

## Strategy

# **BKW 2030 – A strategy to reinforce BKW AG's market position**



## **Address by Urs Gasche, Chairman of the Board of Directors of BKW Inc., at the Annual Media Conference on 20 March 2012**

Ladies and gentlemen,

I bid you a warm welcome to today's Annual Results Media Conference. I'm glad to see so much interest. This is going to be a combined event, which explains my presence here today. As a general rule, the Chairman of the Board of Directors is not usually present at the Annual Results Media Conference, and in future we shall continue to adhere to this practice. But today, we do not just want to inform you about the figures for the past fiscal year; we would also like to present the revised strategy being adopted by the BKW Group. This part will be addressed by the CEO of BKW, Mr. Kurt Rohrbach, and myself. This will be followed by our CFO, Mr. Beat Grossenbacher, who will present the figures for the last financial year and discuss the outlook for 2012.

We are here today approximately one year after the earthquake, the devastating tsunami in Japan and the subsequent nuclear accident at Fukushima nuclear power plant. Even though there were already clear signs of the economic situation worsening and dampening prospects for the future, this disaster and the resultant new energy policy prompted BKW to thoroughly overhaul the group strategy it had been pursuing.

In spring last year, I informed you that we would be presenting the results of our deliberations to you within the year. We reacted immediately and invested the time required to thoroughly analyse and implement the necessary measures to tackle the major economic and energy-related challenges ahead.

### **Group strategy: "BKW 2030"**

A mere modification of our production strategy was insufficient for our purposes. The fundamental issue was the future positioning of the BKW Group as a leading Swiss electricity supplier with the largest customer base and as an important, innovative energy

provider. We have answered this fundamental question fairly and squarely by looking ahead to the year 2030. The reason for the significance of this date for our Group is that, as things stand at present, Mühleberg nuclear power plant will have been decommissioned by that date. We are currently assuming a final shutdown in 2022 – barring any intervening safety problems, of course.

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 portfolio. That means for us that BKW will shift its supply base to the production of renewable energy, long before other Swiss electricity suppliers cease to have Swiss-produced nuclear power at their disposal. As part of this process, BKW is benefitting today from that fact that more than twenty years ago we were the first company in the Swiss electricity industry to adopt a systematic engagement in new energy sources. The familiar words “solar energy on Mont-Soleil” and “wind power on Mont-Crosin” mark the inception of this major new technological development.

### **Economic and energy-related challenges**

The debate about the future of nuclear energy in Switzerland was an important element in the discussion on BKW's new strategy. Alongside this, lower electricity prices on international markets and lower earnings from our peak energy supplies have led to a sharp downturn in sales. That is why work on BKW Group strategy had to go much, much deeper than “just” – in inverted commas – finding ways to compensate for the loss of production from the replacement nuclear power plant in Mühleberg.

Apart from 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 worked out with technical experts in the course of the political process. But even now, it is clear that the 2050 energy strategy is aiming to restructure the existing energy landscape. I would like to pick up on three of its priorities.

**First**, efficiency measures are to be massively improved in order to lower future electricity consumption.

**Second**, the range of electricity on offer is to be expanded, with particular emphasis on greater use of the potential offered by renewable energy in Switzerland. However, if required for the purposes of security of supply, the government does not rule out the possibility of gas-fired combined cycle power plants in Switzerland.

And **third**, power grids are to be expanded. Essentially, there are two ways of doing this: through the targeted expansion of power transmission grids, and by turning distribution grids into more intelligent grids, or “smart grids” as they are referred to.

Like any other commercial enterprise, we at BKW believe it is our core task to align ourselves to the prevailing framework conditions and, in so doing, to minimise our risks. Consequently the “BKW 2030” strategy is designed to remain robust and stable in a range of scenarios, enabling us to respond to further developments however unclear they may appear at this moment in time.

Our “BKW 2030” strategy is based on three main axes:

- Energy-efficient, innovative products
- Renewable energy production
- Grid business and new energy services

At the same time our efforts are based on proven pillars of BKW's business: the longer-term target of CO<sub>2</sub>-free production, our partnership model, and our existing plants and activities within a vertically-integrated company.

Please allow me to briefly describe our three main axes one by one.

### **Energy efficiency**

Either directly or indirectly via its sales partners, BKW supplies more than one million people with electricity, making it Switzerland's biggest electricity supplier. This provides the company with direct contact to customers and places it in an ideal position to achieve leverage in the efficient use of energy.

It cannot be the role of electricity suppliers to force their customers to use electricity efficiently, even if this is occasionally what is asked of us. BKW honours its responsibility towards private individuals and customers by providing knowledge and insight into the subject of energy efficiency, by advising, raising awareness, motivating, offering products and demonstrating how to tap efficiency potentials. This is nothing new for us. As early as 1988, when energy saving was still an unknown concept for many people, we were the first electricity provider in Switzerland to found the electricity saving club, with 80,000 members. Our activities provide us with access to a wide range of knowledge, enabling us to develop our future range of products to meet actual needs. In a moment, Kurt Rohrbach will be telling you about a pilot project in Ittigen municipality and explain what we have learned from it over the past three years.

Thanks to our findings from the pilot project in Ittigen and the results we will obtain from other future projects, we aim to develop innovative energy services and new business models, which we intend to establish successfully in the marketplace as affordable options.

In addition to its private and business customers, BKW has also been a partnering municipalities and regions for many years. Our local presence is assured by offices at eight locations and a large number of support points. In future, municipalities will need to adopt a more targeted approach to issues such as energy optimisation at their own properties, the growing demands of their residents, statutory requirements and the development of energy concepts. BKW wants to be their partner of choice for the management of such tasks.

### **Renewable energy production**

I now come to the second point – to broadening the range of electricity products on offer, as also required by the Swiss government – and hence to the question of electricity production.

How will BKW structure its production portfolio in the years to come?

As things stand at present, existing nuclear power plants will not be replaced by state-of-the-art nuclear power plants. The production landscape in Switzerland is becoming more and more decentralised. BKW is equipped and well placed to address this trend.

The Swiss energy supply system has evolved and been optimised over a long period of time, and with all the will in the world, this type of structure cannot be changed overnight. We need to be prepared for a transitional phase during which we want to ensure that our power supply is maintained. We also need to be sure we can meet the economic burden placed by this new design requirement. 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 economically until the end of its technical life.

You can compare the current situation to road works on a motorway. Just as the traffic must always be kept flowing during construction periods, so security of supply needs to

be ensured by the grid at all times. If that is the case, your driving pleasure will admittedly be somewhat impaired – as has been the case recently on Berne's Felsenau viaduct – but you will reach your destination just as you always do, while work goes on simultaneously on building your future transport infrastructure.

Of course, we could opt for a solution with greater inherent risks and shut down large-scale power plants immediately. But then we would probably have to get used to scenarios such as the one that occurred occurring in Zurich city centre a few weeks ago, when there was a power cut for three hours over lunch time.

Put simply, BKW can work faster and more efficiently on a decentralised production landscape if it is supported over a number of years by a tried-and-tested, reliable infrastructure which allows it to carry on supplying its customers

With this backing, BKW is in a good position to press on with conversion work towards a world that relies increasingly on renewable energy. As a matter of fact, BKW began working with new renewable energy earlier than other Swiss companies. On Mont Soleil in the Jura we and our partners can now draw on 20 years of experience in pioneering work with solar energy. This is supplemented by the large-scale solar power plant on the roof of the Stade de Suisse as well as numerous other photovoltaic plants, so that we are continually gaining new technical insights. BKW has never been interested merely in the technical aspects of solar energy, but has always been quick to establish marketing models that function independent of state subsidies. We developed the first Swiss certification model for renewable energy and the first wind energy sales model in our country. Even so, we still need to keep on developing new business models in the future if we are to sell electricity from photovoltaic production economically.

Thanks to its 18 years of involvement in wind power in the Bernese Jura, BKW has joined forces with government authorities and interest groups to develop plans and procedures to examine the effects of wind farms on the population, the countryside and the local economy. Our experience with wind turbines has taught us that wind power in Switzerland can make a welcome contribution to power supplies, albeit a contribution that is limited in terms of the volume that can be produced. That is why BKW was quick to venture into our neighbouring countries. Today, the limits of wind power production in Switzerland are generally acknowledged, and numerous electricity suppliers in Switzerland have followed suit and acquired interests in foreign wind farms.

Throughout the whole of Switzerland BKW has developed, financed and implemented numerous projects in wind power, small-scale hydropower/drinking water power, photovoltaic, biomass and heat, usually enlisting the help of its subsidiary Sol-E Suisse. It has analysed new technologies for their environmental compatibility and for their contribution to meeting large-scale energy supply requirements. This has also been made possible through the support I mentioned earlier: the security provided by BKW's large-scale power plants. The earnings generated by these plants have been a key factor in enabling us to finance the development of our expertise in new technologies over the last twenty years. The economic framework conditions and limited financial room for manoeuvre in which we operate today oblige us to focus more clearly on the future. The trial phase is past; now we have to ramp up production. Hence we also need to set priorities for renewable energy and to assess the relative economic benefits the various plants concerned give us. This is where our experience is extremely useful: we will downscale our investment in energy production from biomass. 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 part in specific situations and where large facilities are involved. It sees its task in system integration. In our view, this role is also a key to the efficient use of the electricity grid. We believe it would make little sense to invest industry's limited financial resources in something which is better suited to the involvement of private individuals, businesses and industry. Funding needs to be split up in any case, as system conversion work cannot be financed by the industry on its own. Where geothermal electricity production is concerned, we are at the very beginning of what could be an interesting development. The feasibility of production plants of this type which produce the power necessary to be economical is still fraught with uncertainties. BKW aims to link up with partners in pilot projects in order to benefit from shared knowledge.

In the years ahead BKW will be more circumspect in the investments it makes – this is a necessary and desirable approach. Given the current climate with 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 builds or participates in projects, the main emphasis will be on renewable energies. In Switzerland and in our neighbouring countries the focus is on hydroelectric power, and abroad we are concentrating on wind power production.

BKW is also willing to play its part if gas-fired combined cycle power plants become necessary as a temporary solution to meet 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 guaranteed. The paper factory there is a customer for the waste heat generated, which makes the project there all the more practical. Our cooperation with our partner Groupe E, in Cornaux, also ensures we are well positioned. For gas-fired combined cycle plants in Switzerland to be successful, politicians must create the right framework conditions.

Incidentally, this applies not only to gas-fired combined cycle plants, but also to decentralised production facilities. Here I'm referring in particular to fast-tracked licensing procedures and a change in usage and protection regulations for hydroelectric power. As is normal in Switzerland, we are assuming that the powers that be will involve experts in drawing up new regulations. BKW wants to help shape the framework conditions as far as possible.

### **Grid business and energy services**

I now come to the third point of the 2050 energy strategy, the expansion of the grid infrastructure and energy services.

BKW is the biggest distribution grid operator in Switzerland. It also wishes to be cost-effective and hence innovative, and has taken the necessary steps to increase efficiency. The electricity landscape of the future will need to operate with intelligent grids, or "smart grids" as they are known. Only smart grids can provide the direct – and not just physical – connection between consumers, grid and electricity production. Converting the existing grid infrastructure will cost billions. We are assuming that government authorities are doing their homework and will provide electricity suppliers with reliable and stable framework conditions that will strengthen their financial assets so that they can afford the large sums of money involved. BKW is already hard at work on making its contribution to smart grids, and Kurt Rohrbach will be saying something about our plans for this too in just a moment. As Switzerland's biggest distribution grid operator, it is incumbent on us to be fast, efficient and competent so that decentralised

electricity production can be sure of a future and so that other grid operators will want to rely on BKW. We see our strength and an important business model in this service business.

It remains to be seen how private customers can benefit from efficiency, economy and the rapid expansion of new technologies. Not only are smart technologies required: smart approaches and framework conditions are also needed. The questions of who will finance these investments and how they will lead to cost-effective business models are being addressed by BKW and other electricity suppliers under the umbrella of the recently-founded Smart Grid Switzerland organisation.

Ladies and gentlemen,

One year on after Fukushima, we are only at the beginning of the energy debate here in Switzerland. BKW is a major centre of expertise in these matters and will contribute to driving forward and shaping the transformation of energy supply in our country.

A decentralised production infrastructure alone will not achieve the goals of the 2050 energy strategy. What is needed is a joined-up system that works together just like an orchestra: producing, trading, managing, distributing, storing, billing, advising – all these activities are involved in a system of this type. As Switzerland's biggest vertically integrated electricity supplier, BKW is ideally positioned to embrace the role of competent energy service provider in Switzerland. For several years now, all these added value elements have come together under one roof at BKW. Thanks to its business model, BKW can leverage the knowledge and system competence of its employees as a success factor and as the potential for additional, new business activities. In future, the development of integral solutions will characterise the image of BKW more than ever before.

### **Implementation**

Implementation of this strategy necessitates organisational changes to our company. As we informed you at the 2011 Annual General Meeting, the Board of Directors decided to introduce a holding model for the BKW Group in order to respond more effectively to today's market needs. Recent months have shown that the implementation of our strategy, entailing as it does the Group-wide establishment of new business activities and the changed positioning of Group companies or subsidiaries, as well as the transition to the holding structure, will prove more demanding for management over the



next two years than originally assumed. As a result, the holding project will not be implemented by 1 January 2013, as originally planned, but only by the beginning of 2014. The Board of Directors wants to manage these processes from the top down and has therefore sought ways of setting up the requisite structure within BKW management. According to the principles of contemporary corporate governance, our management structure is designed to safeguard against any blurring of lines between the Board of Directors at the strategic level and the Executive Board at the operating level. We intend to keep it this way in future. But in order to control the strategic process effectively, the Board of Directors needs more operational know-how and must have access to the requisite expertise in order to make informed decisions and act accordingly. With this in mind, it has decided to obtain reinforcements and at the Annual General Meeting will propose appointing the current CEO, Kurt Rohrbach, to the Board as full-time Vice Chairman. BKW will therefore have two Vice Chairmen in future. Antoinette Hunziker will continue to stand in for the Chairman in his absence and will continue to act primarily in a supervisory capacity on the Board of Directors, with the emphasis on finances and compliance. Kurt Rohrbach will be responsible for formulating recommendations on the organisational adjustments necessitated by the new strategy. He will also monitor for BKW trends in technology, markets and the sector, draw up proposals on BKW's positioning and submit concrete proposals for further development of the strategy. I am delighted that Kurt Rohrbach has agreed to place his outstanding knowledge of the BKW Group and his profound understanding of the electricity sector at the company's disposal, in future as full-time Vice Chairman of the Board of Directors. If his appointment is confirmed by the Annual General Meeting in May, he will perform the dual functions of CEO and Board member for several months until a new Chief Executive Officer is found. We assume that a successor will be appointed before the end of the year.

To ensure success in the new business fields and services for decentralised production, the Board of Directors has sought reinforcements. At the Annual General Meeting on 11 May 2012 it will therefore propose a further appointment to the Board: Mr Kurt Schär, Chairman and CEO of Biketec AG (the developer and manufacturer of the Flyer e-bike), ideally fits our specifications. Mr Schär has practical experience as an entrepreneur and has extensive know-how in the field of forward-looking electricity applications. He knows the trends, developments and customer needs in this field and is familiar with the requirements for decentralised energy production.

Ladies and gentlemen,

During the last few minutes I have given you a detailed description of how we formulated BKW's new 2030 strategy, highlighting the features which are of prime importance and discussing which organisational adjustments we will be making in order to implement our strategy.

I now hand over to Mr. Kurt Rohrbach who will provide examples of how this strategy will be turned into reality. – Thank you for your attention.