

Annual Report 2014



“We have a diverse range of expertise within our company. This allows us to offer a full range of tailored solutions to our customers.”

Suzanne Thoma, CEO

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Letter to Shareholders

The BKW Group¹ is well on the way to implementing its strategy. In 2014, we strengthened our Energy business, developed Networks and expanded Services. In addition to a reliable electricity supply, we are offering our customers a comprehensive portfolio of full infrastructure and energy services. In summary, the shape of the “new” BKW is starting to emerge.



Dear Shareholders,

In last year's Annual Report we wrote to you about the fundamental upheavals that were sweeping through the European energy landscape. One year later we can confirm that the situation has not improved. The electricity market continues in a state of disarray caused by the subsidy of selected production technologies and the squeezing out of “traditional” electricity generation. Prices on the European markets for electricity remain anchored at historic low levels. Each country is following its own path to try to deal with the fundamental reorganisation of its energy system. The most important for us today are Switzerland, Germany, Italy and France. While the energy debate in the Federal parliament has set Switzerland's path for the future, many questions remain unanswered.

In particular the decision by the Swiss National Bank to abandon the euro exchange rate ceiling

will also leave a mark. Nevertheless, we are able to report a successful year in 2014; this is not a given in the current industry environment, and we present our solid results with a measure of pride.

We are rethinking Energy and responding appropriately

The key to our strong market position is the fact that we recognised the global trend for renewable energy and more efficient use of resources at an early stage. In particular, we were quick to understand the business opportunities in the resulting growing market for infrastructure and energy efficiency. We rapidly set the correct course to embark on a fundamental change in direction. Strengthening Energy, developing Networks and expanding Services has been our response to the challenges of the market. We are investing in retaining the value and further development of our production and supply infrastructure. We do this because we remain convinced that large power plants will con-

¹ The BKW Group comprises BKW Inc. and its Group companies. In order to make this report easier to read, the Group will be referred to as BKW. Where the text relates specifically to BKW Inc. or BKW Energy Ltd., this is expressly mentioned.

tinue to play a role in the future. Equally, everyone accepts that the grid infrastructure is vital to the reorganisation of the supply system. In addition we are building up the regulated wind and hydro power infrastructure, expanding our already strong end-customer segment and taking advantage of our trading activities. And we are investing in establishing and expanding our Services business. We already offer a full range of tailored infrastructure and energy services to our customers. In the next decade, Services will become a third area of our business, equal in stature to Networks and Energy.

Success reported in all market segments

In 2014 we broke a number of production records. The Mühleberg nuclear power plant, our hydro power plants in Italy and the wind power plant operated by Juvent SA all produced more electricity last year than ever before. We connected two hydro power plants to the grid, and started work on building two further installations. In electricity sales, we retained our strong position in our supply region and expanded our commercial customer base in Switzerland. In Italy we acquired a number of projects focused on energy efficiency and won a prominent new major customer in the Italian state railways. By launching new electricity products in the retail segment we were able to persuade new customers to switch over to a green electricity product. Our management of our own energy position also made a contribution to the positive result. In Networks, we developed a number of smart technologies for the electricity supply over the past year, which we have tested and incorporated into our distribution grid. During the second half of the year, the Federal Electricity Commission EICOM increased its valuation of our distribution grid by some CHF 400 million. We are very pleased by this decision and will use the flexibility it provides to invest further in an innovative and future-proof distribution grid. With the acquisition of Baumeler Leitungsbau AG by our subsidiary Arnold AG we have also improved our position as a leading provider of infrastructure services.

Full range of comprehensive solutions in Services

Our Services business grew by 20% in 2014. We have accelerated our entry into new areas of business with the acquisition of various heating, air conditioning and building services companies, as well as companies in the up and coming industry of distributed energy production. The new acquisitions are contributing expertise in a perfect complement to our organic growth in Services. As a general contractor we not only want to provide comprehensive advice to our customers, but also offer them tailored end-to-end solutions using the expertise of the entire BKW family. Ultimately, our innovative complete energy solutions allow us to support sustainable energy use and contribute to reducing CO₂ emissions.

Heartfelt thanks

We have had an intense and successful year. Our achievements in 2014 are thanks to the trust placed in us by our shareholders and customers alike. They deserve a special thank you. We also thank all of our employees. Their commitment and collaboration are key to the gratifying performance of our business even in difficult market conditions.

Yours sincerely,



Urs Gasche
Chairman of the Board



Suzanne Thoma
CEO

We are investing in the future

Investments in CHF until 2024

New investments in renewable energy

approx. 1 billion

Expansion of the services business

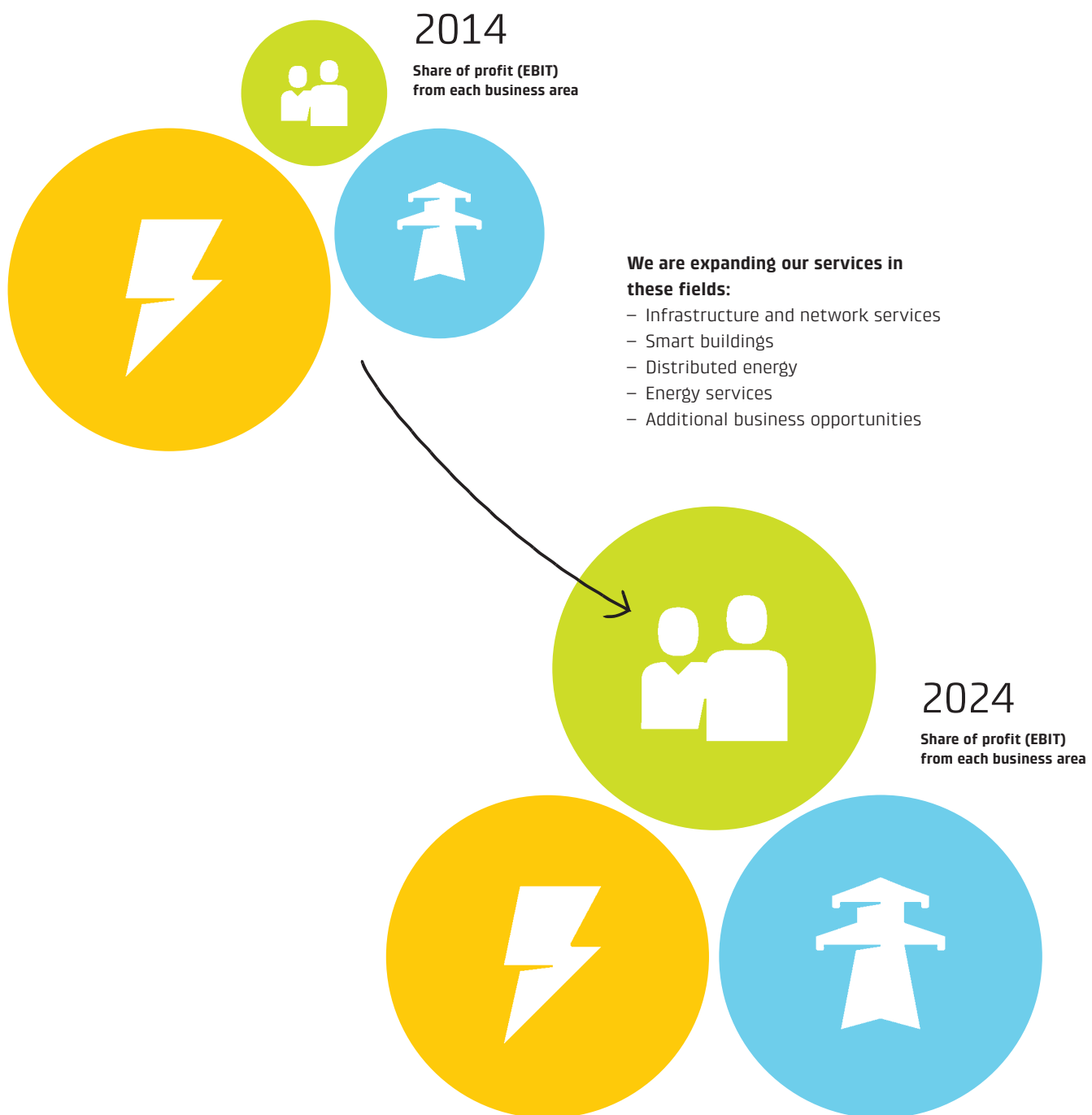
approx. 1 billion




Maintaining infrastructure

approx. 2 billion

(1 billion in Networks)

approx. 4 billion



-  Energy
-  Networks
-  Services

Review of the 2014 Results

BKW impresses with strong results – environment remains challenging

BKW achieved a strong operating profit (EBIT) during the reporting year, in a continuing difficult environment for the sector. The good results are based on successful management of the energy position and effective measures to improve efficiency and reduce costs. In addition, BKW has recorded significant growth in the area of energy and infrastructure services. EBIT increased by almost 10% compared with the previous year's adjusted figure, to a strong CHF 346.7 million. Net profit improved by CHF 125.5 million to CHF 291.9 million due to a number of special items. The gratifying result underlines the effectiveness of the consistent implementation of BKW's strategic reorientation.

Total operating revenue increased, services business reporting high rates of growth

Total operating revenue was 4.1% higher compared with the previous year, at CHF 2,844.9 million. All three business areas contributed to this improvement. Energy achieved performance of 3% in an environment of falling prices thanks to active management of the energy position. However, Networks recorded a fall of 3% owing to the rather unfavourable weather conditions with a mild winter. Services reported strong performance based both on organic growth and on acquisitions. With a growth rate of 19%, it achieved total operating revenue of CHF 291.2 million.

Strong operating profit – striking increase in net profit due to special items

In the past financial year BKW achieved a strong operating profit of CHF 346.7 million. Compared with the previous year's result adjusted for impairments to production plants, at CHF 316.9 million, this represents an improvement of around 10%. A particular contribution to the very good operating profit was made by the Energy and Services business, while the Networks business achieved a stable result.

Net profit increased to CHF 291.9 million, which is a 75% rise compared with the previous year's adjusted figure of CHF 166.4 million. Alongside the

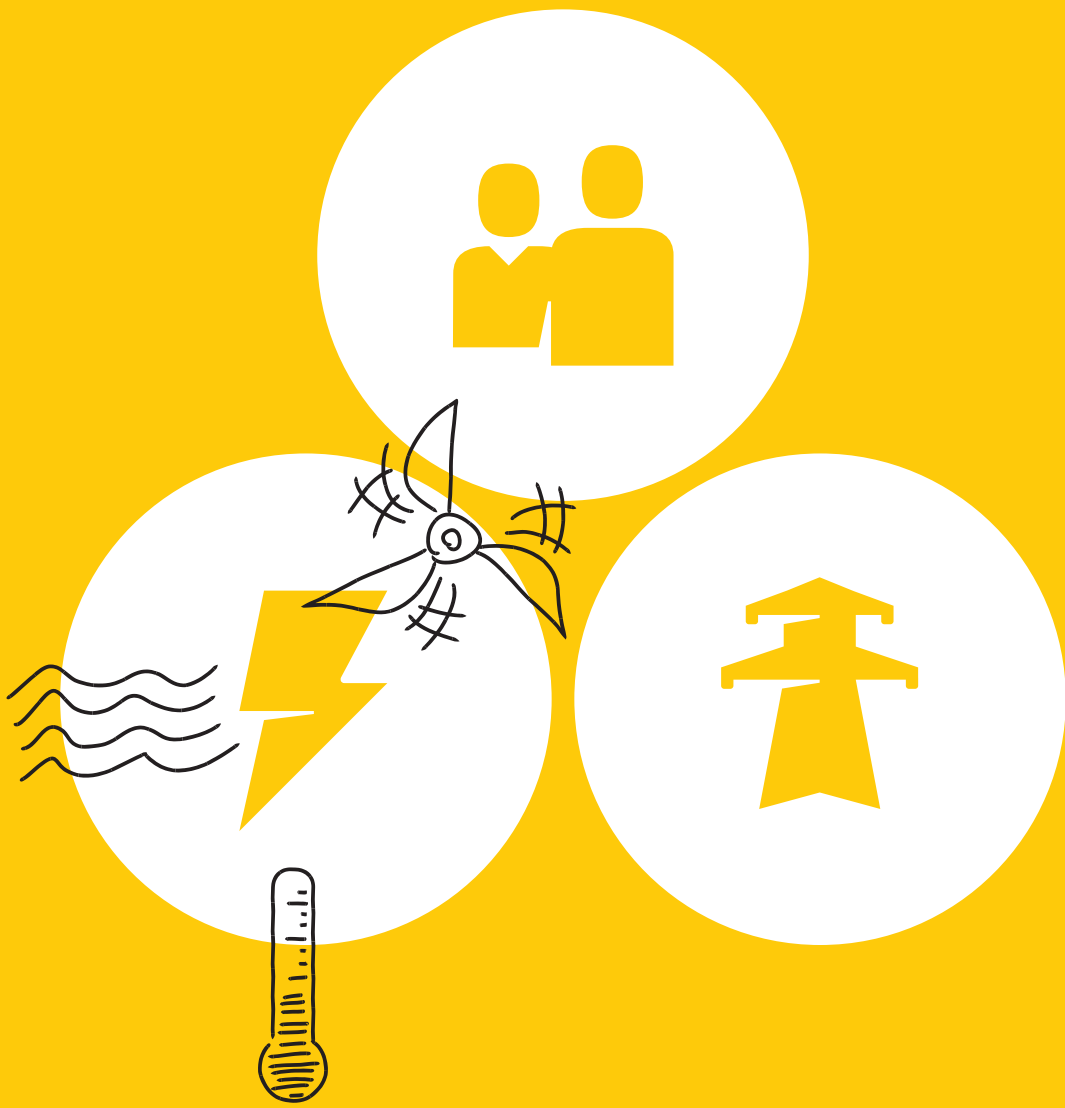
strengthening effect of the operating profit, it was also positively affected by special items. These include the exceedingly strong performance by the securities in the Decommissioning and Disposal Funds, which increased by CHF 91.6 million in 2014 and therefore finished CHF 40.5 million above the already high returns achieved in the previous year. In addition, the sale of a shareholding in Jungfraubahn Holding AG achieved a one-off gain of around CHF 25 million. In income taxes, the cessation of a previous-year one-off negative effect in relation to changes in taxation in Italy resulted in a significantly lower charge.

Higher dividends

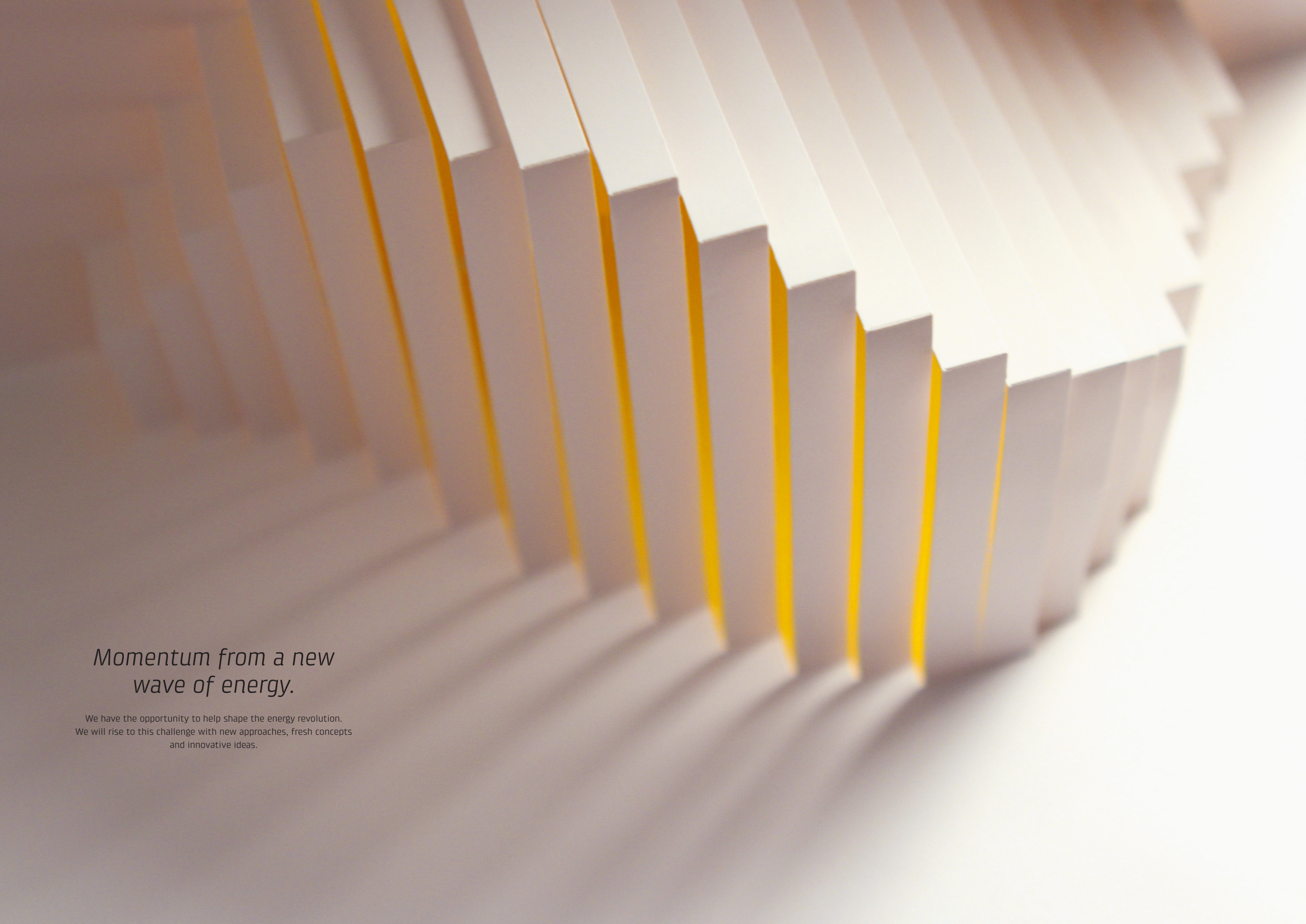
A dividend of CHF 1.60 will be proposed to the Annual General Meeting on 8 May 2015. This represents a 33.3% increase on the dividend of CHF 1.20 granted in the previous year. Accordingly, the dividend yield is an attractive 5.4% (2013: 4.2%), based on the year-end share price. The payout ratio adjusted for material one-off items in net profit once again remains at around 40%, reflecting the consistency of BKW's dividend policy.

Outlook

BKW is not expecting any change in the challenging market environment in the current financial year, with the negative impact of energy prices further exacerbating conditions on international markets. The further strengthened Swiss franc will add an additional burden to the operating result. Thanks to focused efficiency improvements and cost management, active management of the energy position, the stabilising effect of the Networks business and not least continued expansion of the Services business, some of the negative factors will be offset. Nevertheless, BKW anticipates that the operating result for 2015 will fall below the strong figures reported for 2014.



Strengthening energy



*Momentum from a new
wave of energy.*

We have the opportunity to help shape the energy revolution.
We will rise to this challenge with new approaches, fresh concepts
and innovative ideas.

At one with nature:
The Alpbach hydro
power plant in Kander-
steg is built from the
local Mitholz limestone,
the same stone as
the surrounding cliffs.



Sustainable production and profitable sale

We are expanding our production with an eye on the federal government's Energy Strategy 2050. Our focus is on the production facilities through which we can achieve cost-covering remuneration. Where this is not the case, we will scale back our expansion investment while still making necessary maintenance investments.

The energy sector is facing major upheaval. The electricity market that we have known until now is changing, and in view of falling prices we can no longer subsist from electricity production revenues alone. We are firm in our belief that anyone seeking a successful long-term future in the energy market will need to change. Our goal, therefore, is to develop our business over the next ten years from a traditional power business to become the innovative, leading provider of complete energy solutions in Switzerland.

Continuing expansion of renewable energy

Despite our refocus, electricity production will remain important to our future. The challenging and unstable energy policy environment in which we are required to operate, however, means that we must carefully weigh investments to expand production that tie up a large amount of capital for a long period of time. This applies in particular to large-scale hydro power, which is especially hard hit by the low electricity prices on the European market. Therefore, our hydro power expansion plans are targeting the regulated area, with investment in the construction of small-scale hydro plants. In addition, we are offering more and more engineering services for hydro power and infrastructure operators. Wind power is the renewable energy source that has the lowest costs and therefore is the first to be competitive on the market. For this reason, we are seeking to increase our installed wind capacity, primarily in neighbouring countries. In addition, we are planning, realising and maintaining photovoltaic installations, although not in the capacity of investor.

Management of the energy position contributes to success of the business

Our Trading activities form an energy hub that ensures access to the European wholesale market, combining all of the energy flows within our business. Production supplies Trading with the energy generated from our own and our partners' power plants, as well as power from long-term procure-

ment agreements. Sales, on the other hand, obtains the power it requires to supply industrial and private customers in Switzerland and abroad from Trading. This ensures that any over or under-capacity can be detected at an early stage and balanced out. At the same time, all of the associated risks can be monitored and managed at a central point. For many years, energy trading in Europe has seen low levels of price volatility. Trading volumes are continuing to rise, most strongly in the area of short-term trading. In December 2014, the Leipzig energy exchange started trading in quarter-hourly products. We were one of 71 participants to be involved from day one. We also recorded a success in the connection of small power plants and large electricity customers to the control energy market, realised thanks to our cooperation with EnerNOC, a leading provider of smart energy software. This new service helps to better balance out fluctuations in the grid, while keeping the costs of doing so at a low level. This provides new integrated opportunities for services in the Energy business.

Entry into the heating market

Our definition of the term Energy encompasses more than just power. Supplying heating to our customers will occupy an increasing role in our business activities. This is, of course, not new territory to our company. For many years we have project-managed and operated various sizes of heating installation such as municipal heating, heat pumps, CHP and other forms of cogeneration. Our facilities utilise a range of energy sources, such as wood, ground sources, gas and oil, while our heating customers include private households, businesses, hotels and public buildings. We build both individual plants and composite heating systems. In the future, we will expand this part of our business and seek to engage in the area of operations and maintenance, providing facility management for heating installations.



Learn more about our services on pages 33 to 36.

Mühleberg nuclear power plant

2014 was a strong year for the Mühleberg nuclear power plant. With a total of 3,155 million KWh it produced more electricity than ever before.

2015 started in a similarly successful manner, as the Federal Nuclear Safety Inspectorate (ENSI) gave the go-ahead for the planned measures to continue operations at Mühleberg until 2019. The corresponding application had been submitted by the plant in 2014. The decision has removed the final uncertainty in relation to the remaining operating life of the nuclear power plant. The upgrades will improve and expand the cooling systems at Mühleberg, by providing additional and alternative cooling options. They also improve the systems' resilience against internal fires and flooding. The core shroud will now be inspected annually. All of the measures will result in a notable increase in safety.

*Dialogue is important to us.
We have an open door to the views
of interest groups.*

Careful preparations for decommissioning

During these five final years of operation, we will pave the way for the decommissioning of the Mühleberg plant with great care. These activities will include consultation and agreement with the responsible authorities, since they and we are breaking new ground with the first decommissioning of a commercial nuclear power plant in Switzerland. We are particularly concerned with achieving mutual understanding of the approval procedures. We are also engaging with interested parties in a process of open exchange. In early 2015 we met for the first time with the people living in the Mühleberg region that are directly affected by the decommissioning process, and held three information events. Also in attendance were representatives of the Federal Office of Energy as the lead authority for process engineering and the Federal Nuclear Safety Inspectorate (ENSI) as the monitor of compliance with safety requirements

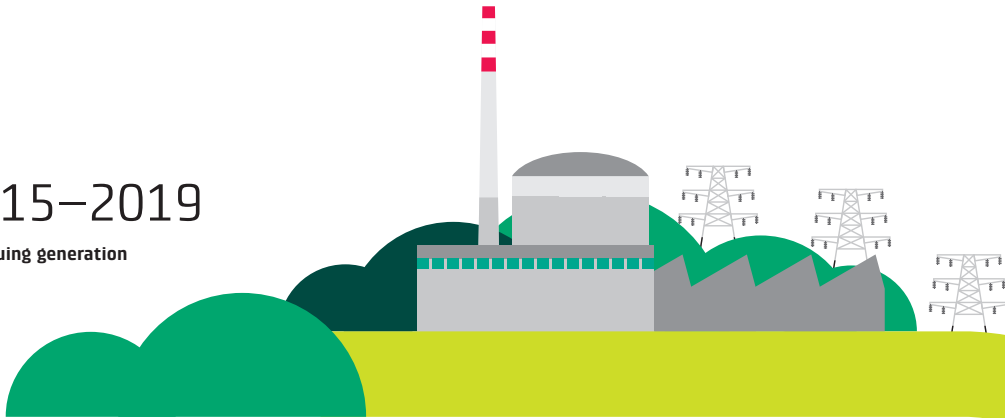
during the decommissioning. The decommissioning process has a clear objective, which we will achieve safely and efficiently.

A fifteen-year major project

Following the final shut down in 2019, the decommissioning process will last until the site's new purpose starts in 2034, a period of some 15 years. Other countries have already acquired comprehensive experience in the decommissioning of nuclear power plants. We will build on this knowledge. Since the technical challenges are already known, we are confident of achieving dispensation from the provisions of the nuclear energy act in 2031. By this point, all radioactive materials will have been transported away from the site. This will be followed by a process managed at the cantonal level comprising the conventional demolition of the buildings and structures that are no longer needed. The detailed plans for the new purpose of this site are not yet known. We are currently pursuing two options: either we will restore the area to a near-natural state, or we will continue to use the site for industrial purposes. However, this decision will not be made for another ten years or so.

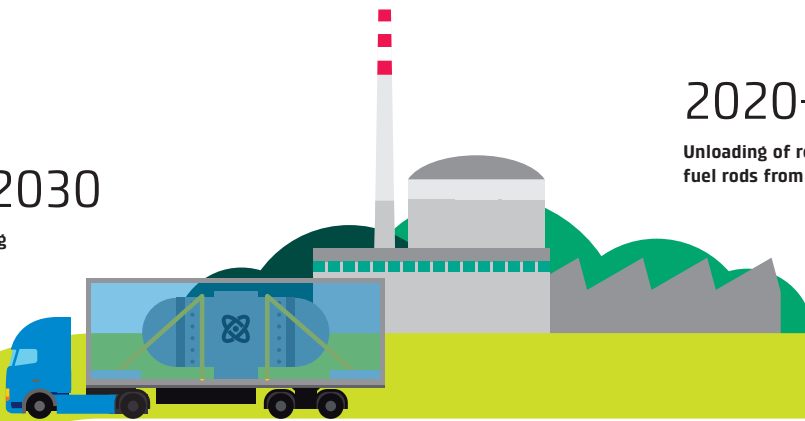
2015–2019

Continuing generation



2024–2030

Nuclear dismantling



2020–2024

Unloading of reactor and removal of fuel rods from the site

Around 2031

Dispensation from the Nuclear Energy Act

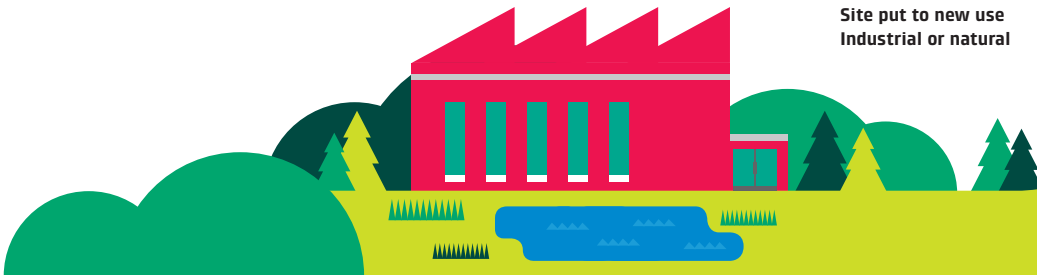
By 2034

Conventional demolition



As of 2034

Site put to new use
Industrial or natural



Expansion of wind and hydro power

The continued expansion of wind power is playing a central role for us, allowing us to support the implementation of the Federal Government's Energy Strategy 2050. However, the construction of wind farms in Switzerland is difficult. Therefore, we are focusing on the repowering of existing wind farms and are pursuing construction projects at economically interesting sites. We place great emphasis on a joint project implementation, with active involvement of local authorities and the local population.

Increased wind production through repowering

We will soon be replacing the final four older-generation wind turbines at the Juvent wind farm in the municipalities of Courtelary and Saint Imier with more powerful, modern equipment. Providing the construction plans are approved, the completion of this repowering exercise in 2016 will result in a total of 16 modern wind turbines producing renewable electricity. The total annual electricity generated by this wind farm, which is the largest in Switzerland, can thereby be increased from 55 million to at least 65 million kWh.

Two new wind farms on track

We remain on track with the Montagne de Tramelan wind farm project. Given popular support for the project expressed by both the council and voters, we will complete the wind farm in 2016, as long as the approval process is successful. We are also joining forces with Elektrizitätswerk Hinterrhein to plan the Tällialp-Hinterrhein wind farm. This installation is located at 1,800 metres above sea level and the site is therefore supported by the federal council's revision of the Energy Ordinance (EnV). The municipal meeting at Hinterrhein already gave its approval to the project by a large majority, therefore sending a clear signal that it wishes to contribute to the energy revolution. The plans provide for completion of the first phase of the two-stage approval procedure to be achieved successfully in 2015.

Expansion of our portfolio in neighbouring countries

In Germany and Italy, we operate several wind farms with installed capacity of more than 460 MW. This means that we have 16 wind farms between the Mediterranean and the North Sea, as well as our share in an offshore wind farm in the North Sea itself. We are specifically pursuing wind farm projects abroad, and are committed to further expanding our portfolio of wind installations in the coming years where opportunities arise, such as in France.

Modern hydro power plants ensuring smooth operation

We are committed to increasing the use of hydro power, in line with the aim of the Federal Council to expand this. We are currently pursuing over two dozen power plant projects throughout Switzerland, focusing especially on the Bernese Oberland. In the coming years we hope to make investments totalling around CHF 200 million. Expanding production is not the only focus of our activities. Just as cars need regular servicing and maintenance, power plants are also thoroughly inspected on a regular basis. We invest millions each year to

200 m

In the coming years, we want to invest CHF 200 million in hydro power.

20

From the Mediterranean to the North Sea, we have interests in 20 wind farms, including one off shore.

ensure our plants are technically up to date. This modernisation allows our power plants to carry on delivering in their role of producing electricity from Swiss energy sources, now and in the future, reliably and sustainably.

The final four older-generation wind turbines remaining at Switzerland's largest wind farm on Mont-Crosin are planned to be replaced by more powerful models in 2016.



KWO expansion projects

Kraftwerke Oberhasli AG (KWO), in which we hold a 50% share, is a power plant company that is working hard on the future use of hydro power. Currently, Innertkirchen 1 and Handeck 2, both over 60 years old, are being modernised. The installation of two modern turbines will increase their capacity by an impressive 240 MW, while new pressure lines will improve efficiency. In addition, as of 2016 the water ejected by the Innertkirchen power plant will flow into a stilling pool, benefiting the flora and fauna of the young Aare.

The new Hagneck hydro power plant will go into operation in 2015

A new barrage is being constructed on the site where, over one hundred years ago, a generation of pioneers built the Hagneck hydro power plant. Together with Energie Service Biel/Bienne (ESB) we are overhauling the hydro power plant, which is situated in a protected pasture landscape of national importance. Therefore, ensuring the new plant does not harm its environment takes priority in the comprehensive work being carried out here.

We have identified the objective of improving the efficiency of how we use our plants. The Hagneck hydro power plant will provide 27,000 homes with electricity.

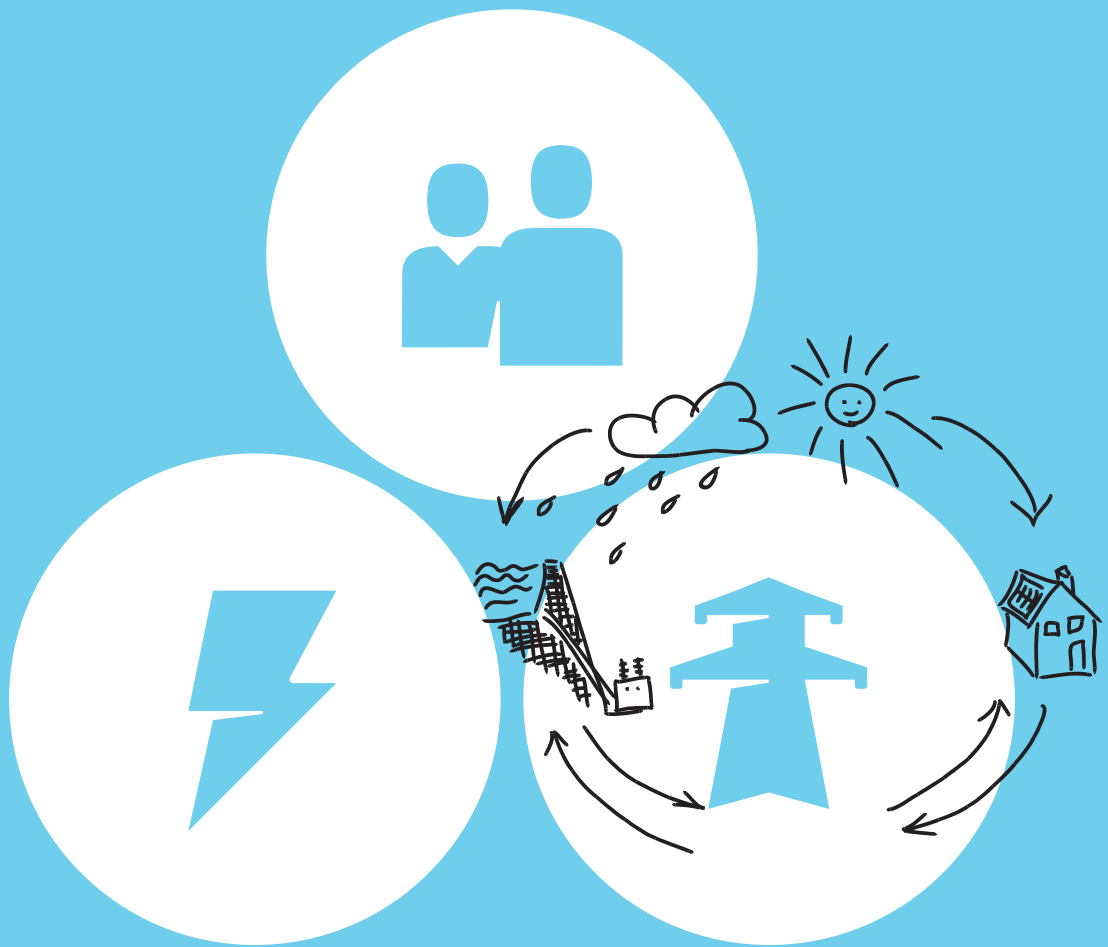
The new power plant will include a clever fish ladder to allow migration and channels to ensure that the wooded areas along the lake shore return to their natural state. The modern, optimised power plant will generate 35% more power with no adverse effects on the environment. This means that maximum energy efficiency can be achieved within the latest ecological frameworks. The Hagneck hydro power plant will provide approximately 27,000 homes with electricity. The new plant will come on line in autumn 2015.

Improving efficiency in operation – a best-in-class approach

In view of the low market price of electricity, the market for existing hydro power plants makes for a difficult environment. There are no short-term prospects of any significant improvement, and cost pressures will continue to increase. Cost optimisation and energy efficiency therefore play a key role in our strategy, and we will continue to pursue our programme of cost reductions and efficiency improvements consistently. We have identified the objective of improving the efficiency of how we use our hydro power plants. This is a continuous, ongoing process (ISO 9001 and 14001). We have been implementing cost savings for many years, and also offer our expertise in operating and maintaining hydro power plants to third parties. We can achieve maximum efficiency in the operation, maintenance and realisation of investments to upgrade hydro power plants in a tense economic environment. We are seeking to reduce our costs by 20% by the end of 2017.

35%

The new, modern Hagneck hydro power plant will improve production by 35%.



Developing networks



*Closely networked
ties for a
strong future.*

A rigid system comprising a few large power plants is being transformed into a dynamic system with many small electricity producers. Our smart networks pool and distribute this new energy.

In the future, the intelligent electricity network will connect electricity producers and consumers and balance out fluctuations in the grid.



The energy revolution is in the grid

With the promotion of electricity generation from renewable sources such as wind and solar power, the level of electricity feeding into the grid in irregular patterns is increasing. And with the increasing prevalence of photovoltaic cells in particular, the trend is for this to be more distributed. This creates new, major challenges for our networks, and smart solutions are required.

Our distribution grid could stretch from Gstaad to Tokyo and back. It is the central nervous system of our energy supply, linking producers and consumers. In order to maintain our supply, we must constantly modernise and update the electricity lines which total over 20,000 km in length. This job of ensuring a safe, effective and efficient network will continue to be our responsibility. Among the activities ahead we will overhaul substations, modernise power lines and secure the energy supply of our customers, current and future.

The energy system is more distributed and complex than ever

We have set ourselves the task of ensuring the sustainable, secure, high-quality supply of electricity that so many people now take for granted, and making the networks fit for the future energy system. This is a major challenge. While our energy system has previously been characterised by large power plants that produce regular or governable amounts of electricity, the flows into the grid from increased wind power and solar power are now more distributed, irregular and more difficult to govern. This makes the structure of the network much more complex. Until recently, our electricity grid was set up to receive power in a top-down manner, from large power plants. Electricity from solar cells and wind turbines is now suddenly feeding the network from the bottom – the flow of electricity through the grid is reversing and this additional power is irregular. As a result, this can lead to excess electricity in the network as well as excess demand.

The network of the future is smart

In general, networks, including those that supply electrical energy, are designed for the highest possible load. As the irregular sources of power such as wind turbines and photovoltaic cells often feed in to the network at lower levels, these insufficiently capable parts of the network often quickly hit their limits. However, traditional methods of

network expansion are expensive. Another method is to be smarter. Instead of designing the network to cope with the maximum load, the smart electricity network or smart grid seeks to achieve a balance of electricity production, storage and consumption, to even out fluctuations. Previously electricity was simply generated in response to demand, in the future consumption will increasingly respond to supply. This change requires intelligent communication systems that register power generation and consumption levels in real time, and visualise them so that they can be regulated.

Traditional methods of network expansion are expensive. We are meeting our social responsibilities by researching and building smart solutions.

Smart grids – a win-win solution

Intelligent network technologies allow customers to actively manage the way they use electricity, for example, consuming power when the price is low. For energy utilities, the benefits of the smart grid are improved integration of irregular sources of energy, ensuring long-term security of supply, increased network transparency and stability, and remote metering. Smart grids represent an alternative to traditional network expansion for operators of distribution grids. They offer many technical opportunities: By exploiting, researching and refining these, we are taking our social responsibility seriously. Already, we have deployed the relevant smart grid technologies in our network. To help our local-community customers and other distribution grid operators on the path to developing a future-proof electricity network, we are using new business opportunities and developing innovative network products and services.

Researching new solutions together

We are working hard to identify opportunities and find solutions to create a successful energy future. But we are not on our own. We establish partnerships, joint research projects and contacts throughout the industry. How will new technologies be of use to our customers? How can we use the fruits of research to develop new products that help implement the energy revolution in the real world? These are fundamental questions, since only across-the-board adoption of new technologies will achieve these aims.

Identifying opportunities and finding solutions for a successful energy future – a job for us and our partners.

InnoCampus AG in Biel provides a platform of applied research and development, enabling exchange among the innovators, technology specialists, researchers and industry. In 2014 we increased our commitment and our shareholding to 23%. As a direct supporting link in this venture, our equity increase also provides a member to the Board of Directors. Thus, we are not only an important shareholder and supporter of InnoCampus AG, but also involved to a significant extent in the research content and results as a key research partner.

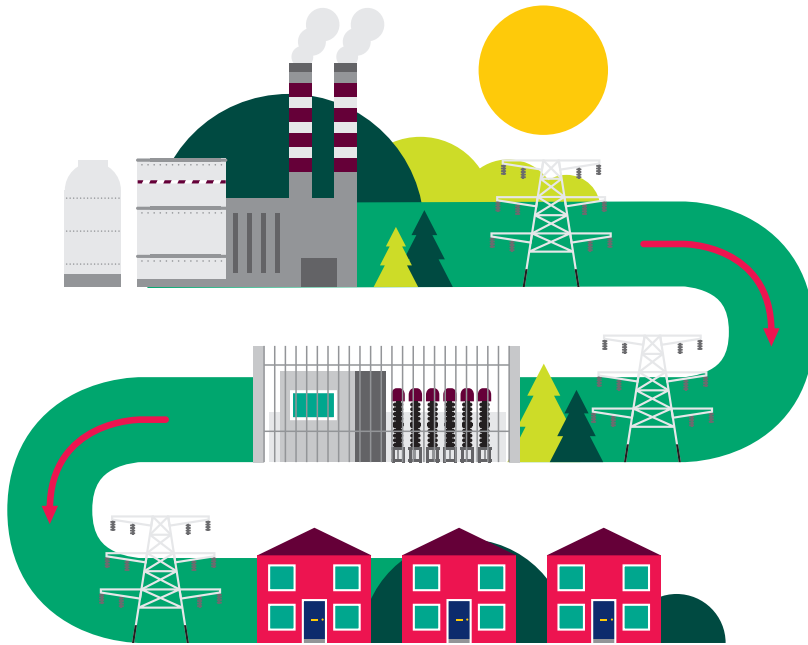
Investing in start-ups

We have faith in the innovative ideas of Ampard AG to ensure flexible control of loads in the grid and utilise energy storage to make a profit. As a strategic partner of the Zurich-based technology start-up we share in this vision. Ampard sells an energy management system throughout Europe, which reduces the costs of battery storage significantly and can even utilise small-scale storage and household loads intelligently. This technological

solution allows even end customers to combine solar arrays and battery storage, for example. It also adds further intelligence to our distribution grid.

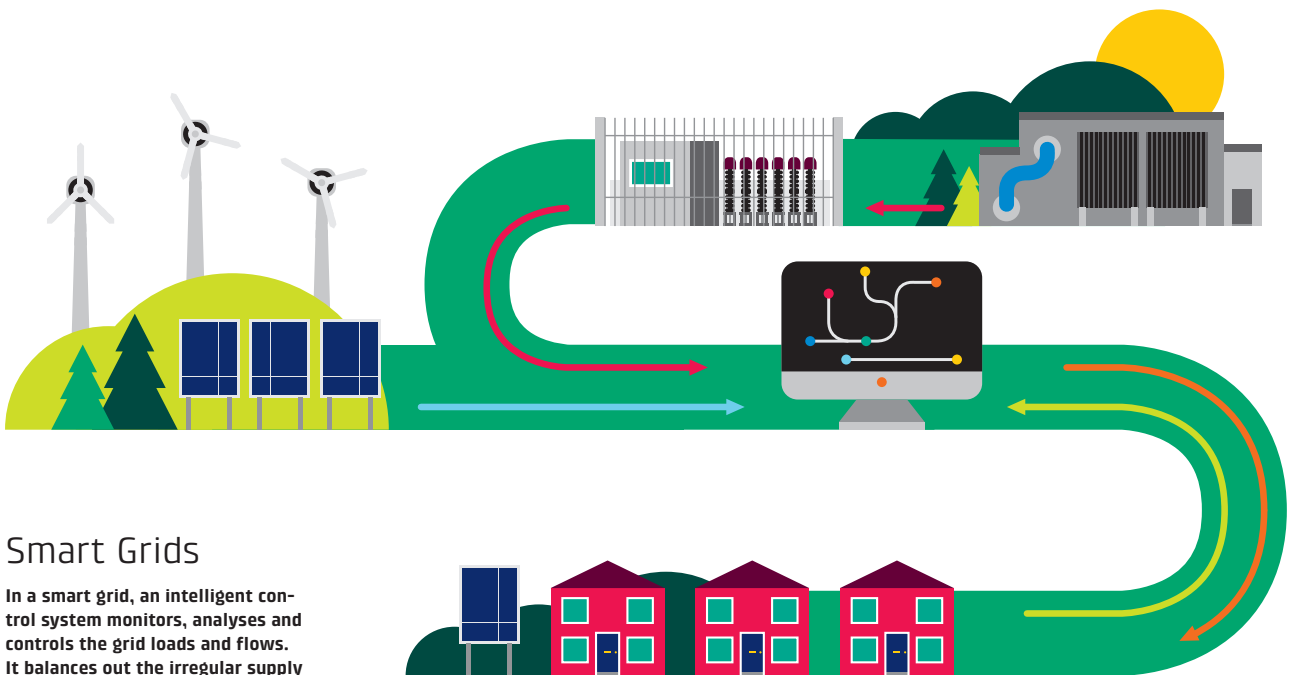
Industry-wide engagement in the grid

We engage with other industry participants in the Smart Grid: Switzerland Association (VSGS), founded in 2011. The VSGS provides a platform for 13 Swiss utility companies and works to promote a joint Swiss smart-grid solution. It seeks to combine forces in this area and enable joint interest representation at all levels, to ensure collaboration and compatibility of smart-grid devices and systems through an open, non-proprietary industry standard.



Traditional grids

Traditional electricity grids carry electricity from large power plants to consumers. The power plants have to produce exactly the amount of electricity as is needed.



Smart Grids

In a smart grid, an intelligent control system monitors, analyses and controls the grid loads and flows. It balances out the irregular supply of excess or insufficient load in the grid, maintaining the stability of the entire network.

Researching innovative solutions together

The challenges of the changing energy policy framework and the relatively tight schedule for reconstructing the energy system place high demands on energy researchers. Projects that have practical applications are in demand, particularly in the area of energy storage, smart grids and prudent consumption of electricity. We realised this at an early stage, and with the formation of the Technology Center in Nidau we underlined our readiness to take responsibility in the field of energy research and contribute our expertise to revolutionary projects.

A test lab for the energy of the future

At the Technology Center we are laying the conceptual and technical foundations for the plants, products and services of the future. Our objective is to understand the entire energy system as a whole. Four employees are responsible for initiating and coordinating our collaboration with research partners in academia and industry. Current key areas of research include:

Future-proof communications technologies for smart grid applications within the electricity network: We are securing the quality of supply and power while the patterns of electricity production are changing and becoming increasingly distributed. Storage, intelligent transformers and inverters help to limit the requirements for future network expansion.

The aim of our Technology Center in Nidau is to understand the energy system as a single entity.

Evaluation and testing of local energy storage technologies in combination with distributed production plants: The feed-in of fluctuating energy from wind power and solar cells represents a challenge to network stability. Local and regional energy storage facilities can help to even out these fluctuations.

Cooperation with several Swiss Competence Centers for Energy Research (SCCER): We are actively involved with six of the seven research institutes. Near Biel, we are researching and developing network and storage technologies in particular.

Research projects to investigate consumer behaviour: Detailed knowledge of consumer patterns of behaviour can help adjust electricity demand to production and not the other way round, as previously. This will help secure network stability in the case of fluctuating feed-in and consumers can benefit from optimised prices.

Testing integrated solutions with various new technologies: To get the most out of the new technologies, we need to combine a range of them in intelligent systems. The way they interact with the network forms the focus of our integration development activities.

Development of new methods and products for operation of distribution networks: We are investigating new pricing models and developing new products for our customers to support the implementation of the energy revolution.

Kiental: a test lab for innovative network metering

Thanks to its geographic location and wind and solar power installations, Kiental offers optimum conditions to test elements of the intelligent electricity network in practice. In spring 2015, in addition to the domestic meter at half of the households that are served by the Kiental transformer area and at selected photovoltaic installations and distribution sub-stations along the Kiental distribution line, we will install an innovative network meter that has recently been developed. The research project will measure energy flows for an entire year, using hardware that has been especially developed and storing the data in a separate archive. All data will be fully anonymised. The project is being realised with a number of partners and has received funding from the Federal Office of Energy. The innovative network meter improves



Find out more about our
Technology Center at
www.bkw.ch/techno-center



Smart technology allows traditional local grid transformers to regulate problematic voltage differences directly in the network, as seen in the photograph.

the integration and control of renewable energy sources such as wind power and solar power in the electricity network.

Smart voltage regulation

If the voltage falls below or exceeds a specified tolerance, for example if a large amount of solar-generated power is suddenly fed into the network all at once, other devices that are connected to the network may fail or be destroyed.

This effect can be alleviated by the use of controllable local grid transformers (rONTs). These regulate the problematic voltage differences directly in the local grid transformers where electricity from

the medium-voltage (16 kV) network is transformed down to the 230 V that customers expect to receive through their mains sockets at home. We are currently testing this smart technology at locations including Nydegg, near Schwarzenburg. In addition, we have already deployed five single-strand regulators (ESRs) in our network. These allow the voltage in a single grid strand to be regulated. Both components – rONTs and ESRs – are able to adjust voltage intelligently. Consequently, no expensive network expansion work is required. In addition, they are cost-effective ways of integrating renewable energy sources such as solar cells into the network.

Swiss Energypark

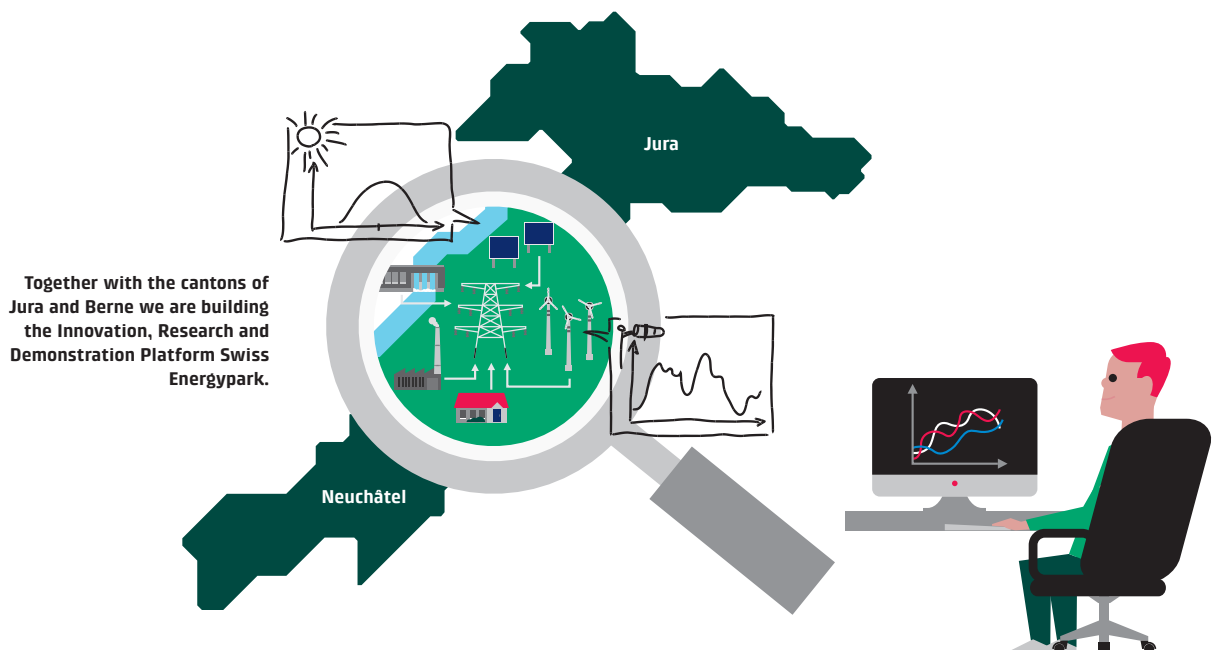
As an experienced and advanced energy utility company, we have joined up with the cantons of Jura and Berne to found the innovation, research and demonstration platform Swiss Energypark. The joint objective of the project partners is to test new research projects in the field of energy and find innovative solutions for the energy system of the future. Start-ups and technology vendors can submit their own projects and thus participate actively in Swiss Energypark.

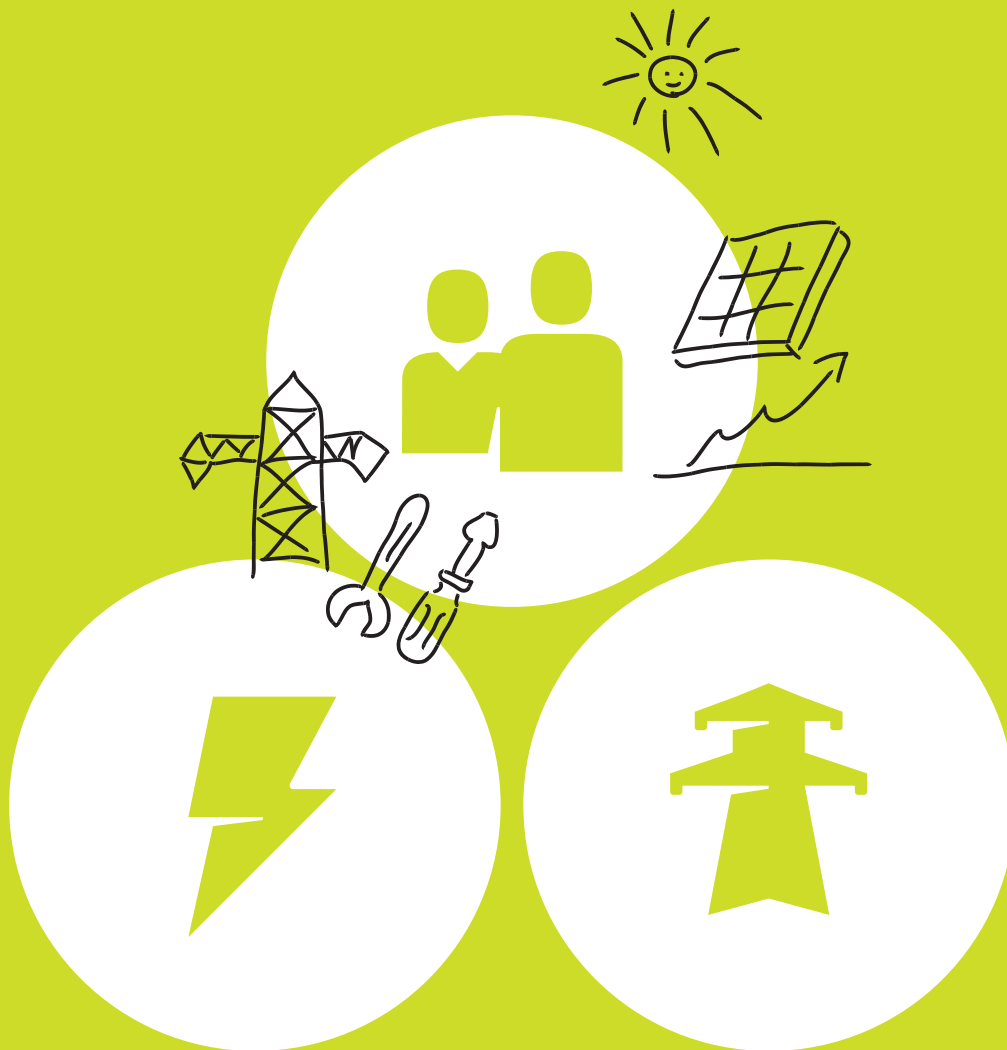
Together with the cantons of Berne and Jura we are targeting support for start-ups and projects in the field of energy technologies.

At Swiss Energypark, located in a defined geographic area between St Imier (Berne) and Le

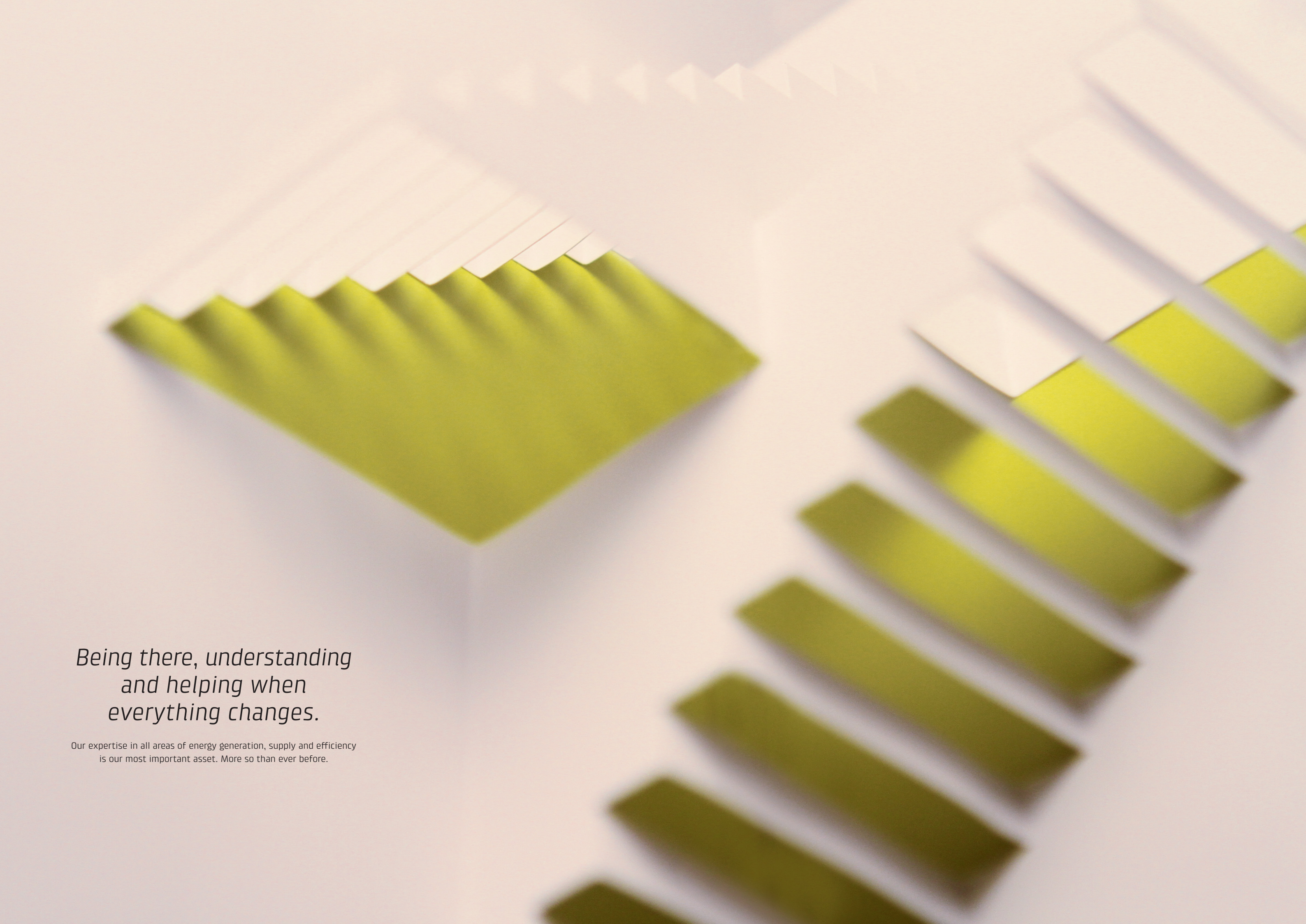
Noirmont (Jura), we will integrate new energy technologies with the existing local energy system and test them in the field. Home to almost 17,000 inhabitants, the 25,125 km² region is an ideal test area. Alongside hydro power plants it also includes the solar power plant at Mont-Soleil and Switzerland's largest wind farm on Mont-Crosin – two large production facilities that generate fluctuating levels of power.

In the creation of Swiss Energypark we are utilising our core competence as an innovative network operator. The knowledge build-up will be used to further develop our own distribution grid and also design and test new products that can be brought to the market. With their commitment, the cantons of Berne and Jura are targeting support for start-ups and projects in the field of energy technologies. Swiss Energypark is a non-profit venture. Projects are supported and financed either by us or by the cantons of Berne and Jura.





Expanding services



*Being there, understanding
and helping when
everything changes.*

Our expertise in all areas of energy generation, supply and efficiency
is our most important asset. More so than ever before.

Construction of the new Hagneck hydro power plant on the shores of Lake Biel: coming online in autumn 2015.



Services expansion ramps up

For many years we have been providing customers with services relating to the use of hydro power, and advising them on how to use energy efficiently. The services business is not new territory for us. However, new for the past year was the consistent expansion of this area to become a key area of our business.

In the next ten years, we will invest around CHF 1 billion in expanding our Services business. Services already make an important contribution to the Group's profits. This contribution will grow strongly through to 2024.

A broad range of services

We will expand the services we offer in five fields:

1. Infrastructure and network services

We work for our customers providing engineering services for hydro and wind power plants, as well as for solar power and infrastructure, not to mention network services for electricity grids, telecommunications networks, traffic infrastructure and water supply, smart grid solutions and public and local-area lighting.

2. Smart buildings

We offer domestic and commercial customers solutions for building automation, controlling ventilation, heating, comfort, light and security.

3. Distributed energy

This business area includes heating installation (e.g. heat pumps and CHP plants) and the generation and storage of electricity using photovoltaic technology. We also provide building upgrade and contracting services and a range of consultancy services.

4. Energy services

These are mainly energy trading services for external customers.

5. Additional business opportunities

This area allows us to become engaged with highly innovative topics such as IT services for energy utility companies and local authorities (through subsidiaries). Services is becoming a key area of our business, as Networks and Energy are currently. In the future, all three areas will make an equal contribution to the company's profits.

We are investing in the future

With the construction, operation and maintenance of our power plants and grids, we have gathered a great deal of experience and expertise over the past 120 years. We were quick to use this experience and offer services to power plant and grid operators. Our expertise covers the entire range of services from planning and design to construction, operation and maintenance. We are continuing to expand the services we offer to third-party power plant and infrastructure operators with the new "Engineering" business unit which was established in 2014.

With the acquisition of the two cabling specialists Cabcon Ltd. and Baumeler Leitungsbau AG through our subsidiary Arnold AG, we are further expanding our position as a leading infrastructure services provider and reinforcing our presence throughout Switzerland.

Key roles of our subsidiaries

We are also increasing our commitment in the market for heating solutions. Through the acquisition of a number of HVAC (heating, ventilation, air conditioning) and plumbing service providers, we have laid the basis for approaching property owners as an attractive partner. In this respect, our subsidiary BKW ISP AG is playing a key role in the area of smart buildings. We are developing solutions for building automation, offering control of air conditioning, heating, comfort, light and security, as well as for building energy improvements. These solutions demand vertical integration, which is a particular strength of ours. It allows us to offer increasingly integrated complete solutions that customers can incorporate with their existing systems or components that they plan to buy.



In the future, all three areas of our business, Energy, Networks and Services, will contribute equally to our company's result.

Comprehensive portfolio of infrastructure and energy services

We provide services for domestic and commercial customers, local communities and other energy utility companies. Our portfolio is diverse, from energy consulting for private homes to operational management of power plants and networks. In the past year, we have focused on complete energy solutions and in particular have expanded our capabilities in the area of heating supply. These complete solutions include design, construction, operation and maintenance of the required infrastructure, where we have also strengthened our resources.

We have combined our engineering expertise into a single business unit.

Our acquisition of Baumeler Leitungsbau AG and Cabcon Ltd. through our subsidiary Arnold AG has expanded our project and customer base in the traffic field and has created an opportunity to diversify into water main construction. We have also acquired additional expertise and capabilities in cabling, tunnel infrastructure, industrial installation, water supply plant and metal construction, as well as in the planning and assembly of the latest cabling systems in outdoor scenarios.

Lighting for communities and industry

The infrastructure services that we offer also include the planning and realisation of public lighting and lighting for industrial uses. The packaging specialist Bachmann Forming AG, based in Lucerne, has upgraded the lighting in its administration, production and logistics buildings fully to LED. Alongside the massive energy savings of around 450 MWh each year, another noticeable benefit of the new lighting is that it produces significantly less heat. In respect of public lighting, local communities have used the opportunities afforded by upgrading or installation of new street lighting to reduce their energy consumption and achieve improved illumination. This meets the inhabitants' requirements for safety. In the latest LED lamps, sensors detect the movement of vehicles and people to increase the brightness of lamps when necessary. As a re-

sult, it is possible to reduce energy requirements by up to 85% depending on the original base level.

A one-stop shop for engineering services

For a long time, we have been more than simply an electricity generation company, and have been offering engineering services for around ten years. Planning, construction, operation and maintenance of hydro power plants have been core to our business for decades. We have pooled the engineering expertise within our company to form a separate business unit, which we will continue to grow. As a single source for engineering services, we offer our expertise to power plant and infrastructure operators in Switzerland and abroad. The product portfolio comprises three areas:

Hydro & Infrastructure

- Engineering services for new construction, or the partial or complete overhaul of power plants
- Evaluation of flooding risks and watercourse management
- Integrated ecological and revitalisation projects

Inspecting & Testing

- Situation analysis, non-destructive testing and quality assurance for conventional and nuclear power
- Specifications documentation and qualification of welding processes
- Weld monitoring and supervision

Risk & Safety

- Probabilistic and deterministic safety analyses, including for natural hazards
- Commercial risk management
- Advisory services for technical safety
- Age management and strength testing

Growing business with control energy

With the increasing levels of feed-in from fluctuating energy sources such as photovoltaic cells or wind power, the ability to provide sufficient control energy is key to maintaining system stability. This is already happening today using technologies such as pump-storage power plants and is being expanded through our shareholding in Ampard AG and cooperation with EnerNOC. As a result, we are able to offer our customers the opportunity of participating in the control energy market.

85%

By fitting the latest LED lamps energy consumption can be reduced by 85%.

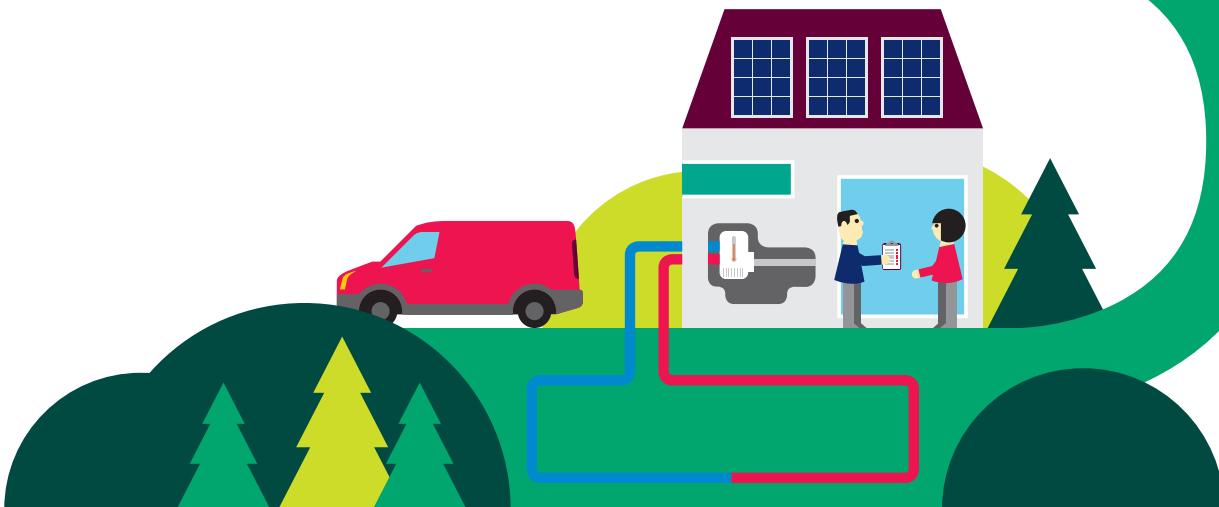
Hydro engineering: from lake level management to fish ladders



Local councils: saving energy with intelligent LED lighting



We provide industrial and commercial customers with full-range energy solutions



"Comprehensive care-free package" for homeowners

Ampard's solution for end-customers combines battery storage with photovoltaic cells, for example. As well as using domestic storage to meet increased consumption in the home, Ampard aggregates it into a virtual battery bank system to stabilise the electricity grid. Battery owners can therefore participate in the higher level control energy market and generate additional revenue.

Control energy is an interesting area of business in which we have been involved for some time. Thus through our cooperation partner EnerNOC we are able to bundle flexible industrial loads and production facilities to create a virtual power plant, which we can offer to the market. Ampard adds further intelligence to the distribution grid so that smart use can be made of even small-scale storage and loads in the home.

We use virtual power plants to allow our customers to participate in the control energy market.

The EnerNOC cooperation provides our customers with access to the operating reserve and electricity markets with flexibility in their own consumption or generation. When companies with flexible systems making heavy use of energy participate in this market they contribute to the stability of the European electricity supply system and generate additional revenues. We are offering our new "BKW power flex" service as part of our comprehensive offering to industrial customers and SMEs. Our customers' operating requirements remain at the core of our service. We successfully acquired the business of Migros-Verteilbetrieb Neuendorf AG with its deep-freeze storage facility as our first partner.

Complete solutions for private and commercial customers

We are already offering private and commercial customers complete energy solutions, from energy consulting and smart-home solutions to heat pumps, photovoltaic and solar heating systems. As a general contractor we assume overall responsibility for ensuring these projects are realised successfully, and on time. An example of such a

project is the pilot which we realised for the Lehmann family in Uetendorf. We replaced their old uneconomic electrical heating system with a new heat pump and solar power solution. We intend to expand our consulting services to owners of single and multiple-occupancy dwellings and realise the recommended solutions as general contractor in partnership with qualified tradesmen.

We assume full responsibility for full-range energy solutions in our capacity as general contractor.

We are growing throughout the supply region

As the largest distribution grid operator in Switzerland, we are able to bring our expertise and experience to the benefit of local communities that operate their own distribution grid as well as other energy utility companies. Alongside numerous network services, we offer local communities a range of models for cooperation, including outsourced business and operations management, grid leasing or joint shareholdings.

In the next decade, Services will become a third area of our business, equal in stature to Networks and Energy.





Corporate Risk Management

A prudent attitude to risk underpins all our activities, and has remained key to our actions in 2014. Risk management takes the entire BKW Group into consideration, and recognises both external and internal events. Risks are identified, analysed, evaluated and managed in a continuous, systematic process.

Objectives

The purpose of BKW's risk management activities is to protect corporate value. Corporate Risk Management supports the Group Executive Board with a transparent and independent assessment of the risks associated with business activities. It analyses the risks of potential threats to people and the environment, risks relating to the security of the electricity supply, risks to BKW's reputation and to its liquidity, equity capital and results. A transparent presentation of these risks allows proactive measures to be taken.

assess operational risks by estimating the extent of potential loss or damage and probability of occurrence, and by analysing historical loss data. Operational risks are managed by adopting specific measures.

Risk management links opportunities and risks to create a comprehensive overview.

Organisation

Corporate Risk Management is answerable directly to the CFO. It is responsible for managing methods and processes, defining Group-wide requirements for risk methodology, and aggregating risks at Group level. Standardised reporting is done in conjunction with the planning process (budgeting, medium and long-term planning) and semi-annual and annual reporting to the Group Executive Board and Board of Directors.

Process

BKW has had an established risk management process for many years. Risks are identified, analysed, evaluated and managed for the entire BKW Group in a comprehensive risk assessment. The implementation of and compliance with the measures required for control purposes are monitored on a regular basis. Each risk is assigned to a risk manager. Financial risks and total risk content are mainly controlled by applying value-at-risk (VaR) limits. Risks related to exceptional market situations are limited by applying additional absolute limits on positions. Specialised analysts

Corporate Governance

BKW's corporate governance activities observe the Swiss Code of Best Practice. In addition to the relevant provisions of Swiss Company Law, and the Ordinance against Excessive Compensation in Listed Stock Companies which came into effect on 1 January 2014, the basic principles and rules relating to corporate governance at BKW are embodied in BKW's articles of incorporation, organisational regulations, code of conduct and regulations governing the BKW Board Committees.

Within the context of corporate governance, BKW discloses in particular its general financial situation and its management structure, as well as information on risk management and other important aspects of corporate governance. This provides shareholders with as comprehensive a picture of BKW as possible and allows them to make informed investment decisions. Moreover, with a balanced combination of management and controls, BKW also manages the company in a value-driven, sustainable manner according to statutory requirements. This is in the interests of shareholders and other stakeholders such as clients, public organisations and employees, and it also enhances our corporate value. BKW adheres to the latest G4 Sustainability Reporting standard issued by the Global Reporting Initiative (GRI).

The management structure of BKW is designed so that responsibilities are clearly assigned and unilateral concentration of powers and conflicts of interest are avoided. In line with this, the functions of Chairman and CEO are separated. All members of the Board of Directors are independent, so that no member of the BKW Board exercises an executive function at BKW. All members were nominated individually for election to the Board of Directors at the Annual General Meeting in May 2014. For many years, the Board of Directors has included both male and female members. Therefore, the Board of Directors is also ensuring the diversity of its membership.

BKW has always had single-class shares with no restrictions on voting rights, i.e. each share is entitled to one vote at the Annual General Meeting. The Executive Council of the Canton of Berne, which is the majority shareholder in BKW, has repeatedly declared that it acts in the same way as any other shareholder with regard to BKW. In particular, it has no intention of exploiting its shareholder status and representation on the BKW Board in order to implement its energy policy (see e.g. response to the Grunder motion dated 12 December 2007).

BKW has an extensive and effective system of controls. The independence of BKW's internal supervisory bodies is ensured by the company's organisational structure. BKW's internal supervisory system is supplemented by a Group wide risk management system, which allows the Group Executive Board to identify risks and take any necessary steps in a timely fashion. Risk assessment is based on the Group's Risk Map, which is periodically updated to reflect current conditions. Another key element of effective corporate governance is the individual responsibility borne by BKW's various organisational units and Group companies, as well as its employees. This is promoted consistently and is an important aspect of BKW's corporate culture.

Honouring its responsibility towards the community and the environment is essential for BKW's sustained success. To meet this obligation even more effectively, a code of conduct that is mandatory for all employees and members of the BKW Group's official bodies has been in place since 1 January 2009. The code of conduct contains guidelines and binding rules on trustworthy conduct according to regulations, and is supplemented by detailed directives on specific issues.

The following statements are made in accordance with the current requirements of the Corporate Governance Information Guidelines issued by the SIX Swiss Exchange (SIX). Remuneration of the top level management of the company is reported in the Remuneration Report contained on pages 60 to 64. The information published is based on the status at 31 December 2014. Significant changes which have taken place between this date and the date on which this report was printed are listed in Note 11.

1 Group structure and shareholders

Group Management	Finance and Services	Production	Renewables and Efficiency	Market	Networks
Suzanne Thoma	Ronald Trächsel	Hermann Ineichen	Renato Sturani	Monica Dell'Anna	Christophe Bossel
BKW Energy Ltd.		BKW Deutschland GmbH – BKW Energie Dörpen Beteiligungs-GmbH – STKW Energie Dörpen GmbH & Co. KG – STKW Energie Dörpen Verwaltungs-GmbH – BKW Energie Wilhelms- haven Beteiligungs-GmbH	BEBAG Bioenergie Bätterkinden AG Biomassekraftwerk Oteltingen AG BKW Bippen Wind GmbH BKW Borkum West II Beteiligungs GmbH BKW Dubener Platte Wind GmbH BKW Erneuerbare Energien GmbH BKW Holleben Wind GmbH BKW ISP AG – Armin Neukom Installa- tionen AG – BKW ISP Gebäudetechni- k AG – Cantoni Haustechnik AG – EES Jäggi-Bigler Inc. – Elektro Feuz AG – Hertig Haustechnik AG – inelectro sa BKW Landkern Wind GmbH BKW Wind Italia S.r.l. – Green Castellaneta S.p.A. BKW Wind Service GmbH Holzwärme Grindelwald AG Juvent SA Regionaler Wärmever- bund AG Heimberg- Steffisburg (REWAG) Volturino Wind S.r.l. Wind Farm Buglia S.r.l. Wind Farm S.r.l. Wind International Italy S.r.l.	cc energie sa Electra Italia S.p.A. Erdgas Thunersee AG Onyx Energie Dienste AG	Arnold AG – Baumeler Leitungsbau AG – cabcon Ltd. – Curea Elektro AG BKW Netzbeteiligung Ltd. Elektrizitätswerk Grindelwald AG EWR Energie AG Onyx Energie Mittelland AG – Onyx Energie Netze AG Société des forces élec- triques de la Goule SA
BKW Grid Switzerland Ltd.		BKW France SAS – BKW Hydro Allevard SAS			
sol-E Suisse AG		BKW Italia S.p.A. – BKW Hydro Valle d'Aosta S.r.l. – CHI.NA.CO S.r.l. – Idroelettrica Lombarda S.r.l. – Tamarete Energia S.r.l. BKW Wallis AG Elektrizitätswerke Wynau AG Energie Utzenstorf AG Kraftwerke Fermelbach AG Kraftwerke Kander Alp AG Kraftwerk Lauenen AG Kraftwerke Milibach AG Kraftwerk Gohlhaus AG Kraftwerke Ragn d'Err AG Kraftwerk Utzenstorf AG Onyx Energie Produktion AG Simmentaler Kraftwerke AG TW Energie AG			

Listed Group companies

BKW Inc. has its headquarters in Berne, and has been listed on the SIX Swiss Exchange (security no. 13.029.366, ISIN: CH0130293662, ticker symbol: BKW) as well as the BX Berne eXchange since 12 December 2011. On 31 December 2014, BKW's stock market capitalisation amounted to CHF 1,425.1 million.

Scope of consolidation of the BKW Group

With the exception of BKW itself, BKW's consolidation group includes only companies that are not listed separately on the stock exchange. BKW's holdings in individual companies that are fully consolidated in the annual financial statements are listed below. In all cases the holding corresponds to the percentage of shares and voting rights. A detailed list of holdings is given on pages 87 to 89 of the Financial Report.

Fully consolidated holdings of BKW and its affiliates

Company	Domicile	Share/basic capital in millions and currency	% Holding
Armin Neukom Installationen AG	Rafz	0.2 (CHF)	100.0
Arnold AG	Wangen a. d. Aare	0.5 (CHF)	100.0
Baumeler Leitungsbau AG	Luzern	0.1 (CHF)	100.0
BEBAG Bioenergie Bätterkinden AG	Bätterkinden	0.1 (CHF)	56.0
Biomassekraftwerk Otelfingen AG	Otelfingen	0.5 (CHF)	50.0
BKW Bippen Wind GmbH	Berlin (D)	0.03 (EUR)	100.0
BKW Borkum West II Beteiligungs GmbH	Berlin (D)	0.03 (EUR)	100.0
BKW Deutschland GmbH	Berlin (D)	0.1 (EUR)	100.0
BKW Dubener Platte Wind GmbH	Berlin (D)	0.03 (EUR)	100.0
BKW Energie Dörpen Beteiligungs-GmbH	Berlin (D)	0.03 (EUR)	100.0
BKW Energie Wilhelmshaven Beteiligungs-GmbH	Berlin (D)	0.03 (EUR)	100.0
BKW Energy Ltd.	Berne	132.0 (CHF)	100.0
BKW Erneuerbare Energien GmbH	Berlin (D)	0.03 (EUR)	100.0
BKW France SAS	Paris (F)	0.1 (EUR)	100.0
BKW Holleben Wind GmbH	Berlin (D)	0.03 (EUR)	100.0
BKW Hydro Alleverd SAS	Paris (F)	0.1 (EUR)	100.0
BKW Hydro Valle d'Aosta S.r.l.	La Salle (I)	0.05 (EUR)	100.0
BKW ISP AG	Ostermundigen	0.9 (CHF)	100.0
BKW ISP Gebäudetechnik AG	Wädenswil	0.2 (CHF)	100.0
BKW Italia S.p.A.	Milan (I)	13.4 (EUR)	100.0
BKW Landkern Wind GmbH	Berlin (D)	0.05 (EUR)	100.0
BKW Netzbeteiligung Ltd.	Berne	25.1 (CHF)	50.1
BKW Wallis AG	Visp	0.1 (CHF)	100.0
BKW Wind Italia S.r.l.	Milan (I)	0.01 (EUR)	100.0
BKW Wind Service GmbH	Berlin (D)	0.03 (EUR)	100.0
BKW Grid Switzerland Ltd.	Berne	0.1 (CHF)	100.0
cabcon Ltd.	Risch	0.1 (CHF)	100.0
Cantoni Haustechnik AG	Wohlen	0.2 (CHF)	100.0
cc energie sa	Morat	1.0 (CHF)	62.0
CHI.NA.CO S.r.l.	Roè Volciano (I)	2.0 (EUR)	100.0
Curea Elektro AG	Landquart	0.2 (CHF)	100.0
EES Jäggi-Bigler Inc.	Etziken	2.1 (CHF)	100.0
Electra Italia S.p.A.	Milan (I)	1.0 (EUR)	100.0
Elektrizitätswerk Grindelwald AG	Grindelwald	0.6 (CHF)	92.1
Elektrizitätswerke Wynau AG	Langenthal	0.1 (CHF)	100.0
Elektro Feuz AG	Grindelwald	0.1 (CHF)	100.0
Energie Utzenstorf AG	Utzenstorf	1.0 (CHF)	100.0
Erdgas Thunersee AG	Interlaken	6.9 (CHF)	66.7
EWR Energie AG	Schattenhalb	2.0 (CHF)	100.0
Green Castellaneta S.p.A.	Milan (I)	0.1 (EUR)	100.0
Hertig Haustechnik AG	Wohlen	0.1 (CHF)	100.0
Holzwärme Grindelwald AG	Grindelwald	2.5 (CHF)	90.7
Idroelettrica Lombarda S.r.l.	Milan (I)	25.4 (EUR)	100.0
inelectro sa	Porrentruy	0.5 (CHF)	100.0

Company	Domicile	Share/basic capital in millions and currency	% Holding
Juvent SA	Saint-Imier	6.0 (CHF)	65.0
Kraftwerk Gohlhaus AG	Lützelflüh	1.3 (CHF)	59.9
Kraftwerk Lauenen AG	Lauenen	2.0 (CHF)	85.0
Kraftwerk Utzenstorf AG	Utzenstorf	0.1 (CHF)	100.0
Kraftwerke Fermelbach AG	St. Stephan	4.5 (CHF)	80.0
Kraftwerke Kander Alp AG	Kandersteg	2.5 (CHF)	60.0
Kraftwerke Milibach AG	Wiler (Lötschen)	1.0 (CHF)	80.0
Kraftwerke Ragn d'Err AG	Tinizong-Rona	6.0 (CHF)	80.0
Onyx Energie Dienste AG	Langenthal	2.0 (CHF)	100.0
Onyx Energie Mittelland AG	Langenthal	10.5 (CHF)	100.0
Onyx Energie Netze AG	Langenthal	10.5 (CHF)	100.0
Onyx Energie Produktion AG	Langenthal	3.0 (CHF)	100.0
Regionaler Wärmeverbund AG Heimberg-Steffisburg (REWAG)	Heimberg	2.5 (CHF)	51.0
Simmentaler Kraftwerke AG	Erlenbach i. S.	7.3 (CHF)	83.9
Société des forces électriques de la Goule SA	Saint-Imier	3.5 (CHF)	84.3
sol-E Suisse AG	Berne	0.1 (CHF)	100.0
STKW Energie Dörpen GmbH & Co. KG	Dörpen (D)	–	100.0
STKW Energie Dörpen Verwaltungs-GmbH	Dörpen (D)	0.03 (EUR)	100.0
Tamarete Energia S.r.l.	Ortona (I)	3.6 (EUR)	60.0
TW Energie AG	Berne	1.2 (CHF)	75.0
Volturino Wind S.r.l.	Milan (I)	0.03 (EUR)	100.0
Wind Farm Buglia S.r.l.	Milan (I)	0.03 (EUR)	100.0
Wind Farm S.r.l.	Milan (I)	0.02 (EUR)	100.0
Wind International Italy S.r.l.	Milan (I)	52.2 (EUR)	100.0

Major shareholders

in %	Holding at 31.12.2013	Holding at 31.12.2014
Canton of Berne	52.54	52.54
Groupe E Ltd.	10.00	10.00
E.ON SE	6.65	6.65
BKW Inc. and Group companies	8.54	8.35

There are no other shareholders who registered a shareholding of more than 3% of the voting rights of BKW during the reporting year according to Ar-

tikel 20 of the Federal Law on Stock Exchanges and Securities Trading (Bundesgesetz über die Börsen und den Effektenhandel; BEHG).

The ad hoc disclosures in accordance with Article 20 BEHG published by BKW through the electronic publication platform of SIX Swiss Exchange during the 2014 financial year can be viewed at http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.

Cross shareholdings

There is cross-shareholding between BKW and Groupe E Ltd. BKW holds a 10% share of voting rights and share capital in Groupe E Ltd. (687,500 shares) and Groupe E Ltd. has a 10% share of voting rights and share capital share in BKW (5,280,000 shares).

2 Capital structure

Capital

The share capital of BKW as of 31 December 2014, amounts to CHF 132,000,000.00 and is divided into 52,800,000 fully paid-up registered shares, each with a par value of CHF 2.50. The Company has not issued participation certificates or dividend rights certificates.

Authorised and conditional share capital

BKW has no authorised share capital or conditional share capital.

Changes in equity

The BKW Group moved to a holding structure in December 2011. Details of this can be found on page 36 of the 2011 BKW Annual Report. In conjunction with the transition to the holding structure, at the Extraordinary General Meeting of 29 September 2011, the Board was authorised to increase the share capital to a final capital of no more than CHF 132,000,000.00 within a period of two years by a maximum of CHF 13,200,000.00 by the issue of up to 5,280,000 fully paid registered shares with a par value of CHF 2.50.

On 17 February 2012, the Board decided to increase the ordinary share capital from authorised capital, from CHF 131,087,027.50 by CHF 912,972.50 to CHF 132,000,000.00, divided into 52,800,000 registered shares with a par value of CHF 2.50 each. This reduced the authorised capital to nil.



http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

Changes in equity for the last three reporting years

CHF thousands	Share capital	Reserves from capital contributions	General legal reserves	Reserves for treasury shares	Available earnings	Total shareholders' equity
At 31 December 2011	131,087	26,129	786,936	359,845	57,543	1,361,540
Capital increase	913		8,180			9,093
Dividend payment					-52,800	-52,800
Reserve allocation			3,053	-3,053		0
Net profit 2012					65,202	65,202
At 31 December 2012	132,000	26,129	798,169	356,792	69,945	1,383,035
Dividend payment					-63,360	-63,360
Reserve allocation			41,269	-41,269		0
Net profit 2013					64,710	64,710
At 31 December 2013	132,000	26,129	839,438	315,523	71,295	1,384,385
Dividend payment					-63,360	-63,360
Reserve allocation			7,107	-7,107		0
Net profit 2014					223,883	223,883
At 31 December 2014	132,000	26,129	846,545	308,416	231,818	1,544,908

Shares

All 52,800,000 registered shares in BKW with a par value of CHF 2.50 each are fully paid up. All shares carry equal voting rights. Every share represented at the Annual General Meeting is entitled to one vote. While the Company does not print or issue certificates in respect of the registered shares, shareholders may request a share certificate free of charge.

Restrictions on transferability and nominee registration

Registered BKW shares can only be transferred by assignment or according to the provisions of the Swiss Intermediated Securities Act (SR 957.1). BKW must be notified of the assignment. The Company may refuse to register an acquirer of shares in the share register for the following reasons:

- If the acquisition results in a natural person, a legal entity or a partnership holding (directly or indirectly) more than 5% of the entire share capital. The same restriction applies to legal entities, partnerships, groups of persons or joint ownerships that are interrelated or otherwise linked and/or act in concert to acquire shares.
- If the acquirer has not expressly declared that he has acquired the shares in his own name and on his own behalf.

Nominees may be registered, but these shares carry no voting rights.

Convertible securities and options

In September 2014, BKW completed a full issue of a convertible bond in the amount of CHF 163 million to run from 30 September 2014 to 30 September 2020, with an interest rate of 0.125% per annum. The conversion period runs from 10 November 2014 to 20 September 2020. The conversion price is CHF 38.90, which equates to a conversion rate of 128.53755 shares per bond at a nominal value of CHF 5,000 per bond. Fractions are paid out in cash. The conversion price and conversion rate will be adjusted if a dividend of more than CHF 1.20 per share is paid out. The convertible bond can be converted into around 4.2 million

registered shares in BKW, which are guaranteed by BKW's stock of treasury shares. The bond will be repaid at the nominal value on 30 September 2020. So far no conversion rights have been exercised.

The company has issued no options.

3 Board of Directors

The Board of Directors (Board) consists exclusively of non-executive independent members.

This means that no current member of the Board of Directors is also a member of the BKW Group Executive Board or of the management body of any Group company.

Urs Gasche **lawyer (1955, CH)**

Board member since 2011 (2002*), Chairman of the Board, Chairman of the Nomination and Compensation Committee

Professional background, career

Urs Gasche is a lawyer who does not conduct forensic work. His working time is mainly taken up with seats on the Boards of companies, foundations and associations in the energy sector (BKW) and in the health sector. He has been a member of the Swiss National Council since 2011. As a member of the Executive Council, Urs Gasche was Finance Manager for the Canton of Berne from 2002 to mid-2010. In this function he was appointed as the delegate of the Canton of Berne to the Board of BKW FMB until its 2010 Annual General Meeting. Prior to his election as a member of the Executive Council, Urs Gasche worked as an independent lawyer in Berne.

Hartmut Geldmacher **MBA (1955, D)**

Board member since 2011 (2009*), Deputy Chair of the Board

Professional background, career

Hartmut Geldmacher is an independent businessman. From 1990 until 2002 he held various management positions at E.ON Energie AG and the then Preussen Elektra AG, Hanover. From 2002 to 2011, he was a member of the Board of Management and Employee Relations Director at E.ON Energie AG, Munich.

Kurt Rohrbach **electrical engineer ETH (1955, CH)**

Board member since 2012, Deputy Chair of the Board

Professional background, career

Since joining BKW in 1980, Kurt Rohrbach has held a variety of roles for the company, most recently as CEO and Chairman of the Group Executive Board.

Barbara Egger-Jenzer **lawyer (1956, CH)**

Board member since 2011 (2002*), Deputy Chair of the Nomination and Compensation Committee, Representative of the Canton of Berne

Professional background, career

Barbara Egger-Jenzer is a member of the Executive Council and Head of the Department of Construction, Transport and Energy of the Canton of Berne. Until her election to the Executive Council in 2002, Barbara Egger-Jenzer worked as an independent lawyer in Berne and as the Canton of Berne age and residential matters ombudsman.

Philippe Virdis **electrical engineer (1948, CH)**

Board member since 2011 (2003*)

Professional background, career

Philippe Virdis has been a member of the Board of Groupe E Ltd. since 2012. Previously he was Delegate of the Board and General Director of Groupe E, Fribourg. Until his election as Delegate of the Board of Directors, Philippe Virdis was General Director of Groupe E and, until 2006, General Director of EEF.Ensa SA.

Marc-Alain Affolter **engineer (1952, CH)**

Board member since 2011 (2007*), Member of the Audit and Risk Management Committee

Professional background, career

Marc-Alain Affolter is Chairman of the Board and CEO of Groupe Affolter Holding SA (Malleray), which manufactures components for watches and machinery. Until 1985 he worked for various companies as a development engineer.

Georges Bindschedler**Dr. iur., lawyer and notary (1953, CH)**

Board member since 2011 (2007*), Member of the Nomination and Compensation Committee

Professional background, career

Georges Bindschedler is Delegate of the Board of Directors of merz+benteli ag, Niederwangen, and holds seats on the Boards of various other SMEs. Between 1985 and 2002, he was Delegate of the Board of Directors and CEO of von Graffenried Holding AG, Berne. Prior to this he worked for a law office and a bank.

Eugen Marbach**lawyer (1955, CH)**

Board member since 2011 (2007*)

Professional background, career

Eugen Marbach has worked as an independent lawyer in Berne since 1985. From 1993 until 2012, he was a professor in the Department of Economic Law, University of Berne. Since 2005, Eugen Marbach has also been co-editor of a journal on the law relating to intangible assets, information and competition.

Beatrice Simon-Jungi**MBA (1960, CH)**

Board member since 2011 (2010*), Representative of the Canton of Berne

Professional background, career

Beatrice Simon-Jungi is a member of the Executive Council and Director of Finance for the Canton of Berne. Before her election to the Executive Council in mid-2010, she was a municipal councillor for Seedorf from 1995 and mayor from 2003. In 2006 she was elected to the Berne cantonal parliament. Prior to 1995 Beatrice Simon-Jungi worked as Head of Marketing for an SME.

Kurt Schär**electronics engineer (radio and TV) and marketing planner (1965, CH)**

Board member since 2012, Member of the Audit and Risk Management Committee

Professional background, career

Kurt Schär is CEO of Sunnsite Management AG. Until 1998 he was involved in product management and sales management functions, including in the telematics section of Contact Systems Ltd. Until 2000 he was Vice-President of Sales & Marketing at Hélio Courvoisier and until 2014 CEO of Biketec AG, the manufacturer of the Flyer electric bicycles in Huttwil.

Roger Baillod**business economist and certified public accountant (1958, CH)**

Board member since 2013, Chair of the Audit and Risk Management Committee

Professional background, career

Since 1996, Roger Baillod has been Chief Financial Officer of Bucher Industries AG in Niederweningen, Zurich. Between 1984 and 1993 he was an auditor and consultant at ATAG Ernst & Young AG in Zurich and St. Gallen before joining the company management of two industrial enterprises.

Responsibilities

According to Swiss company law and article 19 of the articles of incorporation, the Board of Directors is responsible for overall management of the company and supervision of its corporate bodies. It decides on all matters that are not delegated to other corporate bodies, either by law or by the organisational regulations as defined in article 20 of the articles of incorporation.

Election and term of office

According to article 21 of BKW's articles of incorporation, the Board of Directors consists of nine to thirteen members (there are currently eleven members). In accordance with Article 21 of the articles of incorporation and pursuant to Article 762 of the Swiss Code of Obligations (OR), the Canton of Berne is entitled to a maximum of two seats on the Board of Directors. These delegates are currently Barbara Egger-Jenzer and Beatrice Simon-Jungi, both of whom are members of the Executive Council of the Canton of Berne. The

* This is the year of entry to the Board of BKW FMB Energy Ltd. before transition to the holding structure.

remaining members are elected individually by the Annual General Meeting.

With the introduction of the Ordinance against Excessive Compensation in Listed Stock Companies on 1 January 2014, the statutory term of office of members elected by the Annual General Meeting is one year. These members may be re-elected. The term of office for members delegated by the Canton of Berne, appointed under the terms of article 762 OR, is determined by the Executive Council. The option for re-election shall not extend beyond the calendar year in which a Board member reaches his or her 70th birthday.

During the reporting year, Board member Antoinette Hunziker-Ebnetter retired.

Internal organisation

The internal organisational structure of the Board of Directors is laid down in the articles of incorporation and the organisational regulations. No special functions are defined other than Chairman and the two Deputy Chairs. The Secretary need not be a member of the Board. Members of the Group Executive Board and the secretary to the Board of Directors, Fabian Stadler, also attend the meetings of the Board of Directors. The Board of Directors convened nine times in the 2014 financial year.

Committees

The Board of Directors is supported by two standing committees, the Audit and Risk Management Committee and the Nomination and Compensation Committee. The Board of Directors may also establish ad hoc committees at any time for matters such as major investments, alliances and cooperations. Members of these committees were previously appointed by the Board of Directors, and are charged with analysing certain Board matters in detail and supporting the Board in its supervisory functions. Owing to the introduction of VegüV on 1 January 2014, statutory responsibility for election of the members of the Nomination and Compensation Committee passes to the Annual General Meeting.

The functions and organisation of the Audit and Risk Management Committee and the Nomina-

tion and Compensation Committee are defined in Articles 12 and 13 of the organisational regulations and in the relevant detailed directives authorised by the Board of Directors. The members of the Audit and Risk Management Committee are elected by the Board of Directors.

Audit and Risk Management Committee

Members

Roger Baillod, Chairman
Marc-Alain Affolter
Kurt Schär

Meetings of the Audit and Risk Management Committee are normally attended by the CEO, the Head of Finance and Services, the Head of Corporate Controlling, Accounting and Tax, and the Head of Internal Audit, as well as a representative of the external auditors. The regulations of the Audit and Risk Management Committee stipulate at least four ordinary meetings per year. The Committee held four ordinary meetings and one extraordinary meeting in the 2014 financial year. No external consultants were engaged.

Responsibilities

- Discussion of the annual and half-yearly financial statements as well as the annual and half-yearly consolidated statements with the internal and external auditors as well as representatives of the Group Executive Board. The Committee provides the Board of Directors with recommendations based on these discussions.
- Discussion of significant changes in financial reporting as well as extraordinary items in the financial statements and changes in disclosure with internal and external auditors as well as representatives of the Group Executive Board. The Committee provides the Board of Directors with recommendations based on these discussions.
- Evaluation of the organisation and efficacy of internal controls, compliance, activities and performance of the external auditor and interactions with internal Group auditors. The Board of Directors is informed of this evaluation and hears recommendations if necessary.
- Evaluation of the independence of external auditors and the consistency of the auditing work with any advisory mandates of the exter-

nal auditors. The Board of Directors is informed of this evaluation and hears recommendations if necessary. Preparation for the appointment or discharge of the external auditor, the Group auditor and the Head of Internal Audit, for submission to the Board of Directors.

- Discussion of the quality of accounting and financial reporting based on an assessment by the internal and external auditors. The Committee provides the Board of Directors with recommendations based on these discussions.
- Discussion of the risk situation in the context of the financial statements, the budget and medium-term planning. Evaluation of amendments relating to the risk policy approved by the Board.
- Regular reports to the Board of Directors on the Committee's activities and results.

Authorities

- Authorisation of accounts involving credit approved by the Board of Directors, with the proviso that any unarranged exceeding of credit is reported to the Board of Directors.
- Direct involvement of the Head of Internal Audit at meetings of the Committee.
- Fostering direct contact through the Chairman and members of the Committee with the internal and external auditors and with the CEO and CFO.
- Final determination of compensation for internal and external auditors.

Nomination and Compensation Committee

Members

Urs Gasche, Chairman
Barbara Egger-Jenzer, Deputy Chair
Georges Bindschedler

The CEO also attends meetings of the Committee and has the right of co-determination.

According to its regulations, the Nomination and Compensation Committee meets as often as business requires, but at least once a year. Five meetings were held in the 2014 financial year. An external consultant was engaged to evaluate the CFO.

Responsibilities

- Formulation of principles and concrete proposals concerning compensation of members of the

Board of Directors and Group Executive Board, for submission to the Board of Directors.

- Formulation of principles for the Board of Directors governing the selection of candidates for election or re-election to the Board, and preparation of concrete proposals.
- Succession planning at Board and Group Executive Board level.
- Dealing with selection, severance and compensation matters at Board and Group Executive Board levels.

Authority

Final determination of the salaries of members of the Group Executive Board, with the advice of the Board of Directors.

Delegation of responsibility to the Group Executive Board

Pursuant to article 20 of the articles of incorporation, the Board of Directors delegates business management to the Group Executive Board and defines its responsibilities in the organisational regulations. The Group Executive Board comprises the six division heads. The CEO is the chairman of the Group Executive Board and also a division head. Decisions of the Group Executive Board are made by the CEO in consultation with the other members of the Group Executive Board. Other members of the Group Executive Board have the right of co-determination and may submit motions. The Group Executive Board generally met every two weeks in the 2014 financial year. Subject to the authority of the Annual General Meeting, the Board of Directors and the Board Committees, the Group Executive Board is responsible for management of the BKW Group. The business divisions are managed directly by their respective division heads. The Group Executive Board may delegate tasks and authorisations within its remit. It also performs preparatory work on matters that are in the remit of official bodies at a higher level.

Responsibilities of the Group Executive Board

- Formulation, review and implementation of overall strategy, general business policy, corporate and Group plans (targets/objectives) and related actions (work schedules, projects).
- Ongoing supervision and coordination of overall

development of the Group, business performance of immediately subordinate divisions, and significant plans and projects.

- This covers in particular the creation, upgrading and maintenance of production plants, and transmission and distribution systems for electrical energy, contributions to such plants and systems up to the amount of CHF 16 million if provided for by financial planning, and up to CHF 8 million in the case of unplanned projects.
- Decisions on projects and credit authorisations for expenses, as well as assumption of responsibilities not related to the core operating business, up to the amount of CHF 8 million in individual cases if provided for by financial planning, and up to CHF 4 million in the case of unplanned projects.
- Decisions on the purchase and sale of real estate up to the amount of CHF 16 million if provided for by financial planning, and up to CHF 8 million in the case of unplanned projects.
- Decisions on subscribing to or reducing share capital or on acquiring shares in companies or increasing or reducing such shareholdings, provided that the purpose of the company in question is related to the core operating business and that the cost does not exceed CHF 4 million in each case.
- Decisions on subscribing to or reducing share capital or on acquiring shares in companies or increasing or reducing such shareholdings, if the purpose of the company in question is not related to the core operating business and provided that the cost does not exceed CHF 500,000 in each case.
- Decisions on awarding contracts for works and supplies.
- Decisions regarding the initiation of legal action or arbitration, and authorisation of related litigation settlements up to the amount of CHF 8 million.
- Decisions on the raising of long-term loans by Group companies, up to the amount of CHF 50 million.
- Selection, succession planning and further training of heads of business units, senior specialists and project experts (senior management, level 2).
- Determination of salaries and compensation for heads of business units, departments and regional offices as well as the respective special-

ist and project positions (senior management, levels 2 and 3) in line with the requirements set by the Board of Directors.

- Approval of energy delivery and supply contracts with associated commitments up to the value of CHF 200 million over the entire contract term.
- Authorisation of collateral for defined amounts and limited periods, including guarantees and sureties, for BKW Group companies and companies in which BKW holds an interest, and for partner plants with annual cost guarantees. The transaction underlying such collateral must be conducted in compliance with the rules governing authorities.
- Authorisation of collateral for indefinite periods, including guarantees and sureties, for Group companies and companies in which BKW Group companies hold an interest, and for partner plants with annual cost guarantees, provided that such collateral must be granted in the context of auctions or in favour of state authorities, companies with a public service mandate or an electricity exchange.
- Approval of the budget and mid-term plans of holding subsidiaries.
- Approval of the strategies of the business divisions and of their subsidiary BKW Group companies.
- Approval of the foundation and liquidation of BKW Group companies.

The Group Executive Board has delegated some of its authorities for division-specific projects to the relevant division heads. Division heads are also responsible for preparing strategically important business in their own remit for submission to the Group Executive Board.

Additional information on the Group Executive Board is given in Section 4.

Information and monitoring instruments in relation to the Group Executive Board

The Group Executive Board is required to provide the Board of Directors with regular updates on significant events.

Matters that need to be dealt with by the Board of Directors are discussed in advance by the Board conference, which was attended during the

reporting year by the Chairman of the Board and members of the Group Executive Board, as well as Antje Kanngiesser (General Secretary).

Reporting by the Group Executive Board to the Board of Directors

- Regular reports on significant events and general business performance.
- A report in spring on the financial statement for the previous financial year and an autumn report on the financial statement for the first half of the current year. These reports are accompanied by a forecast of the annual result based on current business performance.
- Next year's budget and a medium-term plan for the next four financial years for approval, towards the end of the financial year.
- Written reports in spring on the performance of BKW shareholdings as well as risk management in the trading business for the previous financial year.
- A comprehensive review of risk management, to be provided at the beginning of each financial year.

Risk management identifies and assesses risks and formulates risk reduction measures. Regular audits of Group-related risks are conducted in the context of assurance management. Risk management is supervised by a Risk Committee, which is chaired by Ronald Trächsel (member of the Group Executive Board). The Risk Committee met eight times during the reporting year and reported regularly to the Group Executive Board. Additional information on risk management is provided on page 40 of the Annual Report.

Audit

Internal Audit
Reto Umbricht

Internal Audit submits a quarterly report on its auditing activities to the Audit and Risk Management Committee. In particular, the report covers audits of transaction and business processes for the whole Group. Internal Audit also reports annually to the Audit and Risk Management Committee on the audit of the annual financial statements, and on any priority issue determined by the Committee.

Auditors
Ernst & Young Ltd, Berne

4 Group Executive Board

The Group Executive Board consists of the heads of the six business divisions. Suzanne Thoma has been CEO since 1 January 2013.

Suzanne Thoma
chemical engineer ETH (1962, CH)

CEO, Head of Group Management, Member of the Group Executive Board since 2010

Professional background, career

Suzanne Thoma was Head of Networks at BKW in 2010 before being appointed as CEO in 2013. Until 2009 she was Head of the Automotive Division of the WICOR Group in Rapperswil. Before that, as CEO of Rolic Technologies Ltd., she led a high-tech supplier to the electrical industry. She had previ-

ously worked for 12 years in a range of roles and countries for Ciba Spezialitätenchemie AG.

Christophe Bossel
graduate of the EFPL with a degree in engineering and material sciences, and an EMBA (1968, CH)

Head of Networks, Member of the Group Executive Board since 2012

Professional background, career

Christophe Bossel joined BKW in January 2012 as Head of Asset Management at the Networks Division. Before joining BKW he held senior management positions at various industrial concerns, latterly in the development of medical equipment and as Head of Production at Swiss Federal Railways (SBB).



Left to right: Renato Sturani, Ronald Trächsel, Suzanne Thoma, Hermann Ineichen, Monica Dell'Anna, Christophe Bossel.

Dr. Monica Dell'Anna
electrical engineer (1971, I)

Head of Market, Member of the Group Executive Board since 2013

Professional background, career

Before joining BKW in 2013, Monica Dell'Anna held various leading roles at Swisscom from 2003: as a member of the Swisscom senior management team from 2008 and a member of the Networking and IT divisional management team from 2011.

Hermann Ineichen
electrical engineer ETH and MSc in Energy Management, EPFL (1957, CH)

Head of Production, Member of the Group Executive Board since 2000

Professional background, career

Hermann Ineichen joined BKW in 1996. He was Head of Trading at BKW until the end of 2000, and before this he headed the Tariffs department of Centralschweizerische Kraftwerke AG.

Renato Sturani
mechanical engineer (1967, D, I)

Head of Renewables & Efficiency, Member of the Group Executive Board since 2013

Professional background, career

Before joining BKW in 2013, Renato Sturani worked at Alpiq from 2002, initially as Head of Power Generation (Western region) and then as Head of Renewable Energy from 2011. Previously he had held management positions at national and international level with ABB Alstom Power.

Ronald Trächsel
lic.rer.pol. (1959, CH)

Head of Finance and Services and CFO, Member of the Group Executive Board since 2014

Professional background, career

Before joining BKW in 2014, Ronald Trächsel was CFO at the Sika Group, where he had been responsible for finance and IT since 2008. Previously to that, he spent eight years as CEO and CFO at Vitra, a company with a presence on the global stage.

From 1995 to 1999 Ronald Trächsel was CFO of Ringier International.

Resignations

At the end of May 2014, Beat Grossenbacher retired from the Group Executive Board as Head of Finance and Services and CFO.

Matthias Kaufmann also retired from the extended Group Executive Board as General Secretary during the reporting year.

Management contracts

BKW has delegated no management responsibilities to third parties outside the Group.

5 Compensation, shareholdings and loans

The corresponding details are given in the Remuneration Report on pages 60 to 64.

6 Shareholders' participation rights

The following provisions are taken from the BKW articles of incorporation. The current articles of incorporation are available to shareholders free of charge on request.

Voting-right restrictions and representation

Shareholders' rights may only be exercised by persons listed in the share register as a shareholder with voting rights. There are no limitations on voting rights for BKW shareholders attending the Annual General Meeting.

Every shareholder with voting rights can attend the Annual General Meeting in person or be represented by another shareholder or the independent designated representative. Shareholders can also give their proxy and voting instructions to their independent designated representative electronically.

Public corporations, legal entities and trading companies are represented by their corporate bodies,

partners or legal representatives, or by representatives with special written power of attorney.

Every share listed in the share register with voting rights is entitled to one vote at the BKW Annual General Meeting.

Statutory quorum

Decisions at the Annual General Meeting require a simple majority of votes unless otherwise provided by law. A simple majority of votes also applies to decisions concerning the relaxation or lifting of the restrictions on transferability of registered shares.

Convening the Annual General Meeting and setting the agenda

Notice of the Annual General Meeting is to be given by the Board of Directors at least 20 days prior to the date of the meeting. A meeting may also be called by one or more shareholders whose combined shareholding represents at least 10% of the share capital. This must be requested in writing, stating the agenda items and motions.

Shareholders representing shares with a par value of at least CHF 1 million may ask for an item to be included on the agenda. This request must be submitted no later than 50 days before the date of the Annual General Meeting.

Entries in the share register

Entitlement to attend or to be represented at the Annual General Meeting is based on the status of entries of shareholders with voting rights in the share register on the tenth day before the Annual General Meeting.

7 Changes of control and defensive measures

Under the terms of article 6 of the articles of incorporation, BKW has opted to increase the threshold for a mandatory takeover offer to 49% in accordance with article 32 of the Swiss Exchanges Act.

There are no agreements or plans for the benefit of members of the Board of Directors and/or the Group Executive Board in the event of changes in control.

8 Auditors

Term of office

BKW's auditors are appointed on an annual basis. The current auditors are Ernst & Young Ltd., who have acted as BKW's auditors since 1990. The Auditor in charge is Roland Ruprecht.

Fees

The Auditors' fees for expenditures incurred by statutory audits of BKW and its consolidated Group companies amounted to CHF 826,000 for the reporting year. This figure includes the fees for the audit of the Italian Group companies, carried out for the first time by Ernst & Young. The fees for auditing services including non-mandatory audits and reviews and consultancy in financial reporting and transfer pricing matters amounted to CHF 451,000.

Information instruments of the external auditors

Oversight and control of the external auditor is a key responsibility of the Audit and Risk Management Committee cf. Section 3 (Board of Directors) under 'Audit and Risk Management Committee - Responsibilities'. These meetings are also attended by the external auditors, who have appropriate rights of co-determination. The external auditors participated in all four regular meetings and one extraordinary meeting of the Audit and Risk Management Committee in the 2014 reporting year.

On behalf of the Audit and Risk Management Committee, the external auditors examine the annual financial statements according to the Swiss Code of Obligations (CO) as well as the annual and half-yearly Group statements. Towards the end of the year, the external auditors must advise the Committee of the audit priorities they have set for the forthcoming year, and the rationale for these priorities. The Committee must approve this audit plan and may commission the external auditors to conduct additional specific audits.

The performance of the external auditors and their independence are assessed annually by the Audit and Risk Management Committee. This assessment is based on the quality of the reports, implementation of the audit plans approved by the Committee, and collaboration with the internal auditors. With regard to independence, the Committee examines the relationship between the budgeted audit fee and the fee for other services provided by the auditing company, and what these additional services include.

9 Information policy

BKW is committed to the timely dissemination of transparent and comprehensive information to its shareholders and clients as well as its employees and the general public. It regularly informs the media about important events related to its business activities. A press conference on its financial position is held at least once a year. Along with a written invitation to the Annual General Meeting, shareholders receive a shareholders' letter and an order form for the Annual Report. As a rule, they also receive a half-yearly shareholders' letter on business performance. Information on share prices is published in compliance with the applicable legal requirements for disclosure. BKW publishes media releases as well as special information for shareholders and investors (in particular Annual Reports and the results of Annual General Meetings) on the Internet (www.bkw.ch).

10 Other activities and interests

Board of Directors

Urs Gasche

- Chairman of the Board of Schweizer Salinen AG, Pratteln
- Member of the Board of Kumagra AG, Berne
- Member of the Board of thunerSeespiele AG, Thun
- Chairman of the Board of Stiftung Lindenhof, Berne
- Chairman of the Board of Stiftung Schloss Jegenstorf, Jegenstorf
- Member of the Board of Stiftung Alpines Museum, Berne
- Chairman of the Swiss medical technology industry association (FASMED), Muri bei Berne

Hartmut Geldmacher

- Member of the Supervisory Board of Bayernwerk AG, Regensburg
- Chairman of the Supervisory Board of Rhein-Main-Donau AG, Munich
- Member of the Supervisory Board of Hansewerk AG, Quickborn
- Chairman of the Board of the Bayerische EliteAkademie foundation, Munich

Kurt Rohrbach

- Chairman of the Association of Swiss Electricity Companies (VSE), Aarau
- Director of Schweizer Kurse für Unternehmensführung (SKU), Zurich
- Director of economiesuisse, Zurich
- Director of eurelectric, Brussels
- Managing Director and Joint Owner of Devaux & Rohrbach GmbH, Büren an der Aare

Barbara Egger-Jenzer

- Member of the Board of BLS AG, Berne
- Member of the Board of BLS Netz AG, Berne

Philippe Viridis

- Member of the Board of Groupe E Ltd., Fribourg
- Vice Chairman of the Board of Capital Risque Fribourg SA, Fribourg
- Chairman of the Board of Gommerkraftwerke AG, Ernen
- Member of the Board of EW Goms Holding AG, Ernen
- Member of the Board of Belenos Clean Power Holding AG, Biel
- Vice Chairman of the Board of Swiss Hydrogen Power SHP SA, Fribourg
- Member of the Board of g2e glass2energy sa, Villaz-Saint-Pierre
- Member of the Board of PLANAIR SA, La Sagne

Marc-Alain Affolter

- Chairman of the Board of Affolter Holding SA, Malleray
- Member of the Board of Esco SA, Geneveys-Coffrane
- Member of the Board of Affolter Technologies SA, Malleray

Georges Bindschedler

- Vice Chairman of the Board of Habegger Maschinenfabrik AG, Thun
- Chairman of the Board of Rutin AG, Lachen, and of KUBO-TECH AG, Effretikon (Group structure)
- Vice Chairman of the Board of Helvetic Estates AG, Berne
- Chairman of the Board of Lüthi Holding AG, Burgdorf
- Vice Chairman of the Board of Remaco AG and Member of the Board of der Remaco Wealth Management AG, both in Basel (Group structure)
- Chairman of the Board of Micamation AG, Dällikon, and QBIS AG, Wallisellen (Group structure)
- Member of the Board of Berakom AG, Konolfingen, and of Ursella AG, Hergiswil (NW) (Group structure)
- Member of the Board of Arton Real Estates AG, Zurich
- Member of the Board of PK-Aetas, BVG foundation, Berne
- Member of the Board of the UniBern research foundation, Berne
- Member of the Board of the Swiss Heart Foundation, Berne
- Chairman of the Board of the Werner and Hedy Berger-Janser foundation for cancer research, Berne
- President of the University Board of Berne University of Applied Sciences
- Member of the Board of FUP Freiheit, Unternehmertum, Publizistik foundation, Berne, Strategiedialog 21 foundation, Zurich, and Schweizer Monatshefte foundation, Zurich (Group structure)
- Vice Chairman of the Steinmann foundation Schloss Wyl, Schlosswil
- Member of the Board of the “zum Delphin” foundation, Zurich
- Vice Chairman of the Schärpeter mutual association, Berne
- Member of the Board of the Mitarbeiterbeteiligung bei der Internationalen Treuhand AG foundation, Basel

Eugen Marbach

- Member of the Board of the Berner Münster foundation, Berne

Beatrice Simon-Jungi

- Member of the Board of Schweizer Salinen AG, Pratteln
- Member of the Board of the Stiftung Kulturhalle Lyss foundation, Lyss

Kurt Schär

- Chairman of the Board of Emmental Tours AG, Burgdorf
- Chairman of the Board of Herzroute AG, Burgdorf
- Chairman of the Board of Härzdörfli AG, Madiswil
- Vice Chairman of the Board of Striebig AG, Lucerne
- Member of the Board of Stöcklin Küchenmöbel-fabrik AG, Aesch (BL)
- Member of the Board of IE Engineering Group AG, Zurich
- Member of the Board of Stiftung Risiko-Dialog foundation St. Gallen
- Chairman of the Board of Sorglos Design AG, Luthern
- Member of the Board of the Stiftung WBM (Werkstätte für Behinderte) foundation, Madiswil
- Member of the Board of the Personalvorsorge-stiftung der Firma Striebig AG foundation, Lucerne

Roger Baillod

- Member of the Board of Migros-Genossenschafts-Bundes in Zurich

Group Executive Board**Suzanne Thoma**

- Member of the Board of Schaffner Holding AG, Luterbach
- Member of the Board of Beckers Group, Sweden

Christophe Bossel

–

Monica Dell'Anna

- Member of the Board of Gasverbund Mittelland AG, Arlesheim

Hermann Ineichen

–

Renato Sturani

–

Ronald Trächsel

- Chairman of the Board of Wyss Samen und Pflanzen AG, Zuchwil
- Member of the Board of Création Baumann Holding AG, Langenthal

11 Significant changes

since 31 December 2014

Organisational changes

No significant changes.

Staff changes

Philippe Viridis and Dr. Eugen Marbach will both retire as members of the Board of Directors on the expiry of their term of office at the end of the Annual General Meeting on 8 May 2015. Mr Viridis previously represented the BKW shareholder Groupe E Ltd. Dominique Gachoud, Director General of Groupe E Ltd., has been proposed for election to succeed him.

Remuneration Report 2014

In accordance with the introduction of the Ordinance against Excessive Compensation in Listed Stock Companies on 1 January 2014, all information regarding the remuneration of the Board of Directors and the Group Executive Board must now be set out in a Remuneration Report. The Remuneration Report therefore contains information that previously formed part of the Corporate Governance Report and the Annual Financial Statements of BKW Inc.

The VegüV requires the remuneration system principles for the Board of Directors and the BKW Group Executive Board to be enshrined in the company's Articles of Association. In particular, the Articles of Association will be required to stipulate new principles on the performance-related remuneration of members of the Group Executive Board, the allocation of shareholdings, conversion and option rights to the members of the Board of Directors and the Group Executive Board and the roles and responsibilities of the Nomination and Compensation Committee.

In the increasingly market-oriented environment and in view of the corresponding corporate strategy designed to reflect this, BKW has resolved to align the remuneration of the Group Executive Board with market levels on a gradual basis. The policy focuses on stability, expressed in a step-by-step increase in basic salaries starting in 2015 and a sustainable, long-term shareholding plan starting in 2014. The long-term profit sharing component is linked to the opportunity and risk of share price performance, and therefore underlines the long-term alignment of the interests of the Group Executive Board with those of shareholders who have a long-term interest in the company. As a counterpoint to this change, variable remuneration that is calculated on the basis of short-term objectives will be reduced from 2015. The remuneration principles will be set out in the Articles of Association. They will be presented to the shareholders for their approval in compliance with the transitional provisions of the VegüV at the Annual General Meeting on 8 May 2015.

Responsibilities and method of determining compensation and shareholding programmes

The Nomination and Compensation Committee supports the Board of Directors in matters including devising compensation principles for members of the Board of Directors and the Group Executive Board, and in setting the salaries for these two Boards. The Committee reaches a final decision on setting the salaries for members of the Group

Executive Board in accordance with the direction of the Board of Directors. In particular, the Nomination and Compensation Committee takes into account a total level of compensation that is appropriate to the market and performance achieved, as well as a periodic updating of the compensation principles. The remuneration of members of the Board of Directors is periodically reviewed and revised (generally every three years) by the Nomination and Compensation Committee with the aid of an external, independent consultancy.

The Nomination and Compensation Committee comprises three members who are each elected from the Board of Directors by the Annual General Meeting for a term of one year. The CEO also attends meetings of the Committee and has the right to propose motions. The CEO does not participate in meetings or parts of meetings in which her own remuneration and/or performance are discussed.

The tasks and organisation of the Nomination and Compensation Committee are laid down in its organisational regulations and substantiated in additional regulations approved by the Board of Directors. An overview of additional roles and serving members of the Nomination and Compensation Committee can be found in the Corporate Governance Report on page 51.

Remuneration paid to the Board of Directors

Members of the Board of Directors receive a fixed annual remuneration not linked to performance and a flat-rate expense allowance. The fixed annual remuneration and attendance allowances are now reported as fixed payments, except for the Chair and second Deputy Chair who do not receive attendance allowances.

No changes were made in 2014 to the fixed remuneration of the members of the Board of Directors.

For individual members of the Board, payment is made in whole or in part to their employers.

Other remuneration also includes flat-rate expenses paid to members of the Board of Directors, the employer's contributions to social insurance and – where paid by BKW – employee contributions to social insurance and withholding tax.

Remuneration of members of the Board of Directors in 2014

CHF thousands		Fixed remuneration	Share-based payment	Other remuneration	Total
Urs Gasche	Chairman	280	3	46	329
Antoinette Hunziker-Ebnetter	Deputy Chair (until 09.05.2014)	40		4	44
Hartmut Geldmacher	Deputy Chair (from 09.05.2014)	65	3	41	109
Kurt Rohrbach ¹	2 nd Deputy Chair	522	3	108	633
Marc-Alain Affolter	Member	68	3	15	86
Roger Baillod	Member	68	3	15	86
Dr Georges Bindschedler	Member	66	3	6	75
Barbara Egger-Jenzer ²	Member	58		5	63
Prof. Dr Eugen Marbach	Member	58		13	71
Kurt Schär	Member	68	3	11	82
Beatrice Simon-Jungi ²	Member	54		5	59
Philippe Viridis	Member	58		9	67
Total		1,405	21	278	1,704

¹ Full-time post.

² All remuneration was paid to the canton of Berne.

Remuneration of members of the Board of Directors in 2013

CHF thousands		Fixed remuneration	Share-based payment	Other remuneration	Total
Urs Gasche	Chairman	280	3	45	328
Antoinette Hunziker-Ebnetter	Deputy Chair	90		5	95
Kurt Rohrbach ¹	2 nd Deputy Chair	522	3	113	638
Marc-Alain Affolter	Member	66		14	80
Roger Baillod	Member (from 17.05.2013)	35		8	43
Dr Georges Bindschedler	Member	74	3	5	82
Ueli Dietiker	Member (until 17.05.2013)	31		6	37
Barbara Egger-Jenzer ²	Member	74		10	84
Hartmut Geldmacher	Member	56	3	36	95
Prof. Dr Eugen Marbach	Member	58	3	13	74
Kurt Schär	Member	64	3	14	81
Beatrice Simon-Jungi ²	Member	56	3	7	66
Philippe Viridis	Member	60	2	11	73
Total		1,466	23	287	1,776

¹ Full-time post.

² Fixed annual compensation of CHF 40,000 was paid to the canton of Berne.

Once a year the Board of Directors also determines the number of BKW shares that members of the Board of Directors can acquire, as well as the preferential price and the blocking period. This arrangement is designed to motivate members of

the Board of Directors to achieve a sustainable increase in BKW's enterprise value. Share-based payments comprise the benefit in fair value of the preferential purchase of BKW shares. In 2014, each member of the Board of Directors was offered the

AUDITED

AUDITED

AUDITED

opportunity to purchase 600 BKW shares (2013: 400 shares) at a preferential price. The shares acquired are subject to a blocking period of three

years, which is taken into account when measuring the remuneration by applying a reduction.

AUDITED

Shares held by members of the Board of Directors and Group Executive Board

Number of shares		31.12.2013	31.12.2014
Urs Gasche	Chairman	2,177	2,777
Antoinette Hunziker-Ebnetter	Deputy Chair (until 09.05.2014)	300	n/a
Hartmut Geldmacher	Deputy Chair (from 09.05.2014)	1,920	2,520
Kurt Rohrbach	2 nd Deputy Chair	12,157	12,757
Marc-Alain Affolter	Member	3,120	3,720
Roger Bailod	Member	1,000	1,600
Dr Georges Bindschedler	Member	5,120	5,720
Barbara Egger-Jenzer	Member	400	400
Prof. Dr Eugen Marbach	Member	3,000	3,000
Kurt Schär	Member	400	1,000
Beatrice Simon-Jungi	Member	1,000	1,000
Philippe Viridis	Member	4,520	4,520
Total		35,114	39,014

AUDITED

Individual shares held by members of the Board of Directors are subject to a blocking period of up to three years.

AUDITED No loans or credits have been granted to active or former members of the Board of Directors or parties related to them.

In the event of a departure of a member of the Board of Directors there are no agreements or plans that provide for severance payment or any other benefits or concessions.

Remuneration paid to the Group Executive Board

Members of the Group Executive Board receive a fixed annual base remuneration for their services. This is determined on an individual basis, taking into account the activity and responsibility of the person in question, their contribution to the Company's success, the market rate for comparable functions as well as the Company's economic situation and outlook.

In addition, a variable profit share of up to 35% of the fixed annual base remuneration in Swiss francs is paid, indexed to business results of the company and the performance of the relevant member of the Group Executive Board.

As of the 2014 financial year, a long-term performance-related bonus has been allocated in the form of shares amounting to 30% of the fixed base salary for the CEO and 20% of the fixed base salary for the other members of the Group Executive Board. Shares are allocated annually in December for the current financial year. The shares are subject to a blocking period of three years, which is taken into account by applying a reduction to the reported value.

The profit-related short-term variable remuneration, which has been significantly reduced in from the 2015 financial year, is paid in Swiss francs. It is set according to the contribution by the member of the Group Executive Board to the overall result of BKW, and in relation to the achievement of defined personal performance targets. The performance targets may comprise company and division-specific targets, personal targets or targets calculated on the basis of comparisons with the market, other companies or comparable benchmarks.

The profit-related short-term variable remuneration for members of the Group Executive Board is set by the Nomination and Compensation Committee following submission of a proposal by the CEO. The profit-related short-term variable remuneration for the CEO is set directly by the Nomination and Compensation Committee.

Owing to the change in system from an option to purchase shares at preferential rates to a long-term profit-sharing in the form of shares, the reported share-based remuneration for 2014 contains both elements. This accumulation will not exist in 2015 and only the long-term profit sharing for that period will be reported.

AUDITED For 2014, the Board of Directors determined for the final time the number of BKW shares that members of the Group Executive Board could acquire, as well as the preferential price and the blocking period. In 2014, each member of the Board of Directors was offered the opportunity to purchase 600 BKW shares (2013: 400 shares) at a preferential price. The shares acquired are also subject to a blocking period of three years, which is taken into account by applying a reduction to the reported value. This share purchase programme for members of the Group Executive Board is being discontinued in 2015.

All remuneration subject to social security contributions is recorded gross. Pension benefits include the employer's contributions to the pension fund and AHV/IV/ALV insurance. The BKW pension fund (Pensionskasse BKW) operates a defined-benefit pension plan in accordance with the statutory requirements for occupational pensions (Berufliche Vorsorgegesetz; BVG). The pension benefits therefore also include the employer's share of any corrective payments arising from increases in the insured salary in addition to the ordinary employer contributions.

Remuneration of members of the Group Executive Board and the highest-earning member

CHF thousands	Dr Suzanne Thoma CEO		Total paid to Group Executive Board members ¹	
	2013	2014	2013	2014
Fixed remuneration	480	527	1,834	2,646
Profit sharing	144	158	451	531
Share-based payment	3	136	11	442
Pension benefits	289	224	811	859
Total	916	1,045	3,107	4,478

¹ In 2014, the Group Executive Board was at full strength with six members throughout the year. For much of 2013 it comprised only four members owing to various reorganisations.

AUDITED As in the previous year, there were no outstanding loans to members of the Group Executive Board as at 31 December 2014. In the event of a departure of a member of the Group Executive Board,

there are no agreements or plans that provide for severance payment or any other benefits or concessions.

The table below lists the shareholdings of the individual members of the Group Executive Board.

Shareholdings of Group Executive Board members

Number of shares		31.12.2013	31.12.2014
Dr Suzanne Thoma	CEO	2,560	7,333
Christophe Bossel	Head of Networks	400	3,681
Dr Monica Dell'Anna	Head of Market	0	3,075
Ronald Trächsel	Head of Finance and Services (from 01.08.2014)	n/a	1,289
Beat Grossenbacher	Head of Finance and Services (until 30.06.2014)	2,520	n/a
Hermann Ineichen	Head of Production	2,822	6,112
Renato Sturani	Head of Renewables & Efficiency	0	3,143
Total		8,302	24,633

AUDITED

Individual shares held by members of the Group Executive Board are subject to a blocking period of up to three years.

Report of the statutory auditor on the remuneration report

To the General Meeting of

BKW Inc., Berne
Berne, 13 March 2015

Report of the statutory auditor on the remuneration report

We have audited the remuneration report of BKW Inc. for the year ended 31 December 2014. The audit was limited to the information according to articles 14–16 of the Ordinance against excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in the section marked with a blue line on pages 60 to 64 of the remuneration report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report for the year ended 31 December 2014 of BKW Inc. complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Roland Ruprecht
Licensed audit expert
(Auditor in charge)

Philippe Wenger
Licensed audit expert

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