

BKW 2030 – Implementation of the strategy is proceeding apace



Address by Urs Gasche, Chairman of the Board of Directors of BKW Inc., to the Annual General Meeting on 17 May 2013

Dear Shareholders

Dear Guests

I have pleasure in welcoming you, our esteemed shareholders, guests, customers, partners, employees and media representatives, to the second Annual General Meeting of BKW Inc.

I'd like to extend a special welcome to those shareholders who are attending our AGM for the first time. I am delighted that you have come along to show your interest in our company's development.

I would also like to welcome in particular our French-speaking shareholders, customers and representatives of French-speaking media. Your presence here today is proof that bilingualism is a reality for BKW. This year we have once more organised a simultaneous translation service so that you can follow the proceedings of the AGM in your own language. However, I will now continue my address in German. Please raise your hand if you still require headphones.

Before we come to the agenda proper, allow me to say a few words on the issues currently occupying ourselves as a company and you as shareholders.

Implementation of the BKW 2030 Group Strategy has started

A year ago I presented the new BKW 2030 Group strategy to you and explained the reasons behind the Board of Director's decision to adopt this strategy paper.

The 2030 Strategy no longer focuses on expanding the production portfolio with a targeted volume in mind. Rather, it rests on three main planks:

1. Energy-efficient, innovative products,
2. Renewable energy production, and
3. Grid business and new energy services.

These objectives have their roots in a proven strategic BKW foundation, namely the longer-term target of CO₂-free production, a partnership model, and the existing plants and activities within a vertically integrated company.

Group strategy stable in a variety of scenarios

The Board of Directors felt it was important to define a Group strategy that allows BKW to enjoy stable development in various conceivable scenarios, and enables the company to respond appropriately and swiftly to trends and developments in its environment which to some extent remain unclear at this point in time. Even if the public debate conveys a different picture, the shape of Switzerland's future energy policy is still not set in stone. The proposal on the 2050 energy strategy will only be put before parliament this autumn, following which voters will no doubt also want to have their say; and that won't happen before 2015 or 2016. And even if we know then what form the policy will take, we must make sure that the events happening around us do not render our efforts useless: In the energy supply industry, interdependencies and markets are becoming increasingly global. So international developments also affect BKW's business model.

Right now this global energy world is experiencing fundamental changes, and unfortunately – and I admit this is a personal view – fossil fuels are bearing the brunt. Gas will become the dominant primary energy over the next few decades. The US is pushing forward the exploitation of shale gas, which the country has in abundance. This will change price structures on the gas market and consequently on the international electricity market. Prices are likely to remain low for the foreseeable future, and BKW is directly feeling the impact.

Gas reigns supreme, and at the same time the importance of CO₂ is waning. A month ago, the European Parliament in Brussels rejected a reform of CO₂ trading within the EU. This means that prices for CO₂ certificates will remain low. And old, inefficient fossil-

fired power plants will remain connected to the grid. These are urgently needed, for instance in Germany: ageing coal-fired power plants are now guaranteeing grid stability for intermittently-generated renewable energies. Solar and wind power from Germany have now become a relevant market factor. On the one hand this is a positive development! But on the other hand, we at BKW are feeling the negative impact: Thanks to massive financial incentives, these technologies are driving out unsubsidised power plants, including even renewable hydro power. BKW sees the direct impact of this in the profitability of hydro power. BKW's most important subsidiary, Kraftwerke Oberhasli AG, has shelved construction of a new pump storage power plant which had been planned as part of the KWOpus investment programme. Pump storage power plants cannot be operated at a profit right now, even though they are an important criterion for implementing the objectives of the Federal Council's new energy policy.

So you see, ladies and gentlemen, given these external influences on BKW, it is essential for the company to remain financially flexible; in other words, for profitability to be accorded a high priority. And the focus is even stronger in BKW's new strategy.

Last year, in keeping with the Board of Directors' decision in principle, the Group Executive Board fleshed out the strategy and further refined it in conjunction with the Board of Directors. Individual sub-strategies were also drawn up and approved by the Board of Directors.

So one year on, what are the visible signs?

New Group structure

Tasked with implementing the Group strategy, the Group Executive Board then had to bring the organisational structure into line with the new objectives. This work has already been started under the leadership of Suzanne Thoma: BKW has set itself the goal of establishing a new organisational structure by the middle of this year. The new structure will be aligned to the objectives of the BKW 2030 strategy and enable their optimal implementation. It also reflects the growing importance of energy efficiency and renewable energies at BKW.

What's new at divisional level? The new BKW Inc. structure comprises six business divisions in place of the former five. As a result, the Group Executive Board now consists of

six members. The individual divisions will tend to be smaller and more equal in size. In her address, our CEO Ms Suzanne Thoma will discuss the new structure in greater detail and outline the motives behind it. For my part, I can assure you that the Board of Directors is convinced that the new corporate structure creates the right conditions for BKW to exploit the business opportunities afforded by the Federal Council's 2050 energy strategy: to the benefit of employees, investors and customers alike.



Energy efficiency: a new business field

As a skilled all-round energy partner, BKW aims to contribute to the success of its customers. It is our responsibility to provide know-how and offer products and services. We do not want to force information on managing electricity down our customers' throats. But we want to provide them with guidance, so that they can adjust their electricity consumption settings to their individual needs and decide for themselves how to use energy more efficiently.

BKW's success in the government's ProKilowatt programme is testament to how seriously our knowledge of energy efficiency is taken. The programme awards grants from the fund raised by feed-in tariffs to projects for energy-efficiency measures in the electricity area. To date, BKW has won grants for projects representing 16% of the entire fund. These efficiency projects produce concrete results that are immediately noticeable. But BKW is also involved in projects which are still at the pilot or test phase, to determine the acceptance, profitability, market potential or technical optimisation of a new development before major investments are committed. Sometimes this results in an idea being abandoned. This was the case with e-mobility at BKW: Over the past three years BKW created a basic framework for e-mobility and examined the opportunities and risks facing it on the e-mobility market. Although we are convinced that electric cars will become increasingly widespread and popular over the next few years, we opted for the time being not to build a public charging network. As an energy services provider, we see no profitable business model in this area over the medium term.

Many business models that have been examined by us in recent months are based on long-term processes. As shareholders it will be important for you to know that, as things stand at present, there are virtually no models that will generate significant revenues within the year. It will take some time for these business models to make a substantial

contribution to profit. Nevertheless, we remain convinced that this is an important commitment is important and that it makes sense as a company to pursue it vigorously.

Large power plants: the backbone of supply

The discussion on the future energy supply landscape is lively, heated and controversial. In recent months it has also become emotionally charged, at times dominated more by wishful thinking than hard facts. One thing is for sure: future energy supplies will be increasingly decentralised. We support this trend and believe it offers a great many business opportunities.

BKW can help to restructure the system more effectively, cost-efficiently and intensively if it is left sufficient room for manoeuvre. There is no question that the Group's main revenues, at least over the next few years, will continue to be generated by conventional energy sources, and that large power plants will remain the stable backbone of supplies for the time being. Besides hydro power, for BKW in Switzerland this includes Mühleberg nuclear power plant.

Federal Court provides for legal equality

Ladies and Gentlemen,

In its decision of 28 March, the Federal Court put Mühleberg nuclear power plant on an equal legal footing with Switzerland's other nuclear power plants. Now that it has been granted an unlimited operating period, the plant enjoys equal treatment with Beznau, Gösgen and Leibstadt.

We are delighted with this decision because it has created legal certainty and gives us more breathing space: economic breathing space, because the revenue generated by Mühleberg unquestionably helps to finance Switzerland's move to decentralise power supplies; but the Federal Court's decision also brings peace of mind, especially to our employees, who can now concentrate on drawing up the implementation plans requested by ENSI, the supervisory authority. Over the past few months we have also been working flat out on the financial analysis for the bottom-line and investment decision on Mühleberg nuclear power plant. The Board of Directors will reach the bottom-line decision at the end of this year, once concrete offers for equipment upgrades are in place.

An AGM is an opportunity not only to look forward to the future, but also to review the past. This brings me to my short review of the past financial year 2012.

Review of fiscal 2012

Following the loss recorded last year, BKW can look back with pride on a solid operating profit for 2012. The main factors contributing to the positive result were the higher production volumes recorded both by nuclear power plants and renewable energy facilities, the good revenue from grid business, and positive effects from the internal cost-cutting and efficiency enhancement programmes.

Due to the market situation we were once more obliged to test production assets for impairment. New plants account for the lion's share of provisions of CHF -112 million. The situation is comparable to last year: new power plants which are neither amortised nor subsidised are at a competitive disadvantage versus older, partly-amortised production facilities or new subsidised ones. One regrettable first was that BKW had to adjust the value of a hydroelectric power plant: the Hagneck facility.

Overall, consolidated operating revenue rose by 8 percent to CHF 2,860 million. The operating result (EBITDA) was CHF 272 million higher year-on-year at CHF 410 million. The trend on international financial markets had a positive impact on the financial result, enabling BKW to once more report a net profit of CHF 134 million for 2012. Our CEO, Dr. Suzanne Thoma, will discuss the results in more detail in a moment.

Shareholder trend

Permit me now to devote a few words to the development of the shareholder base and the performance of the BKW share. As in 2011, the number of BKW shareholders fell slightly from 8,700 to around 8,400. The geographical distribution of shareholders remained relatively stable, with 85 percent of shareholders domiciled in Switzerland.

BKW's stock exchange value currently amounts to around CHF 1.5 billion. In 2012 the BKW share price dropped by around 14 percent, representing a slow stabilisation compared to 2011. The share price closed on 31 December 2012 at CHF 31.40 and hence once more corresponds to the price when the share was first placed on the SIX Swiss Exchange in 2003.

Thank you

Over the past two years the energy industry has experienced an unprecedented rate of change. At the same time as conducting its day-to-day business and maintaining the security of supply to which our customers are used, BKW is working on plans for a decentralised supply landscape, exploring new business opportunities and reorganising itself.

Press reports tend to focus on the effects of the shake-up on energy suppliers and their business models. But in every case there are people behind a company. Our employees and managers were under a great deal of stress last year: the pace of change is relentless, yet planning horizons remain long. This ongoing demands were ably tackled by our employees and managers. On behalf of the Board of Directors I would like to extend my warmest thanks to all those who helped BKW to return to profit. I am delighted to be able to count on such an extensive pool of knowledge, experience and know-how at BKW.

Flexibility and creativity will continue to be required in implementing the 2030 BKW strategy, along with the reliability and accuracy needed to maintain a construct as complex as the electricity supply system. While many of these skills have been available to BKW from the outset, we will need to build up know-how even more in some areas.

Handover to Bertrand Piccard

For some years now, BKW has been working with someone who is regarded as one of the most innovative and courageous Swiss. If anyone knows how to turn new projects into reality, how to inspire, motivate and instil success, even if the goal is not yet attainable, it's him! So what could be better than to talk to him in person about what has made himself and his projects so successful.

I am delighted that – technology permitting – we have the opportunity to talk live to Bertrand Piccard. He is currently in the USA, where he is driving forward his Solar Impulse project.

Now we come to the statutory part of the AGM.