

Leveraging opportunities for the future – despite today's difficult market environment

Address by Kurt Rohrbach, CEO of BKW Inc., at the Annual General Meeting in Berne on 11 May 2012

Ladies and gentlemen,

Introduction

As usual, I'd like to start with a brief review of last year's results. I will then discuss a few examples that illustrate the new BKW 2030 strategy, the main thrusts of which have already been outlined by the Chairman. I will then conclude my address with the traditional review of the year in pictures.

Electricity business

To start with, some figures on the electricity business:

Expansion of production abroad

In 2011 the BKW Group generated a total of 9,865 Gigawatt hours of electricity, corresponding to a reduction of around 7% compared to the prior year. There are two reasons for this: Firstly, due to work on the SUSAN emergency system, Mühleberg nuclear power plant underwent an extended revision and therefore posted lower production. Secondly, last year's unfavourable hydrological conditions for electricity production led to much lower production from hydro power compared to the annual average.

In 2011 BKW's production abroad underwent massive expansion, mainly due to an increase in wind power production from Italy and Germany. BKW acquired full ownership of six wind farms in Italy. And in Germany Dubener Platte wind farm, completed at the end of 2010, went into operation. Overall this enabled BKW to more than double wind power production in both countries.

Rising electricity sales in Switzerland

Sales in Switzerland rose slightly year-on-year to 8,186 GWh, due to growth in sales both within and outside the supply region. The high temperatures in 2011 are clearly

reflected in sales for the residential customer segment. Significant growth in sales was achieved in the SME and industrial customer segment, among other things by winning Lonza as a new customer.

International sales were 11% lower at 1,630 GWh, due mainly to economic factors.

Income from proprietary trading amounted to CHF 20 million. This represents a year-on-year increase of CHF 21 million and can be viewed as a good result in view of the difficult market environment.

Total operating revenue generated by the Networks business segment improved by 4% to CHF 686 million. Despite a negative volume trend, this increase was achieved due to a slight adjustment in prices for grid usage.

Results

And now, ladies and gentlemen, to the results:

In 2011 BKW posted consolidated operating revenue of CHF 2,633 million, 6% below the prior-year period. The result was impacted in particular by the lower production volume, cheaper electricity prices and the strong Swiss franc.

Added to this, impairment tests performed on production facilities necessitated a correction of CHF 318 million. This concerned the new fossil-fuelled thermal production plants in Wilhelmshaven, Livorno Ferraris und Tamarete in which BKW holds a non-controlling interest and from which BKW purchases electricity at production cost. Based on estimated future market developments, BKW expects that the production costs of these power plants will be higher than the future realisable market prices, and therefore recognised the appropriate impairments and provisions. These estimates were not prompted by the fact that the plants are fossil-fuelled, but because new facilities which are unable to benefit from subsidies are in a difficult position in today's market.

Lower operating result, net loss for the first time

All these effects led to an operating profit before depreciation, amortisation and impairment (EBITDA) of CHF 138 million. Adjusted for the special charges, EBITDA amounted to CHF 418 million: 12% below the prior-year figure. The results were also weighed down by the lower financial result. Overall this led to a net loss of CHF 66 million. Ad-

justed for the special charges, net profit amounted to CHF 123 million, corresponding to a reduction of 46% versus 2010.

In 2011 the balance sheet total grew by 8% to CHF 7,083 million. Despite the net loss, cash flow from operating activities ended the year CHF 18 million higher at CHF 292 million, mainly because the special impairment charges and provisions recognised in the year under review are non-cash items.

Equity amounted to CHF 2,655 million, while the equity ratio dropped from 44.2% to 37.5%, primarily as a result of the higher balance sheet total and the net loss for the year.

Group strategy: BKW 2030

So much for the brief review of the last financial year. Ladies and gentlemen, as I mentioned earlier I would now like to use a few examples to illustrate BKW's new Group strategy, to give you an idea of what we have planned for the future and, in some cases, are already doing: always bearing in mind that BKW's existing business activities, our plants, sales and trading platform must provide the basis for the new activities and that, whatever changes are made, security of supply must never be compromised.

Energy efficiency

For years now, BKW has been offering advice on energy-related matters. This is nothing new, but it is not widely enough known, and we aim to change that. With this in mind, last September BKW activated a comprehensive online portal on energy efficiency – a Swiss premiere - to raise awareness among our customers. This not only addresses the growing need of many customers to obtain information and advice on managing energy efficiently, but also motivates them. One might even say it awakes in them a competitive spirit, so that they focus less on their wallets and more on being better than other users.

To increase awareness of the portal, BKW has adopted new approaches and sent a direct mailshot to some 100,000 private customers. The feedback from this campaign was overwhelmingly positive. Wherever the emotional campaign generated emotional responses, the opportunity arose for active dialogue with our customers.

Smart energy

A so-called "smart grid" is the prerequisite for the type of decentralised energy supply system envisaged by the 2050 energy strategy. Many questions remain unanswered, particularly concerning the speed at which the technology can be introduced, and the distribution of costs. BKW has been working with partners for several years to analyse these issues, and is also placing the experience and expertise and know-how it has acquired at the disposal of government authorities.

For example, as part of the Inergie Association, BKW is conducting the iSmart Ittigen pilot study. This involves 270 pilot customers, each equipped with a smart meter and a display system to provide feedback on their electricity consumption. The research work accompanying this project has confirmed that customers appreciate consumption displays of this type. However, customers' willingness to pay for such displays is not high enough to develop a viable business model for the open market. Until such a business model exists, a great deal of creativity is called for! At present we are analysing the metering data from the project in order to find out whether the use of feedback systems really does lead to an overall reduction in electricity consumption.

Municipalities as customers

The municipality of Ittigen is not the only one to show an interest in innovative energy solutions. Energy policy is increasingly becoming part of municipal policy, not least thanks to the Federal Council's energy strategy. The requirements of municipalities are growing, as they are obliged to comply with ever more wide-ranging legislation and act as role models. Thanks to its know-how right along the electricity supply value chain, BKW intends to be a full-service partner for municipalities. It already works closely with municipalities in this capacity and is working on a comprehensive range of services that covers areas such as energy reference planning, decentralised power generation, technology and efficiency, and communication solutions.

One area in which BKW already successfully supports municipalities is public lighting. Last year, for example, BKW equipped the street lights in Laupen with LED lamps. And in Mühleberg we installed our own trial lighting that provides a direct comparison between conventional lighting and an LED installation. In conjunction with the municipality of Ostermundigen and seven leading lighting suppliers, BKW implemented a much larger project. On an area equivalent to more than 20 football pitches, the municipality is constructing what is probably the biggest lighting park in the country. Each of the seven suppliers has its "own" street, that can serve as a reference object.

Energy services for all aspects of the distribution grid

Municipalities are often also owners and operators of energy supply companies, and hence also owner-operators of distribution grids. These electricity supply companies have their own special requirements in an increasingly complex environment, especially in view of the growing trend towards decentralised energy production.

BKW is currently doing its homework very thoroughly in this area. In fact, it is working so intensively that in future it will be able to operate its own distribution grid far more efficiently than ever before, mainly by using smart technologies based on open industrial standards and existing communication solutions. Backed by this, it sees itself as a competent service provider for other distribution grid operators. And it is already in a good starting position: Thanks to its own infrastructure at distribution grid levels 2 to 7, coupled with expertise in asset management, engineering, construction, operation and household installations, BKW has access to all relevant market players, to municipalities and to end customers. This means it has to hand everything it needs to control the grid to match irregular production from new renewable energies with consumer requirements. This capability will be a key success factor when it comes to utilising energy from new renewable sources.

Final vote on strategy

Ladies and gentlemen, the speed and extent to which BKW will be able to develop, build up and exploit its new business activities over the next few months is heavily dependent on the framework conditions. The questions of cost distribution and accountability still need to be resolved. BKW is making every effort to play an active part in formulating these criteria. We assume that government authorities are also willing to carry on working with us in partnership.

Outlook

for the BKW Group's activities in the current financial year.

BKW expects no change in the challenging market environment in the current financial year, with energy prices remaining low and greater margin pressure on international markets. Coupled with regulatory requirements and a persistently strong Swiss franc, this will also weigh down the operating result for 2012. The full impact of efficiency enhancements generated by the cost reduction measures will not yet be felt. Taking all these factors into account and given the ongoing uncertainties, also on financial markets,

operating profit before interest, depreciation and impairment (EBITDA) and net profit for the next financial year may deviate significantly from the adjusted figures for 2011.

Despite the major uncertainties which still surround the immediate future, BKW has a solid basis for successful medium- and long-term development, thanks to its proximity to customers in Swiss supply business and its broad production mix. Moreover, the development drive is ably supported by BKW's updated corporate strategy with cost reduction and efficiency enhancement measures already in place. And last but not least, BKW has a solid equity and finance situation. With this sound basis, BKW is well placed to tackle the challenges ahead.

A vote of thanks

At the Annual General Meeting we review the past financial year at a distance of several months. I would like to join the Chairman in thanking all our employees for the huge personal commitment they have shown over the past financial year. Despite the additional workload they now face, our employees do not neglect their day-to-day work. So I would like to thank them in particular for their motivation and professionalism over the past few months.

I would also like to thank our customers as well as our sales and business partners for their support and cooperation over the past year. Finally, a huge vote of thanks goes to you – our shareholders – for the trust you have shown and continue to show in our work and in BKW.

Introduction to the review of 2011

And now, ladies and gentlemen, we come to the traditional review of the year in pictures.