

## Media release

23 January 2012

### **Axpo Holding AG Profit falls significantly– Axpo restructures to improve performance and is planning investments of more than CHF 20 billion to ensure security of supply**

**Axpo Group profits are down substantially for the 2010/11 financial year (as per 30.9.2011). Operating profit (EBIT) of CHF 139 million and consolidated net profit of CHF 45 million were significantly below the figures for the previous year of CHF 538 million and CHF 409 million respectively. The primary negative factors included turbulence on the financial and currency markets, the impact of the accident in Fukushima, the cost review for decommissioning and dismantling nuclear power plants and regulatory decisions. Although the market outlook remains gloomy, restructuring measures and substantial investment in infrastructure to ensure security of supply are necessary.**

Axpo is fully owned by the cantons and cantonal utilities of Northeastern Switzerland and has an unambiguous supply mandate. In order to continue ensuring a secure supply of environmentally friendly electricity in the future, Axpo will have to undertake major investments in the next few years in an environment that remains challenging. CHF 21 billion will have to be invested in the period to 2030 for the construction of new production capacity and grids and the refurbishment of existing infrastructure. To do this, Axpo will have to become more efficient, enhance profitability and be able to respond faster and more flexibly to challenges from the markets and the political landscape. In principle, this entails three imperatives:

- A more flexible production strategy: following the moratorium on the planned replacement nuclear power plants, Axpo will have to rely on a more flexible procurement mix from domestic and imported supplies.
- Enhancement of profitability: merging the trading activities of EGL AG and Axpo AG offers new market opportunities. Skills will be concentrated and management of the power plant fleet optimized.
- Cost reductions: Axpo will cut up to 140 positions from March 2012 by reorganizing management and support functions and merging operational areas. Some of these cuts will be achieved through normal attrition and early retirement, but layoffs will also be necessary. In addition, savings will be implemented in various operational cost centres.

In total, the restructuring will enhance EBIT over the medium term by more than CHF 100 million.

#### **Axpo Holding AG**

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## **Flexible strategy, production targets for renewables to double**

The energy policy switch introduced by the Federal Council and the Swiss parliament as a result of the disaster in Fukushima has fundamentally altered the current situation for Axpo as well as the parameters for the security of electricity supply and created an uncertain framework for future development. Axpo has responded by adjusting its production strategy. Axpo's mandate remains unchanged: ensuring a secure supply of environmentally friendly electricity to customers in the supply area. Security of supply is defined as providing sufficient capacity (power plants and purchase agreements) preferably in Switzerland or via imports from abroad.

Axpo wants to respond flexibly to developments in the policy environment, which are still hard to forecast from the current perspective. In a broader production and acquisition mix, nuclear power from plants in Switzerland and France will still be an important element for the next few years. Hydropower is a priority, and will remain a major production source in Switzerland and will have to be developed in neighbouring countries. However, even maintaining the existing production volume in Switzerland is an ambitious goal given the limited scope for expansion, tougher residual flow regulations and a more restrictive approach anticipated from licensors. The biggest project in Switzerland remains Linthal 2015 with the 1 000 megawatt Limmern pumped-storage power plant. Wind farms abroad and biomass conversion and small-scale hydropower in Switzerland are still the pillars of the strategy for new renewable energies. The production goal for new renewable energies by 2030 has been increased from 2.2 billion kWh to 5 billion kWh, and Axpo aims to remain the largest producer of new renewable energies in Switzerland. However, more than half of this expansion will take place outside Switzerland.

The construction of gas-fired combined cycle plants and cogeneration plants also continues to be an option for Axpo at a later point, if supported by statutory and economic criteria. Axpo will also strengthen its commitment to energy efficiency for its own plants, buildings and vehicles as well as for customers.

## **New Group structure, significant improvement in earnings**

The full acquisition of EGL AG will give the Group the opportunity to merge the trading business of the Group subsidiaries Axpo AG and EGL AG and various management and service functions. This will allow us to eliminate duplication, concentrate skills, simplify processes and thus reduce costs. In addition to exploiting synergies, the move will boost the earnings potential and, in the medium term, deliver an improvement in profitability significantly in excess of CHF 100 million per financial year.

The stronger integration of Axpo Holding AG, Axpo AG and EGL AG facilitates the creation of a new, optimized Group structure. In future, operational activities that are currently housed in several divisions of Axpo AG and EGL AG will be concentrated in the Production & Grids and Trading & Sales business areas. Furthermore, the various management and service functions that currently exist at individual company level will be merged. In future, operational

management will be the responsibility of the Executive Board headed by CEO Heinz Karrer. The Executive Board will also include the Group CFO, Martin Schwab, the heads of the two new business areas, Manfred Thumann (Production & Grids) and Hans Schulz (Trading & Sales) and the CEO of the subsidiary CKW, Andrew Walo. The new Group structure will be implemented on 1 March 2012.

The restructuring will also result in the loss of up to 140 full-time positions. The aim is to achieve this reduction through normal attrition and early retirement as far as possible but layoffs will also be necessary. A social plan will be drawn up for the employees leaving the Group. The average headcount during the 2010/11 financial year was 4 415 employees (full-time equivalents).

### **Exceptional items impact profit significantly**

The 2010/11 financial year was overshadowed by the impact of the European financial and debt crisis on financial markets and currencies, the accident in Fukushima and regulatory decisions, and the cost review for decommissioning and dismantling the nuclear power plants. These factors reduced consolidated net profit sharply from CHF 409 million to CHF 45 million. In particular, a recalculation of the future costs for decommissioning and dismantling the nuclear power plants took place during the financial year and resulted in a significant increase in depreciation, which rose from CHF 311 million in the previous financial year to CHF 860 million. The additional costs identified for the Beznau nuclear plant that have to be capitalized are considered to be impaired due to the valuation of the power plant because the supply prices in Switzerland used in calculating the valuation are below market value. This resulted in additional depreciation of CHF 297 million for the Beznau nuclear power plant. As a result of the political decision to exit nuclear power, the capitalized costs of investments in the planned replacement power plants had to be fully depreciated, resulting in a charge of CHF 30 million. The partial rulings on grid valuation issued by the Swiss Federal Electricity Commission (EiCom) and the judgement by the Federal Tribunal in the Stahl Gerlafingen case resulted in charges of CHF 47 million. The Federal Tribunal found that under certain conditions major customers are entitled to continue purchasing electricity at prices based on cheaper production costs instead of at market rates. Furthermore, the adjustment of the valuation of the EGL grid infrastructure in line with the EiCom rulings resulted in additional depreciation of CHF 80 million. This resulted in depreciation of claims against the transmission grid operator Swissgrid to the value of CHF 40 million.

### **CHF 770 million invested in power plants and grids**

The energy trading business failed to match the results of the previous year. The main reasons for this were the significantly weaker results in cross-border trade with Italy and the weaker euro. The effect of the euro alone had a negative impact of around CHF 90 million on the EBIT compared to last year. The costs for energy production and grid utilization increased to CHF 4

091 million (plus 6%), a disproportionate rise in comparison to overall revenues mainly driven by higher fuel costs. However, operating expenses not related to energy or grids were lower by CHF 62 million, primarily due to a reduction in recurring costs of more than CHF 40 million.

Cash flow from operating activities was CHF 862 million (plus 26%). Net investments amounted to CHF 770 million, resulting in free cash flow of CHF 92 million. Investment funds were primarily directed to capital increases at Kraftwerke Linth-Limmern AG (Linthal 2015 project) and Global Tech 1 (offshore wind farm in the North Sea), construction of a wind farm in Italy, the stake in the Taufkirchen geothermal project in Germany and expansion of the grid infrastructure.

The predominance of negative factors means that Axpo Group reported a disappointing result for the 2010/11 financial year despite modestly higher total revenues of CHF 6 354 million (plus 1%). Based on these results, the Board of Directors will propose an unchanged dividend of CHF 2.20 per share to the Annual General Meeting.

### **Energy sales higher in the supply area and trading business**

Energy sales in the supply area of Axpo and CKW rose by 1.6% to 21 180 million kWh compared to the previous year due to the generally good economic environment in Switzerland and despite the cooler summer months. Sales to third-party companies and via the trading business increased by 7% to 49 784 million kWh, primarily thanks to higher gas sales. Production from nuclear power plants (22 999 million kWh) and new renewable energies (193 million kWh) was slightly higher than the previous year while production at hydroelectric plants (8015 million kWh) more or less offset lower generation volumes of the previous year that resulted from drier conditions. However, production from conventional thermal power plants was significantly down at 4 640 million kWh. The main reason for this was the economic slowdown in Italy, as a result of which the Italian gas-fired combined cycle power plants could be used for a shorter period only. A total of 35 347 million kWh was purchased from third-party companies and through trading.

### Axpo Group key figures for 2010/11

	2010/11	2009/10	Change
Balance sheet total in CHF m	17 742	17 728	+ 0.1%
Revenues in CHF m	6 354	6 269	+ 1.4%
EBIT in CHF m	139	538	- 74.2%
EBIT as % of revenues	2.2	8.6	
Net profit in CHF m	45	409	- 89.0%
Free cash flow in CHF m	92	65	+ 41.5%
Equity in CHF m	7 600	8 164	- 6.9%
Equity ratio (in %)	42.8	46.1	
Net investments in CHF m	770	620	+ 24.2%
Employees (full-time equivalents)	4 415	4 386	+ 0.7%

#### More information:

Axpo Holding AG | Corporate Communications

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The media release for the financial results media conference will be available at [www.axpo.ch](http://www.axpo.ch) on 23 January 2011 from 7:00. An audio and video clip with statements by the CEO Heinz Karrer will also be available. The presentations, the financial report and the shareholders' letter will be available on the Axpo web page from the start of the financial results media conference at 11:30. No information will be provided in advance of the media conference.

The complete 2010/11 annual/sustainability report will be available on [www.axpo.ch](http://www.axpo.ch) at the beginning of February.

#### About Axpo

The Axpo Group includes Axpo AG, Centralschweizerische Kraftwerke AG (CKW) and EGL AG and is a leading Swiss energy company with strong local roots and an international focus. Electricity production, trading, sales, and services are all grouped together under the joint holding company.

Together with its partners, Axpo delivers electricity to around three million people in Switzerland. Axpo Holding AG is wholly owned by the cantons of Northeastern Switzerland.