

Operating performance continues to improve

Dear shareholders

The Axpo Group achieved a solid half-year result in operational terms, increasing its operating cash flow by CHF 95 million year on year. Although operating profit (EBIT) was down by CHF 146 million at CHF 259 million, it must be borne in mind that, in the previous year, Axpo received a non-recurring compensation payment from Swissgrid for taking over the extra-high-voltage grid. Adjusting for this exceptional factor reveals that Axpo succeeded in keeping its operating result at the previous year's level despite lower revenues from electricity sales. The Group's rigorous implementation of a strategy geared towards strengthening cash flow and increasing value is paying off. Axpo also reached a key milestone in its efforts to boost its operating result further in late March 2018 with the recommissioning of block 1 at the Beznau nuclear power plant.

In the first half of 2017/18 (October 2017 to March 2018), total income dropped to CHF 2,538 million (same period of the previous year: CHF 2,990 million), while the result for the period fell from CHF 424 million to CHF 196 million. This decline is due partly to the aforementioned exceptional factor – the Swissgrid compensation – and partly to a weaker financial result. Lower electricity revenues in Switzerland also played a part.

Electricity revenues still falling – although an upturn is in sight

The lower electricity revenues in Switzerland were largely offset by successful business abroad and in trading, aided by higher production at the Limmern pumped-storage power plant, a general increase in electricity generated from hydro power and rising revenues from system services.

Overall, the energy industry remains in a challenging environment. Axpo is only benefiting from the price recovery on the international electricity market with a certain time lag as it fixed some of its sales prices three years in advance. This means that the ultra-low prices of 2015/16 will remain a burden on the result for this and next year even though prices have been recovering since 2016. This upturn looks set to

accelerate from 2020 onwards. Axpo has already succeeded in concluding over 40% of its energy contracts for 2020 and 2021 at higher prices.

Axpo Solutions launched

During the first half of 2017/18, Axpo continued to work on adjusting its Group structure in line with the changing challenges posed by the markets. For instance, the hydro power plants are to be grouped under Axpo Hydro AG and the grid assets under Axpo Grid AG. From the 2018/19 financial year onwards, the international customer business and activities involving renewable energies abroad will be brought under the Axpo Solutions AG umbrella together with the trading business. The Axpo Group is thus creating more strategic flexibility to enable it to manage its assets in the best possible way.

Exceptional items hit financial result

The financial result declined by CHF 106 million, due mainly to three factors. Besides the fact that the interest component of the Swissgrid compensation only applied in the previous year and not in this, the result achieved in the first half of last year also included CHF 60 million in extraordinary income from restructuring the securities portfolio. In addition, the returns paid by the Decommissioning Fund for Nuclear Facilities and Waste Disposal Fund for Nuclear Power Plants were some 2% lower year on year, reducing financial income by CHF 50 million.

Investments were on a par with the previous year at around CHF 120 million. The sale, announced in the previous year, of the stakes in the Taufkirchen geothermal project and in the utility company of the canton of Schaffhausen (EKS) brought in CHF 80 million and put net investments at CHF 39 million (previous year: CHF 136 million). Higher operating cash flow and lower net investments resulted in a free cash flow of CHF 9 million (same period of the previous year: CHF –183 million). The equity ratio stood at 27.0%, up slightly on 30 September 2017.

Growing internationally through renewables and customer business

Business activities abroad continued to develop positively and made significant contributions to the result once again in the first half of 2017/18. Axpo is breaking new ground in Portugal with a solar power plant: a ten-year supply contract is paving the way for Axpo Iberia to finance and build a 25 MW solar power plant in the Portuguese city of Évora. What makes this venture unique is that it is the first-ever project of its kind to be constructed on the Iberian peninsula without any form of public subsidy. Axpo also intends to increase the number of supply contracts for electricity and natural gas in its end customer business in Italy, Spain, Portugal and Poland. In Italy, where Axpo is already the fourth-biggest marketer of wind power to private end users, the company is now set to serve Coop customers as well. To this end, Axpo Italia SpA has acquired a minority stake in Alleanza 3.0 Luce e Gas SpA, a company that is part of the leading Italian retail chain Coop and that supplies electricity and gas to private customers.

Axpo is driving forward an increase in the volume of renewable energies marketed in Western Europe. In the USA, where Axpo had been focusing on the East Coast since it entered the market in 2016, the company sealed its first deal on the Texan market (ERCOT). Axpo also plans to keep on strengthening its global presence in the liquefied natural gas (LNG) sector.

The performance of its origination business, i.e. marketing and procuring electricity, natural gas and energy certificates for international customers, was also pleasing. Axpo now has a presence in 27 countries and is active in 39 markets, where it supplies industrial companies, producers, energy suppliers, SMEs and market players in renewable energies. With a customer portfolio representing an installed capacity of 14,000 MW, Axpo is amongst the leading marketers of renewable energies in Europe.

The Group has thus further strengthened its position as the Swiss number one for renewable energies. With its portfolio of hydro power, biomass and – via its subsidiary CKW – solar and wind energy, Axpo is Switzerland's largest producer of renewable energy. It is also expanding its wind capacities in other European countries, specifically in its focus markets of France and Germany.

Axpo named world's best energy trader once again

The total income recorded by the Trading & Sales Business Area reflects the lower electricity prices in Switzerland and Italy as well as lower electricity sales in Italy. With EBIT of CHF 39 million, however, Trading & Sales once again made a significant contribution to the Group's result for the period. As in previous years, Axpo won several awards for its

trading activities. The two trade magazines "Energy Risk" and "Risk" – or, more precisely, the customers and business partners that they surveyed – crowned Axpo the world's best energy trader. The Group also secured nine more first-place rankings in various categories.

Beznau 1 nuclear power plant back on grid

In March, the Swiss Federal Nuclear Safety Inspectorate (ENSI) confirmed that block 1 of the Beznau nuclear power plant is safe to operate. Axpo demonstrated that the inclusions identified in the steel of the reactor pressure vessel had no negative impact on safety. Both blocks at the Beznau nuclear power plant have been back on the grid since late March. Although a huge outlay was required to achieve this, it has been worthwhile. 25 staff members, 15 international experts and countless specialist companies spent two and a half years working on this project, and more than 100 technical reports were compiled. With its demonstration of physical integrity, Axpo has set a new standard in this regard. The relevant costs amounted to CHF 80 million, not including those for buying replacement electricity.

The Leibstadt nuclear power plant has been back on the grid since late 2017 following its annual inspection, albeit with output reduced to 86% due to an ENSI ruling. This measure was introduced after discolourations were found on a number of fuel rods. Although investigations are still ongoing, there is every reason to believe that the plant will be able to operate at full capacity again in 2019.

The once-in-a-generation project at Linth-Limmern increased its electricity production by more than one third to 903.8 kilowatt hours. An environmentally friendly world first was celebrated at the new Etzel substation. Axpo and the utility companies of the canton of Zurich have invested a total of CHF 8 million in the new facility, which will boost electricity supply to the Höfe and March districts of the canton of Schwyz. A new, environmentally friendly insulating gas – g3 – is being used in the high-voltage switchgear for the first time anywhere in the world. Its global warming potential is some 98% lower than that of the gas previously used.

Changes on the Executive Board and Board of Directors

Martin Schwab, previously CFO of the Axpo Group, took over operational management of Axpo's CKW subsidiary at the start of April, succeeding Felix Graf, who was named CEO of the NZZ Media Group. The search for his successor as Axpo CFO is ongoing. Ulrich Erkens, previously Head of Financial Projects, has been managing Axpo's finance affairs on a temporary basis since April 2018.

There has also been a change on the Board of Directors, with the Annual General Meeting of 19 January 2018 elect-

ing Stefan Kessler, from Jenins in the canton of Grisons, and Stephan Kuhn, from Schaffhausen in the canton of Schaffhausen, to the Board of Directors of Axpo Holding AG. They are replacing Köbi Frei and Robert Marti and both will serve terms that run until 2019. With these two changes in personnel, the restructuring of Axpo's Board of Directors that began in 2017 is now complete. It has thus been downsized from thirteen to nine members. In addition, the dual mandates involving the boards of the cantonal utilities have been abolished, while the cantonal councillors have been replaced by specialists not holding any political office.

Swiss hydro power still under pressure

Axpo's strong operating result cannot be allowed to hide the fact that the market environment remains challenging, with Swiss hydro power under particular pressure. In a study, the Swiss Federal Office of Energy has confirmed Axpo's calculations: the costs incurred in generating hydro power are higher than the prices that can be achieved on the market. This shortfall amounted to CHF 311 million for the industry as a whole in 2016. Even if the market premium, which will apply until 2022, is set to reduce this amount to around CHF 200 million per year, there is still a lack of funds available to invest in expanding hydro power.

It is therefore all the more scandalous that, since 2008, water rates have been increased from CHF 80 per kilowatt of gross output to their current level of CHF 110. A broad-based alliance drawn from the worlds of business and politics, and including Axpo, is therefore campaigning for greater flexibility in how water rates are set. The revision of the Swiss Electricity Supply Act and the new market structure have to incorporate a long-term solution to the issue of water rates.

Digitalisation opening up new kinds of business

The first half of 2017/18 also saw the opportunities that growing digitalisation presented being seized right across the company. Digitalisation is playing a key role both in optimising Axpo's core business and in cultivating new lines of business in areas that are not dependent on electricity prices.

In Germany, Axpo has launched a blockchain model for renewable energies called Elblox, which makes it extremely easy for customers of the Wuppertal municipal utilities to order electricity from their neighbour's solar panels, the biogas facility at the local farm or the wind turbine run by the local provider. They can use the blockchain technology to build their own electricity mix digitally, while regional operators can sell the electricity they produce themselves straight to the end users.

Axpo WZ-Systems AG represents a further digital investment. Axpo's data communications business and WZ-Sys-

tems AG have come together under this umbrella, with Axpo owning 80% of the new company. Axpo WZ-Systems AG will be focusing on expanding its activities in the growth market of crisis-proof data communication.

Outlook for electricity business improving in the medium term

As far as electricity prices are concerned, market observers all agree that a return to the lows of 2015/16 is unlikely. The recovery in prices is expected to accelerate from 2020 onwards as this is when sizeable power plant capacities will be withdrawn from the grid in several countries.

Axpo is not anticipating any marked improvement in its results in the short term, with income in 2018 and 2019 continuing to suffer on the back of the supply contracts concluded at low prices. The current data is pointing towards a significant improvement from 2020 onwards. However, it is still too early to say for certain whether the period of rising electricity prices will last.

Exchange rates also have a major impact on Axpo's results. Although the Swiss franc's fall against the euro is benefiting Axpo's electricity business, the forecasts for the next few years are beset by considerable uncertainty here too.

Axpo is therefore sticking to its strategy of strengthening cash flow and increasing value by investing in growth areas, optimising its core business and pressing ahead with its moves to diversify into business areas that are not dependent on electricity prices.



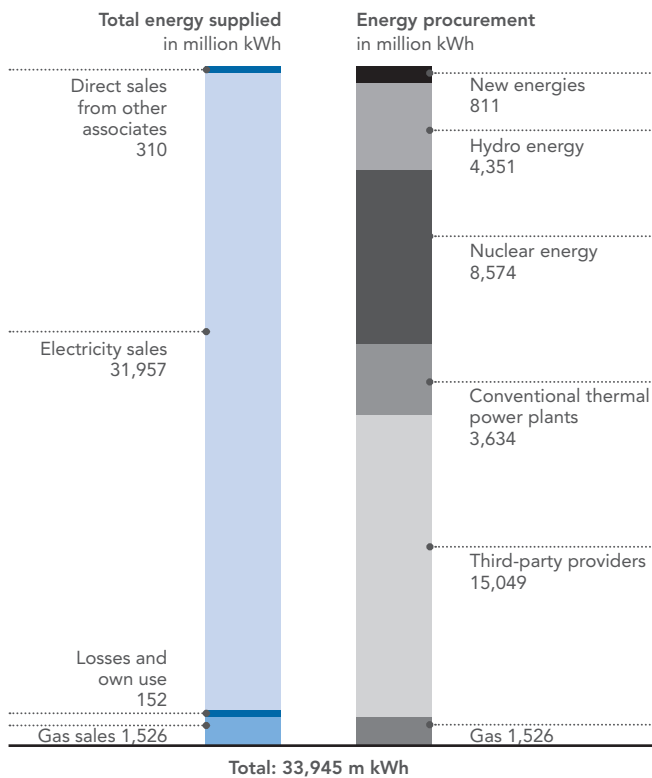
Thomas Sieber
Chairman of the Board of Directors



Andrew Walo
CEO

Summary of key figures

Energy statistics for the first half of 2017/18



Key figures for the first half of 2017/18

	2017/18 in CHF million	2016/17 in CHF million
Income statement		
Total income	2,538	2,990
Earnings before interest and tax (EBIT)	259	405
as % of total income	10.2%	13.5%
Result for the period	196	424
as % of total income	7.7%	14.2%
Cash flow and investments		
Cash flow from/used in operating activities	48	-47
Net investments in non-current assets (excl. loan receivables)	-39	-136
Free cash flow	9	-183
Balance sheet		
Total assets	19,820	19,022
Equity incl. non-controlling interests	5,352	5,074
as % of total assets	27.0%	26.7%
Employees (full-time equivalents)		
Number of employees on 31 March	4,339	4,208

Segment reporting for the first half of 2017/18

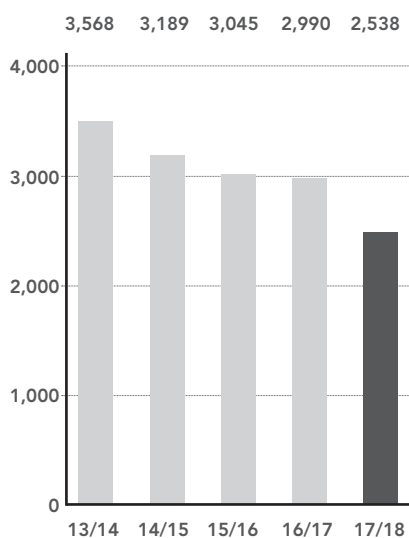
in CHF million	Assets		Trading & Sales		CKW		Reconciliation ¹⁾		Axpo Group	
	First half of 2017/18	First half of 2016/17	First half of 2017/18	First half of 2016/17	First half of 2017/18	First half of 2016/17	First half of 2017/18	First half of 2016/17	First half of 2017/18	First half of 2016/17
Total income	982	1,044	1,675	2,125	456	455	-575	-634	2,538	2,990
Operating expenses	-786	-729	1,629	-2,073	-375	-369	602	632	-2,188	-2,539
Share of profit of partner plants and other associates	33	46	0	0	7	7	2	-3	42	50
Depreciation, amortisation and impairments	-102	-81	-7	-2	-28	-27	4	14	-133	-96
Earnings before interest and tax (EBIT)	127	280	39	50	60	66	33	9	259	405

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

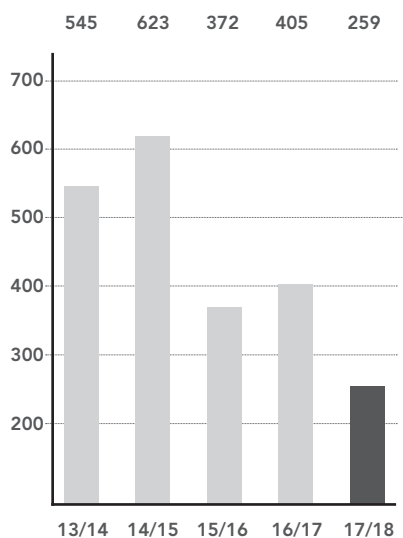
Five-year development – half-year comparison of key Group figures

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

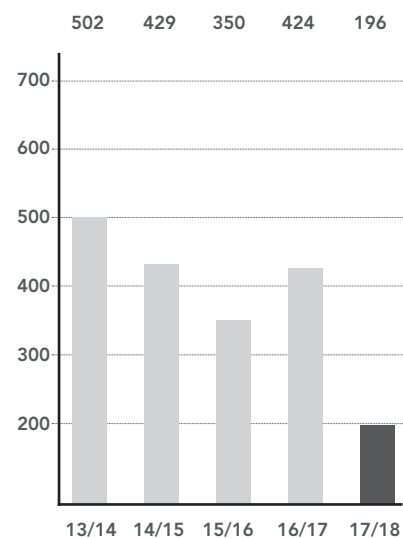
Total income
in CHF million



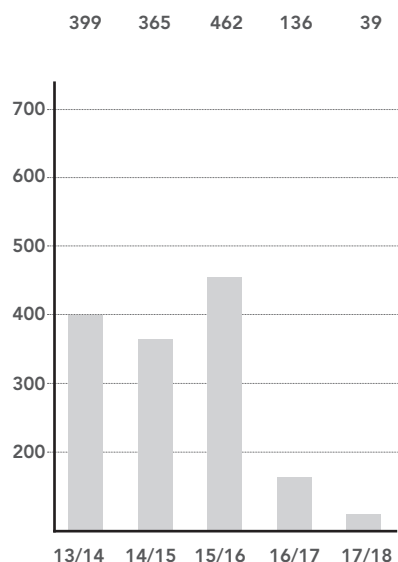
Earnings before interest and tax (EBIT)
in CHF million



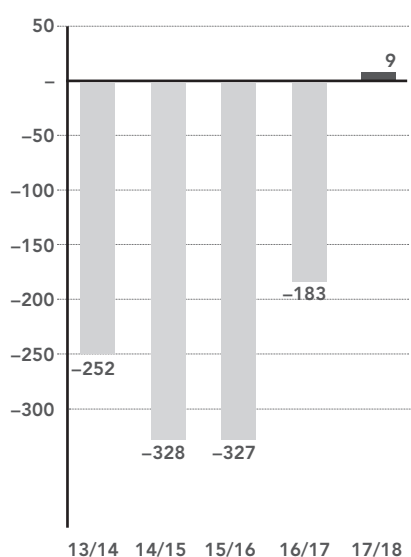
Result for the period
in CHF million



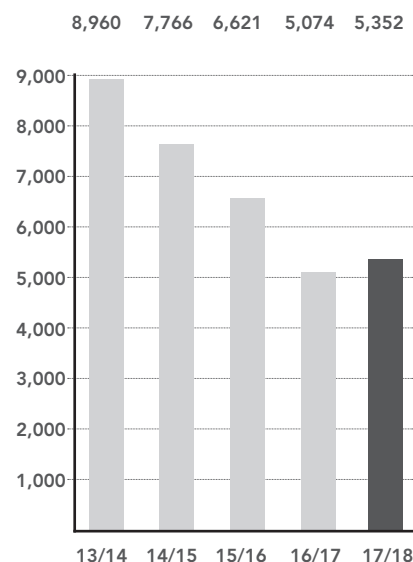
Net investments in non-current assets
(excl. loans) in CHF million



Free cash flow
in CHF million



Equity incl. non-controlling interests
in CHF million



Consolidated income statement

	First half of 2017/18 in CHF million	First half of 2016/17 in CHF million
Revenues from energy sales and grid usage	2,502.7	2,786.1
Change in inventories	0.1	-4.9
Capitalised production costs	24.5	29.9
Other operating income	11.1	178.5
Total income	2,538.4	2,989.6
Expenses for energy procurement, grid usage and goods purchased	-1,587.4	-1,980.3
Expenses for materials and third-party supplies	-74.0	-78.3
Personnel expenses	-313.8	-307.9
Other operating expenses	-212.4	-171.3
Share of profit of partner plants and other associates	41.7	49.5
Earnings before interest, tax, depreciation and amortisation (EBITDA)	392.5	501.3
Depreciation, amortisation and impairments	-133.2	-96.2
Earnings before interest and tax (EBIT)	259.3	405.1
Financial income	105.7	229.0
Financial expense	-144.9	-161.7
Earnings before tax	220.1	472.4
Income tax expense	-24.1	-48.1
Result for the period	196.0	424.3
Attributable to:		
Axpo Holding shareholders	183.8	410.2
Non-controlling interests	12.2	14.1

Consolidated balance sheet

	31.03.2018 in CHF million	30.09.2017 in CHF million	31.03.2017 in CHF million
Assets			
Property, plant and equipment	4,576.7	4,399.3	4,384.5
Intangible assets	792.0	785.2	769.5
Investments in partner plants and other associates	1,460.1	1,388.3	1,440.5
Derivative financial instruments	581.3	648.8	576.8
Other financial assets	2,754.9	2,669.6	2,637.9
Investment properties	39.9	42.2	44.7
Other receivables	2,637.5	2,559.4	2,498.6
Deferred tax assets	54.2	60.1	63.7
Total non-current assets	12,896.6	12,552.9	12,416.2
Assets held for sale	3.3	84.7	6.0
Inventories	515.4	628.6	339.4
Trade receivables	877.2	840.0	1,014.8
Financial receivables	624.7	640.7	889.0
Current tax assets	12.4	42.9	24.5
Derivative financial instruments	1,533.7	1,154.6	1,322.8
Other receivables	1,869.5	1,641.8	1,708.3
Cash and cash equivalents	1,487.6	1,436.8	1,301.1
Total current assets	6,923.8	6,470.1	6,605.9
Total assets	19,820.4	19,023.0	19,022.1
Equity and liabilities			
Share capital	370.0	370.0	370.0
Retained earnings	4,906.0	4,499.1	4,503.7
Other reserves	-419.7	-452.4	-242.4
Total equity excl. non-controlling interests	4,856.3	4,416.7	4,631.3
Non-controlling interests	495.9	467.6	443.1
Total equity incl. non-controlling interests	5,352.2	4,884.3	5,074.4
Financial liabilities	4,308.6	4,176.5	3,938.7
Derivative financial instruments	702.5	965.4	634.6
Other liabilities	292.5	500.3	648.6
Deferred tax liabilities	200.7	167.7	150.8
Provisions	4,295.9	4,216.7	4,289.1
Total non-current liabilities	9,800.2	10,026.6	9,661.8
Trade payables	462.3	579.6	629.0
Financial liabilities	543.7	514.5	897.3
Current tax liabilities	44.4	54.4	44.8
Derivative financial instruments	1,675.7	1,162.6	1,175.4
Other liabilities	1,794.4	1,562.9	1,348.2
Provisions	147.5	238.1	191.2
Total current liabilities	4,668.0	4,112.1	4,285.9
Total liabilities	14,468.2	14,138.7	13,947.7
Total equity and liabilities	19,820.4	19,023.0	19,022.1

Consolidated cash flow statement

	First half of 2017/18 in CHF million	First half of 2016/17 in CHF million
Earnings before tax	220.1	472.4
Financial result	39.2	-67.3
Earnings before interest and tax (EBIT)	259.3	405.1
Gains/losses on disposal of non-current assets	-0.8	1.5
Gains on disposal of non-current assets and liabilities held for sale	-15.5	-0.8
Adjustment of non-cash expenses and income:		
Depreciation, amortisation and impairments	133.2	96.2
Change in provisions (excl. interest, net)	-96.7	-165.1
Share of profit of partner plants and other associates	-41.7	-49.5
Other non-cash items	-58.7	-48.4
Change in net working capital:		
Change in inventories	115.4	161.9
Change in trade receivables and other receivables	-276.6	-281.8
Change in trade payables and other payables	39.6	-110.4
Change in derivative financial instruments and other financial results	-14.8	-57.0
Dividends received	15.4	21.8
Income taxes paid	-10.1	-20.2
Cash flow from/used in operating activities	48.0	-46.7
Property, plant and equipment:		
Investments net of capitalised borrowing costs	-108.8	-113.4
Disposals and cost contributions	3.1	6.8
Intangible assets:		
Investments (excl. goodwill)	-9.6	-6.3
Disposals	0.1	0.2
Investments in subsidiaries (net of cash transferred)	-9.2	-1.4
Cash flow from non-current assets and liabilities held for sale	79.7	1.2
Investments in partner plants and other associates:		
Investments	-11.7	-3.8
Disposals and capital repayments	17.3	3.1
Other financial assets:		
Investments	-347.5	-634.4
Disposals and repayments	80.0	470.8
Receivables from nuclear disposal funds	0.0	-22.8
Investment properties and change in other financial assets	1.0	0.7
Financial receivables (current)	187.6	504.7
Interest received	38.8	59.2
Cash flow used in/from investing activities	-79.2	264.6
Financial liabilities:		
Proceeds	1,176.0	1,241.1
Repayment	-1,039.3	-1,144.5
Other liabilities:		
Proceeds	6.7	7.9
Repayment	-0.2	-0.7
Other cash flows from financing activities	-1.2	0.2
Dividends paid (incl. non-controlling interests)	-4.7	-4.1
Interest paid	-63.3	-70.6
Cash flow from financing activities	74.0	29.3
Currency translation effect	8.0	-4.5
Change in cash and cash equivalents	50.8	242.7
Cash and cash equivalents at the beginning of the reporting period	1,436.8	1,058.4
Cash and cash equivalents at the end of the reporting period	1,487.6	1,301.1