
Group Accounting Policies

Preliminary note

The prospective statements set out in the accounting policies below reflect the views of the Alpiq Group.

Significant accounting policies

Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Alpiq Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRIC) issued by the International Accounting Standards Board (IASB) and comply with Swiss law. They are designed to give a true and fair view of the financial position, results of operations and cash flows of the Alpiq Group. They have been prepared on a historical cost basis, except for certain items such as financial instruments and available-for-sale financial assets that have been measured at fair value. The consolidated financial statements were authorised for issue by the Board of Directors of the Alpiq Group on 18 February 2010 and are subject to approval by shareholders at the Annual General Meeting on 22 April 2010.

Adoption of new and revised accounting standards

The accounting policies applied are consistent with those of the previous financial year, except that the Alpiq Group has adopted the following International Financial Reporting Standards (IFRS) which became effective on 1 January 2009:

- IAS 1 rev.: Presentation of Financial Statements (1 January 2009)
- IAS 23 rev.: Borrowing Costs (1 January 2009)
- IAS 1 and IAS 32 amendments: Puttable Financial Instruments and Obligations Arising on Liquidation (1 January 2009)
- IAS 39 and IFRS 7 amendments: Disclosures on the Reclassification of Financial Assets (1 July 2008)
- IAS 39 amendments/IFRIC 9: Embedded Derivatives (1 July 2009)

- IAS 27 and IFRS 1 amendments: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (1 January 2009)
- IFRS 2 amendments: Vesting Conditions and Cancellations (1 January 2009)
- IFRS 7 amendments: Enhanced Disclosures about Financial Instruments (1 January 2009)
- IFRS 8: Operating Segments (1 January 2009)
- IFRIC 13: Customer Loyalty Programmes (1 July 2008)
- IFRIC 15: Agreements for the Construction of Real Estate (1 January 2009)
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (1 October 2008)
- IFRIC 18: Transfers of Assets from Customers (1 July 2009)

In addition to the above changes, a number of other minor amendments to standards have also been approved and adopted as mandatory by the IASB and IFRIC. The majority of these amendments became effective from 1 January 2009. Alpiq has not early adopted the new and revised standards and interpretations.

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

IFRS and IFRIC interpretations effective in future periods

The following new and revised standards and interpretations have been published by the IASB and IFRIC respectively and are mandatory for future accounting periods:

- IAS 27 rev.: Consolidated and Separate Financial Statements (1 July 2009)
- IAS 39 amendments: Eligible Hedge Items (1 July 2009)
- IFRS 3 rev.: Business Combinations (1 July 2009)
- IFRIC 17: Distributions of Non-cash Assets to Owners (1 July 2009)
- IFRS 2 amendments: Group Cash-settled Share-based Payment Transactions (1 January 2010)
- IFRS 1 amendments: First-time Adoption of IFRS – further simplifications (1 January 2010)
- IAS 32 amendments: Classification of Rights Issues (1 February 2010)
- IAS 24: Related Party Disclosures (1 January 2011)
- IFRS 9: Financial Instruments (1 January 2013)
- IFRIC 14: Prepayments of a Minimum Funding Requirement (1 January 2011)
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (1 July 2010)

Certain aspects of the standards and interpretations becoming effective in future periods require additional disclosures in the published consolidated financial statements. Adoption of the revised IFRS 3 will affect transactions completed on or after 1 January 2010. In addition, IFRS 9 – Financial Instruments, effective from 1 January 2013, will have a significant impact on the classification and measurement of financial instruments and hedge accounting. The Alpiq Group is currently evaluating the potential effects of adopting these new standards on the consolidated financial statements.

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

Basis of consolidation

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

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

Investments in associates in which the Alpiq Group holds minority interests and has significant influence are accounted for in the consolidated financial statements using the equity method. Jointly controlled entities (joint ventures) in the Energy segment are included in the consolidated financial statements using the same method. The Alpiq Group's share of the assets, liabilities, income and expenses of such entities is disclosed in note 11 to the consolidated financial statements.

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

All significant companies included in the consolidation are shown on pages 139 ff. with an indication of the consolidation method applied and other information.

Foreign currency translation

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

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

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

Unit	Closing rate at 31 Dec 2008	Closing rate at 31 Dec 2009	Average rate for 2008	Average rate for 2009
1 USD	1.07	1.03	1.08	1.09
1 EUR	1.485	1.484	1.587	1.510
100 CZK	5.53	5.60	6.37	5.71
100 HUF	0.56	0.55	0.63	0.54
100 NOK	15.23	17.87	19.37	17.31
100 PLN	35.75	36.15	45.35	34.94
100 RON	36.92	35.02	43.14	35.62

Intra-group transactions

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

Revenue recognition

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

Income tax

Income tax is calculated on the profit for the year, as reported in the income statement, using tax rates that have been enacted by the reporting date and are applicable to the individual companies' financial statements. Income tax expense represents the sum of current and deferred income tax.

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

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

The effects of the recognition of temporary differences are presented in note 6 to the consolidated financial statements.

Borrowing costs

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

Discontinued operations and non-current assets held for sale

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

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

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

Property, plant and equipment

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

Buildings	30 – 60 years
Land	only in case of impairment
Power generation assets	25 – 80 years
Transmission assets	15 – 40 years
Machinery, equipment and vehicles	3 – 20 years
Assets under construction	if impairment is already evident

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

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

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

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition comprises the consideration given to acquire the assets, liabilities and contingent liabilities of the acquiree. The consideration is measured as the cash paid and the fair value of the assets given and liabilities incurred or assumed at the date of exchange. Acquisition cost also includes transaction costs directly attributable to the acquisition. The net assets acquired, comprising identifiable assets, liabilities and contingent liabilities, are recognised at their fair values.

Where the Group does not acquire 100% ownership, the interests of minority shareholders are recognised as a component of consolidated equity. However, minority interests over which the Alpiq Group holds options (call options) or has granted options (written put options) are only recognised as minority interests when the strike price is based on fair value. Such call options are recorded at fair value. Written put options on minority interests are recognised as a liability at the present value of the expected cash outflows.

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

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

Intangible assets

Intangible assets acquired by the Group are measured on initial recognition at cost. Following initial recognition, they are carried at cost less any accumulated amortisation and impairment losses. Internally generated intangible assets are not capitalised but are expensed in the income statement in the year when the expenditure is incurred.

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

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

Energy purchase rights

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

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

Impairment of property, plant and equipment and intangible assets

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

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

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

The annual impairment review is monitored centrally within the Group.

Impairment of goodwill

Goodwill is allocated to the cash-generating units to which the goodwill relates. These generally represent the identifiable regional sales, service and production activities. Goodwill is tested for impairment annually. If the recoverable amount of the cash-generating unit, i.e. the higher of the unit's fair value less costs to sell and its value in use, is less than the carrying amount, an impairment loss is recognised. The method used for testing cash-generating units for impairment is disclosed in note 10. If the value of goodwill increases again, previously recognised impairment losses are not reversed.

Investments in associates and joint ventures

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

A joint venture is an entity jointly controlled by Alpiq and one or more other venturers under a contractual arrangement. Due to these circumstances, joint ventures are accounted for in the consolidated financial statements using the equity method regardless of the Group's ownership interest in them. The Alpiq Group's interests in joint ventures currently range from 9% to 60%.

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

Inventories

Inventories mainly include fuels to generate electricity and materials to produce goods and services. Fuel stocks (oil, gas and coal) comprise all directly attributable costs of acquisition. They are carried at the lower of cost, using the weighted average method, and net realisable value. Cost includes all expenditures incurred in acquiring the inventories and bringing them to their storage location.

Inventories of materials are stated at the lower of cost, calculated using the average cost method, and net realisable value. 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

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

Construction contracts

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

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

Provisions

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

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

Accounting for CO₂ emission allowances

In December 2004, the IASB issued IFRIC 3, an interpretation on accounting for emission allowances. IFRIC 3 was mandatory for financial years beginning on or after 1 March 2005. Subsequently, the IASB decided that IFRIC 3 should no longer be mandatory. The Alpiq Group has chosen an accounting method that appropriately reflects economic reality based on applicable IFRS standards.

Allocated CO₂ emission allowances are initially recognised at nominal value (nil value). CO₂ emission allowances purchased to meet the Group's generation requirements are recorded at cost within intangible assets on initial recognition. A liability is recognised when the CO₂ emissions exceed the emission allowances originally allocated. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held. That portion exceeding the CO₂ emission allowances held is recognised at fair value at the reporting date. Changes in the liability are recorded as energy costs.

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

Pension schemes

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

Swiss consolidated Group companies in the Energy segment participate in a legally independent pension scheme of the Swiss defined benefit type that meets the criteria of a defined benefit plan under IAS 19.

Employees of foreign subsidiaries in the Energy segment are generally covered by state social security schemes or separate defined contribution pension plans in accordance with national practices.

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

Employees of foreign companies belonging to Alpiq InTec in the Energy Services segment are covered by state social security schemes.

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

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

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

Contingent liabilities

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

Segment information

The Energy segment encompasses the Alpiq Group's energy generation, transmission, trading and sales operations. The Energy Services segment comprises all activities involving engineering and construction services.

Revenue in the Energy segment mainly comprises physical electricity deliveries from trading and sales activities. Revenue also includes gains on energy trading contracts. Revenue reported in the Energy Services segment comprises revenue from construction contracts.

Operations presented as “other and consolidation” include activities not attributable to the segments, primarily those of the holding, management, property and finance companies. The segments are identified based on the Group’s internal reporting provided to the Executive Board and Board of Directors.

Inter-segment transactions: segment revenue, expenses and results include transfers between business segments and geographical areas, which were made and recorded at arm’s length. All these transactions and balances have been eliminated on consolidation.

The segments’ operating results (EBIT) are reviewed by the Executive Board to make decisions about resource allocation and to assess the performance of the units.

In accordance with IFRS, Alpiq (formerly Atel) has published a segment analysis in both its Interim and Annual Reports ever since 1999. This information is essentially based on the internal reporting, focused on the two business segments: Energy and Energy Services. In connection with the business combination between Atel and EOS, the Group is currently setting up a financial information system tailored to the new Group structure. In 2009, the internal reporting provided to the chief operating decision maker was therefore based on the information available (Energy and Energy Services). The EOS and Emosson operations acquired in 2009 have been integrated in the Energy segment.

Financial instruments

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

Financial assets and liabilities

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

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

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

Financial assets or liabilities at fair value through profit or loss

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

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

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

Current asset investments include both securities held for trading and those classified as available-for-sale. All securities are recorded at fair value. Changes in the fair value of securities held for trading are recognised in the income statement in the period in which they occur. Changes in the fair value of items classified as available-for-sale are recognised in equity and only transferred to the income statement upon disposal.

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

Held-to-maturity investments

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

Loans and receivables

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

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

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

Available-for-sale financial assets

All other financial assets are classified as available-for-sale.

Financial liabilities

Financial liabilities include short-term and long-term payment obligations, which are stated at the amount payable or repayable, as well as accruals and deferred income.

Impairment and uncollectibility of financial assets

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

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

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

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

Hedge accounting

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

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

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

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

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

Estimation uncertainty

Key assumptions and sources of estimation uncertainty

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

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

Impairment of property, plant and equipment, intangible assets and goodwill

The carrying amount of the Alpiq Group's property, plant and equipment and intangible assets, including goodwill, was approximately CHF 8.3 billion at 31 December 2009 (2008: CHF 3.4 billion). These assets are tested for impairment annually. Determining whether assets are impaired requires estimates of the future cash flows expected to be derived from the use, growth rates, discount rates and eventual sale of the assets. Actual outcomes may vary materially from these estimates. Other factors, such as changes in scheduled useful lives of assets or technical obsolescence of plant, may shorten the useful lives or result in an impairment loss.

Provisions

At 31 December 2009, the carrying amount of the provision for contract risks and losses presented in note 18 was CHF 202 million (2008: CHF 339 million). This covers risks and liabilities that were known at the balance sheet date and relate to existing long-term energy purchase and supply contracts in Switzerland and other countries. The amount of the provision required was calculated based on a likely outflow of resources associated with the performance of the contracts. The valuations are made and reviewed periodically using the discounted cash flow method over the term of the contractual obligations entered into. Significant inputs used in the valuations, which are subject to certain uncertainties and hence may cause some material adjustments in subsequent periods, are especially the assumptions regarding future changes in market prices, long-term interest rates and the effects of currency translation (EUR into CHF).