

PKE
CPE

2018 ANNUAL REPORT
SUMMARY



PKE Energy Pension Foundation

Key figures

	2018	2017
Number of active participants and pensioners	24 635	20 919
Affiliated employers	211	179
Balance sheet total (in CHF million)	9 593	8 857
Collective pension fund coverage ratio	104.4%	116.5%
Overall foundation coverage ratio	104.0%	114.9%
Performance	-3.5%	9.6%

Transfers successfully concluded, a challenging year on the stock market

We conclude this reporting season on a historic note: for the first time since 2001, all of PKE's companies are united in one pension fund once again. On 1 April 2018, the final companies transferred from the PKE Energy Pension Fund Cooperative to the PKE Energy Pension Foundation along with the respective active participants and pensioners.

The PKE foundation now boasts 211 affiliated companies with just under 25 000 beneficiaries and CHF 9.6 billion in assets. This makes us by far the largest pension fund in the Swiss energy sector.

After the above-average returns of the past few years, 2018 demonstrated that negative returns can strike at any time on the stock market. From the end of 2017 to the end of 2018, PKE's coverage rate dropped from 114.9% to 104.0%. The reasons for this lie in the negative return on investment of minus 3.5%, the interest rate for beneficiaries of 2.5% and the compensatory measures accompanying the reduction of the conversion rates.

The Foundation Board's cautious and sustainable interest rate policy and the strengthening of our provisions and reserves over the past few years have proven to be a wise, well thought-out approach. In the coming years, we will endeavour to further strengthen PKE's finances. To achieve this goal, the Foundation Board will be continuing to pursue a careful, steady interest rate policy as well as gradually reducing the conversion rates to 5.0% at age 65.

With this in mind, PKE is fit for the future with finances that will stand the test of time.

PKE Energy Pension Foundation



Martin Schwab
President of the Foundation Board



Ronald Schnurrenberger
Chief Executive Officer



Martin Schwab
President of the Foundation Board



Ronald Schnurrenberger
Chief Executive Officer

Pension coverage

PKE Energy Pension Foundation performance

no. of beneficiaries



In solid stead

PKE offers defined contribution plans tailored to its members that far exceed the BVG minimum. As an independent pension fund, PKE carries all of its own insurance-related risks.

PKE is a collective foundation comprising 14 individual pension funds (16 the previous year) catering to one or more employers alongside its collective pension fund. The collective pension fund accounts for approximately 80% of PKE's obligations with a coverage ratio of 104.4% as of 31 December 2018. The other 14 pension funds report coverage ratios between 100.2% and 109.9%.

In the insurance-related report dated 31 December 2018, our external occupational pension expert confirms that PKE provides sufficient security to cover its obligations.

Transfers successfully concluded

In 2018, the last 30 companies transferred from the PKE Energy Pension Fund Cooperative to the PKE Energy Pension Foundation accounting for around 3200 active participants and pensioners and pension assets totalling CHF 1.2 billion. This brings the wave of transfers that started in 2013 to a close.

Over 90% of the companies chose to transfer pension from the co-operative to the foundation rather than join another pension fund. This shows us that our members have great confidence in PKE. With no remaining members, the PKE Energy Pension Fund Cooperative will now be liquidated.

Interest of 2% for 2019

The Foundation Board has decided to apply an interest rate of 2.0% to the savings capital of those insured by the collective pension fund in 2019 (2018: 2.5%). It is thanks to PKE's interest rate policy that this attractive interest rate can be accommodated despite the negative return of minus 3.5%. Rather than set our interest rates in line with short-term developments on the stock market, we prefer to adopt a steady, far-sighted approach wherever possible. To this end, in good years, not all of our returns are passed on in the form of interest, allowing for solid interest rates even in tough years.

The interest rates applicable to the assets of members of the individual pension funds are set by the respective Pension Committees. For 2019, the Pension Committees have set interest rates between 0.5% and 2.0% (2018: 0.5% to 3.5%).

Reduction of the conversion rates

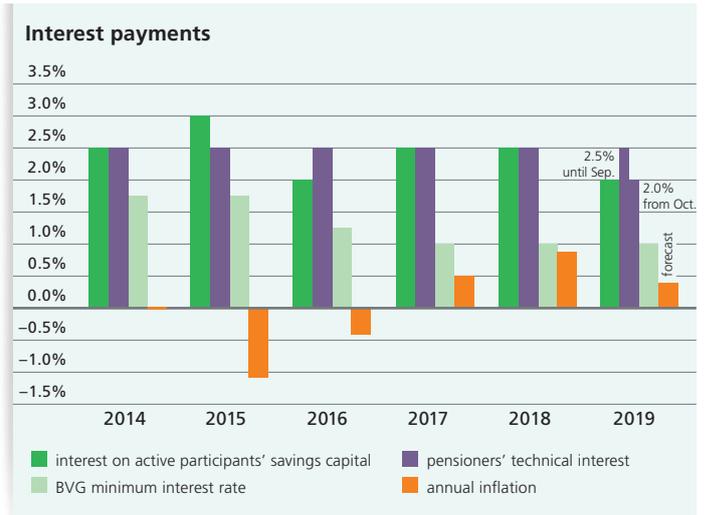
PKE's Foundation Board has decided to reduce conversion rates. This comes as a reaction to continuously increasing life expectancy and falling returns on asset investments. The conversion rate applicable to the retirement age of 65 will be gradually reduced from 5.65% as it is today to 5.0%. The reductions will commence on 1 October 2019 and continue over five years.

In addition, the Foundation Board has decided upon several compensatory measures to ensure the reduction of the conversion rates is as manageable as possible for all insured members. The most important measure is the increase in retirement savings capital of 13%. For the vast

majority of insured members, this can be covered by non-committed funds or the value fluctuation reserve. Insured members received detailed information in this regard in PKE's December 2018 issue of "exclusive".

Number of beneficiaries

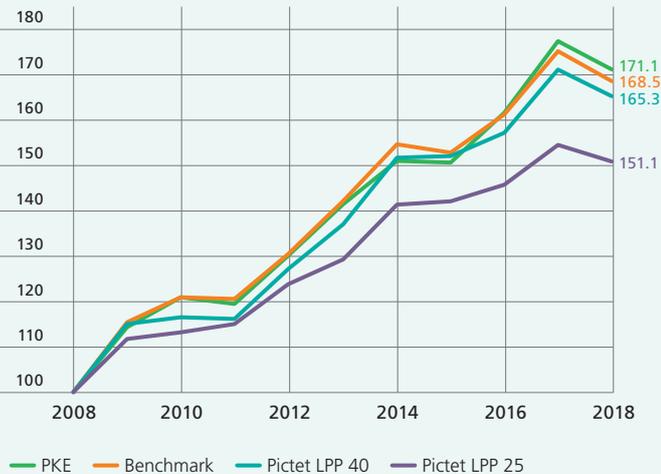
As of 31 December 2018, 15762 active participants and 8873 pensioners were registered with PKE (13238 and 7681 respectively the previous year). Pensioners accounted for 36.0% of all insured members.



Asset investments

Cumulative performance

2009–2018 development
Indexed (31 December 2008 = 100)



A challenging year on the stock market

After two very successful years, PKE recorded a negative return of minus 3.5% in a challenging market environment in 2018. It is pleasing, however, that we were once again able to beat the benchmark, which was minus 3.8%.

In seven out of twelve months, investments generated a loss for the portfolio as a whole. In the first half-year, this was largely due to increasing interest rates. The American Federal Reserve started to normalise its monetary policy to avoid its economy overheating. Towards the end of the year, weakening economic growth in China made itself felt, and the US and China threatened each other with trade barriers. This led to negative returns on shares in the last quarter in particular.

Emerging market shares underwent the sharpest price corrections, but equity securities in large industrialised nations also suffered bitter losses. Swiss real estate delivered positive returns once again. Our alternative investments also performed well.

We are happy to report that a large proportion of the price setbacks suffered by shares have been recouped in the first few months of 2019.

Outlook

The outlook on the financial markets is uncertain. The main challenge is the unprecedented debt in which countries and companies around the world find themselves.

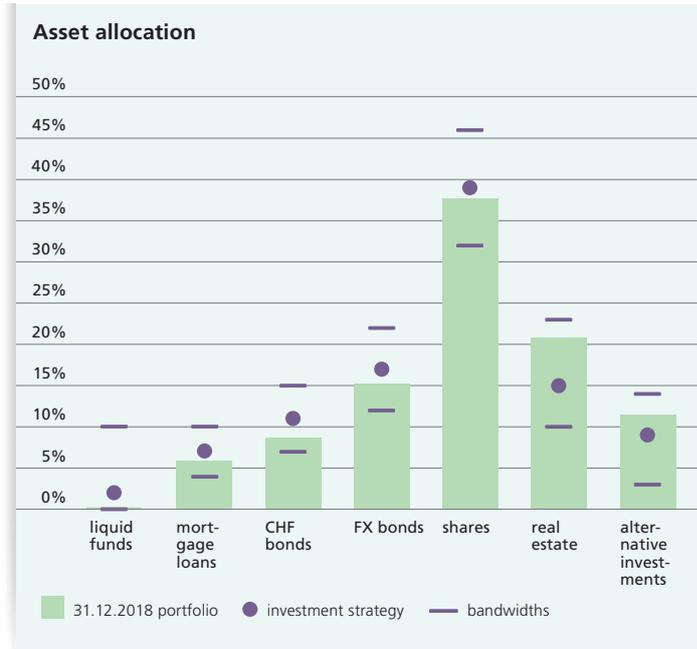
If interest rates were raised, in all likelihood, many debtors would no longer be able to meet their repayment obligations. This is a normal process per se, but this time, the scope of the issue could be significant and spiral out of control. With this danger in mind, the responsible bodies and institutions are eager to stave off an economic downturn at all costs. Therefore, any return to normalised monetary policy among central banks is being drawn out further still, particularly in Switzerland.

Savers, and above all pension funds, will have to reckon with slim returns for the foreseeable.

Investment strategy and portfolio

The Foundation Board is responsible for the setting of and adherence to our investment strategy. Our investment strategy remained unchanged in the reporting year. The Investment Committee is responsible for the implementation of the investment strategy set out by the Foundation Board.

All assets held by PKE's pension funds are invested as a whole in line with a uniform investment strategy.







FIT FOR THE FUTURE

The PKE Energy Pension Foundation is well financed and well equipped for the future. To sustainably safeguard pension provision for all generations, its conversion rates are being lowered. This will enable all insured members to count on PKE as their reliable and secure pension partner and to enjoy above-average benefits.

Balance sheet

as per 31 December in CHF million

Assets	2018	2017
Liquid funds	104.4	132.7
Bonds	2 264.1	1 961.8
Mortgage loans	567.1	495.9
Shares	3 515.6	3 658.7
Real estate	1 974.7	1 710.2
Alternative investments	1 084.6	872.2
Investments	9 510.5	8 831.5
Accrued income and accounts receivable	82.9	25.7
Total assets	9 593.4	8 857.2
Liabilities	2018	2017
Liabilities, employer-paid contribution reserve	136.9	114.5
Active participants' liabilities	3 902.9	3 342.4
Pensioners' liabilities	3 958.8	3 486.0
Actuarial reserves	1 233.2	781.2
Pension liabilities and actuarial reserves	9 094.9	7 609.6
Reserve for fluctuations in asset value	361.6	1 101.1
Pension funds' non-committed funds	–	32.0
Total liabilities	9 593.4	8 857.2

Operating account

from 1 January to 31 December in CHF million

	2018	2017
Ordinary and other contributions and transfers-in	326.9	319.6
Entry lump-sum transfers	1 276.4	1 498.3
Inflow from contributions and entry lump-sum transfers	1 603.3	1 817.9
Regulatory benefits	-371.3	-334.2
Non-regulatory benefits	-	-0.4
Termination benefits	-157.9	-175.6
Outflow for benefits and withdrawals	-529.2	-510.2
Increases in pension liability, actuarial reserves and contribution reserves; interest; security fund	-1 498.2	-1 720.5
Net result of insurance activities	-424.1	-412.8
Investment income	-280.3	766.1
Asset management costs	-60.7	-44.5
Net return on investments	-341.0	721.6
Administrative expenses	-6.4	-5.4
Income surplus/expense surplus (-) before adding to or releasing from reserves for fluctuations in asset value	-771.5	303.4
Decrease/increase (-) in reserves for fluctuations in asset value	739.5	-274.9
Pension funds' income surplus/expense surplus (-)	-32.0	28.5
Pension funds' income surplus	32.0	-28.5

Basic principles and organisation

The PKE Energy Pension Foundation is a foundation in accordance with the Swiss Civil Code (ZGB) and the Swiss federal law on occupational retirement, survivors' and disability pension plans (BVG). It insures both mandatory and non-mandatory occupation pension benefits. Various pension plans are offered, tailored to meet the diverse needs of the affiliated companies. All pension plans work on the basis of defined contributions for pension payments and of defined benefits for risk benefits.

PKE is structured as a collective foundation. It features on the canton of Zurich's register of occupational pension providers and is affiliated to the BVG security fund.

Foundation Board

The twelve members of the Foundation Board have been elected for the period ending in 2019. It is self-constituting. Its members are:

Employer representatives

Martin Schwab, President	Centralschweizerische Kraftwerke AG, Lucerne
Alain Brodard	Groupe E Connect SA, Granges-Paccot
Peter Eugster	Elektrizitätswerke des Kantons Zürich, Zurich
Gian Domenico Giacchetto	Officine Idroelettriche della Maggia SA, Locarno
Silvia Hunziker Rübel (until Nov. 2018)*	Centralschweizerische Kraftwerke AG, Lucerne
Lukas Oetiker	Alpiq Holding AG, Lausanne

Employee representatives

Peter Oser, Vice President	Elektrizitätswerke des Kantons Zürich, Zurich
Fridolin Dürst	Schwanden (Glarus)
Christophe Grandjean	Groupe E SA, Granges-Paccot
Gunnar Leonhardt	Swissgrid AG, Aarau
Monika Lettenbauer	Axpo Services AG, Baden
Adrian Schwammberger	AEW Energie AG, Aarau

* A successor will be determined during the ordinary elections in autumn 2019. We are now looking for a suitable candidate.

Committees

The PKE Energy Pension Foundation has formed committees comprised of equal numbers of Foundation Board employer and employee representatives. These are:

- the Investment Committee
- the Human Resources Committee

Executive Board

Ronald Schnurrenberger, Chief Executive Officer and Insurance Team Leader
Rolf Ehrensberger, Chief Investment Officer
Stephan Voehringer, Chief Operating Officer

Experts, auditors, advisors, supervisory authority

Auditors

KPMG AG, Zurich

Occupational pension experts

Libera AG, Zurich

Investment controlling

PPCmetrics AG, Zurich

Asset and liability experts

c-alm AG, St Gallen

Real estate valuations

Wüest Partner AG, Zurich

Supervisory authority

BVG- und Stiftungsaufsicht des Kantons Zürich (BVS), Zurich

Further information

You can find our detailed Annual Report on our website at www.pke.ch.

Please feel free to visit the PKE website, a contemporary source of current information for active participants, pensioners and employers. For more information on current retirement planning topics, be sure to take a look at our explanatory videos, e.g. www.pke.ch/videos-de, also available on the “PKE CPE” YouTube channel.

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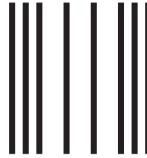
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