**2011 Financial Year**

**Check against delivery**

# Difficult market environment and special charges impact result

**Address by Beat Grossenbacher, Head of Finance and Services, at the Annual Media Conference on 20 March 2012**

Ladies and gentlemen,

I would like to provide you with an overview of the 2011 financial year by referring to the Group's financial figures.

## Total capacity and operating income down

In 2011 the BKW Group recorded consolidated operating revenue of CHF 2,633 million, 6% below the prior-year period. This decline was attributable in particular to a lower production volume, lower electricity prices and the strong Swiss franc. Together with special impairment charges and provisions for new fossil-fuelled thermal power plants, this led to a result before depreciation, amortisation and impairment (EBITDA) of CHF 138 million. Adjusted for the special charges, EBITDA amounted to CHF 418 million, corresponding to a reduction of 12% versus the prior-year figure. The results were also weighed down by the lower financial result. Overall, this led to a net loss of CHF 66 million. After adjustment for special impairment charges, net profit amounted to CHF 123 million, corresponding to a drop of 46% versus the prior year. Cash flow from operative business activities was up year-on-year as the special charges are non-cash items and hence have no affect on the cash position.

### Result impacted by special charges

In fiscal 2011 impairment tests carried out on production plants resulted in a correction of CHF 318 million. This concerned the new fossil-fuelled thermal production plants in Wilhelmshaven, Livorno Ferraris and Tamarete, in which the BKW Group holds a non-controlling interest and from which it purchases electricity at production cost. Based on estimated future market developments, BKW expects that the production costs of these power plants will be higher than the future realisable market prices and has therefore made the appropriate adjustments and provisions.

## Sales and production volume

Electricity sales of the BKW Group were up slightly in Switzerland at 8,186 GWh, while sales in Italy were down on the prior year to 1,630 GWh. The volume of electricity produced also dropped by 687 GWh to 9,685 GWh.

## Trends in the business segments

The Energy Switzerland business segment grew total operating revenue by 5% to CHF 2,263 million, with net sales to external customers ending the year up slightly by 2% at CHF 1,176 million. Electricity sales rose slightly by 0.4% from 8,153 GWh to 8,186 GWh due to slightly higher sales both within and outside the supply region. Sales to private customers were down by 4% to 1,977 GWh, while sales to business customers were up by 8% to 1,847 GWh. Sales with sales partners recorded a slight drop of almost 1% to 4,362 GWh. EBIT dropped sharply by 31% to CHF 160 million. The reduction in operating income is attributable on the one hand to lower proprietary production. Electricity production declined by 826 GWh to 8,737 GWh. Production from hydroelectric power plants fell by 321 GWh 3,259 GWh due to the dry spring and summer months. The availability of Mühleberg nuclear power plant was lower than in the prior year as a result of optimisation work on the SUSAN emergency system. In total, nuclear power plants (including purchase contracts) produced 5,373 GWh, 548 GWh less than in the prior year. Production from new renewable energy rose from 62 GWh to 105 GWh.

Higher energy procurement costs and impairment charges of approx. CHF 14 million for costs incurred prior to the suspension of the general licence application for replacement nuclear power plants also led to a lower EBIT. In addition, EBIT for 2010 was positively impacted by the reversal of a provision of CHF 29 million for onerous energy procurement contracts with partner plants.

The Energy International and Trading business segment posted a 7% reduction in total operating revenue to CHF 2,072 million, with net sales to external customers falling by 16% to CHF 1,145 million due to market and currency-related factors. The segment generated CHF 20 million in income from proprietary energy trading. This represents a year-on-year increase of CHF 21 million and can be viewed as positive in view of the difficult market environment. Following the expansion in new renewable energy, electricity production abroad rose by 139 GWh to 1,128 GWh. Production from the gas-fired combined heat and power plant in Livorno Ferraris was more or less unchanged compared with the previous year. After adjustment, operating income ended the year with a loss of CHF 40 million, compared to the positive result of CHF 45 million recorded in the prior year. The reduction in adjusted operating income is due mainly to low energy prices, the strong Swiss franc, and the narrower spreads for peak and off-peak energy as a result of changed market structures.

Total operating revenue generated by the Networks business segment improved by 4% to CHF 686 million. Despite a negative volume trend, this increase in sales was achieved due to a slight rise in prices for grid usage. Engineering services and the electrical installation business also grew revenue by another 10% to CHF 123 million. Operating income virtually doubled to CHF 120million. The prior-year figure included additional charges of around CHF 51 million for ancillary service costs due to an ElCom ruling for 2009 and 2010 and a provision recognised for a trade reversal; so the prior-year result was weighed down by high additional costs.

Collectively, all business segments posted adjusted operating income before financial income and income tax (EBIT) of CHF 232 million.

## Lower financial result, tax earnings under IFRS

Developments on equity markets, coupled with higher financing costs and the strong Swiss franc, reduced the financial result by CHF 32 million to CHF -88 million. The main factor was the return on shares in the decommissioning and disposal funds, which are measured at fair value. Contrary to the gains of CHF 23 million recorded in the prior-year period, the state funds recorded a loss of CHF 1 million in 2011.

Under IFRS, the special impairment charges result in a tax income of CHF 95 million. The effect is so high because impairments on the carrying amount of interests result in a reduction of latent tax obligations and hence additional income tax relief under IFRS.

## Higher balance sheet total, solid equity and financing situation

In 2011 the balance sheet total grew by 8% to CHF 7,083 million. While non-current assets increased by 9%, current assets were 8% lower. On the liabilities side, long-term liabilities were higher due mainly to the updated cost estimate for nuclear decommissioning and disposal and the addition of financial liabilities related to the acquisition of wind farms in Germany and Italy.

BKW's financing situation remains stable. The first refinancing of outstanding bonds is not due until 2018. Moreover, in October BKW raised a syndicate loan of CHF 300 million which is currently not in use, thereby creating the right financial conditions to strengthen its liquidity reserves.

Equity capital amounted to CHF 2,655 million. The equity ratio dropped from 44.2% to 37.5%, largely on account of the higher balance sheet total and the net loss recorded in 2011.

## Stable cash flow from operating activities

In the year under review, cash flow of operating activities amounted to CHF 292 million. This corresponds to a year-on-year increase of CHF 18 million despite the net loss recorded for 2011. The main reason for this higher figure is that the special impairment charges and provisions recognised in the year under review are non-cash items.

Investments in property, plant and equipment and intangible assets, Group companies and equity-valued companies resulted in a cash outflow of CHF 550 million. Some CHF 170 million was invested in the grid, CHF 250 million in power plants for the production of new renewable energy, approximately CHF 80 million in fossil-fuelled thermal plants and CHF 20 million in Mühleberg nuclear power plant.

## Dividend

The Annual General Meeting on 11 May 2012 will be asked to approve a dividend of CHF 1.00 per share. The proposed dividend is based on net profit for the year of CHF 123 million adjusted for the non-cash special impairment charges and provisions. This equates to a payout ratio of around 40% (excluding treasury stock) and reflects the continuity of BKW's dividend policy.

## Outlook for 2012

BKW expects no change in the challenging market environment in the current financial year, with energy prices remaining low and greater margin pressure on international markets. Coupled with regulatory requirements and a persistently strong Swiss franc, this will also weigh down the operating result for 2012. The full impact of efficiency enhancements generated by the cost reduction measures will not yet be felt. Taking all these factors into account and given the ongoing uncertainties, also on financial markets, operating profit before interest, depreciation and impairment (EBITDA) and net profit for the following financial year may deviate significantly from the adjusted figures for 2011.

Despite the major uncertainties which still surround the immediate future, BKW has a solid basis for successful medium- and long-term development, thanks to its proximity to customers in Swiss supply business and its broad production mix. Moreover, the development drive is ably supported by BKW’s updated corporate strategy with its even clearer emphasis on the development of new business models and by the cost reduction and efficiency enhancement measures which have already been implemented. And last but not least, BKW has a solid equity and finance situation. With this sound basis, BKW is well positioned to tackle future challenges.

Thank you for your attention.