

2011 Financial Year

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

BKW[®]

Address by Kurt Rohrbach, CEO of BKW Inc., at the Annual Media Conference on 20 March 2012

Ladies and gentlemen,

The Chairman of the Board of Directors has explained to you the general direction of our new Group strategy "BKW 2030". I'd like to illustrate this strategy by referring to some concrete examples. This will form the first part of my presentation. The second part is devoted to the traditional Annual Media Conference and the 2011 financial year.

The Chairman of the Board has already mentioned that BKW is developing new business fields as part of its realignment to address new requirements. The drivers for business models of this kind are technological changes, new customer requirements and the bundling of products and services which, until now, have been sold individually. All these topics will demand the full attention of our management team in the months and years ahead. I shall therefore concentrate today on matters that are new and evolving, while at the same time being well aware that BKW's existing business activities, our plants, our sales and our trading platform must lay the foundation for new activities and that, despite all these changes, security of supply must not be allowed to suffer.

I shall refer to three examples which are not just a pipe dream, but on which we have, in some cases, been working busily on for a number of months. By taking these examples, I would like to give you an impression of how BKW will be positioning itself in the years to come and of what our world might look like in the future. The **first example** illustrates the topics energy efficiency and smart energy for our private customers; **the second example** examines our partnership with the municipalities, and in **the third example** I take a closer look at an area that already forms part of our core competence today and which we wish to develop further in the future and offer to third parties, namely: energy services related to the distribution grid – services we will be expanding and developing. When considering these topics, we must bear in mind – as with every innovation – that

we find ourselves in different phases of realisation. So what I'm giving you is a kind of "workshop report"; I'm not telling you about products that have already been finalised and implemented.

Energy efficiency

The need of many customers for information and support concerning the efficient use of energy is growing palpably. Through the introduction of new products and services BKW aims to contribute to its customers' success. Electricity is a highly developed form of energy and can usefully replace other sources of energy in many applications thanks to its overall superior efficiency. That is why the concept of energy saving does not go far enough on its own; instead, the entire spectrum of energy consumption is at the heart of what we do. As is well known, BKW has been offering advisory support for many years; but that alone is not enough for us. In order to make our customers more aware of the big picture, last September BKW launched a comprehensive online portal on energy efficiency, the first of its kind in Switzerland.

In order to make the portal better known, BKW has been treading new paths. It sent a direct mailshot to some 100,000 private customers that was developed together with the Federal Institute for Technology in Zurich and which is based on state-of-the-art scientific findings. International studies show that it is not necessarily always the much-quoted depth of our pockets but a direct comparison with our surroundings that moves us to take action.

There was plenty of feedback – for the vast majority positive – from this BKW initiative. As emotional campaigns trigger emotional reactions, this was an opportunity to enter into an active dialogue with our customers. Six months after the launch, some 12,000 users are using the online portal. They use it to find information, advice, arguments and special offers for appliances where the subject of energy efficiency is concerned. As I mentioned just now, users also have the opportunity to compare their own consumption with that of comparable households.

Smart energy

As well as making its customers aware of energy efficiency and encouraging them to become more energy efficient by voluntarily changing their behaviour, BKW is intensifying its activities surrounding technical control and communication between grid components, energy producers, energy storage facilities and consumers. A so-called smart grid is the precondition for a decentralised energy supply system as envisaged by the 2050 energy strategy. Questions still have to be answered in particular regarding the speed with which technology can be converted and matters concerning cost distribution. Together with its partners, BKW has been analysing these areas for many years now and is placing the experience and expertise it has gained at the disposal of government authorities.

For example, as part of the Inergie association, BKW is carrying out the “iSmart Ittigen” pilot study. The study involves 270 pilot customers each equipped with a smart meter and a display system. This system provides them with feedback about their electricity consumption. The research work accompanying this project has confirmed that customers appreciate consumption displays of this type. However, customer willingness to pay for the displays is not high enough to develop a business model on this alone capable of existing in the open market. Until such a business model exists, a great deal of creativity is called for! At the moment, 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. In the next stage, we are planning to integrate existing photovoltaic plants at Ittigen into a local smart grid concept.

Municipalities as customers

The interest shown by the municipality of Ittigen in innovative energy solutions is no “one-off”. Energy policy isn’t becoming an increasing part of municipality policy as a result of the energy strategy adopted by national government, but rather as a direct result of cantonal energy strategy.

Municipality requirements are growing all the while, following the need to meet increasingly wide-ranging statutory provisions, and are assuming an exemplary function of their own.

Thanks to its knowledge at every stage of the value chain in the electricity supply system, BKW is aiming to be a comprehensive energy partner for the municipalities. This is in line with its own vision of itself in an open market of the future as cantonal energy supplier in Berne, Jura and Basle-County. It is already working closely with the municipalities in this role and is working on an all-embracing service offering that covers areas such as energy reference planning, decentralised production, technology and efficiency, and communication solutions. The first official market presence was aired last week here in Berne at the Cleantec City Fair.

Street lighting is one area where BKW is already supporting municipalities. Last year, for example, following an exhaustive test phase BKW replaced street lights containing mercury vapour lamps with LED lamps. This was a pioneering project for the region in 2011. But we want to go further, and that is why we have installed our own trial lighting system in Mühleberg that gives a direct comparison between conventional lighting and an LED installation. The dark winter nights prompted a large number of municipalities to accept our invitation, and the innovative lighting system is meeting with great interest. BKW has joined up with Ostermundigen municipality and seven leading light suppliers in a far bigger project.

In Oberfeld, in Ostermundigen, a district that is probably the most up-to-date in Switzerland in terms of technology and energy efficiency is being developed in the field of public lighting systems.

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 its reference object. We will provide you with more details about this project within the next few days.

Energy services with the distributor grid

Municipalities are also often owners and operators of energy supply companies, and hence own and operate distribution grids too. These electricity suppliers have their own special requirements in an environment that is becoming increasingly complex, especially in a world where energy is being ever more decentralised.

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 more efficiently than ever before, e.g. by using "smart" technologies based on open industrial standards and existing communication solutions. It thus sees itself as a competent service provider

for other distribution grid operators, and it's already in a good starting position: with its own infrastructure on distribution grid levels 2 to 7 and competences in asset management, engineering, construction and operation, and where domestic installations are concerned, BKW has access to all the relevant market players, to municipalities and end-customers. This access means BKW is optimally placed to control the grid as dictated by the irregular production patterns associated with renewable energy and to match production to consumer requirements – a decisive factor for success when it comes to the utilisation of energy.

Final vote on strategy

The speed and extent to which BKW will be able to develop, finalise and implement its new business activities on a large scale as part of the “BKW 2030” strategy depends largely on the framework conditions – this holds particularly true where smart grids are concerned. Issues regarding cost distribution and accountability still have to be resolved. BKW is participating to the fullest extent it can in designing these basic requirements. We are assuming that government authorities are also willing to carry on working, in partnership with us. The signals given by Federal Councillor Doris Leuthard at the electricity conference held recently here in Berne give me cause for optimism.

Ladies and gentlemen, this brings me to the end of my remarks on BKW's 2030 strategy; I would now like to address the results for the 2011 financial year.

Commentary on the result for 2011

2011 was an extremely challenging year for BKW. Operating profit was impacted by the economic, political and regulatory environment. In the 2011 financial year BKW recorded consolidated operating revenue of CHF 2,633 million, corresponding to a reduction of around 5.6% compared with the prior-year period. The operating result was weighed down in particular by low market prices together with the strong Swiss franc and special impairment charges and provisions for new fossil-fuelled power plants in Italy and Germany, leading to a net loss for 2011 of CHF 66 million.

Nevertheless, at the Annual General Meeting the Board of Directors will propose the payment of a dividend: as before, the dividend as well as the performance-related component paid to employees and line managers are based primarily on adjusted net profit. While this has declined, it remains positive.

In 2011 the total volume of electricity produced by the BKW Group amounted to 9,865 GWh, corresponding to a year-on-year reduction of 7%. There are two reasons for this reduction:

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 resulted in much lower production from hydro power.

In 2010 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 increase wind power production in both countries by 137%, from 89 to 211 GWh.

Ladies and gentlemen, BKW is small enough to be flexible, and big enough to accept responsibility. I am convinced that with its new strategic alignment based on many years of proven experience, backed in particular by the know-how and professionalism of its employees, the company is well placed to expand and consolidate its position as a leading Swiss electricity supplier and a major innovative energy service provider.

Thank you for your interest. I would now like to hand you over to BKW's CFO, Beat Grossenbacher.