

## Trading & Services

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### Power Proprietary Trading

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Traditional electricity trading closed the first quarter of 2009 on a satisfactory note, but this performance could not be sustained in the following quarters. Electricity markets moved sideways in the second and third quarters, only showing slightly more volatility again in the fourth quarter.

The economic downturn resulted in a perceptible drop in prices on the spot and futures exchanges in the first and fourth quarters of 2009. Electricity prices are heavily dependent on movements in the prices of other sources of energy, particularly gas, coal, oil and CO<sub>2</sub>. Last year's trends in the prices of these commodities were very mixed. While oil and CO<sub>2</sub> recovered from their lows, coal prices rose only slightly and gas prices fell even further. This widening gap between gas and oil prices made it difficult to predict prices for individual electricity markets. Prices for CO<sub>2</sub> certificates were affected by the uncertainty surrounding the so-called third phase, and even briefly plummeted to single-digit figures.

### Growing interest in real commodities

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The difficult economic environment briefly dampened the market players' interest, although renewed interest is expected over the medium term. Despite this, many financial institutions which found themselves in difficulties at the start of 2009 did not opt to withdraw from the energy markets. On the contrary, interest in real commodities appears to have grown precisely because of the financial crisis and should provide fresh impetus for 2010.

The market coupling initiatives resulted in stronger cooperation and a growing convergence of the spot and futures exchanges. While this led to additional operating costs during the introductory phase, it has generated benefits for day trading. On 1 January 2010, the Oslo trading activities were transferred from the Energy Western Europe business division to Trading & Services. Over the year ahead, the Power Proprietary Trading unit intends to press on with gas trading activities in Oslo in conjunction with the Olten and Lausanne facilities. Most liquid markets are already covered by electricity trading, although Spain, Italy and the UK still offer some potential for expansion. From a product-specific standpoint, one option would be to expand certain structured strategies. This would result in a closer combination of classical electricity trading with other commodities.

### Trading exchanges set to link up

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The EU Commission looks set to issue regulatory proposals on the treatment of derivatives and OTC transactions. These are expected to include detailed accounting regulations. It is also likely that the market coupling and transparency initiatives will be pursued more vigorously, resulting in a closer link-up between trading exchanges. These developments will indirectly affect the business unit's processes, organisation and IT structures.

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## Power Asset Trading

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During 2009, activities primarily focused on efforts to merge Atel and EOS asset trading operations and on the introduction of Switzerland's ancillary services market on 1 January. Thanks to timely preparation ahead of the liberalised Swiss market, Alpiq Trading was up and running from Day 1 and played a leading role in formulating the agreements and bids of the joint venture plants. The regulatory changes have eliminated certain obligations and created a new market. The technically limited liquidity of this market for ancillary services has resulted in mandatory market participation and a completely different way of managing power plants. Moreover, certain aspects of the new regime were already changed during the first year, necessitating continual adjustments and triggering heated political and regulatory discussions, both internally and externally.

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### Benefiting from market movements

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Prices were characterised by sharp drops in the first quarter, followed by a calmer phase and then unexpected rises in the autumn due to the absence of precipitation and an unseasonably cold spell. This was compounded by the fact that price movements among the various countries could not always be predicted accurately and were sometimes surprisingly extreme. All these factors called for a highly flexible approach. Supported by its favourable positioning, Alpiq was able to benefit from the market movements, both from the fall in prices early in the year and from the opportunity to acquire annual capacities.

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### Focus on cross-border trading

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At European level, projects aimed at regional cooperation and market coupling will bring about major changes in the marketplace. This means it is essential for Switzerland to be optimally integrated. A degree of market harmonisation can be expected, prompted by the need to avoid further distortion on spot exchanges and to address the growing problems of wind power feed-ins. Factors which will be key to the success of operations in and out of Switzerland will be the flexibility and effective integration of cross-border trading, and the ability of the new Swiss ancillary services market to overcome its teething troubles and gain critical mass.

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## Middle Office & Operations

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Despite experiencing some exceptionally dynamic changes, this business unit can look back on a successful year. Here, as in other areas, priority was given to planning and implementing the merger between Atel and EOS. Initial steps towards integration were made with a view to setting up a unified reporting system and complying with the provisions of the Swiss Financial Market Supervisory Authority FINMA as part of the move to bring the Lausanne and Olten trading platforms under one roof. Alpiq integrated the Oslo trading unit into the Power Proprietary Trading business unit and introduced tools for technical online market analysis. Another goal achieved in 2009 was the systematic risk/return evaluation of investment proposals.

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#### New trading system

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The bilateral negotiations on the electricity agreement between Switzerland and the EU will be followed attentively. Further developments in cross-border market mechanisms for electricity in Europe and developments in European gas markets will also be monitored closely.

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#### Multi Commodities & Fuel Management

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In its first year of operation, this business unit successfully prepared for its new tasks, focused primarily on gas, oil and coal trading, gas procurement and price risk management.

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#### Gas trading stepped up

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Alpiq rounded out its presence in the European gas markets in close coordination with gas trading. This included setting up an international team. Physical gas trading was consistently stepped up, particularly in France and Germany.

Price movements in the gas market were heavily influenced by the downturn in the spot markets in the wake of economic developments. On the procurement side, prices were driven down as new facilities for liquefied natural gas (LNG) came on-stream around the world. Conversely, demand for gas fell sharply in Europe, further widening the gap between short-term trading prices and long-term oil-related import contracts. At present, the general trend is towards a gas market that is increasingly decoupling from the oil market.

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#### A key role within the Group

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Within the Group, this business unit will play a key role in procurement, trading and market price risk aggregation.

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#### Origination & Environmental Markets

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Established in October 2009 and geared towards a successful pan-European presence, the Origination & Environmental Markets business unit is in charge of the origination activities of the Multi Commodities & Fuel Management business unit as well as parts of the Regulatory & Development business unit, which has been dissolved. The unit had a successful financial year. Alpiq is the leader in environmental markets, a position which was further underpinned through the coordination of the “green desks” of Atel and EOS.

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#### Success for green power marketing

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Last year saw the start of important work aimed at centralising the management of the Group’s CO<sub>2</sub> position. Implementation is planned for 2010. The Green Power Marketing Conference, strongly endorsed by Alpiq and held in Geneva at the beginning of October 2009, proved a huge success. More than 170 participants from all over Europe discussed the future development of the European market for renewable energies with politicians and policymakers from Brussels and Bern.

The economic downturn drove down the prices in energy markets. At the same time, trading volumes declined and the counterparty risk increased. Against this backdrop, Alpiq succeeded in exploiting various opportunities. Trading in green electricity performed well in a challenging regulatory environment. One factor worth mentioning is the new EU directive on renewable energies, which should inject fresh impetus into this market.

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#### Promising potential of green certificates

The potential for development of green certificates will be influenced both by the aforementioned EU directive and by the trend in the voluntary market. As far as the political and regulatory environment is concerned, the following developments and projects are of relevance to Alpiq: market coupling initiatives at European level, monitoring and transparency requirements, implementation of the EU's third energy market package, the development of new gas infrastructure (storage and capacities) and related regulations governing market access.