

Profit improved, progress with renewables and customer business

Dear shareholders

Although total income fell slightly from CHF 2,990 million (previous year CHF 3,045 million), the Axpo Group increased its profit in the first half of 2016/17 (1 October 2016 to 31 March 2017). At CHF 424 million, the result for the period was significantly above the previous year's figure of 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 conventional, 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.

On 21 December 2016, Axpo announced its strategic plans to pool the growth areas of renewable energies and customer business along with its grid and asset marketing activities in a separate company with the working name "Solutions", and to involve new shareholders in this company. Since then, extensive preparatory work has been underway for the restructuring of the Group and the sourcing of additional capital, which is planned for 2019.

Axpo consolidates its leading position in renewables

Axpo, Switzerland's biggest producer of renewable energy, is currently making more and more money from subsidised renewable energies. During the next financial year, for the first time renewables (including hydro) will probably contribute more to the result than thermal energy sources. Axpo stimulated this change with its targeted investments in renewable energies at home and abroad.

With its portfolio of hydro power, biomass and, through subsidiary CKW, solar and wind energy, Axpo is by far the biggest producer of renewable energies in Switzerland. The expansion of wind capacities abroad in recent years is also paying off for Axpo.

Global Tech I, the wind farm in the German North Sea, of which Axpo owns one quarter, set a new production record of 50 million kWh in one week in February 2017. Since the wind farm was commissioned in the summer of 2015, the 80 turbines in the 5 megawatt class have been reliably generating electricity. In the windy month of January alone, Global Tech I fed more than 150 gigawatt hours of climate-friendly energy into the German electricity grid, meaning that Axpo made a significant contribution to improving the results for renewable energies.

The second earnings pillar in the wind sector is the Volkswind Group, which Axpo took over in 2015. Through Volkswind, Axpo develops, builds, operates and sells wind farms in Germany and France. However, Axpo is also investing in the expansion of renewable energies in Switzerland. In addition to the renewed power plant Rüchlig in Aarau, the focus is on Kompogas and Axpo Tegra AG in Domat/Ems. The new wood chip drying facility was inaugurated on 4 November 2016, improving the generation efficiency of the plant. It also produces dry wood chips from the Graubünden forests for third parties, such as small district heating networks.

Falling earnings on the electricity market

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 decline in operating income from electricity sales. The record low prices seen on the stock markets in 2015 and 2016 will also take their toll on Axpo's result in the next few financial years, as will (from 2018) the abolition 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.

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). Lower electricity prices in Switzerland were counterbalanced by significantly higher electricity prices in Italy, whilst gas sales have declined slightly year-on-year. However, this was more than offset by the additional compensation from Swissgrid (which was promised after the event) for the takeover of the extra-high voltage grid, amounting to CHF 163 million.

At CHF 405 million, EBIT was also substantially better than the previous year (CHF 372 million). The extended shutdown of the Leibstadt nuclear power plant for an overhaul had a negative impact of around CHF 160 million. As in the previous year, the costs of the extended operational stoppage at the Beznau 1 nuclear power plant depressed profit. However, this is countered by lower personnel expenses and a reduction in other operating costs. Furthermore, the impairments performed in 2016 resulted in lower depreciation and increased usage of provisions for onerous procurement contracts.

These two non-cash effects had a positive influence on EBIT, but not on cash flow from operating activities. The latter was further hit by the increase in the capital tied up in net current assets due to higher customer receivables. Net investments in non-current assets were significantly lower than the previous year, although the previous year's figure did include the acquisition of the Volkswind Group.

Cost savings once again had a positive impact. Axpo is already in a position to state that the Group will not only achieve the annual cost savings potential of CHF 200 million at the end of financial year 2016/17, but will in fact exceed it.

The financial result is significantly above the previous year, due chiefly to changes in the profile of the securities portfolio resulting in realised gains. This is counterbalanced, however, by increased income taxes. Whilst total assets and equity have fallen year-on-year, compared with the last financial statements at 30.9.2016 they have risen again, as has the equity ratio.

Customer business successful – portfolio optimised

The business area Trading & Sales achieved gratifying results, thanks chiefly to the expanded customer business. Through its Scandinavian subsidiary Axpo Nordic AS, Axpo has concluded a long-term power purchase agreement for an onshore wind farm in the Norwegian town of Egersund. Axpo will also be marketing the related certificates.

Axpo already has a longstanding commitment to continuously 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.

As in previous years, Axpo has been named one of the world's best energy trading companies by the specialist publications "Risk" and "Energy Risk". Axpo achieved first place in various categories, including Europe.

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 Albruck-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.

In November 2016, the safety case was presented for the Beznau 1 nuclear power plant. This was necessitated by the inclusions in the steel of the reactor pressure vessel detected during ultrasound measurements and has since been undergoing review by the regulatory authority and international experts.

Axpo's subsidiary CKW has performed well, even though its half-year result (EBIT) of CHF 66 million is marginally lower than the previous year (CHF 87 million), due to the persistently low market prices and the slight increase in production costs, coupled with the non-recurring effect of the production outage at the Leibstadt nuclear power plant. CKW continued its efforts to build a smart energy portfolio that addresses all customer needs relating to energy, from proprietary electricity production, storage and electromobility through to cost-efficient heat generation. The central concept is an intelligent control system which allows consumption of self-generated solar power to be optimised and monitored via the web or a smartphone app.

Political clarity obtained – Axpo makes proposal for new market model

The first half of 2016/17 brought some political clarity in the energy sector, particularly for nuclear energy. In November 2016, for instance, the Swiss people emphatically rejected the popular initiative for a withdrawal from the atomic energy programme, which was damaging for Axpo but also, and in particular, for the security of supply in Switzerland. Consequently, the Swiss nuclear power plants can continue operating as long as they are safe. The long-term operating concept, which was detrimental to the safety of

nuclear power plants, was ultimately not incorporated in the new Energy Act, which was adopted on 21 May 2017. The new Energy Act forbids a general licence approval for a new nuclear power plant. Back in the autumn of 2016, Axpo and its partners had already withdrawn the relevant applications for replacement nuclear power plants.

The issue of how Switzerland intends to secure its supply for the long term, in a climate-friendly way, in the wake of the likely loss of production from nuclear power plants remains unresolved. The winter months present the main problem, being a time when the yield from renewable energies is low and Switzerland is increasingly dependent on imports from abroad (coal, nuclear and gas power).

To this end, Axpo and a number of partners have drafted a proposal for a supply and climate market model (SCMM) and presented this to the Swiss Federal Office of Energy and other interested circles. This new market model provides for a CO₂ levy on electricity that is based on Swiss CO₂ legislation, from which exemption can be gained by providing proof of Swiss origin. As this proof of origin is only valid during the winter months, during which supply is critical, the power plants that are able to produce in Switzerland during that period will benefit. The effect is to create incentives for investments in CO₂-neutral power plants (water, biomass, wind). At the same time, the CO₂ levy supports the Confederation's climate targets.

The costs would not be borne by small consumers and domestic customers with already high monopoly prices, but by the electricity users who profit from the very low prices for imported electricity. The SCMM thus also creates greater cost fairness and, to some extent, corrects the distortions caused by the European energy market and the delayed liberalisation of the market in Switzerland.

Realignment of the Board of Directors

The Annual General Meeting of Axpo Holding AG on 10 March 2017 elected four new members to the Board of Directors. Dorothee Deuring, Peter Kreuzberg, Hanspeter Fässler and Roger Wüthrich-Hasenböhler replace Board members Carmen Walker Späh, Stephan Attiger, Markus Kägi, Peter Reinhard, Ueli Betschart, Andreas Frank, Ernst Werthmüller and Reto Dubach, who have all stepped down. The following remain on the Board of Directors: Thomas Sieber (Chairman), Rudolf Hug (Vice-Chairman), Roland Eberle, Robert Marti and Köbi Frei.

The reason for the sweeping changes is the realignment of the Board of Directors, which takes account of the new strategic challenges we face. There will, for instance, no longer be any dual mandates (simultaneous occupancy of a seat on the Board of Directors at Axpo and one of the cantonal

utilities among the shareholders). At the same time, for greater efficiency the Board of Directors was reduced from 13 to 9 members, with the focus shifting towards subject expertise rather than political office. Instead of being represented by elected senior civil servants, the shareholder cantons are now represented by experts from various sectors such as the energy business, finance, risk management and digitalisation. The restructuring is due to be completed by the Annual General Meeting in 2018.

Outlook: price of electricity remains a challenge

Although prices seem to have bottomed out, it is still difficult to predict when and how electricity prices will recover. 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 the current market environment, Axpo does not expect any improvement in its results in the immediate future. Therefore, Axpo is going to great lengths to restructure the Group and plans to raise additional capital through existing and new shareholders in 2019.



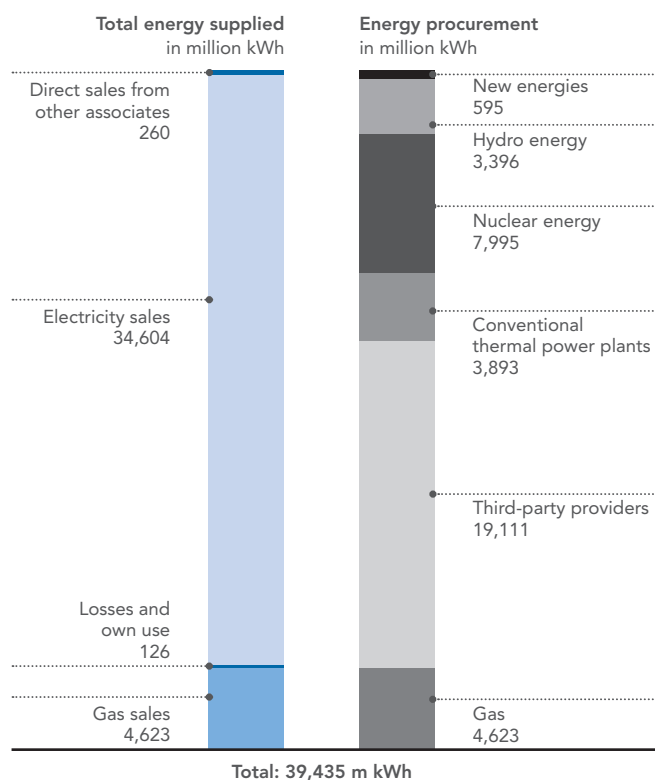
Thomas Sieber
Chairman of the Board of Directors



Andrew Walo
CEO

Summary of key figures

Energy statistics for the first half of 2016/17



Key figures for the first half of 2016/17

	2016/17 in CHF million	2015/16 in CHF million
Income statement		
Total income	2,990	3,045
of which revenues from energy sales and grid utilisation	2,566	2,618
Operating result (EBIT)	405	372
as % of total income	13.5%	12.2%
Result for the period	424	350
as % of total income	14.2%	11.5%
Cash flow and investments		
Cash flow used in/from operating activities	-47	135
Net investments in non-current assets (excl. loan receivables)	-136	-462
Free cash flow	-183	-327
Balance sheet		
Total assets	19,022	20,339
Equity incl. non-controlling interests	5,074	6,621
as % of total assets	26.7%	32.6%
Employees (full-time equivalents)		
Number of employees on 31 March	4,208	4,273

Segment reporting for the first half of 2016/17

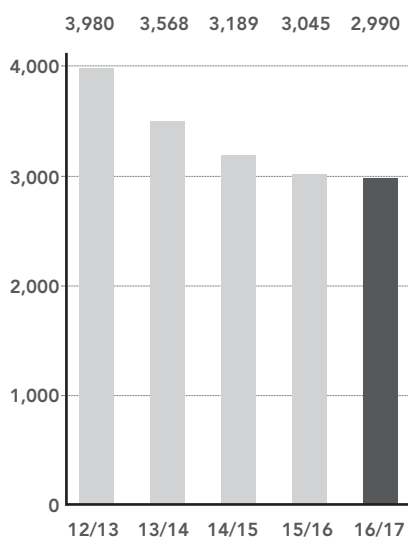
in CHF million	Assets		Trading & Sales		CKW		Reconciliation ¹⁾		Axpo Group	
	First half of 2016/17	First half of 2015/16	First half of 2016/17	First half of 2015/16	First half of 2016/17	First half of 2015/16	First half of 2016/17	First half of 2015/16	First half of 2016/17	First half of 2015/16
Total income	1,044	1,215	2,125	2,242	455	451	-634	-863	2,990	3,045
Operating expenses	-729	-859	-2,073	-2,258	-369	-344	632	920	-2,539	-2,541
Share of profit of partner plants and other associates	46	24	0	-2	7	7	-3	-6	50	23
Depreciation, amortisation and impairments	-81	-81	-2	-3	-27	-27	14	-44	-96	-155
Earnings before interest and tax (EBIT)	280	299	50	-21	66	87	9	7	405	372

¹⁾ "Reconciliation" includes Axpo Holding AG, Axpo Services AG and Avectris AG, together with the effects of consolidation.

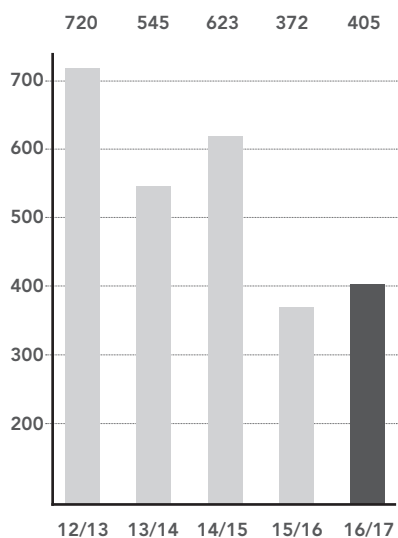
Five-year development – half-year comparison of key Group figures

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

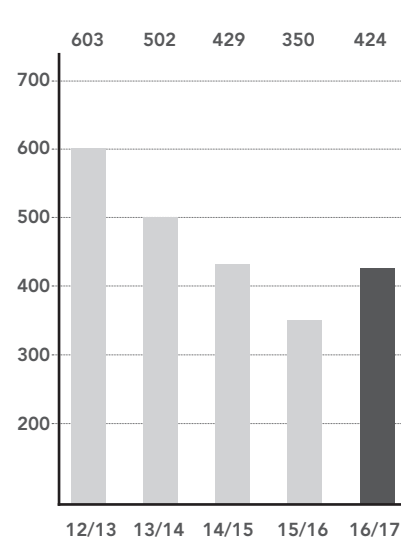
Total income
in CHF million



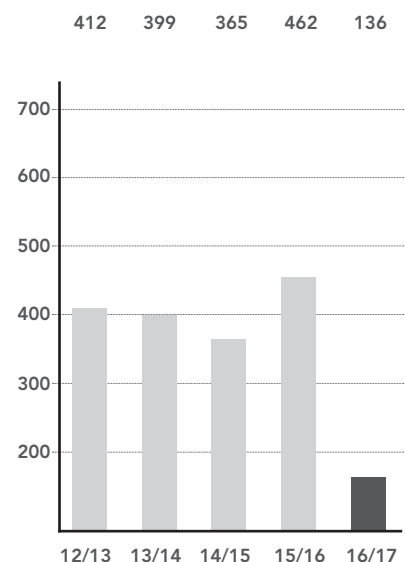
Earnings before interest and tax (EBIT) in CHF million



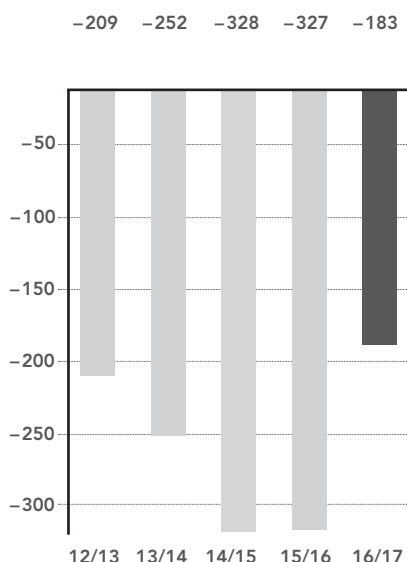
Result for the period
in CHF million



Net investments in non-current assets (excl. loans) in CHF million



Free cash flow
in CHF million



Equity incl. non-controlling interests
in CHF million

