

2010 Financial Year

## **Strong operating earnings – lower net profit**

**BKW**<sup>®</sup>

**Address by Beat Grossenbacher, Head of Finance and Services, to the Annual Media Conference on 17 March 2011**

### **Good operating income**

Ladies and Gentlemen

I'd like to start by reviewing the 2010 financial year and the financial figures.

In 2010 BKW generated total operating revenue of CHF 3,187.2 million, corresponding to a reduction of CHF 405.4 million or 11.3 percent versus 2009. Operating profit before interest, taxes, depreciation and amortisation (EBITDA) was CHF 21.0 million or 4.2 percent lower at CHF 480.6 million. And net profit ended the year 23.5 percent lower at CHF 228.3 million.

Given the difficult market and financial environment, BKW posted good results in 2010.

1. BKW recorded solid operating profit. Despite the weak euro and lower market prices, the national and international energy businesses performed well.
2. BKW's revenue and operating profit declined due to difficult market conditions.
3. Net profit was negatively impacted by the lower financial result, which declined as a result of the situation on equity markets and the low euro exchange rate.

### **Presentation of disposal of the sales business in Germany**

Due to disposal of the sales business in Germany on 1 January 2011, the provisions of IFRS 5 governing discontinued operations are relevant for the 2010 reporting year.

Although the sale was completed at the beginning of 2011, IFRS 5 requires discontinued operations to be disclosed separately in the 2010 figures and, in the case of the income statement, also for the preceding financial year. The income statement is therefore

broken down into continued and discontinued operations. The disposal group is disclosed in the balance sheet as "assets and liabilities held for sale".

Unless otherwise stated, the following comments concern total figures i.e. including discontinued operations in Germany.

### **Performance of the business segments**

The Energy Switzerland segment grew total operating revenue by 5 percent to CHF 2,156.2 million. Net sales to external customers rose by 3 percent to CHF 1,151.2 million, chiefly as a result of increased sales of electricity in BKW's supply region in the wake of economic recovery. Net sales to other segments rose by 6 percent to CHF 934.7 million as a result of higher internal transfer prices for electricity production. EBIT was significantly higher, growing by 213.5 percent to CHF 232.6 million due to lower internal procurement costs for energy and a reduction in the costs of billing general ancillary services to power plants with a capacity of 50 MW or more, as well as to refunds of ancillary service costs. In addition, a provision of CHF 28.9 million for onerous energy procurement contracts with partner plants was fully reversed. Excluding this reversal of provision, operating profit amounted to CHF 203.7 million.

Energy International and Trading recorded a 15.2 per cent reduction in total operating revenue to CHF 2,623.7 million. Net sales to external customers dropped by 20.0 percent to CHF 1,758.2 million, while net sales to other segments fell by 3.5 percent to CHF 856.4 million due to lower internal transfer prices for energy. Operating profit (EBIT) dropped sharply by 68.0 percent to CHF 50.9 million, mainly due to low energy prices, the weak euro, lower internal transfer prices for energy and a decline in income from participation in auctions for ancillary services.

Individual units within the Energy International and Trading segment performed as follows:

- Revenue from electricity trading decreased by 27.0 percent to CHF 1,063.7 million.
- The difficult market environment trend drove revenue from derivatives trading down by CHF 25.5 million to minus CHF 1.0 million.
- While price-related factors reduced revenue from international sales by 6.3 percent to CHF 554.1 million, international sales posted volume-related growth, recording higher earnings and increased sales to existing customers in

Germany. Nevertheless, these factors were unable to fully offset the effect of falling market prices on revenue. In terms of international sales, revenue from discontinued operations in Germany amounted to CHF 355.2 million (2009: CHF 340.8 million) while revenue from continuing operations in Italy ended the year at CHF 198.9 million (2009: CHF 250.3 million).

Total operating revenue for the Networks segment was stable, increasing slightly by 1.6 percent to CHF 657.6 million. Net sales to external customers were down 4.3 percent to CHF 167.0 million, while net sales to other segments rose by 3.0 percent to CHF 431.2 million. Since external revenue for grid usage is largely invoiced by Energy Switzerland and disclosed as internal revenue under "Networks", network revenue generated outside the Group is low. The bulk of such externally-generated revenue is accounted for by engineering services and the electrical installation business, which saw revenue increase by 2.9 percent to CHF 112.4 million. Operating profit (EBIT) fell by CHF 40.6 million to CHF 61.8 million, primarily due to the ECom decision to impose additional charges on ancillary services for 2009 and 2010.

## Expenses

Energy procurement costs in 2010 amounted to CHF 1,941.2 million, corresponding to a reduction of 16.7 percent compared to the prior-year period. The decrease is chiefly attributable to a decline in trading business.

Personnel expenses rose by 9.3 percent to CHF 345.4 million. Personnel expenses were lower in 2009 due to a change of CHF 28.6 million in pension plan assets which was booked to income. The effect for 2010 amounted to only CHF 6.7 million. Due primarily to lower costs for charging general ancillary services to power plants with a capacity of 50 MW or more, material and third-party services were CHF 3.5 million lower at CHF 201.1 million, while economising measures resulted in a reduction of CHF 22.3 million in other operating expenses to CHF 218.9 million.

## Profit weighed down by lower financial result

Developments on equity markets, coupled with higher financing costs and the low euro, reduced the financial result by CHF 84.7 million to minus CHF 56.5 million. The main influencing factor was the return on shares in the decommissioning and disposal funds,

which are measured at fair value. Contrary to the exchange rate gains recorded in the prior-year period, lower exchange rate gains led to a reduction in the 2010 result for the state funds. Due to the lower result, income tax expenses fell by CHF 31.7 million to CHF 54.9 million.

The lower financial result meant that the good operating profit recorded for 2010 was not fully reflected in net profit, which ended 2010 at CHF 228.3 million compared to CHF 298.5 million in 2009. Nevertheless, given the difficult market and financial conditions, this is a good result.

### **Higher balance sheet total and lower equity ratio**

In 2010 the balance sheet total rose slightly by 0.8 percent to CHF 6,569.6 million. While non-current assets rose by 8.9 percent, current assets fell by 17.3 percent largely due to an investment-related reduction in current financial assets.

On the liabilities side, long-term liabilities rose by 19.3 percent to CHF 450 million, largely due to the issue of two bonds, while short-term liabilities fell by 15.0 percent. At CHF 2,904 million, shareholders' equity was 10.5 percent below the prior-year figure mainly as a result of acquiring a tranche of 8.9 percent treasury shares from E.ON worth CHF 304.3 million. The equity ratio dropped accordingly from 49.8 percent to 44.2 percent.

### **Lower cash flow from operating activities**

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 of CHF 222.1 million. Cash flow from investing activities was CHF 255.7 million lower at CHF 340.4 million as a result of the reduction in current and non-current financial assets due to the reversal of existing fixed-term deposits. Investments in property, plant and equipment and equity-valued companies remained virtually unchanged. Cash inflow from financing activities fell by CHF 180.7 million to CHF 59.0 million.

## **Dividend**

Given the difficult market and financial environment, BKW achieved good results in 2010. As in the prior year, a dividend of CHF 2.50 will be proposed to the General Shareholders' Meeting on 13 May 2011.

Many thanks for your attention.

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