The first half of 2013/14 in brief

Dear shareholders

Because of the market-distorting and subsidised feed-in of new energies, Axpo was again confronted by low wholesale prices for electricity and considerable pressure on margins in the first half of 2013/14. This translated into lower revenues as well as lower EBIT. The EBIT decline from CHF 720 million to CHF 545 million is in part also explained by one-off effects in the previous year that were not repeated this year.

Executive Board back to full strength

In this challenging environment it was even more important to finalize the changes to the Executive Board as quickly and smoothly as possible in order to guarantee continuity in corporate management. Andrew Walo took over as CEO from Heinz Karrer on 1 February 2014, and Felix Graf succeeded Andrew Walo as CEO of CKW on the same date. Domenico De Luca will replace Hans Schulz as Head of Trading and Sales at the beginning of October 2014.

These positions were thus filled by internal managers, allowing the company to benefit from their long-standing know-how. New blood will be added by Andy Heiz, who will transfer to Axpo from ABB's New Energies division to replace Manfred Thumann as the Head of Business Area Assets at the beginning of November 2014.

The new and expanded Executive Board therefore consists not only of experienced and extremely well qualified managers, but also optimally combines the internal and external know-how needed to successfully position Axpo in a difficult market environment.

Axpo must remain profitable and fit for the capital markets

With new energies such as wind and solar power being boosted by subsidies and prioritised feed-in, nuclear energy and hydropower – which are virtually CO_2-free – are losing their competitive edge. The Executive Board has therefore adjusted the corporate strategy. The new corporate strategy was adopted by the Board of Directors at the end of January 2014. Its primary objective is to secure the Group's capital market viability and profitability. The new strategy is based on four pillars that aim to considerably reduce costs, optimise the core business, open up and expand new business areas promising an attractive return, and channel investments even more selectively than before. Investment decisions are guided by two criteria: plant safety and the expected return. As a consequence, Axpo is investing heavily in safety improvements at the Beznau nuclear power plant. The existing nuclear power plants should remain operational for as long as they are safe and profitable. The Group is also forging ahead with its current major projects Linthal 2015, TAP and Global Tech I.

Focus on renewable energies

In the new energies segment, Axpo's primary focus targets on-shore wind energy in France and Germany. In October 2013, the Axpo Group acquired 49% of the French on-shore wind farm portfolio of the Portuguese operator EDP Renewables, thereby obtaining a share in nine wind farms with a total output of 100 megawatt. The Global Tech I wind farm in Germany's North Sea reached another milestone. In mid-March 2014, the first two rotor stars were installed in two of the 80 wind turbines with a combined output of 5 MW. Construction work at the wind farm should finish during autumn 2014 and the turbines will come on line in a staggered process. Axpo holds a 24.1% stake in this project.

Swiss renewable large-scale hydro power also remains a priority for Axpo. Keyword: Linthal 2015. Kraftwerke Linth-Limmern AG (KLL) is expanding the Limmern pumped-storage power plant for CHF 2.1 billion. A large part of Europe's longest dam wall has already been built and the first of four machine groups should be on line by the end of 2015. Axpo owns 85 per cent of KLL and the Canton of Glarus owns 15 per cent.

Margin pressure leads to job losses and redundancies

Judging by developments in the European electricity market in the past few months, it seems unlikely that the sharp downturn in wholesale prices in recent years will reverse again in the foreseeable future. Axpo therefore has to prepare itself for a persistently challenging market environment in which the Group must be able to react flexibly and quickly to any market changes if it wishes to remain profitable.

Given the near-completion of many projects, Axpo's reduced investment activity, sharper focus on its core business and need to reduce costs across the board, further job cuts will be unavoidable. Groupwide, a headcount reduction potential of around 300 jobs over the next three years has been identified. Careful investigations are under way to determine how many and where jobs should be shed, where this can be done through natural attrition, and whether any redundancies will be necessary. A social compensation plan for the affected employees has been agreed with the Staff Council. However, new jobs will also be created in profitable segments with growth potential, whether in the core business area or in new fields.

Innovative partnerships

The Foundation for the Severely Disabled in Lucerne (SSBL) will in future use the waste heat from CKW's neighbouring IT centre to heat its planned new extension in Rathausen. CKW and Groupe E, an electricity supplier based in the French-speaking part of Switzerland, also agreed to merge their electric vehicle charging stations to form an association of 18 charging stations in five cantons. This will improve the conditions for electro mobility.

Expertise from production to socket

Axpo has been operating sustainably for 100 years and guarantees a secure delivery of environmentally friendly and competitive electricity to its supply area. Going forward, Axpo wants to continue in the footsteps of the successful founding fathers of Nordostschweizerische Kraftwerke AG (NOK). Axpo's bundling of expertise and financial strength for the establishment and operation of power stations, its trading activities and its national grids benefit all the parties involved.

Axpo wants to use its strong capital base and its broad expertise ranging from production to the socket to exploit all the opportunities offered by the current environment. However, to expand the necessary scope for action, the company will have to invest even more carefully and focus more closely on the market and its customers.

Financial review

The Axpo Group earned consolidated revenues of CHF 3568 million and an operating profit (EBIT) of CHF 545 million in the first half of the 2013/14 financial year. The results were affected by a challenging market environment dominated by persistently falling prices and an energy market distorted by the subsidised generation of electricity. Axpo does not expect any improvement to margins in the power plant business in the 2013/14 financial year.

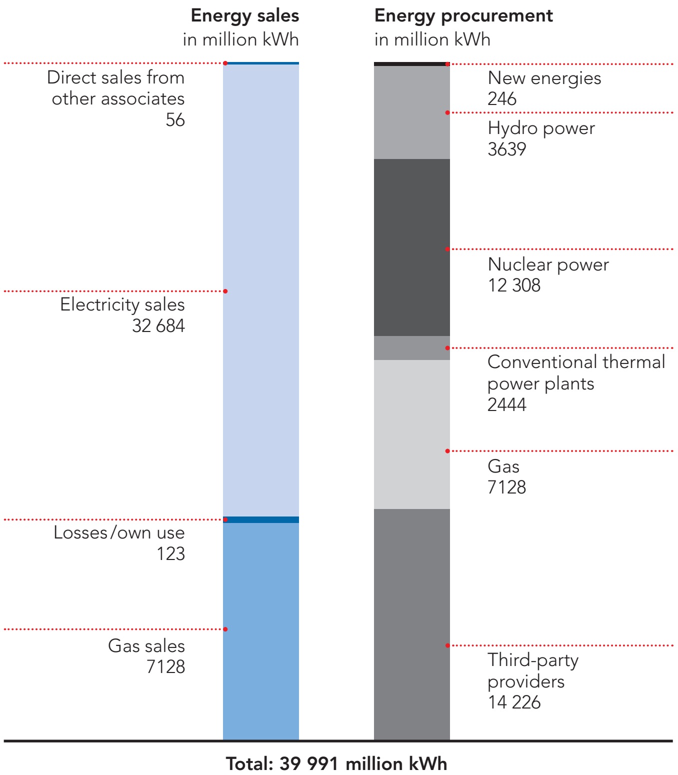
Lower energy sales

Energy sales declined by 5.6% to 32 684 million kWh. Optimisation sales were down because of smaller output volumes. Gas sales trended positively and rose to 7128 million kWh (+20.9%). In total, energy sales declined by 653 million kWh (-1.6%) to 39 991 million kWh in the first half of 2013/14.

Cantonal utilities supplied at market prices

In the first half of the year, Axpo earned CHF 3213 million on net sales from energy sales and grid usage. This year-on-year contraction of 7.7% was mainly driven by lower prices as well as lower sales volumes. Since 1 January 2014 all cantonal utilities have been supplied at market prices, which reduced the earnings of Trading and Sales by CHF 25 million (compared to the previous year). Although the financial energy trading business posted an encouraging profit of CHF 117 million, this did not equal the previous year's excellent half-year result of CHF 187 million. The measures initiated to further cut costs are taking effect and improving the cost base. The one-off effects derived from regulatory decisions and changes to the rules for calculating pension costs that improved the previous year's result by CHF 103 million did not apply in the reporting period. Because of

Energy statistics for the first half of 2013/14



Key figures for the first half of 2013/14[1]

	2013/14 in CHF million	2012/13 in CHF million
Revenues		
Revenues	3 568	3 980
of which energy sales and grid usage	3 213	3 482
EBIT		
Operating profit	545	720
as % of revenues	15.3 %	18.1 %
Profit for the period		
Profit for the period	502	603
as % of revenues	14.1 %	15.2 %
Cash flow and investments		
Cash flow	146	203
Net investments in non-current assets (excl. loan receivables)	–399	–412
Free cash flow	–252	–209
Balance sheet		
Total assets	21 505	20 253
Equity incl. non-controlling interests	8 960	8 559
Equity ratio in %	41.7 %	42.3 %
Employees (full-time equivalents)		
Number of employees on 31 March	4 460	4 447

[1] See footnote 1, page 4.

Financial review

these effects, the operating result for the first half (EBIT) declined by CHF 175 million to CHF 545 million, while the profit for the period was CHF 502 million (previous year: CHF 603 million).

Stable financial position

Cash flow from operating activities was CHF 146 million (previous year: CHF 203 million). Net investments in the first half amounted to CHF 399 million (previous year: CHF 412 million). At CHF -252 million, free cash flow was down on the previous year (CHF -209 million). With cash and cash equivalents of CHF 2.8 billion, Axpo has a high liquidity level. Total assets amounted to around CHF 21.5 billion on 31 March 2014, and at 41.7% (previous year: 42.3%), Axpo's capitalisation remains solid.

Outlook

Axpo does not expect the challenging market environment to change in any way in the short or medium term. Subsidised electricity generation and the prioritised feed-in of this electricity are increasingly distorting the mechanisms of the market and edging out the CO_2-free production of nuclear energy and hydro power. Axpo will resolutely continue with its measures to further reduce its costs and open up new sources of revenue, and will look into new investments with the greatest of care. In the current market environment, Axpo is not expecting the margins in the power plant business to improve in the current 2013/14 financial year. Any value adjustments that may be needed will be done at the end of the financial year.

Robert Lombardini
Chairman of the Board
of Directors

Andrew Walo
CEO

Segment reporting for the first half of 2013/14 [1]

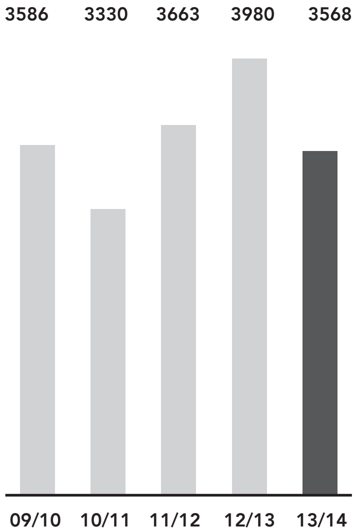
	Assets		Trading & Sales		CKW		Other & consolidation[2]		Axpo Group	
in CHF million	1. H 2013/14	1. H 2012/13	1. H 2013/14	1. H 2012/13	1. H 2013/14	1. H 2012/13	1. H 2013/14	1. H 2012/13	1. H 2013/14	1. H 2012/13
Revenues	1 687	1 782	3 255	3 564	466	539	–1 840	–1 905	3 568	3 980
Operating expenses	–1 100	–1 121	–3 293	–3 511	–352	–370	1 855	1 923	–2 890	–3 079
Depreciation and impairment	–94	–136	–4	–5	–28	–32	–7	–8	–133	–181
Operating profit before interest and tax (EBIT)	493	525	–42	48	86	137	8	10	545	720

[1] See footnote 1, page 4.
[2] Other & consolidation includes Axpo Holding AG, Axpo Services AG and Axpo Informatik AG, together with the effects of consolidation.

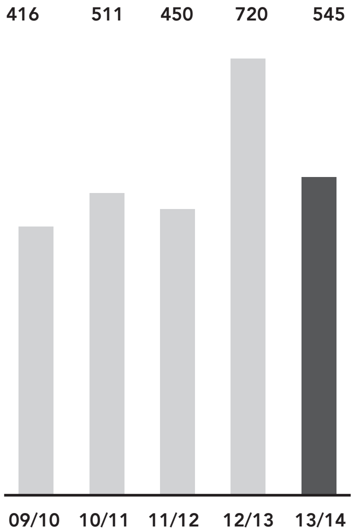
Five-year development – half-year comparison of key Group figures[1)]

The following graphs show the development of the key financial figures for the Axpo Group over the past five years:

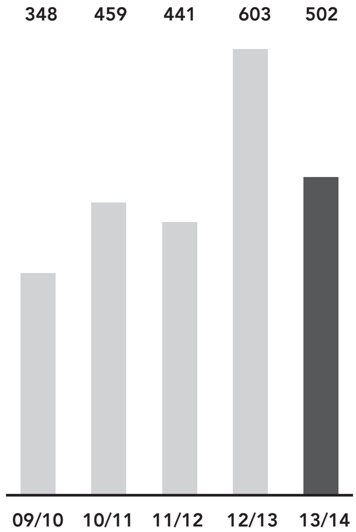
Revenues
in CHF million



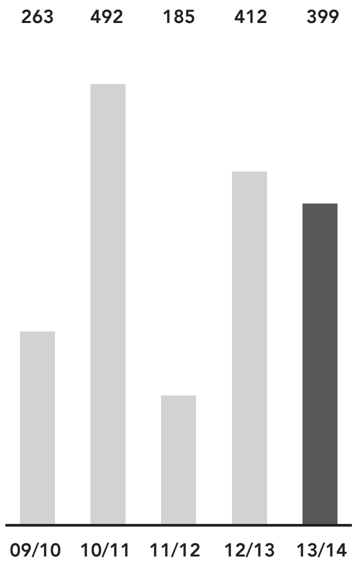
Earnings before interest and tax
(EBIT) in CHF million



Net profit
in CHF million

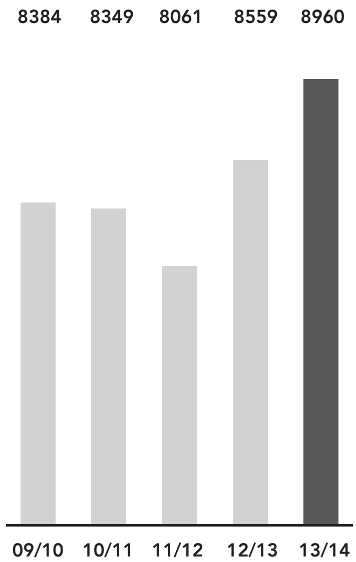


Net investment in non-current assets
in CHF million



Free cash flow
in CHF million

Equity incl. non-controlling interests
in CHF million



[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 2009/10 to 2011/12 are the same and were 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. This also includes the first-time full consolidation of six partner plants.