

**Annual Report 2014 | 15**

Axpo Holding AG



# Axpo is renewable – consistent implementation of strategy

In the 2014/15 financial year, Axpo once again successfully implemented its strategy of diversifying its sources of revenue and posted a good operating result. To reduce its dependence on European electricity prices, the company continued to push ahead with the exploration of new business areas and further cut its costs. However, the Swiss production business felt the impact of persistent low prices and more recently also suffered greatly from the weak euro exchange rate. This led to significant write-downs on power plants and energy supply contracts and resulted in a loss for 2014/15.

## Dear Readers

Remaining profitable in a difficult market environment – to achieve this strategic objective, the Axpo Group has to renew itself from the inside out. Progress has been pleasing, and the Group's operating performance for the 2014/15 financial year was good in spite of the difficult market environment. This is confirmed by EBITDA of CHF 594 million (previous year: CHF 668 million) and operating cash flow of CHF 461 million (previous year: CHF 765 million), even though these figures are down on the previous year. However, write-downs of CHF 1.3 billion caused the Group to post a loss for the period of CHF 990 million (previous year: CHF 730 million). It is worth mentioning that the lion's share of the write-downs are due to the euro exchange rate.

There are currently no signs that the low wholesale prices for electricity on the European exchanges will recover in the coming years. This means that many power plants in Axpo's fleet are producing electricity at a cost above the price achievable on the market. The slump

in wholesale electricity prices is being driven by politically motivated subsidies for wind and solar power, low prices for coal and CO<sub>2</sub> certificates and the stagnating economy in

Cheap coal-fired electricity is making renewable Swiss hydro power increasingly unprofitable and is damaging the climate.

Europe. Cheap coal-fired electricity is making renewable Swiss hydro power increasingly unprofitable and is damaging the climate.

## Wind as second line of business for renewable energies

In such a distorted market, the only forms of energy that are still profitable are those that attract subsidies. As investments in new power plants have to bear this in mind,

Axpo is investing in safety upgrades and operationally required renovations in existing power plants as well as in projects where subsidies promise a stable return.

This is mainly the case for the European wind market. The opening in September 2015 of the Global Tech I North Sea wind farm, of which Axpo owns 24.1 per cent, was a milestone for the Group. The farm with 80 wind power plants is situated 140 kilometres off the coast. The total installed output of 400 megawatts produces up to 1.4 billion kilowatt hours of electricity a year, enough to power 445,000 homes. Global Tech I is the first offshore wind farm in which a Swiss company holds a substantial stake.

Back in July 2015, Axpo announced its purchase of the wind farm developer Volkswind GmbH, which is active mainly in Germany and France. Axpo is thus expanding its business activities to include the construction and development of wind farms in order to create higher added value. Thanks to its hydro power output, Axpo has long been by far the largest producer of renewable energies in Switzerland.

## Production portfolio as an element of risk – diversification is key

Axpo's production portfolio comprises power plants and energy supply contracts with a volume of 25 billion kWh. In earlier years, 17 billion kWh were earmarked to supply the cantonal utilities of Northeastern Switzerland. There is now no guarantee that these utilities will take this energy, forcing Axpo to provide electricity to its customers in Switzerland and in Europe at market prices. Regional and cantonal suppliers, however, continue to benefit from the market for smaller consumers down to individual households. This market has not yet been opened up and is still governed by regulated prices based on the supplier's production costs.

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Robert Lombardini, Chairman of the Board of Directors



Andrew Walo, CEO

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Axpo is active in six business segments, each with its own drivers of risk and return. For historical reasons, conventional electricity production, which is directly influenced by the wholesale energy price, accounts for two-thirds of the Group's portfolio. Trading and sales, the regulated grid business and subsidised electricity production (wind, biomass) make up the remaining third.

Axpo's big production portfolio is a risk given the excess capacity currently flooding the European

market. Axpo has a well-defined strategy to counter falling European wholesale prices. Firstly, it is opening up new business fields that do not depend directly on electricity

**The Limmern pumped-storage power plant, a once-in-a-generation undertaking, has reached the home straight, with the first machine groups going on line.**

price trends, and secondly, it also has to reduce the risk associated with its big production portfolio.

Most of Axpo's power plants currently produce electricity at a cost above the price achievable on the market. As much as 80 per cent of these costs are now out of Axpo's direct control (levies, taxes, previously invested funds). Two years ago Axpo introduced a comprehensive cost-cutting programme, planning to reduce its actual operating costs sustainably by CHF 200 million per year by the end of the 2016/17 financial year. The cost savings made to date are ahead of schedule and it is already clear that Axpo will at least reach its target of CHF 200 million.

### **A Herculean task for Switzerland's energy policy**

Politically, the 2014/15 financial year was dominated by issues including the Federal Parliament's debate on the Energy Strategy 2050. Some trends are already clear, even before the resolution of differences procedure has been instigated.

- Decentralised production, mainly by solar but also by wind and biomass plants, is set to increase further thanks to the cost-covering remuneration payable by electricity customers.
- Supported only hesitantly by the federal government's policies, renewable domestic hydro power, the most effective and efficient form of renewable energy, will continue to be sidelined by cheap coal-fired electricity from Europe that is harmful to the environment.
- Switzerland's tried-and-tested nuclear power plants are absolutely essential if a credible energy strategy is to be delivered. They should remain operational for as long as they are safe. The current laws and supervisory regime offer the best possible guarantee for a high degree of safety, as they provide the operators with sufficient incentive to keep on investing in safety measures.

But many questions remain unanswered. Can Switzerland produce enough electricity to maintain a healthy degree of independence? How can we connect to the European electricity system? Will the market be opened up? And, if so, when? There is a great deal of uncertainty surrounding an issue where reliability should really be the primary objective.

### **Limmern pumped-storage power plant comes on line – extensive refurbishment at Beznau nuclear power plant**

The two major projects in Linthal and Beznau had a spectacular year. The former, a once-in-a-generation undertaking, has now reached the home straight, with the first machine groups going on line. Bringing this CHF 2.1 billion project to fruition on time and on budget is no mean feat.

Three major projects to improve safety were completed at the Beznau nuclear power plant. The installation of an upgraded emergency power supply and a new information system as well as the preventive replace-

ment of the closure heads on both reactor pressure vessels may have posed technical and logistic challenges, but they will guarantee safe operation at Beznau until 2030. The Beznau nuclear power plant has always met all of ENSI's requirements and also passed the EU's 2012 stress test with flying colours. Beznau is a shining example of how a nuclear power plant can be improved on an ongoing basis with continuous safety upgrades.

Our preliminary assessments show that even the minor irregularities discovered in the steel wall of the reactor pressure vessel of Unit 1 will not jeopardise continued safe operation. The supervisory authority's detailed review and verification process will continue until 2016, but is already showing that the control features are working and that safety always comes first.

### **Award for Axpo's trading activities – success for CKW**

The expansion of the European origination business, mainly in the SME and wind energy segments is proceeding apace. A new branch was opened in Amsterdam and Axpo acquired a 25 per cent stake in the Portuguese energy supplier Goldenenergy. In the 2014/15 financial year, Axpo was honoured for the first time as a leading global energy trader by customers and competitors.

Axpo's successful European business model is now to be rolled out to the US, initially focusing on the two market segments North East and Texas, which are very similar to the European markets. In this endeavour

Axpo's successful European business model is also to be rolled out to the US. In this endeavour the company is relying on organic growth.

our Axpo is relying on organic growth. As no power plants will be acquired, the amount of capital invested will be limited and the risk manageable. Axpo has also prepared appropriate measures to en-

sure compliance with the specific legal and regulatory requirements of the US market.

In spite of the difficult market environment, the new strategy at Centralschweizerische Kraftwerke AG (CKW) was also implemented according to plan. CKW, a company with a long tradition, delisted its shares from the stock exchange on 30 January 2015, mostly for reasons of cost.

Axpo Informatik AG was repositioned and will now be offering its IT services under the AVECtris brand, including to an increasing number of customers from outside the energy sector. The Swiss IT market has significant potential for outsourcing and projects in the utilities sector. The market for IT services geared to electricity suppliers offers additional opportunities. EBIT can be boosted by following a forward-looking strategy focusing on market expansion and a broader portfolio of services.

### **New Chairman of the Board of Directors**

An era is coming to an end for the Board of Directors of Axpo Holding AG. Robert Lombardini (66), Chairman of the Board since 2004, is retiring on age grounds. The Board will propose Thomas Sieber (52), from Glarus, currently Chairman of the Board of Directors of Salt Mobile AG, as his successor to the Annual General Meeting on 11 March 2016.

The highlights of Robert Lombardini's time in office include the merger of NOK, EGL and CKW under the Axpo umbrella, the establishment of the European trading business, the expansion of the Limmern pumped-storage power plant, the development of the TAP natural gas pipeline, the stake acquired in the Global Tech I North Sea wind farm, and the renovation of the hydro power plant fleet.

In the past financial year, the employees once again demonstrated a pleasing level of dedication and identification with the company in a time of radical change and many unanswered questions. The progress made in implementing the strategy and completing major projects confirms that the strategic and operational management teams and employees at all levels have joined forces to drive Axpo's renewal. They combine the expertise gained from over a century of climate-friendly electricity production with innovative strength to ensure a sustainable energy future.



**Robert Lombardini**  
Chairman of the Board of Directors



**Andrew Walo**  
CEO

# Reliable. Sustainable. Innovative.

Axpo is committed to these three values, and these values are also the key to its future success. The expertise gained from over a century of reliable and sustainable energy production serves as the foundation. As a strong innovator, Axpo has carved out a leading position in international energy trading and built up a portfolio of products and services for customers in more than 30 European countries.

For Axpo, reliability is invariably synonymous with safety and security. This also applies to the supply of electricity to its customers. Safety also takes top priority at the production plants. Axpo has adopted a Safety Charter committing itself to high safety standards.

Axpo is convinced that sustainability creates added value not only for people, nature and the environment, but also for the company itself. Today, Axpo is one of the leading energy companies when it comes to sustainability. Axpo was the first energy provider in Switzerland to receive the highest A+ rating for its Sustainability Report drawn up in accordance with the Guidelines of the Global Reporting Initiative (GRI).

As part of its sustainable corporate governance initiative, Axpo is increasingly expecting its business partners to comply with binding guidelines. To this end, Axpo introduced a code in 2015 prescribing compliance with the principles of business ethics as well as minimum ecological and social standards.

## Axpo is the number one in renewable energies

In the reporting year, Axpo further expanded its production of renewable energies with the Global Tech I offshore wind farm. Axpo is now the largest Swiss producer of renewable energies, both in Switzerland and in Europe. Its total installed capacity has grown to around 4,000 MW.

Axpo joined forces with the Swiss retailer Coop in spring 2015 to launch the innovative “Power to Hydrogen” project. Axpo is planning to build an electrolyser facility that uses hydro power to produce hydrogen, which will then be supplied to Coop’s network of filling stations.

Opening up new sources of revenue is one of Axpo’s strategic objectives. Several milestones were reached and new projects launched in the 2014/15 financial year. As with the project to produce hydrogen for Coop’s filling stations, the objective here is to reduce our dependence on wholesale electricity prices.

In addition to the commissioning of Global Tech I, some shining examples also include the preparations for entering the US market and the acquisition of the German wind farm builder and developer Volkswind. Axpo is thus becoming a more integral part of the wind

energy value chain, enabling it to better exploit potential for optimisation.

Innovation must focus on customer needs. In 2015, Axpo Iberia launched the “Conexión inteligente” (“Intelligent Connection”) service platform aimed at SMEs and intended as a useful tool for optimising their supply, management and consumption of energy. At the same time, CKW introduced “Volt Control”, a voltage regulator that constantly measures the voltage supplied from the grid and stabilises it using a patented electromagnetic counter-induction method. This enables electricity savings of up to 15 per cent.

The energy sector is at a turning point and offers ample opportunity for bright ideas. Axpo therefore rewards innovative ideas by young entrepreneurs with the Axpo Energy Award, with start-up capital of CHF 50,000 going to the winner. The 2015 winner was the “Smart Me” project, which uses mobile devices to track, analyse and manage smart sockets and meters, allowing users to optimise their electricity consumption and costs.

Axpo’s jury consid-

ered this to be a project with very good market potential.

Axpo also awards prizes to students who come up with new energy solutions. Florian Maurer was named “Axpo Student of the Year 2015”. He won this award with his “Innovation Desk”, a concept for identifying and pooling the creative potential of all employees and harnessing it to develop innovative solutions to problems.

Axpo sponsors a number of chairs in energy studies and is now also a partner of the InnoVAARE innovation park in Villigen. Established under the lead of the Canton of Aargau and the Paul Scherrer Institute, it opened its doors on 15 September 2015.

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# "Axpo is on the right track!"

For more than a decade, Robert Lombardini (66) shaped Axpo's development. He is now retiring as the Chairman of the Board of Directors on age grounds.

## **Mr Lombardini, you will pass on the baton on 11 March 2016 – what are your feelings about this?**

Both happy and sad. But I also feel confident. The distorted market is a huge challenge for Axpo. But I'm convinced and still see the proof that we're on the right track.

## **Can you still remember taking over the reins in 2004? What were you dealing with at the time?**

The waters were stormy even before I took office. Axpo and the cantonal utilities of Northeastern Switzerland wanted to join forces. A far-sighted and still the best solution from a business perspective, but it foundered for political reasons. The optimisation of the Axpo Group, the expansion of the European trading business, the construction of gas power plants in Italy and the decision to launch Linthal 2015 were on the agenda, as was the first step towards opening up the market and the question of replacing Switzerland's nuclear power plants.

## **Axpo and its partners were planning to build replacement nuclear power plants. Why?**

Because Axpo took the Federal Council's Energy Strategy 2007 and its mandate to supply electricity to the Northeastern cantons of Switzerland seriously. The idea was to maintain a healthy degree of independence by keeping

up our domestic electricity production. No need for expensive imports or coal-fired electricity like today. We considered the construction of two

"I don't consider the 'energy revolutions' in Germany and Switzerland to be sincere."

replacement nuclear power plants together with partners to be the best solution, not least in view of the climate problem. But then Fukushima happened.

## **Axpo went through a difficult phase after Fukushima. What was your biggest headache?**

That the discussion was only being held on an emotional level. Politicking without substance right before the 2011 elections. Shooting from the hip instead of objective debate. But I soon understood that it was politically impossible at that time to build any new nuclear power plants of this generation in Switzerland.

## **You are known as a harsh critic of the "energy revolution". Why?**

I don't consider the "energy revolutions" in Germany and Switzerland to be sincere. They miss the point: we have to move away from fossil fuels. But what's happen-

ing? They're trying to replace the nuclear power plants mostly by wind and solar. This sounds good but can't work, not least as it defies the laws of physics. The results are visible today. And cheap coal-fired energy is booming and killing the market for renewable Swiss hydro power. To protect jobs, Germany is supporting coal mining, while at the same time meekly accepting mass job losses at RWE and Eon. So what's happened to worrying about the climate?

## **So you're not really a fan of solar energy?**

I wouldn't put it like that. I have installed solar panels on my roof, featuring both photovoltaic cells – without remuneration, of course – and thermal collectors. Decentralised production will play a greater role in future. But I can also see the limits of solar energy, physically as well as economically and environmentally. It has limited potential in our part of the world.

## **Axpo is currently in the news because of some major write-downs. Should we be worried?**

No, but we have to make an effort. And it would be helpful if the politicians would establish clear guidelines again. As a producer Axpo is suffering from artificially low wholesale prices and the strong Swiss franc. The excellent financial figures recorded from 2006 to 2010 won't be repeated any time soon. In those years Axpo built up a strong foundation and did not simply reinvest or dish out all its money. This is benefiting the company today.

## **You changed tack completely and set a new course. Can Axpo renew itself quickly enough to remain profitable?**

Whining doesn't help, so we gave Axpo a new strategic focus. Yes, Axpo has to renew itself, but it must also do what's right, not just what might be popular. After two years I'm convinced that we're on the right track. The implementation is going well, and we can now see the first results. Axpo must become even more flexible and keep a closer eye on profitability. The management and employees are pursuing our strategy consistently and with great commitment.

## **What do you hope the future holds for Axpo?**

That the owners realise the value of what they've created with Axpo and that they protect the Group against ideological greed and political interference in its management and strategy. We're heading towards a future that will be shaped by energy. Axpo's strength and expertise will be important on this journey.

# Key figures

## Finances

	2014/15 in CHF million	2013/14 <sup>1)</sup> in CHF million	2012/13 in CHF million	2011/12 in CHF million	2010/11 in CHF million
<b>Total income</b>					
Total income	5 860	6 705	7 025	7 346	6 354
of which revenues from energy sales and grid usage	5 596	6 533	6 736	7 231	6 258
<b>EBIT</b>					
Earnings before interest and tax (EBIT)	-929	-838	364	329	139
as % of revenues	-15.9%	-12.5%	5.2%	4.5%	2.2%
<b>Result for the period</b>					
Result for the period	-990	-730	212	282	45
as % of revenues	-16.9%	-10.9%	3.0%	3.8%	0.7%
<b>Cash flow and investments</b>					
Cash flow from operating activities	461	765	876	749	862
Net investment in non-current assets (excl. loan receivables)	-699	-779	-742	-465	-770
Free cash flow	-238	-14	134	284	92
<b>Balance sheet</b>					
Total assets	18 908	20 219	20 557	18 684	17 742
Equity incl. non-controlling interests	6 065	7 517	8 331	7 970	7 600
Equity ratio in %	32.1%	37.2%	40.5%	42.7%	42.8%
Net financial assets	476	935	961	2 047	1 769
<b>Employees (full-time equivalents)</b>					
Average number of employees	4 312	4 435	4 430	4 368	4 415
Number of employees at balance sheet date	4 284	4 477	4 509	4 376	4 483

## Energy business

	2014/15 in m kWh	2013/14 in m kWh	Year-on-year change in %
<b>Procurement</b>			
Nuclear power plants	21 305	22 824	-7
Hydro power plants	8 825	8 400	+5
Conventional thermal power plants	6 187	3 560	+74
New energies (incl. other associates)	723	646	+12
From third-party companies and trading	44 670	32 955	+36
Gas (excl. gas-based electricity generation)	18 911	11 027	+71
<b>Total</b>	<b>100 621</b>	<b>79 412</b>	
<b>Sales</b>			
Electricity sales	81 160	67 947	+19
Gas sales	18 911	11 027	+71
Losses/own use	230	271	-15
Direct sales from other associates	320	167	+92
<b>Total</b>	<b>100 621</b>	<b>79 412</b>	

1) The currency hedging result for operating transactions was previously recognised in the financial result. The Axpo Group changed this practice in the 2014/15 financial year and now recognises the result from currency hedging transactions above EBIT. This means that the operating result provides a more reliable and relevant view of the effects of transactions and the earnings situation. The prior-year figures have been restated accordingly (the figures for 2010/11 to 2012/13 were not changed).

## Renewable energies and Axpo locations in Europe

### ● Locations

### ■ Activities

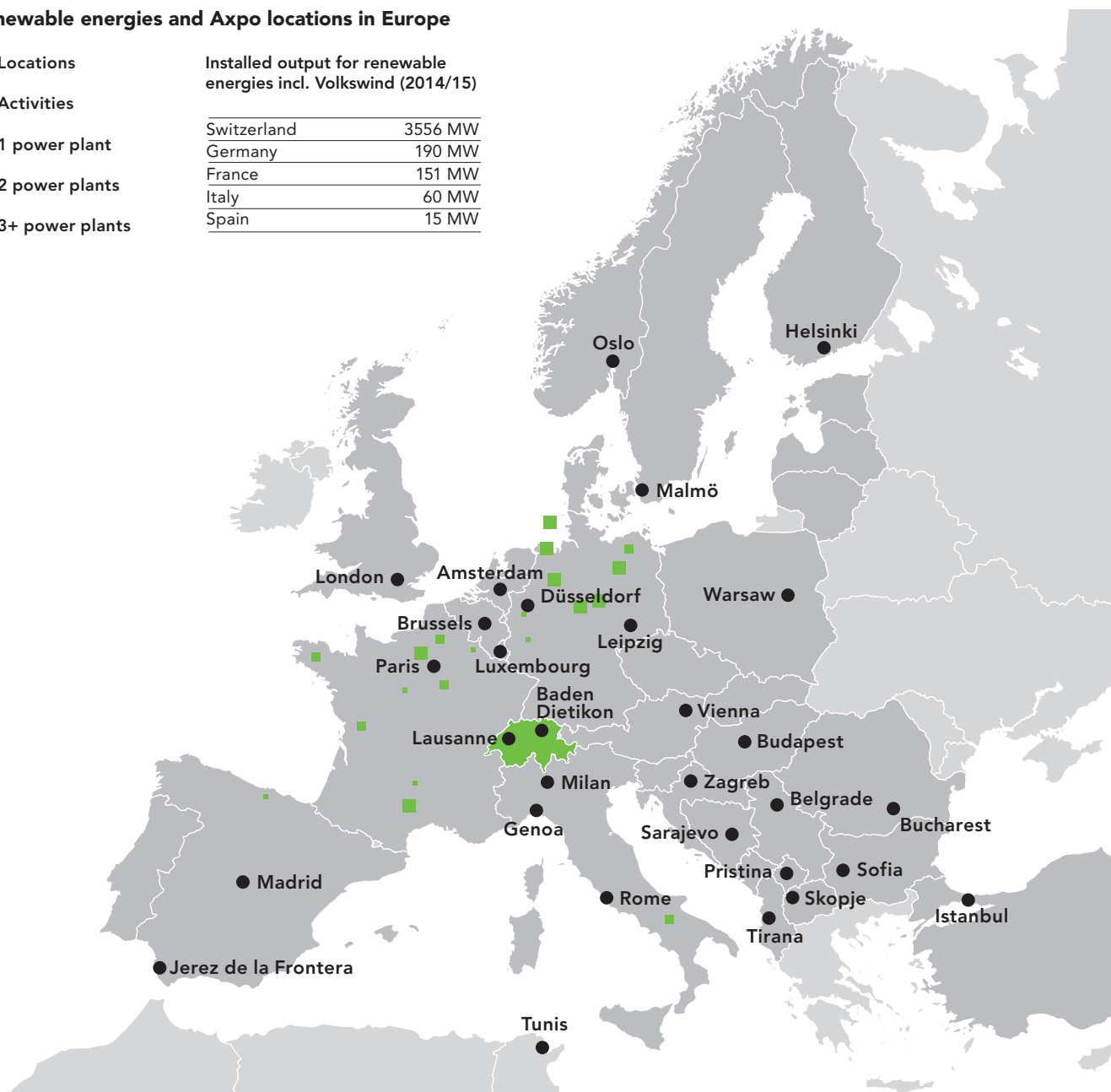
#### ■ 1 power plant

#### ■ 2 power plants

#### ■ 3+ power plants

Installed output for renewable energies incl. Volkswind (2014/15)

Switzerland	3556 MW
Germany	190 MW
France	151 MW
Italy	60 MW
Spain	15 MW



For further information on locations, assets and projects see <http://www.axpo.com/axpo/ch/en/group/profile/locations.html>

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