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Watt's the story?

Alpiq's update on the current market flows

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Dear Reader,

Winter is over, and the **much-feared shortages** of **electricity** or **gas did not materialise**. So far, so good! This positive outcome is a combination of our committed work in navigating this challenging time together, but more importantly the favourable weather conditions that lowered electricity and gas consumption for heating systems.

That's the good news. The **less encouraging news** is that we had **very little precipitation in January and February**, there isn't much snow on the mountains, the **melting season will be short**, and the glaciers will be exposed to the summer sun earlier than usual. Last year, the Swiss glaciers lost six percent of their total mass. We hope that 2023 won't be another annus horribilis when it comes to glacier melting. But for now, let's focus on the past month and stop guessing future developments.

Our deep-dive topic in this sixth edition of Watt's the story is our new reporting structure, which is based on steering the business along the value chain. Read on to find out more!

Market update

The **downwards price trend** of previous months has **continued** so far **in March**. Nevertheless, leaving aside the exorbitantly high prices observed during 2022, **prices remain at historically high levels**.

Power prices have been **driven** down by **broad-based losses in gas, coal and CO2 prices**. The **crisis of confidence** in the **financial markets**, triggered by the **downfall of Silicon Valley Bank** and leading to the **demise of Credit Suisse**, saw a **notable drop in CO2 and oil prices**,

which are both more susceptible to the overall macro sentiment. At the time of writing, the crisis has been contained and commodity markets are experiencing a small relief rally. The **negative consequences** for the real economy of **tightening credit conditions**, while not immediate, are likely to **play a role later in the year**.

Events in France in recent weeks **have been rather price supportive**. On 8 March, Electricité de France (EdF) announced the **discovery of new corrosion areas** potentially affecting all **nuclear plants in France**. Since then, the markets have been calmed by EdF's announcement that the 2023 production target can be kept as additional inspections are expected to be carried out during planned maintenance. Importantly, the French authority for nuclear security (ASN) has accepted EdF's proposal for dealing with the new cracks. However, **French power prices** for the **upcoming winter** bucked the **trend by increasing month-on-month**. The additional inspections are obviously leading to uncertainty as to whether further repairs will be needed.

The **strikes against pension reform** in **France** are also **hindering the supply situation**. Production has been interrupted at several nuclear, coal and hydro production facilities and the maintenance of various nuclear plants has also been delayed. **Deliveries to French LNG terminals** have been **interrupted for several weeks**, reducing gas supplies by up to 100 mcm per day.

On the regulatory side, the **European Commission's market design review**, presented in March, did not contain any of the revolutionary elements envisioned at the height of the crisis. The reform proposals are rather minor. One contentious element is the proposal to introduce virtual hubs, similar to those in the Nordic power market. This **proposal** would inevitably **split the German power market into** (at least two) **price zones** and is not only politically contentious in Germany but **might further drain market liquidity**, as the **German power market** is used by many other European power markets as their **main hedging proxy**.

Liquidity status

Our 2022 annual results presentation was well received by the media, credit analysts and our lending banks. **Our strong result**, combined with our **solid liquidity position, promising outlook** and **open communication** saw most **ratings providers confirm their ratings** and outlook. ZKB raised the rating by one notch and awarded Alpiq a "stable" outlook. **Given this positive reaction, Alpiq decided** to tap the capital market by **issuing two new bonds**. The **CHF 220 million 3.125% bond due 2027** and the **CHF 155 million 3.375% bond due 2030** were well absorbed by investors. Alpiq used its momentum and seized this ideal market window to place both bonds at tight spread levels. Our fast-growing order book with a broad range of investors **confirms the trust** that **Alpiq has regained** after a challenging and turbulent year.

As per **28 February 2023**, the **operative liquidity balance** stood at **CHF 0.7 billion**. The **fall in this figure** against January is mainly **due to the full repayment of short-term credit lines** (CHF 0.1 billion) and **collateral backflows** that balanced the negative operational cash flow. The latter was negative due to the time shift in the settlement of winter trades. Overall, our **headroom increased slightly to CHF 1.7 billion** (CHF 1.6 billion end of January).

Deep-dive: steering along the value chain

As presented at the annual media conference, we are **changing Alpiq's steering model** and consequently also **reporting structure**. From 2023 onwards, we will be **steering our business in line with business value creation**. The 2022 annual results were therefore the last to be based on a divisional view (Switzerland, International, Trading).

Why have we chosen this value chain perspective and what does it really mean? The answer is simple: **it gives us a holistic view of our value creation**. When a company applies the traditional perspective, the performance of a particular division comes first, which might mean it does not fully leverage opportunities from a group perspective. By taking a clear view along the full value chain, we get **greater transparency**, and the organization can **set the right focus**.

The future reporting structure will look as follows:



The energy crisis of the past 18 months strengthened our conviction that this new steering and reporting approach is the right way forward. Not only will it provide us with the right decision-making insights, but **managing risk and liquidity along the value chain is crucial in enabling us to better anticipate inflows and outflows in volatile markets**.

With this new steering and reporting approach we implement the following:

- **a joint vision that leads to joint success:** we share a common purpose, based on this, common goals and thereby leverage our collective know-how and effort for the benefit of the whole Alpiq group (“One Alpiq mindset”)
- **specific KPIs** to steer Alpiq consistently along the value chain
- **entrepreneurship by shifting from operational to strategic steering**, with a clear overarching financial goal at group level
- **clear and lean processes** and reporting on all levels.

To achieve this, we have identified three elements of the value chain that are critical to the business: Asset, Trading and Origination:

We think value creation and optimization, not internal structures



Value chain steering is already a reality in our daily business. Take the example of a maintenance plan for a power plant. In the past, those responsible for generation decided on planning. Now, our **Asset Trading specialists** (who optimise the production of our assets) and **Generation experts join forces** to decide on the **best technical solution**, while our **Market Analysis, Asset Optimisation and Generation teams work together to find the optimum timing** – taking the following into account at all times:

- Commercial factors
- Technical constraints
- CAPEX and OPEX
- Market developments
- Alpiq portfolio

By taking the new integrated approach illustrated in this example, we **optimise the value for Alpiq along the entire chain**. The new steering and reporting structure will reflect this.

We hope that this short deep-dive into the new reporting structure has added its own value by giving you a clearer view of what lies ahead!

The next edition of **Watt's the story** will appear **end of May**. As market conditions are easing, we will reduce the frequency of the newsletter to a two-monthly or quarterly basis – as befits the latest situation. We will always announce the next issue at the end of the newsletter so that you know when to look out for the next one.

We wish you a pleasant and enjoyable spring and as always lots of energy!

Best regards,

Your Investor Relations Team @Alpiq

PS: Please feel free to forward this newsletter to other interested parties, who can also sign up to receive it directly [HERE](#). All previous editions, including our deep dives, are also available [HERE](#).

PPS: Please send us your feedback, thoughts and requests for future deep-dive topics to investors@alpiq.com. Thank you.

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