

2010 financial year

## A broad range of production facilities for the future



### Address by Hermann Ineichen, Head of Energy Switzerland, to the Annual Media Conference on 17 March 2011

Ladies and Gentlemen,

To begin my presentation I will be focussing on energy business operations in 2010. I would then like to explain some projects and developments in more detail.

#### **Increasing energy production outside Switzerland**

The BKW Group produced a total of 10,552 GWh of electricity in 2010. This is a reduction of 0.2% or 26 GWh compared to the previous year. This decrease is predominantly due to the drop in Swiss production. In contrast, we increased production abroad by 132 GWh or 15%.

Swiss production recorded a reduction of 1.6% to 9,563 GWh, mainly due to the lower volume of hydroelectricity produced, as well as the drop in inflows and pump power and the reduction in our holding in the Gommer power stations to 25%.

Our own hydroelectric plants increased production by 10 GWh to 947 GWh. Together these effects have led to a reduction of 323 GWh or 8% in hydroelectric production.

In contrast to hydroelectric production, the Mühleberg nuclear power station (KKM) and nuclear power holdings increased production volumes by 138 GWh or 2.4% to 5,921 GWh.

At 2,980 GWh, Mühleberg nuclear power station even achieved its highest ever production volume. In addition, both Cattenom and Fessenheim recorded higher production volumes. Leibstadt nuclear power station, on the other hand, posted lower volume because of the extended revision in 2010.

New renewable energies in Switzerland contributed a total of 49 GWh to production. The energy produced has more than doubled, chiefly thanks to the commissioning of Schattenhalb 3 power station. Additionally, JUVENT SA commissioned eight latest-

generation wind turbines on Mont Crosin, quadrupling the production capacity of the wind farm. Juvent accounted for 12.5 GWh of production.

In some good news from the biomass sector, bioenergie bätterkinden ag (bebag) commenced operations in November 2010. In the future, the modern biogas plant will convert around 10,000 tonnes of organic waste a year into electricity and heat. On the other hand, the decommissioning of Otelfingen power station for a one-year renovation period in autumn 2010 reduced the total volume produced from biomass to 7.3 GWh.

Both the wood-fired power station in Grindelwald and (in December) the heat-power cogeneration plant at Lerchenpark in Thun went live in 2010. Since September the plant in Grindelwald has generated 2.6 GWh of heat.

In Germany and Italy we managed to produce a total of almost 990 GWh of electricity, corresponding to an increase of 132 GWh.

On the one hand, this is due to efficient running of the existing plants in Italy and the record production volume by hydroelectric power stations, which increased the output of the conventional power stations of Livorno Ferraris, Idroelettrica Lombarda and Biopower Sardegna by 82 GWh or 10.2% to 884 GWh.

On the other hand, we made substantial investments in additional wind farms in Italy (Apulia) and Germany in 2009/2010, as a result of which the total volume of electricity produced by these and existing wind farms was virtually doubled, rising by 50 GWh or 91% to 105 GWh.

### **Positive trend in national and international sales**

Energy sales are performing positively both on a national and international level. However, the severe changes in the price level and the euro exchange rate, particularly for international trading, drove down the volume of electricity sold by 2.3% or 626 GWh to 26.7 TWh.

Swiss sales rose by 1% to 8,153 GWh

Residential customers accounted for 1,749 GWh of this amount, an increase of 3.5% or almost 60 GWh over the previous year due to natural growth and the noticeably colder spring and winter of 2010.

The economic recovery led to a growth in sales to SME customers. Conversely, sales to industrial customers fell due in part to the closure of Deisswil cardboard factory. Overall, therefore, the volume of energy sold to SME and industrial customers fell by 38 GWh or 1.9% to 2,008 GWh.

Sales to distribution partners were slightly higher, rising by 1.3%, primarily due to growth in sales to distribution partners in our supply area.

Electricity sales in Germany were 11.4% higher, while sales in Italy were negatively impacted by the change in price level as well as consumer reticence due to the economic situation.

Overall, therefore, international sales of electricity increased by 247 GWh or 4.3% to just over 6 TWh.

As announced back in autumn 2010, the sales business in Germany was sold to Enovos Luxembourg SA on 1 January 2011. BKW made this move in order to focus its activities in the German market on production and trading.

Overall, BKW trading closed the year better than expected, despite the impact of the weaker euro on revenue.

Energy sales fell by 6.3% or 800 GWh to 11.84 TWh due to difficult international market conditions. Energy purchases and buy-backs amounted to 16.13 TWh, corresponding to a reduction of 600 GWh or 3.6% versus the previous year.

In the course of 2010, trading was extended to include other commodities so as to optimise use of BKW's own fossil-thermal power stations. As a result, coal and oil were taken into account for the first time.

It proved difficult to provide a reliable assessment of the short and medium-term trend in proprietary trading. Consequently we had to accept a rather disappointing result although we incurred no losses.

The total volumes traded amounted to 50 TWh of electricity, 2.1 million tonnes of CO<sub>2</sub> emission certificates, and 4.3 TWh of gas.

Newly-built renewable power stations have had a massive impact, particularly in the solar power sector in Germany. Unlike conventional power stations, it is impossible to plan the production of electricity from new renewable energies. However, this production usually occurs at midday or during peak hours, particularly in the summer, narrowing the gap between peak and off-peak prices and reducing the earning power of pumped storage stations. In future this will impact the operating income achieved by these power stations.

On the other hand, it also means that more storage options are required for less sunny periods. Pumped storage power stations will then play an important role, acting as a battery to store these new renewable energies until they are needed.

Last week's publication of the three applications by Kraftwerke Oberhasli AG to expand the existing pumped storage facility is a step towards this future scenario.

### **sol-E on track with a new objective in the new renewable energies sector**

sol-E Suisse AG further consolidated its strong national position in its third year of business. Nevertheless, the market for new renewable energies in Switzerland is suffering from an increasingly difficult environment which is making it impossible to meet the high hopes invested in new renewable energies.

This is reflected in particular in the harsh competition for sites and growing opposition or moratoriums on wind power and small hydropower. Not one single licence procedure for a hydroelectric project was successfully concluded in 2010. Limitations were also revealed with regard to available substrate quantities in the fermentable biomass sector and in energy production from wood energy. The regulatory conditions and protracted authorisation procedures also led to many unplanned project delays.

In January 2011 these findings, acquired over the past three years, prompted us to re-assess our target volume for electricity production from new renewable energies. The former highly ambitious former target of 1,000 GWh of electricity production by 2030 was replaced by a more realistic target, given the challenging environment, of 600 GWh. However, neither the personnel nor resource commitment to the target achievement will be reduced.

The growing trend among rural communities is towards wood-fired, local thermal plants. Further dedicated heating projects are being developed in Wengen, Hasliberg, Thun and elsewhere. BKW has set itself the target of 100 GWh for this business area by 2030. In the biogas sector we will be commissioning our biogas plant in the Magadino Plain in the Canton of Ticino within the next few weeks.

### **Partnerships**

Together with Groupe E SA and Youtility AG, we have pressed ahead with implementation of the joint processing and marketing/sales platform. The aim of this platform is to provide services and end-to-end billing for our residential and commercial customers all from a single source. This creates simpler structures and more efficient processes. This move also strengthens BKW and its partners ahead of the forthcoming liberalisation of the electricity market for residential customers. Groupe E has introduced the 1to1 energy brand to exploit these synergies.

In terms of energy services, we forged a partnership with Lonza AG in 2010 to help Lonza optimise its power procurement. Under the terms of the partnership, BKW is not the sole energy supplier but rather acts as a service provider.

Working with the City of Biel, we took an important step towards renewing Hagneck hydroelectric power station (shareholder ratio 50% City of Biel, 50% BKW). The necessary licences were granted in January, and providing the building permit process goes as planned, construction will commence in early summer 2011. The power station is scheduled to go into operation in mid-2015.

As mentioned in the introduction, due to the current events in Japan all matters related to nuclear power will be dealt with separately following our presentation of the 2010 results.

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Thank you for your attention. I will now pass you over to Beat Grossenbacher.