ALPIQ

2015

Year ended 31 December 2015

Alpiq Ltd. Group

(Part of the Alpiq Group)

Financial Highlights 2015

Alpiq Ltd. Group

CHF million	% Change 2014-2015 (results of operations)	Results of operations before exceptional items 2014	Results of operations before exceptional items 2015	Results under IFRS 2014	Results under IFRS 2015
In-house Generation [1] (GWh)	9.0	13,181	14,365	13,181	14,365
Net revenue	−20.8	6,402	5,069	6,402	5,069
Earnings before interest, tax, depreciation and amortisation (EBITDA)	4.3	304	317	6	−92
Depreciation, amortisation and impairment	−18.6	−118	−140	−190	−154
Earnings before interest and tax (EBIT)	−4.8	186	177	−184	−246
as % of net revenue		2.9	3.5	−2.9	−4.9
Net income	−62.1	190	72	−173	−268
Number of employees at the reporting date	−0.5			1,275	1,268

1 Excluding long-term purchase contracts

Contents

Alpiq Ltd. Group Performance and Outlook

Introductory remarks

The operating business of the Alpiq Ltd. Group (part of Alpiq Group) fell year-on-year, as expected given demanding wholesale market conditions. With net revenue of CHF 5.1 billion (previous year: – 21 %), the Group generated CHF 317 million of EBITDA before exceptional items (+ 4 %), and CHF 177 million of EBIT (– 5 %). Net income, also before exceptional items, stood at CHF 72 million (– 62 %). Especially the decision taken by the Swiss National Bank (SNB) to no longer support the minimum euro (EUR) to Swiss franc (CHF) exchange rate, as well as a further fall in wholesale prices, burdened results. These negative effects were partly offset by higher production volumes and the operating measures that were introduced, especially in combination with the cost reduction programme that was implemented on schedule at the end of 2015.

Strengthening the company's finances and maintaining the company's ability to access capital markets are of great importance to Alpiq. As a consequence, Alpiq continued to focus its activities during the past financial year, implementing further measures to strengthen its balance sheet. Disposals of non-strategic interests were realised consistently. To date, Alpiq has realized a total cash inflow of CHF 412 million (share of Alpiq Ltd. Group: CHF 210 million) from the process of divesting its Swissgrid investment. In May 2015, Alpiq signed an agreement concerning the sale for CHF 146 million (share of Alpiq Ltd. Group: CHF 76 Mio.) of its remaining 50.1 % interest in Alpiq Grid Beteiligungs AG, which holds the equity interest in Swissgrid AG, to a consortium from Western Switzerland. As a consequence, BKW Netzbeteiligung AG has asserted both its statutory and its contractual preemptive right to the entire equity interest in Swissgrid AG that was originally held by Alpiq. It has not yet been possible to process this disposal due to the exercising of the pre-emptive right. Until the transaction can be concluded, all shareholder rights in connection with the interest in Swissgrid AG remain with Alpiq Grid Beteiligungs AG. This pre-emptive right case has no effect on the sales price that Alpiq will achieve. The disposal of the Bayet gas-fired combined-cycle power plant in France was executed successfully as of the year-end. The disposals of the interests in the regional supply companies Alpiq Versorgungs AG and AEK Energie AG are being examined. The capital that is freed up will be deployed primarily to reduce net debt further.

The company needed to recognise impairment losses and form provisions, mainly due to the discontinuation of the minimum EUR exchange rate and the related expected future trend in the EUR/CHF exchange rate, continued low wholesale prices, and the difficult regulatory environment. This particularly affects Swiss hydropower. In addition, the nuclear power plants Gösgen-Däniken AG and Leibstadt AG have decided to recognize their entitlements to the state decommissioning and waste disposal funds on the basis of fair values. As a consequence, the calculation of the annual plant costs to be borne by the partners fully includes the market performance of the funds. This change of method has no effect on the net income for the 2015 financial year, since under IFRS, fair value measurement was already applied in determining the financial result in previous years. However, offsetting through the annual plant costs burdens EBITDA in the amount of CHF 143 million and will result in a corresponding cash outflow in 2016. Impairment losses and provisioning, including further exceptional items, amounted to CHF 360 million before income taxes and to CHF 340 million after income taxes.

After exceptional items, the Alpiq Ltd. Group, including its minority interests, generated a net income of CHF –268 million. To allow transparent presentation and demarcation of exceptional items, the consolidated income statement is also presented as a pro forma statement. The following commentary on the financial performance of the Alpiq Ltd. Group relates to an operational view, in other words, earnings development before exceptional items.

2015: Consolidated income statement
(pro forma statement before and after exceptional items)

	2014		2014	2015		2015
CHF million	Results of operations before exceptional items	Exceptional items [1]	Results under IFRS	Results of operations before exceptional items	Exceptional items [2]	Results under IFRS
Net revenue	**6,402**		**6,402**	**5,069**		**5,069**
Own work capitalised	3		3	5		5
Other operating income	126		126	115	7	122
Total revenue and other income	**6,531**	**0**	**6,531**	**5,189**	**7**	**5,196**
Energy costs	–5,879	–298	–6,177	–4,534	–405	–4,939
Employee costs	–110		–110	–150		–150
Other operating expenses	–238		–238	–188	–11	–199
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**304**	**–298**	**6**	**317**	**–409**	**–92**
Depreciation, amortisation and impairment	–118	–72	–190	–140	–14	–154
Earnings before interest and tax (EBIT)	**186**	**–370**	**–184**	**177**	**–423**	**–246**
Share of results of joint ventures and other associates	12	–1	11	–48	62	14
Net finance costs	–29	–1	–30	–61	1	–60
Earnings before tax	**169**	**–372**	**–203**	**68**	**–360**	**–292**
Income tax expense	21	9	30	4	20	24
Net income	**190**	**–363**	**–173**	**72**	**–340**	**–268**

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

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

The Alpiq Ltd. Group continued to stand its ground within a market environment that remains challenging. When adjusted to reflect the aforementioned exceptional items, the operating result at EBIT level was down by CHF 9 million year-on-year. In January, the SNB decided to no longer support the minimum euro exchange rate. The strong Swiss franc burdens results in terms of translating foreign operations' earnings contributions, and in relation to income from the short-term optimization of the flexible power plant portfolio, where such income cannot be hedged. Operationally, greater production volumes and optimisation results in Switzerland proved unable to offset the negative effect of lower wholesale prices. The cost reduction programme, which was implemented on schedule at the end of 2015, is exerting a positive impact, and is the main driver behind the compensation of the negative effects.

Compared with the previous year, lower costs in the area of hydropower and nuclear power in Switzerland are countering the negative price trend. Despite a recovery in the spark spread (difference between the electricity price and fuel costs) at gas-fired combined-cycle power plants, the thermal power plants operated abroad generated year-on-year lower overall results due to lower gas prices. Lower prices were only partly offset by the positive effect of lower costs. New renewable energies failed to reach the level of the previous year's results as a consequence of lower energy prices in Italy and disadvantageous wind conditions.

The optimisation results in Switzerland are above the previous year's level, while international asset management is down year-on-year. The sales units in Central and Eastern Europe generated slightly higher year-on-year results, after adjusting for burdensome currency factors.

The financial result is burdened by negative foreign currency effects compared with the previous year as a result of the SNB's decision. In addition, interest expenses from previous year's common control business combinations are included in the income statement for the full financial year.

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

Total assets amounted to CHF 6.3 billion as of the balance sheet date 31 December 2015 (previous year: CHF 6.7 billion). The significant reduction in total assets reflects not only the impairment losses that were applied, but also CHF 277 million net repayment of borrowings. Property, plant and equipment, investments, and miscellaneous items that are held for sale are reported in aggregated form as a separate balance sheet item.

Non-current assets report a marked reduction as a consequence of the recognition of impairment losses, the translation of foreign assets into CHF, and because of property, plant and equipment and investments classified as held for sale. Current assets also report a year-on-year decline. Thanks to active management, trade receivables were reduced significantly, resulting in a correspondingly positive cash inflow. Cash and cash equivalents are above the previous year's level. Including term deposits, liquidity available short-term amounts to CHF 0.7 billion (CHF 0.5 billion).

Total equity amounts to CHF 2.7 billion at the end of 2015, down compared with the previous year's level (CHF 3.1 billion). This reduction was caused mainly by the impairment losses and provisions that were required, and the resultant net loss that was recognised. The effects from the common control business combinations also reduce equity. The negative trend in the translation into CHF of the assets of foreign subsidiaries burdened other comprehensive income within equity, as well as the recognised remeasurement of defined benefit plans. This was partly offset by a slightly positive effect from the measurement of cash flow hedges. The equity ratio amounted to 42.2 % as of 31 December 2015 (45.6 %).

Cash flow from operating activities decreased slightly year-on-year from CHF 280 million to CHF 266 million. The higher cash inflow from the change in net working capital not fully offset the lower results of operations.

Cash flows from investing and financing activities are affected by the repayment of CHF 277 million of financial liabilities and the sale of non-strategic interests. The cash inflow from disposals amounts to CHF 262 million (CHF 48 million). As already in the previous year, investments in property, plant and equipment were reduced to the essential, thereby further reducing this cash outflow. Overall, cash and cash equivalents improved by CHF 208 million to CHF 0.6 billion. The highest priority is given to a further reduction in net debt, with contributing factors including proceeds from assets held for sale.

Generation

Generation encompasses all Alpiq power plants based domestically and abroad.

Markets in China and developing countries, which have been responsible for greater demand for raw materials over the past years, experienced a marked cooling of growth over the course of the year, thereby placing further pressure on commodity prices. Higher levels of shale oil production in the USA added further to existing oversupply, resulting in falling oil prices. The anticipated start of exports of liquified natural gas from the USA as a consequence of cost-efficient shale gas production has negatively affected European gas hub prices. The massive appreciation of the US dollar compared with the currencies of the main coal-producing countries has contributed to the oversupply, and is bearing down on coal prices. Moreover, coal's image has suffered further from an environmental policy perspective.

Alpiq has further rationalised its generation portfolio with the disposal of the Bayet gas-fired combined-cycle power plant in France and of the interest in Alpiq Hydro Ticino SA.

The EBIT contribution from Generation was down year-on-year. Stringent cost management in the Swiss generation area only partly offset the effects of continued low wholesale prices, which remained the main factor affecting the year-on-year lower result. Alpiq sells most of the electricity that it produces from Swiss generation on markets where prices are denominated in EUR, or where prices are based on Eurozone prices. The resultant negative effect was largely offset by consistent implementation of the currency hedging strategy.

In the thermal plants area, the restructuring measures that have been introduced, and cost savings, exerted a positive year-on-year impact. These are nevertheless offset by negative price trends as well as lower margins in the heating sales area. Overall, the thermal plants concluded 2015 down year-on-year.

New renewable energies failed to achieve the previous year's results level mainly due to markedly lower energy prices and production volumes as a consequence of disadvantageous wind conditions in Italy.

Commerce & Trading

Commerce & Trading pools all trading and marketing activities from Switzerland, Germany, Italy, Spain, France, Scandinavia, Eastern and Southern Europe as well as proprietary trading and asset-related optimisation. Registered on most European energy exchanges and platforms, this area offers not only trading with electricity, gas and other commodities and certificates, but also a broad range of energy services. The area is supplemented by grid-connected demand response services (Flexitricity Ltd.).

The level of some spot electricity prices in Switzerland has risen significantly compared with the previous year. Extremely dry weather during the second half of the year, long inspection periods at the two units of the Beznau nuclear power plant and a restricted capacity to import from our northern neighbours contributed to this. In Germany, by contrast, spot electricity prices registered a slight fall, as a consequence of markedly higher wind production onshore and newly commissioned offshore plants in the North and Baltic seas.

With the passing of the German Electricity Market Act in November 2015, the German state is continuing to intervene in the electricity market to a massive extent. Additional subsidies for cogeneration, adapted subsidy models for new renewable energies and the expansion of various forms of capacity reserves were recently approved. The continuous fall in electricity prices that has been observed since 2009 is set to continue, in all likelihood.

The EBIT contribution from Commerce & Trading was down year-on-year. Optimisation results in Switzerland were up compared with the previous year in this context. Results from international asset management reported a significant fall compared with the previous year, despite higher production volumes, especially from plants in Western Europe. The result is burdened by strong competition on markets for ancillary services, among other factors. The sales units in Central and Eastern Europe generated slightly higher year-on-year results, after adjusting for currency factors. Sales in the French market were also up year-on-year thanks to optimal management of purchasing agreements and the entry into the natural gas business.

Outlook

The operating result for 2016 will continue to be influenced by the extremely challenging market environment and low wholesale prices. In addition, the regulatory framework continues to distort competition. The top priority is maintaining access to capital markets for Alpiq Group. On the one hand, Alpiq will continue to strictly pursue the already initiated cost reduction programme and measures to improve income. On the other hand, the company will review additional disposal opportunities and consistently follow through with selling non-strategic interests to reduce net debt.

Consolidated Financial Statements of the Alpiq Ltd. Group

Consolidated Income Statement

CHF million	2014	2015
Net revenue	**6,402**	**5,069**
Own work capitalised	3	5
Other operating income	126	122
Total revenue and other income	**6,531**	**5,196**
Energy costs	– 6,177	– 4,939
Employee costs	– 110	– 150
thereof wages and salaries	– 86	– 116
thereof pension costs and other employee costs	– 24	– 34
Other operating expenses	– 238	– 199
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**6**	**– 92**
Depreciation, amortisation and impairment	– 190	– 154
Earnings before interest and tax (EBIT)	**– 184**	**– 246**
Share of results of joint ventures and other associates	11	14
Interest expense	– 35	– 48
Interest income	6	2
Other net finance income	– 1	– 14
Earnings before tax	**– 203**	**– 292**
Income tax expense	30	24
Net income	**– 173**	**– 268**
Attributable to non-controlling interests	– 3	3
Attributable to owners of Alpiq Ltd.	– 170	– 271

Consolidated Statement of Comprehensive Income

CHF million	2014	2015
Net income	**–173**	**–268**
Cash flow hedges (subsidiaries)	11	20
Income tax expense	1	–8
Net of income tax	12	12
Cash flow hedges (joint ventures and other associates)	–1	–3
Income tax expense	2	
Net of income tax	1	–3
Currency translation differences	–12	–60
Items that may be reclassified subsequently to the income statement, net of tax	**1**	**–51**
Remeasurements of defined benefit plans (subsidiaries)	–9	–9
Income tax expense	2	2
Net of income tax	–7	–7
Remeasurements of defined benefit plans (joint ventures and other associates)	–56	–34
Income tax expense	12	7
Net of income tax	–44	–27
Items that will not be reclassified to the income statement, net of tax	**–51**	**–34**
Other comprehensive income	**–50**	**–85**
Total comprehensive income	**–223**	**–353**
Attributable to non-controlling interests	–5	8
Attributable to owners of Alpiq Ltd.	–218	–361

Consolidated Balance Sheet

Assets

CHF million	31 Dec 2014	31 Dec 2015
Property, plant and equipment	2,901	2,571
thereof land and buildings	72	78
thereof power plants	2,573	2,453
thereof transmission assets	199	6
thereof other plant and equipment	6	5
thereof assets under construction	51	29
Intangible assets	349	344
thereof goodwill	262	262
thereof other intangible assets	87	82
Investments in joint ventures and other associates	781	675
Other non-current financial assets	60	131
thereof loans receivable	4	3
thereof financial investments	18	3
thereof other non-current assets	38	125
Deferred income tax assets	30	16
Non-current assets	**4,121**	**3,737**
Inventories	52	39
Trade and other receivables	1,322	896
thereof trade receivables	975	554
thereof other receivables	347	342
Term deposits	110	69
Cash and cash equivalents	374	582
Derivative financial instruments	472	485
Prepayments and accrued income	32	114
Current assets	**2,362**	**2,185**
Assets held for sale	**247**	**355**
Total assets	**6,730**	**6,277**

Equity and liabilities

CHF million	31 Dec 2014	31 Dec 2015
Share capital	304	304
Share premium	14	14
Retained earnings	2,767	2,342
Equity attributable to owners of Alpiq Ltd.	**3,085**	**2,660**
Non-controlling interests	– 17	– 11
Total equity	**3,068**	**2,649**
Long-term provisions	342	609
thereof provisions for loss-making contracts	314	590
thereof provisions for decommissioning own power plants	15	10
thereof other provisions	13	9
Deferred income tax liabilities	335	250
Defined benefit liabilities	49	63
Long-term borrowings [1]	1,164	955
Other non-current liabilities	47	136
Non-current liabilities	**1,937**	**2,013**
Current income tax liabilities	8	1
Short-term provisions	59	139
Short-term borrowings	248	108
Other current liabilities	802	551
thereof trade payables	581	454
thereof other payables	221	97
Derivative financial instruments	460	411
Accruals and deferred income	146	348
Current liabilities	**1,723**	**1,558**
Total liabilities	**3,660**	**3,571**
Liabilities held for sale	**2**	**57**
Total equity and liabilities	**6,730**	**6,277**

1 For more details, see page 17

Consolidated Statement of Changes in Equity

CHF million	Share capital	Share premium	Cashflow hedge reserve	Currency translation differences	Retained earnings	Attributable to owners of Alpiq Ltd.	Non-controlling interests	Total equity
Equity at 31 December 2013	**304**	**14**	**– 16**	**– 96**	**2,929**	**3,135**	**34**	**3,169**
Net income for the period					– 170	– 170	– 3	– 173
Other comprehensive income			15	– 12	– 51	– 48	– 2	– 50
Total comprehensive income			**15**	**– 12**	**– 221**	**– 218**	**– 5**	**– 223**
Effects of common control business combinations [1]			– 26	– 213	561	322	– 41	281
Dividends					– 150	– 150	– 9	– 159
Change in non-controlling interests					– 4	– 4	4	
Equity at 31 December 2014	**304**	**14**	**– 27**	**– 321**	**3,115**	**3,085**	**– 17**	**3,068**
Net income for the period					– 271	– 271	3	– 268
Other comprehensive income			9	– 65	– 34	– 90	5	– 85
Total comprehensive income			**9**	**– 65**	**– 305**	**– 361**	**8**	**– 353**
Effects of common control business combinations [1]				– 13	– 46	– 59		– 59
Dividends							– 7	– 7
Change in non-controlling interests					– 5	– 5	5	
Equity at 31 December 2015	**304**	**14**	**– 18**	**– 399**	**2,759**	**2,660**	**– 11**	**2,649**

1 See explanatory notes on page 25

Consolidated Statement of Cash Flows

CHF million	2014	2015
Earnings before tax	**– 203**	**– 292**
Depreciation, amortisation and impairment	190	154
Change in working capital (excl. current financial assets/liabilities)	79	257
Share of results of joint ventures and other associates	– 11	– 14
Financial result	30	60
Other non-cash income and expenses	197	116
Income tax paid	– 2	– 15
Net cash flows from operating activities	**280**	**266**
Property, plant and equipment and intangible assets	– 61	– 43
Subsidiaries		
Common control business combinations [1]	129	4
Acquisitions	– 21	
Proceeds from disposals		55
Associates		
Investments	– 58	
Proceeds from disposals	1	95
Other non-current financial assets		
Investments	– 3	– 2
Proceeds from disposals/repayments	39	109
Change in term deposits	104	31
Dividends from joint ventures, other associates and financial investments	97	48
Interest received	6	3
Net cash flows from investing activities	**233**	**300**
Dividends paid	– 150	
Dividends paid to non-controlling interests	– 7	– 7
Proceeds from borrowings	12	2
Repayment of borrowings	– 491	– 279
Interest paid	– 37	– 45
Net cash flows from financing activities	**– 673**	**– 329**
Currency translation differences	**– 4**	**– 29**
Change in cash and cash equivalents	**– 164**	**208**
Analysis:		
Cash and cash equivalents at 1 January	538	374
Cash and cash equivalents at 31 December	374	582
Change	**– 164**	**208**

1 See explanatory notes on page 25

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

Notes to the Consolidated Financial Statements

Impairment losses and provisions

The company needed to recognise impairment losses during the 2015 financial year, mainly due to the discontinuation of the minimum EUR exchange rate and the related expected future trend in the EUR/CHF exchange rate, continued low wholesale prices and the difficult regulatory environment. In addition, provisions had to be formed for loss-making contracts, mainly for the future purchasing of energy from a Swiss hydro-power plant.

2015: Allocation of impairment losses and provisions

CHF million	Property, plant and equipment	Total
Power Generation Hungary	9	9
Power Generation Italy	6	6
Other impairment charges	1	1
Total impairment losses for assets	**16**	**16**
Provision for loss-making contracts		259
Total impairment losses and provisions		**275**

2014: Allocation of impairment losses and provisions

CHF million	Property, plant and equipment	Intangible assets	Joint ventures and other associates	Other non-current financial assets	Total
Power Generation Switzerland	19				19
Power Generation Hungary	22				22
Power Generation Italy	23				23
Renewable Energy Italy	3				3
Other impairment charges	2	3	1	1	7
Total impairment of assets	**69**	**3**	**1**	**1**	**74**
Provision for loss-making contracts					298
Total impairment losses and provisions					**372**

Long-term borrowings

CHF million	31 Dec 2014	31 Dec 2015
Bonds	130	130
Loans payable	1,034	825
Total	**1,164**	**955**

Bonds outstanding at the reporting date

CHF million	Term	Earliest redemption date	Effective interest rate %	Carrying amount at 31 Dec 2014	Carrying amount at 31 Dec 2015
Emosson SA CHF 130 million face value 2 1/4 % fixed rate [1]	2005/2017	26 Oct 2017	2.25	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.

The market value of the fixed rate bond outstanding at the reporting date was CHF 134 million (previous year: CHF 136 million).

Loans payable

CHF million	31 Dec 2014	31 Dec 2015
Maturing between 1 and 5 years	355	286
Maturing in more than 5 years	679	539
Total	**1,034**	**825**

The market value of loans payable was CHF 933 million at the reporting date (previous year: CHF 1,271 million). Loans of CHF 108 million (CHF 237 million) maturing within 360 days are recorded as short-term borrowings at the reporting date on 31 December 2015.

Assets held for sale

As of the 31 December 2014 balance sheet date, the entire package of the non-strategic interest in Swissgrid AG, Alpiq Hydro Ticino SA and several non-strategic minority interests were recognised as assets held for sale due to the related intention to sell them.

The entire package of the non-strategic interest in Swissgrid AG included the Swissgrid shares, as well as the loan receivable received as part of the transfer of the high-voltage grids, with a total carrying amount of CHF 256 million. Alpiq AG sold a first loan tranche of CHF 38 million in 2014. In early March 2015, the shares in Swissgrid AG which were held by Alpiq AG were transferred to independent Alpiq subsidiary Alpiq Grid Beteiligungs AG. On 18 March 2015, Alpiq concluded the transaction (already announced in the Financial Report 2014) with IST3 Investmentstiftung (IST3) concerning the sale of a 49.9 % interest in Alpiq Grid Beteiligungs AG and of 49.9 % of the original Swissgrid shareholder loan. The disposal proceeds amounted to a total of CHF 288 million (share of Alpiq Ltd. Group: CHF 150 Mio.). On 30 June 2015, Alpiq AG concluded the sale of the final loan tranche of CHF 24 million. This transaction was executed in July 2015 following approval from the Board of Directors of Swissgrid AG.

On 29 May 2015, Alpiq notified concerning the contractually agreed CHF 146 million disposal (share of Alpiq Ltd. Group: 76 Mio. CHF) of the remaining 50.1 % interest in Alpiq Grid Beteiligungs AG to Société d'Investissement de Suisse occidentale SA (SIRESO). On 30 July 2015, BKW Netzbeteiligung AG (BKW) announced that it would assert its statutory and contractual pre-emptive right to the entire equity interest in Swissgrid AG that was originally held by Alpiq. As a result of the exercising of pre-emptive right, the transaction was blocked by the involved parties' legal orders. As long as the disposal to either SIRESO or BKW has not been executed, all shareholder rights connected with the interest in Swissgrid AG remain with Alpiq Grid Beteiligungs AG, and consequently indirectly with Alpiq and IST3. This pre-emptive right case has no effect on the disposal price that Alpiq will achieve. The Swissgrid shareholder loans are also unaffected. Alpiq currently assumes that the transaction will be concluded in 2016. As a consequence, the interest in Alpiq Grid Beteiligungs AG (share of Alpiq Ltd. Group: 26.0 %) continues to be recognised as assets held for sale as of 31 December 2015.

On 20 March 2015, Alpiq concluded a contract with Azienda Elettrica Ticinese (AET) to dispose of Alpiq's wholly-owned subsidiary Alpiq Hydro Ticino SA. The disposal was completed on 2 June 2015.

On 13 November 2015, Alpiq announced that it would review the disposal of its two interests in regional energy utilities, Alpiq Versorgungs AG (96.7 %) and AEK Energie AG (38.7 %). Due to the intention to sell the interests within the next twelve months, the related companies are recognised as assets held for sale as of 31 December 2015.

Given the current market environment, Alpiq has decided not to sell the remaining non-strategic minority investments that were already classified for disposal as of 31 December 2014. Due to the change in the situation, the investments were reclassified again.

Assets

CHF million	31 Dec 2014	31 Dec 2015
Property, plant and equipment	8	209
Intangible assets		4
Investments in joint ventures and other associates	152	114
Other non-current financial assets	87	2
Inventories		8
Trade and other receivables		12
Prepayments and accrued income		6
Total assets held for sale	**247**	**355**

Liabilities

CHF million	31 Dec 2014	31 Dec 2015
Deferred income tax liabilities	1	37
Other non-current liabilities		6
Other current liabilities		4
Accruals and deferred income	1	10
Total liabilities held for sale	**2**	**57**

Events after the reporting period

Wholesale prices have suffered a further marked reduction in early 2016. Especially medium-term and long-term wholesale prices are affected by this price erosion. Alpiq's consistently applied hedging strategy has enabled it to already hedge transactions expected for 2016 and 2017, and partially also for 2018. Income from the short-term optimisation of the flexible power plant portfolio cannot be hedged, and it is currently impossible to gauge the effects of the current price trend in terms of opportunities that arise suddenly.

Viewed on an isolated basis, wholesale prices that remain significantly lower on a long-term basis have an effect on the extent to which Alpiq's power plant portfolio retains its value.

Group Accounting Policies

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 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. The consolidated financial statements were authorised for issue by the Board of Directors of Alpiq Ltd. on 16 June 2016.

Adoption of new and revised accounting standards

As of 1 January 2015, no new or revised standards or IFRIC interpretations came into force as part of International Financial Reporting Standards (IFRS) that are of significance for the Alpiq Ltd. Group.

IFRS effective in future periods

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

- IFRS 9: Financial instruments (1 January 2018)
- IFRS 15: Revenue recognition (1 January 2018)
- IFRS 16: Leases (1 January 2019)

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

Potential effects from the future application of IFRS 9, IFRS 15 and IFRS 16 are still being examined. The application of the other new or amended standards and interpretations is not anticipated to have any significant effect on the consolidated financial statements.

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 from the acquisition date. Companies are deconsolidated or recognised under investments in associates or under financial investments when control over the entity ends.

Investments in joint ventures 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 34, 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 joint venture, 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 2014	Closing rate at 31 Dec 2015	Average rate for 2014	Average rate for 2015
1 USD	0.990	0.995	0.915	0.963
1 EUR	1.202	1.084	1.215	1.068
100 CZK	4.336	4.010	4.411	3.913
100 HUF	0.381	0.343	0.394	0.345
100 NOK	13.298	11.283	14.549	11.950
100 PLN	28.138	25.411	29.030	25.526
100 RON	26.823	23.950	27.332	24.018

Intra-group transactions

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

Revenue recognition

Energy transactions for the management of the Group's own production portfolio 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.

Energy transactions concluded for trading purposes with the intention of generating profits from short-term market price volatility comprise derivative financial instruments, and after initial recognition are measured at fair value. Value changes in such energy transactions are recognised on a net basis 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 subsidiaries, associates, and interests in joint ventures, 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.

Borrowing costs

Borrowing costs are generally expensed in the period in which they are incurred. Borrowing costs that are 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 start of construction until the utilisation of the asset.

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	30–60 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) are only recognised as non-controlling interests if the exercise price is based on fair value, however. 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.

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. 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.

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. Write-downs to 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. In particular, this assessment is performed when changes in circumstances or events indicate that carrying amounts may not be recoverable. 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.

The annual impairment test is monitored centrally within the Group.

Impairment of goodwill
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.

Investments in associates and joint ventures
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 venture. 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.

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 operations 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.

Inventories

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 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.

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 borrowings.

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.

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 intangible assets 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.

Emission allowances held for trading (to optimise the energy portfolio, for example) are measured at fair value at the reporting date, and recognised under inventories.

Pension schemes

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

Swiss consolidated Group companies in the Generation, Commerce & Trading business divisions, as well as in the Group Centre, 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. Generation tables are used in order to reflect mortality rates. These are based on the latest mortality data from pension funds, and take account of future changes in mortality over time. 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.

Financial assets and 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 customers who are also suppliers are offset with the respective trade receivables, provided that a netting agreement has been reached with the counterparties, and that the 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).

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

Key assumptions and sources of 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 outcomes can 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

The carrying amount of property, plant and equipment, intangible assets including goodwill and investments in joint ventures and other associates of the Alpiq Ltd. Group amounted to CHF 3.6 billion at 31 December 2015 (previous year: CHF 4.0 billion). These assets are 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 comprises mainly 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

As of 31 December 2015, the carrying amount of the provision for loss-making contracts amounted to CHF 590 million (previous year: CHF 314 million). This position covers existing obligations and identifiable risks from the energy trading and sales business at the balance sheet date. 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 applying the discounted cash flow method over the term of the contractual obligations. Significant valuation inputs that are subject to certain degrees of uncertainty, and can consequently result in some material subsequent adjustments, particularly include assumptions relating to future changes in market prices, long-term interest rates and currency translation effects (EUR into CHF).

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.

Financial risk management

For full information on financial risk management, please refer to the Annual Report 2015 (pages 101 ff.) of Alpiq Holding Ltd.

2015: Newly consolidated companies

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in %
Alpiq Wind Italia S.r.l.	Verona/IT	EUR	0.01	100.0 %

In connection with the legal reorganisation of Alpiq Holding Ltd. Group, Alpiq Wind Italia S.r.l was transferred to Alpiq Ltd. Group. This transaction is classified as common control business combinations (notes, see page 25).

2015: Disposal of consolidated companies

During the reporting period the following subsidiaries were sold:

- 3CB SAS, Paris/FR
- Alpiq Hydro Ticino SA, Airolo/CH

Alpiq Ltd. sold its subsidiary Alpiq Hydro Ticino SA and the Bayet gas-fired combined-cycle power plant (3CB SAS). As a result Alpiq further rationalised its power production portfolio.

2015: Disposal of financial investments

In 2015, Alpiq sold its non-strategic financial investments in European Energy Exchange and Powernext SA.

Subsidiaries and Investments at 31 December 2015

Sales, supply, power generation, trading and services

	Place of incorporation	Licence expiry	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consoli- dation method	Busi- ness activ- ity	Reporting date
Alpiq Ltd.	Olten		CHF	303.60	100.0	F	SU	31 Dec
AEK Energie AG	Solothurn		CHF	6.00	38.7	E	SU	31 Dec
Aero Rossa S.r.l.	Aragona/IT		EUR	2.20	100.0	F	G	31 Dec
Alpiq Csepel Kft. [1]	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.	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	1.50	100.0	F	T	31 Dec
Alpiq Energija Hrvatska d.o.o.	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 [2]	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 Aare AG	Boningen		CHF	53.00	100.0	F	G	31 Dec
Alpiq Hydro Italia S.r.l.	Milan/IT		EUR	0.73	90.0	F	G	31 Dec
Alpiq 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 Suisse Ltd.	Lausanne		CHF	145.00	20.0	E	SU	31 Dec
Alpiq Turkey Enerji Toptan Satis Limited Sirketi	Istanbul/TR		TRY	7.92	100.0	F	T	31 Dec
Alpiq Vercelli S.r.l.	Milan/IT		EUR	0.01	100.0	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.	Verona/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
Biella Power S.r.l.	Milan/IT		EUR	1.00	60.0	F	G	31 Dec
Blenio Kraftwerke AG	Blenio	2042	CHF	60.00	17.0	E	G	30 Sep
Electra-Massa AG	Naters	2048	CHF	20.00	11.5	E	G	31 Dec
Electricité d'Emosson SA	Martigny		CHF	140.00	50.0	F	G	31 Dec
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
Energie Electrique du Simplon SA (E.E.S)	Simplon		CHF	8.00	1.9	C	G	31 Dec
Engadiner Kraftwerke AG	Zernez	2050/2074	CHF	140.00	22.0	E	G	30 Sep
Enpower 3 S.r.l.	Aragona/IT		EUR	0.04	100.0	F	G	31 Dec
Flexitricity Ltd.	Edinburgh/UK		GBP	1.00	100.0	F	S	31 Mar

HYDRO Exploitation SA	Sion		CHF	13.00	5.0	E	S	31 Dec
Kernkraftwerk Gösgen-Däniken AG	Däniken		CHF	350.00 [3]	40.0	E	G	31 Dec
Kernkraftwerk Leibstadt AG	Leibstadt		CHF	450.00	27.4	E	G	31 Dec
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	F	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		CHF	12.00	50.0	E	G	30 Sep
Nant de Drance SA	Finhaut		CHF	300.00	39.0	E	G	31 Dec
Novel S.p.A.	Milan/IT		EUR	23.00	51.0	F	G	30-Sep
Romande Energie Commerce SA	Morges		CHF	15.00	11.8	E	S	31 Dec
Sodexo Energy Services GmbH [4]	Heidelberg/DE		EUR	0.03	51.0	F	SU	31 Dec
Unoenergia S.r.l.	Biella/IT		EUR	0.11	40.0	E	G	31 Dec

1 Merged with Csepel III Erömü Kft.
2 Merged with Alpiq Energija Lietuva UAB
3 Of which CHF 290 million paid in
4 New company established.

Grid

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consoli-dation method	Busi-ness activ-ity	Reporting date
ETRANS Ltd.	Laufenburg	CHF	7.50	33.3	E	S	31 Dec
Alpiq Grid Beteiligungs AG [1]	Olten	CHF	0.10	26.0	E	S	31 Dec
Swissgrid Ltd.	Laufenburg	CHF	316.33	30.3	E	S	31 Dec

1 New company established.

Other companies

Holding and finance companies

	Place of incorporation	Currency	Issued capital in millions	Direct ownership interest in % (voting rights)	Consoli-dation method	Busi-ness activ-ity	Reporting date
Alpiq Blue Energy AG	Olten	CHF	1.00	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
Alpiq Wind Italia 2 S.r.l.	Milan/IT	EUR	0.01	100.0	F	H	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
C Cost method

Report of the independent Auditor

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To the Management of

Alpiq Ltd., Olten

Zurich, 16 June 2016

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 36) as of 31 December 2015. 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 33), 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.

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Opinion

In our opinion the accompanying specified forms for the Alpiq Ltd. Group as of 31 December 2015 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	Max Lienhard
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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