

## **Strong operational earnings capability – higher net profit**



### **Address by Beat Grossenbacher, Head of Finance and Services, to the Annual Media Conference on 18 March 2010**

#### **Successful performance in a difficult environment**

Ladies and Gentlemen,

I'd like to start with a review of the 2009 financial year based on the financial figures.

In 2009 BKW generated total operating revenue of CHF 3,592.6 million, an increase of CHF 96.4 million or 2.8 percent over the previous year. Operating profit before depreciation, amortisation and impairment (EBITDA) grew by CHF 30.3 million or 6.4 percent to CHF 501.6 million. Net profit ended the year 115.2 percent higher at CHF 298.5 million.

Three main factors have influenced the 2009 results:

1. BKW's ability to generate strong operating earnings in the energy business despite a difficult economic and regulatory environment.
2. The positive impact on operating profit due to the change in pension plan assets.
3. Stabilisation on the financial markets, which resulted in a significantly higher financial result and a corresponding increase in profit,

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). Various new or revised accounting standards became applicable in the 2009 financial year. However, these changes had no significant

effect on the presentation of the financial position, results of operations and cash flows of the BKW Group. The main change concerns the introduction of segment reporting: reporting for the 2009 financial year now contains segment reporting by business division, in accordance with the IFRS 8 accounting standard "Operating Segments". BKW operates three business segments: Energy Switzerland, Energy International and Trading, and Networks. Introduction of segment reporting has further enhanced transparency.

### **Review of the business segments**

The Energy Switzerland segment grew operating revenue by 26.8 percent to CHF 2,054.2 million. Net sales to external customers were 11.4 percent higher at CHF 1,117.4 million, chiefly as a result of higher electricity prices and growth in electricity sales outside the supply region. At CHF 882.2 million, net sales to other segments were up 57.3 percent due to higher internal transfer prices for electricity production. EBIT improved by 19.3 percent to CHF 74.2 million. Following the abolition of the time limit on the operating licence for Mühleberg, the assumed useful life was adjusted from 40 to 50 operating years. Due to this change, impairments of CHF 38.9 million on nuclear power plant facilities and fuels were reviewed and reversed. The reversal was recognised in income and included under depreciation, amortisation and impairment. Excluding this effect, operating profit was CHF 26.9 million lower. This reduction is primarily a result of higher energy procurement costs and additional costs related to Swissgrid charges for general ancillary services for power plants with a capacity of 50 MW or more.

Energy International and Trading grew total operating revenue by 9.6 percent to CHF 3,094.3 million. Net sales to external customers dipped by 1.4 percent to CHF 2,196.6 million, while net sales to other segments rose by 51.7 percent to CHF 887.5 million due to higher internal transfer prices for energy. EBIT was 4.0 percent lower at CHF 159.4 million, mainly due to the reassessment and impairments of around CHF 31 million recognised in the second half of 2009 for existing gas-fired combined-cycle power plant projects in Italy. These adjustments were reported under depreciation, amortisation and impairment. The good operating result thanks to higher internal transfer prices for energy and additional revenue from participation in auctions for ancillary services was unable to fully offset these write-downs for gas-fired combined-cycle power plant projects.

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

- Revenue from electricity trading rose by 7.9 percent to CHF 1,456.9 million, largely as a result of income from participation in auctions for ancillary services.
- At CHF 24.5 million, revenue from derivative trading was CHF 1.3 million higher than the prior-year figure, thanks to successful leverage of the volatile market environment.
- Revenue from international sales fell by 11.4 percent to CHF 591.1 million, with volume-related growth in revenue in Germany unable to fully compensate for lower demand in Italy in the wake of the economic downturn.

The Networks Segment saw total operating revenue drop slightly by 1.9 percent to CHF 647.5 million. The volume of electricity which BKW delivers over the grid to customers and sales partners fell by around 5 percent due to the economic downturn. This decline was partly offset by growth in the service business. In addition to the reduction in total operating revenue, negative effects due to regulatory intervention also impacted the segment's result, leading to a 24.7 percent reduction in EBIT to CHF 102.4 million.

### **Expenses side**

Energy procurement costs in 2009 amounted to CHF 2,329.1 million, corresponding to a slight reduction of 0.2 percent compared to the prior-year period. The change in pension plan assets which was recognised in income resulted in a reduction of CHF 6.1 million in personnel expenses. Excluding this effect, personnel expenses rose by CHF 22.5 million due to the larger workforce and higher salary costs. As a result of higher expenses for production expansion and additional costs incurred for general ancillary services for power plants with a capacity of 50 MW or more, material and third-party services were CHF 38.5 million higher at CHF 204.6 million, while other operating expenses increased by CHF 37.5 million to CHF 241.2 million.

### **Good financial result, significantly higher profit**

In the wake of the recovery on equity markets, the financial result for 2009 rose to CHF 28.2 million compared to the prior-year loss of CHF 167.3 million. The easing on international financial markets resulted in gains on shares and securities related to the state funds, as opposed to the high losses recorded in 2008. Due to the higher result, income tax expenses rose by CHF 53.7 million to CHF 86.6 million.

In contrast to the prior-year period, good performance in the energy business was not diminished by a negative financial result and BKW increased net profit for the 2009 financial year from CHF 138.7 million to CHF 298.5 million.

### **Higher balance sheet total**

In 2009 the balance sheet total grew by 8.8 percent to CHF 6,519 million.

While current assets rose only slightly, non-current assets were 11.8 percent higher due to the increase in investments in equity-valued companies and non-current financial assets.

On the liabilities side, short-term liabilities increased by 4.6 percent while long-term liabilities rose by 14.8 percent due to a bond issue of CHF 350 million. Shareholders' equity rose by 5.7 percent to CHF 3,244.3 million, while the equity ratio was down slightly from 51.3 to 49.8 percent.

### **Higher cash flow from operating activities**

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 was up 5.8 percent to CHF 596.1 million, while cash inflow from financing activities amounted to CHF 239.7 million, chiefly due to a bond issue.

### **Dividend**

The easing on international financial markets led to a significantly improved financial result and, coupled with the excellent performance of the energy business, resulted in a marked rise in net profit which ended 2009 at CHF 298.5 million. Based on this good result, a dividend of CHF 2.50 per share – corresponding to an increase of 8.7 percent compared to 2008 – will be proposed to the General Shareholders' Meeting.

### **Performance of the BKW share**

Before I come to the outlook for the current financial year, permit me to give a brief outline of the performance of the BKW share. 2009 saw an easing on financial markets. Like other electrical utility shares, however, the BKW share did not benefit from this trend and fell by 21 percent in 2009, in contrast to the SPI, which gained 23 percent.

### **Outlook for 2010**

Now for the outlook: The BKW Group expects to close 2010 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, coupled with 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 now complete and that financial markets remain stable, BKW expects to close 2010 with net profit lower than the prior-year figure.

Many thanks for your attention.