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Dear Alpiq Shareholder,

Knight Vinke is a long-term institutional investor and a specialist in energy-related matters. We are committed shareholders of Alpiq Holding AG ("Alpiq " or the "Company") and are writing to you in the context of the latest attempt being made by Alpiq' controlling shareholders to acquire the 10% of the Company that they do not own – and to do so at a deep and unjustified discount to its intrinsic value. We believe that this is both coercive and short-sighted and would welcome any form of constructive dialogue with the controlling shareholders with a view to finding a mutually acceptable alternative.

It is our intention, and that of other large investors with whom we are in regular contact, to vote against Resolution 9 at the AGM on 24 June. This resolution seeks shareholder approval to enter into a squeeze-out merger transaction whose sole objective it is to force minority shareholders to deliver their shares to the controlling shareholders against their wishes. We strongly recommend that you vote against this resolution and would respectfully remind you that you may not vote unless your shares are registered in your name by 19 June, the record date for the AGM.

Should Resolution 9 pass, as is likely, it is our firm intention to challenge the CHF 70 per share squeeze-out valuation in court. When CSA launched its public tender offer in August last year **not one** of Alpiq's Board members chose to stand up for shareholders and express his views on the adequacy of CSA's CHF 70 per share bid. **Eight of the Board's 9 members recused themselves and Jens Alder, our Chairman, declined to do so – preferring instead to leave the job to PwC, who are themselves conflicted as they are CSA's auditors**. This was done by means of a Fairness Opinion produced by PwC that was subsequently published by the Board.

In a delicate situation such as this, where insiders clearly have a huge advantage in terms of access to information, it is wholly unacceptable that **no-one** was prepared to take the defense of Alpiq' minority shareholders. This unfortunate situation is reminiscent of a time – long past – when Swiss standards of corporate governance were renowned for being exceptionally biased in favour of insiders.

It is in this context that Knight Vinke commissioned an independent review of the valuation methodology described in PwC's Fairness Opinion (see Appendix). The study was performed by Oxera Consulting LLP, a leading economics and financial consultancy known for its intellectual rigour and expertise in the energy sector. **The Oxera review concluded that PwC may have made several methodological errors resulting in the discount rate used for the purposes of DCF valuations being far too high. Correcting these errors would result in PwC's valuation of Alpiq increasing by 50-75%, thereby supporting our view that CSA's proposed squeeze-out price massively undervalues the Company.**

Separately, we note that PwC chose to exclude any kind of market-based valuation of Alpiq's hydro and other generation assets notwithstanding the fact that granular data for transactions involving

the purchase and sale of such assets is readily available. This too would support the case for a much higher valuation.

Let me conclude by saying that we remain open to the alternative of restructuring Alpiq along the lines discussed below and would welcome any thoughts or suggestions you may have thereon.

Strategic Context

Hydropower is the backbone of Switzerland's Energy Strategy 2050 and represents 60% of all electricity produced in the country; it will play an even greater role as nuclear power (which represents 35%) is phased out. Alpiq is one of Switzerland's largest hydro-power producers by capacity and its future is therefore of immense strategic importance to the Confederation.

If Switzerland is to fulfil its environmental commitments pursuant to the Paris Climate Accord and its Energy Strategy 2050, hydro's share of production will inevitably have to grow. The same is true if Switzerland is to avoid becoming overly reliant on foreign sources of energy. Alpiq is key to this process but if it is to benefit from this opportunity on a meaningful scale, the Company will increasingly need access to investors with deep pockets and a genuinely long-term perspective. Significant capital resources are required to safely maintain existing dams and related infrastructure and to renew concessions as they expire. Capital will surely also be required to maintain and upgrade nuclear facilities. In this context, we view the move to delist Alpiq's shares and forcefully squeeze out the public float at a discount to book value as opportunistic and lacking in vision.

As it grows Alpiq will doubtless require access to equity capital as well as debt. By mistreating the public shareholders in this way, Alpiq's Board and controlling shareholders are causing irreparable damage to the Company's reputation within the investment community, potentially closing the door to a relisting and depriving the Company of access to a major source of capital it will certainly need in the future.

Knight Vinke's Proposal

We know from our own investor base that there is strong demand within the investment community for high quality hydropower generation assets located in stable AAA-rated countries such as Switzerland. Our proposal to the Alpiq Board and controlling shareholders would be to exchange the Alpiq shares held by minority shareholders for newly issued shares in Alpiq Suisse ("Alpiq Suisse") and to obtain a listing for Alpiq Suisse within five years.

Alpiq Suisse is a wholly owned subsidiary of Alpiq and owns almost 100% of the group's Swiss hydro portfolio[1]. It is a pure play hydro specialist, owning nothing else of substance. Unlike its parent, Alpiq Suisse has no exposure to nuclear or thermal power generation and is therefore viewed by pension funds and other institutional investors as a more suitable and attractive vehicle for investment in the hydro sector than Alpiq ever was or will be in the future. Were Alpiq Suisse to be listed on the Swiss Exchange, we firmly believe that its shares would trade at a very significant premium to other power generation companies in light of its "clean" footprint, free from nuclear and thermal exposure, and the quality of its assets.

[1] The main hydro asset that is not held via Alpiq Suisse is the newly constructed Nant de Drance complex. We envisage that this asset could be transferred to Alpiq Suisse as part of the proposed restructuring.

The same proposal can be extended to Alpiq's two classes of hybrid capital: (i) the perpetual loan notes held by EOS, EBM, the Canton of Solothurn and other Swiss consortium shareholders, and (ii) the perpetual bonds that were placed publicly. The creation of a large free float should ensure that the shares of Alpiq Suisse trade at a premium valuation that reflects the truly blue-chip nature of this investment.

Valuation

When valuing Alpiq' hydro portfolio it is important to make a distinction between run-of-river (RoR) and storage assets. More than 90% of Alpiq' fleet by capacity is comprised of **high value storage assets.**

RoR plants are (theoretically) easy to value. Their output tends to be fixed and cash flows can therefore be projected with a high degree of confidence, particularly if the output is sold to shareholders under long term contracts (as is the case with Alpiq). Simple assets such as these lend themselves to DCF valuations based on simple projection models and a consequence of this is that valuations tend to be extremely sensitive to the discount rate that is used. In low interest rate environments such as we have today, even a very small adjustment to the discount rate can result in a 50-100% swing in the valuation. In fact, the erroneous use of too high a discount rate was Oxera's main criticism of the PwC Fairness Opinion produced for shareholders by the Board in August last year.

Storage plants, on the other hand, are relatively hard to value. They are designed to generate high value electricity at very short notice when wind turbines and solar panels are unable to operate: their cash flows are therefore inherently erratic. Valuing such cash flows requires having access to highly sophisticated power projection models that integrate merit order curves by country, projected demand, inter-connector capacities, ramp-up capabilities and of course weather patterns on an hourly or quarter-hourly basis over twenty years or more. Furthermore, even after these projections and scenarios have been established, the DCF valuation models bear the same risks of undervaluation if the discount rate that is applied is too high.

That being said, the auction prices per MW of capacity that we can observe in the market and the valuations resulting from our analysis both point to the same conclusion: namely that Alpiq' storage assets are almost certainly far more valuable than the Fairness Opinions produced by the Board might lead one to believe.

Swiss producers are for the time being still unable to participate in the European Union's electricity balancing markets but this will doubtless change as the volatility that is associated with Europe's increasing dependence on intermittent wind and solar power becomes intolerable. We see the pressures building up in many places but a striking example was given to us in June last year when, in the midst of a heat wave, German balancing power prices rose from ca. € 10 per MW to a staggering € 38,000 per MW during the course of a single afternoon. In this context, the intrinsic value of giant "batteries" such as Alpiq' Grande Dixence hydro complex is huge and will continue rising as nuclear and coal-fired generation are withdrawn from the European markets.

Special Interests

Before concluding, let me mention that there are two special interest groups whose position with regard to Alpiq needs to be clearly addressed and, in our opinion, protected.

First, the Alpine communities in Southern Switzerland. The owners of the land on which Switzerland's glaciers are located have frequently been criticised by Alpiq for imposing too high a concession fee (water tax) on the hydro operators. Our view on this question is that Alpiq' hydro plants generate sufficient cash flow to cover not only the water taxes but also an attractive and fair return on capital for their owners.

This cash flow is not apparent within Alpiq' **consolidated** accounts because most hydro plants are minority owned and operate as "partner plants". The fact that they are minority owned means that they are accounted for on an equity method basis (i.e. integrating only Alpiq's pro rata share of net income). The fact that they operate as partner plants means that the net income integrated by Alpiq is systematically zero (since partner plants sell all of their output to their shareholders at cost). Understanding the situation requires an analysis of the financial statements of the partner plant legal entities as opposed to the consolidated accounts. Adjusting transfer prices so as to obtain a revenue for these entities that is "marked-to-market" makes it more than evident that Alpiq could easily pay a dividend to its ordinary shareholders notwithstanding the high level of water taxes.

Some of Alpiq shareholders, such as EBM and EBL, have entered into long-term supply contracts with the Company and they too have special interests that need to be protected. These contracts allow Alpiq to lock in a fixed margin between revenues and costs for extended periods of time and are therefore very valuable for Alpiq' run-of-river hydro and nuclear facilities which produce a constant stream of electricity at a fixed cost. Unfortunately, Alpiq' annual reports are very opaque on the subject of related party transactions and it is hard to see if these contracts also cover hydro storage assets (i.e. peak load capacity). It would be absurd for Alpiq to use extremely valuable and strategic assets such as these to produce baseload capacity under long term contract – particularly as the cost of green energy is rapidly falling and cheaper alternatives are available.

Optimistic Outlook

Alpiq has not paid a dividend for five years but this is a temporary situation largely attributable to its balance sheet being stretched by over-expansion and the pursuit of diversification in the past. As mentioned in the PwC Fairness Opinion, free cash flow will rise six-fold over the next 10 years. A large part of this is locked in through hedging and there is more to come as additional capacity comes on stream (i.e. Nant de Drance). We are therefore confident that a restructured Alpiq – with access to significant sources of additional capital channeled via Alpiq Suisse – can provide benefits to all interested stakeholders.

We encourage other Alpiq shareholders to vote against the restructuring proposal, Resolution 9, at the upcoming shareholder meeting on 24 June. If you have further thoughts on the value creation opportunities at Alpiq please contact our proxy solicitor, Cas Sydorowitz at Georgeson, by email, cas.sydorowitz@georgeson.com.

Yours sincerely

Eric Knight
Founder and CEO