

2009 financial year

Broad-based commitment to reliable electricity supplies



Address by Kurt Rohrbach, CEO of BKW, at the Annual Media Conference on 18 March 2010

Ladies and Gentlemen,

Welcome to the Annual Press Conference of BKW FMB Energy Ltd (BKW). I'd like to start as usual with a few words on the BKW Group's results and a review of our main activities in 2009. I will then discuss a few selected topics in more detail. Following this, Hermann Ineichen, Head of Energy Switzerland, will report in detail on the energy business and individual projects and Beat Grossenbacher, Head of Finance and Services, will present the financial aspects of the results. Following these presentations, we will be glad to answer your questions.

Introduction

Last year, electricity consumption dropped slightly in line with the economic trend. At a good 2 percent, the decline was less dramatic in Switzerland than elsewhere in Europe, for instance in Germany and Austria, which saw demand drop by more than 5 percent. However, in BKW's grid – BKW's traditional supply region, if you will – demand declined by almost 6 percent because several large customers were obliged to scale down or even suspend operations. But because BKW gained market share overall, i.e. also outside its home supply region, the energy delivered by BKW's Swiss business actually increased by 1 percent. So, on balance, BKW tackled this situation well and was able to offset the decline in volume.

The economy as well as electricity consumption appear to be recovering somewhat.

Review of results

The BKW Group posted good operating results in 2009, coping well with a difficult market environment and even strengthening its market position. Last year the Group grew consolidated operating revenue by 2.8 percent to CHF 3,593 million. This gratifying development was partly attributable to sales activities in Switzerland, where the volume of sales was higher and – as mentioned before – new customers were acquired outside the supply region. Trading volume also rose despite the difficult international market trend.

BKW measures its performance primarily on the basis of operating profit: in other words, adjusted EBITDA. Compared to 2008, EBITDA rose by 6.4 percent to CHF 502 million in 2009 as a result of the positive trend in the energy business as well as a change in pension plan assets which was booked to income.

The recovery on international equity and financial markets had a positive impact on the state funds for decommissioning and disposal, leading to a significantly better financial result and increasing net profit by 115.2 percent to CHF 298.5 million.

Vertical integration

Given the current market environment, we are extremely satisfied with these results, which we owe in no small measure to our position as a vertically integrated energy supplier. Vertical integration means supplying our customers primarily from our own production plants and our own extensive, well-maintained network infrastructure. Through our sales activities we are close to our customers, familiar with their needs and able to address them effectively. We operate our own sophisticated trading platform with a view to optimally managing our production and network infrastructure. This also engages to a lesser extent in proprietary trading.

Thanks to this approach, BKW is able to draw on in-house expertise for every link in the energy supply value chain. This reduces dependencies on individual upstream suppliers and middlemen. It also enables the value chain to be optimised and guarantees information transparency. Armed with this, BKW can respond swiftly and effectively to external events and remain agile in a liberalised market. Finally, this also enables us to grow independently and sustainably.

Energy security

Liberalisation of the electricity market

The Swiss Electricity Supply Act (StromVG) has now been in force for more than a year. So far, liberalisation has failed to live up to many of the expectations of customers, politicians, business and the electricity industry alike. As yet there is no free market in the sense of one in which supply and demand dictate the price of a product. This is due to two main factors: Firstly, the law provides for phased liberalisation, whereby the electricity market is initially opened up only to customers with an annual electricity consumption of more than 100 Megawatt hours (MWh); and secondly, under the related decree, electricity utilities have an obligation to deliver electricity also to large customers at production cost. As long as wholesale prices remain significantly higher than end customer prices, very few customers will be motivated to change their electricity supplier. And BKW customers are no exception.

This is hardly surprising. Imagine sitting in a warm room – a little hemmed in, but cosy. Outside it's cold. Once you go outside you have more space but you risk not being able to find a warm spot indoors again. So you decide it's best to stay in your comfort zone. The same is true of today's electricity market. But I am convinced that spring will eventually come and that outside temperatures will warm up. Then everyone will venture outside, and the question of comfort zones will be redundant. This is why I also believe that the principle of "once free – always free" will be accepted without demur when low market prices begin to attract customers.

As I say, things are different right now.

But the image of a comfort zone clearly demonstrates that closed doors and the like – where admission is restricted to specific groups – by no means fulfil the conditions for an open, non-discriminatory market and transparency. If we want a market that is worthy of the name and that sends out the right price signals, it is essential that the legal basis be revised. Ultimately we need to define the right framework for ensuring security of supply. At present, demand for electricity is outpacing efforts to expand the infrastructure, i.e. production and grid facilities. Yet reliable, cost-effective electricity supplies cannot be assured without sufficient domestic production and grid capacities.

BKW strategy

BKW's production strategy is in keeping with the Federal Council's energy policy. Accordingly, it is founded on the three pillars of energy efficiency, new renewable energies at home and abroad, and large-scale power plants. In the long term we are aiming for a carbon-free production park.

For BKW, whether or not we achieve this goal depends in no small measure on the existing Mühleberg nuclear power plant and its planned replacement. An important decision on the existing Mühleberg nuclear power plant (KKM) was reached at the end of 2009, when the Federal Department for the Environment, Transport, Energy and Communications (DETEC) ruled to lift the time limit on the operating licence. Almost five years after submitting its application to have the time limit lifted, BKW noted the decision with satisfaction since it supports our strategy for carbon-neutral electricity supplies. We are now hoping for rapid resolution to the objections which have since been lodged against the decision.

Challenges

In the year under review BKW faced numerous other challenges which will also require its attention this year and in the years ahead.

- *Opposition to new renewables*

I would remind you that BKW is among the pioneers in renewable energies in Switzerland, with its Juvent, Mont Soleil and other projects, and is making an all-out effort to expand new renewables both at home and abroad. Yet more and more opposition is being voiced, and the projects are increasingly being obliged to address a wide range of requirements imposed by landscape conservation and heritage protection organisations, fishery associations and environmental groups. BKW endeavours to ensure that directly affected parties and interest groups are involved in its plans as early as possible. But BKW cannot solve the dilemma facing some organisations which, while strongly supporting renewable energies, are reluctant to approve concrete projects.

We also view with some consternation the federal government's tendency to provide more funds for the compensatory feed-in tariff (TIF) while apparently being unable to command support for project implementation. For example, even though there were no delays due to objections or appeals, the consultation and permit procedures for the proposal to expand the wind farm of Juvent SA still took ten years since the approval of close to thirty authorities and official departments was required. If we want to actually use the available funds and reach the ambitious goals set by the government, this complexity and lack of coordination of costly procedures at the communal, cantonal and federal level must be abandoned in favour of a simple, standardised framework.

- *Large projects / EKKM*

BKW intends to maintain and further strengthen its position as an electricity supplier. Expanding production capacities is an important step in this context. Another cornerstone of this strategy is building a replacement for existing nuclear power plants. As a location, Mühleberg is the best fit: It acts as a bridge to western Switzerland, blends well into the landscape, and is supported by the community.

Due to the high level of investment and plans that are difficult to communicate, the only way to implement the replacement nuclear power plant is through a partnership with other overhead transmission companies. The federal referendum in 2013 or 2014 will be decisive for Switzerland's energy future. Yet we are aware that the consultative vote in the canton of Berne already represents a key milestone for Mühleberg as the replacement location.

- *Regulatory intervention*

One of the greatest challenges facing electricity supplies is the growing number of regulatory interventions.

I can understand it if you interpret our scepticism to such intervention as anxiety over loss of revenue. I also admit that we view such intervention far from favourably. But I would

ask you to understand our position as a power supplier which needs to look ahead to the next annual results. We do not believe that the approach currently adopted by the regulator enables us to maintain the substance of our infrastructure. In our view, several decisions in the grid area contradict the applicable legal provisions. BKW therefore took legal action against these decrees in 2009 and lodged an appeal with the aim of achieving legal clarity. For us the main issue is to ensure that the requisite funds are available in the longer term for investments in the grid, and that energy security is not jeopardised. BKW intends to consistently oppose any further decrees that follow the same route. We want to avoid facing the same situation in a few years' time as was recently bemoaned with regard to the need to modernise the rail infrastructure.

Despite the acknowledged need for additional funds for the infrastructure, last year BKW refrained from increasing electricity prices in view of the tight economic situation. However, price adjustments will be unavoidable for the forthcoming year, although we are hoping to keep them below 10 percent.

Many thanks for your attention.