

A high-angle photograph of a large concrete dam in a snowy mountain landscape. The dam is a long, straight wall with a metal railing on top, extending from the bottom right towards the center. To the left of the dam, there's a construction area with yellow cranes and a small blue-roofed building. The background is a massive, rugged mountain covered in snow and patches of dark rock. The sky is a clear, bright blue.

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Axpo Holding AG

New opportunities for Axpo – focus falls on profitability

Axpo is suffering from politically motivated low wholesale prices for electricity in Europe and therefore has to revise down the valuation of its power plants and procurement contracts. However, Axpo also sees opportunities, in spite of the negative result for the 2013/14 financial year. The company has prepared itself to face the challenges of the distorted electricity market in good time. The focus remains on costs and profitability.

Dear Readers

Despite everything, Axpo still had reason for optimism in the 2013/14 financial year, and not only because we were able to celebrate our 100th anniversary. In spite of the difficult market situation we made encouraging progress in our business operations, mainly in the implementation of measures to improve our profitability,

Massive write-downs on production and power plants result in a loss of CHF 730 million.

the expansion of our profitable business ventures in Europe, and our ongoing major projects. This solid performance is reflected in the positive operating cash flow of CHF 765 million.

In the profit for the period, however, these operating revenues were overshadowed by the required write-downs. As a result of ongoing market distortions, which are likely to keep European wholesale prices low, we had to substantially reduce the valuation of our power plants and energy procurement contracts. This downward revaluation burdened the annual financial statements by CHF 1.5 billion net, which resulted in a loss for the period of CHF 730 million (previous year: profit of CHF 212 million). Over the past three years, persistently low electricity prices have resulted in net write-downs at Axpo of around CHF 2.5 billion.

The electricity supply business is a complex system with many mutual dependencies. This means that anyone turning a screw must be aware that this will affect the entire system and trigger a host of consequences.

Electricity paradox: saving no longer pays

At present, Swiss electricity suppliers are being hit particularly hard by the market distortions caused by political interference. This is especially the case in Germany, where massive subsidies for wind and solar power plants – coupled with a weak economy and low CO₂ prices (boosting the construction of new coal-fired plants) – have led to a real electricity glut. With the ensuing impact on wholesale prices. If electricity prices continue to fall, we will experience the first electricity

paradox: because of the intense promotion of renewable energies through the cost-covering remuneration for feed-in to the electricity grid, wholesale electricity becomes so cheap that it no longer pays to save electricity or to invest in the unsubsidised production of electricity or electricity efficiency. And all of this happens at the cost of the electricity consumers. The fact is that even though wholesale prices are dropping ever lower, the price for the end consumer is rising, i.e. it is the domestic customer who, in the final instance, has to pay for the subsidies.

Currently, the sustainable, domestic production of hydro power is most affected by this situation. At present, it pays to continue operating old foreign coal-fired power plants or to recommission them, as this guarantees grid stability at an acceptable cost. Which leads to a second electricity paradox, at the cost of the environment: thanks to the intense promotion of renewable energies with the aim of reducing CO₂ emissions, electricity becomes so cheap that it only pays to generate electricity in coal-fired power plants, in turn leading to a massive increase in CO₂ emissions. Renewable hydro power, which is not promoted, is left out of the picture.

Axpo exploits its strength in the trading business and its European presence

If no central new production plants are built in Switzerland, the importance of electricity imports will grow. In consequence, international electricity trading – an area in which Axpo has built up a strong position in the past few years – will become even more important. Its excellent position in the European trading business coupled with its expanded presence in the origination business, and partly also in the end customer business, in 20 countries is therefore an important strategic asset of the Group in this new market environment. The market distortions thus also offer opportunities for Axpo to offset the disadvantages facing the Group on the production side.

As an electricity producer and owner of important production plants as well as an experienced company in the international electricity trading business, Axpo will continue to play an important role in the Swiss electricity



Robert Lombardini, Chairman of the Board of Directors.



Andrew Walo, CEO.

supply business, including as a competitor to domestic and foreign companies.

Import strategy moves value creation abroad

From the point of view of the Swiss economy and society, the import strategy followed by the politicians has one major advantage: low wholesale prices. Less attention is being paid at the moment to the disadvantages. We believe this to be a dangerous development. By deciding to do without a strong domestic production sector, we are accepting a serious supply risk. Who can guarantee that when there is a widespread emergency, such as an electricity shortage in winter or even blackouts, we will actually be given the same priority as the country from which we are importing the electricity? We would be completely dependent on a third country for electricity, our key energy.

This also applies to the price. Though not an issue currently being debated, if European market prices rise again in future, we will no longer be able to support the Swiss economy with cheap electricity produced in our own country, as was the case for a long time. It is therefore of strategic importance for the Swiss economy and Swiss jobs that domestic production is maintained at sufficient levels.

The intensified focus on imports has a very direct negative impact on the Swiss electricity sector itself: value creation is moved abroad, jobs are placed in jeopardy and the ability to invest in the future supply at an early stage is weakened. The conscious decision to adopt an import strategy represents a strategic risk for Switzerland that should not be underestimated.

Axpo in transition – Executive Board fully appointed

In this environment, it remains of central importance for Axpo to push ahead with change within the company in order to remain profitable and competitive. In addition to optimising the core business of production, trading and supply, it is also important to explore new business areas. Cost pressure continues. Axpo already introduced

wide-ranging cost savings in 2012 and will reduce the workforce by around 300 jobs by 2016/17. Of these, 80 jobs were already cut in 2014.

Although this transition is not an easy process for the employees, operational and strategic management of Axpo, it has obviously not affected the staff's commitment and their identification with the company. The major projects in Switzerland and abroad have been continued successfully. This progress would not have been possible without competent and motivated teams, and we would like to thank our employees for their efforts.

After Andrew Walo succeeded Heinz Karrer as CEO on 1 February 2014, the Executive Board was also returned to full strength again in the course of the year. Felix Graf took over as the new CEO of Centralschweizerische Kraftwerke AG on 1 February 2014. On 1 October 2014, Domenico De Luca replaced Hans Schulz as Head of Trading & Sales. Andy Heiz took over from Manfred Thumann as Head of Assets on 1 November 2014.

The challenge facing the new management team is to remain profitable. For the shareholders – the cantons and cantonal utilities of Northeastern Switzerland – a great deal is at stake in a rapidly changing market governed by new political and regulatory framework conditions. It is also one of Axpo's tasks to protect the interests of its shareholders to the best of its ability in the ongoing discussions about the energy future.

Robert Lombardini
Chairman of the Board of
Directors of Axpo Holding AG

Andrew Walo
CEO
Axpo Holding AG

Climate and consumers suffer

The market-distorting subsidies for new energies have various, drastic consequences: conventional power plants are being pushed out as it is now practically impossible to operate them profitably. The climate has to cope with more CO₂ emissions and the consumer is required to pay more for electricity.

In the 2013/14 financial year, Axpo was confronted by a market environment in which low wholesale prices for electricity continued to dominate. The pressure on prices is caused by subsidies, particularly in Germany, for wind and solar power plants, which have irregular production cycles. When these plants cannot supply enough - or even any - energy, the gap is most often closed with electricity from coal-fired power plants, which benefit

The price of coal has become an important driver of electricity prices.

from excessively low prices for CO₂ certificates. Investments in these coal-fired power plants are often written off and the global supply of coal is comparatively high. The result: CO₂ emissions have increased. Also, the price of coal, which dropped

sharply by almost 18 per cent in the reporting period, has become an important driver of electricity prices. Electricity prices contracted by around 9 per cent in the same period.

End customers pay more in spite of lower prices

The situation looks different for end customers, whether private households or SMEs. They pay more for electricity as grid usage tariffs and state levies must be added to the actual price for energy (wholesale prices). Grid usage will cost even more in future, among other things, owing to the increase in the service tariff for system operators and forthcoming investments in grid expansion partly made necessary by the large volumes of irregular energy. State levies are bolstered by items such as the cost-covering remuneration for feed-in to the electricity grid (CRF) for new renewable energies, which will also rise.

In contrast, wholesale prices are set to remain stubbornly low in the coming years, as heralded by the relevant futures contracts for electricity. In the meantime, several of Axpo's own power plants and other plants in which it holds a stake are producing electricity above the market price and have thus become unprofitable. As a result, Axpo had to revise the value of its production fleet as well as the long-term contracts for the procurement of nuclear energy from France downwards by CHF 1.5 billion in total. In Switzerland, this development mostly affects the hydro power and

nuclear power plants as well as the biomass plants, almost all of which produce virtually CO₂-free electricity. In the rest of Europe, it is the gas-fired combined-cycle power plants and wind power plants (after expiry of the subsidies) that are increasingly being pushed out by coal-fired plants.

Even in Switzerland: an uneven playing field

In Switzerland too, new renewable energies are being subsidised (CRF), but the same cannot be said for the indigenous large-scale hydro power plants. On the contrary, these plants have to cope with additional red tape imposed on them by new regulations. For example, water charges will rise by 10 per cent from 1 January 2015, which will inflate the cost of producing Swiss hydro power by another CHF 50 million per year.

In spite of Switzerland's plans to exit from nuclear power, the latter will have to play a key role if the country is to succeed in its plans for the energy future. Echoing the Federal Council, Axpo is therefore demanding that the nuclear power plants remain in production for as long as they can be operated safely and profitably. This is the only way to ensure that investments will still be made in the safety (operation and security of supply) and efficiency of

Echoing the Federal Council, Axpo is demanding the continued unlimited operation of its nuclear power plants.

the nuclear power plants. In order to accurately account for the economic and operational safety of the nuclear power plants in the books, along with the nuclear power plant operators, Axpo decided to increase the depreciation period for the Beznau nuclear power plant and the Gösigen and Leibstadt partner plants from 50 to 60 years. According to ENSI, the Swiss nuclear plants meet all the technical requirements to remain in operation for 60 years.

Sustainability implemented

Electricity production is under cost pressure. Against this background, sustainable investments in projects that are profitable in the long term and the safety of the power plants are even more important. These enjoy absolute priority and are part and parcel of sustainable corporate governance.

The collapse of wholesale electricity prices has drastically stepped up the cost pressure on Axpo. This is particularly true for the conventional production of electricity from hydro power and nuclear energy. The Group aims to counter this by cutting costs, optimising its core business, investing cautiously and applying innovation to explore new sources of revenue. The measures introduced in the reporting year are delivering first results. The safe operation of the plants and a reliable supply of electricity always remain top priority. As a consequence, Axpo is investing heavily in safety improvements at the Beznau nuclear power plant. On balance, Axpo's power plant fleet produced electricity reliably and in volumes that slightly exceeded expectations.

Sustainability – economic, environmental and social – is firmly implemented as an integral component of Axpo's corporate strategy. Axpo has adopted very clear objectives here: for example, the Group is planning to cut its net greenhouse gas emissions in Switzerland by 80 per cent by 2017 compared to the base year 2008/09. To reduce its impact on the natural environment as much as possible, Axpo constantly optimises its production facilities and improves their energy efficiency. The ongoing renovation of the Rüchlig hydro power plant in Aarau is a good example of this. Axpo also invests in the expansion of new energies whenever the expected returns are satisfactory. In October 2013, the Group joined forces with CKW to acquire a stake of 49 per cent in an onshore wind farm portfolio in France.

Axpo promotes innovative ideas

Since 2013, Axpo has been presenting an award to start-up companies in the energy sector. In addition to having an innovative approach, the winning project must also be marketable. The award comes with prize money of CHF 50,000 in start-up capital for the new company. Axpo is also involved in the planning of the InnovAARE innovation park in Villigen in Aargau next to the Paul Scherrer Institute (PSI). The park is to be established under the lead of the Canton of Aargau and the PSI. The aim is to bring together elite research and entrepreneurial innovation.

Investment in emergency power supply

In spite of the difficult environment, Axpo successfully pushed ahead according to schedule with its large projects in Switzerland and abroad, all of which are extremely challenging in technical and organisational terms. The only de-

lay concerned the technical implementation of the autonomous emergency power supply for the Beznau nuclear power plant. In agreement with the supervisory authority ENSI, the refuelling of Block 2 was given first priority and was completed in August 2014. The refuelling of Block 1, however, was postponed until March 2015. The ongoing investments in the safety of the Beznau nuclear power plant total around CHF 700 million. The Beznau nuclear power plant has always met all of ENSI's requirements and also passed the EU stress test with the highest marks.

Lake Mutt dam wall is finished

The Linthal 2015 project, on the other hand, is actually slightly ahead of schedule. Kraftwerke Linth-Limmern AG (KLL) is expanding the Limmern pumped-storage power plant in the Glarus Alps for CHF 2.1 billion. Axpo owns 85 per cent of KLL and the Canton of Glarus owns 15 per cent. The 1025-metre-long gravity dam wall at Lake Mutt at 2500 metres above sea level was finished in September 2014. The first of four machine groups should be producing electricity by the end of 2015.

Sustainability – economic, environmental and social – is firmly implemented as an integral component of Axpo's corporate strategy.

Construction of Global Tech I offshore park is finished

Global Tech I is the most prominent of the foreign projects. The 80 wind power plants of the wind farm in the German North Sea have been built. They can produce up to 1600 million kilowatt hours (kWh) of electricity per year. This pioneering project that was started five years ago has a combined investment value of around CHF 2 billion. Axpo owns 24.1 per cent of the project, equalling around 400 million kilowatt hours (kWh) of its production. Together with its existing wind farm portfolio, Axpo will produce around 700 GWh of electricity from wind energy once Global Tech I is connected to the grid.

Trans Adriatic Pipeline is on track

The Shah Deniz consortium made the final investment decision in December 2013. Natural gas should begin flowing through the pipeline from 2020. Axpo owns 5 per cent of TAP. This investment strengthens the Group's position in the European natural gas business. It will also enable Axpo to supply gas to its own gas-fired combined-cycle power plants in Italy.

Position in European expanded

The Trading and Sales Business Area once again posted a good operating performance. The origination business was expanded further. Axpo is well-positioned internationally to take advantage of future opportunities for growth in this sector.

Axpo's trading business has grown steadily in recent years. It also makes a satisfactory contribution to the Group's operating result. The business makes an important strategic contribution to the Group's long-term success. Proximity to the market and customers is an important factor, and Axpo is now represented by its own subsidiaries in almost all European countries. A few years ago, the company also successfully turned its attention to the origination business. Origination offers individual solutions for the marketing and procurement of electricity, gas and energy certificates for customers throughout Europe.

The complexity of the energy market is increasing, the demand for specialists is growing, and adequate risk management is more important than ever before. Growth is driven mainly by companies from energy-intensive sectors with a need for long-term energy supply contracts and by multinational corporations. In the latter case in particular, it is important for the branches

The energy market is growing in complexity. The success factors are know-how and risk management.

in the different countries to work together closely in a coordinated manner across all segments and disciplines. Here, Axpo is in a good position with its networked companies

spread across the Continent. An annual survey by trade magazines put Axpo in the top three global energy traders in 2014. More than 1600 market participants evaluated the counterparties according to criteria such as price, flexibility, market making, reliability, integrity and speed of execution.

Renowned customers acquired

The Trading and Sales Business Area did well again in the reporting year. The International Trading and Origination division posted a good operating result. In the origination business, Axpo acquired renowned new customers in Spain, Northern Europe and the Baltic States. Successful partnerships with wholesale customers in turn pave the way for Axpo to do business with more small and medium-sized companies, who often follow in the footsteps of larger companies in the same industry. In Italy, Axpo is already supplying electricity and natural gas to around 100,000 companies, from medium-sized to

micro establishments. Axpo successfully entered the retail market in Spain recently, and the first contracts have been signed in Poland.

Axpo also sees great potential in the management of wind farms. In some countries it is already number one among the independent buyers and marketers of wind energy. In the past financial year, the Group also gained a foothold in the United Kingdom and Austria. Further expansion is in the pipeline. Because the end of state subsidies is also in sight for wind farm operators, the pressure to improve efficiency is growing for those wishing to survive in a competitive market. Axpo developed the xRem software for this purpose. This IT tool efficiently monitors and manages the operation of wind power plants everywhere in Europe.

The Core Market Trading division also posted good results in energy trading. The sales services provided to the Swiss cantonal utilities, however, showed a deficit. Since the beginning of 2014, the five cantonal utilities of Northeastern Switzerland have been obtaining the quantities of energy they require mainly at market price, which is often less than Axpo's cost of production.

Once again the international natural gas market did not gather any momentum (subdued economy, excess capacity in the electricity market, oversupply of natural gas, and low prices for coal and CO₂ certificates). In spite of these challenges, Axpo managed to successfully expand its international trading activities in natural gas, mostly in Southeast and Eastern Europe. In the origination sector, Axpo signed new supply contracts with wholesale customers in Switzerland and Europe.

Ready for further growth

Axpo restructured its Trading and Sales business area in time for the start of the new financial year (1 October 2014). The most important European country units were substantially upgraded and now report directly to the Head of Trading and Sales, Domenico De Luca. The Swiss sales business was integrated into the new Origination Western Europe division. With its new organisational structure, Axpo is excellently positioned to successfully exploit all future opportunities for growth.

Key figures

Finances

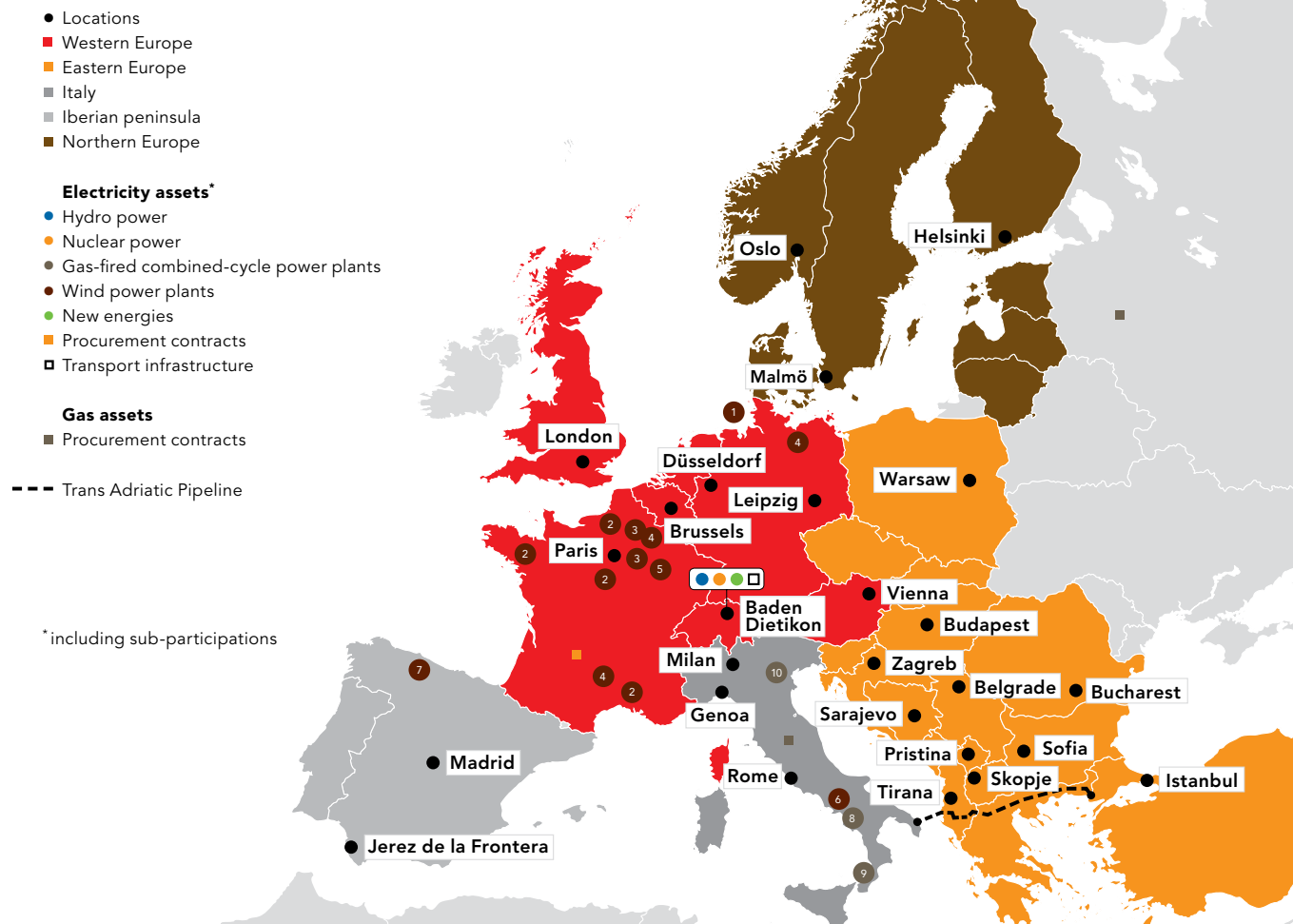
	2013/14 in CHF million	2012/13 ¹⁾ in CHF million	2011/12 in CHF million	2010/11 in CHF million	2009/10 in CHF million
Revenues					
Revenues	6 672	7 025	7 346	6 354	6 269
Revenues of which energy sales and grid usage	6 533	6 736	7 231	6 258	6 153
EBIT					
Earnings before interest and tax (EBIT)	-871	364	329	139	538
as % of revenues	-13.1%	5.2%	4.5%	2.2%	8.6%
Profit/(loss) for the period					
Profit/(loss) for the period	-730	212	282	45	409
as % of revenues	-10.9%	3.0%	3.8%	0.7%	6.5%
Cash flow and investments					
Cash flow	765	876	749	862	685
Net investment in non-current assets (excl. loan receivables)	-779	-742	-465	-770	-620
Free cash flow	-14	134	284	92	65
Balance sheet					
Total assets	20 219	20 557	18 684	17 742	17 728
Equity incl. non-controlling interests	7 517	8 331	7 970	7 600	8 164
Equity ratio in %	37.2%	40.5%	42.7%	42.8%	46.1%
Net financial assets	935	961	2 047	1 769	1 999
Employees (full-time equivalents)					
Average number of employees	4 435	4 430	4 368	4 415	4 386
Number of employees at balance sheet date	4 477	4 509	4 376	4 483	4 458

Energy business

	2013/14 in m kWh	2012/13 ¹⁾ in m kWh	Year-on-year change in %
Procurement			
Nuclear power plants	22 824	22 224	+3
Hydro power plants	8 400	8 973	-6
Conventional thermal power plants	3 560	3 705	-4
New energies (incl. other associates)	646	399	+55
From third-party companies and trading	32 955	25 569	+29
Gas (excl. gas-based electricity generation)	11 027	17 038	-16
Total	79 412	77 908	
Sales			
Electricity sales	67 947	60 537	+12
Gas sales	11 027	17 038	-35
Losses/own use	271	268	+1
Direct sales from other associates	167	65	+119
Total	79 412	77 908	

1) As the Axpo Group is applying several amended IFRS standards for the first time in the 2013/14 financial year, it had to restate some of the prior-year figures (the figures for the financial years 2009/2010 to 2011/2012 are unchanged and not restated). This concerns IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements and the resulting amendments to IAS 28 Investments in associates and joint ventures and IAS 19 Employee benefits. It also includes the first-time full consolidation of six partner plants.

Axpo locations and power plants in Europe



Production quantities 2013/14

Assets in operation in million kWh

2	Fado	79
3	St. Riquier 2	25
4	Terravent	38
5	Plain Dynamique	23
6	WinBis	86

7	La Peñuca	52
8	Calenia	1763
9	Rizziconi	790
10	Ferrara	1363

Assets in operation in million kWh

1	Global Tech I	417
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For further information on locations, assets and projects see www.axpo.com/locationmap

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