unit, i.e. the higher of the unit's fair value less costs of disposal and its value in use, is less than the carrying amount, an impairment loss is recognised. The annual impairment test is monitored centrally within the Group.

Inventories

Inventories are stated at the lower of cost (calculated applying the FIFO method or the average cost method) and net realisable value. Cost includes all expenditures incurred in acquiring the inventories and in bringing them to their storage location. Production cost comprises all direct material and manufacturing costs, and those overheads that have been incurred in bringing the inventories to their present location and condition.

Accounting for CO2 emission allowances

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

Leases

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

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

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

Provisions

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

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

Pension schemes

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

Swiss consolidated Group companies participate in a legally independent pension scheme which meets the criteria of a defined benefit plan in accordance with IAS 19. Employees of foreign subsidiaries are generally covered by state social security schemes, or independent defined contribution pension plans in accordance with national practices. These plans meet the criteria of a defined contribution plan according to IAS 19.

The defined benefit obligation is calculated annually by independent pension experts using the projected unit credit method. This accrued benefit method prorated on service recognises not only the known benefits and benefits accrued at the reporting date, but also expected future salary and pension increases. In order to reflect mortality rates, the Continuous Mortality Investigation (CMI) model is used. Mortality data according to the CMI model is calculated based on a long-term rate of change. The discount factor applied, or as the case may be, the projected interest rate for retirement assets, is based on the market yields on high-quality corporate bonds on the reporting date. The net interest result is recognised directly in finance costs / income; any remaining employee benefit costs are included in employee costs. Actuarial gains and losses are recognised in other comprehensive income as part of equity in the period in which they occur. Past service costs are recognised directly in the income statement as employee costs.

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

Share-based payments

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

Contingent liabilities

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

Financial instruments

Financial instruments include cash and cash equivalents, term deposits, investments in securities, derivative financial instruments, financial investments, receivables and current and non-current financial liabilities. In accordance with the applicable rules under IAS 39, financial assets and liabilities are classified as follows, and measured uniformly according to their classification:

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

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

Financial assets or liabilities at fair value through profit or loss

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

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

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

Loans and receivables

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

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

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

Available-for-sale financial assets

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

Other financial liabilities

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

Impairment and uncollectibility of financial assets

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

For assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The amount of any loss is recognised in the income statement. An impairment loss previously recognised for an asset is reversed through the income statement if the impairment no longer exists, or has decreased. An impairment loss is reversed only if the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised.

For assets carried at cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Losses are recognised in the income statement.

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

Hedge accounting

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

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

The effective portion of the gain or loss on a hedging instrument is recognised directly in other comprehensive income, while any ineffective portion is recognised immediately in the income statement. Amounts recognised in other comprehensive income are transferred to the income statement in the period when the hedged transaction affects the income statement.

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

Estimation uncertainty

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

Impairment of non-current assets

Property, plant and equipment and intangible assets with finite useful lives are reviewed at each reporting date to determine whether any indications of impairment exist. Goodwill is tested for impairment annually. To assess whether an impairment exists, the expected future cash flows are calculated on the basis of historical empirical data and current market expectations. The fair value that is calculated in this manner mainly comprises estimates relating to wholesale prices on European forward markets and forecasts of medium- and long-term energy prices, foreign currencies (especially EUR / CHF and EUR / USD exchange rates), inflation rates, discounting rates, regulatory conditions and investment activities relating to the company. Estimates of external factors are reviewed periodically using external market data and market analyses. Actual results can differ from these estimates, resulting in significant adjustments in subsequent periods.

Provisions

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

Pension schemes

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

Transfer of the Swiss high-voltage grid

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

Furthermore, Alpiq received higher compensation for transferring its share in the Swiss high-voltage grid on account of the ruling by the Swiss Federal Electricity Commission (ElCom) on the measurement method in the 2016 financial year. The final amount of this additional compensation cannot be determined until the proceedings on the margin differences and the second measurement adjustment are complete. This is expected to result in a further positive effect on earnings for Alpiq.

7 Financial risk management

For full information on financial risk management, please refer to the Annual Report 2017 (pages 96 ff.) of Alpiq Holding Ltd.

8 Changes in subsidiaries and investments

2017: Acquisitions and disposals from common control business combinations

In 2017, Alpiq made the following changes to the group structure which were relevant for Alpiq Ltd. Group.

Acquisitions

	Place of incorporation	Currency	Issued capital in million	Direct ownership interest in %
Kernkraftwerk Beteiligungsgesellschaft AG (KBG)	Bern	CHF	150.00	33.3 %

Disposals

	Place of incorporation	Currency	Issued capital in million	Direct ownership interest in %
Alpiq Blue Energy AG	Olten	CHF	1.00	100.0 %
Xamax AG	Olten	CHF	0.20	100.0 %
EESP European Energy Service Platform GmbH	Berlin/DE	EUR	0.03	50.0 %

The transactions in the context of the common control business combinations in the net amount of CHF 19 million were concluded by granting short-term financial assets.

2017: Disposal of companies

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

Subsidiaries and Investments at 31 December 2017

Power generation, trading, services, sales, supply

	Place of incorporation	Licence/ agreement expiry	Currency	Issued capital in million	Direct ownership interest in % (voting rights)	Consoli- dation method	Busi- ness activ- ity	Reporting date
Alpiq Ltd. [1]	Olten		CHF	303.60	100.0	F	SU	31 Dec
Aero Rossa S.r.l.	Milan/IT		EUR	2.20	100.0	F	G	31 Dec
Alpiq Csepel Kft.	Budapest/HU		HUF	4,930.10	100.0	F	G	31 Dec
Alpiq Csepeli Szolgáltató Kft.	Budapest/HU		HUF	20.00	100.0	F	S	31 Dec
Alpiq Energia Bulgaria Ltd.	Sofia/BG		BGN	0.20	100.0	F	T	31 Dec
Alpiq Energía España S.A.U.	Barcelona/ES		EUR	20.00	100.0	F	SU	31 Dec
Alpiq Energia Italia S.p.A. [2]	Milan/IT		EUR	13.00	100.0	F	SU	31 Dec
Alpiq Energie France S.A.S.	Paris/FR		EUR	14.00	100.0	F	SU	31 Dec
Alpiq Energija BH d.o.o.	Sarajevo/BA		BAM	1.62	100.0	F	T	31 Dec
Alpiq Energija Hrvatska d.o.o. u likvidaciji	Zagreb/HR		HRK	0.02	100.0	F	T	31 Dec
Alpiq Energija RS d.o.o. Beograd	Belgrade/RS		RSD	137.75	100.0	F	T	31 Dec
Alpiq Energy Albania SHPK	Tirana/AL		ALL	17.63	100.0	F	T	31 Dec
Alpiq Energy Hellas S.A.	Athens/GR		EUR	0.06	95.0	F	T	31 Dec
Alpiq Energy SE	Prague/CZ		CZK	172.60	100.0	F	T	31 Dec
Alpiq Energy Skopje DOOEL	Skopje/MK		MKD	20.34	100.0	F	T	31 Dec
Alpiq Energy Ukraine LLC	Kiev/UA		UAH	1.16	100.0	F	T	31 Dec
Alpiq Generation (CZ) s.r.o.	Kladno/CZ		CZK	2,975.00	100.0	F	G	31 Dec
Alpiq Hydro Italia S.r.l.	Milan/IT		EUR	0.73	90.0	F	G	31 Dec
Alpiq InTec Italia S.p.A.	Milan/IT		EUR	7.60	51.0	F	S	31 Dec
Alpiq RomEnergie S.R.L.	Bucharest/RO		RON	2.49	100.0	F	SU	31 Dec
Alpiq RomIndustries S.R.L.	Bucharest/RO		RON	6.61	100.0	F	SU	31 Dec
Alpiq Solutions France SAS	Paris/FR		EUR	0.05	100.0	F	SU	31 Dec
Alpiq Turkey Enerji Toptan Satis Limited Sirketi	Istanbul/TR		TRY	7.92	100.0	F	T	31 Dec
Alpiq Wind Italia S.r.l.	Milan/IT		EUR	0.01	100.0	F	G	31 Dec
Atel Energy Romania S.R.L.	Bukarest/RO		RON	0.18	100.0	F	T	31 Dec
Blenio Kraftwerke AG	Blenio	2042	CHF	60.00	17.0	E	G	30 Sep
En Plus S.r.l.	Milan/IT		EUR	25.50	66.7	F	G	31 Dec
Energie Biberist AG	Biberist		CHF	5.00	25.0	E	G	31 Dec
Enpower 3 S.r.l.	Aragona/IT		EUR	0.04	100.0	F	G	31 Dec
Eole Jura SA	Muriaux		CHF	4.00	30.0	E	G	31 Dec
ETRANS Ltd.	Laufenburg		CHF	7.50	33.3	E	S	31 Dec
Horizen GmbH [3]	Heidelberg/DE		EUR	0.03	100.0	F	SU	31 Dec
Kernkraftwerk Gösgen-Däniken AG	Däniken		CHF	350.00 [4]	40.0	E	G	31 Dec
Kernkraftwerk Leibstadt AG	Leibstadt		CHF	450.00	32.4	E	G	31 Dec
Kernkraftwerk-Beteiligungsgesellschaft AG (KBG)	Bern	2017/2041	CHF	150.00	33.3	E	G	31 Dec
Kraftwerk Ryburg-Schwörstadt AG	Rheinfelden	2070	CHF	30.00	13.5	E	G	30 Sep
Kraftwerke Hinterrhein AG	Thusis	2042	CHF	100.00	9.3	E	G	30 Sep
Kraftwerke Zervreila AG	Vals	2037	CHF	50.00	21.6	E	G	31 Dec

Maggia Kraftwerke AG	Locarno	2035/2048	CHF	100.00	12.5	E	G	30 Sep
Kraftwerk Aegina AG	Obergoms	2047	CHF	12.00	50.0	E	G	30 Sep
Nant de Drance SA	Finhaut		CHF	350.00	39.0	E	G	31 Dec
Novel S.p.A.	Milan/IT		EUR	23.00	51.0	F	G	30 Sep
PoProstu Energia Spólka Akcyjna	Warsaw/PO		PLN	6.70	100.0	F	SU	31 Dec
PPC Bulgaria JSCo	Sofia/BG		BGN	1.20	15.0	E	T	31 Dec
Unoenergia S.r.l.	Biella/IT		EUR	0.11	28.0	E	G	31 Dec
3SP S.r.l.	Milan/IT		EUR	0.01	100.0	F	G	31 Dec

1 Merged with Alpiq Grid Beteiligungs AG
2 Merged with Alpiq Vercelli S.r.l.
3 Formerly Sodexo Energy Services GmbH
4 Of which CHF 290 million paid in

Holding and finance companies

	Place of incorporation	Currency	Issued capital in million	Direct ownership interest in % (voting rights)	Consolidation method	Business activity	Reporting date
Alpiq Ecopower France S.A.S.	Toulouse/FR	EUR	0.58	100.0	F	H	31 Dec
Alpiq Italia S.r.l.	Milan/IT	EUR	0.25	100.0	F	H	31 Dec
Alpiq Re (Guernsey) Ltd.	Guernsey/UK	EUR	3.00	100.0	F	S	31 Dec

Business activity

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

Consolidation method

F Fully consolidated
E Equity accounted

Report of the independent Auditor

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To the Management of

Alpiq Ltd., Olten

Zurich, 20 June 2018

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

As independent auditor and in accordance with your instructions, we have audited the financial information prepared on sub consolidation level of the Alpiq Ltd. Group, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes ("specified forms" – pages 10 to 38) as of 31 December 2017. These specified forms have been prepared solely for the purpose to enable Alpiq Ltd. Group to present its financial results on sub consolidation level.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and presentation of the specified forms in accordance with the requirements of Alpiq's Financial Accounting Manual (significant accounting policies are summarized on pages 20 to 36), which is designed to comply with International Financial Reporting Standards ("IFRS"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the specified forms that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

Building a better working world

Opinion

In our opinion the accompanying specified forms for the Alpiq Ltd. Group as of 31 December 2017 have been prepared, in all material respects, in accordance with the Alpiq Group Accounting Manual, which is designed to comply with International Financial Reporting Standards (“IFRS”).

Ernst & Young Ltd

Martin Gröli	Michael Setz
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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