

# **BKW in a balancing act between market and regulation**

Check against delivery



## **General Shareholders' Meeting of BKW FMB Energy Ltd, 16 April 2010**

**Address by Dr Fritz Kilchenmann, Chairman of the Board**

### **1. The 2009 Financial Year**

BKW closed fiscal 2009 with solid results. In a difficult economic and regulatory environment, we increased consolidated operating revenue by 2.8 percent to CHF 3,592.6 million and grew operating profit before depreciation, amortisation and impairment (EBITDA) by 6 percent to CHF 501.6 million. Stabilisation on the financial markets led to a significantly higher financial result, which ended the year CHF 196 million higher than in 2008, increasing net profit year-on-year by CHF 160 million to CHF 298.5 million.

The balance sheet total rose by CHF 530 million to CHF 6,519 million. Despite a rise in equity, the equity ratio decreased from 51.3 to 49.8 percent due to the higher balance sheet total on the closing date.

### **2. Shareholders and share price performance**

The number of shareholders rose to around 8,000, continuing the positive trend since BKW's listing in 2003.

Today the share price is CHF 80 as opposed to CHF 32 when the shares were first listed. Contrary to the positive trend in equities, the BKW share lost 20 percent in 2009. Other electricity shares fared no better, and appear to be less appealing than other shares at present.

### 3. What are the benefits of electricity market liberalisation?

Last year saw the first stage of electricity market liberalisation come into force under the new electricity supply act. But as yet, hopes of falling electricity prices remain unfulfilled. Why has this not happened?

Only consumers with an annual electricity consumption of more than 100,000 kilowatt hours are free to choose their suppliers. Only a few are exercising this right, because their local electricity suppliers still offer good products and security of supply.

While electricity supplies have become more flexible in Europe due to the sharp economic downturn, wholesale prices on electricity exchanges have not fallen. By European standards the Swiss electricity market is small, heavily fragmented and hence complicated. It offers virtually no incentive for new entrants.

The electricity supply act is massively increasing costs and revenue reductions for the electricity sector in the bid to comply with regulatory requirements. Four federal authorities are involved, and each of these wants to chalk up successes. Electricity companies are being overwhelmed by the sheer weight of procedures and the huge quantities of data they are required to provide. As a result, they are losing out on millions in revenue, particularly in the grid area. This in turn is inhibiting their willingness to invest in the very energy security the act is intended to ensure, and to engage in a competitive price war for customers.

Finally, state taxes and levies are continually growing in the electricity sector. For example, since market liberalisation the following taxes have been introduced or are in the pipeline: (1) To promote renewable energies such as wind farms and solar power plants, consumers pay a surcharge on every kilowatt hour of electricity. (2) Barely has this surcharge been introduced than parliament is in the process of increasing it by 50 percent to 0.9 cents per kilowatt hour. (3) This includes a tax to finance waterway protection measures. (4) Water rates for the use of hydro power will be increased by 25 percent from 2011. (5) The canton of Berne is planning to introduce its own electricity tax of up to 1 cent per kilowatt hour. (6) VAT is set to increase to 8 percent from 2011. By 2011 these fiscal measures alone will increase the price of electricity by a good 2 cents per kilowatt hour or by 10 to 25 percent depending on the final selling price. How, then, is electricity to become cheaper?

So far, electricity market liberalisation is far from a success story. Yet despite this less than favourable trend, BKW continues to support liberalisation and has been carefully preparing for it for years.

#### 4. Challenges facing BKW

It is BKW's declared aim and purpose to deliver reliable, ecological and cost-effective supplies of electricity to its customers while ensuring a reasonable return for the company. We intend to further pursue our strategy of vertical integration, cooperation with partners and regional presence as well as enhance our autonomy. The aim is to retain and expand our largely carbon-neutral electricity production facilities.

A large number of projects for the production of electricity from **renewable energies** are in the pipeline. Smaller *hydroelectric power plants* in Meiringen, Kandersteg and the Lötschen Valley are under construction or have already gone into operation. Plans to upgrade Hagneck power plant on Lake Biene were approved by the State Council of Berne in January this year. A municipality in the canton of Graubünden also recently granted BKW a licence. In the *wind power* segment, Switzerland's largest wind farm, situated in the Bernese Jura, is being expanded with eight new turbines. In the *biomass* segment, work is under way in Grindelwald on a wood-fired heating station. Several biogas facilities are also being planned or are already under construction.

Many other projects are at the permit procedure stage or about are almost ready for submission. All too frequently, however, they are opposed by the same organisations that campaign against nuclear or gas-fired power plants and the expansion of power plants on the Grimsel and wind farms in the Jura.

As gratifying as the rapid growth in electricity production from complementary plants using renewable energy sources is, the fact remains that a reliable, low-carbon supply of electricity depends on large-scale power plants. **Nuclear power plants** must be replaced from 2025. This is also enshrined in the Federal Council's energy strategy. In 2008 BKW and Axpo each submitted a framework permit application to the government for the Mühleberg and Beznau sites. Alpiq has also submitted an application for a power plant in the Gösgen region. The official review of these applications went ahead in 2009. While it is generally agreed that two replacement plants will be sufficient initially, the project owners are still unable to agree on the order of priority of the locations. We believe that such replacement facilities should be built where the existing plants will be decommissioned and dismantled. In other words, in Beznau and Mühleberg. Much is at stake for the canton of Berne: energy security, the major economic importance and value-add of a nuclear power plant, and hundreds of skilled jobs. BKW bears responsibility for this.

Last December the Swiss government granted BKW an open-ended operating licence for the current **Mühleberg nuclear power plant** from 2013. The lengthy ruling provides a detailed explanation as to why the power plant is safe and reliable. Thanks to this

decision, Mühleberg is now on an equal legal footing with other Swiss nuclear power plants. An appeal lodged by opponents of nuclear energy is pending with the Federal Administrative Court.

The **KWO plus** investment programme, in which BKW has a 50% involvement, is one of our most important projects. Preparations are under way to submit licence applications for three subprojects: enlargement of the Grimsel reservoir, a pump storage power plant between Lake Räterichsboden and Lake Oberaar, and capacity increases in two power plants in Handeck and Innerkirchen.

**Outside Switzerland** BKW concentrates on the trading business as well as production and sales in Germany and Italy. The renewable energies focus is on wind power. Last year BKW acquired important stakes in wind farms in both countries, which are either already in operation, under construction or for which planning permission has been granted. In these countries, gas- and coal-fired power plants are essential for base load and medium load plants. BKW holds stakes in new facilities that use state-of-the-art technology. Certain projects are no longer being pursued. Given the broad range of potential projects evaluated, shelved projects are part of the normal planning process.

**Partnerships** are of central importance for BKW, in terms of the company's positioning and further development. We have developed regional platforms, based on the same business model, for the sale of electricity in Switzerland. These platforms offer partners a wide range of services. In 2009 we saw membership grow to 140 partners from 15 cantons as well as the Principality of Lichtenstein.

## 5. A few personal comments

Today I am presiding over my last General Shareholders' Meeting as I will be standing down at the end of May after sixteen years in office. Allow me at this juncture to summarise in three points the past and future.

Firstly: BKW has undergone strong growth. The attendance of well over 1000 shareholders at this meeting alone bears witness to this. Today our business extends across Switzerland and across its borders. Supplying electricity to the Swiss Mittelland and Jura remains a core business. Bernese cantonal politics sometimes have trouble understanding this change. Although only 52 percent of BKW shares belong to the canton of Bern and the rest are held by around 8,000 other co-owners in Switzerland and abroad, many still believe that BKW is a purely Bernese enterprise. Of the six original regional utilities, two have merged to create Alpiq and three have been brought together under the Axpo umbrella. The challenge facing BKW is to remain autonomous and independent while further developing as a vertically integrated company. The strategy is

ambitious. It calls for a clear commitment on the part of all shareholders to resolutely support this development and grant BKW the required room for manoeuvre.

Now to the second point: BKW is aiming to retain and expand its largely carbon-free electricity production facilities in Switzerland and, wherever possible, also abroad. The focus is on hydro power, wind, other renewable energies and on nuclear energy. In the foreseeable future, both pillars will be required; anything else is a pipe dream. We want to invest CHF 1,500 million in the "renewable energy" pillar from now until 2020. In this respect BKW has built up a strong position, among other things through its subsidiary sol-E Suisse. At the same time we will need to replace Mühleberg nuclear power plant. It would be wrong to play one pillar off against the other. Value-add and jobs in Mühleberg, renewable energies and energy efficiency are all equally desirable. We must rid ourselves of the ideological dogma against nuclear energy. The canton of Berne in particular needs a strong economic impetus. In recent months hundreds – if not thousands – more jobs have been lost in the private sector. Yet engaging in trench warfare over electricity production is the kiss of death for our region's development. Because there are others just waiting for the chance to take over.

Thirdly, partnership: In mid-March the Swiss Capital Region ("Région de la capitale suisse") was christened. The cantons of Berne, Fribourg, Neuchatel, Solothurn and Valais together with 15 cities are planning to make this region succeed where the "Espace Mittelland" failed. Here, too, the proof of the pudding is in the eating. BKW can help. For years it has been cooperating successfully in these cantons. The cooperation with Group e, which operates primarily in the cantons of Fribourg and Neuchatel, is growing exponentially. Both companies are also closely tied through a cross-shareholding. According to surveys, the chances of obtaining approval for a replacement nuclear power plant in Mühleberg appear to be sound. BKW also has a good presence in parts of the cantons of Solothurn and Valais. Intercantonal projects are gradually being built up, but they will take some time and need patience and must be based on mutual trust. There are no catch-all solutions. But the partnerships which BKW has already built up in the reconfigured capital region can serve as a success model for other economic or social projects.

## **6. A word of thanks**

On behalf of the General Shareholders' Meeting and Board of Directors I would like to thank all employees, members of management and the Executive Board for their hard work and dedicated efforts in the service of our company and customers. The work is both exciting and demanding, entailing setbacks as well as achievements. Thanks to

you, BKW made good progress last year. We wish you continued strength, success and personal satisfaction in your work.

The Board of Directors and Executive Board would like to thank you, our valued shareholders, for your interest in a strong BKW. Your support plays a key role in ensuring our company's ability to command a good position in the electricity market.

With that, I hereby declare the General Meeting open.