

2012 Annual General Meeting

BKW ready with new strategy for the energy transformation – the future starts today!



Address by Urs Gasche, Chairman of the Board of Directors of BKW Inc., to the Annual General Meeting on 11 May 2012

Introduction

At today's Annual General Meeting I want not only to go through the normal agenda of an AGM, but also to detail once again the BKW Group's revised strategy. So I hope you will understand if I beg your attention and patience for a little longer than normal. Today it is just over a year since the earthquake and devastating tsunami in Japan and the resultant nuclear accident at the Fukushima nuclear power plant. Although there were already clear signs that the economic situation was worsening and dampening prospects for the future, this disaster and the energy policy U-turn it triggered prompted BKW to conduct a thorough review of its group strategy.

At the last AGM I announced that the Board of Directors would be presenting the results of its strategic deliberations within the year. The Board of Directors reacted immediately after Fukushima and invested the time required to conduct an in-depth analysis of the boundary conditions and formulate a sound Group strategy to enable BKW to successfully tackle the major economic and energy-related challenges we face between now and 2030.

Group strategy: BKW 2030

In view of the aforementioned challenges, the Board of Directors was aware that a mere modification of BKW's production strategy was insufficient for the strategic realignment. Rather, the Board of Directors had to tackle the fundamental issue of the BKW Group's future positioning as a leading Swiss electricity supplier with the largest customer base, and as an important, innovative energy services provider. We have answered this fundamental question fairly and squarely by looking ahead to 2030. There is a clear logic behind calling our Group strategy "BKW 2030". Because by 2030, Mühleberg nuclear power plant will no longer be part of the BKW production portfolio. For us, this means

that BKW will need to shift its supply base to the production of renewable energy, long before other Swiss electricity suppliers cease to have any home-grown nuclear power at their disposal. As part of this process, BKW is today benefitting from the fact that, more than twenty years ago, we were the first company in the Swiss electricity industry to adopt a systematic approach to the industrial use of new energy sources: biomass in Teufstal, solar energy on Mont-Soleil and wind power on Mont-Crosin. Over the years, BKW has therefore been able to build up comprehensive know-how in this area.

Economic and energy-related challenges

The debate about the future of nuclear power in Switzerland was an important factor in the analysis of the boundary conditions. Alongside this, lower electricity prices on international markets as well as lower revenue from our peak energy supplies have prompted a re-evaluation of the various production types. This is why work on the BKW Group strategy had to go much deeper than "just" – in inverted commas – finding ways to compensate for the loss of production in the absence of Mühleberg nuclear power plant.

In addition to the economic requirements, our work drew in particular on the Swiss government's 2050 energy strategy as a guideline. Over the next few months the details of this strategy will be drawn up in conjunction with technical experts, in the course of the political process. An initial progress report was communicated on 18 April 2012, and is now to be used as the template for a consultation procedure. But even now it is clear that the 2050 energy strategy is aiming for a radical restructuring of Switzerland's existing energy supply landscape. I would like to pick out three of the priorities in this context.

- First, efficiency measures are to be massively stepped up in order to lower future electricity consumption.
- Second, the range of electricity on offer is to be expanded once nuclear power is no longer available, with particular emphasis on tapping the potential of renewable energies in Switzerland. If required for the purposes of energy security, the government does not rule out the possibility of building gas-fired combined-cycle power plants in Switzerland.
- Thirdly, electricity grids are to be expanded. This primarily involves the targeted expansion of power transmission grids and the upgrading of distribution grids to create so-called smart grids.

Like any other commercial enterprise, we at BKW believe it is our core task to align ourselves consistently with the prevailing framework conditions and, in so doing, to minimise our risks. Consequently the BKW 2030 strategy has been designed to remain robust and

stable for a range of scenarios, enabling us to respond in good time to further developments, however unclear they may appear at present. In line with this, the BKW 2030 strategy rests on three main planks: 1. Energy-efficient, innovative products, 2. Renewable energy production and 3. Grid business and new energy services. At the same time BKW is supported by its proven strategic pillars: the longer-term target of CO₂-free production, our proven partnership model, and our existing plants and activities within a vertically-integrated company.

Let me start with electricity production. To accompany my address, we will present the topics of energy efficiency and new business fields in a short film.

How does BKW intend to structure its production portfolio over the next few years? As things stand at present, existing nuclear power plants will not be replaced by state-of-the-art nuclear power facilities. Consequently, Switzerland's production landscape will become increasingly decentralised. BKW is prepared and well-positioned for this trend. With the best will in the world, a structure like the Swiss electricity supply landscape cannot be changed overnight. We need to be prepared for a transitional phase during which we want to maintain our reliable power supply for customers and ensure that we can meet the economic burden that shaping this new landscape entails. The necessary build-up of additional renewable energy production will happen much more reliably and swiftly if Mühleberg nuclear power plant can be operated safely and cost-effectively until the end of its technical life. We could, of course, opt for a higher-risk solution and shut down existing nuclear power plants immediately. But then we would probably have to get used to scenarios such as the one that occurred in Zurich's city centre a few weeks ago, when there was a three-hour power cut over lunchtime. Put simply, BKW can implement a decentralised production landscape more quickly and efficiently if it can continue for several years to rely on the tried-and-tested, reliable infrastructure via which it supplies its customers. With this backing, BKW is well placed to drive forward conversion work towards a world that increasingly relies on renewable energy. Indeed, BKW began working with new renewables earlier than other Swiss companies. Together with our partners, we can draw on 20 years of experience in pioneering work with solar power, thanks to the Mont Soleil plant in the Swiss Jura. This is supplemented by the large-scale solar power plant on the roof of the Stade de Suisse and by numerous other photovoltaic plants, so that we are continually gaining new technical insight. But BKW has never focussed exclusively on the technical aspects of solar power, and has always been quick to establish marketing models that function independently of state subsidies. For instance, we developed the first Swiss certification model for renewable energy and the first wind power sales model in our country. Nevertheless, in future we must continue to

develop new business models and adjust the relevant framework conditions if we are to sell electricity generated from photovoltaics economically. One current example is the feed-in tariff for solar power. When BKW decided to improve compensation for the feed-in of solar power, a set amount was budgeted. So successful has this incentive proven that the cost ceiling has already been reached, so that BKW has been obliged to adjust the compensation. Given in particular the tight financial situation, BKW does not have unlimited financial resources at its disposal for promoting renewable energies. Nor is it BKW's task to do so.

Thanks to 18 years of involvement in wind power in the Bernese Jura, BKW has joined forces with government authorities and interest groups to develop concepts and procedures to examine the effects of wind farms on the population, landscape and local economy. Our experience with wind farms has led us to conclude that wind power in Switzerland can make a welcome contribution to power supplies, albeit one that is limited in terms of volume. This is why BKW was quick to venture abroad and invest several hundred million francs in wind farms in neighbouring countries.

When it comes to new renewables, BKW and its subsidiary sol-E Suisse have developed, financed and implemented numerous projects throughout Switzerland in the fields of wind power, small hydroelectric power stations/drinking water power stations, photovoltaics, biomass and heat. We have analysed new technologies to determine their environmental compatibility, economic viability, and their contribution to nationwide electricity supplies. This was also made possible through the backing I mentioned earlier. The revenues generated by existing large-scale power plants have enabled us to finance the build-up of our know-how in new technologies over the past twenty years. The economic boundary conditions and limited financial scope imposed on us today now oblige us to focus more strongly on the future. The trial phase is over. The task now is to step up production, at conditions which are economically viable both at the micro and macro levels. Hence we also need to set priorities for renewable energy and place a stronger emphasis on the profitability and risks related to our facilities. This is where our experience comes to the fore. We will downscale our investment in the production of energy from biomass: a fiercely competitive market. Based on the lessons we have learned from working with photovoltaic technology over the last few decades, BKW has concluded that this form of energy production can only play a role in specific situations and where larger facilities are involved. As production becomes increasingly decentralised, we view our task as one of system integration. This role is also key to the efficient use of the electricity grid. Moreover, it would make little sense to invest the electricity industry's limited

financial resources in something which is better suited for private individuals, businesses and industrial concerns. In any case, the necessary funding must come from a wider base, since the electricity industry is unable to finance the upgrading of the system on its own.

As far as geothermal electricity production is concerned, we are only at the start of what could be an interesting trend. The feasibility of such production plants, given the electrical capacity required to make them profitable is still fraught with uncertainties. BKW intends to work with partners on pilot projects in order to build up expertise in this area.

Over the next few years, BKW will be more circumspect in terms of the investments it makes. This is both necessary and desirable. Given the current climate and the many unknowns in terms of future developments, it is not wise to pursue our previous growth strategy for electricity production. BKW must retain its ability to leverage opportunities as and when they occur. Maintaining our financial and organisational flexibility is a key priority for the future. But wherever BKW invests, the main emphasis will be on renewable energy facilities. In Switzerland and neighbouring countries, the focus is on hydro power, while wind power production is being pursued both abroad and, wherever possible, also in Switzerland.

BKW is also prepared to play its part if gas-fired combined-cycle power plants become necessary as a temporary solution to meeting Switzerland's electricity requirements. Thanks to existing interests abroad – coal in Germany, gas in Italy – BKW has at its disposal facilities that can contribute to power supplies in Switzerland. So as a company, it already has the knowledge of how to handle electricity production from fossil fuels. BKW has been preparing for gas-fired combined-cycle power plants in Switzerland for many years: one production site, in Utzenstorf, is already assured. The paper factory there is also a customer for the waste heat generated by the plant, making the project all the more practical. Our cooperation with our partner, Groupe E in Cornaux, also puts us in a good position. Before gas-fired combined-cycle power plants can be built in Switzerland, politicians need to create the right conditions for them to be operated cost-effectively. Incidentally, this applies not just to gas-fired combined-cycle power plants but also to decentralised production facilities. Here I'm referring specifically to fast-track licensing procedures and a change in the usage and protection regulations for hydroelectricity. As is normal in Switzerland, we assume that the powers that be will involve experts in drawing up new regulations. BKW intends to help shape the framework conditions as far as is possible.

Initial successes have already been achieved in the implementation of this strategy. Two months ago, the Grand Council of the Canton of Berne voted by a majority of 144 to 3 to grant Kraftwerke Oberhasli, in which BKW holds a 50% stake, a construction permit for the KWOpplus "Grimsel 3 pump storage plant" project. I would like to thank the Grand Council for the trust it has shown by this vote, and congratulate KWO on this success, which was made possible thanks to its prudent and broad-based approach. For BKW, implementation of the KWOpplus projects is a key element in pursuing its target of CO₂-free electricity production. The next major challenge in pursuit of this target will be to help achieve a breakthrough in the application for a licence for the KWOpplus project to enlarge the Grimsel reservoir. This will be a difficult task in political terms, despite the government's decision to pursue a new energy paradigm. But it is necessary for the successful realisation of the government's energy strategy. Another welcome decision by the Grand Council of the Canton of Berne was the recent decision to grant a construction permit to BKW for Sousbach small hydroelectric power plant. Here, too, I would like to extend my warmest thanks to the Grand Council.

This brings us to the short film I mentioned, which will give you an insight into the measures aimed at energy efficiency and potential new business fields. Some of you may perhaps have already seen it at our pavilion at the BEA, and can now sit back and watch it again in full.

[Film...]

Ladies and Gentlemen, one year on after Fukushima we in Switzerland are only at the beginning of the debate on energy policy and the new energy paradigm. BKW is an important source of know-how in this context and will play its part in driving forward and reshaping our country's electricity supply landscape. A decentralised production infrastructure alone will not achieve the goals set by the 2050 energy strategy. What is needed is an integrated system that interacts like an orchestra. Producing, trading, managing, distributing, storing, billing and advising: all these activities are incorporated in a system of this type. As Switzerland's largest vertically integrated electricity supplier, BKW is ideally positioned to embrace the role of a competent energy services provider in Switzerland. For years now, all the links of the value chain have been united under one roof at BKW. Thanks to its integrated business model, BKW can leverage the knowledge and system expertise of its employees as a success factor and tap the potential for addi-

tional new business activities. In future, BKW will have an even higher profile as a one-stop shop for integrated, full-service solutions.

The Board of Directors is convinced that BKW is well-equipped for the energy change thanks to its new 2030 Group strategy. But for it to be successful, politicians and the general public must also play their part. A reliable supply of electricity is important for the economy and the entire population. This challenging task calls for a new social consensus. Everyone involved must share responsibility, eschew taking a stand on principle, and work together to find viable, realistic solutions. The first criterion is a general acceptance that, whatever the solution, a secure supply of electricity comes at a price. For its part, BKW is prepared to work with partners in politics, business and the electricity industry to tackle and overcome the major challenges. In so doing, it is dependent on the support and trust of its shareholders and the commitment of its highly skilled workforce.

Implementation

Implementing this strategy will necessitate organisational changes to our company. As I mentioned in my introduction, the Board of Directors has decided to introduce a holding model for the BKW Group in order to respond more effectively to today's market needs. With the completion of the share swap and the listing of BKW Inc. on the stock exchange, the first important milestone has been reached on schedule. Despite the heavy workload this entails for management, the operational holding structure will be implemented over the next two years by setting up new business activities across the Group, and changing the positioning of Group companies or subsidiaries. All this should be in place by the start of 2014. The Board of Directors wants to manage these processes from the top down and with this in mind, has decided to set up the requisite structure within BKW management. I will come back to this in the business part, under the Elections agenda item.

Following this rather lengthy discourse on BKW's new strategic direction, I would now like to briefly touch on a few other issues which affect and are of interest to you as shareholders.

Review of fiscal 2011

Last year, for the first time in its history, BKW recorded a loss of CHF 66 million in its consolidated income statement. This result is unquestionably disappointing for management and, above all, for you as shareholders. This unwelcome result was primarily attributable to the current difficult economic and regulatory environment and, in particular, to impairments of CHF 318 million recognised for the Wilhelmshaven, Tamarete and

Livorno Ferraris power plants. To understand this process, it is important to note that the impairments were not made because the plants are fossil-thermal facilities or because they are situated abroad, but because they are new and neither amortised nor subsidised. These new investments compete on the market with older, partially amortised plants on the one hand or new, subsidised production facilities on the other, and hence are currently at a competitive disadvantage which is reflected in the impairment charges. This would apply equally to any new unsubsidised hydroelectric or gas-fired power plant in Switzerland.

BKW's consolidated operating revenue amounted to CHF 2,633 million, corresponding to a year-on-year reduction of CHF 155 million. At EBIT level, the BKW Group reported a loss of CHF 52 million versus plus CHF 334 million in the prior year. Overall this resulted in a net loss of CHF 66 million for the BKW Group, compared to the prior-year profit of CHF 224 million. EBIT before the aforementioned impairment charges amounted to CHF 232 million: CHF 102 million lower than the prior year. As usual, our CEO Kurt Rohrbach will be going over the results in greater detail.

Because the net loss results from impairment charges for new investments rather than the operating business, the Board of Directors has nevertheless decided to propose to the Annual General Meeting the payment of a reduced dividend of CHF 1.00 per share. The Board of Directors hopes that BKW's economic situation will once more improve sustainably in the current financial year. Nevertheless, in the event of a comparable situation and in the interests of the company, it reserves the right in future to propose to the Annual General Meeting that no dividend be paid.

Allow me now to devote a few words to the development of the shareholder base and the performance of the BKW share. For the first time since our listing on the SIX exchange, the number of BKW shareholders has dropped from around 10,000 to approximately 8,700. The price of the BKW share also dropped by around 48% in 2011, while the SPI fell by only 9%. This sharp drop in the share price was observed after the tsunami in Japan in March 2011 and the discussions it triggered on nuclear power in Switzerland and the continued operation of Mühleberg nuclear power plant. The BKW share price currently stands at CHF 32 versus CHF 60 at the last Annual General Meeting, and has therefore attained the value it held when placed on the SIX in 2003. The company's stock exchange value is currently approximately CHF 1.7 billion. This downward shift is in line with the general industry trend. Other electricity shares fared no better, though this is small consolation for you as shareholders. With the 2030 Group strategy and the

efficiency enhancement programmes already under way, the Board of Directors aims to reverse this trend and hopes that soon the boundary conditions will once again enable a plausible profit outlook and provide the requisite security for investments.

A vote of thanks

In conclusion, Fukushima and the economic downturn made 2011 a year of exceptional challenges for the company and in particular its employees. Yet they did not let this stand in the way of daily business. BKW's employees performed their important tasks admirably, ensuring security of supply despite all the unpleasantness. This deserves our recognition and thanks! I would like to thank the Group Executive Board, management at all levels, specialists and all those who helped BKW to stay on track despite the regrettable reported loss! We are glad we can continue to count on our highly skilled and dedicated employees to implement the 2030 BKW strategy, because pursuing the new strategic goals and maintaining a reliable supply of electricity for our customers will remain a challenging task for them. In recognition of their excellent work, the Board of Directors has decided - akin to the dividend - to pay employees a performance-related salary component, albeit much reduced compared to the prior year. For members of the Group Executive Board the reduction amounts to more than 70%. Other figures recently reported in the press related to compensation for the years 2009 and 2010.

I would also like to thank you, our valued shareholders, for remaining true to BKW during these difficult times. BKW will not disappoint this trust and summon all its strengths and optimism to ensure that better times return to the company and the share price. The future starts today. The Board of Directors, Group Executive Board and employees are prepared to tackle this future confidently and proactively in the interests of BKW, its customers and shareholders.

Many thanks for your attention!