

## Energy Services Segment

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Spending on infrastructure and construction is critical to the business of the Energy Services segment. One of the main consequences of the financial and economic crisis was a tendency to postpone capital expenditure projects. Nevertheless, government incentive schemes and stimulus packages are having a direct and positive impact on such capital investments, giving rise to expectations of a rapid recovery.

As a result, German-based Alpiq Anlagentechnik saw signs of stabilisation, although Energy Supply business declined. This was compensated by the boost to demand for local and district heating systems provided by legal incentives. In Switzerland, Building Services and Transport Technology benefited from the high order backlog from 2008. Alpiq EcoServices AG, a specialist in energy efficiency, also performed well. While industrial demand dropped sharply in Italy, positive growth was seen in Central Europe. Acquisitions such as Italian-based Rossetto Impianti were seamlessly integrated.

The renaming and rebranding of the Atel Installationstechnik Group to the Alpiq InTec Group and the GAH Group to the Alpiq Anlagentechnik Group were successfully accomplished.

## Alpiq InTec Group

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### Atel Installationstechnik renamed Alpiq InTec

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The merger of Atel and EOS also dominated Energy Services activities during 2009. The reorganisation of the Atel Installationstechnik Group to create the Alpiq InTec Group (AIT Group) was accomplished within a short space of time, and the Alpiq brand was successfully established in the market, as testified by the amount of positive feedback received from customers and employees. As part of the reorganisation, all the building services companies were renamed by mid-2009.

The work to set up the new AIT Group also included the integration of the new companies acquired in 2009, which were incorporated and consolidated without any problems. The most important purchase in 2009 was the acquisition of Rossetto Impianti SpA in Italy's Verona region, which has now been integrated in Alpiq InTec Verona S.p.A. For more than 30 years, Rossetto Impianti has specialised in mechanical plant engineering for the industrial, services and healthcare sectors. This successful company boasts a wealth of experience in planning, implementing, servicing and maintaining power generation facilities and unit heating power stations.

The acquisition of Rossetto Impianti, with its workforce of more than 70 and annual revenue of CHF 28 million (EUR 18 million), ideally complements the AIT Group's established activities in the Northern Italian market. With this acquisition, Alpiq can now operate in the Triveneto region as a one-stop shop offering the full range of building services. This allowed Alpiq to expand its presence in the market during 2009 and capture a leading position in the region.

### High order intake

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The uneasy global economic conditions during 2009 had widely varying impacts on AIT's various business areas. In Switzerland, the Building Services and Transport Technology business divisions benefited from the high order backlog from 2008, which kept them working to virtually full capacity right from the start of the year. This trend continued throughout the year, with the volume of incoming orders again remaining high for 2009.

Capital spending on public transport remained strong last year, fuelled on the one hand by public-sector stimulus packages that kept demand for services high, especially for transport technology, and on the other hand by consistently low interest rates in the capital market, which additionally boosted construction activities.

Supported by these factors, capacity utilisation remained good throughout the year. This highly favourable order situation allowed a wide range of projects to be carried out simultaneously. This entailed ensuring that sufficient resources were made available for the individual projects, placing even higher demands on staff planning.

The positive trend in Central Europe continued in 2009. Here, too, the public transport segment benefited from a high appetite for investment. Conversely, in Italy, the financial and economic crisis was already taking its toll early in the year in the form of lower prices and declining volumes in building services business. The difficult economic environment inevitably affected many areas in the course of the year, with demand dropping particularly sharply in the industrial segment. In Switzerland, declining market prices – despite the high volume of construction – made for harsher competition and placed pressure on prices.

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#### **Energy efficiency in demand**

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Energy efficiency was another priority for AIT during 2009. Activities in this area were further developed and expanded, with the first related marketing measures already being implemented and generating a highly positive resonance among potential customers. In this context, efforts to build up and develop Alpiq EcoServices AG proved most successful.

This fledgling business arm of AIT offers consulting services that help customers to plan energy-efficient new buildings and sustainably operate existing buildings, with emphasis on cutting operating costs and energy consumption while retaining or even enhancing comfort and reducing CO<sub>2</sub> emissions. The popularity of energy efficiency and the related services offered by this young company is reflected in an extremely positive volume of incoming orders.

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#### **Alpiq helps Coop with its carbon footprint**

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In 2009, AIT won and implemented a number of important contracts and projects. Alpiq now supports Coop in its bid to become carbon neutral by 2023. The mass merchandiser intends to achieve this, among other things, by phasing out the use of fossil fuels, consistently using waste heat, improving insulation and converting sales outlets to the Minergie standard. As part of a pioneering project, the Refrigeration Technology Department in Interlaken installed the first trans-critical booster refrigeration system in spring 2009.

Another highlight of the year was the new waste incineration plant in the canton of Ticino, where installation work is right on track. Pilot operations commenced at the end of October 2009, and handover to the cantonal waste disposal company is scheduled for February 2010. Alpiq supplied the electromechanical systems for the waste incineration plant, which is designed not only to burn domestic waste but also, using its 20 MW turbine, to harness the steam by-product to generate electricity.

Progress on the Gotthard Base Tunnel was another important focus for AIT in 2009. Following the signing of the works contract for railway technology in 2008, the Transtec Gotthard consortium turned its attention in 2009 to implementation and detailed planning. In autumn, the consortium took over the installation site in Biasca and started construction work right on schedule.

### **Priority on AlpTransit Gotthard**

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The AlpTransit Gotthard project will continue to be an important priority for AIT in 2010. The Transtec Gotthard consortium will begin operating at the South installation site in the first six months and start to install the railway technology in the Gotthard Tunnel in mid-year. Energy efficiency continues to play a pivotal role. Alpiq is giving this issue its full attention and intends to further expand activities in this area so as to make an important contribution to cutting CO<sub>2</sub> emissions in 2010.

### **Alpiq Anlagentechnik Group**

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Following a sharp economic downturn in the first half of the year, the German economy stabilised in the third quarter. While the economy appears to have bottomed out, spending remained extremely lacklustre up to the year end. Conditions in the markets served by the two business fields of the Alpiq Anlagentechnik Group (AAT Group) – Industrial and Power Plant Engineering (IPPE) and Energy Supply Technology (EST) – differed widely last year.

Whereas spending in the IPPE area was high, especially on new power plant construction, EST's energy supply business declined. Overall, however, demand in the power generation sector remained stable. During the year, the Heidelberg-based AAT Group was negatively impacted not only by the financial and economic crisis, but also by the large number of political/regulatory interventions.

### **Political regulation in Germany**

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The central issue in Germany was the Federal Grid Agency's regulation of transmission charges. Moreover, the incentive regulations for the German electricity and gas sectors came into force on 1 January 2009, stipulating a reduction in electricity and gas transmission charges. At the same time, the EU Commission required power generation and power distribution activities to be economically separated – so-called unbundling. These official regulations had a noticeably negative impact on capital spending by energy suppliers.

Conversely, legal incentive measures to promote local and district heating networks drove demand up slightly in 2009. Nevertheless, the Energy Line Expansion Act and economic stimulus packages involving investments in transport infrastructure and modernisation of IT systems did not have the expected positive impact on incoming orders. Offshore wind farm projects were postponed, although follow-up orders are expected in 2010.

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

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While benefiting from sustained stable demand for conventional new power plants in 2009, the IPPE business field came under increasing competitive and price pressure during the year. Licensing and environmental problems also fuelled greater investment uncertainty.

At present, gas-fired combined cycle power stations, combined heat and power stations, waste incineration plants, biomass projects and nuclear technology offer attractive niche markets, while demand for industrial pipeline construction, industrial plant engineering and power supply technology remains low.

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### **Energy Supply Technology (EST)**

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A general reluctance to invest led to a decline in the energy supply (energy distribution) business in 2009. One of the main reasons for this development was the Federal Grid Agency's regulations governing charges for electricity and gas grids, which dampened investments in the electricity distribution grid and increased pressure on prices. One important development was EST's entry into electrical installations for new power plants.

District and local heating projects offer the main market opportunities for EST, since demand for high-voltage overhead lines, cable systems and transformer stations has been severely inhibited due to licensing, financing and unbundling problems. Following a slow first half of the year, demand for cabling systems and railway technology showed a slight increase in the second half. During 2009, Energy Supply Technology activities were combined, and the company structure was streamlined by merging various limited liability companies.

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### **Highlight: solar thermal plant in Jülich**

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One of the highlights of AAT's year in 2009 was the commissioning of the experimental solar thermal power station in Jülich in western Germany. Kraftanlagen München, a subsidiary of the AAT Group, acted as general contractor responsible for planning and building the facility. In future, the new technology installed in Jülich will be marketed worldwide by building 10–50 MW facilities in sun-rich countries.

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### **Electricity distribution grid in need of upgrading**

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AAT's business performance is largely dependent on economic recovery in the wake of the financial and economic crisis and on capital spending by energy utilities in Germany. Following massive cutbacks in 2009, investments in the electricity distribution grid are expected to pick up again over the year ahead. With the improved and expanded European energy infrastructure, experts expect to see increased demand for high-voltage overhead lines, cable systems and transformer stations. Investment in new generation capacities in Europe is likely to remain stable.

## Strategic development

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The priority for 2010 is on further long-term strategic development of AAT's two business fields, including research and development activities. With this in mind, collaboration with partners is to be stepped up, for example by setting up working groups and cooperating with research centres and universities.

Energy Supply Technology aims to strengthen its focus on implementing a qualitative growth strategy and becoming an engineering-oriented full-service provider with the capability to act as general contractor or operator. In particular, this will require further development of transmission system activities, which is to be achieved by building a European platform for high-voltage line installation, creating the organisational framework for organic growth in the construction of high-voltage transformer stations and, where appropriate, by acquiring market players. Plans are also in place to step up high-voltage activities in neighbouring Central European countries.

The main objective for Industrial and Power Plant Engineering in 2010 is to stabilise its results and profit at the current high level, with emphasis on acquiring additional projects in order to further expand its share of key account customers in the home markets. Selective growth through cooperative ventures in new markets is also planned, as well as further expansion of activities in new target countries, for example in Central Europe.