

BKW Group

Half-Year Report 2014



Facts & Figures

BKW Group

Electricity business

GWh	1 st half-year 2014	1 st half-year 2013	2013
Sales			
Electricity sales Switzerland	3,456	3,903	7,536
Electricity sales International	832	874	1,762
Electricity trading	6,068	4,783	9,637
Pump/substitution energy	128	96	240
Transmission losses/own consumption	102	105	196
Direct sales from financial interests	28	10	30
Total	10,614	9,771	19,401
Generation and purchases (incl. financial interests)			
Hydroelectric plants	1,758	1,765	3,912
Nuclear power plants incl. purchase contracts	3,230	3,128	5,833
Fossil-fuel power plants	82	261	679
New renewable energy	448	392	756
Trade (purchases) and energy buy-backs	5,096	4,225	8,221
Total	10,614	9,771	19,401

Financials

CHF millions	1 st half-year 2014	1 st half-year 2013	2013
Total operating revenue	1,431.5	1,388.9	2,733.7
Operating profit before depreciation, amortisation and impairment	224.2	288.2	292.8
Net profit/loss	92.1	103.6	-216.7
Cash flow from operating activities	182.3	205.5	310.8
Purchase of property, plant and equipment	100.6	103.9	215.1
Balance sheet total	7,571.1	7,690.2	7,675.5
Shareholders' equity	2,389.9	2,628.7	2,365.7
– as % of balance sheet total	31.6	34.2	30.8

Employees

Full-time equivalent	30.06.2014	30.06.2013	31.12.2013
Employees	3,172	3,085	3,138

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Cover:

BKW exploits the forces of nature near the Lauenensee in the Bernese Oberland. It is focusing its investment in the area in local hydroelectric power resources. The Louibach power station came on line in June 2014. It now supplies around 800 households with electricity, contributing locally produced, renewable energy to the power supply needs of the Saanenland region.

Foreword

BKW is on track



Suzanne Thoma, CEO

The BKW Group¹ achieved a solid result in an environment that continued to offer challenges, with persistently low prices on the energy market. In the first half of 2014 the Group has focused on consistently implementing its strategy to further expand its services business.

Thanks to its stable business portfolio, BKW has successfully returned a sound result in the first six months of the year. At CHF 224.2 million, operating profit before depreciation, amortisation and impairment was CHF 64.0 million lower than the previous year, which had, however, benefited from the positive effects of one-off factors. After allowing for these one-off factors, operating profit fell slightly by 7.2%. Therefore, despite decreasing electricity prices, BKW has come through the first half of 2014 with stable performance and remains on track.

The first six months of the year were marked by persistently falling energy market prices. In addition, prevailing weather conditions in the supply region resulted in lower volumes of electricity sales and grid usage. At the same time, the Group's alignment remained focused on its strategic objectives. The measures introduced to improve efficiencies and reduce costs continue to be applied consistently and successfully. Net profit was CHF 92.1 million, or CHF 11.5 million lower than the previous year.

¹ The BKW Group comprises BKW AG and its Group companies. For easier reading, these are all referred to in the following report as "BKW". Where the text relates specifically to BKW AG or BKW Energie AG, this is expressly mentioned.

BKW adopted the right course early on

The ongoing liberalisation, continuing uncertainty in the regulatory and political environment, and technological developments are further driving structural change in the energy industry. BKW recognised this trend at an early stage and plotted its course accordingly. Its strategy focuses on the three pillars of Energy, Networks and Services.

Renewable energy sources such as wind power and hydroelectric power play a core and growing role in the BKW generating portfolio. Owing to the difficult economic situation in which large hydroelectric power plants are not subsidised, the Group is concentrating on expanding its small hydro operations. In the first half of 2014 it inaugurated the Louibach hydroelectric plant in Lauenen and started construction of the Fermelbach and Albristbach hydroelectric plants.

BKW is already operating as a services provider, offering its customers a comprehensive portfolio of full energy solutions in addition to its traditional role of generating electricity. The next step will see further expansion of the services business, while strengthening its existing networks and energy business. BKW anticipates that this realignment will position the company as a comprehensive provider of energy and infrastructure services throughout Switzerland.

During the first half-year 2014, BKW reached a number of milestones on this journey. Through its “Smart Grid Consulting” services, it advises local authorities and energy suppliers with specific tailored solutions for future-proof electricity networks. In addition, it now offers packages of services for local authorities, energy suppliers and private and commercial customers who operate roof-mounted solar panel installations. Moreover, BKW offers a combination of heating installation and photovoltaic solutions, which are marketed through its subsidiary ISP AG.

Sound, stable performance expected in 2014 financial year

BKW confirms the outlook for the current financial year that it communicated through the publication of its 2013 annual financial statements. In an unchanged challenging market environment with persistently low energy prices and pressure on margins in the international markets, combined with regulatory requirements and a still strong Swiss franc, BKW expects its operating result and net profit to be in line with the adjusted figures achieved in 2013. This will be achieved by the stable networks business, production volumes that are largely hedged, the continued expansion of the services business and tight cost management.

Yours sincerely,



Suzanne Thoma
CEO

Financial Result

Solid operating result – Focus on implementing strategy

In the first half of 2014, BKW achieved a solid operating result in a continuing challenging environment with persistently low energy market prices. Both the energy business and the networks business contributed to the stable performance of the company and underpinned the stability of the BKW business model. The Group's focus in the first half of 2014 has been on the continued implementation of its strategy, in particular of further expanding its services business.

BKW realised a solid operating result before depreciation, amortisation and impairments of CHF 224.2 million. This is CHF 64.0 million lower than the previous year, which had, however, benefited from the positive effects of one-off factors. After adjustment for these factors amounting to CHF 46.6 million in the previous year, operating profit fell slightly by 7.2 %, therefore representing stable performance in an unchanged challenging market environment. The first six months of 2014 were characterised by persistently falling energy market prices. In addition, the prevailing weather conditions in the supply region resulted in lower volumes of electricity sales and grid usage. At the same time, the Group's alignment remained focused on its strategic objectives. The measures introduced to improve efficiencies and reduce costs continue to be applied consistently and successfully.

The situation described above has helped achieve a robust operating profit of CHF 141.2 million for the first half of 2014 (first half-year 2013: CHF 187.2 million including one-off effects of CHF 46.6 million). Owing in particular to revenue from the state funds for decommissioning and disposal, the financial result improved significantly year-on-year, and along with the lower tax expense made a positive contribution to the result. Net profit was CHF 92.1 million in the first half of 2014, or CHF 11.5 million lower than the previous year. If the one-off factors had been excluded from the previous year, net profit would have increased slightly.

Total operating revenue slightly higher

Total operating revenue was 3.1 % higher year-on-year at CHF 1,431.5 million. This included an increase in net sales of CHF 79.6 million overall, with year-on-year sales growth of 7.4 % recorded by the energy business, 1.2 % by the networks business and 3.5 % by the services business.

Operating profit confirms stability of the BKW business model

Operating result excluding energy purchases dropped by CHF 10.2 million to CHF 403.8 million. Expenses for materials and third-party services fell, thanks to cost savings in particular, and lower expenses for operation of power plants, by CHF 14.5 million to CHF 97.2 million. Personnel expenses rose by CHF 7.7 million to CHF 197.3 million, an increase resulting from strategic expansion of the workforce in the services business. The increase in personnel expenses was attenuated by personnel measures in conjunction with the cost-reduction programme. Other operating expenses fell by CHF 3.4 million to CHF 109.3 million, largely owing to savings in the context of the efficiency-improvement and cost-savings programmes. The results from Associates climbed significantly from the previous year's level of CHF 7.1 million to CHF 22.4 million. In particular, the results of production and network Associates were higher than the previous year.

Operating profit fell by CHF 46.0 million to CHF 141.2 million, due mainly to the cessation of one-off effects from the previous year. The energy business continued to achieve a positive operating result despite the challenging environment, while networks and services also performed well.

The financial result improved significantly compared with the first half of the previous year. The fall of CHF 13.3 million to CHF –17.5 million is attributed to improved earnings from shares in the decommissioning and disposal funds, which are measured at fair value, and on the securities accounts. The state funds posted a gain of CHF 40.1 million in the first half of 2014, representing a year-on-year increase of CHF 18.0 million. In income taxes, the cessation of a previous-year one-off effect in relation to changes in taxation in Italy resulted in a significantly lower tax charge of CHF 31.6 million (first half-year 2013: CHF 52.8 million). Compared with the previous year, BKW's net profit fell by CHF 11.5 million to CHF 92.1 million.

Cash flow: Solid cash inflow from operating activities

Cash inflow from operating activities was also robust in the first half of 2014, at CHF 182.3 million (first half of 2013: CHF 205.5 million). This amount is slight above the average of recent years and was sufficient to cover investments and the dividend payment.

Cash and cash equivalents grew by CHF 51.3 million to CHF 548.1 million.

Equity capital and financing situation remain sound

The balance sheet total rose by 1.4 % against the 2013 year-end to total CHF 7,571.1 million. Equity increased by 1.0 % to CHF 2,389.9 million. The equity ratio remained sound and increased slightly, from 30.8 % to 31.6 %.

Similarly, BKW's financing situation remains sound. There was no significant change in financial liabilities, while the total of cash and cash equivalents plus current financial assets decreased only slightly. Net debt therefore remains stable.

Production business segment

The result of the Production business segment was significantly affected by low energy prices, but also impacted by a reduction in energy production costs in the power plant portfolio, higher production volumes from the nuclear power plants and an improved result from associated companies.

CHF millions	1 st half-year 2014	1 st half-year 2013	% change
Electricity sales	500.6	548.4	-8.7 %
Income from other energy business	9.0	19.9	-54.8 %
Income from services	2.0	6.9	-71.0 %
Other operating income and own work capitalised	12.7	13.9	-8.6 %
Total operating revenue	524.3	589.1	-11.0 %
Electricity procurement	-243.2	-259.6	-6.3 %
Expense from other energy business	-25.1	-10.9	130.3 %
Material and third-party services	-43.9	-58.8	-25.3 %
Personnel expenses	-40.5	-40.6	-0.2 %
Miscellaneous operating expenses	-43.6	-42.5	2.6 %
Total operating expenses	-396.3	-412.4	-3.9 %
Operating profit before depreciation, amortisation and impairment	128.0	176.7	-27.6 %
Depreciation, amortisation and impairment	-37.8	-31.8	18.9 %
Income from associates	11.1	2.9	282.8 %
Operating profit	101.3	147.8	-31.5 %

The total operating revenue from the Production business segment fell by 11.0% to CHF 524.3 million, primarily owing to year-on-year lower internal transfer prices for energy. Electricity generation from this business segment also decreased compared with the first half of the previous year, falling by 84 GWh to 5,070 GWh. However, electricity from nuclear power plants increased to 3,230 GWh compared with the previous year's figure of 3,128 GWh. During the first half of 2014, the Mühleberg nuclear power plant produced 1,621 GWh, a year-on-year increase of 55 GWh. Energy procurement from French nuclear power plants also climbed on a year-on-year basis due to improved availability. Market factors caused a drop in production of 179 GWh from fossil-fuel thermal power plants. In contrast, production from hydroelectric power sources in Switzerland and Italy remained on a par with the previous year, at 1,758 GWh. Slightly lower production from Swiss hydro plants was offset by increased volumes from the plants in Italy.

The previous year's electricity procurement expense included an expense-reducing one-off effect valued at CHF 15 million as a consequence of reimbursement of costs for system services from Swissgrid AG. Operating profit fell by 31.5% to CHF 101.3 million. Despite a reduction in the cost of producing energy and an improved result from associates, the impact of lower market prices could not be offset.

Renewables & Efficiency business segment

As a result of the continued expansion of the services business, production from new renewable energy sources and lower operating expenses, the Renewables & Efficiency business segment reported its first operating profit. This contrasts with a minor operating loss in the previous year.

CHF millions	1 st half-year 2014	1 st half-year 2013	% change
Electricity sales	26.8	26.8	0.0 %
Income from other energy business	32.0	31.7	0.9 %
Income from services	31.2	28.4	9.9 %
Other operating income and own work capitalised	5.8	5.2	11.5 %
Total operating revenue	95.8	92.1	4.0 %
Material and third-party services	-25.4	-27.1	-6.3 %
Personnel expenses	-23.9	-20.5	16.6 %
Miscellaneous operating expenses	-19.2	-22.7	-15.4 %
Total operating expenses	-68.5	-70.3	-2.6 %
Operating profit before depreciation, amortisation and impairment	27.3	21.8	25.2 %
Depreciation, amortisation and impairment	-22.7	-23.0	-1.3 %
Income from associates	0.1	-0.1	
Operating profit/loss	4.7	-1.3	

Total operating revenue in the Renewables & Efficiency business segment grew by CHF 3.7 million to CHF 95.8 million. Income from services made a particular contribution to this rise, increasing by almost 10 % to CHF 31.2 million. Energy generated from new renewable energies rose once again, totalling 448 Gwh (first half of 2013: 392 GWh). The 23 GWh increase in production from wind farms to 373 GWh can be attributed to better wind conditions in Germany compared with the previous year, with a contribution also from the repowering of the Juvent wind farm and other wind installations purchased in 2013. Wind farms in Italy suffered from poor wind conditions and lower prices for electricity. Electricity sales remained at a similar level to the previous year at CHF 26.8 million.

Operating expenses in the first half of 2014 were impacted by set-up costs for the services and innovation sectors. Nevertheless, an operating profit of CHF 4.7 million was recorded for the first time during this period, compared with the small operating loss in the previous first half-year.

Market business segment

The Market business segment result continues to be affected by low energy prices. In addition, the weather conditions during the period under review resulted in lower energy sales in the supply area.

CHF millions	1 st half-year 2014	1 st half-year 2013	% change
Electricity sales Switzerland	281.6	336.9	-16.4 %
Electricity sales international	64.8	76.5	-15.3 %
Electricity trading	590.6	486.4	21.4 %
Income from other energy business	142.8	107.3	33.1 %
Income from services	23.6	15.2	55.3 %
Income from proprietary energy trading	11.0	7.9	39.2 %
Income from energy hedging	15.7	18.4	-14.7 %
Other operating income	11.8	26.3	-55.1 %
Total operating revenue	1,141.9	1,074.9	6.2 %
Electricity procurement	-951.4	-882.2	7.8 %
Expense from other energy business	-128.7	-125.2	2.8 %
Material and third-party services	-18.2	-27.3	-33.3 %
Personnel expenses	-27.0	-24.4	10.7 %
Miscellaneous operating expenses	-31.9	-30.4	4.9 %
Total operating expenses	-1,157.2	-1,089.5	6.2 %
Operating profit before depreciation, amortisation and impairment	-15.3	-14.6	4.8 %
Depreciation, amortisation and impairment	-2.2	-12.3	-82.1 %
Income from associates	3.5	2.8	25.0 %
Operating loss	-14.0	-24.1	

Overall, for the first half of 2014, BKW recorded electricity sales of 10,614 GWh, thus increasing the total volume sold by 843 GWh compared with the first six months of the previous year. This rise affected the total operating revenue of the Market business segment accordingly, with a year-on-year increase of 6.2 % to CHF 1,141.9 million. The volume of electricity sold by the trading operation in respect of its management activities amounted to 6,068 GWh (first half-year 2013: 4,783 GWh). The income from these trading electricity sales thus improved by 21.4 % to CHF 590.6 million thanks to increased volumes, whereas low price levels in the energy market had a negative impact.

The volume from electricity sales in Switzerland fell by 447 GWh to 3,456 GWh compared with the previous first half-year period. Despite the acquisition of new corporate accounts outside the supply region, sales volumes to domestic customers and sales partners fell as a result of weather conditions. Consequently, income from electricity sales in Switzerland dropped by 16.4 % to CHF 281.6 million. International sales (Italy) recorded a slight fall in volumes compared with the previous year, decreasing by 42 GWh to 832 GWh. Combined with lower energy prices, this produced a reduction in international electricity sales of CHF 11.7 million.

The volume acquired in the market through trading increased by 871 GWh to 5,096 GWh, resulting in an increase in energy procurement expenses of CHF 69.2 million. Operating expenses excluding energy procurement fell by CHF 5.0 million to CHF 77.1 million. While the operating result for the first half-year 2014 improved year on year, it remained negative at CHF -14.0 million.

Networks business segment

The year-on-year lower result of the Networks business segment is due in particular to the discontinuation of a one-off effect that occurred in the previous year. Increased grid usage fees had a positive effect on the result. However, transit volumes were significantly lower than the comparable figures for the previous first half-year period owing to the weather conditions.

CHF millions	1 st half-year 2014	1 st half-year 2013	% change
Distribution grid usage fees	209.9	207.5	1.2 %
Income from services	48.3	47.1	2.5 %
Income from other energy business	5.2	4.4	18.2 %
Other operating income and own work capitalised	29.3	59.4	-50.7 %
Total operating revenue	292.7	318.4	-8.1 %
Material and third-party services	-39.1	-35.9	8.9 %
Expense from other energy business	-33.2	-28.1	18.1 %
Personnel expenses	-71.5	-68.0	5.1 %
Miscellaneous operating expenses	-56.4	-53.4	5.6 %
Total operating expenses	-200.2	-185.4	8.0 %
Operating profit before depreciation, amortisation and impairment	92.5	133.0	-30.5 %
Depreciation, amortisation and impairment	-38.3	-36.3	5.5 %
Income from associates	7.7	1.5	413.3 %
Operating profit	61.9	98.2	-37.0 %

Income from grid fees relating to the distribution grid grew slightly by CHF 2.4 million to CHF 209.9 million. The income from services also increased marginally, up CHF 1.2 million to CHF 48.3 million. The reduction in other operating income is due to the previous-year profit from sale of the transmission grid, which netted around CHF 31 million.

Operating expenses increased in total by 8.0%, owing to the continuation of planned additions to the services business workforce and also to the higher expenses charged for the transmission grid and for the feed-in remuneration at cost scheme (KEV). The implemented cost-reduction measures and improved result from Associates had positive effects. Operating profit fell by CHF 36.3 million compared with the previous first half-year period, which had benefited from a one-off factor, to CHF 61.9 million.

Half-Year Financial Statements of the BKW Group

Consolidated Income Statement

CHF millions	1 st half-year 2014	1 st half-year 2013 (restated) ¹
Net sales	1,385.8	1,306.2
Own work capitalised	26.1	20.3
Other operating income	19.6	62.4
Total operating revenue	1,431.5	1,388.9
Energy procurement	-803.5	-686.7
Material and third-party services	-97.2	-111.7
Personnel expenses	-197.3	-189.6
Other operating expenses	-109.3	-112.7
Total operating expenses	-1,207.3	-1,100.7
Operating profit before depreciation, amortisation and impairment	224.2	288.2
Depreciation, amortisation and impairment	-105.4	-108.1
Operating profit before income from associates	118.8	180.1
Income from associates	22.4	7.1
Operating profit	141.2	187.2
Financial income	57.8	39.3
Financial expenses	-75.3	-70.1
Profit before income taxes	123.7	156.4
Income taxes	-31.6	-52.8
Net profit	92.1	103.6
attributable to:		
– BKW shareholders	90.7	106.5
– Non-controlling interests	1.4	-2.9
Result per share in CHF (diluted and undiluted)	1.88	2.22

¹ See Note 3

Half-Year Financial Statements of the BKW Group

Consolidated Statement of Comprehensive Income

CHF millions	1 st half-year 2014	1 st half-year 2013
Net profit	92.1	103.6
Actuarial gains/losses (Group companies)		
– Actuarial gains/losses	–8.3	74.0
– Income taxes	1.8	–16.3
Actuarial gains/losses (associates)		
– Actuarial gains/losses	–2.3	7.3
– Income taxes	0.1	–0.3
Total items that will not be reclassified to income statement, net of tax	–8.7	64.7
Currency translations		
– Currency translations	–9.8	21.1
– Income taxes	0.0	0.1
Available-for-sale financial assets		
– Value adjustments	9.0	6.3
– Income taxes	–2.0	–1.4
Hedging transactions		
– Value adjustments	0.0	–0.2
Total items that may be reclassified to income statement, net of tax	–2.8	25.9
Other comprehensive income	–11.5	90.6
Comprehensive income	80.6	194.2
attributable to:		
– BKW shareholders	79.1	197.1
– Non-controlling interests	1.5	–2.9

Half-Year Financial Statements of the BKW Group

Consolidated Balance Sheet

CHF millions	30.06.2014	31.12.2013
Assets		
Property, plant and equipment	2,984.2	2,985.2
Investments in associates	1,184.8	1,187.3
Derivatives	59.6	58.2
Non-current financial assets	1,263.9	1,153.0
Intangible assets	165.6	164.7
Deferred tax assets	41.2	42.5
Total non-current assets	5,699.3	5,590.9
Inventories	158.1	133.5
Accounts receivable	684.4	773.7
Current tax receivable	10.9	9.1
Derivatives	91.9	105.2
Current financial assets	237.7	300.5
Prepaid expenses and accrued income	140.7	265.8
Cash and cash equivalents	548.1	496.8
Total current assets	1,871.8	2,084.6
Total assets	7,571.1	7,675.5
Shareholders' equity and liabilities		
Share capital	132.0	132.0
Capital reserves	35.0	35.0
Retained earnings	2,496.7	2,467.0
Other reserves	-3.4	8.2
Treasury shares	-313.5	-319.2
Equity attributable to BKW shareholders	2,346.8	2,323.0
Equity attributable to non-controlling interests	43.1	42.7
Total shareholders' equity	2,389.9	2,365.7
Non-current provisions	2,076.0	2,045.9
Non-current financial liabilities	1,532.7	1,563.3
Deferred tax liabilities	489.8	470.4
Pension liability	64.6	52.9
Derivatives	30.8	33.0
Other non-current liabilities	233.9	230.8
Total non-current liabilities	4,427.8	4,396.3
Other current liabilities	340.0	567.8
Current provisions	62.0	62.3
Current financial liabilities	57.4	26.7
Current tax liabilities	19.2	13.4
Derivatives	54.5	85.2
Deferred income and accrued expenses	220.3	158.1
Total current liabilities	753.4	913.5
Total liabilities	5,181.2	5,309.8
Total shareholders' equity and liabilities	7,571.1	7,675.5

Half-Year Financial Statements of the BKW Group

Changes in Consolidated Equity

CHF millions	Share capital	Capital reserves	Retained earnings	Treasury shares	Other reserves	Attributable to BKW shareholders	Attributable to non-controlling interests	Total
Equity at 31.12.2012	132.0	35.0	2,759.8	-360.6	-127.0	2,439.2	37.4	2,476.6
Net profit			106.5			106.5	-2.9	103.6
Other comprehensive income					90.6	90.6		90.6
Comprehensive income			106.5		90.6	197.1	-2.9	194.2
Dividend			-57.6			-57.6	-0.9	-58.5
Transactions in treasury shares			-12.3	25.7		13.4		13.4
Share-based payments			0.7			0.7		0.7
Acquisition of non-controlling interests			-0.1			-0.1	0.1	0.0
Changes in the scope of consolidation						0.0	0.3	0.3
Contribution to equity from non-controlling interests						0.0	2.0	2.0
Equity at 30.06.2013	132.0	35.0	2,797.0	-334.9	-36.4	2,592.7	36.0	2,628.7
Equity at 31.12.2013	132.0	35.0	2,467.0	-319.2	8.2	2,323.0	42.7	2,365.7
Net profit			90.7			90.7	1.4	92.1
Other comprehensive income					-11.6	-11.6	0.1	-11.5
Comprehensive income			90.7		-11.6	79.1	1.5	80.6
Dividend			-58.0			-58.0	-2.9	-60.9
Transactions in treasury shares			-3.4	5.7		2.3		2.3
Share-based payments			0.7			0.7		0.7
Acquisition of non-controlling interests			-0.3			-0.3	-0.3	-0.6
Contribution to equity from non-controlling interests						0.0	2.1	2.1
Equity at 30.06.2014	132.0	35.0	2,496.7	-313.5	-3.4	2,346.8	43.1	2,389.9

Half-Year Financial Statements of the BKW Group

Consolidated Cash Flow Statement

CHF millions	1 st half-year 2014	1 st half-year 2013
Result before income taxes	123.7	156.4
Adjustment for:		
– Depreciation, amortisation and impairment	105.4	108.1
– Income from associates	–22.4	–7.1
– Financial result	17.5	30.8
– Gains/losses from sale of non-current assets	–0.2	–33.1
– Change in non-current provisions (excl. interest)	–23.6	–43.9
– Change in assigned rights of use	–4.6	–4.3
– Change from the valuation of energy derivatives	–19.2	–38.5
– Other non-cash positions	4.6	6.1
Change in net current assets (excl. financial assets/liabilities and derivatives)	11.7	57.1
Income taxes paid	–9.6	–25.6
Other financial items paid	–1.0	–0.5
Cash flow from operating activities	182.3	205.5
Purchase of property, plant and equipment	–100.6	–103.9
Proceeds from disposal of property, plant and equipment	0.6	4.4
Acquisition of Group companies	–1.3	–152.2
Disposal of Group companies	0.0	79.4
Investments in associates	–23.3	–34.7
Investments in current and non-current financial assets	–28.4	–154.0
Disposals of current and non-current financial assets	32.8	13.4
Purchase of intangible assets	–5.9	–5.1
Disposals of intangible assets	0.5	0.0
Interest received	5.9	4.0
Dividends received	45.3	20.7
Cash flow from investing activities	–74.4	–328.0
Sale/purchase of treasury shares	1.0	9.3
Acquisition of non-controlling interests	–0.6	0.0
Contribution to capital from non-controlling interests	2.1	0.3
Increase in current and non-current financial liabilities	11.6	16.3
Decrease in current and non-current financial liabilities	–10.4	–10.1
Increase in other long-term liabilities	8.2	10.1
Decrease in other long-term liabilities	–0.5	–1.0
Interest paid	–6.8	–8.2
Dividends paid	–61.0	–58.5
Cash flow from financing activities	–56.4	–41.8
Translation adjustments on cash and cash equivalents	–0.2	0.1
Net change in cash and cash equivalents	51.3	–164.2
Cash and cash equivalents at start of reporting period	496.8	599.2
Cash and cash equivalents at end of reporting period	548.1	435.0

Half-Year Financial Statements of the BKW Group

Notes to the Interim Financial Statements

1 BUSINESS ACTIVITY

BKW AG, Berne (CH), together with its Group companies, is a leading energy provider in Switzerland and delivers a comprehensive range of products and services to residential and business customers. Energy is sold in neighbouring countries via the Group's own sales channels. BKW covers the entire value chain, from production and distribution to the trading and sale of energy. In addition to pure energy supply, BKW develops, implements and operates comprehensive energy solutions for private and commercial customers, as well as for energy utility companies and local authorities.

2 ACCOUNTING PRINCIPLES

2.1 GENERAL PRINCIPLES

The unaudited consolidated financial statements for the half-year ended 30 June 2014 have been prepared in accordance with the International Accounting Standard on Interim Financial Reporting (IAS 34) and should be read in conjunction with the consolidated financial statements at 31 December 2013. These interim financial statements have been drawn up in accordance with the principles described in the 2013 Financial Report (pages 17 to 32). The consolidated interim financial statements for the period ended 30 June 2014 were approved by the BKW AG Board of Directors on 4 September 2014 and released for publication.

The preparation of this half-year report entailed assumptions and estimates. Actual results may differ from these estimates.

2.2 ADOPTION OF NEW STANDARDS AND INTERPRETATIONS

In the 2014 financial year BKW was required to adopt the following new or revised standards:

- IFRIC 21 – Levies
- Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

These changes have had no effect on the presentation of the financial position, results of operations and cash flows of BKW.

The following new and amended standards and interpretations had been published by the balance sheet date but will not be applied until subsequent financial years. BKW intends to apply the changes from the date on which they enter into force (entry into force for financial years beginning on or after the dates in brackets):

- IFRS 9 – Financial Instruments (1 January 2018)
- IFRS 15 – Revenue from Contracts with Customers (1 January 2017)
- Amendments to IAS 19 – Employee Benefits entitled Defined Benefit Plans: Employee Contributions (1 July 2014)
- Amendments to IFRS 11 – Accounting for Acquisitions of Interest in Joint Operations (1 January 2016)
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation (1 January 2016)
- Annual Improvements to IFRSs 2010–2012 Cycle (1 July 2014)
- Annual Improvements to IFRSs 2011–2013 Cycle (1 July 2014)

BKW is currently examining the possible effects of applying these new or changed standards and interpretations.

2.3 FOREIGN CURRENCY EXCHANGE RATES

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

	Closing date 30.06.2014	Closing date 31.12.2013	Average 1 st half-year 2014	Average 1 st half-year 2013
CHF/EUR	1.2156	1.2262	1.2215	1.2281

3 SIGNIFICANT CHANGES TO THE ACCOUNTING PRINCIPLES

In conjunction with the start of the new Group and organisational structure on 1 July 2013, the 2013 Financial Report introduced the following changes in reporting. Reporting in the 2014 Half-year Report now follows the structure of the 2013 Financial Report, and the 2013 half-year figures have been adjusted accordingly.

DEFINITION OF “OPERATING PROFIT”

With effect from 1 July 2013 the internal reporting of profit in business segments includes results from associated companies. In compliance with this change to internal reporting of profit, BKW has made a corresponding change to its external reporting from that date.

BKW continues to report “Operating profit” in its income statement. In contrast to the previous definition, however, this line also includes the result from associated companies. The previous definition of operating profit corresponds to the new sub-total line “Operating profit excluding result from Associates”.

DEFINITION OF NET SALES

In conjunction with the augmented realignment of BKW as an energy services company, various services that were previously recognised under “Other operating income” are now reported in “Net sales”. This change has no effect on the “Total operating revenue” line that has been reported previously.

4 SEGMENT REPORTING

Reportable segments are based on the internal organisational and reporting structure. BKW is organised into business divisions. Business divisions are defined as economic units which have responsibility for operating results and manage a defined part of BKW's activities autonomously. In view of the successful implementation of its new corporate strategy, BKW reformed its Group and organisational structure with effect from 1 July 2013. The figures for the first half of 2013 have been adjusted in relation to the new structure.

BKW operates the following four reportable business segments:

- The Production segment operates and maintains the Group's own large power plants in Switzerland and abroad, as well as small hydro power plants. The power plant portfolio comprises the Mühleberg nuclear power plant and Swiss and foreign hydro power plants, and fossil-fuel power plants in Italy and Germany. The Production segment plans and designs new plants and expansion of existing power plants.
- The Renewables & Efficiency segment covers production from renewable energy sources, in particular wind power. This segment also provides integrated energy services in relation to energy efficiency, smart energy and electrical installation.
- The Market segment comprises BKW's sales and trading activities. It covers sales of energy in Switzerland and Italy, as well as trading in electricity, gas, certificates, coal and oil, and development and management of the BKW portfolio of products and services.
- The Networks segment builds, operates and maintains the Group's own distribution network and provides energy services in relation to the creation and maintenance of electricity and telecommunications networks as well as traffic infrastructure facilities.

Segment figures are obtained in accordance with the same accounting and valuation principles as are applied for the Group-level presentation of consolidated figures. The prices for inter-company transactions (transfer prices) are based on the market price on the transaction date.

The column "Other" covers activities which are centrally managed within the Group; these largely consist of the decommissioning and disposal funds, Group financing, real estate, financial assets and tax. In addition, the exchange-rate effect, which occurs in the Market segment owing to timing differences in assuming energy positions, is borne centrally within the Group. The effect of differences in exchange rates between the assumption and supply date of the power is therefore charged from the Market segment to the core Treasury function. The corresponding item is carried in net sales.

INFORMATION BY BUSINESS DIVISION

1 st half-year 2014 CHF millions	Production	Renewables & Efficiency	Market	Networks	Other	Consolidation	Total
External revenue	52.1	70.7	1,019.7	281.5	6.5	1.0	1,431.5
– Net sales	43.6	67.0	1,017.1	257.7	0.4	0.0	1,385.8
– Own work capitalised	4.0	0.5	0.9	19.6	0.1	1.0	26.1
– Other operating income	4.5	3.2	1.7	4.2	6.0	0.0	19.6
Internal revenue	472.2	25.1	122.2	11.2	57.4	–688.1	0.0
– Net sales	468.0	23.0	113.0	5.7	–13.1	–596.6	0.0
– Other operating income	4.2	2.1	9.2	5.5	70.5	–91.5	0.0
Total operating revenue	524.3	95.8	1,141.9	292.7	63.9	–687.1	1,431.5
Total operating expenses	–396.3	–68.5	–1,157.2	–200.2	–72.2	687.1	–1,207.3
Operating profit before depreciation, amortisation and impairment	128.0	27.3	–15.3	92.5	–8.3	0.0	224.2
Depreciation, amortisation and impairment	–37.8	–22.7	–2.2	–38.3	–4.5	0.1	–105.4
Operating profit before income from associates	90.2	4.6	–17.5	54.2	–12.8	0.1	118.8
Income from associates	11.1	0.1	3.5	7.7	0.0	0.0	22.4
Operating profit/loss	101.3	4.7	–14.0	61.9	–12.8	0.1	141.2
Financial result							–17.5
Profit/loss before income taxes							123.7
Additions:							
– Property, plant and equipment, intangible assets and state funds	42.2	7.5	4.5	53.3	20.8		128.3
– Due to business combinations							0.0
– Associates	23.3						23.3
Shareholdings in associates at 30.06.2014	1,010.1	14.0	68.4	92.3	0.0	0.0	1,184.8
Total assets at 30.06.2014	4,491.2	947.8	1,020.6	1,911.6	6,107.1	–6,907.2	7,571.1

1 st half-year 2013 (restated) CHF millions	Production	Renewables & Efficiency	Market	Networks	Other	Consolidation	Total
External revenue	45.5	65.3	960.4	310.3	6.6	0.8	1,388.9
– Net sales	36.9	63.2	950.4	255.7	0.0	0.0	1,306.2
– Own work capitalised	1.7	0.6	0.7	16.5	0.0	0.8	20.3
– Other operating income	6.9	1.5	9.3	38.1	6.6	0.0	62.4
Internal revenue	543.6	26.8	114.5	8.1	39.9	–732.9	0.0
– Net sales	538.3	23.7	98.2	3.3	–30.3	–633.2	0.0
– Other operating income	5.3	3.1	16.3	4.8	70.2	–99.7	0.0
Total operating revenue	589.1	92.1	1,074.9	318.4	46.5	–732.1	1,388.9
Total operating expenses	–412.4	–70.3	–1,089.5	–185.4	–77.6	734.5	–1,100.7
Operating profit before depreciation, amortisation and impairment	176.7	21.8	–14.6	133.0	–31.1	2.4	288.2
Depreciation, amortisation and impairment	–31.8	–23.0	–12.3	–36.3	–4.8	0.1	–108.1
Operating profit before income from associates	144.9	–1.2	–26.9	96.7	–35.9	2.5	180.1
Income from associates	2.9	–0.1	2.8	1.5	0.0	0.0	7.1
Operating profit/loss	147.8	–1.3	–24.1	98.2	–35.9	2.5	187.2
Financial result							–30.8
Profit/loss before income taxes							156.4
Additions:							
– Property, plant and equipment, intangible assets and state funds	44.8	14.0	8.2	42.9	7.6		117.5
– Due to business combinations		174.1					174.1
– Associates	34.7			73.0			107.7
Shareholdings in associates at 31.12.2013	993.8	14.1	94.7	84.7			1,187.3
Total assets at 31.12.2013	4,375.1	934.4	1,371.7	1,711.9	5,995.9	–6,713.5	7,675.5

INFORMATION ON PRODUCTS AND SERVICES

CHF millions	1 st half-year 2014	1 st half-year 2013
Energy	1,072.4	998.7
Networks	216.6	214.0
Services	96.8	93.5
Net sales	1,385.8	1,306.2

- Energy consists in particular of the sale of energy products, the delivery of electricity through trading, revenue from proprietary energy trading and energy hedging, and other energy-related business.
- Networks includes charges for the use of the BKW distribution network.
- Services comprises, in particular, comprehensive services in relation to energy efficiency and smart energy, and construction and engineering services for network construction and electrical installation.

5 FINANCIAL RESULT

CHF millions	1 st half-year 2014	1 st half-year 2013
Interest income	6.4	5.4
Dividend income	5.2	6.2
Value adjustment on state funds	40.1	22.1
Gains from the disposal of financial assets	0.4	0.9
Value adjustment on securities held for trading	3.8	0.0
Other financial income	1.0	1.7
Currency translations	0.9	3.0
Financial income	57.8	39.3
Interest expenses	–25.8	–20.9
Capitalised borrowing costs	0.8	0.0
Interest on provisions	–47.3	–42.8
Losses from the disposal of financial assets	0.0	–0.6
Value adjustment on securities held for trading	0.0	–3.7
Impairment of financial assets	–0.1	–0.1
Other financial expenses	–2.9	–2.0
Financial expenses	–75.3	–70.1

6 BUSINESS COMBINATIONS

Business combinations 1st half-year 2014

No transactions were undertaken in the first half of 2014.

Business combinations 1st half-year 2013

On 20 February 2013, BKW acquired 100 % of the shares of Green Castellaneta S.p.A., from which date this company was fully consolidated. The company owns a wind farm with a total output of 56 MW in Castellaneta, in the Italian region of Apulia.

The purchase price was CHF 159.9 million. The fair value of the net assets that were acquired at the time of purchasing also amounted to CHF 159.9 million. The acquisition therefore did not lead to any goodwill. The net assets that were transferred consisted largely of property, plant and equipment. At the acquisition date, there were deferred conditional purchase price payments of CHF 8.0 million. By mid-2014 payments of CHF 5.8 million had been made in respect of these. A further cash outflow of CHF 2.2 million is anticipated.

Had the company already been acquired as at 1 January 2013, total operating revenue for the first half of 2013 would have been CHF 3.9 million higher and the net profit CHF 1.2 million higher. The amounts recognised in the previous year were provisional values since the purchase price allocation had not yet been finalised. The final purchase price allocation has since been completed and has not resulted in any changes.

7 DIVIDENDS

In accordance with the decision of the BKW Inc. Annual General Meeting held on 09 May 2014, a dividend of CHF 1.20 (previous year CHF 1.20) per share was paid out for the 2013 financial year.

8 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Assets and liabilities measured at fair value are classified according to the following hierarchy:

- Level 1: valuations based exclusively on listed prices in active markets for identical assets or liabilities. BKW currently classifies listed securities and energy trading futures under this level.
- Level 2: valuations, the inputs to which are based on directly or indirectly observable market data. The inputs have a material impact on the recognised fair value. At this hierarchy level, BKW includes over-the-counter derivatives (all forward energy trading contracts, interest rate swaps and forward currency contracts) as well as the proportional share of net assets of the state funds (federal decommissioning and disposal funds). The assets of the state funds are managed by the government; BKW has no access to the managed assets. These assets are invested in accordance with the defined investment strategy, generally in products that have listed prices on active markets. To a limited extent, investments may also be made in assets for which there are no listed prices on active markets. The fund assets are invested in line with the agreed investment strategy principally in products with listed prices on active markets. Investments in assets for which there are no listed prices on active markets are also possible to a limited extent. Such investments are valued by the global custodian. BKW has no influence on the valuation method used. The annual statement of the funds is audited by external auditors each year and published by the federal offices responsible.
- Level 3: valuations that apply inputs with a material impact on fair value that are not based on observable market data. BKW mainly classifies unlisted securities designated as available-for-sale financial assets under this level. Valuation of such assets requires management estimates of non-observable input factors. The fair values of Level 3 financial assets and liabilities were determined using the discounted cash flow method and discounted based on a WACC of between 5.4 % and 5.7 %. A realistic, constant margin was applied to the valuation models (the annual growth in the margin corresponds to inflation). The effect of a change of 10 % in the two most important non-observable input factors would have no significant impact on comprehensive income and the equity of BKW.

As in the comparable period, there were no transfers between the different levels during the period under review.

CHF millions	Carrying amount at 30.06.2014	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Non-current financial assets				
– Available-for-sale financial assets	208.7	109.0		99.7
– Receivables from state funds	838.4		838.4	
Derivatives (current and non-current)	151.5		151.5	
Current financial assets				
– Securities held for trading	137.4	137.4		
Inventories				
– Certificates (proprietary trading)	108.8	108.8		
Financial liabilities at fair value through profit or loss				
Derivatives (current and non-current)				
	85.3		85.3	

CHF millions	Carrying amount at 31.12.2013	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Non-current financial assets				
– Available-for-sale financial assets	200.4	99.9		100.5
– Receivables from state funds	783.0		783.0	
Derivatives (current and non-current)	163.4		163.4	
Current financial assets				
– Securities held for trading	130.5	130.5		
Inventories				
– Certificates (proprietary trading)	86.8	86.8		
Financial liabilities at fair value through profit or loss				
Derivatives (current and non-current)				
	118.2		118.2	

In addition, the liabilities at 30 June 2014 include the following at fair value:

- Bonds with an amount of CHF 119.5 million (2013: CHF 117.4 million) as part of a fair value hedge valued at Level 2.
- Other liabilities with an amount of CHF 7.7 million (2013: CHF 8.9 million) from deferred purchase price payments in relation to business combinations valued at Level 3.

The Level 3 assets measured at fair value developed as follows during the period under review:

CHF millions	Available- for-sale financial assets
At 31.12.2013	100.5
Additions	0.1
Disposals	-0.7
Value adjustment	
– Transfer to income statement	0.0
– Changes in value included in other comprehensive income	-0.2
At 30.06.2014	99.7

9 FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTISED COST

The carrying amounts of the financial assets closely correspond to the fair values. Due to short residual terms to maturity, the carrying amounts of financial liabilities at amortised cost correspond approximately to the fair value. At 30 June 2014 there was a difference between these two values in the case of bonds with a nominal value of CHF 1,000 million reported under non-current financial liabilities. The market price of the bonds as at the reporting date was CHF 1,076.0 million compared with a carrying amount of CHF 994.6 million (of which CHF 119.5 million was reported at fair value as part of a fair-value hedge transaction). The corresponding market price as at 31 December 2013 was CHF 1,027.4 million compared with a carrying amount of CHF 991.8 million (of which CHF 117.4 million was reported at fair value as part of a fair value hedge transaction).

10 EVENTS AFTER THE BALANCE SHEET DATE

EICom recognises higher value for distribution grid

Based on a Federal Court ruling dated 3 July 2012, EICom has reviewed the 2010 capital costs for the distribution grid and adjusted the value of the grid upwards by around CHF 400 million. As a result of this decision, BKW is able to claim higher income per year (in the lower double-digit millions range) for use of the distribution grid. In addition, BKW can claim receivables of approximately CHF 120 million.

Sale of interest in Jungfraubahn Holding AG

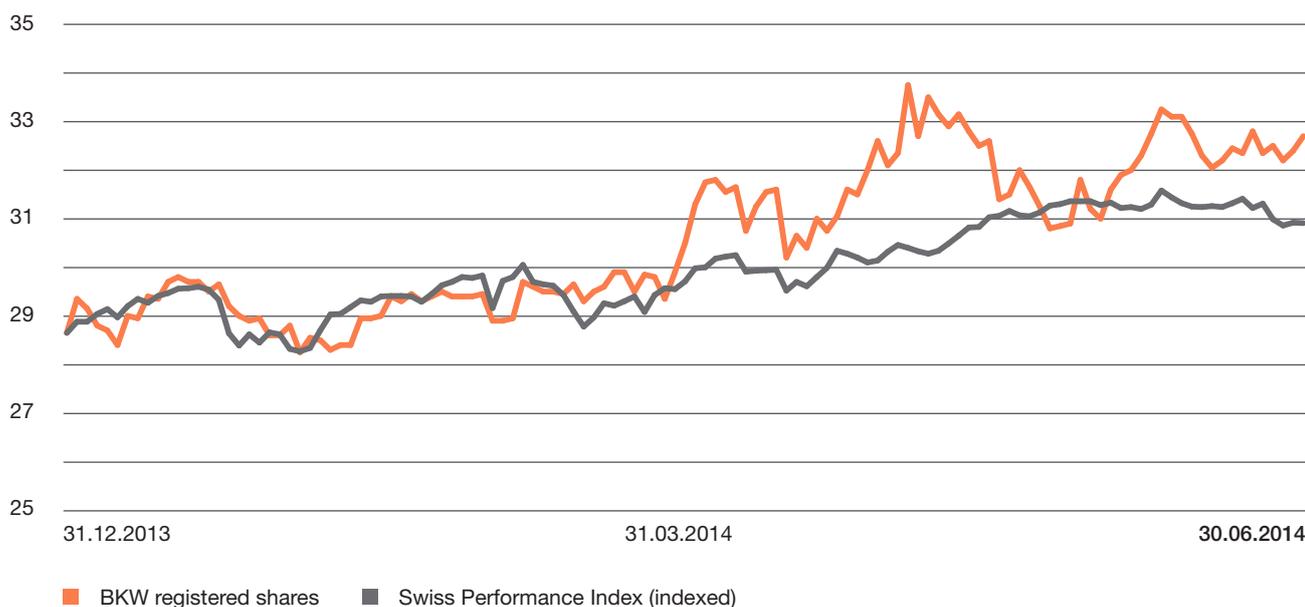
On 28 August 2014 BKW announced that it is selling its 10.3 percent stake in Jungfraubahn Holding AG to several investors. The planned transaction will extend BKW's financial scope and accelerate the drive to build up new business fields.

The shareholding in Jungfraubahn Holding AG is currently recognised as a financial asset available for sale in non-current financial assets. The transaction is in the region of CHF 40 million.

Investor Information

Important information on the BKW share, bonds and financial calendar

Performance of the BKW share 31.12.2013–30.06.2014 (in CHF)



The share price rose by 14.1 % during the period under review.

Listing

The shares of BKW Inc. are listed on the main segment of the SIX Swiss Exchange. There is also a listing on the BX Berne Exchange.

Ticker symbol on SIX and BX	BKW
Securities number	13 029 366
ISIN code	CH0130293662

Significant shareholders

	30.06.2014	31.12.2013
Canton of Berne	52.54	52.54
Groupe E Ltd.	10.00	10.00
E.ON SE	6.65	6.65
Treasury stock	8.41	8.54

The proportion of shares held by the public (free float) at 30 June 2014 is approximately 22.4 %. The BKW share is listed on the Swiss Performance Index (SPI).

Key figures per share

CHF	1 st half-year 2014	1 st half-year 2013	2013
Par value	2.50	2.50	2.50
Share price			
– period end	32.70	28.60	28.65
– period high	33.75	33.75	33.75
– period low	28.25	28.20	28.00
Earnings per share (BKW shareholders' portion) ¹	1.88	2.22	3.46
Equity per share (BKW shareholders' portion)	48.53	53.95	48.11
Market capitalisation in CHF millions	1,581.0	1,374.5	1,383.3

¹ 2013 value adjusted for special impairment charges and provisions

Bonds

At 30 June 2014, BKW had the following bonds outstanding:

	Nominal amount	Term	Due	ISIN code
1.875 % debenture bond	CHF 150 million	2010–2018	15.10.2018	CH0117843596
3.375 % debenture bond	CHF 350 million	2009–2019	29.07.2019	CH0103164577
3 % debenture bond	CHF 200 million	2007–2022	27.04.2022	CH0030356718
2.5 % debenture bond	CHF 300 million	2010–2030	15.10.2030	CH0117843745

Financial Calendar

Publication of 2014 annual results:	19 March 2015
Publication of Annual Report and Financial Report:	19 March 2015
Annual General Meeting:	08 May 2015
Ex-dividend date:	12 May 2015
Dividend payment:	15 May 2015

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