



BKW

BKW Group
Annual Report 2012



The BKW Group is one of Switzerland's largest energy companies. It employs more than 3,000 people and covers all stages of energy supply: from production and transmission to trading and distribution. Directly and indirectly via its distribution partners, BKW supplies power to more than a million people. The BKW production portfolio incorporates hydroelectric and nuclear power plants, gas-fired combined-cycle power plants and renewable energy facilities in Switzerland and other parts of Europe.

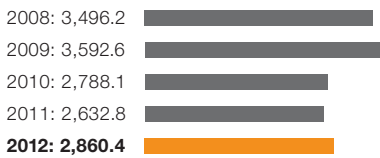


Facts & Figures 2012

BKW Group

Total operating revenue

CHF millions



Net profit/loss

CHF millions



Number of employees

Full-time equivalents



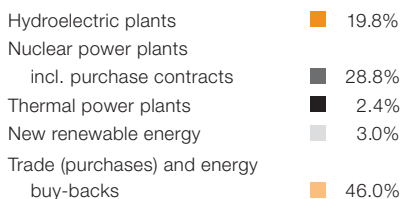
Electricity business

GWh	2012	2011	2010 restated	2009	2008
Sales					
Electricity sales Switzerland	7,465	8,186	8,153	8,075	7,978
Electricity sales International	1,696	1,630	1,838	5,768	5,201
Electricity trading	10,384	10,332	11,838	12,638	11,882
Pump/substitution energy	260	295	331	509	536
Transmission losses/own consumption	199	202	236	265	372
Direct sales from financial interests	36	76	111	55	0
Total	20,040	20,721	22,507	27,310	25,969
Generation and purchases (incl. financial interests)					
Hydroelectric plants	3,963	3,406	3,743	4,052	4,012
Nuclear power plants incl. purchase contracts	5,769	5,373	5,921	5,784	5,884
Thermal power plants	475	703	700	648	375
New renewable energy	604	383	188	94	28
Trade (purchases) and energy buy-backs	9,229	10,856	11,955	16,732	15,670
Total	20,040	20,721	22,507	27,310	25,969

Sales 2012



Generation and purchases 2012



Financials

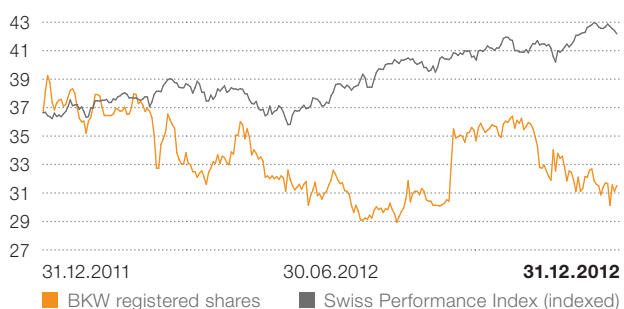
CHF millions	2012	2011	2010 restated	2009	2008
Total operating revenue	2,860.4	2,632.8	2,788.1	3,592.6	3,496.2
Operating profit before depreciation, amortisation and impairment	410.7	138.1	474.1	501.6	471.3
Net profit/loss	134.6	-66.2	228.3	298.5	138.7
Cash flow from operating activities	338.6	292.4	274.8	602.7	242.5
Purchase of property, plant and equipment	196.1	256.8	317.7	289.7	270.3
Balance sheet total	7,453.7	7,082.9	6,569.6	6,519.0	5,989.3
Shareholders' equity	2,723.4	2,654.9	2,904.7	3,244.3	3,069.8
> as % of balance sheet total	36.5	37.5	44.2	49.8	51.3

Key figures per share

CHF	2012	2011	2010	2009	2008
Par value	2.50	2.50	2.50	2.50	2.50
Share price					
> Year-end price	31.40	36.45	70.70	80.50	102.00
> Year high	39.25	79.95	82.85	108.00	159.50
> Year low	28.80	28.00	62.90	63.35	90.00
Net profit/loss (BKW shareholders' portion)	2.79	-1.43	4.54	5.74	2.65
Equity per share (BKW shareholders' portion)	56.34	55.22	60.57	61.87	58.63
Market capitalisation in CHF millions	1,497.5	1,723.4	3,359.9	4,190.5	5,298.3

Following the disposal of the German sales operations on 1 January 2011, the total revenue, operating result and energy figures for 2010 have been adjusted accordingly. This adjustment has not been carried out for 2008 and 2009, however, leading to limited comparability.

Performance of the BKW share 31.12.2011 – 31.12.2012



Shareholders

Canton of Berne	52.54%
Groupe E SA	10.00%
E.ON Energie AG	7.03%
Treasury stock	9.68%
Other	20.75%



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Title image: The Holleben wind farm in Saxony-Anhalt (Germany) has an installed capacity of 25.5 MW. It comprises 17 wind turbines, generating 46.8 GWh of electricity in 2012. The facilities are located near BKW's Dubener Platte, Lüdersdorf-Parstein and Bockelwitz wind farms.

BKW is now Switzerland's largest producer of electricity from the wind. At the end of 2012, it had a total installed capacity of 308 MW in Switzerland, Italy and Germany.

Energy sources

Shaping the future of energy

BKW is focusing on energy efficiency and renewables. Water power and wind energy are at the core of the BKW 2030 strategy. At the same time, BKW is developing innovative products and models to encourage customers and help them to improve their energy efficiency. With an eye to its changing role as an energy supplier, it is developing its grid infrastructure further and using new, innovative technologies to prepare for the challenges of a modern and increasingly distributed generation mix.

In this Annual Report, people explain what drives them today to contribute to the power supply of the future.



Foreword

Energy Policy for the Transition



Urs Gasche, Board Chairman and Suzanne Thoma, CEO

The energy landscape is changing in Switzerland, as well as in Europe and the rest of the world. With its “BKW 2030” strategy, the BKW Group¹ is fully in tune with the new energy environment.

Dear Shareholders

In Switzerland and internationally, energy policy is undergoing fundamental change. The worldwide economic situation is only recovering slowly, and the North American supplies of oil and

natural gas that can now be tapped due to modern technology are also transforming the European energy market. Low electricity prices, the regulatory environment, the opportunities and challenges of the planned energy transition as well as increasing political pressure on the Mühleberg nuclear power plant all impact BKW’s business environment.

The promotion of new renewable energies provides BKW with attractive investment opportunities, but at the same time puts increasing pressure on non-subsidised energy sources such as hydroelectricity.

¹ The BKW Group comprises BKW Inc. and its consolidated companies. In order to make this report easier to read, the Group will be referred to below simply as BKW. Specific reference to BKW Inc. or BKW FMB Energy Ltd. will be made where appropriate.

BKW has therefore addressed this situation, which is unstable and associated with a number of uncertainties, with its new “BKW 2030” strategy. Electricity will no longer be generated from nuclear energy, but primarily from renewable sources such as water and wind power. The strategy also focuses on the system integration of distributed electricity generation, the development of new business models, and expansion of the services business to incorporate offers associated with energy efficiency.

The distribution grid must be smart.

Smart grids will be needed to integrate renewable energies into the energy supply system and take advantage of the potential for energy efficiency and energy conservation. The grids will be optimised with new technologies rather than comprehensively upgraded. This will allow cost-effective distributed feed-in at lower grid levels from sources such as photovoltaic systems.

BKW will focus on marketing of energy services as well as on hydroelectric power and wind energy.

Taking advantage of our vertical integration

In this challenging situation, BKW is always exploring new developments and opportunities. These include innovative use of our vertical integration (production, networks, trade and distribution) in the development and marketing of new energy services. BKW is therefore supporting industrial and service companies, energy suppliers, government agencies, municipalities and private customers in finding a solution that is best for them among the increasing variety of options for improving energy efficiency. With its systems capability and many years of expertise, BKW can support its customers from their initial consultation through project planning and implementation to long-term operation and maintenance.

Cost reduction programmes take effect

While BKW is developing new markets, it is also concentrating on achieving the best possible cost efficiency in its traditional business areas. Its cost reduction programmes already took effect in 2012 and are being continued in 2013. These programmes also contributed to a strong operating result for 2012. Despite the necessity of value adjustments for a number of our production facilities due to the market changes outlined above, BKW can report a solid net profit.

Following the new strategy

In 2013, BKW will continue in its chosen course of action: improving efficiency and reducing costs while taking advantage of new market opportunities wherever possible. This will allow us to develop a strong third pillar alongside our major production and network business: energy services for the benefit of our customers, and therefore our shareholders and our employees.

Everything is changing except BKW’s primary role, which we will continue to perform with total commitment: supplying our customers with safe, economical and environmentally sustainable electricity.

BKW is constantly exploring new developments and opportunities.

Election to the Board of Directors

The 2012 Annual General Meeting confirmed the Board of Directors for its next term of office until 2015. It was a challenging and exciting year for the Board, which developed and helped to implement a number of important changes. The new Board members, Kurt Rohrbach and Kurt Schär, played an important part in this process.

BKW plans to take advantage of market opportunities.

We thank our employees, our customers and our shareholders

BKW can look back on a busy and eventful year. What we achieved in 2012 was only possible with the trust of our customers, the loyalty of our shareholders and the great personal commitment of our colleagues and employees.

They all deserve our special thanks.

With kind regards,

A handwritten signature in black ink, appearing to read 'Urs Gasche', written in a cursive style.

Urs Gasche, Chairman of the Board

A handwritten signature in black ink, appearing to read 'Suzanne Thoma', written in a cursive style.

Suzanne Thoma, CEO

Review of the 2012 results

Solid operating profit in a difficult environment

In a challenging economic and regulatory environment, BKW achieved a sound operating profit that was significantly greater than that of the previous financial year. It was characterised by higher production volumes and low energy prices, as well as exceptional costs and the impact of cost reduction measures. Developments on the international financial markets had a positive effect on the financial result and net profit. BKW expects the market environment to remain challenging in the 2013 financial year, with energy prices remaining low and margin pressure on international markets.

Business development was characterised by a persistently challenging economic and regulatory environment, with electricity prices remaining low and the Swiss franc maintaining its strength. BKW was still able to generate a sound operating result under these conditions. Energy and network business both contributed to this positive result, which was improved by increased production volumes from renewable energy sources and nuclear power plants, as well the initial effects of programmes for cost reduction and efficiency improvement. However, the result was negatively affected by a decline in electricity sales as well as special provisions for energy procurement contracts.

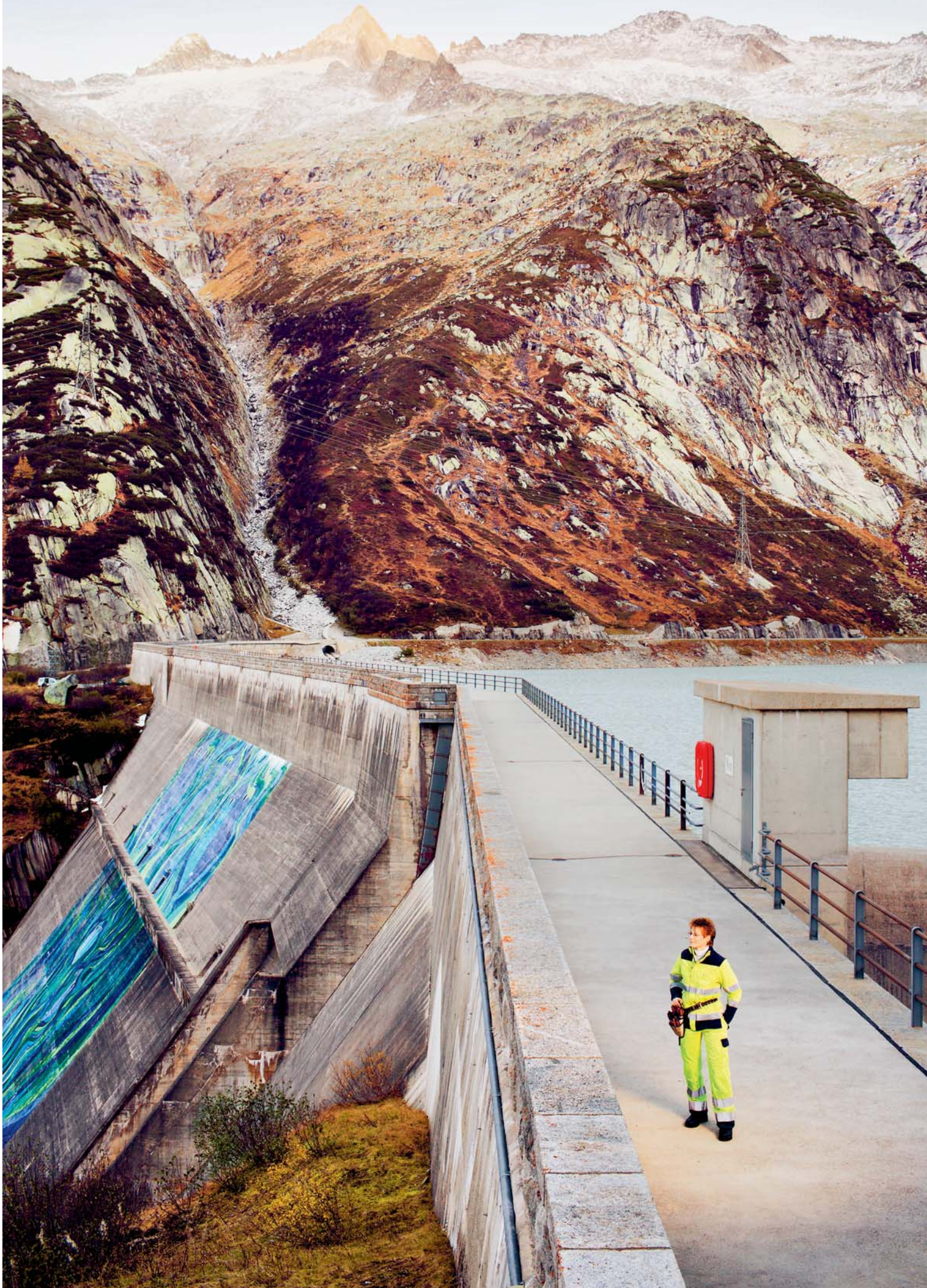
During preparation of the financial statements, BKW carried out impairment tests of its production facilities and identified the need for a correction totalling CHF 112.2 million for various power plants. BKW purchases electricity generated by these plants at production cost. Based on current estimates of future market developments, BKW expects that the production costs of these power plants will be higher than the realisable market prices. Special provisions have had to be made for this reason.

In the 2012 financial year, BKW increased its consolidated total operating revenue by 8.6% to CHF 2,860.4 million. The operating profit (EBITDA) increased by CHF 272.6 million to CHF 410.7 million. Excluding the exceptional charges for energy procurement contracts, EBITDA amounted to CHF 522.9 million, which is CHF 105.0 million higher than the adjusted amount for the previous year. Developments on the international financial markets also had a positive impact on the financial result and the

net profit, which amounted to CHF 134.6 million. After adjustment for the special provisions, net profit was CHF 204.6 million.

Outlook

BKW is not expecting any change in the challenging market environment in the current financial year, with energy prices set to remain low and ongoing margin pressure on the international markets. Coupled with regulatory requirements and a persistently strong Swiss franc, this will also affect the operating result for 2013. The full impact of efficiency enhancements resulting from the cost reduction measures is not yet being felt. Based on all of these factors, BKW expects its EBITDA and net profit to be in line with the figures reported for 2012.



“I spend most of my time underground with the latest technology. But sometimes, depending on the weather, we have to take the helicopter to access the external works on the dam. That’s when you really get to appreciate the enormous size of this plant.”

190 million m³

of water are stored in the reservoir.

93 m³/s

is the throughput of the four Francis turbines.

600 GWh

of electricity is generated each year at Grimsel 2.

2012

was the year in which the Grand Council of the Canton of Berne granted approval for the Grimsel 3 pumped storage power station.

Highlights

Review of 2012

The Grand Council of Berne granted the licence for the Grimsel 3 pumped storage plant in March; this plant will be constructed as part of the “KWO plus” expansion project. The Grand Council also approved the licence supplement that allows upgrading of the Handeck 2 and Innertkirchen 1 power plants.

Since March, BKW, in conjunction with the Ostermundigen municipality and leading suppliers of LED lights, has been installing street lighting for the Oberfeld housing development in Ostermundigen – one of the largest residential projects currently under construction in Switzerland.

In April, BKW expanded its wind power capacity with the acquisition of a wind farm in Castellaneta, in the Apulia region of Italy. BKW now has an installed capacity of close to 400 MW, and will generate approximately 800 million kilowatt-hours (kWh) each year. This corresponds to the total power requirements of the Swiss cities Biel/Bienne, Langenthal, Burgdorf, Thun and Interlaken.

The BKW Group confirmed its current sustainability goals with the publication of its policy document “BKW 2030”. The Group shares in the responsibility for ensuring a sustainable increase in overall environmental, economic and social benefits. The fourth Sustainability Report was published in July.

Bieleree Kraftwerke AG, which is jointly owned by the City of Biel/Bienne and BKW, completed the first stage of construction in the renovation of the Hagneck hydroelectric plant in August. Since September 2011, approximately 3,600 visitors have inspected the site to learn more about the construction of the power plant and its new technology.

In October, Arnold AG (a subsidiary of BKW) took over the entire share capital of Curea Elektro AG, the electrical installation and network construction company. This partnership provides Arnold with a strong regional presence and complements Curea’s activities.

In November, BKW ISP AG, a BKW subsidiary in the field of electrical installation and building engineering, acquired the majority of the share capital of EES Jäggi-Bigler (EES). EES is a leading company in photovoltaics and solar thermal systems.

Also in November, BKW placed two registered bonds with maturities of 15 and 20 years and nominal amounts of EUR 40 million and EUR 85 million for the first time. By borrowing on the German capital market, BKW is able to obtain partly currency- and country-matched financing of investment projects in Germany from local investors, while expanding the investor base at the same time.

Business Division

Portrait of the Finance and Services Division

Beat Grossenbacher,
Head of the Finance and Services Division

BKW's credit rating deteriorated last year. What were the reasons for this? What steps have you taken?

BKW's creditworthiness is continually assessed by various banks. BKW's rating was downgraded by one notch to A+ after publication of the financial report for 2011, but category A is still a high credit rating. The reason for the downgrade by the banks is a negative trend in BKW's credit metrics and the challenging and uncertain commercial, regulatory and political environment. In fact, almost the whole energy sector in Switzerland and abroad has been affected by a more cautious credit assessment by banks and rating agencies. BKW has taken various steps to secure financial flexibility and appropriate financing costs. This includes in particular a reduction in the planned investment volume.

What impact has the transition to renewable energies had on IT at BKW?

Advanced information and communication technologies are an important requirement for implementing the energy transition. In pilot applications we provide IP-based networks (Internet Protocol) for real-time communication between the assigned components, e.g. in client and partner communication. For example, in the iSMART pilot project we run applications to visualise electricity consumption. This is updated on a portal every fifteen minutes with the aid of an intelligent electricity meter and an Internet connection. With certain applications, we can also make it possible to control selected household devices. For example, electric water heaters can be activated remotely in the middle of the day, when electricity is generated from solar energy. Experience gained from the development and operation of these pilot platforms is incorporated into providing solutions that will be widely available in future.

BKW has more than ten locations with office space in the Berne area. Is this consistent with BKW's sustainability concept?

The earlier plans are out of date and need to be modified. Fortunately, many of these spaces are leased and the contracts can be terminated. At the same time, work activities and work spaces will be adapted to current standards where necessary. This will allow us to make these areas more consistent with our sustainability concept.

Advanced information and communication technologies play a central role in implementing the energy transition.

As part of its cost reduction programme, BKW has launched a support and assistance scheme for employees affected by redundancy. What was your experience last year?

Every affected employee was allocated a personal advisor by Human Resources (HR) for the duration of his/her reorientation phase. We have also concluded appropriate agreements with various external outplacement partners. Depending on their personal situation, affected employees also receive additional internal and external support and an assessment by HR. In cases of hardship, they may submit an application to the Assistance Committee.

Business Division

Portrait of the Energy Switzerland Division

Hermann Ineichen,
Head of Energy Switzerland Division

Consistent with the new strategy, BKW intends to expand its generation of hydroelectric power. What progress can you report for 2012?

We have made intensive efforts to develop hydropower, and together with local partners we submitted four licence and construction applications for new small hydropower plants. In Canton Vaud, we also received the go-ahead for renovation of the “Grands Moulins de Cossonay” small hydropower plant. In the Berne region, we will collaborate with the municipality of Laenen to generate power from the Louibach river. In the Grisons we have received a joint licence with the municipality of Tinizong-Rona to produce electricity from the Errbach. Of particular significance for BKW is the award by the Berne Grand Council of licence supplements for the Grimsel 3 pumped storage plant.

What challenges do renewable energies present, and what is the potential of these technologies in your view?

Solar energy has the greatest potential in the long term – but a lot of developmental work is still needed. Technologies that generate electricity from sources such as biomass, geothermal or wind energy, and small hydropower plants still have potential for expansion. Limiting factors here are the availability of biomass resources and suitable locations for wind farms and small hydropower plants. Achieving local acceptance by the public and special interest groups is a major challenge, and one also needs to deal with the complex approval procedures.

Since 2009, commercial clients with an annual consumption of more than 100 MWh have been able to select their preferred energy supplier. Has this freedom of choice been utilised?

Until last year, there was no incentive to take advantage of this freedom to choose. For a long time, market prices were higher than the prices of basic supply. This situation has changed since then due to historically low electricity prices. As a result, commercial clients are much more interested in changing suppliers as indicated by the number of requests for quotes we

have received. Several clients have taken advantage of their freedom of choice and opted for a market contract. Fortunately, BKW was well prepared for this situation and acquired a number of new clients last year.

Providing a reliable power supply to our clients is our top priority.

BKW is planning to continue operation of the Mühleberg nuclear power plant (KKM). What steps have you taken to guarantee its long-term safety?

As the operator of the KKM nuclear power plant, BKW is responsible for its safety. Safety is a permanent responsibility and requires ongoing investment in retrofitting and upgrading. The good results of the EU nuclear stress test and the IAEA's OSART mission support our policy. In 2012, we submitted evidence requested by the Swiss Federal Nuclear Safety Inspectorate and developed plans for retrofitting and upgrades. Important milestones in the summer of 2012 were submission of a comprehensive maintenance plan and the planning application for reinforcement of the Mühleberg dam. This will ensure safety levels over and above those specified by statutory requirements.

If the KKM power plant were to be shut down, would BKW make use of Swiss combined cycle gas turbine (CCGT) power plants?

Providing a reliable power supply to our clients is our top priority. BKW has therefore secured a production site in Utzenstorf and, together with the Groupe E power company, is well positioned with its planned CCGT in Cornaux (Canton Neuchâtel). However, CCGTs cannot currently be operated profitably in Switzerland, and so BKW does not intend to submit a planning application for the Utzenstorf project in the immediate future. However, should the need arise in the medium term, the new strategy provides for construction of the projected CCGT. Thanks to its foreign interests, BKW has access to the expertise necessary for power generation from fossil fuels.

Business Division

Portrait of the Group Management Division

Kurt Rohrbach,
Head of the Group Management Division

In the years to come, the power supply situation in Switzerland will undergo substantial changes. Was this the reason for BKW's new strategy?

Even before the accident in Fukushima, it was clear that BKW's strategy, with its primary focus on increasing production capacity, was no longer appropriate for market conditions in the long term. The financial crisis, low prices on the international electricity markets and a stricter regulatory regime are now major factors in our business environment. Revenues from our peaking power plants are also decreasing, because they are really being forced to withdraw from the market – mainly by heavily subsidised solar energy from Germany. Fukushima was an additional factor.

The electricity grid must be able to tolerate greater load fluctuations in future.

The new strategy focuses on water and wind power, energy efficiency and new business areas. Which new business areas look promising?

The power supply sector is constantly increasing in complexity. This is partly due to requirements that buildings use less energy, so that better energy efficiency is now a significant issue, and partly because more and more clients are generating their own power with solar systems. In addition, electrical devices can now be controlled with "smart grids". User convenience is the overriding issue. We aim to give our customers the best possible support with these developments. This extends from connection to an advanced distribution grid network, through energy consulting with building contractors, to comprehensive services for municipalities that want to provide their residents with an efficient and economical energy supply. We are finding new potential earnings in these markets.

You launched the "Flexload" pilot project in September 2012. What are your plans with this project?

In cooperation with IBM Switzerland, the Migros retailing company and Swissgrid, together with the support of the Swiss Federal Office of Energy, BKW is actively involved in the Flexload pilot project. This project will contribute to the construction of a smart grid in Switzerland. The cold stores of Migros' distribution centre in Neuendorf are being used as a prototype. The Swiss electricity grid will be subject to more frequent fluctuations in electricity generation in future, because of the irregular supply from energy sources such as photovoltaic power stations and wind farms. If more electricity is produced in good weather, cold stores can take advantage of this by using the excess electricity to generate reserve cooling capacity. They will be integrated into the smart grid of the future.

BKW makes a clear commitment to sustainability in its new policy document. Could you be more specific about what was achieved in 2012?

Last year we introduced a sustainability management system. This makes it possible to track changes in environmental and social issues that concern BKW on the basis of key indicators, and to take appropriate measures if necessary. Another important step was the adoption of guidelines for responsible procurement. So we are focusing more closely on protecting people and the environment – not just within our own sphere of influence, but further afield as well.

There are severe penalties for failure to comply with the regulations. What challenges did this present for BKW in 2012?

We attach great importance to compliance, as shown in an audit carried out by external experts. We have well established structures and processes that capture the compliance risks associated with the BKW Group's risk profile and business model in a timely manner, and allow us to address them appropriately. Central to this is the BKW Group's code of conduct and the related Group directives, as well as efficient organisation of compliance matters with a central compliance hotline.



“For me, wind is an intangible, violent source of energy. Always changing, always powerful. Its capricious nature does make our work harder, but it also makes it exciting. The strong winds in the Apulia region are perfect for a wind farm.”

2012

was when the Volturino wind farm first operated.

68 GWh

of power is generated at Volturino each year, on average.

2,500 hours/year

is the length of time the wind farm can run at full power.

20,000 households

are fed with electricity from the 14 turbines.

Focus on services business and supply

New business models needed for the energy transition

There is increasing competition in the electricity industry. This has implications for the services business and the related market results. The road to the future energy sector is strewn with challenges and opportunities. These issues are highlighted below from the perspective of BKW and its subsidiaries Arnold AG (Arnold) and BKW ISP AG (ISP).

New business opportunities are opening up for BKW as a network services provider. With the advent of the Smart Grid, Smart Metering and the Smart Home, BKW has the opportunity to develop its network and the related installation and network business further and offer innovative solutions. The increasing complexity of the business environment resulting from distributed generation from renewable energy sources, and the need for better energy efficiency, are creating new opportunities to develop our services business. Arnold, ISP and BKW will all provide private customers, municipalities, companies and energy suppliers with intelligent services related to the energy revolution. Distributed generation of electricity from the sun and the ability to connect such installations to the grid is of increasing importance for our customers and is core to the energy revolution. For example, communities and companies now have new requirements for street lighting. An important factor here is that mercury vapour lamps will soon be banned and replaced by new, energy-efficient LED technology. The quality of the energy supply will also be a major challenge. However, BKW is well positioned here since it covers the entire value chain of energy supply from generation through transmission and trading to distribution.

If there's a market, there's competition.

Smart Home – the intelligent networked home

As an installation company, ISP's services will increasingly be characterised by the Smart Home concept. This means that in future, electricians will not only carry out the physical installation, but will be increasingly involved in building automation, including measurement, control and regulation technology in the home. A "smart home" is not only equipped with extensive

technology, but the technology is networked so that systems such as heating, lighting and window blinds can all be controlled using a computer, tablet or smartphone.

Another important element in the range of services is our entry into the field of photovoltaics as a total solutions provider.

Arnold is already active throughout Switzerland as a network service provider, and also sees the smart grid as an opportunity to grow by expanding its range of services. New opportunities for business services are opening, especially in the feed-in and storage of electricity generated from wind and solar energy, as well as in the construction of the expanded communications infrastructure that is required.

The major competitors need regional door openers.

New technologies and developments in power grids and building installation are attracting new competitors, as completely new opportunities spring up. BKW, Arnold, and ISP all face this competition. Working out how to adjust to the new competitors and to develop and position innovative services will be an exciting challenge – particularly since new competitors (suppliers as well as component and equipment manufacturers, some with global operations) are likely to address these markets directly and initiate a battle for survival.

In recent years, new players have entered the Swiss electricity market. Among other measures, in future they aim to reduce energy consumption at peak times, for example with heat pumps in homes. However, these major competitors need partners such as energy suppliers to help place their products and services. These developments, together with the statutory unbundling regulations for distribution grid operators, represent a major opportunity for BKW with the largest distribution network in Switzerland (more than 20,000 km), as well as for Arnold and ISP with their proven expertise in the energy sector. They have the advantage of proximity to their customers and links with local communities. This creates a sense of partnership, facilitating joint development of a new services business.



■ Distributed generation from solar power for local use.



■ A linesman at work.

Development and implementation of cooperative strategies

For the expansion of its services business in smart grids, BKW will focus primarily on the actual coverage area to start with, but will also offer services throughout Switzerland. A standardised service such as administration, asset management and maintenance planning will be offered to smaller municipal facilities and energy suppliers as a complete package. This will allow these small operations to benefit from BKW's expertise while reducing their costs without completely sacrificing their independence. This will be of particular interest for these energy suppliers given the forthcoming liberalisation, the legislation and market pressure.

BKW has also developed a strategy for cooperation that allows it to offer commercial and technical network management in modular and multidimensional models of cooperation (joint organisation). This will make it possible for smaller energy plants to benefit from economies of scale, for example from administration through network management to other targeted services, and use these synergies to reduce their costs.

ISP sees the main potential for growth of its services business in the field of photovoltaics throughout Switzerland. However, the Smart Home concept will play an increasing role in the installation business in future. It is important to demonstrate the

benefits and added value of these technologies to customers, who are less interested in technology than in pragmatic solutions and the resulting benefits. Simple visualisation and intuitive building control systems are key elements.

As a service provider, Arnold covers current network services, for which there is a free market throughout Switzerland. Changes in competition have not yet become obvious. However, the influence of European and international competitors is likely to increase, especially as regards large future projects. Exchange rates are of particular interest to foreign suppliers. It is therefore quite likely that non-European companies will also tender their services for large construction and maintenance projects, such as Swissgrid in the area of high-voltage electricity grids. This would have been unthinkable a few years ago. However, last year it became a reality for the mobile telecommunications infrastructure in Switzerland.

Customers are now less interested in technology than in solutions.

In the traditional electrical installation business in Switzerland, strict limits are set by precise definition of tendering conditions in a harshly competitive environment. Nevertheless, new competitors are entering the market, such as French installation companies who tender for projects in the region of the Swiss Jura. ISP is countering this competition with outstanding customer service, transparent cost analysis and excellent expertise.

International competitors in the network services business.

Innovation is vital in order to keep pace with the changing market situation. For example, partnerships with universities provide opportunities to develop and deliver new solutions. Arnold adapted to the new market situation some years ago. It analysed the market and its competitors, and adjusted its strategy accordingly. It will further expand its footprint in Switzerland and present itself as a partner with specific technical and service expertise, particularly for national clients with large projects.

The energy revolution and economic viability

Like the telecommunications sector, the electricity industry must provide a statutory public service (basic supply). This means that BKW must provide every customer in its network area with a reasonably reliable electricity supply. This includes the traditional physical connection to each dwelling. Discrimination, such as provision of preferential service to a hospital, is prohibited by law. The traditional electricity grid is therefore highly regulated. The costs arising from network maintenance are distributed equally among all customers and are therefore socialised. These costs are much higher in rural areas than in urban locations. This is why big cities such as Berne, Geneva, Lausanne, Basel and Zurich have historically all had their own power plants. This is not likely to change in the medium term.

With the advent of new technologies, however, this monopolistic aspect has changed – as has been the case with the construction of fibre optic networks in the telecommunications sector. Anyone can offer these services, such as connection of

distributed photovoltaic systems to private houses. This is like the local loop or last mile in telecommunications, because it involves an infrastructure business. As a result, it can no longer be regarded as part of the basic supply requirement. The question therefore arises as to who should pay (and how much) towards the cost of these new technologies and services. There is a risk that border regions may not be able to access the new technologies, since the costs could be too high for consumers. A viable approach will be sought for technically difficult projects, depending on the situation and economic aspects.

Client needs in the services business are changing rapidly.

Economic viability will be crucial for implementation of the new technologies and application of the new service products: how much will average electricity customers be willing to pay in future for a smart solution, and what will they receive in return?

The telecommunications sector provides a good example of this development with a historical comparison: About fifteen years ago, an average family with two children had one landline telephone, for which they paid approximately 60 to 70 francs per month. If you had told these families that in 15 years they would have four mobile phones and a landline, and would pay 200 to 250 francs a month for communications, very few people would have thought this either possible or realistic. However, people are willing to pay this much now because new needs have been created, and they recognise and experience the benefits of the services. It is this that provides an opportunity for the electricity industry of the future.

The traditional electricity grid is highly regulated.



■ An electrician installs cables and wiring in the home.



■ An electrician connects cables to the grid.

Arnold and ISP – subsidiaries of BKW

Arnold is a leading Swiss company in construction, services and maintenance of energy and telecommunications networks as well as systems for transport infrastructure. Its expertise in energy ranges from construction and commissioning of plants, cables and overhead lines to maintenance of facilities.

ISP has about 40 locations throughout the Canton of Berne and adjacent areas. The company specialises in electrical installation, telematics and photovoltaics: from lighting consultancy, telematics, security consulting, design and planning through to construction of photovoltaic systems.



“Light not only provides safety and warmth, but also has an aesthetic appeal. We are proud that we launched the pilot project with BKW to showcase LED lighting in Ostermundigen. In addition to the energy efficiency, it looks really good.”

2013

is when the first phase of LED lighting will be completed and the first apartments in Oberfeld, Ostermundigen, can be occupied.

7 manufacturers

will be given their own street in which they can demonstrate their LED lights in action.

20 football pitches

would fit into the area illuminated by a total of 80 LED-powered street lights.

30%

savings in energy can be made if LED lighting is used instead of traditional technologies.

Business Division

Portrait of the Networks Division

Suzanne Thoma,
Head of Networks Business Division

BKW handed over its transmission grid (level 1) to Swissgrid on 1 January 2013. What difference will this make to BKW and its customers?

Transfer of the high-voltage grid to Swissgrid has no impact on our customers. They will still be provided with the same network quality. It also has no impact on our employees, because BKW and Arnold AG will continue to work on projects in the areas of engineering, construction and maintenance. The only responsibility of the new owner is grid development and planning.

The transfer of the level 1 transmission grid is an opportunity for us to demonstrate our expertise and customer focus. We offer large organisations a wide range of customised services, which gives us an opportunity to acquire more customers in this segment.

BKW launched its productivity programme “Forte14” in April 2011. How far has this programme progressed?

EiCom has reduced the allowable costs for BKW. We have achieved our goals and saved nearly CHF 15 million in costs by implementing various measures. Fortunately, some of these steps have been even more effective than we had hoped – for example in procurement of components and in project management of construction and maintenance. We plan to complete the “Forte14” project this summer.

What motivates BKW to develop its third-party business?

The third-party business – in other words all the services we provide that are not subject to regulation – already gives us an adequate return. Increasing competition motivates us to meet the customers' needs and maintain an active presence in the free market. Our aim is to be prepared for future challenges and to develop innovative services. The third-party business also forces us to develop solutions that are higher in quality and more efficient technically and economically than those of our competitors, so that we become the best energy services provider in Switzerland. The services business also plays an important role in BKW's overall growth strategy.

Everyone is talking about “intelligent networks”. What innovations and new products are you planning in this regard?

The construction of intelligent networks over the next few years is an important strategic thrust for BKW, and we are working on several aspects. We want to create technological centres for BKW's external partners, such as partnerships with the Swiss Federal Institutes of Technology (ETHs). With an internal smart engineering group, we are already developing sophisticated planning principles for future network construction, as well as solutions for all components of the smart grid, including software, IT protocols, storage technology and measuring instruments. Starting in 2013 we are also focusing on the development of specific applications for the BKW distribution grid.

With our innovative solutions, we intend to be the best provider of energy services in Switzerland.

How well is BKW prepared for the coming energy revolution?

With its vertical integration of production, trading, distribution, retail and customer relations, BKW has a very strong position in Switzerland and a great advantage over other Swiss energy suppliers. This allows us to take a long-term view of customer needs and new solutions. We are determined to continually adapt our strategy and processes to the changing environment. We also want to improve the innovation process, in order to facilitate the development of innovative solutions. In addition, I feel that our employees have a real passion for their work – they are committed and proud to play an active role in the energy revolution.

Business Division

Portrait of the Energy International and Trading Division

Samuel Leupold,
Head of Energy International and Trading Business Division

Which foreign investments did BKW undertake and why?

BKW's strategy places considerable emphasis on the use of renewable sources for electricity generation. However, there are only limited opportunities for expansion in Switzerland. We are therefore expanding our production capacity in other countries, where BKW is focusing on wind energy. Rapid expansion of the production portfolio allows us to operate these facilities efficiently. BKW is now Switzerland's largest producer of wind power, and at the end of 2012, BKW had an installed capacity of 308 MW in Switzerland, Italy and Germany. We now operate a very efficient gas-fired combined cycle power station in Tamarete (Italy). This system can be used very flexibly, and so it is an ideal complement to electricity production from wind farms, which is rather unpredictable.

BKW is now the largest producer of wind energy in Switzerland.

The European Union (EU) is regulating and monitoring its energy and financial markets more closely. Is BKW affected by these measures?

BKW uses European energy trading centres to manage the energy distribution of its power plants and organise energy procurement for its distributors in Switzerland, and so we are directly affected by the new EU legislation. The EU Regulation on Wholesale Energy Markets Integrity and Transparency (REMIT) came into force at the end of 2011, and requires BKW to supply extensive data to EU authorities. We are also paying close attention to the deliberations of the European Parliament and the Council on regulation of the financial markets (MiFID). In the worst case, these could lead to a significant reduction in the scope of our activities and our revenue potential as a power company. In any case, the administrative workload and the associated costs will increase.

In your opinion, are there trends in the EU that specifically affect BKW's trading business?

Quite a number of European market regulations are currently being harmonised in the process of establishing the internal EU electricity market, such as the procedure for calculating and allocating import and export rights for electricity at national borders (market coupling). BKW's internationally oriented trading business needs to be continually aligned with these developments, although this is not really a problem. We have well-developed network connections with neighbouring countries, and want to remain firmly integrated in the European power environment.

Renewable energy is becoming more important, but it is expensive to develop the infrastructure. Who is going to pay for this investment?

Many countries have introduced incentive systems to support development, such as the Renewable Energy Sources Act (EEG) in Germany. Attractive remuneration rates here have led to a real boom in renewable energy, resulting in a huge increase in costs. These costs are passed on to the consumer, so that the strong emphasis on development of renewable energy has been criticised. Germany, like many other countries such as Italy, has already needed to readjust its system for supporting development after only a short time, and so the role of this support is being reviewed. However, curtailing the plans for expansion of renewable energy is not yet up for discussion.

What do you see as the current role of renewable energy in the European market?

New renewable energy constitutes an increasing proportion of production. This places high demands on system integration, since renewable energy is somewhat unpredictable. It also results in significant changes in the market. For example, peak and off-peak periods are shifted, and this has a direct influence on the management of hydroelectric power plants. The consequences of increased generation of renewable energy are therefore very significant for BKW.

Energy Dialogue

“We need to rethink our business model”

Provision of services in regional Switzerland is an important part of BKW's strategy. Arturo Egli, CEO of onyx Energie Mittelland AG (onyx), a subsidiary of BKW FMB Energy Ltd. (BKW), and Paul Wyss, Chairman of HEnergie Härkingen HEH, an independent public company owned by the Härkingen municipality, explain how energy utilities and communities can benefit from greater cooperation.

BKW presented its new strategy a year ago. One of its priorities is strong links with the Swiss regions. How can onyx contribute to this aspect of the BKW Group's strategy?

ARTURO EGLI: The cornerstones of BKW's new strategy are the new renewable energies, firm links with regional Switzerland – in other words, security of the energy supply and provision of services in the Swiss regions – and the development of new business areas. Like BKW, onyx is vertically integrated, and has production, network and distribution divisions. So we have all the expertise we need in-house, and are well established in the regions – we understand regional Switzerland and its needs, and we know our clients and partners.

How does regional cooperation between onyx and HEnergie Härkingen HEH work?

PAUL WYSS: For many years, onyx has been our network manager for supraregional energy transmission. In 2005, we commissioned onyx to provide business and operations management for HEnergie Härkingen HEH. This has been very successful. onyx provides us with the services that we need as an energy distributor managed on a part-time basis. These include business management, energy calculations, accounting and financial statements, technical operations, regulatory procedures and reports to the Federal Electricity Commission (EiCom), etc. – onyx manages 100% of these operations for us.

ARTURO EGLI: The general manager of HEnergie Härkingen is an onyx employee, and a member of a team that manages this and other energy supply companies. This brings experience and efficiency to his work, and makes him more effective than he would be if he worked by himself in the municipality.

How important is the role of small communities like Härkingen in energy generation, which will be more regionally oriented in future?

PAUL WYSS: The investment by the Härkingen municipality will be relatively small. We can make the procedure for planning approval simpler for decentralised energy production, especially for photovoltaic systems. One of these systems on a house enhances the value of the property, and should not attract additional municipal connection fees and taxes. On behalf of the council, HEnergie Härkingen HEH is currently determining those council properties on which photovoltaic systems could be erected.

Arturo Egli

“Selling energy is the same as selling sheet metal. The winner is the one who delivers his product at a better price than the competition.”

What can your community contribute towards the transition to renewable energies, as promoted by the Federal Council?

PAUL WYSS: We are prepared to pay a bridging amount per kilowatt-hour fed into the grid, if systems are built that are not yet subsidised by federal funding (compensatory feed-in remuneration, CRF). The buy-back is about eight cents per kilowatt-hour and we pay an additional amount of about eight cents, so the total is sixteen cents for solar energy without CRF. However, if several systems were put into operation, the resulting amounts would significantly increase our energy costs.

What role does onyx play in the transition to renewable energies?

ARTURO EGLI: We can support this process by strengthening regional cooperation. I foresee an energy region incorporating the southern Jura and Oberaargau – in fact we have already started work on this. The Härkingen municipality supports photovoltaic systems according to a defined municipal plan – ultimately, these investments are paid for by the population and industry is mostly spared from these costs. Each community



Paul Wyss (left) in discussion with Arturo Egli



proceeds according to its individual needs and opportunities. However, the population of a given region rarely understands why each municipality comes up with a different solution. If regional cooperation were closer, and one could say for example, “Why don’t we all increase municipal taxes by the same amount and invest the money in the region?”, then it would be possible to carry out projects without a single community having to pay for everything itself. The situation is similar with the energy mix, where each municipality proposes its own solution. The second stage of the liberalised market is almost here, particularly with the pressure from the European Union (EU). Once it’s in place, these models will be examined carefully and the customer will be able to choose his own energy mix. If the local utilities cannot – or will not – provide this option, he will just change his energy supplier, and this will most likely be easy to do from home on the Internet.

How does this affect onyx’s business model?

ARTURO EGLI: onyx is well positioned for the future. It is well established in the regions, and has access to the BKW Group’s wide network of service providers. However, the pressure to form large-scale structures will get stronger, mainly for reasons of efficiency – and only those who are prepared will manage. The political process is slow in Switzerland, and in the municipalities. So we need to start convincing people of the benefits of regional cooperation right now.

Paul Wyss

“People are not prepared to pay more just because the electricity is a bit ‘greener’.”

How is onyx preparing for the transition to renewable energies?

ARTURO EGLI: Switzerland will not be able to make the transition without first operating on a larger scale – regional at first and then supraregional or national. We are therefore making our experience and expertise available to our regional partners, either as individual services or as a package. These include measurement, billing, on-call services, management, support for network and strategy development, structural energy planning, communication, etc. This results in delivery units that are large enough to keep the conditions for such services attractive. Selling energy is the same as selling sheet metal. The winner is the one who sells his product at a lower price and than his competitors. The supplier who manages purchasing, profiling, provision of quotes, sales and billing with the lowest costs is ready for the future.

Arturo Egli

“I think that Switzerland will still be regionalised for at least one or two generations.”

What investments are necessary to ensure that generation of the energy mix is more decentralised?

PAUL WYSS: Production of a greater proportion of energy in decentralised facilities requires a significant investment. But the necessary investments would not currently be profitable, and it is difficult or impossible to pass them on to customers, particularly uncommitted customers. After Fukushima, there were initiatives in larger municipalities and cities for energy suppliers to buy and sell more solar power. However, only a very small proportion of customers took up these offers. People are not prepared to pay more just because the electricity is a bit “greener”. ARTURO EGLI: That has been our experience too. Energy is a product with which people don’t really identify. It will be difficult to give emotional connotations to electrical current. At least in the industry, since electricity is an internationally traded commodity.

What are the implications of decentralised feeding of current into the distribution network?

PAUL WYSS: Previously the feed went in only one direction: from the central electricity generator into the grid and then to the consumer. Now there is also energy recovery, but this often requires conductors with greater capacity and smarter control systems. The producer of decentralised energy – perhaps with a photovoltaic system on a private house – pays only for the lines as far as the distribution box. Payment for the lines from the distribution box to the transformer is a matter for the local energy supplier, and part of this can be recovered from Swiss-grid. However, part still remains unaccounted for with the regional energy supplier. Network usage will therefore become more expensive. Decentralisation of a high proportion of electricity generation as well as connection to the grid across the whole of Switzerland will need investment on a large scale.

ARTURO EGLI: The technical and financial standards for renovation of the network can no longer be defined individually; they must be determined jointly. We are now at a turning point in the history of energy supply in Switzerland. This will be a new world, and it will need a pioneering spirit.

What will this world look like?

ARTURO EGLI: Due to Switzerland’s fragmented structures, I think that Switzerland will still be regionalised for at least one or two generations, but much larger systems will be needed in future. Greater regional cooperation will be worthwhile for the next ten to fifteen years. After this, there will be consolidation into units of about one or two terawatt-hours – in systems that are practical for the industry, but still maintain the benefits of a regional structure. Costs can be better managed with units of this size.

Does this mean that the long-term prospects for onyx as a regionally oriented company are not exactly rosy?

ARTURO EGLI: We already have a certain size and are well positioned in our region. This gives us the strength to play an important role in BKW over the next ten to twenty years. In thirty years there will be considerably fewer energy suppliers in Switzerland than the 700 or so that we have now. By 2070 there may be only one energy supplier, depending on the extent of our integration into Europe.

What effect will greater decentralisation of power production have on prices?

PAUL WYSS: Electricity, together with network usage and the associated fees, is already relatively expensive and this is not likely to change in the near future. It worries me when I look at Europe as a whole. For example, France will continue to make its relatively cheap nuclear energy available on the market, and Switzerland cannot just remain an island that produces clean electricity, but at very high prices. This could lead to commercial problems and even outsourcing.

ARTURO EGLI: As a consumer, we will react accordingly if the market is liberalised. So if the French want to sell their cheap nuclear energy, then we will probably buy it.

Should we expect more disruptions in the power supply in future?

PAUL WYSS: The amount of electricity fed into the grid will be very variable with alternative energies. Maybe there will be enough wind and sunshine – or maybe not. And it won't be very easy to balance these fluctuations with the output of other energy generation facilities. So I can easily imagine that fluctuations, faults or even blackouts will occur more frequently in future.

Paul Wyss

“I can easily imagine that fluctuations, faults or even blackouts will occur more frequently in future.”

Isn't it possible that decentralisation of electricity generation will actually help to offset such fluctuations?

PAUL WYSS: No, I think that decentralised generation is particularly vulnerable. With local generation by photovoltaic systems or wind turbines, if the sun doesn't shine or the wind doesn't blow there will be immediate outages and blackouts.

ARTURO EGLI: Since 2008, the European authorities can request Swissgrid, the national grid operator, to disconnect certain areas of Switzerland from the grid if there are voltage fluctuations in Europe. There is a defined sequence for this, although it has not been published. The effects of this mechanism may

become noticeable in future. I am also concerned about investment in the grid. If the price of network usage continues to fall, the quality of supply could also decline. By now we should have come to terms with the fact that the networks could be shut down for a long time. And if that happens, we are facing a cultural change.

Arturo Egli is CEO of onyx Energie Mittelland AG. This subsidiary of BKW FMB Energy Ltd. specialises in providing services for regional energy suppliers.

Paul Wyss is chairman of HEnergy Härkingen HEH, an independent public company owned by the municipality of Härkingen, Canton Solothurn.

This interview was conducted by Patrick Imhasly, science journalist, Berne.



“The hotel business uses a great deal of energy. So we asked BKW to conduct an analysis of our energy needs. We have already taken a number of steps to reduce the appetite of our energy-guzzling equipment.”

2012

was the year Welcome Hotels asked BKW to conduct an analysis of its energy needs.

Top priority

in saving energy is given to adjusting the water temperature, installing LED lighting, training employees, optimising switching times, reducing peak loads and improving work procedures.

500 employees

help on a daily basis to implement improvements in energy efficiency at Welcome Hotels.

Some 17 tonnes

of CO₂ will be saved each year thanks to the realisation of all the planned measures.

Corporate Risk Management

All commercial activity is subject to a wide range of external and internal influences. These in turn involve risks that can adversely affect a company's success and even threaten its existence.

We regard risk management as a systematic approach to risk identification and assessment; it involves taking and monitoring appropriate measures.

For BKW, risk management is an integral part of our operational procedure and the way we determine our strategic direction. In addition to evaluating the risks of endangering people and the environment and those related to security of the electricity supply, BKW also analyses risks relevant to its results and reputation.

Systematic risk management offers opportunities for value- and performance-based organisational management.

Organisation

Corporate Risk Management is part of the Finance and Controlling unit. It is responsible for managing methods and processes, defining Group-wide requirements governing risk methodology, and aggregating risks at Group level. The Group-wide Audit and Risk Management Committee ensures that relevant risks are assessed independently within the overall context.

Categories of potential risk

Financial risk management covers risks associated with energy prices, certificates, currency, interest rates, share prices, credit and liquidity. These are primarily fluctuation risks. Operational risks are usually event-related, and include risks related to regulation, legislation, infrastructure, information technology, expertise, communication, models and processes.

Measurement and assessment

Recognised standard techniques are applied for the purpose of financial risk management. Specialised analysts assess operational risks by estimating the extent of potential loss or damage and probability of occurrence, and by analysing historical loss data.

Control and monitoring

Financial risks and total risk content are mainly controlled by applying value-at-risk (VaR) limits. Risks related to exceptional market situations are restricted by applying additional absolute limits on positions. Other risks are controlled by adopting specific measures aimed at reducing the probability of occurrence or the putative loss level. Compliance with limits and implementation of specific measures are monitored regularly and reported to the responsible bodies.

Corporate Governance

Introduction

Corporate governance at BKW consistently observes the Swiss Code of Best Practice. In addition to the relevant provisions of Swiss Company Law, 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. These documents are regularly reviewed by the Board and revised to reflect current requirements.

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 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.

The management structure of BKW is designed to ensure clear assignment of responsibilities, so as to avoid any unilateral concentration of powers and to prevent conflicts of interest. At BKW, the functions of Chairman and CEO are separate. In May 2012, Kurt Rohrbach, CEO of BKW, was elected to the Board by the Annual General Meeting. The Board in turn elected him to the position of Vice-President. On an interim basis, he exercised both functions until the end of 2012. All other members of the Board are independent, so that no other member of the BKW Board exercises an executive function. New members are nominated individually for election to the Board at the Annual General Meeting.

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 and assurance management system, which allows the Group Executive 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.

In the previous reporting year, BKW updated its code of conduct and issued a directive on the prevention of insider trading and market manipulation in wholesale energy trading.

The following statements are made in accordance with the current requirements of the Corporate Governance Information Guidelines issued by the SIX Swiss Exchange (SIX). The information published is based on the status at 31 December 2012. Significant changes that have taken place between this date and the date on which this report was printed are listed in Section 10.

1 Group structure and shareholders

Operational Group structure

Group Management Kurt Rohrbach	Finance and Services Beat Grossenbacher	Networks Suzanne Thoma	Energy Switzerland Hermann Ineichen	Energy Int. and Trading Samuel Leupold
BKW Energy International and Trade Ltd.	BKW Deutschland GmbH	Arnold AG › Curea Elektro AG	Biomassekraftwerk Otelfingen AG	BKW Bippen Wind GmbH
BKW FMB Energy Ltd.		BKW ISP AG › Bratschi AG	BKW Wallis AG	BKW Borkum West II Beteiligungs GmbH
BKW Management Ltd.		› EES Jäggi-Bigler AG › Elektro Feuz AG	cc energie sa	BKW Dubener Platte Wind GmbH
BKW Grid Switzerland Ltd.		› inelectro sa BKW Übertragungsnetz AG	Elektrizitätswerk Grindelwald AG	BKW Energie Dörpen Beteiligungs-GmbH
			Energie Utzenstorf AG	› STKW Energie Dörpen GmbH & Co. KG
			Erdgas Thunersee AG	› STKW Energie Dörpen Verwaltungs-GmbH
			EWR Energie AG	BKW Energie Wilhelmshaven Beteiligungs-GmbH
			Kraftwerk Utzenstorf AG	BKW Erneuerbare Energien GmbH
			Kraftwerke Kander Alp AG	BKW France SAS › BKW Hydro Allevard SAS
			Kraftwerke Milibach AG	BKW Holleben Wind GmbH
			Onyx Energie Mittelland AG › Elektrizitätswerke Wynau AG	BKWind GmbH & Co. KG
			› Onyx Energie Dienste AG	› BKWind GmbH & Co. Wind Landkern KG
			› Onyx Energie Netze AG	BKWind Verwaltungs GmbH
			› Onyx Energie Produktion AG	
			Simmentaler Kraftwerke AG	BKW Italia S.p.A. › BKW Hydro Valle d'Aosta S.r.l.
			Société des forces électriques de la Goule SA	› BKW Wind Italia S.r.l.
			sol-E Suisse AG	› Bradano Energia S.r.l.
			› BEBAG Bioenergie	› Electra Italia S.p.A.
			› Bätterkinden AG	› Idroelettrica Lombarda S.r.l.
			› Biogasanlage Piano di Magadino in Bern AG	› Luminosa S.r.l.
			› Holzwärme Grindelwald AG	› Termoelettrica Veneta S.r.l.
			› Juvent SA	› Volturino Wind S.r.l.
			› Regionaler Wärmeverbund AG Heimberg-Steffisburg (REWAG)	› Wind Farm Buglia S.r.l.
			› TW Energie AG	› Wind Farm S.r.l.
			WEV Spiez AG	› Wind International Italy S.r.l.
				BKW Wind Service GmbH

Listed Group companies

With its headquarters in Berne, BKW FMB Energy Ltd. was listed on the SIX Swiss Exchange (security no. 2.160.700, ISIN: CH0021607004, ticker symbol: BKWN) and on the BX Berne eXchange from June 2003. As part of the conversion to a holding structure at the end of 2011, it was delisted by the SIX Swiss Exchange and the BX Berne eXchange as of 20 April 2012. Further details on the conversion to a holding structure can be found on page 32 of the 2011 Annual Report of the BKW Group.

BKW also 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 2012, BKW's stock market capitalisation amounted to 1,497.5 million CHF.

BKW group of consolidated companies

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 69 and 70 of the Financial Report.

Mergers as part of the conversion to a holding structure

In March 2012, the Board approved the merger of BKW FMB Energy Ltd. with BKW FMB Beteiligungen AG (BKW BG) with retrospective effect from 1 January 2012. BKW BG was an intermediate holding company, which exercised no independent business activity and had no function within the Group. It was solely the owner of holdings, in particular those in Swiss partner plants.

In March 2012, the Board also approved the merger of BKW FMB Energy Ltd. with BKW Handel AG and BKW enex AG. As a result, all exchange access was unified in BKW FMB Energy Ltd., and the licence of BKW enex AG as a securities broker was revoked.

Fully consolidated holdings of BKW FMB Energy Ltd. and its subsidiaries

Company	Domicile	Share/basic capital in millions and currency	% Holding
Arnold AG	Selzach	0.5 (CHF)	100.0
BEBAG Bioenergie Bätterkinden AG	Bätterkinden	0.1 (CHF)	56.0
Biogasanlage Piano di Magadino in Bern AG	Berne	1 (CHF)	80.0
Biomassekraftwerk Otelfingen AG	Otelfingen	0.5 (CHF)	100.0
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 International and Trade Ltd.	Berne	0.1 (CHF)	100.0
BKW Erneuerbare Energien GmbH	Berlin (D)	0.03 (EUR)	100.0
BKW FMB Energy Ltd.	Berne	132 (CHF)	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 Allevard SAS	Paris (F)	0.1 (EUR)	100.0
BKW Hydro Valle d'Aosta S.r.l.	Milan (I)	0.05 (EUR)	100.0
BKW ISP AG	Ostermundigen	0.9 (CHF)	100.0
BKW Italia S.p.A.	Milan (I)	13.4 (EUR)	100.0
BKW Management Ltd.	Berne	0.1 (CHF)	100.0
BKW Übertragungsnetz AG	Berne	40 (CHF)	100.0
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
BKWind GmbH & Co. KG	Wörrstadt (D)	-	100.0
BKWind GmbH & Co. Wind Landkern KG	Wörrstadt (D)	-	100.0
BKWind Verwaltungs GmbH	Wörrstadt (D)	0.03 (EUR)	100.0
Bradano Energia S.r.l.	Milan (I)	0.01 (EUR)	100.0
Bratschi AG	Lengnau (BE)	0.1 (CHF)	62.0
cc energie sa	Murten	1 (CHF)	50.0
Curea Elektro AG	Landquart	0.15 (CHF)	100.0
EES Jäggi-Bigler AG	Etziken	0.1 (CHF)	70.0
Electra Italia S.p.A.	Milan (I)	1 (EUR)	100.0
Elektrizitätswerk Grindelwald AG	Grindelwald	0.55 (CHF)	92.1
Elektrizitätswerke Wynau AG	Langenthal	0.1 (CHF)	100.0
Elektro Feuz AG	Grindelwald	0.1 (CHF)	66.0
Energie Utzenstorf AG	Utzenstorf	1 (CHF)	100.0
Erdgas Thunersee AG	Interlaken	6.9 (CHF)	66.7
EWR Energie AG	Schattenhalb	2 (CHF)	100.0
Holzwärme Grindelwald AG	Grindelwald	2.5 (CHF)	90.7
Idroelettrica Lombarda S.r.l.	Milan (I)	25.43 (EUR)	100.0

Company	Domicile	Share/basic capital in millions and currency	% Holding
inelectro sa	Porrentruy	0.5 (CHF)	100.0
Juvent SA	Saint-Imier	0.1 (CHF)	65.0
Kraftwerk Utzenstorf AG	Utzenstorf	0.1 (CHF)	100.0
Kraftwerke Kander Alp AG	Kandersteg	2.5 (CHF)	60.0
Kraftwerke Milibach AG	Wiler (Lötschen)	1 (CHF)	80.0
Luminosa S.r.l.	Milan (I)	0.1 (EUR)	94.0
Onyx Energie Dienste AG	Langenthal	2 (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 (CHF)	100.0
Regionaler Wärmeverbund AG Heimberg-Steffisburg (REWAG)	Heimberg	2.5 (CHF)	51.0
Simmentaler Kraftwerke AG	Erlenbach i. S.	7.31 (CHF)	83.9
Société des forces électriques de la Goule SA	Saint-Imier	3.5 (CHF)	84.3
sol-E Suisse AG	Berne	30 (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
Termoelettrica Veneta S.r.l.	Milan (I)	0.11 (EUR)	100.0
TW Energie AG	Berne	1.2 (CHF)	75.0
Volturino Wind S.r.l.	Milan (I)	0.03 (EUR)	100.0
WEV Spiez AG	Spiez	2.5 (CHF)	98.0
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)	52.17 (EUR)	100.0

Major shareholders

in %	Holding at 31.12.2012	Holding at 31.12.2011
Canton of Berne	52.54	52.91
Groupe E SA	10.00	10.07
E.ON Energie AG	7.03	7.07
BKW Inc. and Group companies	9.68	9.83

No disclosures were made in compliance with the Swiss Exchange regulations for the reporting year.

Cross shareholdings

There is cross-shareholding between BKW and Groupe E Ltd. BKW holds a 10 percent share of voting rights and share capital in Groupe E Ltd. (687,500 shares) and Groupe E Ltd. has a 10 percent 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 2012 amounted 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

BKW was founded in February 2011 with a share capital of CHF 100,000.00, divided into 40,000 registered shares with a par value of CHF 2.50 each.

On 3 October 2011, an offer was made to shareholders in BKW FMB Energy Ltd. to exchange their registered shares for an equal number of BKW registered shares in connection with the transition to a holding company. As this public exchange offer was accepted by more than 98 per cent of the shareholders in BKW FMB Energy Ltd., BKW's share capital was increased on 6 December 2011 by 52,394,811 registered shares with a par value of CHF 2.50 each to CHF 131,087,027.50 (divided into 52,434,811 registered shares), through a contribution of a total of 52,394,811 registered shares in BKW FMB Energy Ltd. with a par value of CHF 2.50 each.

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.

As a result of the conversion to a holding structure in 2011, BKW is disclosing the figures for BKW FMB Energy Ltd. for the 2010 financial year as well as its own figures for the 2011 and 2012 financial years.

Changes in equity for the last three reporting years

CHF thousands	Share capital	Reserves from capital contributions	General legal reserves	Reserves for treasury shares	Free reserves	Retained earnings	Total shareholders' equity
BKW FMB Energy Ltd.							
At 31 December 2009	132,000	35,000	37,560	83,201	569,699	356,686	1,214,146
Dividend payment						-130,756	-130,756
Reserve allocation				288,130	-288,130		0
Net profit 2010						178,547	178,547
At 31 December 2010	132,000	35,000	37,560	371,331	281,569	404,477	1,261,937
BKW Inc.							
Founded on 28 February 2011	100						100
Capital increase	130,987	26,129	786,936	359,845			1,303,897
Net profit 2011						57,543	57,543
At 31 December 2011	131,087	26,129	786,936	359,845	0	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	0	69,945	1,383,035

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 normally print or distribute certificates of 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 Federal Act on Intermediated Securities (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 per cent 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

The Company has no outstanding convertible securities and has issued no options.



“The iSMART project visualises your individual energy usage and helps you become more aware of what you consume. It has already led us to make very simple changes to our behaviour – like always switching lights off. On our farm, we don’t just consume electricity, we also generate it with our own solar panels.”

14 people

live together in a converted farmhouse.

9.6 kW

of electricity is produced by their photovoltaic system.

60%

of the house’s annual average energy needs are covered by this.

Some 270 households

have already joined the pilot project as members of the energie association.

3 Board of Directors

For an interim period, the Board of Directors (Board) did not consist solely of non-executive and independent members. On 11 May 2012, Kurt Rohrbach, CEO of BKW, was elected to the Board by the Annual General Meeting, and then by the Board to the position of Vice-President. He exercised both functions for a transitional period until the end of 2012. With this exception, no other member of the Board of Directors was also a member of the BKW Group Executive or the management body of any Group company.

Members

Urs Gasche, lawyer (1955, CH)

Urs Gasche is an independent lawyer practising in Berne. He is also Chairman of the Board of Directors of Vereinigte Schweizerische Rheinsalinen in Schweizerhalle and President of the Board of Trustees of the Rotkreuzstiftung für Krankenpflege, Lindenhof, Berne. 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.

Function: Chairman of the Board, Chairman of the Nomination and Compensation Committee | BKW Board member since 2011, Board member of BKW FMB Energy Ltd. from 2002 | Elected until 2015

Antoinette Hunziker-Ebnetter, lic. oec. HSG (MA Econ.) (1960, CH)

Antoinette Hunziker-Ebnetter is CEO and Deputy Chair of the Board of Forma Futura Invest AG, Zurich. She is also a member of the Board of Gebäudeversicherung des Kantons Bern (Canton of Berne Building Insurance). From 2002 to 2005 Antoinette Hunziker-Ebnetter was Head of Trading & Sales and member of the Group Executive of the Julius Bär Bank, Zurich, prior to which she worked for the SIX Swiss Exchange, lastly as Chair of the SIX Group, Zurich, and CEO of Virt-X in London.

Function: Deputy Chair of the Board, Chair of the Audit and Risk Management Committee | BKW Board member since 2011, BKW FMB Energy Ltd. Board member from 2006 | Elected until 2015

Kurt Rohrbach, electrical engineer ETH (1955, CH)

Kurt Rohrbach joined BKW in 1980. In addition to his various roles at BKW, he is President of the Association of Swiss Electricity Enterprises (VSE) and a member of the Board of the Canton of Berne Trade and Industry Association.

Function: Vice-President of the Board of Directors since May 2012, CEO until the end of 2012, Head of Group Management | Member of the Group Executive since 1992 | Elected until 2015

Ueli Dietiker, Swiss certified accountant (1953, CH)

Ueli Dietiker is Chief Financial Officer and Deputy CEO of Swisscom AG, where he has responsibilities in various companies and interests of the Swisscom Group. He is also a member of the Board of Directors of Sanitas Krankenkassen, Wincasa Krankenkassen and Zuckermühle Rapperswil. He previously held various positions at ATAG Ernst & Young, Motor-Columbus AG and as CFO/CEO of Cablecom Holding AG.

Function: Member of the Board, Member of the Audit and Risk Management Committee | Member of the Board of BKW or BKW FMB Energy Ltd. since 2011 | Elected until 2015

Barbara Egger-Jenzer, lawyer (1956, CH)

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. She also serves as an ex officio member of the Board of Directors of BLS AG and BLS Netz AG. Until her election to the Executive Council in 2002, Barbara Egger-Jenzer worked as an independent lawyer in Berne.

Function: Member of the Board, Deputy Chair of the Nomination and Compensation Committee, Representative of the Canton of Berne | BKW Board member since 2011, Board member of BKW FMB Energy Ltd. from 2002 | Elected until 2015

Philippe Viridis, electrical engineer (1948, CH)

Philippe Viridis has been a member of the Board of Groupe E Ltd. since 2012. He was previously the Board Delegate and General Director of Groupe E, Fribourg. He is also Chairman of the Board of Groupe E Connect SA, Gommerkraftwerke AG and Cisel Informatique SA and Deputy Chair of Forces Motrices Hongrin-Léman SA, Swiss Hydrogen Power SHP SA (Fribourg) as well as Capital Risque Fribourg SA. In addition he is a member of the Board of EWEMAG, EW Jaun Energie AG and Belenos Clean Power Holding AG. Until his election as Delegate of

the Board of Directors, Philippe Viridis was General Director of Groupe E and until 2006 General Director of EEF.Ensa SA.

■ Function: BKW Board member ■ BKW Board member since 2011, Board member of BKW FMB Energy Ltd. from 2003 ■ Elected until 2015

Marc-Alain Affolter, engineer (1952, CH)

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

■ Function: Member of the Board, Member of the Audit and Risk Management Committee ■ BKW Board member since 2011, Board member of BKW FMB Energy Ltd. from 2007 ■ Elected until 2015

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

Georges Bindschedler is a professional director and independent entrepreneur. He has board responsibilities with Merz und Benteli AG, Niederwangen BE (Delegate), KUBO Tech AG, Efretikon (Chairman), Luethi Holding AG, Burgdorf (Chairman), Helvetic Trust Estates AG, Berne (Deputy Chair), Solvalor Fund Management SA (Lausanne), and ITAG Vermögensverwaltung AG, Basel. Georges Bindschedler is also President of the Council of Bern University of Applied Sciences and of various charitable foundations. 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.

■ Function: Member of the Board, member of the Nomination and Compensation Committee ■ BKW Board member since 2011, Board member of BKW FMB Energy Ltd. from 2007 ■ Elected until 2015

Prof. Dr. iur. Eugen Marbach, lawyer (1955, CH)

Eugen Marbach has worked as an independent lawyer in Berne since 1985. From 1993 until 2012 he was also professor of Private Law, Intangible Asset Law and Competition Law 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.

■ Function: Member of the Board ■ BKW Board member since 2011, Board member of BKW FMB Energy Ltd. from 2007 ■ Elected until 2015

Hartmut Geldmacher, MBA (1955, D)

Hartmut Geldmacher is an independent entrepreneur. He sits as a member of the Supervisory Boards of Bilfinger Facility Services (Frankfurt), E.ON Bayern AG (Regensburg), E.ON Hanse AG (Quickborn), and as Chairman of the Supervisory Board of Rhein-Main-Donau AG (Munich). Until the end of September 2011 he was a member of the Board of Management and Employee Relations Director at E.ON Energie AG (Munich), and CEO of E.ON Kraftwerke GmbH, Hanover. From 2000 to 2002 he was Director of Human Resources at E.ON Energie AG, and was appointed as a member of the Board in 2002. Prior to this he held various management positions at Preussen Elektra AG in Hanover.

■ Function: Member of the Board ■ BKW Board member since 2011, Board member of BKW FMB Energy Ltd. from 2009 ■ Elected until 2015

Beatrice Simon-Jungi, MBA (1960, CH)

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.

■ Function: Member of the Board, Representative of the Canton of Berne ■ BKW Board member since 2011, Board member of BKW FMB Energy Ltd. from 2010 ■ Elected until 2015

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

Kurt Schär has been CEO and Chairman of the Board since 2001 of Biketec AG (Huttwil), manufacturer of the Flyer electric bicycle. He was previously Vice-President of Sales & Marketing at Hélio Courvoisier, and before that he worked in product management and marketing functions in the telematics section of Kontakt-Systeme AG. Kurt Schär is also a Board member of the St Gallen Risk Dialogue Foundation, Deputy Chairman of Berne Tourism, member of the Board of the Swisscleantech industry association, and a Board member of the Green Liberal Party in the Canton of Berne.

■ Function: BKW Board member ■ BKW Board member since 2012 ■ Elected until 2015

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 the articles of incorporation, the Board of Directors consists of nine to thirteen members (there are currently twelve members). According to article 21 of the articles of incorporation and pursuant to article 762 of the Swiss Code of Obligations (CO), the Canton of Berne is entitled to delegate a maximum of two members to the Board. 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 remaining members are elected by the Annual General Meeting; new members are elected individually and existing members are elected collectively.

The term of office for members elected by the Annual General Meeting is four years. 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 term of office shall not extend beyond the calendar year in which a Board member reaches his or her 70th birthday.

Kurt Rohrbach and Kurt Schär were newly elected to the Board of BKW in the reporting year.

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 Vice-Chairmen. The Secretary need not be a member of the Board. Meetings are also attended by members

of the Group Executive as well as Matthias Kaufmann (General Secretary and Secretary to the Board of Directors) and Martin Pfisterer (Head of Group Communications and Marketing). The Board of Directors convened nine times in the 2012 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 are appointed by the Board of Directors, and are charged with analysing certain Board matters in detail and supporting the Board in its supervisory functions.

The functions and organisation of the Audit and Risk Management Committee and the Nomination 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.

Audit and Risk Management Committee

Members

Antoinette Hunziker-Ebnetter, Chair

Marc-Alain Affolter

Ueli Dietiker

Meetings of the Audit and Risk Management Committee are normally attended by the CEO, the Head of Finance and Services, the Head of Corporate Accounting and the Head of Internal Audit, as well as two representatives 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 three extraordinary meetings in the 2012 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. 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. 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 external 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 contacts by 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. Nine meetings were held in the 2012 financial year. An external consultant was engaged to evaluate a new member of the Board of Directors and CEO.

Responsibilities

- Formulation of principles and concrete proposals concerning compensation of members of the Board of Directors and Group Executive, 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 level.
- Dealing with selection/severance and compensation matters at Board and Group Executive levels.

Authority

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

Delegation of responsibility to the Group Executive

Pursuant to article 20 of the articles of incorporation, the Board of Directors delegates business management to the Group Executive and defines its responsibilities in the organisational regulations. The Group Executive comprises the five division heads. The CEO is the chairman of the Group Executive and also the head of his division. Decisions of the Group Executive are made by the CEO in consultation with the other members of the Group Executive. Other members of the Group Executive have the right of co-determination and may submit motions. The Group Executive generally met every two weeks in the 2012 financial year.

Subject to the authority of the Annual General Meeting, the Board of Directors and the Board Committees, the Group Executive is responsible for management of the BKW Group. The business divisions are managed directly by their respective division heads. The Group Executive 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

- 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.
- Decisions on projects and credit authorisations for expenses, as well as assumption of responsibilities related to the core operating business – in particular the creation, upgrading and maintenance of production plants as well as 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 specialist and project positions (senior management, levels 2 and 3) in line with the requirements set by the Board of Directors.
- Approval of energy supply and procurement contracts with associated commitments up to the value of CHF 200 million over the entire contract term.
- Authorisation of collaterals 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 collaterals 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 medium 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 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. In addition, there are three standing committees of the Group Executive: the Swiss Market Committee, the Resources Committee and the Long-Term Portfolio Management Committee. These committees consist of members of the Group Executive and the extended Group Executive.

The purpose of the Swiss Market Committee is to coordinate an integrated market presence for the BKW Group in the Swiss network and energy sectors. The Resources Committee is responsible for the optimal Group-wide deployment of human resources, IT resources and real estate. The Long-Term Portfolio Management Committee is responsible for Group-wide management and optimisation of the BKW Group's entire portfolio (procurement, production and sales) with an illiquid time horizon of more than three years, according to the objectives of the Group Executive and the Board of Directors.

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

Information and monitoring instruments in relation to the Group Executive

The Group Executive 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 is attended by the Chairman of the Board and members of the Group Executive.

Reporting by the Group Executive 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.

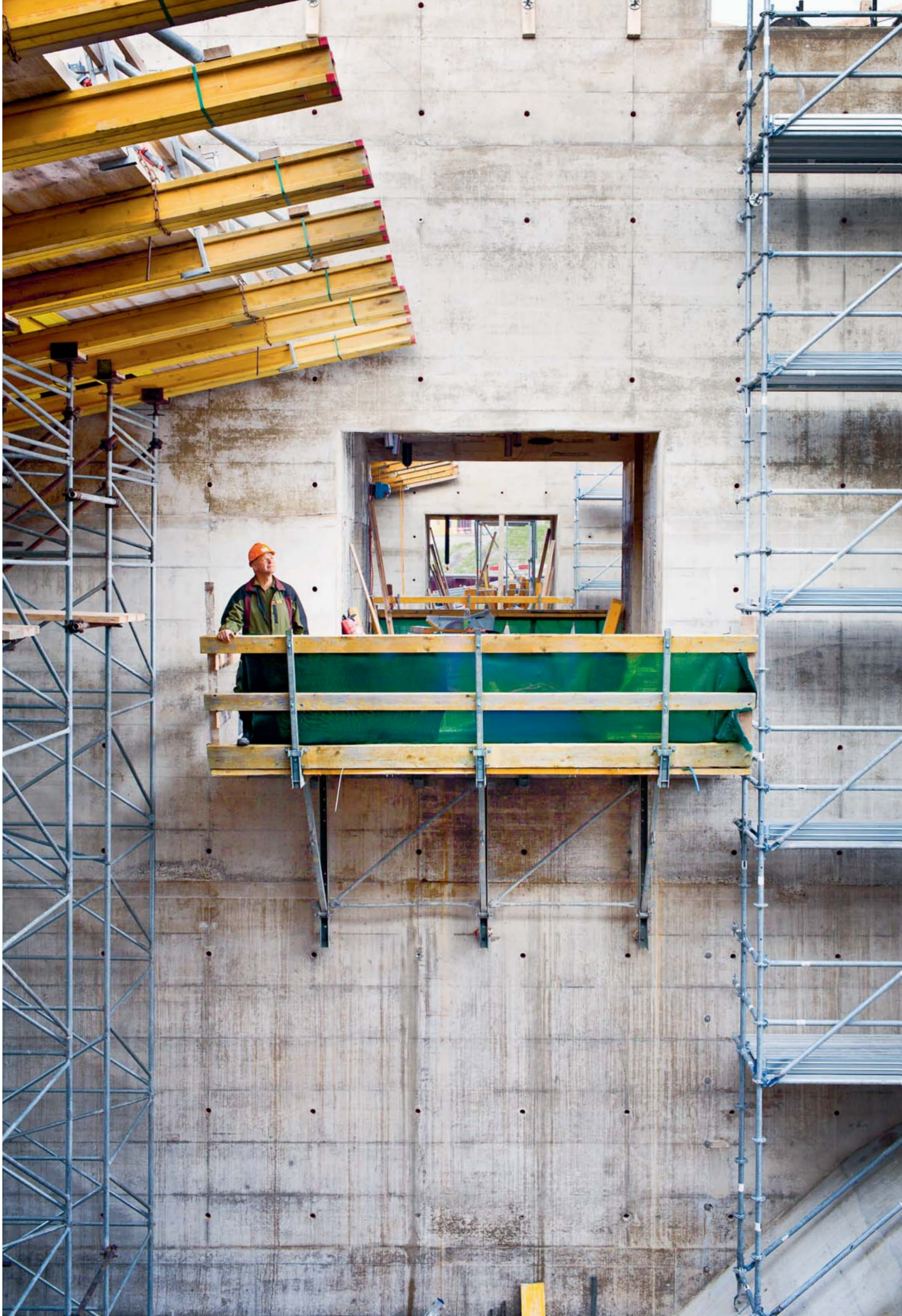
Risk management identifies and assesses risks and formulates risk reduction measures. Regular audits of Group-related risks are conducted in the context of assurance management. Risk management is supervised by the Audit and Risk Management Committee, which is chaired by Beat Grossenbacher (member of the Group Executive). The Audit and Risk Management Committee met twelve times during the reporting year and reported regularly to the Group Executive. Additional information on risk management is provided on page 28 of the Annual Report.

Auditing

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 AG, Berne



“Building a dam also affects fauna and flora. In reconstructing the Hagneck hydroelectric station, we have created improved conditions for the fish, bird and plant life in and around the plant. One of our projects was to build a modern fish ladder, to help various species on their way up and downstream.”

2015

is when reconstruction of the Hagneck hydroelectric plant will be completed.

CHF 150 million

has been invested by BKW in reconstruction and renovation of the Hagneck hydroelectric plant.

35%

more electricity will be generated by the new power station, which will supply some 27,000 households with renewable energy.

20 species of fish

live in and around the hydro plant.

4 Group Executive 2013



Group Executive 2013 from left: Matthias Kaufmann*, Christophe Bossel, Beat Grossenbacher, Suzanne Thoma, Hermann Ineichen, Corinne Montandon (Secretary), Martin Pfisterer*

* Extended Group Executive

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

Members

Dr. Suzanne Thoma, chemical engineer ETH (1962, CH)

Suzanne Thoma has been with BKW since 2010. Before joining BKW she was head of automotive supply business with the WILCOR Group, and prior to this she was CEO of the high-tech company Rolic Technologies Ltd. Dr. Thoma also held various positions in different countries for Ciba Spezialitätenchemie AG.

Function: Head of Networks until 31 December 2012, CEO and Head of Group Management from 1 January 2013 Member of the Group Executive since 2010

Beat Grossenbacher, MA Econ. (1960, CH)

Beat Grossenbacher joined BKW in 2008. Prior to this he worked for the Swisscom Group from 1994, most recently as Deputy CFO and Head of Treasury, Mergers & Acquisitions and Insurance.

Function: Head of Finance and Services and CFO Member of the Group Executive since 2009

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

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.

Function: Head of Energy Switzerland Member of the Group Executive since 2000

Christophe Bossel, graduate of the Federal Institute of Technology in Lausanne with a degree in engineering and material sciences, and an Executive Master of Business Administration (1968, CH)

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).

■ Function: Head of Networks ■ Member of the Group Executive since 1 March 2013

Extended Group Executive

Matthias Kaufmann, lawyer, LL.M. in International Business Law (1957, CH)

Matthias Kaufmann joined BKW in 1992, prior to which he was Deputy Head of the Swiss Federal Council's Service for Administrative Control.

■ Function: General Secretary ■ Member of the extended Group Executive since 2000

Martin Pfisterer, Dr. iur., lawyer and notary, federally certified PR consultant (1949, CH)

Martin Pfisterer joined BKW in 1987. Before this he was Section Head at the Federal Office for Spatial Development.

■ Function: Head of Group Communications and Marketing ■ Member of the extended Group Executive since 2000

Roles changed since 31/12/2012

Kurt Rohrbach, electrical engineer ETH (1955, CH)

Kurt Rohrbach joined BKW in 1980. In addition to his function at BKW, he is President of the Association of Swiss Electricity Enterprises (VSE) and a member of the Board of the Canton of Berne Trade and Industry Association.

■ Function: CEO, Head of Group Management until 31 December 2012
■ Member of the Group Executive since 1992

Samuel Leupold, mechanical engineer ETH/MBA (1970, CH)

Samuel Leupold joined BKW in 2006. Prior to this he was responsible for global sales for the Grinding & Dispersion business unit of Bühler AG, Uzwil, before which he worked as a consultant at McKinsey & Company and held various positions at ABB Kraftwerke AG.

■ Function: Head of Energy International and Trading until 1 February 2013
■ Member of the Group Executive since 2008

Management contracts

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

5 Compensation, shareholdings and loans

Content and method of determining compensation and shareholding programmes

Members of the Board of Directors receive a fixed annual remuneration not linked to performance and a flat-rate expense allowance. With the exception of the Chairman, members of the Board of Directors also receive an expense allowance for meetings.

The amount of the fixed remuneration paid to members of the Board of Directors depends on the Company's economic situation and outlook, and takes into account the rates of remuneration paid by comparable companies in the electricity industry (e.g. Alpiq). The remuneration of members of the Board of Directors and the Group Executive is periodically reviewed and revised (generally every three years) by the Nomination and Compensation Committee with the aid of an external, independent consultancy.

Members of the Group Executive receive a fixed annual 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 per cent of the fixed annual remuneration is paid, indexed to business results of the company and the performance of the relevant member of the Group Executive.

Once a year the Board of Directors also determines the number of BKW shares that members of the Board of Directors and Group Executive can acquire, as well as the preferential price and the blocking period. In 2012, each member of the Board of Directors and Group Executive was given the option of acquiring up to 320 shares in BKW at a preferential price. The sale or transfer of shares acquired in this way is subject to a blocking period of three years, or optionally five years. This arrangement is designed to motivate members of the Board of Directors and Group Executive to achieve a sustainable increase in BKW's enterprise value.

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

Remuneration paid by BKW to members of the Board of Directors and Group Executive, the shareholdings of such persons in BKW and any credits/loans advanced to such persons by BKW are shown in detail according to statutory requirements in the Notes on the Financial Statements in the Financial Report (pages 78 to 80).

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 may attend the Annual General Meeting in person or be represented by another shareholder, a representative of a corporate body or an independent representative designated by the Company in the invitation to the Annual General Meeting. Representation by a third party is not permitted.

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 percent 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 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 in control and defensive measures

8 Auditors

9 Information policy

Changes in 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 in the event of changes in control.

Auditors

Term of office

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

Fees

The Auditors' fees for expenditures incurred by statutory audits of BKW and its consolidated Group companies amounted to CHF 576,000 for the reporting year. The fees for auditing services including non-mandatory audits and reviews and consultancy in financial reporting matters amounted to CHF 163,000. A fee of CHF 75,000 was paid for consultancy work related to the conversion to a holding structure.

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". The Committee normally meets four times a year. 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 three extraordinary meetings of the Audit and Risk Management Committee in the 2012 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.

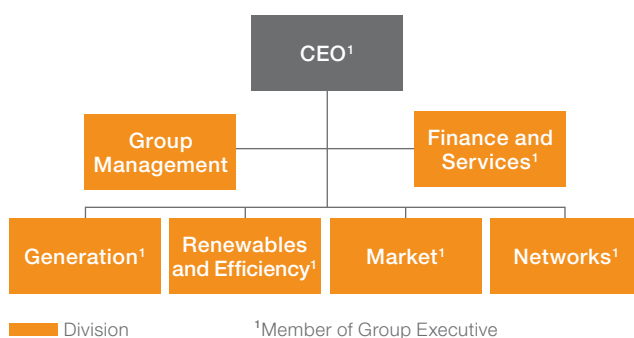
Information policy

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. Shareholders receive a written invitation to the Annual General Meeting, together with a letter to shareholders and an order form for the Annual Report. As a rule, they also receive a half-yearly letter to shareholders 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 Significant changes since 31/12/2012

Organisational changes

With a view to successful implementation of the new Group strategy, the Board of BKW has modified the organisational structure as shown below:



This will allow BKW to take advantage of the commercial opportunities of the Energy Strategy 2050. The restructure takes into account the stronger focus on efficiency and renewable energies, provides the conditions necessary for developing new business areas and allows us to benefit from existing synergies. The new Group structure will be fully operational no later than 1 July 2013.

Staff changes

The Board of Directors of BKW has appointed Dr. Suzanne Thoma as the new CEO of BKW. On 1 January 2013, she took over leadership of the BKW Group from Kurt Rohrbach, who was elected as Vice-President by the Annual General Meeting on 11 May 2012. Until 31 December 2012, Dr. Thoma was Head of the Networks Division and a member of the Group Executive of BKW.

The Board of Directors of BKW has appointed Christophe Bossel as the new Head of BKW's Networks Division. He took over from Suzanne Thoma as a new member of the Group Executive on 1 March 2013.

Samuel Leupold, member of the Group Executive and head of the Energy International and Trading Division, left BKW at the end of January 2013.

Appointments

The Group Executive made the following appointments in the course of the 2012 financial year:

Head of Business Unit

Sigrid Ackermann, Head of Wind International
 Christophe Bossel, Head of Asset Management (Networks)
 Arturo Egli, CEO onyx Energie Mittelland AG
 Lars Losinger, Head of BKW ISP AG
 Martin Saxer, Head of Mühleberg Nuclear Power Plant (KKM)

Head of Department / Senior Specialist

Yahya Yilmaz Bayraktarli, Head of Safety Analysis
 Roland Bönzli, Head of Operations, KKM
 Raphael Brüttsch, Head of Corporate Legal Services
 Marco Clivio, Head of Energy Supply Law and Regulation
 Hans-Joachim Demmel, Head of Solutions & Market Services
 Marc Hählen, Head of BKW ISP, Bern-Schwarzenburg Region
 Stephan Heer, Head of Procurement, Energie Schweiz
 Jesko Herre, Head of Strategy and Development (Networks)
 Christian Hunziker, Head of Marketing, cc energie sa
 Thomas Jäggi, Managing Director, EES Jäggi-Bigler AG
 Urs Leuenberger, Head of Electrical Engineering, KKM
 Jörg Leuzinger, Head of Asset Service Management
 Roger Lüönd, Head of Communications Strategy
 Corinne Montandon, Head of Regulatory Affairs
 Martina Nikles, Head of Group Compliance Management
 Peter Nussbaum, Head of Business, Arnold AG
 Rahel Parnitzki, Head of Business Operations
 Nicolas Rohner, Head of Sales (Major Accounts)
 Alain Schenk, Project Expert, Networks
 Ralph Stalder, CFO, cc energie sa
 Markus Steiner, Head of Procurement (Networks)
 Manuel Trösch, Head of Corporate Accounting
 Willem van Doesburg, Senior Consultant, Staff & Analysis
 Pascal Vinard, Head of Geothermal Energy, sol-E Suisse AG

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