

Media release

21 December 2016

Axpo combining growth areas of renewable energies and customer business – new investors to be brought on board

2015/16 result once again impacted by impairments

Axpo is taking another step towards opening up new areas of business and becoming less dependent on the power price. Under the working name “Axpo Solutions”, the company is to combine its expertise in two growth areas – renewable energies and its international customer business – with grid and asset marketing in a single new unit. The capital underpinning this growth strategy will come not just from Axpo itself but, from 2019, also from new investors, who will take an as-yet unspecified minority stake in the new company Axpo Solutions. Together with its new funders, therefore, Axpo intends to fully exploit the opportunities presented by renewable energies and its international customer business.

This is Axpo’s response to a market situation that has become increasingly difficult in recent years due to low European wholesale prices. As well as reducing costs and optimising its core business, which is highly vulnerable to power price risks, Axpo has also set up some new and profitable areas of business in recent years which are not directly dependent on the wholesale price of electricity. The focus is on activities involving subsidised renewable energies and its international business featuring tailor-made customer solutions. Due to dwindling cash flows in conventional electricity production, however, Axpo cannot invest as much as it would like in its new areas of business. It is therefore now planning to concentrate on increasing the added value generated by these activities with Axpo Solutions, a part of the Group in which new investors can also acquire a stake. Axpo Holding AG shareholders will also be able to join them in investing directly in this new company.

Entering the capital market rather than selling off assets

Axpo is already the largest producer of renewable energies in Switzerland: at home, through its sizeable hydro power production fleet and its biomass business, which it has been expanding for the last decade, and abroad, primarily through its wind business. As well as its 25% stake in the Global Tech 1 North Sea wind farm, the company is focusing chiefly on onshore farms. Over the financial year just gone, a gross margin of around



CHF 50 million was generated by selling turbines owned by the wind farm developer Volkswind, which was acquired in 2015. Although Axpo sees significant potential for growth in constructing, developing, running and marketing wind farms, this also requires investment capital.

Rather than selling its existing power plants to third parties, Axpo wants to enable investors to share in the commercial success brought by renewable energies and its customer solutions. As an independent unit within the Group, Axpo Solutions will be able to devote its full management capacity to these business segments.

“With the diversification of Axpo’s portfolio having now successfully begun, this move is essential”, says CEO Andrew Walo. “As far as our conventional production fleet in Switzerland is concerned, we are focusing on security and stability of supply and on safe operation that optimises the cost/benefit ratio. For our renewable energies and our customer business, a local presence, speed and agility are paramount, and it is in this area that we want to grow. This means putting in place various processes and a dedicated management focus, which we are creating by establishing a separate new company.”

Axpo expects that it will take at least two years to set up Axpo Solutions and is planning to enter the capital market in 2019. Axpo Solutions is intended to offer investors stable returns from the company’s regulated grid business and subsidised renewable energies while also opening up growth opportunities such as in the wind power portfolio or in innovative customer solutions. Asset marketing will safeguard the hydro power plants’ strong asset base, while a rigorous focus on growth and revenue promises attractive returns. The aim is for Axpo Solutions to attain a solid investment-grade rating.

Alongside Axpo Solutions, of which Axpo Trading AG will also be a subsidiary, Axpo Power AG (production and supply in Switzerland), Centralschweizerische Kraftwerke AG and IT subsidiary Avectris AG will continue to make up the Axpo Group.

Encouraging operating performance marred by high paper losses

In the previous two financial years, Axpo had suffered paper losses due to impairments on its power plant fleet and energy supply contracts despite a good operating performance. As already announced in September, this is once more the case in the 2015/16 financial year. The stubbornly low prices for coal and CO₂ certificates coupled with the increasing supply of subsidised energy in Germany in particular caused European wholesale prices for electricity to fall by a further 30% during the last financial year. As well as the power plants and energy supply contracts, the Linth-Limmern pumped-storage power plant – which has actually come on stream only recently – has also been substantially affected by impairments.



Net impairments of CHF 1.6 billion led to a loss of CHF 1.25 billion in the result for 2015/16 as at 30 September 2016 (previous year CHF 990 million). In light of the difficult market conditions, however, the operating result before depreciation and one-offs of CHF 637 million (normalised EBITDA; previous year CHF 834 million) that was achieved was pleasing. Due to the loss suffered, the Board of Directors will recommend to the Annual General Meeting that a dividend should once again not be distributed.

Revenues generated in the 2015/16 financial year came to CHF 5.4 billion (previous year to CHF 5.9 billion). The drop is due chiefly to power prices having been hedged at a lower level. Whilst electricity sales increased year-on-year by 4.7% to 84.9 TWh, lower power prices meant that even higher volumes could not prevent a drop in revenues.

Cash flow from operating activities fell from CHF 461 million in the previous year to CHF 361 million in this. Net investments in non-current assets increased by CHF 191 million year-on-year to CHF 890 million. As well as contributions to the federal funds, the main investment projects included the Linth-Limmern pumped-storage power plant, whose dam wall was inaugurated in September 2016. Further funds went towards acquiring Volkswind, completing the safety upgrades at the Beznau nuclear power plant and maintaining and expanding the grid infrastructure. With cash flow from investment activities exceeding operating cash flow, free cash flow stood at CHF -529 million (previous year CHF -238 million).

Headcount increased marginally during the 2015/16 financial year to 4,294 full-time equivalents at the end of September (previous year 4,824 FTEs). Although some jobs were cut as part of efforts to boost efficiency, new staff were also taken on in the growth areas of the installation business in Central Switzerland and customer solutions and retail activities abroad as well as through the Volkswind acquisition.

Axpo still has a solid balance sheet, which is reflected in part in its healthy liquidity in the form of cash and securities totalling over CHF 4.1 billion, its equity including non-controlling interests of CHF 4.6 billion and its equity ratio of 24.9%. All in all, Axpo has net financial assets of CHF 93 million as at 30 September 2016.

In light of the challenging market environment, however, Axpo must continue in the coming years to focus on cutting costs, optimising its core business and opening up new and profitable sources of revenue through further development and innovation. Safeguarding profitability, liquidity and access to the capital markets for the long term remains Axpo's primary strategic objective.

Information on Axpo's financial figures for 2015/16 can be found at:
www.axpo.com/bmk16.

Key figures for the Axpo Group, 2015/16 financial year

	2015/16	2014/15
Total electricity and gas sales in TWh	101.1	100.6
Total assets in CHF million	18 588	18 908
Revenues in CHF million	5 416	5 860
EBIT in CHF million	-1 226	-867
EBIT as % of revenues	-22.6	-14.8
Profit for the period in CHF million	-1 252	-990
Cash flow from operating activities in CHF million	361	461
Net investment in non-current assets in CHF million	-890	-699
Free cash flow in CHF million	-529	-238
Equity in CHF million	4 634	6 065
Equity ratio (in %)	24.9	32.1
Net financial assets in CHF million	93	476
Number of employees (FTEs) on reporting date	4 294	4 284

Further information

Axpo Holding AG | Corporate Communications

Media Hotline: 0800 44 11 00 (Switzerland) | T +41 56 200 41 10 (international)

www.axpo.com

About Axpo

The Axpo Group produces, trades and distributes energy reliably for more than 3 million people and several thousand companies in Switzerland and in over 30 countries throughout Europe. Around 4,500 employees combine the expertise from 100 years of climate-friendly power production with innovative strength for a sustainable energy future. Axpo is an international leader in energy trading and the development of tailor-made energy solutions for its customers.