

Dear shareholders

In the first half of 2014/15, Axpo continued its strategy of optimising its core business, reducing costs and opening up new sources of revenue. Progress has been pleasing. The market environment has not improved, however. The pressure caused by persistently low wholesale prices for electricity on the European market led to a year-on-year drop in both revenues (from CHF 3568 million to CHF 3073 million) and EBIT (from CHF 545 million to CHF 518 million).

The safeguarding of profitability and capital market viability for the long term remains the primary strategic objective. In addition to achieving a comprehensive reduction in costs, and practising a cautious investment policy in the future, Axpo is consistently adjusting its core business areas of production, trading and sales to the new market situation. In addition, new sources of revenue are being opened up in order to diversify Axpo even better.

An example of this is the concept drawn up together with Coop in this financial year for a network of hydrogen fuel stations in Switzerland. Within this innovative partnership, Axpo will be responsible for the environmentally-friendly production of hydrogen by means of an electrolyser at one of its hydropower plants.

Growth in origination business

The successes already achieved in this financial year show that Axpo is able to make active use of new opportunities in the energy markets. For example, progress in the European trading business has been honoured by the company's first-ever award as a leading global energy trader. Axpo made significant customer gains in several European countries in the origination business, i.e. the provision of customised energy solutions for customers. In Spain, Axpo is already the largest marketer of wind power, and throughout Europe it manages one of the largest portfolios of renewable energies. In the growth market of services for small and medium-sized enterprises (SMEs) Axpo is already active and successful in particular in Italy and Spain. These successful business models are to be rolled out to further countries in the future. For example, since March 2015 the Dutch market has been served directly from Amsterdam. A further new subsidiaries are planned, including those for individual markets in the USA.

Impact of euro low on Axpo

The abandonment of the euro minimum exchange rate by the Swiss National Bank (SNB) at the start of the year had a negligible financial impact in the short term on the result of the Axpo Group for the first half of the year. Axpo has hedged its currency risks for the next three years. However, if the euro-franc exchange rate remains close to parity after 2018, the result will be impaired by an annual charge in the low hundreds of millions.

Renewable energies: Axpo focusing on wind

With its portfolio of hydropower and biomass power plants, Axpo has already been Switzerland's largest producer of renewable energies for some time now. On top of this, Axpo is increasingly focusing on wind energy abroad.

Construction of the Global Tech I wind farm, off Germany's North Sea coast (Axpo holds a 24.1% stake) has been finished and the cable work is currently being completed. The 80 wind turbines, with an output of five megawatts each, will begin feeding power to the grid in the summer of 2015.

Axpo will also focus on investments in onshore wind farms in Germany and France. Axpo is reviewing the option of not only operating wind farms, but also planning and constructing them in the future, to make better use of the margin potential along the value chain.

Hydropower suffering from cheap coal power and subsidies in Germany

In Switzerland, investment in the most important renewable energy source, hydropower, has all but halted. This is because large quotas of cheap subsidised wind and solar power are available on the international markets. Furthermore, low CO₂ prices are making coal power so cheap that it is pushing Swiss hydropower out of the market.

In this market situation, distorted by political intervention, Axpo welcomes the discussion about temporary measures to support hydropower.

Other renewable technologies in Switzerland are also facing stiff price competition, which has prompted Axpo to position itself better in this area. At the end of 2014, Axpo sold the plant construction operations of Axpo Kompogas AG to Hitachi Zosen Inova (HZI), to concentrate nationwide biomass activities in Switzerland on its leading role as a plant operator, as well as a provider of products and services from the recycling of biomass.

The geothermal project in Taufkirchen, Germany, is expected to be commissioned in the summer of 2015. New geothermal projects are no longer being pursued. As long as the technology is not market-ready, the project risks for Axpo are too high.

Major projects being driven forward

The dam wall of the Limmern pumped-storage plant was completed high up at Lake Mutt in Glarnerland. The first machine group is scheduled to come on line next winter. At the Beznau nuclear power plant (NPP), the autonomous emergency power supply project has largely been concluded. The preventative replacement of the reactor pressure vessel closure head is to be completed by the end of 2015.

Political and regulatory influences hampering planning

From a safety perspective there is no reason to discuss the early decommissioning of the nuclear power plants. However, the political decisions and discussions about limiting their operating life are hampering corporate planning. The revision of the Decommissioning and Disposal Funds Ordinance (DDFO) and the planned revision of the Public Liability Ordinance are placing unnecessary additional financial burdens on nuclear plant operators. Axpo has filed a formal complaint against the DDFO.

Furthermore, the long-term operating concept being discussed in Parliament is, in truth, a decommissioning programme. Limits to operating life, and growing obstacles, are effectively forcing the operators to assume incalculable corporate risks. In the case of Beznau 1 and 2 nuclear power plants (NPP), their enforced premature decommissioning after 50 years would entail a financial loss of CHF 1.5 to 2 billion.

Delisting of CKW shares

On 8 October 2014, the Swiss Stock Exchange (SIX Swiss Exchange AG) approved the request of the Board of Directors of Centralschweizerische Kraftwerke AG for the CKW shares to be delisted. The last day of trading was 30 January 2015.

Expertise and innovation are Axpo's strengths

The energy markets are expected to remain demanding, which will pose a challenge for all energy supply companies. While en-

ergy suppliers in towns and cantons are still able to benefit from a monopoly on committed end customers, and hence from prices based on production costs, Axpo is having to sell over 90% of its energy produced for the security of supply to north-eastern Switzerland on current market terms.

Nevertheless, Axpo is well prepared for the challenges of the market. The strong capital base and broad expertise in all areas of value creation from production to socket form a foundation that promises success. On top of this, diversification is a decisive advantage in the current market situation not only in terms of business activities, but also geographically, with Axpo active in over 20 European countries. Axpo has become more efficient and streamlined as a Group, thereby enabling it to respond quickly and flexibly to shifting challenges. Ultimately, capacity for innovation will decide which energy companies prevail on the market. Here, too, Axpo has proven that it is capable of developing new solutions to meet new requirements, and it will further enhance this capability with its Group innovation management.

At the start of 2014, Axpo adopted its new corporate strategy, with the target of improving its earnings situation by CHF 200 million each year up to 2017, by means of a comprehensive value-enhancing programme. The initial progress report is positive. CHF 50 million in value enhancements have already been realised. According to the current plans for cost savings and revenue increases, the goal should be achieved by 2017.

Financial review

The Axpo Group earned consolidated revenues of CHF 3073 million and an operating profit (EBIT) of CHF 518 million in the first half of the 2014/15 financial year. The abandonment of the minimum euro exchange rate by the Swiss National Bank in mid-January only marginally affected the Group's earnings situation in the first half of the year. The lower euro exchange rate and the persistently challenging market environment, with a continued fall in prices and market distortions caused by electricity generation subsidies will have a negative impact on the results for the second half of the year and in the years to come. Axpo therefore expects lower margins in the power plant business for the 2014/15 financial year.

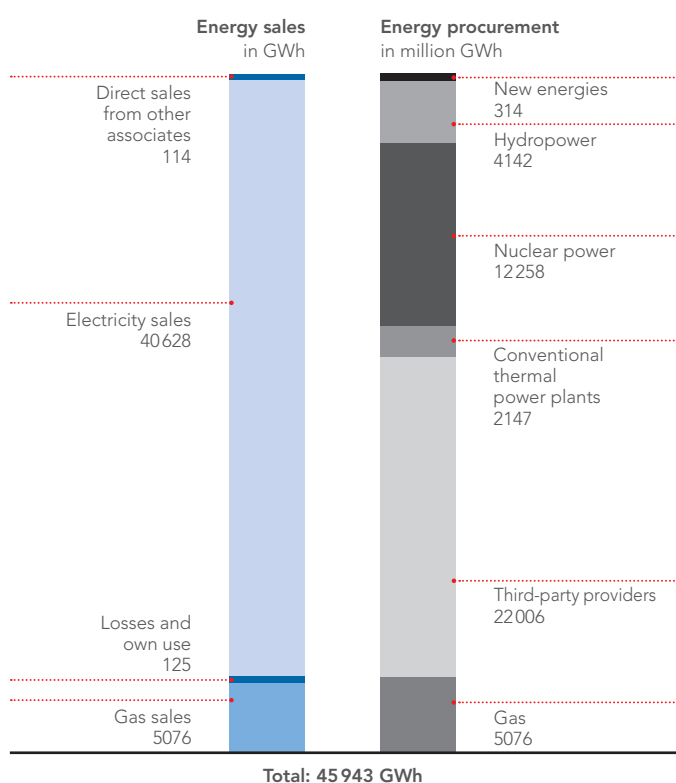
The year-on-year drop in revenues of 13.9% was mainly attributable to lower prices on the electricity market and a declining gas

business in Italy. Operating costs were positively influenced by the ongoing cost-saving measures and lower write-downs following the impairment applied in the 2013/14 financial year. This enabled a slightly lower operating result (EBIT) for the first half of the year of CHF 518 million (previous year: CHF 545 million).

Despite a considerably improved financial result as a result of currency hedging transactions, it was not possible to offset the lower EBIT so that net profit was 14.5% down on the previous year at CHF 429 million (CHF 502 million).

Cash flow from operating activities was CHF 37 million (previous year: CHF 146 million). The key drivers of the lower cash flow from operating activities were the lower operating result, the utilisation of provisions, and an increase in the funds committed to net working capital. Net investments in the first half of the year

Energy statistics for the first half of 2014/15



Key figures for the first half of 2014/15

	2014/15 in CHF million	2013/14 in CHF million
Income statement		
Revenues		
Revenues	3 073	3 568
of which energy sales and grid usage	2 889	3 213
EBIT		
Operating profit	518	545
as % of revenues	16.9%	15.3%
Profit for the period		
Profit for the period	429	502
as % of revenues	14.0%	14.1%
Cash flow and investments		
Cash flow	37	146
Net investments in non-current assets (excl. loan receivables)	-365	-399
Free cash flow	-328	-252
Balance sheet		
Total assets	20 186	21 505
Equity incl. non-controlling interests	7 766	8 960
as % of total assets	38.5%	41.7%
Employees (full-time equivalents)		
Number of employees on 31 March	4 287	4 460

amounted to CHF 365 million (previous year: CHF 399 million) and free cash flow was down on the previous year at CHF –328 million (CHF –252 million). At CHF 20.2 billion, total assets remained virtually unchanged on 30 September 2014. Equity increased by CHF 249 million compared with the 2013/14 financial statements. The key elements in this were net profit, the waiver of a dividend payment, negative currency effects and increased pension obligations owing to lower interest rates. The equity ratio rose to 38.5% on 31 March 2015 (30 September 2014: 37.2%).

Outlook

Owing to ongoing subsidisation and weak economy there are still no signs of any increase in the wholesale prices for electricity in Europe in the foreseeable future. For this reason, Axpo must continue in the coming years to focus on improving profitability, optimising its core business, setting even clearer priorities for the management of its investments, and opening up new and profitable sources of revenue through further development and innova-

tion. In view of the prevailing market conditions and the low euro exchange rate, despite operational process Axpo does not expect any improvement in its results in the current 2014/15 financial year.



Robert Lombardini
Chairman of the Board of Directors



Andrew Walo
CEO

Segment reporting for the first half of 2014/15

in CHF million	Assets		Trading & Sales ¹⁾		CKW		Other & consolidation ²⁾		Axpo Group	
	1. H 2014/15	1. H 2013/14	1. H 2014/15	1. H 2013/14	1. H 2014/15	1. H 2013/14	1. H 2014/15	1. H 2013/14	1. H 2014/15	1. H 2013/14
Revenues	1 555	1 687	2 306	3 255	455	466	-1 243	-1 840	3 073	3 568
Operating expenses	-855	-1 100	-2 534	-3 293	-339	-352	1 261	1 855	-2 467	-2 890
Depreciation and impairment	-59	-94	-3	-4	-28	-28	2	-7	-88	-133
Operating profit before interest and tax (EBIT)	641	493	-231	-42	88	86	20	8	518	545

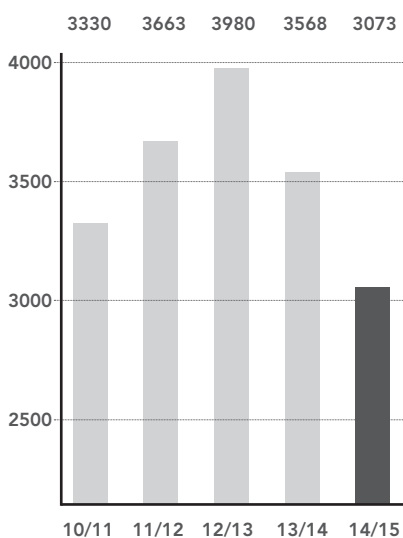
¹⁾ The positive operating result in the Trading & Sales segment is overshadowed by the negative impact of supply losses and currency effects.

²⁾ Other & consolidation includes Axpo Holding AG, Axpo Services AG and Axpo Informatik AG, together with the effects of consolidation.

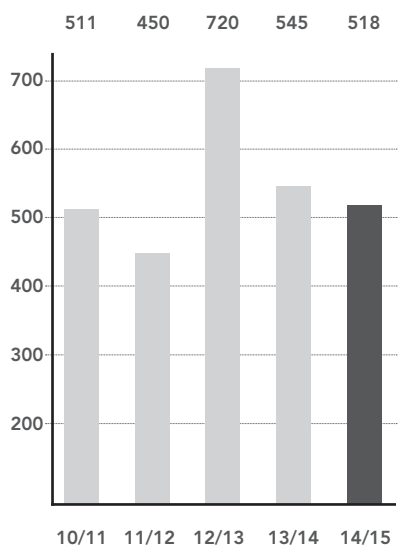
Five-year development – half-year comparison of key Group figures

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

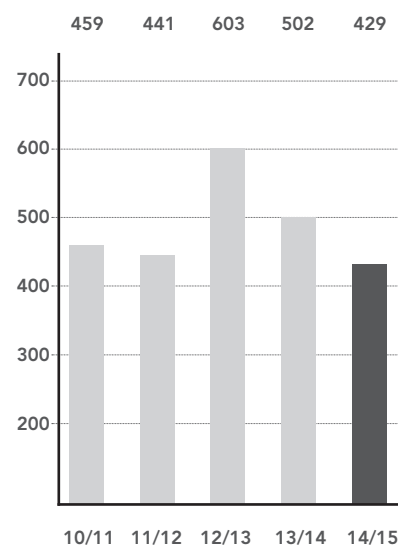
Revenues
in CHF million



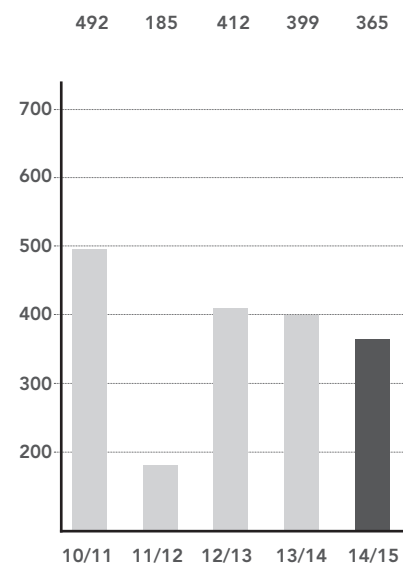
Earnings before interest and tax (EBIT)
in CHF million



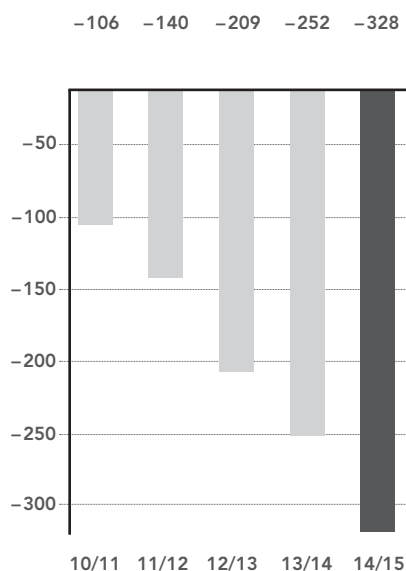
Net profit
in CHF million



Net investments in non-current assets
in CHF million



Free cash flow
in CHF million



Equity incl. non-controlling interests
in CHF million

