

Media release

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Axpo improves profit thanks to renewables and customer business

At CHF 424 million, in the first half of 2016/17 the Axpo Group achieved a result for the period that was significantly above the previous year's figure (CHF 350 million). In light of the still difficult market conditions in Switzerland and Europe, this is a gratifying result. The earnings situation in the market for non-subsidised energy remained weak in the first half of the year; however, the expansion of subsidised renewable energies and of the European customer business is paying off. Preparations for the announced restructuring of the Group are proceeding according to plan. The cost savings programme is exceeding its annual target of CHF 200 million.

At CHF 2,990 million, total income for the first half of 2016/17 remained virtually unchanged from the previous year (CHF 3,045 million). At CHF 405 million, EBIT was also substantially better than the previous year (CHF 372 million). Lower electricity prices in Switzerland were counterbalanced by significantly higher electricity prices in Italy. The additional compensation from Swissgrid for the takeover of the extra-high voltage grid, amounting to CHF 163 million, contributes to the result, as does the improved financial result. The cost-cutting measures also had a positive impact. In fact, at the end of financial year 2016/17, Axpo will slightly exceed the target cost savings potential of 200 million a year.

The extended shutdown of the Leibstadt nuclear power plant for an overhaul and the extended operational stoppage at the Beznau 1 nuclear power plant had a negative impact on the result. These are countered by lower personnel expenses and a reduction in other operating expenses. Furthermore, the adjustments made in 2016 resulted in lower depreciation and increased usage of provisions for onerous procurement contracts.

Leading position in renewables consolidated

Axpo is Switzerland's largest producer of renewable energies. Due to the realities of the market, it is making more and more money from subsidised renewable energies. During the coming financial year, for the first time renewables (including hydro) should contribute more to the result than thermal energy sources. Axpo stimulated this change with its targeted investments at home and abroad.

With its portfolio of hydro power, biomass, wind and, through its subsidiary CKW, solar energy, Axpo has a successful presence on all sub-markets. The expansion of wind capacities abroad in recent years is also paying off for Axpo. The Volkswind Group, which was taken over in 2015, plays a particularly important role in this respect. Through Volkswind, Axpo develops, builds, operates and

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sells wind farms in Germany and France. Another six new wind farms are to become operational by the end of 2017, with a total of 35 wind turbines and an installed capacity of around 90 MW.

As announced at the end of 2015, Axpo has optimised its hydro power portfolio and sold a number of investments that were not strategically relevant. The 5% stake in Rheinkraftwerk Albbruck-Dogern was acquired by AEW Energie AG, and Energie Service Biel bought from Axpo the 35% investment in the Argessa power plant in Valais. In addition, the city of Sion took over Axpo's 50% stake in the Lizerne et Morge power plant.

The Business Area Trading & Sales achieved gratifying results. During the last six-month period, Axpo concluded a number of long-term power supply and purchase agreements in the European market, including, through Axpo Nordic SA, with an onshore wind farm in the Norwegian town of Egersund. For a number of years now, Axpo has also been successfully expanding the European origination business, which provides individual solutions for the marketing and procurement of electricity, gas and energy certificates for customers throughout Europe. Through its branches in the individual countries, Axpo markets renewable energy on behalf of its customers from plants with a total installed output of over 14,000 MW, making Axpo one of the leading marketers of renewable energies in Europe.

Finally, CKW - which successfully continued establishing a smart energy portfolio - also performed well on the market. This enables all customer needs relating to energy, from proprietary electricity production, storage and electromobility through to cost-efficient heat generation, to be controlled via the web or a smartphone app.

Strategic realignment is proceeding according to plan

The extensive preparatory work for the strategic plans - announced at the end of December 2016 - to pool the growth areas of renewable energies and customer business along with grid and asset marketing activities in a separate, new company and to offer existing and new shareholders the opportunity to invest in the company is proceeding according to plan. The new company is due to be launched in 2019.

The realignment of the Board of Directors in order to take account of the new strategic challenges is also proceeding to plan. The Annual General Meeting 2017 elected four new members to the Board of Directors, who replace eight members who have stepped down. The membership of the Board of Directors has thus been reduced from 13 to 9. Politicians have been replaced with experts from various fields and there are no longer any dual mandates on the Board of Axpo and the cantonal utilities.

Electricity price remains a challenge

As Axpo sold parts of its energy portfolio three years in advance at fixed forward prices, which were even higher at the time, the price slump in the international electricity market is having a delayed effect on the company. This explains the belated decline in operating income from electricity sales. The record low prices seen on the stock markets in 2015 and 2016 will take their toll on Axpo's result in the next few financial years, as will, from 2018, the discontinuation of the fixed EUR/CHF exchange rate (CHF 1.20). Therefore, the gratifying, improved profit of the first half of 2016/17 should not detract from the fact that the environment remains challenging.

Although prices seem to have bottomed out, predictions remain difficult. There are indications of a recovery in the medium term as, in the early 2020s, power plants will be shutting down in a number of countries. However, most experts do not predict a stable increase in prices in the near future, and certainly not to the level at which the conventional, non-subsidised Swiss power plants could recoup their production costs. As Axpo (aside from the CKW Group) has no committed end customers in Switzerland against whom it can offset its production costs, it must further reduce its dependence on the European wholesale price. Apart from optimising its core business and consistently reducing its costs, this also means tapping into profitable new business areas. In addition, Axpo is pressing ahead with the restructuring of the group and with plans to raise additional capital in 2019.

Key figures for the Axpo Group, first half of 2016/17 (01 October 2016 to 31 March 2017)

	2016/17 (in CHF million)	2015/16 (in CHF million)
Total income	2,990	3,045
Operating result (EBIT)	405	372
EBIT as % of total income	13.5%	12.2%
Result for the period	424	350
Result for the period as % of total income	14.2	11.5%
Cash flow from operating activities	-47	135
Net investments	-136	-462
Total assets	19,022	20,339
Equity	5,074	6,621
Equity ratio as % of total assets	26.7%	32.6%
Employees (full-time equivalents)	4,208	4,273

Further information

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About Axpo

The Axpo Group produces, trades and distributes energy reliably in Switzerland and in over 30 countries throughout Europe. Around 4500 employees combine the expertise from 100 years of climate-friendly power production with innovative strength for a sustainable energy future. Axpo is an international leader in energy trading and in the development of tailor-made energy solutions for its customers.