

Annual General Meeting of BKW Inc.

BKW – Ready for the Future

Address by Dr Suzanne Thoma, CEO of BKW Inc., at the Annual General Meeting in Berne on 17 May 2013

Ladies and Gentlemen,
Esteemed Shareholders

Introduction

I too would like to extend a warm welcome to this year's AGM of the BKW Group. It is an honour for me today, for the first time in my capacity as CEO, to give you an account of the past financial year and present the outlook for what lies ahead of us. But although today I am the one who is able to present a solid BKW well-positioned for the future, I am also referring throughout to the work put in by the Group Executive Board last year under the leadership of my esteemed predecessor, Kurt Rohrbach.

BKW 2030 strategy as a response to sweeping change

Ladies and gentlemen, the energy industry is currently experiencing a period of rapid change and is facing a great many major challenges. The BKW Group, too, is having to contend with this change and these challenges. I want to use this opportunity to discuss BKW's response to the emerging challenges and explain in greater detail our vision of becoming the leading energy services provider in Switzerland.

We are in a challenging market situation. The economic situation is difficult, and the market is distorted by competition from subsidised and unsubsidised electricity production. Electricity trading is negatively impacted by a currency situation in which the Swiss franc is growing ever stronger, regulation is tightening, energy prices remain persistently low, and the gap between peak and off-peak revenue is dwindling. Massive subsidisation for solar power and wind power, particularly in Germany, is having an impact. But it creates follow-up problems which affect grid stability and grid capacity and cast doubt on the profitability of unsubsidised production. So while reserve capacities are becoming

increasingly important, investments in such areas are impossible or can only be made with a very long-term horizon and accompanied by high risks.

Ladies and gentlemen, last year the Board of Directors of BKW responded to these emerging changes with a new forward-looking BKW 2030 strategy. Through its new BKW 2030 strategy, our company will be able to make a substantial contribution to re-shaping the energy supply system. The new strategy concentrates on renewable energies and energy efficiency. This is in keeping with the Federal Council's 2050 energy strategy, which lays down the legal and regulatory framework. As our Chairman Urs Gasche has already mentioned, we have already launched a large number of activities to ensure the consistent implementation of this strategy. At this point I would like to detail our vision of becoming the leading Swiss energy services provider before going on to discuss the new Group structure which will enable consistent implementation of the strategy.

The road to becoming a leading energy services provider

In Switzerland the energy system of the future will be highly decentralised and complex. Our electricity customers will also be electricity producers. An orderly, centrally-structured system will become a complex mix of production, consumption and storage. On a cold winter's day, small electricity producers will also want to draw power from the grid. New technologies will be deployed. This will call for comprehensive expertise in the energy system of the future. BKW and its business model based on vertical integration have proved sound, as the results illustrate. Vertical integration is an ideal basis on which to shape the future energy system. BKW will build on this and position itself accordingly. We will then not only simply supply our customers with electricity; we will also design needs-appropriate, regional, local and individual solutions. This is the only way to integrate decentralised energy producers and their intermittent feed-ins in a functioning overall system: a smart grid. BKW will be an energy partner for private individuals, small and large companies, municipalities and cantons.

Just so you understand me correctly, the conventional energy business will continue to operate, and our foremost mandate to provide reliable electricity supplies remains unchanged. But alongside the classical infrastructure business, developing innovative new integrated systems and services will be among BKW's new core competences. We will design, plan, build and operate a wide range of different energy systems. New business

fields are also emerging in the energy efficiency area, for example energy consulting, planning and implementation. I'm thinking here, for example, of the starter kit in our Smart Living programme, or the smart grid pilot project FlexLast.

The energy and grid infrastructures will be renovated, modernised and expanded over the next few years. This calls for experienced partners. As you know, in Arnold and ISP we already have two Group companies which are active virtually across Switzerland as providers of grid services and are highly skilled in implementing projects for our customers. New technological solutions are paving the way for standardised, affordable offerings, for example for smaller-scale electricity suppliers who work with BKW. Even now, more than 1,000 BKW employees are engaged solely in the service business. BKW aims to position itself as a leading energy services provider through innovation. Vertical integration and consistent implementation of the strategy will provide the basis.

New Group structure as a consistent reflection of the strategy

Ladies and gentlemen, in order to ensure the successful implementation of its corporate strategy, BKW has decided to adjust its Group and organisational structure, in keeping with the principle "structure follows strategy", which states that a company's organisational structure is the key criterion for implementing its strategy. The new organisation will allow us to exploit the opportunities of vertical integration even more effectively, and to tap synergies and innovation potential. Bringing together similar and related skills and expertise gives us the strength and flexibility to concentrate on new technologies and meet customers' individual needs while still engaging in the classical energy business. In future, core business will be divided among four business divisions. Two additional divisions will cover management and support activities. The key positions in the new organisational structure have now all been filled.

The Production Division covers all BKW's conventional electricity generation business. This includes both hydrological and thermal power generation in Switzerland and abroad as well as Mühleberg nuclear power plant. The division will be headed by Herman Ineichen.

The Networks Division will also be responsible in future for the regulated grid infrastructure and grid connection business as well as non-regulated grid services business. Christophe Bossel will remain head of this division.

The most obvious change in the new Group structure is the new Renewables and Efficiency Division, which reinforces our strategic focus on renewable energies and energy efficiency. When a new division is created, it is also charged with making a positive and growing contribution to Group results. Renato Sturani will head up this division.

Another very important change is the new Market Division, which brings together sales and trading activities under one roof, and provides a single point of contact for our customers and trading partners. The focus and concentration on customer care will ensure the requisite effectiveness and efficiency in our marketing activities. Monica Dell'Anna will be responsible for this division.

Management and control functions will continue to be covered by the Group Management and Finance & Services divisions. Group Management will continue to report directly to me as CEO. As CFO, Beat Grossenbacher will head up the Finance & Services division.

BKW's regional subsidiaries and Group companies, such as onyx Energie Mittelland, will continue to play an important role within the BKW Group. As our Chairman Urs Gasche has already mentioned, our customers are becoming increasingly pivotal to our activities. He spoke of the trend from compulsory consumer to customer. To address the needs and concerns of our customers, we must have a local presence. Group companies will continue to have an important role to play in ensuring a regional presence, so to speak on our customers' doorsteps. However, in this context I would like to emphasise that this is entirely contingent on high-level internal efficiency and the exploitation of synergies within the BKW Group.

The Board of Directors and Group Executive Board are convinced that this new corporate structure will provide BKW with an ideal foundation on which to canvass the changing market. This will allow us to exploit the opportunities afforded by the new environment consistently, to the benefit of our customers, employees and investors.

Cultural roots and further development of image

In addition to adjusting the organisational structures, the corporate culture is a key criterion for the successful implementation of our strategy. In addition to organisational

changes, we have also further developed our mission statement and values on the basis of our strategic priorities. At the centre of all our actions are the results, because they are what counts. This in turn is dependent on our enthusiasm for our customers, our reliability and our passion for innovation in order to create new standards.

As the new CEO it is important for me to implement not only a new culture within BKW, but also to foster a new dialogue with our customers. For this reason we are planning a series of regional discussions and surveys this year, in order to implement our new strategy throughout our supply region. We hope this will provide us with an even clearer picture of how BKW and its new strategy are perceived by our customers.

This change in BKW is also highly tangible and noticeable to the outside world. We have further developed our external image and given our visual identity a face lift. Ladies and gentlemen, you may already have noticed from some of my slides that we have altered the BKW logo. Don't worry, you will still recognise us. It's more of an evolution than a revolution. The revised design reinforces our cohesive identity as "One BKW", underscores the good image of the BKW Group, and standardises communications throughout the Group, along with our Group companies. This has also led to a change in our Internet presence. Since the beginning of May, our revamped website has been providing a clearly-structured, attractive information portal on all aspects of our company.

Solid operating performance in a difficult environment

I'd now like to turn to business performance and the results of the BKW Group for the 2012 financial year. Despite the still-challenging economic and regulatory environment, the BKW Group delivered a gratifyingly solid operating result for 2012 which was well above the prior-year level. Both the energy and grid businesses contributed to this positive development. The result was boosted by higher production volumes from renewable energies and nuclear power plants and by positive effects from the programme of measures introduced to cut costs and improve efficiency. Negative factors were the fall in electricity sales and charges for special provisions.

In 2012 BKW increased consolidated operating revenue by 9% to CHF 2,860 million. Net sales to external customers rose in the Energy International and Trading business division as well as in Networks, while Energy Switzerland saw a slight fall in sales.



The operating result, i.e. earnings before interest, taxes, depreciation and amortisation (EBITDA), improved by CHF 273 million to CHF 411 million. As was the case last year, the result was significantly impacted by special provisions which had to be recognised due to changes in long-term energy price expectations. BKW purchases electricity from its power plant interests at production cost. Based on an updated estimate of future market developments, BKW expects that these production costs will to some extent be higher than the recoverable market prices in future. The special provision therefore amount to CHF 112 million. Excluding these special provisions, EBITDA would have ended the year at CHF 523 million: 25% or CHF 105 million above the prior-year figure.

The trend on financial markets also had a positive impact on the financial result and thus on net profit, which ended the year at CHF 135 million and allowed BKW to return to profit despite once more recognising special charges. Adjusted for the special charges, net profit amounted to CHF 205 million, corresponding to an increase of some 70% versus 2011. Given the difficult market situation, the result is highly satisfactory.

BKW's equity situation remains stable, with equity rising by CHF 70 million in 2012. Due to the higher balance sheet total, the equity ratio fell by around one percentage point to 36.5%. Long-term debt financing costs also remained solid.

In summary, I am pleased to be able to say that BKW remains financially solid. Our company has the requisite resources to drive forward the strategic realignment of its power plant assets and launch new business models. We are ready to help shape the future of the Swiss energy industry.

Stable business expectations in a persistently challenging market environment

BKW does not expect any change in the challenging market environment in the current financial year, with energy prices set to remain low and sustained pressure on margins in the international markets. Coupled with regulatory requirements and a persistently strong Swiss franc, this will also impact business performance in 2013. Taking all these factors into account, BKW expects to end 2013 with operating profit before depreciation and impairment (EBITDA) and net profit on a par with the figures reported for 2012.

Ladies and gentlemen, despite the turbulent times in which the energy industry finds itself, I firmly believe that BKW is ready for the future, thanks to its proactive and prudent

approach. With the new BKW 2030 strategy, the Board of Directors has laid the foundations for the company's sustainable development. We will consistently and resolutely drive forward implementation of the strategy. The new Group organisation is an important requirement for exploiting the advantages of vertical integration even more fully. I am convinced that we will overcome the many challenges ahead and manage risks prudently while capitalising on the opportunities afforded by change.

A word of thanks

Esteemed shareholders, my colleagues on the Group Executive Board join me in thanking you for the confidence you have shown in us. I firmly believe that our strategy has charted the right course for our future and I look forward to your continued companionship and support on our path to a sustainable future.

Ladies and gentlemen, I would also like to express my thanks to all our customers and to our sales and business partners for your efforts and cooperation over the past financial year.

Last but not least, a big thank you to all employees of the BKW Group. A huge vote of thanks for your dedication and commitment, and your willingness to embrace change and work together to exploit the emerging opportunities.

Many thanks for your attention!