

BKW FMB Energy Ltd.  
2008 Half-Year Report



### Financials

	1 <sup>st</sup> half year 2008 CHF m	1 <sup>st</sup> half year 2007 CHF m restated	2007 CHF m restated
Total operating revenue	1,733.7	1,315.6	2,813.9
Operating profit before depreciation, amortisation and impairment	219.9	201.3	412.6
Net profit for the period	63.0	131.4	226.8
Cash flow from operating activities	198.6	229.6	362.1
Investments in property, plant and equipment	99.5	74.5	211.5
Balance sheet total	6,086.2	5,747.7	5,868.3
Shareholders' equity	3,023.2	2,915.4	3,079.0
– as % of balance sheet total	49.7	50.7	52.5

### Electricity business

	GWh	GWh	GWh
Electricity sales Switzerland	4,133	3,803	7,760
Electricity sales International	2,534	2,407	4,835
Electricity trading	6,242	5,060	10,842
Pump/substitution energy	275	213	465
Transmission losses/own consumption	185	133	317
<b>Total sales</b>	<b>13,369</b>	<b>11,616</b>	<b>24,219</b>
Volume generated by hydroelectric plants	1,789	1,771	3,875
Volume generated by nuclear power plants incl. purchase contracts	3,156	3,077	5,799
Volume generated from complementary power plants	10	7	14
Trade (purchases) and energy buy-backs	8,414	6,761	14,531
<b>Total purchases</b>	<b>13,369</b>	<b>11,616</b>	<b>24,219</b>

### Information on the BKW share

	CHF	CHF	CHF
Par value	2.50	2.50	2.50
Share price			
– Period end	140.00	128.80	144.00
– Period high	159.50	145.30	148.00
– Period low	121.50	126.00	114.40
Earnings per share (BKW shareholders' portion) for the period	1.20	2.55	4.35
Equity per share (BKW shareholders' portion)	57.71	55.45	58.93
Market capitalisation in CHF million	7,278.0	6,643.9	7,463.6

### Employees

Headcount (Full Time Equivalent)	2,705	2,540	2,615
----------------------------------	-------	-------	-------

## Contents

---

- 4 Foreword
- 7 Operating Business
- 8 Financial Result

### Financial Review

- 11 Interim Financial Statements BKW Group
- 21 Investor Information
- 22 Addresses

## Foreword

### Implementation of strategy on schedule

In the first half of 2008 BKW strengthened its market position, achieved additional growth in revenue and increased its operating profit. The acquisition of new customers and the continued development of capital expenditure projects for foreign production facilities were key factors in the implementation of Group strategy.

#### Result

The BKW Group closed the first half of 2008 with a net profit of CHF 63.0 million, 52.1% lower than the first half of 2007 despite the positive development of operating income. This decline in profit was caused by the negative financial result, which was in turn due to poorer performance on the stock markets, with the effects on state decommissioning and disposal funds a major contributory factor. Despite this negative result, the funds will still be able to cover future costs of decommissioning and disposal. Total operating revenue rose to CHF 1,733.7 million – an increase of CHF 418.1 million or 31.8% over the corresponding period in 2007. Operating profit before depreciation, amortisation and impairment (EBITDA) was up by 9.2% to CHF 219.9 million, an increase of CHF 18.6 million.

#### Performance in the energy business

Increased revenue driven by volume and price-related factors in electricity trading was a major reason for positive business development. Against a background of stable prices, revenue from sales in Switzerland was up slightly due to volume-related factors. International sales also recorded an increase in revenue due to volume and price-related effects.

#### Developments in the market environment

The expected downturn in the world economy has yet to impact on energy markets: energy prices continue to climb and international commodity markets are reacting to increasing demand. This development not only increases energy procurement costs but also has the effect of raising the price of components for plant construction.

The monitoring and operation of the transmission network by the national grid company swissgrid is incurring higher costs than expected – mainly as a result of greater demands on maintaining reserve energy. International market trends and the cost structure adopted by swissgrid are impacting on BKW's pricing structure; for the first time in 14 years, on 1 October 2008 BKW is raising its prices for energy supply. The Swiss energy market is being liberalised on 1 January 2009. Under the new basic conditions prevailing in the open market BKW will remain committed to providing its customers with security of supply at tariffs which are as economically favourable as possible.

#### Oberhasli AG power plants: Court ruling means setback for renewable energy

In a judgement handed down on 3 April 2008 the administrative court of Berne canton ruled that the proj-

ect submitted by Oberhasli AG power plants (KWO) for enlarging Grimmelsee lake is subject to a licensing procedure and not to the construction permit procedure as chosen. KWO has lodged a complaint with the Swiss Federal Court against this decision, arguing that the ruling is an infringement of its licence and hence requesting the Federal Court to rescind the judgement. If the complaint is upheld, the administrative court will then have to deal with complaints lodged by environmental and fisheries organisations and by the Green Party of Berne canton against the construction permit issued by the cantonal water authority on 14 March 2007. This court ruling shows the difficult situation currently faced by the Swiss hydroelectric power industry. One of the aims of Swiss federal energy policy is to increase hydroelectric power production by 2,000 GWh by 2030. Unfortunately a large number of hydroelectric power production licences are due to expire in Switzerland over the next few years, and the latest licensing round calls for residual water quantities which are on the whole greater than in previous rounds. As a result of this situation and political initiatives such as "Lebendiges Wasser" ('Living Water'), production levels are falling and the optimal use of water power for energy production is being greatly hampered.

#### **Implementing strategy**

BKW's strategy is aimed primarily at the Swiss market, with foreign production and sales channels playing a complementary role. With an output of 800 megawatts, the combined cycle power plant in Livorno Ferraris, Italy, in which BKW has a 25% holding is scheduled to go on-stream in the very near future. In Wilhelmshaven, Germany, construction work has begun on the coal-fired power plant project. BKW has a 33% holding in this project – the

equivalent to approx. 240 megawatts. With an efficiency coefficient of 46% the plant is one of the most advanced in Europe. Start-up is expected in 2012.

In a joint venture with Juvent SA, BKW operates the largest wind power plant in Switzerland. The Group is also active in the production of wind energy in Germany. In Saxony it is acquiring Bockelwitz wind farm which has ten wind turbines, each with an output of 1.5 megawatts. It is thus adding new renewable energy to its existing wind production portfolio and to its production base in Germany.

#### **Mühleberg nuclear power plant**

Mühleberg nuclear power plant is one of the most important large-scale plants operated by BKW and constitutes a reliable element in the Group's portfolio. In early February this year the Swiss Federal Court created the legal basis for ensuring the plant benefits as soon as possible from the same treatment as all other Swiss nuclear power plants. As part of the legal procedure for waiving the time limit on the operating permit, BKW placed the formal request documents on display for public inspection from 13 June until 14 July 2008 in the relevant cantons of Berne, Fribourg, Neuchâtel, Vaud and Solothurn. By the end of that period some 1,900 objections had been received, nearly all expressing the same opinion. The Federal Department for the Environment, Transport, Energy and Communication (UVEK) is expected to make a decision on the objections in the first half of 2009. The Swiss Federal Nuclear Safety Inspectorate has issued BKW with certification confirming that technical and organisational safety measures have been installed to a high standard in Mühleberg nuclear power plant and that safety can be assured. BKW is therefore expressly demanding that this unfair treat-

ment which was originally based on political grounds yet today has no substantive or legal basis whatsoever, be lifted, thus ensuring electricity supplies in west and north-west Switzerland in the years to come.

#### **Shareholder base**

On 9 May 2008 the General Shareholders' Meeting approved the 2007 annual report and consolidated financial statements and adopted the proposal to distribute a dividend of CHF 2.70 per share (2007: CHF 2.70). Since the last General Shareholders' Meeting in May 2007 the number of shareholders has increased from approximately 5,700 to around 6,300. For the current remaining term of office, i.e. effective until the Ordinary General Shareholders' Meeting in 2011, the shareholders elected Dirk Steinheider from Germany to the Board of Directors as replacement for the outgoing director Hans-Dieter Harig. Steinheider is Managing Director of E.ON Kernkraft GmbH, a consolidated company of E.ON Energie AG, in Munich.

#### **Outlook**

Assuming it maintains its strong market position, the BKW Group expects growth in revenue for the current financial year and hence a positive development of the energy business. Energy procurement costs will also increase, and as far as other operating expenses are concerned the strategic projects – in particular regarding the expansion of production and market liberalisation in Switzerland – will exert further pressure on the result. However, the positive effects of the energy business should more than compensate for the extra costs, with EBITDA expected to increase compared with 2007. The financial result is

dependent on trends in the international financial markets; given current developments we must assume the financial markets will be unable to recover by year-end. Based on these assumptions net profit on the scale of the 2007 figure cannot be expected. All comparisons relate to 2007 restated.

## Operating Business

### Increase in sales and production

BKW records increased electricity sales in all business units and increased electricity production.

#### **Electricity market impacted by climbing oil prices**

Rising oil prices impacted on development in the electricity market in the first half-year of 2008. Following on from highly volatile electricity prices in the first quarter, the market was subject in the second quarter to the additional effects of rapidly climbing oil prices. The price of oil has continued to climb since mid-April, dragging along the price of gas, coal and electricity in its wake. Faced with this situation the spot price doubled on electricity markets compared with the corresponding period in 2007. The price of CO<sub>2</sub> certificates has also risen.

#### **Increased electricity sales in all business units**

In the first half of 2008 BKW recorded electricity sales of 13,369 GWh, an increase of 15.1% compared with the previous-year period.

Sales in Switzerland rose year-on-year by 8.7% to 4,133 GWh. This development was due to higher sales recorded by existing sales partners as well as the acquisition of new sales partners outside the area supplied. Electricity trading rose by 23.4% from 5,060 GWh to 6,242 GWh. Given price movements and the market situation these developments are in keeping with normal trading activities. International sales strengthened their position in the period under

review growing by 5.3% to 2,534 GWh, with Italy making a particularly strong contribution.

Compared to the same period in 2007 electricity production rose during the first half of 2008 from 4,855 GWh to 4,955 GWh primarily due to the higher volume produced by nuclear power plants. The volume of electricity produced by hydroelectricity plants rose year-on-year by 18 GWh from 1,771 GWh to 1,789 GWh. The Group recorded a growth in the volume of electricity purchased from its partner power plants. The hydroelectric plants owned by BKW – most of which are operated as run-of-river plants – recorded a slight decline in energy production, due mainly to inspection work carried out at Kallnach hydroelectric plant. Reservoirs were filled as scheduled due to snowmelt and to the abundant rainfall during the second quarter. Production from nuclear power plants rose by 79 GWh to 3,156 GWh. Mühleberg nuclear power plant enjoyed uninterrupted production, ending the first half of 2008 with an output of 1,595 GWh.

## Financial Result

### Higher operating income and negative financial result

In the first half of 2008 BKW recorded higher sales and increased operating income. However, profit was lower due to the negative financial result.

#### Higher sales, lower profit

In the first half of 2008 BKW continued to expand its market position and recorded higher sales. Total consolidated operating revenue stood at CHF 1,733.7 million. The result was impacted by pleasing developments in the energy business and the negative effects of international financial markets. In the energy business, operating income before depreciation, amortisation and impairment rose to CHF 219.9 million. However, the slump on the stock markets led to a negative financial result followed by lower profit. Profit for the period under review amounted to CHF 63.0 million.

#### Changes in accounting principles and in the scope of consolidation

The unaudited Interim Consolidated Financial Statements for the half-year ended 30 June 2008 have been prepared in accordance with the International Accounting Standard on Interim Financial Reporting (IAS 34). Following the coming into force of IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", a change in the accounting procedure as applied

to these Interim Consolidated Financial Statements compared with the principles applied in the 2007 Annual Report has resulted. This has affected the presentation of the financial position, the results of operations and the cash flows of the BKW Group. Under IAS 19 the economic benefit an entity derives from the reduction of future pension plan contributions must be recognised in the balance sheet. IFRIC 14 defines a new method for calculating this economic benefit. For BKW this resulted in a balance sheet adjustment of pension surplus. This change has been applied with retrospective effect and the figures for previous years have been adjusted accordingly. As a result, equity increased on 31 December 2007 by CHF 29.9 million and net profit for the first half of 2007 decreased by CHF 9.1 million (see Note 7 in the Notes to the Financial Statements). The result for the first half of 2008 was not affected by IFRIC 14.

The following changes were made to the BKW Group scope of consolidation in the first half of 2008:

- sol-E Suisse AG joined with Elektrizitätswerk Grindelwald AG (EWG) and Grindelwald municipality to form Holzwärme Grindelwald AG. As the BKW Group has an 80.0% holding, the company is fully consolidated.
- The holding in Abonax AG was reduced from 51.0% to 42.5%. Previously fully consolidated, Abonax AG is now operated as an associated company and the holding measured at equity.

#### Revenue growth in all business units

In the first half of 2008 the BKW Group reported a 31.8% increase in consolidated operating revenue from CHF 1,315.6 million to CHF 1,733.7 million.

This increase is mainly attributable to volume and price-driven revenue growth in electricity trading and in international sales. Swiss sales recorded a slight increase due to greater volume, with prices remaining stable.

Revenue from electricity trading rose significantly by 78.0% to CHF 679.4 million due mainly to sharply rising market prices, with an additional effect from a market-driven increase in volume. Income from trading in derivatives amounted to CHF 16.0 million, up year-on-year by CHF 5.0 million. This increase can be accounted for by volatile markets and higher energy prices.

Revenue from international sales rose by 23.6% to CHF 315.3 million on account of higher average prices in Germany and Italy and increased sales volumes in Italy.

Revenue from sales in Switzerland was up 7.4% to CHF 474.6 million. This growth resulted from higher sales volumes recorded by existing sales partners as well as the acquisition of new sales partners outside the area supplied. Income from separate billing procedures for grid usage derived from new and renewed contracts was up by 8.6% to CHF 31.7 million.

#### **Negative financial result impacts profit for the half-year**

Energy procurement costs rose by 48.4% to CHF 1,162.0 million, attributable to an increase of CHF 359.2 million in third-party electricity procurement due to volume and price-related factors. Increased headcount and higher wage costs led to an increase

in personnel expenses of CHF 4.4 million to CHF 166.2 million. Increased expenditure on strategic projects intended for strengthening the Group's market position was the main reason for the increase of CHF 11.0 million in other operating expenses to CHF 100.0 million.

Operating income before depreciation, amortisation and impairment (EBITDA) rose by 9.2% to CHF 219.9 million, due mainly to the positive development of the energy business. Without the effects of the first-time application of IFRIC 14 in 2007, EBITDA would have risen by CHF 6.9 million or 3.2%. Depreciation expenses rose slightly year-on-year by CHF 3.9 million to CHF 64.5 million.

The financial result for the first half of 2008 was impacted by the negative performance of the stock markets, recording a sharp drop of CHF –97.3 million to CHF –75.4 million. In the previous-year period financial assets recorded a positive development. The main factors impacting on this result were losses on share prices and currency translation effects in respect of securities related to the decommissioning/disposal funds recorded at fair value. Income tax expenses fell by CHF 14.2 million to CHF 17.0 million attributable to the lower result.

Good performance in the energy business was outweighed by the negative financial result. BKW Group profit for the half-year fell by 52.1% to CHF 63.0 million compared with the previous-year period.

#### **Stable balance sheet total and slightly lower equity ratio**

The balance sheet total continued to grow slightly in

the period under review to CHF 6,086.2 million, an increase of 3.7% compared to the 2007 year-end figure. While non-current assets remained stable, current assets rose by 9.0% due to the increase in derivatives. On the liabilities side, derivatives rose by the same amount, resulting in an increase in current liabilities of 41.5% to CHF 897.8 million. Shareholders' equity fell 1.8% compared with the year-end figure for 2007 to CHF 3,023.2 million. Equity ratio was down slightly from 52.5% to 49.7%.

Provisions for nuclear waste disposal were made according to plan in the period under review. The other provisions remained largely unchanged.

#### **Lower cash flow from operating activities**

At CHF 198.6 million, cash flow from operating activities was CHF 31.0 million lower year-on-year, due mainly to higher tax payments. Cash outflow from investment activities was higher, mainly as a result of an increase in financial assets by CHF 278.0 million to CHF 348.2 million. Cash outflow from financing activities rose by CHF 76.4 million to CHF 140.6 million.

## Interim Consolidated Financial Statements of the BKW Group

### Consolidated Income Statement

CHF millions	Note	1 <sup>st</sup> half year 2008	1 <sup>st</sup> half year 2007 restated
Net sales	3	1,690.4	1,282.9
Own work capitalised		16.4	12.6
Other operating income		26.9	20.1
<b>Total operating revenue</b>		<b>1,733.7</b>	<b>1,315.6</b>
Energy procurement	4	-1,162.0	-782.8
Material and third-party services		-85.6	-80.7
Personnel expenses	7	-166.2	-161.8
Other operating expenses		-100.0	-89.0
<b>Total operating expenses</b>		<b>-1,513.8</b>	<b>-1,114.3</b>
<b>Operating profit before depreciation, amortisation and impairment</b>		<b>219.9</b>	<b>201.3</b>
Depreciation, amortisation and impairment		-64.5	-60.6
<b>Operating profit</b>		<b>155.4</b>	<b>140.7</b>
Financial income	5	25.5	49.8
Financial expenses	5	-111.2	-36.3
Income from equity-valued companies		10.3	8.4
<b>Profit before income taxes</b>		<b>80.0</b>	<b>162.6</b>
Income taxes		-17.0	-31.2
<b>Net profit for the period</b>		<b>63.0</b>	<b>131.4</b>
Profit/Loss attributable to minority interests		0.5	-0.3
Profit attributable to BKW shareholders		62.5	131.7
Earnings per share in CHF (diluted and undiluted)		1.20	2.55

## Interim Consolidated Financial Statements of the BKW Group

### Consolidated Balance Sheet

#### Assets

CHF millions	Note	30.6.2008	31.12.2007 restated
Property, plant and equipment		1,848.1	1,857.7
Investments in equity-valued companies		716.0	694.9
Non-current financial assets	7	980.3	1,019.5
Intangible assets		150.4	142.5
Deferred tax assets		21.5	22.2
<b>Total non-current assets</b>		<b>3,716.3</b>	<b>3,736.8</b>
Inventories		16.7	15.4
Accounts receivable		601.5	578.9
Derivatives		316.1	93.6
Current financial assets		881.1	653.6
Receivables from income taxes		12.7	0.0
Prepaid expenses and accrued income		114.8	118.1
Cash and cash equivalents		380.7	671.9
<b>Total current assets</b>		<b>2,323.6</b>	<b>2,131.5</b>
Non-current assets held-for-sale	8	46.3	0.0
<b>Total assets</b>		<b>6,086.2</b>	<b>5,868.3</b>

## Interim Consolidated Financial Statements of the BKW Group

### Consolidated Balance Sheet

#### Liabilities

CHF millions	Note	30.6.2008	31.12.2007 restated
Share capital		132.0	132.0
Capital reserves		35.0	35.0
Retained earnings		2,925.2	2,997.4
Treasury shares		-92.3	-110.2
Equity attributable to BKW shareholders		2,999.9	3,054.2
Equity attributable to minority interests		23.3	24.8
<b>Total shareholders' equity</b>	7	<b>3,023.2</b>	<b>3,079.0</b>
Deferred tax liabilities	7	525.0	533.9
Long-term provisions		1,205.7	1,187.5
Long-term financial liabilities		226.6	225.1
Other long-term liabilities		158.3	208.2
<b>Total long-term liabilities</b>		<b>2,115.6</b>	<b>2,154.7</b>
Other short-term liabilities		395.0	397.7
Derivatives		314.8	86.6
Short-term provisions		35.8	34.9
Short-term financial liabilities		0.0	0.8
Liabilities from income taxes		4.8	31.0
Deferred income and accrued expenses		147.4	83.6
<b>Total short-term liabilities</b>		<b>897.8</b>	<b>634.6</b>
Liabilities directly associated with non-current assets classified as held-for-sale	8	49.6	0.0
<b>Total liabilities</b>		<b>3,063.0</b>	<b>2,789.3</b>
<b>Total liabilities and shareholders' equity</b>		<b>6,086.2</b>	<b>5,868.3</b>

## Interim Consolidated Financial Statements of the BKW Group

### Changes in Consolidated Equity

	Share capital	Capital reserves	Accumulated profit	Translation adjustments	Revaluation reserves	Treasury shares	Attributable to BKW shareholders	Attributable to minority interests	Total
CHF millions									
Equity at 31.12.2006	132.0	35.0	2,711.4	7.2	86.6	-31.1	2,941.1	25.4	2,966.5
Effect of first-time application of IFRIC 14			48.2						
<b>Equity at 1.1.2007 (restated)</b>	<b>132.0</b>	<b>35.0</b>	<b>2,759.6</b>	<b>7.2</b>	<b>86.6</b>	<b>-31.1</b>	<b>2,941.1</b>	<b>25.4</b>	<b>2,966.5</b>
Currency translations				5.4			5.4	0.1	5.5
Value adjustment on financial assets, net of taxes					12.4		12.4		12.4
Total income and expenses for the period recorded directly in equity	0.0	0.0	0.0	5.4	12.4	0.0	17.8	0.1	17.9
Net profit for the period (restated)			131.7				131.7	-0.3	131.4
Total income and expenses recorded in the period	0.0	0.0	131.7	5.4	12.4	0.0	149.5	-0.2	149.3
Dividend			-139.3				-139.3	-0.3	-139.6
Purchase/sale of treasury shares			1.7			-110.7	-109.0		-109.0
Acquisition of minority interests							0.0	-3.0	-3.0
Acquisition/foundation of Group companies							0.0	3.0	3.0
<b>Equity at 30.6.2007 (restated)</b>	<b>132.0</b>	<b>35.0</b>	<b>2,753.7</b>	<b>12.6</b>	<b>99.0</b>	<b>-141.8</b>	<b>2,842.3</b>	<b>24.9</b>	<b>2,867.2</b>
Equity at 31.12.2007	132.0	35.0	2,819.9	13.1	134.5	-110.2	3,024.3	24.8	3,049.1
Effect of first-time application of IFRIC 14			29.9				29.9		29.9
<b>Equity at 1.1.2008 (restated)</b>	<b>132.0</b>	<b>35.0</b>	<b>2,849.8</b>	<b>13.1</b>	<b>134.5</b>	<b>-110.2</b>	<b>3,054.2</b>	<b>24.8</b>	<b>3,079.0</b>
Currency translations				-10.6			-10.6	-0.1	-10.7
Value adjustment on financial assets, net of taxes					13.5		13.5		13.5
Total income and expenses for the period recorded directly in equity	0.0	0.0	0.0	-10.6	13.5	0.0	2.9	-0.1	2.8
Net profit for the period			62.5				62.5	0.5	63.0
Total income and expenses recorded in the period	0.0	0.0	62.5	-10.6	13.5	0.0	65.4	0.4	65.8
Dividend			-140.5				-140.5	-0.4	-140.9
Purchase/sale of treasury shares			2.9			17.9	20.8		20.8
Acquisition of minority interests							0.0	-0.8	-0.8
Foundation of Group companies							0.0	0.1	0.1
Change in consolidation method								-0.8	-0.8
<b>Equity at 30.6.2008</b>	<b>132.0</b>	<b>35.0</b>	<b>2,774.7</b>	<b>2.5</b>	<b>148.0</b>	<b>-92.3</b>	<b>2,999.9</b>	<b>23.3</b>	<b>3,023.2</b>

## Interim Consolidated Financial Statements of the BKW Group

### Consolidated Cash Flow Statement (condensed)

CHF millions	1 <sup>st</sup> half year 2008	1 <sup>st</sup> half year 2007
<b>Cash flow from operating activities</b>	<b>198.6</b>	<b>229.6</b>
Net investments in:		
– Property, plant and equipment and intangible assets	– 109.6	– 86.6
– Current and non-current financial assets	– 239.1	88.4
– Equity-valued companies	– 32.4	– 97.1
Acquisition of Group companies and minority interests	– 1.4	– 1.4
Interest and dividends received	34.3	26.5
<b>Cash flow from investing activities</b>	<b>– 348.2</b>	<b>– 70.2</b>
Purchase/sale of treasury shares	1.0	– 126.7
Change in long-term liabilities	6.2	202.9
Interest and dividends paid	– 147.8	– 140.4
<b>Cash flow from financing activities</b>	<b>– 140.6</b>	<b>– 64.2</b>
Translation adjustments on cash and cash equivalents	– 1.0	0.7
<b>Net change in cash and cash equivalents</b>	<b>– 291.2</b>	<b>95.9</b>
Cash and cash equivalents at start of reporting period	671.9	433.5
Cash and cash equivalents at end of reporting period	380.7	529.4

# Interim Consolidated Financial Statements of the BKW Group

## Notes to the Financial Statements

### 1 Business activity

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

### 2 Accounting principles

#### 2.1 General principles

The unaudited consolidated financial statements for the half-year ended 30 June 2008 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 2007. These half-year financial statements have been drawn up in accordance with the principles described in the 2007 Annual Report (pages 63–71).

The consolidated financial statements for the half-year ended 30 June 2008 were approved by the Board of Directors of BKW on 4 September 2008 and released for publication.

#### 2.2 Application of new standards and interpretations

For the first time, BKW is required to apply the following new interpretations in the 2008 financial year:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of IFRIC 11 and IFRIC 12 has had no effect on the current interim consolidated financial statements. However, the coming into force of IFRIC 14 does affect the presentation of the financial position, the results of operations and the cash flows of the BKW Group. Under IAS 19 the economic benefit an entity derives from the reduction of future pension plan contributions must be recognised in the balance sheet. IFRIC 14 defines a new method for calculating this economic benefit, resulting for BKW in a balance sheet adjustment of pension surplus. This change has been applied with retrospective effect

and the figures for previous years have been adjusted accordingly: as a result, equity increased on 31 December 2007 by CHF 29.9 million and net profit for the first half of 2007 decreased by CHF 9.1 million (see Note 7).

Possible effects that new and revised standards and interpretations announced since the 2007 Annual Report was published might have on the financial position, the results of operations and the cash flows of the BKW Group are currently being examined. The following standards and interpretations are relevant for subsequent financial years (the date on which they come into force is shown in brackets) and have not been applied in the current interim consolidated financial statements:

- IAS 27 Consolidated and Separate Financial Statements (1 July 2009)
- IFRS 3 Business Combinations (1 July 2009)
- Amendment to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation (1 January 2009)
- Amendment to IFRS 2: Vesting Conditions and Cancellations (1 January 2009)
- Amendments to IFRS 1 and IAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (1 January 2009)
- Improvements to International Financial Reporting Standards (1 January 2009)
- IFRIC 15 Agreements for the Construction of Real Estate (1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (1 October 2008)

#### 2.3 Changes in the scope of consolidation

The following changes were made to the BKW Group scope of consolidation in the first half of 2008:

- sol-E Suisse AG and Elektrizitätswerk Grindelwald AG joined with Grindelwald municipality to form the joint venture company Holzwärme Grindelwald AG. As the BKW Group has an 80.0% holding in Holzwärme Grindelwald AG, the company is fully consolidated.
- The holding in Abonax AG was reduced from 51.0% to 42.5%. Previously fully consolidated, Abonax AG is now operated as an associated company and the holding measured at equity.

### 3 Net sales

CHF millions	1 <sup>st</sup> half year 2008	1 <sup>st</sup> half year 2007
Electricity sales Switzerland	474.6	441.8
Distribution grid usage fees	31.7	29.2
Electricity sales International	315.3	255.2
Electricity trading	679.4	381.7
Income from energy derivatives trading	16.0	11.0
Other energy business	95.7	99.5
Gas business	28.1	15.1
Construction/engineering services and electrical installation business	47.4	45.0
Changes in work in progress	2.2	4.4
<b>Total</b>	<b>1,690.4</b>	<b>1,282.9</b>

### 4 Energy procurement

CHF millions	1 <sup>st</sup> half year 2008	1 <sup>st</sup> half year 2007
Electricity procurement, third parties	903.1	543.9
Electricity procurement, partner plants	146.0	133.9
Other expenses for electricity procurement	85.1	90.2
Gas procurement, third parties	27.8	14.8
<b>Total</b>	<b>1,162.0</b>	<b>782.8</b>

## 5 Financial result

CHF millions	1 <sup>st</sup> half year 2008	1 <sup>st</sup> half year 2007
Interest income	16.6	15.7
Dividends	4.8	2.6
Value adjustment on state funds	0.0	20.0
Gain on sale of financial assets	4.0	0.5
Value adjustment on securities held for trading	0.0	2.9
Other financial income	0.1	0.0
Currency translations	0.0	8.1
<b>Financial income</b>	<b>25.5</b>	<b>49.8</b>
Interest expenses	-4.2	-3.8
Value adjustment on state funds	-57.7	0.0
Interest on provisions	-28.5	-27.6
Loss from sale of financial assets	-8.0	0.0
Value adjustment on securities held for trading	-5.8	-3.9
Other financial expenses	-1.7	-1.0
Currency translations	-5.3	0.0
<b>Financial expenses</b>	<b>-111.2</b>	<b>-36.3</b>
<b>Total</b>	<b>-85.7</b>	<b>13.5</b>

## 6 Exchange rates

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

	Closing date 30.6.2008	Closing date 31.12.2007	Average 1 <sup>st</sup> half year 2008	Average 1 <sup>st</sup> half year 2007
CHF/EUR	1.6087	1.6531	1.6182	1.6599

## 7 Effects of the first-time application of IFRIC 14

IFRIC 14 is an interpretation of international accounting standard IAS 19. IAS 19 governs the reporting of employee benefits – in particular the calculation of pension costs and obligations a company has entered into with regard to its employees. Under this standard the economic benefit an entity derives from the reduction of future pension plan contributions must be recognised in the balance sheet. IFRIC 14 defines a new method for calculating this economic benefit, which for BKW has resulted in an increase in capitalised pension surplus. “Pension surplus” is recorded under “Non-current financial assets”.

First-time application of IFRIC 14 for the 2008 financial year has resulted in an adjustment of figures for the previous year, with the effects of this first-time application on 1 January 2007 being recorded under retained earnings. To record actuarial gains and losses from pension plans BKW uses the corridor approach. Consequently, the application of IFRIC 14 since it was first applied has resulted in changes in the consolidated balance sheet, the consolidated income statement and in consolidated equity for the 2007 financial year. The effects are shown in the following tables:

CHF m	Published	First-time application of IFRIC 14	Restated
Balance sheet at 31.12.2006			
Pension surplus	31.0	61.8	92.8
Deferred tax liabilities	509.0	13.6	522.6
Shareholders' equity	2,966.5	48.2	3,014.7

### Income statement 1<sup>st</sup> half-year 2008

Personnel expenses	150.1	11.7	161.8
Income taxes	33.8	-2.6	31.2
Net profit for the period	140.5	-9.1	131.4

### Income statement 2007

Personnel expenses	305.0	23.4	328.4
Income taxes	52.1	-5.1	47.0
Net profit for the year	245.2	-18.3	226.9

### Balance sheet at 31.12.2007

Pension surplus	31.8	38.3	70.1
Deferred tax liabilities	525.5	8.4	533.9
Shareholders' equity	3,049.1	29.9	3,079.0

Based on the development of economic benefit in accordance with IFRIC 14 and on the effects of the corridor approach, the application of IFRIC 14 has had no effects on income for the first half of 2008.

## **8 Non-current assets held for sale**

At the beginning of July 2008 BKW sold its rail power production and supply systems at Wimmis substation to Swiss Federal Railways (SBB). The transfer of ownership involved the converter systems in Wimmis with a total capacity of more than 100 MW, as well as the related switching units. SBB acquired the installations for CHF 14.5 million. These facilities are linked with assigned rights of use which arose from financing at the time of construction. As a result of the sale, these rights of use now cease to exist. The carrying amounts of these assets of CHF 46.3 million on 30 June 2008 are recorded separately in the balance sheet, as are the transferred rights of use with a carrying amount of CHF 49.6 million.

## **9 Debenture bonds**

On 27 April 2007 BKW issued a CHF 200.0 million debenture bond with a term of 15 years. The bond is valued using the effective interest method and has a carrying value of CHF 195.2 million on 30 June 2008. The resultant effective interest rate is 3.22%.

The 3.75% debenture bond (1997-2007) was repaid on 8 October 2007.

## **10 Business combinations**

There were no business combinations in the first half of 2008.

In the corresponding period in 2007 BKW purchased a majority holding in Elektro Feuz AG, Grindelwald, on 1 January 2007, and acquired a majority holding in Erdgas Thunersee AG, Interlaken, on 19 April 2007 through a share capital increase. These business combinations did not result in any goodwill.

## **11 Dividend**

In accordance with a resolution passed at the General Shareholders' Meeting of the BKW Group on 9 May 2008, a dividend of CHF 2.70 per share was paid for the 2007 financial year (previous year: CHF 2.70).

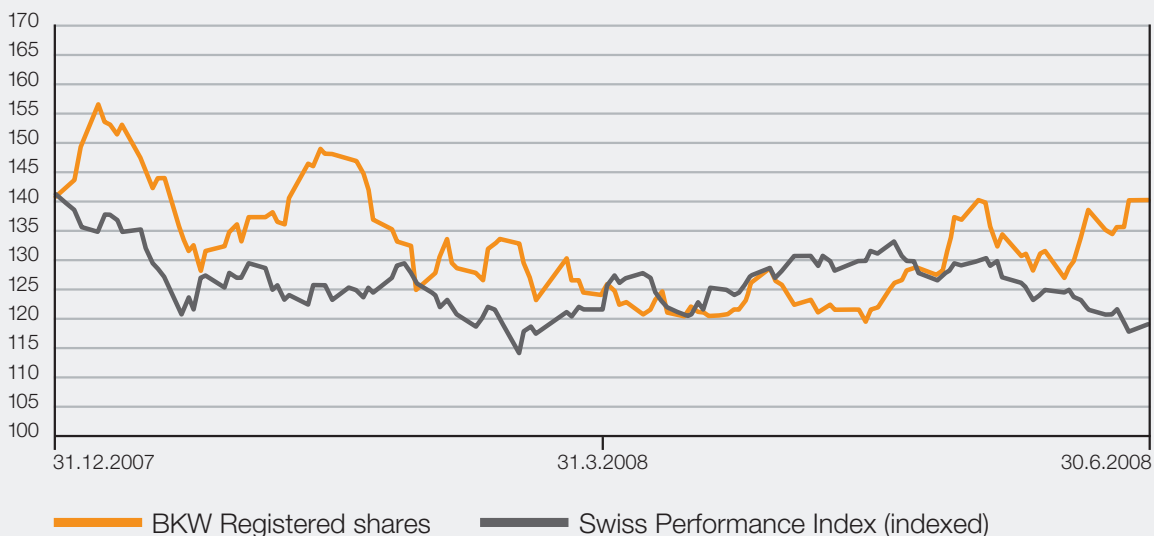
## Investor Information

### Key facts about the BKW share and Financial Calendar

BKW FMB Energy Ltd. share capital of CHF 132 million is divided into 52,800,000 registered shares at a par value of CHF 2.50 each. The share price decreased by 2.78% during the period under review.

#### Performance of the BKW Share

31.12.2007 – 30.6.2008 (in CHF)



#### Listing

BKW FMB Energy Ltd. shares are listed on the main board of the SWX Swiss Exchange and are also quoted on the BX Berne Exchange.

Ticker symbol for SWX and BX:	BKWN
Share number:	2 160 700
ISIN code:	CH 002 160700 4

#### Significant shareholders

	30.6.2008	31.12.2007
Canton of Berne	52.54%	52.54%
E.ON Energie AG	20.99%	20.99%

The proportion of shares held by the public (free float) is approximately 26.5%. The BKW share is listed on the Swiss Performance Index (SPI).

#### Financial Calendar

Annual Press Conference	19 March 2009
General Shareholders' Meeting	30 April 2009
Dividend Payment	7 May 2009
2009 Half-Year Report	10 September 2009

## Addresses

### Head Office

BKW FMB Energy Ltd  
Viktoriaplatz 2  
3000 Berne 25  
Tel. (+41) 31 330 51 11  
Fax (+41) 31 330 56 35  
info@bkw-fmb.ch  
www.bkw-fmb.ch

### Investor Relations

BKW FMB Energy Ltd  
Investor Relations  
Viktoriaplatz 2  
3000 Berne 25  
Tel. (+41) 31 330 57 97  
Fax (+41) 31 330 58 04  
investor.relations@bkw-fmb.ch

### Media Communications

BKW FMB Energy Ltd  
Media Communications  
Viktoriaplatz 2  
3000 Berne 25  
Tel. (+41) 31 330 51 07  
Fax (+41) 31 330 57 90  
info@bkw-fmb.ch

### Regional Offices

BKW FMB Energy Ltd  
Spiez Regional Office  
Thunstrasse 34  
3700 Spiez  
Tel. (+41) 33 650 82 11  
Fax (+41) 33 654 28 48  
spiez@bkw-fmb.ch

BKW FMB Energy Ltd  
Biel/Bienne Regional Office  
Dr. Schneider-Strasse 16  
2560 Nidau  
Tel. (+41) 32 332 22 00  
Fax (+41) 32 332 24 22  
biel.bienne@bkw-fmb.ch

BKW FMB Energy Ltd  
Delémont Regional Office  
rue Emile-Boéchat 83  
2800 Delémont  
Tel. (+41) 32 421 33 33  
Fax (+41) 32 422 11 66  
delemont@bkw-fmb.ch

BKW FMB Energy Ltd  
Gstaad Regional Office  
Kirchstrasse  
3780 Gstaad  
Tel. (+41) 33 748 47 47  
Fax (+41) 33 748 47 46  
gstaad@bkw-fmb.ch

BKW FMB Energy Ltd  
Berne Regional Office  
Bahnhofstrasse 20  
3072 Ostermundigen  
Tel. (+41) 31 330 51 11  
Fax (+41) 31 932 01 67  
bern@bkw-fmb.ch

BKW FMB Energy Ltd  
Porrentruy Regional Office  
rue Achille Merguin 2  
2900 Porrentruy  
Tel. (+41) 32 465 31 31  
Fax (+41) 32 465 31 41  
porrentruy@bkw-fmb.ch

BKW FMB Energy Ltd  
Langnau Regional Office  
Burgdorfstrasse 25  
3550 Langnau i.E.  
Tel. (+41) 34 409 61 11  
Fax (+41) 34 409 61 15  
langnau@bkw-fmb.ch

## **Publishing Details**

Concept/Text:  
BKW Group Communication  
BKW Finance + Controlling

Printer:  
Fischerprint, Münsingen

“The expectations and forward-looking statements contained in this Half-Year Report are based on assumptions and are therefore subject to risks and uncertainties. Actual future results may therefore differ from the statements expressed or implied herein. This Report is published in German, French and English. The German version of this Report is the original and authoritative version.”

BKW FMB Energy Ltd.  
Viktoriaplatz 2  
3000 Berne 25

[info@bkw-fmb.ch](mailto:info@bkw-fmb.ch)  
[www.bkw-fmb.ch](http://www.bkw-fmb.ch)