

Secure supply also calls for a reliable grid infrastructure

Check against delivery



Address by Kurt Rohrbach, CEO of BKW FMB Energy Ltd, to the General Shareholders' Meeting on 13 May 2011 in Berne

Ladies and Gentlemen,

Introduction

I'd like first to give a brief summary of last year's results, following which I will discuss selected aspects and events which have kept our company and our industry busy in recent months and will no doubt continue to do so in the months to come. Our Chairman has already discussed the main aspects and positions concerning production, and in particular the next steps. After outlining last year's figures, I will therefore concentrate on regulations and market liberalisation, using electricity distribution as an example. I will then close my address with a review of the year in pictures.

Electricity business

First a few figures

Production expanded abroad

Last year the BKW Group produced 10,552 GWh of electricity. Despite the highest ever production volume achieved by Mühleberg nuclear power plant, production in Switzerland fell slightly. The main reason for this decline was the lower volume of hydroelectricity produced. Production from new renewable energy rose, primarily due to the commissioning of Schattenhalb 3 small hydroelectric power plant in the Hasli Valley, and the inauguration of the enlarged Juvent wind farm in the Bernese Jura.

The volume of energy produced abroad rose by 15%, thanks on the one hand to the efficient operation of existing facilities and the record production volumes posted by our Italian hydroelectric power plants, and on the other hand to major investments we made last year in additional wind power facilities in Italy and Germany.

Rising electricity sales in Switzerland and abroad

Last year BKW sold more electricity in Switzerland and abroad. International trading activities were heavily impacted by sizeable changes in the international price level and the Euro exchange rate. Nevertheless, BKW trading closed the year with results above expectations. As already announced, BKW sold its sales business at the beginning of this year to Enovos Luxembourg SA so as to concentrate its business activities in the German market on production and trading.

The Networks business segment posted higher total operating revenue despite having to cope with the negative effects of regulatory intervention.

Ladies and gentlemen, our activities in 2010 generated a sound operating

Result

In fiscal 2010 the BKW Group held its ground well in a challenging market and financial environment. At CHF 3,187.2 million, total consolidated revenue was 11.3% lower than the prior year, but given the market trend this is more than satisfactory.

BKW measures its performance primarily on the basis of operating income before interest, tax, depreciation and amortisation, or EBITDA. Last year EBITDA amounted to CHF 480.6 million: CHF 21.0 million down on the prior year. BKW's financial result is heavily influenced by the results of the state funds for decommissioning and disposal. Performance on international currency and financial markets was below-average last year, though not excessively poor. Compared with 2009, however, when financial markets saw strong recovery, the effect on BKW's financial result was much less favourable since the change in fund assets rather than the effective amount is reflected in the result. The lower financial result meant that the good operating profit recorded for 2010 was not fully reflected in net profit, but given these circumstances, at CHF 228.3 million this can be regarded as good result.

Thanks to our business activities in 2010, the balance sheet total grew slightly to CHF 6,569.6 million. At CHF 274.8 million, cash flow provided by operating activities was CHF 327.9 million below the corresponding prior-year figure. This reduction is mainly attributable to a negative change in net current assets in excess of CHF 222 million.

At CHF 2,904.7 million, shareholders' equity was 10.5% lower year-on-year mainly as a result of acquiring 8.9% of treasury shares from E.ON, as a result of which the equity ratio dropped from 49.8% to 44.2%.

So much for the figures, ladies and gentlemen. I'd like to close this section with a statement on Japan: Due to the events in Fukushima, the general licence applications to build replacement nuclear power plants were suspended. As a result of this suspension, the value of the work performed for these applications to date is no longer recognised under the provisions of IFRS accounting standards. The costs of around CHF 14 million incurred to date will therefore be written down as a charge to the 2011 income statement.

Energy security remains a priority

Although our thoughts are dominated by the issues surrounding Fukushima and the future of nuclear power in Switzerland, other issues are also relevant for BKW.

The main priority of BKW is, and will always be, to ensure a reliable, ecological and cost-effective supply of electricity for its customers. Electricity is regarded as a key energy, and there is every indication that electricity will become even more important in future and play an even more pivotal role in our lives. Energy efficiency is popularly cited as a solution to the growing shortage of electricity supplies. But as an electricity supplier, we are under no illusions: Saving energy can, but does not necessarily, lead to a decline in electricity consumption. On the contrary, energy efficiency is often only possible thanks to electricity. More and more applications are using electricity as a substitute for fossil fuels. We are working flat out to achieve a breakthrough in efficient, smart applications. We have high hopes of the trend towards developing low-energy appliances and energy-efficient engines, pumps and other industrial equipment. For us the greatest potential lies in

Smart controls and electricity grids

Smart systems alone do not save a single kilowatt-hour. But they create the right conditions for saving power: by enabling resources to be used more efficiently. This

ranges from a simple display of power consumption so that consumers see where they are wasting energy, to the targeted deployment of decentrally generated power and facility management. Even if using this technology does not yet pay off, BKW is doing its utmost to encourage the rapid creation of recognised industry standards, so that new technologies can be deployed as efficiently as possible and interoperability is guaranteed throughout Switzerland – in other words, so that customers do not need to worry about which grid region they are connected to if they want to benefit from this technology. Last year, with this in mind, BKW launched the "Smart Grid Switzerland" initiative which aims to draw up an open Swiss industry solution based on international standards. The concept has been viewed very positively by the industry. So far, the companies who have signed up to the initiative represent more than half of Swiss connections.

Reliable grid as a key element of energy security

As you know, ladies and gentlemen, reliable electricity supplies depend not only on sufficient production volumes but also on an efficiently-functioning, well-maintained electricity grid.

Much has been said and written about smart electricity grids, yet the legal framework is still not in place, nor is there any clarity about market liberalisation. For power suppliers it is therefore extremely difficult to decide on the amount they are willing to invest in developing modern grids. EICom, the federal electricity commission, is reviewing grid usage tariffs and charges. Unfortunately, the commission's current practice is resulting in substantial cuts in grid revenues. This practice will make it difficult for grid operators to finance the investments needed to maintain security of supply, let alone any additional investments in modern smart grids.

Grid operators depend on a reasonable income in order to maintain security of supply not only in urban agglomerations, but also in rural regions. So grid usage tariffs should not be viewed merely from the standpoint of low electricity prices. BKW has consistently endeavoured to achieve a balance between cost-effective electricity production, justified expectations of returns, and the interests and needs of the public and the environment. Comprehensive, sweeping regulations in the grid area, coupled with an electricity market that is open on paper only, are presenting BKW with major challenges.

The two-phase liberalisation of Switzerland's energy market means that, at present, only large customers and power utilities are free to choose their supplier. The Electricity

Supply Act (StromVG) requires the operators of distribution grids at all times to supply their end customers with the required volume at production costs. This is far removed from a proper market, but the blame lies with the framework conditions, not the power utilities, and this view is backed up by the Competition Commission ComCo. These framework conditions impede not only investments in the grid infrastructure but also in the renovation and replacement of power generating facilities.

BKW must cut its cloth to fit this new situation and take appropriate measures. It is also doing everything within its power to work with the regulatory authorities to create clear long-term boundary conditions. The Federal Council has decided to postpone the enactment of the revised Electricity Supply Act by one year to 1 January 2015. Hopefully this will prevent the kind of unfortunate last-minute sprint that occurred during the first phase of liberalisation. The extra time can be used to revise the Electricity Supply Ordinance to rectify any weaknesses and render it more universally acceptable.

The next few months are also important for the

Outlook

for the BKW Group's activities in the current fiscal year.

This year will remain challenging and demanding. The difficult boundary conditions have already had an impact in the first few months. The extremely dry spring will also leave its mark on our business. Nevertheless, we expect to close 2011 with revenue on a par with the prior year. The operating result will once more be weighed down by sustained low energy prices on the international markets. Regulatory requirements as well as costs related to strategic projects will also impact the operating result. Taking all these factors into account, EBITDA for 2011 is expected to be within the prior-year range, adjusted for the special effect related to the reversal of the provision for onerous energy procurement contracts for partner plants in 2010. The result is dependent on the trend in energy prices, the regulatory environment and on financial markets. Assuming stable conditions and taking into account the aforementioned special effect, BKW expects to close 2011 with net profit on the prior-year level. This outlook does not take into account the impact of the events in Japan or the aforementioned write-down of CHF 14 million for costs incurred in connection with the suspended general licence applications.

Thank you

At the General Meeting we always look back on the past financial year from a distance of several months. The 2010 results pale into insignificance compared with this year's events in Fukushima.

That said, I still want to join the Chairman of the Board of Directors in thanking all our employees for the major sense of commitment and the hard work they have put in over the past financial year.

Anyone who works at BKW knows that our company provides essential services to the public. None of us can or wants to imagine a life without a safe, reliable, cost-effective supply of electricity. Yet the visible signs of our business – production facilities based on different technologies, electricity lines and substations – are not welcome everywhere. Today, as a nuclear power plant operator, BKW is even more in the spotlight and the subject of criticism by politicians, media and the public. Many of our employees are just as shaken as you are at the consequences of the natural disaster and reactor problems. Yet as experts in the field they have to contend with biased, strongly-worded media reports which in many cases are not backed up by fact. Despite the extra workload they now have to shoulder, they do not neglect their day-to-day tasks. I would therefore like to take this opportunity to express my sincere thanks to them all for their continued motivation and professionalism over the past few months.

I would also like to thank our customers as well as our sales and business partners for their support and cooperation over the past financial year. Finally, a huge vote of thanks goes to you – our valued shareholders – for the trust you have placed and continue to place in our work and in BKW over the past year.

2010 in pictures

As mentioned before, I would now like to present a few pictures illustrating selected BKW projects and activities.