

## General Shareholders' Meeting of BKW FMB Energy Ltd, 13 May 2011

### Address by Urs Gasche, Chairman of the Board

#### 1. Introduction

This year's General Meeting is overshadowed by the events in Fukushima and their implications on Swiss energy policy.

In virtually no other country have these events triggered such heated public debate on the issue of future electricity production. The reason for this is not only the controversial and emotional public attitude to nuclear power, but also the fact that, when the unexpectedly strong earthquake in Japan, followed by a tsunami, triggered an accident which to this day has not been brought fully under control and whose implications are still not fully known, we were in the midst of the first public discussion on permits for two new replacement nuclear power plants. Unlike the reactors affected by the severe accident which occurred 25 years ago in Chernobyl, the reactors in Fukushima are of a type comparable with our plant in Mühleberg.

It is only right and proper that we contemplate the implications of the events in Japan for our energy production. But first and foremost our thoughts go out to the people affected in Japan. The sympathies of our company and our shareholders here today are with them. To coincide with its General Meeting, BKW has made a donation to the Swiss Solidarity appeal to support the victims of this natural disaster.

## 2. Actions by the Board of Directors

Immediately following the disaster in Japan, BKW took the necessary steps and implemented initial findings to increase the safety of Mühleberg nuclear power plant. Our experts are extremely vigilant: further developments are being closely monitored and, if necessary, addressed.

Needless to say, at the forefront of these efforts are the requirements issued by ENSI in its directive on 5 May 2011. BKW fully understands these requirements: they also mirror the approaches identified by our own experts in their initial analysis. But that does not alter the fact that the requirements are extremely strict and based on risk scenarios that go well beyond what has been assumed to date on the basis of our country's geological characteristics. We assume that the requirement criteria are technically feasible and that we can implement them on schedule. Whether it also makes economic sense to comply with all the requirements cannot be determined at this point in time, since there are many unknowns that need to be clarified or replaced by new assumptions. Accordingly, we are unable to make any definitive statements before an initial assessment of the ENSI proposals is conducted. It is unlikely that the Board of Directors can deliberate on this matter before late autumn, following which we will inform the public accordingly.

As you know, the BKW Board of Directors has defined the general thrust of further work and investigations based on an initial situation analysis. As yet, there is insufficient information available to make definitive, long-term decisions. But initial concrete facts permit us to actively chart the course towards our company's future. In addition to the justified concerns of all stakeholder groups, the direction we take must focus on the company's longer-term future and cater to the interests of our shareholders.

BKW FMB Energy Ltd is a private-law company with strong links to the public sector and a profound sense of responsibility for public goods such as Nature, landscape and safety. Naturally, the relationship between the canton of Berne – BKW's principal, majority shareholder – and our company is not always tension-free, but on balance collaboration has to date been fruitful and characterised by mutual respect for each other's tasks and roles.

The canton of Berne is aware of its responsibility, as principal shareholder, for the welfare of the company and hence for the legitimate interests of private shareholders, which make up 47.5% of the share holder base and have invested their cash in BKW, trusting its values and ability to safeguard their interests. BKW for its part cannot and will

not ignore public interests. It has a strong sense of responsibility for security of supplies on the one hand and the safety of its plants – mainly, but not only, Mühleberg – on the other hand. It also respects the primacy of politics in shaping the boundary conditions.

The Board of Directors effectively reflects and represents these values. The State Council of Canton of Berne is entitled to appoint two members directly, who have the right and obligation not only to safeguard the economic interests of the canton, but also to perform its mandate of advocating the public interest. The other members are evaluated and proposed for election based on a list of rigorous criteria governing their technical expertise and business qualifications. The Board of Directors is collectively responsible for advocating the interests of the company and, by extension, those of its shareholders. This it does and is committed to go on doing.

In this spirit, the Board of Directors also evaluated the initial findings on the consequences of the events in Japan. It unequivocally welcomed the rapid decision by federal authorities to suspend pending general licence applications for replacement power plants – including Mühleberg. This will give everyone the necessary time to analyse the events in Fukushima in detail and adjust our own projects in line with the findings. At the same time, however, it is becoming clear that Mühleberg is unlikely to be replaced by a new nuclear power plant immediately after its operating life expires. It takes time to assess whether and if, far less how and when, new nuclear power plants can be authorised and built. And at this point in time, one cannot simply assume a positive outcome to referenda.

Against this backdrop, the Board of Directors tasked the Executive Board with drawing up a series of scenarios on ways of guaranteeing sufficient, cost-effective supplies of electricity in the future, including scenarios that exclude nuclear power. The aim is to achieve an orderly exit from Mühleberg, i.e. to keep Mühleberg in operation for as long as safety permits - naturally taking into account the findings from Fukushima as and when they become available. If for any reason the plant's continued operation turns out to be out of the question, then it will be shut down without demur. But as long as no such safety concerns preclude operations, the plant will continue to operate and not be sacrificed on the altar of political opportunism. Because, let us be under no illusions: The sooner we are obliged to shut the existing plant down, the less time we will have to arrange for a replacement that meets the ecological and economic criteria imposed by the Board of Directors on our production portfolio. In other words: The sooner we are obliged to shut down, the more dependent we will become on importing electricity at market prices, regardless of where and how it is generated. That will cost a great deal of money and result in loss of income. We will no longer have the resources to invest

effectively in the post-Mühleberg future. Moreover: Neither nuclear power from abroad nor electricity from old coal-fired power plants are better than the electricity which Mühleberg nuclear power plant can continue generating responsibly if permitted to do so. It is also important to bear in mind that electricity imports also have their limits, due to constraints on grid capacities. Moreover, it is highly likely that the country of origin may impose restrictions on exports if it is experiencing shortages itself.

The energy lost as a result of withdrawing from nuclear power will need to be made up for by a mix of alternatives: not only renewable energies (hydro power and new renewables), but certainly also electricity from fossil-fired power plants in Switzerland and/or abroad. And this in turn will exacerbate the CO<sub>2</sub> problem. Mindful of this, the Board of Directors expects it will be necessary to downscale its strategic goal of achieving CO<sub>2</sub>-free production. However, it remains committed to keeping the additional strain from this greenhouse gas as low as possible. As we are all aware, Fukushima has not solved climate problems. The Board of Directors is therefore prepared to objectively re-examine, at a later stage, new options for the safe use of nuclear power.

BKW has also identified potential in the field of energy efficiency. But we must be under no illusions: The fact is that electricity consumption has long been increasing at the same rate as economic growth. Last year it grew by no less than 4%! Yet rising electricity consumption can also have a positive ecological impact, if it leads to lower consumption of fossil fuels as we have seen when oil-fired heating systems are replaced with heat pumps.

### **3. Review of 2010**

The events in Japan and especially in and around Fukushima are dominating our workload. But we should not let that prevent us from taking a look back at the last financial year. First and foremost I would like to discuss the annual results. We ended the year with what we can justifiably call a solid operating result despite the difficult economic and regulatory environment: a result that has also allowed us to propose an unchanged dividend of CHF 2.50 per share. Our CEO, Kurt Rohrbach, will discuss the results in detail in his address. In his outlook he will also outline the write-downs our company is obliged to make due to the suspension of the general licence applications submitted by RESUN AG.

But permit me at this point to say a few words on the development of the shareholder base and the performance of the share price. First the good news: Last year saw further

growth in the number of BKW shareholders, which has risen to around 10,000 well in excess of the original target of 5,000. We view this not only as an expression of the trust you, our valued shareholders, place in our company, but also as an obligation towards you!

On a less positive note, the share price now stands at CHF 60 versus CHF 80 at the last AGM. In 2010 the price of the BKW share fell by around 12% while the SPI remained virtually stable. But let us not forget that it was CHF 32 when originally listed on the SIX. This downward movement is in line with the industry trend: Other electricity shares fared no better.

But this is little consolation. The reasons behind this drop in price are difficult to determine, but are most likely attributable to the uncertainties overshadowing the industry's current environment. The Board of Directors is monitoring this trend and is committed to taking clear strategic decisions to counteract it.

#### **4. Strategy and organisation**

I am almost at the end of my welcome address, but before I close I would like to say something about our strategy and express my thanks.

First and foremost, BKW intends to continue pursuing its proven strategy of vertical integration, cooperation based on partnership, and regional presence. It also intends to continue expanding its position in Switzerland and abroad.

The main priority of BKW is, and will always be, to ensure a reliable, ecological and cost-effective supply of electricity for its customers. BKW has a broad electricity mix in Switzerland and abroad and boasts one of the most versatile portfolios of new renewable energies in Switzerland. We were quick to recognise the potential of wind power and vigorously embraced this business, particularly in Germany but also in Italy. Of the investments made in production between 2005 and the first quarter of 2011, more than CHF 800 million or 30% went towards wind power. More than 55% of the total volume was therefore invested in renewable energies, including hydro power. During the same period, only CHF 142 million or 5% was invested in Mühleberg nuclear power plant.

And we recognised the importance of this business by taking structural steps to create a Wind International business unit. So, rather than ushering in a paradigm shift at the strategic level, the impact of Fukushima is necessitating certain adjustments to the

planned production portfolio within the framework of the existing corporate strategy. Our competitors are not idle; if BKW wants to hold on to its position in the Swiss market, further major efforts will be needed. This includes learning and absorbing lessons quickly and drawing the relevant conclusions from Fukushima.

We are convinced that, in addition to investments in the grid, a reliable supply of electricity also calls for investments in Swiss electricity production. BKW intends to step up its existing commitment to energy efficiency and renewable energies while at the same time investing in larger facilities. To finance these investments, BKW is dependent on appropriate revenues from the electricity business. Energy security at bargain-basement prices is politically attractive, but sadly not a viable option.

We also intend to address the new regulatory challenges in the structural area, and increase our flexibility in responding to market needs and in the interests of greater efficiency. We are therefore planning to introduce a holding structure for our company at the beginning of 2012. Today we want to brief you on these plans. The move will take the form of a share swap, exchanging BKW FMB Energy Ltd shares for shares in the new BKW Holding AG. Nothing will change for you as a shareholder: the substance of BKW will remain intact after the swap. The transaction will be publicly announced in a few weeks' time and conducted via the banks. Shareholders will be advised on the procedure at the appropriate time.

## **5. Thank you**

This brings me to my closing remarks. Hopefully what I say last will be best remembered. Esteemed shareholders, you can imagine what a roller-coaster year 2010 was and 2011 still is for our employees! In addition to the challenge of cutting costs in line with a corporate "fitness programme", there was the challenge of the consultation referendum on a replacement nuclear power plant for Mühleberg, and on top of all this, the events in Japan turned everything on its head, necessitating a major effort at all levels to analyse, calculate, communicate and prepare the basis for Board of Directors decisions. In addition to coping with all these challenges there was the task of conducting day-to-day business smoothly, which for our staff in Mühleberg proved particularly challenging as the spotlight was suddenly thrown on them. Added to this, they had to contend with reports that they may no longer have a job to go to. All this was compounded by the strain of the permanent camp pitched outside head office, repeated taunts by the camp demonstrators, the constant and increasingly less amusing jibes from friends and family, and questions from astonished visitors to head office: all of which increased the

demands on our staff and called for extra efforts which could have been put to better use in this current tense situation.

Despite all these negative factors, our people did a splendid job: energy security was ensured, BKW was able to meet expectations in its usual professional manner, and posted a good result for 2010.

This deserves our recognition and our thanks! We owe our thanks to the Executive Board, to line management at all levels, to our experts and to all who, internally or externally, at front office or behind the scenes, helped to keep BKW FMB Energy Ltd on track! We are privileged to be able to count on our employees. More major challenges lie ahead in the form of measures to optimise safety at Mühleberg, lobbying, efforts to increase operational efficiency, and the plans to set up a holding structure. Those who put their trust in BKW at such a time can look to the future in confidence!

But I would also like to thank the voters of Berne. By voting in mid-February in favour of a replacement nuclear power plant for Mühleberg, they expressed their desire for a CO<sub>2</sub>-free supply of electricity and demonstrated their trust in BKW. This was of paramount importance to us, even if the outcome of the referendum no longer has the same relevance in the wake of Fukushima. BKW will not renege on this trust and will continue to actively pursue the goal of CO<sub>2</sub>-free electricity production.

Let us approach the future with confidence and zeal. The Board of Directors, Executive Board and workforce are ready and willing. Our thanks go to you, esteemed shareholders, for the support and trust you place in us. We will not let you down!

Many thanks for your attention!