

Full of energy

Annual Report 2017/18
Axpo Holding AG

Higher profits thanks to profitable growth in international business

Profitable growth and operational strength: Axpo had a generally gratifying 2017/18 financial year. Both EBIT and operating cash flow rose sharply, despite the fact that there will be a time lag in the impact on results from rising electricity prices, which have been increasing since 2016. Axpo continues to be on a growth track in international business and with renewable energies. Business that is not dependent on electricity prices developed positively.

348

EBIT rose sharply to CHF 348 million, an increase of CHF 79 million on the previous year.

28

Following the opening of a new office in Kyiv, Ukraine, Axpo has a presence in 28 countries and is active in 39 markets.

4,441

The 4,441 Axpo employees work – full of energy – to serve customers.

200,000

Axpo has approximately 200,000 delivery points for electricity and gas in Italy.

70,900

In the 2017/18 financial year, Axpo physically supplied a total of 70,900 million kWh of electricity to its customers in Switzerland and abroad.

Chairman of the Board of Directors Thomas Sieber and CEO Andrew Walo.



Dear Readers,

The Axpo strategy to strengthen cash flow and increase value has put the company on an early track to successfully tackle the far-reaching changes in the energy markets. Following the pleasing results of the previous year, this positive trend continued in the 2017/18 financial year. EBIT rose sharply to CHF 348 million (previous year: CHF 269 million), although this strong increase also reflects profit shares from the previous year. Total income fell to CHF 4,850 million (previous year: CHF 5,567 million). The sole reason for this was the adjustment to the accounting method for electricity production. The operational strength can be seen in the cash flow from operating activities, which rose sharply to CHF 474 million (previous year: CHF 175 million). The result for the period fell to CHF 131 million (previous year: CHF 310 million), although this reduction is primarily due to the drop in financial income.

Against the backdrop of the ongoing earnings problems for electricity production in Switzerland, the 2017/18 results were all the more positive. Although electricity prices are again rising, revenues from electricity sales continue to be low. This is because Axpo hedges its production for up to three years in advance. This means that the 2017/18 financial year reflects the low price level of 2014/2015. Electricity prices bottomed out in 2016, which is why the financial year 2018/19 will still be negatively affected by low electricity revenues. The current rise in electricity prices will have a positive impact on results starting in 2020. For the 2020/21 financial year, Axpo has already been able to sell the majority of production at much higher prices.

Lower electricity revenues in Switzerland were largely offset by successful business abroad and in trading. Axpo's international business generated revenue in the amount of approximately CHF 150 million. Business that is not dependent on electricity prices was also a source of substantial revenue. Additional added value was generated in renewable energies in a targeted manner.

The fine-tuning of the portfolio over the last few financial years was completed with the sale of participating interests in GeoEnergie Taufkirchen and Elektrizitätswerk des Kantons Schaffhausen. This led to a cash inflow of CHF 80 million. Net investments amounted to CHF 198 million. Free cash flow increased to CHF 276 million (previous year: CHF – 119 million). Equity rose to CHF 4,979 million (previous year: CHF 4,884 million).

The Trading & Sales division had a very successful financial year overall. In energy trading, the division was able to benefit from the higher volatility on the markets and rising CO₂ and electricity prices. The international customer business also performed well in most countries. In the last financial year, Axpo delivered 70.9 TWh to customers in the European markets, a 2.8% increase over the previous year. Gas deliveries were lower at 36.3 TWh (– 17.9%). Axpo plans to expand its position in physical trading in liquefied natural gas (LNG). It physically supplied 23.5 TWh of LNG in the year under review.

"International business generated revenue of CHF 150 million."

Operations on the Iberian peninsula, in Italy and in northern Europe were further expanded. Axpo already has more than 200,000 delivery points in Italy. In Portugal, Axpo facilitated the construction of a subsidy-free photovoltaic system for the first time in Europe. Northern Europe continued to see growth as well. In the Netherlands, Axpo signed an origination agreement with AEB in Amsterdam, one of the largest producers of energy from waste in the region. The Axpo office in the USA has been developing according to plan and generated a positive operating result. In the last financial year, transactions were concluded in the Midwest, Texas and New York markets. With the opening of the office in Kyiv, Ukraine, Axpo now has a presence in 28 countries

474

Cash flow from operating activities in the amount of CHF 474 million is proof of operational strength.

and is active in 39 markets. With a customer portfolio representing an installed capacity of 14,000 MW, Axpo is among the leading marketers of renewable energy in Europe.

High added value from renewable energies

The Axpo subsidiary Volkswind sold four wind farms from its extensive portfolio in France to Allianz Global Investors. The transaction is part of the profitable growth strategy in the area of new energies. Axpo wants to realise high added value from the business with new energies. In addition to the construction and operation of wind farms, sales are also an option. In France, Volkswind realised five wind farms in 2018 with approximately 64 MW of capacity. This Axpo subsidiary is one of the leading developers and operators of wind farms in Germany and France. Volkswind has built 60 wind farms to date, with a total of approximately 400 wind turbines and with an installed capacity of 700 MW. Another 4,000 MW are currently in the pipeline. By comparison, in Switzerland there are currently 37 wind turbines with an installed capacity of approximately 75 MW.

Success with digitalisation and data network services

Axpo has also made further progress in business in Switzerland that is not dependent on electricity prices. The Grids division has successfully strengthened its position in the service business involving third-party customers. Major orders for Swissgrid and BKW are proof of the profitable growth in this business. The newly founded company Axpo WZ Systems AG was successful with its data network services in its first year of business. At the Zurich Street Parade, for instance, Axpo WZ Systems AG successfully tested, together with Sunrise, a data transmission network for emergency services. Axpo is taking advantage of the opportunities of digitalisation with Elblox, the blockchain platform for trading in renewable energies. The initial pilot project was in Wuppertal, Germany, with market launches planned for other European countries.

"Axpo has also made progress in business in Switzerland that is not dependent on electricity prices."

Hot summer with lower production and higher demand

The hot summer pushed up demand for electricity in Switzerland and Europe. At the same time, the dry and windless weather over wide parts of Europe negatively impacted electricity generation. In Switzerland, the weather primarily hit run-of-river and nuclear power plants. In addition, the critical situation for fish because of the high water temperatures attracted media attention and became a political issue. As a result, the Beznau nuclear power plant temporarily and

14,000

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voluntarily cut back production by about one third to reduce the temperature of the cooling water it releases back into the River Aare.

At the end of March, Block 1 of the Beznau nuclear power plant was reconnected to the network after a comprehensive verification process. The Leibstadt nuclear power plant (KKL) did not yet run at full production. Due to the discolouration of the fuel rods, ENSI decreed in 2017 that the KKL was to run at only 86 per cent capacity.

Change to the Board of Directors and Executive Board

Stefan Kessler (Jenins, GR) and Stephan Kuhn (Schaffhausen, SH) were elected for a term of office until 2019. They replace Köbi Frei and Robert Marti. This change of personnel marks the end of the restructuring of the Axpo Board of Directors.

Martin Schwab, the former CFO of the Axpo Group, took over the operational management of the Axpo subsidiary CKW from Felix Graf at the start of April. Ulrich Erkens, the former Head of Financial Projects, has been interim Chief Financial Officer of the Axpo Group since April 2018. In the summer of 2018, a successor to Martin Schwab was definitively named: The Board of Directors of Axpo Holding AG appointed Joris Gröflin, the current CFO of Rieter Holding AG, as Axpo's new CFO. He will take up his new position on 1 April 2019.

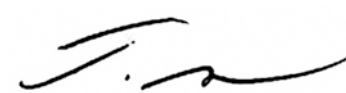
Focus on growth, optimisation and diversification

Axpo focused its Group strategy further in the 2017/18 financial year. As a key decision, Axpo will increase the share of the business that does not depend on the price of electricity in the operating earnings.

The past financial year has encouraged us in our ambition to make the most of the opportunities that the far-reaching changes are creating. We would like to thank everyone who has supported us: our Swiss and international customers for their trust and support, our strategic management, our owners and, last but not least, our employees for their great dedication in these demanding times.

400

The Axpo subsidiary Volkswind has built approximately 400 wind turbines in 60 wind farms.



Thomas Sieber
Chairman of the Board of Directors
Axpo Holding AG



Andrew Walo
CEO
Axpo Holding AG



Grow, optimise, capture new business

The Group strategy 2018–2022 is based on growth, optimisation and diversification. The strategy aims to have a swift impact, while also guaranteeing an increase in the value of Axpo over the medium and long term.

The figures for the 2017/18 financial year show that Axpo achieved major successes, proving that the current strategy based on increasing value and strengthening cash flow was the right one. Axpo has optimised its core business, maintained cost discipline (sustainable savings of CHF 200 million per year), and has grown trading and the business in renewable energies profitably. However, the environment remains demanding for energy companies. Megatrends such as decentralisation, digitalisation and decarbonisation are a challenge for the energy industry, as are new market players and new customer needs.

“Megatrends such as decentralisation, digitalisation and decarbonisation are a challenge for the energy industry.”

Against this backdrop, the main challenge is this: How can Axpo make the most of growth opportunities while also ensuring financial stability? This means that the Group strategy 2018–2022 must have a swift impact while also laying the foundations for growth going forward.

Three strategic priorities

The Group strategy 2018–2022 therefore has three strategic priorities: growth, optimisation and diversification.

Realising growth in business that is not dependent on electricity prices

Axpo already has a viable business that does not depend on electricity prices, especially in the areas of new energies, trading & sales, CKW and Avectris. The new strategy aims to rigorously exploit the growth opportunities of these businesses. This will be done primarily through strategic projects

that have already been launched which contribute to the short-term securing of profitability. Specifically, this involves:

- Wind: Increase the rate at which wind farms are built and raise the share of wind farms in Axpo
- Retail: Set up and expand retail in Italy, Poland, Spain and Portugal
- Origination: Realise growth potential across Europe, become more established in the USA
- CKW: Continue to expand energy management for private customers, exploit opportunities in sales beyond core area
- Avectris: Realise additional growth (organically and through acquisitions)
- Axpo WZ Systems: Complete integration and capture new markets
- Grids: Continue to expand business in tertiary markets

100

Together with its partners, Axpo operates approximately 100 power plants. The climate-friendly Swiss electricity mix is made up of hydroelectric power, biomass and nuclear energy.

Exploit the opportunities of digitalisation

Digitalisation is a key factor for the success of the Group strategy 2018–2022. We have already digitalised many parts of Axpo processes, customer interfaces and data analyses. A Group-wide competence centre supports the divisions and bundles know-how.

Digitalisation is a megatrend that is also profoundly changing the energy industry. New business models, customer needs as well as new market players and technological possibilities offer numerous opportunities and challenges. Axpo set out on this course early and has already gone digital in many areas. The Trading & Sales division is increasingly focusing on digital solutions. New technologies and approaches such as robotic process automation, machine learning, big data, advanced analytics and blockchain, as well as the strategic use of cloud services, are being tested or are already in use. In addition, digitalisation is being promoted for internal front-to-back processes in origination and for standard trading.

"Axpo set out on this course early and has already gone digital in many areas."

Various digitalisation initiatives have also been launched in the Production & Grids division. Drones have been in use since spring 2018 to check the condition of the grids, for example. This service has also been successfully offered to other grid operators. Axpo WZ Systems AG offers crisis-proof landline and mobile communications – a fast-growing market that meets the security demands of the digital age. For instance, priority network access for emergency services was successfully tested at the Zurich Street Parade. The Hydro division is currently testing whether and how predictive maintenance, machine learning and cloud technologies can optimise the availability, maintenance and lifespan of hydro power plants.

As part of its digitalisation initiative, Axpo held its first internal hackathon in the last financial year as well as an external hackathon. Employees, students and external experts developed forecasting models for the energy market using state-of-the-art technologies.

Good progress has been made with Elblox, the new online trading platform for local green electricity based on blockchain technology. Following a successful pilot project in Wuppertal, Germany, Elblox is expanding into other markets and has begun to deliver the product commercially.

Digital competence centre

The examples noted above show that Axpo is already committed to digitalisation in many areas. To make the most of the associated opportunities, a digital centre for the entire Group was launched in the last financial year. The aim of the centre is to support the divisions in the digitalisation of processes, customer interfaces and business models. In this way, Axpo is ensuring that the success it has had in the past continues in the digital world.

Subsidy-free solar installation

A first in Portugal: Axpo Iberia facilitated the financing and construction of a 25 MW solar plant in the city of Évora. This is the first time on the Iberian peninsula that such a project has been implemented without a government subsidy. The photovoltaic plant was made possible by a 10-year power purchase contract. Axpo Iberia will grant a long-term price and purchase guarantee until 2029 for the solar electricity produced and will market this electricity on its own initiative. Construction began at the end of May, and the facility should start operating in early 2019. The facility will cover 55 hectares and have an installed capacity of 28.8 MW with annual energy production of more than 52 GWh. Axpo is laying the foundations for the development of similar construction projects going forward and is opening up a new business segment.



Key figures

Finances

CHF million	2017/18	2016/17	2015/16	2014/15	2013/14
Total income					
Total income	4 850	5 567	5 416	5 860	6 705
of which revenues from energy sales and grid usage	4 764	5 330	5 169	5 596	6 533
EBIT					
Earnings before interest and tax (EBIT)	348	269	– 1 226	– 867	– 838
as % of total income	7.2%	4.8%	–22.6%	–14.8%	–12.5%
Result for the period					
Result for the period	131	310	– 1 252	– 990	– 730
as % of total income	2.7%	5.6%	–23.1%	–16.9%	–10.9%
Cash flow and investments					
Cash flow from operating activities	474	175	361	461	765
Net investment in non-current assets (excl. loan receivables)	– 198	– 294	– 890	– 699	– 779
Free cash flow	276	– 119	– 529	– 238	– 14
Balance sheet					
Total assets	22 216	19 023	18 588	18 908	20 219
Equity incl. non-controlling interests	4 979	4 884	4 634	6 065	7 517
Equity ratio in %	22.4%	25.7%	24.9%	32.1%	37.2%
Net financial assets	206	56	93	476	935
Employees (full-time equivalents)					
Average number of employees	4 357	4 231	4 293	4 312	4 435
Number of employees at balance sheet date	4 441	4 222	4 294	4 284	4 477

Energy business¹⁾

	2017/18 in million kWh	2016/17 in million kWh	Change year-on-year in %
Procurement			
Nuclear power plants	18 632	16 395	+14
Hydro power plants	9 307	7 846	+19
Conventional thermal power plants	6 499	7 567	– 14
New energies (incl. other associates)	1 292	1 096	+18
From third-party companies and trading	24 386	35 832	– 32
Gas (excl. gas-based electricity generation)	2 902	9 638	– 70
Total	63 018	78 374	– 20
Sales			
Electricity sales	59 339	67 981	– 13
Gas sales	2 902	9 638	– 70
Losses/own use	221	220	0
Direct sales from other associates	556	535	+4
Total	63 018	78 374	– 20

¹⁾ The sales and procurement figures shown here relate only to the marketing of Axpo's own production output and to the SME sales business. They do not include origination business served using energy procured on the market.

Axpo locations



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