

## Challenges facing energy security

### **Address by Kurt Rohrbach, CEO of BKW FMB Energy Ltd, to the General Shareholders' Meeting on 16 April 2010 in Berne**

Ladies and Gentlemen,

#### **Introduction**

I'd like to start by discussing with a few aspects of the results for the 2009 financial year. Following this I will provide an overview of certain areas of electricity supply that kept us busy during the financial year under review, and will also require our close attention in the future.

First the results, starting with the

#### **electricity business**

I am both delighted and proud to present our results to you, our valued shareholders, today: delighted because the results are positive, and proud that our management and employees have achieved them amidst difficult economic conditions.

In 2009 BKW produced 10 terawatt hours of electricity: around 2.2 percent more than in 2008. This increase is primarily attributable to the new Livorno Ferraris gas-fired combined-cycle power plant in Italy. In Switzerland, Mühleberg nuclear power plant recorded its highest ever annual electricity production figures since going into operation. Production by Swiss hydroelectric power plants also grew by 1 percent in 2009.

The share of new renewable energies in Switzerland amounted to 21 gigawatt hours, corresponding to a reduction of around 11 percent. However, power generation from new renewable energies managed by the BKW Group itself, i.e. including facilities abroad, rose to 39 gigawatt hours. This figure does not include production by plants which BKW

does not directly manage (in other words non-controlling interests), which recorded a clear year-on-year increase in production to 55 gigawatt hours.

Overall demand in BKW's traditional supply region fell by close to 6 percent. While this may seem a large drop compared to the 2 percent fall in demand nationwide, it is heavily influenced by the closure of a large business operation in the Solothurn supply region. Excluding this effect, the decline in demand is on a par with the rest of Switzerland, naturally triggered by the tight economic situation.

Outside its traditional supply region, BKW was able to win market shares and grow total sales in the Swiss market by 1.2 percent. Our consistent expansion of sales activities is therefore paying off.

In 2009, international electricity markets saw a massive decline in demand. Despite this difficult environment, BKW succeeded in growing direct sales in Germany and Italy by 10.9 percent to 5,768 gigawatt hours.

Trading volume rose in 2009 by 6.4 percent to 12,638 gigawatt hours, growing revenue from trading by 7.9 percent to CHF 1,457 million.

What are

### **the results**

of these activities, ladies and gentlemen?

In 2009 the BKW Group grew consolidated operating revenue to CHF 3,592.6 million, corresponding to an increase of almost 3 percent.

BKW measures its performance based, among other things, on operating income before interest, tax, depreciation and amortisation, or EBITDA. Compared to 2008, EBITDA improved by 6.4 percent to CHF 501.6 million. This improvement is chiefly due to the strong energy business, but also to a change in pension plan assets.

The recovery on international equity and financial markets had a positive impact on the state funds for decommissioning and disposal, ultimately leading to a significantly better financial result than in 2008. In contrast to 2008, therefore, good business performance was not diminished by a negative financial result, and BKW increased net profit by 115.2 percent to CHF 298.5 million.

As a result of business activities in 2009, the balance sheet total rose by 8.8 percent to CHF 6,519 million. At CHF 602.7 million, cash flow from operating activities was CHF 360.2 million above the prior-year figure. This increase is mainly attributable to the reduction in net current assets and lower tax payments. Cash outflow from investing activities rose by 5.9 percent to CHF 596.1 million.

So much for the figures, ladies and gentlemen.

Naturally,

### **electricity market liberalisation**

also kept us on our toes in the year under review.

The main issue in this regard was not so much the market and liberalisation per se, as the associated regulations. This is hardly surprising. For a market worthy of the name, which sets the right price signals and is transparent and non-discriminatory, clear rules of engagement are a must. But clear rules of engagement must set the right framework within which energy security can be guaranteed going forward.

Under the current rules, and particularly in view of their interpretation, most investment decisions cannot be justified on profitability considerations alone; they also necessitate a certain unshakeable belief in the future. What worries me most is the need to retain the substance of the grid, and I sincerely hope that in a few years' time we will not come to the same painful realisation that was faced regarding the need to modernise the rail infrastructure.

If the task is to address the growing demand for electricity, ladies and gentlemen, such boundary conditions provide a poor starting point. In the future, too, reliable, cost-effective electricity supplies will depend on the availability of sufficient domestic production and grid capacities.

Because we do not believe that the regulator's current practices allow us to retain our infrastructure substance, and because we take the view that some decisions in the grid area contravene the current legal provisions, BKW lodged legal appeals against these rulings in 2009, primarily with the aim of achieving legal clarity. For us the main aim is to ensure that the requisite funds for investments in the grid remain available in the longer term, and that energy security is not compromised. BKW will consistently oppose all further rulings which in our view endanger energy security.

## **Investing in future energy security**

BKW's strategy is predicated on the three pillars of energy efficiency, new renewable energies at home and abroad, and large-scale power plants. Thus it relies on as broad and crisis-resistant production mix as possible. In the long term we are aiming for a carbon-free production park.

- **Large-scale power plants**

For BKW, whether or not we achieve this goal depends in no small measure on the planned replacement for Mühleberg nuclear power plant. Now that the general licence applications have been revised, Resun AG – the planning company jointly founded by BKW and Axpo – can begin preparing for the construction permit application. BKW seeks to contact and work with the authorities and local population in Mühleberg and the surrounding communities as early as possible in the planning stage. This way, for example, a solution acceptable to most parties was found for connecting the planned construction site to a tunnel, and a constructive, solution-oriented discussion is still assured.

- **New renewable energies**

BKW intends to retain and further expand its leading position as a provider of green energy in Switzerland. It has therefore set itself the goal of producing around 2.6 terawatt hours of electricity from new renewables in Switzerland and abroad by 2025: The Chairman has already outlined a number of activities with this goal in mind.

I won't hide from you the fact that more and more opposition is being voiced on all the projects planned in Switzerland, and that such projects are being obliged to meet 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 the dilemma some of these organisations face is that they campaign strongly for renewable energies yet are reluctant to approve concrete projects. And this is a dilemma we cannot solve for them.

In Germany BKW is in the process of working with partners to build several wind farms with a total installed capacity of 200 MW. Together with Fortore Energia S.p.A. we are planning to build and operate wind farms in southern Italy by 2016, with a collective

capacity of around 600 Megawatts. These activities will enable BKW to expand wind power production by more than 100 gigawatt hours in the course of 2010.

- **Energy efficiency**

In addition to new renewable energies and large-scale power plants on the supply side, energy efficiency is one of the key pillars of BKW's strategy on the demand side.

At present, around a dozen employees work in BKW's energy efficiency competence centre. In 2009 more than 600 consultations were held with private customers on ambient heating and building facades, household appliances, lighting and mobility. And in the business customer segment, close to 100 companies sought comprehensive energy advice,

BKW's energy efficiency activities enable annual electricity savings of around 7.4 million kilowatt hours: equivalent to almost the total annual volume produced by the wind farm on Mont-Crosin.

BKW is very aware of its history and the achievements of the founding generation. One event that escaped the spotlight but was closely followed by an interested public was the unveiling, by BKW and the Polish Embassy, of a bust of Gabriel Narutowicz on 27 November. Gabriel Narutowicz was the visionary and construction site manager of the Mühleberg hydroelectric power plant. Visionaries were of course behind all such facilities, but what was special about Gabriel Narutowicz was that he went on to become President of Poland. And that's what makes him stand out. After this excursion into the past, ladies and gentlemen, I'd now like to turn to the present and the near future: in other words, the

## **Outlook**

The BKW Group expects to close the current financial year with stable development in the energy business and revenue on a par with the prior year. Nevertheless, sustained low energy prices on the international markets, economic uncertainty, new regulatory requirements and costs related to strategic projects – particularly in connection with the drive to expand production – are likely to have an impact on the operating result. Taking all these factors into account, EBITDA is likely to fall short of the 2009 figure, adjusted for the special effect related to the adjustment in pension plan assets booked to income. The financial result is dependent on financial market movements; assuming that the

recovery is in place and that financial markets remain stable, BKW expects to close 2010 with net profit lower than the prior-year figure.

### **A warm thank you**

As you can see, ladies and gentlemen, BKW remains on track in implementing its strategy for a secure, ecological and cost-efficient supply of energy, even if the path is strewn with obstacles. The ability of our company to respond successfully to these challenges calls for major commitment and flexibility on the part of our employees. We expect employees to adopt an attitude that goes beyond the boundaries of their professional training and encompasses entrepreneurial thinking, a positive approach to change, and a willingness to learn.

We are well aware of the huge personal commitment of our employees and thank them all sincerely for their dedicated efforts and hard work over the past year.

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 shareholders – for the trust you have shown in our work and in BKW over the past year.

Permit me at this point, ladies and gentlemen, on behalf of the Executive Board, to extend my warmest thanks to our Chairman for his sixteen years of dedicated and loyal service. I believe it is appropriate and important to express our appreciation and thanks in the presence of our valued shareholders.