

Media release

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Strategy taking effect: operating performance continues to improve, profitability strengthened

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. The recommissioning of block 1 at the Beznau nuclear power plant in March 2018 is also helping to strengthen Axpo's profitability.

Total income generated between 1 October 2017 and 31 March 2018 came to CHF 2,538 million (same period of the previous year: CHF 2,990 million). Lower energy prices and volumes on the Italian wholesale market, lower electricity prices in Switzerland and the Swissgrid compensation for compulsory purchase received in the previous year were the main factors behind this decline. Lower electricity revenues in Switzerland were largely offset by successful business abroad and in trading, neither of which are dependent on electricity prices. Higher production at the Limmern pumped-storage power plant, a general increase in electricity generated from hydro power and rising revenues from system services in Italy had a positive impact.

Another reason behind the fall in the result for the period, down from CHF 424 million to CHF 196 million, was the weaker financial result. This dropped by CHF 106 million, due in part to extraordinary income in the previous year of CHF 60 million 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 than the previous year, reducing financial income by CHF 50 million.

Investments were on a par with the previous year at around CHF 120 million. The sale 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 increased to 27.0%.

Growth in renewable energies and the customer business

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

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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.

Business activities abroad continued to develop positively and made significant contributions to the result in the first half of 2017/18. In Italy, for instance, Axpo is already the fourth-biggest marketer of electricity to private end users. Axpo is driving forward an increase in the volume of renewable energies marketed in Western Europe. 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 more new first-place rankings in various categories.

Its origination business, i.e. marketing and procuring electricity, natural gas and energy certificates for international customers, also performed positively. Axpo 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 further strengthened its position as the Swiss number one for renewable energies. With its portfolio of hydro power and biomass, 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. The recently established Axpo WZ-Systems AG, the result of the merger between Axpo’s data communications business and WZ-Systems AG, has enjoyed a good start. It focuses on expanding its activities in the growth business of crisis-proof data communication.

Beznau 1 nuclear power plant back on grid

In March, the Swiss Federal Nuclear Safety Inspectorate (ENSI) confirmed that unit 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 units have been back on the grid since late March. Although the investigations required a huge outlay, 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. The costs amounted to CHF 80 million, not including those for buying replacement electricity. Axpo has set a new standard with this demonstration of physical integrity.

Rosier medium-term outlook for electricity business

Axpo’s strong operating result in the first half of the year 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 a lack of funds available to invest in expanding hydro power.

The entire energy industry also remains in a challenging environment. Axpo will only benefit from the price recovery on the international electricity market with a certain time lag as it has 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 recovered since 2016. The current forward prices from 2020 onwards indicate a further recovery. Axpo has already succeeded in concluding over 40% of its energy contracts for 2020 and 2021 at higher prices compared with the ultra-low prices of previous years. However, it is still too early to say for certain whether the period of rising electricity prices will last.

Key figures for the Axpo Group, first half of 2017/18 (1 October 2017 to 31 March 2018)

	2017/18 (in CHF million)	2016/17 (in CHF million)
Total income	2,538	2,990
Operating result (EBIT)	259	405
EBIT as % of total income	10.2%	13.5%
Result for the period	196	424
Result for the period as % of total income	7.7%	14.2%
Cash flow from/used in operating activities	48	-47
Net investments	-39	-136
Total assets	19,820	19,022
Equity	5,352	5,074
Equity ratio as % of total assets	27.0%	26.7%
Employees (full-time equivalents)	4,339	4,208

Further information

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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 4,300 staff 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.