

## Energy Central Europe

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### Market Central Europe North

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Despite a difficult market environment, the results for Market Central Europe North – adjusted for exceptional items – were well above expectation. While electricity consumption showed a sharp downturn in the industrial sector, household consumption dropped only slightly. Business was impeded due to the growing number of insolvencies among customers and wholesale trading partners, placing greater demands on risk management.

#### New markets in the Baltic and Ukraine

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Long-term contracts were more difficult to conclude than usual due to the uncertainty about long-term trends and the fact that many companies were preoccupied with internal matters prompted by the crisis. One very satisfactory development, however, was the expansion into new markets in the Baltic and the Ukraine.

The move to centralise administrative tasks at the Service Centre in Prague generated important synergy effects. Administrative and operational processes will be significantly simplified as a result of combining several local companies in a single EU company with effect from 1 January 2010. In addition, contact with internal partners in the neighbouring southerly region was intensified and optimised.

Sales business saw harsher competition for margins and orders. At the same time, demand rose for new non-standardised products and services for large industrial customers. This trend is being driven by new market entrants, ongoing liberalisation and further market standardisation. As a result of the economic crisis, energy suppliers throughout the sector have been keeping a more watchful eye on the creditworthiness of their customers.

### Market Central Europe South

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One of the outstanding events of the year for Market Central Europe South was the acquisition of Romanian energy services provider EHOL Distribution. By taking over this company on 1 July 2009, Alpiq advanced to become one of Romania's top three providers to end customers, thereby further enhancing its position in the South-East European electricity market. EHOL Distribution serves large industrial customers and distributors. Energy Holding, a sales company acquired in July, was successfully integrated.

#### Strong position in Romania

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Since September 2009, Alpiq has successfully established itself as one of the largest sales companies in Europe by gaining new customers. Due to its balanced customer portfolio covering small, medium-sized and large customers, there were no serious payment defaults in 2009 despite the sustained economic crisis.

Last year, the State Electricity Regulatory Commission in Bosnia-Herzegovina granted Alpiq a licence for international energy trading, as a result of which Alpiq is now the country's largest electricity exporter. In Bulgaria, Alpiq managed to acquire

its first end customer through its Bulgarian sales subsidiary. Alpiq expanded its trading business by founding Alpiq Albania and renewed the trading licence for Kosovo until 2011.

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#### Lower demand for electricity in heavy industry

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As a result of the crisis, electricity consumption dropped by up to 10%. At the same time, liquidity and the number of business partners declined sharply. Due to high availability of water, electricity prices fell in the first six months of 2009 despite a short-term gas crisis, but stabilised slightly in the dry third quarter.

One of the main causes of the massive decline in electricity consumption was the drastic cutback in production by heavy industry exporters, especially in Romania, Bulgaria, Macedonia, Serbia and Montenegro. But on a more positive note, several countries in the region consistently built up their market mechanisms, clearing the way for competition in energy procurement, sales and transmission. At the same time, market liberalisation was constrained by the protectionist measures imposed by some governments and state-run energy utilities.

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#### Carving out new markets in South Eastern Europe

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In 2010, Alpiq plans to capitalise on new business opportunities and enter new markets in South Eastern Europe and neighbouring regions. Focus will be placed on expanding sales business and wholesale trading activities since South Eastern Europe offers huge market potential due to the current liberalisation and growth of its electricity markets, coupled with increasing liquidity. However, this is dependent on an economic recovery and renewed industrial production in the region.

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#### Market Germany

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Considering the financial crisis, 2009 was a successful year. Market Germany achieved its defined targets, benefiting in particular from prices and volumes that had been contractually fixed well in advance. The small customer segment, served throughout Germany by sales partner EGT, was more directly affected by the financial crisis. In this context, a credit risk insurance policy, taken out as protection against payment default, paid off.

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#### Massive drop in prices

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The economic crisis took its toll on energy prices last year. Prices fell sharply at the beginning of the year, only to fall even further in the latter six months. The average price level is now lower than a year earlier, compounded by great uncertainty among customers regarding their future requirements. Compared to the previous year, much lower volumes have been reserved since customers, mindful of the weak economic conditions, are unsure how much energy they will need in 2010.

In addition to the fall-out from the economic crisis, the German energy market was characterised last year by a trend towards concentration and remunicipalisation. For example, RWE took over the Dutch company Essent, and E.ON sold Thüga to a municipal buyer consortium.

## Power Generation Central

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Despite the lower demand for energy due to difficult economic conditions, 2009 was an excellent year for Alpiq's power generation facilities in Central Europe. Their operating performance was outstanding, and they reached all targets, translating into near 100% availability and high profitability of the power stations. Business relations with key customers proved highly satisfactory, as a result of which the drive to expand power generation in Germany, Hungary, the Czech Republic and Bulgaria is now well under way.

### Alpiq Germany opts for gas-fired combined cycle power stations

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In Germany, work on modernising the Spreetal I gas-fired combined cycle power station in Dresden was completed on schedule and within budget. After successfully obtaining an operating licence, the power station came online in the third quarter and started to deliver its first positive contribution margins. Another German gas-fired combined cycle power station is planned in Premnitz, 70 kilometres west of Berlin. On 8 September 2009, Alpiq's German subsidiary Havelland Kraftwerk GmbH was given the go-ahead for the plant by Matthias Platzeck. The Chief Minister of the German federal state of Brandenburg made a point of visiting the future power station site in person to bring the good news from the State Environmental Agency, which has granted permission for construction of a 400 MW facility at that location. The 70,000 square metre site is now being cleared and prepared for construction.

### Expansion plans in Hungary and the Czech Republic

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In Hungary, the contract with state-run MVM, Csepel's largest electricity customer, was renegotiated and revised to cater to the changed market conditions. Preparations for expansion are currently under way, and the licensing procedure for an additional gas-fired combined cycle block (Csepel III) has been initiated.

High availability and reliability are also the hallmarks of the outstanding performance recorded by Alpiq subsidiaries Kladno and Zlín Energy in the Czech Republic. As operator and regulator, the Czech state has changed the market conditions for grid services, opening up additional opportunities for expansion. To simplify structures, three formerly autonomous companies in Kladno were successfully combined under a new organisation. Plans to expand capacity in Kladno by an additional 135 MW are progressing well, with all the necessary licences and permits in place.

### Bulgaria: wind farm to go online in late 2010

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The wind farm being built by Alpiq subsidiary Vetrocom is making good progress. A ground-breaking ceremony on 7 May 2009 marked the start of construction near the city of Kazanlak, 200 kilometres east of Sofia. Vetrocom is installing 20 wind turbines with a total capacity of 50 MW at the site in Buzludja, at a cost of EUR 80 million. The facility is scheduled to start delivering electricity to the grid by the end of 2010.