

BKW Group
Half-Year Report 2010

BKW®



Facts & Figures

BKW Group

Electricity business

GWh	1 st half-year 2010	1 st half-year 2009	2009
Sales			
Electricity sales Switzerland	4,213	4,095	8,075
Electricity sales International	3,174	2,608	5,768
Electricity trading	5,281	6,091	12,638
Pump/substitution energy	280	225	509
Transmission losses/own consumption	135	184	265
Total	13,083	13,203	27,255
Generation and purchases			
Hydroelectric plants	1,729	1,940	4,052
Nuclear power plants incl. purchase contracts	3,165	3,187	5,784
Thermal power plants	123	258	648
New renewable energy	18	17	39
Trade (purchases) and energy buy-backs	8,048	7,801	16,732
Total	13,083	13,203	27,255

Financials

CHF millions	1 st half-year 2010	1 st half-year 2009	2009
Total operating revenue	1,585.1	1,820.5	3,592.6
Operating profit before depreciation, amortisation and impairment	261.9	258.1	501.6
Operating profit	193.1	193.8	356.9
Net profit	134.4	155.5	298.5
Cash flow from operating activities	151.2	251.6	602.7
Purchase of property, plant and equipment	101.4	113.6	289.7
Balance sheet total	6,325.5	6,085.3	6,519.0
Shareholders' equity	3,163.9	3,126.4	3,244.3
> as % of balance sheet total	50.0	51.4	49.8

Number of employees

Full-time equivalent	30.06.2010	30.06.2009	31.12.2009
Employees	2,837	2,814	2,862

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Foreword

Proven strategy in a challenging environment

In a challenging environment, the BKW Group¹ succeeded in operational earnings at the prior-year level.

Results

In the first half of 2010, BKW generated profit of CHF 134.4 million: CHF 21.1 million lower than the first half of 2009. The result was impacted by the persistently low level of energy prices, the downturn on equity markets and the low Euro exchange rate. Compared to the same period in 2009, total consolidated operating revenue fell by 12.9% or CHF 235.4 million to CHF 1,585.1 million. Operating profit before interest, taxes, depreciation and amortisation (EBITDA) rose by CHF 3.8 million or 1.5% to CHF 261.9 million. The energy business in Switzerland as well as international sales performed well against the backdrop of a challenging economic and regulatory environment, while the trading business declined in line with expectations, as a result of low energy prices and the weak Euro.

Strategic projects

As Switzerland's largest integrated supplier of power, BKW is committed to ensuring that sufficient production capacity is available to supply its customers with the required volume of electricity at all times. With this in mind, over the next few decades it is aiming to make major investments in a diversified production portfolio designed to be as crisis-resistant as possible. This production strategy focuses on the construction of plants for new renewable energies both in Switzerland and abroad, and the renovation and replacement of hydroelectric and nuclear power plants. BKW promotes energy and electricity efficiency with a view to sustainably supporting demand. Whether this climate-friendly strategy has the desired impact depends heavily on the implementation of a replacement facility for Mühleberg nuclear power plant. Bernese voters will vote on this replacement in the first quarter of 2011, and in a few years' time the issue will be put to a nationwide referendum. To ensure a back-up option in the event that the outcome is negative, BKW continues to pursue projects already in place for the construction of fossil-fuel power plants. BKW is not, however, actively pursuing any new fossil-fuel projects. Despite broad-based support from the local municipality, work on the project to build a coal-fired power plant in Dörpen (Lower Saxony, Germany) was discontinued last year due to the lack of a buyer for the waste heat.

The first half of 2010 saw further progress made with plans to build a replacement facility for Mühleberg nuclear power plant. In keeping with BKW's commitment to open dialogue on the project and a frank discussion of critical issues, it has from the outset continually exchanged information with the various stakeholder groups and regularly updates the regional population on the project status.

The future of nuclear power in Switzerland is not the only issue on which BKW endeavours to involve those directly affected as well as interest groups in its plans at an early stage; the same holds true for projects to expand new renewable energies. Despite being politically sanctioned and supported by the general public, projects to build small hydroelectric plants, biomass plants, and solar and wind power facilities are increasingly encountering resistance. Added to this, inefficient official procedures are hampering the implementation of such projects and driving up costs. The consultation and permit procedures for plans to expand the Juvent SA wind farm took almost ten years – without any delays due to objections or appeals – and required the approval of close to thirty authorities and official departments. To ensure any chance of using the available funds and achieving the ambitious underlying goals, it is imperative that this complexity and lack of coordination of costly procedures at the communal, cantonal and federal level be abandoned as soon as possible and replaced by a simple, standardised framework.

Alongside a sufficient supply of energy, an efficient and stable grid infrastructure is essential for the reliable, ecological provision of electricity. With this in mind, BKW is consistently investing in the expansion and renovation of existing facilities. In June, for example, the ground-breaking ceremony was held for construction of the new Mühleberg East substation. The CHF 165 million building will replace the overhead installations with a modern, compact interior facility and enhance energy security in the greater Berne region as well as in western Switzerland. In addition to the substation, since 2003 BKW has been planning to build a power line along the Wattenwil-Mühleberg section. In April the Federal Office of Energy (FOE) confirmed the need for this line, but simultaneously demanded that part of the route be cabled. BKW has appealed against this decision,

→ ¹ The BKW Group comprises BKW FMB Energy Ltd. and its Group companies. For better legibility, these are all referred to in the report as "BKW". Where the text relates specifically to BKW FMB Energy Ltd., this is expressly mentioned.

chiefly on the grounds that no comprehensive assessment of the ecological impact of underground cabling has been conducted. Unless such a study is made, EICom, the Federal Electricity Commission, is unlikely to accept inclusion of the related costs of implementation in the grid usage charges, and the additional expense of cabling will need to be borne by BKW alone.

Expansion of partnerships and activities for energy and electricity efficiency

In the first half of 2010, BKW further expanded its presence outside its traditional supply region. In May Groupe E AG, with which BKW is affiliated via a cross-shareholding, decided to assume the “1to1 energy” product brand for its own sales activities, thereby creating a good platform for further collaboration between the two companies.

Besides Groupe E and BKW, more than 140 energy partners in 15 cantons as well as the Principality of Liechtenstein use the “1to1 energy” electricity brand, jointly designing solutions to ensure a sustainable energy future for their customers, and offering related services for an efficient approach to energy and electricity. Since January 2009 BKW has been offering private and business customers modular, bespoke advice on energy under the name “1to1 energy e-help”. Eighteen months on, these services have already allowed BKW customers to save kilowatt hours equating to the annual consumption of 1,000 two-person households.

Besides its commitment to energy-efficient solutions within the electricity sector, BKW has also joined forces with companies in other sectors in an association to develop forward-looking solutions for power generation and consumption. The Inergie Association, whose members include Swiss Post, IBM Switzerland and the municipality of Ittigen, has already launched concrete projects in the fields of electro-mobility and smart grids, from which the residents of Ittigen are reaping the benefits.

Liberalisation of the electricity market

The first phase of Swiss electricity market liberalisation has been in force since the beginning of 2009. Since then, the regulatory framework has already undergone various changes. In recent months the regulatory authority, the Federal Electricity Commission (EICom), has issued various decrees whose impact on the regulatory framework obliged BKW to take legal action with a view to clarifying the legal parameters, particularly those governing future investments in the energy and grid area. There is an urgent need to revise the legal framework in the interests of energy security. Current moves to expand the production and grid infrastructure will not be sufficient to meet the growing demand for electricity in Switzerland. At the very least, electricity companies must be able to retain the substance of their assets. Legislation to any other effect will destroy value and, in the long term, pose a threat to the reliable, cost-effective supply of electricity in Switzerland.

Moderate price adjustments for 2011

BKW's pricing policy is based on the statutory requirements of the Electricity Supply Act. Prices are calculated on the basis of production costs and within the legally permissible boundaries. To ensure that today's energy security can continue being guaranteed over the long term, BKW consistently invests in the maintenance and expansion of its production and grid facilities. Last year, in view of the difficult economic situation, BKW opted against any electricity price adjustments even though such adjustments were justified. For 2011, increases in various investment and maintenance costs have necessitated a price adjustment of 6% on average. The implications for BKW customers vary depending on their consumption. The majority of households with a low electricity consumption volume will not experience any increase in electricity costs.

Shareholders

The General Shareholders' Meeting held on 16 April 2010 approved the 2009 annual and consolidated financial statements and voted in favour of a dividend payment of CHF 2.50 per share (previous year: CHF 2.30). Since the last General Shareholders' Meeting in April 2009, the number of shareholders has risen from around 7,200 to approximately 9,000. Shareholders elected Urs Gasche to the Board of Directors for the remainder of the current term of office, i.e. until the 2011 General Shareholders' Meeting. Up to the end of May 2010, Urs Gasche was a member of the Executive Council of the

Canton of Berne. As such, he has been a member of the BKW FMB Energy Ltd. Board of Directors since the beginning of 2002 in the capacity of cantonal delegate.

Effective 1 June 2010, the Board of Directors elected Urs Gasche as its new Chairman, to succeed Dr Fritz Kilchenmann, who is retiring as Chairman and standing down from the Board.

Effective 1 June 2010, the Executive Council of the Canton of Berne appointed State Councillor Beatrice Simon, its new Director of Finance, as cantonal delegate to the Board of Directors of BKW FMB Energy Ltd.

After the balance sheet date, in July 2010, E.ON Energie AG sold its shareholding of around 21% in BKW. E.ON acquired its stake in BKW in two stages in 1997 and 1999. Following a reassessment of its strategy, E.ON decided to dispose of its entire holding in BKW. The sale is being carried out in two phases. In a first step, BKW acquired 8.96% of the shares and Groupe E 5.01%. At the same time, BKW signed an option agreement with a term until September 2011, granting it the right to acquire the remaining stake of around 7% in a second phase. The purchase increases Groupe E's stake in BKW to 10%. For BKW, both the repurchase as well as the acquisition of shares under the option agreement will be conducted at the same share price, around 11% below the average price over the last 60 days prior to conclusion of the agreement. BKW is acquiring the first tranche for CHF 304.3 million or CHF 64.30 per share.

The share repurchase reinforces BKW's autonomy as a company, strengthens the existing cross-shareholding between BKW and Groupe E, and will result in the existing partnership being stepped up. The transaction also provides BKW with new options for strategic further development.

In connection with BKW's repurchase of the E.ON shareholding, Dirk Steinheider, one of the two representatives of E.ON Energie AG on the Board of BKW FMB Energy Ltd., stood down from the Board on 8 July 2010 with immediate effect. Dirk Steinheider was elected to the BKW Board at the General Shareholders' Meeting held on 9 May 2008. Hartmut Geldmacher, the second E.ON representative, will remain a member of the BKW Board.

Outlook

BKW expects to close the current financial year with lower revenue due to market-related factors. The difficult environment, marked by sustained low energy prices on the international markets, economic uncertainty, new regulatory requirements and costs related to strategic projects – particularly in connection with the drive to expand production – will also have an impact on the operating result in the second half-year. Taking all these factors into account, operating profit before interest, taxes, depreciation and amortisation (EBITDA) is likely to fall short of the 2009 figure, adjusted for the special effect of the change in pension plan assets booked to income. The financial result is dependent on financial market movements; assuming that financial markets remain stable, BKW expects to close 2010 with net profit lower than the prior-year figure.

Operating business

Slight drop in sales and decline in production

BKW posted a slight trading-related reduction in the volume of electricity sold, while revenue from sales performed positively. Production was lower year-on-year.

Volatile environment impacts electricity market

In the first half of 2010 the electricity market was characterised by a volatile environment, with news of favourable economic developments dampened by uncertainty concerning the debt crisis in Europe. The slight economic recovery resulted in a moderate rise in demand for electricity. The price of electricity remained low on energy markets, while prices for primary energy sources rose in some areas. Electricity prices continued to fall into the first quarter of 2010, only reversing in the second quarter to the level recorded at the start of the year.

Increase in sales business, decline in trading volume

The total volume of electricity sold fell by 0.9% compared to the same period in 2009, ending the first six months of 2010 at 13,083 GWh. Sales in Switzerland rose year-on-year by 2.9% to 4,213 GWh, primarily due to an improvement in the economy in the supply region. The volume of electricity traded was down 13.3% from 6,091 GWh to 5,281 GWh. Due to price and market trends, these changes are within the normal parameters for trading activities. International sales of electricity rose by 21.7% to 3,174 GWh in the first half of 2010 due to a rise in the volume purchased by existing customers.

Decline in production

The volume of electricity generated fell year-on-year by 367 GWh to 5,035 GWh, chiefly due to lower output from hydroelectric plants and the Livorno Ferraris gas-fired combined-cycle power plant.

Hydroelectricity production dropped by 211 GWh to 1,729 GWh in the first half of 2010 as a result of the lack of snow at the end of winter and low precipitation in the months of April and May. Due to these hydrological conditions, the water level in reservoirs was slightly below the long-term average in the first half of 2010. At 3,165 GWh, electricity generated by nuclear power plants was virtually on a par with the prior-year level of 3,187 GWh, with Mühleberg nuclear power plant accounting for 1,617 GWh. In the first six months of 2010 BKW experienced a market-driven decline in production from BKW's share of the Livorno Ferraris gas-fired combined-cycle power plant in the Piedmont region of Italy, from 258 GWh to 123 GWh.

Financial Result

Solid sales business, market-driven decline in trading

In the first half of 2010 the operating result remained stable while turnover was down. Positive performance by the sales business, coupled with a special effect, made up for the decline in trading business.

Stable operating result, lower financial result

In the first half of 2010 BKW was able to strengthen its market position despite a challenging environment. Turnover was down due to developments in the trading business. Sound performance in the Swiss market and international sales, coupled with a decline in trading business, resulted in consolidated operating revenue of CHF 1,585.1 million. Operating profit before depreciation, amortisation and impairment (EBITDA) grew to CHF 261.9 million. The downturn on equity markets as well as the weak Euro led to a lower financial result and a corresponding reduction in profit, with net profit ending the first half of 2010 at CHF 134.4 million.

Changes in accounting principles and the scope of consolidation

The unaudited consolidated financial statements for the half-year ended 30 June 2010 have been prepared in accordance with the International Accounting Standard on Interim Financial Reporting (IAS 34).

Various new or revised accounting standards become applicable in the 2010 financial year. However, these changes in accounting principles have no material impact on the financial position, results of operations and cash flows of BKW. Nor have they resulted in additional disclosures in the consolidated interim financial statements compared to the last year-end statements, since no significant instances of application had occurred by 30 June 2010.

In the first half of 2010 BKW founded BEBAG Bioenergie Bätterkinden AG, with a holding of 56%, as well as BKW Borkum West II Beteiligungs GmbH, a company engaged in an offshore wind farm project in the North Sea off Germany. The 100% stake in Faltinek AG was fully disposed of.

Decline in revenue due to trading business

In the first half of 2010 BKW recorded consolidated operating revenue of CHF 1,585.1 million: 12.9% lower than the prior-year period. In a challenging environment, the energy business put in a satisfactory performance. Sales in Switzerland and international sales performed positively, while market factors drove the trading business down.

Energy Switzerland recorded a 2.3% increase in operating revenue to CHF 1,074.0 million. Net sales to external customers rose by 3.9% to CHF 586.8 million, mainly due to higher sales in the supply region. Net sales to other segments fell by 1.4% to CHF 456.7 million due to lower electricity production. Operating income (EBIT) grew by CHF 85.0 million to CHF 98.4 million. This substantial increase is a result of lower internal energy procurement costs and the lower costs associated with the settlement of accounts for general ancillary services to power plants with a capacity \geq 50 MW. In addition, a provision of CHF 28.9 million for onerous energy procurement contracts with partner plants was fully reversed. Excluding this reversal of provision, operating income amounted to CHF 69.5 million.

Energy International and Trading saw a 18.3% reduction in total operating revenue to CHF 1,306.8 million. Net sales to external customers dropped by 23.0% to CHF 868.9 million, while net sales to other segments fell by 7% to CHF 434.0 million due to lower internal transfer prices for energy. Operating income (EBIT) dropped sharply by 67.1% to CHF 48.5 million, mainly due to low energy prices, the weak Euro, lower internal transfer prices for energy and a decline in income from participation in auctions for ancillary services.

Revenue from electricity trading reduced by 30.6% to CHF 530.4 million. At CHF -0.4 million, revenue from derivatives trading was CHF 20.5 million below the prior-year figure. This decline is attributable to the difficult market environment. While revenue from international sales fell by 2.9% to CHF 268.2 million on account of price-related factors, international sales performed positively overall, with earnings increasing and higher sales to existing customers in Germany. Nevertheless, these effects were unable to fully compensate for the impact on revenue of falling market prices.

Total operating revenue for the Networks segment was stable, increasing slightly by 2.0% to CHF 322.3 million. Net sales to external customers were down 6.4% to CHF 77.7 million, while net sales to other segments rose by 4.8% to CHF 216.9 million. Since external revenue for grid usage is largely invoiced by Energy Switzerland and disclosed as internal revenue under "Networks", network revenue generated outside the Group is low. The bulk of this revenue is accounted for by engineering services and the electrical installation business, which posted a 1.2% increase in revenue to CHF 50.2 million (including changes in work in progress). Operating income (EBIT) rose by CHF 8.4 million to CHF 53.6 million, among other things due to the volume-related increase in grid usage revenue and additional revenue in the third-party business.

Stable operating result, lower financial result

Energy procurement costs in the first half-year amounted to CHF 953.1 million, corresponding to a reduction of 18.3% compared to costs in the prior-year period, primarily as a result of the decline in trading business.

At CHF 174.3 million (– 1.0%), personnel expenses remain virtually unchanged. Due primarily to lower costs for charging general ancillary services to power plants with a capacity \geq 50 MW, material and third-party services were CHF 17.2 million lower at CHF 89.9 million, while other operating expenses fell by CHF 6.2 million to CHF 105.9 million as a result of various cost-saving measures.

Operating profit before depreciation, amortisation and impairment (EBITDA) was up 1.5% at CHF 261.9 million. The main contributors to this positive trend were the sound earnings trend in the Swiss energy business, and the reversal of a provision of CHF 28.9 million for onerous contracts for energy procurement from partner plants. These increases in earnings were counterbalanced by market-related reductions in income from the trading business. Depreciation, amortisation and impairment was CHF 4.5 million higher year-on-year at CHF 68.8 million. At CHF 193.1 million, operating profit (EBIT) was virtually on a par with the prior-year figure of CHF 193.8 million.

Due to the downward trend on equity markets and the low Euro, the financial result for the first half of 2010 was CHF 31.1 million lower than the prior-year period at CHF –26.6 million. The main influencing factor was the return on shares in the decommissioning and disposal funds which are measured at fair value. Contrary to the exchange rate gains recorded in the prior-year period, the result for the state funds in the first half of 2010 was dampened by exchange rate losses in the wake of a downturn on equity markets. The positive trend in nominal values led to a balanced overall result for the state funds in the first half of 2010. Due to the lower result, income tax expenses fell by CHF 10.7 million to CHF 32.1 million.

Because of the negative financial result, the stable operating profit was not fully reflected in net profit, which ended the first half of 2010 at CHF 134.4 million compared to CHF 155.5 million for the same period in 2009.

Lower balance sheet total, stable equity ratio

At CHF 6,325.5 million, the balance sheet total fell slightly by 3.0% compared to 2009 year-end figure. While non-current assets remained stable, rising by 1.1%, current assets fell by 11.1% largely due to an investment-related reduction in current financial assets. On the liabilities side, long-term liabilities remained virtually unchanged, falling by only 0.4%, while short-term liabilities were 13.1% lower chiefly due to the reduction in trade accounts payable. Shareholders' equity fell by 2.5% to CHF 3,163.9 million compared to the end of 2009, while the equity ratio was up slightly from 49.8% to 50.0%.

Provisions for nuclear waste disposal were made according to schedule in the period under review.

Lower cash flow from operating activities

At CHF 151.2 million, cash flow provided by operating activities was approximately CHF 100.4 million below the prior-year figure. This drop is mainly attributable to a change in net current assets of CHF 90.7 million. As in the prior-year period, the first six months of 2010 ended with a cash inflow from investing activities as a result of the reduction in current and non-current financial assets. The cash inflow was CHF 125.5 million lower largely due to higher investments in equity-valued companies. Cash outflow from financing activities rose by CHF 5.0 million to CHF 125.6 million due to the higher dividend.

Interim Financial Statements of the BKW Group

Consolidated Income Statement

CHF millions	1 st half-year 2010	1 st half-year 2009
Net sales	1,533.4	1,775.6
Own work capitalised	21.8	19.7
Other operating income	29.9	25.2
Total operating revenue	1,585.1	1,820.5
Energy procurement	-953.1	-1,167.2
Material and third-party services	-89.9	-107.1
Personnel expenses	-174.3	-176.0
Other operating expenses	-105.9	-112.1
Total operating expenses	-1,323.2	-1,562.4
Operating profit before depreciation, amortisation and impairment	261.9	258.1
Depreciation, amortisation and impairment	-68.8	-64.3
Operating profit	193.1	193.8
Financial income	23.6	50.3
Financial expenses	-58.9	-40.6
Income from equity-valued companies	8.7	-5.2
Profit before income taxes	166.5	198.3
Income taxes	-32.1	-42.8
Net profit	134.4	155.5
Profit attributable to non-controlling interests	0.5	-0.9
Profit attributable to BKW shareholders	133.9	156.4
Earnings per share in CHF (diluted and undiluted)	2.57	3.01

Interim Financial Statements of the BKW Group

Consolidated Statement of Comprehensive Income

CHF millions	1 st half-year 2010	1 st half-year 2009
Net profit	134.4	155.5
Currency translations		
› Currency translations	-91.9	10.1
› Income taxes on currency translations	-2.0	-0.2
Available-for-sale financial assets		
› Value adjustments	-5.0	2.5
› Income taxes on value adjustments	1.7	-0.7
Total changes in value recorded in shareholders' equity	-97.2	11.7
Total comprehensive income	37.2	167.2
Total comprehensive income attributable to non-controlling interests	0.2	-0.9
Total comprehensive income attributable to BKW shareholders	37.0	168.1

Interim Financial Statements of the BKW Group

Consolidated Balance Sheet

CHF millions	30.06.2010	31.12.2009
Assets		
Property, plant and equipment	2,042.2	2,025.1
Investments in equity-valued companies	1,061.6	1,040.7
Derivatives	35.2	38.6
Non-current financial assets	1,037.2	1,033.2
Intangible assets	187.5	175.8
Deferred tax assets	26.6	27.8
Total non-current assets	4,390.3	4,341.2
Inventories	20.5	20.7
Accounts receivable	552.3	578.9
Income tax receivables	5.8	4.8
Derivatives	54.7	86.4
Current financial assets	602.2	860.8
Prepaid expenses and accrued income	162.5	166.4
Cash and cash equivalents	537.2	459.8
Total current assets	1,935.2	2,177.8
Total assets	6,325.5	6,519.0
Liabilities		
Share capital	132.0	132.0
Capital reserves	35.0	35.0
Retained earnings	3,039.8	3,138.1
Treasury shares	-68.4	-84.3
Equity attributable to BKW shareholders	3,138.4	3,220.8
Equity attributable to non-controlling interests	25.5	23.5
Total shareholders' equity	3,163.9	3,244.3
Deferred tax liabilities	550.4	553.4
Derivatives	29.1	37.8
Long-term provisions	1,133.6	1,140.2
Long-term financial liabilities	577.8	573.7
Other long-term liabilities	183.1	178.7
Total long-term liabilities	2,474.0	2,483.8
Other short-term liabilities	346.0	425.2
Derivatives	59.9	92.2
Short-term provisions	44.0	48.7
Liabilities from income taxes	71.7	64.7
Deferred income and accrued expenses	166.0	160.1
Total short-term liabilities	687.6	790.9
Total liabilities	3,161.6	3,274.7
Total liabilities and shareholders' equity	6,325.5	6,519.0

Interim Financial Statements of the BKW Group

Changes in Consolidated Equity

	Share capital	Capital reserves	Accumulated profit	Currency translations	Revaluation reserve available-for-sale financial assets	Treasury shares	Attributable to BKW shareholders	Attributable to non-controlling interests	Total
CHF millions									
Equity at 31.12.2008	132.0	35.0	2,875.8	-33.4	132.7	-96.4	3,045.7	24.1	3,069.8
Total comprehensive income			156.4	9.9	1.8		168.1	-0.9	167.2
Dividend			-119.9				-119.9	-0.5	-120.4
Purchase/sale of treasury shares			-1.6			12.0	10.4		10.4
Acquisition of non-controlling interests							0.0	-0.6	-0.6
Equity at 30.06.2009	132.0	35.0	2,910.7	-23.5	134.5	-84.4	3,104.3	22.1	3,126.4
Equity at 31.12.2009	132.0	35.0	3,052.7	-43.5	128.9	-84.3	3,220.8	23.5	3,244.3
Total comprehensive income			133.9	-93.6	-3.3		37.0	0.2	37.2
Dividend			-130.8				-130.8	-0.5	-131.3
Purchase/sale of treasury shares			-4.1			15.9	11.8		11.8
Acquisition of non-controlling interests			-0.3				-0.3	-0.3	-0.6
Foundation of Group companies							0.0	0.4	0.4
Changes in investments in Group companies			-0.1				-0.1	2.2	2.1
Equity at 30.06.2010	132.0	35.0	3,051.3	-137.1	125.6	-68.4	3,138.4	25.5	3,163.9

Interim Financial Statements of the BKW Group

Consolidated Cash Flow Statement (condensed)

CHF millions	1 st half-year 2010	1 st half-year 2009
Cash flow before change in net current assets and payment of income taxes	219.6	247.9
Change in net current assets (excl. financial assets/liabilities)	-47.9	42.8
Income taxes paid	-20.5	-39.1
Cash flow from operating activities	151.2	251.6
Net investments in		
‣ Property, plant and equipment and intangible assets	-114.9	-118.1
‣ Current and non-current financial assets	242.9	290.4
‣ Equity-valued companies	-91.3	-18.1
Acquisition of non-controlling shares	-0.6	-0.9
Disposal of Group companies	0.1	0.0
Interest and dividends received	23.9	32.3
Cash flow from investing activities	60.1	185.6
Purchase/sale of treasury shares	3.4	2.5
Foundation of Group companies (non-controlling interest)	0.4	0.0
Change in long-term liabilities	8.5	3.9
Interest and dividends paid	-137.9	-127.0
Cash flow from financing activities	-125.6	-120.6
Translation adjustments on cash and cash equivalents	-8.3	2.9
Net change in cash and cash equivalents	77.4	319.5
Cash and cash equivalents at start of reporting period	459.8	216.0
Cash and cash equivalents at end of reporting period	537.2	535.5

Interim Financial Statements of the BKW Group

Notes to the Interim Financial Statements

1 Description of business

BKW FMB Energy Ltd., Berne (CH) and its Group companies are a leading energy provider in Switzerland, and deliver a comprehensive range of products and services to residential and business customers. Energy is sold in neighbouring countries via the Group's own sales channels. BKW covers the entire value chain, from the production, transmission and distribution to the trading and sale of energy.

2 Accounting principles

2.1 General principles

The unaudited consolidated financial statements for the half-year ended 30 June 2010 have been prepared in accordance with the International Accounting Standard on Interim Financial Reporting (IAS 34) and should be read in conjunction with the consolidated financial statements at 31 December 2009. These interim financial statements have been drawn up in accordance with the principles described in the 2009 Financial Report (pages 11 to 22). The consolidated financial statements for the period ended 30 June 2010 were approved by the BKW Board of Directors on 9 September 2010 and released for publication.

2.2 Adoption of new standards and interpretations

In 2010 BKW Group was required to adopt the following new or revised standards and interpretations:

- › IAS 27 Consolidated and Separate Financial Statements.
- › IFRS 3 Business Combinations.
- › IFRS 1 First-time Adoption of International Financial Reporting Standards
- › Improvements to International Financial Reporting Standards
- › Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement
- › Group Cash-settled Share-based Payment Transactions – Amendment to IFRS 2
- › Amendment to IFRS 1 – Additional Exemptions for First-time Adopters
- › IFRIC 17 Distribution of Non-Cash Assets to Owners

These changes have had no significant effect on the presentation of the financial position, the results of operations and the cash flows of BKW. However, the following new standards resulted in changes in the accounting and measurement methods and in disclosures:

- › IFRS 3 Business Combinations. This standard governs the method of accounting for and measuring business combinations. The main changes relate to the recognition of transaction costs and the treatment of contingent considerations. In addition, it introduces a right to select the method of measuring non-controlling interests. The revised standard will be applied prospectively by BKW for business combinations on or after 1 January 2010.
- › IAS 27 Consolidated and Separate Financial Statements. This standard governs the preparation and presentation of consolidated financial statements. The main changes concern the presentation of changes in investments in Group companies which do not result in a loss of control. These are now reported as equity transactions. Other changes relate to accounting for loss of control of Group companies. The changes have been applied by BKW prospectively since 1 January 2010.

Since the publication of the 2009 Financial Report, no new or changed standards and interpretations have been published apart from the Improvements to International Financial Reporting Standards, which come into force from the 2011 fiscal year. BKW has opted against early adoption.

2.3 Changes in the scope of consolidation

The following changes were made to the BKW scope of consolidation in the first half of 2010:

- › sol-E Suisse AG, a BKW Group company, co-founded BEBAG Bioenergie Bätterkinden AG with other partners. The company is planning to build and operate a biogas plant. At 30 June 2010, sol-E Suisse held 56% of the share capital of BEBAG Bioenergie Bätterkinden AG. The company is fully consolidated in accordance with the BKW consolidation principles.
- › BKW Borkum West II Beteiligungs GmbH was founded in Germany, with head office in Frankfurt am Main. Through this company, BKW is participating in the Borkum West II offshore wind farm in the North Sea off Germany.
- › The 100% stake in Faltinek AG, Wangenried, was fully disposed of. A provider of measuring and regulating technology for the water industry in Switzerland, Faltinek AG was taken over by BKW when it acquired Onyx Energie Mittelland AG.

3 Segment reporting

Reportable segments are based on the internal organisational and reporting structure. BKW is organised into business divisions. Business divisions are defined as economic units which have responsibility for operating results and manage a defined part of BKW's activities autonomously. BKW operates the following three reportable business segments:

- › Energy Switzerland is responsible for energy production in the Group's own power plants and in partner plants in Switzerland, and sales of energy to end customers and sales partners in Switzerland.
- › Energy International and Trading is responsible for energy production in the Group's own power plants and in partner plants, sales of energy in Italy and Germany, as well as trading in electricity, gas and certificates in Switzerland and abroad.
- › The Networks segment builds, operates and maintains the Group's own transmission and distribution systems and is responsible for setting up and servicing electrical installations, electricity and telecommunications networks as well as traffic infrastructure facilities on behalf of third parties.

No operating divisions were combined to create the reportable business segments. The results of the business divisions are separately monitored by the Executive Board in order to make decisions on resource allocation and to assess the earning power of the units. Operating profit (EBIT) is used for internal steering and to assess sustainable earning power.

"Other" covers activities which are centrally managed within the Group; these largely consist of the decommissioning and disposal funds, Group financing, real estate and tax.

In the Energy Switzerland segment, the reversal of a provision for onerous energy purchase contracts in the first half of 2010 reduced the cost of "Energy procurement from third parties, partner plants and associates" by CHF 28.9 million.

	Energy Switzerland	Energy International & Trading	Networks	Other	Consolidation	Total
1st half-year 2010						
CHF millions						
Electricity sales Switzerland	386.0					386.0
Distribution grid usage fees	188.7		5.2			193.9
Electricity sales international		268.2				268.2
Electricity trading		530.4				530.4
Income from energy derivatives trading		-0.4				-0.4
Other energy business	9.5	51.3	22.3			83.1
Gas business	1.5	19.4				20.9
Construction/engineering services and electrical installation business	0.4		47.1			47.5
Changes in work in progress	0.7		3.1			3.8
Net sales to external customers	586.8	868.9	77.7	0.0	0.0	1,533.4
Net sales to other segments	456.7	434.0	216.9	26.0	-1,133.6	0.0
Own work capitalised	1.8	0.2	17.8		2.0	21.8
Other operating income	28.7	3.7	9.9	53.5	-65.9	29.9
Total operating revenue	1,074.0	1,306.8	322.3	79.5	-1,197.5	1,585.1
Electricity procurement, third parties	-26.5	-679.9				-706.4
Electricity procurement, partner plants and associates	-122.8	-16.5				-139.3
Other expenses for electricity procurement	-6.9	-51.5	-29.6			-88.0
Gas procurement	-1.3	-18.1				-19.4
Energy procurement from third parties, partner plants and associates	-157.5	-766.0	-29.6	0.0	0.0	-953.1
Energy procurement from other segments	-635.7	-442.4	-10.6		1,088.7	0.0
Operating expenses excluding energy procurement	-164.3	-45.2	-189.4	-79.6	108.4	-370.1
Operating expenses	-957.5	-1,253.6	-229.6	-79.6	1,197.1	-1,323.2
Operating profit before depreciation, amortisation and impairment	116.5	53.2	92.7	-0.1	-0.4	261.9
Depreciation, amortisation and impairment	-18.1	-4.7	-39.1	-6.9		-68.8
Operating profit	98.4	48.5	53.6	-7.0	-0.4	193.1
Financial result						-35.3
Income from equity-valued companies						8.7
Profit before income taxes						166.5
Additions property, plant and equipment, intangible assets and state funds	44.2	32.2	53.6	6.4	-0.4	136.0
Additions equity-valued companies	10.0	96.4	0.1			106.5
Investments in equity-valued companies at 30.06.2010	468.0	588.3	5.3	0.0	0.0	1,061.6
Total assets at 30.06.2010	2,737.6	1,491.5	1,559.3	4,771.7	-4,234.6	6,325.5

	Energy Switzerland	Energy International & Trading	Networks	Other	Consolidation	Total
1st half-year 2009						
CHF millions						
Electricity sales Switzerland	382.6					382.6
Distribution grid usage fees	175.6		6.0			181.6
Electricity sales international		276.1				276.1
Electricity trading		763.9				763.9
Income from energy derivatives trading		20.1				20.1
Other energy business	4.2	47.6	27.4			79.2
Gas business	1.7	20.1				21.8
Construction/engineering services and electrical installation business	0.6		49.1			49.7
Changes in work in progress	0.1		0.5			0.6
Net sales to external customers	564.8	1,127.8	83.0	0.0	0.0	1,775.6
Net sales to other segments	463.4	466.7	206.9	25.4	-1,162.4	0.0
Own work capitalised	1.3		17.3	0.2	0.9	19.7
Other operating income	20.3	5.2	8.9	52.5	-61.7	25.2
Total operating revenue	1,049.8	1,599.7	316.1	78.1	-1,223.2	1,820.5
Electricity procurement, third parties	-24.1	-838.3				-862.4
Electricity procurement, partner plants and associates	-161.8	-39.2				-201.0
Other expenses for electricity procurement	-6.8	-53.3	-22.7			-82.8
Gas procurement	-1.6	-19.4				-21.0
Energy procurement from third parties, partner plants and associates	-194.3	-950.2	-22.7	0.0	0.0	-1,167.2
Energy procurement from other segments	-649.6	-452.2	-10.6		1,112.4	0.0
Operating expenses excluding energy procurement	-171.6	-46.8	-202.5	-85.0	110.7	-395.2
Operating expenses	-1,015.5	-1,449.2	-235.8	-85.0	1,223.1	-1,562.4
Operating profit before depreciation, amortisation and impairment	34.3	150.5	80.3	-6.9	-0.1	258.1
Depreciation, amortisation and impairment	-20.9	-3.0	-35.1	-5.4	0.1	-64.3
Operating profit	13.4	147.5	45.2	-12.3	-0.0	193.8
Financial result						9.7
Income from equity-valued companies						-5.2
Profit before income taxes						198.3
Additions property, plant and equipment, intangible assets and state funds	42.7	5.8	51.2	24.9	-0.1	124.5
Additions equity-valued companies		18.1				18.1
Investments in equity-valued companies at 31.12.2009	469.2	566.3	5.2			1,040.7
Total assets at 31.12.2009	2,560.5	1,601.9	1,572.2	4,731.8	-3,947.4	6,519.0

4 Financial result

CHF millions	1 st half-year 2010	1 st half-year 2009
Interest income	6.1	9.7
Dividends	4.7	4.5
Value adjustment on state funds	0.0	27.6
Gain on sale of financial assets	0.9	0.1
Gains from the disposal of investments in associated companies	7.4	0.0
Value adjustment on securities held for trading	3.2	4.4
Other financial income	1.3	0.0
Currency translations	0.0	4.0
Financial income	23.6	50.3
Interest expenses	-10.1	-3.9
Capitalised borrowing costs	0.6	1.0
Interest on provisions	-28.6	-29.6
Value adjustment on state funds	-0.4	0.0
Loss from sales of financial assets	-1.4	-0.1
Value adjustment on securities held for trading	-2.3	-1.1
Other financial expenses	-1.4	-6.9
Currency translations	-15.3	0.0
Financial expenses	-58.9	-40.6
Total	-35.3	9.7

5 Related parties

On 1 January 2010 BKW sold 15% of its share in Gommerkraftwerke AG (GKW) to Groupe E Ltd., reducing its stake in GKW to 25%. By selling 15% of the share, BKW honoured an agreement signed in 1995. The value of the transaction is around CHF 12 million and complies with the contractual conditions originally agreed.

6 Foreign currency exchange rates

The reporting currency is Swiss francs (CHF). The currency exchange rates applied to the consolidated financial statements were as follows:

	Closing date 30.06.2010	Closing date 31.12.2009	Average 1 st half-year 2010	Average 1 st half-year 2009
CHF/EUR	1.3185	1.4878	1.4468	1.5220

7 Dividends

In accordance with the decision of the General Shareholders' Meeting of BKW Energy Ltd. held on 16 April 2010, a dividend of CHF 2.50 (previous year CHF 2.30) per share was paid out for the 2009 financial year.

8 Events after the balance sheet date

Following a reassessment of its strategy, E.ON Energie AG has decided to dispose of its entire 20.99% holding in BKW. In a first step, taken in July 2010, BKW acquired 8.95% of the shares and Groupe E 5.01%. At the same time, an option agreement with a term until September 2011 grants BKW the right to acquire the remaining stake of 7.03% in a second phase. BKW acquired the first tranche for CHF 304.3 million or CHF 64.30 per share. A repurchase of the shares under the terms of the option agreement could result in the same share price for BKW as the shares already acquired. Any shares repurchased by BKW under the terms of the option agreement would be bought back at the same price as the shares already acquired.

Investor Information

Key facts about the BKW share and financial calendar

BKW FMB Energy Ltd. share capital of CHF 132 million is divided into 52,800,000 registered shares at a par value of CHF 2.50 each. The share price fell by 15.47% during the period under review.

Performance of the BKW share 31.12.2009–30.06.2010 (CHF)



Listing

BKW FMB Energy Ltd. shares are listed on the main board of the SIX Swiss Exchange as well as on the BX Berne Exchange.

Ticker symbol for SIX und BX:	BKWN
Security number:	2 160 700
ISIN Code:	CH 002 160700 4

Significant shareholders

	30.06.2010	31.12.2009
%		
Canton of Berne	52.54	52.54
E.ON Energie AG	20.99	20.99
Groupe E Ltd.	4.99	4.99

The proportion of shares held by the public (free float) is approximately 26.5% (Groupe E Ltd. holds less than 5% and is included under the free float). The BKW share is listed on the Swiss Performance Index (SPI).

Key figures per share

	1 st half-year 2010	1 st half-year 2009	2009
CHF			
Par value	2.50	2.50	2.50
Share price			
› period end	68.05	80.00	80.50
› period high	82.85	108.00	108.00
› period low	66.60	63.35	63.35
Earnings per share (BKW shareholders' portion)	2.57	3.01	5.74
Equity per share (BKW shareholders' portion)	60.13	59.63	61.87
Market capitalisation in CHF millions	3,551.90	4,164.5	4,190.5

Financial calendar

Advance information on 2010 Annual Results:	24 February 2011
Publication of 2010 Annual Results:	17 March 2011
General Shareholders' Meeting:	13 May 2011
Dividend Payment:	20 May 2011
2011 Half-Year Report:	15 September 2011

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Cover photo

Together with various partners, BKW operates the largest wind farm in Switzerland on Mont-Crosin in the Bernese Jura. Today the wind drives 16 high-tech turbines which produce 40 million kilowatt hours of electricity per year: sufficient to supply a small town with energy for 365 days.

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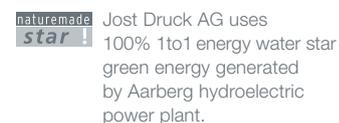
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This Half-Year Report contains statements that constitute expectations and forward-looking statements. Because these statements are subject to risks and uncertainties, actual future results may differ materially from those expressed or implied by the expectations and statements. This report is published in German, French and English. The German version is the authoritative version.



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