

2010 financial year

BKW records strong operating earnings despite difficult environment



Presentation by Kurt Rohrbach, Chairman of the Executive Board, on the occasion of the annual media conference of 17 March 2011.

Ladies and Gentlemen,

Welcome to the annual media conference of BKW FMB Energie AG (BKW).

All our attention is focused at the moment on the events in Japan. They raise many questions that are consequently of high interest to us. We are fully aware of the importance. With your permission, firstly we would like to comment briefly on the report of the past financial year. We would then like to go into the situation in Japan and comment on the energy supply in Switzerland and on BKW.

I shall begin as usual with some explanations of the result of the BKW Group and of the most important activities of our company in the past financial year. I will then go into some of the selected topics in more detail. Mr Hermann Ineichen, Head of the Division Energy Switzerland, will then discuss in detail the energy business and the individual projects. Mr Beat Grossebacher, Head of Finance and Services, will present the financial aspects of the result. To conclude I will make some comments on the outlook for 2011 and as mentioned some assessments in regard to Japan.

After the presentations we will gladly answer your questions.

Introduction

In the past year BKW gave high priority to the production segment, *inter alia* with further work on the replacement nuclear power station Mühleberg (EKKM), on the development of the international wind energy segment as well as to the expansion of the hydroelectric power portfolio in France. A further focus was the buy-back of the BKW shares from E.ON as well as dealing with the new regulatory framework.

The operational business was distinguished by the difficult price and monetary environment, together with depressed margins. In addition, coming regulations have an increasing impact on our actions. Thanks to its supply business BKW was somewhat

less subject to the turbulences in the international markets than other companies in our industry. Thus the vertically integrated business model of BKW once again proved to be more than a stabilising factor in 2010.

Comments on the results of 2010

In the past financial year the BKW Group generated a consolidated total operating revenue of CHF 3,187 million, i.e. circa 11% less than in the previous year. Our sales figures in Switzerland essentially reflect the growth in the market. The total figures for 2010 are not yet known, although the consumption of electricity in Switzerland is thought to have increased by about 3%. Overall, due to the international market development, we supplied less, trading sales fell by about 6%.

BKW measures its performance primarily on its operating profitability, therefore on the adjusted EBITDA. Against the previous year this was lower by 4.2% at CHF 481 million. Here as well, the influencing factors are the price and monetary environment.

The financial result and consequently the profit performance of the BKW Group also depend on the performance of both of the state funds for decommissioning and disposal of nuclear waste. As the situation in the stock markets and financial markets proved to be “normal” in the reporting year, and could not profit from a recovery effect as in the previous year, the 2010 result in comparison with 2009 fell by almost one quarter to CHF 228 million.

Success factor Production portfolio

In summary it can be said that BKW performed well in this difficult environment. The company can count on a broadly diversified production portfolio that assists in balancing out risks. In Switzerland we are producing in an almost CO₂-free manner from hydroelectric power, new renewable energies and nuclear energy, accounting for somewhat more than one sixth of the national power requirement.

Position in Switzerland

We feel confident in our success factors and continue to focus on them. BKW has set itself the objective of strengthening its position as the largest vertically integrated energy provider in Switzerland. In order to further guarantee a secure, economical and environmentally sound power supply to our customers, we need our own, broad

production portfolio. With this in mind we are focussing heavily on further strengthening the new renewable energies both at home and abroad, optimisation of the hydroelectric power stations and replacing the nuclear power station Mühleberg. In view of the present situation in Japan, it is obvious that we are dealing with a new starting point that will impact the future of nuclear energy.

New renewable energy; yes, but where?

Today, BKW is the largest supplier in Switzerland of power from new renewable energies. Nevertheless, we had to reduce our expansion target at the beginning of this year. This is because, *inter alia*, the potential for these technologies is limited in Switzerland. My colleague Hermann Ineichen will go into more detail on the assessment of BKW in regard to this topic. It is true for all of us in the industry that a fight has broken out for suitable location sites. This also leads arguably to excesses. BKW invested nine years for the construction of its wind park Juvent in the Bernese Jura. In addition to the complex and uncoordinated administrative processes, this lasted a very long time because we placed special attention to dialogue and coordination with the stakeholders.

The situation in the Jura is very different today. Many residents are tired of the innumerable wind projects that spring up from the ground like mushrooms. They are worried about the landscape and losses to their quality of life. They organise themselves and defend themselves in interest groups. BKW also experiences this increasing opposition towards projects in small-scale hydropower.

The dilemma with the new renewable energies is not the lack of financial resources. On the contrary, the KEV (compensatory feed-in remuneration) subsidies bring positive incentives. Thus, several electricity supply companies in Switzerland have founded subsidiaries that are active in this field of technology. The KEV, however, has also motivated project developers, who work for companies that themselves do not have the ability and strength for this. Almost like "locusts" they then descend on certain areas, entice individual landowners with outrageous compensation payments and secure renewable energy for their contractors often far away from their supply area, in the Jura, in the Grisons or in the Bernese Oberland. The potential of the locations is not increased in this way, but the opposition and the displeasure of the affected population is increasing. I am convinced that this development will still be the cause of discussions in the coming years.

BKW as a successful niche player abroad

BKW complements its production objectives in Switzerland with a niche strategy in selected foreign markets. The objective of BKW remains that of investing in these markets in the relevant, most suitable production technologies.

In Italy, BKW focuses on power production from gas and wind in addition to its eight hydroelectric power stations. BKW entered the Italian wind energy business about two years ago. This resulted from the purchase of a 33% holding in the newly created company Fortore Wind. The opportunity has now arisen for BKW to position itself as the sole investor. BKW is taking over 100% of four wind parks as well as 50% of a fifth from Fortore Wind. Overall, BKW aims to have available more than 140 MW of wind power in Italy, corresponding to a production of ca. 280 GWh/year. We do not rule out that partners may take a share in our Italian wind business in the future.

In Germany BKW has a one third holding in a coal-fired power station in Wilhelmshaven. This is presently under construction. In addition, BKW also wants to expand its wind portfolio in Germany. By 2015 BKW wants to complete several wind parks at various locations in Germany with an installed total output of about 200 Megawatts. The first park has already started production in Landkern, Rheinland-Pfalz in January of this year. Moreover, in the last financial year BKW acquired holdings in its first offshore wind park project. The participation in the Park Borkum West II in the German North Sea enables BKW to acquire valuable, practical constructional and operational expertise in the promising offshore technology.

A new opportunity for BKW has opened up in France. In a first step, our objective was to build up hydroelectric power capacities. In addition to the selective purchase of installations, BKW intends to actively participate in the upcoming public tenders for hydroelectric power station concessions offered by the French state. In the next five years this concerns a total of ten existing hydroelectric power concessions. Already before these tenders BKW successfully acquired a power station group with four installations in the French Alps with a total output of 30 MW and an annual production of ca. 140 Gigawatt-hours. The transaction still requires the assent of the French authorities. This success makes us confident for the further positioning of BKW.

Security of supply

Following on from these remarks on the BKW production portfolio, I now come to the developments in the regulatory environment of our company. In Switzerland we are still

in an introductory phase with a great many uncertainties in regard to the elaboration and implementation of the regulations. The decisions of the EICom in relation to the organisation of grid usage prices are increasingly a factor that is calculated only with difficulty for many (distribution) network providers.

A considerable legal uncertainty exists at present in significant points, in particular for the question of how an efficient power supply is defined and how it can be measured and assessed. BKW is preparing on the one hand the continuation and intensification of efficiency improvement measures for this increasingly difficult environment. On the other hand we are actively working to clarify these open questions in the scope of our possible influence.

In order to reinstate the necessary legal security as soon as possible, BKW has also resorted to legal means. A plurality of actions against the EICom are particularly intended to clarify how interest can be charged on capital costs and which costs are to be taken into account in the energy and network area for an electricity supply company. This legal uncertainty factor alone can influence the BKW results in the double-digit million range. The actions are in part still pending. However, it must already be said today that these means for financing replacement and construction investments required in the future would be lacking, which may not remain without adverse effects for the security of supply.

I would now like to hand over the floor to my colleagues Hermann Ineichen and then Beat Grossenbacher, who will present in more detail some topics that I have already touched on. Hermann Ineichen will also share with you in particular the production figures and projects of BKW.

Outlook

In conclusion I would like to say a few words on the outlook.

Many people thought that the electricity providers in Switzerland acted previously in a type of protected setting. Monopolies that supply their customers – as our clients used to be called – over networks that stand in the countryside, without having to fear competition. You, Ladies and Gentlemen, know of course that this is no longer the case and that the reality is somewhat more complex. The BKW Group is quoted on the stock exchange, has direct business activities in neighbouring countries and is internationally geared to its electricity and raw material trading. World affairs have a direct impact on

our course of business. The most important primary energies such as oil, coal, uranium – and since some years also natural gas – have clearly become international market products. Shortages or surpluses always become rapidly global in nature. In addition, the meaning of access to affordable energy as a strategic topic has become important to almost all national economies. The role of availability of energy for competitiveness has been recognised. Although new renewable energies should be strengthened, fossil energy sources will remain important for production for much longer than had previously been thought.

Present events in the world market directly influence the business of BKW, even under more normal circumstances than those we are experiencing today. Today we are positioned such that if anything we can profit from a rising oil price. The structure, the organisation and the leadership process of the BKW Group have been continually developed over the last decade. In order to follow this path and to be able to meet the steadily increasing regulatory requirements, for example in regard to unbundling, we are presently evaluating on an internal basis the transition to a holding structure. However, still no decision in this regard has been made.

In regard to financial figures, BKW expects that the turnover for the current year will be in the range of that of the previous year. The operational result in 2011 should also be burdened from continued low energy prices on the international markets, regulatory requirements as well as expenditures for strategic projects – particularly in the field of production expansions. Taking into account all these factors, the operating profit before depreciation and amortisation (EBITDA) for 2011 should be similar to the previous year. This is after elimination of extraordinary effects for the release of the provision for onerous contracts for the energy procurement from affiliated factories in 2010. Overall we expect a net profit similar to that of the previous year.

I hereby close our comments on the annual results of the BKW Group and pass onto the present events in Japan and to some of our assessments in regard to them.